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First Quarter Economic Report 2007

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2007

ECONOMIC ANALYSIS DIVISION
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy sustained its above-trend growth in the first quarter of 2007, with GDP rising by 5.6% in real terms. This followed a strong 6.9% growth in 2006.*

- *Externally, merchandise exports continued to grow notably in the first quarter as a whole, even against the exceptionally high base a year earlier. Trade flows involving the Mainland remained vibrant, largely offsetting the weakness in the US market. Exports of services remained strong, led by the surge in exports of financial and business services and the further expansion of both offshore trade and inbound tourism.*

- *Domestically, consumption spending maintained strong momentum, as consumer sentiment stayed upbeat on account of rising income, improving job market and generally buoyant stock market activity. Meanwhile, overall investment spending rose further, though moderated after the distinct surge in recent quarters. Business sentiment still held up well generally, as suggested by the results of the latest Quarterly Business Tendency Survey.*

- *The economic upturn continued to give rise to a stronger demand for labour. The seasonally adjusted unemployment rate edged down further to 4.3% in the first quarter, the lowest in more than 8 1/2 years. Wages and earnings rose faster and job openings increased further in many sectors at end-2006.*

- *Among the various economic sectors, financial services showed the fastest growth in value added in 2006, reflecting the dynamism of Hong Kong as an international financial centre. Import and export trade, communications, and restaurants and hotels were also the star performers.*

- *Consumer price inflation remained benign in the first quarter. Although the underlying inflationary pressures continued to build up modestly due to the weakening of the US dollar and the renminbi appreciation, the waiving of public housing rentals for February helped to keep the headline inflation down.*

Overall situation

1.1 The Hong Kong economy remained vibrant on entering 2007. External trade in goods and services grew notably further, while consumption demand continued to display strength. In the first quarter of 2007, the *Gross Domestic Product (GDP)*[1] rose solidly by 5.6% in real terms over a year earlier. This followed a strong 6.9% growth for 2006 as a whole (revised from the earlier estimate of 6.8%), and also signified the 14th consecutive quarter of distinctly above-trend growth. Meanwhile, consumer price inflation stayed moderate. Thus the Hong Kong economy continued to enjoy a favourable high-growth-low-inflation environment. Against this background, the labour market conditions improved slightly further in the first quarter. On a seasonally adjusted quarter-to-quarter comparison[2], GDP also expanded further, for the 15th straight quarter, by 0.5% in real terms in the first quarter of 2007.

Diagram 1.1 : Economy sustained above-trend growth

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

	2005#	2006#	2006				2007
			Q1#	Q2#	Q3#	Q4#	Q1+
Change in real terms of GDP and its main expenditure components (%)							
Private consumption expenditure	3.3	5.2	5.1 (1.9)	5.8 (1.4)	4.6 (0.9)	5.4 (1.0)	5.6 (2.2)
Government consumption expenditure	-3.1	0.2	1.1 (2.9)	-1.5 (-2.3)	-1.1 (0.3)	2.3 (1.4)	2.3 (2.9)
Gross domestic fixed capital formation	4.6	7.9	7.3 (N.A)	4.5 (N.A)	10.3 (N.A)	9.4 (N.A)	3.9 (N.A)
of which :							
Building and construction	-8.4	-7.3	-11.4	-4.1	-10.1	-2.8	-5.4
Machinery, equipment and computer software	12.9	17.2	22.4	11.9	20.4	14.9	6.8
Total exports of goods	11.2	10.2	14.4 (3.2)	6.4 (0.1)	8.9 (4.1)	11.7 (3.3)	8.2 (1.4)
Imports of goods	8.6	10.0	14.0 (2.7)	6.7 (-0.2)	8.5 (4.2)	11.4 (3.8)	8.6 (1.0)
Exports of services	11.3	8.9	8.5 (0.6)	8.9 (2.6)	8.9 (3.2)	9.0 (2.5)	8.4 (*)
Imports of services	7.4	6.4	5.0 (-0.3)	9.1 (5.4)	5.2 (-0.9)	6.5 (2.0)	3.9 (-2.4)
Gross Domestic Product	**7.5**	**6.9**	**8.1** **(2.0)**	**5.6** **(0.9)**	**6.8** **(2.6)**	**7.3** **(1.5)**	**5.6** **(0.5)**
Change in the main price indicators (%)							
GDP deflator	**-0.4**	**-0.4**	**-0.1** **(-0.2)**	**-0.2** **(-0.1)**	**-0.4** **(*)**	**-0.4** **(*)**	**0.9** **(1.1)**
Composite Consumer Price Index	**1.0**	**2.0**	**1.6** **(0.4)**	**2.0** **(0.7)**	**2.3** **(0.6)**	**2.1** **(0.4)**	**1.7** **(*)**
Change in **nominal GDP** *(%)*	**7.1**	**6.6**	**8.0**	**5.3**	**6.3**	**6.9**	**6.6**

Notes : (#) Revised figures.

(+) Preliminary figures.

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

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

(*) Change of less than 0.05%.

1.2 Although the US economy showed some signs of weakness, the rest of the global economy continued to display strength in the first quarter of 2007, thus providing a largely supportive external environment for Hong Kong's trade in goods and services. The Mainland economy in particular remained highly robust, supported by thriving trade flows and strong domestic demand. The European and other Asian economies also fared well. All these developments rendered solid support to Hong Kong's external sector and hence overall economic growth. *Total exports of goods* registered noticeable growth, at 8.2% year-on-year in real terms in first quarter, even when set against a very high base of comparison in the first quarter of 2006, when export growth was an exceptional high of 14.4%. On trade in services, offshore trade and exports of transportation services continued to surge, mainly benefiting from the Mainland's buoyant trade flows. Also, on the back of a notable growth in visitor arrivals, there was a further expansion of exports of travel services. As a result, *exports of services* continued to grow briskly, by 8.4% in real terms in the first quarter.

1.3 Domestic demand showed a somewhat mixed performance in the quarter. With rising labour income and the wealth effect stemming from the buoyant performance of the stock market during most of the first quarter, *private consumption expenditure (PCE)* leaped by 5.6% in real terms in the first quarter over a year earlier, extending the strong growth momentum in the latter part of 2006. *Government consumption expenditure* also continued to register a slight increase in the first quarter.

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

			Of which :						
		Total consumer spending in the domestic market[(a)]	Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	**Private consumption expenditure[(b)]**
2006	Annual	5.3	4.3	5.3	3.5	6.2	4.1	5.4	5.2
	Q1	5.6	5.5	4.1	3.4	6.7	2.1	8.3	5.1
	Q2	5.4	4.8	4.4	3.3	6.5	9.4	4.8	5.8
	Q3	4.8	2.7	6.1	3.8	5.2	1.8	3.3	4.6
	Q4	5.5	4.4	6.3	3.5	6.2	3.8	5.3	5.4
2007	Q1	6.1	2.4	8.4	7.5	5.8	1.8	6.8	5.6

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

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

Diagram 1.2 : Private consumption expenditure remained strong in the first quarter

Diagram 1.3 : Overall investment grew further after surging markedly over the past year

1.4 Overall investment spending in terms of *gross domestic fixed capital formation* grew solidly further by 3.9% in real terms in the first quarter over a year earlier. The somewhat more moderate growth in overall investment in the first quarter was caused by a less rapid increase in expenditure on machinery and equipment. It has to be noted, however, that investment expenditures can be volatile at times, especially after a rather long period of continuous upsurge. The results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department actually indicated that large business establishments were still optimistic on business outlook. As to building and construction activity, the public sector segment continued to decline in the first quarter due to the lack of large-scale projects, whereas activity in the private sector segment held broadly stable.

1.5 *Consumer price inflation* averaged at only 1.7% in the first quarter of 2007, due to the waiving of public housing rentals in February. Excluding the influence of this one-off measure, the underlying inflationary pressures actually crept up, yet only slightly, mainly reflecting the feed-through of higher imported inflation due to the depreciation of the Hong Kong dollar along with the US dollar, as well as the gradual appreciation of the renminbi. As to the *GDP deflator*, it reverted to a small increase resulting from an improvement in the terms of trade.

Diagram 1.4 : Inflation remained benign

GDP by economic activity

1.6 Hong Kong's overall economic growth has been propelled by the continued strong performance of the services sector. Latest available figures for 2006 as a whole indicate that in the value added of the services sector as a whole grew robustly by 8.7% in real terms. Reflecting the buoyancy of financial market activities, financing and insurance showed the fastest growth among the constituent service sectors in 2006. This was followed by communications and import and export trade. The strengthening consumption demand and further expansion of inbound tourism also led to a vibrant growth in the value added of restaurants and hotels. On the other hand, the manufacturing sector only showed a small increase in value added and the construction sector continued to shrink.

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

	2005#	2006#	2006# Q1	2006# Q2	2006# Q3	2006# Q4
Manufacturing	2.1	2.2	7.0	5.3	-0.6	-1.4
Construction	-9.2	-7.9	-12.6	-4.6	-10.9	-3.1
Services[(b)]	8.0	8.7	9.3	7.6	8.1	9.6
Of which:						
Wholesale, retail and import/export trades, restaurants and hotels	14.4	10.0	12.5	7.1	10.4	10.0
Import and export trade	16.1	10.6	13.8	7.3	10.9	10.7
Wholesale and retail trade	7.4	5.0	3.8	3.5	7.0	5.6
Restaurants and hotels	6.0	9.0	10.9	9.1	8.5	7.3
Transport, storage and communications	8.0	8.8	11.2	6.4	8.4	9.4
Transport and storage	6.8	8.2	10.6	5.1	7.5	9.4
Communications	11.5	10.6	12.7	9.9	10.7	9.2
Financing, insurance, real estate and business services	8.7	14.5	13.3	15.2	11.8	17.4
Financial services	11.9	21.1	20.6	22.7	16.5	24.3
Real estate and business services	3.2	2.4	0.9	0.5	3.6	4.3
Community, social and personal services	0.2	2.2	1.4	1.5	2.5	3.2

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

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

(#) Revised figures.

Some highlights of economic policy

1.7 The Government will continue to uphold the three guiding principles of economic policy: market leads and government facilitates; managing public finances prudently; and maintaining a low and simple tax regime. Amidst the competitive pressures from globalisation, it is critical for Hong Kong to consolidate its strengths to stay competitive and promote developments to enable the economy to continuously move towards high value-added and knowledge-based activities. Specifically, the Government will step up the efforts in pursuing the following:

- furthering economic integration with the Mainland, which is pivotal to the future economic development of Hong Kong;
- developing Hong Kong into a world-class international financial centre for the Mainland. As the Mainland has a greater demand for quality financial services, Hong Kong can contribute to raising the efficiency of financial intermediation in the Mainland and facilitating reform of the Mainland's financial system;
- promoting free trade and enhancing the competitiveness of the logistics industry. This will include the construction of an electronic advance cargo information system and the implementation of the On-Board Trucker Information System on a trial basis;
- consolidating Hong Kong's position as an aviation hub, including the replacement of the air traffic control system;
- promoting tourism and enhancing the cosmopolitan tourism profile further. The government will invite tenders for a new cruise terminal to be situated in Kai Tak. The Consumer Council will, in conjunction with the tourism industry, provide additional shopping information and assistance to Mainland visitors to protect consumer rights;
- improving Hong Kong's business environment by pushing ahead with the work of removing barriers and promoting fair competition and environmental protection; and
- developing a knowledge-based economy through pooling talent and promoting research in applied technology. WiFi networks will also be provided in government venues for free use. Also, to support the creative sector, a new fund will be established to facilitate the development of the film industry.

1.8 On the fiscal front, the Government will continue to observe the principles of prudent management of public finances, and strive to strike a balance between promoting economic development, improving people's livelihood and supporting the long-term sustainable development of Hong Kong. As a just and caring society, it is important to help the disadvantaged. The core principle of Hong Kong's poverty-alleviation policy is to help the disadvantaged move from welfare to self-reliance through promoting employment. The Budget Speech announced specific measures to help the disadvantaged, which include, among other things, introducing a one-year pilot Transport Support Scheme to encourage unemployed and low-income people in financial difficulties who live in remote areas to seek jobs and work across districts, providing transport allowance for participants in the Youth Pre-Employment Training Programme ad the Youth Work Experience and Training Programme, supporting social enterprises, setting up a child development fund, providing additional training and care services for the disadvantaged, and strengthening elderly support.

1.9 In March, the Government released a report on the public consultation exercise on Hong Kong's competition policy conducted between November 2006 and February 2007, which indicated that there was support from the majority of respondents for the introduction of a cross-sector competition law in Hong Kong. In taking forward the legislative process, the Government will continue to engage the public, particularly the SMEs, and address concerns raised during the consultation period as far as possible. The Government is committed to drawing up a regulatory framework that suits Hong Kong and provides an environment for companies, big or small, to compete fairly.

Notes :

(1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.

(2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government

consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *Merchandise exports, though with some ups and downs in between the months, registered a further notable growth of around 8% in the first quarter of 2007. Export growth for the quarter as a whole was actually quite impressive when seen against the exceptionally high base a year ago, thanks to a vibrant Mainland economy. Yet the uncertain situation in the US, possible increased volatility of the global financial markets, and further macro tightening in the Mainland economy down the road are now presenting increasing downsides to export outlook in the quarters ahead.*

- *Exports to the Mainland continued to show double-digit growth in the first quarter, thanks to the strength of the domestic economy and also vibrant trade flows. Exports to the European Union showed only modest growth. Despite the improving domestic demand there, the scope for a sharper pick-up was somewhat restrained by reduced intake of raw materials amidst a weakening export sector. Exports to the US were still lackluster, owing to its weak import demand. Exports to other Asian economies showed mixed performance, with those to Thailand, Malaysia and Indonesia outperforming others.*

- *Exports of services continued to register notable growth in the first quarter, underpinned by the continued rapid growth in exports of financial services on the back of active financial markets. The strong trade flows in the Mainland continued to render support to exports of trade-related services, particularly offshore trade. Exports of travel services also fared well.*

- *The HKSAR Government will continue to engage in trade liberalisation and trade promotion. Dialogues with the Mainland side, business associations and professional bodies were initiated to discuss further development of CEPA.*

Visible trade

Total exports of goods

2.1 Merchandise exports held up well on entering 2007, with *total exports of goods* (comprising re-exports and domestic exports) growing further by 7.8% in real terms[1] in the first quarter of 2007, after an 11.6% increase in the fourth quarter of 2006. After registering strong growth in the first two months of 2007, export growth eased back somewhat in March, partly against a high base last year, and also possibly affected by the distinct slow-down in the Mainland's exports in that month.

2.2 Global economic environment remained largely supportive in the first quarter of 2007. Nevertheless, after registering very robust growth over the past few years, the global economy is likely to settle at slightly less rapid growth in 2007. The IMF forecast the world economy to attain a 4.9% growth in 2007, representing still very robust growth and only slightly down from that of 5.4% in 2006. In the first quarter of 2007, the US economy slowed down sharply further, largely on account of continued fall-off in residential construction and also the weakness of the export sector. Yet the slower housing market activities since early 2006 and the recent turmoil in the sub-prime mortgage market had not spilled over onto the other segments of the US economy in any significant way. Nor have the negative developments in the US derailed or curtailed the growth momentum in other parts of the world. The economies in EU and Japan expanded solidly further, and the Mainland economy also continued to display strength. On top of the above, the continuous weakness of the US dollar should also aid the price competitiveness of Hong Kong's exports.

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

	Total exports of goods				Re-exports				Domestic exports			
	In value terms	In real terms		Change in prices	In value terms	In real terms		Change in prices	In value terms	In real terms		Change in prices
2006 Annual	9.4	10.2		1.0	10.0	10.8		1.1	-1.1	1.1		-2.1
Q1	12.1	14.6	(3.4)	-0.3	10.7	13.2	(3.9)	-0.2	38.7	42.3	(-3.1)	-2.9
Q2	5.4	6.3	(-0.2)	0.6	4.6	5.3	(0.2)	0.9	19.9	23.9	(-6.7)	-3.9
Q3	8.4	8.9	(4.1)	1.4	9.4	9.8	(4.9)	1.5	-6.1	-4.2	(-8.0)	-1.3
Q4	11.9	11.6	(3.3)	1.9	15.3	14.9	(4.6)	2.0	-31.8	-30.9	(-19.9)	-0.8
2007 Q1	9.0	7.8	(1.4)	2.7	11.8	10.6	(1.6)	2.8	-33.4	-33.5	(-1.1)	0.4

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

2.3 The notable growth in merchandise exports in the first quarter continued to be driven by *re-exports*[2], which rose by 10.6% in real terms in the first quarter of 2007. In contrast, *domestic exports* remained on a decline, down 33.5% in real terms, partly affected by a high base of comparison but more a result of secular downtrend. The share of domestic exports in total exports dwindled further to 3.8% in the first quarter of 2007, from 4.4% in the preceding quarter.

Diagram 2.1 : Merchandise exports held up well on entering 2007

(year-on-year rate of change)

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

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

(#) Import demand figure for Q1 2007 refers to Jan-Feb 2007 only.

Diagram 2.2 : Re-exports remained the growth driver, registering another quarter of double-digit growth

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

Total exports of goods in the first quarter of 2007 : $585.5 billion

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

		Mainland of China	United States	European Union	Japan	Republic of Korea	Taiwan	Singapore
2006	Annual	16.7	1.7	4.7	2.4	8.8	4.3	4.5
	Q1	23.1	3.5	9.5	8.2	20.9	10.4	2.3
	Q2	11.4	-2.4	4.1	3.0	12.0	-5.3	-5.4
	Q3	15.8	-1.1	1.9	0.6	10.7	8.3	12.8
	Q4	17.5	7.0	4.1	-1.4	-5.4	4.2	8.3
2007	Q1	13.1	0.7	2.7	0.6	-8.9	-1.4	0.7

2.4 Analysed by major markets, exports to the Mainland continued to surge in the first quarter of 2007, with double-digit growth registered for the eighth quarter in a row. The Mainland's strong trade flows, particularly in the first two months of the year, continued to render support, and so did its thriving domestic demand. The gradual appreciation of renminbi appreciation so far had little discernible impact on the Mainland's exports, but the dampening effect of the Mainland's claw-back of export tax rebate seemed to begin to surface in March. Exports to the European Union in overall terms grew modestly in the first quarter, but there were substantial divergences in performance amongst different end-use categories. Exports of consumer and capital goods, which together constitute the bulk of Hong Kong's exports to this market, actually improved, thanks to the steadily reviving domestic demand there. But the overall growth performance was held back somewhat by a sharp slow-down in EU's raw material intake, conceivably as EU's export outlook weakened with a stronger euro. Exports to the US were still flat, with the weakness concentrated in intake of capital goods, consistent with the recent fall-off in US business investment. Yet, despite the much weaker US import demand, exports of consumer goods to this market actually still had some growth, particularly for textile and clothing products. As for the Japan market, performance continued to be lackluster, due to the drag from a weak yen and also the softness in consumption.

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

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

Note : (*) Figure for Jan-Feb 2007 only.

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

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

2.5 As to exports to other East Asian markets, the performance was rather mixed. Exports to Taiwan and Singapore were slack, due to a variety of reasons which had led to some moderation in their import intake lately. Exports to South Korea, which exhibited large volatilities over the past several quarters, continued its downtrend in the first quarter of 2007. The decline was mainly caused by a plunge in exports of electronic sub-components, which went down along with Korea's weakening electronic exports. Against these, however, exports to markets like Thailand, Malaysia and Indonesia all showed further notable growth in the first quarter.

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

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

Imports of goods

2.6 *Imports of goods* recorded a still rather solid growth of 8.4% in real terms in the first quarter of 2007, though slower than that of 11.8% in the fourth quarter of 2006. Import intake for subsequent re-exporting showed some moderation along with the somewhat less rapid re-export growth. *Retained imports*, which are imports for domestic uses, grew by 2.7% in real terms in the first quarter of 2007 over a year earlier. Within this, retained imports of consumer goods edged down marginally, after the significant surge in 2006. Retained imports of capital goods grew solidly further, even against a high base

brought about by the strong surge a year ago, as business sentiment remained upbeat. In contrast, retained imports of raw materials and semi-manufactures continued its declining trend, in tandem with the fall in domestic exports.

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

		Imports of goods				Retained imports[(a)]			
		In value terms	In real terms		Change in prices	In value terms	In real terms		Change in prices
2006	Annual	11.6	10.2		2.1	16.3	8.4		5.0
	Q1	13.8	13.9	(3.3)	1.0	22.7	15.8	(1.5)	4.4
	Q2	8.1	6.7	(-0.1)	1.9	18.5	10.5	(-0.9)	4.7
	Q3	10.7	8.7	(3.7)	2.7	14.8	5.4	(0.7)	5.8
	Q4	14.0	11.8	(4.0)	2.7	10.3	3.3	(2.2)	5.1
2007	Q1	9.0	8.4	(1.0)	2.6	1.7	2.7	(-0.8)	2.2

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

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

Diagram 2.10 : Total imports still recorded a solid growth

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

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2006	Annual	14.4	2.0	27.6	-16.8	5.4
	Q1	16.9	4.3	38.4	-6.4	4.0
	Q2	37.3	4.8	19.8	-13.4	-4.9
	Q3	7.8	2.3	32.5	-27.5	3.5
	Q4	0.5	-2.9	22.2	-18.9	19.5
2007	Q1	-1.0	4.4	6.4	-2.9	8.6

Invisible trade

Exports of services

2.7 *Exports of services* expanded notably further by 8.4% in real terms in the first quarter of 2007, after a 9.0% increase in the fourth quarter of 2006. Bolstered by the active financial markets, exports of financial services continued to grow distinctly. This is an indication of the prominent role of Hong Kong as an international financial and business centre. With the Mainland economy growing fast, there has been strong demand from Mainland enterprises for financial services provided by Hong Kong's world-class financial sector. Exports of trade-related services, comprising mainly offshore trade, recorded further notable growth, on the back of the Mainland's strong trade flows. Exports of travel services also fared well along with some re-acceleration in the growth of incoming visitors. Meanwhile, exports of transportation services showed modest growth.

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

Exports of services in the first quarter of 2007 : $143.7 billion

Diagram 2.12 : Exports of services expanded notably further, boosted by the buoyant financial market activities and also surge in offshore trade

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

		Exports of services		*Of which :* Trade-related services[(a)]	Transportation services	Travel services[(b)]	Finance, business and other services
2006	Annual	8.9		11.0	6.4	5.4	10.8
	Q1	8.5	(0.6)	13.3	7.0	8.3	4.2
	Q2	8.9	(2.6)	10.8	7.1	4.8	11.5
	Q3	8.9	(3.2)	11.5	5.2	3.3	13.0
	Q4	9.0	(2.5)	9.0	6.4	5.3	14.8
2007	Q1	8.4	(*)	8.9	3.6	6.8	14.4

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

(a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.05%.

Imports of services

2.8 *Imports of services* grew moderately by 3.9% in real terms in the first quarter of 2007, after a 6.5% growth in the fourth quarter of 2006. Among the various types of imports of services, financial, business and other services continued to show the fastest growth. But imports of travel and other services generally showed more moderate growth.

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

Diagram 2.14 : Imports of services grew moderately on entering 2007

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

			Of which :			
		Imports of services	Travel services(+)	Transportation services	Trade-related services	Finance, business and other services
2006	Annual	6.4	3.4	6.5	1.6	12.8
	Q1	5.0 (-0.3)	1.5	5.9	3.8	10.5
	Q2	9.1 (5.4)	7.7	9.2	1.5	13.4
	Q3	5.2 (-0.9)	0.6	5.4	2.1	13.9
	Q4	6.5 (2.0)	4.3	5.6	-0.2	13.4
2007	Q1	3.9 (-2.4)	0.9	3.6	1.3	9.8

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

(+) Comprising mainly outbound travel spending.

Visible and invisible trade balance

2.9 As the surplus in the invisible trade account continued to outweigh the deficit in the merchandise trade account, the combined visible and invisible trade balance recorded a surplus of $40.0 billion in the first quarter of 2007, equivalent to 5.8% of the total value of imports of goods and services. This was larger than the corresponding figure of $33.2 billion (5.2%) in the first quarter of 2006. The continued sizeable surplus underscored the strength of Hong Kong's external competitiveness on the one hand, and increased resilience to volatilities and external shocks on the other.

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

		Total exports		Imports		Trade balance		
		Goods	Services	Goods	Services	Goods	Services	Combined
2006	Annual	2,467.4	565.0	2,576.3	284.0	-109.0	281.0	172.1
	Q1	538.5	128.7	568.3	65.7	-29.8	63.0	33.2
	Q2	586.7	129.7	622.1	68.2	-35.4	61.5	26.1
	Q3	667.2	150.7	685.8	76.0	-18.6	74.8	56.2
	Q4	674.9	155.9	700.2	74.1	-25.2	81.8	56.5
2007	Q1	587.3	143.7	621.5	69.5	-34.2	74.2	40.0

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

Trade policy and other developments

2.10 External trade will continue to play an important role in the Hong Kong economy. In this regard, the HKSAR government has made strenuous effort on trade promotion and trade liberalisation. One notable development was the signing of CEPA in mid-2003, which marked significant progress in achieving free trade between Hong Kong and the Mainland. There are now liberalisation measures in 27 service areas[3], and all products of Hong Kong origin can be exported to the Mainland tariff-free.

2.11 As at end-April 2007, the Trade and Industry Department (TID) and five Government Approved Certificate Organisations issued 21 580 certificates of Hong Kong origin (CEPA) to goods produced in Hong Kong, involving a total of $8.03 billion worth of goods. TID also issued 1 753 certificates of Hong Kong Service Supplier. CEPA adopts a building block approach that provides a mechanism for more liberalisation measures to be included as and when they are

agreed by both parties. 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. Meanwhile, the Individual Visit Scheme, which was introduced in July 2003, is expanded further in January 2007 to cover a total of 49 Mainland cities[(4)].

2.12 In February, the Ministry of Commerce and the Commerce, Industry and Technology Bureau convened the first Senior Officials Meeting of CEPA to discuss further liberalisation of the services trade and advancement of trade and investment facilitation under CEPA. It is hoped that the two sides can reach consensus before July to give substance to a new supplementary agreement on CEPA which will further promote the mutual economic development of the Mainland and Hong Kong. The Secretary for Commerce, Industry and Technology also chaired a consultative forum in March to gather the views of business associations and professional bodies on the implementation and further development of CEPA.

Notes :

(1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.

(2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

(3) Under the three phases of CEPA, the Mainland has agreed to provide preferential treatment to Hong Kong service suppliers in 27 service areas. They are:

- accounting
- logistics
- audiovisual
- patent agency
- professional qualification examinations
- storage and warehousing
- individually owned stores
- tourism
- job referral agency
- legal
- airport
- medical and dental
- cultural
- real estate and construction
- freight forwarding agency
- telecommunications
- insurance
- job intermediary
- advertising
- management consulting
- banking
- convention and exhibition
- distribution
- securities and futures
- information technology
- trade mark agency
- transport (including road freight/passenger transportation and maritime transport)

(4) The Scheme is extended to cover an addition of 5 provincial capitals, viz. Shijiazhuang, Zhengzhou, Changchun, Hefei and Wuhan, starting from 1 January 2007.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

- *The residential property market regained some momentum in the first quarter of 2007. Flat prices resumed a moderate rise after moving narrowly for five months. Sentiment was boosted by sanguine economic outlook, stable local interest rate environment and increased mortgage concessions by the banks. The non-residential property markets maintained an upturn, especially for quality office space as the economy moved up the value chain.*

- *Inbound tourism made a solid start in early 2007, as manifested by a pick-up in visitor growth. Moreover, the growth continued to be broadly based across major markets, thereby reinforcing the cosmopolitan profile of Hong Kong's tourism industry.*

- *The logistics sector kept faring steadily in overall terms as trading and transhipment activities continued to grow at a healthy pace. Port container throughput rose modestly further in the first quarter, while air cargo throughput eased back slightly after 20 consecutive quarters of growth.*

- *The agreement with the State Ministry of Information Technology concluded in April, and the upcoming cooperation agreement with the Shenzhen Municipal Government scheduled for late May, signify further pro-active moves towards closer collaboration between the Mainland and Hong Kong in innovation and technology activities. By promoting exchanges in expertise, information and resources, the agreements are aimed to strengthen Hong Kong's role as a world-class regional hub for innovation and technology activities.*

Property

3.1 The sales market for *residential property* regained some momentum in the first quarter of 2007. Flat prices resumed a moderate increase of around 3% during the quarter, having moved narrowly for five months. Transaction volume rebounded to its 6-month high of 8 039 units in March. Sentiment turned more positive in recent months amidst increased optimism about the economic prospect, stable local interest rate environment, and increased

mortgage concessions offered by the banks. Acquisition interest for smaller flats more recently was also stimulated by the reduction in stamp duty for property transactions worth between $1 million and $2 million as announced in the 2007/08 Budget[1].

3.2 As regards leasing, demand continued to build up alongside the improving household income. Compared with end-2006, flat rentals in March 2007 were up further by about 3%, after increasing by 2% during the preceding quarter.

Diagram 3.1 : Average flat price has virtually returned to its earlier high in mid-2005, though still way off the historic peak in 1997

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

3.3 The *non-residential* property markets continued to receive solid support from the business upturn, which boosted property demand not only in terms of size but also in terms of quality and location. This was particularly apparent in the office market where the demand for premier space was triggered by growing volume of high value-added activities in the economy, notably in the financial and professional services sectors. Compared with end-2006, office rentals rose visibly further by around 4% in March 2007. The increase for Grade A office space, which shared some 60% of overall office supply, was faster at around 5% during the quarter. On the sales front, office prices were well underpinned by the promising leasing prospect. During the first quarter

of 2007, the prices of overall office space and A-graded office space moved up markedly further by about 10% and 8% respectively.

3.4 The markets for shopping and industrial spaces likewise maintained an upturn, though the increases in prices and rentals were milder. Backed by sustained growth in retail sales, prices and rentals of shopping space rose further by around 3% and 2% respectively during the first quarter of 2007. Prices and rentals of flatted factory space also stayed on an uptrend, posting modest gains of around 3% and 1% respectively during the quarter. Amidst vibrant trade flows, the demand for flatted factory space from the manufacturing and logistics sectors stayed solid.

Diagram 3.2 : Leasing of commercial and industrial properties maintained an upturn, especially for quality office space as the economy moves up the value chain

Land

3.5 As market sentiment improves, property developers have shown keener interest in land acquisition through the *Application List* since mid-2006. In the first quarter of 2007, three residential sites and one residential-cum-commercial site triggered from the List were sold through auctions, and the prices fetched exceeded the trigger prices significantly by 67-147%. Most recently, through the auction held on 8 May, a prime site in West Kowloon triggered from the List received favourable response, with the

price fetched higher than the trigger price by 54%.

3.6 The 2007/08 Application List recently unveiled comprises 47 sites, of which 33 are residential sites and 14 are non-residential sites. Regardless of use, 20 of the sites are smaller ones measuring less than 0.5 hectare, with a view to facilitating participation by small developers. Besides, the Government has recently introduced two new measures to help relieve the financial burden of the developers especially the smaller ones in triggering sites from the List. They include halving the deposit requirement to 5% of the bid price or a maximum of $25 million, and accepting bank guarantee as an alternative means of deposit payment.

Tourism

3.7 The year-on-year growth in *incoming visitor trips* picked up to 6.3% in the first quarter of 2007, as compared to 4.3% in the fourth quarter of 2006. Moreover, the latest increase extended the uptrend for 15 consecutive quarters. According to the latest forecast by Hong Kong Tourism Board (HKTB), the total incoming visitor trips would increase further by 4.6% to a new high of 26.4 million in 2007.

3.8 The recent visitor growth continued to be broadly based across major markets. The growth in Mainland visitor arrivals re-accelerated to 5.2% in the first quarter of 2007, with arrivals under the Individual Visit Scheme surging further by 18.6%. Meanwhile, arrivals from other Asian markets and long-haul markets grew visibly by 5.3% and 12.1% respectively. Apart from our own attraction, the broad-based visitor growth leveraged on the prominent position of Hong Kong as the gateway for traveller flows between the Mainland and rest of the world. In 2006, for example, Hong Kong received 4.2 million overseas visitors who subsequently departed for the Mainland as the next destination.

Diagram 3.3 : Visitor growth continued to be broadly based in early 2007, thereby reinforcing the cosmopolitan profile of Hong Kong's inbound tourism

3.9 *Tourism expenditure associated to inbound tourism*[2] rose distinctly further by 12.7% to a record high of $119.4 billion in 2006. Visitor growth apart, the increase in their average spending also contributed. In 2006, the per capita spending[3] of same-day in-town visitors surged by 25.3% to $1,015. The increase for the Mainland day-trippers, who shared more than half of total same-day arrivals, was distinct at 23.3% to $1,537. As regards overnight visitors, the per capita spending rose more moderately by 2.9% to $4,799, yet the increase remained broadly-based. Consequential to the growth in inbound tourism, the proportion of consumption expenditure incurred in Hong Kong attributed to visitors went up further to 10.2% in 2006.

Diagram 3.4 : Per capita visitor spending kept rising extensively in 2006, with more notable increase for day-trippers from the Mainland

3.10 In response to malpractices of some unscrupulous shops against Mainland visitors reported recently, relevant government departments, in collaboration with the Travel Industry Council of Hong Kong (TIC), HKTB and the Consumer Council (CC), have immediately taken action to combat such malpractices. The Customs and Excise Department (C&ED) has been closely co-operating with the Police in stepping up enforcement action to clamp down on the illegal practices of deceiving and misleading consumers. A speedy referral system among Police, C&ED, TIC and CC has been established. Further, the Government is reviewing relevant consumer protection legislation in full speed with a view to strengthening enforcement action against misleading and undesirable sales practices. TIC is also strengthening regulatory measures for trade conduct. Such measures include, *inter alia*, tightening the criteria for shops registered under the 14 Days 100 Percent Refund Guarantee Scheme and demerit point system, such as extending the time limit for refund from 14 days to six months to allow visitors sufficient time in seeking refund. The Government, HKTB and CC will continue to cooperate in enhancing the publicity and education on consumer protection both in Mainland and Hong Kong through various media and relevant Mainland counterparts, including hyperlinked websites. The China National Tourism Administration (CNTA) fully supports the initiatives and undertakes to implement corresponding efforts in the Mainland. CNTA has recently announced eight measures on further strengthening regulatory control over the Mainland travel agents and promoting of tourism service standards in the Mainland.

Box 3.1

Business visitors arrivals : recent trends and profile

Amidst Hong Kong's development into an international business hub and its ever-expanding external economic links, more and more business visitors have been coming to the city for meetings, conventions, exhibitions and other commercial events. From 2002 to 2006, the total number of incoming business visitor-trips showed an uninterrupted rise averaging 7.9% per annum. The number reached a record high of 5.7 million in 2006, equivalent to 22% of overall visitor arrivals.

Incoming visitor trips for business purpose, 2002-2006

Analyzed by market, the number of business trips made by Mainland visitors rose markedly by an annual average of 7.7% during 2002-06. This was propelled by the accelerating economic integration between Hong Kong and the Mainland in recent years. Concurrently, the number of business trips by visitors from other places rose even faster, by 8.2% per annum. In 2006, the Mainland visitors accounted for 48% of total incoming business visitor-trips to Hong Kong, while other Asian visitors and long-haul visitors shared 29% and 24% respectively.

In recent years, there is a growing tendency for more frequent yet shorter inbound business trips to Hong Kong. This is partly attributable to increasing travel convenience as our external transport services have expanded further in terms of connectivity and frequency, particularly with the Mainland. The tendency also reflects the thriving position of Hong Kong as the regional platform by which many enterprises develop and oversee their businesses in the Mainland and elsewhere in Asia. Compared with 2002, the number of business day-trippers to Hong Kong surged by 24.2% per annum, comprising increases of 29.1% for those from the Mainland and 12.9% from other places. This well exceeded the corresponding growth of 3.1% in overnight business visitors, whose average length of stay shortened from 3.65 nights in 2002 to 3.18 nights in 2006.

Box 3.1 (cont'd)

Day-trippers and overnight-stayers in business travels

Business travel is a high-yield segment of Hong Kong's inbound tourism. Despite shorter duration of stay generally, the per capita spending of overnight business visitors amounted to $6,286 in 2006, much higher than that of $4,319 for other overnight visitors. Moreover, business visitors tend to spend more on services with higher local value-added content, such as hotel accommodation and meals at restaurants. Furthermore, some of them are accompanied by families and friends who also expend in Hong Kong.

Spending pattern of overnight visitors by purpose of visit

Apart from supporting the commercial activities involved and contributing to the tourism industry, inbound business travels carry wider benefits for the Hong Kong economy. Through direct exposure to our political, social and economic environments, business travellers can gain a better understanding about the competitive edges and market potentials of Hong Kong. This helps reinforce the branding of Hong Kong as an international business hub, and can attract more overseas investors and talents to develop their businesses and careers in the city. The other way round, face-to-face encounters help build up relationship and hence consolidate our global connections and networking, by which the local business talents can be better informed about market opportunities elsewhere and advance their knowledge about the market dynamics and business practices in other places. The market intelligence thus developed is definitely an asset for them to seek expansion abroad and cope with related challenges.

Logistics

3.11 The logistics sector kept performing steadily in early 2007 as trading and transhipment activities continued to grow at a healthy pace. Notwithstanding the on-going structural shift towards offshore trade and keener competition from neighbouring ports and airports, cargo traffic held broadly stable in the first quarter of 2007 as compared to a year earlier. On the back of its service excellence, Hong Kong is still an appealing gateway for cargoes and commands premium especially for the high-value and time-critical items.

3.12 As the most important mode of transport handling 85% of Hong Kong's external cargo traffic, the *port's container throughput* rose modestly by 1.1% over a year earlier to 5.4 million TEUs in the first quarter of 2007. Yet indicating the shift towards higher value products, the value of trade (excluding transhipment cargoes) handled by Hong Kong port in the first quarter of 2007 was 4.9% higher than a year earlier and constituted about 32% of Hong Kong's overall trade value.

Diagram 3.5 : Port container traffic grew modestly further in early 2007 as trading and transhipment activities continued to ride on a healthy pace

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

3.13 On *air cargo*, the throughput declined marginally by 1.2% over a year earlier to 804 000 tonnes in the first quarter of 2007. Yet this represented an ease-back after an uptrend for 20 consecutive quarters with a cumulative rise of

68%. Concurrently, the value of trade (excluding transhipment cargoes) handled by air still grew distinctly by 8.9%, reflecting increased predominance of high-value merchandise in air freight. Whilst accounting for only 1% of total volume of cargo throughput, air transport handled about 35% of Hong Kong's external trade in value terms in the quarter.

Diagram 3.6 : Despite an ease-back in air cargo volume, the value of trade handled by air grew distinctly further

Innovation and technology

3.14 Hong Kong and the Mainland have been developing deeper and more extensive collaboration in innovation and technology, with a view to generating synergy from the respective strength to mutual benefit. On 17 April 2007, the Commerce, Industry and Technology Bureau and the State Ministry of Information Industry signed an agreement in Beijing. The agreement provides that the two sides will strengthen technological cooperation and encourage Hong Kong experts to participate in the formulation of national standards in areas relating to the information industry. Furthermore, the governments of the Hong Kong Special Administrative Region and the Shenzhen Municipality are poised to enter into a cooperation agreement in late May. Under the agreement, the two governments will strive to enhance exchanges in expertise, information and resources in innovation and technology services, with a view to taking forward the proposal to establish a "Shenzhen-Hong Kong Innovation

Circle". The long-term target is to develop the two neighbouring localities into a world-class regional hub for innovation and technology activities.

3.15 Notable progress is also observed for the works of the Mainland/Hong Kong Science and Technology Co-operation Committee[(4)]. At its third meeting held on 16 April 2007, the Committee agreed to set up working groups to enhance co-operation between the Mainland and Hong Kong in the areas of nanotechnology, energy saving technology and environmental protection technology. The Committee also agreed to set up a mechanism for assessing applications for setting up state key laboratories in Hong Kong by local universities and research institutes. Furthermore, the Committee examined the preparatory work for the Innovation and Technology Forum to be held in Hong Kong on 21 May. The Forum is aimed to discuss the national innovation strategy and system as well as to explore innovation and technological collaborations at regional and international levels.

3.16 The film industry is a key creative sector in Hong Kong, contributing significantly to the tourism and other service industries and enhancing the international and cultural image of the city. In order to foster the development of this creative industry, the Government has proposed to inject $300 million into the Film Development Fund for helping finance film production and overcome the shortage of talent[(5)]. Besides, the new Hong Kong Film Development Council, transformed from the former Film Development Committee, was formally established on 15 April 2007. The Council is entrusted with broader and more onerous film-related advisory and executive duties, and is responsible for advising on the policy, strategy and institutional arrangement for the promotion and development of the film industry, as well as the use of public funds to support the industry.

Notes :

(1) As announced in the 2007/08 Budget, the rate of stamp duty on transactions of properties with a value between $1 million and $2 million has been reduced from 0.75% to a fixed amount of $100, which is the same level of duty for properties with a value at or below $1 million, with immediate effect.

(2) In 2006, 75% of the tourism expenditure associated to inbound tourism was destination consumption expenditure by all inbound visitors and travellers for goods and services that they consumed in Hong Kong. The remaining 25% was expenditure by these visitors and travellers on cross-boundary transportation services provided by Hong Kong-based carriers.

(3) Per capita visitor spending is derived from the total destination consumption expenditure viz. expenditure on goods and services consumed in Hong Kong and visitor arrivals (except servicemen, aircrew members and transit/transfer passengers). Expenditure by visitors on cross-boundary transportation services is not covered.

(4) Established in 2004, the Mainland/Hong Kong Science and Technology Co-operation Committee is co-chaired by the Vice-Minister of the Ministry of Science and Technology and the Secretary for Commerce, Industry and Technology. Comprising senior representatives from bureaux, ministries and organisations responsible for technology development on both sides, the Committee is responsible for organising and co-ordinating technology exchange and collaboration activities between the Mainland and Hong Kong.

(5) It is proposed that after the injection of new funds, the Film Development Fund should finance projects and activities which contribute towards the development of the Hong Kong film industry. These cover four areas, including (a) limited funding support for small-to-medium budget film productions; (b) promotion of Hong Kong films in the Mainland and overseas; (c) training of talents in the various aspects of the film production and distribution; and (d) enhancing the interest and appreciation of Hong Kong films by the local audience.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The financial sector stayed active in the first quarter of 2007, riding on the opportunities emancipating from the increasing financial integration with the Mainland, Hong Kong's expanding economy as well as the generally supportive global economic environment. Yet increased volatility in the financial markets, as evidenced by the short-lived corrections in the stock markets worldwide in late February and early March, remained an area to watch out.*

- *The monetary conditions remained accommodative and supportive for the further solid expansion of the Hong Kong economy. The weakening of Hong Kong dollar along with the US dollar against most major currencies continued during the first quarter.*

- *Despite some edge-up in the interbank interest rates during the quarter, liquidity in the local banking sector was still in abundance, as can be seen from the notable gaps between the Hong Kong interest rates and their US counterparts. In tandem with the solidly growing local economy, money supply and bank loans both expanded further during the quarter.*

- *The local stock market recovered well from the dip in late February and early March, underlining sustained capital inflow and solid corporate earnings on the back of the vibrant economic conditions. The Hang Seng Index held up well at around 20 000 mark towards the end of the quarter. Average daily turnover surged to another record high amidst brisk trading activities.*

- *Both the fund management industry and derivatives market continued to perform well. The insurance sector also saw further rapid growth. There is a continuous deepening and broadening in financial market activities as Hong Kong strives to enhance its status as a world-class international financial centre.*

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

Overall situation

4.1 The financial sector stayed strong in the first quarter of 2007, along with the concurrent economic up-cycle. Liquidity continued to be abundant, and the monetary conditions were still accommodative for further solid economic expansion, despite some slight edge-up in interbank rates during the quarter. Bank loans grew steadily, whilst money supply registered a marked increase on the back of improved financial positions for both the household and corporate sectors. The local stock market experienced a noticeable correction in late February and early March, triggered by the fall in the Mainland stock markets and also along with other major markets in the world, but recovered well towards the end of the first quarter. Funds raised in the debt market and various fund management businesses attained further growth. These, along the growing derivatives market and insurance sector, added further width and depth in Hong Kong as an international financial centre.

4.2 Following the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong", the Focus Group on Financial Services submitted its report together with the proposed action agenda to the Chief Executive in mid-January 2007. The action agenda set out 80 specific recommendations covering a range of macro, strategic and market specific proposed actions with the strategic aim to establish Hong Kong as an international financial centre of global significance within China. Since then, the Government and financial regulators have been studying the action agenda in depth. The implementation of some of the recommendations, such as providing statutory backing for major listing requirements and the development of RMB futures are now underway, while some recommendations, such as the adjustment of position limits of Hang Seng China Enterprises Index futures and options contracts and facilitating the listing of overseas companies by clarifying requirements in the Listing Rules have already been implemented. In a recent study on global financial centres[(1)] published in March 2007, Hong Kong was ranked 3rd after London (1st) and New York (2nd) among the top 10 international financial centres, another piece of encouraging evidence of international recognition of Hong Kong's strength in financial services.

Interest rates, aggregate balance and exchange rates

4.3 Hong Kong dollar interest rates on average tended to edge up in the first quarter of 2007. In line with the Fed's decision to keep the US Fed Funds Target Rate stable, the Base Rate under the Discount Window operated by the HKMA was unchanged at 6.75% during the period [(2)]. Hong Kong

dollar interbank interest rates either remained roughly stable or rose slightly from January to March. Overnight HIBOR rose to 4.63% at end-March due to IPO-related liquidity demand, though for the quarter as a whole, it averaged at 3.76%, little changed from the fourth quarter of 2006. Moreover, the three-month HIBOR rose slightly to an average of 4.08% in the first quarter. Accordingly, the discount of three-month HIBOR over the corresponding Euro-dollar deposit rate narrowed from 150 basis points at end-December 2006 to 116 basis points at end-March 2007. Meanwhile, the Hong Kong dollar yield curve moved upwards slightly at end-March 2007 compared with end-December 2006.

Diagram 4.1 : The notable gap between Hong Kong dollar yield curve and its US counterpart was maintained despite some narrowing in the first quarter of 2007

4.4 At the retail level, the deposit rates were little changed and the average one-month time deposit rate offered by major authorized institutions was 2.52% at end-March. The composite interest rate, which indicated the average cost of funds of banks, rose from 2.86% at end-December 2006 to 3.00% at end-March 2007 (3). Yet banks kept their best lending rates unchanged and there continued to be two best lending rates of 7.75% and 8% in the market. Competition in mortgage rates remained intense and the proportion of newly approved loans priced at more than 2.5% below the best lending rate rose to 73.2% in March, up from 61.0% in December 2006. Meanwhile, the Aggregate Balance remained stable at around HK$1.3 billion.

Diagram 4.2 : Monetary conditions remained accommodative for further economic expansion
(end for the week)

4.5 The exchange rate of the Hong Kong dollar against the US dollar tended to stay on the weak side of the linked rate during the first quarter, partly reflecting increased arbitrage activities. Specifically, the spot exchange rate of Hong Kong dollar against the US dollar, starting at 7.7805 on 2 January 2007, softened gradually in the first two months of 2007. It fluctuated around 7.81 in March and closed at 7.8147 at the end of the quarter. It is worth noting that the Hong Kong dollar exchange rate market remained calm when the renminbi spot exchange rate against the US dollar appreciated beyond the 7.8 level in mid-January. In line with narrowing negative interbank interest rate spreads, the discount of the 12-month Hong Kong dollar forward rate over the spot rate tightened from 977 pips (each pip is equivalent to HK$0.0001) to 735 pips over the same period.

4.6 Under the Linked Exchange Rate System, movements in the exchange rate of the Hong Kong dollar against other currencies follow closely those in the US dollar. During the first quarter of 2007, the US dollar depreciated by around 1% against the Renminbi. Moreover, the US dollar continued to weaken against most of the other major currencies including the Pound Sterling, the Euro and Japanese Yen, amidst rising concern about the weakening US economy and on the renewed speculation that the US Fed Funds Target Rate might start to move down. Consequently, the trade-weighted Nominal and Real Effective Exchange Rate Indices[4] of the Hong Kong dollar both declined by 1.1% during the first quarter.

Diagram 4.3 : The HKD/USD tended to stayed on the weak side of the linked rate during the first quarter, forward spread narrowed as well (end for the week)

Diagram 4.4 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar fell during the first quarter of 2007 in tandem with the weakening US dollar (average for the month)

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

Money supply and deposits

4.7 The monetary conditions remained largely accommodative in the first quarter of 2007, which were hence conducive to the sustained economic upturn. Both narrow and broad money supply recorded notable increases. The seasonally adjusted Hong Kong dollar narrow money supply (HK$M1)[5] posted a further strong increase of 6.3% at end-March 2007 over three months ago, reflecting continuous increases in Hong Kong dollar demand deposits amidst buoyant fund-raising activities and hectic stock market turnover. Hong Kong

dollar broad money supply (HK$M3) also rose notably, by 6.1% over the same period, along with the strong increases in time deposits.

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

% change during the quarter		M1 HK$		M1 Total	M2 HK$[(a)]	M2 Total	M3 HK$[(a)]	M3 Total
2006	Q1	2.5	(3.9)	1.0	5.3	3.3	5.3	3.3
	Q2	-1.0	(1.5)	1.9	2.2	2.5	2.2	2.5
	Q3	3.9	(4.2)	5.1	5.8	4.7	5.8	4.7
	Q4	5.6	(1.6)	4.5	4.8	4.3	4.7	4.3
2007	Q1	8.0	(6.3)	8.7	6.1	4.1	6.1	4.0
Total amount at the end of March 2007 (HK$Bn)		419	(404)	534	2,948	5,272	2,966	5,302
% change over a year earlier		17.4	(14.2)	21.7	20.2	16.6	20.1	16.5

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

( ) Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK$M1. Seasonality is not apparent for the other monetary aggregates.

4.8 Total deposits with authorized institutions[(6)] expanded notably by 4.3% to $4,973 billion (comprising Hong Kong dollar deposits of $2,736 billion and foreign currency deposits of $2,236 billion) at end-March 2007 over three months ago, as financial positions of both the household and corporate sectors continued to improve amidst the strengthening economic conditions.

Diagram 4.5 : Money supply expanding notably further along with the sustained strong economic expansion

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

(#) Adjusted to include foreign currency swap deposits.

Loans and advances

4.9 Total loans and advances increased during the first quarter by 8.3% to $2,671 billion (comprising Hong Kong dollar loans of $2,070 billion and foreign currency loans of $601 billion) at end-March, alongside the sustained above-trend economic growth. Specifically, loans for use in Hong Kong increased notably. Analysed by major usage, a particularly strong growth was seen in loans to stockbrokers and financial concerns, reflecting the hectic stock market activity and increased borrowing to finance the subscription for IPOs. The continued uptrend in loans to wholesale and retail trade also matched the expansion in business activities amidst current economic up-cycle. The loans to finance visible trade actually rose quite solidly when compared to the same period last year, on the back of notable trade growth in the period. The generally steady flow of loans to purchase residential mortgage was in line with the stable residential property market. The Hong Kong dollar loan-to-deposit ratio rose back from a record low of 74.7% at end-December 2006 to 75.7% at end-March 2007.

Table 4.2 : Loans and advances for use in Hong Kong by major usage

% change during the quarter	Loans to : Finance visible trade	Manu-facturing sector	Whole-sale and retail trade	Building, construction, Property development and investment	Purchase of residential property[a]	Financial concerns	Stock-brokers	**All loans and advances for use in Hong Kong[b]**
2006 Q1	-2.4	-1.9	0.9	0.6	-1.1	3.6	5.3	-0.3
Q2	10.1	3.7	1.9	5.7	-0.6	-1.3	-6.0	2.8
Q3	4.9	-5.4	0.1	-0.9	-0.5	4.7	620.6	1.5
Q4	-4.7	-2.5	2.1	4.1	0.3	-2.5	-82.5	-1.4
2007 Q1	-1.0	2.6	2.8	0.9	-0.1	12.4	959.5	7.6
Total amount at end-March 2007 (HK$Bn)	150	106	108	496	594	208	89	2,289
% change over a year earlier	8.8	-1.9	7.1	10.1	-1.0	13.3	1,153.0	10.8

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

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

Diagram 4.6 : Hong Kong dollar loan-to-deposit ratio rose back on the back of notable growth in demand for loans

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

Banking

4.10 Asset quality of the local banking sector improved further in the fourth quarter of 2006, alongside solid economic growth. The ratio of classified loans to total loans of retail banks declined further from 1.19% at end-September 2006 to 1.11% at end-December 2006. The arrears for over three months in *credit card repayment* edged down to 0.37% in December 2006 from 0.40% in September 2006. In addition, the delinquency ratio for *residential mortgage loans* decreased from 0.20% to 0.17% in the first quarter. The consolidated capital adequacy ratio for local banks averaged at 15.0% at end-December 2006, the same number over three months ago and well above the minimum international standard of 8% set by the Bank for International Settlements.

4.11 Hong Kong has implemented the new Basel II capital adequacy framework for banks since 1 January 2007. This followed the passage of the Banking (Capital) Rules and the Banking (Disclosure) Rules in November 2006 prescribing how the capital adequacy ratio (CAR) of Hong Kong incorporated AIs shall be calculated and what information on the state of affairs, profit and loss and CAR shall be publicly disclosed under the new framework. The aim

of implementing the new framework is to align regulatory capital requirement more closely with the inherent risks of banks, and encourage banks to improve internal risk management. Adopting the latest international banking standards in this respect will contribute to the safety and soundness of the banking system in Hong Kong and help to strengthen the position of Hong Kong as a leading international financial centre.

Table 4.3 : Asset quality of retail banks[(a)]

(as % of total loans)

As at the end of		Pass loans	Special mention loans	Classified loans (gross)
2005	Q1	94.30	3.75	1.95
	Q2	95.05	3.21	1.74
	Q3	95.26	3.25	1.49
	Q4	95.97	2.66	1.37
2006	Q1	95.97	2.71	1.32
	Q2	96.15	2.55	1.29
	Q3	96.44	2.37	1.19
	Q4	96.65	2.24	1.11

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

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

4.12 Since February 2004, banks in Hong Kong have been offering renminbi deposit-taking, exchange and remittance services to customers. At end-March 2007, a total of 38 licensed banks were engaged in renminbi banking business in Hong Kong. Renminbi deposits with authorized institutions continued to expand solidly during the first quarter, amounting to RMB 25.2 billion yuan at end-March 2007, up from RMB 23.4 billion yuan at end-December 2006. This expansion was in part driven by the prospect of valuation gain brought about by the currency's appreciating trend. In the same period, the renminbi interest rates in Hong Kong were steady at the retail level.

Table 4.4 : Renminbi deposits in licensed banks

As at end of		Demand and savings deposits[b] (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on[a]: Saving deposits[c] (%)	Interest rates on[a]: Three-month time deposits[c] (%)	Number of licensed banks engaged in RMB business
2006	Q1	10,682	11,776	22,458	0.46	0.65	39
	Q2	11,285	11,427	22,712	0.46	0.65	39
	Q3	11,355	11,264	22,619	0.46	0.65	40
	Q4	12,228	11,175	23,403	0.46	0.65	38
2007	Q1	13,643	11,595	25,238	0.46	0.65	38

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

(b) Before March 2006, figures referred to savings deposits only.

(c) Period average figures.

The debt market

4.13 To enhance Hong Kong's strength as an international financial centre, the Government has steadily pushed ahead the growth in Hong Kong's debt market both in size and in depth, by facilitating the introduction of new instruments and enhancing market liquidity. At end-March 2007, the total outstanding value of all Hong Kong dollar debt securities rose by 9.5% over a year ago to $749 billion[7]. This was equivalent to 25% of HK$M3, or 19% of the Hong Kong dollar-denominated assets of the entire banking sector[8]. Around 74% of the outstanding debts were issued by the private sector and Multilateral Development Banks, while the remaining 26% were issued by the public sector, including mainly Exchange Fund papers and debt issued by the Government and statutory organizations.

4.14 On the top of its report published in January opining Hong Kong economy as being comparable to those "AAA"-rated economies in both financial and economic terms, Standard and Poor's (S&P's) released another report in May. In that report, S&P acknowledged Hong Kong's resilience in face of previous external shocks, and also cited the recent improvements to Hong Kong's fiscal situation, particularly the discipline shown by the Government in controlling expenditure, as a supportive factor to Hong Kong's credit quality. The above developments would help to lower the borrowing costs for Hong Kong companies and create a favourable environment for sustained economic growth and development.

4.15 On 10 January 2007, the State Council announced its agreement in principle for financial institutions on the Mainland, upon obtaining approval, to issue renminbi-denominated financial bonds in Hong Kong. In this connection, a supplementary memorandum of co-operation was signed by the People's Bank of China (PBoC) and the HKMA in the subsequent week to expand the relevant co-operative arrangements to cover the new category of renminbi business. The PBoC likewise announced that it would, upon having obtained approval by the State Council, expand the scope of clearing and position-squaring arrangements provided for renminbi business conducted by Hong Kong banks. The opening up of this new category of renminbi business will provide channels for returning renminbi circulating in Hong Kong back to the Mainland, thereby further promoting economic integration between the two places and reinforcing Hong Kong's position as an international financial centre.

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

	Exchange Fund paper	Statutory bodies/government-owned corporations	Government	Public sector total	AIs[(a)]	Local corporates	Non-MDBs overseas borrowers[(b)]	Private sector total	MDBs[(b)]	Total
New Issuance										
2006 Annual	220.5	17.4	-	237.9	44.9	21.3	147.0	213.2	3.0	454.1
Q1	54.4	6.9	-	61.3	14.1	7.0	35.6	56.7	0.2	118.2
Q2	55.6	3.5	-	59.1	12.0	1.2	42.0	55.2	-	114.3
Q3	54.1	2.6	-	56.7	10.0	7.0	35.5	52.5	1.8	111.0
Q4	56.4	4.4	-	60.8	8.8	6.1	33.9	48.8	1.0	110.6
2007 Q1	55.0	4.0	-	59.0	13.3	5.4	37.9	56.6	1.5	117.1
Outstanding (period-end figures)										
2006 Q1	127.9	59.3	10.3	197.5	154.3	44.7	270.0	469.0	17.5	684.0
Q2	129.3	54.0	10.3	193.6	152.9	43.3	295.3	491.5	17.1	702.2
Q3	130.4	54.1	7.7	192.2	151.7	48.0	312.5	512.2	18.5	722.9
Q4	131.8	56.9	7.7	196.4	147.4	52.4	332.4	532.2	19.5	748.1
2007 Q1	133.0	54.6	7.7	195.3	147.7	54.3	335.3	537.3	16.5	749.1

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

(a) AIs : Authorized Institutions.

(b) MDBs : Multilateral Development Banks.

The stock and futures markets

4.16 The local stock market held up well at the beginning of 2007 after successive highs towards end-2006, but underwent a rather sharp correction in reaching late February and early March, triggered by the fall in the Mainland market as well as the ensuing jitters in other markets overseas. Specifically, the Hang Seng Index hit an all-time high of 20 821 on 24 January 2007 and hovered at about the 20 000 level throughout February. But a sudden dip occurred in late February and extended into early March, dragging the index below the 19 000 mark on 5 March 2007. The local stock market however rebounded quite swiftly, thanks to the rise-back in other markets, and more importantly, the favourable corporate earnings results and positive market sentiment about the economic outlook. The continued recovery afterwards brought the index to close the first quarter at 19 801, not much lower than that of 19 965 at end-December 2006. Trading has been buoyant throughout the first quarter. Average daily turnover expanded sizably to another all-time high of $52.9 billion in the first quarter of 2007, 18.4% higher than the fourth quarter in 2006.

Diagram 4.7 : Buoyant stock market in the first quarter

Note: (*) Period average figures.

4.17 Market capitalisation edged up to another fresh record high of $13,551 billion at end-March 2007 (comprising $13,442 billion in the Main Board and

$109 billion in the Growth Enterprise Market (GEM)), up 1.6% from the end of 2006. This reflected the relatively firm stock prices as well as continuous flow of new listings in Hong Kong. According to the World Federation of Exchanges[9], at end-March 2007, the Hong Kong stock market was the eighth largest in the world and second largest in Asia in terms of market capitalisation. In the first quarter of 2007, the activities of raising equity capital through new share floatation and post-listing in the Main Board and the GEM continued, with the amount of fund raised attaining $43.7 billion[10]. Meanwhile, Hong Kong is ranked sixth by the World Federation of Exchanges in terms of total equity fund raised in the first three months of 2007 among all major exchanges in the world. With a notable number of IPOs in the pipeline, equity capital raising activities should continue to be vibrant in the period ahead.

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

Note: (*) Position at end of quarter.

4.18 The premier position of Hong Kong as a fund-raising centre for the Mainland enterprises is well maintained. In the first quarter of 2007, the Mainland enterprises raised a total of $22.2 billion from the Hong Kong stock market, taking up 51% of the total equity raised during the period. Since January 1993, $1,510 billion of capital had been raised by Mainland enterprises in the Hong Kong stock market, accounting for 55% of the total funds raised. At end-March 2007, there were 370 Mainland enterprises (including 141 H-share companies, 90 "Red Chips" companies and 139 private enterprises)

listed on the Hong Kong stock market, accounting for 31% of the total number of listed companies. The market capitalisation of these Mainland enterprises reached $6.7 trillion in end-March 2007, which continued to account for around half of the total market capitalisation of the Hong Kong stock market. At end-March 2007, 65% of equity turnover in the stock market was contributed by trading of the above Mainland-related stocks, slightly up from 60% at end-2006.

4.19 In tandem with the buoyant trading in the spot market, *derivatives trading* also continued to grow at a rapid pace in the first quarter. The higher perceived volatility as well as innovations in the financial markets also contributed. The average daily turnover of the Hang Seng Index Futures contracts, Hang Seng Index Options contracts, H-shares Index Futures contracts, and stock options contracts all rose considerably in the first quarter of 2007 when compared to the previous quarter, by averages of 12% - 67%[11]. Trading of stock futures leaped further from a relatively low base.

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

		Hang Seng Index Futures	Hang Seng Index Options	H-shares Index Futures	Stock Options	Stock Futures
2006	Annual	51 491	16 582	19 759	73 390	413
	Q1	46 638	14 287	17 436	61 863	163
	Q2	54 535	17 141	22 703	65 038	299
	Q3	50 281	16 671	16 670	66 836	553
	Q4	54 770	18 278	22 564	100 169	628
2007	Q1	61 184	30 495	31 059	124 662	2 448
% change from 2006 Q4 to 2007 Q1		11.7	66.8	37.6	24.5	289.5

Fund management and investment funds

4.20 The depth and breadth of investment funds managed in Hong Kong continued to increase, as Hong Kong is emerging as Asia's leading asset management centre. In the first quarter of 2007, gross retail sales of *mutual funds*[12] amounted to US$9,172 million, up sharply from US$6,426 million in the previous quarter as well as US$7,701 million in the same quarter a year ago. After deducting redemptions, net sales amounted to US$2,215 million in the

first quarter of 2007, distinctly above that of US$84 million in the previous quarter. Analysed by asset size, equity funds continued to take up a predominant portion, accounting for 72.2% of the total value of funds at end-March 2007. Funds managed under the *MPF schemes* likewise continued to increase in the first quarter of 2007. The aggregate net asset value of the approved constituent funds rose to $211.2 billion at end-March 2007, from $202.4 billion at end-December 2006[13].

4.21 The hedge funds business continued to flourish in the first quarter of 2007, reflecting the eagerness among the investors in search for potentially higher yield investments. There were 14 retail hedge funds authorised by the Securities and Futures Commission (SFC) and the net asset size of SFC-authorized hedge funds rose further to US$1.70 billion as at end-March 2007, up by 2.4% from US$1.66 billion at end-2006. The net asset size at end-March 2007 was 9.6 times larger than that as at end-2002, the year when the hedge funds guidelines were first issued. According to a survey by the SFC in October 2006, as at 31 March 2006, there were 296 hedge funds managed from Hong Kong by our licensed hedge fund managers. The total asset under management amounted to US$33.5 billion. In view of the increased hedge fund activities in Hong Kong and the fact that they are not restricted by national borders, the SFC is building partnership with other regulators, whether local or overseas, as well as the industry itself to build a fair and transparent regulatory framework. Besides, the co-operation can also facilitate market and product development, maintain market confidence and promote high standards.

Insurance

4.22 The insurance sector continued to see new business opportunities on the back of the sustained economic expansion. Gross premium income from new long-term business and general business posted a further rapid growth of 9.3% in the fourth quarter of 2006 over a year earlier[14]. For the year 2006 as a whole, there was a notable increase of 12.1% over 2005. Long-term business remained vibrant, with growth impetus coming predominantly from investment-linked individual life and annuity business over the whole year. This reflected partly the increase in employment income amidst the economic upturn, and also the increasing awareness of the needs for individual risk coverage and retirement planning.

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

	General business :			Premium for long-term business* :					
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	Gross premium from long-term business and general business
2005 Q1	6,944	4,909	63	4,814	4,209	45	41	9,109	16,053
Q2	5,730	3,981	446	6,099	5,376	41	48	11,564	17,294
Q3	5,416	3,897	351	5,749	5,281	43	39	11,112	16,528
Q4	4,456	2,855	1,637	7,628	6,385	49	32	14,094	18,550
Annual	22,546	15,642	2,497	24,290	21,251	178	160	45,879	68,425
2006 Q1	6,795	4,881	637	4,868	7,284	37	52	12,241	19,036
Q2	5,337	3,951	723	5,360	9,195	41	38	14,634	19,971
Q3	5,894	4,024	674	4,792	6,630	58	45	11,525	17,419
Q4	5,248	3,731	845	5,908	9,019	67	24	15,018	20,266
Annual	23,274	16,587	2,879	20,928	32,128	203	159	53,418	76,692
% change from 2005 Q4 to 2006 Q4	17.8	30.7	-48.4	-22.5	41.3	36.7	-25.0	6.6	9.3
Annual % change from 2005 to 2006	3.2	6.0	15.3	-13.8	51.2	14.0	-0.6	16.4	12.1

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

Notes :

(1) This is based on the results of the study "The Global Financial Centres Index" published by the City of London in March 2007.

(2) At present, the Base Rate is set at either 150 basis points above the prevailing US Fed Funds Target Rate or the average of the five-day moving averages of the overnight and one- month HIBORs, whichever is higher.

(3) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average costs of funds of banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.

(4) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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

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

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

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

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

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

(6) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2007, there were 137 licensed banks, 30 restricted licence banks and 31 deposit-taking companies in Hong Kong. Altogether, 198 authorized institutions (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

(7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

(8) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from banks abroad, loans and advances to

customers, negotiable certificates of deposits (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

(9) The ranking is sourced from the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 55 stock exchanges, covering almost all globally recognised stock exchanges.

(10) At end-March 2007, there were 983 and 197 companies listed on the Main Board and GEM respectively.

(11) At end-March 2007, there were 45 classes of stock options contracts and 44 classes of stock futures contracts.

(12) These figures are sourced from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorized funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the survey has been revamped, with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. At end-March 2007, there were a total of 1 105 authorized-funds covered by the Survey.

(13) There were 19 approved trustees at end-March 2007. On MPF products, 36 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 318 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 234 000 employers, 2.05 million employees and 284 000 self-employed persons have participated in MPF schemes.

(14) As at end-March 2007, there were 181 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 117 in general insurance business, and 18 in composite insurance business. These authorized insurers come from 24 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

Summary

- *The labour market showed signs of consolidation in the first quarter of 2007, following the notable improvement in the preceding three and a half years. Labour-related indicators, whilst still generally turning better, moved within a narrow range compared to the fourth quarter of 2006.*

- *Yet greater volatility was evident within the first quarter, with the workforce expanding visibly in the three months ending January but contracting by a similar magnitude in the subsequent three-month periods ending February and March. This reflected largely the fluctuations in business activity around the Lunar New Year periods.*

- *Labour earnings had a larger increase than wages, attributable to increased discretionary bonuses in the corporate sector amid the improving economic and business conditions.*

Overall labour market situation

5.1 The labour market, having witnessed a significant improvement since mid-2003, showed signs of consolidation in the first quarter of 2007. Major labour-related indicators, including labour force, total employment, unemployment, wages and earnings, mostly exhibited minor changes. In particular, the number of unemployed persons fell slightly from 153 700 in the fourth quarter of 2006 to 152 500 in the first quarter of 2007, as did the *seasonally adjusted unemployment rate*(1) from 4.4% to 4.3%. The underemployment rate(2) also edged lower, from 2.4% to 2.2%.

Diagram 5.1 : The unemployment and underemployment situation improved slightly further in early 2007

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	2002				2003				2004				2005				2006				2007
Seasonally adjusted unemployment rate	7.0	7.5	7.3	7.4	7.5	8.5	8.2	7.5	7.2	6.7	6.7	6.6	6.0	5.7	5.4	5.2	5.1	4.9	4.7	4.4	4.3
Underemployment rate	3.1	2.9	2.9	3.1	2.8	4.3	3.6	3.3	3.3	3.4	3.2	3.1	3.0	2.8	2.6	2.4	2.3	2.6	2.3	2.4	2.2

Total employment and labour supply

5.2 *Total employment*[3] held broadly stable at 3 459 400 in the first quarter of 2007, which was down by only 0.2% from 3 466 000 in the fourth quarter of 2006. On a year-on-year comparison, there was nevertheless still a strong increase of 2.5%, compared to the 2.1% growth in 2006. But seasonal fluctuations were seen within the first quarter itself. Specifically, employment jumped to 3.48 million in the three months ending January 2007, in tandem with an upsurge in business activity and labour demand in the run-up to the Lunar New Year. This trend was however reversed after the festive holidays, with employment falling back to around 3.46 million in the three months ending March.

5.3 An analysis of socio-economic attributes indicated that comparing the first quarter of this year with the fourth quarter of last year, the decrease in employment was most apparent among females at the older age of 50-59. Conceivably, this group comprised mainly housewives who were more affected by the slackened business and labour demand conditions after the Lunar New Year holidays. Also, persons with secondary education or below, together with those engaged as workers in elementary occupations and as plant and machine operators and assemblers, were the ones experiencing greater job losses especially in such sectors as real estate, sanitary services and the retail trade.

5.4 *Labour supply*[4] also exhibited a slight decrease by 0.2% to 3 611 900 in the first quarter of 2007, from 3 619 700 in the fourth quarter of 2006. This small quarter-to-quarter reduction again concealed the distinct expansion in the labour force in the three-month period ending January and the notable contraction in the subsequent three-month periods ending February and March. Taking the first quarter of 2007 as a whole, whereas the labour force participation rate dropped to 61.2% from 61.6% in the preceding quarter, this drag on the labour supply was partly offset by an increase in the population of working age over the same period. Nevertheless, on a year-on-year comparison, there was still an increase of 1.7% in total labour force, as against the 1.3% gain in 2006.

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

		Labour force		Persons employed		Persons unemployed[a]	Persons underemployed
2006	Annual	3 582 500	(1.3)	3 411 600	(2.1)	170 900	86 600
	Q1	3 552 100	(0.7)	3 375 000	(1.7)	177 100	80 900
	Q2	3 544 000	(0.5)	3 368 300	(1.3)	175 700	93 800
	Q3	3 614 100	(1.9)	3 437 100	(2.8)	177 000	84 300
	Q4	3 619 700	(1.9)	3 466 000	(2.8)	153 700	87 600
Three months ending							
2007	Jan	3 628 300	(2.4)	3 478 300	(3.1)	149 900	83 900
	Feb	3 617 900	(2.3)	3 471 100	(3.2)	146 800	80 500
	Mar	3 611 900	(1.7)	3 459 400	(2.5)	152 500	80 600
			<-0.2>		<-0.2>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
( ) Year-on-year % change.
< > % change between 2006 Q4 and 2007 Q1 (i.e. Jan-Mar).

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Total employment had a faster year-on-year growth than the labour force, but roughly the same quarter-to-quarter growth in 2007 Q1

Profile of unemployment

5.5 The unemployment situation improved somewhat between the fourth quarter of 2006 and the first quarter of 2007, consequential to the slightly larger decrease in the labour supply than total employment. The numbers unemployed edged down from 153 700 to 152 500, and the seasonally adjusted unemployment rate from 4.4% to 4.3%, the lowest level in over eight and a half years. Workers at the lower segment of the labour market seemed to have benefited more from the better unemployment conditions. This was borne out by the notable declines in unemployment rate among persons with secondary education, or those working as plant and machine operators and assemblers, and service workers and shop sale workers. Furthermore, younger people aged 24 or below, as well as persons engaged in sectors like restaurants, amusement and recreational services, and real estate also faced more apparent reductions in unemployment.

Diagram 5.3 : Unemployment rate* , whilst broadly stable in overall terms, showed varied movements among economic sectors

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

Diagram 5.4 : Higher-educated workers still facing relatively low unemployment rates*

Notes : (*) Not seasonally adjusted, but including first-time job seekers and re-entrants into the labour force.
(#) Including craft courses.

Diagram 5.5 : Unemployment rates* of lower-skilled workers generally edged down, although they remained distinctly above those of higher-skilled workers

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

Profile of underemployment

5.6 Underemployment likewise improved. The underemployment rate moved down from 2.4% in the fourth quarter of 2006 to 2.2% in the first quarter of 2007, the lowest in five and a half years. In absolute terms, the numbers underemployed shrank from 87 600 to 80 600. The decrease was concentrated in the construction and restaurants sectors, as well as among people with lower secondary education or below, and those engaged as workers in elementary occupations, service workers and shop sales workers, and craft and related workers. Conceivably, the decline in part-time jobs and casual work after the Lunar New Year holidays, especially in construction and the distributive and catering trades, was the principal factor behind reduced underemployment in the first quarter of this year.

Profile of employment in establishments

5.7 As for employment, vacancies and labour income in business establishments, the relevant statistics are available up to the end of 2006 only. Comparing December 2006 with a year earlier, employment in *private sector establishments* grew by 2.4%. About 79% of the increase came from large enterprises, with the remaining 21% from small and medium-sized enterprises (SMEs)[(5)]. Among the major economic sectors, employment gain was found almost entirely within the services sectors, more than offsetting the decreases seen in the manufacturing sector and at building and construction sites[(6)]. Analysed by sub-group, increases in jobs were particularly noticeable in financing, insurance, real estate and business services; restaurants and hotels; and the retail trade. The sustained robust performance of the finance and related sectors and an upsurge in business activity in the catering trade towards the end of the year were the plausible contributory factors. On the other hand, the number of workers at building and construction sites was reduced further by 6.3% year-on-year in December 2006. This mainly reflected the continued dearth of new large public sector projects and the still sluggish residential investment in the private sector. Employment in local manufacturing firms also fell by 4.8%, upon further relocation of production activities outside Hong Kong. For 2006 as a whole, the total number of persons working in business establishments went up by 2.1%, compared to the 2.5% growth in 2005.

5.8 Regarding the civil service, employment remained on the decrease. In December 2006, the number of civil servants was 1.1% fewer than a year earlier. A broadly similar decrease of 1.3% was recorded for the whole year. However, in view of the lifting of the general open recruitment freeze as from 1 April 2007, employment in the civil service can be expected to resume increase, albeit at a moderate pace, in the near future.

Table 5.2 : Employment by major economic sector

	2005					2006				
	Annual average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec
Wholesale, import and export trades	581 800 (2.5)	583 100 (4.8)	579 100 (2.8)	585 300 (1.4)	579 500 (0.9)	583 400 (0.3)	581 200 (-0.3)	581 700 (0.4)	584 000 (-0.2)	586 600 (1.2)
Retail trade	221 100 (1.8)	216 000 (0.7)	224 600 (3.7)	221 700 (1.0)	221 900 (1.6)	228 300 (3.3)	225 900 (4.6)	229 300 (2.1)	228 600 (3.1)	229 400 (3.4)
Restaurants and hotels	215 400 (3.6)	210 700 (2.9)	214 500 (2.3)	214 300 (3.7)	222 300 (5.4)	226 400 (5.1)	221 800 (5.3)	225 800 (5.3)	226 200 (5.5)	231 800 (4.3)
Transport and storage	153 300 (3.6)	151 400 (4.3)	153 700 (4.1)	153 400 (3.6)	154 600 (2.6)	155 700 (1.6)	154 100 (1.8)	155 200 (1.0)	156 100 (1.8)	157 500 (1.9)
Communications	30 000 (-2.4)	29 800 (-3.6)	31 200 (0.1)	29 700 (-1.2)	29 200 (-4.9)	29 600 (-1.4)	30 000 (0.6)	29 300 (-5.9)	29 500 (-0.7)	29 400 (0.8)
Financing, insurance, real estate and business services	456 100 (4.4)	447 600 (4.4)	457 200 (5.3)	455 400 (4.0)	464 400 (3.8)	479 100 (5.0)	468 300 (4.6)	475 900 (4.1)	480 500 (5.5)	491 600 (5.8)
Community, social and personal services	439 000 (4.5)	434 400 (5.4)	437 000 (4.5)	437 700 (5.3)	446 800 (2.7)	454 800 (3.6)	451 300 (3.9)	451 700 (3.4)	455 200 (4.0)	460 800 (3.1)
Manufacturing	164 700 (-2.0)	163 100 (-3.5)	161 900 (-4.5)	166 300 (-1.0)	167 400 (1.3)	160 500 (-2.5)	161 500 (-1.0)	161 100 (-0.5)	160 200 (-3.7)	159 300 (-4.8)
Building and construction sites	59 300 (-10.6)	65 800 (-4.8)	60 000 (-14.2)	56 800 (-12.4)	54 500 (-11.1)	52 900 (-10.8)	54 900 (-16.5)	52 300 (-12.9)	53 300 (-6.3)	51 000 (-6.3)
All establishments surveyed in the private sector[(a)]	*2 328 700* *(2.5)*	*2 310 000* *(3.2)* *<0.7>*	*2 327 300* *(2.6)* *<0.5>*	*2 328 900* *(2.3)* *<0.2>*	*2 348 700* *(2.0)* *<0.6>*	*2 378 700* *(2.1)*	*2 357 200* *(2.0)* *<0.7>*	*2 370 400* *(1.8)* *<0.4>*	*2 381 800* *(2.3)* *<0.6>*	*2 405 300* *(2.4)* *<0.7>*
Civil service[(b)]	*156 500* *(-2.7)*	*157 300* *(-3.5)*	*156 800* *(-3.0)*	*156 200* *(-2.4)*	*155 500* *(-1.8)*	*154 300* *(-1.3)*	*155 000* *(-1.5)*	*154 500* *(-1.5)*	*154 100* *(-1.4)*	*153 800* *(-1.1)*

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

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

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

( ) % change over a year earlier.

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

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

Vacancies

5.9 Vacancies in *private sector establishments* rose by 5.7% to 38 600 in December 2006 over a year earlier. These job openings were found primarily in the service sectors, in particular community, social and personal services, transport and storage, and the retail trade. Compared to the unemployment numbers, this gave a ratio of 25 job vacancies per 100 job-seekers in December 2006, up from 20 a year ago. While the corresponding ratio for lower-skilled jobs went up moderately from 16 to 20, that for higher-skilled jobs exhibited a greater jump from 54 to 73. In terms of vacancies for the upper-end jobs vis-a-vis lower-end jobs, there was also a distinct difference in the growth pace, at 7.0% as against 4.8%. Thus there continued to be strong demand for skilled personnel as the economy was undergoing upgrading towards higher value-added and knowledge-based activities. By comparison, large establishments possessed greater capacity in creating jobs, as manifested by a 12.4% surge in vacancies in December 2006 over a year earlier, in stark contrast to the 0.3% decrease for SMEs. For 2006 as a whole, vacancies in private sector establishments increased by 9.1% over the already high base in 2005. As to the *civil service,* the number of vacancies remained small at only 2 100 in December 2006.

5.10 The statistics supplied by the Employment Services of the Labour Department however pointed to some slowdown in registered vacancies more recently. In the first quarter of 2007, the number of private sector job vacancies registered with the department was 119 336, down slightly by 0.7% from a year earlier. This was mainly attributable to the decrease occurring in February, after the Lunar New Year holidays. On the other hand, the department achieved 27 328 placements in the first quarter of this year, still up by 1.1% over a year earlier.

Diagram 5.6 : Vacancies remained on an uptrend especially for higher-end jobs

(a) Workers at the upper segment

(b) Workers at the lower segment

Table 5.3 : Vacancies by major economic sector

No. of vacancies

	2005					2006					
	Annual average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec	Vacancy rate in Dec 2006 (%)
Wholesale, import and export trades	9 100 (20.1)	10 300 (42.4)	9 300 (7.2)	9 100 (13.4)	7 800 (21.0)	8 400 (-8.2)	10 600 (3.0)	8 300 (-10.8)	7 800 (-14.2)	6 800 (-12.9)	1.1
Retail trade	3 700 (40.3)	3 000 (33.7)	3 300 (35.7)	4 800 (46.8)	3 700 (41.9)	4 300 (16.2)	4 800 (58.7)	3 800 (17.4)	4 400 (-9.1)	4 200 (13.2)	1.8
Restaurants and hotels	3 400 (58.3)	2 400 (39.3)	2 700 (24.3)	4 300 (70.8)	4 100 (94.7)	4 200 (22.6)	4 000 (63.4)	4 000 (45.3)	5 000 (17.6)	3 700 (-11.3)	1.6
Transport and storage	1 800 (30.3)	1 700 (36.6)	1 900 (19.2)	2 300 (38.1)	1 500 (27.5)	2 000 (6.5)	2 000 (20.1)	2 200 (17.5)	1 800 (-19.6)	1 700 (17.5)	1.1
Communications	700 (34.8)	400 (-32.7)	500 (32.3)	1 200 (48.7)	900 (108.3)	700 (0.8)	800 (93.0)	800 (52.6)	700 (-42.6)	700 (-15.4)	2.4
Financing, insurance, real estate and business services	10 800 (21.0)	10 500 (21.5)	11 200 (23.8)	12 000 (28.8)	9 700 (9.7)	12 300 (13.2)	13 600 (29.6)	12 300 (9.6)	12 800 (6.8)	10 500 (7.6)	2.1
Community, social and personal services	7 100 (22.1)	6 800 (30.1)	7 200 (15.2)	8 000 (39.3)	6 600 (6.4)	8 600 (20.7)	7 900 (15.6)	8 100 (13.3)	9 200 (15.1)	9 300 (40.6)	2.0
Manufacturing	2 000 (33.3)	2 000 (33.1)	1 900 (16.2)	2 000 (28.8)	2 200 (58.6)	1 900 (-6.4)	1 900 (-3.4)	2 000 (6.1)	1 900 (-3.7)	1 700 (-22.5)	1.0
Building and construction sites	# (-75.7)	# (-92.7)	# (-84.7)	# (-77.3)	# (-36.4)	# (-7.0)	# (66.7)	# (*)	# (*)	# (-23.8)	*
All establishments surveyed in the private sector[(a)]	*38 800* *(26.4)*	*37 100* *(30.4)* *<5.8>*	*38 000* *(17.9)* *<4.7>*	*43 600* *(32.7)* *<14.0>*	*36 500* *(24.9)* *<-1.1>*	*42 300* *(9.1)*	*45 500* *(22.8)* *<3.8>*	*41 500* *(9.3)* *<-6.2>*	*43 600* *(0.1)* *<3.4>*	*38 600* *(5.7)* *<5.1>*	*1.6*
Civil service[(b)]	*900* *(57.0)*	*1 500* *(231.5)*	*1 100* *(270.4)*	*700* *(672.5)*	*500* *(-66.9)*	*2 500* *(166.7)*	*2 600* *(76.3)*	*2 500* *(131.6)*	*2 900* *(308.8)*	*2 100* *(304.0)*	*1.4*

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

5.11 Along with the improvement in labour market conditions, employment income has been continuously on the rise since early 2005. This trend was well sustained during the course of 2006. As an indicator, *labour earnings*[7], measured by payroll per person engaged in the private sector, moved higher by 4.0% in money terms in the fourth quarter of 2006 from a year earlier. For 2006 as a whole, the increase was 2.4%. After adjusting for price change, labour earnings were up by 1.8% and 0.4% respectively in real terms[8] in the two periods.

5.12 Nominal pay rise was observed extensively across many economic sectors, though to varying degrees reflecting different manpower demand/supply conditions prevailing in the sectors concerned. Of particular note was the year-on-year increase of 11.7% in nominal payroll for financial institutions in the fourth quarter of 2006, well exceeding the overall average rise of 4.0%. This was attributable to the increased payment of discretionary bonuses in the financial sector, following a year of favourable corporate results in 2006. Restaurants and hotels were the other sector where a notable pay hike of 8.1% was seen. Much of the increase actually occurred in hotels, which benefited significantly from the continued pick-up in the tourism trade. Meanwhile, payroll in community, social and personal services held broadly steady. As regards the local manufacturing sector, labour earnings were up modestly by 0.8%.

5.13 More up-to-date figures from the General Household Survey pointed to a further mild rise in overall labour income in the first quarter of 2007. Anecdotal data from other sources suggested that the high-skilled workers like accountants, fund managers and financial advisers continued to enjoy relatively larger pay increases, thanks to the generally keen demand for such professionals amid the buoyant financial market conditions.

Diagram 5.7 : Nominal earnings went up further in 2006, with those in the service sectors still registering more notable increases

5.14 *Labour wages*, being an indicator of regular payments to employees at the supervisory level or below, recorded a year-on-year rise of 2.0% in money terms in December 2006 and 1.5% for 2006 as a whole. After discounting the price change, wages edged up by 0.1% in real terms in December 2006 and were down slightly by 0.3% for the year as a whole.

5.15 Analysed by economic sector, nominal wages were higher virtually across-the-board. Personal services; financing, insurance, real estate and business services; and manufacturing were the sectors with larger wage gains of 6.1%, 3.4% and 3.2% respectively. Transport services had a smaller pay rise of 0.4%. After discounting the effect of price change, increases in real wages were observed in the personal services; financing, insurance, real estate and business services; and manufacturing sectors. In terms of occupation categories, supervisory and technical workers, together with clerical and secretarial workers, had greater upward adjustments in wages, by 2.8% and 2.0% respectively in money terms. They were also the groups having modest pay rises in real terms.

Notes :

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

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

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

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

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) Manufacturing enterprise 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.

(6) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually increased by 2.0% in the first quarter of 2007 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.

(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.

CHAPTER 6 : PRICES

Summary

- *Consumer price inflation edged lower to 1.7% in the first quarter of 2007, due to the public housing rental waiver in February.*

- *Despite rising wages and rentals, local cost pressures were still kept in check. Unit labour cost was still rather low, thanks to the sustained notable labour productivity growth which largely offset the wage increase. Meanwhile, the rise in rentals of fresh lettings has been moderating in recent quarters, and when matched against the concurrent brisk growth in business volume, the pressures on unit rental cost in overall terms should have petered out somewhat of late.*

- *However, cost pressures from the external source have become more visible, as renminbi appreciation, higher food prices in the Mainland and a weaker Hong Kong dollar all acted to push up import costs of food and consumer goods. Yet, with part of these pressures cushioned by sustained labour productivity growth and moderating rental cost, the underlying inflationary pressures have crept up only modestly during the quarter.*

- *Continued productivity growth, together with the various one-off measures including the rates waiver for two quarters, should continue to help siphon off some of the upward price pressures, thereby keeping the headline inflation down in the near term.*

Consumer prices

6.1 Consumer price inflation, in terms of the *Composite Consumer Price Index*[1] (CCPI), edged down to 1.7% in the first quarter of 2007 from 2.1% in the last quarter of 2006. The lower inflation was due to the waiving of public housing rentals in February, which had the effect of lowering the CCPI inflation by 2.3 percentage points in that month, or by 0.8 percentage point for the first quarter as a whole. Discounting the effect of the public housing rental waiver, the underlying consumer price inflation was slightly higher in the first quarter, at around 2.5%, as against that of 2.1% in the fourth quarter of 2006. This mainly reflected the build-up of imported inflationary pressures stemming from the renminbi appreciation, US dollar weakness, and also higher food prices in

the Mainland. The return of pricing power of retailers and service providers amidst a much improved retail business means that these cost pressures can now be more readily passed through to the retail price level. Yet at the same time, the soft trend in unit labour cost – thanks to the fast labour productivity growth, together with the moderating increase in unit rental cost, have rendered a useful offset at a time when import costs were rising. Thus, on the whole, the inflation situation remained rather benign, and underlying inflation continued to creep up at a modest pace, especially when seen against the strength of the prevailing economic upturn. Looking ahead, the various one-off measures, including the rates waiver for two quarters, the cut in public housing rentals and implementation of the Pre-Primary Education Voucher Scheme, will all help to keep the headline inflation down.

Diagram 6.1 : Consumer price inflation edged down in the first quarter due to the public housing rental waiver in February

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

		Composite CPI	CPI(A)	CPI(B)	CPI(C)
2006	Annual	2.0	1.7	2.1	2.2
	H1	1.8	1.6	1.9	2.0
	H2	2.2	1.9	2.3	2.4
	Q1	1.6 (0.4)	1.3 (0.4)	1.7 (0.5)	1.7 (0.5)
	Q2	2.0 (0.7)	1.8 (0.7)	2.1 (0.7)	2.3 (0.9)
	Q3	2.3 (0.6)	2.1 (0.5)	2.4 (0.6)	2.4 (0.6)
	Q4	2.1 (0.4)	1.8 (0.3)	2.2 (0.4)	2.5 (0.5)
2007	Q1	1.7 (*)	0.3 (-1.1)	2.0 (0.3)	2.9 (0.9)

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.
(*) Change of less than 0.05%.

Diagram 6.2 : Higher food prices, due to renminbi appreciation and food inflation in the Mainland, largely offset by the public housing rental waiver in February

6.2 Among the main components of CCPI, food prices contributed most to the CCPI inflation in the first quarter, which was mainly a result of renminbi appreciation as well as higher food price inflation in the Mainland. This was followed by housing rentals, though already much moderated due to the petering out of the earlier sharp increases in private housing and also the public

housing rental waiver in February. Prices of clothing and footwear also picked up quite notably, reflecting higher pricing power of retailers. The price pressures for most other items have remained either subdued – as in the case of durable goods; alcoholic drinks and tobacco; and transport, or still modest – as in the case of miscellaneous goods and services.

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

		2006				2007
Expenditure component	Weighting	Q1	Q2	Q3	Q4	Q1
Food	26.94	0.9	1.7	2.1	2.2	2.9
Meals bought away from home	*16.86*	*1.0*	*1.3*	*1.5*	*1.5*	*1.8*
Other foodstuffs	*10.08*	*1.0*	*2.3*	*3.1*	*3.5*	*4.4*
Housing[(a)]	29.17	4.2	4.9	4.8	4.8	2.2
Private dwellings	*23.93*	*5.0*	*5.9*	*5.7*	*5.6*	*5.6*
Public dwellings	*2.49*	*0.1*	*0.1*	*0.1*	*0.1*	*-31.7*
Electricity, gas and water	3.59	3.9	3.4	4.1	-2.8	-1.3
Alcoholic drinks and tobacco	0.87	-0.6	-5.9	-4.1	-4.3	-3.9
Clothing and footwear	3.91	-2.0	-0.7	1.7	5.0	7.2
Durable goods	5.50	-5.8	-6.6	-6.9	-6.3	-5.8
Miscellaneous goods	4.78	0.4	1.8	1.9	2.6	2.8
Transport	9.09	1.6	1.1	0.2	-0.1	-0.6
Miscellaneous services	16.15	1.2	1.9	2.5	2.1	2.2
All items	100.00	1.6	2.0	2.3	2.1	1.7

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

Box 6.1

Estimating the effects of Chinese New Year on CCPI

The headline inflation number in terms of the year-on-year change in the CCPI usually shows big swings in the first two months of the year, being heavily affected by the difference in the timing of the Chinese New Year (CNY) holidays. Take 2007 as an example, this year the CNY was in mid-February, whereas in 2006 it was in late-January. As such, the difference in CNY timing between 2006 and 2007 has artificially lowered the inflation number in January 2007, because the more "normal" price levels in January 2007 were compared against the higher prices for certain festive spending items in January 2006, the CNY month. Vice versa, the inflation number in February 2007 was artificially pushed up when the higher price levels in the CNY month of February 2007 were compared against the levels in February 2006 when prices had already returned to "normal" after the festive season. As an illustration, CCPI inflation in February 2007 after discounting the effect of the public housing rental waiver was 3.1%, 1.3 percentage points higher than that of 2.0% in January 2007 (the other non-CNY month). The present article examines whether there is any regular pattern of price hike in the CNY month, with a view to obtaining a rough estimate of the CNY effect on consumer prices.

The assessment starts by examining the price level of each of the 94 CCPI components in the CNY month against the other non-CNY month, for the first two months of each year from 2001 to 2007. For 2001-2004, the calculations are based on the 99/00-based series, while for 2005-2007, the 2004/05-based series are used. Items found with a persistently higher price level in the CNY month are "meals bought away from home"; "fresh-water fish"; "other fresh sea products"; "poultry"; "fresh fruit"; "inbound and outbound transport"; "package tours" and "hair-dressing". Quite understandably, for the food items, the higher prices around the CNY partly reflect higher demand in the festive season, and partly it may also be due to temporary supply disruptions or shortages during the holidays. On the other hand, the price upsurge in inbound and outbound transport and in package tours is largely demand driven, reflecting the seasonal surge in demand in outbound travel during the CNY. As can be seen from Table 1, the CNY effect of "package tours" is the most prominent, and it is prominent throughout the years. As for the food items, the pattern of price swings between the CNY month and the other non-CNY month is rather unsteady, quite naturally so, by virtue of the volatility of prices of fresh food items.

Table 1 : Swing in prices of selected CCPI items during the first two months of a year (% change in prices in the CNY month over the other non-CNY month)

CCPI component	2001	2002	2003	2004	2005	2006	2007
Meals bought away from home	0.1	0.1	0.3	0.4	0.6	-0.1	0.8
Fresh-water fish	1.4	0.8	2.1	-2.1	4.1	0.0	2.8
Other fresh sea products	2.8	13.9	6.1	0.9	26.0	-5.2	20.4
Poultry	5.2	13.8	2.1	-6.3	9.0	10.8	10.0
Fresh fruit	0.4	4.6	4.6	1.8	7.4	-4.8	3.6
Inbound & outbound transport	7.8	4.8	-2.0	5.9	0.8	4.5	2.4
Package tours	16.3	15.0	3.6	30.8	13.4	15.0	23.2
Hair-dressing	2.1	1.6	-1.5	1.3	1.5	0.5	2.1

Box 6.1 (cont'd)

Then, for each of the 8 selected items identified with a regular pattern of price surge in the CNY month, the CNY impact on overall CCPI level is calculated according to its weighting in the consumer price index. The total CNY effect is then obtained for each year by adding together the impacts of individual items disregarding odd values.

Table 2 : The total CNY impact on CCPI from 2001-2007
(% point)

2001	0.44
2002	0.48
2003	0.19
2004	0.66
2001-2004 average	**0.44**
2005	0.53
2006	0.35
2007	0.69
2005-2007 average	**0.52**

For the years 2001-2004 using the 1999/00-based series, the estimated total CNY effect averages at around 0.44 of a percentage point. For the 04/05-based 2005-2007, the average total CNY effect is around 0.52 of a percentage point. In other words, the estimated total CNY effects are broadly in line with each other in the two periods despite the different base periods and weightings.

From the above, it is also clear that the total CNY effect varies from year to year. The CNY effects in 2003 and 2006 are relatively lower because the CNY holidays in these two years lay in the middle of the first two months of the year, specifically, 1 Feb to 3 Feb in 2003 and 28 Jan to 31 Jan in 2006. Under such circumstances, the CNY effects as estimated by comparing prices of festive items in the CNY month and the non-CNY month are likely to be somewhat blurred. The estimated CNY effects presumably would also be influenced by the prevailing economic conditions in individual years. In particular, it is interesting to note the generally higher total CNY effects in the more recent years, when the economy was on a broad-based upturn.

Costs of factor inputs

6.3 Domestic cost pressures were still contained. Although labour earnings have picked up of late amidst an improving labour market, this was well matched by the concurrent notable labour productivity growth, thereby keeping down the upward pressures on *unit labour cost*[(2)]. Meanwhile, the rise in *unit rental cost* was moderating, being the combined results of some easing in the upward momentum in shop rentals and also the cushion offered by the rapid growth in business volume.

Diagram 6.3 : Costs of factor inputs

6.4 Moderating unit rental cost and the softness in unit labour cost were helpful developments at a time when cost pressures from the external front were apparently building up. Largely due to renminbi appreciation and the depreciation of the Hong Kong dollar, import prices rose further in the first quarter of 2007, but at a still moderate rate. The pick-up was most evident in *import prices* of *foodstuffs*, not only a result of renminbi appreciation but also higher food price inflation in the Mainland. The pick-up in *import prices* of *consumer goods* was milder, plausibly offset by the weakness of the yen as Japan was also an important source of Hong Kong's imports of consumer goods. Nevertheless, the increases in *import prices* of *raw materials* and *capital goods* moderated from the last quarter. The same is observed for *fuels*, thanks to the earlier fall in oil prices.

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

		Foodstuffs	Consumer goods	Raw materials	Fuels	Capital goods	All
2006	Annual	1.2	0.5	3.2	16.6	1.1	2.1
	H1	0.2	0.3	1.8	27.5	*	1.5
	H2	2.3	0.7	4.4	7.6	2.1	2.7
	Q1	-0.3	0.5	1.2	32.4	-1.5	1.0
	Q2	0.6	0.1	2.3	23.7	1.3	1.9
	Q3	1.5	0.4	4.3	13.6	2.0	2.7
	Q4	3.0	1.1	4.6	2.0	2.1	2.7
2007	Q1	4.9	2.3	3.4	1.9	1.7	2.6

Note : (*) Change of less than 0.05%.

Diagram 6.4 : Import prices rose further upon the Hong Kong dollar depreciation

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

Diagram 6.5 : Prices of imports by end-use category

(a) Pick-up in import prices most notable for foodstuffs

(b) ...but less so for consumer goods

Diagram 6.5 (cont'd):

(c) Increase in import prices of raw materials moderated

(d) ...and also for fuels, thanks to lower oil prices

Output prices

6.5 Output prices, as measured by the *Producer Price Indices*[3], showed a mixed performance across different sectors. Prices of local manufacturing outputs rose modestly, reflecting higher import prices of raw materials and rising wages. For the service sectors, output prices remained contained or even fell, generally reflecting the strong competitive business environment and the sustained increase in productivity. The hotel sector, being the distinct exception, saw further price surge over the year, in tandem with the vibrant inbound tourism during most of 2006.

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

	2005					2006				
Industry group	Annual	Q1	Q2	Q3	Q4	Annual[@]	Q1	Q2	Q3	Q4[@]
Manufacturing	0.8	0.5	0.7	0.8	1.1	2.3	2.0	2.4	2.6	2.0
Selected service sector[(#)]										
Hotels and boarding houses	12.3	14.0	11.8	11.2	12.1	10.1	10.1	9.2	9.2	11.8
Land transport	1.0	0.9	0.4	1.3	1.5	*	1.0	0.6	-0.2	-1.2
Maritime transport	0.4	1.6	0.2	0.9	-1.0	-1.9	-3.6	-3.4	-1.8	1.0
Air transport	2.5	1.6	2.9	3.1	2.5	-1.2	0.2	-0.5	-1.1	-3.4
Telecommunications	-7.5	-8.2	-7.6	-8.0	-6.2	-6.1	-7.5	-6.3	-4.0	-6.7
Miscellaneous communications services	*	-0.3	0.1	0.1	0.1	0.4	1.5	1.4	1.3	-2.6

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

6.6 The *GDP deflator*[4], a broad measure of overall changes in prices of the economy, reverted to a small increase in the first quarter of 2007 after the continuous decline throughout 2006. This was caused by an improvement in the *terms of trade*[5], a dominant item in the GDP deflator given the size of trade in the Hong Kong economy. On the other hand, the *domestic demand deflator* showed little change in the first quarter, mainly reflecting the decrease in the price deflator for machinery and equipment.

Diagram 6.6

(a) GDP deflator reverted to a small increase

(b) ...thanks to an improvement in the terms of trade

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

		2006				2007
	Annual#	Q1#	Q2#	Q3#	Q4#	Q1+
Private consumption expenditure	1.6	1.8	1.5	1.4	1.5	2.1
Government consumption expenditure	1.4	1.3	1.3	1.4	1.4	1.6
Gross domestic fixed capital formation	2.8	-1.5	2.6	5.7	4.2	-5.9
Total exports of goods	-0.5	-1.8	-0.7	-0.4	0.2	0.9
Imports of goods	1.4	*	1.4	1.7	2.1	0.7
Exports of services	4.7	4.6	5.5	5.2	3.5	3.0
Imports of services	1.0	*	0.8	1.4	1.8	1.7
Gross Domestic Product	**-0.4**	**-0.1** **<-0.2>**	**-0.2** **<-0.1>**	**-0.4** **<*>**	**-0.4** **<*>**	**0.9** **<1.1>**
Total final demand	0.8	*	0.9	1.0	1.3	1.0
Domestic demand	1.8	1.2	1.8	1.8	2.2	*

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

(#) Revised figures.
(+) Preliminary figures.
< > Seasonally adjusted quarter-to-quarter % change.
(*) Change of less than 0.05%.

Notes :

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

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

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

(2) Unit labour cost represents the labour cost per unit of output produced. It is distinct from the nominal wage index in that it will discount the effect of labour productivity growth in arriving at the labour cost measure. Technically, it refers to the product of the nominal index of payroll per person engaged and the total employment, divided by the real GDP.

(3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.

(4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. The

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

(5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

Statistical Appendix

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

($Mn)

	1997	1998	1999	2000	2001	2002
Private consumption expenditure	833,825	795,948	765,282	774,280	782,587	747,850
Government consumption expenditure	112,751	116,550	119,993	120,172	128,866	131,291
Gross domestic fixed capital formation	451,891	388,731	325,328	347,375	333,036	286,020
of which:						
Building and construction	223,264	208,235	171,930	155,441	142,651	131,752
Machinery, equipment and computer software	190,760	165,177	141,349	180,204	180,011	144,832
Changes in inventories	12,313	-15,651	-10,612	14,399	-4,060	5,660
Total exports of goods	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121
Domestic exports	211,410	188,454	170,600	180,967	153,520	131,079
Re-exports	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467	1,431,041
Imports of goods	1,589,876	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527
Exports of services	286,595	262,099	276,385	315,012	320,799	347,836
Imports of services	198,424	194,245	185,174	192,427	194,180	202,494
GDP	**1,365,024**	**1,292,764**	**1,266,702**	**1,314,789**	**1,298,813**	**1,276,757**
Per capita GDP ($) [@]	***210,350***	***197,559***	***191,736***	***197,268***	***193,440***	***189,315***
GNP	**1,363,409**	**1,317,362**	**1,291,470**	**1,323,543**	**1,327,356**	**1,282,409**
Per capita GNP ($) [@]	***210,101***	***201,318***	***195,485***	***198,581***	***197,691***	***190,153***
Total final demand	3,153,324	2,895,326	2,825,376	3,143,927	3,042,215	3,080,778
Total final demand excluding re-exports[(a)]	2,130,313	1,952,900	1,886,191	2,045,858	1,982,896	1,923,066
Domestic demand	1,410,780	1,285,578	1,199,991	1,256,226	1,240,429	1,170,821
Private	1,233,803	1,107,816	1,014,347	1,075,654	1,053,568	985,985
Public	176,977	177,762	185,644	180,572	186,861	184,836
External demand	1,742,544	1,609,748	1,625,385	1,887,701	1,801,786	1,909,957

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)

	2003	2004	2005#	2006#	2006 Q2#	2006 Q3#	2006 Q4#	2007 Q1#
Private consumption expenditure	719,304	767,479	804,579	860,169	215,012	212,106	227,024	222,118
Government consumption expenditure	130,151	127,328	121,419	123,331	28,457	30,358	31,478	34,315
Gross domestic fixed capital formation	261,367	275,000	289,223	320,788	78,879	84,302	83,782	72,238
of which:								
Building and construction	116,419	107,658	105,964	98,750	24,168	24,212	24,781	24,634
Machinery, equipment and computer software	136,537	150,545	163,369	205,246	50,283	55,391	54,893	42,902
Changes in inventories	9,111	7,076	-4,761	-2,020	158	-3,970	490	1,684
Total exports of goods	1,749,089	2,027,031	2,251,744	2,467,357	586,741	667,228	674,929	587,298
Domestic exports	122,126	126,386	136,324	138,759	34,992	38,916	30,354	23,524
Re-exports	1,626,964	1,900,645	2,115,419	2,328,598	551,749	628,312	644,575	563,774
Imports of goods	1,794,059	2,099,545	2,311,091	2,576,340	622,110	685,797	700,172	621,522
Exports of services	362,420	429,563	495,799	565,049	129,681	150,732	155,913	143,657
Imports of services	203,400	242,507	264,237	284,015	68,202	75,975	74,132	69,468
GDP	**1,233,983**	**1,291,425**	**1,382,675**	**1,474,319**	**348,616**	**378,984**	**399,312**	**370,320**
Per capita GDP ($) @	***183,334***	***190,377***	***202,941***	***215,006***	--	--	--	--
GNP	**1,262,474**	**1,314,835**	**1,384,323**	**1,479,433**	**340,994**	**379,222**	**403,758**	**N.A.**
Per capita GNP ($) @	***187,567***	***193,828***	***203,182***	***215,752***	--	--	--	--
Total final demand	3,231,442	3,633,477	3,958,003	4,334,674	1,038,928	1,140,756	1,173,616	1,061,310
Total final demand excluding re-exports(a)	1,895,705	2,061,644	2,212,782	2,413,581	583,735	622,399	641,842	596,196
Domestic demand	1,119,933	1,176,883	1,210,460	1,302,268	322,506	322,796	342,774	330,355
Private	938,326	1,001,110	1,047,722	1,144,215	286,834	284,722	302,307	286,531
Public	181,607	175,773	162,738	158,053	35,672	38,074	40,467	43,824
External demand	2,111,509	2,456,594	2,747,543	3,032,406	716,422	817,960	830,842	730,955

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.

(@) Population figures since 2001 have been revised based on the results of the 2006 Population By-census available in February 2007 as the up-to-date benchmark data. Per capita GDP and per capita GNP figures from 2001 to 2005 have been revised accordingly.

(--) Not applicable.

N.A. Not available.

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

(%)

	1997	1998	1999	2000	2001	2002	2003
Private consumption expenditure	6.2	-6.6	1.4	6.0	2.1	-1.0	-0.9
Government consumption expenditure	2.4	0.7	3.1	2.1	6.0	2.5	1.9
Gross domestic fixed capital formation	12.6	-7.3	-16.6	11.0	2.6	-4.5	0.9
of which:							
Building and construction	10.5	-2.4	-15.5	-7.6	-1.1	-1.1	-5.6
Machinery, equipment and computer software	13.1	-7.9	-18.2	27.0	6.2	-7.6	6.7
Total exports of goods	6.1	-4.3	3.7	17.1	-3.3	8.7	14.2
Domestic exports	2.1	-7.9	-7.2	7.5	-10.2	-11.2	-7.3
Re-exports	6.8	-3.7	5.4	18.5	-2.4	11.0	16.3
Imports of goods	7.3	-7.3	*	18.2	-1.9	7.9	13.1
Exports of services	-0.4	-3.5	8.8	12.1	6.4	10.9	7.9
Imports of services	3.9	1.6	-4.4	4.2	2.0	3.9	-2.1
GDP	**5.1**	**-5.5**	**4.0**	**10.0**	**0.6**	**1.8**	**3.2**
Per capita GDP ($) [@]	***4.2***	***-6.2***	***3.0***	***9.0***	***-0.1***	***1.4***	***3.4***
GNP	**6.0**	**-3.5**	**4.0**	**8.6**	**2.2**	**0.1**	**5.1**
Per capita GNP ($) [@]	***5.1***	***-4.3***	***3.0***	***7.6***	***1.4***	***-0.4***	***5.3***
Total final demand	6.2	-6.0	1.3	14.4	-0.6	5.1	8.1
Total final demand excluding re-exports[(a)]	5.8	-7.6	-1.7	11.3	0.4	2.0	3.5
Domestic demand	8.2	-9.2	-4.4	10.3	1.0	-0.7	0.1
Private	9.5	-9.9	-5.4	12.3	0.7	-1.0	-0.2
Public	-1.0	-3.8	2.1	-2.8	3.3	1.2	1.7
External demand	5.3	-4.3	4.4	16.4	-1.7	9.1	13.1

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

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

(@) Population figures since 2001 have been revised based on the results of the 2006 Population By-census available in February 2007 as the up-to-date benchmark data. Per capita GDP and per capita GNP figures from 2001 to 2005 have been revised accordingly.

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

(%)

	2004	2005#	2006#	2006			2007	Average annual rate of change:	
				Q2#	Q3#	Q4#	Q1#	10 years 1996 to 2006#	5 years 2001 to 2006#
Private consumption expenditure	7.2	3.3	5.2	5.8	4.6	5.4	5.6	2.2	2.7
Government consumption expenditure	0.7	-3.1	0.2	-1.5	-1.1	2.3	2.3	1.6	0.4
Gross domestic fixed capital formation	3.1	4.6	7.9	4.5	10.3	9.4	3.9	1.1	2.3
of which:									
Building and construction	-11.6	-8.4	-7.3	-4.1	-10.1	-2.8	-5.4	-5.2	-6.9
Machinery, equipment and computer software	11.0	12.9	17.2	11.9	20.4	14.9	6.8	5.2	7.7
Total exports of goods	15.3	11.2	10.2	6.4	8.9	11.7	8.2	7.6	11.9
Domestic exports	2.4	7.6	2.3	25.7	-3.2	-30.4	-33.1	-2.4	-1.5
Re-exports	16.3	11.4	10.7	5.3	9.8	15.0	11.0	8.8	13.1
Imports of goods	14.1	8.6	10.0	6.7	8.5	11.4	8.6	6.7	10.7
Exports of services	17.9	11.3	8.9	8.9	8.9	9.0	8.4	7.9	11.3
Imports of services	14.6	7.4	6.4	9.1	5.2	6.5	3.9	3.6	5.9
GDP	**8.6**	**7.5**	**6.9**	**5.6**	**6.8**	**7.3**	**5.6**	**4.1**	**5.6**
Per capita GDP ($) [a]	*7.7*	*7.1*	*6.2*	--	--	--	--	*3.5*	*5.1*
GNP	**8.0**	**5.8**	**7.2**	**1.2**	**10.9**	**10.2**	**N.A.**	**4.3**	**5.2**
Per capita GNP ($) [a]	*7.2*	*5.3*	*6.5*	--	--	--	--	*3.6*	*4.7*
Total final demand	12.0	8.1	8.6	6.4	7.6	9.6	7.2	5.6	8.4
Total final demand excluding re-exports[a]	9.2	5.9	7.1	7.2	6.1	5.7	4.6	3.5	5.5
Domestic demand	5.1	2.1	5.8	5.6	4.6	5.9	5.1	1.7	2.4
Private	6.3	3.5	7.2	7.1	6.0	6.6	5.9	2.1	3.1
Public	-1.6	-6.9	-4.0	-5.3	-5.2	0.8	0.0	-1.2	-2.0
External demand	15.8	11.2	10.0	6.8	8.9	11.2	8.2	7.7	11.8

Notes (cont'd) : (*) Change within ±0.05%.

(--) Not applicable.

N.A. Not available.

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

	2001		2002		2003		2004		2005#	
	$Mn	% share	$Mn	% share	$Mn	% share	$Mn	% share	$Mn	% share
Agriculture and fishing	1,003	0.1	1,002	0.1	824	0.1	886	0.1	847	0.1
Mining and quarrying	174	*	136	*	116	*	72	*	100	*
Manufacturing	59,760	4.8	51,396	4.2	44,403	3.7	44,455	3.5	45,547	3.4
Electricity, gas and water	37,957	3.1	39,609	3.2	38,839	3.2	39,726	3.2	39,924	3.0
Construction	57,167	4.6	51,534	4.2	44,910	3.7	40,376	3.2	38,538	2.9
Services	1,088,211	87.5	1,091,272	88.4	1,073,941	89.3	1,130,695	90.0	1,221,064	90.7
Wholesale, retail and import and export trades, restaurants and hotels	*309,926*	*24.9*	*310,500*	*25.1*	*308,872*	*25.7*	*345,092*	*27.5*	*386,726*	*28.7*
Transport, storage and communications	*117,526*	*9.4*	*121,766*	*9.9*	*117,420*	*9.8*	*126,820*	*10.1*	*135,119*	*10.0*
Financing, insurance, real estate and business services	*251,495*	*20.2*	*247,045*	*20.0*	*251,085*	*20.9*	*266,834*	*21.2*	*294,666*	*21.9*
Community, social and personal services	*262,960*	*21.1*	*265,746*	*21.5*	*261,917*	*21.8*	*264,008*	*21.0*	*260,273*	*19.3*
Ownership of premises	*146,304*	*11.8*	*146,214*	*11.8*	*134,648*	*11.2*	*127,940*	*10.2*	*144,280*	*10.7*
GDP at factor cost	**1,244,271**	**100.0**	**1,234,949**	**100.0**	**1,203,034**	**100.0**	**1,256,209**	**100.0**	**1,346,020**	**100.0**
Taxes on production and imports	53,917		43,325		48,057		58,729		62,891	
Statistical discrepancy (%)	*		-0.1		-1.4		-1.8		-1.9	
GDP at current market prices	**1,298,813**		**1,276,757**		**1,233,983**		**1,291,425**		**1,382,675**	

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

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

(*) Less than 0.05%.

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

(%)

	2001	2002	2003	2004	2005#	2006#	2006			
							Q1#	Q2#	Q3#	Q4#
Agriculture and fishing	4.1	-0.7	-5.6	2.0	-1.9	-3.2	-1.4	-4.4	-2.5	-4.8
Mining and quarrying	-14.1	-11.1	2.2	-17.0	10.3	9.3	5.3	11.4	15.9	4.3
Manufacturing	-9.1	-10.0	-10.3	1.7	2.1	2.2	7.0	5.3	-0.6	-1.4
Electricity, gas and water	1.7	3.8	1.8	2.1	2.5	0.9	-0.1	2.2	4.5	-4.0
Construction	-2.2	-1.5	-4.9	-9.7	-9.2	-7.9	-12.6	-4.6	-10.9	-3.1
Services	1.8	2.8	4.5	10.1	8.0	8.7	9.3	7.6	8.1	9.6
Wholesale, retail and import and export trades, restaurants and hotels	*0.3*	*4.5*	*9.1*	*15.1*	*14.4*	*10.0*	*12.5*	*7.1*	*10.4*	*10.0*
Transport, storage and communications	*1.9*	*6.5*	*0.7*	*13.9*	*8.0*	*8.8*	*11.2*	*6.4*	*8.4*	*9.4*
Financing, insurance, real estate and business services	*0.5*	*2.7*	*5.7*	*13.1*	*8.7*	*14.5*	*13.3*	*15.2*	*11.8*	*17.4*
Community, social and personal services	*4.0*	*-0.6*	*0.6*	*2.9*	*0.2*	*2.2*	*1.4*	*1.5*	*2.5*	*3.2*
Ownership of premises	*3.4*	*2.0*	*2.7*	*1.4*	*3.1*	*2.6*	*3.1*	*2.9*	*2.2*	*2.1*
Taxes on production and imports	-1.1	-0.1	3.4	13.0	1.0	8.4	3.1	7.5	3.3	19.6
GDP at constant (2000) market prices	**0.6**	**1.8**	**3.2**	**8.6**	**7.5**	**6.9**	**8.1**	**5.6**	**6.8**	**7.3**

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

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

($Mn)

	2002	2003	2004	2005	2006#	2006 Q1#	2006 Q2#	2006 Q3#	2006 Q4#
Current account	96,800	128,240	122,491	157,338	159,905	37,007	14,737	51,900	56,261
Goods	-39,406	-44,970	-72,514	-59,347	-108,983	-29,801	-35,369	-18,569	-25,243
Services	145,341	159,020	187,056	231,562	281,034	63,017	61,479	74,757	81,781
Income	5,652	28,491	23,410	1,648	5,114	8,053	-7,622	238	4,446
Current transfers	-14,787	-14,301	-15,461	-16,524	-17,260	-4,262	-3,750	-4,526	-4,722
Capital and financial account	-151,179	-179,086	-184,640	-182,431	-201,722	-49,186	-26,394	-60,115	-66,028
Capital and financial non-reserve assets (net change)	-169,720	-171,497	-159,155	-171,752	-154,987	-37,723	-16,330	-46,962	-53,972
Capital transfers	-15,686	-8,292	-2,561	-4,939	-2,226	-415	472	-1,729	-554
Financial non-reserve assets (net change)	-154,033	-163,205	-156,594	-166,812	-152,761	-37,308	-16,803	-45,233	-53,418
Direct investment	*-60,685*	*63,372*	*-91,038*	*49,996*	*-4,402*	*27,362*	*-29,913*	*-15,817*	*13,967*
Portfolio investment	*-302,484*	*-264,619*	*-306,368*	*-245,017*	*-258,082*	*34,018*	*-78,343*	*17,248*	*-231,005*
Financial derivatives	*51,563*	*78,288*	*44,319*	*30,502*	*38,873*	*2,275*	*14,544*	*8,312*	*13,742*
Other investment	*157,573*	*-40,247*	*196,492*	*-2,294*	*70,850*	*-100,963*	*76,910*	*-54,975*	*149,879*
Reserve assets (net change)[a]	18,541	-7,589	-25,486	-10,679	-46,735	-11,463	-10,063	-13,153	-12,056
Net errors and omissions	54,379	50,846	62,149	25,093	41,817	12,179	11,656	8,215	9,766
Overall balance of payments	**-18,541**	**7,589**	**25,486**	**10,679**	**46,735**	**11,463**	**10,063**	**13,153**	**12,056**

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)

	2002	2003	2004	2005#	2006#	2006 Q2#	2006 Q3#	2006 Q4#	2007 Q1#
Total exports of goods	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357	586,741	667,228	674,929	587,298
Imports of goods	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340	622,110	685,797	700,172	621,522
Visible trade balance	**-39,406**	**-44,970**	**-72,514**	**-59,347**	**-108,983**	**-35,369**	**-18,569**	**-25,243**	**-34,224**
	(-2.5)	**(-2.5)**	**(-3.5)**	**(-2.6)**	**(-4.2)**	**(-5.7)**	**(-2.7)**	**(-3.6)**	**(-5.5)**
Exports of services	347,836	362,420	429,563	495,799	565,049	129,681	150,732	155,913	143,657
Imports of services	202,494	203,400	242,507	264,237	284,015	68,202	75,975	74,132	69,468
Invisible trade balance	**145,342**	**159,020**	**187,056**	**231,562**	**281,034**	**61,479**	**74,757**	**81,781**	**74,189**
	(71.8)	**(78.2)**	**(77.1)**	**(87.6)**	**(99.0)**	**(90.1)**	**(98.4)**	**(110.3)**	**(106.8)**
Exports of goods and services	1,909,957	2,111,509	2,456,594	2,747,543	3,032,406	716,422	817,960	830,842	730,955
Imports of goods and services	1,804,021	1,997,459	2,342,052	2,575,328	2,860,355	690,312	761,772	774,304	690,990
Visible and invisible trade balance	**105,936**	**114,050**	**114,542**	**172,215**	**172,051**	**26,110**	**56,188**	**56,538**	**39,965**
	<5.9>	**<5.7>**	**<4.9>**	**<6.7>**	**<6.0>**	**<3.8>**	**<7.4>**	**<7.3>**	**<5.8>**

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

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

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

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

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

	2002	2003	2004	2005	2006		2006			2007
							Q2	Q3	Q4	Q1
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
All markets	**5.4**	**11.7**	**15.9**	**11.4**	**9.4**	**2,461,027**	**5.4**	**8.4**	**11.9**	**9.0**
Mainland of China	12.3	21.1	19.7	14.0	14.2	1,156,210	8.5	13.5	17.0	13.3
United States	1.0	-2.6	5.4	5.6	2.9	371,130	-0.1	0.7	7.3	1.9
Japan	-4.5	12.3	14.4	10.3	1.6	120,422	2.3	*	-2.2	1.5
Germany	-5.3	15.1	11.9	15.6	4.0	75,663	2.5	0.3	3.6	-0.9
United Kingdom	-2.0	5.8	14.8	5.2	6.3	73,632	3.6	7.9	10.2	11.6
Taiwan	-2.2	22.2	16.2	2.7	3.3	52,106	-6.3	8.6	6.8	3.9
Republic of Korea	17.2	16.9	24.0	9.5	7.5	51,873	10.5	9.8	-4.3	-5.5
Singapore	6.8	13.0	22.0	6.8	4.4	48,612	-3.7	13.7	8.8	4.7
Rest of the world	3.5	7.1	17.3	13.3	8.5	511,380	5.9	6.3	11.7	10.4

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

(*) Change within ±0.05%.

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

	2002	2003	2004	2005	2006		2006			2007
							Q2	Q3	Q4	Q1
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
All sources	**3.3**	**11.5**	**16.9**	**10.3**	**11.6**	**2,599,804**	**8.1**	**10.7**	**14.0**	**9.0**
Mainland of China	5.1	9.6	16.9	14.3	13.7	1,192,952	11.0	10.8	16.6	10.3
Japan	3.4	17.2	19.7	0.1	4.5	268,140	-1.1	5.1	9.7	8.2
Taiwan	7.4	8.0	22.8	9.4	15.9	194,917	18.4	20.4	7.0	0.4
Singapore	3.9	19.6	22.5	21.8	21.9	164,837	15.9	17.0	22.6	13.6
United States	-12.8	7.9	13.4	6.5	3.6	123,569	-5.0	5.1	14.7	16.3
Republic of Korea	7.3	15.0	15.0	2.6	16.1	119,647	13.1	7.7	23.8	1.6
Rest of the world	2.2	12.1	13.6	8.4	7.6	535,742	4.1	10.1	8.3	8.4

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)

	2002	2003	2004	2005	2006		2006			2007
							Q2	Q3	Q4	Q1
	(% change)				(% change)	($Mn)	(% change over a year earlier)			
Overall	**-9.0**	**2.6**	**14.8**	**7.3**	**16.3**	**680,441**	**18.5**	**14.8**	**10.3**	**1.7**
Foodstuffs	0.2	1.5	8.6	3.1	4.5	53,037	8.5	4.7	1.2	10.1
Consumer goods	-5.2	-1.8	7.4	5.5	4.3	133,338	24.8	-5.5	-10.8	-3.9
Raw materials and semi-manufactures	-1.6	10.7	17.6	4.2	9.6	236,571	7.9	6.8	10.1	8.4
Fuels	3.9	12.9	37.5	23.5	22.9	70,032	19.4	15.2	20.6	7.9
Capital goods	-24.9	-6.6	13.3	10.8	34.2	180,777	27.4	46.9	26.0	-8.2

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)

	2002	2003	2004	2005#	2006#		2006			2007
							Q2#	Q3#	Q4#	Q1#
		(% change)			(% change)	($Mn)	(% change over a year earlier)			
Exports of services	**8.4**	**4.2**	**18.5**	**15.4**	**14.0**	**565,049**	**15.1**	**14.6**	**12.8**	**11.6**
Transportation	10.8	3.8	25.5	16.9	9.5	173,074	10.2	8.7	9.5	5.8
Travel	25.4	-4.4	26.1	14.2	12.8	90,340	12.7	12.5	12.8	14.6
Trade-related	9.0	12.2	12.6	10.7	12.1	181,760	11.4	13.1	11.0	11.0
Other services	-5.9	-1.4	12.7	22.9	25.5	119,875	31.5	29.3	21.5	18.4
Imports of services	**4.3**	**0.4**	**19.2**	**9.0**	**7.5**	**284,015**	**9.9**	**6.6**	**8.4**	**5.7**
Transportation	-4.7	7.8	29.4	20.3	8.0	87,893	10.3	7.1	8.2	5.2
Travel	0.8	-8.0	15.9	0.1	4.9	108,537	9.0	2.3	6.9	3.5
Trade-related	24.2	9.2	3.2	12.8	2.9	19,169	2.5	3.6	1.2	2.6
Other services	20.0	8.2	19.7	10.5	12.6	68,416	13.0	14.4	13.6	10.9
Net exports of services	**14.8**	**9.4**	**17.6**	**23.8**	**21.4**	**281,034**	**21.3**	**24.1**	**17.2**	**17.7**

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

	2002	2003	2004	2005	2006	2006 Q2	2006 Q3	2006 Q4	2007 Q1
('000)									
All sources	**16 566.4**	**15 536.8**	**21 810.6**	**23 359.4**	**25 251.1**	**5 971.0**	**6 374.7**	**6 679.1**	**6 615.8**
Mainland of China	6 825.2	8 467.2	12 245.9	12 541.4	13 591.3	3 114.5	3 492.3	3 392.6	3 778.2
South and Southeast Asia	1 905.2	1 359.6	2 077.7	2 413.0	2 659.7	695.7	601.8	818.6	566.3
Taiwan	2 428.8	1 852.4	2 074.8	2 130.6	2 177.2	513.0	599.0	538.4	525.7
Europe	1 083.9	780.8	1 142.7	1 398.0	1 548.2	364.5	360.0	472.1	413.8
Japan	1 395.0	867.2	1 126.3	1 210.8	1 311.1	305.1	336.9	348.4	337.3
United States	1 000.8	683.8	1 051.7	1 143.1	1 159.0	300.2	276.4	318.4	277.4
Others	1 927.4	1 525.8	2 091.7	2 522.6	2 804.5	677.9	708.3	790.6	716.9
(% change over a year earlier)									
All sources	**20.7**	**-6.2**	**40.4**	**7.1**	**8.1**	**8.4**	**6.7**	**4.3**	**6.3**
Mainland of China	53.4	24.1	44.6	2.4	8.4	9.5	6.0	0.9	5.2
South and Southeast Asia	9.1	-28.6	52.8	16.1	10.2	12.7	10.5	8.9	4.2
Taiwan	0.4	-23.7	12.0	2.7	2.2	-0.1	4.4	-0.5	-0.2
Europe	6.3	-28.0	46.3	22.3	10.7	5.5	9.4	13.8	17.7
Japan	4.4	-37.8	29.9	7.5	8.3	15.3	11.0	6.9	5.2
United States	7.0	-31.7	53.8	8.7	1.4	2.3	0.5	1.4	5.1
Others	5.9	-20.8	37.1	20.6	11.2	7.9	7.9	13.9	14.2

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

Table 12 : Property market

	1997	1998	1999	2000	2001	2002	2003
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[a] (in units)	18 202	22 278	35 322	25 790	26 262	31 052	26 397
Commercial property	705	945	634	160	208	304	417
of which :							
Office space	456	737	428	96	76	166	299
Other commercial premises[b]	249	208	206	64	132	138	118
Industrial property[c]	343	300	191	62	45	29	15
of which :							
Industrial-cum-office premises	72	145	40	37	14	0	15
Conventional flatted factory space	181	31	4	19	30	3	0
Storage premises[d]	90	124	147	6	0	27	0
Production of public housing							
(in units)							
Rental housing flats[e]	16 046	14 267	26 733	40 944	47 590	20 154	13 948
Subsidized sales flats[e]	21 535	21 993	26 532	22 768	26 174	2 224	320
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5	790.0	1 038.4
Commercial property	599.0	395.7	287.5	337.5	265.0	365.3	200.0
Industrial property[f]	461.6	69.5	84.9	129.2	45.7	107.1	0.8
Other properties	259.2	201.5	125.8	240.2	75.0	109.3	444.2
Total	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3
Agreements for sale and purchase of property							
(Number)							
Residential property[g]	172 711	85 616	77 087	65 340	69 667	72 974	71 576
Primary market	15 806	23 441	18 325	13 911	18 366	23 088	26 498
Secondary market	156 905	62 175	58 762	51 429	51 301	49 886	45 078
Selected types of non-residential properties[h]							
Office space	N.A.	N.A.	N.A.	1 724	1 774	1 639	1 817
Other commerical premises	N.A.	N.A.	N.A.	2 411	2 989	3 167	4 142
Flatted factory space	N.A.	N.A.	N.A.	N.A.	N.A.	3 756	3 813

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)

	2004	2005	2006	2006 Q2	2006 Q3	2006 Q4	2007 Q1
Completion of new property by the private sector							
('000 m^2 of internal floor area)							
Residential property[a] (in units)	26 036	17 321	16 579	5 765	3 555	4 474	2 273
Commercial property	371	145	291	63	42	178	33
of which :							
Office space	280	34	108	28	36	43	10
Other commercial premises[b]	91	111	183	35	6	134	24
Industrial property[c]	1	17	27	7	4	2	0
of which :							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	1	0	0	0	0	0	0
Storage premises[d]	0	13	27	7	4	2	0
Production of public housing							
(in units)							
Rental housing flats[e]	20 947	24 691	4 430	2 397	0	0	4 795
Subsidized sales flats[e]	0	0	0	0	0	0	1 200
Building plans with consent to commence work in the private sector							
('000 m^2 of usable floor area)							
Residential property	530.0	550.7	706.7	88.5	343.9	99.4	48.7
Commercial property	161.3	481.9	468.4	100.9	38.4	313.6	127.6
Industrial property[f]	16.4	35.1	23.9	13.1	8.2	1.2	11.0
Other properties	407.1	408.0	199.2	46.6	98.7	25.9	71.9
Total	1 114.8	1 475.8	1 398.2	249.1	489.1	440.0	259.1
Agreements for sale and purchase of property							
(Number)							
Residential property[g]	100 630	103 362	82 472	21 811	22 241	20 696	23 328
Primary market	25 694	15 994	13 986	3 023	5 902	3 767	3 095
Secondary market	74 936	87 368	68 486	18 788	16 339	16 929	20 233
Selected types of non-residential properties[h]							
Office space	3 213	3 431	2 876	794	671	762	745
Other commerical premises	7 833	7 143	4 385	1 168	1 026	1 076	1 045
Flatted factory space	5 889	6 560	7 405	2 038	1 819	1 858	1 908

Notes (cont'd) :

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

(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 in the Land Registry.

N.A. Not available.

Table 13 : Property prices and rentals

	1997	1998	1999	2000	2001	2002	2003
(Index (1999=100))							
Property price indices :							
Residential flats[a]	163.1	117.1	100.0	89.6	78.7	69.9	61.6
Office space[b]	213.1	134.5	100.0	89.9	78.7	68.4	62.5
Shopping space	177.3	128.3	100.0	93.6	86.8	85.0	85.5
Flatted factory space	168.9	131.8	100.0	91.2	82.0	74.8	71.7
Property rental indices[c]:							
Residential flats	134.5	112.6	100.0	98.1	95.4	83.4	73.6
Office space[b]	156.8	135.9	100.0	98.5	101.0	85.4	74.6
Shopping space	123.5	111.2	100.0	101.3	99.4	92.9	86.4
Flatted factory space	132.5	118.1	100.0	95.4	90.3	82.7	74.9
(% change)							
Property price indices :							
Residential flats[a]	39.5	-28.2	-14.6	-10.4	-12.2	-11.2	-11.9
Office space[b]	13.1	-36.9	-25.7	-10.1	-12.5	-13.1	-8.6
Shopping space	32.3	-27.6	-22.1	-6.4	-7.3	-2.1	0.6
Flatted factory space	-1.5	-22.0	-24.1	-8.8	-10.1	-8.8	-4.1
Property rental indices[c]:							
Residential flats	13.0	-16.3	-11.2	-1.9	-2.8	-12.6	-11.8
Office space[b]	3.0	-13.3	-26.4	-1.5	2.5	-15.4	-12.6
Shopping space	4.8	-10.0	-10.1	1.3	-1.9	-6.5	-7.0
Flatted factory space	0.1	-10.9	-15.3	-4.6	-5.3	-8.4	-9.4

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

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

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

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

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

	2004	2005	2006+	2006 Q2	2006 Q3	2006 Q4#	2007 Q1+
(Index (1999=100))							
Property price indices :							
Residential flats[a]	78.0	92.0	92.7	93.2	92.7	93.3	96.0
Office space[b]	99.3	133.0	139.1	139.5	143.9	141.8	150.3
Shopping space	119.3	149.3	153.2	154.5	153.9	152.7	157.0
Flatted factory space	88.6	125.0	158.2	154.6	164.5	169.4	177.1
Property rental indices[c]:							
Residential flats	77.7	86.5	91.6	90.9	92.2	94.2	96.5
Office space[b]	78.1	96.4	117.2	117.4	120.3	121.1	125.3
Shopping space	92.8	100.5	104.4	102.8	104.1	107.3	108.3
Flatted factory space	77.3	82.6	90.9	90.2	92.7	94.4	96.0
(% change over a year earlier)							
Property price indices :							
Residential flats[a]	26.6	17.9	0.8	-1.4	-1.0	3.6	4.9 <61.9> {-43.4}
Office space[b]	58.9	33.9	4.6	2.9	4.6	4.7	14.7 <154.7> {-33.2}
Shopping space	39.5	25.1	2.6	1.0	3.4	1.1	3.6 <93.8> {-18.8}
Flatted factory space	23.6	41.1	26.6	26.2	24.5	24.0	22.7 <153.0> {2.1}
Property rental indices[c]:							
Residential flats	5.6	11.3	5.9	6.3	4.4	4.8	8.1 <34.2> {-30.5}
Office space[b]	4.7	23.4	21.6	26.5	20.5	14.9	13.8 <74.8> {-21.2}
Shopping space	7.4	8.3	3.9	3.8	1.2	3.8	4.9 <28.8> {-13.1}
Flatted factory space	3.2	6.9	10.0	9.5	12.4	11.7	11.2 <33.0> {-28.2}

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

(+) Provisional figures.

< > % change from the trough in 2003.

{ } % change from the peak in 1997.

Table 14 : Monetary aggregates

	1997	1998	1999	2000	2001	2002	2003
(as at end of period)							
Hong Kong dollar money supply ($Mn) :							
M1	188,135	178,260	205,339	203,966	229,841	259,411	354,752
M2[a]	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049	2,107,269
M3[a]	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225	2,122,861
Total money supply ($Mn)							
M1	208,093	197,666	225,156	243,847	258,056	295,650	413,423
M2	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060	3,518,326	3,813,442
M3	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130	3,561,852	3,858,044
Deposit[b] ($Mn)							
HK$	1,551,555	1,699,726	1,773,169	1,851,177	1,854,651	1,824,911	1,930,790
Foreign currency	1,158,728	1,300,302	1,477,448	1,676,670	1,551,852	1,492,631	1,636,227
Total	2,710,282	3,000,027	3,250,617	3,527,847	3,406,502	3,317,542	3,567,018
Loans and advances ($Mn)							
HK$	1,742,481	1,695,027	1,607,126	1,652,191	1,647,684	1,615,667	1,573,079
Foreign currency	2,379,189	1,609,400	1,205,784	809,259	537,301	460,659	462,000
Total	4,121,670	3,304,427	2,812,910	2,461,450	2,184,986	2,076,325	2,035,079
Nominal Effective Exchange Rate Indices (Jan 2000 =100)[c][d]							
Trade-weighted	98.0	103.4	100.9	101.7	104.7	104.0	100.7
Import-weighted	97.9	105.5	101.4	101.5	105.1	104.7	101.6
Export-weighted	98.1	101.3	100.4	101.9	104.3	103.3	99.8
(% change)							
Hong Kong dollar money supply :							
M1	-5.1	-5.2	15.2	-0.7	12.7	12.9	36.8
M2[a]	--	9.7	5.2	3.4	0.5	-0.7	6.2
M3[a]	--	9.3	5.1	3.5	0.7	-0.6	5.9
Total money supply :							
M1	-4.3	-5.0	13.9	8.3	5.8	14.6	39.8
M2	--	11.6	8.8	7.8	-2.7	-0.9	8.4
M3	--	10.3	8.4	7.5	-2.7	-0.9	8.3
Deposit[b]							
HK$	--	9.5	4.3	4.4	0.2	-1.6	5.8
Foreign currency	--	12.2	13.6	13.5	-7.4	-3.8	9.6
Total	--	10.7	8.4	8.5	-3.4	-2.6	7.5
Loans and advances							
HK$	20.4	-2.7	-5.2	2.8	-0.3	-1.9	-2.6
Foreign currency	-3.6	-32.4	-25.1	-32.9	-33.6	-14.3	0.3
Total	5.3	-19.8	-14.9	-12.5	-11.2	-5.0	-2.0
Nominal Effective Exchange Rate Indices[c][d]							
Trade-weighted	4.3	5.5	-2.4	0.8	2.9	-0.7	-3.2
Import-weighted	5.3	7.8	-3.9	0.1	3.5	-0.4	-3.0
Export-weighted	3.2	3.3	-0.9	1.5	2.4	-1.0	-3.4

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placements of less than one month in the monetary aggregates. As such, figures at end-1997 cannot be compared with those at end-1996.

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)

	2004	2005	2006	2006 Q2	2006 Q3	2006 Q4	2007 Q1
(as at end of period)							
Hong Kong dollar money supply ($Mn) :							
M1	412,629	348,248	387,918	353,297	367,188	387,918	418,842
M2[a]	2,208,591	2,329,669	2,777,821	2,506,013	2,651,516	2,777,821	2,948,372
M3[a]	2,219,557	2,345,838	2,795,686	2,523,153	2,669,052	2,795,686	2,966,455
Total money supply ($Mn)							
M1	484,494	434,684	491,657	447,433	470,389	491,657	534,383
M2	4,166,706	4,379,057	5,062,602	4,636,476	4,856,149	5,062,602	5,271,718
M3	4,189,544	4,407,188	5,098,010	4,666,865	4,886,507	5,098,010	5,302,191
Deposit[b] ($Mn)							
HK$	2,017,911	2,131,579	2,568,424	2,300,179	2,441,962	2,568,424	2,736,438
Foreign currency	1,848,145	1,936,322	2,197,121	2,029,667	2,108,527	2,197,121	2,236,194
Total	3,866,056	4,067,901	4,765,545	4,329,846	4,550,489	4,765,545	4,972,631
Loans and advances ($Mn)							
HK$	1,666,740	1,797,350	1,917,437	1,861,763	1,931,779	1,917,437	2,070,264
Foreign currency	488,964	514,637	550,392	555,727	566,351	550,392	601,228
Total	2,155,704	2,311,987	2,467,828	2,417,490	2,498,130	2,467,828	2,671,492
Nominal Effective Exchange Rate Indices (Jan 2000 =100)[c][d]							
Trade-weighted	98.3	97.4	96.1	96.2	95.8	94.9	93.7
Import-weighted	99.2	98.1	96.8	96.8	96.5	95.6	94.3
Export-weighted	97.3	96.7	95.5	95.6	95.1	94.2	93.0
(% change over a year earlier)							
Hong Kong dollar money supply :							
M1	16.3	-15.6	11.4	-2.1	4.7	11.4	17.4
M2[a]	4.8	5.5	19.2	13.2	16.3	19.2	20.2
M3[a]	4.6	5.7	19.2	13.3	16.3	19.2	20.1
Total money supply :							
M1	17.2	-10.3	13.1	2.1	9.1	13.1	21.7
M2	9.3	5.1	15.6	11.3	14.4	15.6	16.6
M3	8.6	5.2	15.7	11.3	14.4	15.7	16.5
Deposit[b]							
HK$	4.5	5.6	20.5	14.0	17.4	20.5	21.7
Foreign currency	13.0	4.8	13.5	10.4	14.2	13.5	14.1
Total	8.4	5.2	17.1	12.3	15.9	17.1	18.2
Loans and advances							
HK$	6.0	7.8	6.7	5.9	9.5	6.7	15.5
Foreign currency	5.8	5.3	6.9	11.3	12.1	6.9	12.2
Total	5.9	7.2	6.7	7.1	10.1	6.7	14.8
Nominal Effective Exchange Rate Indices[c][d]							
Trade-weighted	-2.4	-0.9	-1.3	-0.9	-1.8	-3.8	-4.0
Import-weighted	-2.4	-1.1	-1.3	-0.9	-1.8	-3.9	-4.0
Export-weighted	-2.5	-0.6	-1.2	-0.8	-1.9	-3.6	-4.1

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

(b) Starting from April 1997, deposits include short-term Exchange Fund placements of less than one month. As such, figures at end-1997 cannot be compared with those at end-1996.

(c) Period average.

(d) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.

(--) Not applicable.

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

(%)

	2002	2003	2004	2005	2006	2006			
						Q1	Q2	Q3	Q4[#]
Wholesale trade	-10.7	-5.0	4.7	5.6	7.9	4.3	5.7	14.1	7.5
Retail trade	-4.1	-2.3	10.8	6.8	7.3	6.1	6.7	7.7	8.8
Import/export trade	-2.8	6.5	12.4	10.6	10.2	10.3	8.4	11.0	11.1
Restaurants	-5.4	-9.7	10.1	6.0	9.5	8.8	11.1	7.1	10.9
Hotels	-2.3	-19.7	39.4	22.1	13.8	14.7	15.4	14.4	11.4
Transport[(a)]	2.3	0.5	22.8	17.8	10.6	17.6	12.6	6.4	7.6
Storage	-19.6	-4.5	17.0	10.4	10.2	9.2	5.0	10.7	15.6
Communications	-2.6	-2.4	1.0	5.1	0.8	1.2	2.5	-0.4	-0.1
Banking	-0.8	*	4.4	10.9	19.5	18.0	24.1	11.5	24.1
Financing (other than banking)	-14.3	17.3	33.2	14.3	47.9	50.8	57.2	25.9	58.5
Insurance	10.3	19.1	22.3	16.0	21.3	35.5	21.9	14.1	16.0
Real estate	-2.5	6.2	13.5	16.0	-0.4	-6.0	-5.3	4.6	5.6
Business services	-5.8	0.5	8.3	4.9	19.6	19.2	18.1	22.9	18.3
Film entertainment	-9.1	2.3	3.7	5.0	1.7	0.6	-0.7	5.8	1.1
Tourism, convention and exhibition services	10.7	-7.3	26.5	12.9	13.0	14.3	16.2	13.6	8.8
Computer and information services	5.7	5.7	20.5	23.4	9.7	21.5	-1.5	21.1	0.1

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

(#) Revised figures.

(*) Change within ±0.05%.

Table 16 : Labour force characteristics#

	2002	2003	2004	2005	2006	2006			2007
						Q2	Q3	Q4	Q1
(%)									
Labour force participation rate	61.8	61.4	61.3	61.0	61.3	60.8	61.8	61.6	61.2
Seasonally adjusted unemployment rate	7.3	7.9	6.8	5.6	4.8	4.9	4.7	4.4	4.3
Underemployment rate	3.0	3.5	3.2	2.7	2.4	2.6	2.3	2.4	2.2
('000)									
Population of working age	5 620.7	5 652.4	5 733.1	5 801.4	5 843.2	5 828.7	5 852.2	5 879.1	5 899.0
Labour force	3 474.0	3 472.5	3 515.9	3 538.1	3 582.5	3 544.0	3 614.1	3 619.7	3 611.9
Persons employed	3 220.3	3 197.4	3 276.5	3 340.8	3 411.6	3 368.3	3 437.1	3 466.0	3 459.4
Persons unemployed	253.8	275.1	239.4	197.3	170.9	175.7	177.0	153.7	152.5
Persons underemployed	103.9	121.4	114.1	96.3	86.3	93.8	84.3	87.6	80.6
(% change over a year earlier)									
Population of working age	0.8	0.6	1.4	1.2	0.7	0.7	0.8	0.7	1.5
Labour force	1.4	*	1.3	0.6	1.3	0.5	1.9	1.9	1.7
Persons employed	-1.0	-0.7	2.5	2.0	2.1	1.3	2.8	2.8	2.5
Persons unemployed	45.3	8.4	-13.0	-17.6	-13.4	-12.9	-12.7	-13.8	-13.9
Persons underemployed	22.4	16.9	-6.0	-15.6	-10.0	-4.8	-8.8	0.8	-0.4

Notes : (#) Figures enumerated from the General Household Survey have been revised to take into account the recent enhancements in the estimation method and the results of the 2006 Population By-census, which provide a benchmark for revising the population figures compiled since the 2001 Population Census.

(*) Change within ±0.05%.

Table 17 : Employment in selected major economic sectors

Major economic sector	2002	2003	2004	2005	2006	2006 Mar	2006 Jun	2006 Sep	2006 Dec	No.
	(% change)					(% change over a year earlier)				
Manufacturing	**-9.0**	**-10.3**	**-3.0**	**-2.0**	**-2.5**	**-1.0**	**-0.5**	**-3.7**	**-4.8**	**159 300**
of which :										
Wearing apparel, except footwear	-19.3	-11.6	-0.8	-4.7	-10.5	-3.7	0.3	-18.6	-19.0	17 700
Textiles	-1.1	-16.8	-11.1	0.5	-4.4	-3.4	-1.6	-5.7	-7.0	18 800
Electronics	-13.1	-18.9	-2.3	-4.7	-12.9	-11.9	-9.5	-14.1	-16.1	12 000
Plastic products	-17.0	-19.1	-16.8	-1.3	-8.8	2.6	-4.7	-5.3	-25.4	2 700
Fabricated metal products, except machinery and equipment	-14.6	-20.7	-4.9	-9.7	-2.3	-8.3	-4.5	3.4	1.4	5 500
Wholesale, retail, import/export trades, restaurants and hotels	**-2.3**	**-3.0**	**2.9**	**2.6**	**1.9**	**1.9**	**1.8**	**1.7**	**2.3**	**1 047 700**
of which :										
Wholesale, retail and import/export trades	-1.6	-1.9	2.1	2.3	1.1	1.0	0.9	0.7	1.8	816 000
Restaurants and hotels	-4.8	-7.3	6.0	3.6	5.1	5.3	5.3	5.5	4.3	231 800
Transport, storage and communications	**-1.8**	**-4.4**	**3.7**	**2.6**	**1.1**	**1.6**	**-0.2**	**1.4**	**1.7**	**186 900**
of which :										
Land transport	-0.3	0.5	-2.2	-1.5	0.3	-0.6	0.6	*	1.2	37 900
Water transport	1.0	-3.6	0.1	-0.3	-4.4	-3.6	-8.1	-3.5	-2.1	26 100
Services allied to transport	1.1	-3.7	10.3	7.9	3.4	3.6	3.2	3.9	2.9	64 500
Financing, insurance, real estate and business services	**-1.3**	**-1.9**	**3.6**	**4.4**	**5.0**	**4.6**	**4.1**	**5.5**	**5.8**	**491 600**
of which :										
Financial institutions	-5.6	-6.5	1.1	4.7	5.9	4.1	4.5	6.8	8.1	138 600
Insurance	0.3	1.2	2.4	5.9	-1.2	2.3	-4.8	-1.1	-1.0	29 100
Real estate	5.2	0.7	2.2	6.8	5.3	8.2	5.7	4.0	3.2	99 000
Business services except machinery and equipment rental and leasing	-1.2	-0.2	6.0	2.9	5.3	3.7	4.5	6.4	6.7	224 000
Community, social and personal services	**5.9**	**2.9**	**3.2**	**4.5**	**3.6**	**3.9**	**3.4**	**4.0**	**3.1**	**460 800**
of which :										
Sanitary and similar services	13.8	6.0	1.5	2.4	2.5	4.4	1.6	0.4	3.7	60 400
Education services	2.5	2.9	1.8	1.8	4.9	4.0	3.6	7.5	4.5	141 700
Medical, dental and other health services	3.2	-0.3	2.5	1.6	4.0	2.5	4.4	4.5	4.5	80 700
Welfare institutions	11.9	13.9	2.1	-0.4	1.5	2.4	4.0	-0.1	*	53 600
Civil Service[a]	**-3.7**	**-2.4**	**-3.8**	**-2.7**	**-1.3**	**-1.5**	**-1.5**	**-1.4**	**-1.1**	**153 800**

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 ±0.05%.

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

	2002	2003	2004	2005	2006	2006 Mar	2006 Jun	2006 Sep	2006 Dec
(number)									
Building sites									
Private sector	40 017	33 892	33 619	31 556	30 993	32 156	30 997	31 261	29 556
Public sector[(a)]	11 727	16 183	13 325	10 135	7 643	8 312	7 822	7 588	6 850
Sub-total	51 744	50 074	46 944	41 690	38 636	40 468	38 819	38 849	36 406
Civil engineering sites									
Private sector	2 869	2 755	2 564	2 198	1 569	1 594	1 707	1 540	1 434
Public sector[(a)]	18 611	17 466	16 772	15 378	12 661	12 835	11 747	12 897	13 164
Sub-total	21 480	20 221	19 336	17 576	14 230	14 429	13 454	14 437	14 598
Total	**73 223**	**70 295**	**66 280**	**59 266**	**52 865**	**54 897**	**52 273**	**53 286**	**51 004**
(% change over a year earlier)									
Building sites									
Private sector	-1.3	-15.3	-0.8	-6.1	-1.8	-5.3	-0.9	1.9	-2.5
Public sector[(a)]	-31.8	38.0	-17.7	-23.9	-24.6	-27.6	-22.0	-28.2	-19.0
Sub-total	-10.4	-3.2	-6.3	-11.2	-7.3	-11.0	-6.0	-5.8	-6.1
Civil engineering sites									
Private sector	9.0	-4.0	-6.9	-14.3	-28.6	-48.4	-25.2	-17.2	-8.1
Public sector[(a)]	-6.6	-6.2	-4.0	-8.3	-17.7	-25.5	-28.5	-6.1	-6.8
Sub-total	-4.8	-5.9	-4.4	-9.1	-19.0	-29.0	-28.1	-7.4	-6.9
Total	**-8.8**	**-4.0**	**-5.7**	**-10.6**	**-10.8**	**-16.5**	**-12.9**	**-6.3**	**-6.3**

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

Table 19 : Average labour earnings by major economic sector

($)

Major economic sector	2002	2003	2004	2005	2006	2006 Q1	2006 Q2	2006 Q3	2006 Q4
Wholesale, retail and import/export trades	12,500	12,300	12,400	13,300	13,800	15,500	12,500	13,000	14,100
	(-1.6)	(-1.5)	(0.4)	(7.3)	(4.1)	(2.6)	(3.4)	(5.3)	(5.1)
	<1.4>	<1.1>	<0.9>	<6.3>	<2.0>	<1.0>	<1.3>	<3.0>	<2.9>
Restaurants and hotels	8,700	8,100	8,100	8,300	8,500	9,000	8,000	8,200	8,700
	(-4.2)	(-6.2)	(-0.1)	(1.9)	(2.6)	(-0.9)	(0.7)	(2.9)	(8.1)
	<-1.2>	<-3.7>	<0.4>	<0.9>	<0.6>	<-2.4>	<-1.3>	<0.6>	<5.8>
Transport, storage and communications	18,900	18,500	18,300	19,200	19,600	19,800	18,700	18,500	21,400
	(-0.2)	(-1.7)	(-1.3)	(5.0)	(2.1)	(-3.4)	(4.2)	(2.1)	(5.8)
	<2.9>	<0.9>	<-0.9>	<4.1>	<0.1>	<-4.9>	<2.1>	<-0.2>	<3.6>
Financing, insurance, real estate and business services	18,800	18,600	18,500	19,100	20,100	22,200	19,000	18,200	21,200
	(-2.2)	(-1.4)	(-0.1)	(2.8)	(5.6)	(5.6)	(5.0)	(5.6)	(6.3)
	<0.8>	<1.2>	<0.4>	<1.8>	<3.6>	<4.0>	<2.9>	<3.3>	<4.1>
Community, social and personal services	19,800	18,900	18,400	18,000	17,900	17,700	17,800	18,200	18,100
	(-1.3)	(-4.7)	(-2.6)	(-2.2)	(-0.1)	(-0.4)	(-0.1)	(0.2)	(-0.1)
	<1.8>	<-2.2>	<-2.2>	<-3.1>	<-2.0>	<-1.9>	<-2.1>	<-2.0>	<-2.2>
Manufacturing	11,800	11,400	11,300	11,600	11,700	12,900	11,400	10,900	11,700
	(-1.2)	(-3.0)	(-0.6)	(1.8)	(1.4)	(1.3)	(1.1)	(2.7)	(0.8)
	<1.9>	<-0.4>	<-0.2>	<0.9>	<-0.6>	<-0.3>	<-0.9>	<0.4>	<-1.3>
All sectors surveyed	**15,300**	**15,000**	**14,900**	**15,400**	**15,800**	**17,000**	**14,900**	**14,900**	**16,300**
	(-1.1)	**(-1.8)**	**(-0.7)**	**(3.5)**	**(2.4)**	**(1.3)**	**(2.2)**	**(2.2)**	**(4.0)**
	<2.0>	**<0.8>**	**<-0.2>**	**<2.6>**	**<0.4>**	**<-0.3>**	**<0.1>**	**<-0.1>**	**<1.8>**

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.

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

(%)

Selected major economic sector	2002	2003	2004	2005	2006	2006 Mar	2006 Jun	2006 Sep	2006 Dec
(in money terms)									
Wholesale, retail and import/export trades	-0.6	-1.7	-1.6	1.6	1.1	-0.3	1.6	1.6	1.6
Restaurants and hotels	-2.6	-4.1	-2.2	*	1.0	-0.1	1.5	1.6	0.9
Transport services	0.6	-1.9	-1.0	1.0	-0.6	-0.8	-1.7	*	0.4
Financing, insurance, real estate and business services	-0.8	-0.1	-0.5	*	3.2	4.0	2.0	3.5	3.4
Personal services	-1.5	-3.1	1.3	-1.5	2.5	-1.5	0.6	4.8	6.1
Manufacturing	-1.4	-2.7	-1.3	1.2	2.9	2.8	1.1	4.6	3.2
All sectors surveyed	**-1.0**	**-1.9**	**-1.1**	**0.8**	**1.5**	**0.7**	**1.1**	**2.2**	**2.0**
(in real terms)									
Wholesale, retail and import/export trades	1.7	0.4	-1.7	0.4	-0.6	-1.7	-0.3	-0.2	-0.3
Restaurants and hotels	-0.4	-2.1	-2.3	-1.3	-0.8	-1.5	-0.4	-0.2	-0.9
Transport services	2.9	0.1	-1.0	-0.2	-2.3	-2.2	-3.6	-1.8	-1.5
Financing, insurance, real estate and business services	1.5	2.0	-0.6	-1.2	1.5	2.5	0.1	1.7	1.5
Personal services	0.8	-1.1	1.3	-2.7	0.7	-2.9	-1.3	3.0	4.2
Manufacturing	0.8	-0.7	-1.4	-0.1	1.1	1.4	-0.8	2.8	1.2
All sectors surveyed	**1.3**	**0.2**	**-1.2**	**-0.4**	**-0.3**	**-0.7**	**-0.7**	**0.3**	**0.1**

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 ±0.05%.

Table 21 : Rates of change in prices

(%)

	1997	1998	1999	2000	2001	2002	2003	2004
GDP deflator	5.6	0.2	-5.8	-5.6	-1.8	-3.5	-6.4	-3.6
Domestic demand deflator	4.5	0.4	-2.3	-5.0	-2.3	-4.9	-4.5	*
Consumer Price Indices[(a)] :								
Composite CPI	5.8	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4
CPI(A)	5.7	2.6	-3.3	-3.0	-1.7	-3.2	-2.1	*
CPI(B)	5.8	2.8	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5
CPI(C)	6.1	3.2	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9
Unit Value Indices :								
Domestic exports	-2.4	-2.8	-2.4	-1.0	-4.7	-3.3	0.2	1.5
Re-exports	-1.5	-3.9	-2.8	-0.1	-2.0	-2.7	-1.5	1.1
Total exports of goods	-1.6	-3.8	-2.7	-0.2	-2.3	-2.7	-1.4	1.2
Imports of goods	-2.3	-4.9	-2.0	0.8	-3.1	-3.9	-0.4	2.9
Terms of Trade Index	0.7	1.2	-0.7	-1.0	0.9	1.2	-1.0	-1.7
Producer Price Index for all manufacturing industries	-0.3	-1.8	-1.6	0.2	-1.6	-2.7	-0.3	2.2
Construction Labour and Material Cost Index	9.3	7.5	1.4	1.8	0.3	-0.3	-1.0	-1.2
Tender Price Indices :								
Public sector building projects	17.6	9.1	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5
Public housing projects	18.9	9.0	-3.3	-11.9	-15.1	-9.6	-10.0	3.5

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 ±0.05%.

N.A. Not available.

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

(%)

	2005	2006	2006			2007	Average annual rate of change:	
			Q2	Q3	Q4	Q1	10 years 1996 to 2006	5 years 2001 to 2006
GDP deflator	-0.4 #	-0.4 #	-0.2 #	-0.4 #	-0.4 #	0.9 #	-2.2 #	-2.9 #
Domestic demand deflator	0.8 #	1.8 #	1.8 #	1.8 #	2.2 #	* #	-1.2 #	-1.4 #
Consumer Price Indices[(a)] :								
Composite CPI	1.0	2.0	2.0	2.3	2.1	1.7	-0.4	-0.6
CPI(A)	1.1	1.7	1.8	2.1	1.8	0.3	-0.2	-0.5
CPI(B)	1.0	2.1	2.1	2.4	2.2	2.0	-0.5	-0.7
CPI(C)	0.8	2.2	2.3	2.4	2.5	2.9	-0.4	-0.7
Unit Value Indices :								
Domestic exports	2.2	-2.1	-3.9	-1.3	-0.8	0.4	-1.5	-0.3
Re-exports	1.2	1.1	0.9	1.5	2.0	2.8	-1.1	-0.1
Total exports of goods	1.3	1.0	0.6	1.4	1.9	2.7	-1.1	-0.1
Imports of goods	2.7	2.1	1.9	2.7	2.7	2.6	-0.8	0.7
Terms of Trade Index	-1.4	-1.1	-1.3	-1.3	-0.9	0.1	-0.3	-0.8
Producer Price Index for all manufacturing industries	0.8	2.3	2.4	2.6	2.0	N.A.	-0.3	0.4
Construction Labour and Material Cost Index	-2.1	0.1	-0.6	1.3	2.5	N.A.	1.5	-0.9
Tender Price Indices :								
Public sector building projects	1.4	5.0	2.0	4.6	13.2	N.A.	-1.1	-1.6
Public housing projects	7.7	11.2	7.3	15.8	17.9	N.A.	-0.6	0.2

Table 22 : Rates of change in Composite Consumer Price Index

(%)

	Weight	1997	1998	1999	2000	2001	2002	2003
All items	**100.0**	**5.8**	**2.8**	**-4.0**	**-3.8**	**-1.6**	**-3.0**	**-2.6**
Food	26.94	3.6	1.9	-1.8	-2.2	-0.8	-2.1	-1.5
Meals bought away from home	*(16.86)*	*4.0*	*2.2*	*-1.2*	*-0.9*	*-0.3*	*-1.5*	*-1.5*
Food, excluding meals bought away from home	*(10.08)*	*3.0*	*1.5*	*-2.8*	*-4.2*	*-1.7*	*-3.1*	*-1.7*
Housing[(a)]	29.17	9.2	4.7	-5.1	-8.2	-3.1	-5.7	-4.8
Private housing rent	*(23.93)*	*9.1*	*5.5*	*-6.1*	*-9.8*	*-2.9*	*-6.5*	*-6.3*
Public housing rent	*(2.49)*	*13.5*	*-3.4*	*1.4*	*1.1*	*-8.3*	*-2.7*	*9.1*
Electricity, gas and water	3.59	5.0	1.4	-0.4	3.6	-1.9	-7.0	1.4
Alcoholic drinks and tobacco	0.87	5.6	6.6	1.2	-0.9	3.3	2.4	0.1
Clothing and footwear	3.91	8.4	-0.8	-20.6	-10.1	-4.6	0.7	-2.7
Durable goods	5.50	2.2	0.2	-6.3	-4.6	-7.1	-6.3	-6.4
Miscellaneous goods	4.78	5.4	2.6	-0.7	0.9	1.3	1.7	2.3
Transport	9.09	4.0	3.9	0.5	1.0	0.4	-0.6	-0.4
Miscellaneous services	16.15	4.5	2.7	-1.3	-0.2	0.5	-2.3	-3.2

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 ±0.05%.

N.A. Not available.

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

(%)

	Weight	2004	2005	2006	2006			2007	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 1996 to 2006	5 years 2001 to 2006
All items	**100.0**	**-0.4**	**1.0**	**2.0**	**2.0**	**2.3**	**2.1**	**1.7**	**-0.4**	**-0.6**
Food	26.94	1.0	1.8	1.7	1.7	2.1	2.2	2.9	0.1	0.2
Meals bought away from	*(16.86)*	*0.2*	*0.9*	*1.3*	*1.3*	*1.5*	*1.5*	*1.8*	*0.3*	*-0.1*
Food, excluding meals bought away from home	*(10.08)*	*2.5*	*3.2*	*2.5*	*2.3*	*3.1*	*3.5*	*4.4*	*-0.1*	*0.6*
Housing[(a)]	29.17	-5.2	0.1	4.7	4.9	4.8	4.8	2.2	-1.5	-2.3
Private housing rent	*(23.93)*	*-6.6*	*-0.1*	*5.6*	*5.9*	*5.7*	*5.6*	*5.6*	*-2.0*	*-2.9*
Public housing rent	*(2.49)*	*2.5*	*0.2*	*0.1*	*0.1*	*0.1*	*0.1*	*-31.7*	*N.A.*	*1.8*
Electricity, gas and water	3.59	11.4	4.1	2.1	3.4	4.1	-2.8	-1.3	1.9	2.2
Alcoholic drinks and tobacco	0.87	*	0.4	-3.7	-5.9	-4.1	-4.3	-3.9	1.5	-0.2
Clothing and footwear	3.91	6.4	2.0	1.0	-0.7	1.7	5.0	7.2	-2.4	1.4
Durable goods	5.50	-2.2	-3.2	-6.4	-6.6	-6.9	-6.3	-5.8	-4.1	-4.9
Miscellaneous goods	4.78	3.6	1.5	1.7	1.8	1.9	2.6	2.8	2.0	2.2
Transport	9.09	0.4	1.4	0.7	1.1	0.2	-0.1	-0.6	1.1	0.3
Miscellaneous services	16.15	-0.2	1.0	1.9	1.9	2.5	2.1	2.2	0.3	-0.6

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

(%)

	1997	1998	1999	2000	2001	2002	2003
Private consumption expenditure	3.9	2.1	-5.2	-4.5	-1.0	-3.4	-2.9
Government consumption expenditure	6.4	2.6	-0.1	-1.9	1.1	-0.6	-2.7
Gross domestic fixed capital formation	6.0	-7.2	0.4	-3.8	-6.6	-10.1	-9.4
Total exports of goods	-1.9	-3.3	-3.4	-0.5	-2.6	-2.9	-2.0
Imports of goods	-1.9	-4.4	-2.6	0.8	-3.5	-4.2	-0.9
Exports of services	0.8	-5.1	-3.1	1.6	-4.3	-2.2	-3.4
Imports of services	0.7	-3.6	-0.3	-0.3	-1.1	0.4	2.6
Gross Domestic Product	**5.6**	**0.2**	**-5.8**	**-5.6**	**-1.8**	**-3.5**	**-6.4**
Total final demand	1.3	-2.3	-3.7	-2.7	-2.6	-3.7	-3.0
Domestic demand	4.5	0.4	-2.3	-5.0	-2.3	-4.9	-4.5

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

(*) Change within ±0.05%.

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

(%)

	2004	2005#	2006#	2006			2007	Average annual rate of change:	
				Q2#	Q3#	Q4#	Q1#	10 years 1996 to 2006#	5 years 2001 to 2006#
Private consumption expenditure	-0.5	1.5	1.6	1.5	1.4	1.5	2.1	-0.9	-0.8
Government consumption expenditure	-2.9	-1.6	1.4	1.3	1.4	1.4	1.6	0.1	-1.3
Gross domestic fixed capital formation	2.1	0.5	2.8	2.6	5.7	4.2	-5.9	-2.7	-3.0
Total exports of goods	0.5	-0.1	-0.5	-0.7	-0.4	0.2	0.9	-1.7	-1.0
Imports of goods	2.5	1.3	1.4	1.4	1.7	2.1	0.7	-1.2	*
Exports of services	0.4	3.7	4.7	5.5	5.2	3.5	3.0	-0.7	0.6
Imports of services	4.0	1.5	1.0	0.8	1.4	1.8	1.7	0.5	1.9
Gross Domestic Product	**-3.6**	**-0.4**	**-0.4**	**-0.2**	**-0.4**	**-0.4**	**0.9**	**-2.2**	**-2.9**
Total final demand	0.4	0.8	0.8	0.9	1.0	1.3	1.0	-1.5	-1.0
Domestic demand	*	0.8	1.8	1.8	1.8	2.2	*	-1.2	-1.4