

Press Release

(embargoed until 4:15 p.m. on 16 May 2008)

Economic Situation in the First Quarter of 2008 and Latest GDP and Price Forecasts for 2008

The Government released today (Friday) the First Quarter Economic Report 2008, together with the preliminary figures on Gross Domestic Product for the first quarter of 2008.

The Government Economist, Mr K C Kwok, described the economic situation in the first quarter of 2008 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy continued to expand strongly in the first quarter of 2008, despite the growing adversities in the external environment. With real GDP growing by 7.1%, the economy extended the run of distinctly above-trend growth to 18 quarters.
- * The external sector stayed resilient to the increasingly challenging environment in the first quarter, which was characterised by a weakening US economy and financial market turbulence. Total exports of goods attained further notable growth of 8.3% in real terms in the first quarter, supported by the vibrant performance of the Mainland and other emerging economies and the further expansion of the EU market. Exports of services also stayed strong in the first quarter, growing rapidly further by 10.8% in real terms on the back of a continued surge in financial services, as well as notable growth in offshore trade and inbound tourism.
- * Domestically, both consumer and investor confidence remained strong in the first quarter, thus maintaining domestic demand's key role in supporting overall economic growth. Private consumption expenditure rose markedly further by 7.9% in real terms, underpinned by the firm labour market conditions and rising incomes. Overall investment held up well, expanding by 8.9% in real terms with a rebound in building and construction activity. However, amidst dimmer global economic prospects, the local stock market experienced further consolidation in the first quarter and the housing market turned less hectic.
- * Labour market conditions continued to be firm in the first quarter. The seasonally adjusted unemployment rate remained stable at 3.4%, and the underemployment rate fell further to a ten-year low of 1.9%. Labour earnings and wages were on the rise.
- * Consumer price inflation picked up further in the first quarter, mostly due to the surge in food prices amidst the global food inflation. The sustained above-trend economic growth also added to inflationary pressure from the

demand side. Headline Composite CPI inflation averaged at 4.6% in the first quarter. After netting out the one-off effects of the rates concession this year and the public housing rental waiver last year, underlying Composite CPI inflation in the first quarter was 4.9%.

- * Looking ahead, the external environment will remain uncertain and challenging. The US economy will continue to be weak with the effects of the housing market downturn spreading into the wider economy, while global financial markets are likely to remain unsettled. Economic activities in other major advanced economies have also showed signs of deceleration.
- * Nevertheless, the growth momentum in the emerging and developing economies, including the Mainland economy, is expected to remain vibrant, although there should unavoidably be some mild moderation in growth due to the weaker demand from the advanced economies. Yet this should still provide some cushioning effect to the impact of the economic slowdown in the developed world on Hong Kong in the coming quarters.
- * Domestic demand is expected to grow solidly further and remain a key driver in economic growth going forward. The firm labour market conditions and rising incomes should continue to give strength to private consumption. As business confidence holds up well and interest rates remain low, there should also be further growth in investment spending in the rest of the year.
- * Overall, given the uncertainties prevailing in the external environment and dimmer global economic prospects, the GDP forecast at 4-5% as announced in the Budget round in February is kept unchanged. Yet with the strong GDP growth in the first quarter, and barring any abrupt external shocks, it is likely that GDP growth in 2008 should be close to the upper end of the range forecast.
- * The inflation outlook is likewise rather uncertain and will hinge much on the movements of food prices in the international markets in the rest of the year, which can be expected to be volatile. Apart from global food prices, the elevated international oil prices, the exchange rate movements as well as the strength of the local economy are likely to continue to exert inflationary pressure. Nevertheless, the sustained increase in labour productivity will provide some offsetting effect. In view of the high degree of uncertainties in the external environment, the forecast rate of increase in the underlying Composite CPI for 2008 is maintained at 4.5%. The corresponding forecast headline inflation rate is also kept unchanged at 3.4%. The risks to these forecasts are on the upside. The Government will review the inflation forecast as more incoming data become available.

DETAIL

GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP expanded strongly further by 7.1 % in real terms in the first quarter of 2008 over a year earlier. By now, the economy extended the run of distinctly above-trend growth to 18 quarters. Consumption expenditure rose markedly, investment spending held up well, and exports of goods and services grew notably further. On a seasonally adjusted quarter-to-quarter comparison, GDP also grew strongly further, by 1.8% in real terms in the first quarter of 2008 (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2008 are presented in **Table 1**. Developments in different segments of the economy in the first quarter of 2008 are described below.

External trade

3. External trade stayed resilient to the increasing adversities in the trading environment in the first quarter of 2008. *Total exports of goods* registered a notable growth of 8.3% in real terms in the first quarter over a year earlier, supported by the vibrant performance of many emerging markets and the solid expansion of the EU market. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods expanded further by 1.4% in real terms in the first quarter of 2008.

4. *Exports of services* maintained a strong growth of 10.8% in real terms in the first quarter of 2008 over a year earlier. Exports of travel services expanded rapidly further in tandem with the vibrant inbound tourism, and exports of trade-related services continued to benefit from the Mainland's buoyant trade flows. Notwithstanding the global financial turbulence, exports of financial services grew strongly further, albeit slightly moderated from its earlier hectic pace of expansion. On a seasonally adjusted quarter-to-quarter comparison, exports of services grew by 1.1% in the first quarter of 2008.

Domestic sector

5. Domestic demand continued to play an important role in driving economic growth. Local consumer spending remained strong in the first quarter, with consumer sentiment being well supported by the firm labour market conditions and rising incomes. *Private consumption expenditure (PCE)* rose markedly by 7.9% in real terms in the first quarter, similar to the growth in 2007 as a whole. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure fell slightly by 0.1% in the first quarter.

6. *Overall investment spending* accelerated, expanding by 8.9% in real terms in the first quarter of 2008. Machinery and equipment investment continued to rise notably by 6.0% in the first quarter, along with the continued expansion of general economic activity. Indeed, the results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department indicated that large business establishments were largely optimistic about the near-term business situation. Private sector activity in the construction sector rose modestly in the first quarter, while public sector activity rebounded notably from a low base. Taking altogether, overall expenditure on building and construction increased solidly by 5.2% in the first quarter of 2008. Also, the active property market led to a sharp increase in ownership transfers.

The labour sector

7. Labour market conditions continued to be firm in the first quarter, underpinned by the strong economic expansion. The *seasonally adjusted unemployment rate* remained stable at 3.4%, and the *underemployment rate* fell further to 1.9%, a ten-year low. Increases in labour earnings and wages were experienced across-the-board in 2007, and became more notable in the fourth quarter of 2007.

Prices

8. *Underlying consumer price inflation* accelerated further to an average of 4.9% in the first quarter, mostly due to the surge in food prices and the faster increase in private housing rentals. The sustained above-trend economic growth also added to inflationary pressure from the demand side. *Headline consumer price inflation*, having taken all the relevant one-off measures into account, was 4.6%, slightly lower than its underlying counterpart in the first quarter as the low base effect created by the public housing rental waiver in February 2007 had offset most of the alleviation effect from the rates concession in the first quarter of 2008. On top of surging food prices and faster rental increases, inflationary pressure was also sustained by the elevated energy prices, gradual appreciation of the renminbi and the weak US dollar, as well as the rising labour costs. As to the *GDP deflator*, a slower increase of 2.3% was recorded in the first quarter, due to the less favourable terms of trade.

Latest GDP and price forecasts for 2008

9. Looking ahead, the external environment will remain uncertain and challenging. The US economy will continue to be weak with the effects of the housing market downturn spreading into the wider economy, while global financial markets are likely to remain unsettled. Economic activities in other advanced economies have also showed signs of deceleration.

10. Nevertheless, the growth momentum in the emerging and developing economies, including the Mainland economy, is expected to remain vibrant, although there should unavoidably be some mild moderation in growth due to the weaker demand from the advanced economies. Yet this should still provide some cushioning effect to the impact of the economic slowdown in the developed world on Hong Kong in the coming quarters. However, the effects of the macro-tightening measures in the Mainland need to watch closely.

11. Domestic demand is expected to grow solidly further and remain a key driver in economic growth going forward. The firm labour market conditions and rising incomes should continue to give strength to private consumption. As business confidence holds up well and interest rates remain low, there should also be further growth in investment spending in the rest of the year.

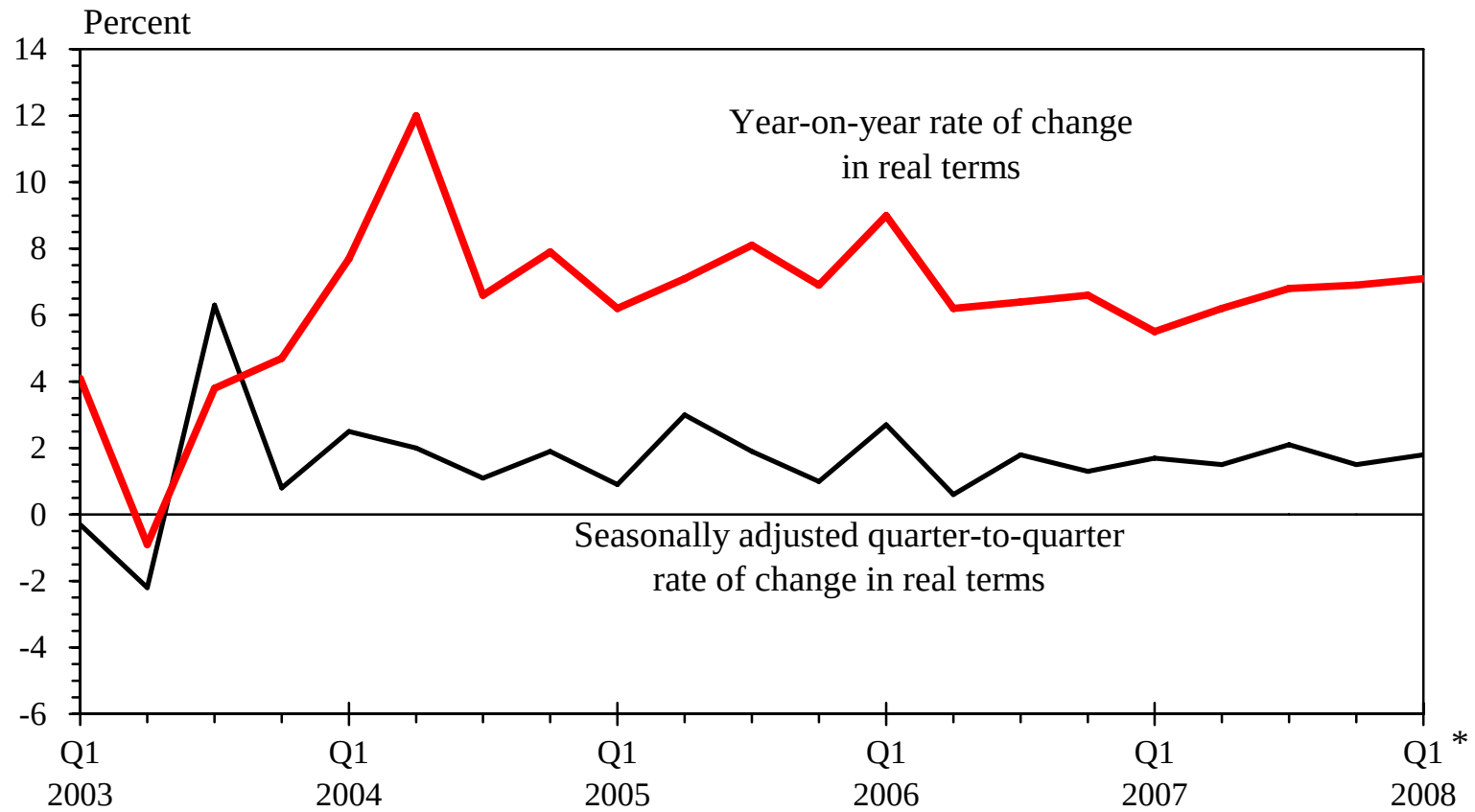
12. Overall, given the uncertainties prevailing in the external environment and dimmer global economic prospects, the GDP forecast at 4-5% as announced in the Budget round in February is kept unchanged. Yet with the strong GDP growth in the first quarter, and barring any abrupt external shocks, it is likely that GDP growth in 2008 should be close to the upper end of the range forecast (**Table 2**). For comparison, the forecasts of Hong Kong's GDP growth by a selection of international organisations and local analysts are summarised in **Table 3**.

13. The inflation outlook is likewise rather uncertain and will hinge much on the movements of food prices in the international markets in the rest of the year, which can be expected to be volatile. Apart from global food prices, the elevated international oil prices, the exchange rate movements as well as the strength of the local economy are likely to continue to exert inflationary pressure. Nevertheless, the sustained increase in labour productivity will provide some cushioning effect. In view of the high degree of uncertainties in the external environment, the forecast rate of increase in the underlying Composite CPI for 2008 is maintained at 4.5%. The corresponding forecast headline inflation rate is also kept unchanged at 3.4%. The risks to these forecasts are on the upside. The Government will review the inflation forecast as more incoming data become available.

(The First Quarter Economic Report 2008 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 \$67 per copy (15% discount offered if purchased on-line), with a postage charge.)

(The GDP figures up to the first quarter of 2008 are published in the Report of the Gross Domestic Product, First Quarter 2008. 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 \$47 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>2006[#]</u>	<u>2007[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>2007</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>2008</u> <u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	6.0	7.8	4.5 (1.5)	6.6 (3.0)	10.6 (3.2)	9.5 (1.6)	7.9 (-0.1)
Government consumption expenditure	0.1	2.3	2.3 (1.6)	3.0 (-0.3)	1.5 (-0.3)	2.3 (1.2)	0.3 (-0.4)
Gross domestic fixed capital formation	7.0	4.2	0.8	8.1	-0.5	8.2	8.9
<i>of which :</i>							
Building and construction	-7.3	1.0	-1.9	7.3	-0.2	-1.2	5.2
Machinery, equipment and computer software	19.1	3.5	0.3	7.8	-2.7	8.5	6.0
Total exports of goods	9.3	7.0	6.5 (0.3)	10.0 (3.0)	6.2 (0.2)	5.7 (1.8)	8.3 (1.4)
Imports of goods	9.2	8.8	7.1 (0.1)	11.5 (4.1)	8.1 (0.5)	8.5 (3.1)	8.4 (-1.1)
Exports of services	10.1	12.5	11.3 (3.5)	11.6 (2.8)	13.7 (4.2)	13.1 (2.2)	10.8 (1.1)
Imports of services	8.1	8.5	6.6 (0.5)	8.9 (5.8)	8.7 (0.3)	9.7 (2.8)	11.3 (2.2)
Gross Domestic Product	7.0	6.4	5.5 (1.7)	6.2 (1.5)	6.8 (2.1)	6.9 (1.5)	7.1 (1.8)
<i>Change in the main price indicators (%)</i>							
GDP deflator	-0.3	3.0	1.4 (0.6)	2.0 (0.9)	3.2 (1.1)	4.9 (2.1)	2.3 (-1.7)
Composite Consumer Price Index	2.0	2.0	1.7 (*)	1.3 (0.3)	1.6 (0.8)	3.5 (2.2)	4.6 (1.1)
<u>Change in nominal GDP (%)</u>	6.7	9.5	7.0	8.4	10.2	12.1	9.6

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

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

(*) Change of less than 0.05%.

Table 2**Economic forecasts for 2008
(year-on-year rate of change (%))**

	Forecasts for 2008 as released <u>on 27.2.2008</u> (%)	Latest forecasts for 2008 <u>on 16.5.2008</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	4 to 5	4 to 5
<i>Nominal GDP</i>	6.5 to 7.5	6.5 to 7.5
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	3.4	3.4
<i>Underlying CCPI</i>	4.5	4.5
GDP Deflator	2.5	2.5

Table 3

**2008 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>
International organisations:								
IMF	Oct 2007	4.7	--	--	--	--	3.2	World Economic Outlook, Oct 2007.
	Feb 2008	4.6	3.2	1.7	--	--	3.7	2007 Article IV Consultation -Staff Report, February 2008.
	Apr 2008	4.3	--	--	--	--	3.6	World Economic Outlook, Apr 2008.
ADB	Sep 2007	5.4	--	--	--	--	2.5	Asian Development Outlook 2007 Update, Sep 2007.
	Apr 2008	4.5	--	--	--	--	3.4	Asian Development Outlook 2008, Apr 2008.
PECC	Dec 2007	6	--	--	--	--	2.87	State of the Region 2007-2008, 13 Dec 2007.
World Bank	Nov 2007	5.2	--	--	--	--	--	East Asia and Pacific Update, Nov 2007.
	Apr 2008	4.8	--	--	--	--	--	East Asia and Pacific Update, Apr 2008.
United Nations	Jan 2008	5.7	--	--	--	--	1.4	World Economic Situation and Prospects 2008, 9 Jan 2008.
United Nations, ESCAP	Mar 2008	5.7	--	--	--	--	3.4	Economic and Social Survey of Asia and the Pacific 2008, Mar 2008.
Private sector analysts:								
<i>(a) Major local banks</i>								
HSBC	Jan 2008	5	5.3	7.6	--	--	3.9	Macro Asia Economics Q1 2008, 8 Jan 2008.
	Mar 2008	5	7.6	7.6	--	--	3.9	Macro Asia Economics Q2 2008, 27 Mar 2008.
Hang Seng Bank	Nov 2007	5	--	--	--	--	3.8	Hang Seng Bank, 12 Nov 2007.
	Feb 2008	5	--	--	--	--	3.5	Hong Kong Economic Monitor, February 2008.
	May 2008	5	--	--	--	--	4	Hang Seng Bank, 13 May 2008.
Standard Chartered Bank	Dec 2007	5.2	--	--	--	--	3.6	Oriental Daily News, 29 Dec 2007.
	Feb 2008	4.6	--	--	--	--	3.8	Standard Chartered Global Focus, 21 Feb 2008.
	May 2008	4.6	--	--	--	--	Headline: 4.1 Underlying : 5.2	Standard Chartered Bank, 13 May 2008.

Table 3 (cont'd)

**2008 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>
Bank of China (HK)	Dec 2007	5	5.5	4.5	7.6	9.8	3.5	Economic Review, Dec 2007.
	May 2008	5	5.5	4.5	7.6	9.8	4.5	Economic Review, May 2008.
Bank of East Asia	Jan 2008	5	7.5	4.5	6	8.5	3.5	Economic Analysis, Jan 2008.
	Mar 2008	4.5	6.5	--	7	--	3.5	Wen Wei Po, 20 Mar 2008.
	May 2008	4.5	--	--	--	--	4	Bank of East Asia, 13 May 2008.
Citigroup	Dec 2007	6.2	--	--	--	--	3.3	Oriental Daily News, 29 Dec 2007.
	Jan 2008	5.3	6	7.2	--	--	3.7	Asia Economic Outlook and strategy, 28 Jan 2008.
	Apr 2008	4.5	6.1	7	--	--	3.7	Asia Economic Outlook and strategy, 29 Apr 2008.
<i>(b) Investment banks</i>								
Goldman Sachs Asia	Nov 2007	6	--	--	--	--	4	Goldman Sachs Asia, 14 Nov 2007.
	Jan 2008	5.2	--	--	--	--	--	Apple Daily, 26 Jan 2008.
Morgan Stanley Asia	Nov 2007	5.5	--	--	--	--	3	Morgan Stanley Asia, 13 Nov 2007.
	Feb 2008	5.5	--	--	--	--	4	Morgan Stanley Asia, 19 Feb 2008.
	May 2008	5.5	--	--	--	--	4.5	Morgan Stanley Asia, 14 May 2008.
JP Morgan Chase Bank	Feb 2008	5.3	--	--	--	--	3.5	JP Morgan Chase Bank 18 Feb 2008.
	May 2008	4.6	--	--	--	--	4.5	JP Morgan Chase Bank 13 May 2008.
Merrill Lynch	Oct 2007	6	6	7.7	--	--	2.8	Economics, Hong Kong, 22 Oct 2007.
	Feb 2008	6	--	--	--	--	3.9	The Asian Macro Weekly, 15 Feb 2008.
	May 2008	6	--	--	--	--	3.9	The Asian Macro Weekly, 9 May 2008.
Credit Suisse	Dec 2007	4.6	6.5	4.9	--	--	5.1	Emerging Markets Quarterly, 6 Dec 2007.
	Mar 2008	3.9	5.6	8.6	--	--	4.9	Emerging Markets Quarterly, 12 Mar 2008.

Table 3 (cont'd)

**2008 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>
Lehman Brothers	Dec 2007	5	--	--	--	--	3.4	HK Commercial Daily, 13 Dec 2007.
	Feb 2008	4.5	--	--	--	--	4.5	Global Weekly Economic Monitor, 15 Feb 2008.
	May 2008	4.3	--	--	--	--	5	Lehman Brothers, 13 May 2008.
<i>(c) Others</i>								
Economist Intelligence Unit	Jan 2008	4.8	7.4	6.5	--	--	3.9	Country Forecast, Jan 2008.
	Feb 2008	4	5.4	4.5	--	--	3.7	Country Forecast, Feb 2008.
	Mar 2008	4	5.1	4.5	--	--	4	Country Forecast, Mar 2008.
	Apr 2008	4.9	8	6.1	--	--	4.3	Country Forecast, Apr 2008.
Hong Kong General Chamber of Commerce	Nov 2007	5	--	--	--	--	3	HKGCC, 12 Nov 2007.
	Feb 2008	3.5	--	--	--	--	5	HKGCC, 20 Feb 2008.
Federation of Hong Kong Industries	Jan 2008	4.5	--	--	--	--	--	Press release, 10 Jan 2008.
University of Hong Kong	Jan 2008	5.6	--	--	--	--	--	Press release, 3 Jan 2008.

Observation :

The forecasts of GDP growth in real terms for 2008 from the private sector analysts listed above are mostly in the range of 4.5% to 5.5%, averaged at 4.9%.



First Quarter Economic Report 2008

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2008

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

May 2008

CONTENTS

Paragraphs

CHAPTER 1: OVERVIEW OF ECONOMIC PERFORMANCE

Overall situation	1.1	-	1.6
GDP by major economic sector			1.7
Some highlights of economic policy	1.8	-	1.10
Box 1.1 The relative importance of the United States as a market for exports of East Asian economies			

CHAPTER 2: THE EXTERNAL SECTOR

Visible trade			
Total exports of goods	2.1	-	2.5
Imports of goods			2.6
Invisible trade			
Exports of services			2.7
Imports of services			2.8
Visible and invisible trade balance			2.9
Trade policy and other developments	2.10	-	2.11

CHAPTER 3: DEVELOPMENTS IN SELECTED SECTORS

Property	3.1	-	3.4
Land	3.5	-	3.6
Tourism	3.7	-	3.10
Logistics	3.11	-	3.13
Transport	3.14	-	3.17
Innovation and technology	3.18	-	3.19
Environment			3.20

CHAPTER 4: THE FINANCIAL SECTOR

Overall situation	4.1	-	4.2
Interest rates and exchange rates	4.3	-	4.6
Money supply and banking sector	4.7	-	4.12
The debt market	4.13	-	4.14
The stock and derivatives markets	4.15	-	4.19
Fund management and investment funds			4.20
Insurance sector			4.21
Box 4.1 Financial sector : Sources of growth and economic linkages			

CHAPTER 5: THE LABOUR SECTOR

Overall labour market situation	5.1
Total employment and labour supply	5.2 - 5.4
Profile of unemployment	5.5 - 5.6
Profile of underemployment	5.7
Profile of employment in establishments	5.8 - 5.9
Vacancies	5.10 - 5.12
Earnings and wages	5.13 - 5.17
Box 5.1 Analysis of the change in labour force participation rate from 1993 to 2007	

CHAPTER 6: PRICES

Consumer prices	6.1 - 6.5
Costs of factor inputs	6.6 - 6.7
Output prices	6.8
GDP deflator	6.9

STATISTICAL APPENDIX

CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

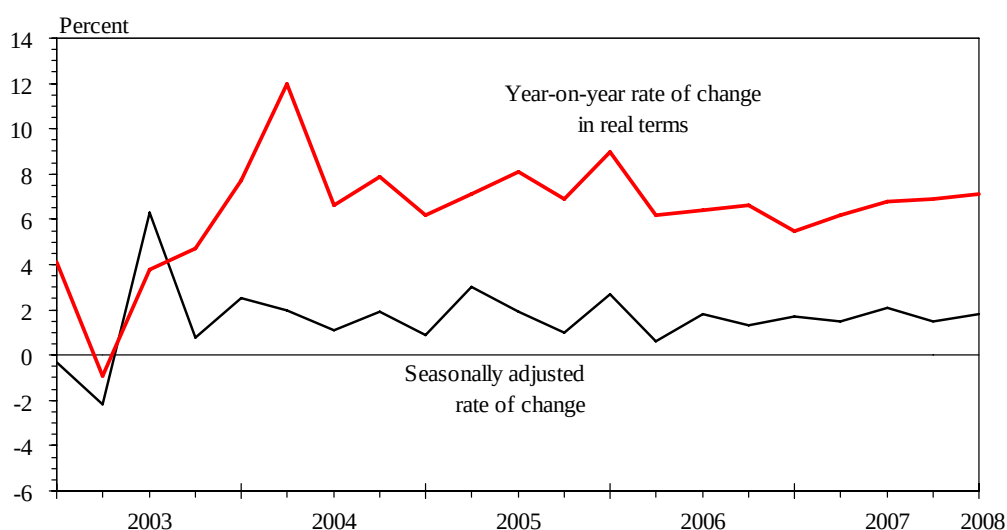
- *The Hong Kong economy continued to expand strongly in the first quarter of 2008, despite the growing adversities in the external environment. With real GDP growing by 7.1%, the economy extended the run of distinctly above-trend growth to 18 quarters. This followed the robust 6.4% growth in 2007.*
- *External environment turned increasingly challenging during the first quarter, as the US economy stayed weak and as the global financial turbulence deepened. Amidst dimmer global economic prospects, the local stock market also experienced further downward adjustment in the quarter and housing market turned less hectic.*
- *Nevertheless, merchandise exports grew visibly further in the first quarter, supported by the vibrant performance of the Mainland and other emerging economies and the further expansion of the EU market. Meanwhile, exports of services continued to fare strongly, on the back of continued notable growth of financial services, offshore trade and inbound tourism.*
- *Domestic demand maintained its key role in supporting overall economic growth in the first quarter. Consumption spending rose markedly further, largely reflecting the firm labour market conditions and rising incomes. Investment spending held up nicely, with a rebound in building and construction activity. Thus both consumer and investor confidence remained strong in the first quarter of 2008.*
- *Consumer price inflation picked up further in the first quarter, mostly due to the surge in food prices amidst the global food inflation as well as the disruptions caused by the severe snowstorms in the Mainland earlier in the quarter. The sustained above-trend economic growth also added to inflationary pressure from the demand side. Going forward, high food and energy prices, rising wages and rentals, as well as the exchange rate factors are likely to continue to exert inflationary pressure. Yet the sustained increase in labour productivity will provide some cushioning effect.*

Overall situation

1.1 The Hong Kong economy expanded strongly further in the first quarter. The external sector held firm despite the growing external adversities stemming from the worsening US economy and the deepening of the global financial turbulence. Merchandise exports grew visibly further, and service exports stayed vibrant. Domestic demand also maintained its key role in propelling the economy forward. Consumption demand grew markedly further, and investment spending accelerated on the back of the rebound in building and construction activity. Labour market conditions remained firm, with the unemployment rate staying close to the 10-year low. The concerns about further financial turbulence and dimmer global economic prospects had led to some consolidation in the local equity market. Meanwhile, consumer price inflation picked up further in the first quarter, mostly due to the surge in food prices as a result of global food inflation.

1.2 In the first quarter of 2008, the *Gross Domestic Product (GDP)*⁽¹⁾ leaped by 7.1% in real terms over a year earlier. Thus, the economy attained distinctly above-trend growth for eighteen consecutive quarters. This followed the robust 6.4% (revised up from the earlier estimate of 6.3%) growth in 2007. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP also rose strongly by 1.8% in real terms in the first quarter.

Diagram 1.1 : Economy grew strongly further in the first quarter



1.3 Merchandise exports attained further notable growth in the first quarter despite the increasingly challenging trading environment and the still weak US market. Exports of goods to the Mainland and many other emerging markets continued to record good growth. This together with the further solid increase in goods exports to the EU market offset the notable decrease in exports to the US market. *Total exports of goods* grew by 8.3% in real terms in the first quarter, slightly faster than the growth of 7.0% in 2007. *Exports of services* also stayed vibrant, growing notably further by 10.8%, after the 12.5% surge in 2007. This was supported by the strong inbound tourism and notable expansion of offshore trade. Notwithstanding the global financial turbulence, exports of financial services continued to grow strongly, albeit slightly slower than in the preceding quarters.

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

	<u>2006[#]</u>	<u>2007[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>2007</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>2008</u> <u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	6.0	7.8	4.5 (1.5)	6.6 (3.0)	10.6 (3.2)	9.5 (1.6)	7.9 (-0.1)
Government consumption expenditure	0.1	2.3	2.3 (1.6)	3.0 (-0.3)	1.5 (-0.3)	2.3 (1.2)	0.3 (-0.4)
Gross domestic fixed capital formation	7.0	4.2	0.8	8.1	-0.5	8.2	8.9
<i>of which :</i>							
Building and construction	-7.3	1.0	-1.9	7.3	-0.2	-1.2	5.2
Machinery, equipment and computer software	19.1	3.5	0.3	7.8	-2.7	8.5	6.0
Total exports of goods	9.3	7.0	6.5 (0.3)	10.0 (3.0)	6.2 (0.2)	5.7 (1.8)	8.3 (1.4)
Imports of goods	9.2	8.8	7.1 (0.1)	11.5 (4.1)	8.1 (0.5)	8.5 (3.1)	8.4 (-1.1)
Exports of services	10.1	12.5	11.3 (3.5)	11.6 (2.8)	13.7 (4.2)	13.1 (2.2)	10.8 (1.1)
Imports of services	8.1	8.5	6.6 (0.5)	8.9 (5.8)	8.7 (0.3)	9.7 (2.8)	11.3 2.2
Gross Domestic Product	7.0	6.4	5.5 (1.7)	6.2 (1.5)	6.8 (2.1)	6.9 (1.5)	7.1 (1.8)
<i>Change in the main price indicators (%)</i>							
GDP deflator	-0.3	3.0	1.4 (0.6)	2.0 (0.9)	3.2 (1.1)	4.9 (2.1)	2.3 (-1.7)
Composite Consumer Price Index	2.0	2.0	1.7 (*)	1.3 (0.3)	1.6 (0.8)	3.5 (2.2)	4.6 (1.1)
<u>Change in nominal GDP (%)</u>	6.7	9.5	7.0	8.4	10.2	12.1	9.6

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

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

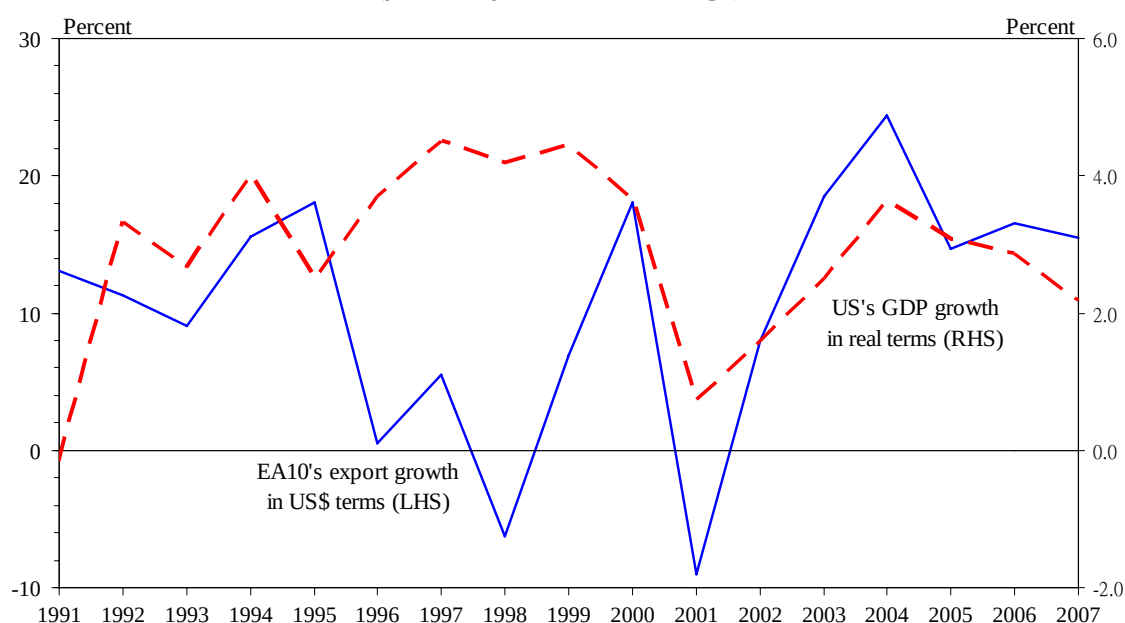
(*) Change of less than 0.05%.

Box 1.1

The relative importance of the United States as a market for exports of East Asian economies

Economic activity in the US remained subdued on entering 2008, due to the housing market downturn, slackened labour market conditions and tightening credit standards arising from the financial turmoil. The risks of the US economy experiencing a mild contraction are increasing. The US has long been an important market for East Asia's exports. In the past, when the US experienced a marked economic slowdown, exports of East Asian economies were often affected in a significant way. For instance, when the US economy slowed markedly in 2001, exports of East Asian economies recorded a negative growth in US dollar terms. This note attempts to show that the relative importance of the US in East Asia's exports has been declining steadily over the recent past. This leads one to wonder if the trade performance of East Asia may, unlike in the past episodes, would become more resilient to the current US economic slowdown.

US economic growth and EA10's export growth
(year-on-year rate of change)



During 1995 to 1997, the share of the US in the exports of ten selected East Asian economies (EA10)^(*) was stable at about 22% and then rose to 25% in 1999. But its share then declined gradually to 20% in 2003 and notably further to 16% in 2007. Over the past ten years, EA10's exports to the world rose by an average of 10% in US dollar terms, considerably faster than the corresponding 7% trend increase registered for the US market. By comparison, intra-regional trade among EA10 also grew at an average annual rate of 10%, in line with their overall export growth.

(*) The ten selected East Asian economies (EA10) in this article include the Mainland, Hong Kong, Japan, Singapore, South Korea, Taiwan, Indonesia, Malaysia, the Philippines and Thailand.

Box 1.1 (Cont'd)

The share of intra-regional trade in EA10's total exports amounted to 48% in 2007, similar to that in 1997. Yet there was a notable change in the importance of the Mainland in such intra-regional trade. The share of the Mainland in the exports of the other nine East Asian economies rose from 8% in 1997 to 13% in 2007. On the one hand, this reflected the distinct development of the regional supply chain, which has increasingly engaged the Mainland as a base for the final stage of production. On the other, the change was also indicative of the growing importance of the Mainland as a final market for the exports of other Asian economies, due to the Mainland's growing consumption demand and industrial needs.

Some analysts have opined that, with the relocation of production facilities from other East Asian economies to the Mainland, the decline in the market share of the US in the exports of East Asian economies has been more apparent than real, because exports to the US from the region have increasingly routed through the Mainland. But on closer examination, it is noted that while the share of the US in the Mainland's exports went up from 18% in 1997 to 19% in 2007, EU's share showed a much larger increase, from 13% in 1997 to 20% in 2007. The most astonishing change was the rapid increase in the Mainland's exports to the other regions in the world, including notably many developing economies in Asia, the Middle East, Latin America, Eastern Europe and Africa. Their share in the Mainland's exports rose markedly from 15% in 1997 to 24% in 2007. It appears that the output coming out of the regional supply chain formed among EA10 has been competitive in the US market, but even more so in the EU and other parts of the world, suggesting that the relative importance of the US in EA10's exports has been declining⁽⁺⁾.

**Total exports of the ten selected East Asian economies by market in 1997 and 2007
(% share in total)**

From/To	The Main-land	1997				2007				
		EA9#	US	EU	ROW	The Main-land	EA9#	US	EU	ROW
Hong Kong	34.9	16.2	21.7	15.1	12.1	48.7	13.6	13.7	13.5	10.5
The Mainland	--	54.2	17.9	13.0	14.9	--	36.6	19.1	20.1	24.2
Japan	5.2	35.4	27.8	15.6	16.0	15.3	30.7	20.1	14.8	19.1
South Korea	10.0	36.5	15.9	12.4	25.3	22.1	24.3	12.3	14.8	26.5
Singapore	3.3	48.6	18.4	14.0	15.8	9.7	50.8	8.8	10.7	20.1
Taiwan	0.5	46.4	23.8	14.3	15.0	25.3	36.7	14.4	11.1	12.7
EA10	8.0	39.6	22.0	12.9	17.5	13.4	34.2	16.1	15.1	21.2

Notes: (#) EA9 includes all economies in EA10 except the Mainland.
ROW Refers to the rest of the world.

(+) Some of Hong Kong's exports are actually re-exports of the Mainland origin to various overseas markets. Even adjusted for these trade flows, the argument that the Mainland's exports have been diversifying into the EU and other emerging markets is still valid.

Box 1.1. (Cont'd)

Economic growth in the world has become more balanced over the recent past than before. This has contributed to the decline in the relative importance of the US in East Asia's exports. As a consequence, East Asia is now better positioned than before, at least on the trade front, to weather the headwinds from the current US economic downturn.

Having said this, it should be noted that although the EU and the emerging markets have played an increasing role in the exports of East Asia, including those of the Mainland and Hong Kong, it is rather unlikely that the performance of East Asia's exports could be completely insulated from the current US economic slowdown. Given the sheer size of the US economy, which is the largest economy in the world and also the largest importer of goods (taking up about 15% of the world's total imports by value), if the US downturn turns out to be more severe and protracted, the rest of the world would inevitably be hit in a significant way. Thus there is a need to watch out for the developments in the external trading environment, which will remain uncertain and challenging going forward.

1.4 Domestic demand continued to play an important role in driving economic growth. Local consumer spending remained strong in the first quarter, with consumer sentiment being well supported by the firm labour market conditions and rising incomes. *Private consumption expenditure (PCE)* rose markedly by 7.9% in real terms in the first quarter, similar to the increase of 7.8% for 2007 as a whole. Meanwhile, *government consumption expenditure* increased marginally in the first quarter.

Table 1.2 : Consumer spending by major components^(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)
2007 Annual	8.8	1.6	19.1	10.8	8.0	4.5	14.0	7.8
Q1	5.3	2.4	10.3	7.4	4.5	1.3	9.3	4.5
Q2	6.6	1.7	16.3	7.3	6.0	8.2	8.6	6.6
Q3	11.9	3.5	25.8	12.5	11.1	3.8	15.4	10.6
Q4	11.2	-0.8	23.5	15.4	10.4	5.1	21.7	9.5
2008 Q1	7.8	-0.1	18.5	11.5	6.1	9.5	8.2	7.9

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

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

Diagram 1.2 : Consumer spending stayed strong

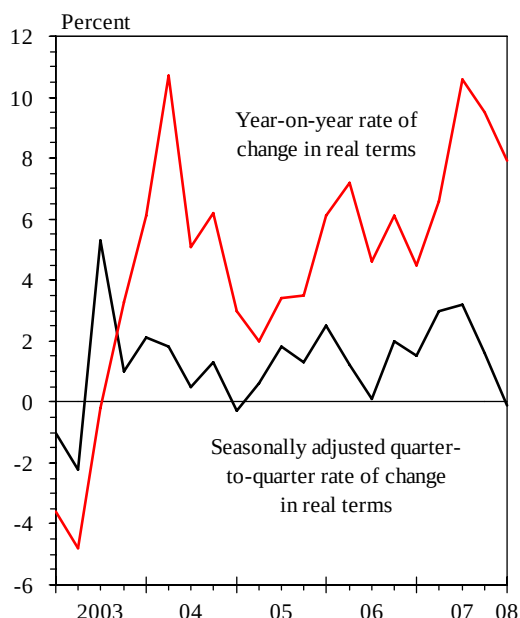
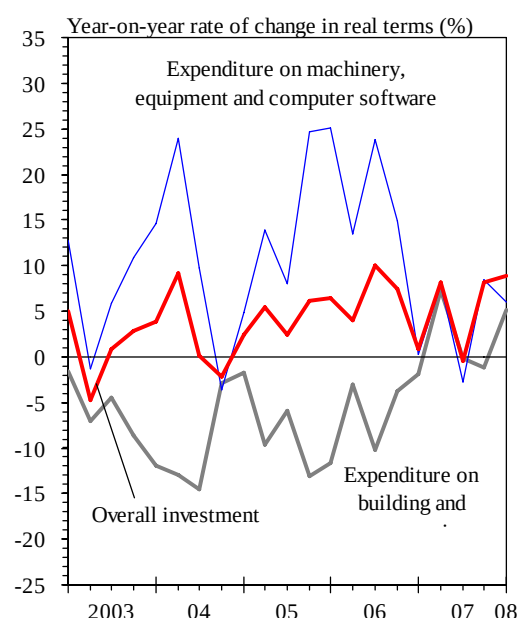


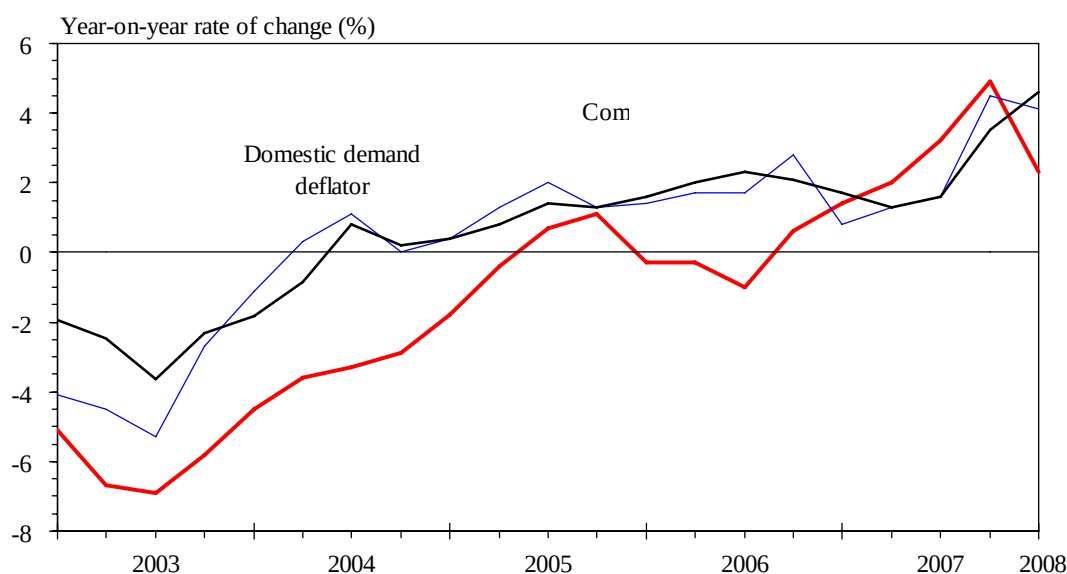
Diagram 1.3 : Investor confidence held firm



1.5 Overall investment spending in terms of *gross domestic fixed capital formation* was resilient to the dimmer global economic prospects, expanding by 8.9% in the first quarter of 2008. This compared with the 4.2% growth in 2007. Machinery and equipment investment continued to rise notably by 6.0% in the first quarter, along with the continued expansion of general economic activity. Indeed, the results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department indicated that large business establishments were largely optimistic about the near-term business situation. Private sector activity in the construction sector rose modestly in the first quarter, while public sector activity rebounded notably from a low base. Taking altogether, overall expenditure on building and construction increased solidly by 5.2% in the first quarter of 2008. Also, the active property market led to a sharp increase in ownership transfers.

1.6 *Underlying consumer price inflation* accelerated further to an average of 4.9% in the first quarter, mostly due to the surge in food prices and the faster increase in private housing rentals. *Headline consumer price inflation*, having taken all the relevant one-off measures into account, was 4.6%, slightly lower than its underlying counterpart in the first quarter as the low base effect created by the public housing rental waiver in February 2007 had offset most of the alleviation effect from the rates concession in the first quarter of 2008. On top of surging food prices and faster rental increases, inflationary pressure was also sustained by the elevated energy prices, gradual appreciation of the renminbi and the weak US dollar, as well as the rising labour costs. As to the *GDP deflator*, a slower increase was recorded in the first quarter, due to the less favourable terms of trade.

Diagram 1.4 : Inflation remained a concern



GDP by major economic sector

1.7 The services sector has been the key driver of overall economic growth. Latest available figures indicate that net output in the services sector as a whole rose markedly by 7.5% in real terms in 2007. Financial services sector was again the star performer, growing at a double-digit rate throughout the year, on the back of hectic financial market activities. Real estate and business services also saw notable growth amidst the increasingly active property market and general business expansion. The rapid growth in net output of wholesale and retail trades as well as restaurants and hotels was supported by the strength in consumer spending and vibrant inbound tourism. However, the net output of the construction sector and manufacturing both declined.

Table 1.3 : GDP by economic activity^(a)

(year-on-year rate of change in real terms (%))

	<u>2006</u>						<u>2007</u>			
	<u>2006</u>	<u>2007</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	2.2	-1.5	7.0	5.3	-0.6	-1.4	-1.5	-2.3	-2.1	-0.3
Construction	-9.8	-2.1	-13.8	-5.6	-13.0	-5.8	-6.1	3.8	-2.8	-2.6
Services ^(b)	7.1	7.5	8.3	6.3	6.5	7.3	7.1	7.5	7.3	7.8
Wholesale, retail and import and export trades, restaurants and hotels	8.8	7.3	11.2	6.4	8.9	8.7	6.9	7.5	7.3	7.3
Import and export trade	9.0	6.7	12.1	5.7	9.1	9.1	6.6	7.3	6.8	6.3
Wholesale and retail trades	7.1	9.4	6.5	6.6	8.4	6.8	6.2	7.5	10.7	12.5
Restaurants and hotels	9.4	8.7	9.3	11.2	8.6	8.4	8.4	7.0	9.8	9.7
Transport, storage and communications	6.8	5.4	9.4	4.7	6.1	7.2	4.1	4.8	6.0	6.6
Transport and storage	6.6	5.6	9.1	4.1	5.8	7.5	3.8	4.5	6.5	7.4
Communications	7.7	4.7	10.6	7.3	7.3	5.7	5.5	6.3	3.9	3.2
Financing, insurance, real estate and business services	12.2	15.0	12.7	12.7	10.0	13.3	13.6	14.1	15.5	16.6
Financing and insurance services	19.7	19.3	21.9	21.2	15.2	20.2	17.4	17.2	22.0	20.7
Real estate and business services	2.0	7.5	0.4	0.5	3.1	3.7	7.2	7.7	5.6	9.5
Community, social and personal services	1.3	1.2	1.3	1.1	1.4	1.4	1.8	0.9	0.9	1.3

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

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

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

Some highlights of economic policy

1.8 In February, the Financial Secretary announced the 2008-09 Budget. The Budget set out three principles of management of public finances. First, sufficient resources should be made available to the Government's commitment to economic, social and cultural developments. Secondly, the financial policies should be sustainable. Thirdly, the fiscal measures have to be pragmatic, with a view to allocating resources to where they are required.

1.9 The 2008-09 Budget aims at, among other things, promoting long-term development, supporting disadvantaged groups, leaving wealth with the people and providing for the future. Specifically, on fostering Hong Kong's longer term economic development, a range of initiatives are announced and the more salient ones are as follows:

- (i) *Investing in Infrastructure.* Over the next few years, the Government will vigorously implement various infrastructure projects, including the ten major projects announced in the 2007-08 Policy Address.
- (ii) *Efficient use of land resources.* The Government will increase land supply in response to the increasing demand for residential and commercial properties, and study the relocation of three government office buildings at the Wan Chai waterfront.
- (ii) *Supporting pillar industries.* An additional \$150 million is earmarked to step up overseas promotion to enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital. In parallel, hotel accommodation tax would be waived and "restricted to hotel use" sites included on the Application List. Separately, a study on the site location for Container Terminal 10 will be conducted. Measures will also be taken to enhance the competitiveness of the commercial and financial sectors and to improve the regulatory regime.
- (iii) *Tapping new markets.* Apart from measures to promote Hong Kong as a creative economy, duties on wine and other alcoholic beverages, except spirits, are waived in order to establish Hong Kong as a centre for wine trading and distribution businesses.

- (iv) *Developing Human Capital.* On top of the introduction of the 12-year free education and small-class teaching as announced in the 2007-08 Policy Address, extra resources are to be allocated to expand postgraduate research programmes and establish a Research Endowment Fund.
- (v) *Environmental Improvement.* Various tax incentive schemes will be introduced to encourage the use of environment-friendly commercial vehicles and facilities.

1.10 To reduce the burden of inflation on the lower income groups and also the community at large, the Budget announced, among other things, measures which would lower headline consumer price inflation directly. These include the waiving of rates for 2008-09 (subject to a ceiling of \$5,000 per quarter for each rateable tenement), the public housing rental waiver for one month and the electricity charge subsidy. Also of particular note are the measures to provide for the future, which include the one-off injection of \$6,000 each into the Mandatory Provident Accounts of those earning not more than \$10,000 and the earmarking of \$50 billion from the fiscal reserves to promote healthcare reform.

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

- *The external sector stayed resilient to the increasing adversities in the trading environment and grew visibly further in the first quarter of 2008, as supported by the vibrant performance of many emerging markets and the solid expansion of the EU market.*
- *The trading environment had become more challenging in the first quarter, as the US economy was lacklustre with the housing market downturn spreading its effects onto the wider economy and the global financial markets remained volatile. Economic activities in other advanced economies also showed signs of deceleration in the face of the major financial crisis. In contrast, the emerging and developing economies were less affected, although activity was beginning to slow in some of these economies.*
- *Merchandise exports registered a notable growth in the first quarter, which was even faster than in the preceding quarter. The solid expansion of the EU market and sustained rapid growth in exports to many emerging markets in Asia provided an effective support to offset the negative effect from the sluggish US market. Specifically, while exports to the Mainland continued to show a strong growth in the first quarter as a whole, and thus remained to be a key growth driver of Hong Kong's total exports, there were fluctuations in the monthly figures amidst the more uncertain trading environment.*
- *Exports of services maintained a strong growth in the first quarter of 2008. Exports of travel services expanded rapidly further in tandem with the vibrant inbound tourism, and exports of trade-related services continued to benefit from the Mainland's buoyant trade flows. Notwithstanding the global financial turbulence, exports of financial services grew strongly further, albeit slightly moderated from its earlier hectic pace of expansion.*

Visible trade

Total exports of goods

2.1 Merchandise exports continued to cruise ahead in the first quarter of 2008, with total exports of goods (comprising re-exports and domestic exports) growing visibly by 9.1% in real terms⁽¹⁾, faster than the 6.6% growth in the fourth quarter of 2007. However, after registering a strong growth in the first two months of 2008 combined, export growth eased back somewhat in March amidst the increasingly challenging external trading environment.

2.2 The global trading environment was clouded with increasing adversities as the headwinds from the US economic slowdown intensified and activities in the other advanced economies also showed clearer signs of deceleration. Citing the deteriorating financial market conditions and the continuing correction in the US housing market, in April the International Monetary Fund⁽²⁾ significantly revised downward the forecast growth rates of the US economy and global economy in 2008 to 0.5% and 3.7% respectively, from those of 1.5% and 4.1% respectively made in January. The continued weakness in the US housing market translated into low consumer confidence and thus weaker consumer spending, and thereby dented US import demand. Nevertheless, in the first quarter, the relatively strong performance of the emerging economies, the continued expansion in the EU, together with the weakness of the US dollar, provided an effective support to Hong Kong's external trade.

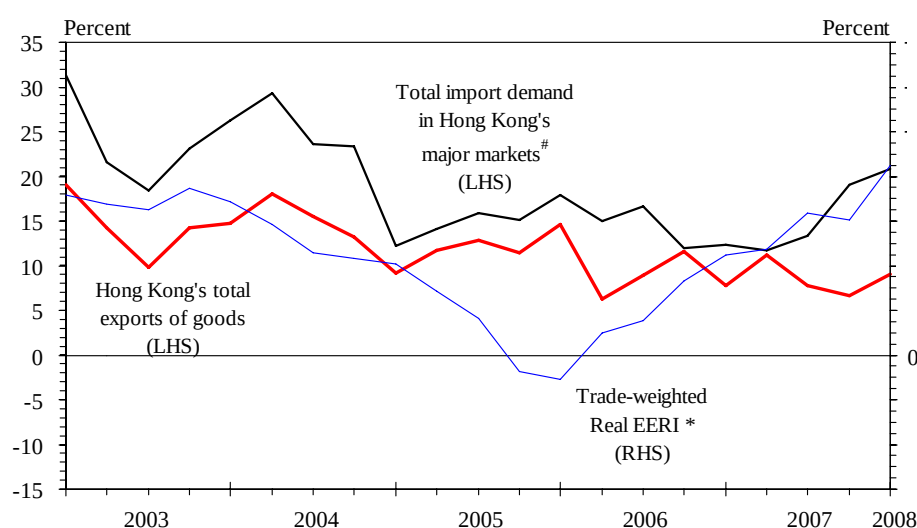
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

		<u>Total exports of goods</u>				<u>Re-exports</u>				<u>Domestic exports</u>			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change In prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>			
2007	Annual	9.2	8.3	2.3	10.8	9.9	2.4	-18.9	-19.8	0.8			
	Q1	9.0	7.8	(0.8)	2.7	11.8	10.6	(0.9)	2.8	-33.4	-33.5	(-0.6)	0.4
	Q2	11.7	11.2	(2.7)	2.0	13.5	13.1	(2.4)	2.1	-18.4	-19.4	(8.2)	0.6
	Q3	8.2	7.8	(0.9)	2.0	10.0	9.6	(1.3)	2.1	-20.9	-21.0	(-7.9)	0.8
	Q4	8.2	6.6	(1.8)	2.7	8.6	7.1	(1.9)	2.8	-0.7	-3.4	(0.0)	1.0
2008	Q1	10.5	9.1	(1.8)	2.6	10.9	9.6	(2.1)	2.6	0.3	-5.0	(-5.2)	3.3

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

2.3 *Re-exports*⁽³⁾ remained the mainstay of the overall merchandise exports in the first quarter, accounting for 96.6% of the total value. With a further visible growth of 9.6% in real terms in the first quarter after a 7.1% increase in the fourth quarter of 2007, re-exports also continued to be the growth driver behind the growth in total merchandise exports. The downtrend in *domestic exports* continued and registered a decline of 5.0% in real terms in the first quarter of 2008, after falling by 3.4% in the fourth quarter of 2007.

**Diagram 2.1 : Merchandise exports showed a notable growth on entering 2008
(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.

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

(#) Import demand figure for the first quarter of 2008 is based on information available up to February 2008.

Diagram 2.2 : Re-exports remained the growth driver of total exports

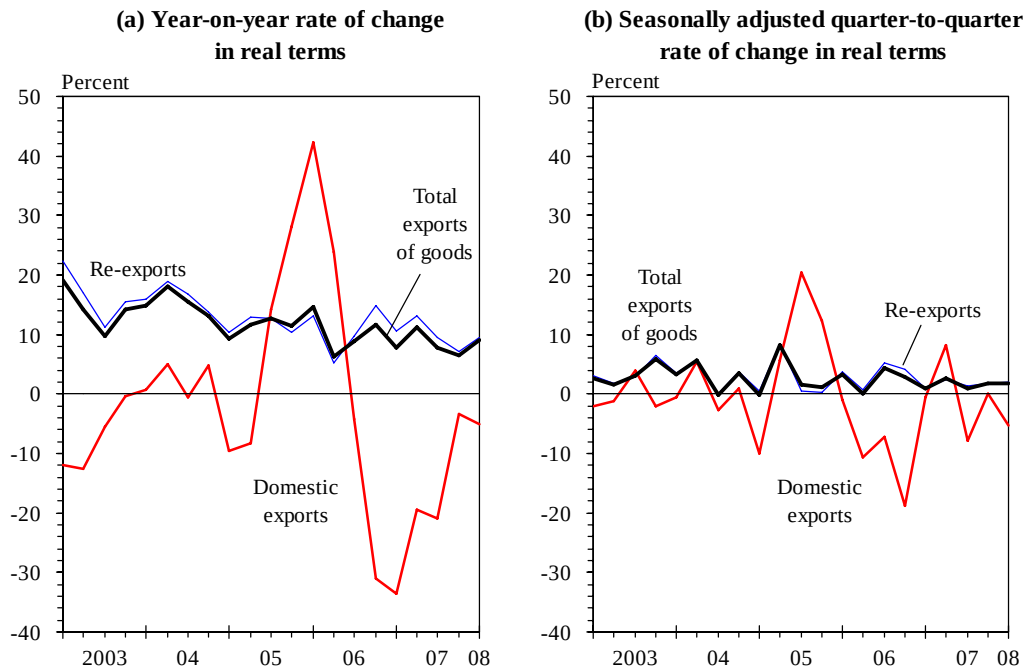
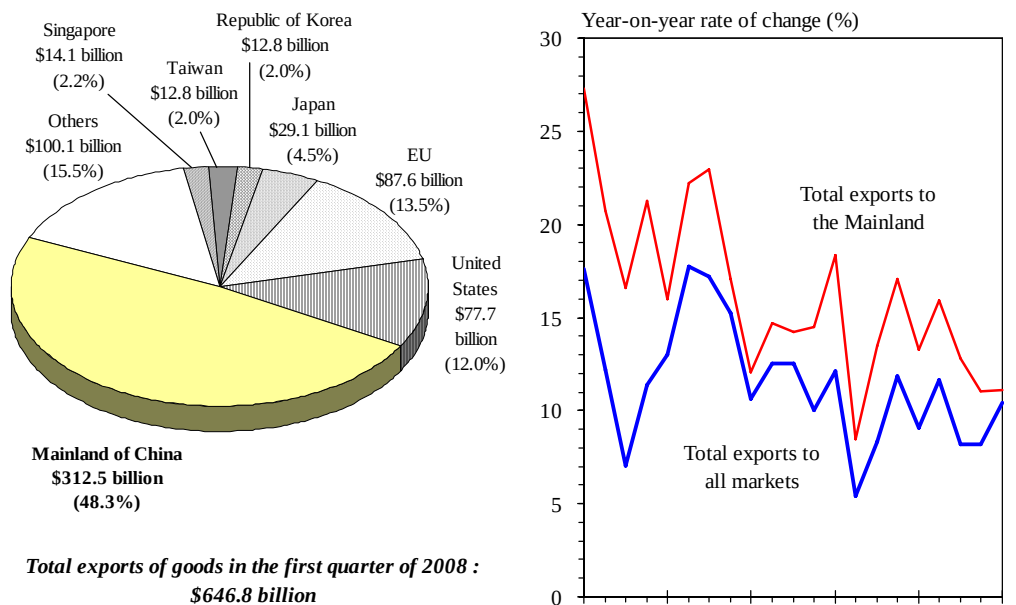


Diagram 2.3 : The Mainland market played a prominent role in Hong Kong's exports



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

		Mainland <u>of China</u>	United <u>States</u>	European <u>Union</u>	<u>Japan</u>	Republic <u>of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2007	Annual	12.9	-2.5	3.8	-0.8	0.0	-0.2	1.0
	Q1	13.1	0.7	2.7	0.6	-8.9	-1.4	0.7
	Q2	15.5	1.0	5.2	4.0	3.8	9.0	3.9
	Q3	12.9	-3.9	4.3	-5.9	0.2	-3.2	0.2
	Q4	10.7	-6.6	3.2	-1.6	5.2	-4.1	-0.2
2008	Q1	12.2	-5.8	4.6	-3.2	2.8	-0.2	21.6

2.4 Analysed by market, total exports to the Mainland remained strong in the first quarter as a whole, bolstered by the Mainland's thriving economic activities and robust domestic demand. Yet there were fluctuations in the monthly figures, with a notable slowdown in March, reflecting the increasing uncertainty in the external trading environment. Meanwhile, the rapid growth momentum in exports to many other Asian emerging markets including India, Malaysia, Thailand, Vietnam and Indonesia sustained, underpinned by their strong import demand amidst rapid economic expansion. Also, exports to Singapore rebounded strongly in the first quarter.

2.5 The US market slackened further in the first quarter. Economic activity in the US decelerated markedly in recent months due to the feed-through of the housing market fallout and the deepening of the sub-prime mortgage turmoil. The deceleration in the US economy was also presumably the main reason behind the soft performance in Hong Kong's exports to other major economies in Asia such as Japan, Korea and Taiwan. In contrast, exports to the EU market fared rather well in the first quarter, supported by the sustained economic expansion of the EU economy and the marked appreciation of the euro. This coupled with the strong performance of exports to the Mainland and other emerging markets, provided an effective offset to the weak US market in the first quarter.

Diagram 2.4 : Exports to the Mainland remained strong in the first quarter as a whole

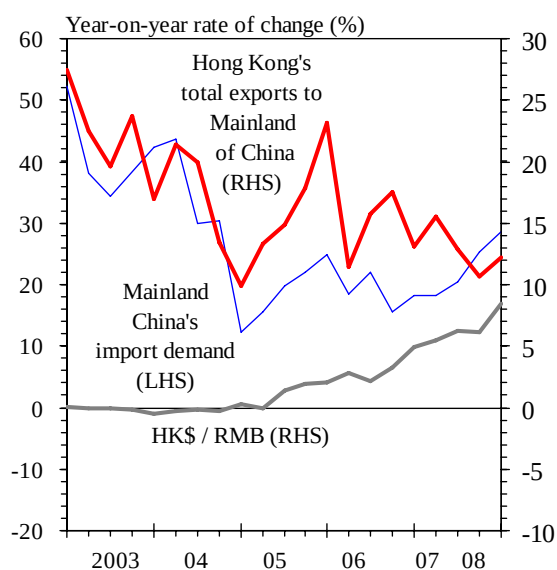
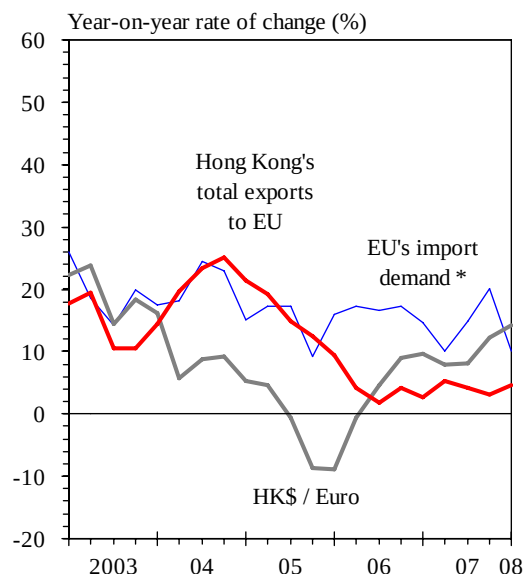


Diagram 2.5 : Exports to EU was supported by continued economic expansion



Note: (*) Import demand figure for the first quarter of 2008 is based on information available up to February 2008.

Diagram 2.6 : Exports to US fell further amidst its slack economic activities

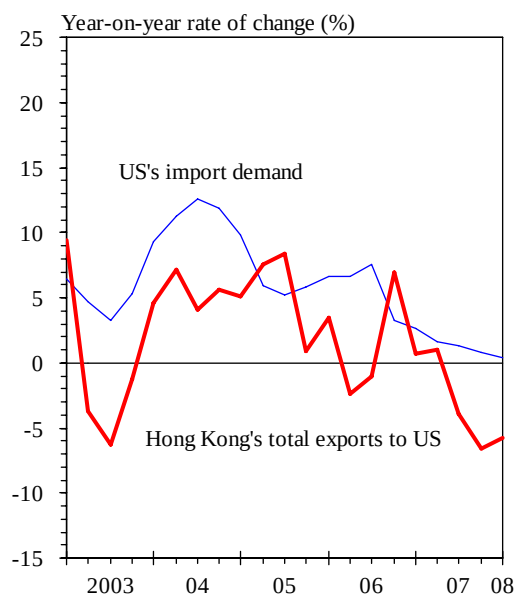


Diagram 2.7 : Exports to Japan remained weak

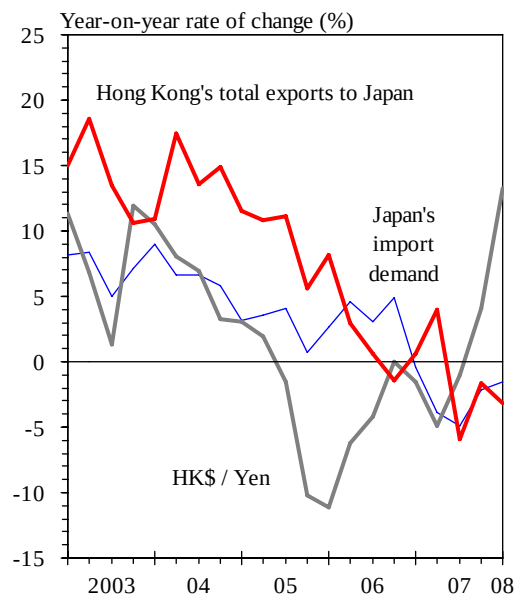


Diagram 2.8 : Exports to Singapore rebounded strongly

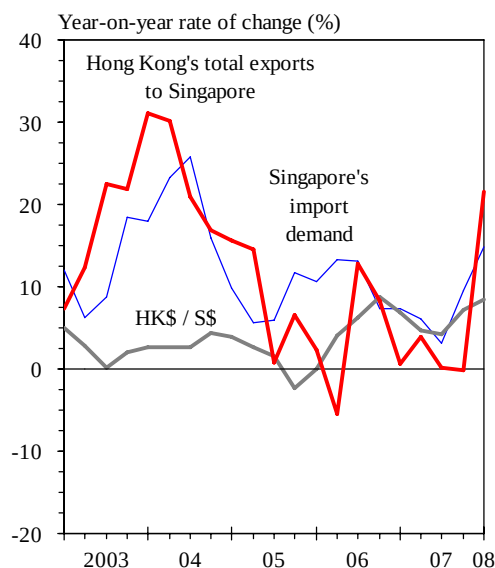
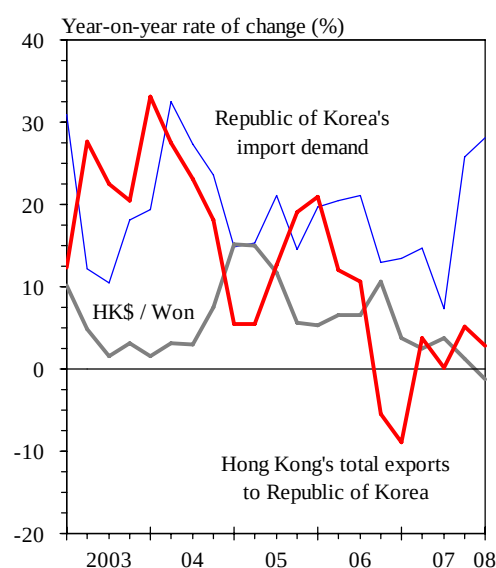


Diagram 2.9 : The Korea market grew moderately



Imports of goods

2.6 *Imports of goods* continued to turn in some rapid growth of 9.6% in real terms in the first quarter, after a 10.5% growth in the fourth quarter of 2007. *Retained imports*, referring to the imports for domestic uses, likewise increased notably by 9.6% in real terms in the first quarter. Within this, retained imports of consumer goods surged visibly, on the back of the upbeat consumer sentiment and the strength of consumption demand. Retained imports of capital goods also rose rapidly further, boosted mainly by the intake of office equipment and telecommunications equipment and also indicative of the strong business confidence. On the other hand, retained imports of raw materials and semi-manufactures, and fuels fell notably in the first quarter.

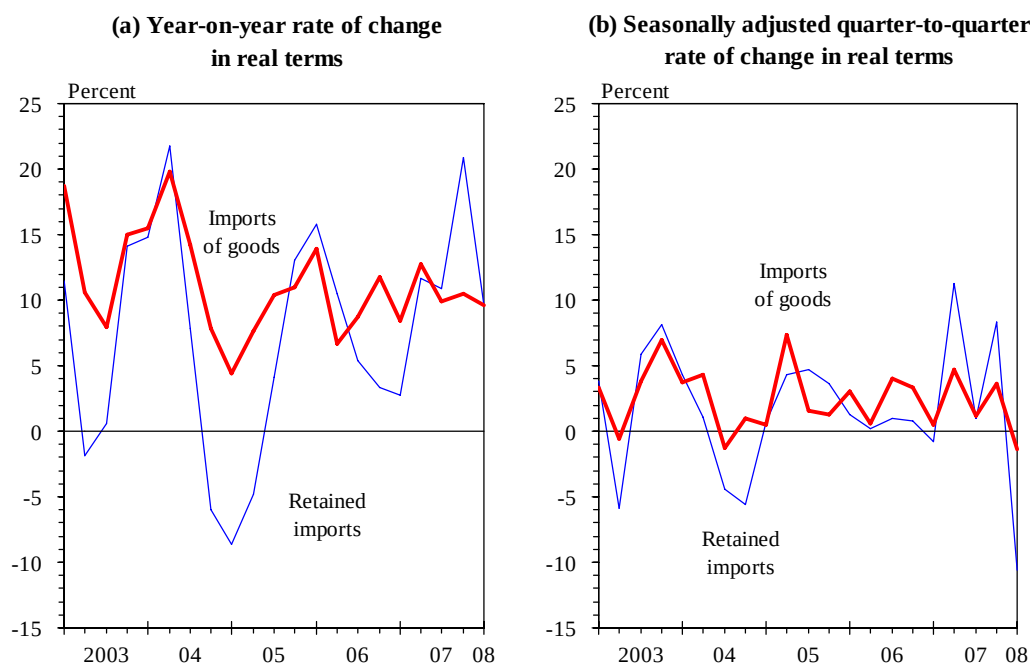
**Table 2.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2007	Annual	10.3	10.4	2.3		8.8	11.7		1.9
	Q1	9.0	8.4	(0.5)	2.6	1.5	2.7	(-0.8)	2.0
	Q2	12.6	12.7	(4.7)	1.9	10.3	11.7	(11.3)	1.5
	Q3	9.1	9.9	(1.2)	1.9	6.6	10.9	(1.0)	1.1
	Q4	10.5	10.5	(3.6)	2.8	16.3	20.9	(8.3)	2.6
2008	Q1	11.6	9.6	(-1.4)	3.6	13.7	9.6	(-10.6)	6.5

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

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

Diagram 2.10 : Total imports surged further



**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>
2007	Annual	6.4	6.6	11.1	18.5	8.5
	Q1	-1.0	4.4	6.4	-2.9	8.6
	Q2	2.3	3.5	14.2	16.1	24.4
	Q3	6.6	8.9	1.6	33.7	-0.8
	Q4	17.7	9.7	22.0	29.3	4.7
2008	Q1	30.3	12.7	14.5	-11.7	-11.3

Invisible trade

Exports of services

2.7 *Exports of services* maintained a strong growth of 10.8% in real terms in the first quarter, as compared to the 13.1% increase in the fourth quarter of 2007. The pick-up in exports of services was across-the-board. Exports of trade-related services, the largest component within exports of services, continued to expand rapidly, as the buoyant trade flows involving the Mainland and the sustained rapid increase in intra-regional trade provided support to Hong Kong's offshore trade. Exports of financial services surged further, despite the ongoing global financial market turbulence. Exports of travel services also showed further notable growth, on the back of the vibrant inbound tourism industry and the boosting effect on visitor spending arising from the weak Hong Kong dollar. Exports of transportation services, benefited from the vivid trade flows and growth in incoming visitors, continued to hold up well.

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

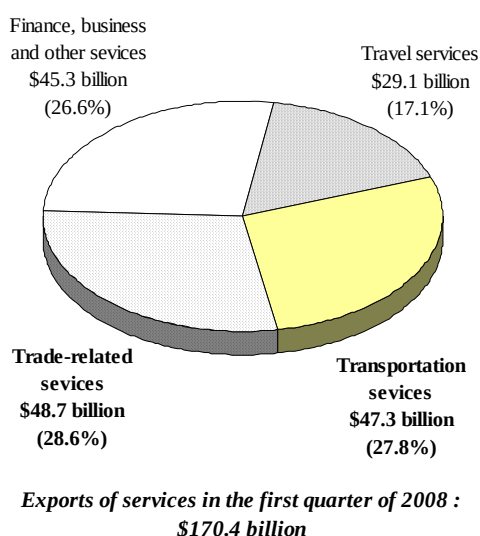


Diagram 2.12 : Exports of services maintained a strong growth in the first quarter

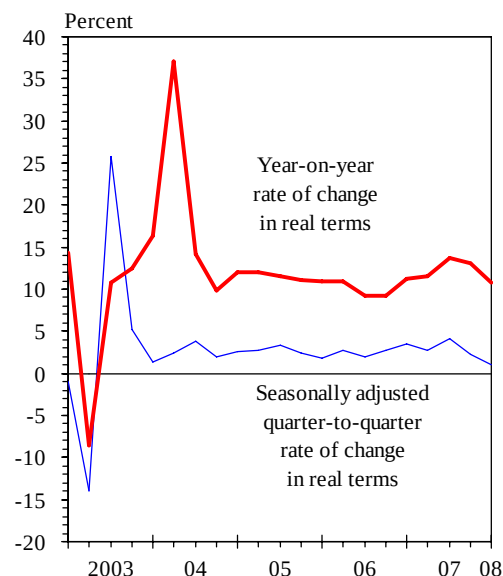


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	Finance, business and other services
2007	Annual	12.5	10.4	5.3	14.1	24.6
	Q1	11.3 (3.5)	9.6	4.2	9.4	24.1
	Q2	11.6 (2.8)	11.2	6.3	8.6	22.0
	Q3	13.7 (4.2)	11.4	5.7	15.5	27.9
	Q4	13.1 (2.2)	9.5	4.9	21.8	24.3
2008	Q1	10.8 (1.1)	9.6	4.0	8.3	21.5

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

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

Imports of services

2.8 *Imports of services* accelerated further to a growth of 11.3% in real terms in the first quarter, after the 9.7% growth in the fourth quarter of 2007. Among the various types of imports of services, imports of trade-related services continued to register distinct growth on the back of soaring offshore trade. Imports of travel services picked up further, as supported by the strengthening demand in outbound tourism amidst sustained economic growth. Also, the vibrant growth momentum in imports of finance, business and other services broadly sustained.

Diagram 2.13 : Travel service, transportation services, and services involving finance and business are the main components in imports of services

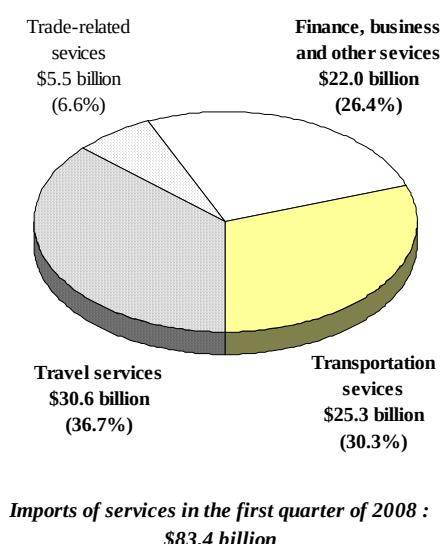


Diagram 2.14 : Imports of services accelerated further

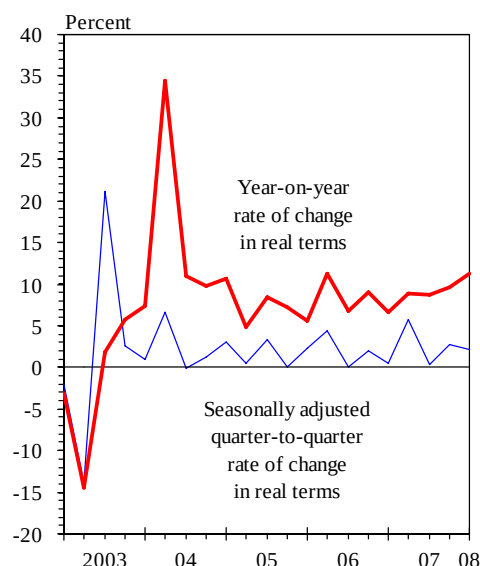


Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		Of which :					Finance, business and other services
		Imports of services	Travel services ⁽⁺⁾	Transportation services	Trade-related services		
2007	Annual	8.5	4.5	6.4	11.0		17.1
	Q1	6.6 (0.5)	1.3	3.4	10.2		18.6
	Q2	8.9 (5.8)	6.5	6.1	11.7		16.1
	Q3	8.7 (0.3)	4.5	5.7	12.0		18.5
	Q4	9.7 (2.8)	5.7	9.9	10.0		15.2
2008	Q1	11.3 (2.2)	10.4	10.5	10.2		13.8

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 The combined visible and invisible trade balance stood at \$41.0 billion in the first quarter of 2008, equivalent to 5.3% of the total value of imports of goods and services. The value remained sizable, though smaller than the corresponding surplus of \$42.5 billion, equivalent to 6.1% of the total value of import of goods and services, in the first quarter of 2007. The sizable surplus in the visible and invisible trade account combined was a reflection of Hong Kong's external competitiveness in the global 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>
2007	Annual	2,698.9	651.8	2,852.5	321.7	-153.7	330.2	176.5
	Q1	587.3	148.6	621.5	71.9	-34.2	76.7	42.5
	Q2	656.5	147.9	702.7	77.4	-46.2	70.5	24.3
	Q3	722.1	173.2	749.4	86.2	-27.4	87.0	59.6
	Q4	733.0	182.1	778.8	86.2	-45.9	95.9	50.1
2008	Q1	650.6	170.4	696.7	83.4	-46.1	87.1	41.0

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

Trade policy and other developments

2.10 The external sector has played an important role in Hong Kong's economic developments. Within the framework of free trade, continuous effort has been made by the Government to strengthen economic relations and trade arrangements with its trading partners to foster more favourable conditions for our exports of goods and services. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) that came into full implementation on 1 January 2004, and the four supplements signed afterwards have not only enabled preferential access of Hong Kong services suppliers to the Mainland market, ahead of and beyond China's commitment in the WTO, but have also provided a solid foundation of further economic integration between the Mainland and Hong Kong.

2.11 As at end-April 2008, the Trade and Industry Department (TID) and five Government Approved Certification Organisations issued 33 403 Certificates of Hong Kong Origin – CEPA (CO(CEPA)) to goods produced in Hong Kong, involving a total of \$12.7 billion worth of goods. TID also issued 1 962 certificates of Hong Kong Service Supplier. The Government will continue to work closely with the Mainland authorities on further liberalisation measures under CEPA for the benefits of the Hong Kong economy.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) The International Monetary Fund (IMF) issued the updated World Economic Outlook in April. According to IMF, global economic growth is expected to slow to 3.7% and 3.8% in 2008 and 2009 respectively, after a 4.9% growth in 2007. The forecast growth rate for 2008 has been revised downward by 0.5 of a percentage point in the wake of the housing market corrections in the US and the deepened financial market turbulence. The US economy is forecast to experience a more prolonged period of weakness before recovering to near trend growth in late 2009. Despite this, the growth momentum in Asia is projected to continue, with the Mainland and India taking the lead. In particular, the Mainland's GDP growth is forecast at 9.3% and 9.5% respectively in 2008 and 2009.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

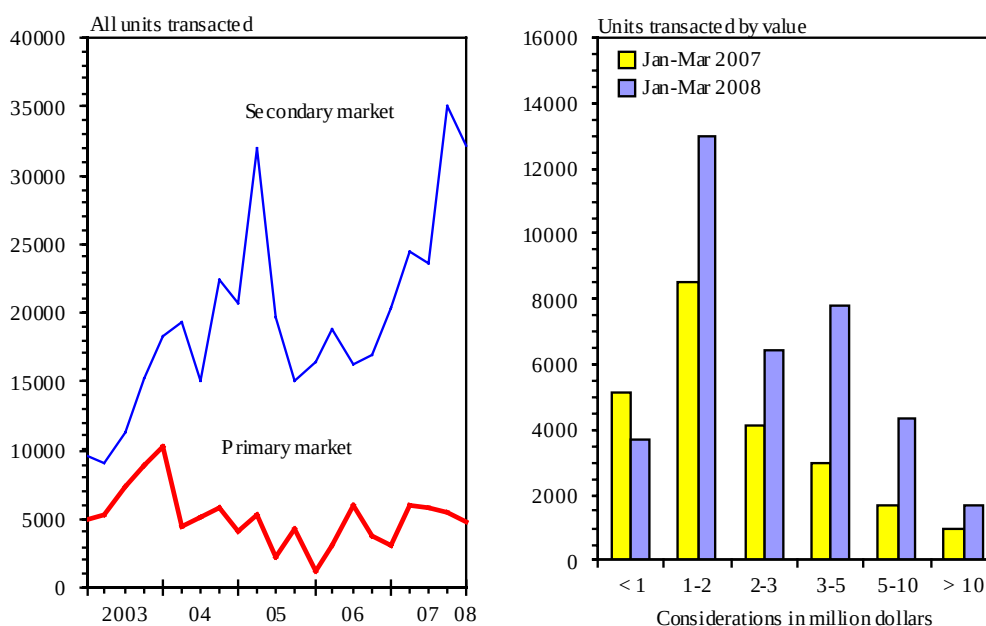
Summary

- *The property market, whilst still generally active during the first quarter of 2008, quietened down towards the end of the period, amid growing concerns over the US economic slowdown and global financial market turbulence.*
- *The tourism industry displayed sustained strength. As an integral part of its ongoing efforts to promote the tourism trade, the Government has introduced additional measures to facilitate hotel development to meet with the surging demand.*
- *The logistics sector proceeded along a steady growth path, benefiting from a further expansion in the external trade flows. Plans to enlarge port and airport capacities are being studied to cope with the projected increase in cargo and passenger movements.*
- *On the technological front, work is in hand to enhance access to digital infrastructure and cutting-edge technology for better e-readiness and work efficiency in the economy.*

Property

3.1 The *property market* remained active for most of the first quarter of 2008, but trading became quieter towards the end of the period, as market sentiment turned cautious upon heightened anxiety about the weaker economic performance and prospects overseas. The total number of sale and purchase agreements received for registration, albeit still significantly higher by 54% over a year earlier to 42 361 in the first quarter of 2008, was somewhat reduced from 46 924 in the fourth quarter of 2007. More specifically for residential flats, whereas agreements received were up markedly by 58% year-on-year to 36 917 in the first quarter of this year, they were down from 40 533 in the previous quarter. Meanwhile, the total consideration for transactions surged by more than 90% over a year earlier to \$163.8 billion, but this was again less than that of \$196.5 billion in the preceding period.

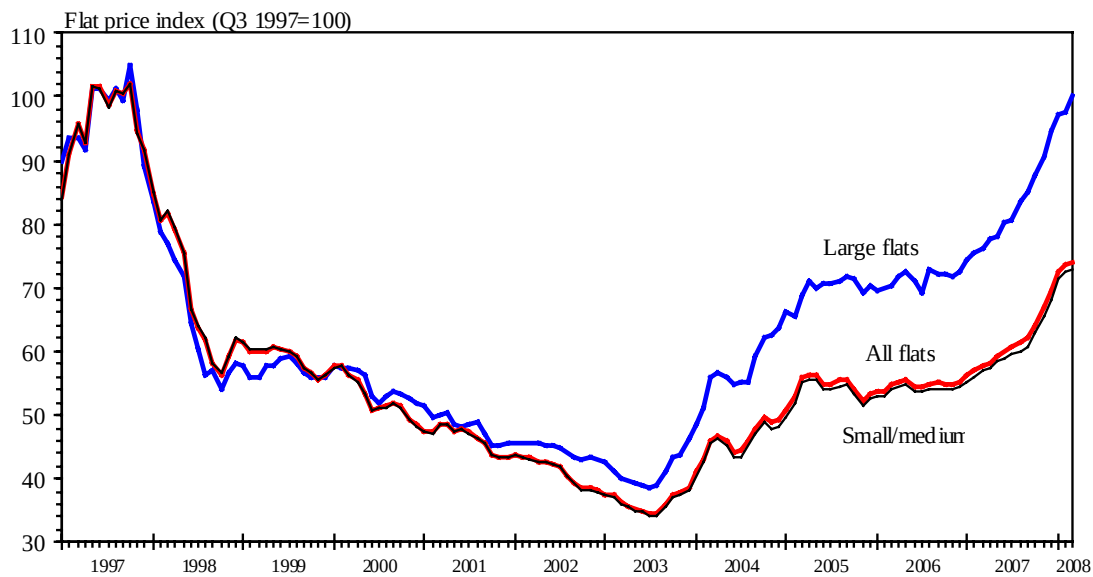
**Diagram 3.1 : Sales momentum remained strong across the board
for residential units**



3.2 *Residential flat* prices went up by an average of 6% during the first quarter of 2008. In comparison with the peak levels in 1997, the average price of large flats in March 2008 was still down by 5%, and that of small/medium flats (which constituted over 90% of private housing supply) was considerably lower by 29%. Also noteworthy was that there was a sustained improvement in home purchase affordability during the quarter, in tandem with further gains in employment and income as well as downward adjustment in the mortgage rates.

3.3 On the leasing front, the climb in flat rentals at 7% during the first quarter of 2008 was broadly similar to the increase in flat prices. The rental yield for residential flats in March averaged at 4.1%. This compared to the overall consumer price inflation at 4.6% for the first quarter.

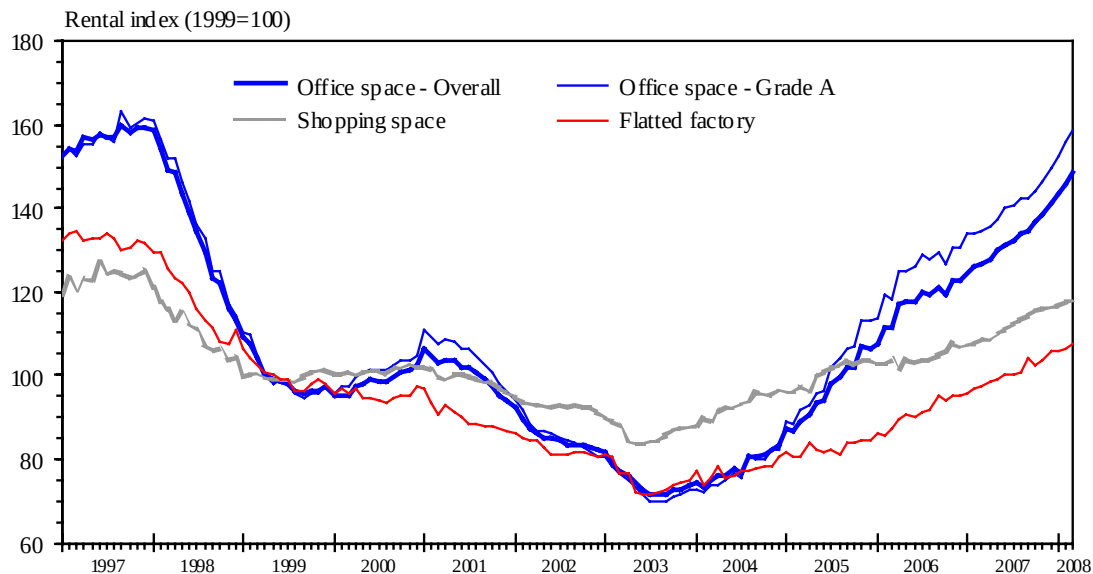
Diagram 3.2 : Flat prices posted further gains



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

3.4 As for *commercial and industrial premises*, the acquisition and leasing demand stayed firm in overall terms, underpinned by continued expansion in overall economic activity. As an indication, both the prices and rentals of office space rose further by 5% during the first quarter of 2008. Analysed by type of office space, the prices of Grade C office space showed a more notable increase by 7%, as did the rentals of Grade A office space by 6%. Regarding retail shop space and flatted factory space, their prices were both higher by 6%, as against the corresponding rises in rentals at 2%. In terms of rental yield, Grade A offices had an average yield of 3.8% in March 2008, slightly improved from 3.7% in December 2007. On the other hand, the yield for Grade B offices held steady at 4.3%. Concurrently, the yields for retail and flatted factory spaces fell from 4.4% and 5.8% to 4.2% and 5.6% respectively.

**Diagram 3.3 : Leasing demand for commercial and industrial properties
continued on the increase**



Land

3.5 The land sales market was relatively subdued in the first quarter of 2008. There was no land successfully triggered out from the *Application List System*. Apparently, property developers adopted a wait-and-see attitude prior to the announcement of the 2008-09 Application List. As to land disposal by tender, three pieces of land were sold in this way, fetching a total of around \$400 million.

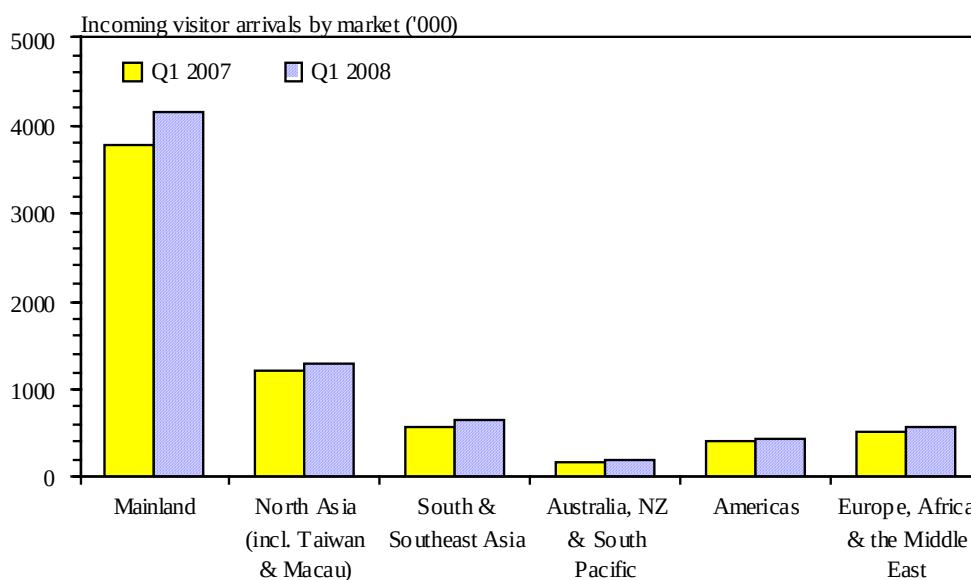
3.6 As promulgated on 29 February 2008, 62 sites with a total area of nearly 60 hectares will be available under the Application List System during the 2008-09 fiscal year, exceeding the 47 sites and 38 hectares included in the preceding list. The 42 residential sites on the new list could provide some 13 000 to 13 500 flats, depending on the design of the actual developments. Of the remaining 20 sites, half are designated for commercial/business use and half for “hotel only” use, with the latter being introduced for the first time to help sustain Hong Kong’s competitiveness in the domain of tourism, exhibition and convention services. The 10 “hotel only” sites taken together can potentially make available some 9 000 to 11 000 additional hotel rooms, and the reserve prices for these sites will be assessed with reference to the open market value of hotel developments. By virtue of its compositional mix, the 2008-09 Application List can be expected to meet different site development needs as well as allow the market to have greater flexibility in deciding the quantity and timing of land to be put up for sale.

Tourism

3.7 The tourism industry continued to put up a solid performance in the first quarter of 2008, as manifested by the year-on-year increase of 10.0% in *inbound visitor arrivals* to 7.3 million. Mainland arrivals showed a further gain of 9.9%, with those under the Individual Visit Scheme up more by 11.7%. Over the same period, visitor arrivals from other sources fared well too, aided by the depreciation of the Hong Kong dollar against most other currencies and the increased efforts in promoting the development of emerging markets such as India, Russia and the Middle East.

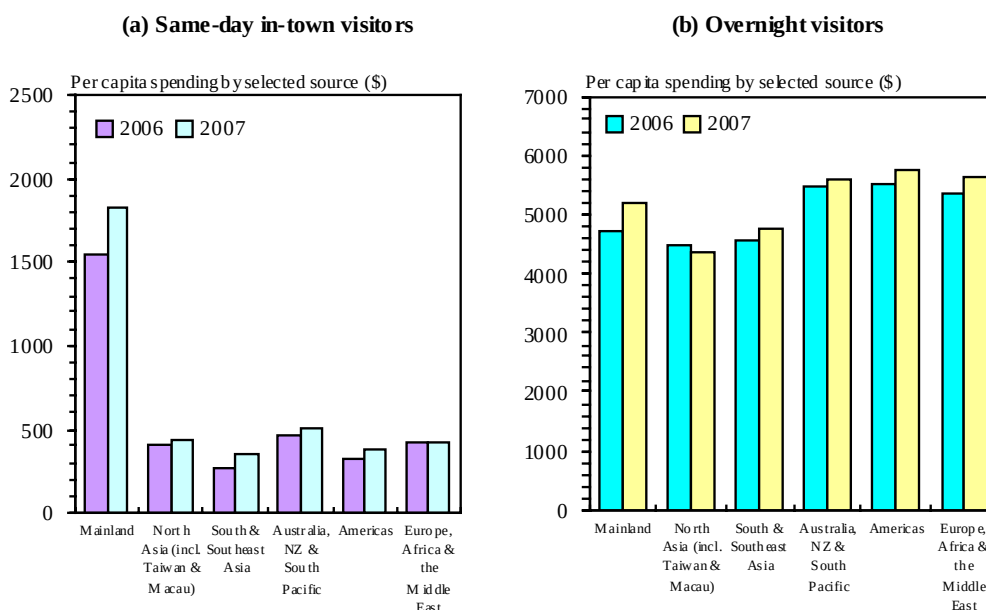
3.8 Analysed by length of stay in Hong Kong, overnight visitors grew moderately by 5.3% year-on-year in the first quarter of 2008. Same-day in-town visitors, which constituted 41.3% of the total arrivals in the period, rose more rapidly by 17.3%. The new “golden week” holiday arrangements in the Mainland⁽¹⁾, effective from 1 January 2008, had the effect of attracting more short-trippers from this source as they could make better use of the increased number of extended weekends to visit the nearby places like Hong Kong.

Diagram 3.4 : Broad-based visitor growth was sustained in early 2008



3.9 On expenditure by inbound visitors, the statistics available indicated a further gain of 16.4% in 2007 to a record high of \$140.5 billion. Per capita visitor spending⁽²⁾ for same-day in-town visitors surged distinctly by 22.1% to \$1,239, with that for overnight visitors also up by 6.7% to \$5,122 notwithstanding a shortening in their average length of stay from 3.5 nights to 3.3 nights.

Diagram 3.5 : Per capita visitor spending improved virtually across all markets, with more notable gains for the Mainland daytrippers



3.10 Consistent with the solid performance of tourism, the hotel occupancy rate stayed high at 84% in the first quarter of 2008, albeit down marginally by one percentage point from a year earlier. Meanwhile, the average hotel room rate attained was higher by 6.3% year-on-year to \$1,246 per night⁽³⁾. Needless to say, hotel development is crucial to the growth of the tourism industry. The Government has recently introduced some additional initiatives, including waiver of hotel accommodation tax as announced in the 2008-09 Budget and the designation of some land sites on the Application List specifically for hotel use, to help promote hotel developments.

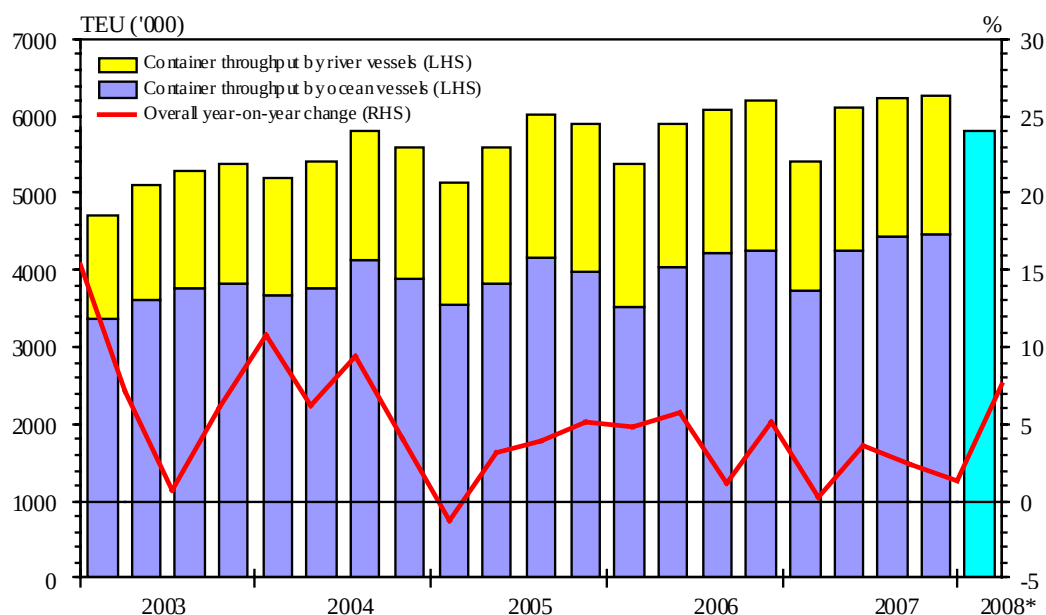
Logistics

3.11 The logistics sector remained on an even keel in early 2008, despite keen competition from other ports and airports in the region and slowdown in the US economy. The *total container throughput* of Hong Kong Port exhibited a firm start in the first quarter of 2008, moving up by 7.6% over a year earlier to 5.8 million TEUs. This was underpinned mainly by the buoyant transshipment demand. Concurrently, the value of trade (excluding transshipment cargoes) handled at Hong Kong Port expanded by 7.0% and accounted for 30% of the overall trade value.

3.12 Hong Kong is renowned for its free port, together with a transparent and smooth customs clearance system, world-class port and airport infrastructures, and efficient cross-boundary transport network. According to

the findings of the Study on Hong Kong Port Cargo Forecasts recently released which have taken into account the supply of port facilities in South China, Hong Kong's total container throughput is expected to continue to increase in the coming years. On this basis, the first new container berth will need to be commissioned by 2015. In view of the long lead time required for container terminal development, the Government announced in the 2008-09 Budget that it will actively study the Southwest Tsing Yi site for developing Container Terminal 10.

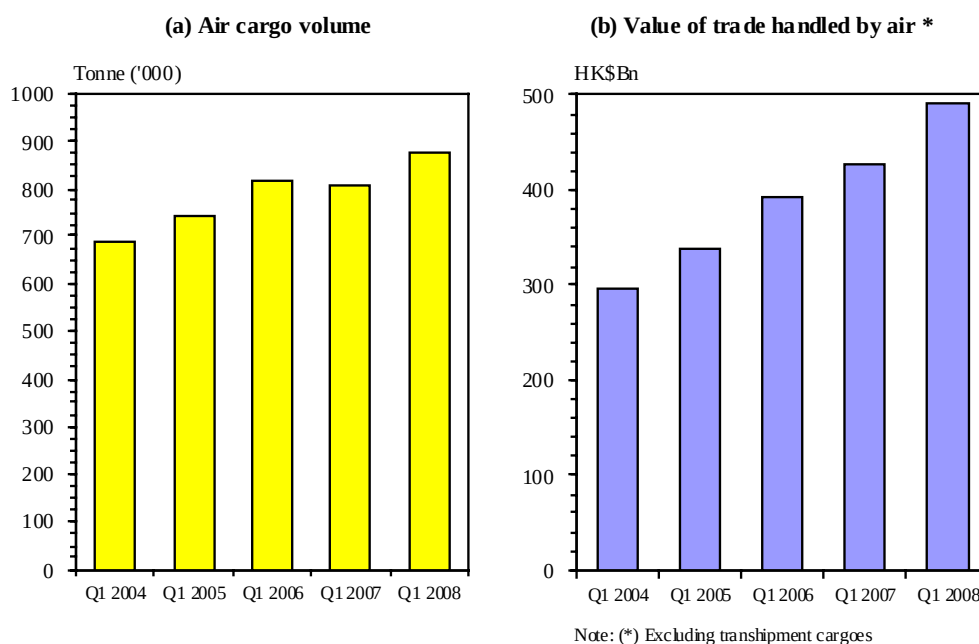
Diagram 3.6 : Solid growth observed for port container traffic



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

3.13 On *air freight*, air cargo movements grew by 8.3% over a year earlier to 876 000 tonnes in the first quarter of 2008. In value terms, the air-borne trade (excluding transshipment cargoes) had a more noticeable gain of 15.1% over the same period, partly attributable to a rise in the proportion of high-value merchandise trade with the Mainland.

Diagram 3.7 : Air freight maintained a strong growth pace in recent years



Transport

3.14 Efficient transport infrastructures for facilitating internal and external links are the key to enhancing Hong Kong's overall competitiveness. Over the years, the Government has been striving hard to improve the transport network and facilities both in terms of coverage and operational efficiency.

3.15 Regarding *domestic transport projects*, the Cheung Sha Wan to Shatin section of Route 8 has been commissioned in late March 2008, thereby improving further the connectivity between North East New Territories and the business districts. Furthermore, some new projects are in the pipeline for the coming years. Specifically, construction works on the Kwun Tong Line Extension from Yau Ma Tei to Whampoa and on the Shatin to Central Link (SCL) are due to commence in 2010. It is envisaged that the Kwun Tong Line Extension, together with the Tai Wai to Hung Hom section of SCL, will be completed by 2015. When fully in place, these two railway projects will provide essential transport services to the proposed developments at Kai Tak and help rejuvenate such older areas as To Kwa Wan and Kowloon City.

3.16 As for *cross-boundary projects*, the Government of the Hong Kong Special Administrative Region, the Guangdong Provincial Government and the Government of the Macao Special Administrative Region have reached agreement on the funding arrangement for the Hong Kong-Zhuhai-Macao Bridge (HZMB). Each of the three governments will be responsible for the

construction, operation and maintenance of the boundary crossing facilities and link roads within its own territory, and private investment will be invited for construction of the Main Bridge. The three governments will, if necessary, contribute to the funding gap of the HZMB Main Bridge, and the split of the contribution will be determined in accordance with the principle of Equalisation of Benefit to Cost Ratio⁽⁴⁾. The exact amount of contribution will depend on the outcome of the tendering exercise and the financing arrangements proposed by the successful bidder. The Hong Kong-Zhuhai-Macao Bridge Advance Work Co-ordination Group, comprising government representatives from the three sides, will further discuss about the details of the tendering exercise and the content of the tender documents, and press ahead with the preparatory work on the tendering for construction of the main body. As to the Guangzhou-Shenzhen-Hong Kong Express Rail Link, work is due to start in 2009 and expected to complete in 2014 or 2015. The Link will greatly reduce travelling time to Guangzhou and integrate Hong Kong into the rapidly developing national express rail network, thereby reinforcing Hong Kong's position as the transport hub in Southern China.

3.17 On air service links, the Airport Authority is making preparations for the engineering and environmental feasibility studies for the third runway at the Hong Kong International Airport (HKIA) later this year. The HKIA will also try to enhance the capacity of the two existing runways by progressively increasing the number of aircraft movements per hour for them.

Innovation and technology

3.18 In a move to facilitate Hong Kong's transformation into a digital city and further development of information infrastructure, the Government Wi-Fi Programme under the 2008 Digital 21 Strategy has been launched in late March this year to render free wireless Internet access services to the public at designated government premises⁽⁵⁾. By mid-2009, 2,000 Wi-Fi hotspots will be put in place covering 350 government locations. Apart from promoting the public use of wireless Internet services, this programme will also open up new business opportunities for the information and communications technology industry to develop and provide more Wi-Fi products and supporting services to the clients.

3.19 Moreover, the Government has been formulating policies on the development of Mobile TV, which combines mobility and television with unprecedented convenience on handheld services. The second consultation exercise to further solicit views from the public and the industry on the

proposed implementation framework for the development of mobile television services in Hong Kong was launched in January 2008. Taking into account the outcome of the consultation exercise, an implementation framework will be announced in the middle of this year and the Telecommunications Authority aims to auction the relevant frequency spectrum in early 2009.

Environment

3.20 The Government is well aware of the significance of a good environment for sustaining the competitiveness of the economy. Concerted efforts from both the public and private sectors are called for. In particular, the business sector has been encouraged to incorporate the environmental dimension into their decision making process where practicable. To this end, some incentive schemes have been introduced, including a reduction in the First Registration Tax for environment-friendly commercial vehicles and more favourable tax deduction for capital expenditure on environment-friendly machinery, equipment and ancillary installations to buildings as announced in the 2008-09 Budget.

Notes :

- (1) Under the new arrangements, the Labour Day holiday in May is cut to one day, but three traditional festivals, including the Ching Ming Festival, Dragon Boat Festival and Mid-Autumn Festival, are designated as statutory holidays.
- (2) Per capita visitor spending is derived from the total destination consumption expenditure viz. expenditure on goods and services consumed in Hong Kong, as well as from visitor arrivals (except servicemen, aircrew members and transit/transfer passengers). Expenditure by visitors on cross-boundary transportation services is not covered.
- (3) The figures on hotel occupancy and achieved room rate do not include tourist guesthouses.
- (4) Equalisation of Benefit to Cost Ratio is an approach to equalise the ratio of the estimated benefit obtained to the estimated cost incurred for a joint investment from different territories with different economic status. Under this principle, the amount of contribution by the three governments to the cost of the HZMB Main Bridge and Link Roads should be apportioned in such a way that the Benefit to Cost Ratio of the three places will be the same.
- (5) These government premises include public libraries, sports centres, cultural and recreational centres, job centres, community halls, Public Enquiry Service Centres, large parks and Government joint-user buildings.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The major financial asset markets exhibited a higher degree of volatility in the first quarter of 2008. Nevertheless, the local financial system on the whole continued to operate smoothly, thanks to the sound risk management and regulatory framework in place.*
- *Hong Kong's interest rates trended further down along with their US counterparts consequential to the aggressive monetary easing from the US Federal Reserve. Given the still ample liquidity locally, there remained a negative spread for Hong Kong dollar interbank rates over the corresponding Euro-dollar deposit rates.*
- *The Hong Kong dollar gained ground against the US dollar, but its effective exchange rate indices fell notably attributable to the general weakness of the greenback.*
- *The local stock market showed a marked downward correction during the first quarter, in line with the trends in the major bourses overseas. Trading and fund raising subsided, following the frantic activities in the earlier period. Investment sentiment was dampened by the generally dismal economic performance and near-term outlook for major overseas countries.*
- *Besides further strengthening its economic and financial ties with the Mainland, Hong Kong is striving to broaden and diversify its customer base to help enhance its position as the major financial hub in the region.*

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

Overall situation

4.1 The financial services sector, whilst remaining a strategic sector with significant “forward” and “backward” linkages in the economy (**Box 4.1**), exhibited a higher degree of volatility in the first quarter of 2008. Wide fluctuations were observed particularly in the equities, foreign exchange and gold markets. Despite this, the operation of the local financial system on the whole remained smooth, thanks to the sound risk management and regulatory framework in place.

4.2 To enhance the competitiveness of the financial sector, the Government is making every effort to further improve the regulatory regime with a view to upgrading overall market quality and reducing related compliance costs. Meanwhile, additional measures are being introduced to foster closer ties with the emerging economies for broadening the customer base for the wide array of financial products and services. This would help promote the sustainable development of the sector in the long term.

Box 4.1

Financial sector: Sources of growth and economic linkages

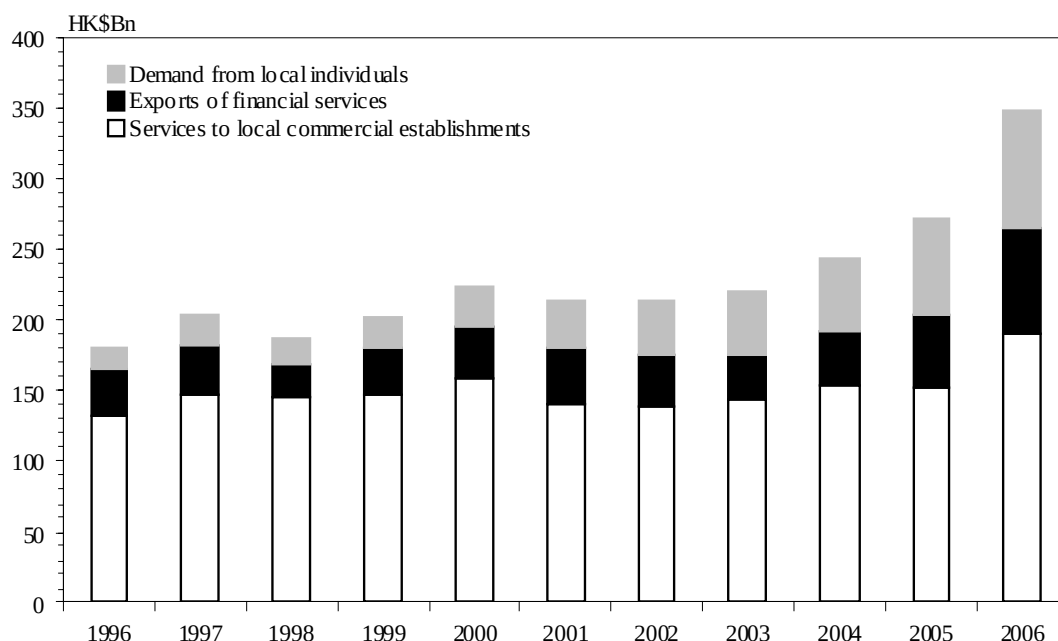
The financial sector, which comprises banks, non-bank financial institutions and insurance companies, has been a key growth spot in the economy. In 2006, the sector accounted for 15.9% of GDP, representing a notable expansion from the proportion of 10.3% in 1996. The latest statistics revealed that the value-added of the sector surged further in 2007, by 19.3% in real terms over a year earlier.

Over the past decade, wealth management services provided by financial institutions to the local households have emerged as a new growth centre on the financial scene. It is reckoned that in 2006, about a quarter of the gross output in the financial sector was targeted at local private individuals, significantly enlarged from the share of below 10% a decade ago. Among the main types of financial services, life insurance and subscription to other financial and wealth management products were distinctly in demand. More recently, the stock market boom gave an added boost to the demand for stockbroker services. On the external front, exports of financial and insurance services grew rapidly by more than 120% over the ten-year period to \$66.7 billion, corresponding to about 20% of the total gross output in the sector. In 2007, growth remained impressive at 34%. Hong Kong has been a major financial centre servicing the region generally and the Mainland in particular for fund-raising and wealth management activities.

Over the years, the focus of the financial sector has been shifting progressively from one of providing intermediation services to different commercial enterprises into that of servicing a more broad-based clientele. Even so, it is noted that the services rendered to the local enterprises, measured in terms of gross output, have staged a marked rebound in the past several years alongside the upturn of the local economy, indicating the still important function of financial services in rendering support to the other economic sectors. Apart from the real estate sector, which took up about a quarter of the loans for use in Hong Kong, the trade, business services, wholesale and retail trade sectors were also the major beneficiaries of the associated “forward linkage” activities. Thus, facilitating the smooth operation of the economy was still a vital function of the financial services sector.

Box 4.1 (Cont'd)

Gross output of financial sector



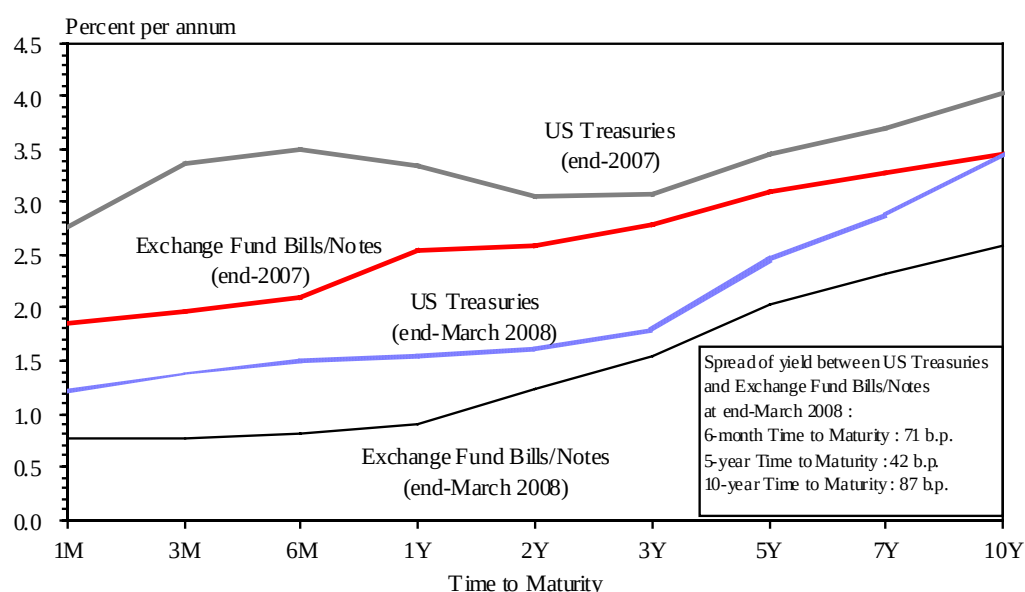
At the same time, financial services are also the key to promoting wider economic growth through supporting input demand in other segments. In particular, business services, communications and real estate leasing have been the major recipients of businesses generated from this “backward linkage.” It is reckoned that every \$10 of gross output from the financial sector will translate into about \$1 of extra demand for these three sectors. All in all, given the economic benefits, including both the tangible (subsequent additions of demand) and intangible (supporting activities of other establishments) benefits, the sector’s contribution to the economy should be greater than what the GDP figures may have suggested.

Interest rates and exchange rates

4.3 Hong Kong dollar interest rates followed a declining trend in the first quarter of 2008. In line with the cumulative 200-basis-point cut in the US Federal Funds Target Rate, the *Base Rate* under the Discount Window operated by the HKMA was adjusted downwards by the same magnitude to 3.75% at end-March⁽¹⁾. Likewise, *Hong Kong dollar interbank interest rates* generally went down in tandem with their US dollar counterparts. Specifically, the overnight and three-month HIBORs dropped to 0.78% and 1.90% respectively at end-March 2008, from 1.88% and 3.31% at end-2007. Meanwhile, the interest rate differentials between Hong Kong dollar and US dollar narrowed

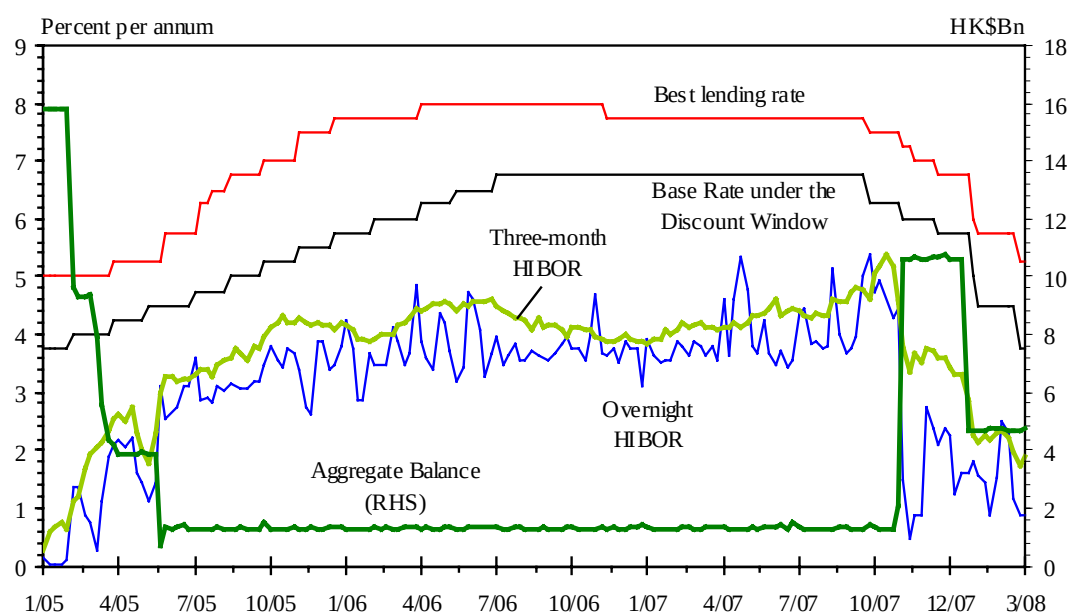
during the quarter, with the discount of three-month HIBOR over the corresponding Euro-dollar deposit rate decreasing from 144 basis points to 88 basis points. Concurrently, the *Hong Kong dollar yield curve* shifted downward notably. Interest rate spread between 10-year Exchange Fund Notes and US Treasuries of the same maturity, however, widened from 60 basis points to 87 basis points over the same period.

Diagram 4.1 : Hong Kong dollar yield curve moved down notably as a result of aggressive rate cuts in the US



4.4 At the retail level, local banks lowered their best lending rates and savings deposit rates three times during the first quarter. The two best lending rates in the market declined from 6.75-7.00% at end-2007 to 5.25-5.50% at end-March 2008. As for savings deposits, the average interest rate quoted by major banks decreased by 123 basis points over the period to 0.03%. The composite interest rate⁽²⁾, which indicated the average cost of funds for banks, also fell, from 2.29% to 0.98%. On the other hand, reflecting keen competition in the mortgage market, the proportion of newly approved loans priced at more than 2.5% below the best lending rate went up from 87.9% in December 2007 to 90.0% in March 2008. Meanwhile, the Aggregate Balance was reduced by around \$6 billion after an additional issue of Exchange Fund papers in mid-January 2008 and then remained broadly stable at around \$5 billion up to end-March.

Diagram 4.2 : Hong Kong dollar interest rates eased alongside their US dollar counterparts (end for the week)



4.5 Between January and mid-February 2008, the Hong Kong dollar spot exchange rate against the US dollar moved around the central parity rate of 7.80. Strong-side pressure on Hong Kong dollar then emerged in late February and in mid-March, under the combined influence of a marked depreciation of the US dollar and the expected narrowing of interest rate gap between the Hong Kong dollar and the US dollar. For the rest of March, the exchange rate fell back slightly, amid wider negative interest rate spreads, to close the month at 7.786. In line with the generally narrowing interest rate spread, the discount of the *12-month Hong Kong dollar forward rate* over the spot rate decreased to 495 pips (each pip equivalent to HK\$0.0001) at end-March 2008, from 660 pips at end-2007.

4.6 Under the Link Exchange Rate system, movements in the exchange rate of the Hong Kong dollar against other currencies closely followed those in the US dollar. During the first quarter of 2008, the US dollar depreciated against most other major currencies partly because of the looming recession risk and significant monetary easing in the US. As a result, the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ declined by 3.5% and 4.1% respectively during the period.

Diagram 4.3 : Forward spread tightened during the first quarter (end for the week)

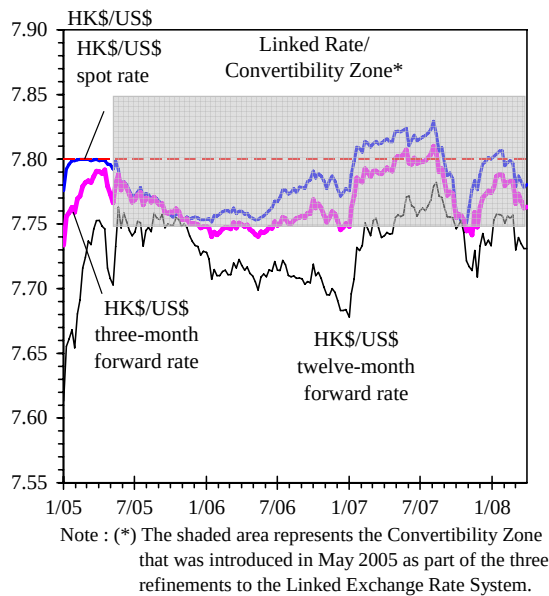
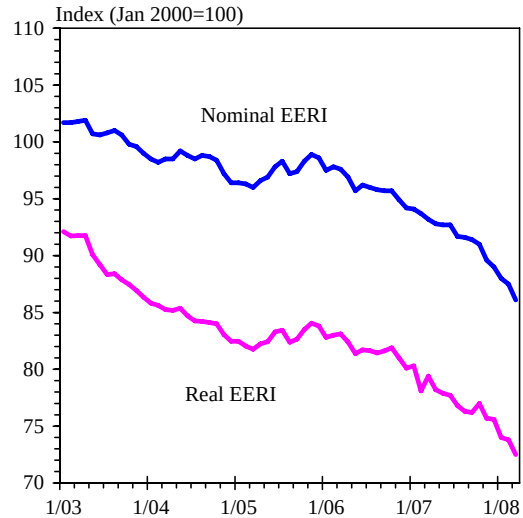


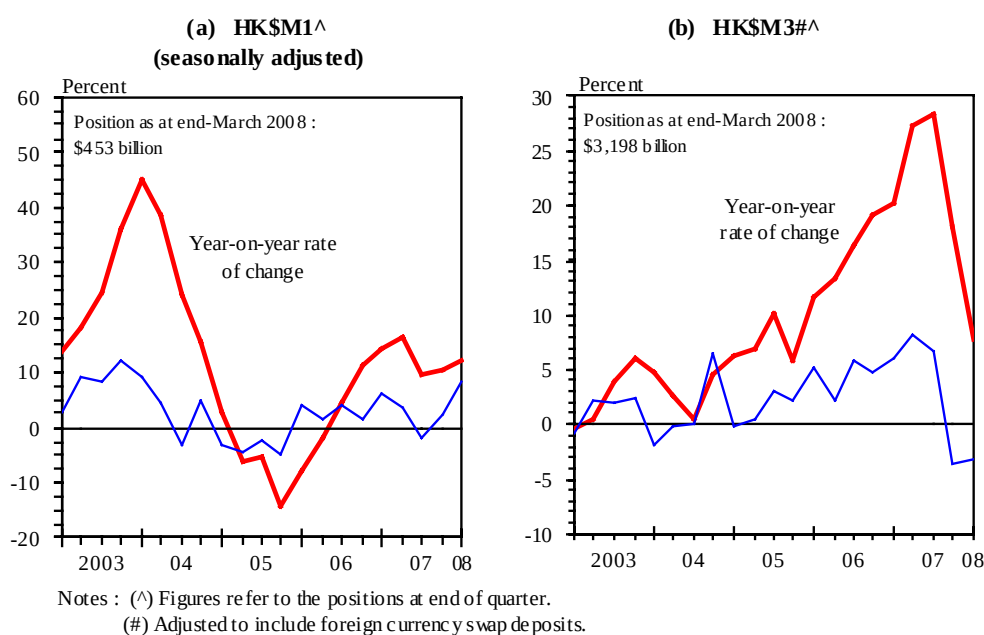
Diagram 4.4 : Trade-weighted EERI fell further due to a weak US dollar (average for the month)



Money supply and banking sector

4.7 Growth in Hong Kong dollar narrow money and broad money showed divergent movements in the first quarter of 2008. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1)⁽⁴⁾ went up by 8.1% at end-March 2008 over end-2007, but Hong Kong dollar broad money supply (HK\$M3) declined by 3.1%. This was mainly caused by a progressive shift away from time deposits, amid the prevailing low interest rate environment. For *total deposits* with authorised institutions (AIs)⁽⁵⁾ as a whole, there was a reduction of 1.8% during the first quarter of 2008 to \$5,762 billion (comprising Hong Kong dollar deposits of \$2,975 billion and foreign currency deposits of \$2,787 billion), the first quarterly decrease recorded since early 2005.

Diagram 4.5 : Narrow money and broad money showed divergent growth trends during the first quarter



4.8 In the first quarter of 2008, *total loans and advances* increased by 7.0% to \$3,170 billion (comprising Hong Kong dollar loans of \$2,277 billion and foreign currency loans of \$893 billion), along with the robust expansion in business activities. Loans for use outside Hong Kong continued to grow at a faster pace than those for use in Hong Kong. An analysis of loans for use in Hong Kong by economic sector indicated that loans to manufacturing, the wholesale and retail trades registered double-digit growth during the first quarter. Concurrently, trade financing, property-related lending, loans to financial concerns and residential mortgages recorded slower, yet still notable, increases. Meanwhile, the Hong Kong dollar loan-to-deposit ratio rose to 76.5% at end-March 2008, from 71.0% at end-2007.

Table 4.1 : Loans and advances

All loans and advances for use in Hong Kong											
Loans to :											
% change during the quarter		Finance visible trade	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
2007	Q1	-1.0	3.5	1.9	1.0	-0.1	5.9	994.1	7.6	12.4	8.3
	Q2	12.2	7.4	4.0	6.2	1.2	10.2	35.6	6.4	10.7	7.0
	Q3	4.2	4.8	1.8	5.7	1.4	6.2	11.8	5.8	10.1	6.4
	Q4	4.1	1.7	2.8	4.2	2.2	9.5	-86.4	-4.5	7.6	-2.6
2008	Q1	8.4	16.1	16.6	6.2	2.4	7.2	-4.2	6.3	10.5	7.0
Total amount at end-March 2008 (\$Bn)		199	141	136	614	638	269	18	2,613	557	3,170
% change over a year earlier		31.9	32.9	26.9	24.2	7.4	37.4	-80.3	14.3	44.9	18.7

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.

(c) Also includes loans where the place of use is not known.

4.9 The asset quality of the local banking sector continued to improve, alongside the sustained growth of the economy. The ratio of classified loans to total loans of retail banks declined further, from 0.89% at end-September 2007 to 0.86% at the year-end. Over the same period, the arrears for over three months in credit card repayment edged down from 0.36% to 0.35%. The delinquency ratio for residential mortgage loans also decreased, from 0.11% at end-2007 to 0.09% at end-March 2008.

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)
2006	Q1	95.97	2.71	1.32
	Q2	96.15	2.55	1.29
	Q3	96.44	2.37	1.19
	Q4	96.65	2.24	1.11
2007	Q1	97.11	1.89	1.00
	Q2	97.37	1.73	0.90
	Q3	97.47	1.64	0.89
	Q4	97.57	1.56	0.86

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

- (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”.

4.10 Hong Kong has implemented the new *Basel II capital adequacy framework* for banks as from 1 January 2007. Under the new framework, the capital adequacy ratio (CAR) for Hong Kong incorporated AIs has held stable at a high level, averaging 13.4% at end-2007. All individual AIs’ CARs have been above the statutory minimum ratios stipulated under the Banking Ordinance.

4.11 In March 2008, in view of the growing trend among banks in providing residential mortgage loans to customers with a principal repayment holiday of two to three years, the HKMA issued a circular to all AIs to put a halt to such a lending arrangement. Prudent lending principles and practices at lenders in originating mortgage loans would help minimise exposure to the considerably higher risks in the event of loan default.

4.12 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit taking, currency exchange and remittance. By end-March 2008, a total of 40 licensed banks had been engaged in this line of business. During the first quarter of this year, renminbi deposits with licensed banks surged by 72.4% from RMB 33 billion yuan to RMB 58 billion yuan, accounting for around 2.3% of total foreign currency deposits in Hong Kong. This increase was mainly driven by the prospect of valuation gain following the currency’s recent appreciating trend. It was little affected by the low renminbi interest rates in Hong Kong at below 1%.

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 <u>RMB business</u>
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Saving deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)	
2007	Q1	13,643	11,595	25,238	0.46	0.65	38
	Q2	17,228	10,391	27,618	0.46	0.65	38
	Q3	18,458	9,045	27,503	0.46	0.65	37
	Q4	22,539	10,861	33,400	0.46	0.65	37
2008	Q1	39,364	18,221	57,585	0.46	0.65	40

Notes : (a) The interest rates are sourced from a survey conducted by the HKMA.

(b) Period average figures.

The debt market

4.13 To strengthen Hong Kong's position as an international financial centre, the Government has continued to promote the domestic *debt market* through facilitating the introduction of new instruments and enhancing market liquidity. As a result, the outstanding amount of Hong Kong dollar debt has increased significantly over the past decade. However, the heightened stress in funding markets, higher funding costs for potential issuers and reduced investor demand for debt instruments against the backdrop of the recent financial turmoil has affected activities in the market during the first quarter of 2008. Gross issuance of Hong Kong dollar debt securities fell to HK\$84 billion, 22% lower than in the previous quarter. In particular, issuance by overseas non-Multilateral Development Banks (MDB) issuers dropped significantly by 82%.

4.14 Due to the reduced debt issuance in the first quarter of 2008, the outstanding size of Hong Kong dollar debt also edged down by 5% to \$727 billion at end-March⁽⁶⁾. The figure was equivalent to 23% of HK\$M3 or 18% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁷⁾. Around 71% of the outstanding debts were issued by the private sector and MDB, while the remaining were issued by the public sector, including the Exchange Fund papers and debt securities issued by the Government and statutory bodies.

**Table 4.4 : New issuance and outstanding value of
Hong Kong dollar debt securities (\$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 corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New issuance											
2007	Annual	223.5	19.4	-	242.9	50.8	18.7	130.7	200.2	1.7	444.8
	Q1	55.0	4.0	-	59.0	13.3	5.4	37.9	56.6	1.5	117.1
	Q2	56.9	6.9	-	63.8	20.2	6.5	40.9	67.6	-	131.4
	Q3	56.1	1.5	-	57.6	6.7	5.7	18.7	31.1	-	88.7
	Q4	55.4	7.0	-	62.5	10.6	1.1	33.2	44.9	0.2	107.6
2008	Q1	62.8	5.5	-	68.2	8.6	1.2	6.1	15.9	-	84.1
Outstanding (period-end figures)											
2007	Q1	133.0	54.6	7.7	195.3	147.7	54.3	335.3	537.3	16.5	749.1
	Q2	134.4	58.0	7.7	200.1	151.6	58.9	350.5	561.0	14.4	775.5
	Q3	135.6	57.2	7.7	200.5	140.7	62.9	338.9	542.4	13.4	756.3
	Q4	136.6	58.5	7.7	202.8	137.5	60.6	350.1	548.2	13.2	764.2
2008	Q1	143.3	60.3	7.7	211.3	122.1	60.8	320.0	502.9	12.5	726.7

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

(a) AIs : Authorised Institutions.

(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.15 The *local stock market* showed a sizeable downward correction during the first quarter of 2008, as investment confidence was badly dented by the substantial losses and write-offs at major international financial institutions and the general weakness of major overseas equity markets. The *Hang Seng Index (HSI)* closed the quarter at 22 849, 17.8% below the end-2007 level, though still higher by 15.4% over a year earlier. *Average daily turnover* shrank from over \$130 billion in the fourth quarter of 2007 to \$98.7 billion in the first quarter of 2008, albeit still exceeding the \$88.1 billion recorded for the whole of 2007.

4.16 *Market capitalisation* declined during the first quarter of 2008 in line with the drop in stock prices, to \$16.9 trillion at end-March (comprising \$16.8 trillion in the Main Board and \$113 billion in the Growth Enterprise Market (GEM)), even though this figure remained 25.0% above the level of a year earlier. According to the *World Federation of Exchanges*⁽⁸⁾, at end-March 2008, the Hong Kong stock market was the seventh largest in the world and third largest in Asia in terms of market capitalisation. For the first quarter as a whole, equity capital raised through new share flotations and post-listing in the Main Board and the GEM totalled \$61.6 billion⁽⁹⁾.

Diagram 4.6 : Hong Kong stock market consolidated during the first quarter of 2008

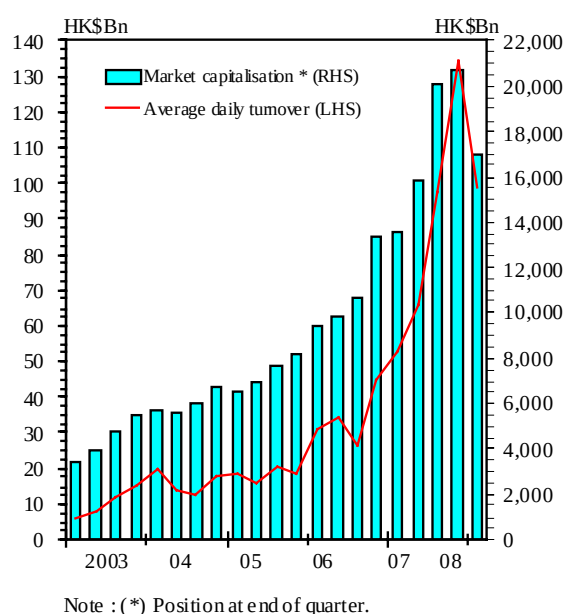
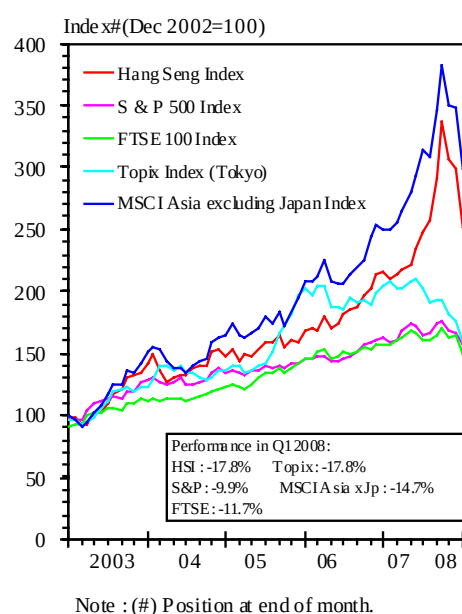


Diagram 4.7 : Global stock markets retreated visibly during the quarter



4.17 Meanwhile, Hong Kong continued to serve as the premier platform for international investment in the Mainland enterprises. At end-March 2008, there were 442 Mainland enterprises (including 147 H-share companies, 93 “Red Chips” companies and 202 private enterprises) listed on the Hong Kong stock market, accounting for 36% of the total number of listed companies and 57% of the total market capitalisation. In the first quarter, 70% of equity turnover in the market was contributed by trading of the Mainland-related stocks. During the period, equity capital raising by the Mainland enterprises amounted to \$32.4 billion, accounting for over half of the total equity raised. Since January 1993, \$1,891 billion of capital had been raised by Mainland enterprises through this source.

4.18 The *derivatives market* remained active during the first quarter of 2008. Average daily trading in most of the popular futures and options contracts⁽¹⁰⁾ increased further during the period. Compared with a year earlier, average daily trading volume for derivative contracts rose by 74%, led by the 112% and 95% gains in stock options and H-shares Index futures respectively. The callable bull/bear contracts market gained notable momentum, with average daily turnover jumping to \$1.395 billion in the first quarter of 2008, from \$733 million in the fourth quarter of 2007 and \$79 million a year earlier. In value terms, average daily trading in derivative warrants also surged by 148% from a year earlier to \$26.9 billion in the first quarter of 2008, although this was somewhat less than the frenetic level recorded in the fourth quarter of 2007, and accounted for about 27% of total securities turnover in the market.

4.19 Enhancing product variety helps to encourage more active participation from a broader base of investors and solidifies Hong Kong's position as an international financial centre. In a move to expand the diversity of the Hong Kong securities market further, the Hong Kong Exchange and Clearing Limited (HKEx) introduced zero strike derivative warrants on non-Hong Kong assets and mini-Hang Seng China Enterprises Index futures during the first quarter. The HKEx also rolled out the first batch of derivative warrants of five-digit stock codes in early-April, representing a key step forward to support growth in the number of listed securities on the local market.

**Table 4.5 : Average daily turnover of derivative products
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>Total futures and options traded^(a)</u>	<u>Derivative warrants (\$Mn)</u>
2007	Annual	69 760	30 407	44 091	186 923	357 665	19,081
	Q1	61 184	30 495	31 059	124 662	268 878	10,837
	Q2	62 301	31 774	34 783	137 742	285 315	11,662
	Q3	76 286	37 952	54 210	240 131	438 005	18,810
	Q4	78 803	21 353	55 698	241 918	433 668	34,659
2008	Q1	88 938	14 946	60 579	263 980	468 118	26,851
% change over a year earlier		45.4	-51.0	95.0	111.8	74.1	147.8

Note : (a) Turnover figures for individual futures and options do not add up to the total futures and options traded as data for some products is not included in this table.

Fund management and investment funds

4.20 In the first quarter of 2008, gross retail sales of *mutual funds*⁽¹¹⁾ amounted to US\$7.4 billion, down from US\$13.6 billion in the preceding quarter and US\$9.2 billion a year earlier. Retail mutual fund investors might have taken a more cautious stance in the period, amid the weakness in global equity markets. The aggregate net asset value of the approved constituent funds managed under the *MPF schemes* fell to \$248 billion at end-March 2008, from \$265 billion at end-2007⁽¹²⁾, as the drop in asset prices resulting from the poor performance of equity markets more than offset the inflow of new contributions.

Insurance sector

4.21 The *insurance sector* continued to grow, on the back of increasing public awareness of financial planning and improved household financial positions. Gross premium income from new long-term business jumped by 58.5% in the fourth quarter of 2007 over a year earlier⁽¹³⁾, bringing the increase for the full year to 37.3%. Investment-linked policies continued to be favoured by consumers, while premium for non-linked policies declined marginally in 2007 as a whole. As to the premium for general business, there was an increase of 6.4% year-on-year in the fourth quarter of 2007 and 4.8% for the whole year.

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

General business :

Premium for long-term business* :

		<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>
2006	Annual	22,958	16,198	2,067	20,928	32,128	203	159	53,418	76,376
	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
	Q3	5,894	4,024	674	4,792	6,630	58	45	11,525	17,419
	Q4	4,932	3,342	33	5,908	9,019	67	24	15,018	19,950
2007	Annual	24,057	17,008	2,301	20,314	60,040	261	162	80,777	104,834
2007	Q1	6,792	4,904	441	5,982	10,122	62	45	16,211	23,003
	Q2	6,156	4,451	598	3,307	13,189	62	50	16,608	22,764
	Q3	5,861	4,122	744	5,028	16,445	76	40	21,589	27,450
	Q4	5,248	3,531	518	5,997	20,284	61	27	26,369	31,617
% change from 2006 Q4 to 2007 Q4		6.4	5.7	1469.7	1.5	124.9	-9.0	12.5	75.6	58.5
% change from 2006 to 2007		4.8	5.0	11.3	-2.9	86.9	28.6	1.9	51.2	37.3

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

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 cost 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) Authorised institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2008, there are 143 licensed banks, 29 restricted licence banks and 29 deposit-taking companies in Hong Kong. Altogether, 201 authorised 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 authorised 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 made by the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 55 securities exchanges (as of 21 April 2008), covering almost all globally recognised stock exchanges.
- (9) At end-March 2008, there were 1 055 and 189 companies listed on the Main Board and GEM respectively.
- (10) At end-March 2008, there were 47 classes of stock options contracts and 43 classes of stock futures contracts.
- (11) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. 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-March 2008, there were 1 219 authorised funds, according to the survey.
- (12) There were 19 approved trustees at end-March 2008. On MPF products, 36 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 337 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 235 000 employers, 2.13 million employees and 267 000 self-employed persons have participated in MPF schemes.
- (13) As at end-March 2008, there were 177 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 111 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 24 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

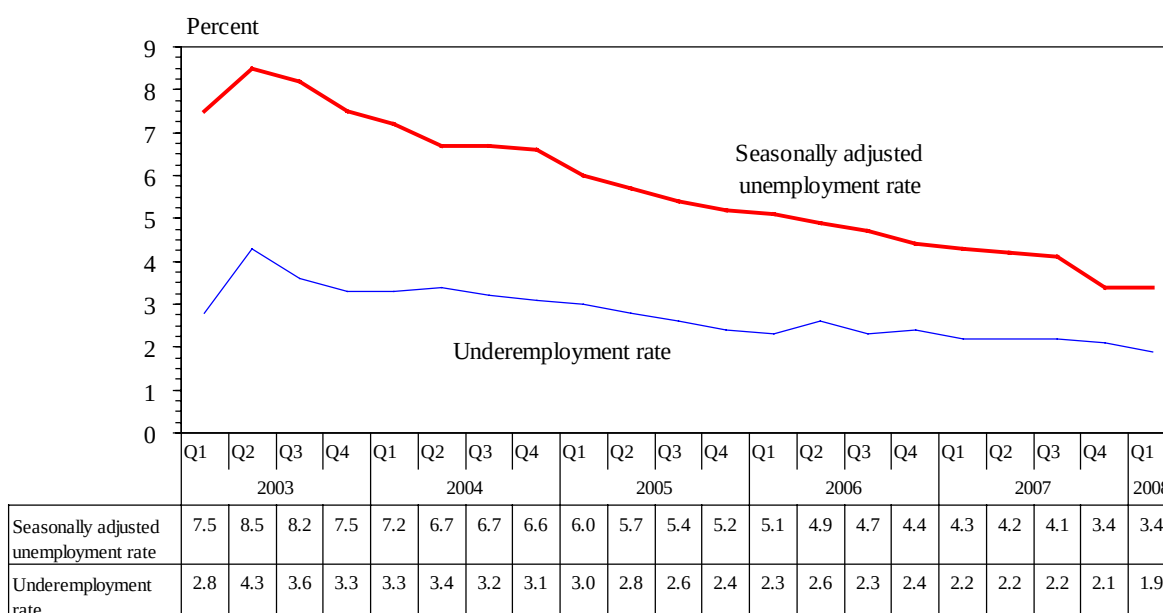
Summary

- *The labour market displayed signs of consolidation in the first quarter of 2008, as business activity and labour demand in some economic sectors moderated after the Lunar New Year holidays. However, the overall prospects remain largely positive on the back of sustained and strong economic growth.*
- *Total employment reached an all-time high of 3.55 million in the three months ending January 2008, before falling back in the subsequent periods to a level just above that at end-2007. Together with a faster increase in labour supply, this caused the number of unemployed persons to increase slightly. The seasonally adjusted unemployment rate nevertheless held stable, whilst the underemployment rate declined further to a ten-year low.*
- *Increases in labour earnings and wages were experienced across-the-board in 2007, though significant variations still existed across different economic sectors and occupations.*

Overall labour market situation

5.1 The labour market, having improved considerably towards the end of 2007, stabilised in the first quarter of 2008. Movements in the main labour-related indicators have remained generally favourable. Total employment rose slightly to 3 534 500, despite softening business activity after the Lunar New Year holidays in some economic sectors including notably manufacturing, construction and transport. However, owing to a larger increase in the total labour force, the number of unemployed persons rose modestly from 117 800 to 119 000. After discounting seasonal factors, the seasonally adjusted unemployment rate⁽¹⁾ remained stable at 3.4%. At the same time, the underemployment rate⁽²⁾ fell from 2.1% to 1.9%.

Diagram 5.1 : The labour market, whilst showing signs of consolidation, remained largely buoyant in early 2008



Total employment and labour supply

5.2 Sustained and solid economic expansion has continued to underpin job creation in the corporate sector. *Total employment*⁽³⁾ rose to a record high of 3 550 500 in November 2007 - January 2008, partly boosted by vibrant business activity and labour demand in the run-up to the Lunar New Year. Upon the waning of this festive boost, total employment fell back to 3 534 500 by the first quarter of 2008, just slightly up from that of 3 533 300 in the fourth quarter of 2007. On a year-on-year basis, there was nevertheless an appreciable 2.2% increase in the first quarter of 2008, further to the 2.5% growth in 2007.

5.3 Comparing the first quarter of 2008 with the preceding quarter, whilst job losses were experienced in the construction (especially decoration and maintenance), manufacturing, transport, and wholesale and retail trades sectors owing to moderation in business activity, these declines were more than outweighed by job gains in such sectors as welfare and community services, education services, insurance, amusement and recreational services, and other miscellaneous personal services. Reflecting these sectoral developments, a fall in employment emerged among young persons aged 15-24 of both sexes, males aged 40-49, craft and related workers, plant and machine operators and assemblers. In contrast, employment of females, especially the middle-aged, professionals, service workers and shop sales workers increased during the period.

5.4 *Labour supply*⁽⁴⁾ expanded slightly by 0.1% to 3 653 500 in the first quarter of 2008, from 3 651 100 in the fourth quarter of 2007. This mild increase was characterised by the seasonal expansion in the labour force in the three-month period ending January, followed by contraction after the Lunar New Year holidays. While the overall labour force participation rate fell from 61.3% to 61.1% between the two quarters, this was outweighed by the concurrent expansion in the population of working age. Partly reflecting the continued strength of the labour market leading to better employment outlook, the trend of increasing participation of older persons still prevailed in early 2008. On a year-on-year basis, the total labour force expanded by 1.1% in the first quarter of 2008 over a year, following an average increase of 1.7% in 2007.

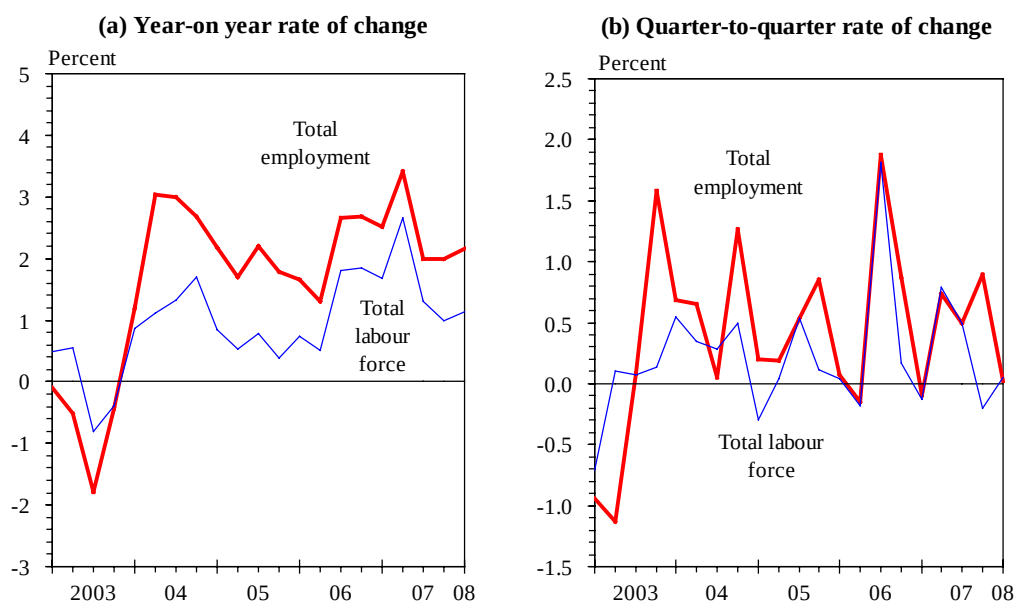
Table 5.1 : The labour force, and persons employed, unemployed and underemployed

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed</u> ^(a)	<u>Persons underemployed</u>
2007	Annual	3 640 500 (1.7)		3 495 000 (2.5)		145 600	79 400
	Q1	3 611 900 (1.7)		3 459 400 (2.5)		152 500	80 600
	Q2	3 640 700 (2.7)		3 485 000 (3.4)		155 700	81 200
	Q3	3 658 400 (1.3)		3 502 200 (2.0)		156 300	80 500
	Q4	3 651 100 (1.0)		3 533 300 (2.0)		117 800	75 500
<i>Three months ending</i>							
2008	Jan	3 663 900 (1.0)		3 550 500 (2.1)		113 400	75 500
	Feb	3 652 400 (1.0)		3 540 400 (2.0)		112 000	68 800
	Mar	3 653 500 (1.1)		3 534 500 (2.2)		119 000	70 500
		<0.1>		<*>			

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () Year-on-year % change.
 < > % change between 2007 Q4 and 2008 Q1 (i.e. Jan-Mar).
 (*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Total employment continued to expand at a faster pace than labour supply on a year-on-year basis

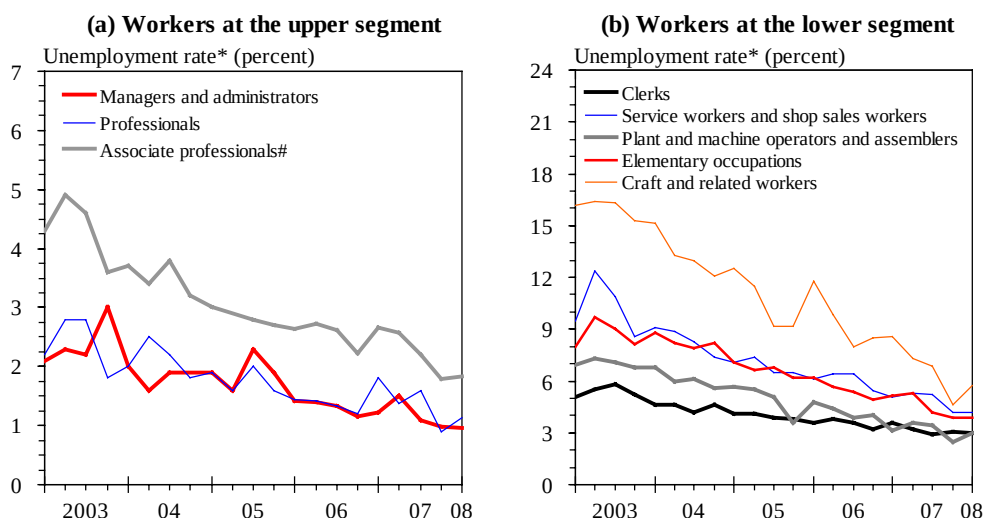


Profile of unemployment

5.5 The unemployment situation was broadly stable between the fourth quarter of 2007 and the first quarter of 2008. As a result of a slightly larger increase in the labour supply relative to total employment, the number of unemployed persons rose from 117 800 to 119 000. This outcome notwithstanding, the seasonally adjusted unemployment rate remained unchanged at 3.4%, after falling briefly to a ten-year low of 3.3% in the three-month period ending February 2008. However, the modest change in the numbers unemployed concealed significant fluctuations in the intervening periods due to seasonal factors around the Lunar New Year. The lower segment was particularly hard hit by the seasonal drag, especially workers engaged as craft and related workers, and plant and machinery operators and assemblers. In terms of economic sector, decoration and maintenance, manufacturing and restaurants experienced relatively bigger increases in unemployment.

5.6 In terms of demographic attributes, declines in unemployment rate were concentrated among young workers (especially male) aged 15-24 and older workers aged 60 or above. For the former group, the fall in unemployment was characterised by a larger shrinkage in labour supply than in employment. This phenomenon coincided with the larger contraction in labour supply in wholesale and retail trades, again reflecting slackening business conditions after the Lunar New Year holidays. In contrast, the improvement among older workers was brought about by faster employment growth relative to labour supply growth.

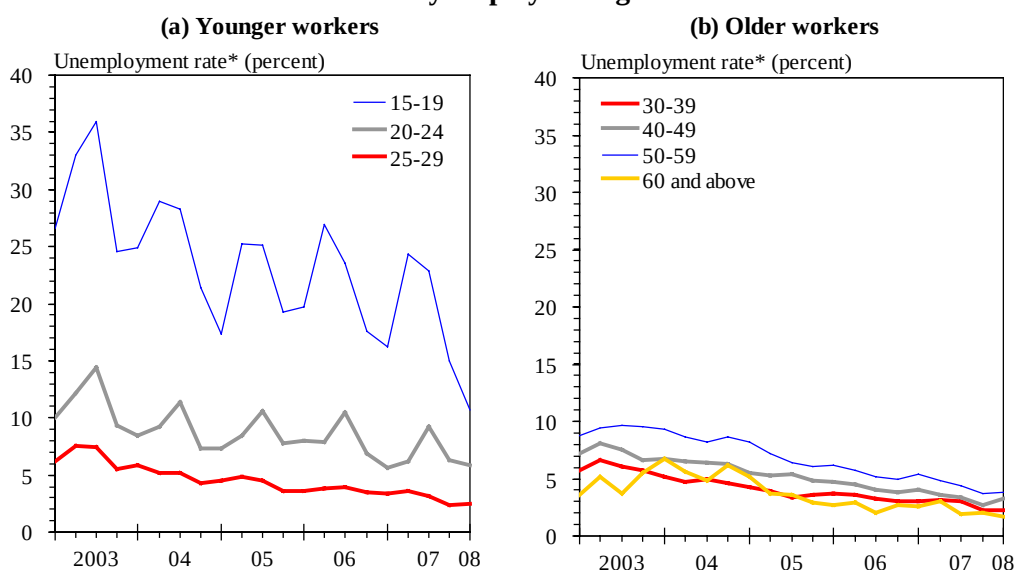
Diagram 5.3 : Lower-skilled workers, especially craft and related workers, were affected more by slackened business activity during the first quarter of 2008



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

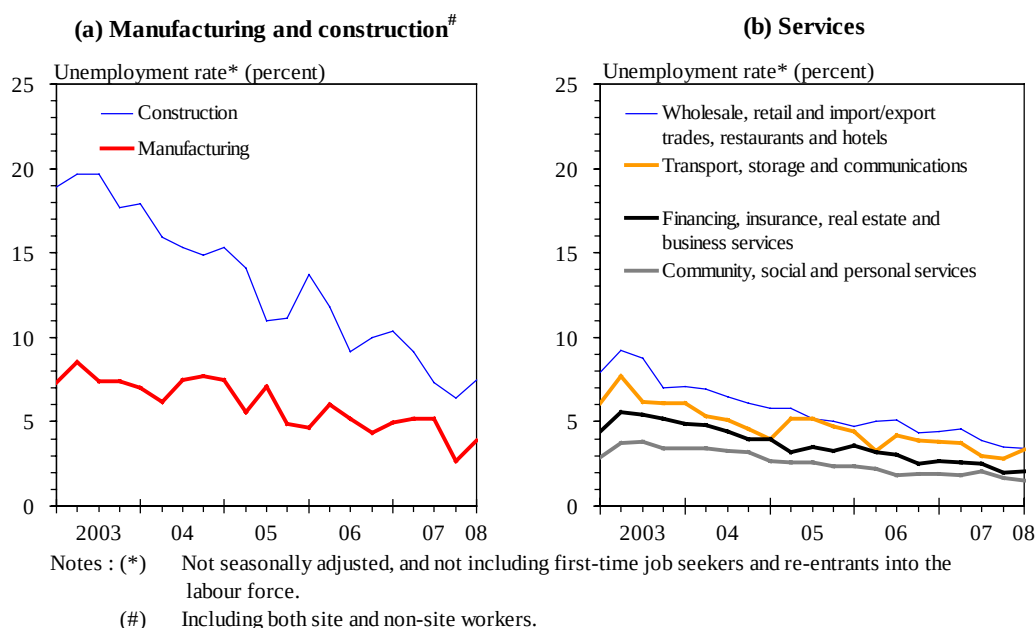
(#) Including technicians and supervisors.

Diagram 5.4 : Workers at the two ends of age spectrum saw declines in unemployment, with the improvement among older workers driven by employment growth



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

Diagram 5.5 : Although the overall unemployment situation remained broadly stable, more notable increases in unemployment were seen in manufacturing and construction



Profile of underemployment

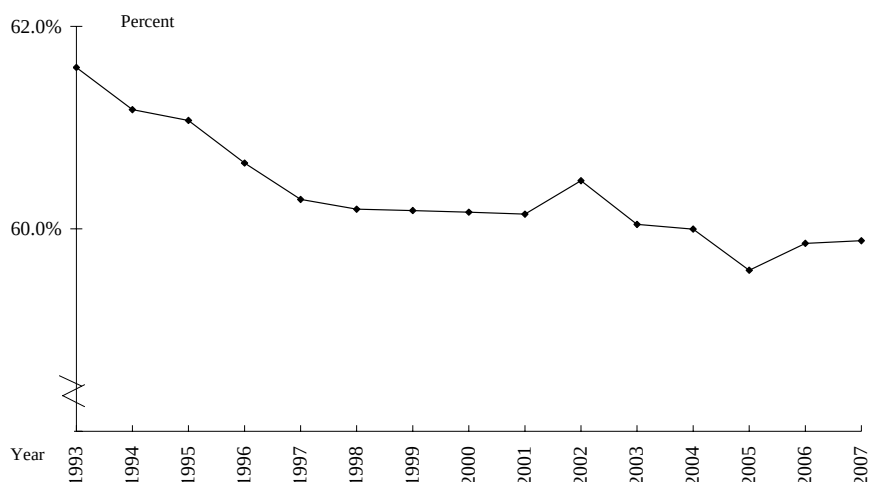
5.7 The underemployment situation showed more visible improvement in early 2008. The underemployment rate fell to a ten-year low of 1.9% in the first quarter of 2008, from 2.1% in the fourth quarter of 2007. The total number of underemployed persons likewise fell from 75 500 to 70 500. This decrease was mainly found in the foundation and superstructure construction, and transport sectors. As declines in underemployment in the two sectors were accompanied by higher unemployment, it seemed that some previously underemployed workers in these sectors actually became unemployed when part-time jobs and casual work fell after the Lunar New Year holidays. Classified by occupation, the decline in underemployment was mainly observed in craft and related workers, plant and machinery operators and assemblers, and service workers and shop sales workers.

Box 5.1

Analysis of the change in labour force participation rate from 1993 to 2007

Despite having a slight rebound in the recent two years, the overall labour force participation rate (LFPR)⁽¹⁾ showed a declining trend in general over the past 15 years (see Chart 1). It fell from 61.6% in 1993 to 59.9% in 2007, with a record low of 59.6% recorded in 2005. There were various factors affecting the underlying trend in the overall LFPR. They can be broadly classified into two components, namely (1) changes in LFPR in each of the age-sex specific groups, and (2) changes in the age-sex profile of the population.

Chart 1: Overall Labour Force Participation Rate, 1993-2007



A decomposition method is used in analysing the contributions of the two components as follows:

$$R^{2007} - \bar{R} = \sum_j \bar{S}_j \times (R_j^{2007} - \bar{R}_j) + \sum_j (\bar{R}_j - \bar{R}) \times (S_j^{2007} - \bar{S}_j)$$

where R denotes a LFPR, S denotes a population share, j indexes age-sex specific groups, the superscripts 2007 denote the figures in 2007, and overbars denote means over the period from 1993 to 2007.

Simply speaking, the first term in the decomposition equation measures the contributions of the changes in the age-sex specific LFPRs to the overall change in LFPR. As for the second term, it provides a measure for the contribution of the changes in population share⁽²⁾.

The age-sex specific LFPRs and the population shares of individual age-sex groups in 2007 as well as the means over the period from 1993 to 2007 are given in Table 1. The results of the decomposition are shown in Table 2.

-
- (1) The labour force participation rate is defined as the proportion of the labour force in the land-based non-institutional population aged 15 and over. In this analysis, data on foreign domestic helpers are also excluded. Unless otherwise specified, figures are the annual averages of the four quarterly estimates obtained from the results of the General Household Survey conducted by the Census and Statistics Department.
 - (2) A positive value will be resulted if (a) the share of an age-sex group with LFPR higher than the overall increases or (b) the share of an age-sex group with LFPR lower than the overall decreases. Otherwise, the value will be negative.

Box 5.1

It is interesting to note that the overall contribution of the changes in population share is negative, more than offsetting the positive effect from the changes in age-sex specific LFPRs. The negative effect of the changes in population share was partly due to the ageing population where there were increases in the population shares of older women and men (aged 65+). The decreasing shares of men aged 25-34 and 35-44 (who had very high LFPRs relative to the overall) also put a very heavy downward pressure on the overall LFPR.

The contribution of the changes in age-sex specific LFPRs is positive, suggesting that the decline in the overall LFPR would be more rapid if the age-sex specific LFPRs remained at the same level as the means over the period 1993-2007. This positive effect was mainly due to the increases in LFPR for women particularly for those at prime working ages (25-54), more than offsetting the slight decreases in LFPR for men (except those aged 55-64). On the other hand, the contributions of the changes in LFPRs were both negative for young women and men (15-24), following the increased opportunities for them to attend upper secondary and tertiary education in the past years.

Table 1: LFPR and Population Share by Age and Sex

Sex	Age	LFPR (R)			Population Share (S)		
		2007 (= R_j^{2007})	1993-2007 (= $\bar{R}_j$)	Difference (% points)	2007 (= S_j^{2007})	1993-2007 (= $\bar{S}_j$)	Difference (% points)
Male	15-24	41.0%	46.8%	-5.8	7.8%	8.5%	-0.7
	25-34	96.1%	97.2%	-1.1	8.0%	9.6%	-1.6
	35-44	96.7%	97.4%	-0.7	9.4%	11.3%	-1.9
	45-54	92.3%	93.4%	-1.2	10.5%	8.8%	1.7
	55-64	65.5%	63.4%	2.1	6.3%	5.5%	0.8
	65+	9.3%	11.4%	-2.1	6.8%	6.2%	0.6
	15+	70.6%	73.6%	-3.0	48.7%	49.9%	-1.2
Female	15-24	40.9%	43.9%	-3.0	7.5%	8.1%	-0.6
	25-34	79.7%	75.5%	4.2	8.6%	10.1%	-1.5
	35-44	68.4%	59.1%	9.3	11.1%	11.6%	-0.5
	45-54	57.8%	52.2%	5.7	10.5%	8.2%	2.3
	55-64	29.5%	22.7%	6.8	6.1%	4.9%	1.2
	65+	1.8%	2.1%	-0.2	7.5%	7.2%	0.4
	15+	49.7%	47.1%	2.7	51.3%	50.1%	+1.2
Overall		59.9%	60.3%	-0.4	100%	100%	0.0

Note: Figures may not add up to totals due to rounding.

Table 2: Contribution of Individual Components by Age and Sex to the Change in the Overall LFPR from 1993 to 2007 (% point)

Sex	Age	Change in age-sex specific LFPR	Changes in population share	Overall
Male	15-24	-0.49	0.14	-0.35
	25-34	-0.11	-0.57	-0.68
	35-44	-0.08	-0.71	-0.78
	45-54	-0.10	0.53	0.43
	55-64	0.12	0.04	0.16
	65+	-0.13	-0.29	-0.42
	15+	-0.80	-0.85	-1.64
Female	15-24	-0.24	0.12	-0.13
	25-34	0.43	-0.29	0.14
	35-44	1.08	-0.04	1.04
	45-54	0.46	-0.06	0.41
	55-64	0.34	-0.36	-0.02
	65+	-0.02	-0.21	-0.23
	15+	2.05	-0.84	1.21
Overall		1.25	-1.69	-0.44

Note: Figures may not add up to totals due to rounding.

Profile of employment in establishments

5.8 Statistics on employment, vacancies and labour income collected from business establishments are only available up to the fourth quarter of 2007. Comparing December 2007 with December 2006, employment in *private sector establishments* increased by 2.1%. Specifically, more notable growth was observed in three economic sectors: financing, insurance, real estate and business services (5.2%); retail trade (3.2%); and restaurants and hotels (3.1%). Spurred by the buoyant activities in the financial markets, employment in banking and finance-related companies continued to expand strongly. Furthermore, along with the growing importance of domestic consumption in driving economic growth, employment in retail trade also registered an accelerated increase. Greater consumption spending, together with increasing number of inbound tourists, had resulted in stronger demand for personnel in the restaurants and hotels sector. On the other hand, employment in the manufacturing sector and the building and construction sites⁽⁵⁾ edged down further by 2.0% and 1.8% respectively, owing to the slack in infrastructure projects and the increasing service orientation of the Hong Kong economy. In terms of establishment size, larger enterprises accounted for the majority of job creation. In December 2007, they contributed 69% of the job gains, with the remainder being accounted for by small and medium-sized enterprises (SMEs)⁽⁶⁾. For 2007 as a whole, the number of persons engaged in private sector establishments increased by 2.3% over a year earlier.

5.9 As for the *civil service*, after inching down by 0.2% in September 2007, employment in December 2007 remained broadly the same as that in December 2006. For 2007 as a whole, employment registered a slight decline of 0.4%. With the gradual step-up in recruitment for civil service posts, the downtrend of civil service employment can be expected to come to an end.

Table 5.2 : Employment by major economic sector

	<u>2006</u>					<u>2007</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Wholesale, import and export trades	583 400 (0.3)	581 200 (-0.3)	581 700 (0.4)	584 000 (-0.2)	586 600 (1.2)	587 600 (0.7)	587 500 (1.1)	588 200 (1.1)	586 500 (0.4)	588 200 (0.3)
Retail trade	228 300 (3.3)	225 900 (4.6)	229 300 (2.1)	228 600 (3.1)	229 400 (3.4)	232 900 (2.0)	229 100 (1.4)	232 600 (1.5)	233 100 (2.0)	236 800 (3.2)
Restaurants and hotels	226 400 (5.1)	221 800 (5.3)	225 800 (5.3)	226 200 (5.5)	231 800 (4.3)	235 100 (3.8)	231 700 (4.4)	232 500 (3.0)	237 300 (4.9)	238 900 (3.1)
Transport and storage	155 700 (1.6)	154 100 (1.8)	155 200 (1.0)	156 100 (1.8)	157 500 (1.9)	159 500 (2.4)	155 900 (1.2)	160 100 (3.1)	160 000 (2.5)	162 000 (2.9)
Communications	29 600 (-1.4)	30 000 (0.6)	29 300 (-5.9)	29 500 (-0.7)	29 400 (0.8)	29 900 (1.3)	30 300 (0.8)	30 100 (2.7)	29 800 (1.1)	29 600 (0.6)
Financing, insurance, real estate and business services	479 100 (5.0)	468 300 (4.6)	475 900 (4.1)	480 500 (5.5)	491 600 (5.8)	505 400 (5.5)	492 000 (5.1)	503 200 (5.7)	509 300 (6.0)	517 300 (5.2)
Community, social and personal services	454 800 (3.6)	451 300 (3.9)	451 700 (3.4)	455 200 (4.0)	460 800 (3.1)	466 600 (2.6)	464 200 (2.9)	467 900 (3.6)	465 400 (2.2)	469 100 (1.8)
Manufacturing	160 500 (-2.5)	161 500 (-1.0)	161 100 (-0.5)	160 200 (-3.7)	159 300 (-4.8)	157 000 (-2.2)	158 700 (-1.7)	157 300 (-2.3)	156 000 (-2.6)	156 000 (-2.0)
Building and construction sites	52 900 (-10.8)	54 900 (-16.5)	52 300 (-12.9)	53 300 (-6.3)	51 000 (-6.3)	50 200 (-5.1)	50 400 (-8.3)	51 100 (-2.2)	49 200 (-7.7)	50 100 (-1.8)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 378 700 (2.1)</i>	<i>2 357 200 (2.0)</i>	<i>2 370 400 (1.8)</i>	<i>2 381 800 (2.3)</i>	<i>2 405 300 (2.4)</i>	<i>2 432 300 (2.3)</i>	<i>2 407 800 (2.1)</i>	<i>2 430 900 (2.6)</i>	<i>2 434 500 (2.2)</i>	<i>2 455 900 (2.1)</i>
		<i><0.7></i>	<i><0.3></i>	<i><0.7></i>	<i><0.6></i>		<i><0.5></i>	<i><0.7></i>	<i><0.4></i>	<i><0.5></i>
<i>Civil service^(b)</i>	<i>154 300 (-1.3)</i>	<i>155 000 (-1.5)</i>	<i>154 500 (-1.5)</i>	<i>154 100 (-1.4)</i>	<i>153 800 (-1.1)</i>	<i>153 800 (-0.4)</i>	<i>153 800 (-0.8)</i>	<i>153 700 (-0.5)</i>	<i>153 800 (-0.2)</i>	<i>153 900 (*)</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 Hong Kong Economic and Trade Offices abroad, 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.

(*) Less than 0.05%.

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

Vacancies

5.10 In December 2007, vacancies in *private sector establishments* reached 48 100, up significantly by 24.6% over a year earlier. On the back of robust economic growth, vacancy growth has remained strong, with the largest gains emerging towards the year-end. For 2007 as a whole, a year-on-year growth of 15.5% was registered. In December 2007, higher vacancy rates were observed for three economic sectors: communications (2.6%); financing, insurance, real estate and business services (2.5%) and community, social and personal services (2.5%). Faster growth was observed for low-skilled jobs than high-skilled jobs (26.8% vs. 21.3%). The full-fledged economic upturn can therefore be seen to benefit workers at different skill levels. With the introduction of unemployment statistics for further analysis, 41 job vacancies were available among every 100 job-seekers in December 2007, up from 25 a year earlier. Concurrently, the corresponding ratio for higher-skilled jobs increased significantly from 72 to 106 and that for lower-skilled jobs from 20 to 33. In terms of establishment size, vacancies at large enterprises increased faster than SMEs, by 29.9% as against 19.3%. With regard to the *civil service*, a total number of 2 700 vacancies were recorded in December 2007, translating to a 28.1% year-on-year increase. Yet, the average number of vacancies stayed at 2 500 in 2007, largely the same as that in 2006.

5.11 Statistics supplied by the Employment Services of the Labour Department revealed the latest changes in job vacancies. In the first quarter of 2008, the number of private sector job vacancies rose by 31.6% over a year earlier to 157 024. On average, some 2 600 vacancies were received per working day. At the same time, the department achieved a total of 32 795 placements, up by 20.0%.

5.12 In addition to regular employment and placement services, the Labour Department has periodically arranged general or theme-specific job fairs at different locations. In the first quarter of 2008, 4 large-scale and 47 district-based job fairs were organised to facilitate job matching. As a new initiative to further strengthen employment support for the youths, the Labour Department has opened the second Youth Employment Resource Centre called “Youth Employment Start” (Y.E.S.) in Metroplaza, Kwai Fong in March 2008. Together with the first Y.E.S. which opened in December 2007 in Langham Place, Mongkok, the two Centres provide one-stop advisory and support services on employment and self-employment to young people aged between 15 and 29. This underlines the Administration’s commitment to promote youth employment.

Diagram 5.6 : Vacancies surged and reached a post-1997 high for the month of December

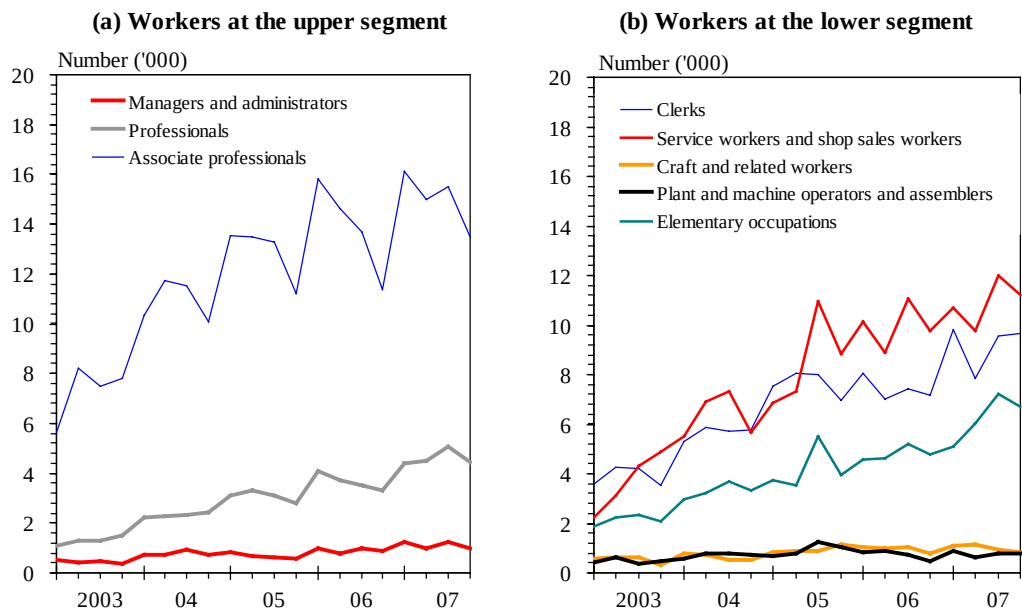
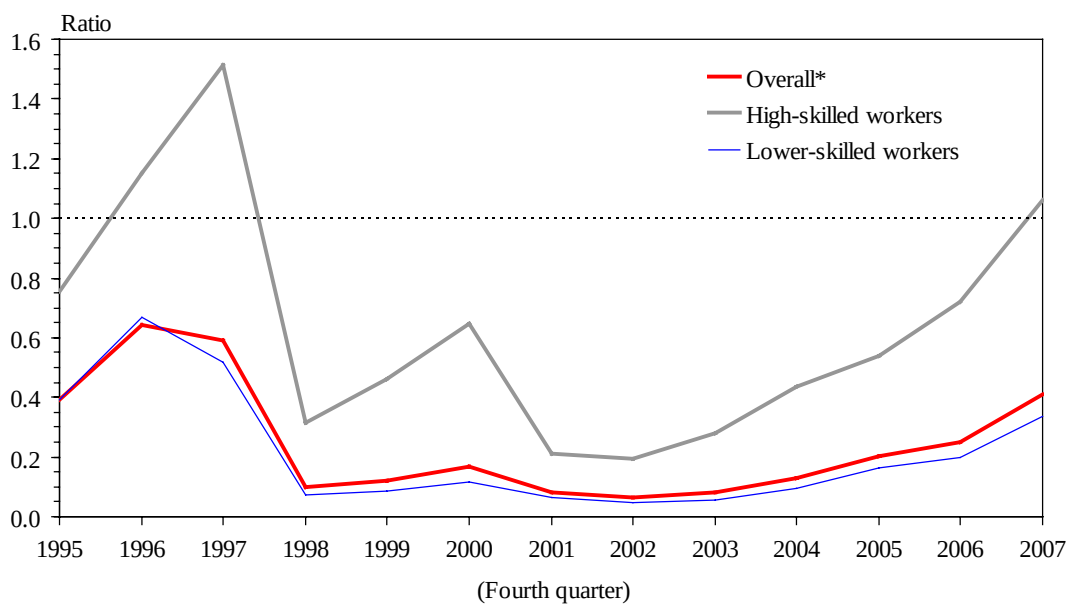


Diagram 5.7: Vacancy-to-applicant ratio continued to rise



Note : (*) Including first-time job seekers and re-entrants into the labour force.

Table 5.3 : Vacancies by major economic sector

	No. of vacancies										Vacancy rate In Dec 2007 (%)
	2006					2007					
	Annual average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec	
Wholesale, import and export trades	8 400 (-8.2)	10 600 (3.0)	8 300 (-10.8)	7 800 (-14.2)	6 800 (-12.9)	9 100 (9.2)	10 400 (-1.8)	9 000 (8.6)	8 800 (13.5)	8 300 (21.9)	1.4
Retail trade	4 300 (16.2)	4 800 (58.7)	3 800 (17.4)	4 400 (-9.1)	4 200 (13.2)	4 700 (9.7)	5 100 (5.5)	4 200 (10.3)	5 100 (17.3)	4 500 (6.0)	1.9
Restaurants and hotels	4 200 (22.6)	4 000 (63.4)	4 000 (45.3)	5 000 (17.6)	3 700 (-11.3)	5 200 (24.0)	4 300 (6.8)	4 500 (12.7)	6 600 (31.5)	5 300 (44.8)	2.2
Transport and storage	2 000 (6.5)	2 000 (20.1)	2 200 (17.5)	1 800 (-19.6)	1 700 (17.5)	2 200 (13.9)	2 200 (7.1)	2 200 (-0.4)	2 300 (26.3)	2 200 (27.0)	1.3
Communications	700 (0.8)	800 (93.0)	800 (52.6)	700 (-42.6)	700 (-15.4)	800 (13.7)	800 (3.0)	800 (-3.8)	1 000 (51.9)	800 (9.3)	2.6
Financing, insurance, real estate and business services	12 300 (13.2)	13 600 (29.6)	12 300 (9.6)	12 800 (6.8)	10 500 (7.6)	14 100 (14.5)	14 600 (7.7)	13 700 (11.8)	14 800 (16.2)	13 000 (24.6)	2.5
Community, social and personal services	8 600 (20.7)	7 900 (15.6)	8 100 (13.3)	9 200 (15.1)	9 300 (40.6)	10 600 (23.3)	9 600 (22.3)	9 500 (16.6)	11 400 (23.6)	12 000 (29.9)	2.5
Manufacturing	1 900 (-6.4)	1 900 (-3.4)	2 000 (6.1)	1 900 (-3.7)	1 700 (-22.5)	2 100 (11.4)	2 400 (23.3)	2 000 (-1.6)	2 100 (11.7)	1 900 (12.8)	1.2
Building and construction sites	# (-7.0)	# (66.7)	# (*)	# (*)	# (-23.8)	# (137.5)	# (660.0)	# (77.8)	# (160.0)	# (-6.3)	*
All establishments surveyed in the private sector ^(a)	42 300 (9.1)	45 500 (22.8)	41 500 (9.3)	43 600 (0.1)	38 600 (5.7)	48 900 (15.5)	49 300 (8.3)	45 900 (10.5)	52 300 (19.9)	48 100 (24.6)	1.9
		<3.1>	<-3.4>	<1.5>	<4.4>		<5.5>	<-0.6>	<9.2>	<8.7>	
Civil service ^(b)	2 500 (166.7)	2 600 (76.3)	2 500 (131.6)	2 900 (308.8)	2 100 (304.0)	2 500 (*)	1 200 (-55.0)	3 200 (27.0)	3 000 (6.0)	2 700 (28.1)	1.7

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

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

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. A general open recruitment freeze to the civil service was imposed during the period from 1 April 2003 to 31 March 2007. The civil service vacancies during this period refer only to the number of vacant posts for which exemptions from open recruitment freeze have been granted.

() % change over a year earlier.

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

(#) Less than 50.

(*) Less than 0.05%.

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

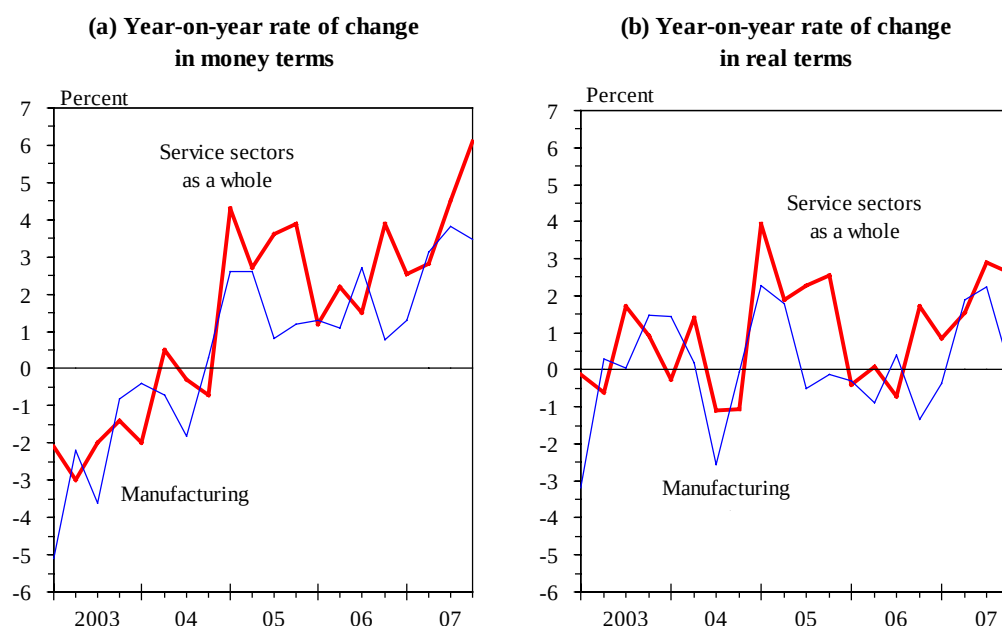
Earnings and wages

5.13 Though labour demand and supply conditions have been different, employment income have been rising steadily in many economic sectors since early 2005. In the fourth quarter of 2007, *labour earnings*⁽⁷⁾, as measured by payroll per person engaged in the private sector, accelerated to a year-on-year growth rate of 5.9% in money terms. After adjusting for inflation, it increased by 2.4% in real terms⁽⁸⁾. For 2007 as a whole, labour earnings increased by 4.0% in money terms and 1.9% in real terms.

5.14 In the last quarter of 2007, nominal pay rises were found almost across-the-board. However, due to the differences in demand and supply conditions, the magnitude of earnings growth varied across different economic sectors. Benefiting from booming financial markets, workers engaged in financial institutions continued to enjoy the biggest pay rises, at a nominal rate of 8.8%. Meanwhile, workers in other services sectors like community, social and personal services; wholesale, retail and import/export trades; and transport, storage and communications had relatively moderate earnings increases of 4.4%, 3.5% and 3.4% respectively. Reflecting Hong Kong's buoyant domestic consumption, workers engaged in the provision of laundry, dry cleaning and garment services and the medical, dental and other health services were the major beneficiaries of the pay rise in the community, social and personal services sector.

5.15 More recent data from the General Household Survey indicated that the overall average monthly employment earnings (excluding foreign domestic helpers) accelerated to a year-on-year growth rate of 7.1% in money terms in the first quarter of 2008⁽⁹⁾. Further analysis shows that this increase was mainly driven by surging earnings in the upper segment, conceivably as a result of generous bonus payments before the Lunar New Year. While earnings growth for workers at the lower end also picked up in the recent few months, it still remained moderate and lagged behind inflation.

Diagram 5.8 : Nominal earnings posted a broad-based and faster increase in 2007



5.16 As a measure of regular payments to employees at the supervisory level or below, *labour wages* exhibited smaller growth than labour earnings. In December 2007, labour wages increased by 2.7% in money terms but edged down by 0.7% in real terms. For 2007 as a whole, wages increased by 2.4% in money terms and 0.5% in real terms.

5.17 With tighter labour market conditions emerging in different job categories, most workers were able to enjoy faster nominal wage growth over the course of 2007. In December 2007, larger wage gains were found in three sectors: personal services (3.8%); financing, insurance, real estate and business services (3.2%) and wholesale, retail and import/export trade (3.2%), possibly as a result of greater difficulties in finding suitable personnel. In terms of occupation category, operatives; clerical and secretarial workers; and supervisory and technical workers enjoyed the largest increases in nominal wages, by 4.1%, 3.3% and 3.1% respectively. As can be seen from the above figures, our sustained economic growth has been broad-based and has conferred benefits to workers on all fronts.

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 and also Box 6.1 of the 2007 Economic Background and 2008 Prospects.

Figures enumerated from the General Household Survey have been revised to take into account the results of the 2006 Population By-census. Labour force figures compiled for the period from Q1 2001 to Q4 2006 have also been revised.

The revision has the effect of lowering the levels of total labour force, total employment, and the unemployed and underemployed by a modest margin. The effect on the unemployment and underemployment rates, being computed as ratios of the respective levels, is generally even smaller. Furthermore, the movements in the seasonally adjusted unemployment rate and the underemployment rate mostly showed little change.

- (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 declined by 2.8% in the first quarter of 2008 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 professionals, 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 engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (7) 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.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the 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.
- (9) The average (mean) monthly employment earnings are easily affected by extreme values in the sample. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 6 : PRICES

Summary

- *Inflationary pressure went up amidst sustained above-trend economic growth and heightened external price pressures. In terms of the Composite Consumer Price Index, consumer price inflation picked up to 4.6% in the first quarter of 2008. After netting out the effects of rates concession and public housing rental waiver, underlying consumer price inflation reached 4.9%.*
- *The recent pick-up in inflation was largely due to the upsurge in food prices, which was mainly the result of global food inflation. Yet there were also pressures from higher energy prices, rising wages and rentals, the depreciation of the US dollar as well as appreciation of the Renminbi.*
- *In the first quarter, the sustained improvement in labour productivity continued to contain the increase in the unit labour cost. Also, the brisk business expansion helped to ease the unit rental cost. Both developments cushioned domestic cost pressure by some extent and hence mitigated part of the overall inflationary pressure.*
- *The inflation outlook for the rest of 2008 is rather uncertain, hinging on the unfolding global food inflation. In April, Food and Agriculture Organisation of United Nations forecast world cereal production in 2008 to increase to a record level, and if materialised the current tight global cereal supply situation could hopefully ease in the new season. Apart from food prices, the US dollar weakness, the renminbi appreciation and increases in wages and rentals will continue to exert pressures on consumer prices. Yet, the various relief measures announced in the 2008-09 Budget and the continued advance of productivity should help offset part of the inflationary pressure.*

Consumer prices

6.1 Headline consumer price inflation, as measured by the *Composite Consumer Price Index*⁽¹⁾ (CCPI), went up to 4.6% in the first quarter of 2008, continuing its upward trend that started since mid-2004. While the rates concession in the first quarter helped alleviate the headline inflation, this mitigation effect was partly offset by the low base effect from the public

housing rental waiver in February 2007. Netting out all these relevant one-off factors, underlying consumer price inflation picked up from 3.5% in the last quarter of 2007 to 4.9% in the first quarter of 2008.

6.2 The higher inflation rate was attributable to the interplay of surging international food and energy prices and the sustained buoyant domestic economic conditions. Since mid-2007, food items were the prime sources of the consumer price inflation, in tandem with the worldwide phenomenon of food inflation. In January and February, the severe snowstorms in the Mainland had disrupted supply and could have exacerbated the food inflation. Also, domestic price pressure from rising private housing rentals had also become more visible on the back of the sustained robust economic growth over the past few years and the buoyant property market in 2007. On the external front, the depreciation of the US dollar and the strengthening of the Renminbi continued to bring about some inflationary pressures, although the pass-through from exchange rate changes to consumer prices had so far been rather modest. On the other hand, the sustained notable increase in labour productivity in the first quarter continued to help contain the rise in domestic costs.

6.3 The rise in inflationary pressure has been a worldwide phenomenon over the recent past, largely on account of higher global food and energy prices. In April, Food and Agriculture Organisation (FAO) of United Nations forecast world cereal production in 2008 to increase by 2.6% to a record high⁽²⁾. If materialized, FAO believed that the current tight global cereal supply situation could ease in the new 2008-09 season. The current slowdown of global economic growth, triggered by the US economic downturn and the financial turbulence, is also expected to contain the rise in energy and other commodity prices in the international markets. Thus, looking beyond the short term, inflationary pressure in many parts of the world is likely to be kept under control and hence relieve the imported price pressure to be experienced by Hong Kong.

6.4 Inflation outlook for Hong Kong in the rest of 2008 is rather uncertain, hinging much on how soon the food price increase will begin to slow. Nevertheless, while sustained labour productivity growth will mitigate the domestic cost pressure to some extent, the waiving of public housing rentals for one month, rates concession for 2008, and the electricity charge subsidy as announced in the 2008-09 Budget will all help mitigate the burden of inflation on the community and directly lower somewhat the headline CPI.

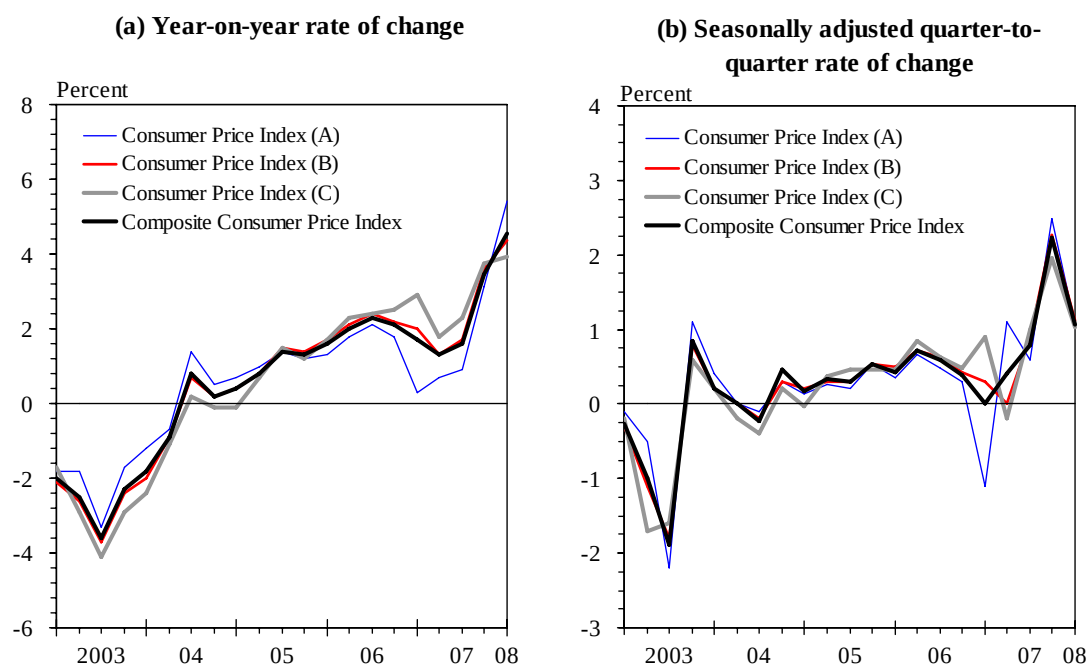
Table 6.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying</u>	<u>Headline</u>			
2007	Annual	2.8	2.0	1.3	2.2	2.7
	H1	2.4	1.5	0.5	1.7	2.3
	H2	3.1	2.5	2.0	2.7	3.0
	Q1	2.5	1.7 (*)	0.3 (-1.1)	2.0 (0.4)	2.9 (0.8)
	Q2	2.4	1.3 (0.3)	0.7 (1.1)	1.3 (*)	1.8 (-0.1)
	Q3	2.7	1.6 (0.8)	0.9 (0.6)	1.7 (0.9)	2.3 (1.0)
	Q4	3.5	3.5 (2.2)	3.1 (2.5)	3.6 (2.3)	3.7 (2.0)
2008	Q1	4.9	4.6 (1.1)	5.4 (1.1)	4.3 (1.1)	3.9 (1.0)

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

(*) Change of less than 0.05%

Diagram 6.1 : Consumer price inflation continued to go up



6.5 Among the main components of CCPI, food prices contributed most to the CCPI inflation in the first quarter of 2008. Prices for basic foodstuffs surged and charges at restaurants also went up notably. Private housing rentals also rose more visibly, reflecting the increasing housing demand along with sustained income growth. The prices of electricity, gas and water; and miscellaneous goods increased further in the light of the rising import prices of fuels and consumer goods. Price increase in miscellaneous services was modest, thanks to the sustained improvement in productivity. Meanwhile, price pressures for the other components – clothing and footwear; alcoholic drinks and tobacco; and transport – likewise were rather subdued. Prices of durable goods continued to fall.

Diagram 6.2 : Food prices went up distinctly

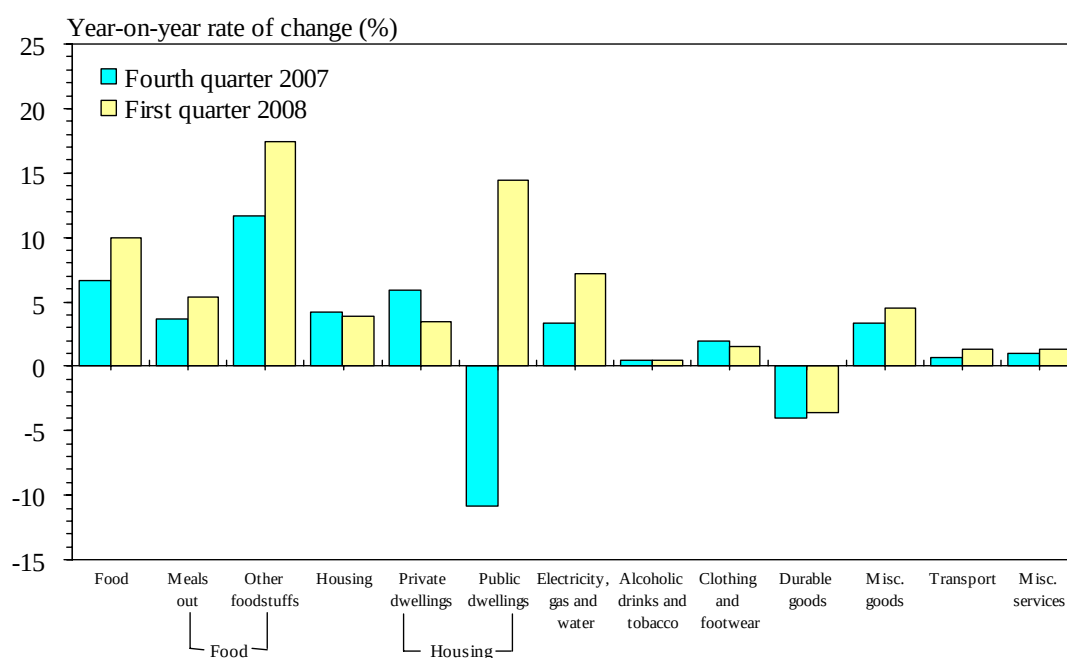


Table 6.2 : Composite Consumer Price Index by component
(year-on-year rate of change (%))

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2007</u>				<u>2008</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	26.94	2.9	2.8	4.8	6.7	10.0
<i>Meals bought away from home</i>	16.86	1.8	2.0	2.6	3.7	5.4
<i>Other foodstuffs</i>	10.08	4.4	4.1	8.2	11.6	17.4
Housing ^(a)	29.17	2.2	1.0	0.7	4.2	3.9
<i>Private dwellings</i>	23.93	5.6	2.0	2.3	5.9	3.5
<i>Public dwellings</i>	2.49	-31.7	-10.5	-17.8	-10.8	14.4
Electricity, gas and water	3.59	-1.3	-2.2	-2.7	3.4	7.2
Alcoholic drinks and tobacco	0.87	-3.9	-0.1	-1.1	0.5	0.5
Clothing and footwear	3.91	7.2	3.9	3.7	2.0	1.6
Durable goods	5.50	-5.8	-4.6	-4.2	-4.0	-3.5
Miscellaneous goods	4.78	2.8	1.8	2.1	3.4	4.6
Transport	9.09	-0.6	-0.5	-0.1	0.7	1.3
Miscellaneous services	16.15	2.2	2.2	1.3	1.0	1.3
All items	100.00	1.7 (2.5)	1.3 (2.4)	1.6 (2.7)	3.5 (3.5)	4.6 (4.9)

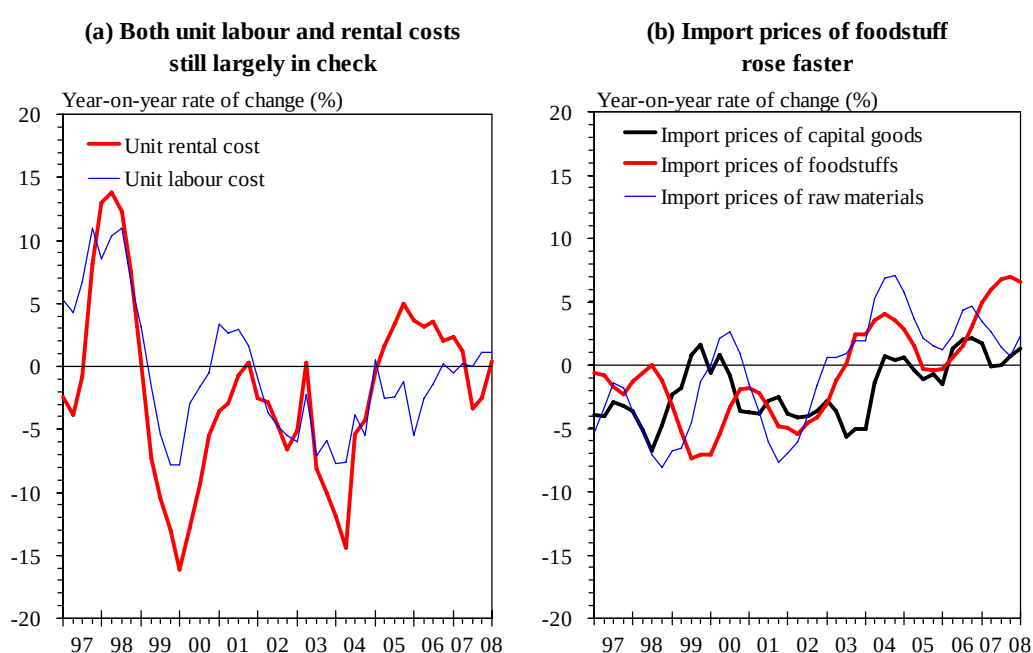
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

() Figures in brackets are the underlying inflation rates, which net out the effect of all relevant one-off measures, specifically, the lower base effect of public rental waiver in February 2007, and the rates concession in the second and third quarters of 2007 and the first quarter of 2008.

Costs of factor inputs

6.6 Wages and rentals went up further in line with the solid economic upturn. However, domestic pressures on business costs were still contained in the first quarter of 2008 as *unit rental cost* and *unit labour cost*⁽³⁾ rose mildly. Although the increase in labour earnings accelerated amidst a tight labour market, this was largely matched by the concurrent sustained growth in labour productivity. Similarly, the increase in shop rentals was cushioned by the solid expansion in business volume.

Diagram 6.3 : Costs of factor inputs



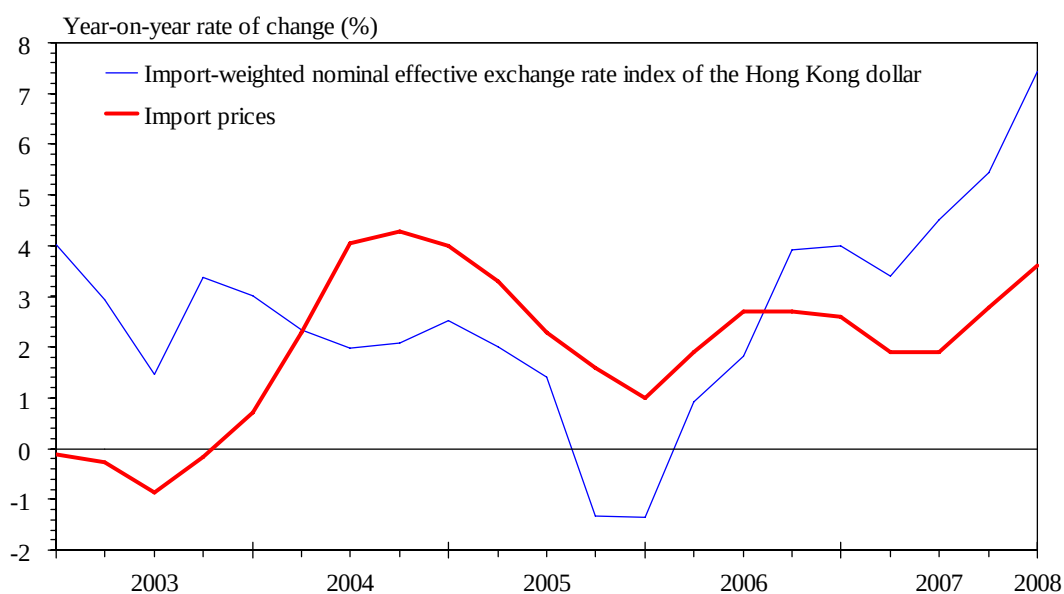
6.7 On the external front, import prices increased further in the first quarter amidst higher inflation in the import sources and the weakening of Hong Kong dollar along with the US dollar. Reflecting the upsurge of international oil prices, import prices of fuels soared further. Import prices of foodstuffs rose distinctly as a result of the global food price hike. Import prices of consumer goods continued to rise moderately. Meanwhile, there were some mild increases in import prices of raw materials and capital goods.

**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>
2007	Annual	6.2	3.3	2.0	11.2	0.5	2.3
	H1	5.4	2.8	3.0	0.3	0.7	2.2
	H2	6.9	3.7	1.1	22.2	0.3	2.3
	Q1	4.9	2.3	3.4	1.9	1.7	2.6
	Q2	6.0	3.2	2.6	-2.0	-0.1	1.9
	Q3	6.8	3.4	1.4	7.9	*	1.9
	Q4	6.9	4.0	0.7	37.1	0.7	2.8
2008	Q1	6.6	3.7	2.3	41.5	1.4	3.6

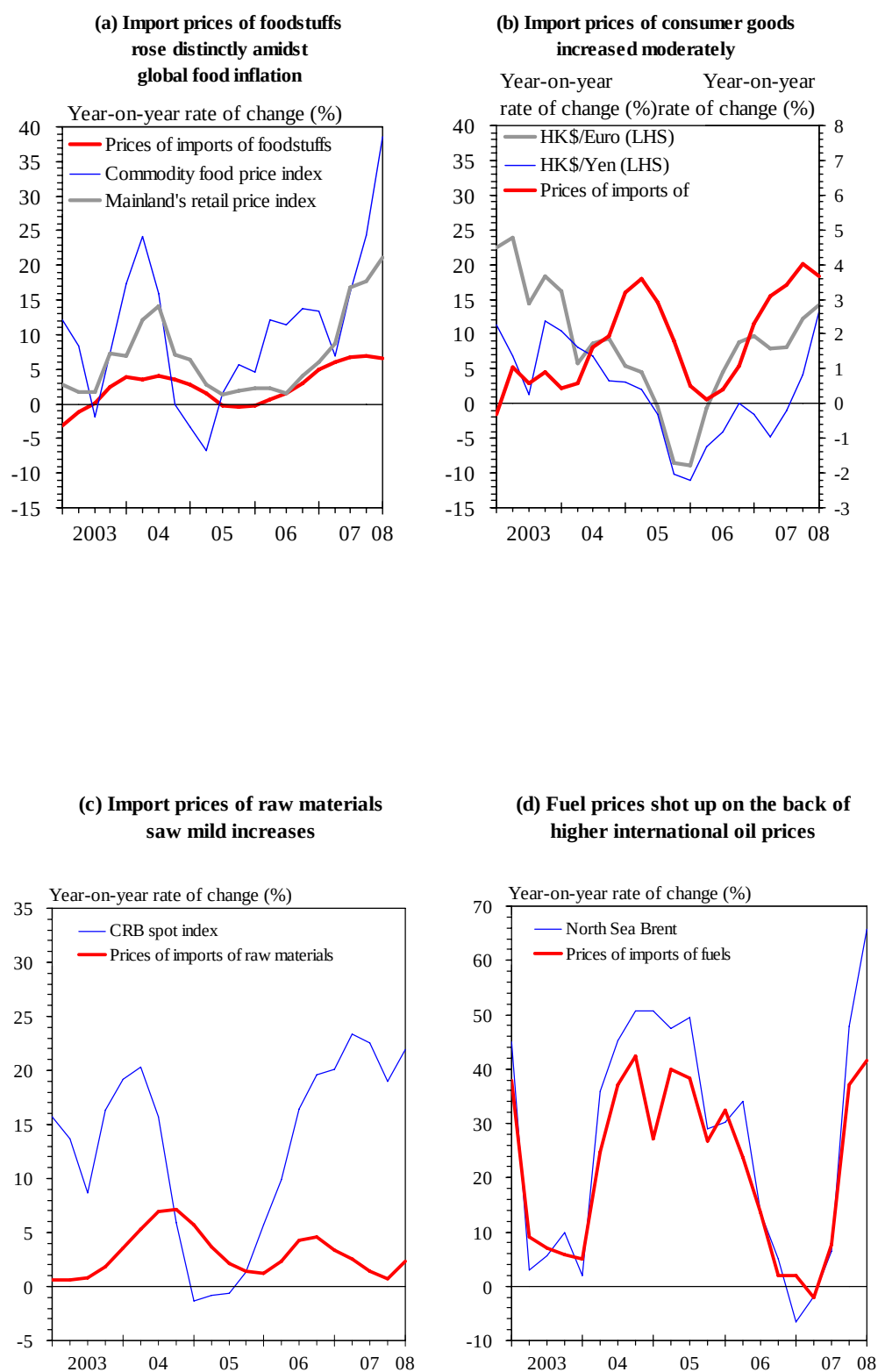
Note : (*) Change of less than 0.05%

Diagram 6.4 : Import prices rose amidst higher inflation in import sources



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 : Prices of imports by end-use category



Output prices

6.8 Output prices, as measured by the *Producer Price Indices*⁽⁴⁾, showed a mixed performance across different sectors in the fourth quarter of 2007. Prices of local manufacturing output rose further, prompted by the faster increase in prices for basic metals and fabricated metal products. Among the service sectors, prices for hotels and boarding houses continued to rise distinctly against the backdrop of the vibrant inbound tourism. In contrast, prices in telecommunications continued to decrease, reflecting technological advancement and competitive pressure. Output prices in other service sectors showed relatively mild movements, thanks to the modest changes in unit labour costs and unit rental costs.

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

Industry group	Annual	Q1	2006		Q4	Annual [@]	2007		Q3	Q4 [@]
			Q2	Q3			Q1	Q2		
Manufacturing	2.3	2.0	2.4	2.6	2.0	3.0	2.5	2.6	2.5	4.2
Selected service sector ^(#)										
Hotels and boarding houses	10.3	10.1	9.2	9.2	12.5	8.8	8.4	9.2	10.0	7.7
Land transport	*	1.0	0.6	-0.2	-1.2	-0.1	-0.8	-0.4	0.2	0.7
Maritime transport	-1.9	-3.6	-3.4	-1.8	1.1	0.9	1.8	-0.8	0.1	2.5
Air transport	-1.1	0.2	-0.5	-1.1	-3.0	0.8	0.8	1.4	-0.5	1.6
Telecommunications	-6.1	-7.5	-6.3	-4.0	-6.7	-2.7	-3.4	-3.8	-2.6	-1.1
Miscellaneous communications services	0.4	1.5	1.4	1.3	-2.6	1.0	-0.3	-0.7	-0.4	5.6

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

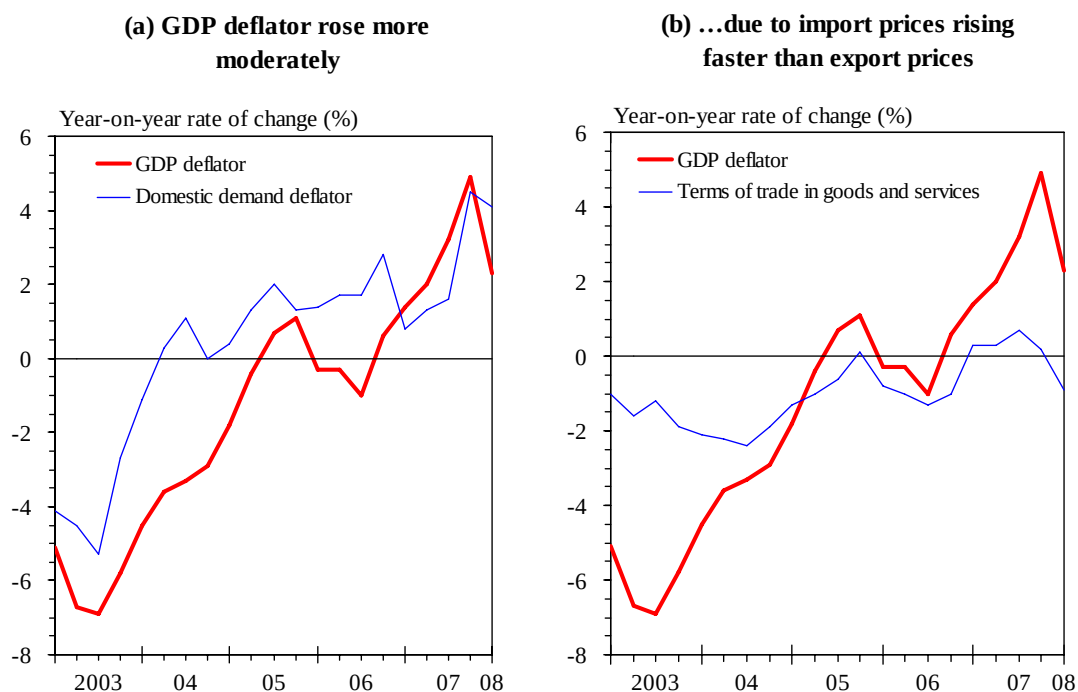
(*) Change of less than 0.05%

([@]) Provisional figures

GDP deflator

6.9 The *GDP deflator*⁽⁵⁾, a broad measure of the overall change in prices of the economy, moderated to a year-on-year increase of 2.3% in the first quarter of 2008, from 4.9% in the last quarter of 2007. This was mainly attributable to the worsening of the *terms of trade*⁽⁶⁾, a dominant item in the GDP deflator, due to import prices rising faster than export prices. Discounting the terms of trade effect, the *domestic demand deflator* rose further in the first quarter of 2008, broadly in line with the uptrend in consumer price inflation.

Diagram 6.6 : GDP deflator



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

		<u>2007</u>				<u>2008</u>
	<u>Annual</u>	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> ⁺
Private consumption expenditure	3.6	1.9	2.2	3.7	6.4	4.1
Government consumption expenditure	3.3	1.3	3.9	3.9	4.1	4.1
Gross domestic fixed capital formation	-2.1	-2.2	-3.0	-5.1	1.4	4.2
Total exports of goods	2.2	2.4	1.7	1.9	2.7	2.3
Imports of goods	1.7	2.1	1.3	1.1	2.5	3.4
Exports of services	2.5	2.5	1.9	2.3	3.3	3.5
Imports of services	3.0	2.4	2.6	3.0	3.6	4.2
Gross Domestic Product	3.0	1.4 <0.6>	2.0 <0.9>	3.2 <1.1>	4.9 <2.1>	2.3 <-1.7>
Total final demand	2.2	1.9	1.6	1.9	3.4	3.0
Domestic demand	2.1	0.8	1.3	1.6	4.5	4.1

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

(#) Revised figures

(+) Preliminary figures

< > Seasonally adjusted quarter-to-quarter % change

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:

	Approximate proportion of households covered (%)	Average monthly expenditure range during Oct 2004 to Sep 2005 (\$)
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:

Expenditure Component	Composite CPI (%)	CPI(A) (%)	CPI(B) (%)	CPI(C) (%)
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) See Crop Prospects and Food Situation – No.2, April 2008 published by Food and Agriculture Organization of the United Nations for details. While world cereal production in 2008 is forecasted to increase by 2.6% to a record high, world cereal stocks by the close of the seasons ending in 2008 are expected to fall to the lowest level in 25 years.
- (3) Unit labour cost represents the labour cost per unit of output produced. It differs from the nominal wage index in that it discounts 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.

- (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 chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (6) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

Statistical Appendix

<u>Table</u>	<u>Page</u>
1. Gross Domestic Product by expenditure component (at current market prices)	86-87
2. Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)	88-89
3. Gross Domestic Product by economic activity (at current prices)	90
4. Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)	91
5. Balance of payments account by major component (at current prices)	92
6. Visible and invisible trade (at current market prices)	93
7. Total exports of goods by market (in value terms)	94
8. Imports of goods by source (in value terms)	95
9. Retained imports of goods by end-use category (in value terms)	95
10. Exports and imports of services by component (at current market prices)	96
11. Incoming visitors by source	97
12. Property market	98-99
13. Property prices and rentals	100-101
14. Monetary aggregates	102-103
15. Rates of change in business receipts indices for service industries/domains	104
16. Labour force characteristics	105
17. Employment in selected major economic sectors	106
18. Number of workers engaged at building and construction sites	107
19. Average labour earnings by major economic sector	108
20. Rates of change in wage indices by selected major economic sector	109
21. Rates of change in prices	110-111
22. Rates of change in Composite Consumer Price Index	112-113
23. Rates of change in implicit price deflators of GDP and its main expenditure components	114-115

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

	(\$Mn)					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Private consumption expenditure	795,948	765,248	777,141	782,984	748,402	719,873
Government consumption expenditure	116,550	119,993	120,172	128,866	131,291	130,151
Gross domestic fixed capital formation	388,731	325,328	347,375	333,044	286,025	261,576
<i>of which:</i>						
Building and construction	208,235	171,930	155,441	142,659	131,757	116,628
Machinery, equipment and computer software	165,177	141,349	180,204	180,011	144,832	136,537
Changes in inventories	-15,651	-10,612	14,399	-4,060	5,660	9,111
Total exports of goods	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089
Imports of goods	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059
Exports of services	262,099	276,385	315,012	320,799	347,836	362,420
Imports of services	194,245	185,174	192,427	194,180	202,494	203,400
GDP	1,292,764	1,266,668	1,317,650	1,299,218	1,277,314	1,234,761
Per capita GDP (\$)	197,559	191,731	197,697	193,500	189,397	183,449
GNP	1,317,362	1,291,436	1,326,404	1,327,761	1,282,966	1,263,252
Per capita GNP (\$)	201,318	195,480	199,010	197,751	190,235	187,682
Total final demand	2,895,326	2,825,342	3,146,788	3,042,620	3,081,335	3,232,220
Total final demand excluding re-exports ^(a)	1,952,900	1,886,157	2,048,719	1,983,301	1,923,623	1,896,483
Domestic demand	1,285,578	1,199,957	1,259,087	1,240,834	1,171,378	1,120,711
Private	1,107,816	1,014,313	1,078,515	1,053,973	986,542	939,104
Public	177,762	185,644	180,572	186,861	184,836	181,607
External demand	1,609,748	1,625,385	1,887,701	1,801,786	1,909,957	2,111,509

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>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>Q2[#]</u>	<u>2007</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>2008</u> <u>Q1[#]</u>
Private consumption expenditure	767,923	804,936	864,416	966,074	238,030	241,639	266,045	247,416
Government consumption expenditure	127,327	121,435	123,066	130,004	30,480	32,058	33,197	35,786
Gross domestic fixed capital formation	275,034	289,170	322,386	328,637	83,128	79,604	91,651	84,251
<i>of which:</i>								
Building and construction	107,692	105,993	105,960	113,542	29,279	27,538	28,726	32,899
Machinery, equipment and computer software	150,545	163,287	199,634	190,618	48,499	45,691	54,875	42,115
Changes in inventories	7,076	-4,761	-2,129	15,013	4,180	862	7,752	867
Total exports of goods	2,027,031	2,251,744	2,467,357	2,698,850	656,509	722,092	732,951	650,631
Imports of goods	2,099,545	2,311,091	2,576,340	2,852,522	702,713	749,449	778,838	696,708
Exports of services	429,584	495,394	565,054	651,815	147,886	173,188	182,097	170,433
Imports of services	242,507	264,237	287,900	321,656	77,387	86,207	86,155	83,373
GDP	1,291,923	1,382,590	1,475,910	1,616,215	380,113	413,787	448,700	409,303
Per capita GDP (\$)	190,451	202,928	215,238	233,358	--	--	--	--
GNP	1,315,333	1,384,238	1,503,258	1,678,482	386,170	424,447	466,830	N.A.
Per capita GNP (\$)	193,902	203,170	219,226	242,349	--	--	--	--
Total final demand	3,633,975	3,957,918	4,340,150	4,790,393	1,160,213	1,249,443	1,313,693	1,189,384
Total final demand excluding re-exports ^(a)	2,062,142	2,212,697	2,407,414	2,647,621	640,229	675,808	732,474	670,224
Domestic demand	1,177,360	1,210,780	1,307,739	1,439,728	355,818	354,163	398,645	368,320
Private	1,001,588	1,048,026	1,149,899	1,277,979	318,346	315,030	357,150	321,208
Public	175,772	162,754	157,840	161,749	37,472	39,133	41,495	47,112
External demand	2,456,615	2,747,138	3,032,411	3,350,665	804,395	895,280	915,048	821,064

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 chain volume measures of Gross Domestic Product
by expenditure component (in real terms)**

(%)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Private consumption expenditure	-5.5	1.2	5.1	1.8	-0.9	-1.3
Government consumption expenditure	0.5	3.1	2.0	6.0	2.4	1.8
Gross domestic fixed capital formation	-7.6	-16.7	7.9	2.6	-4.7	0.9
<i>of which:</i>						
Building and construction	-1.6	-16.4	-7.9	-1.1	-1.3	-5.4
Machinery, equipment and computer software	-7.5	-17.6	27.3	6.2	-7.6	7.0
Total exports of goods	-4.6	3.6	16.9	-3.3	8.6	14.0
Imports of goods	-6.9	-0.1	18.4	-1.9	7.9	13.1
Exports of services	-3.9	8.9	13.4	6.4	11.1	7.6
Imports of services	2.8	-3.4	2.2	2.0	3.9	-2.2
GDP	-6.0	2.6	8.0	0.5	1.8	3.0
Per capita GDP (\$)	-6.8	1.6	7.0	-0.2	1.4	3.2
GNP	-4.1	2.6	6.6	2.0	0.1	4.9
Per capita GNP (\$)	-4.9	1.6	5.6	1.3	-0.3	5.1
Total final demand	-5.9	0.9	12.6	-0.7	5.0	7.9
Total final demand excluding re-exports ^(a)	-6.8	-1.3	9.8	0.3	2.0	3.1
Domestic demand	-7.7	-3.6	7.7	0.9	-0.7	-0.2
Private	-8.4	-4.6	9.5	0.5	-1.0	-0.5
Public	-3.5	2.4	-2.1	3.3	1.1	1.4
External demand	-4.5	4.5	16.3	-1.7	9.0	12.8

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 chain volume measures of Gross Domestic Product by expenditure component (in real terms) (Cont'd)

	(%)									
	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>			<u>2008</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 1997 to 2007 [#]	5 years 2002 to 2007 [#]
Private consumption expenditure	7.0	3.0	6.0	7.8	6.6	10.6	9.5	7.9	2.3	4.4
Government consumption expenditure	0.7	-3.2	0.1	2.3	3.0	1.5	2.3	0.3	1.6	0.3
Gross domestic fixed capital formation	2.5	4.1	7.0	4.2	8.1	-0.5	8.2	8.9	-0.3	3.7
<i>of which:</i>										
Building and construction	-10.7	-7.6	-7.3	1.0	7.3	-0.2	-1.2	5.2	-6.0	-6.1
Machinery, equipment and computer software	10.3	12.8	19.1	3.5	7.8	-2.7	8.5	6.0	4.6	10.4
Total exports of goods	14.9	10.4	9.3	7.0	10.0	6.2	5.7	8.3	7.4	11.1
Imports of goods	13.7	8.0	9.2	8.8	11.5	8.1	8.5	8.4	6.8	10.5
Exports of services	18.0	11.6	10.1	12.5	11.6	13.7	13.1	10.8	9.4	11.9
Imports of services	14.6	7.8	8.1	8.5	8.9	8.7	9.7	11.3	4.3	7.2
GDP	8.5	7.1	7.0	6.4	6.2	6.8	6.9	7.1	3.8	6.4
Per capita GDP (\$)	7.6	6.6	6.3	5.3	--	--	--	--	3.1	5.8
GNP	7.9	5.3	8.8	8.5	8.8	6.4	9.7	N.A.	4.2	7.1
Per capita GNP (\$)	7.0	4.8	8.1	7.4	--	--	--	--	3.5	6.5
Total final demand	11.8	7.7	8.4	8.0	9.6	7.7	8.0	8.2	5.4	8.7
Total final demand excluding re-exports ^(a)	8.9	5.4	7.3	7.5	7.9	7.5	9.8	7.8	3.5	6.4
Domestic demand	5.0	1.6	5.9	7.8	8.0	8.2	10.3	6.8	1.5	4.0
Private	6.2	3.0	7.5	8.9	8.8	9.3	11.8	7.2	1.9	5.0
Public	-1.2	-6.2	-4.0	-0.3	1.4	-0.5	-0.4	4.4	-1.0	-2.1
External demand	15.4	10.6	9.4	8.0	10.3	7.5	7.1	8.8	7.8	11.2

Notes (cont'd) : (--) Not applicable.

N.A. Not available.

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

	<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>		<u>2006[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,002	0.1	824	0.1	886	0.1	847	0.1	849	0.1
Mining and quarrying	136	*	116	*	72	*	100	*	93	*
Manufacturing	51,396	4.2	44,403	3.7	44,455	3.6	45,547	3.4	45,761	3.2
Electricity, gas and water	39,609	3.2	38,839	3.3	39,726	3.2	39,924	3.0	40,364	2.8
Construction	51,534	4.2	44,910	3.8	40,376	3.2	38,538	2.9	38,688	2.7
Services	1,079,476	88.3	1,062,714	89.2	1,119,304	89.9	1,207,873	90.6	1,297,545	91.2
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	310,500	25.4	308,872	25.9	345,092	27.7	386,726	29.0	397,252	27.9
<i>Transport, storage and communications</i>	121,766	10.0	117,420	9.9	126,820	10.2	135,119	10.1	137,166	9.6
<i>Financing, insurance, real estate and business services</i>	247,045	20.2	251,085	21.1	266,855	21.4	294,260	22.1	356,371	25.0
<i>Community, social and personal services</i>	259,893	21.2	256,134	21.5	257,630	20.7	253,312	19.0	256,347	18.0
<i>Ownership of premises</i>	140,273	11.5	129,203	10.8	122,906	9.9	138,455	10.4	150,408	10.6
GDP at factor cost	1,223,153	100.0	1,191,807	100.0	1,244,819	100.0	1,332,830	100.0	1,423,299	100.0
Taxes on production and imports	43,325		48,057		58,729		62,891		71,071	
Statistical discrepancy (%)	0.8		-0.4		-0.9		-0.9		-1.3	
GDP at current market prices	1,277,314		1,234,761		1,291,923		1,382,590		1,475,910	

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 chain volume measures of Gross Domestic Product
by economic activity (in real terms)**

	(%)									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture and fishing	-1.1	-6.3	2.7	-1.0	-5.0	-9.2	-8.4	-8.0	-9.7	-10.7
Mining and quarrying	-11.3	2.3	-16.7	10.1	10.2	13.7	16.2	16.6	9.8	12.5
Manufacturing	-10.0	-10.3	1.7	2.1	2.2	-1.5	-1.5	-2.3	-2.1	-0.3
Electricity, gas and water	3.8	1.8	2.3	2.5	0.8	1.1	1.6	2.5	0.4	*
Construction	-1.9	-4.6	-9.3	-8.1	-9.8	-2.1	-6.1	3.8	-2.8	-2.6
Services	2.7	4.3	9.9	7.5	7.1	7.5	7.1	7.5	7.3	7.8
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	4.4	8.9	15.1	14.1	8.8	7.3	6.9	7.5	7.3	7.3
<i>Transport, storage and communications</i>	6.4	0.6	13.9	7.4	6.8	5.4	4.1	4.8	6.0	6.6
<i>Financing, insurance, real estate and business services</i>	2.7	5.5	13.4	8.6	12.2	15.0	13.6	14.1	15.5	16.6
<i>Community, social and personal services</i>	-0.4	0.4	2.6	-0.1	1.3	1.2	1.8	0.9	0.9	1.3
<i>Ownership of premises</i>	1.8	2.8	1.5	2.9	2.4	2.7	2.8	2.8	2.9	2.4
Taxes on production and imports	-0.2	2.6	12.3	0.8	6.8	15.1	7.8	10.1	25.0	18.0
GDP in chained (2006) dollars	1.8	3.0	8.5	7.1	7.0	6.4	5.5	6.2	6.8	6.9

Note : (#) Figures are subject to revision later on as more data become available.
 (*) Less than 0.05%.

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

	(\$Mn)								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007[#]</u>		<u>2007</u>		
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account	128,240	122,512	156,933	178,166	218,732	64,413	25,769	65,190	63,361
Goods	-44,970	-72,514	-59,347	-108,983	-153,672	-34,224	-46,204	-27,357	-45,887
Services	159,020	187,077	231,157	277,154	330,159	76,737	70,499	86,981	95,942
Income	28,491	23,410	1,648	27,348	62,267	27,421	6,057	10,660	18,130
Current transfers	-14,301	-15,461	-16,524	-17,353	-20,022	-5,521	-4,583	-5,094	-4,824
Capital and financial account	-179,086	-184,640	-182,431	-209,935	-250,457	-54,005	-40,224	-80,154	-76,075
Capital and financial non-reserve assets (net change)	-171,497	-159,155	-171,752	-163,199	-135,959	-41,633	-30,243	-66,271	2,188
Capital transfers	-8,292	-2,561	-4,939	-2,900	10,651	-1,196	3,730	7,048	1,070
Financial non-reserve assets (net change)	-163,205	-156,594	-166,812	-160,300	-146,611	-40,437	-33,973	-73,319	1,119
<i>Direct investment</i>	63,372	-91,038	49,996	635	52,404	1,299	23,778	22,187	5,141
<i>Portfolio investment</i>	-264,619	-306,368	-245,017	-207,879	36,673	5,840	-19,988	12,019	38,801
<i>Financial derivatives</i>	78,288	44,319	30,502	25,925	58,545	26,380	16,070	12,335	3,760
<i>Other investment</i>	-40,247	196,492	-2,294	21,019	-294,232	-73,957	-53,832	-119,859	-46,583
Reserve assets (net change) ^(a)	-7,589	-25,486	-10,679	-46,735	-114,498	-12,372	-9,981	-13,882	-78,263
Net errors and omissions	50,846	62,128	25,498	31,769	31,726	-10,408	14,456	14,964	12,714
Overall balance of payments	7,589	25,486	10,679	46,735	114,498	12,372	9,981	13,882	78,263

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>			<u>2008</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	1,749,089	2,027,031	2,251,744	2,467,357	2,698,850	656,509	722,092	732,951	650,631
Imports of goods	1,794,059	2,099,545	2,311,091	2,576,340	2,852,522	702,713	749,449	778,838	696,708
Visible trade balance	-44,970	-72,514	-59,347	-108,983	-153,672	-46,204	-27,357	-45,887	-46,077
	(-2.5)	(-3.5)	(-2.6)	(-4.2)	(-5.4)	(-6.6)	(-3.7)	(-5.9)	(-6.6)
Exports of services	362,420	429,584	495,394	565,054	651,815	147,886	173,188	182,097	170,433
Imports of services	203,400	242,507	264,237	287,900	321,656	77,387	86,207	86,155	83,373
Invisible trade balance	159,020	187,077	231,157	277,154	330,159	70,499	86,981	95,942	87,060
	(78.2)	(77.1)	(87.5)	(96.3)	(102.6)	(91.1)	(100.9)	(111.4)	(104.4)
Exports of goods and services	2,111,509	2,456,615	2,747,138	3,032,411	3,350,665	804,395	895,280	915,048	821,064
Imports of goods and services	1,997,459	2,342,052	2,575,328	2,864,240	3,174,178	780,100	835,656	864,993	780,081
Visible and invisible trade balance	114,050	114,563	171,810	168,171	176,487	24,295	59,624	50,055	40,983
	<5.7>	<4.9>	<6.7>	<5.9>	<5.6>	<3.1>	<7.1>	<5.8>	<5.3>

Notes : Figures in this table are reckoned on 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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		<u>2008</u>	
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	11.7	15.9	11.4	9.4	9.2	2,687,513	11.7	8.2	8.2	10.5
Mainland of China	21.1	19.7	14.0	14.2	13.2	1,308,332	15.9	12.8	11.1	11.1
United States	-2.6	5.4	5.6	2.9	-0.8	368,202	1.3	-2.4	-3.0	-1.0
Japan	12.3	14.4	10.3	1.6	-0.7	119,568	3.1	-6.2	-0.8	-1.9
Germany	15.1	11.9	15.6	4.0	7.2	81,119	10.9	12.1	6.6	17.5
United Kingdom	5.8	14.8	5.2	6.3	1.7	74,862	1.8	-5.3	1.6	1.2
Taiwan	22.2	16.2	2.7	3.3	1.6	52,934	10.0	-3.8	-2.1	3.2
Republic of Korea	16.9	24.0	9.5	7.5	2.0	52,930	5.0	1.6	7.2	4.8
Singapore	13.0	22.0	6.8	4.4	3.8	50,450	3.9	2.4	4.3	20.7
Rest of the world	7.1	17.3	13.3	8.5	13.2	579,118	14.6	13.2	14.4	19.7

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>			<u>2008</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	11.5	16.9	10.3	11.6	10.3	2,868,011	12.6	9.1	10.5	11.6
Mainland of China	9.6	16.9	14.3	13.7	11.5	1,329,652	16.5	8.7	10.7	10.2
Japan	17.2	19.7	0.1	4.5	7.2	287,329	9.3	5.6	5.9	8.9
Taiwan	8.0	22.8	9.4	15.9	5.2	205,102	4.8	7.0	7.8	9.8
Singapore	19.6	22.5	21.8	21.9	18.2	194,775	26.1	17.9	15.6	10.0
United States	7.9	13.4	6.5	3.6	12.3	138,768	12.6	8.3	12.6	7.7
Republic of Korea	15.0	15.0	2.6	16.1	-0.2	119,393	-2.9	7.5	-5.5	1.9
Rest of the world	12.1	13.6	8.4	7.6	10.7	592,991	8.4	10.5	15.1	19.9

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>			<u>2008</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Overall	2.6	14.8	7.3	14.3	8.8	727,946	10.3	6.6	16.3	13.7
Foodstuffs	1.5	8.6	3.1	4.3	13.7	60,200	10.6	16.9	16.9	20.0
Consumer goods	-1.8	7.4	5.5	3.1	13.8	149,979	8.8	20.7	32.1	32.0
Raw materials and semi-manufactures	10.7	17.6	4.2	8.8	14.4	268,729	19.3	17.7	11.8	3.3
Fuels	12.9	37.5	23.5	22.8	20.0	83,923	20.8	6.1	46.1	25.5
Capital goods	-6.6	13.3	10.8	33.2	-8.2	164,714	-4.9	-19.7	0.9	6.3

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>		<u>2007</u>		<u>2008</u>	
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	4.2	18.5	15.3	14.1	15.4	651,815	13.7	16.3	16.9	14.7
Transportation	3.8	25.5	16.9	10.2	6.9	186,208	5.7	6.0	11.1	12.5
Travel	-4.4	26.1	14.2	12.9	18.8	107,391	13.1	18.7	25.8	14.3
Trade-related	12.2	12.6	10.7	9.9	13.0	201,423	13.5	13.5	12.5	12.5
Other services	-1.4	12.8	22.3	28.4	28.3	156,793	26.0	34.8	25.0	19.8
Imports of services	0.4	19.2	9.0	9.0	11.7	321,656	11.7	11.9	13.7	15.9
Transportation	7.8	29.4	20.3	10.9	10.4	99,615	9.7	9.9	15.1	16.6
Travel	-8.0	15.9	0.1	5.4	7.9	117,692	9.5	8.0	10.1	15.6
Trade-related	9.2	3.2	12.8	12.6	12.2	23,533	12.8	13.0	11.5	12.2
Other services	8.2	19.7	10.5	11.2	19.5	80,816	18.2	20.9	17.9	16.7
Net exports of services	9.4	17.6	23.6	19.9	19.1	330,159	15.9	21.0	20.0	13.5

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2008</u>	
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	15 536.8	21 810.6	23 359.4	25 251.1	28 169.3	6 413.6	7 334.4	7 805.5	7 275.5
Mainland of China	8 467.2	12 245.9	12 541.4	13 591.3	15 485.8	3 321.5	4 212.4	4 173.6	4 153.6
South and Southeast Asia	1 359.6	2 077.7	2 413.0	2 659.7	2 888.1	749.1	649.4	923.3	639.3
Taiwan	1 852.4	2 074.8	2 130.6	2 177.2	2 238.7	540.4	608.1	564.5	534.3
Europe	780.8	1 142.7	1 398.0	1 548.2	1 772.2	419.5	413.4	525.5	472.7
Japan	867.2	1 126.3	1 210.8	1 311.1	1 324.3	305.2	333.5	348.3	325.4
United States	683.8	1 051.7	1 143.1	1 159.0	1 230.9	311.7	285.3	356.5	298.3
Others	1 525.8	2 091.7	2 522.6	2 804.5	3 229.2	766.0	832.3	913.9	851.9
<u>(% change over a year earlier)</u>									
All sources	-6.2	40.4	7.1	8.1	11.6	7.4	15.1	16.9	10.0
Mainland of China	24.1	44.6	2.4	8.4	13.9	6.6	20.6	23.0	9.9
South and Southeast Asia	-28.6	52.8	16.1	10.2	8.6	7.7	7.9	12.8	12.9
Taiwan	-23.7	12.0	2.7	2.2	2.8	5.3	1.5	4.8	1.6
Europe	-28.0	46.3	22.3	10.7	14.5	15.1	14.8	11.3	14.2
Japan	-37.8	29.9	7.5	8.3	1.0	*	-1.0	*	-3.5
United States	-31.7	53.8	8.7	1.4	6.2	3.8	3.2	12.0	7.5
Others	-20.8	37.1	20.6	11.2	15.1	13.0	17.5	15.6	18.8

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

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

Table 12 : Property market

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Completion of new property by the private sector (<u>'000 m² of internal floor area</u>)							
Residential property ^(a) (in units)	22 278	35 322	25 790	26 262	31 052	26 397	26 036
Commercial property	945	634	160	208	304	417	371
<i>of which :</i>							
Office space	737	428	96	76	166	299	280
Other commercial premises ^(b)	208	206	64	132	138	118	91
Industrial property ^(c)	300	191	62	45	29	15	1
<i>of which :</i>							
Industrial-cum-office premises	145	40	37	14	0	15	0
Conventional flatted factory space	31	4	19	30	3	0	1
Storage premises ^(d)	124	147	6	0	27	0	0
Production of public housing (<u>in units</u>)							
Rental housing flats ^(e)	14 267	26 733	40 944	47 590	20 154	13 705	20 614
Subsidized sales flats ^(e)	21 993	26 532	22 768	25 702	1 072	320	0
Building plans with consent to commence work in the private sector (<u>'000 m² of usable floor area</u>)							
Residential property	1 472.0	1 692.8	1 142.7	1 002.5	790.0	1 038.4	530.0
Commercial property	395.7	287.5	337.5	265.0	365.3	200.0	161.3
Industrial property ^(f)	69.5	84.9	129.2	45.7	107.1	0.8	16.4
Other properties	201.5	125.8	240.2	75.0	109.3	444.2	407.1
Total	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3	1 114.8
Agreements for sale and purchase of property (<u>Number</u>)							
Residential property ^(g)	85 616	77 087	65 340	69 667	72 974	71 576	100 630
Primary market	23 441	18 325	13 911	18 366	23 088	26 498	25 694
Secondary market	62 175	58 762	51 429	51 301	49 886	45 078	74 936
Selected types of non-residential properties ^(h)							
Office space	N.A.	N.A.	1 724	1 774	1 639	1 817	3 213
Other commercial premises	N.A.	N.A.	2 411	2 989	3 167	4 142	7 833
Flatted factory space	N.A.	N.A.	N.A.	N.A.	3 756	3 813	5 889

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

- (a) Figures before 2002 cover all completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned. Village-type housing units are excluded as from 2002 and units issued with temporary Occupation Permits are also excluded as from 2004 onwards.

Residential premises here pertain to private residential units, excluding units built under the Private Sector Participation Scheme (PSPS), Home Ownership Scheme (HOS), Buy or Rent Option, Mortgage Subsidy Scheme, Sandwich Class Housing Scheme, Urban Improvement Scheme (UIS) and Flat-for-Sale Scheme. Figures from 2004 onwards also cover those private flats converted from subsidised flats.

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.
- (c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.
- (d) These include storage premises at the container terminals and the airport.

Table 12 : Property market (Cont'd)

	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		<u>2008</u>
				Q2	Q3	Q4	Q1
Completion of new property by the private sector							
<u>('000 m² of internal floor area)</u>							
Residential property ^(a) (in units)	17 321	16 579	10 471	647	1 444	6 107	958
Commercial property	145	291	503	175	4	156	117
<i>of which :</i>							
Office space	34	108	320	165	0	145	112
Other commercial premises ^(b)	111	183	183	9	4	11	5
Industrial property ^(c)	17	27	16	0	2	14	0
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	0	0	16	0	2	14	0
Storage premises ^(d)	13	27	0	0	0	0	0
Production of public housing							
<u>(in units)</u>							
Rental housing flats ^(e)	24 691	4 430	4 795	0	0	0	13 726
Subsidized sales flats ^(e)	0	0	2 010	0	810	0	576
Building plans with consent to commence work in the private sector							
<u>('000 m² of usable floor area)</u>							
Residential property	550.7	706.7	956.1	300.4	471.6	135.5	168.6
Commercial property	481.9	468.4	327.5	46.1	45.4	108.4	106.9
Industrial property ^(f)	35.1	23.9	103.5	70.2	18.0	4.4	49.6
Other properties	408.0	199.2	207.7	44.9	40.4	50.5	74.1
Total	1 475.8	1 398.2	1 594.8	461.6	575.3	298.8	399.2
Agreements for sale and purchase of property							
<u>(Number)</u>							
Residential property ^(g)	103 362	82 472	123 575	30 293	29 421	40 533	36 917
Primary market	15 994	13 986	20 123	5 876	5 722	5 430	4 791
Secondary market	87 368	68 486	103 452	24 417	23 699	35 103	32 126
Selected types of non-residential properties ^(h)							
Office space	3 431	2 874	4 117	918	997	1 479	1 230
Other commercial premises	7 143	4 402	5 465	1 425	1 360	1 581	1 403
Flatted factory space	6 560	7 409	9 050	2 431	2 313	2 400	2 228

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

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

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

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

N.A. Not available.

Table 13 : Property prices and rentals

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	117.1	100.0	89.6	78.7	69.9	61.6	78.0
Office space ^(b)	134.5	100.0	89.9	78.7	68.4	62.5	99.3
Shopping space	128.3	100.0	93.6	86.8	85.0	85.5	119.3
Flatted factory space	131.8	100.0	91.2	82.0	74.8	71.7	88.6
Property rental indices ^(c) :							
Residential flats	112.6	100.0	98.1	95.4	83.4	73.6	77.7
Office space ^(b)	135.9	100.0	98.5	101.0	85.4	74.6	78.1
Shopping space	111.2	100.0	101.3	99.4	92.9	86.4	92.8
Flatted factory space	118.1	100.0	95.4	90.3	82.7	74.9	77.3
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-28.2	-14.6	-10.4	-12.2	-11.2	-11.9	26.6
Office space ^(b)	-36.9	-25.7	-10.1	-12.5	-13.1	-8.6	58.9
Shopping space	-27.6	-22.1	-6.4	-7.3	-2.1	0.6	39.5
Flatted factory space	-22.0	-24.1	-8.8	-10.1	-8.8	-4.1	23.6
Property rental indices ^(c) :							
Residential flats	-16.3	-11.2	-1.9	-2.8	-12.6	-11.8	5.6
Office space ^(b)	-13.3	-26.4	-1.5	2.5	-15.4	-12.6	4.7
Shopping space	-10.0	-10.1	1.3	-1.9	-6.5	-7.0	7.4
Flatted factory space	-10.9	-15.3	-4.6	-5.3	-8.4	-9.4	3.2

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>2005</u>	<u>2006</u>	<u>2007[#]</u>	<u>2007</u>	<u>2008</u>		
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	92.0	92.7	103.5	100.3	104.0	113.2	124.4
Office space ^(b)	133.0	139.3	165.3	156.2	167.5	188.9	206.0
Shopping space	149.3	153.5	172.5	168.7	176.6	185.7	196.3
Flatted factory space	125.0	158.5	198.8	193.2	207.8	217.5	234.3
Property rental indices ^(c) :							
Residential flats	86.5	91.6	101.8	99.6	103.7	108.1	115.1
Office space ^(b)	96.4	117.4	131.9	129.6	133.5	138.9	145.9
Shopping space	100.5	104.3	111.8	109.9	113.5	115.9	117.5
Flatted factory space	82.6	91.0	100.4	99.2	101.8	103.9	106.8
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	17.9	0.8	11.7	7.6	12.2	21.3	28.8
Office space ^(b)	33.9	4.7	18.7	12.0	16.4	32.4	38.7
Shopping space	25.1	2.8	12.4	9.2	14.7	20.5	23.6
Flatted factory space	41.1	26.8	25.4	25.0	26.3	27.4	32.4
Property rental indices ^(c) :							
Residential flats	11.3	5.9	11.1	9.6	12.5	14.8	19.9
Office space ^(b)	23.4	21.8	12.4	10.4	11.0	14.2	16.0
Shopping space	8.3	3.8	7.2	6.9	9.0	8.4	8.7
Flatted factory space	6.9	10.2	10.3	10.0	9.8	9.7	10.4

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

(+) Provisional figures.

Table 14 : Monetary aggregates

	1998	1999	2000	2001	2002	2003	2004
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	178,260	205,339	203,966	229,841	259,411	354,752	412,629
M2 ^(a)	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591
M3 ^(a)	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225	2,122,861	2,219,557
Total money supply (\$Mn)							
M1	197,666	225,156	243,847	258,056	295,650	413,423	484,494
M2	3,111,942	3,386,196	3,649,492	3,550,060	3,518,326	3,813,442	4,166,706
M3	3,168,199	3,434,467	3,692,753	3,594,130	3,561,852	3,858,044	4,189,544
Deposit (\$Mn)							
HK\$	1,699,726	1,773,169	1,851,177	1,854,651	1,824,911	1,930,790	2,017,911
Foreign currency	1,300,302	1,477,448	1,676,670	1,551,852	1,492,631	1,636,227	1,848,145
Total	3,000,027	3,250,617	3,527,847	3,406,502	3,317,542	3,567,018	3,866,056
Loans and advances (\$Mn)							
HK\$	1,695,027	1,607,126	1,652,191	1,647,684	1,615,667	1,573,079	1,666,740
Foreign currency	1,609,400	1,205,784	809,259	537,301	460,659	462,000	488,964
Total	3,304,427	2,812,910	2,461,450	2,184,986	2,076,325	2,035,079	2,155,704
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	103.4	100.9	101.7	104.7	104.0	100.7	98.3
Import-weighted	105.5	101.4	101.5	105.1	104.7	101.6	99.2
Export-weighted	101.3	100.4	101.9	104.3	103.3	99.8	97.3
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	-5.2	15.2	-0.7	12.7	12.9	36.8	16.3
M2 ^(a)	9.7	5.2	3.4	0.5	-0.7	6.2	4.8
M3 ^(a)	9.3	5.1	3.5	0.7	-0.6	5.9	4.6
Total money supply :							
M1	-5.0	13.9	8.3	5.8	14.6	39.8	17.2
M2	11.6	8.8	7.8	-2.7	-0.9	8.4	9.3
M3	10.3	8.4	7.5	-2.7	-0.9	8.3	8.6
Deposit							
HK\$	9.5	4.3	4.4	0.2	-1.6	5.8	4.5
Foreign currency	12.2	13.6	13.5	-7.4	-3.8	9.6	13.0
Total	10.7	8.4	8.5	-3.4	-2.6	7.5	8.4
Loans and advances							
HK\$	-2.7	-5.2	2.8	-0.3	-1.9	-2.6	6.0
Foreign currency	-32.4	-25.1	-32.9	-33.6	-14.3	0.3	5.8
Total	-19.8	-14.9	-12.5	-11.2	-5.0	-2.0	5.9
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	5.5	-2.4	0.8	2.9	-0.7	-3.2	-2.4
Import-weighted	7.8	-3.9	0.1	3.5	-0.4	-3.0	-2.4
Export-weighted	3.3	-0.9	1.5	2.4	-1.0	-3.4	-2.5

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.

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)

	2005	2006	2007		2007		2008
				Q2	Q3	Q4	Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	348,248	387,918	454,363	504,970	483,484	454,363	457,628
M2 ^(a)	2,329,669	2,777,823	3,281,337	3,193,184	3,404,795	3,281,337	3,177,507
M3 ^(a)	2,345,838	2,795,688	3,300,820	3,211,318	3,424,319	3,300,820	3,197,955
Total money supply (\$Mn)							
M1	434,684	491,657	616,729	643,417	633,039	616,729	621,047
M2	4,379,057	5,054,475	6,106,667	5,593,867	5,944,734	6,106,667	5,984,628
M3	4,407,188	5,089,884	6,140,078	5,624,184	5,976,046	6,140,078	6,017,458
Deposit (\$Mn)							
HK\$	2,131,579	2,568,426	3,075,361	2,986,547	3,203,802	3,075,361	2,974,727
Foreign currency	1,936,322	2,188,993	2,793,856	2,342,046	2,490,305	2,793,856	2,787,220
Total	4,067,901	4,757,419	5,869,218	5,328,594	5,694,108	5,869,218	5,761,947
Loans and advances (\$Mn)							
HK\$	1,797,350	1,917,437	2,184,974	2,209,937	2,334,345	2,184,974	2,276,785
Foreign currency	514,637	550,392	776,971	648,896	707,994	776,971	893,173
Total	2,311,987	2,467,828	2,961,945	2,858,833	3,042,339	2,961,945	3,169,958
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	97.4	96.1	91.9	92.7	91.6	89.9	87.2
Import-weighted	98.1	96.8	92.5	93.5	92.2	90.4	87.3
Export-weighted	96.7	95.5	91.3	92.0	90.9	89.4	87.1
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	-15.6	11.4	17.1	42.9	31.7	17.1	9.3
M2 ^(a)	5.5	19.2	18.1	27.4	28.4	18.1	7.8
M3 ^(a)	5.7	19.2	18.1	27.3	28.3	18.1	7.8
Total money supply :							
M1	-10.3	13.1	25.4	43.8	34.6	25.4	16.2
M2	5.1	15.4	20.8	20.6	22.4	20.8	13.5
M3	5.2	15.5	20.6	20.5	22.3	20.6	13.5
Deposit							
HK\$	5.6	20.5	19.7	29.8	31.2	19.7	8.7
Foreign currency	4.8	13.0	27.6	15.4	18.1	27.6	24.6
Total	5.2	17.0	23.4	23.1	25.1	23.4	15.9
Loans and advances							
HK\$	7.8	6.7	14.0	18.7	20.8	14.0	10.0
Foreign currency	5.3	6.9	41.2	16.8	25.0	41.2	48.6
Total	7.2	6.7	20.0	18.3	21.8	20.0	18.7
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	-0.9	-1.3	-4.4	-3.6	-4.4	-5.3	-6.9
Import-weighted	-1.1	-1.3	-4.4	-3.4	-4.5	-5.4	-7.4
Export-weighted	-0.6	-1.2	-4.4	-3.8	-4.4	-5.1	-6.3

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

(b) Period average.

(c) 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.

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

	(%)								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		
						Q1	Q2	Q3	Q4
Wholesale trade	-5.0	4.7	5.6	7.9	10.4	7.3	9.3	9.0	15.5
Retail trade	-2.3	10.8	6.8	7.3	12.8	9.4	9.1	15.1	17.7
Import/export trade	6.5	12.4	10.6	10.2	8.0	7.5	8.9	8.2	7.6
Restaurants	-9.7	10.1	6.0	9.5	13.4	11.8	11.6	15.4	14.8
Hotels	-19.7	39.4	22.1	13.7	15.2	15.9	12.5	15.7	16.5
Transport ^(a)	0.5	22.8	17.8	10.6	10.8	5.9	10.2	11.7	14.8
Storage	-4.5	17.0	10.4	10.2	16.0	18.4	25.0	11.7	10.3
Communications	-2.4	1.0	5.1	0.8	10.0	5.8	8.0	9.7	16.2
Banking	*	4.4	10.9	19.5	38.3	27.3	32.4	47.7	45.0
Financing (other than banking)	17.3	33.2	14.3	47.9	68.8	35.0	54.3	99.6	82.9
Insurance	19.1	22.3	16.0	21.3	28.8	16.0	21.8	42.1	35.4
Real estate	6.2	13.5	16.0	-0.4	39.8	25.7	33.6	27.7	69.5
Business services	0.5	8.3	4.9	19.6	13.2	14.8	12.1	11.8	14.0
Film entertainment	2.3	3.7	5.0	1.7	6.0	4.5	4.6	9.1	5.9
Tourism, convention and exhibition services	-7.3	26.5	12.9	14.0	17.1	14.7	15.2	16.4	21.6
Computer and information services	5.7	20.5	23.4	9.7	6.7	3.7	6.7	1.6	15.5

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

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

Table 16 : Labour force characteristics

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2008</u>	
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	61.4	61.3	61.0	61.3	61.4	61.4	61.6	61.3	61.1
Seasonally adjusted unemployment rate	7.9	6.8	5.6	4.8	4.0	4.2	4.1	3.4	3.4
Underemployment rate	3.5	3.2	2.7	2.4	2.2	2.2	2.2	2.1	1.9
<u>('000)</u>									
Population of working age	5 652.4	5 733.1	5 801.4	5 845.9	5 930.1	5 928.6	5 935.1	5 957.6	5 974.9
Labour force	3 472.5	3 515.9	3 538.1	3 581.4	3 640.5	3 640.7	3 658.4	3 651.1	3 653.0
Persons employed	3 197.4	3 276.5	3 340.8	3 410.2	3 495.0	3 485.0	3 502.2	3 533.3	3 534.0
Persons unemployed	275.1	239.4	197.3	171.2	145.6	155.7	156.3	117.8	118.9
Persons underemployed	121.4	114.1	96.3	86.2	79.4	81.2	80.5	75.5	70.4
<u>(% change over a year earlier)</u>									
Population of working age	0.6	1.4	1.2	0.8	1.4	1.7	1.3	1.2	1.3
Labour force	*	1.3	0.6	1.2	1.7	2.7	1.3	1.0	1.1
Persons employed	-0.7	2.5	2.0	2.1	2.5	3.4	2.0	2.0	2.2
Persons unemployed	8.4	-13.0	-17.6	-13.2	-15.0	-11.7	-12.0	-23.3	-22.0
Persons underemployed	16.9	-6.0	-15.6	-10.5	-7.8	-12.7	-4.1	-13.7	-12.6

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

Table 17 : Employment in selected major economic sectors

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>					
						<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>		
Major economic sector	(% change)					(% change over a year earlier)					No.
Manufacturing	-10.3	-3.0	-2.0	-2.5	-2.2	-1.7	-2.3	-2.6	-2.0	156 035	
<i>of which :</i>											
Printing, publishing and allied industries	-5.2	-1.2	-3.1	2.0	0.5	2.3	1.6	-1.0	-0.6	38 563	
Food, manufacturing	-2.6	3.9	5.4	5.2	5.3	10.3	8.8	1.2	1.5	22 777	
Wearing apparel, except footwear	-11.6	-0.8	-4.7	-10.5	-14.1	-16.5	-17.6	-12.4	-9.1	16 065	
Textiles	-16.8	-11.1	0.5	-4.4	-4.8	1.8	-4.8	-7.0	-9.2	17 037	
Electronics	-18.9	-2.3	-4.7	-12.9	-6.1	-14.6	-7.1	-1.6	-0.2	11 968	
Transport equipment, manufacturing	-0.4	-3.3	8.6	3.6	5.7	10.2	5.6	3.2	4.0	10 218	
Wholesale, retail, import/export trades, restaurants and hotels	-3.0	2.9	2.6	1.9	1.7	1.9	1.6	1.7	1.5	1 063 865	
<i>of which :</i>											
Wholesale, retail and import/export trades	-1.9	2.1	2.3	1.1	1.1	1.2	1.2	0.9	1.1	825 012	
Restaurants and hotels	-7.3	6.0	3.6	5.1	3.8	4.4	3.0	4.9	3.1	238 853	
Transport, storage and communications	-4.4	3.7	2.6	1.1	2.2	1.1	3.1	2.2	2.5	191 592	
<i>of which :</i>											
Land transport	0.5	-2.2	-1.5	0.3	0.4	0.2	0.8	0.9	-0.2	37 875	
Water transport	-3.6	0.1	-0.3	-4.4	-1.0	-3.7	-0.2	-1.8	1.6	26 564	
Air transport	-0.4	5.2	6.2	5.4	4.5	4.0	4.5	4.5	4.9	30 350	
Services incidental to transport	-4.0	11.3	8.0	3.1	4.2	2.8	5.7	4.2	4.0	61 036	
Financing, insurance, real estate and business services	-1.9	3.6	4.4	5.0	5.5	5.1	5.7	6.0	5.2	517 277	
<i>of which :</i>											
Financial institutions	-6.5	1.1	4.7	5.9	8.6	7.9	9.1	9.3	8.0	149 738	
Insurance	1.2	2.4	5.9	-1.2	1.5	-0.7	1.6	1.8	3.2	30 023	
Real estate	0.7	2.2	6.8	5.3	4.3	2.0	4.5	5.2	5.4	104 337	
Business services except machinery and equipment rental and leasing	-0.2	6.0	2.9	5.3	4.7	5.5	4.7	4.8	3.7	232 344	
Community, social and personal services	2.9	3.2	4.5	3.6	2.6	2.9	3.6	2.2	1.8	469 050	
<i>of which :</i>											
Sanitary and similar services	6.0	1.5	2.4	2.5	1.0	3.1	7.0	-2.1	-3.9	57 996	
Education services	2.9	1.8	1.8	4.9	3.0	3.7	4.6	2.5	1.3	143 616	
Medical, dental and other health services	-0.3	2.5	1.6	4.0	5.6	5.9	5.5	4.8	6.1	85 676	
Welfare institutions	13.9	2.1	-0.4	1.5	1.3	1.3	0.7	2.4	0.9	54 129	
Civil Service^(a)	-2.4	-3.8	-2.7	-1.3	-0.4	-0.8	-0.5	-0.2	*	153 899	

Notes : (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.

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		
						Mar	Jun	Sep	Dec
<u>(number)</u>									
Building sites									
Private sector	33 892	33 619	31 556	30 993	29 240	28 123	30 100	29 016	29 722
Public sector ^(a)	16 183	13 325	10 135	7 643	7 767	8 394	7 567	7 117	7 990
Sub-total	50 074	46 944	41 690	38 636	37 007	36 517	37 667	36 133	37 712
Civil engineering sites									
Private sector	2 755	2 564	2 198	1 569	1 674	1 674	1 766	1 395	1 860
Public sector ^(a)	17 466	16 772	15 378	12 661	11 504	12 175	11 665	11 645	10 531
Sub-total	20 221	19 336	17 576	14 230	13 178	13 849	13 431	13 040	12 391
Total	70 295	66 280	59 266	52 865	50 185	50 366	51 098	49 173	50 103
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-15.3	-0.8	-6.1	-1.8	-5.7	-12.5	-2.9	-7.2	0.6
Public sector ^(a)	38.0	-17.7	-23.9	-24.6	1.6	1.0	-3.3	-6.2	16.6
Sub-total	-3.2	-6.3	-11.2	-7.3	-4.2	-9.8	-3.0	-7.0	3.6
Civil engineering sites									
Private sector	-4.0	-6.9	-14.3	-28.6	6.7	5.0	3.5	-9.4	29.7
Public sector ^(a)	-6.2	-4.0	-8.3	-17.7	-9.1	-5.1	-0.7	-9.7	-20.0
Sub-total	-5.9	-4.4	-9.1	-19.0	-7.4	-4.0	-0.2	-9.7	-15.1
Total	-4.0	-5.7	-10.6	-10.8	-5.1	-8.3	-2.2	-7.7	-1.8

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

Table 19 : Average labour earnings by major economic sector

	(\$)								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		
Major economic sector						Q1	Q2	Q3	Q4
Wholesale, retail and import/export trades	12,300 (-1.5) <1.1>	12,300 (0.4) <0.9>	13,200 (7.3) <6.3>	13,800 (4.1) <2.0>	14,100 (2.4) <0.4>	15,600 (0.3) <-1.4>	12,800 (2.5) <1.3>	13,500 (3.5) <1.9>	14,600 (3.5) <0.1>
Restaurants and hotels	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,200 (1.9) <0.9>	8,500 (2.6) <0.6>	8,800 (3.8) <1.8>	9,400 (4.1) <2.3>	8,400 (4.8) <3.5>	8,500 (3.7) <2.2>	8,900 (2.8) <-0.6>
Transport, storage and communications	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,200 (5.0) <4.1>	19,600 (2.1) <0.1>	20,300 (3.3) <1.3>	20,600 (4.1) <2.4>	19,100 (1.9) <0.7>	19,200 (3.9) <2.3>	22,100 (3.4) <*>
Financing, insurance, real estate and business services	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	19,100 (2.8) <1.8>	20,100 (5.6) <3.6>	21,200 (5.5) <3.5>	23,500 (5.9) <4.2>	19,800 (4.1) <2.9>	19,100 (5.4) <3.8>	22,600 (6.6) <3.1>
Community, social and personal services	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,000 (-2.2) <-3.1>	17,900 (-0.1) <-2.0>	18,400 (2.4) <0.4>	17,900 (0.7) <-1.0>	17,800 (-0.1) <-1.3>	19,000 (4.6) <3.0>	18,900 (4.4) <0.9>
Manufacturing	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	11,600 (1.8) <0.9>	11,700 (1.4) <-0.6>	12,100 (2.9) <-0.1>	13,100 (1.3) <-0.4>	11,700 (3.1) <1.9>	11,300 (3.8) <2.2>	12,100 (3.5) <*>
All sectors surveyed	15,000 (-1.8) <0.8>	14,900 (-0.7) <-0.2>	15,400 (3.5) <2.6>	15,800 (2.4) <0.4>	16,400 (4.0) <1.9>	17,500 (2.4) <0.7>	15,300 (2.9) <1.7>	15,600 (4.6) <3.0>	17,300 (5.9) <2.4>

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-scaled using the 2004/2005-based Composite CPI.

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

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

(%)

Selected major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	Mar	<u>2007</u> Jun	Sep	Dec
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	-1.7	-1.6	1.6	1.1	2.3	1.7	2.2	2.0	3.2
Restaurants and hotels	-4.1	-2.2	*	1.0	1.4	1.4	2.2	1.0	0.9
Transport services	-1.9	-1.0	1.0	-0.6	1.6	0.3	1.6	2.0	2.6
Financing, insurance, real estate and business services	-0.1	-0.5	*	3.2	3.2	3.1	3.5	3.0	3.2
Personal services	-3.1	1.3	-1.5	2.5	5.5	5.7	6.2	6.5	3.8
Manufacturing	-2.7	-1.3	1.2	2.9	2.0	1.6	2.6	1.6	2.0
All sectors surveyed	-1.9	-1.1	0.8	1.5	2.4	2.0	2.6	2.3	2.7
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	0.4	-1.7	0.4	-0.6	0.4	-0.5	1.4	1.0	-0.2
Restaurants and hotels	-2.1	-2.3	-1.3	-0.8	-0.4	-0.7	1.4	*	-2.4
Transport services	0.1	-1.0	-0.2	-2.3	-0.2	-1.8	0.8	1.0	-0.8
Financing, insurance, real estate and business services	2.0	-0.6	-1.2	1.5	1.3	0.9	2.7	2.0	-0.2
Personal services	-1.1	1.3	-2.7	0.7	3.6	3.4	5.4	5.4	0.4
Manufacturing	-0.7	-1.4	-0.1	1.1	0.1	-0.5	1.8	0.6	-1.4
All sectors surveyed	0.2	-1.2	-0.4	-0.3	0.5	-0.2	1.8	1.3	-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-scaled using the 2004/2005-based CPI(A).

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

Table 21 : Rates of change in prices

(%)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
GDP deflator	0.8	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1
Domestic demand deflator	-1.2	-3.1	-2.6	-2.3	-4.9	-4.2	0.1	1.2
Consumer Price Indices ^(a) :								
Composite CPI	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4	1.0
CPI(A)	2.6	-3.3	-3.0	-1.7	-3.2	-2.1	*	1.1
CPI(B)	2.8	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5	1.0
CPI(C)	3.2	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9	0.8
Unit Value Indices :								
Domestic exports	-2.8	-2.4	-1.0	-4.7	-3.3	0.2	1.5	2.2
Re-exports	-3.9	-2.8	-0.1	-2.0	-2.7	-1.5	1.1	1.2
Total exports of goods	-3.8	-2.7	-0.2	-2.3	-2.7	-1.4	1.2	1.3
Imports of goods	-4.9	-2.0	0.8	-3.1	-3.9	-0.4	2.9	2.7
Terms of Trade Index	1.2	-0.7	-1.0	0.9	1.2	-1.0	-1.7	-1.4
Producer Price Index for all manufacturing industries	-1.8	-1.6	0.2	-1.6	-2.7	-0.3	2.2	0.8
Construction Labour and Material Cost Index	7.5	1.4	1.8	0.3	-0.3	-1.0	-1.2	-2.1
Tender Price Indices :								
Public sector building projects	9.1	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5	1.4
Public housing projects	9.0	-3.3	-11.9	-15.1	-9.6	-10.0	3.5	7.7

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 within $\pm 0.05\%$.

N.A. Not available.

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

	(%)							
	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2008</u>		<u>Average annual rate of change:</u>	
			Q2	Q3	Q4	Q1	10 years 1997 to 2007	5 years 2002 to 2007
GDP deflator	-0.3 [#]	3.0 [#]	2.0 [#]	3.2 [#]	4.9 [#]	2.3 [#]	-2.0 [#]	-1.4 [#]
Domestic demand deflator	1.9 [#]	2.1 [#]	1.3 [#]	1.6 [#]	4.5 [#]	4.1 [#]	-1.5 [#]	-0.2 [#]
Consumer Price Indices ^(a) :								
Composite CPI	2.0	2.0	1.3	1.6	3.5	4.6	-0.8	0.4
CPI(A)	1.7	1.3	0.7	0.9	3.1	5.4	-0.7	0.4
CPI(B)	2.1	2.2	1.3	1.7	3.6	4.3	-0.9	0.4
CPI(C)	2.2	2.7	1.8	2.3	3.7	3.9	-0.8	0.4
Unit Value Indices :								
Domestic exports	-2.1	0.8	0.6	0.8	1.0	3.3	-1.2	0.5
Re-exports	1.1	2.4	2.1	2.1	2.8	2.6	-0.7	0.9
Total exports of goods	1.0	2.3	2.0	2.0	2.7	2.6	-0.8	0.8
Imports of goods	2.1	2.3	1.9	1.9	2.8	3.6	-0.4	1.9
Terms of Trade Index	-1.1	0.1	0.1	0.2	-0.1	-0.9	-0.4	-1.1
Producer Price Index for all manufacturing industries	2.3	3.0	2.6	2.4	4.2	N.A.	*	1.6
Construction Labour and Material Cost Index	0.1	1.0	2.2	-0.7	-1.6	N.A.	0.7	-0.7
Tender Price Indices :								
Public sector building projects	5.0	20.1	17.7	20.6	26.5	N.A.	-0.8	4.7
Public housing projects	11.2	19.7	18.4	16.6	22.2	N.A.	-0.5	6.0

Table 22 : Rates of change in Composite Consumer Price Index

(%)								
	Weight	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
All items	100.0	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4
Food	26.94	1.9	-1.8	-2.2	-0.8	-2.1	-1.5	1.0
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>
Housing ^(a)	29.17	4.7	-5.1	-8.2	-3.1	-5.7	-4.8	-5.2
<i>Private housing rent</i>	<i>(23.93)</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>
Electricity, gas and water	3.59	1.4	-0.4	3.6	-1.9	-7.0	1.4	11.4
Alcoholic drinks and tobacco	0.87	6.6	1.2	-0.9	3.3	2.4	0.1	*
Clothing and footwear	3.91	-0.8	-20.6	-10.1	-4.6	0.7	-2.7	6.4
Durable goods	5.50	0.2	-6.3	-4.6	-7.1	-6.3	-6.4	-2.2
Miscellaneous goods	4.78	2.6	-0.7	0.9	1.3	1.7	2.3	3.6
Transport	9.09	3.9	0.5	1.0	0.4	-0.6	-0.4	0.4
Miscellaneous services	16.15	2.7	-1.3	-0.2	0.5	-2.3	-3.2	-0.2

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 within $\pm 0.05\%$.

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

		(%)								
	Weight	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>			<u>2008</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 1997 to 2007	5 years 2002 to 2007
All items	100.0	1.0	2.0	2.0	1.3	1.6	3.5	4.6	-0.8	0.4
Food	26.94	1.8	1.7	4.3	2.8	4.8	6.7	10.0	0.2	1.4
<i>Meals bought away from</i>	<i>(16.86)</i>	<i>0.9</i>	<i>1.3</i>	<i>2.5</i>	<i>2.0</i>	<i>2.6</i>	<i>3.7</i>	<i>5.4</i>	<i>0.2</i>	<i>0.7</i>
<i>Food, excluding meals bought</i>	<i>(10.08)</i>	<i>3.2</i>	<i>2.5</i>	<i>7.1</i>	<i>4.1</i>	<i>8.2</i>	<i>11.6</i>	<i>17.4</i>	<i>0.3</i>	<i>2.7</i>
<i>away from home</i>										
Housing ^(a)	29.17	0.1	4.7	2.0	1.0	0.7	4.2	3.9	-2.2	-0.7
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-0.1</i>	<i>5.6</i>	<i>4.0</i>	<i>2.0</i>	<i>2.3</i>	<i>5.9</i>	<i>3.5</i>	<i>-2.5</i>	<i>-0.8</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>0.2</i>	<i>0.1</i>	<i>-17.7</i>	<i>-10.5</i>	<i>-17.8</i>	<i>-10.8</i>	<i>14.4</i>	<i>-2.0</i>	<i>-1.6</i>
Electricity, gas and water	3.59	4.1	2.1	-0.7	-2.2	-2.7	3.4	7.2	1.3	3.6
Alcoholic drinks and tobacco	0.87	0.4	-3.7	-1.2	-0.1	-1.1	0.5	0.5	0.8	-0.9
Clothing and footwear	3.91	2.0	1.0	4.1	3.9	3.7	2.0	1.6	-2.8	2.1
Durable goods	5.50	-3.2	-6.4	-4.7	-4.6	-4.2	-4.0	-3.5	-4.7	-4.6
Miscellaneous goods	4.78	1.5	1.7	2.5	1.8	2.1	3.4	4.6	1.7	2.3
Transport	9.09	1.4	0.7	-0.1	-0.5	-0.1	0.7	1.3	0.7	0.4
Miscellaneous services	16.15	1.0	1.9	1.7	2.2	1.3	1.0	1.3	*	0.2

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

	(%)						
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Private consumption expenditure	1.1	-5.0	-3.3	-1.1	-3.6	-2.5	-0.3
Government consumption expenditure	2.9	-0.2	-1.8	1.1	-0.5	-2.6	-2.9
Gross domestic fixed capital formation	-6.9	0.5	-1.0	-6.6	-9.9	-9.4	2.6
Total exports of goods	-3.0	-3.4	-0.3	-2.6	-2.9	-1.8	0.9
Imports of goods	-4.8	-2.4	0.7	-3.5	-4.2	-0.9	2.9
Exports of services	-4.8	-3.2	0.5	-4.3	-2.4	-3.1	0.5
Imports of services	-4.8	-1.3	1.7	-1.1	0.3	2.7	4.1
Gross Domestic Product	0.8	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5
Total final demand	-2.4	-3.3	-1.1	-2.7	-3.6	-2.8	0.6
Domestic demand	-1.2	-3.1	-2.6	-2.3	-4.9	-4.2	0.1

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

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

	(%)								
	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>			<u>2008</u>	Average annual rate of change:	
				Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 1997 to 2007 [#]	5 years 2002 to 2007 [#]
Private consumption expenditure	1.8	1.3	3.6	2.2	3.7	6.4	4.1	-0.8	0.8
Government consumption expenditure	-1.4	1.2	3.3	3.9	3.9	4.1	4.1	-0.1	-0.5
Gross domestic fixed capital formation	1.0	4.2	-2.1	-3.0	-5.1	1.4	4.2	-2.9	-0.9
Total exports of goods	0.6	0.3	2.2	1.7	1.9	2.7	2.3	-1.0	0.4
Imports of goods	1.9	2.1	1.7	1.3	1.1	2.5	3.4	-0.7	1.5
Exports of services	3.3	3.6	2.5	1.9	2.3	3.3	3.5	-0.8	1.3
Imports of services	1.0	0.8	3.0	2.6	3.0	3.6	4.2	0.6	2.3
Gross Domestic Product	-0.1	-0.3	3.0	2.0	3.2	4.9	2.3	-2.0	-1.5
Total final demand	1.2	1.2	2.2	1.6	1.9	3.4	3.0	-1.1	0.5
Domestic demand	1.2	1.9	2.1	1.3	1.6	4.5	4.1	-1.3	0.2

