

## **Press Release**

(embargoed until 4:30 p.m. on 15 May 2009)

### **Economic Situation in the First Quarter of 2009 and Latest GDP and Price Forecasts for 2009**

The Government released today (Friday) the First Quarter Economic Report 2009, together with the preliminary figures on Gross Domestic Product for the first quarter of 2009.

Details of the economic situation in the first quarter of 2009 and the latest GDP and price forecasts for the year are given below.

#### **MAIN POINTS**

- \* The global financial crisis and the ensuing severe recession continued to weigh heavily on Hong Kong economy. Following a contraction of 2.6% in the fourth quarter of 2008, GDP registered a sharp year-on-year decline of 7.8% in real terms in the first quarter of 2009. This marked the largest decline since the third quarter of 1998 when the economy was severely battered by the Asian Financial Crisis.
- \* On the trade front, Hong Kong's merchandise exports, like many other economies in the region, faced the double blow from sharp plunge in global demand and from an acute fall-off in intra-regional exports which were closely tied to demand in advanced economies. Total exports of goods plummeted by 22.7% in the first quarter over a year earlier, the largest decline since the second quarter of 1954. Exports of services declined by 8.2%, similarly hit by the plunge in global and regional demand. Inbound tourism nevertheless stood out as the bright spot with a further solid growth, thanks to the continued growth in Mainland visitors, partly helped by the further liberalisation measures under the Individual Visit Scheme.
- \* In such a difficult and uncertain global economic climate, local sentiments were naturally depressed. In the first quarter of 2009, private consumption expenditure fell by 5.5% when set against the very high base of comparison in the same quarter of 2008. Yet the decline on a quarter-to-quarter basis actually tapered, and this reflected in part the relative improvements in the local stock and property markets during the quarter, and conceivably also the stimulus from the several rounds of packages announced since last year. Overall investment remained much in a sluggish state, down by 12.6% in the first quarter over a year earlier.
- \* The labour market continued to adjust to the economic downturn through downsizing and wage cuts. The unemployment rate rose to 5.2% in the first quarter. As both local and external price pressures receded, consumer price inflation continued to trend down. The underlying inflation rate eased to 3.1% in

the first quarter, from 5.4% in the fourth quarter of 2008.

- \* With the pace of deterioration in global demand markedly worse than earlier expectations thereby leading to the severe contraction in Hong Kong economy in the first quarter, and taking into account the considerable mark-down in world economic outlook since the Budget round, GDP for 2009 as a whole is now forecast to contract by 5.5-6.5% in real terms, down from the forecast decline of 2-3% put out in the Budget round.
- \* Amid the difficult external environment, Hong Kong's exports of goods and services are likely to remain sluggish in the near term. Nevertheless, with the prospect of global contraction somewhat stabilising after the exceptional fall-offs earlier on, Hong Kong's external trade should see some relative improvement later in the year. More importantly, the Mainland economy is poised for a return to faster growth, with the massive stimulus measures successively in place and with both export orders and production activities concurrently reviving.
- \* Domestically, consumer spending may remain moderate going forward, but the recent rebound in the local stock and housing markets, and the distinctly low interest rates, should hopefully render support to a relatively more stable local environment. Investment however is expected to remain depressed until the local economy shows clear signs of turnaround.
- \* The latest GDP forecast is clearly subject to an unusually large degree of uncertainty from the still evolving global financial and economic environments. The outbreak of the human swine influenza in North America has also emerged as a new source of uncertainty for both the global and Hong Kong economy. Yet the expected pick-up in the Mainland economy, the recent rebound in global stock markets, the relative improvement in economic sentiment both in US and Europe, have provided glimpse of light at the end of a long tunnel, although a strong recovery is not yet in sight.
- \* On inflation outlook, as an integral part of cost and price adjustments in economic downturn, price pressures from both the external and domestic fronts are rapidly receding and are expected to come down further in the months ahead. Factoring in the actual outturn in the first quarter, the forecast rate of increase in the headline Composite CPI for 2009 is marked down to 1% from 1.6% in the Budget round. The corresponding forecast underlying inflation rate is revised accordingly to 0.9%, from the earlier forecast of 1.5%.

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## **DETAIL**

### **GDP**

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP fell sharply by 7.8% in real terms in the first quarter of 2009 over a year earlier. Compared to the 2.6% decline in the fourth quarter, the marked deterioration in performance in the first quarter was due to an unprecedented fall-off in world trade as global recession plunged into the most severe recession since the World War II. On a seasonally adjusted quarter-to-quarter comparison, GDP fell by 4.3% in real terms in the first quarter of 2009, the fourth consecutive quarter of contraction (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2009 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2009 are described below.

#### **External trade**

3. *Total exports of goods* plunged by 22.7% in real terms year-on-year in the first quarter of 2009, markedly down from the 4.9% decline in the fourth quarter of 2008. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods fell sharply by 16.8% in real terms in the first quarter of 2009. Not only exports to the US and EU fell off markedly, so did exports to the Asian markets, as production activities along the supply chains in the region were cut back significantly in the face of the dwindling demand in the advanced economies. The sharp decline in Hong Kong's exports was thus part of a region-wide phenomenon amid the worst global recession in more than sixty years. In fact, in comparison, the extent of decline in exports in Hong Kong was similar to that in the Mainland, but less severe than in many other Asian economies.

4. *Exports of services* similarly slackened further in the first quarter, down by 8.2% year-on-year and 7.5% on a quarter-to-quarter seasonally adjusted basis. The collapse in world trade weighed heavily on exports of trade-related services (mainly offshore trade) as well as exports of transportation services. Exports of financial services and other business services were also much affected, as financial market and commercial activities were notably below the levels before the eruption of the financial tsunami last year. But inbound tourism stood out as a bright spot with a further solid growth, thanks to still rising Mainland visitors, partly supported by the further liberalisation measures under the Individual Visit Scheme.

#### **Domestic sector**

5. Domestic demand was also weak. *Private consumption expenditure (PCE)* fell by 5.5% in real terms year-on-year in the first quarter of 2009, upon higher unemployment and slackened income. But also relevant was a very high base of

comparison in the first quarter last year when consumption had an 8.0% growth. In fact, on a seasonally adjusted quarter-to-quarter basis, the decline in consumption tapered to 1.5%, as consumer sentiment was supported to some extent by the stabilisation in the local stock and property markets in the quarter as well as by the relief measures put out by the Government over the past year or so.

6. *Overall investment spending* remained much in a depressed mode, down by 12.6% in the first quarter over a year earlier. Machinery and equipment investment was held back by the grim economic outlook. The results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in March and early April indicated that large companies remained rather pessimistic about the near-term business situation, but the extent of pessimism seemed to have lessened somewhat compared with the survey results obtained three months earlier. Expenditure on building and construction also fell notably in the first quarter, mainly due to a steep decline in private sector construction activity. Nevertheless, the efforts to accelerate public sector projects should begin to pay off in the coming quarters.

### **The labour sector**

7. Labour market conditions continued to worsen in face of the economic contraction. The seasonally adjusted *unemployment rate* rose to 5.2% in the first quarter as business downsizing intensified both in terms of scale and pace under the heavy influence of the deepening global recession. The *underemployment rate* also rose, to 2.1%. There were also greater downward pressures on wages and earnings.

### **Prices**

8. Inflationary pressure eased notably further in the first quarter on the back of receding local and external price pressures. *Underlying consumer price inflation* came down to 3.1% in the first quarter, mostly helped by the lower food price inflation and recent easing in private housing rentals. *Headline consumer price inflation*, being affected by the relevant one-off relief measures, was lower at 1.7%, due mainly to the electricity subsidy that began to take effect since September last year. As to the *GDP deflator*, an increase of 0.5% was recorded in the first quarter, due to a more favourable terms of trade offsetting the decline in domestic demand deflator.

### **Latest GDP and price forecasts for 2009**

9. According to the International Monetary Fund (IMF), world GDP would contract by 1.3% in 2009, representing the most severe recession during the post-war period. Even granting that governments of major economies would step up efforts to heal the financial sector while continuing to support demand through monetary and fiscal easing, IMF believed that a slow recovery would only begin to take hold in 2010. Against this background, the external environment will remain difficult and challenging in the rest of 2009.

10. Nevertheless, there are some early signs suggesting that the rate of economic contraction in the United States, the epicentre of the global financial crisis, will slow in the coming quarters. More importantly, the Mainland economy is set to return to a faster growth path, as the massive stimulus measures are successively in place and as export orders and production activities are also reviving concurrently. Thus, while Hong Kong's exports are likely to remain sluggish in the near term, it should post some relative improvement later this year.

11. Domestically, consumer spending may remain moderate going forward, but the recent rebound in the local stock and housing markets, and the distinctly low interest rates, should hopefully render support to a relatively more stable local environment. Investment however is expected to remain depressed until the local economy shows clear signs of turnaround.

12. With the pace of deterioration in global demand markedly worse than earlier expectations thereby leading to the severe contraction in Hong Kong economy in the first quarter, and taking into account the considerable mark-down in world economic outlook since the Budget round, GDP for 2009 as a whole is now forecast to contract by 5.5-6.5% in real terms, down from the forecast decline of 2-3% put out in the Budget round (*Table 2*). By comparison, most private sector analysts are currently projecting the economy to contract by 2-5%, averaging at around -3.5%.

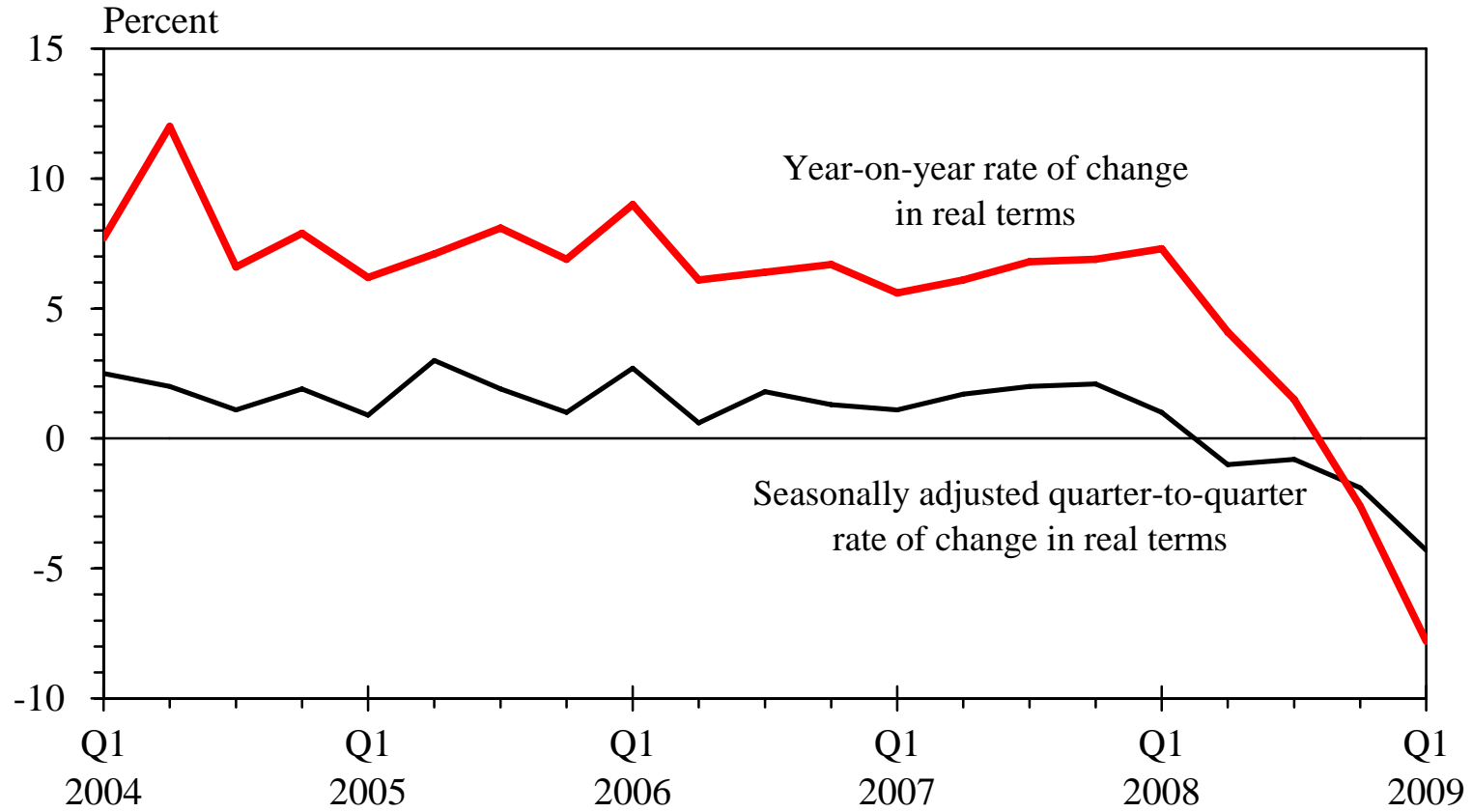
13. The latest GDP forecast is clearly subject to an unusually large degree of uncertainty from the still evolving global financial and economic environments. The outbreak of the human swine influenza in North America has also emerged as a new source of uncertainty for both the global and Hong Kong economy. Yet the expected pick-up in the Mainland economy, the recent rebound in global stock markets, the relative improvement in economic sentiment both in US and Europe, have provided glimpse of light at the end of a long tunnel, although a strong recovery may not come about any time soon.

14. On inflation outlook, as an integral part of cost and price adjustments in economic downturn, price pressures from both the external and domestic fronts are rapidly receding and are expected to come down further in the months ahead. Factoring in the actual outturn in the first quarter, the forecast rate of increase in the headline Composite CPI for 2009 is marked down to 1%, from 1.6% in the Budget round. The corresponding forecast underlying inflation rate is revised accordingly to 0.9%, from the earlier forecast of 1.5%.

(The First Quarter Economic Report 2009 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The Report of the Gross Domestic Product, First Quarter 2009, which contains the GDP figures up

to the first quarter of 2009, is also available for online download, free of charge at the homepage of the Census and Statistics Department (<http://www.censtatd.gov.hk>). Users can purchase the print version of these two publications online at the Government Bookstore at <http://www.bookstore.gov.hk>, or by calling the Publications Sales Unit of the Information Services Department at 2537 1910. The print version of the two reports is available for sale at \$60 and \$49 per issue respectively, plus postage charge.)

# Hong Kong's Gross Domestic Product



Note : Figures for the first quarter of 2009 are preliminary estimates.

**Table 1**

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

|  | <u>2007#</u> | <u>2008#</u> | <u>Q1#</u>                  | <u>Q2#</u>                  | <u>2008</u><br><u>Q3#</u>   | <u>Q4#</u>                   | <u>2009</u><br><u>Q1+</u>    |
|--|--------------|--------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|
| <i>Change in real terms of GDP and its main expenditure components (%)</i> |              |              |                             |                             |                             |                              |                              |
| Private consumption expenditure  | 8.5          | 1.5          | 8.0<br>(*)                  | 3.0<br>(-1.3)               | -0.2<br>(-0.6)              | -4.1<br>(-2.2)               | -5.5<br>(-1.5)               |
| Government consumption expenditure   | 3.0          | 1.7          | 0.6<br>(-0.3)               | 3.1<br>(1.6)                | 1.6<br>(-0.5)               | 1.8<br>(0.8)                 | 1.5<br>(-0.3)                |
| Gross domestic fixed capital formation                                     | 3.4          | -0.5         | 9.9                         | 5.1                         | 2.9                         | -17.8                        | -12.6                        |
| <i>of which :</i>  |              |              |                             |                             |                             |                              |                              |
| Building and construction  | -0.3         | 1.6          | 9.1                         | -0.1                        | -2.8                        | 0.1                          | -8.2                         |
| Machinery, equipment and computer software                                 | 3.0          | -0.3         | 4.3                         | 7.4                         | 10.7                        | -21.1                        | -6.6                         |
| Total exports of goods   | 7.0          | 1.9          | 8.3<br>(0.9)                | 4.4<br>(0.1)                | 1.3<br>(-1.8)               | -4.9<br>(-4.3)               | -22.7<br>(-16.8)             |
| Imports of goods   | 8.8          | 1.8          | 8.4<br>(-1.7)               | 4.8<br>(1.9)                | 2.0<br>(-1.2)               | -6.4<br>(-5.6)               | -21.4<br>(-15.9)             |
| Exports of services  | 14.1         | 5.7          | 10.1<br>(1.5)               | 8.4<br>(0.3)                | 4.8<br>(0.1)                | 0.4<br>(-1.3)                | -8.2<br>(-7.5)               |
| Imports of services  | 12.1         | 3.3          | 11.2<br>(1.3)               | 3.8<br>(-2.6)               | 2.2<br>(-0.1)               | -3.4<br>(-1.8)               | -10.9<br>(-6.8)              |
| <b>Gross Domestic Product</b>  | <b>6.4</b>   | <b>2.4</b>   | <b>7.3</b><br><b>(1.0)</b>  | <b>4.1</b><br><b>(-1.0)</b> | <b>1.5</b><br><b>(-0.8)</b> | <b>-2.6</b><br><b>(-1.9)</b> | <b>-7.8</b><br><b>(-4.3)</b> |
| <i>Change in the main price indicators (%)</i>                             |              |              |                             |                             |                             |                              |                              |
| <b>GDP deflator</b>  | <b>2.9</b>   | <b>1.4</b>   | <b>2.3</b><br><b>(-1.5)</b> | <b>1.9</b><br><b>(0.6)</b>  | <b>2.0</b><br><b>(0.9)</b>  | <b>-0.2</b><br><b>(-0.2)</b> | <b>0.5</b><br><b>(-0.7)</b>  |
| <b>Composite CPI</b>   |              |              |                             |                             |                             |                              |                              |
| <b>Headline</b>  | <b>2.0</b>   | <b>4.3</b>   | <b>4.6</b><br><b>(0.9)</b>  | <b>5.7</b><br><b>(1.5)</b>  | <b>4.6</b><br><b>(-0.2)</b> | <b>2.3</b><br><b>(0.1)</b>   | <b>1.7</b><br><b>(0.3)</b>   |
| <b>Underlying<sup>^</sup></b>  | <b>2.8</b>   | <b>5.6</b>   | <b>4.9</b><br><b>(2.0)</b>  | <b>5.7</b><br><b>(1.5)</b>  | <b>6.3</b><br><b>(1.3)</b>  | <b>5.4</b><br><b>(0.4)</b>   | <b>3.1</b><br><b>(-0.2)</b>  |
| <b><u>Change in nominal GDP (%)</u></b>                                    | <b>9.5</b>   | <b>3.8</b>   | <b>9.7</b>                  | <b>6.1</b>                  | <b>3.5</b>                  | <b>-2.8</b>                  | <b>-7.3</b>                  |

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

(<sup>^</sup>) After netting out effects of Government's one-off relief measures.



**Table 2**

**Economic forecasts for 2009  
(year-on-year rate of change (%))**

|  | Forecasts<br>for 2009<br>as released<br>on 25.2.2009<br>(%) | Latest<br>forecasts<br>for 2009<br>on 15.5.2009<br>(%) |
|--|---|--|
| <b>Gross Domestic Product (GDP)</b>          |   |  |
| <i>Real GDP</i>                              | -2 to -3  | -5.5 to -6.5   |
| <i>Nominal GDP</i>                           | -1.5 to -2.5  | -5.5 to -6.5   |
| <b>Composite Consumer Price Index (CCPI)</b> |   |  |
| <i>Headline CCPI</i>                         | 1.6   | 1  |
| <i>Underlying CCPI</i>                       | 1.5   | 0.9  |
| <b>GDP Deflator</b>                          | 0.5   | 0  |



# First Quarter Economic Report 2009

Government of the Hong Kong  
Special Administrative Region

# ***FIRST QUARTER ECONOMIC REPORT 2009***

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

*May 2009*



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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *As a small open economy, Hong Kong has been hard hit by the global financial crisis and the ensuing severe recession which is the worst in more than sixty years. Following a contraction of 2.6% in the fourth quarter of 2008, GDP registered a sharp decline of 7.8% in the first quarter of 2009 over a year earlier.*
- *The shocks on Hong Kong were inflicted mainly through the trade and financial channels via the collapse in world trade, negative wealth effects, and heightened cautiousness in local consumer and investment spending. On the trade front, Hong Kong's merchandise exports faced the double blow from sharp plunge in global demand and from an acute fall-off in intra-regional exports which were closely linked to demand in advanced economies. Many export-dependent Asian economies were hit in a similar way, and their ensuing recession also added to Hong Kong's already weak export performance.*
- *Exports of services likewise deteriorated even more in the first quarter, as offshore trade lost momentum and demand for freight transport dwindled. Exports of financial services remained sluggish as market activities were way below the levels before the financial tsunami. Inbound tourism nevertheless held fairly firm, thanks to continued growth in Mainland visitors, partly helped by the further liberalisation measures under the Individual Visit Scheme.*
- *In such a difficult and uncertain global economic climate, local sentiments were naturally affected. Consumption weakened in the first quarter, but the situation would have been worse if not for the relative improvements in the local stock and property markets during the quarter, and also the stimulus from the several rounds of packages announced last year and in the 2009/10 Budget this year. Investment demand, however, remained much in a depressed state.*
- *The unemployment rate rose to a 38-month high of 5.2% in the first quarter, with increasing downward pressures on wages and earnings. Yet the pace of uptrend in unemployment rate tapered somewhat in the more recent months.*
- *Consumer price inflation continued to trend down, in tandem with the notable easing in both local and external price pressures consequential to*

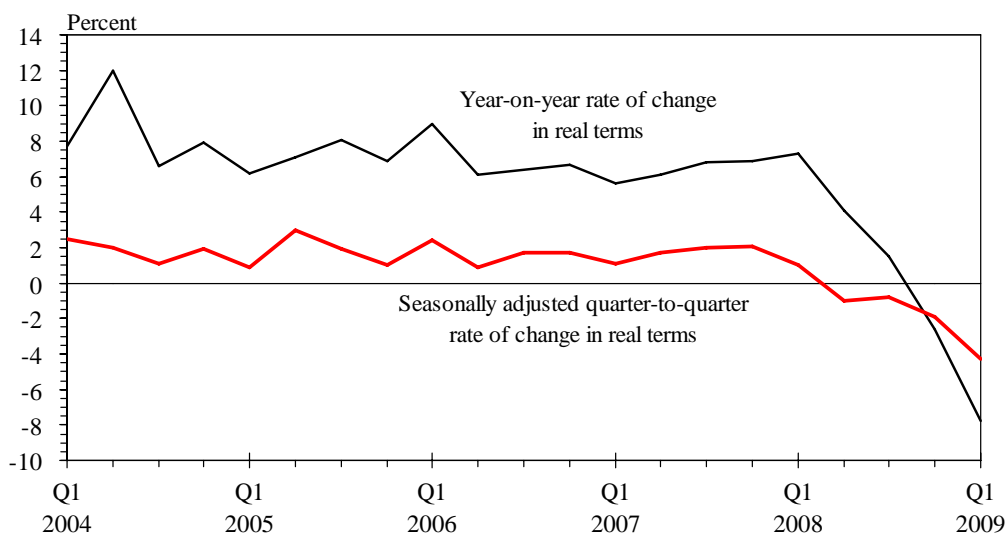
*the distinct deceleration in economic activities.*

## Overall situation

1.1 The Hong Kong economy was badly hit by the worst global recession in more than sixty years. The impact on external trade from the shrinkage in world trade due to the deepening global recession became increasingly severe. Domestic demand also experienced a visible decline. The grim global economic outlook led to notable curtailments in business investment plans, while consumption spending fell further along with the worsening labour market conditions. Nevertheless, consumer sentiment was to some extent supported by the improved performance of the stock and property markets in the quarter, and also by the stimulus measures put out by the Government over the past year or so (see **Box 1.1** for details). Inflation came down notably further in the first quarter, reflecting the process of cost and price adjustments in the local economy to weather the severe shocks from global financial crisis and recession.

1.2 In the first quarter of 2009, the *Gross Domestic Product (GDP)*<sup>(1)</sup> fell sharply by 7.8% in real terms over a year earlier. This represented a further deterioration from the growth of 2.4% (revised from the earlier estimate of 2.5%) in 2008 as a whole and the contraction of 2.6% (revised from the earlier estimate of -2.5%) in the fourth quarter of last year. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP fell by 4.3% in real terms in the first quarter, the fourth consecutive quarter of contraction, after the 1.9% decline in the previous quarter.

**Diagram 1.1 : Economy showed a steep contraction in the first quarter**





## **Box 1.1**

### **Counter-cyclical fiscal measures**

A counter-cyclical fiscal strategy refers to the efforts of a government to suppress or alleviate economic overheating or recession through fiscal measures or other means. Specifically, in times of an economic contraction, an increase in expenditure and a reduction in revenue is a counter-cyclical fiscal measure by a government.

Apart from taking all-out efforts to address the problems of the financial system and credit market, major economies are also pursuing an expansionary fiscal policy to revive their economies. This is because the transmission of monetary policies has been greatly weakened amid the global financial crisis where credit flow has yet to return to normal. As a result, compared with accommodative monetary policies, the adoption of expansionary fiscal policies is more effective and practicable as an economic stimulant. Given the severity of the current economic downturn, it is essential to take fiscal measures to stimulate the economy in the short term. However, governments must consider whether their public finances are sustainable in the longer term.

In light of such exceptional times of our economy, the Government has stated clearly in the 2009-10 Budget that it will continue to adopt counter-cyclical measures to ease the pressure of economic contraction, boost domestic demand and increase employment opportunities. The expansionary strength of the Budget can be analysed on three fronts.

#### **Stimulating effect of the Budget on the economy**

First, public expenditure is estimated to be \$319.4 billion for this year, equivalent to 19.4% of the GDP. In comparing this figure with that of 2008-09, it should be noted that some items of public expenditure for that year involved fund transfers and had no immediate effect on the Hong Kong economy or GDP. These include the \$21.6 billion endowment to the West Kowloon Cultural District Authority, the establishment of an \$18 billion Research Endowment Fund, injections of \$8.6 billion into the Mandatory Provident Fund and \$6 billion into the fund for Sichuan Reconstruction. As such, these items should not be taken into account in considering the effects of government expenditure on the economy. Excluding these special items, the provisional figures of the Government Account shows that last year's public expenditure was about 16.5% of the GDP. The public expenditure's share in GDP has risen significantly from 16.5% last year to 19.4% this year as indicated in the Budget. This illustrates that the 2009-10 Budget has an expansionary effect on the economy.

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

Second, with respect to government revenue, the total estimated revenue for 2009-10 is \$261.7 billion, which is \$54.8 billion less than the provisional amount for 2008-09 and \$96.7 billion less than the actual revenue for 2007-08. This partly reflects the concessions to be provided by the Government this year, such as the waiving of rates for the first two quarters of 2009-10 which involves \$4.2 billion. As a result of a decrease in government revenue and an increase in expenditure, the fiscal deficit for 2009-10 is estimated to be \$39.9 billion, equivalent to 2.4% of the GDP, while the fiscal position was broadly balanced for 2008-09. That the fiscal balance will turn into a deficit also shows that the effect of the 2009-10 Budget is basically expansionary in nature and will help stimulate the economy and counter the recession.

Third, the fiscal stimulus measures that the Hong Kong Government has proposed since last year compare favourably in intensity with those of other economies. The Government announced a series of relief measures in the 2008-09 Budget and in last July. The 2009-10 Budget also proposed additional expenditures on various concessions, expedition of minor works and creation of employment. The total expenditure on all these economic stimulus measures exceeds \$70 billion, representing about 4% of the GDP. According to the report published by the International Monetary Fund (IMF) in March, the average cumulative expenditure of the G-20 nations on economic stimulus measures for countering the financial crisis in 2008 and 2009 accounts for just 2.3% of their GDP. It is evident that the fiscal measures in Hong Kong are stronger in intensity than those of many other economies. It is roughly estimated that the discretionary fiscal measures implemented by the Government since last financial year, taking into account the import content of the various expenditure items and the multiplier effect, can increase the GDP by about 1.5% in 2009 alone. In other words, in the absence of these measures, the Hong Kong economy will contract by a larger margin this year.

### **Maintaining financial health in the medium and long term**

According to the report published by the IMF in March, while adopting stimulus measures to boost demand in addressing the current crisis, governments around the world must also ensure a healthy financial position in the long term. The IMF therefore suggested that stimulus measures should not have long-term implications on fiscal deficit. Governments should also formulate medium-term strategies expressing the intention of revising their financial commitments when economic conditions improve. Given that this economic recession will be longer and deeper, the IMF also recommended that governments should employ public works and infrastructure projects as the major means to stimulate the economy because they would bring more lasting impact on economic activities and greater economic benefits compared with tax concessions and other short-term measures.

**Box 1.1 (Cont'd)**

The main themes of the economic stimulus measures proposed in this year's Budget are to create ample job opportunities specifically for the construction industry where unemployment is most serious by enhancing medium-sized and minor works projects and expediting infrastructure projects; to provide internship opportunities for young people; while ensuring that the Government is capable of dealing with the risks of future economic uncertainties.

Regarding the medium range forecast, the Government will adhere to the principle of prudent financial management. Although this year's Budget forecasts a deficit in the Operating Account for the next three years, it will be followed by a return to surplus in 2012-13. Besides, with the infrastructure projects entering their construction stage, annual capital works expenditure will be at a very high level over the next few years, and may reach \$50 billion. These infrastructure projects will be able to provide great impetus to an economic recovery even when the external environment has not totally returned to normal. In summary, the Government will also take care of the long-term public finances and social needs when countering the financial tsunami.

1.3        Recessionary forces continued to intensify around the globe in the first quarter of 2009. According to the International Monetary Fund (IMF), world GDP would contract by 1.3% in 2009, representing the most severe recession during the post-war period. Even granting that governments of major economies would step up efforts to heal the financial sector while continuing to support demand through monetary and fiscal easing, IMF believed that a slow recovery would only begin to take hold in 2010.

1.4        Many export-dependent Asian economies were also heavily battered by the severe global recession, posting a further drag on Hong Kong's exports on top of shrinking demand in the advanced economies. Total exports of goods fell by 22.7% in real terms in the first quarter of 2009, markedly down from the 4.9% decline in the fourth quarter of 2008. The decline was across the board in almost all markets. Not only exports to US and Europe fell off markedly, so did exports to the Asian markets, as production activities along the supply chains in the region were cut back significantly in the face of the dwindling demand in the advanced economies. The sharp decline in Hong Kong's exports was thus part of a region-wide phenomenon. In fact, in comparison, the extent of decline in exports in Hong Kong was similar to that in the Mainland, but less severe than in many other Asian economies.

1.5        Exports of services also deteriorated further, down 8.2% in the first quarter as compared to the marginal 0.4% growth in the fourth quarter of last year. The collapse in world trade weighed heavily on exports of trade-related services (mainly offshore trade) as well as exports of transportation services. Exports of financial services and other business services were also much affected, as financial market and commercial activities were notably below the levels before the eruption of the financial tsunami last year. On the other hand, inbound tourism held fairly firm, thanks to still rising Mainland visitors, partly supported by the further liberalisation measures under the Individual Visit Scheme.

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

|  | <u>2007#</u> | <u>2008#</u> | <u>Q1#</u>                  | <u>Q2#</u>                  | <u>2008</u><br><u>Q3#</u>   | <u>Q4#</u>                   | <u>2009</u><br><u>Q1+</u>    |
|--|--------------|--------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|
| <i>Change in real terms of GDP and its main expenditure components (%)</i> |              |              |                             |                             |                             |                              |                              |
| Private consumption expenditure  | 8.5          | 1.5          | 8.0<br>(*)                  | 3.0<br>(-1.3)               | -0.2<br>(-0.6)              | -4.1<br>(-2.2)               | -5.5<br>(-1.5)               |
| Government consumption expenditure   | 3.0          | 1.7          | 0.6<br>(-0.3)               | 3.1<br>(1.6)                | 1.6<br>(-0.5)               | 1.8<br>(0.8)                 | 1.5<br>(-0.3)                |
| Gross domestic fixed capital formation                                     | 3.4          | -0.5         | 9.9                         | 5.1                         | 2.9                         | -17.8                        | -12.6                        |
| <i>of which :</i>  |              |              |                             |                             |                             |                              |                              |
| Building and construction  | -0.3         | 1.6          | 9.1                         | -0.1                        | -2.8                        | 0.1                          | -8.2                         |
| Machinery, equipment and computer software                                 | 3.0          | -0.3         | 4.3                         | 7.4                         | 10.7                        | -21.1                        | -6.6                         |
| Total exports of goods   | 7.0          | 1.9          | 8.3<br>(0.9)                | 4.4<br>(0.1)                | 1.3<br>(-1.8)               | -4.9<br>(-4.3)               | -22.7<br>(-16.8)             |
| Imports of goods   | 8.8          | 1.8          | 8.4<br>(-1.7)               | 4.8<br>(1.9)                | 2.0<br>(-1.2)               | -6.4<br>(-5.6)               | -21.4<br>(-15.9)             |
| Exports of services  | 14.1         | 5.7          | 10.1<br>(1.5)               | 8.4<br>(0.3)                | 4.8<br>(0.1)                | 0.4<br>(-1.3)                | -8.2<br>(-7.5)               |
| Imports of services  | 12.1         | 3.3          | 11.2<br>(1.3)               | 3.8<br>(-2.6)               | 2.2<br>(-0.1)               | -3.4<br>(-1.8)               | -10.9<br>(-6.8)              |
| <b>Gross Domestic Product</b>  | <b>6.4</b>   | <b>2.4</b>   | <b>7.3</b><br><b>(1.0)</b>  | <b>4.1</b><br><b>(-1.0)</b> | <b>1.5</b><br><b>(-0.8)</b> | <b>-2.6</b><br><b>(-1.9)</b> | <b>-7.8</b><br><b>(-4.3)</b> |
| <i>Change in the main price indicators (%)</i>                             |              |              |                             |                             |                             |                              |                              |
| <b>GDP deflator</b>  | <b>2.9</b>   | <b>1.4</b>   | <b>2.3</b><br><b>(-1.5)</b> | <b>1.9</b><br><b>(0.6)</b>  | <b>2.0</b><br><b>(0.9)</b>  | <b>-0.2</b><br><b>(-0.2)</b> | <b>0.5</b><br><b>(-0.7)</b>  |
| <b>Composite CPI</b>   |              |              |                             |                             |                             |                              |                              |
| <b>Headline</b>  | <b>2.0</b>   | <b>4.3</b>   | <b>4.6</b><br><b>(0.9)</b>  | <b>5.7</b><br><b>(1.5)</b>  | <b>4.6</b><br><b>(-0.2)</b> | <b>2.3</b><br><b>(0.1)</b>   | <b>1.7</b><br><b>(0.3)</b>   |
| <b>Underlying<sup>^</sup></b>  | <b>2.8</b>   | <b>5.6</b>   | <b>4.9</b><br><b>(2.0)</b>  | <b>5.7</b><br><b>(1.5)</b>  | <b>6.3</b><br><b>(1.3)</b>  | <b>5.4</b><br><b>(0.4)</b>   | <b>3.1</b><br><b>(-0.2)</b>  |
| <b><u>Change in nominal GDP (%)</u></b>                                    | <b>9.5</b>   | <b>3.8</b>   | <b>9.7</b>                  | <b>6.1</b>                  | <b>3.5</b>                  | <b>-2.8</b>                  | <b>-7.3</b>                  |

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

(<sup>^</sup>) After netting out effects of Government's one-off relief measures.

1.6 Domestic demand was also down. *Private consumption expenditure (PCE)* fell further by 5.5% in real terms year-on-year in the first quarter, after the 4.1% fall in the fourth quarter last year. The further rise in unemployment and the ensuing downward pressures on wages and earnings put a drag on private consumption. Nevertheless, consumer sentiment was supported to some extent by the stabilisation in the local stock and property markets in the quarter as well as by the relief measures put out by the Government over the past year or so. *Government consumption expenditure* continued to increase steadily in the first quarter, providing some mild cushioning effect to the fall in aggregate demand.

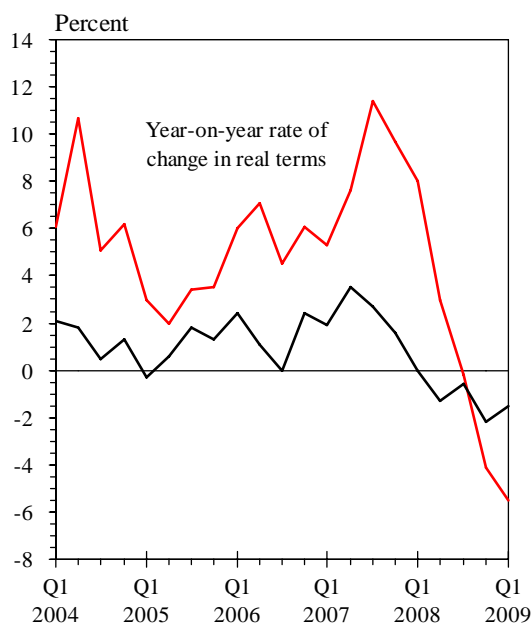
**Table 1.2 : Consumer spending by major components<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

|      |        | Total<br>consumer<br>spending in<br>the domestic<br>market <sup>(a)</sup> | <i>Of which :</i> |                 |                          |                 |      | Residents'<br>expenditure<br>abroad | Visitor<br>spending | Private<br>consumption<br>expenditure <sup>(b)</sup> |
|------|--------|---|-------------------|-----------------|--------------------------|-----------------|------|-------------------------------------|---------------------|--|
|      |        |   | <u>Food</u>       | <u>Durables</u> | <u>Non-<br/>durables</u> | <u>Services</u> |      |                                     |                     |  |
| 2008 | Annual | 2.2   | 0.8               | 10.6            | 4.8                      | 0.4             | -1.1 | 6.1                                 | 1.5                 |  |
|      | Q1     | 7.6   | 3.4               | 18.8            | 11.4                     | 5.6             | 10.7 | 7.2                                 | 8.0                 |  |
|      | Q2     | 4.3   | 1.6               | 13.8            | 8.4                      | 2.2             | -6.7 | 7.6                                 | 3.0                 |  |
|      | Q3     | 0.8   | 0.4               | 13.5            | 3.1                      | -1.8            | -1.5 | 7.3                                 | -0.2                |  |
|      | Q4     | -3.1  | -1.8              | -1.1            | -2.1                     | -3.9            | -6.1 | 3.0                                 | -4.1                |  |
| 2009 | Q1     | -4.4  | -3.7              | -5.8            | -5.7                     | -3.9            | -6.4 | 3.9                                 | -5.5                |  |

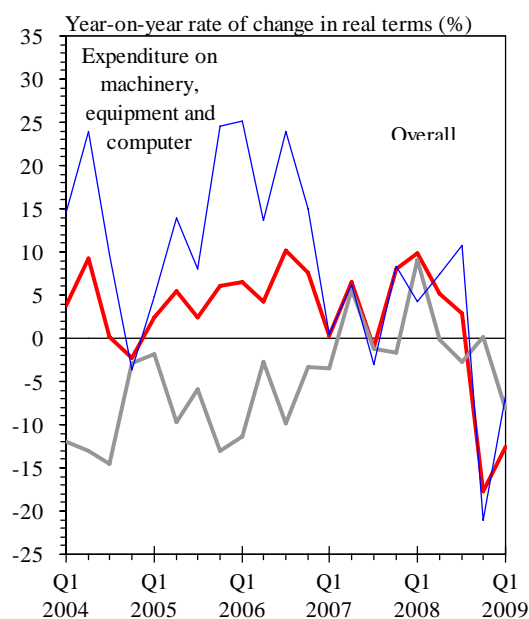
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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 fell further in the first quarter**



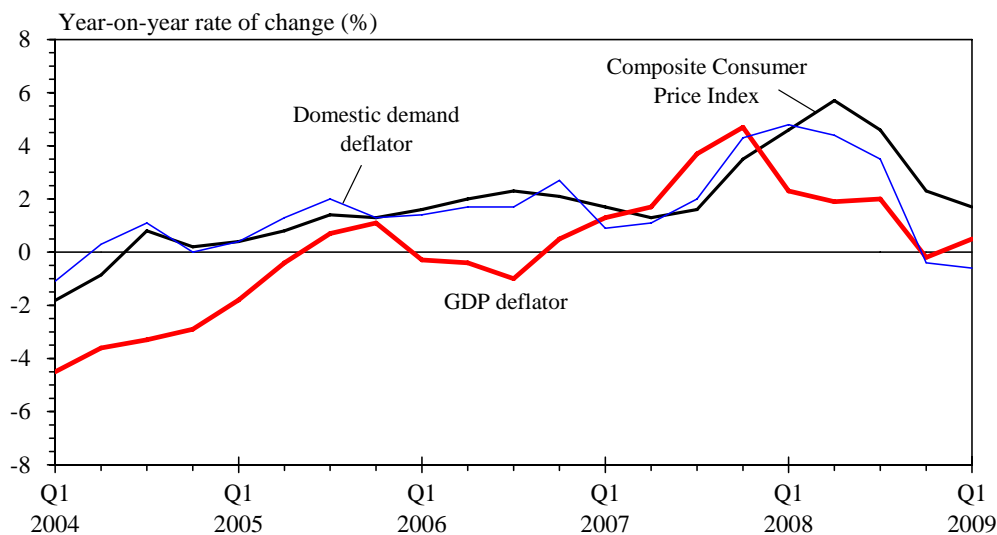
**Diagram 1.3 : Overall investment remained weak due to the grim economic outlook**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* remained much in a depressed mode, down by 12.6% in the first quarter over a year earlier, after the contraction of 17.8% in the preceding quarter. Machinery and equipment investment fell by 6.6% in the first quarter, as businesses curtailed investment plans in view of the grim global economic outlook. The results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in March and early April indicated that large companies remained rather pessimistic about the near-term business situation, but the extent of pessimism seemed to have lessened somewhat compared with the survey results obtained three months earlier. Expenditure on building and construction fell notably, by 8.2% in the first quarter, due mainly to a notable decline in private sector construction activity. As to public sector construction work, there was a moderate decline in the first quarter. Nevertheless, the efforts to accelerate public sector projects should begin to pay off in the coming quarters.

1.8 Inflationary pressure eased notably further in the first quarter on the back of receding local and external price pressures. *Underlying consumer price inflation* came down to 3.1% in the first quarter, partly helped by the lower food price inflation and recent easing in private housing rentals. *Headline consumer price inflation*, being affected by the relevant one-off relief measures, was lower at 1.7%, due mainly to the electricity subsidy that began to take effect since September last year. As to the *GDP deflator*, an increase of 0.5% was recorded in the first quarter, due to a more favourable terms of trade offsetting the decline in domestic demand deflator.

**Diagram 1.4 : Inflationary pressure eased notably further in the first quarter**





## Box 1.2

### Impact of financial tsunami on small and medium-sized enterprises (An update)

The abrupt escalation of the financial turbulence in September 2008 has led to a deepening synchronized global economic downturn. It is one of the priorities of the Government to support enterprises, especially the small and medium-sized enterprises (SMEs)<sup>1</sup>. To attain a better understanding on the impact of the financial tsunami on the business receipts, employment and credit access situations of the SMEs, an ad-hoc weekly consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their relevant feedback information. This note provides an update of the results reported in Box 1.1 in the 2008 Economic Background and 2009 Prospects.

The results of the weekly consultation covering the period from December 2008 to April 2009 indicate that SMEs' business situation in overall terms was significantly hit by the financial tsunami from December to March, with the overall reading successively down during this four-month period (*Table 1*). However, some relative improvement was spotted in around the third week of March and this trend sustained into April, especially so for sectors which were related to local demand in the economy. Specifically, business situation in the retail trade and restaurants showed more discernible improvements after around mid-March (*Chart 1a*), thanks to relatively stable inbound tourism and some revival in property market activities. On the other hand, business situation for SMEs in import/export trades and financing institutions remained much depressed with no sign of improvement. The situation in the logistics sector was especially difficult (*Chart 1b*). As explained in the Highlights section of this chapter, the main shocks on Hong Kong economy were inflicted through the trade and financial channels, and the findings of the SME consultation exercise were largely in line with this assessment. Clearly, given the coverage and nature of the consultation exercise, the consultation findings should be interpreted with considerable caution, yet they generally can serve as rough indicator to enable high frequency monitoring of SMEs' situation.

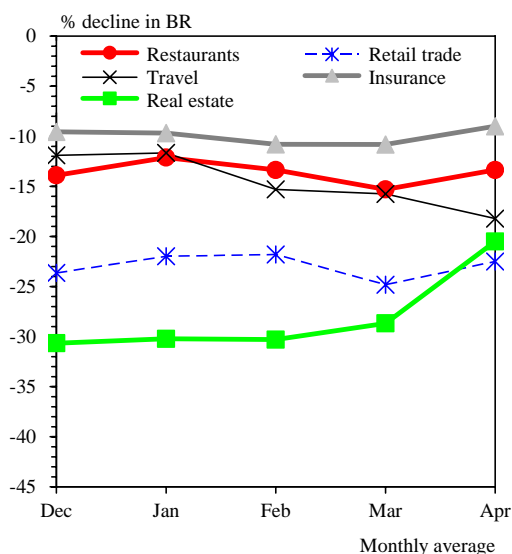
Concerning the employment situation, the results of the consultation indicated that as a result of the financial tsunami, employment had declined by 1-2%. Among the various sectors, employment in real estate and construction, business services, logistics, financing institutions, and restaurants had been affected the most (*Table 2*). But the pressures for retrenchment and downsizing in staffing amongst the SMEs surveyed seemed to have tapered somewhat in the recent weeks, and whether this can be sustained needs to be further monitored.

(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

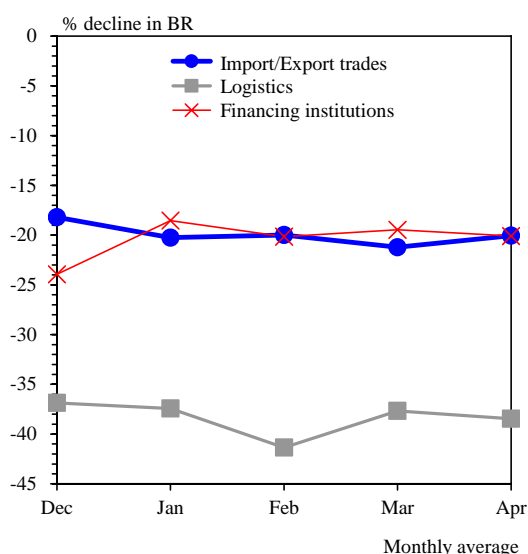
**Box 1.2 (Cont'd)**

**Chart 1 Impact of Financial Tsunami on SMEs' Business Receipts (BR)**

**(a) Local Segments**



**(b) External Segments**



**Table 1 Impact on business receipts as compared with normal situation**

| SMEs by sectors              | <u>% decline as compared with normal situation (Monthly average)</u> |            |            |            |            |
|------------------------------|--|------------|------------|------------|------------|
|                              | <u>Dec</u>   | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> |
| Wholesale trade              | -16.3  | -8.3       | -9.3       | -16.2      | -18.7      |
| Retail trade                 | -23.6  | -22.0      | -21.8      | -24.8      | -22.5      |
| Import and export trades     | -18.2  | -20.3      | -20.0      | -21.2      | -20.1      |
| Restaurants                  | -13.9  | -12.1      | -13.4      | -15.3      | -13.4      |
| Logistics                    | -36.9  | -37.4      | -41.4      | -37.7      | -38.5      |
| Travel agents                | -11.9  | -11.7      | -15.3      | -15.8      | -18.2      |
| Financing institutions       | -23.9  | -18.6      | -20.2      | -19.5      | -20.1      |
| Insurance agents and brokers | -9.6   | -9.7       | -10.8      | -10.8      | -9.0       |
| Real estate and construction | -30.7  | -30.2      | -30.3      | -28.7      | -20.5      |
| Business services            | -9.0   | -10.6      | -14.2      | -14.8      | -15.1      |
| All the above sectors        | -18.3  | -19.3      | -19.4      | -20.9      | -20.0      |

Note: The monthly figures refer to the averages of declines reported weekly by the SMEs in the month concerned.

**Box 1.2 (Cont'd)****Table 2 Impact on employment as compared with normal situation**

| <u>SMEs by sectors</u>       | <u>% change as compared with normal situation (Monthly average)</u> |            |            |            |            |
|------------------------------|---|------------|------------|------------|------------|
|                              | <u>Dec</u>  | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> |
| Wholesale trade              | 0.0   | 0.0        | 0.0        | 0.0        | 0.0        |
| Retail trade                 | -0.5  | -0.5       | -0.6       | -0.4       | -0.2       |
| Import and export trades     | -1.1  | -0.9       | -1.0       | -0.6       | -0.9       |
| Restaurants                  | -3.1  | -3.2       | -3.7       | -2.6       | -1.7       |
| Logistics                    | -6.5  | -3.7       | -3.0       | -3.2       | -3.4       |
| Travel agents                | 0.2   | -0.1       | 0.1        | 0.2        | 0.2        |
| Financing institutions       | -0.9  | -0.7       | -1.4       | -1.6       | -2.3       |
| Insurance agents and brokers | 0.0   | 0.0        | 0.0        | 0.0        | 0.0        |
| Real estate and construction | -7.3  | -8.2       | -8.0       | -8.0       | -8.0       |
| Business services            | -3.0  | -3.0       | -3.7       | -3.8       | -3.8       |
| All the above sectors        | -1.8  | -1.6       | -1.8       | -1.5       | -1.5       |

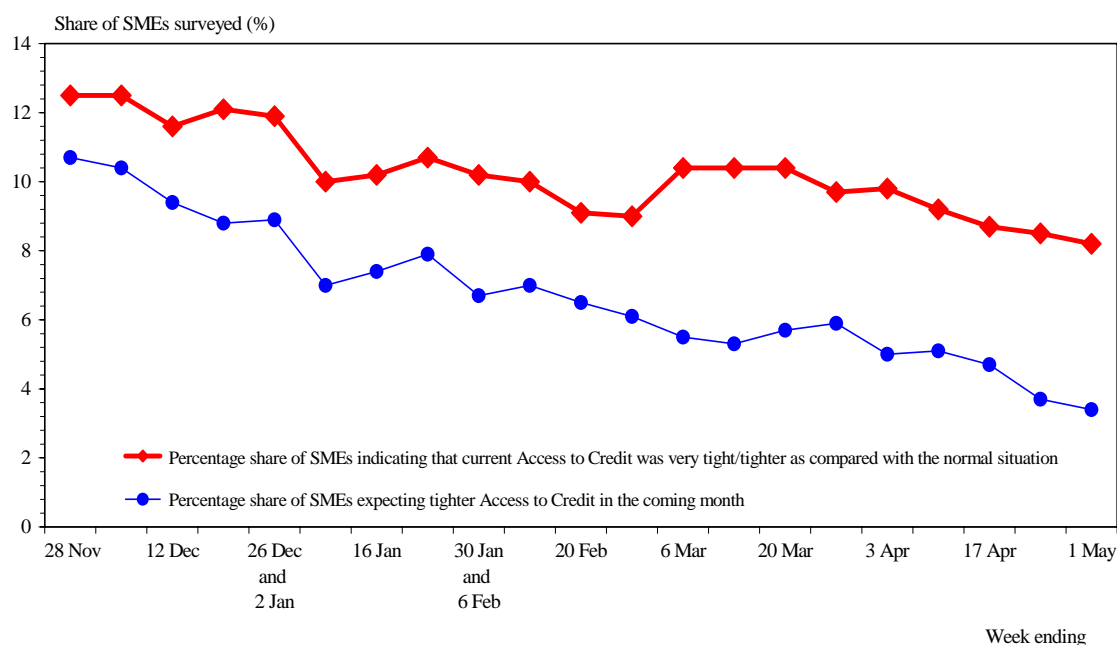
One encouraging development is the improving trend in credit access situation on entering 2009. This is clear from the progressive fall in the proportion of SMEs reporting very tight/tighter than usual credit access, from above 12% in late November last year to around 8-9% in the more recent weeks (*Table 3* and *Chart 2*). Amongst the sectors covered in the consultation, SMEs in restaurants, retail trade and wholesale trade saw more discernible improvements. SMEs in import and export trades also reported mild improvement in credit access situation. It appears that the measures taken by the Government to support enterprises, including the Special Loan Guarantee Scheme, have helped to ease the credit access situations facing the SMEs. Nevertheless, SMEs in some harder-hit sectors, especially logistics, continued to face notably tighter access to credit than other sectors.

**Box 1.2 (Cont'd)**

**Table 3 Impact on access to credit as compared with normal situation**

| SMEs by sectors              | % SMEs reporting very tight/tighter credit access |      |      |      |      |      |
|------------------------------|---|------|------|------|------|------|
|                              | Nov   | Dec  | Jan  | Feb  | Mar  | Apr  |
| Wholesale trade              | 12.0  | 10.0 | 5.3  | 0.0  | 0.0  | 0.0  |
| Retail trade                 | 10.0  | 8.8  | 6.5  | 6.6  | 4.6  | 3.5  |
| Import and export trades     | 17.1  | 17.0 | 15.7 | 14.0 | 14.5 | 13.7 |
| Restaurants                  | 19.0  | 10.7 | 11.8 | 11.8 | 8.6  | 7.1  |
| Logistics                    | 0.0   | 11.8 | 17.6 | 12.5 | 26.3 | 16.7 |
| Travel agents                | 3.3   | 3.8  | 3.7  | 3.6  | 3.7  | 3.7  |
| Financing institutions       | 12.5  | 10.8 | 7.9  | 7.7  | 8.3  | 7.9  |
| Insurance agents and brokers | 15.0  | 10.0 | 5.6  | 10.0 | 10.5 | 10.0 |
| Real estate and construction | 11.4  | 5.9  | 5.7  | 6.1  | 8.8  | 8.8  |
| Business services            | 5.7   | 6.1  | 0.0  | 0.0  | 2.9  | 3.1  |
| All the above sectors        | 12.5  | 11.9 | 10.2 | 9.0  | 9.7  | 8.5  |

**Chart 2 Access to credit showed some gradual improvement**  
**Impact on Access to Credit**



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

|   | <u>2007</u> |             |           |           |           |           | <u>2008</u> |           |           |           |
|---|-------------|-------------|-----------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
|   | <u>2007</u> | <u>2008</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> |
| Manufacturing   | -1.5        | -6.6        | -1.5      | -2.3      | -2.1      | -0.3      | -4.4        | -4.1      | -6.7      | -10.4     |
| Construction  | -1.1        | 2.7         | -5.7      | 4.6       | -1.4      | -1.4      | 9.2         | -0.3      | -1.5      | 2.8       |
| Services <sup>(b)</sup>   | 7.0         | 2.4         | 6.1       | 7.2       | 6.8       | 7.8       | 7.1         | 4.0       | 1.7       | -2.3      |
| Wholesale, retail and<br>import and export<br>trades, restaurants<br>and hotels | 6.6         | 4.1         | 5.1       | 6.7       | 6.5       | 7.9       | 9.0         | 7.2       | 4.2       | -2.1      |
| Import and export<br>trade  | 6.0         | 4.6         | 4.6       | 6.4       | 5.7       | 7.1       | 9.7         | 8.0       | 4.9       | -1.9      |
| Wholesale and<br>retail trades  | 6.8         | 2.9         | 4.0       | 4.8       | 7.7       | 10.0      | 9.1         | 6.0       | 2.2       | -3.6      |
| Restaurants and<br>hotels   | 11.0        | 2.1         | 7.9       | 9.6       | 13.9      | 12.5      | 4.4         | 3.7       | 1.8       | -1.2      |
| Transport, storage<br>and<br>communications                                     | 5.1         | 2.2         | 3.6       | 4.6       | 5.8       | 6.4       | 7.6         | 3.9       | 2.0       | -4.3      |
| Transport and<br>storage  | 5.1         | 1.9         | 3.1       | 4.0       | 6.1       | 7.0       | 8.3         | 3.8       | 1.5       | -5.4      |
| Communications  | 5.3         | 3.5         | 6.0       | 7.0       | 4.5       | 3.9       | 4.4         | 4.6       | 4.3       | 0.8       |
| Financing, insurance,<br>real estate and<br>business services                   | 13.5        | 1.6         | 11.7      | 13.4      | 13.7      | 15.0      | 10.0        | 2.8       | -0.5      | -4.9      |
| Financing and<br>insurance services   | 17.6        | 1.4         | 14.9      | 16.7      | 19.8      | 18.9      | 11.1        | 2.2       | -0.5      | -6.1      |
| Real estate and<br>business services  | 6.4         | 2.1         | 6.2       | 6.6       | 4.5       | 8.3       | 7.9         | 3.6       | -0.1      | -2.4      |
| Community, social<br>and personal<br>services                                   | 1.7         | 1.4         | 2.1       | 1.4       | 1.7       | 1.7       | 1.5         | 1.7       | 1.7       | 0.7       |

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

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

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

## **GDP by major economic sector**

1.9 The global financial tsunami had a widespread dampening impact across different sectors of the economy since the latter part of last year. Latest available figures indicate that net output of the services sector grew by 2.4% in real terms for 2008 as a whole, representing a notable deceleration from 7.0% in 2007. The manufacturing sector continued to contract, while the construction sector showed a small expansion after years of contraction. In the fourth quarter of 2008, the services sector as a whole registered a decline of 2.3% in net output. Financing and insurance showed the largest decrease, followed by transport and storage, wholesale and retail trades, and real estate and business services. While the net output of import and export trades, and restaurants and hotels decreased modestly, that of community, social and personal services increased slightly. Manufacturing output fell markedly in the quarter, while construction output showed an increase.

## **Some highlights of economic policy**

1.10 After the Third Meeting of the Task Force on Economic Challenges (TFEC) in January, the Chief Executive announced a series of measures to create employment, internship and training opportunities to cope with the expected wave of staff layoffs and to assist school leavers who will be entering the labour market in the middle of this year. The Government would also re-consider the introduction of a corporate rescue procedure, to provide an opportunity for companies in short-term financial difficulties but with viable long-term business prospects to turn around or restructure.

1.11 The “Outline of the Plan for the Reform and Development of the Pearl River Delta” (“Outline Plan for PRD”) issued by the National Reform and Development Commission in early January 2009 marked a major milestone for closer cooperation among Hong Kong, Guangdong and Macau on all fronts so as to set directions and targets that are most beneficial to the long-term development of the region. Following its release, a liaison and co-ordinating meeting was held in February among the three jurisdictions to forward the implementation of the plan. A consensus was reached on the establishment of a liaison and coordinating mechanism, and the three governments also agreed to take forward major cooperation initiatives in such areas as tourism, environmental protection, infrastructural and transport arrangements, regional development and town planning. The three governments will also ask the Central Government to consider including the concept of developing the region into a green and quality living area in the 12<sup>th</sup> five-year national plan.

1.12 The 2009-10 Budget was announced on 25 February. In response to the economic recession and rising unemployment, the Government has given priority to measures that are effective in creating jobs. Government spending would exceed \$300 billion in the 2009-10 financial year to help combat the economic downturn. The Budget has put forward short term strategies to cushion the impact of global financial crisis on the economy; has set out the directions for development and prospects; and also provides resources for building a caring community. Highlights as follows:-

- (i) *Short-term strategies:* the objective is to preserve and create jobs. The Government will adopt counter-cyclical measures (see **Box 1.1** for details), and will implement targeted measures to create around 62 000 employment and internship opportunities in the next three years. Also, a number of relief measures were announced, including a one-off tax reduction of 50% of salaries tax and tax under personal assessment for 2008-09 (subject to a ceiling of \$6,000), rates concession for the first two quarters of 2009-10 (subject to a ceiling of \$1,500 per quarter for each rateable tenement), 20% rental reduction for most government properties and short term tenancies of government land for three months, and an extended freeze on government fees and charges related to people's livelihood till 31 March 2010.
- (ii) *Directions for development and prospects:* the key strategic direction is to foster Mainland-Hong Kong economic relations, particularly to promote Hong Kong-Guangdong economic co-operation in the context of the Outline Plan for PRD, in keeping with the Greater PRD's efforts to upgrade its industries. In addition, measures were also put forward to enhance existing pillar industries and develop new economic initiatives. The Government will continue to put substantial resources in developing human capital and key infrastructure.
- (iii) *To develop a caring community:* The Government will strive to strengthen the community and improve the quality of life, through a series of medical, health and welfare measures.

1.13 The 2009/10 Budget, whilst unveiling measures to ease the pressure of economic contraction, boost domestic demand and increase employment opportunities, has placed considerable emphasis in longer term development of the economy, highlighting in particular the growth potential from technology-based, creative and green economy. Subsequently, after the Fourth Meeting of the TFEC in early April, the Task Force further identified six sectors<sup>(3)</sup> with good potential and would explore the possibility of creating an environment that could be more favourable to the development of these sectors.

1.14 Further to the 14 supportive measures announced by the Central Government in December last year, the Premier indicated in mid-April further measures<sup>(4)</sup> to support Hong Kong to weather the financial tsunami. These new measures will enhance the role of Hong Kong as an international financial centre, help to promote Hong Kong's tourism industry and assist the Hong Kong companies operating in the Mainland. All in all, significant efforts have been made by the Government in tackling the crisis. All these should have helped to mitigate the adverse impact of the global crisis on the local economy and pave the way for a swift recovery once the external environment improves.



## Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The six sectors are: (1) testing and certification; (2) medical services; (3) innovation and technology; (4) cultural and creative industries; (5) environmental industry; and (6) educational services.
- (4) The measures indicated by Premier Wen included: (1) Mainland's financial institutions will be encouraged to issue renminbi bonds in Hong Kong, and the Ministry of Finance will study whether it can issue bonds in the city; (2) The Central Government will help Hong Kong companies to use their assets located in Hong Kong to secure loans from the Hong Kong-backed banks in Guangdong and Shanghai; (3) The Central Government will also assist companies in the processing industry to promote their Mainland sales; (4) Mainland tourists will be allowed to travel to Taiwan via Hong Kong on Hong Kong-based cruisers; (5) Supplement VI to CEPA, to be signed in May, will further open the Mainland market to the city's service industries. Moreover, to implement fully the recommendations in the "Outline of the Plan for the Reform and Development of the Pearl River Delta", the Pearl River Delta Region will further open its market to Hong Kong's education, training and accounting services etc..

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *The global recession deepened in the first quarter of 2009, putting a severe drag on world trade. With external demand plunging on a global wide basis, the performance of Hong Kong's external sector worsened markedly in the quarter.*
- *Merchandise exports fell sharply in the first quarter, also as part of a region-wide phenomenon. In fact, many export-dependent Asian economies saw even sharper declines in exports than Hong Kong. Total exports of goods to the advanced economies, which were mired in recession, continued to plunge. As many Asian economies were severely hit amid the global financial crisis, Hong Kong's exports to Asia also plummeted markedly.*
- *Exports of services likewise contracted notably in the first quarter. Exports of financial services were lacklustre given the strains in the financial markets worldwide. Exports of trade-related services and transportation services plummeted along with the plunge in regional trade flows. Yet, exports of travel services continued to rise in tandem with the growth in Mainland visitors.*
- *In the midst of the severe global economic downturn, there has been an increasing concern about rising protectionist sentiment. Leaders of the Group of Twenty reiterated after their meeting in early April to resist protectionism and to promote global trade and investment.*
- *In April, the Central Government announced a pilot program for the usage of the renminbi for cross-border trade settlements in Hong Kong and five other Mainland cities. The program, when implemented, will allow Hong Kong traders to enjoy greater flexibility, thereby allowing them to reduce transaction costs and better manage exchange rate risks. This will also enhance the diversity of renminbi assets in the Hong Kong banking system, increase the local capital liquidity of renminbi, and bolster the renminbi clearing platform in Hong Kong.*

## Visible trade

### *Total exports of goods*

2.1 With the global financial crisis evolving into one of the most severe global economic contractions in modern history, external demand fell sharply in the first quarter of 2009. Merchandise exports (comprising re-exports and domestic exports) declined substantially in the first quarter, by 22.2% in real terms<sup>(1)</sup> over a year earlier, after a 3.5% decrease in the preceding quarter. The decline in export value in the first quarter was the largest since the second quarter of 1954.

2.2 The sharp decline in merchandise exports experienced by Hong Kong in the first quarter was indeed part of a region-wide phenomenon. Exports of many other Asian economies all plunged by 20-40% over the same period, as the deepening global economic downturn weighed heavily on world trade. In view of the worsening external environment, in April the International Monetary Fund<sup>(2)</sup> significantly revised downward the forecast growth rate of the global economy in 2009 to -1.3%, from the earlier forecast of 0.5% in January. This will be the most severe contraction of global economic activity in more than 60 years. Separately, in March the World Trade Organisation forecast global trade to plunge by 9% in volume terms in 2009. In the midst of the severe global economic downturn, there has been an increasing concern about rising protectionist sentiment. Leaders of the Group of Twenty reiterated after their meeting in early April to resist protectionism and to promote global trade and investment.

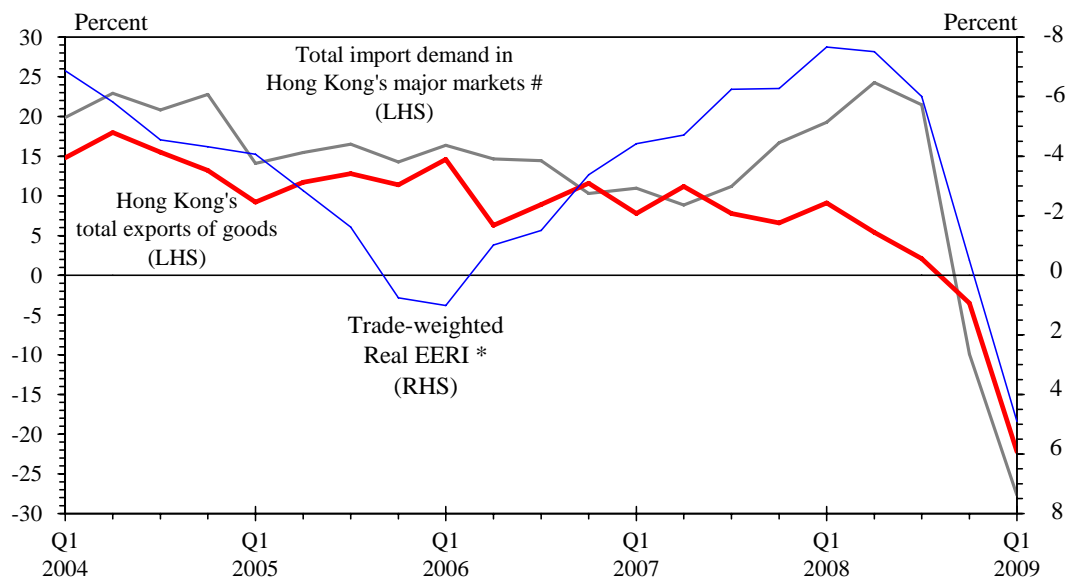
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

|             | <u>Total exports of goods</u> |                      |                         | <u>Re-exports</u>     |                      |                         | <u>Domestic exports</u> |                      |                         |
|-------------|-------------------------------|----------------------|-------------------------|-----------------------|----------------------|-------------------------|-------------------------|----------------------|-------------------------|
|             | <u>In value terms</u>         | <u>In real terms</u> | <u>Change in prices</u> | <u>In value terms</u> | <u>In real terms</u> | <u>Change in prices</u> | <u>In value terms</u>   | <u>In real terms</u> | <u>Change in prices</u> |
| 2008 Annual | 5.1                           | 2.9                  | 3.8                     | 6.0                   | 4.0                  | 3.8                     | -16.8                   | -22.0                | 5.1                     |
| Q1          | 10.5                          | 9.1 (1.2)            | 2.6                     | 10.9                  | 9.6 (1.6)            | 2.6                     | 0.3                     | -5.0 (-7.3)          | 3.3                     |
| Q2          | 7.8                           | 5.4 (0.2)            | 3.9                     | 8.8                   | 6.6 (0.5)            | 3.9                     | -14.3                   | -20.0 (-9.5)         | 5.0                     |
| Q3          | 5.5                           | 2.1 (-1.5)           | 4.8                     | 6.5                   | 3.3 (-1.1)           | 4.7                     | -17.8                   | -26.1 (-12.9)        | 6.4                     |
| Q4          | -2.1                          | -3.5 (-3.7)          | 4.1                     | -0.9                  | -2.3 (-3.5)          | 4.0                     | -31.1                   | -32.8 (-8.2)         | 6.2                     |
| 2009 Q1     | -21.9                         | -22.2 (-17.1)        | 2.5                     | -21.1                 | -21.4 (-17.1)        | 2.5                     | -44.3                   | -43.3 (-19.4)        | 2.5                     |

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

2.3 *Re-exports*<sup>(3)</sup> remained the backbone of the overall merchandise exports in the first quarter, accounting for 97.5% of the total value. There was a notable decrease of 21.4% in real terms in the first quarter of 2009, after a 2.3% decline in the fourth quarter of 2008. *Domestic exports*, which only constitute a small share of total exports, continued to shrink markedly by 43.3% in real terms in the first quarter of 2009, after falling by 32.8% in the fourth quarter of 2008.

**Diagram 2.1 : Merchandise exports fell sharply in the first quarter of 2009  
(year-on-year rate of change)**

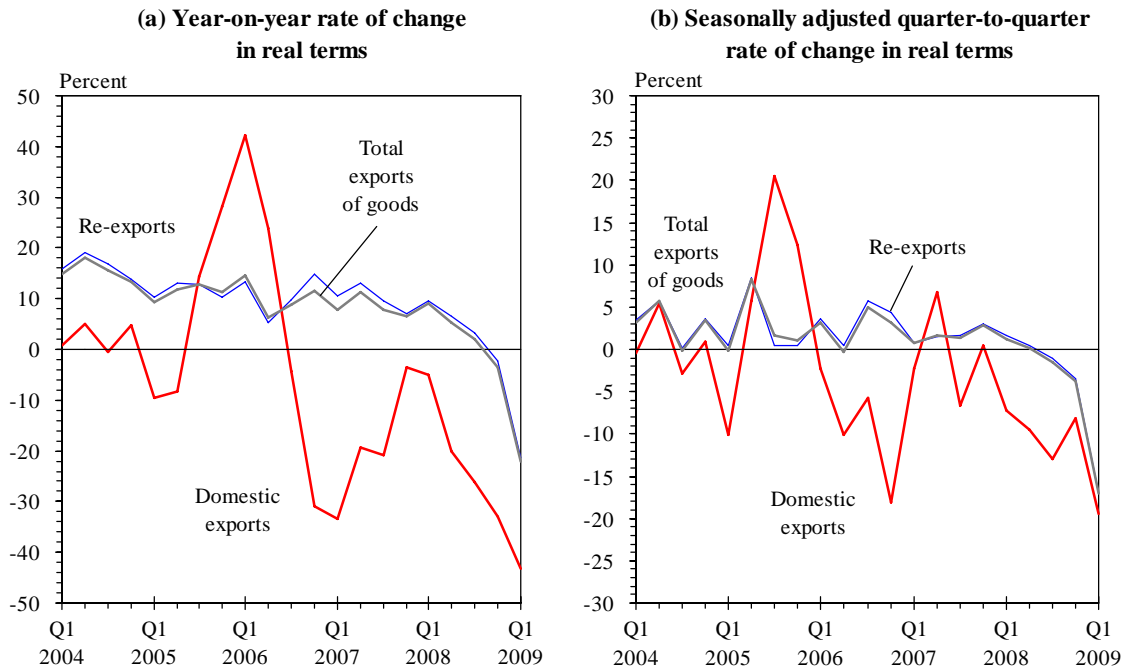


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

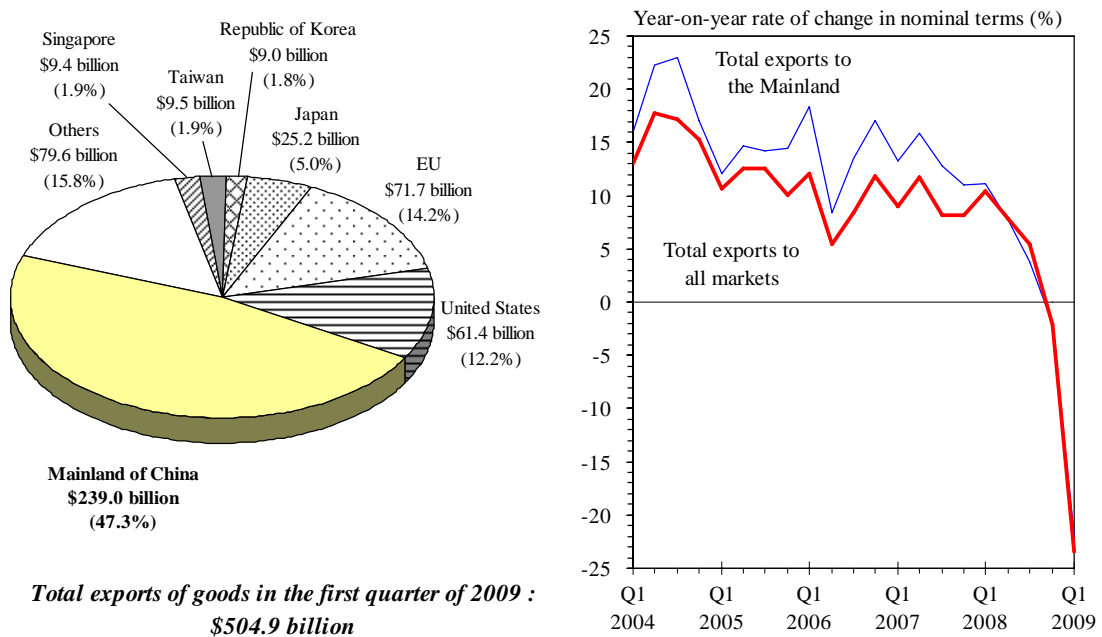
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the first quarter of 2009 is based on information available up to February 2009.

**Diagram 2.2 : Both re-exports and domestic exports declined**



**Diagram 2.3 : Exports to the Mainland, Hong Kong's largest market, were also hard hit by the global economic crisis**



## Box 2.1

### Current global economic situation

The dramatic eruption of the financial tsunami in September last year has led to a severe slump in activity in the advanced economies. In a globalised world, emerging economies in Asia and elsewhere have also been seriously hit through both financial and trade channels. At present, the global financial system remains under severe stress. In April, the IMF projected world output to contract by 1.3% in 2009, before recovering slowly in 2010 by 1.9%. The turnaround from the current global synchronised recession, the worst since World War II, will depend on the strong policy actions by the world's major economies to stabilise the financial sector and to support demand with monetary and fiscal easing.

#### *Economic situation in the advanced economies*

The US economy has been in deep recession since the latter half of 2008. The economy contracted markedly further at an annual rate of 6.1% in the first quarter of 2009, after a 6.3% contraction in the preceding quarter. Since the recession officially began in December 2007, the cumulative job losses amounted to 6.3 million in April 2009. Consumption spending and hence import demand remained weak. Nevertheless, the US housing market, the downturn of which triggered the subprime mortgage crisis, showed some early signs of stabilization. The fall in housing prices slowed in the more recent months, although home sales and housing starts remained sluggish.

The advanced economies in Western Europe were likewise in a dire state, with severe contraction in industrial production, rising unemployment, and in some economies falling property prices. Business and consumer sentiments in the euro area had been at record lows. The advanced economies in Asia, including Japan (*Table 1*), Hong Kong, Singapore, South Korea and Taiwan, also deteriorated markedly since the latter half of 2008. The performance of the economies in Asia, developed and developing alike, was adversely affected the drastic decline in world trade as a result of the global synchronised recession.

**Table 1: Economic performance of selected advanced economies**

(Year-on-year growth rate of real GDP (%))

|           | <u>2008</u>  |               |                |                | <u>2009</u>    | <u>Forecast by IMF*</u> |             |             |
|-----------|--------------|---------------|----------------|----------------|----------------|-------------------------|-------------|-------------|
|           | <u>Q1</u>    | <u>Q2</u>     | <u>Q3</u>      | <u>Q4</u>      | <u>Q1</u>      | <u>2008</u>             | <u>2009</u> | <u>2010</u> |
| US        | 2.5<br>(0.2) | 2.1<br>(0.7)  | 0.7<br>(-0.1)  | -0.8<br>(-1.6) | -2.6<br>(-1.6) | 1.1                     | -2.8        | 0.0         |
| Euro area | 2.1<br>(0.7) | 1.4<br>(-0.3) | 0.6<br>(-0.3)  | -1.5<br>(-1.6) | n.a.<br>(n.a.) | 0.7                     | -4.2        | -0.4        |
| Japan     | 1.5<br>(0.3) | 0.7<br>(-1.2) | -0.2<br>(-0.4) | -4.3<br>(-3.2) | n.a.<br>(n.a.) | -0.6                    | -6.2        | 0.5         |

Notes: ( ) Figures in brackets refer to seasonally adjusted quarterly growth rates.

(\*) World Economic Outlook, April 2009, IMF

(n.a.) Not yet available.

## Box 2.1 (Cont'd)

### *Economic situation in the export-dependent Asian economies*

With the shrinking demand in the advanced economies severely affecting global trade, there had been serious disruptions to production activities in Asia, which constitute important parts of the global supply chains. Declines in industrial production were first spotted in some of the Asian economies stepping into the second half of last year, followed by more severe and widespread contractions in Asian exports. The sharp declines in Asian exports continued in the first quarter of 2009, putting a severe drag on the overall performance of Asian economies. While the more advanced economies in Asia generally entered into recession, the emerging market economies in Asia also saw notable deceleration in growth.

**Table 2: Asian economies severely affected by shrinking external demand**

|                        | Year-on-year growth<br>rate of real GDP (%) |      |      |      |       | Year-on-year growth<br>rate of exports in US\$ terms (%) |       |        |
|------------------------|---|------|------|------|-------|--|-------|--------|
|                        | 2008  |      |      |      | 2009  | 2008   |       | 2009   |
|                        | Q1  | Q2   | Q3   | Q4   | Q1    | Q3   | Q4    | Q1     |
| Mainland               | 10.6  | 10.1 | 9.0  | 6.8  | 6.1   | 23.1   | 4.4   | -19.7  |
| Hong Kong              | 7.3   | 4.1  | 1.5  | -2.6 | -7.8  | 5.6  | -1.8  | -21.5  |
| Japan                  | 1.5   | 0.7  | -0.2 | -4.3 | n.a.  | 12.9   | -9.9  | -40.6  |
| Singapore <sup>+</sup> | 6.7   | 2.5  | 0.0  | -4.2 | -11.5 | -0.7   | -19.6 | -30.6  |
| Korea                  | 5.5   | 4.3  | 3.1  | -3.4 | -4.3  | 27.0   | -9.9  | -24.9  |
| Taiwan                 | 6.2   | 4.6  | -1.0 | -8.4 | n.a.  | 8.0  | -24.7 | -36.6  |
| Indonesia              | 6.2   | 6.4  | 6.4  | 5.2  | n.a.  | 27.9   | -5.6  | -33.9* |
| Malaysia               | 7.4   | 6.7  | 4.7  | 0.1  | n.a.  | 21.3   | -12.6 | -29.9* |
| Thailand               | 6.0   | 5.3  | 3.9  | -4.3 | n.a.  | 28.4   | -8.5  | -19.2* |
| Philippines            | 4.7   | 4.4  | 5.0  | 4.5  | n.a.  | 4.1  | -22.3 | -39.9* |

Notes: (+) Non-oil exports.

(n.a.) Not yet available.

(\*) Figures for January and February combined.

The Mainland's external trade also fell markedly, due to the shrinkage in global demand for manufactured goods. In particular, Guangdong's exports, which have been closely tied to Hong Kong's trading and other business activities, also went down notably. Nevertheless, domestic demand in the Mainland remained fairly robust in the first quarter. The growth momentum in retail sales and fixed investment went very much unabated. The industrial value-added also managed to post some re-acceleration in March as compared to the growth rate in January and February combined. Bank loans and money supply M2 also registered notable increases in March. All these tend to reflect the good progress made by the stimulus measures, including the RMB 4 trillion package announced last November, by the Central Government. If the Mainland recovers to faster growth in the coming quarters, as widely expected by many private sector analysts, this will provide some support to the Hong Kong economy as well as to the economic stability of the region.

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

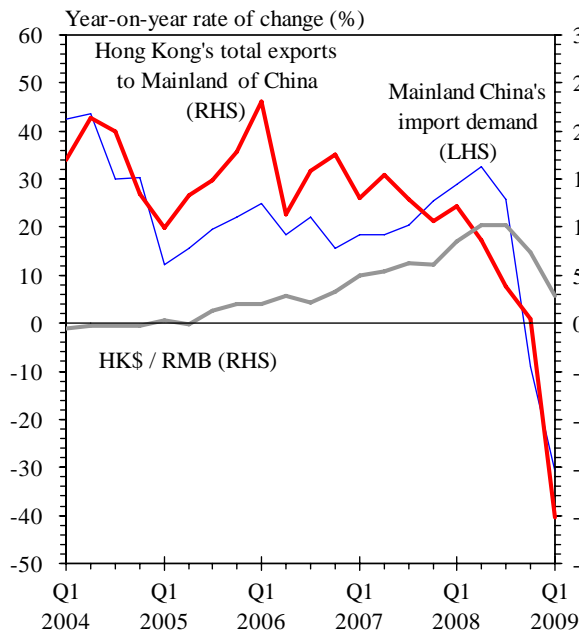
|      |        | <u>Mainland<br/>of China</u> | <u>United<br/>States</u> | <u>European<br/>Union</u> | <u>Japan</u> | <u>Republic<br/>of Korea</u> | <u>Taiwan</u> | <u>Singapore</u> |
|------|--------|------------------------------|--------------------------|---------------------------|--------------|------------------------------|---------------|------------------|
| 2008 | Annual | 5.9                          | -8.5                     | 0.2                       | -2.4         | -8.2                         | -1.6          | 6.2              |
|      | Q1     | 12.2                         | -5.8                     | 4.6                       | -3.2         | 2.8                          | -0.2          | 21.6             |
|      | Q2     | 8.6                          | -7.4                     | 1.6                       | -4.1         | -5.7                         | 2.6           | 13.8             |
|      | Q3     | 3.9                          | -7.1                     | 2.0                       | -1.2         | -5.7                         | -2.5          | -0.5             |
|      | Q4     | 0.4                          | -13.0                    | -6.3                      | -1.0         | -23.2                        | -5.9          | -7.2             |
| 2009 | Q1     | -20.2                        | -24.6                    | -22.1                     | -17.8        | -31.9                        | -27.4         | -37.0            |

2.4 Hong Kong's exports to the major markets declined distinctly. As the advanced economies were mired in deep recession, their import demand all went sharply down. In consequence, total exports to the United States, the European Union and Japan declined distinctly across the board in the first quarter of 2009.

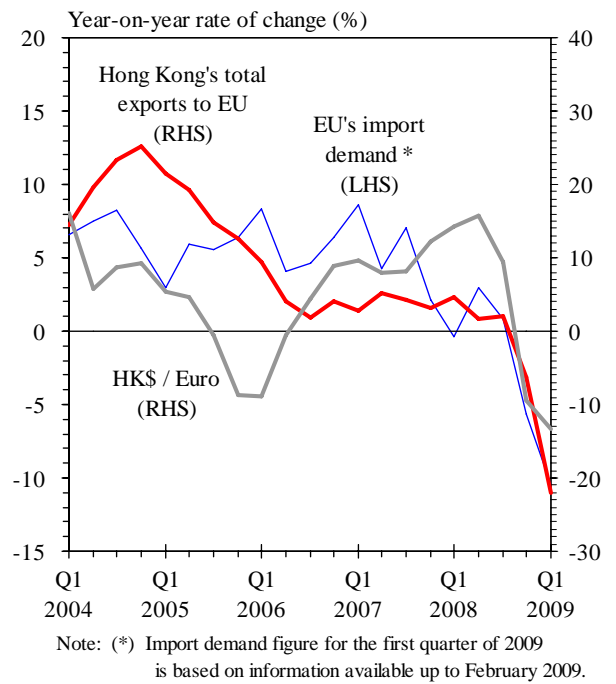
2.5 Economies in Asia were not immune to the global crisis. With a high degree of external orientation and as the key production centre targeting at the markets in the advanced economies, Asian economies had generally experienced a rapid deterioration since the latter part of last year. Furthermore, the strength of the US dollar was not conducive to the competitiveness of Hong Kong's exports. Against this background, total exports to the Mainland (the largest market for Hong Kong's total exports of goods), Singapore, South Korea and Taiwan all saw double-digit declines in the first quarter. Likewise, exports to most of the emerging economies in the region fell significantly.



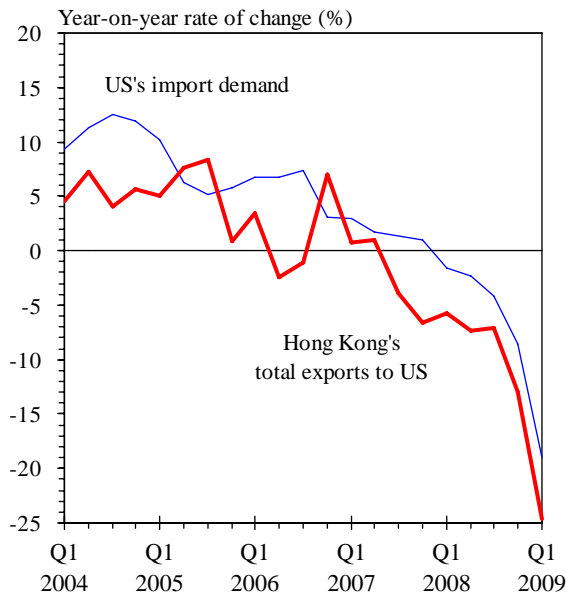
**Diagram 2.4 : Exports to the Mainland falling since late 2008 as world trade faltered**



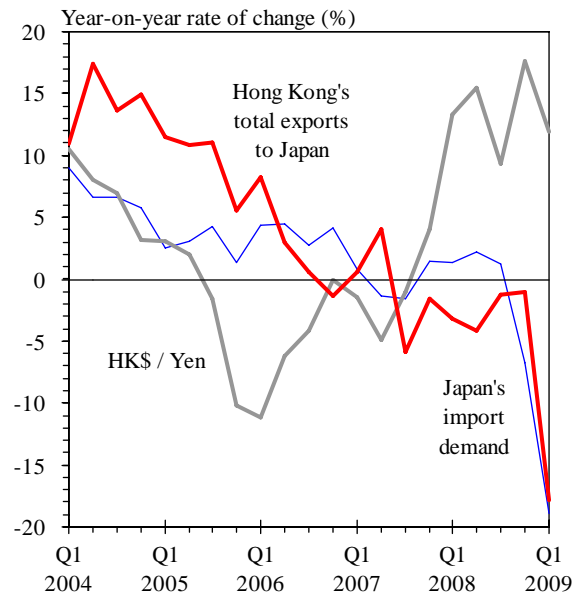
**Diagram 2.5 : Exports to EU significantly affected by the deep economic recession in EU**



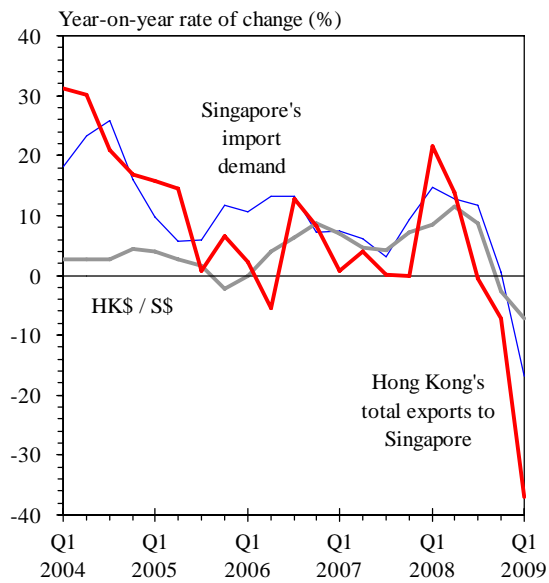
**Diagram 2.6 : Exports to US plummeting along with its weak import demand**



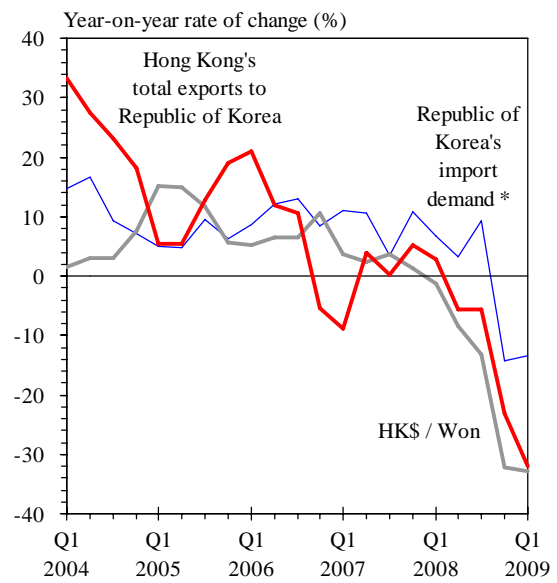
**Diagram 2.7 : Exports to Japan likewise sharply down**



**Diagram 2.8 : Exports to Singapore plunging...**



**Diagram 2.9 : ...and so did exports to Republic of Korea**



Note: (\*) Import demand figure for the first quarter of 2009 is based on information available up to February 2009.

### *Imports of goods*

2.6 *Imports of goods* contracted markedly by 22.2% in real terms in the first quarter, after a decrease of 6.0% in the fourth quarter of 2008. *Retained imports*, referring to the imports for domestic uses, likewise slumped by 24.2% in real terms in the first quarter, reflecting the weakening domestic demand. Retained imports of all end-use categories, except fuels, fell in the first quarter, with raw materials and semi-manufactures, and consumer goods showing sharp declines.

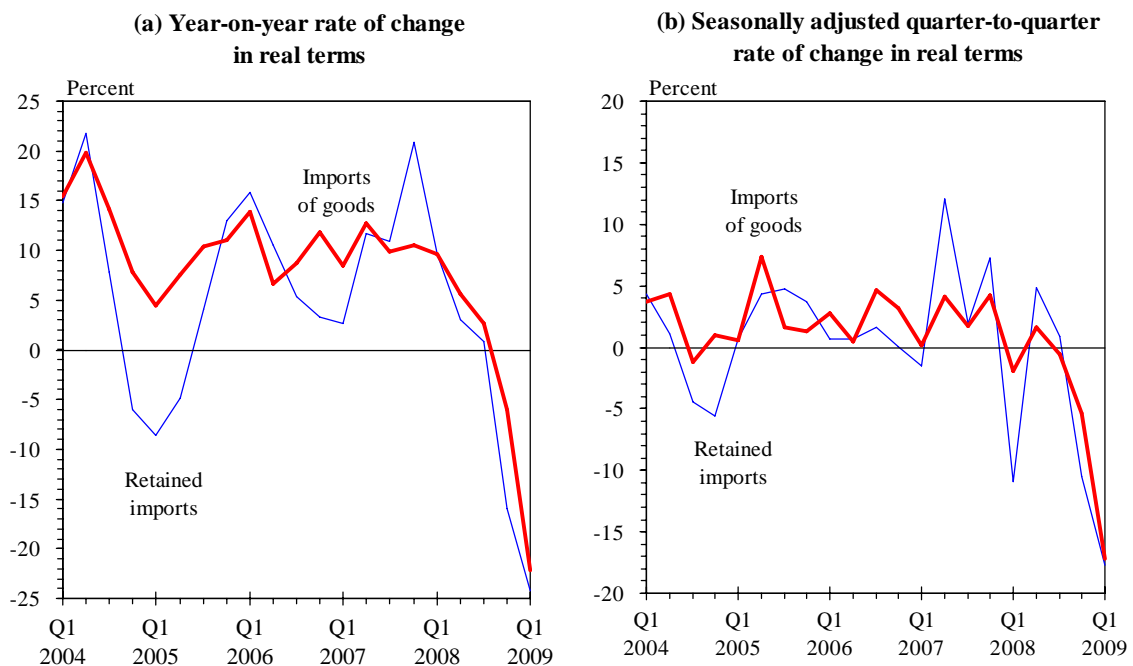
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

|      |        | <u>Imports of goods</u> |                      |                         | <u>Retained imports</u> <sup>(a)</sup> |                      |                         |
|------|--------|-------------------------|----------------------|-------------------------|--|----------------------|-------------------------|
|      |        | <u>In value terms</u>   | <u>In real terms</u> | <u>Change in prices</u> | <u>In value terms</u>                  | <u>In real terms</u> | <u>Change in prices</u> |
| 2008 | Annual | 5.5                     | 2.6                  | 4.4                     | 3.9                                    | -1.4                 | 6.2                     |
|      | Q1     | 11.6                    | 9.6                  | (-1.9)                  | 13.7                                   | 9.6                  | (-10.9)                 |
|      | Q2     | 9.1                     | 5.6                  | (1.6)                   | 10.1                                   | 3.0                  | (4.9)                   |
|      | Q3     | 7.0                     | 2.7                  | (-0.6)                  | 8.5                                    | 0.8                  | (0.9)                   |
|      | Q4     | -4.2                    | -6.0                 | (-5.4)                  | -13.7                                  | -16.0                | (-10.5)                 |
| 2009 | Q1     | -22.8                   | -22.2                | (-17.2)                 | -27.5                                  | -24.2                | (-17.7)                 |

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

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

**Diagram 2.10 : Total imports plunged**



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

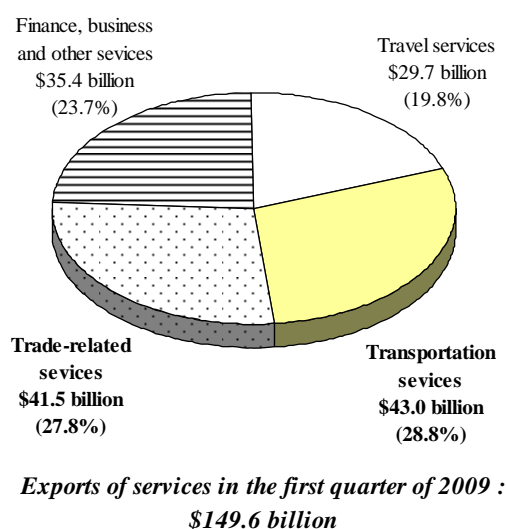
|      |        | <u>Consumer<br/>goods</u> | <u>Foodstuffs</u> | <u>Capital<br/>goods</u> | <u>Raw<br/>materials and<br/>semi-manufactures</u> | <u>Fuels</u> |
|------|--------|---------------------------|-------------------|--------------------------|--|--------------|
| 2008 | Annual | 12.4                      | 13.3              | 7.5                      | -29.9  | -3.9         |
|      | Q1     | 30.3                      | 12.7              | 14.5                     | -11.7  | -11.3        |
|      | Q2     | 16.2                      | 19.0              | 11.2                     | -20.8  | -7.0         |
|      | Q3     | 9.8                       | 9.0               | 20.0                     | -35.4  | 0.9          |
|      | Q4     | -3.3                      | 12.6              | -11.1                    | -47.9  | 1.9          |
| 2009 | Q1     | -30.7                     | -3.4              | -8.1                     | -69.5  | 30.8         |

## **Invisible trade**

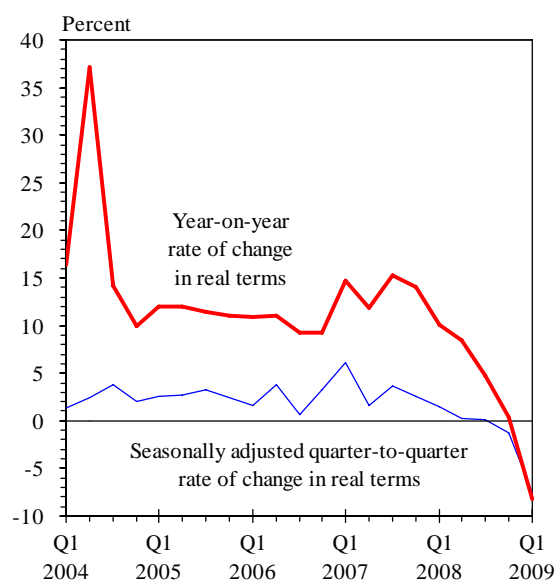
### *Exports of services*

2.7 *Exports of services* were likewise affected by the deteriorating external environment. In the first quarter of 2009, exports of services registered a notable decrease of 8.2% in real terms, after a marginal increase of 0.4% in the final quarter of 2008. As fund-raising and other financial market activities remained subdued, exports of financial services slowed distinctly in the first quarter. Reflecting the setback in regional trade flows, exports of trade-related services (mainly offshore trade) and transportation services shrank notably over the period. With the global economic downturn and negative wealth effect weighing on the demand for travel, visitor arrivals from most sources saw double-digit declines. Yet, the solid increase in visitor arrivals from the Mainland provided a complete offset and led to some increase in exports of travel services in the quarter.

**Diagram 2.11 : Trade-related and transportation services accounting for over 55% of service exports, reflecting the important role of Hong Kong as a trading hub**



**Diagram 2.12 : Exports of services likewise declined in tandem with global recession**



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

*Of which :*

|      |        | <i>Of which :</i>   |                                       |                         |                                |      | Finance, business and other services |
|------|--------|---------------------|---------------------------------------|-------------------------|--------------------------------|------|--------------------------------------|
|      |        | Exports of services | Trade-related services <sup>(a)</sup> | Transportation services | Travel services <sup>(b)</sup> |      |                                      |
| 2008 | Annual | 5.7                 | 5.8                                   | 2.2                     | 6.2                            | 9.6  |                                      |
|      | Q1     | 10.1                | 9.6                                   | 5.2                     | 7.3                            | 17.7 |                                      |
|      | Q2     | 8.4                 | 9.9                                   | 4.1                     | 7.7                            | 13.7 |                                      |
|      | Q3     | 4.8                 | 6.0                                   | 1.2                     | 7.3                            | 6.2  |                                      |
|      | Q4     | 0.4                 | 0.3                                   | -1.4                    | 3.0                            | 0.7  |                                      |
| 2009 | Q1     | -8.2                | -12.5                                 | -10.8                   | 3.9                            | -8.6 |                                      |

Notes : (a) Comprising mainly offshore trade.

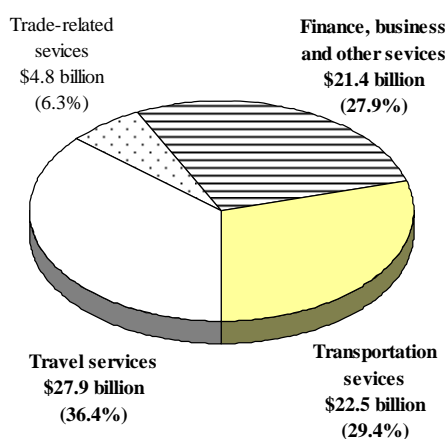
(b) Comprising mainly inbound tourism receipts.

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

## Imports of services

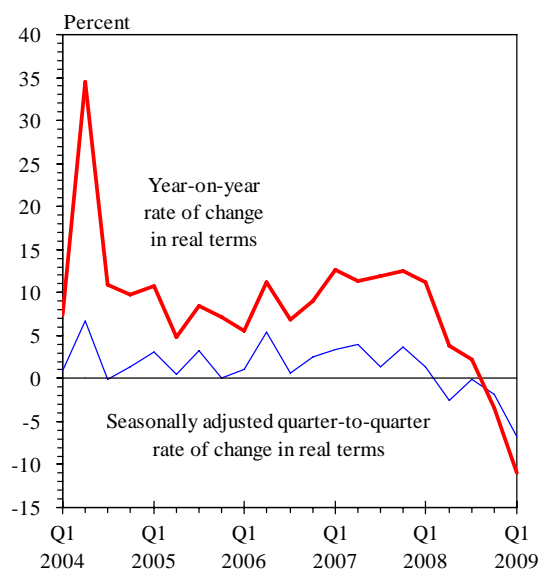
2.8 *Imports of services* fell even more in the first quarter of 2009, by 10.9% in real terms over a year earlier. The decrease was across all sectors. Imports of travel services continued the downtrend since the final quarter of 2008, along with weaker consumer sentiment, and so did imports of transportation services. Meanwhile, financial market and other commercial activities turned more sluggish in the midst of the global financial crisis, leading to a decline in imports of financial, business and other services in the first quarter. As for the imports of trade-related services, a marked deterioration was also seen in the first quarter, due to receding trade flows in the Asian region.

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



*Imports of services in the first quarter of 2009 : \$76.6 billion*

**Diagram 2.14 : Imports of services also went sharply down**



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

|      |        | <i>Of which :</i>              |  |                                    |                                   | Finance,<br>business<br>and other<br>services |
|------|--------|--------------------------------|--|------------------------------------|-----------------------------------|---|
|      |        | <u>Imports<br/>of services</u> | <u>Travel<br/>services<sup>(+)</sup></u> | <u>Transportation<br/>services</u> | <u>Trade-related<br/>services</u> | <u>services</u>                               |
| 2008 | Annual | 3.3                            | 2.2                                      | 1.8                                | 6.3                               | 5.9   |
|      | Q1     | 11.2                           | (1.3)                                    | 13.1                               | 10.2                              | 10.1  |
|      | Q2     | 3.8                            | (-2.6)                                   | -1.3                               | 5.5                               | 7.5   |
|      | Q3     | 2.2                            | (-0.1)                                   | 1.4                                | 0.8                               | 4.2   |
|      | Q4     | -3.4                           | (-1.8)                                   | -3.7                               | -8.1                              | 1.9   |
| 2009 | Q1     | -10.9                          | (-6.8)                                   | -6.6                               | -16.5                             | -9.9  |

Notes : (+) Comprising mainly outbound travel spending.

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

### Visible and invisible trade balance

2.9 With the surplus in the invisible trade account more than offsetting the deficit in the merchandise trade account, a sizeable surplus of \$38.2 billion was recorded in the combined visible and invisible trade balance in the first quarter of 2009, equivalent to 6.1% of the total value of imports of goods and services. This compared with the corresponding figures of \$38.3 billion and 4.9% in the same quarter last year. The continued strong external balance position is a reflection of Hong Kong's strength and resilience in meeting the challenges posed by the global crisis.

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

|      |        | <u>Total exports</u> |                 | <u>Imports</u> |                 | <u>Trade balance</u> |                 |                 |
|------|--------|----------------------|-----------------|----------------|-----------------|----------------------|-----------------|-----------------|
|      |        | <u>Goods</u>         | <u>Services</u> | <u>Goods</u>   | <u>Services</u> | <u>Goods</u>         | <u>Services</u> | <u>Combined</u> |
| 2008 | Annual | 2,844.0              | 718.8           | 3,024.1        | 357.0           | -180.1               | 361.8           | 181.7           |
|      | Q1     | 650.6                | 174.0           | 696.7          | 89.6            | -46.1                | 84.4            | 38.3            |
|      | Q2     | 708.7                | 166.9           | 770.8          | 87.1            | -62.0                | 79.8            | 17.8            |
|      | Q3     | 764.3                | 193.6           | 805.6          | 95.5            | -41.4                | 98.1            | 56.8            |
|      | Q4     | 720.3                | 184.3           | 751.0          | 84.8            | -30.6                | 99.4            | 68.8            |
| 2009 | Q1     | 512.3                | 149.6           | 547.1          | 76.6            | -34.8                | 73.0            | 38.2            |

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

## **Other developments**

2.10 Hong Kong, Guangdong and Macau are working together to expedite the implementation of the “Outline of the Plan for the Reform and Development of the Pearl River Delta” released by the National Development and Reform Commission in early January this year. In February, the three sides formed key co-operation areas including finance, service industry, tourism, infrastructure, transport and town planning, innovation and technology, environmental protection, restructure and upgrading of enterprises, as well as education and training.

2.11 The Government will continue to strengthen infrastructure links with the Mainland to further enhance Hong Kong’s position as a financial, trading and services centre. Several major cross-boundary infrastructure projects are being expedited. Specifically regarding the Hong Kong-Zhuhai-Macau Bridge (HZMB), the three governments signed the contract for the preliminary design and investigation of the structure’s main body in March. Consensus on the sharing of the total construction cost by the three sides was also reached. The construction of the project is expected to start no later than 2010.

2.12 In April, the Central Government announced a pilot program for the usage of the renminbi for cross-border trade settlements in Hong Kong and five other Mainland cities. The program, when implemented, will allow Hong Kong traders to enjoy greater flexibility, thereby enabling them to reduce transaction costs and better manage exchange rate risks. The scheme will also enhance the diversity of renminbi assets in the Hong Kong banking system, increase the local capital liquidity of renminbi, bolster the renminbi clearing platform, and pave the way to further promote renminbi businesses in Hong Kong.

2.13 The Government will also continue to strengthen Hong Kong-Taiwan exchanges proactively, and support the full implementation of the “Three Direct Links” across the Taiwan Strait, as Hong Kong will benefit from the increasing trade flows and economic interactions among the Mainland, Taiwan and Hong Kong. Since January 2009, new measures had been implemented to facilitate Taiwan visitors with greater convenience and flexibility in visiting Hong Kong.



## Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In April, the International Monetary Fund (IMF) forecast the world economy to contract by 1.3% in 2009, before growing by 1.9% in 2010. Separately, the IMF estimated that write-downs on US-originated assets by all holders until 2010 would reach US\$4.1 trillion, up from US\$2.2 trillion estimated in January 2009.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

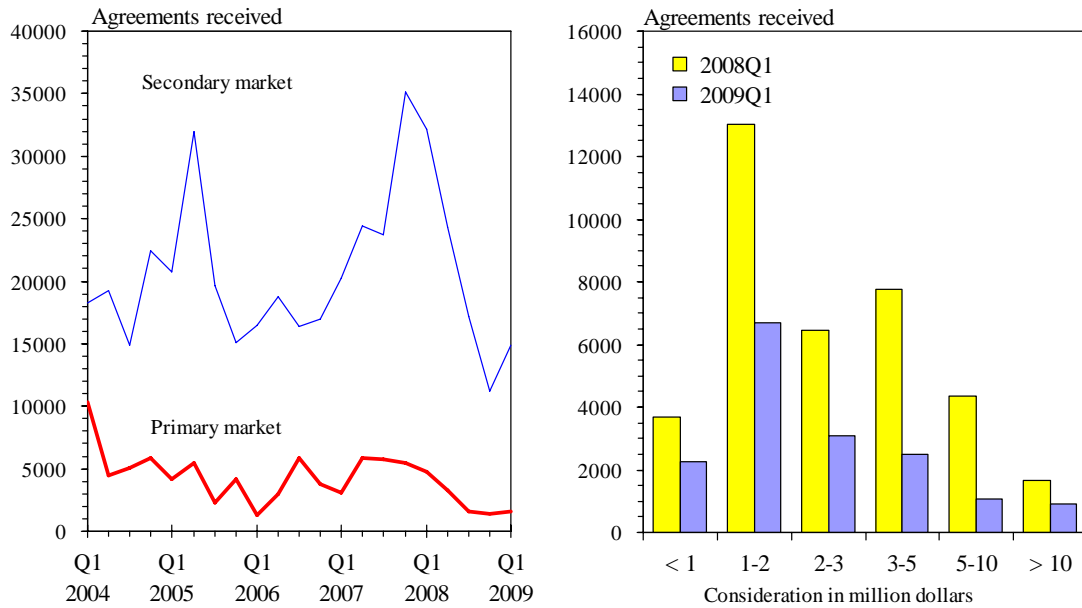
### *Summary*

- *Residential property market turned more active during the first quarter of 2009, while prices recouped partially the ground lost during the second half of 2008. Yet for non-residential property, the prices and rentals remained generally soft in quiet trading.*
- *Inbound tourism put up a modest performance in the first quarter, with a sustained increase in visitor arrivals from the Mainland offsetting the decreases seen for long-haul visitors.*
- *The logistics sector however suffered further setback upon continued contraction in external trading activities. Both sea-borne and air-borne freight throughputs registered noticeable drops.*
- *Despite the challenging economic conditions, the Government remains committed to strengthening cross-boundary co-operation particularly in infrastructure development and technology enhancement, for sustainable growth and integration of the economies of Hong Kong and the Mainland over the long term.*

### **Property**

3.1 The *residential property market* staged some rebound in the first quarter of 2009, following the slump in the latter part of 2008. Both flat prices and transaction volume picked up, as buying interest re-emerged amid some favourable developments such as a relaxation of mortgage lending policy by local banks. More specifically on property trading, the number of sale and purchase agreements for residential property received by the Land Registry reached 16 464 in the first quarter of 2009, up by 30% over the fourth quarter of 2008, though still down by 55% from a year earlier. Likewise, the total consideration involved, at \$55.2 billion, was 29% more than in the preceding quarter, albeit 60% less than a year earlier.

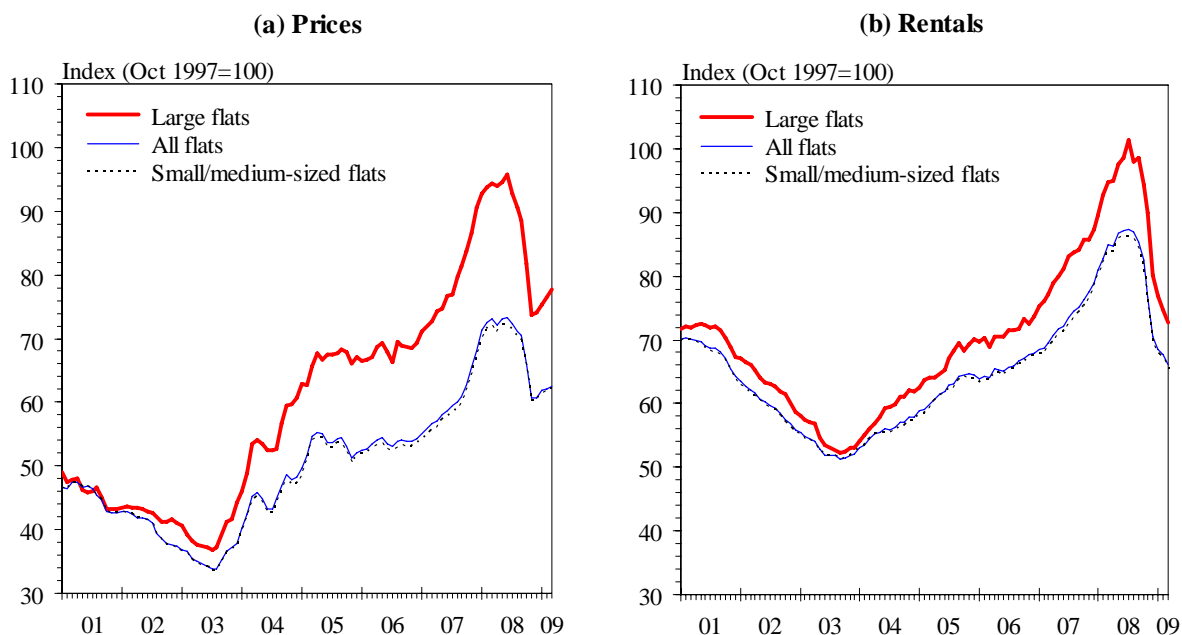
**Diagram 3.1 : Trading bounced back for different types of flats during the first quarter of 2009, though still lower than a year earlier**



3.2 Comparing March 2009 with December 2008, flat prices rose on average by 3%, partly reversing the drop of 14% between September and December 2008. Yet compared with their peak levels recorded in the earlier period of 2008, flat prices were still generally down, with the prices for large flats having a larger decrease than those for small/medium-sized flats, by 19% as against 14%.

3.3 Flat rentals, on the other hand, continued on a downtrend, falling by 6% between December 2008 and March 2009. Rentals for large and small/medium-sized flats were lower by 9% and 6% respectively. The rental yield for residential flats thus declined to 3.7% in March 2009, from 4.1% in December 2008.

**Diagram 3.2 : Residential property prices picked up moderately in early 2009, in contrast to the continued downtrend in rentals**



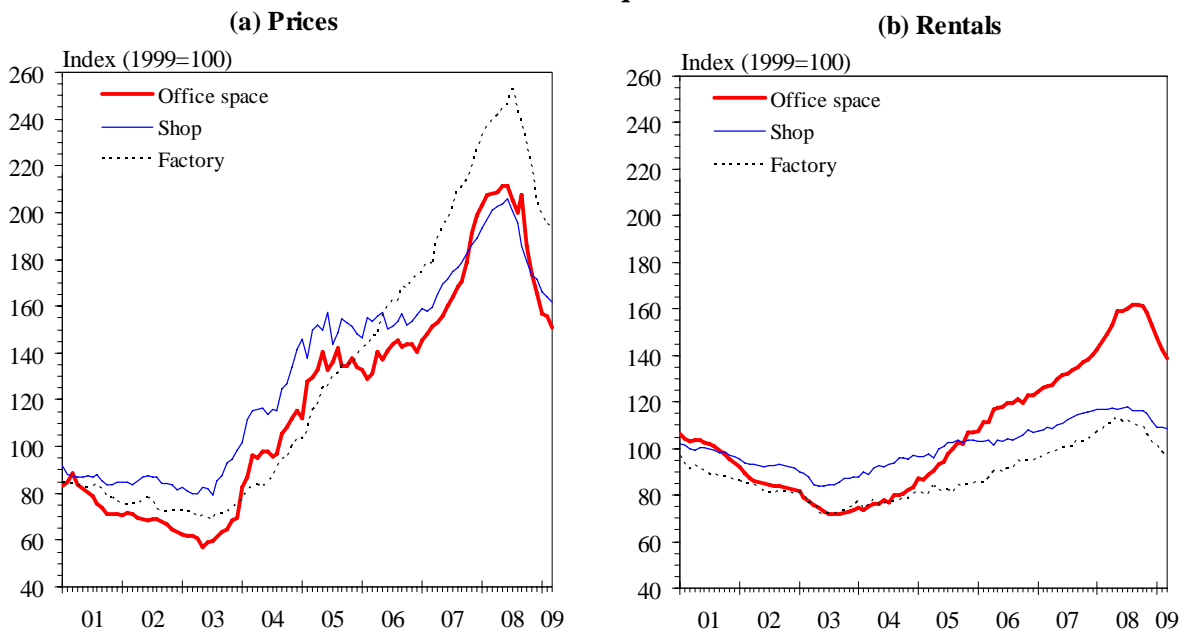
Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m<sup>2</sup>, and small/medium-sized flats with a saleable area of less than 100 m<sup>2</sup>.

3.4 As regards *commercial and industrial property*, both acquisition and leasing demands weakened further alongside the downturn in economic activity. For *office space*, prices declined by 9% during December 2008 to March 2009. Analysed by type of office space, the prices of Grade A office space plunged by 13%, whereas the prices of Grade B and C office space had relatively smaller decreases of 6% and 2% respectively. On the leasing front, office rentals remained under pressure, registering a fall of 10% between December 2008 and March 2009. Rentals for Grade A office space also dropped by 10%, while those for Grade B and C office space decreased by 9% and 8% respectively. As for rental yield, Grade A office space witnessed a slight improvement from 5.1% in December 2008 to 5.2% in March 2009. Meanwhile, the rental yield for Grade B office held steady at 5.2%.

3.5 Neither were signs of recovery in sight for the shopping and factory space. Comparing March 2009 with December 2008, the prices of *retail space* registered a 6% decline, while the respective rentals fell less by 3%. A slowdown in local consumer spending as well as in tourist arrivals and expenditure was the main contributory factor. Given the smaller reduction in rentals relative to prices, the rental yield of retail space turned better from 4.7% in December 2008 to 4.8% in March 2009. On the other hand, decreases of 5% and 6% in prices and rentals were observed for *flatted factory space*

between December 2008 and March 2009, in tandem with the slackening in industrial and trading activities. Consequently, the rental yield for this type of property edged down from 6.3% to 6.2% in the period.

**Diagram 3.3 : The markets for non-residential property stayed in the doldrums in the first quarter**



## Land

3.6 The land acquisition market was quiet, with a dearth of trading activities during the first quarter of 2009. Only one site designated for non-industrial purposes in Sheung Shui was successfully triggered from the *Application List (AL) System* in the period. In the face of uncertainties looming on the horizon, property developers generally adopted a wait-and-see attitude towards land acquisition.

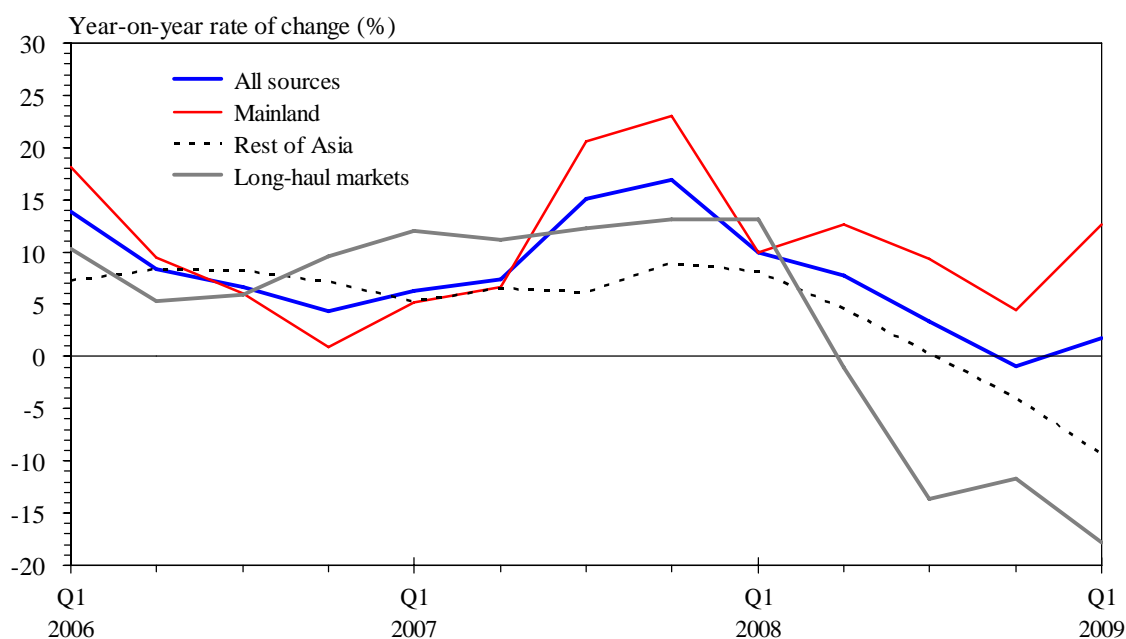
3.7 On 20 March 2009, the Government announced that 61 sites with a total area of nearly 61 hectares would be made available under the AL system during the 2009-10 fiscal year, broadly similar to the 62 sites with a total area of about 60 hectares offered during the preceding year 2008-09. The 40 sites on the new list designated for residential developments could potentially provide around 10 500 to 11 000 flats, depending on the design of the actual developments. Of the remaining 21 sites, 12 sites were designated for commercial/business use and 9 sites for “hotel only” use. Taken together, the “hotel only” sites could make available about 6 530 to 7 050 hotel rooms to the market, conducive to enhancing Hong Kong’s competitiveness in tourism, exhibition and convention services.

## Tourism

3.8 The inbound tourism sector had recorded a modestly positive growth in the first quarter of 2009, as manifested by the 1.8% year-on-year increase in *incoming visitor arrivals* to 7.4 million. The Mainland market continued to be the principal source of growth. Visitor arrivals from the Mainland went up by 12.6% year-on-year, underpinned by a 16.3% jump in arrivals under the Individual Visit Scheme. Visitor arrivals from the rest of Asia as well as those from the long-haul markets however shrank by 9.4% and 17.8% respectively, as the propensity to travel abroad was dampened by the global economic and financial crisis.

3.9 The number of same-day in-town visitors grew by 3.4% year-on-year in the first quarter, whilst the number of overnight visitors, which constituted 58% of the total arrivals, edged up by 0.6%.

**Diagram 3.4 : Inbound tourism continued to be underpinned by further expansion in the Mainland market**



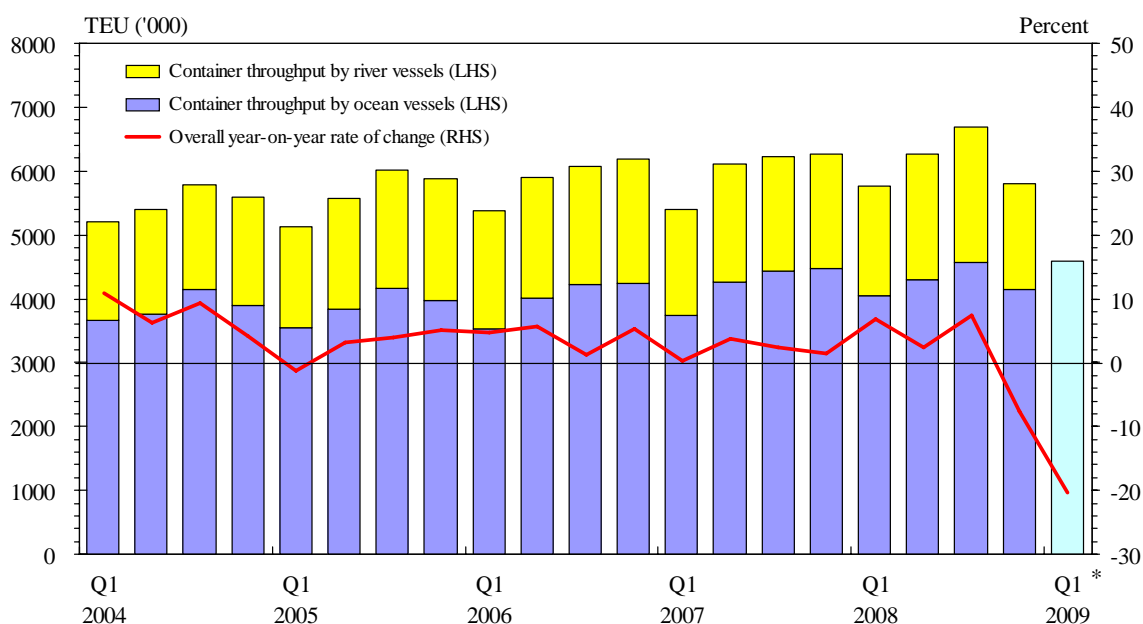
3.10 Partly due to the 7% increase in hotel room supply in the period, the hotel occupancy rate declined by five percentage points from a year earlier to 79% in the first quarter. The average hotel room rate was also reduced by 14.2% year-on-year to \$1,069 per night<sup>(1)</sup>.

3.11 The figures on expenditure by inbound visitors are available up to the fourth quarter of 2008. For 2008 as a whole, the relevant expenditure rose by 11.7% to \$159.0 billion. Per capita visitor spending for same-day in-town visitors surged by 20.9% to \$1,498, while that for overnight visitors was up more moderately by 6.2% to \$5,439<sup>(2)</sup>.

## Logistics

3.12 The logistics sector was hit further in the first quarter of 2009, when there was a continued contraction in external trade amid the inclement global economic climate. Total *container throughput* in the quarter plunged by 20.4% from a year earlier to 4.6 million TEUs, as compared with the 7.6% decline recorded in the fourth quarter of 2008. The value of trade handled at the Hong Kong Port likewise decreased by 23.3%, although it still accounted for 30.0% of the overall trade value.

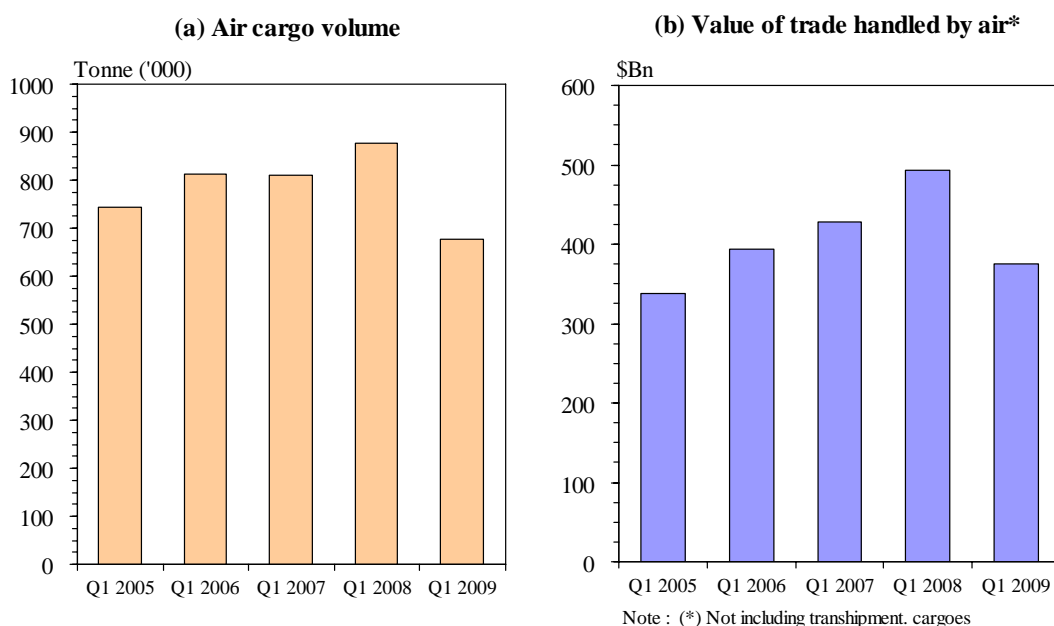
**Diagram 3.5 : Port container traffic fell visibly in tandem with reduced trade flow in the region**



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

3.13 *Air freight throughput* experienced a similar reduction by 22.8% from a year earlier to 676 000 tonnes in the first quarter. The decline in total value of trade carried by air was 23.9%. This notwithstanding, its share in total trade value remained high at 35.9%.

**Diagram 3.6 : Air freight contracted in both volume and value terms at the beginning of 2009**



## Transport

3.14 Land traffic between Hong Kong and the Mainland slowed down in the first quarter of 2009. The two-way land-based traffic in respect of passenger movements were down marginally by 0.3% year-on-year to an average of 459 000 per day, and that in respect of vehicular movements fell more by 8.9% to an average of 36 000 per day, attributable to a reduction in cross-boundary merchandise trade flow.

3.15 Air transport was also badly hit by the worsening external environment. In the first quarter of 2009, air passenger traffic declined by 6.9% year-on-year to 10.9 million, further to the 4.0% decrease in the fourth quarter of 2008.

3.16 On cross-boundary transportation projects, the preliminary design and site investigation of the Hong Kong-Zhuhai-Macao Bridge (HZMB) main bridge commenced in mid March 2009, marking a major step forward in the project. The governments of Hong Kong, Guangdong and Macao have selected the lead bank for arranging loan financing for the main bridge in mid April, signifying yet another important milestone for the project. The three governments will continue to work earnestly with a view to commencing construction of the HZMB project by end-2009.



3.17 In addition, the Government has signed a memorandum of understanding (MOU) with the Mainland's Ministry of Railways on the technical arrangement for connecting the Mainland and Hong Kong sections of Guangzhou-Shenzhen-Hong Kong Express Rail Link. Under the MOU, the Ministry will enhance communication with the HKSAR Government regarding the construction and subsequent implementation of the project. Works for the rail project are expected to start by end-2009 and be completed by 2015/16.

3.18 Concurrently, Hong Kong and Shenzhen together are also examining the feasibility of building a rail connection between their two airports. Further studies on the proposed Hong Kong-Shenzhen Airport Rail Link are being conducted by the two governments and are expected to be completed in mid 2009.

3.19 As for local transport, construction of the South Island Line (SIL) (East) is expected to commence in 2011 and scheduled for completion by 2015. The SIL (East), covering the areas of Ocean Park, Wong Chuk Hang, Lei Tung and South Horizons in the Southern District, will enhance the railway network on the Hong Kong Island, save travelling time for the residents of the Southern District, and facilitate tourism and commercial development of the areas.

3.20 Meanwhile, Stonecutters Bridge deck closure in early April signified that the entire Route 8 project was approaching completion. The Bridge, which is the second longest span cable-stayed bridge in the world, would play an important role in supporting the logistics industry and coping with the growing traffic between Northeast New Territories, Kowloon and the western part of Hong Kong.

### **Creativity and innovation**

3.21 To further enhance Hong Kong's technology collaboration with Shenzhen, the two governments will jointly provide funding for eight applied research and development (R&D) projects under the category of Hong Kong-Shenzhen co-funded projects of the "Guangdong-Hong Kong Technology Co-operation Funding Scheme". The amount requested from the Hong Kong side for the eight projects, involving electric vehicles, core technologies for batteries, technologies for radio frequency identification applications, rapid bioassay technologies, and energy-saving and environmental technologies, is about \$37 million.

3.22 The action plan under the “Shenzhen/Hong Kong Innovation Circle” for the coming three years has been formulated in the third meeting of the “Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology” held on 31 March 2009. The plan, covering projects in various fields, comprises 24 co-operation projects under three categories: Innovation foundation (provision of laboratories or facilities), service platform (sharing of technological resources and provision of technological services platform) and major R&D projects (co-operation in particular technological areas such as solar battery).

3.23 On the domestic front, the Innovation and Technology Fund (ITF) has expanded its Internship Programme to cover private sector companies. ITF has reserved about \$90 million in 2009 to engage 600 interns in existing and new ITF projects, and additional resources could be provided to meet the demand if necessary. Regarding small and medium enterprises (SMEs), the matching fund provided to SMEs under the Small Entrepreneur Research Assistance Programme (SERAP), a pre-venture capital stage support programme, has been increased from \$2 million to \$4 million per project. The initiatives will help to create more job opportunities for R&D personnel and support industry in upgrading and restructuring towards high value-added and high-end technology.

3.24 Auction of radio spectrum for provision of Broadband Wireless Access (BWA) Services has been completed on 22 January. With the assignment of the radio spectrum, the three successful bidders will be able to deploy the next generation BWA technologies and offer a variety of advanced high-speed multimedia services, thereby creating business opportunities for both network operators and providers of content and service applications.

3.25 For the West Kowloon Cultural District (WKCD), one of the current tasks of the West Kowloon Cultural District Authority (WKCDA) is the preparation of a Conceptual Plan for the project. The WKCDA has launched a global tendering exercise to select three Conceptual Plan Consultants and a Project Plan Consultant to prepare three Conceptual Plan options and to undertake the necessary technical feasibility studies respectively. Before the Conceptual Plan options are prepared, a public engagement exercise will be launched around mid 2009 to gauge the public’s aspirations and expectations for the WKCD as well as the stakeholders’ views on the user requirements of the arts and cultural facilities.

## **Environment**

3.26 The Government has introduced a host of measures to promote the use of electric vehicles in Hong Kong. The 2009-10 Budget announced that the waiver of First Registration Tax on electric vehicles will be extended for five years till 31 March 2014. On 30 March 2009, appointments to the Steering Committee on the Promotion of Electric Vehicles were also announced. In addition, the Government is examining the feasibility of providing re-charging facilities in government multi-storey car parks and exploring ways of encouraging the business sector to set up such facilities. Promoting the use of such vehicles will not only help the environment, but also potentially generate additional business opportunities.

### **Notes :**

- (1) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.
- (2) Per capita visitor spending is derived from the total destination consumption expenditure viz. expenditure on goods and services consumed in Hong Kong, as well as from visitor arrivals (except servicemen, aircrew members and transit/transfer passengers). Expenditure by visitors on cross-boundary transportation services is not covered.

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

### *Summary*

- *There were signs of gradual restoration of stability in the global financial markets during the first quarter of 2009, thanks to the coordinated rescue packages implemented by the governments in various countries.*
- *Conditions in the local interbank money market likewise became more settled, following the introduction of various measures since late 2008. During the first quarter, Hong Kong dollar interbank interest rates stayed at low levels, reflecting ample liquidity and improved market sentiment.*
- *The Hong Kong dollar Effective Exchange Rate Indices generally moved higher in the quarter, broadly tracking the strengthening of the US dollar. Equity-related demand for Hong Kong dollars emerged in late March, prompting the HKMA to passively sell Hong Kong dollars against US dollars to banks.*
- *Local stock prices suffered further losses for the first quarter as a whole, despite a noticeable rebound in March. Trading remained subdued while fund raising activities were drooping.*
- *Apart from ensuring the robustness of financial infrastructure and regulatory regime under the prevailing turbulent market conditions, the Government has spared no efforts to consolidate Hong Kong's position as an international financial hub. In particular, preparatory work has been put in place to lay a solid foundation for the use of renminbi for cross-border trade settlements and further expansion of renminbi bond market in Hong Kong.*

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

## Overall situation

4.1 The problem of dislocation in the international financial markets seemed to have eased somewhat in early 2009. With the global liquidity risk premium receding, the local interest rate environment became less stringent, thereby alleviating the tightness of the credit market. Yet business had yet to return to normal completely. Market activities in respect of fund raising and sales of retail financial products, for instance, remained sluggish and subdued.

4.2 In the light of the stresses and strains in the financial system, the Government has launched a full review of the regulatory framework for the financial sector. Some of the recommendations from the regulatory bodies, including the Hong Kong Monetary Authority and the Securities and Futures Commission, have already been implemented with a view to enhancing investor protection further. While systemic stability has been in the limelight more recently, it is of paramount importance for Hong Kong to keep striving for innovation and improved competitiveness to brace itself for the challenges and opportunities ahead. Expanding the capacity for handling renminbi-denominated transactions and increasing the depth and breadth of the local debt market are some of the notable initiatives in this direction.

## Interest rates and exchange rates

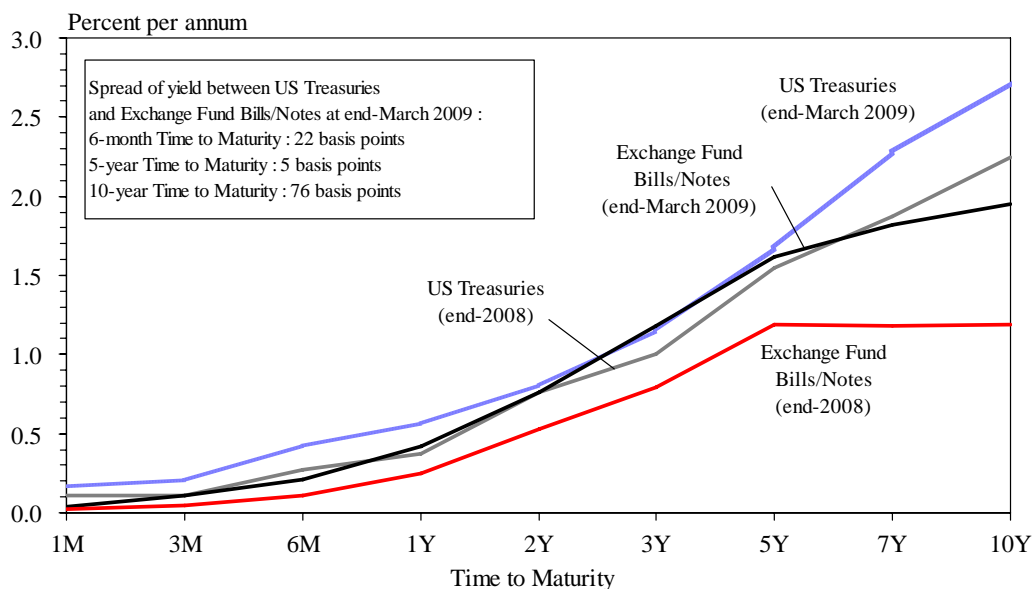
4.3 The Hong Kong dollar interest rates held broadly stable in the first quarter of 2009. The *Base Rate* under the Discount Window operated by the HKMA was intact at 0.5% during the period according to the new formula announced on 8 October 2008<sup>(1)</sup>, as the US Federal Funds Target Rate (FFTR) steadied at 0-0.25%. Following the temporary measures introduced by the local authorities and efforts around the world to provide liquidity support, *Hong Kong dollar interbank interest rates* generally stayed at low levels in early 2009. The overnight HIBOR edged up from 0.23% at end-2008 to 0.38% at end-March 2009, while the three-month rate moved lower from 0.89% to 0.76%.

4.4 The negative differentials between the Hong Kong dollar and the US dollar interest rates were mostly range-bound during the first quarter. In particular, the discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate widened from 53 basis points at end-2008 to 81 basis points at end-March 2009. Meanwhile, the *Hong Kong dollar yield curve* bounced up in tandem with its US counterpart. The negative interest rate spread between the ten-year Exchange Fund Notes and US Treasuries of the

same maturity narrowed between end-2008 and end-March 2009, as the rise in yield for Exchange Fund Notes outstripped that in US Treasuries. This partly reflected the effect of the US Federal Reserve’s decision to purchase long-term US Treasury Notes for the purpose of quantitative easing.

4.5 On 26 March 2009, the HKMA announced that, after the five temporary liquidity measures expired at end-March, it would incorporate foreign exchange swap and term repo (against securities of acceptable quality to the HKMA) into its ongoing market operations to offer Hong Kong dollar liquidity assistance to banks, if needed, on a case-by-case basis. In view of the fact that the international financial markets have not completely returned to normal, these measures will provide continued assurance to banks on the availability of liquidity in case of need. With an aim to allow the functioning of interest rate adjustment under the Currency Board system as necessary, the HKMA decided that the smaller spread of 50 basis points over the US FFTR would be retained (compared to the previous spread of 150 basis points) in calculating the Base Rate, while the other leg relating to the moving averages of the relevant interbank interest rates (the “HIBOR leg”) would be reinstated after a review of the appropriateness of the Base Rate formula. Meanwhile, the HKMA would also resume the previous arrangements for the Discount Window of using only Exchange Fund paper for overnight repo.

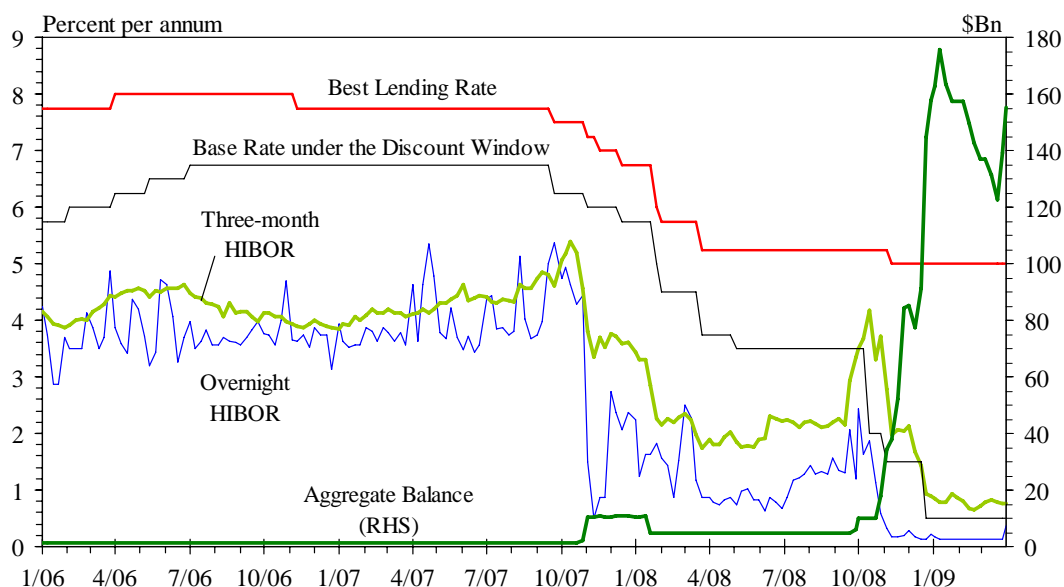
**Diagram 4.1 : Hong Kong dollar yield curve rebounded in the first quarter of 2009 after easing notably during the second half of 2008**



4.6 At the retail level, local banks maintained the two Best Lending Rates (BLRs) at 5.00% and 5.25% throughout the first quarter. While the average savings deposit rate quoted by major banks remained unchanged at 0.01% throughout the quarter, the average one-month time deposit rate edged down from 0.04% at end-2008 to 0.01% at end-March 2009. Concurrently, the composite interest rate<sup>(2)</sup>, which indicates the average cost of funds for banks, declined from 0.68% to 0.29%. Along with the easing in funding cost, the proportion of new mortgage loans approved at rates more than 2% below the BLR jumped from 18.6% in December 2008 to 50.2% in March 2009. This was consistent with reports of certain banks becoming more aggressive in the mortgage market. Survey data also revealed that there was an increasing trend of newly approved mortgages priced with reference to HIBOR rather than BLR, as customers took advantage of the low interbank interest rates prevailing.

4.7 Interbank liquidity continued to be abundant, providing an accommodative monetary environment locally. The Aggregate Balance rose to a record of \$175.5 billion in early January 2009, following the repeated triggering of the strong-side Convertibility Undertaking (CU) of the Hong Kong dollar since late 2008. Afterwards, the balance declined between January and mid March, as additional Exchange Fund Bills were issued to meet the increased demand by banks for liquidity management purposes. Yet the figure rebounded again in late March to close at \$155.3 billion at the end of the month, reflecting the triggering of the strong-side CU towards the quarter-end due mainly to increased equity-related demand for Hong Kong dollars.

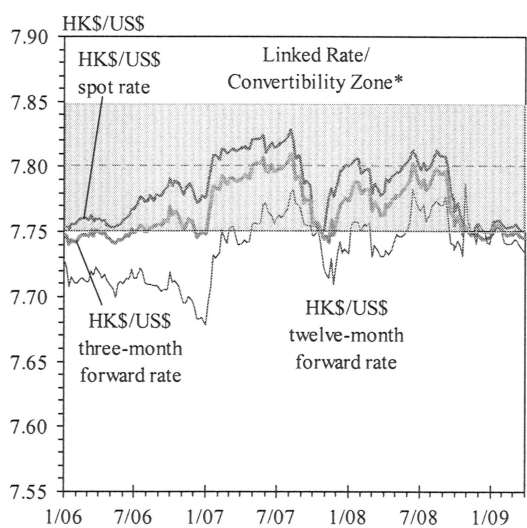
**Diagram 4.2 : Hong Kong dollar interbank interest rates remained low during the first quarter amid ample liquidity (end for the week)**



4.8 The Hong Kong dollar spot exchange rate hovered at levels close to the 7.75 per US dollar mark during the first quarter, with the strong-side CU being repeatedly triggered in late March. The discount of the *3-month Hong Kong dollar forward rate* to the spot rate was steady for the quarter as a whole to close at 45 pips (each pip equivalent to HK\$0.0001) at end-March, whereas the discount of the *12-month forward rate* widened from 95 pips to 150 pips.

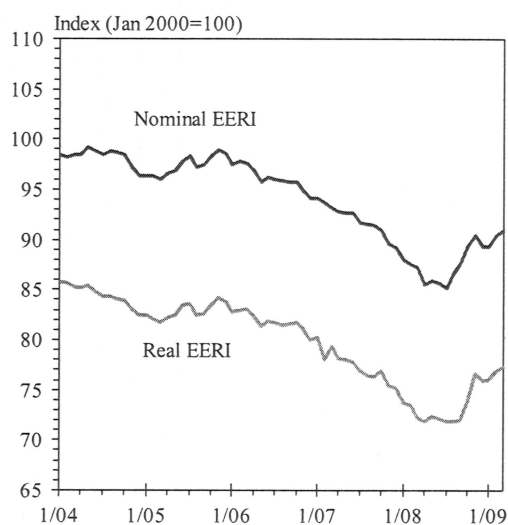
4.9 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those in the US dollar. The Hong Kong dollar strengthened against other major currencies from January to mid March due to a broad-based appreciation of the greenback. The Hong Kong dollar softened afterwards, in line with a renewed weakening of the US dollar following the Federal Reserve's announcement of purchasing long-term US Treasury Notes. Overall, both the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* rose by 1.7% during the first quarter<sup>(3)</sup>.

**Diagram 4.3 : Longer-tenor forward spreads widened somewhat (end for the week)**



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

**Diagram 4.4 : Trade-weighted EERIs rose in early 2009 along with a stronger US dollar (average for the month)**

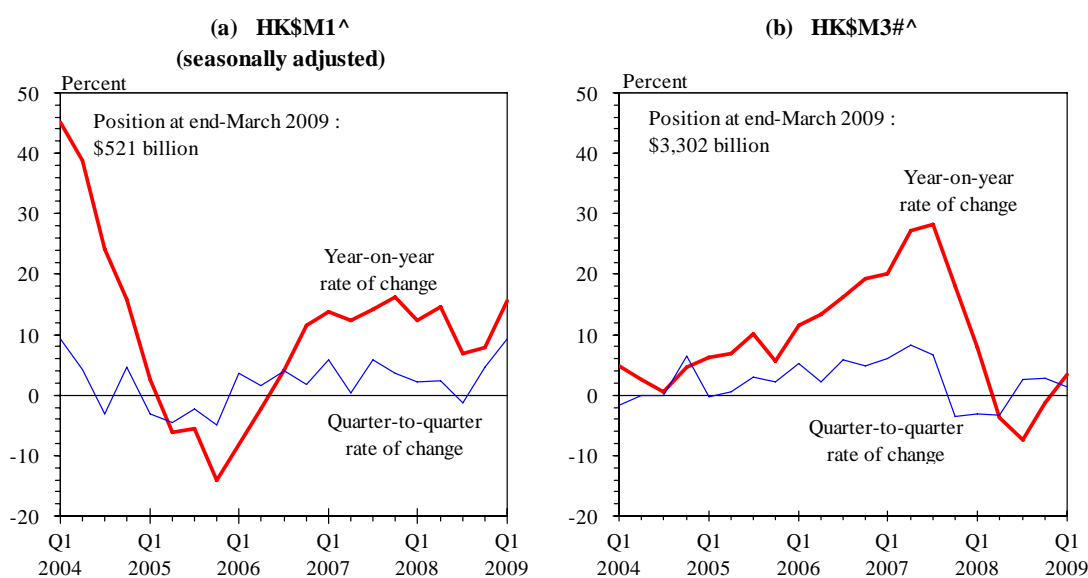




## Money supply and banking sector

4.10 Hong Kong dollar narrow money and broad money showed divergent growth trends in the first quarter of 2009. Growth in broad *money supply* (HK\$M3) slowed from 2.9% quarter-to-quarter at end-2008 to 1.3% at end-March 2009<sup>(4)</sup>. On the other hand, the rise in seasonally adjusted narrow money supply (HK\$M1) accelerated from 4.5% to 9.4% over the same period. This was partly due to a progressive shift away from time deposits under the low interest rate environment. *Total deposits* with authorised institutions (AIs) declined by 0.6% in the first quarter<sup>(5)</sup>, as the contraction in foreign currency deposits more than offset the increase in their Hong Kong dollar counterparts during the period. Total deposits stood at \$6,022 billion at end-March, comprising Hong Kong dollar deposits of \$3,078 billion and foreign currency deposits of \$2,944 billion.

**Diagram 4.5 : Growth in narrow money supply in early 2009 was boosted by depositors shifting their funds into more liquid positions**



4.11 As a result of the slowdown in both domestic and external economic activities, *total loans and advances* declined by 3.6% during the first quarter, to \$3,166 billion at end-March (comprising Hong Kong dollar loans of \$2,323 billion and foreign currency loans of \$843 billion). Declines in loan balances were across-the-board, as revealed by an analysis of loans for use in Hong Kong by economic sector. Specifically, loans for trade finance registered another quarter of double-digit drop, of 15.2% quarter-to-quarter, under the lacklustre performance in external trade. Loans to financial concerns and stockbrokers also recorded notable decreases due to the reduction in stock market activities. On the other hand, the contraction in residential mortgage loans tapered off to 0.3% alongside the revival in property market transactions. Consequently, the Hong Kong dollar loan-to-deposit ratio fell further from 77.6% at end-2008 to 75.5% at end-March 2009.

**Table 4.1 : Loans and advances**

| All loans and advances for use in Hong Kong |         |            |           |           |               |                         |           |         |                          |      |          |
|---|---------|------------|-----------|-----------|---------------|-------------------------|-----------|---------|--------------------------|------|----------|
|   |         | Loans to : |           |           |               |                         |           |         |                          |      |          |
|   |         | Trade      | Manu-     | Wholesale | Building,     | Purchase                | Financial | Stock-  | All loans                |      | Total    |
|   |         | finance    | facturing | and       | construction, | of                      | concerns  | brokers | and advances             |      | loans    |
|   |         |            |           | retail    | property      | residential             |           |         | for use                  |      | and      |
|   |         |            |           | trade     | development   | purchase                |           |         | outside                  |      | advances |
|   |         |            |           |           | and           | of                      |           |         | Hong Kong <sup>(c)</sup> |      |          |
|   |         |            |           |           | investment    | property <sup>(a)</sup> |           |         |                          |      |          |
| % change                                    | during  |            |           |           |               |                         |           |         | Total <sup>(b)</sup>     |      |          |
|   | the     |            |           |           |               |                         |           |         |                          |      |          |
|   | quarter |            |           |           |               |                         |           |         |                          |      |          |
| 2008  | Q1      | 8.4        | 16.1      | 16.6      | 6.2           | 2.4                     | 7.2       | -4.2    | 6.3                      | 10.4 | 7.0      |
|   | Q2      | 15.2       | 4.9       | 15.5      | 4.6           | 2.7                     | 1.4       | -19.0   | 4.7                      | 10.1 | 5.6      |
|   | Q3      | -2.9       | 4.5       | *         | 4.4           | 0.7                     | 8.1       | -20.6   | 2.7                      | 0.6  | 2.3      |
|   | Q4      | -16.1      | -5.3      | -3.2      | 1.9           | -1.4                    | -5.4      | -10.4   | -3.5                     | -6.7 | -4.1     |
| 2009  | Q1      | -15.2      | -1.5      | -5.5      | -1.0          | -0.3                    | -14.5     | -10.3   | -3.8                     | -2.8 | -3.6     |
| Total amount at end-March 2009 (\$Bn)       |         | 158        | 144       | 144       | 680           | 648                     | 242       | 9       | 2,607                    | 559  | 3,166    |
| % change over a year earlier                |         | -20.4      | 2.2       | 5.7       | 10.3          | 1.7                     | -11.4     | -48.3   | -0.2                     | 0.4  | -0.1     |

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

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

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

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

(\* ) Change of less than 0.05%

4.12 Despite the recent global financial crisis, Hong Kong's banking system remained resilient. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II"), the capital adequacy ratio (CAR) of the Hong Kong incorporated AIs was still high at an average of 14.8% at end-2008. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA. To address the lessons learnt from the recent global financial crisis, the Basel Committee issued a package of consultative documents in January 2009 for enhancements of the Basel II capital framework. The HKMA is supportive of the Committee's initiative in this regard and will take steps to implement the enhanced international standards in consultation with the banking industry as soon as the proposal is finalised by the Committee later this year.

4.13 Asset quality of the local banking sector remained sound by historical standards, although there were growing signs of deterioration as the impact of the global economic downturn filtered through further. The ratio of classified loans increased from 0.96% at end-September 2008 to 1.24% at end-2008. Over the same period, arrears for over three months in credit card repayment also rose from 0.31% to 0.34%. On the other hand, the delinquency ratio for residential mortgage loans was steady at 0.05% for the first quarter of 2009 as a whole.

**Table 4.2 : Asset quality of retail banks\***

(as % of total loans)

| <u>As at end of period</u> | <u>Pass loans</u> | <u>Special mention loans</u> | <u>Classified loans</u><br>(gross) |
|----------------------------|-------------------|------------------------------|------------------------------------|
| 2007 Q1                    | 97.11             | 1.89                         | 1.00                               |
| Q2                         | 97.37             | 1.73                         | 0.90                               |
| Q3                         | 97.47             | 1.64                         | 0.89                               |
| Q4                         | 97.59             | 1.57                         | 0.85                               |
| 2008 Q1                    | 97.72             | 1.47                         | 0.81                               |
| Q2                         | 97.75             | 1.38                         | 0.88                               |
| Q3                         | 97.61             | 1.43                         | 0.96                               |
| Q4                         | 96.57             | 2.19                         | 1.24                               |

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

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

4.14 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit-taking, currency exchange and remittance. At end-March 2009, a total of 39 licensed banks were engaged in this line of business. Compared with end-2008, outstanding renminbi deposits declined further by 5.3% to RMB53.1 billion, partly because of the increased uncertainty about the renminbi exchange rate. Nevertheless, these deposits still accounted for around 2.0% of total foreign currency deposits in Hong Kong.

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

| <u>As at end of period</u>   |    | Demand and savings deposits<br>(RMB Mn) | <u>Time deposits</u><br>(RMB Mn) | <u>Total deposits</u><br>(RMB Mn) | <u>Interest rates on<sup>(a)</sup></u>       |   | Number of licensed banks engaged in <u>RMB business</u> |
|------------------------------|----|---|----------------------------------|-----------------------------------|--|---|---|
|                              |    |   |                                  |                                   | <u>Savings deposits<sup>(b)</sup></u><br>(%) | <u>Three-month time deposits<sup>(b)</sup></u><br>(%) |   |
| 2008                         | Q1 | 39,364                                  | 18,221                           | 57,585                            | 0.46   | 0.65  | 40  |
|                              | Q2 | 51,242                                  | 26,398                           | 77,640                            | 0.46   | 0.65  | 40  |
|                              | Q3 | 47,508                                  | 22,443                           | 69,951                            | 0.46   | 0.65  | 40  |
|                              | Q4 | 38,119                                  | 17,942                           | 56,061                            | 0.46   | 0.64  | 39  |
| 2009                         | Q1 | 35,166                                  | 17,944                           | 53,110                            | 0.46   | 0.64  | 39  |
| % change over a year earlier |    | -10.7                                   | -1.5                             | -7.8                              | N.A.   | N.A.  | N.A.  |

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

N.A. Not available.

4.15 Subsequent to the announcement in December 2008 to further expand renminbi business in Hong Kong, the Central People's Government announced in April 2009 that it has decided to introduce a pilot scheme to allow eligible Mainland and Hong Kong enterprises to use renminbi to settle trade transactions. Hong Kong has completed the necessary technical preparations for becoming the first place outside the Mainland to launch the scheme. The scheme is significant in three aspects, namely, enabling import and export enterprises to manage flexibly and thus reduce the risks arising from fluctuations in exchange rate, providing new business opportunities for the banking sector in Hong Kong and enhancing the diversification of renminbi assets in the Hong Kong banking system. Also, in servicing such activities, the capabilities of Hong Kong's financial system in handling renminbi-denominated transactions will be strengthened, thereby solidifying Hong Kong's status as an international financial centre.

## The debt market

4.16 The Hong Kong dollar debt market expanded considerably in the first quarter of 2009 amid a strong recovery in demand for both public and private sector paper. The HKMA has increased the supply of short-dated Exchange Fund paper to meet the needs from banks for liquidity management purposes. Issuance of Exchange Fund Bills and Notes rose by 108.3% in value terms from a year earlier, accounting for 71% of all new debt issuance in the period. Taking advantage of a general shift in demand towards simpler and lower-risk financial instruments, authorised institutions, local corporations and overseas borrowers excluding the multilateral development banks issued a combined \$38.0 billion worth of Hong Kong dollar debt during the first quarter, representing a 139.3% year-on-year increase. As a result of the remarkable rise in debt issuance, total outstanding balance of Hong Kong dollar debt reached a record level of \$785.8 billion at end-March 2009, 8.1% higher than a year earlier<sup>(6)</sup>. This was equivalent to 24% of HK\$M3 or 20% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>. The private sector and multilateral development banks together accounted for 63% of the outstanding balance and the public sector for the remaining 37%.

4.17 With a view to promoting the sustainable development of the local bond market, the Financial Secretary in the 2009-10 Budget announced a plan to implement a Government Bond Programme, under which Government bonds will be issued in a systematic and consistent manner. The Executive Council approved on 28 April 2009 the proposal to implement the Government Bond Programme and introduce into the Legislative Council the resolutions to authorise the Government to borrow and set up a fund to manage the sums raised under the Programme. The sums thus raised are proposed to be credited to a Bond Fund, which will be managed separately from the general revenue and will not be treated as part of the fiscal reserves. The HKMA will be tasked to co-ordinate the bond offerings under the Programme and manage the Bond Fund.

4.18 By implementing the Programme, the Government seeks to increase the depth, breadth and liquidity of the local bond market. The more robust debt market would complement the banking and equity markets as an effective channel of financial intermediation, and hence further consolidate Hong Kong's status as an international financial centre. It is expected that, at the initial stage, Hong Kong dollar bonds with tenors of two to ten years will be issued under the Programme for both institutional and retail investors. Subject to market demand, bonds of longer tenors, say 15 years or above, may be issued to help

develop a more complete yield curve. Initial views from market participants indicated that the market may be able to absorb up to \$10 billion to \$20 billion of Government bonds in the first year. As a long-term target over a period of five to ten years, the Programme will be subject to a proposed borrowing ceiling of \$100 billion, which should provide investors with an indication of the potential scale and long-term nature of the Programme, thus encouraging more active participation. The Government will consult the relevant stakeholders and make necessary adjustments in the course of implementation having regard to prevailing market conditions.

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

|  |                                    | Exchange<br>Fund paper | Statutory<br>bodies/govern-<br>ment-owned<br>corporations | Govern-<br>ment | Public<br>sector<br>total | AIs <sup>(a)</sup> | Local<br>corporations | Non-MDBs<br>overseas<br>borrowers <sup>(b)</sup> | Private<br>sector<br>total | MDBs <sup>(b)</sup> | Total |
|--|------------------------------------|------------------------|---|-----------------|---------------------------|--------------------|-----------------------|--|----------------------------|---------------------|-------|
| <b>New issuance</b>                      |                                    |                        |   |                 |                           |                    |                       |  |                            |                     |       |
| 2008                                     | Annual                             | 285.9                  | 24.3  | -               | 310.2                     | 45.2               | 14.3                  | 51.6   | 111.2                      | 3.0                 | 424.4 |
|  | Q1                                 | 62.8                   | 5.5   | -               | 68.2                      | 8.6                | 1.2                   | 6.1  | 15.9                       | -                   | 84.1  |
|  | Q2                                 | 77.2                   | 8.7   | -               | 85.9                      | 15.4               | 8.4                   | 22.3   | 46.2                       | -                   | 132.0 |
|  | Q3                                 | 67.3                   | 3.5   | -               | 70.8                      | 14.7               | 4.1                   | 15.8   | 34.6                       | -                   | 105.3 |
|  | Q4                                 | 78.6                   | 6.7   | -               | 85.3                      | 6.5                | 0.6                   | 7.5  | 14.5                       | 3.0                 | 102.8 |
| 2009                                     | Q1                                 | 130.7                  | 8.6   | -               | 139.4                     | 5.6                | 2.8                   | 29.6   | 38.0                       | 5.8                 | 183.1 |
|  | % change<br>over a year<br>earlier | 108.3                  | 58.0  | N.A.            | 104.2                     | -35.0              | 132.6                 | 386.3  | 139.3                      | N.A.                | 117.7 |
| <b>Outstanding (as at end of period)</b> |                                    |                        |   |                 |                           |                    |                       |  |                            |                     |       |
| 2008                                     | Q1                                 | 143.3                  | 60.3  | 7.7             | 211.3                     | 121.4              | 60.8                  | 320.7  | 502.9                      | 12.5                | 726.7 |
|  | Q2                                 | 144.3                  | 64.5  | 7.7             | 216.5                     | 106.5              | 68.4                  | 318.6  | 493.5                      | 12.5                | 722.4 |
|  | Q3                                 | 145.0                  | 62.7  | 5.0             | 212.7                     | 103.8              | 67.5                  | 320.2  | 491.6                      | 12.4                | 716.6 |
|  | Q4                                 | 157.7                  | 64.6  | 5.0             | 227.3                     | 95.1               | 67.0                  | 313.0  | 475.1                      | 14.3                | 716.6 |
| 2009                                     | Q1                                 | 218.9                  | 63.5  | 5.0             | 287.4                     | 86.2               | 67.7                  | 325.2  | 479.1                      | 19.3                | 785.8 |
|  | % change<br>over a year<br>earlier | 52.8                   | 5.3   | -35.1           | 36.0                      | -29.0              | 11.3                  | 1.4  | -4.7                       | 54.4                | 8.1   |

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

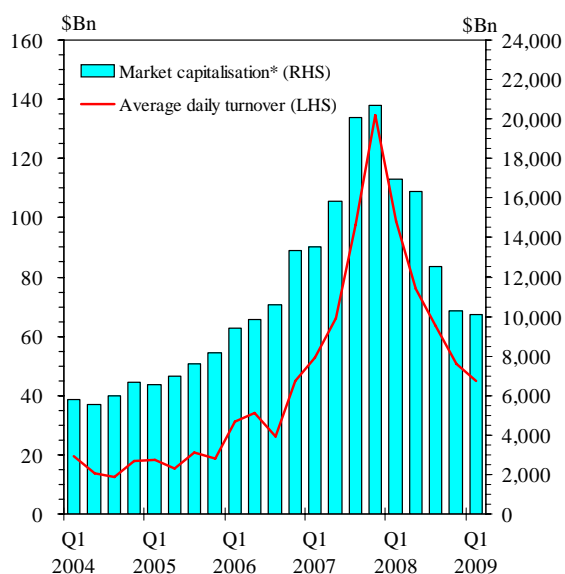
N.A. Not available.

## The stock and derivatives markets

4.19 In the first quarter of 2009, the *local stock market* slid further amid mounting concerns about the generally poor financial results from the listed companies. This notwithstanding, signs of recovery started to emerge in March. For the first quarter as a whole, the *Hang Seng Index (HSI)* was down by 5.6% to close at 13 576, having plunged to as low as 11 345 on 9 March. For the same quarter, the *daily turnover* averaged at \$44.7 billion, representing a sharp decline of 54.7% from a year earlier. Yet regardless of the high volatility of share price movements, the stock market continued to operate smoothly in overall terms (**Box 4.1**).

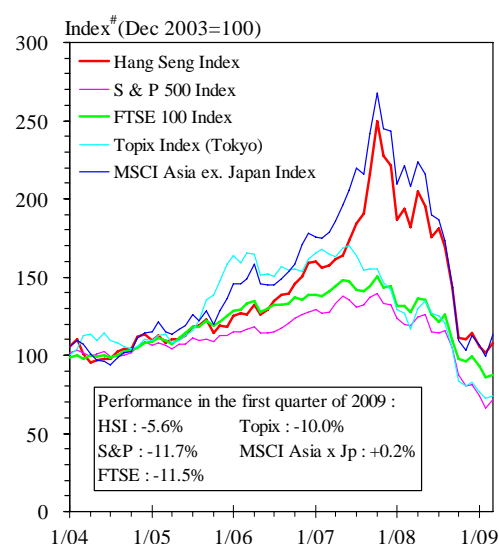
4.20 Concurrently, the *market capitalisation* also declined, albeit by a smaller magnitude of 1.7% to \$10.1 trillion at end-March 2009. Despite this, the Hong Kong stock market was still the seventh largest in the world and the third largest in Asia at end-March, according to the *World Federation of Exchanges*<sup>(8)</sup>. Fund raising activities were mostly paltry during the quarter. Total equity capital raised through new share flotation and post-listing arrangements on the Main Board and the GEM amounted to only \$15.9 billion, markedly down by 79.1% from a year earlier<sup>(9)</sup>. The *initial public offerings (IPOs)* market, in particular, raised a mere \$1.6 billion in the same period.

**Diagram 4.6 : The local stock market trended further down in early 2009**



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

**Diagram 4.7 : Continued volatility was observed for major international stock markets**



Note : (#) Position at end of month.

## Box 4.1

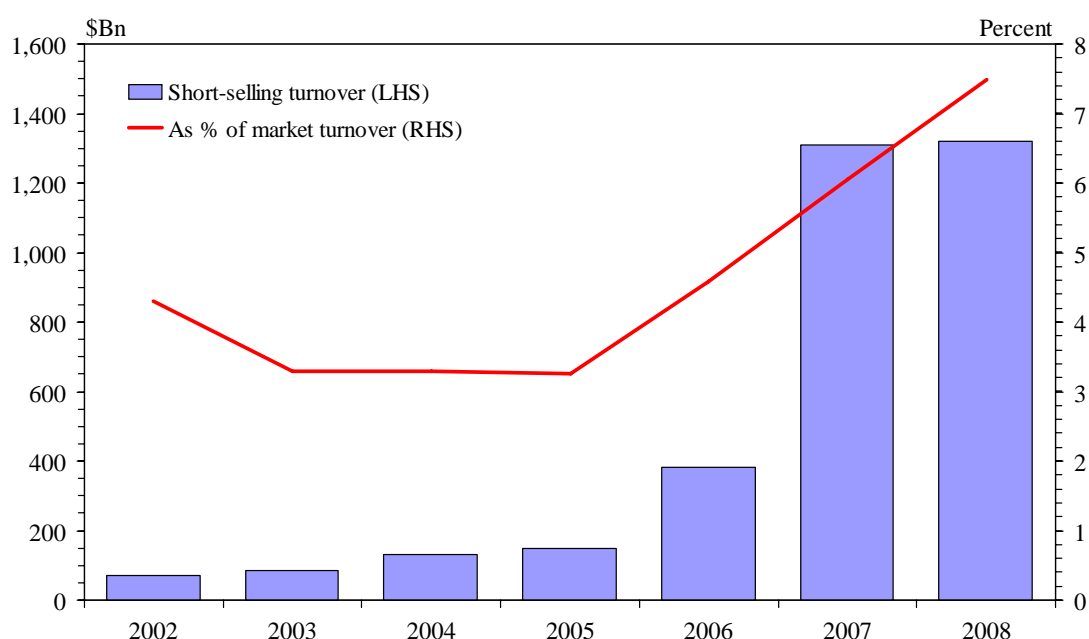
### Equity short-selling<sup>1</sup> activity in Hong Kong

Short-selling helps price discovery, encourages trading and adds to market depth in the equity market. The more liquid the market, the narrower the bid-ask spreads can normally be found. In the past several years, short-selling has grown robustly in Hong Kong. But in the aftermath of the global financial turmoil, some overseas jurisdictions have introduced temporary measures to restrict or suspend such activity. The Securities and Futures Commission (SFC) has published two reports examining short-selling activity in the Hong Kong stock market, in October 2008 and April 2009 respectively, and this box article summarises some of the key findings in the reports and other recent developments.

#### Overview

Between 2002 and 2007, short-selling turnover jumped from \$71 billion to \$1,310 billion, boosting its share in total market turnover from 4.3% to 6.0%. Amongst other factors, the growth was underpinned by market making activity and the listing of Mainland enterprises in Hong Kong. Market makers' share of short-selling turnover for all stocks has surged from 4% in 2002 to 23% in 2007. Meanwhile, for the 57 newly listed H-shares in Hong Kong during 2004 to 2007, their aggregate share of the market's short-selling leaped from below 2% in 2004 to 24% in 2007. Despite the difficult environment in 2008, short-selling turnover still managed to edge up further to \$1,319 billion, accounting for 7.5% of overall turnover for the whole year.

#### Short-selling has been distinctly on the increase in the past several years



<sup>1</sup> Short-selling refers to the selling of a security that the seller does not own.



## **Box 4.1 (Cont'd)**

Unlike the other financial centres, Hong Kong has not introduced any temporary measures to restrict short-selling. There has been no strong evidence as yet indicating a flow of short-selling activity into Hong Kong after the imposition of relevant restrictions overseas. As a matter of fact, short-selling as a percentage of the total market turnover declined from 8.5% during 1 July to 18 September 2008 (before the short-selling ban was imposed on US financial stocks) to 6.7% during 19 September to 31 December 2008. In January and February 2009, the ratio was broadly similar at 7.4% and 8.0% respectively. It appears, therefore, that the ban on short-selling in the US and the UK has not given rise to any material impact on short-selling activity in Hong Kong.

### **Short-selling tightens bid-ask spreads, encourages trading and enhances market depth**

SFC analysed the sell orders for 16 stocks<sup>2</sup> during the fourth quarter of 2008. It was found that market making short-selling orders have notable contribution to tighter bid-ask spreads as over 80% of them were placed at best-ask prices or lower. In particular, 34% of the market making short-selling orders were made at the bid price, thereby having a direct effect of boosting trading. Both ratios compared favourably to those for long sell orders (that is, selling of stocks that the seller owns), where 59% were placed at best-ask prices or lower and 29% at the bid price. Short-selling orders not relating to market making, of which 59% were placed at the best-ask prices, also helped adding to the market depth.

### **Comparison with overseas markets**

While short-selling has been increasing as a share of Hong Kong's market turnover, the figure remained much lower than the ratios prevailing in New York and London, where reportedly the corresponding figures for 2007 were 25-30%. The lower ratio for Hong Kong could be attributable to more prudent short-selling regulations than those which were in place in many overseas markets prior to their implementation of the temporary measures. For instance, only "covered" short-selling in securities meeting certain eligibility requirements are permitted in Hong Kong. Moreover, short sales are required to have full audit trails and are subject to the tick rule (except market making related orders). The SFC will continue to keep a vigilant eye on global developments related to short-selling, but will also remain attuned to the specific needs of the Hong Kong market when considering any changes to short-selling regulations.

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<sup>2</sup>These 16 stocks accounted for 55% of market capitalisation in Hong Kong at end-2008 and 51% of both overall and short-selling turnover during that year. Please see SFC's "Research Paper No. 44: How short-selling activity affects liquidity of the Hong Kong stock market" for more details.

4.21 The Mainland enterprises continued to be principal players on the Hong Kong stock market. At end-March, there were 470 Mainland enterprises (including 150 H-share companies, 96 “Red Chips” companies and 224 private enterprises) listed on the local bourse, accounting for 37% of the total number of listed companies and 61% of the total market capitalisation. For the first quarter as a whole, the Mainland-related stocks accounted for 72% of equity turnover and 83% of the total equity capital raised in the market.

4.22 By comparison, the *derivatives* market stayed relatively robust, even though the average daily trading volume for futures and options contracts was reduced by 17.4% year-on-year in the first quarter<sup>(10)</sup>. Among the major derivative products, only the Hang Seng Index (HSI) options posted a year-on-year gain of 13.9% in turnover. Trading volume for HSI futures and H-share index futures however fell by about 10%. Meanwhile, trading in securitised derivatives, which accounted for 25% of total market turnover, suffered a larger plunge of 60.7% in value terms. Nevertheless, the value traded did show some signs of stabilisation in the latest period, as the transaction level for the first quarter of 2009 was roughly similar to that for the fourth quarter of 2008. As for specific items, trading in derivative warrants bounced up by 5.4% quarter-to-quarter to average at \$5.2 billion per day, whereas trading in callable bull / bear contracts shrank by 5.3% to a daily average of \$5.9 billion.

**Table 4.5 : Average daily turnover of derivative products of the Hong Kong market**

|                                 |        | Hang Seng<br>Index<br><u>futures</u> | Hang Seng<br>Index<br><u>options</u> | H-shares<br>Index<br><u>futures</u> | Stock<br><u>options</u> | Total<br>futures and<br>options<br><u>traded*</u> | Derivative<br>warrants<br><u>(\$Mn)</u> | Callable<br>bull / bear<br>contracts<br><u>(\$Mn)</u> | Total<br>securitised<br>derivatives<br>traded<br><u>(\$Mn)^</u> |
|---------------------------------|--------|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------|---|---|---|---|
| 2008                            | Annual | 89 368                               | 15 723                               | 59 428                              | 225 074                 | 432 126   | 14,015                                  | 4,243   | 18,258  |
|                                 | Q1     | 89 686                               | 15 072                               | 61 088                              | 266 199                 | 472 052   | 26,851                                  | 1,395   | 28,247  |
|                                 | Q2     | 78 668                               | 13 890                               | 50 653                              | 212 191                 | 388 939   | 15,715                                  | 2,886   | 18,601  |
|                                 | Q3     | 95 335                               | 18 381                               | 58 217                              | 220 110                 | 435 527   | 8,964                                   | 6,394   | 15,359  |
|                                 | Q4     | 93 607                               | 15 476                               | 67 742                              | 202 782                 | 432 561   | 4,972                                   | 6,183   | 11,155  |
| 2009                            | Q1     | 80 094                               | 17 167                               | 54 785                              | 194 279                 | 389 778   | 5,240                                   | 5,856   | 11,096  |
| % change over a<br>year earlier |        | -10.7                                | 13.9                                 | -10.3                               | -27.0                   | -17.4   | -80.5                                   | 319.7   | -60.7   |

Notes : (\*) Turnover figures for individual futures and options may not add up to the total futures and options traded, as some products are not included.

(^) Including derivative warrants and callable bull / bear contracts.

4.23 The Hong Kong Exchanges and Clearing Limited (HKEx) continued to devote considerable efforts in widening the catchment area of the local securities market. In February 2009, the Hong Kong Futures Exchange Limited (HKFE), a wholly-owned subsidiary of HKEx, has received no-action relief from the US Commodity Futures Trading Commission, which enables HKFE Exchange Participants to offer the exchange's Hang Seng Index and Hang Seng China Enterprises Index mini futures contracts in the US. In early April, HKEx signed a Closer Co-operation Agreement with Shenzhen Stock Exchange, committing the two exchanges to work together more closely towards the common goal of meeting the domestic and international fund raising needs of Mainland enterprises.

### **Fund management and investment funds**

4.24 Fund management business remained generally slack, as investors stayed on the sideline amid the unsettling financial conditions. Gross retail sales of *mutual funds* in the first quarter of 2009<sup>(11)</sup>, whilst reviving modestly from the low levels seen in late 2008, were still sharply down by 75.5% from a year earlier to US\$1.8 billion. On the other hand, the aggregate net asset of the approved constituent funds under the *MPF schemes* rose slightly from \$209 billion at end-2008 to \$218 billion at end-March 2009<sup>(12)</sup>. Operating environment for retail hedge funds, though, continued to be challenging under the unfavourable market conditions<sup>(13)</sup>.

### **Insurance sector**

4.25 Gross premium income from new long-term business for the *insurance sector* shrank by 24.9% in 2008<sup>(14)</sup>, with premium from investment-linked plans dropping more visibly by 39.9% as policy buyers tended to switch to low-risk financial products amid the uncertain and turbulent conditions in the financial markets. For the fourth quarter of 2008 alone, total premium for long-term business decreased even more by 75.6% year-on-year. As regards gross premium for general business, there was an increase of 12.3% for 2008 as a whole. Also noteworthy was a distinct reduction in underwriting profit by 34.4%, mainly attributable to the poor performance in the second and third quarters of the year.

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

|      |                                  | General business |             |                     | Premium for long-term business <sup>^</sup> |                                      |                           |                                      |                        |  |
|------|----------------------------------|------------------|-------------|---------------------|---|--------------------------------------|---------------------------|--------------------------------------|------------------------|--|
|      |                                  | 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 |
| 2007 | Annual                           | 24,057           | 17,008      | 2,301               | 20,314                                      | 60,040                               | 261                       | 162                                  | 80,777                 | 104,834  |
|      | Q1                               | 6,792            | 4,904       | 441                 | 5,982                                       | 10,122                               | 62                        | 45                                   | 16,211                 | 23,003   |
|      | Q2                               | 6,156            | 4,451       | 598                 | 3,307                                       | 13,189                               | 62                        | 50                                   | 16,608                 | 22,764   |
|      | Q3                               | 5,861            | 4,122       | 744                 | 5,028                                       | 16,445                               | 76                        | 40                                   | 21,589                 | 27,450   |
|      | Q4                               | 5,248            | 3,531       | 518                 | 5,997                                       | 20,284                               | 61                        | 27                                   | 26,369                 | 31,617   |
| 2008 | Annual                           | 27,019           | 19,158      | 1,510               | 24,054                                      | 36,107                               | 256                       | 218                                  | 60,635                 | 87,654   |
|      | Q1                               | 7,640            | 5,478       | 638                 | 8,212                                       | 13,308                               | 64                        | 49                                   | 21,633                 | 29,273   |
|      | Q2                               | 6,618            | 4,773       | 188                 | 6,089                                       | 13,345                               | 67                        | 58                                   | 19,559                 | 26,177   |
|      | Q3                               | 6,676            | 4,723       | -12                 | 5,937                                       | 6,949                                | 63                        | 73                                   | 13,022                 | 19,698   |
|      | Q4                               | 6,085            | 4,184       | 696                 | 3,816                                       | 2,505                                | 62                        | 38                                   | 6,421                  | 12,506   |
|      | % change in 2008 Q4 over 2007 Q4 | 15.9             | 18.5        | 34.4                | -36.4                                       | -87.7                                | 1.6                       | 40.7                                 | -75.6                  | -60.4  |
|      | % change in 2008 over 2007       | 12.3             | 12.6        | -34.4               | 18.4  | -39.9                                | -1.9                      | 34.6                                 | -24.9                  | -16.4  |

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

(^) Figures refer to new businesses only. Retirement scheme businesses are excluded.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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

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

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

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

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

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

- (5) Authorised institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2009, there were 142 licensed banks, 26 restricted licence banks and 27 deposit-taking companies in Hong Kong. Altogether, 195 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

- (7) Assets of the banking sector include notes and coins, amount due from authorised institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is made by the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 51 securities exchanges (as of 28 April 2009), covering almost all globally recognised stock exchanges.
- (9) At end-March 2009, there were 1 092 and 174 companies listed on the Main Board and GEM respectively.
- (10) At end-March 2009, there were 49 classes of stock options contracts and 42 classes of stock futures contracts.
- (11) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the survey has been revamped with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. At end-March 2009, there were 1 323 authorised funds, according to the survey.
- (12) At end-March 2009, there were 19 approved trustees. On MPF products, 34 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 340 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 237 000 employers, 2.20 million employees and 266 000 self-employed persons have participated in MPF schemes.
- (13) At end-March 2009, there were 14 SFC-authorised retail hedge funds with combined net asset size of US\$648 million. This amount of net assets under management represented a 15.8% decrease from end-2008 level, although it was still about 4 times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-March 2009, there were 175 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 110 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

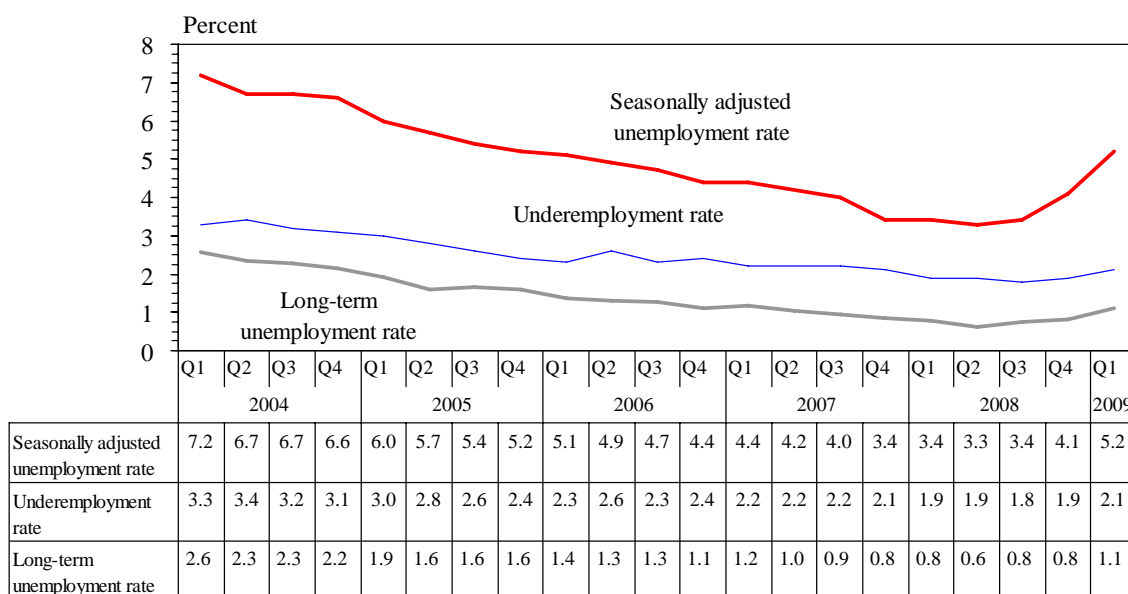
### *Summary*

- *The labour market began to weaken in the fourth quarter of 2008 when the global financial crisis intensified. It slackened further in the first quarter of 2009. While it is normal practice for employers to adjust staffing positions after the Lunar New Year, business downsizing in the first quarter this year intensified both in terms of scale and pace as compared to normal situation, under the heavy influence of the deepening global recession. The seasonally adjusted unemployment rate climbed to 5.2% in the first quarter of 2009, from 4.1% in the fourth quarter of 2008. The underemployment rate also rose, though to a lesser extent, to 2.1%.*
- *Vacancies in private sector establishments fell almost across-the-board in December 2008. Amid the worsening labour market conditions, wage growth in all industries slowed down markedly in nominal terms and registered a decline in real terms. There are increasing number of staff facing salary freeze or being requested to take unpaid leave in many sectors, which in effect would further reduce labour income.*
- *Many companies intended to freeze staff establishments in the coming quarter. More updated information from the General Household Survey showed that the employment earnings growth turned negative in the first quarter of 2009, reflecting the increasing downward pressures on local wages and earnings amid a difficult and uncertain economic climate. The labour market is expected to increasingly face the combined pressure of rising job losses and significant pay cuts. This situation will continue to intensify in the near term.*

### **Overall labour market situation**

5.1 Beginning from late 2008, labour market conditions have progressively weakened amid the global economic downturn. The seasonally adjusted unemployment rate<sup>(1)</sup> leapt by 1.1 percentage points from 4.1% at end-2008 to a 38-month high of 5.2% with the number of unemployed increasing to 187 200 in the first quarter of 2009. At the same time, the underemployment rate<sup>(2)</sup> rose to 2.1% in the first quarter of 2009 from 1.9% in the preceding quarter. Other labour market indicators such as long-term unemployment rate, private sector vacancies, and employment earnings also showed clear signs of deterioration.

**Diagram 5.1 : The uptrend in unemployment rate, long term unemployment rate and underemployment rate since the latter part of 2008 continued into the first quarter of 2009**



## Total employment and labour supply

5.2 *Total employment*<sup>(3)</sup> contracted by 0.8% in the first quarter of 2009 over a year earlier, in stark contrast to the 0.7% growth registered in the fourth quarter of 2008, and also reversing the growth trend that has been in place since early 2004. This negative turn emerged against the backdrop of recession, business downsizing and layoffs, especially after the Lunar New Year.

5.3 On a quarter-to-quarter comparison, total employment decreased by 36 700, with the decline widespread in many economic sectors. Analysed by employment status, full-time employee jobs fell by 41 900 while part-time employee jobs increased by 3 300. These figures indicated further weakness in the labour market. More notable declines in employment were observed in the decoration and maintenance, manufacturing, and transportation sectors. Job losses were much more serious for the lower-skilled segment than the higher-skilled segment, by 33 200 as against 3 500. In terms of occupation, service workers and shop sales workers, managers and administrators, and craft and related workers suffered from the largest shrinkage in employment. At the same time, larger reductions in employment emerged among persons aged 20-49, and among individuals with primary to upper secondary and non-degree post-secondary education.



5.4 The *labour force*<sup>(4)</sup>, driven mainly by demographic factors, grew by 1.1% in the first quarter, as compared to 1.3% in the preceding quarter. The widening differential in growth rates between the labour force and employment pointed to aggravating manpower supply/demand imbalance, resulting in a sharp rise in the unemployment rate in the first quarter. Compared with the fourth quarter of 2008, the overall labour force participation rate (LFPR) edged up to 61.3% from 61.1%. It is observed that LFPR for women aged 40-49 increased by 2.0 percentage points, while that for persons aged 15-24 continued to fall. Conceivably, many middle-aged women have joined the labour force in an attempt to increase household income, while younger persons have displayed greater tendency to pursue further studies in response to unfavourable job prospects.

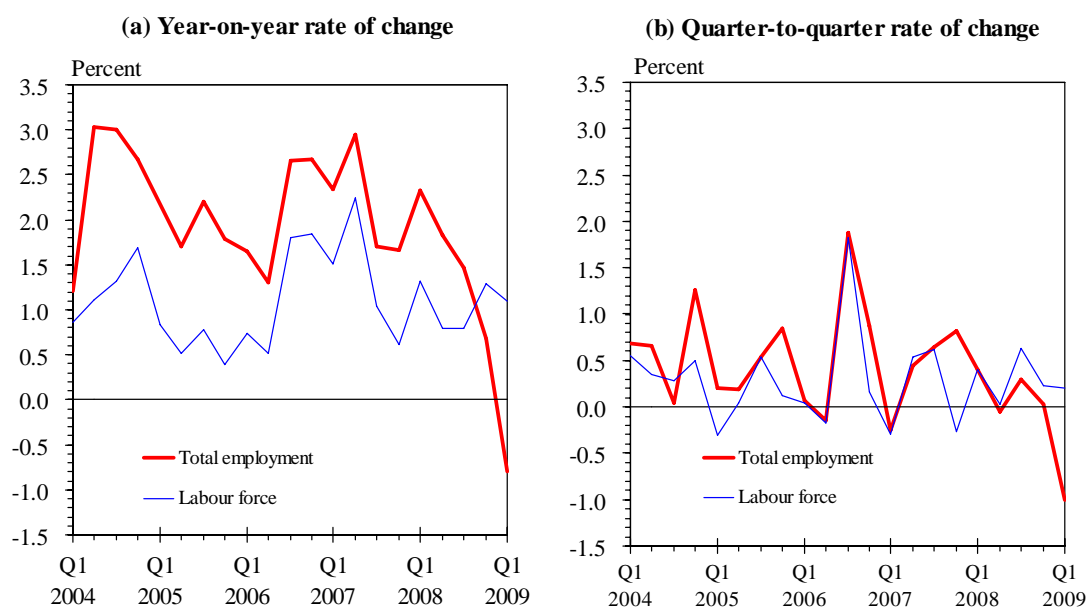
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

|                            |        | <u>Labour force</u> |       | <u>Persons employed</u> |        | <u>Persons unemployed<sup>(a)</sup></u> | <u>Persons underemployed</u> |
|----------------------------|--------|---------------------|-------|-------------------------|--------|---|------------------------------|
| 2008                       | Annual | 3 648 900           | (0.5) | 3 518 800               | (1.0)  | 130 100                                 | 69 000                       |
|                            | Q1     | 3 653 500           | (1.3) | 3 534 500               | (2.3)  | 119 000                                 | 70 500                       |
|                            | Q2     | 3 654 300           | (0.8) | 3 532 800               | (1.8)  | 121 500                                 | 67 800                       |
|                            | Q3     | 3 677 200           | (0.8) | 3 543 100               | (1.5)  | 134 000                                 | 66 300                       |
|                            | Q4     | 3 685 700           | (1.3) | 3 544 300               | (0.7)  | 141 300                                 | 69 800                       |
| <i>Three months ending</i> |        |                     |       |                         |        |   |                              |
| 2009                       | Jan    | 3 687 700           | (0.6) | 3 530 000               | (-0.6) | 157 700                                 | 76 100                       |
|                            | Feb    | 3 685 100           | (0.9) | 3 513 100               | (-0.8) | 172 000                                 | 76 100                       |
|                            | Mar    | 3 694 900           | (1.1) | 3 507 600               | (-0.8) | 187 200                                 | 79 200                       |
|                            |        |                     | <0.2> |                         | <-1.0> |   |                              |

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) Year-on-year % change.  
 < > % change between the fourth quarter of 2008 and the first quarter of 2009.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Employment fell in the first quarter of 2009 amidst slackening labour demand**



## Profile of unemployment

5.5 The seasonally adjusted unemployment rate rose significantly by 1.1 percentage points over the preceding quarter, reaching 5.2% in the first quarter of 2009. Over the same period, the number of unemployed rose further, by 45 900 to a total of 187 200. The absolute numbers are however subject to the influence of seasonality. As with the previous episodes of economic downturn, the current recession has impacted significantly the job prospects of the lower-skilled segment, as manifested by a sharp rise in the unemployment rate (seasonally unadjusted) by 1.7 percentage points to 5.9% in the first quarter. In comparison, the unemployment rate (seasonally unadjusted) for the higher-skilled segment rose by the lesser extent of 0.9 of a percentage point to 2.8%.

5.6 Analysed by economic sector, the rise in unemployment rate was most visible in the construction (mainly decoration and maintenance sub-sector), insurance, warehousing and support activities for transportation, transportation, and arts, entertainment and recreation sectors. In terms of other socio-economic characteristics, individuals working as craft and related workers, and plant and machine operators and assemblers, as well as workers aged 20 or above and those with lower secondary education level or below suffered from a distinct rise in unemployment rate.

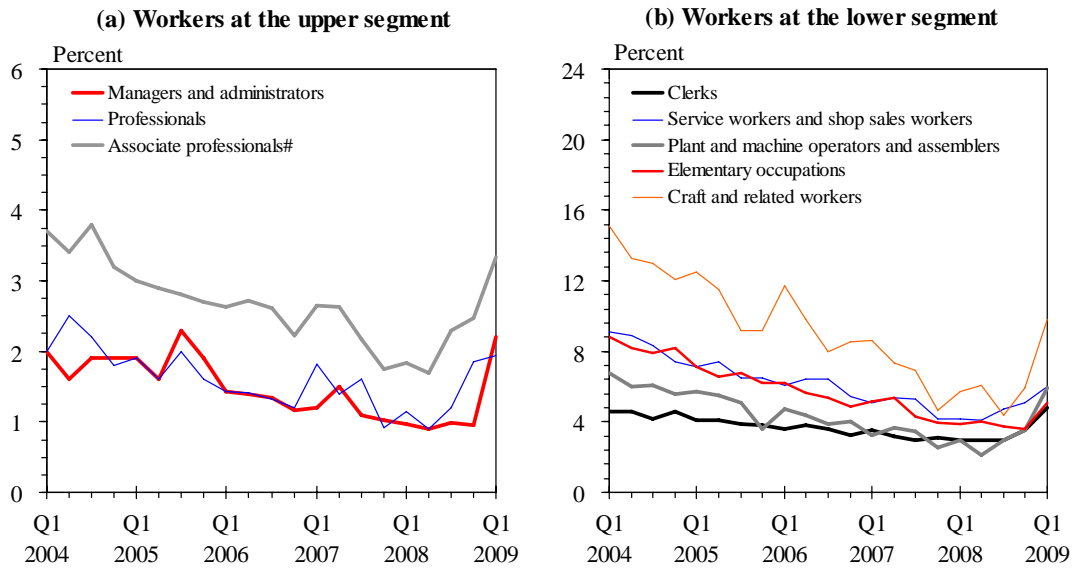
**Table 5.2 : Unemployment rate by major economic sector**

|  | <u>2008</u> |           |           |           | <u>2009</u> |
|--|-------------|-----------|-----------|-----------|-------------|
|  | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   |
| Import/export trade and wholesale  | 2.4         | 2.5       | 2.5       | 3.2       | 4.6         |
| Retail   | 4.0         | 4.4       | 4.6       | 5.3       | 6.0         |
| Accommodation and food services  | 5.2         | 4.6       | 5.5       | 6.3       | 7.3         |
| Transportation, storage, postal and courier services                     | 3.3         | 2.7       | 2.8       | 3.9       | 5.8         |
| Information and communications   | 1.9         | 2.4       | 2.1       | 3.2       | 4.6         |
| Financing and insurance, real estate, professional and business services | 2.5         | 2.3       | 2.6       | 2.3       | 3.6         |
| Public administration, social and personal services                      | 1.3         | 1.1       | 1.6       | 1.4       | 1.8         |
| Manufacturing  | 3.9         | 4.2       | 4.5       | 4.8       | 6.2         |
| Construction   | 7.5         | 7.6       | 5.4       | 6.1       | 11.2        |
| Overall (seasonally adjusted)  | 3.4         | 3.3       | 3.4       | 4.1       | 5.2         |

Note : The classification of industry follows the Hong Kong Standard Industrial Classification (HSIC), which is used to classify the industry of an employed person or the previous industry of an unemployed person. Upon the implementation of the new HSIC Version 2.0 by the Census and Statistical Department in October 2008, the General Household Survey has been enhanced to adopt the HSIC Version 2.0 in compiling labour force statistics by industry, with statistics backcast to the quarter of January to March 2008. Starting from the reference quarter of January to March 2009, all the labour force statistics by industry, unless otherwise specified, are compiled based on the HSIC Version 2.0.

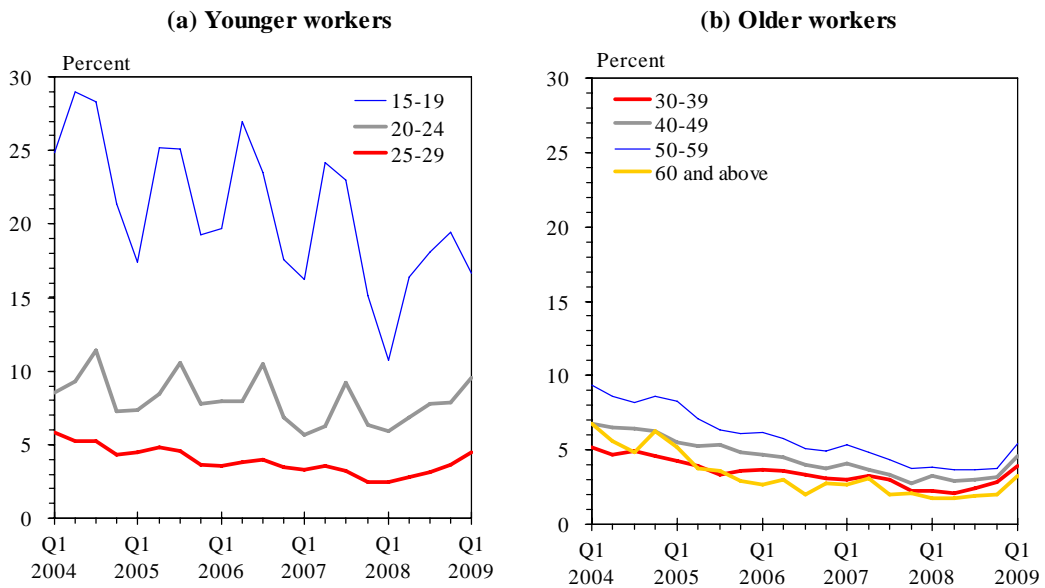
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : Both upper and lower segments saw a sharp rise in unemployment rate\* in the first quarter of 2009**



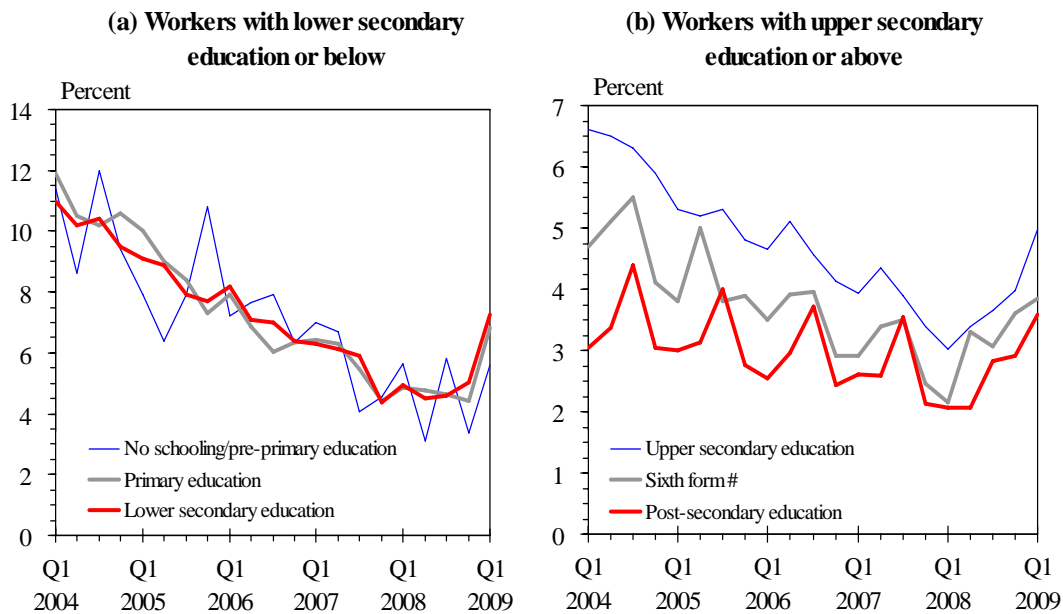
Notes : (\*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.  
(#) Including technicians and supervisors.

**Diagram 5.4 : Unemployment rate\* rose across all age groups except youths aged 15-19 in the first quarter of 2009**



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

**Diagram 5.5 : Workers with lower secondary education or below suffered from the largest increase in unemployment rate\* during the first quarter of 2009**



5.7 Various indicators measuring the intensity of unemployment also demonstrated a worsening in labour market conditions. The median duration of unemployment in the fourth quarter of 2008, at 71 days, was lengthened to 74 days in the first quarter of 2009. The number of long-term unemployed (i.e. six months or longer) has been rising since the third quarter of 2008, reaching 40 500 in the first quarter of 2009. The long-term unemployment rate correspondingly rose from 0.8% to 1.1% over the period. Furthermore, among the individuals unemployed (excluding first-time job seekers) in the first quarter of 2009, 72% were being dismissed or laid off, distinctly larger than the proportion of 62% in the previous quarter.

### Profile of underemployment

5.8 In comparison, the rise in underemployment was smaller. In the first quarter of 2009, the underemployment rate rose to 2.1% from 1.9% in the fourth quarter of 2008, which brought the figure back to the level in early 2008. On a quarter-to-quarter comparison, increases in underemployment rate were mainly observed in the arts, entertainment and recreation, transportation, and manufacturing sectors in the first quarter of 2009. The large-scale layoffs in the media industry in February 2009 could have been a major contributory factor to the sharp rise in the numbers of unemployed and underemployed in the arts, entertainment and recreation sector.

## Box 5.1

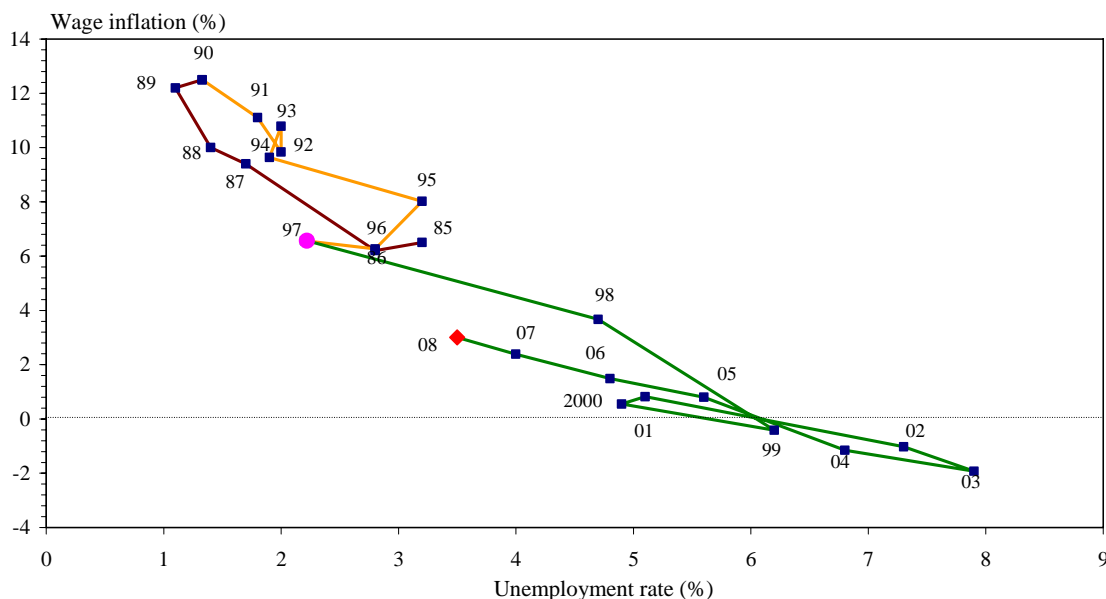
### Latest earnings adjustment after the outbreak of the global financial crisis

Hong Kong's economy has suffered from the increasing impact of global financial and economic crisis since September 2008. Weakening economic activity has depressed the labour demand and hence weighed heavily on labour earnings. Pay reductions have become more noticeable after the Lunar New Year. Many companies decided to engage in staff retrenchment or business restructuring. In the latter case, workers would be shifted to new lines of work, with lower earnings during the adjustment period. To weather the current storm and maintain sustainability of the business, an increasing number of firms in many sectors have requested staff to take unpaid leave. Against the above background, earnings growth for workers has significantly moderated over the past few months.

### Relationship between wage inflation and unemployment rate over the short run

The short-run relationship between unemployment and wage growth is portrayed by the short-run Phillips Curve. When aggregate demand in the economy exceeds aggregate supply, this will result in an excess demand in the labour market as manifested in a fall in unemployment rate, causing wages to rise as a response to reduce the supply/demand imbalance. Vice versa, when aggregate demand contracts and falls short of aggregate supply, excess supply in the labour market will be manifested in a rise in unemployment rate and will put downward pressure on wages, likewise as a response to reduce the supply glut.

Chart 1: Phillips curve for Hong Kong

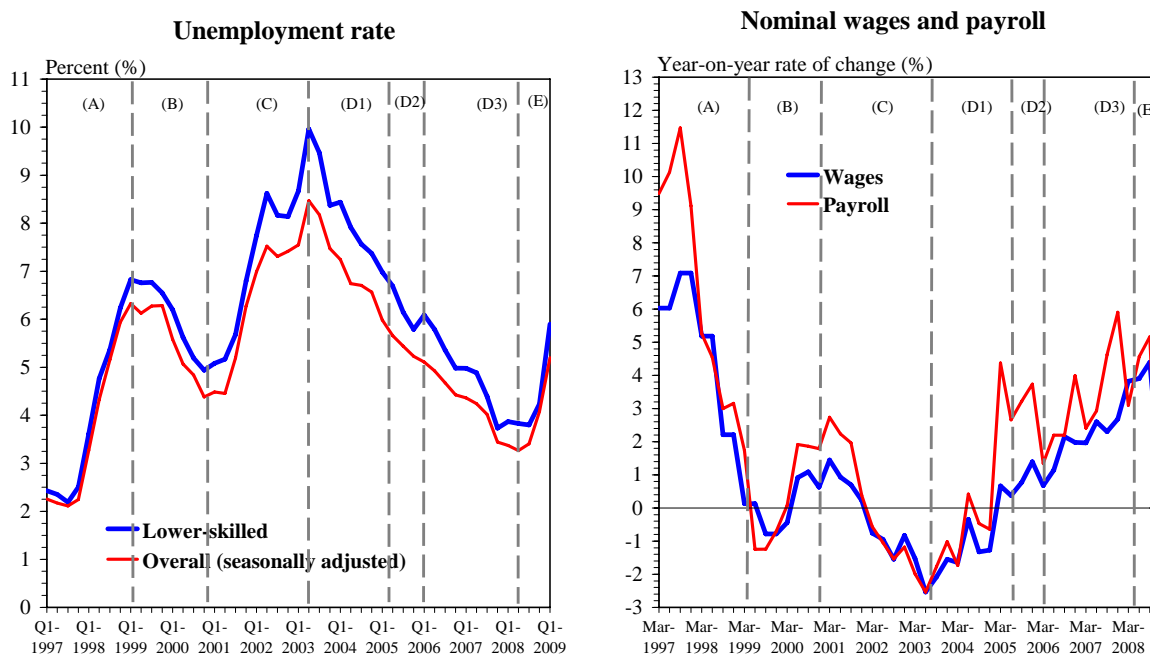


### Wage and payroll adjustments over the past decade in Hong Kong

By virtue of its competitiveness and flexibility, on the whole Hong Kong's labour market has adjusted fairly well through the business cycles in the past 10 years, with unemployment rate moving in tandem with and nominal wages also adjusting in response to the evolving market conditions. During the typical economic downturn, nominal wages would adjust downwards while the less competitive workers are likely to be more vulnerable to job losses. On the other hand, as recovery takes hold, job creation will be more solid and sustained, initially pushing down the unemployment rate and eventually also lifting wage gains. A summary view of the employment situation especially for lower-skilled workers over the past decade is given below (Chart 2 - the zones marked are rough indications for reference only):

## Box 5.1 (Cont'd)

### Chart 2: Unemployment rate and labour earnings



- (a) After being hard hit by the Asian financial crisis in 1997, the overall unemployment rate and that for lower-skilled workers increased steeply afterwards, with notable downward pressure on wage growth during 1998 and early 1999 (Zone A, Chart 2).
- (b) During the recovery between mid-1999 and 2000, the overall unemployment rate and that for the lower-skilled workers both fell, with a rebound in wages (Zone B, Chart 2).
- (c) The bursting of the dotcom bubble in 2001 and the ensuing outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003 pushed the overall unemployment rate up to an all-time high of 8.5% in the second quarter of 2003. In parallel, the unemployment rate for lower-skilled workers reached a record high of 10.1% in May – July 2003. Fall in wages was found among most job categories during 2002-2004 (Zone C, Chart 2).
- (d) Starting from the second quarter of 2003, unemployment rate began to improve. At the initial recovery stage, more job opportunities emerged for both full-time and part-time workers. However the unemployment rate for lower-skilled workers was still high and corresponding wage rate was still falling, though at a decreasing rate (Zone D1, Chart 2).
- (e) As the economic recovery gathered momentum, job creation continued and the overall unemployment rate fell further, while wage increases became more widespread (Zone D2, Chart 2).
- (f) With the unemployment rate falling even further amid a booming business environment, employers faced rising labour turnover. More and more firms had to devise ways to retain and train up workers. Wages began to rise across-the-board and the rate of increase accelerated (Zone D3, Chart 2).
- (g) The recent global financial and economic crisis has changed the favourable economic landscape for Hong Kong. In view of the increasingly difficult external environment, the local economy is likely to experience a severe contraction in 2009 and the employment situation is expected to worsen with further increase in unemployment rate and moderating wage growth (Zone E, Chart 2). Anecdotal information suggests that a large number of companies have already decided to freeze salaries and some have opted for cutting salaries this year.

## Box 5.1 (Cont'd)

### Latest employment earnings growth

The latest General Household Survey showed that average year-on-year employment earnings (excluding foreign domestic helpers) declined by 1.6% in November 2008–January 2009 (the first negative growth since December 2004–February 2005), and then further down by 3.6% in the first quarter of 2009.

Since the outbreak of global financial and economic crisis, job losses in the trading and logistics, and financial services (including financing and insurance sectors) sectors have been the most serious, by 29 700 and 13 200 respectively. Significant declines in employment earnings were also found in the related sectors. Employment earnings in the financial services sector fell by 18.7%, mainly reflecting the notable decline (22.1%) for the financing sub-sector (Chart 3). Professional business services ancillary to the financial sector such as accounting services also suffered from notable pay cut. In particular, many accounting firms (including the Big Four) have introduced / announced unpaid leave schemes early this year.

Chart 3 : Financial services sector

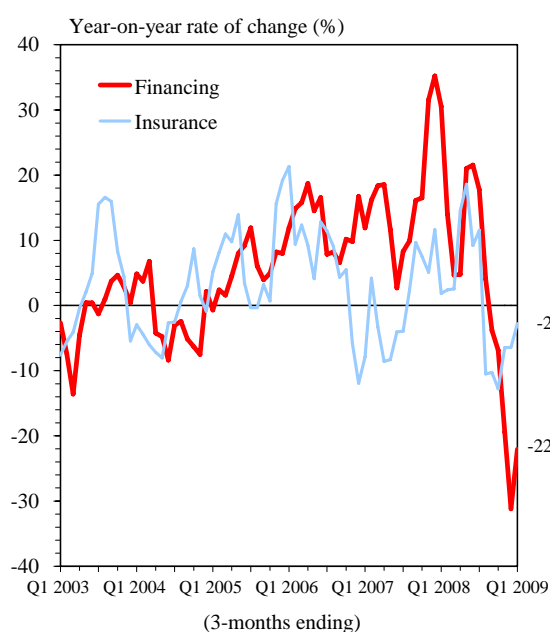
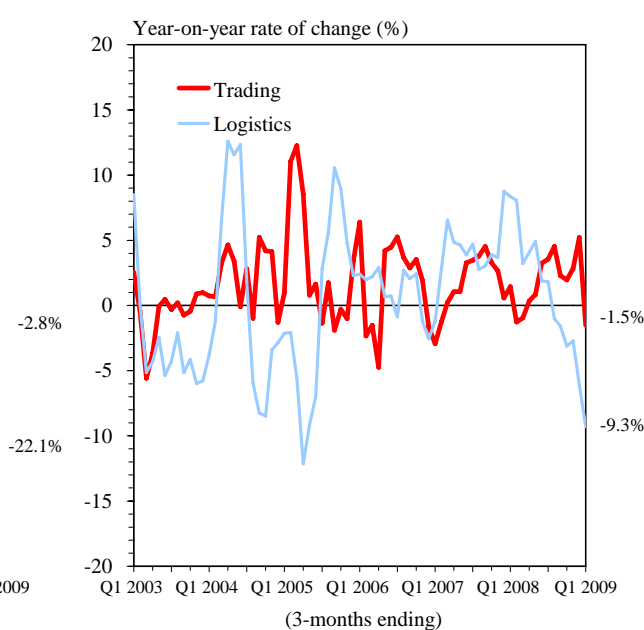


Chart 4 : Trading and logistics sector



Workers in the logistics sector also registered a reduction in employment earnings of 9.3% (Chart 4). On the external front, the value of Hong Kong's total merchandise exports tumbled by 22% in the first quarter of 2009. Over the same period, the Mainland's exports value (which impacts directly on Hong Kong's re-export trade) fell sharply by 20% over a year earlier. As an indicator of economic activity in the logistics sector, the port of Hong Kong handled 4.5 million TEUs of containers in the first quarter of 2009, representing a year-on-year decline of 21%. Given that the external trade is expected to remain weak, labour demand and earnings growth for workers in the external-oriented sector would continue to be under pressure in the near term.

### Near term outlook

In the light of the uncertain economic environment, Hong Kong's overall unemployment rate is likely to face continuous upward pressure in the near term, while employment earnings would be under further increasing downdrag. The Government is sparing no effort to ease rising unemployment through a multi-pronged strategy and is implementing the series of measures announced earlier to stabilise the financial system, support enterprises, and preserve and create jobs.



## Profile of employment in establishments

5.9 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available after a relatively long time lag, with the latest figures being available only up to December 2008. This notwithstanding, attempts have been made where appropriate to bring the analysis more up-to-date, based on the information available from various supplementary sources.

5.10 Comparing December 2008 with a year earlier, total employment in *private sector establishments* went up marginally by 0.5%, much slower than the 2.2% growth observed in September 2008. By economic sector, notable employment gains were found in the sectors of storage and communications (up 3.8%); community, social and personal services (3.2%); and retail (1.2%), offsetting the job losses in manufacturing (down 3.9%); wholesale and import/export trades (1.7%) and construction sites<sup>(5)</sup> (1.3%). By establishment size, larger enterprises in the private sector still displayed some capacity for job creation (a gain of 20 700 jobs) whereas total employment in small and medium-sized enterprises (SMEs)<sup>(6)</sup> fell (job loss of 7 800) from a year earlier. As regards the civil service, the number of employees rose by 0.3% in December 2008 over a year earlier to 154 300. This reversed the general declining trend seen in the past several years and revealed the efforts in creating employment made by the Government.

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

|  | 2007               |                    |                    |                    |                    | 2008               |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | Annual average     | Mar                | Jun                | Sep                | Dec                | Annual average     | Mar                | Jun                | Sep                | Dec                |
| Wholesale, import and export trades                              | 587 600<br>(0.7)   | 587 500<br>(1.1)   | 588 200<br>(1.1)   | 586 500<br>(0.4)   | 588 200<br>(0.3)   | 583 900<br>(-0.6)  | 587 200<br>(-0.1)  | 587 000<br>(-0.2)  | 583 500<br>(-0.5)  | 578 000<br>(-1.7)  |
| Retail   | 232 900<br>(2.0)   | 229 100<br>(1.4)   | 232 600<br>(1.5)   | 233 100<br>(2.0)   | 236 800<br>(3.2)   | 239 300<br>(2.7)   | 236 800<br>(3.3)   | 239 800<br>(3.1)   | 241 100<br>(3.4)   | 239 600<br>(1.2)   |
| Restaurants and hotels   | 235 100<br>(3.8)   | 231 700<br>(4.4)   | 232 500<br>(3.0)   | 237 300<br>(4.9)   | 238 900<br>(3.1)   | 239 800<br>(2.0)   | 236 800<br>(2.2)   | 239 200<br>(2.9)   | 243 300<br>(2.5)   | 239 800<br>(0.4)   |
| Transport and storage  | 159 500<br>(2.4)   | 155 900<br>(1.2)   | 160 100<br>(3.1)   | 160 000<br>(2.5)   | 162 000<br>(2.9)   | 164 300<br>(3.0)   | 163 500<br>(4.9)   | 165 400<br>(3.3)   | 164 900<br>(3.1)   | 163 400<br>(0.8)   |
| Communications   | 29 900<br>(1.3)    | 30 300<br>(0.8)    | 30 100<br>(2.7)    | 29 800<br>(1.1)    | 29 600<br>(0.6)    | 30 700<br>(2.5)    | 30 500<br>(0.7)    | 30 700<br>(1.9)    | 31 300<br>(5.0)    | 30 300<br>(2.3)    |
| Financing, insurance, real estate and business services          | 505 400<br>(5.5)   | 492 000<br>(5.1)   | 503 200<br>(5.7)   | 509 300<br>(6.0)   | 517 300<br>(5.2)   | 527 900<br>(4.4)   | 523 700<br>(6.4)   | 528 500<br>(5.0)   | 533 000<br>(4.7)   | 526 500<br>(1.8)   |
| Community, social and personal services                          | 466 600<br>(2.6)   | 464 200<br>(2.9)   | 467 900<br>(3.6)   | 465 400<br>(2.2)   | 469 100<br>(1.8)   | 481 600<br>(3.2)   | 477 200<br>(2.8)   | 480 500<br>(2.7)   | 484 500<br>(4.1)   | 484 100<br>(3.2)   |
| Manufacturing  | 157 000<br>(-2.2)  | 158 700<br>(-1.7)  | 157 300<br>(-2.3)  | 156 000<br>(-2.6)  | 156 000<br>(-2.0)  | 151 600<br>(-3.4)  | 153 100<br>(-3.6)  | 152 200<br>(-3.2)  | 151 200<br>(-3.0)  | 150 000<br>(-3.9)  |
| Building and construction sites                                  | 50 200<br>(-5.1)   | 50 400<br>(-8.3)   | 51 100<br>(-2.2)   | 49 200<br>(-7.7)   | 50 100<br>(-1.8)   | 49 400<br>(-1.5)   | 50 500<br>(0.3)    | 49 600<br>(-3.0)   | 48 100<br>(-2.1)   | 49 400<br>(-1.3)   |
| All establishments surveyed in the private sector <sup>(a)</sup> | 2 432 300<br>(2.3) | 2 407 800<br>(2.1) | 2 430 900<br>(2.6) | 2 434 500<br>(2.2) | 2 455 900<br>(2.1) | 2 476 400<br>(1.8) | 2 467 200<br>(2.5) | 2 480 800<br>(2.1) | 2 488 900<br>(2.2) | 2 468 900<br>(0.5) |
|  |                    | <0.4>              | <0.7>              | <0.4>              | <0.7>              |                    | <0.7>              | <0.3>              | <0.5>              | <-1.0>             |
| Civil service <sup>(b)</sup>                                     | 153 800<br>(-0.4)  | 153 800<br>(-0.8)  | 153 700<br>(-0.5)  | 153 800<br>(-0.2)  | 153 900<br>(*)     | 154 000<br>(0.1)   | 153 500<br>(-0.2)  | 153 700<br>(*)     | 154 300<br>(0.4)   | 154 300<br>(0.3)   |

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

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

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

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change. Starting from March 2008, the seasonally adjusted figures are compiled by the X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted figures for earlier quarters have also been revised using the new method.

(\*) Less than 0.05%.

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

## Vacancies

5.11 With the slackening domestic and global demand, vacancies in *private sector establishments* have fallen significantly since September 2008. As a result, a year-on-year decline of 4.0% was registered for 2008 as a whole. In December 2008, vacancies were trimmed further by 33.1% over a year earlier. Vacancies fell in all major economic sectors, except the restaurants sector (up 11.4%). More notable decreases were seen in the wholesale, import and export trades (down 49.7%), hotels (down 40.5%), financing, insurance, real estate and business services (down 40.1%) and manufacturing (down 39.2%) sectors.

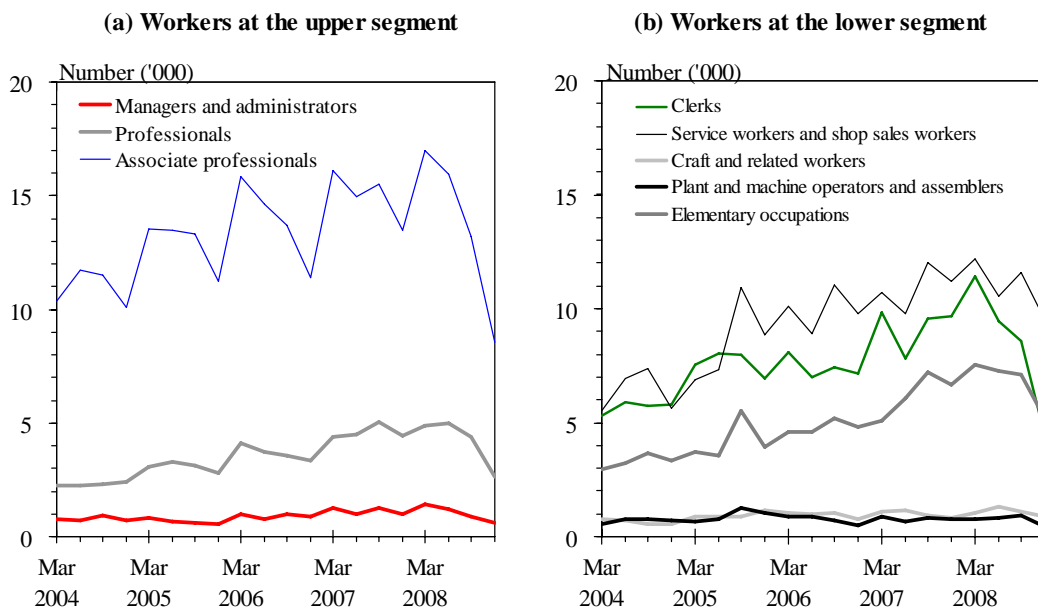
5.12 Analysed by occupation category, vacancies were down for both higher-skilled and lower-skilled workers, by 37.9% and 30.0% respectively. Decreases in vacancies occurred across all categories except craft and related workers (up 5.1%), and were most serious among clerks (down 54.5%), professionals (down 41.1%), plant and machine operators and assemblers (down 39.9%), and associate professionals (down 36.7%). Compared to the unemployment numbers, this gave a ratio of 23 job vacancies per 100 job-seekers in December 2008, down from 41 a year ago. While the corresponding ratio for lower-skilled jobs fell from 33 to 20, that for higher-skilled jobs exhibited a greater decline from 106 to 47. The above demonstrated that employment conditions for workers in different segments were significantly affected by the prevailing global financial and economic crisis. By establishment size, vacancies at SMEs and large enterprises tumbled by 31.6% and 34.5% respectively.

5.13 Similarly, the vacancy rate declined from 1.9% in September to 1.3% in December 2008, back to the level in 2004. The figure was also down from 1.9% a year ago, with the decrease most apparent in the storage and communications (from 2.3% to 1.3%), financing, insurance, real estate and business services (from 2.5% to 1.5%), transport services (from 1.4% to 0.7%), and community, social and personal services (from 2.5% to 1.7%) sectors.

5.14 As regards the civil service, the total number of vacancies in December 2008 was 5 800, more than doubled the level a year earlier. This was partly due to the new posts created in 2008-09 and the complete fade-out of open recruitment freezes. Consequential to the Government's efforts to expedite the recruitment of civil servants, the filling of vacancies in the civil service can be expected to speed up in the year to come.

5.15 Though the number of private sector vacancies registered with the Labour Department (LD) dropped continuously since September 2008, month-on-month increases were recorded more recently after the Lunar New Year. Comparing the first quarter of 2009 with a year earlier, the average number of vacancies decreased by 16.3%. In view of the increasingly difficult business environment, employers are expected to remain cautious in their staffing positions. The LD will continue its efforts to provide employment and placement services to facilitate job-matching.

**Diagram 5.6 : Vacancies in most occupations were slashed in the latter part of 2008**



**Table 5.4 : Vacancies by major economic sector**

|  | <u>Number of vacancies</u> |                  |                  |                  |                  |                           |                  |                  |                   |                   | Vacancy rate<br>in Dec 2008<br>(%) |
|--|----------------------------|------------------|------------------|------------------|------------------|---------------------------|------------------|------------------|-------------------|-------------------|------------------------------------|
|  | <u>2007</u>                |                  |                  |                  |                  | <u>2008</u>               |                  |                  |                   |                   |                                    |
|  | <u>Annual<br/>average</u>  | <u>Mar</u>       | <u>Jun</u>       | <u>Sep</u>       | <u>Dec</u>       | <u>Annual<br/>average</u> | <u>Mar</u>       | <u>Jun</u>       | <u>Sep</u>        | <u>Dec</u>        |                                    |
| Wholesale, import and<br>export trades   | 9 100<br>(9.2)             | 10 400<br>(-1.8) | 9 000<br>(8.6)   | 8 800<br>(13.5)  | 8 300<br>(21.9)  | 7 600<br>(-16.8)          | 9 900<br>(-4.3)  | 9 000<br>(-0.9)  | 7 300<br>(-16.8)  | 4 200<br>(-49.7)  | 0.7                                |
| Retail   | 4 700<br>(9.7)             | 5 100<br>(5.5)   | 4 200<br>(10.3)  | 5 100<br>(17.3)  | 4 500<br>(6.0)   | 5 100<br>(8.3)            | 5 900<br>(15.3)  | 5 400<br>(27.6)  | 5 600<br>(9.8)    | 3 600<br>(-19.4)  | 1.5                                |
| Restaurants and hotels   | 5 200<br>(24.0)            | 4 300<br>(6.8)   | 4 500<br>(12.7)  | 6 600<br>(31.5)  | 5 300<br>(44.8)  | 5 400<br>(4.9)            | 5 300<br>(25.2)  | 5 300<br>(19.5)  | 5 300<br>(-19.3)  | 5 600<br>(6.4)    | 2.3                                |
| Transport and storage  | 2 200<br>(13.9)            | 2 200<br>(7.1)   | 2 200<br>(-0.4)  | 2 300<br>(26.3)  | 2 200<br>(27.0)  | 1 900<br>(-15.2)          | 2 400<br>(12.4)  | 2 000<br>(-7.5)  | 2 000<br>(-14.2)  | 1 100<br>(-51.4)  | 0.7                                |
| Communications   | 800<br>(13.7)              | 800<br>(3.0)     | 800<br>(-3.8)    | 1 000<br>(51.9)  | 800<br>(9.3)     | 700<br>(-11.1)            | 900<br>(17.8)    | 900<br>(10.3)    | 700<br>(-27.8)    | 500<br>(-39.7)    | 1.5                                |
| Financing, insurance,<br>real estate and<br>business services                  | 14 100<br>(14.5)           | 14 600<br>(7.7)  | 13 700<br>(11.8) | 14 800<br>(16.2) | 13 000<br>(24.6) | 12 500<br>(-11.1)         | 15 700<br>(7.5)  | 14 100<br>(2.6)  | 12 400<br>(-16.5) | 7 800<br>(-40.1)  | 1.5                                |
| Community, social and<br>personal services                                     | 10 600<br>(23.3)           | 9 600<br>(22.3)  | 9 500<br>(16.6)  | 11 400<br>(23.6) | 12 000<br>(29.9) | 11 700<br>(10.3)          | 13 700<br>(42.1) | 12 600<br>(33.4) | 12 500<br>(9.2)   | 8 200<br>(-32.0)  | 1.7                                |
| Manufacturing  | 2 100<br>(11.4)            | 2 400<br>(23.3)  | 2 000<br>(-1.6)  | 2 100<br>(11.7)  | 1 900<br>(12.8)  | 1 900<br>(-9.8)           | 2 300<br>(-2.3)  | 2 300<br>(15.5)  | 1 800<br>(-15.2)  | 1 200<br>(-39.2)  | 0.8                                |
| Building and<br>construction sites   | #<br>(137.5)               | #<br>(660.0)     | #<br>(77.8)      | #<br>(160.0)     | #<br>(-6.3)      | #<br>(26.3)               | #<br>(*)         | #<br>(87.5)      | #<br>(57.7)       | #<br>(-26.7)      | *                                  |
| <i>All establishments<br/>surveyed in the<br/>private sector<sup>(a)</sup></i> | 48 900<br>(15.5)           | 49 300<br>(8.3)  | 45 900<br>(10.5) | 52 300<br>(19.9) | 48 100<br>(24.6) | 46 900<br>(-4.0)          | 56 200<br>(14.0) | 51 600<br>(12.5) | 47 800<br>(-8.7)  | 32 200<br>(-33.1) | 1.3                                |
|  |                            | <4.8>            | <-0.3>           | <8.7>            | <9.8>            |                           | <-4.4>           | <-0.9>           | <-12.3>           | <-19.5>           |                                    |
| <i>Civil service<sup>(b)</sup></i>   | 2 500<br>(*)               | 1 200<br>(-55.0) | 3 200<br>(27.0)  | 3 000<br>(6.0)   | 2 700<br>(28.1)  | 5 800<br>(127.7)          | 5 500<br>(366.2) | 6 200<br>(94.4)  | 5 500<br>(81.6)   | 5 800<br>(114.8)  | 3.6                                |

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

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

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. 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. Starting from March 2008, the seasonally adjusted figures are compiled by the X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted figures for earlier quarters have also been revised using the new method.

(#) Less than 50.

(\*) Less than 0.05%.

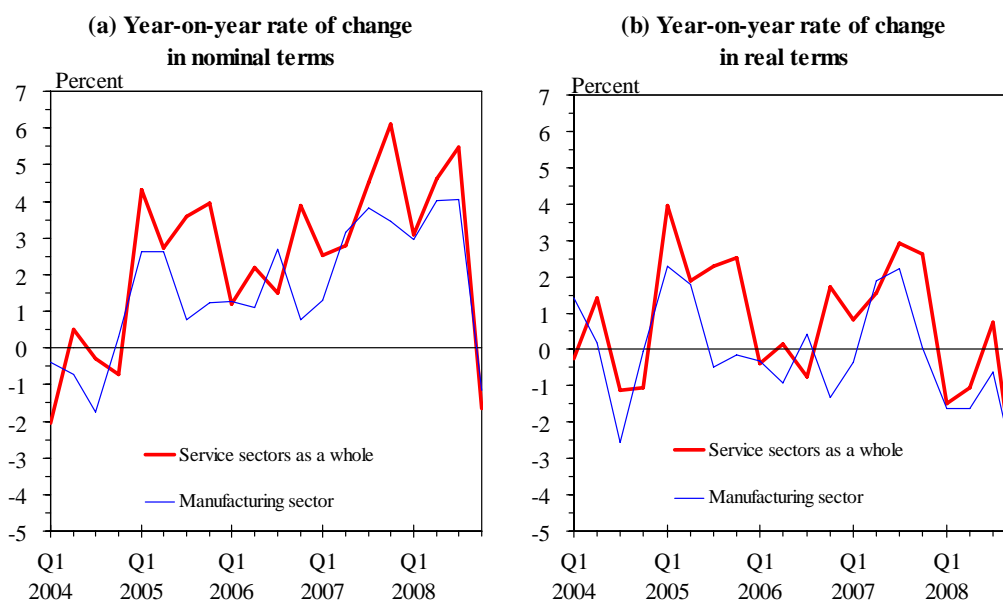
Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.  
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

## Earnings and wages

5.16 *Labour earnings*<sup>(7)</sup>, as measured by payroll per person engaged in the private sector, fell by 2.1% in nominal terms in the fourth quarter of 2008 over a year earlier. This was the first year-on-year decline for the year's fourth quarter since 2004. After adjusting for inflation, labour earnings fell visibly by 4.3% in real terms<sup>(8)</sup>. On a seasonally adjusted basis, payroll fell by 3.6% over the preceding quarter, in both nominal and real terms. For 2008 as a whole, payroll increased by 2.6% in nominal terms but decreased by 1.7% in real terms. This represented a reversal of the annual uptrend since 2005.

5.17 Nominal pay reduction was observed across many economic sectors to varying degrees, which reflected different manpower demand and supply conditions. With rapidly deflating asset markets earlier, workers in the financing, insurance, real estate and business services sector experienced the largest reduction in earnings, by 3.0% in the fourth quarter of 2008. The transport, storage and communications; and community, social and personal services sectors also recorded respective decreases of 2.4% and 1.8% in earnings. On the other hand, workers in the retail, import/export trades and restaurants sectors registered visible earnings growth by 8.3%, 4.6% and 3.0% respectively.

**Diagram 5.7 : Payroll declined markedly in both nominal and real terms in the fourth quarter of 2008 as the labour market weakened**



5.18 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, moved up by a meagre 0.7% in nominal terms, moderating from an increase of 4.4% in the previous quarter, and down by 0.6% in real terms in the fourth quarter over a year earlier. For 2008 as a whole, wages increased by 3.2% in nominal terms and 0.5% in real terms. The adjustment in wages is normally slower in payroll, under which non-regular payments such as bonuses are usually awarded at the discretion of employers. In the initial stage of economic downturns, it is more common for employers to cut bonuses rather than the remuneration stipulated in employment contracts.

5.19 In December 2008, the increase in nominal wages was more noticeable in the retail (up 6.2%), wholesale (up 2.0%), and restaurants and hotels (1.9%) sectors. On the other hand, workers engaged in the barber and beauty shops, real estate leasing, and investment and holding companies suffered from larger wage cut of 2.3%, 1.3% and 1.1% respectively. In terms of occupation categories, services workers (up 2.7%) and miscellaneous non-production workers (up 2.5%) still recorded notable wage increases, in contrast to operatives (down 2.3%) and craftsmen (down 1.7%).

5.20 Latest statistics collected from the General Household Survey, though not strictly comparable to those gathered from business establishments, revealed that in the first quarter of 2009, the overall average monthly employment earnings<sup>(9)</sup> of employed persons (excluding foreign domestic helpers) fell by 3.6% over a year earlier, moderating successively since the outbreak of global financial crisis in September 2008 (See Box 5.1 for details). Higher-skilled workers faced cut in average earnings by 6.0%, much larger than the 0.7% decline recorded for the lower-skilled workers. In particular, average earnings of workers engaged in the financing sector plunged by 22.1%, which was badly hit by the once-in-a-century global financial crisis. Conceivably, the distribution of variable bonus was slashed significantly in the financial services sector this year.

### **Government policy measures to promote employment**

5.21 As announced in the 2009-10 Budget, the Government will adopt counter-cyclical measures to a value of \$1.6 billion, aimed at easing the pressure of economic contraction, boosting domestic demand and increasing employment opportunities. Besides creating jobs directly, these measures will also provide training and job opportunities specifically to those in need, including young people, graduates, women, the middle-aged and the disabled. It is estimated that about 62 000 jobs and internship opportunities will be created over the next three years. Together with the additional measures

proclaimed by the Chief Executive in January 2009, over 120 000 jobs and internship opportunities will be created.

5.22 As announced by the Financial Secretary in his 2009-10 Budget, the Labour Department will (a) enhance and integrate its various employment programmes to provide training and employment opportunities; (b) adopt a more proactive approach in providing employment assistance to those made redundant during the financial crisis; and (c) launch an “Internship Programme for University Graduates” to provide about 4 000 places for interested graduates to work as interns and receive training in local or Mainland enterprises for 6 to 12 months.

5.23 In addition to regular employment and placement services, the Labour Department has organised large-scale and mini-job fairs at different locations to respond speedily to the recruitment needs of employers and offer convenient services to job seekers. In the first quarter of 2009, five large-scale and 86 mini-job fairs were organised. The large-scale job fairs were attended by over 14 000 job seekers while the mini-job fairs attracted some 11 400 job seekers. The Employees Retraining Board will closely monitor the changes in the labour market and adjust the allocation of training places flexibly. The Board plans to provide 123 000 training places and has reserved resources to provide an additional 20 000 training places this financial year to meet the increasing demand.

5.24 The Government is also pushing ahead early implementation of infrastructure projects in 2009, including the major projects announced in the 2007-08 Policy Address and minor works projects in the Budget. Although promoting economic growth through infrastructural development is one of the Government’s key strategies, a multi-pronged approach is essential to boost economic activities and promote employment in various sectors of the economy. To better co-ordinate development projects involving policies handled by different government departments, a Development Opportunities Office under the Development Bureau will be set up soon to provide an effective platform where bureaux and departments can expedite the procedures involving private development projects. The Development Opportunities Office should start to operate around the middle of this year.



## 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.

Starting from May 2008, the seasonally adjusted unemployment rate is compiled by the X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted unemployment rates since November 2006 – January 2007 have also been revised using the new method. The X-12 ARIMA method, being an update to the X11-ARIMA method, has now been a standard method used by statistical offices for performing seasonal adjustment of statistical series in many countries/territories. Since the two seasonal adjustment methods are indeed very similar, the revision made to the seasonally adjusted unemployment rate series due to the use of the new method is insignificant.

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

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

- (3) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually increased by 0.3% in the first quarter of 2009.

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

- (6) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers in occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (9) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 6 : PRICES

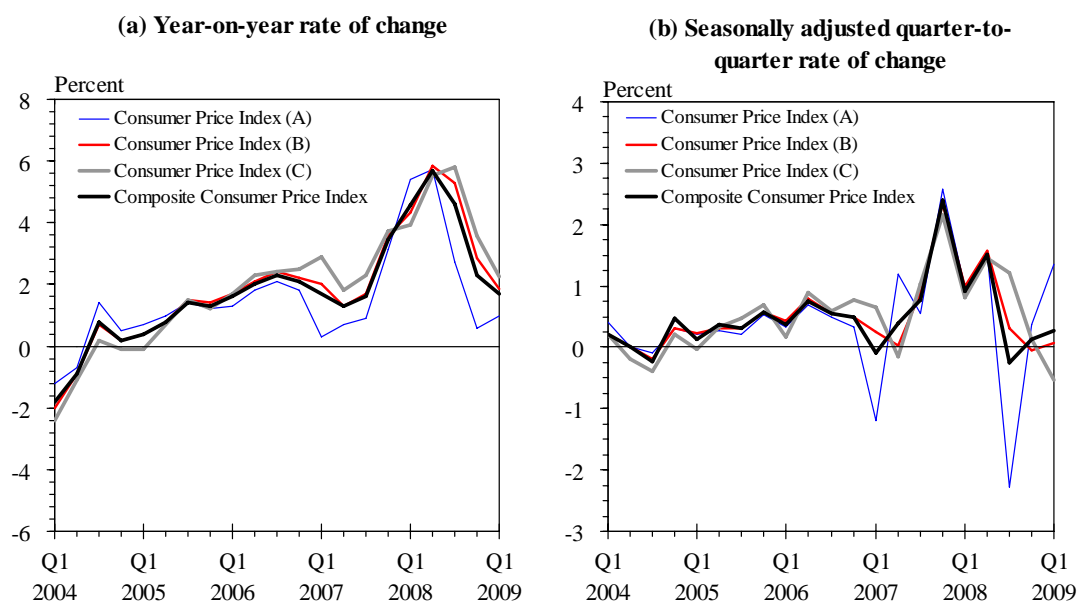
### *Summary*

- *Inflationary pressures eased further in the first quarter of 2009. Consumer price inflation moderated to 1.7% in the first quarter of 2009, from 2.3% in the fourth quarter of 2008. After netting out the effects of Government's one-off relief measures, underlying inflation decelerated more notably, to 3.1% in the first quarter from 5.4% in the preceding quarter.*
- *Price pressure from the external front receded further following the notable declines in world commodity prices, particularly food and energy prices, in the midst of the deepening global economic downturn. The strength of the Hong Kong dollar along with the US dollar was also relevant. Domestically, price pressure likewise came down along with the fall-off in economic activity. The housing component in the underlying Composite CPI similarly moderated visibly, reflecting the more recent downward adjustments in private flat rentals.*
- *Local business cost pressure kept edging lower, as both labour and rental costs softened in face of the slackening demand.*

### **Consumer prices**

6.1 As the global economy slipped into recession, consumer price inflation, which was once the key concern for many economies last year, came down notably towards the end of 2008 <sup>(1)</sup>. The easing in price pressures continued as global recessionary forces intensified in early 2009. Similarly, in Hong Kong, headline consumer price inflation, as measured by the *Composite Consumer Price Index* <sup>(2)</sup> (CPI), edged down to 1.7% in the first quarter of 2009, from 2.3% in the fourth quarter of 2008. Netting out the effects of Government's one-off relief measures, underlying consumer price inflation fell more notably, to 3.1% in the first quarter from 5.4% in the preceding quarter. Looking ahead, inflationary pressures would continue to ease in the near term, as demand conditions remain sluggish in the midst of the global recession.

**Diagram 6.1 : Consumer price inflation eased further in the first quarter of 2009**



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

|      |        | Composite CPI             |            | CPI(A)     | CPI(B)     | CPI(C)    |
|------|--------|---------------------------|------------|------------|------------|-----------|
|      |        | Underlying <sup>(a)</sup> | Headline   |            |            |           |
| 2008 | Annual | 5.6                       | 4.3        | 3.6        | 4.6        | 4.7       |
|      | H1     | 5.3                       | 5.1        | 5.6        | 5.1        | 4.7       |
|      | H2     | 5.8                       | 3.5        | 1.6        | 4.1        | 4.7       |
|      | Q1     | 4.9 (2.0)                 | 4.6 (0.9)  | 5.4 (1.0)  | 4.3 (1.0)  | 3.9 (0.8) |
|      | Q2     | 5.7 (1.5)                 | 5.7 (1.5)  | 5.7 (1.5)  | 5.9 (1.6)  | 5.5 (1.4) |
|      | Q3     | 6.3 (1.3)                 | 4.6 (-0.2) | 2.7 (-2.3) | 5.3 (0.3)  | 5.8 (1.2) |
|      | Q4     | 5.4 (0.4)                 | 2.3 (0.1)  | 0.6 (0.4)  | 2.9 (-0.1) | 3.6 (0.1) |
|      | 2009   | Q1                        | 3.1 (-0.2) | 1.7 (0.3)  | 1.0 (1.3)  | 1.9 (0.1) |

Notes : (a) The underlying consumer price inflation rates are calculated by netting out the effects of all relevant one-off measures, including the lower base effect of public housing rental waiver in February 2007, rates concession in the second and third quarters of 2007, in 2008 and in the first quarter of 2009, Government's payment of public housing rentals for August to October 2008, five-years' suspension of Employees Retraining Levy as from August 2008, and subsidies for household electricity charges as from September 2008.

(b) Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

6.2 Among its major components, private housing, food and miscellaneous goods contributed most to the increase in the Composite CPI in the first quarter of 2009. Prices of basic foodstuffs increased by 6.5%, significantly lower than the 13.8% increase in the fourth quarter of 2008. Prices of meals bought away from home also eased to an increase of 3.4%. The increase in prices of miscellaneous goods likewise edged down to 3.2%. Meanwhile, the rise in private housing rentals remained elevated at 7.7%, but this was also down from the underlying increase of 9.9% in the fourth quarter after adjusting for the effect of rates concession.

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

| <u>Expenditure component</u>       | <u>Weighting (%)</u> | <u>2008</u> |           |           |           | <u>2009</u> |
|------------------------------------|----------------------|-------------|-----------|-----------|-----------|-------------|
|                                    |                      | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   |
| Food                               | 26.94                | 10.0        | 11.2      | 10.6      | 8.8       | 4.6         |
| <i>Meals bought away from home</i> | 16.86                | 5.4         | 6.3       | 6.4       | 5.6       | 3.4         |
| <i>Other foodstuffs</i>            | 10.08                | 17.4        | 19.2      | 17.2      | 13.8      | 6.5         |
| Housing <sup>(a)</sup>             | 29.17                | 3.9         | 5.9       | 3.9       | 2.7       | 6.6         |
| <i>Private dwellings</i>           | 23.93                | (5.0)       | (6.0)     | (7.8)     | (8.3)     | (6.6)       |
| <i>Public dwellings</i>            | 2.49                 | 3.5         | 8.0       | 9.5       | 6.4       | 7.7         |
|                                    |                      | (6.9)       | (7.9)     | (9.5)     | (9.9)     | (7.7)       |
|                                    |                      | 14.4        | -13.0     | -63.6     | -39.5     | -0.2        |
|                                    |                      | (-10.8)     | (-10.8)   | (-3.7)    | (0.2)     | (0.2)       |
| Electricity, gas and water         | 3.59                 | 7.2         | 7.7       | -5.3      | -34.9     | -42.7       |
|                                    |                      | (7.2)       | (7.7)     | (7.3)     | (1.7)     | (-8.1)      |
| Alcoholic drinks and tobacco       | 0.87                 | 0.5         | 0.6       | -0.2      | -0.6      | 7.6         |
| Clothing and footwear              | 3.91                 | 1.6         | 1.6       | 0.7       | -0.5      | 1.8         |
| Durable goods                      | 5.50                 | -3.5        | -2.3      | -1.0      | -1.1      | -2.9        |
| Miscellaneous goods                | 4.78                 | 4.6         | 5.3       | 5.6       | 4.7       | 3.2         |
| Transport                          | 9.09                 | 1.3         | 2.5       | 4.0       | 2.1       | 0.7         |
| Miscellaneous services             | 16.15                | 1.3         | 1.2       | 0.8       | -0.3      | -1.7        |
| All items                          | 100.00               | 4.6         | 5.7       | 4.6       | 2.3       | 1.7         |
|                                    |                      | (4.9)       | (5.7)     | (6.3)     | (5.4)     | (3.1)       |

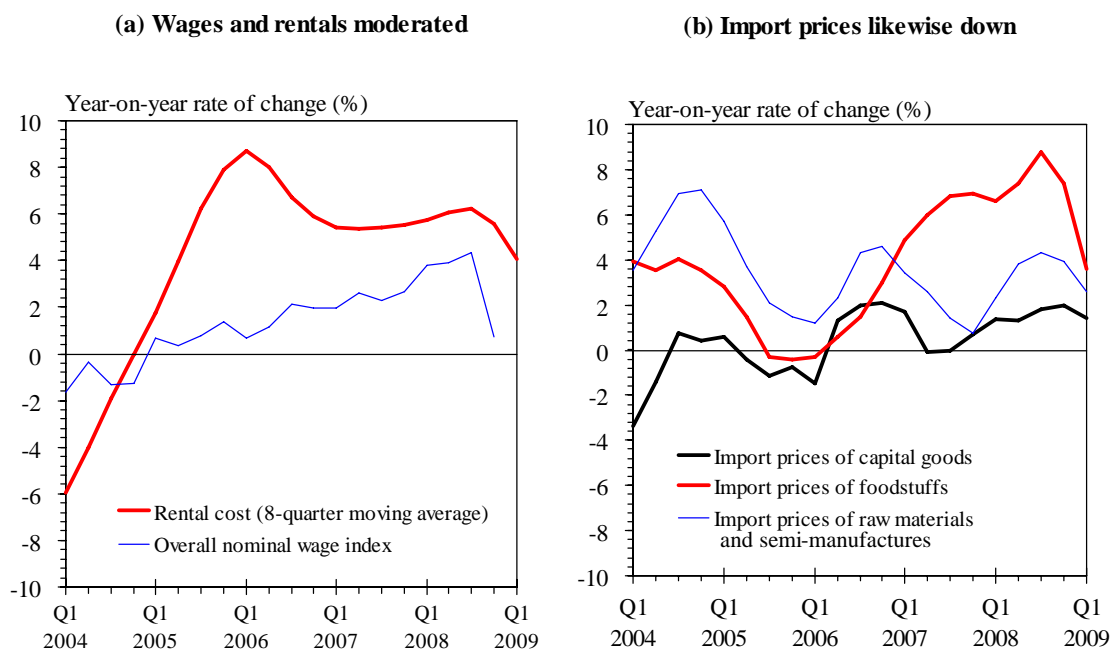
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

## Costs of factor inputs and import prices

6.3 Commercial rentals fell in the first quarter of 2009, and wage pressure should also be rather subdued amid the economic recession. All this helped to contain the pressure on local business cost in the quarter.

**Diagram 6.2 : Costs of factor inputs and import prices**

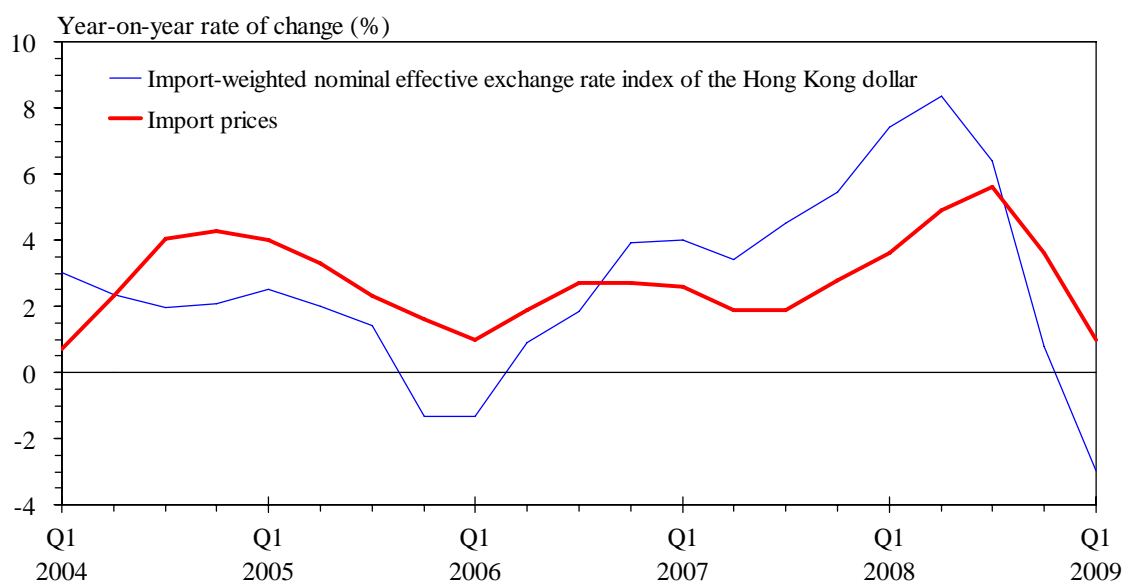


6.4 On the external front, import prices generally moderated in the first quarter, in part due to the relative strength of the Hong Kong dollar along with the US dollar and in part also reflecting the rapidly receding price pressures on a worldwide basis amid the global recession.

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

|      |        | <u>Foodstuffs</u> | <u>Consumer goods</u> | <u>Raw materials</u> | <u>Fuels</u> | <u>Capital goods</u> | <u>All</u> |
|------|--------|-------------------|-----------------------|----------------------|--------------|----------------------|------------|
| 2008 | Annual | 7.5               | 4.8                   | 3.6                  | 33.0         | 1.6                  | 4.4        |
|      | H1     | 7.0               | 3.9                   | 3.1                  | 51.2         | 1.3                  | 4.3        |
|      | H2     | 8.0               | 5.8                   | 4.1                  | 18.1         | 1.9                  | 4.6        |
|      | Q1     | 6.6               | 3.7                   | 2.3                  | 41.5         | 1.4                  | 3.6        |
|      | Q2     | 7.4               | 4.1                   | 3.8                  | 59.3         | 1.3                  | 4.9        |
|      | Q3     | 8.8               | 6.1                   | 4.3                  | 49.0         | 1.8                  | 5.6        |
|      | Q4     | 7.4               | 5.6                   | 3.9                  | -7.6         | 2.0                  | 3.6        |
| 2009 | Q1     | 3.6               | 2.9                   | 2.6                  | -38.8        | 1.4                  | 1.0        |

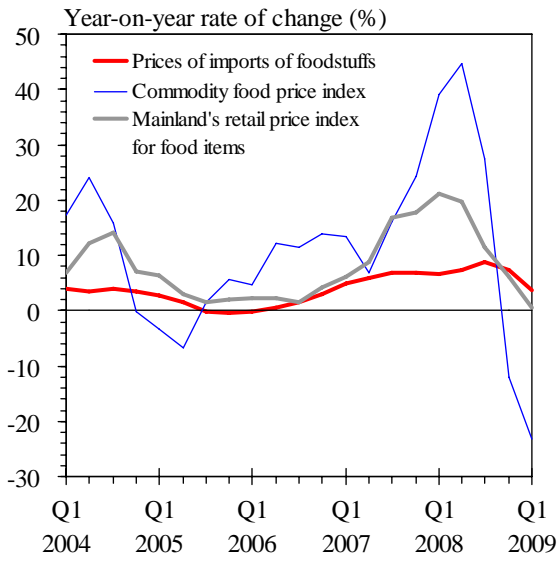
**Diagram 6.3 : Import prices decelerated partly because Hong Kong dollar strengthened along with the US dollar**



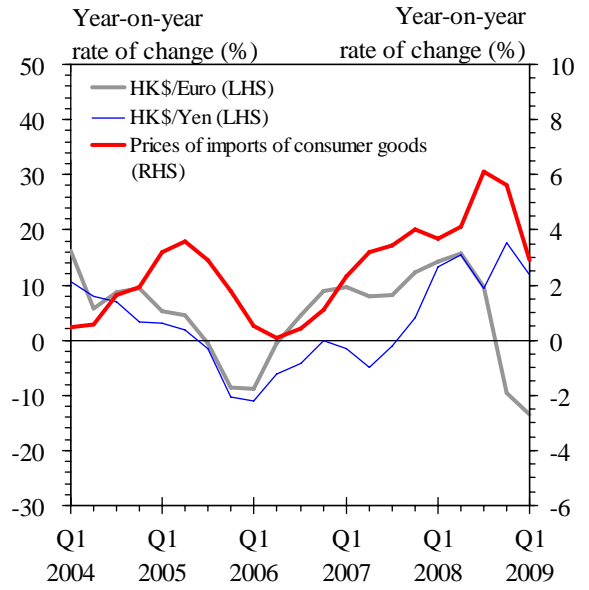
Note: The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

## Diagram 6.4 : Prices of imports by end-use category

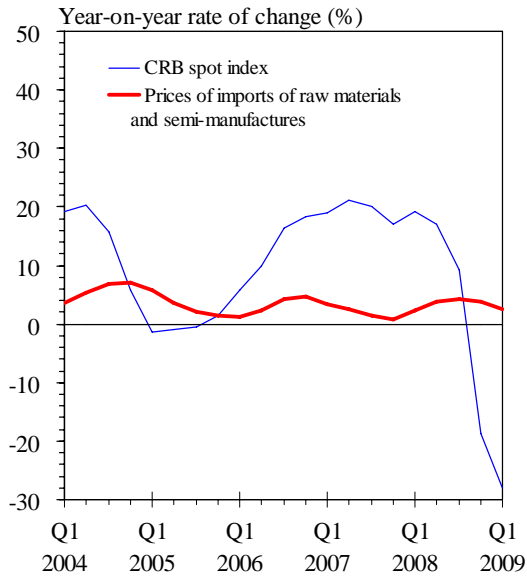
**(a) Import prices of foodstuffs increased less rapidly**



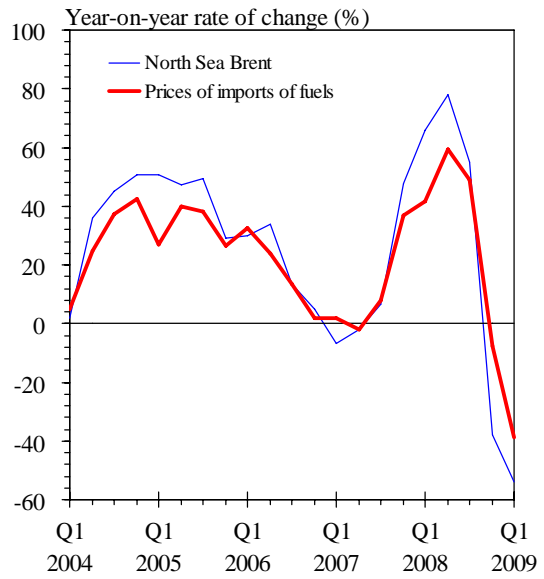
**(b) Import prices of consumer goods also slowed**



**(c) Import prices of raw materials rose moderately**



**(d) Fuel prices were sharply lower**





## Output prices

6.5 Output prices, as measured by *Producer Price Indices*<sup>(3)</sup>, started to retreat in most of the economic sectors in the fourth quarter of 2008, reversing the generally upward trend in the first three quarters of 2008. Prices of local manufacturing output rose moderately further, mainly reflecting the increase in prices for fabricated metal products. Most of the service sectors recorded decreases in output prices in the fourth quarter, reflecting the on-set of a price adjustment in response to the significant shocks from global financial crisis and the ensuing global recession. In the case of the telecommunications sector, the price decrease was an on-going phenomenon, due to keen competition and technological advancement.

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

| <u>Industry group</u>                                | <u>2007</u> |           |           |           | <u>2008</u> |           |           |                        |
|--|-------------|-----------|-----------|-----------|-------------|-----------|-----------|------------------------|
|  | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> <sup>@</sup> |
| Manufacturing  | 2.5         | 2.6       | 2.5       | 4.2       | 5.7         | 6.7       | 5.6       | 3.8                    |
| Selected services sector <sup>(a)</sup>              |             |           |           |           |             |           |           |                        |
| Hotels and boarding houses                           | 8.4         | 9.2       | 10.0      | 7.7       | 11.1        | 10.7      | 10.7      | -0.5                   |
| Land transport                                       | -0.8        | -0.4      | 0.2       | 0.9       | 0.5         | 0.8       | 0.6       | -1.7                   |
| Maritime transport                                   | 1.8         | -0.8      | 0.1       | 2.3       | 5.2         | 3.2       | 3.6       | -3.1                   |
| Air transport  | 0.8         | 1.4       | -0.5      | 2.7       | 3.3         | 8.8       | 9.0       | -0.5                   |
| Telecommunications                                   | -3.4        | -3.8      | -2.6      | -1.1      | -1.8        | -2.0      | -3.4      | -3.2                   |
| Miscellaneous communications services <sup>(b)</sup> | -0.3        | -0.7      | -0.4      | 5.6       | 3.9         | 4.4       | 4.1       | 1.8                    |

Notes : (a) 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.

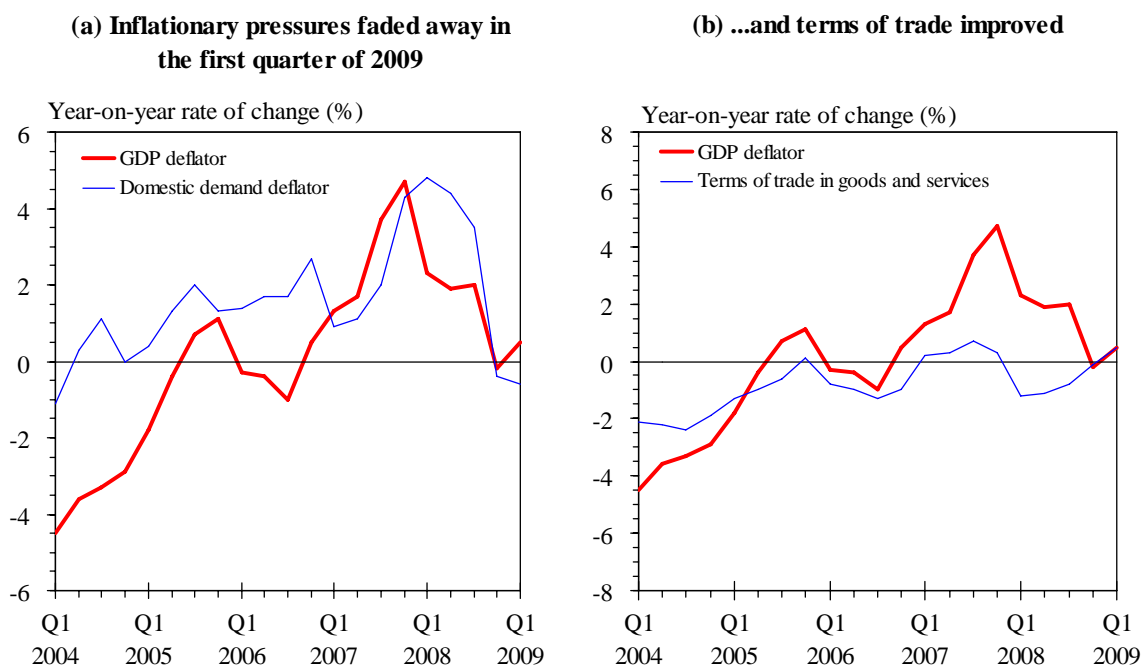
(b) "Miscellaneous communications services" mainly comprise local and international courier services.

(<sup>@</sup>) Provisional figures except Manufacturing.

## GDP deflator

6.6 As a broad measure of the overall change in prices of the economy, the *GDP deflator*<sup>(4)</sup> edged up slightly by 0.5% year-on-year in the first quarter of 2009, after a marginal fall in the fourth quarter of 2008. The increase in the GDP deflator was due to an improvement in the terms of trade<sup>(5)</sup>, as prices of imports of goods and services fell slightly faster than those of exports. Taking out the external trade components, the domestic demand deflator dropped by 0.6% in the first quarter of 2009, partly reflecting the weakening demand conditions.

**Diagram 6.5 : GDP deflator**



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

|  | <u>2008</u>               |                                   |                                  |                                  |                                    | <u>2009</u>                       |
|--|---------------------------|-----------------------------------|----------------------------------|----------------------------------|------------------------------------|-----------------------------------|
|  | <u>Annual<sup>#</sup></u> | <u>Q1<sup>#</sup></u>             | <u>Q2<sup>#</sup></u>            | <u>Q3<sup>#</sup></u>            | <u>Q4<sup>#</sup></u>              | <u>Q1<sup>+</sup></u>             |
| Private consumption expenditure        | 2.8                       | 4.9                               | 5.2                              | 3.3                              | -1.4                               | -1.0                              |
| Government consumption expenditure     | 5.2                       | 4.2                               | 5.5                              | 6.0                              | 5.0                                | 4.2                               |
| Gross domestic fixed capital formation | 1.8                       | 4.9                               | -0.3                             | 3.0                              | 0.3                                | -1.5                              |
| Total exports of goods                 | 3.4                       | 2.3                               | 3.4                              | 4.4                              | 3.3                                | 1.8                               |
| Imports of goods                       | 4.1                       | 3.4                               | 4.6                              | 5.4                              | 3.1                                | -0.1                              |
| Exports of services                    | 3.0                       | 3.6                               | 4.4                              | 5.0                              | -0.6                               | -6.3                              |
| Imports of services                    | 4.1                       | 6.3                               | 6.2                              | 5.4                              | -1.1                               | -4.0                              |
| <b>Gross Domestic Product</b>          | <b>1.4</b>                | <b>2.3</b><br><b>&lt;-1.5&gt;</b> | <b>1.9</b><br><b>&lt;0.6&gt;</b> | <b>2.0</b><br><b>&lt;0.9&gt;</b> | <b>-0.2</b><br><b>&lt;-0.2&gt;</b> | <b>0.5</b><br><b>&lt;-0.7&gt;</b> |
| Total final demand                     | 3.2                       | 3.2                               | 3.9                              | 4.3                              | 1.7                                | -0.2                              |
| Domestic demand                        | 3.0                       | 4.8                               | 4.4                              | 3.5                              | -0.4                               | -0.6                              |

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

(#) Revised figures.

(+) Preliminary figures.

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

## Notes :

- (1) The table below presents the year-on-year rates of consumer price inflation in selected economies. Global inflationary pressures continued to ease in the first quarter of 2009.

|                              | <u>2007</u>   | <u>2008</u>   | <u>2009</u> |            |            |
|------------------------------|---------------|---------------|-------------|------------|------------|
|                              | <u>Annual</u> | <u>Annual</u> | <u>Jan</u>  | <u>Feb</u> | <u>Mar</u> |
| Selected developed economies |               |               |             |            |            |
| US                           | 2.9           | 3.8           | *           | 0.2        | -0.4       |
| Canada                       | 2.2           | 2.3           | 1.1         | 1.4        | 1.2        |
| EU                           | 2.4           | 3.7           | 1.7         | 1.8        | 1.3        |
| Japan                        | 0.1           | 1.4           | *           | -0.1       | -0.3       |
| Major emerging economies     |               |               |             |            |            |
| Mainland China               | 4.8           | 5.9           | 1.0         | -1.6       | -1.2       |
| Russia                       | 9.0           | 14.1          | 13.4        | 13.9       | 14.0       |
| India                        | 6.4           | 8.3           | 10.4        | 9.6        | n.a.       |
| Brazil                       | 3.6           | 5.7           | 5.8         | 5.9        | 5.6        |
| Selected Asian economies     |               |               |             |            |            |
| Hong Kong                    | 2.0           | 4.3           | 3.1         | 0.8        | 1.2        |
| Singapore                    | 2.1           | 6.5           | 2.9         | 1.9        | 1.6        |
| Taiwan                       | 1.8           | 3.5           | 1.5         | -1.3       | -0.1       |
| South Korea                  | 2.5           | 4.7           | 3.7         | 4.1        | 3.9        |
| Malaysia                     | 2.0           | 5.4           | 3.9         | 3.7        | 3.5        |
| Thailand                     | 2.2           | 5.5           | -0.4        | -0.1       | -0.2       |
| Indonesia                    | 6.4           | 9.8           | 9.2         | 8.6        | 7.9        |
| Philippines                  | 2.8           | 9.3           | 7.1         | 7.3        | 6.4        |
| Vietnam                      | 8.3           | 23.1          | 17.5        | 14.8       | 11.2       |
| Macao                        | 5.6           | 8.6           | 5.8         | 1.8        | 2.4        |

Notes: (\*) Change of less than 0.05%.  
(n.a.) Not yet available.

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

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

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

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

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

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



## Statistical Appendix

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

|  | <u>1999</u>      | <u>2000</u>      | <u>2001</u>      | <u>2002</u>      | <u>2003</u>      | <u>2004</u>      |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | (\$Mn)           |                  |                  |                  |                  |                  |
| Private consumption expenditure                        | 765,248          | 777,141          | 782,984          | 748,402          | 719,873          | 767,923          |
| Government consumption expenditure                     | 119,993          | 120,172          | 128,866          | 131,291          | 130,151          | 127,327          |
| Gross domestic fixed capital formation                 | 325,328          | 347,375          | 333,044          | 286,025          | 261,576          | 275,034          |
| <i>of which:</i>                                       |                  |                  |                  |                  |                  |                  |
| Building and construction                              | 171,930          | 155,441          | 142,659          | 131,757          | 116,628          | 107,692          |
| Machinery, equipment and computer software             | 141,349          | 180,204          | 180,011          | 144,832          | 136,537          | 150,545          |
| Changes in inventories                                 | -10,612          | 14,399           | -4,060           | 5,660            | 9,111            | 7,076            |
| Total exports of goods                                 | 1,349,000        | 1,572,689        | 1,480,987        | 1,562,121        | 1,749,089        | 2,027,031        |
| Imports of goods                                       | 1,373,500        | 1,636,711        | 1,549,222        | 1,601,527        | 1,794,059        | 2,099,545        |
| Exports of services                                    | 276,385          | 315,012          | 320,799          | 347,836          | 362,420          | 429,584          |
| Imports of services                                    | 185,174          | 192,427          | 194,180          | 202,494          | 203,400          | 242,507          |
| <b>GDP</b>   | <b>1,266,668</b> | <b>1,317,650</b> | <b>1,299,218</b> | <b>1,277,314</b> | <b>1,234,761</b> | <b>1,291,923</b> |
| <i>Per capita GDP (\$)</i>                             | <i>191,731</i>   | <i>197,697</i>   | <i>193,500</i>   | <i>189,397</i>   | <i>183,449</i>   | <i>190,451</i>   |
| <b>GNP</b>   | <b>1,291,436</b> | <b>1,326,404</b> | <b>1,327,761</b> | <b>1,282,966</b> | <b>1,263,252</b> | <b>1,315,333</b> |
| <i>Per capita GNP (\$)</i>                             | <i>195,480</i>   | <i>199,010</i>   | <i>197,751</i>   | <i>190,235</i>   | <i>187,682</i>   | <i>193,902</i>   |
| Total final demand                                     | 2,825,342        | 3,146,788        | 3,042,620        | 3,081,335        | 3,232,220        | 3,633,975        |
| Total final demand excluding re-exports <sup>(a)</sup> | 1,886,157        | 2,048,719        | 1,983,301        | 1,923,623        | 1,896,483        | 2,062,142        |
| Domestic demand  | 1,199,957        | 1,259,087        | 1,240,834        | 1,171,378        | 1,120,711        | 1,177,360        |
| Private  | 1,014,313        | 1,078,515        | 1,053,973        | 986,542          | 939,104          | 1,001,588        |
| Public   | 185,644          | 180,572          | 186,861          | 184,836          | 181,607          | 175,772          |
| External demand  | 1,625,385        | 1,887,701        | 1,801,786        | 1,909,957        | 2,111,509        | 2,456,615        |

Definitions of Terms :

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



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

|  | (\$Mn)           |                  |                         |                         |                 |                                |                 |                                |
|--|------------------|------------------|-------------------------|-------------------------|-----------------|--------------------------------|-----------------|--------------------------------|
|  | <u>2005</u>      | <u>2006</u>      | <u>2007<sup>#</sup></u> | <u>2008<sup>#</sup></u> | Q2 <sup>#</sup> | <u>2008</u><br>Q3 <sup>#</sup> | Q4 <sup>#</sup> | <u>2009</u><br>Q1 <sup>#</sup> |
| Private consumption expenditure                        | 804,936          | 863,591          | 972,027                 | 1,014,183               | 259,724         | 251,054                        | 252,351         | 234,748                        |
| Government consumption expenditure                     | 121,435          | 123,033          | 130,398                 | 139,537                 | 33,306          | 34,692                         | 35,656          | 37,953                         |
| Gross domestic fixed capital formation                 | 289,170          | 322,691          | 325,349                 | 329,755                 | 85,661          | 84,506                         | 73,835          | 73,781                         |
| <i>of which:</i>                                       |                  |                  |                         |                         |                 |                                |                 |                                |
| Building and construction                              | 105,993          | 106,268          | 111,777                 | 126,270                 | 32,503          | 29,845                         | 30,068          | 31,603                         |
| Machinery, equipment and computer software             | 163,287          | 199,631          | 189,075                 | 178,634                 | 45,735          | 49,513                         | 40,724          | 39,270                         |
| Changes in inventories                                 | -4,761           | -2,129           | 12,841                  | 11,751                  | 4,956           | 3,109                          | 4,666           | -4,562                         |
| Total exports of goods                                 | 2,251,744        | 2,467,357        | 2,698,850               | 2,843,998               | 708,742         | 764,283                        | 720,342         | 512,316                        |
| Imports of goods                                       | 2,311,091        | 2,576,340        | 2,852,522               | 3,024,089               | 770,762         | 805,638                        | 750,980         | 547,074                        |
| Exports of services                                    | 495,394          | 565,054          | 660,728                 | 718,835                 | 166,916         | 193,601                        | 184,295         | 149,606                        |
| Imports of services                                    | 264,237          | 287,900          | 332,240                 | 357,041                 | 87,130          | 95,457                         | 84,847          | 76,628                         |
| <b>GDP</b>   | <b>1,382,590</b> | <b>1,475,357</b> | <b>1,615,431</b>        | <b>1,676,929</b>        | <b>401,413</b>  | <b>430,150</b>                 | <b>435,318</b>  | <b>380,140</b>                 |
| <i>Per capita GDP (\$)</i>                             | <i>202,928</i>   | <i>215,158</i>   | <i>233,245</i>          | <i>240,327</i>          | --              | --                             | --              | --                             |
| <b>GNP</b>   | <b>1,384,238</b> | <b>1,502,705</b> | <b>1,659,868</b>        | <b>1,758,372</b>        | <b>423,448</b>  | <b>454,420</b>                 | <b>452,494</b>  | <b>N.A.</b>                    |
| <i>Per capita GNP (\$)</i>                             | <i>203,170</i>   | <i>219,146</i>   | <i>239,661</i>          | <i>251,999</i>          | --              | --                             | --              | --                             |
| Total final demand                                     | 3,957,918        | 4,339,597        | 4,800,193               | 5,058,059               | 1,259,305       | 1,331,245                      | 1,271,145       | 1,003,842                      |
| Total final demand excluding re-exports <sup>(a)</sup> | 2,212,697        | 2,406,861        | 2,660,003               | 2,784,701               | 692,914         | 719,863                        | 694,096         | 594,658                        |
| Domestic demand  | 1,210,780        | 1,307,186        | 1,440,615               | 1,495,226               | 383,647         | 373,361                        | 366,508         | 341,920                        |
| Private  | 1,048,026        | 1,149,285        | 1,278,461               | 1,320,171               | 343,056         | 330,968                        | 321,298         | 292,511                        |
| Public   | 162,754          | 157,901          | 162,154                 | 175,055                 | 40,591          | 42,393                         | 45,210          | 49,409                         |
| External demand  | 2,747,138        | 3,032,411        | 3,359,578               | 3,562,833               | 875,658         | 957,884                        | 904,637         | 661,922                        |

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

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

|  | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Private consumption expenditure                        | 1.2         | 5.1         | 1.8         | -0.9        | -1.3        | 7.0         |
| Government consumption expenditure                     | 3.1         | 2.0         | 6.0         | 2.4         | 1.8         | 0.7         |
| Gross domestic fixed capital formation                 | -16.7       | 7.9         | 2.6         | -4.7        | 0.9         | 2.5         |
| <i>of which:</i>                                       |             |             |             |             |             |             |
| Building and construction                              | -16.4       | -7.9        | -1.1        | -1.3        | -5.4        | -10.7       |
| Machinery, equipment and computer software             | -17.6       | 27.3        | 6.2         | -7.6        | 7.0         | 10.3        |
| Total exports of goods                                 | 3.6         | 16.9        | -3.3        | 8.6         | 14.0        | 14.9        |
| Imports of goods                                       | -0.1        | 18.4        | -1.9        | 7.9         | 13.1        | 13.7        |
| Exports of services                                    | 8.9         | 13.4        | 6.4         | 11.1        | 7.6         | 18.0        |
| Imports of services                                    | -3.4        | 2.2         | 2.0         | 3.9         | -2.2        | 14.6        |
| <b>GDP</b>   | <b>2.6</b>  | <b>8.0</b>  | <b>0.5</b>  | <b>1.8</b>  | <b>3.0</b>  | <b>8.5</b>  |
| <i>Per capita GDP</i>                                  | <i>1.6</i>  | <i>7.0</i>  | <i>-0.2</i> | <i>1.4</i>  | <i>3.2</i>  | <i>7.6</i>  |
| <b>GNP</b>   | <b>2.6</b>  | <b>6.6</b>  | <b>2.0</b>  | <b>0.1</b>  | <b>4.9</b>  | <b>7.9</b>  |
| <i>Per capita GNP</i>                                  | <i>1.6</i>  | <i>5.6</i>  | <i>1.3</i>  | <i>-0.3</i> | <i>5.1</i>  | <i>7.0</i>  |
| Total final demand                                     | 0.9         | 12.6        | -0.7        | 5.0         | 7.9         | 11.8        |
| Total final demand excluding re-exports <sup>(a)</sup> | -1.3        | 9.8         | 0.3         | 2.0         | 3.1         | 8.9         |
| Domestic demand  | -3.6        | 7.7         | 0.9         | -0.7        | -0.2        | 5.0         |
| Private  | -4.6        | 9.5         | 0.5         | -1.0        | -0.5        | 6.2         |
| Public   | 2.4         | -2.1        | 3.3         | 1.1         | 1.4         | -1.2        |
| External demand  | 4.5         | 16.3        | -1.7        | 9.0         | 12.8        | 15.4        |

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

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

|  | <u>2005</u> | <u>2006</u> | <u>2007<sup>#</sup></u> | <u>2008<sup>#</sup></u> | <u>2008</u>     |                 |                 | <u>2009</u> | Average annual rate of change: |  |
|--|-------------|-------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-------------|--------------------------------|--|
|  |             |             |                         |                         | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> |             | Q1 <sup>#</sup>                | 10 years<br>1998 to<br>2008 <sup>#</sup> |
| Private consumption expenditure                        | 3.0         | 5.9         | 8.5                     | 1.5                     | 3.0             | -0.2            | -4.1            | -5.5        | 3.1                            | 5.2                                      |
| Government consumption expenditure                     | -3.2        | 0.3         | 3.0                     | 1.7                     | 3.1             | 1.6             | 1.8             | 1.5         | 1.8                            | 0.5                                      |
| Gross domestic fixed capital formation                 | 4.1         | 7.1         | 3.4                     | -0.5                    | 5.1             | 2.9             | -17.8           | -12.6       | 0.4                            | 3.3                                      |
| <i>of which:</i>                                       |             |             |                         |                         |                 |                 |                 |             |                                |  |
| Building and construction                              | -7.6        | -7.1        | -0.3                    | 1.6                     | -0.1            | -2.8            | 0.1             | -8.2        | -5.8                           | -4.9                                     |
| Machinery, equipment and computer software             | 12.8        | 19.2        | 3.0                     | -0.3                    | 7.4             | 10.7            | -21.1           | -6.6        | 5.3                            | 8.8                                      |
| Total exports of goods                                 | 10.4        | 9.3         | 7.0                     | 1.9                     | 4.4             | 1.3             | -4.9            | -22.7       | 8.2                            | 8.6                                      |
| Imports of goods                                       | 8.0         | 9.2         | 8.8                     | 1.8                     | 4.8             | 2.0             | -6.4            | -21.4       | 7.7                            | 8.3                                      |
| Exports of services                                    | 11.6        | 10.1        | 14.1                    | 5.7                     | 8.4             | 4.8             | 0.4             | -8.2        | 10.6                           | 11.8                                     |
| Imports of services                                    | 7.8         | 8.1         | 12.1                    | 3.3                     | 3.8             | 2.2             | -3.4            | -10.9       | 4.7                            | 9.1                                      |
| <b>GDP</b>   | <b>7.1</b>  | <b>7.0</b>  | <b>6.4</b>              | <b>2.4</b>              | <b>4.1</b>      | <b>1.5</b>      | <b>-2.6</b>     | <b>-7.8</b> | <b>4.7</b>                     | <b>6.2</b>                               |
| <i>Per capita GDP</i>                                  | <b>6.6</b>  | <b>6.3</b>  | <b>5.3</b>              | <b>1.6</b>              | --              | --              | --              | --          | <b>4.0</b>                     | <b>5.5</b>                               |
| <b>GNP</b>   | <b>5.3</b>  | <b>8.8</b>  | <b>7.4</b>              | <b>4.4</b>              | <b>7.6</b>      | <b>5.8</b>      | <b>0.7</b>      | <b>N.A.</b> | <b>5.0</b>                     | <b>6.7</b>                               |
| <i>Per capita GNP</i>                                  | <b>4.8</b>  | <b>8.1</b>  | <b>6.3</b>              | <b>3.6</b>              | --              | --              | --              | --          | <b>4.3</b>                     | <b>6.0</b>                               |
| Total final demand                                     | 7.7         | 8.4         | 8.2                     | 2.1                     | 4.5             | 1.9             | -5.0            | -15.9       | 6.3                            | 7.6                                      |
| Total final demand excluding re-exports <sup>(a)</sup> | 5.4         | 7.3         | 7.9                     | 1.5                     | 3.6             | 1.4             | -5.9            | -10.8       | 4.4                            | 6.2                                      |
| Domestic demand  | 1.6         | 6.0         | 7.9                     | 0.8                     | 3.2             | 1.5             | -7.5            | -7.5        | 2.5                            | 4.2                                      |
| Private  | 3.0         | 7.5         | 9.0                     | 0.6                     | 3.3             | 1.5             | -8.8            | -8.7        | 2.9                            | 5.2                                      |
| Public   | -6.2        | -3.8        | 0.2                     | 2.5                     | 2.7             | 1.5             | 2.7             | 0.9         | -0.3                           | -1.8                                     |
| External demand  | 10.6        | 9.4         | 8.3                     | 2.7                     | 5.1             | 2.0             | -3.8            | -19.6       | 8.6                            | 9.2                                      |

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

|   | 2003             |              | 2004             |              | 2005             |              | 2006             |              | 2007 <sup>#</sup> |              |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|-------------------|--------------|
|   | \$Mn             | % share      | \$Mn             | % share      | \$Mn             | % share      | \$Mn             | % share      | \$Mn              | % share      |
| Agriculture and fishing   | 824              | 0.1          | 886              | 0.1          | 847              | 0.1          | 849              | 0.1          | 895               | 0.1          |
| Mining and quarrying  | 116              | *            | 72               | *            | 100              | *            | 93               | *            | 114               | *            |
| Manufacturing   | 44,403           | 3.7          | 44,455           | 3.6          | 45,547           | 3.4          | 45,761           | 3.2          | 39,319            | 2.5          |
| Electricity, gas and water  | 38,839           | 3.3          | 39,726           | 3.2          | 39,924           | 3.0          | 40,364           | 2.8          | 39,673            | 2.6          |
| Construction  | 44,910           | 3.8          | 40,376           | 3.2          | 38,538           | 2.9          | 38,688           | 2.7          | 40,153            | 2.6          |
| Services  | 1,062,714        | 89.2         | 1,119,304        | 89.9         | 1,207,873        | 90.6         | 1,297,545        | 91.2         | 1,431,815         | 92.3         |
| <i>Wholesale, retail and import and export trades, restaurants and hotels</i> | <i>308,872</i>   | <i>25.9</i>  | <i>345,092</i>   | <i>27.7</i>  | <i>386,726</i>   | <i>29.0</i>  | <i>397,252</i>   | <i>27.9</i>  | <i>417,339</i>    | <i>26.9</i>  |
| <i>Transport, storage and communications</i>                                  | <i>117,420</i>   | <i>9.9</i>   | <i>126,820</i>   | <i>10.2</i>  | <i>135,119</i>   | <i>10.1</i>  | <i>137,166</i>   | <i>9.6</i>   | <i>141,749</i>    | <i>9.1</i>   |
| <i>Financing, insurance, real estate and business services</i>                | <i>251,085</i>   | <i>21.1</i>  | <i>266,855</i>   | <i>21.4</i>  | <i>294,260</i>   | <i>22.1</i>  | <i>356,371</i>   | <i>25.0</i>  | <i>450,989</i>    | <i>29.1</i>  |
| <i>Community, social and personal services</i>                                | <i>256,134</i>   | <i>21.5</i>  | <i>257,630</i>   | <i>20.7</i>  | <i>253,312</i>   | <i>19.0</i>  | <i>256,347</i>   | <i>18.0</i>  | <i>265,108</i>    | <i>17.1</i>  |
| <i>Ownership of premises</i>  | <i>129,203</i>   | <i>10.8</i>  | <i>122,906</i>   | <i>9.9</i>   | <i>138,455</i>   | <i>10.4</i>  | <i>150,408</i>   | <i>10.6</i>  | <i>156,631</i>    | <i>10.1</i>  |
| <b>GDP at current factor cost</b>   | <b>1,191,807</b> | <b>100.0</b> | <b>1,244,819</b> | <b>100.0</b> | <b>1,332,830</b> | <b>100.0</b> | <b>1,423,299</b> | <b>100.0</b> | <b>1,551,970</b>  | <b>100.0</b> |
| Taxes on production and imports   | 48,057           | --           | 58,729           | --           | 62,891           | --           | 71,071           | --           | 93,981            | --           |
| Statistical discrepancy (%)   | -0.4             | --           | -0.9             | --           | -0.9             | --           | -1.3             | --           | -1.9              | --           |
| <b>GDP at current market prices</b>   | <b>1,234,761</b> | <b>--</b>    | <b>1,291,923</b> | <b>--</b>    | <b>1,382,590</b> | <b>--</b>    | <b>1,475,357</b> | <b>--</b>    | <b>1,615,431</b>  | <b>--</b>    |

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

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

(\*) Less than 0.05%.

(--) Not applicable.

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

|   | (%)         |             |             |             |             |                         |                 |                 |                 |                 |
|---|-------------|-------------|-------------|-------------|-------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008<sup>#</sup></u> | <u>2008</u>     |                 |                 |                 |
|   |             |             |             |             |             |                         | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> |
| Agriculture and fishing   | -6.3        | 2.7         | -1.0        | -5.0        | -6.4        | -16.6                   | -19.0           | -18.2           | -15.1           | -13.7           |
| Mining and quarrying  | 2.3         | -16.7       | 10.1        | 10.2        | 13.7        | -3.2                    | 1.1             | -3.2            | -0.9            | -9.2            |
| Manufacturing   | -10.3       | 1.7         | 2.1         | 2.2         | -1.5        | -6.6                    | -4.4            | -4.1            | -6.7            | -10.4           |
| Electricity, gas and water  | 1.8         | 2.3         | 2.5         | 0.8         | 1.2         | 0.2                     | 4.2             | -3.4            | -1.3            | 2.2             |
| Construction  | -4.6        | -9.3        | -8.1        | -9.4        | -1.1        | 2.7                     | 9.2             | -0.3            | -1.5            | 2.8             |
| Services  | 4.3         | 9.9         | 7.5         | 7.1         | 7.0         | 2.4                     | 7.1             | 4.0             | 1.7             | -2.3            |
| <i>Wholesale, retail and<br/>import and export trades,<br/>restaurants and hotels</i> | 8.9         | 15.1        | 14.1        | 8.8         | 6.6         | 4.1                     | 9.0             | 7.2             | 4.2             | -2.1            |
| <i>Transport, storage and<br/>communications</i>                                      | 0.6         | 13.9        | 7.4         | 6.8         | 5.1         | 2.2                     | 7.6             | 3.9             | 2.0             | -4.3            |
| <i>Financing, insurance,<br/>real estate and business<br/>services</i>                | 5.5         | 13.4        | 8.6         | 12.2        | 13.5        | 1.6                     | 10.0            | 2.8             | -0.5            | -4.9            |
| <i>Community, social and<br/>personal services</i>                                    | 0.4         | 2.6         | -0.1        | 1.3         | 1.7         | 1.4                     | 1.5             | 1.7             | 1.7             | 0.7             |
| <i>Ownership of premises</i>  | 2.8         | 1.5         | 2.9         | 2.4         | 3.3         | 1.9                     | 2.1             | 1.4             | 1.8             | 2.2             |
| Taxes on production and<br>imports  | 2.6         | 12.3        | 0.8         | 6.8         | 16.4        | -0.2                    | 15.5            | 4.5             | -5.2            | -12.9           |
| <b>GDP in chained (2007) dollars</b>  | <b>3.0</b>  | <b>8.5</b>  | <b>7.1</b>  | <b>7.0</b>  | <b>6.4</b>  | <b>2.4</b>              | <b>7.3</b>      | <b>4.1</b>      | <b>1.5</b>      | <b>-2.6</b>     |

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

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

(\$Mn)

|   | 2004          | 2005          | 2006          | 2007           | 2008 <sup>#</sup> | 2008            |                 |                 |                 |
|---|---------------|---------------|---------------|----------------|-------------------|-----------------|-----------------|-----------------|-----------------|
|   |               |               |               |                |                   | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> |
| Current account <sup>(a)</sup>                        | 122,512       | 156,933       | 178,166       | 199,160        | 237,628           | 50,296          | 32,319          | 74,761          | 80,253          |
| Goods   | -72,514       | -59,347       | -108,983      | -153,672       | -180,091          | -46,077         | -62,020         | -41,355         | -30,638         |
| Services  | 187,077       | 231,157       | 277,154       | 328,488        | 361,794           | 84,416          | 79,786          | 98,144          | 99,448          |
| Income  | 23,410        | 1,648         | 27,348        | 44,437         | 81,443            | 17,962          | 22,035          | 24,270          | 17,176          |
| Current transfers                                     | -15,461       | -16,524       | -17,353       | -20,093        | -25,518           | -6,005          | -7,483          | -6,298          | -5,733          |
| Capital and financial account <sup>(a)</sup>          | -184,640      | -182,431      | -209,935      | -259,247       | -215,822          | -33,762         | -20,619         | -92,360         | -69,081         |
| Capital and financial non-reserve assets (net change) | -159,155      | -171,752      | -163,199      | -144,749       | 48,047            | 21,267          | -10,356         | -41,101         | 78,236          |
| Capital transfers                                     | -2,561        | -4,939        | -2,900        | 10,338         | 16,909            | 2,650           | 1,835           | 8,104           | 4,319           |
| Financial non-reserve assets (net change)             | -156,594      | -166,812      | -160,300      | -155,086       | 31,138            | 18,617          | -12,191         | -49,205         | 73,917          |
| <i>Direct investment</i>                              | -91,038       | 49,996        | 635           | -52,577        | 23,915            | 56,177          | -80,172         | 32,443          | 15,467          |
| <i>Portfolio investment</i>                           | -306,368      | -245,017      | -207,879      | -21,452        | -292,474          | -186,885        | 23,685          | 80,852          | -210,125        |
| <i>Financial derivatives</i>                          | 44,319        | 30,502        | 25,925        | 43,534         | 63,611            | 10,705          | 11,663          | 32,769          | 8,475           |
| <i>Other investment</i>                               | 196,492       | -2,294        | 21,019        | -124,592       | 236,085           | 138,621         | 32,633          | -195,269        | 260,099         |
| Reserve assets (net change)                           | -25,486       | -10,679       | -46,735       | -114,498       | -263,869          | -55,029         | -10,263         | -51,259         | -147,317        |
| Net errors and omissions                              | 62,128        | 25,498        | 31,769        | 60,087         | -21,806           | -16,534         | -11,700         | 17,599          | -11,172         |
| <b>Overall balance of payments</b>                    | <b>25,486</b> | <b>10,679</b> | <b>46,735</b> | <b>114,498</b> | <b>263,869</b>    | <b>55,029</b>   | <b>10,263</b>   | <b>51,259</b>   | <b>147,317</b>  |

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

(a) In accordance with the Balance of Payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. For the capital and financial account, a positive value indicates a net capital and financial inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.

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

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

|  | (\$Mn)             |                    |                    |                         |                         |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|-------------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|
|  | <u>2004</u>        | <u>2005</u>        | <u>2006</u>        | <u>2007<sup>#</sup></u> | <u>2008<sup>#</sup></u> | <u>2008</u>        |                    |                    | <u>2009</u>        |
|  |                    |                    |                    |                         |                         | Q2 <sup>#</sup>    | Q3 <sup>#</sup>    | Q4 <sup>#</sup>    | Q1 <sup>#</sup>    |
| Total exports of goods                     | 2,027,031          | 2,251,744          | 2,467,357          | 2,698,850               | 2,843,998               | 708,742            | 764,283            | 720,342            | 512,316            |
| Imports of goods                           | 2,099,545          | 2,311,091          | 2,576,340          | 2,852,522               | 3,024,089               | 770,762            | 805,638            | 750,980            | 547,074            |
| <b>Visible trade balance</b>               | <b>-72,514</b>     | <b>-59,347</b>     | <b>-108,983</b>    | <b>-153,672</b>         | <b>-180,091</b>         | <b>-62,020</b>     | <b>-41,355</b>     | <b>-30,638</b>     | <b>-34,758</b>     |
|  | <b>(-3.5)</b>      | <b>(-2.6)</b>      | <b>(-4.2)</b>      | <b>(-5.4)</b>           | <b>(-6.0)</b>           | <b>(-8.0)</b>      | <b>(-5.1)</b>      | <b>(-4.1)</b>      | <b>(-6.4)</b>      |
| Exports of services                        | 429,584            | 495,394            | 565,054            | 660,728                 | 718,835                 | 166,916            | 193,601            | 184,295            | 149,606            |
| Imports of services                        | 242,507            | 264,237            | 287,900            | 332,240                 | 357,041                 | 87,130             | 95,457             | 84,847             | 76,628             |
| <b>Invisible trade balance</b>             | <b>187,077</b>     | <b>231,157</b>     | <b>277,154</b>     | <b>328,488</b>          | <b>361,794</b>          | <b>79,786</b>      | <b>98,144</b>      | <b>99,448</b>      | <b>72,978</b>      |
|  | <b>(77.1)</b>      | <b>(87.5)</b>      | <b>(96.3)</b>      | <b>(98.9)</b>           | <b>(101.3)</b>          | <b>(91.6)</b>      | <b>(102.8)</b>     | <b>(117.2)</b>     | <b>(95.2)</b>      |
| Exports of goods and services              | 2,456,615          | 2,747,138          | 3,032,411          | 3,359,578               | 3,562,833               | 875,658            | 957,884            | 904,637            | 661,922            |
| Imports of goods and services              | 2,342,052          | 2,575,328          | 2,864,240          | 3,184,762               | 3,381,130               | 857,892            | 901,095            | 835,827            | 623,702            |
| <b>Visible and invisible trade balance</b> | <b>114,563</b>     | <b>171,810</b>     | <b>168,171</b>     | <b>174,816</b>          | <b>181,703</b>          | <b>17,766</b>      | <b>56,789</b>      | <b>68,810</b>      | <b>38,220</b>      |
|  | <b>&lt;4.9&gt;</b> | <b>&lt;6.7&gt;</b> | <b>&lt;5.9&gt;</b> | <b>&lt;5.5&gt;</b>      | <b>&lt;5.4&gt;</b>      | <b>&lt;2.1&gt;</b> | <b>&lt;6.3&gt;</b> | <b>&lt;8.2&gt;</b> | <b>&lt;6.1&gt;</b> |

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

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

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

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

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

|                    | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |                  | <u>2008</u>                    |            |             | <u>2009</u>  |
|--------------------|-------------|-------------|-------------|-------------|-------------|------------------|--------------------------------|------------|-------------|--------------|
|                    | (% change)  |             |             |             | (% change)  | (\$Mn)           | Q2                             | Q3         | Q4          | Q1           |
|                    |             |             |             |             |             |                  | (% change over a year earlier) |            |             |              |
| <b>All markets</b> | <b>15.9</b> | <b>11.4</b> | <b>9.4</b>  | <b>9.2</b>  | <b>5.1</b>  | <b>2,824,151</b> | <b>7.8</b>                     | <b>5.5</b> | <b>-2.1</b> | <b>-21.9</b> |
| Mainland of China  | 19.7        | 14.0        | 14.2        | 13.2        | 4.7         | 1,370,445        | 7.7                            | 3.8        | -2.0        | -23.5        |
| United States      | 5.4         | 5.6         | 2.9         | -0.8        | -2.4        | 359,255          | -1.5                           | 0.5        | -7.5        | -20.9        |
| Japan              | 14.4        | 10.3        | 1.6         | -0.7        | 1.2         | 120,952          | -0.6                           | 3.5        | 3.7         | -13.3        |
| Germany            | 11.9        | 15.6        | 4.0         | 7.2         | 15.8        | 93,942           | 14.6                           | 22.7       | 9.0         | -7.2         |
| United Kingdom     | 14.8        | 5.2         | 6.3         | 1.7         | 0.7         | 75,388           | 2.8                            | 5.8        | -6.1        | -21.2        |
| Singapore          | 22.0        | 6.8         | 4.4         | 3.8         | 9.6         | 55,315           | 19.9                           | 4.4        | -3.5        | -32.9        |
| Taiwan             | 16.2        | 2.7         | 3.3         | 1.6         | 3.8         | 54,943           | 6.9                            | 4.6        | 0.7         | -26.2        |
| Republic of Korea  | 24.0        | 9.5         | 7.5         | 2.0         | -6.4        | 49,564           | -2.5                           | -4.3       | -22.1       | -30.1        |
| Rest of the world  | 17.3        | 13.3        | 8.5         | 13.2        | 11.3        | 644,348          | 15.6                           | 11.5       | 0.5         | -20.9        |

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



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

|                    | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |                  | <u>2008</u>                    |            |             | <u>2009</u>  |
|--------------------|-------------|-------------|-------------|-------------|-------------|------------------|--------------------------------|------------|-------------|--------------|
|                    |             | (% change)  |             | (% change)  | (\$Mn)      |                  | Q2                             | Q3         | Q4          | Q1           |
|                    |             |             |             |             |             |                  | (% change over a year earlier) |            |             |              |
| <b>All sources</b> | <b>16.9</b> | <b>10.3</b> | <b>11.6</b> | <b>10.3</b> | <b>5.5</b>  | <b>3,025,288</b> | <b>9.1</b>                     | <b>7.0</b> | <b>-4.2</b> | <b>-22.8</b> |
| Mainland of China  | 16.9        | 14.3        | 13.7        | 11.5        | 6.1         | 1,410,735        | 5.3                            | 10.1       | -0.2        | -19.0        |
| Japan              | 19.7        | 0.1         | 4.5         | 7.2         | 3.6         | 297,552          | 9.3                            | 4.6        | -7.4        | -40.8        |
| Singapore          | 22.5        | 21.8        | 21.9        | 18.2        | 0.1         | 194,951          | 5.1                            | -3.3       | -9.3        | -27.3        |
| Taiwan             | 22.8        | 9.4         | 15.9        | 5.2         | -6.4        | 192,041          | 0.4                            | -9.3       | -21.8       | -31.8        |
| United States      | 13.4        | 6.5         | 3.6         | 12.3        | 8.6         | 150,738          | 18.4                           | 16.0       | -6.1        | -9.8         |
| Republic of Korea  | 15.0        | 2.6         | 16.1        | -0.2        | -1.1        | 118,084          | 16.8                           | 5.8        | -24.7       | -31.6        |
| Rest of the world  | 13.6        | 8.4         | 7.6         | 10.7        | 11.5        | 661,187          | 18.7                           | 8.5        | 0.8         | -19.4        |

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)**

|  | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |                | <u>2008</u>                    |            |              | <u>2009</u>  |
|--|-------------|-------------|-------------|-------------|-------------|----------------|--------------------------------|------------|--------------|--------------|
|  |             | (% change)  |             | (% change)  | (\$Mn)      |                | Q2                             | Q3         | Q4           | Q1           |
|  |             |             |             |             |             |                | (% change over a year earlier) |            |              |              |
| <b>Overall</b>                         | <b>14.8</b> | <b>7.3</b>  | <b>14.3</b> | <b>9.4</b>  | <b>3.9</b>  | <b>760,480</b> | <b>10.1</b>                    | <b>8.5</b> | <b>-13.7</b> | <b>-27.5</b> |
| Foodstuffs                             | 8.6         | 3.1         | 4.3         | 12.9        | 21.3        | 72,525         | 29.8                           | 15.7       | 20.3         | 2.9          |
| Consumer goods                         | 7.4         | 5.5         | 3.1         | 11.4        | 7.2         | 157,402        | 10.2                           | 0.1        | -9.2         | -40.4        |
| Raw materials and<br>semi-manufactures | 17.6        | 4.2         | 8.8         | 17.7        | -5.3        | 261,833        | -0.6                           | -4.9       | -17.7        | -38.3        |
| Fuels                                  | 37.5        | 23.5        | 22.8        | 20.1        | 26.5        | 106,268        | 49.2                           | 53.1       | -11.2        | -24.3        |
| Capital goods                          | 13.3        | 10.8        | 33.2        | -8.3        | 0.5         | 165,262        | 4.6                            | 19.0       | -22.3        | -8.6         |

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

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

|                                | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007<sup>#</sup></u> | <u>2008<sup>#</sup></u> |                | <u>2008</u>                    |                 |                 | <u>2009</u>     |
|--------------------------------|-------------|-------------|-------------|-------------------------|-------------------------|----------------|--------------------------------|-----------------|-----------------|-----------------|
|                                |             |             |             |                         |                         |                | Q2 <sup>#</sup>                | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> |
|                                | (% change)  |             |             | (% change)              | (\$Mn)                  |                | (% change over a year earlier) |                 |                 |                 |
| <b>Exports of services</b>     | <b>18.5</b> | <b>15.3</b> | <b>14.1</b> | <b>16.9</b>             | <b>8.8</b>              | <b>718,835</b> | <b>13.1</b>                    | <b>10.0</b>     | <b>-0.2</b>     | <b>-14.0</b>    |
| Transportation                 | 25.5        | 16.9        | 10.2        | 14.6                    | 11.6                    | 222,748        | 15.1                           | 14.0            | 2.2             | -17.1           |
| Travel                         | 26.1        | 14.2        | 12.9        | 18.7                    | 11.0                    | 119,135        | 14.2                           | 14.0            | 4.0             | 2.3             |
| Trade-related                  | 12.6        | 10.7        | 9.9         | 11.6                    | 9.9                     | 218,752        | 14.1                           | 11.1            | 4.4             | -10.3           |
| Other services                 | 12.8        | 22.3        | 28.4        | 26.7                    | 2.1                     | 158,200        | 8.5                            | 0.4             | -13.5           | -24.4           |
| <b>Imports of services</b>     | <b>19.2</b> | <b>9.0</b>  | <b>9.0</b>  | <b>15.4</b>             | <b>7.5</b>              | <b>357,041</b> | <b>10.3</b>                    | <b>7.8</b>      | <b>-4.4</b>     | <b>-14.5</b>    |
| Transportation                 | 29.4        | 20.3        | 10.9        | 20.4                    | 5.9                     | 115,044        | 11.3                           | 5.5             | -7.3            | -17.9           |
| Travel                         | 15.9        | 0.1         | 5.4         | 7.6                     | 6.5                     | 125,008        | 6.6                            | 6.6             | -7.7            | -13.7           |
| Trade-related                  | 3.2         | 12.8        | 12.6        | 15.9                    | 8.6                     | 26,399         | 13.2                           | 9.6             | 2.6             | -12.5           |
| Other services                 | 19.7        | 10.5        | 11.2        | 21.2                    | 10.5                    | 90,590         | 14.0                           | 12.0            | 1.1             | -12.0           |
| <b>Net exports of services</b> | <b>17.6</b> | <b>23.6</b> | <b>19.9</b> | <b>18.5</b>             | <b>10.1</b>             | <b>361,794</b> | <b>16.5</b>                    | <b>12.3</b>     | <b>3.8</b>      | <b>-13.5</b>    |

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

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

**Table 11 : Incoming visitors by source**

|                                       | <u>2004</u>     | <u>2005</u>     | <u>2006</u>     | <u>2007</u>     | <u>2008</u>     | <u>2008</u>    |                |                | <u>2009</u>    |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|
|                                       |                 |                 |                 |                 |                 | Q2             | Q3             | Q4             | Q1             |
| <u>('000)</u>                         |                 |                 |                 |                 |                 |                |                |                |                |
| <b>All sources</b>                    | <b>21 810.6</b> | <b>23 359.4</b> | <b>25 251.1</b> | <b>28 169.3</b> | <b>29 506.6</b> | <b>6 910.0</b> | <b>7 583.3</b> | <b>7 737.8</b> | <b>7 403.7</b> |
| Mainland of China                     | 12 245.9        | 12 541.4        | 13 591.3        | 15 485.8        | 16 862.0        | 3 741.4        | 4 609.1        | 4 357.9        | 4 675.8        |
| South and Southeast Asia              | 2 077.7         | 2 413.0         | 2 659.7         | 2 888.1         | 2 936.2         | 783.0          | 623.4          | 890.6          | 627.7          |
| Taiwan                                | 2 074.8         | 2 130.6         | 2 177.2         | 2 238.7         | 2 240.5         | 550.6          | 612.4          | 543.2          | 484.9          |
| Europe                                | 1 142.7         | 1 398.0         | 1 548.2         | 1 772.2         | 1 711.4         | 412.8          | 352.2          | 473.7          | 390.1          |
| Japan                                 | 1 126.3         | 1 210.8         | 1 311.1         | 1 324.3         | 1 324.8         | 307.4          | 335.8          | 356.1          | 316.1          |
| United States                         | 1 051.7         | 1 143.1         | 1 159.0         | 1 230.9         | 1 146.4         | 303.8          | 247.0          | 297.3          | 243.1          |
| Others                                | 2 091.7         | 2 522.6         | 2 804.5         | 3 229.2         | 3 285.3         | 811.0          | 803.4          | 819.0          | 665.9          |
| <u>(% change over a year earlier)</u> |                 |                 |                 |                 |                 |                |                |                |                |
| <b>All sources</b>                    | <b>40.4</b>     | <b>7.1</b>      | <b>8.1</b>      | <b>11.6</b>     | <b>4.7</b>      | <b>7.7</b>     | <b>3.4</b>     | <b>-0.9</b>    | <b>1.8</b>     |
| Mainland of China                     | 44.6            | 2.4             | 8.4             | 13.9            | 8.9             | 12.6           | 9.4            | 4.4            | 12.6           |
| South and Southeast Asia              | 52.8            | 16.1            | 10.2            | 8.6             | 1.7             | 4.5            | -4.0           | -3.5           | -1.8           |
| Taiwan                                | 12.0            | 2.7             | 2.2             | 2.8             | 0.1             | 1.9            | 0.7            | -3.8           | -9.2           |
| Europe                                | 46.3            | 22.3            | 10.7            | 14.5            | -3.4            | -1.6           | -14.8          | -9.8           | -17.5          |
| Japan                                 | 29.9            | 7.5             | 8.3             | 1.0             | *               | 0.7            | 0.7            | 2.3            | -2.9           |
| United States                         | 53.8            | 8.7             | 1.4             | 6.2             | -6.9            | -2.5           | -13.4          | -16.6          | -18.5          |
| Others                                | 37.1            | 20.6            | 11.2            | 15.1            | 1.7             | 5.9            | -3.5           | -10.4          | -21.8          |

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

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

**Table 12 : Property market**

|   | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Completion of new property by the private sector</b>                   |             |             |             |             |             |             |             |
| <i>('000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |             |             |             |             |
| Residential property <sup>(a)</sup> (in units)                            | 35 322      | 25 790      | 26 262      | 31 052      | 26 397      | 26 036      | 17 321      |
| Commercial property   | 634         | 160         | 208         | 304         | 417         | 371         | 145         |
| <i>of which :</i>   |             |             |             |             |             |             |             |
| Office space  | 428         | 96          | 76          | 166         | 299         | 280         | 34          |
| Other commercial premises <sup>(b)</sup>                                  | 206         | 64          | 132         | 138         | 118         | 91          | 111         |
| Industrial property <sup>(c)</sup>  | 191         | 62          | 45          | 29          | 15          | 1           | 17          |
| <i>of which :</i>   |             |             |             |             |             |             |             |
| Industrial-cum-office premises  | 40          | 37          | 14          | 0           | 15          | 0           | 4           |
| Conventional flatted factory space  | 4           | 19          | 30          | 3           | 0           | 1           | 0           |
| Storage premises <sup>(d)</sup>   | 147         | 6           | 0           | 27          | 0           | 0           | 13          |
| <b>Production of public housing</b>                                       |             |             |             |             |             |             |             |
| <i>(in units)</i>   |             |             |             |             |             |             |             |
| Rental housing flats <sup>(e)</sup>                                       | 26 733      | 40 944      | 47 590      | 20 154      | 13 705      | 20 614      | 24 691      |
| Subsidized sales flats <sup>(e)</sup>                                     | 26 532      | 22 768      | 25 702      | 1 072       | 320         | 0           | 0           |
| <b>Building plans with consent to commence work in the private sector</b> |             |             |             |             |             |             |             |
| <i>('000 m<sup>2</sup> of usable floor area)</i>                          |             |             |             |             |             |             |             |
| Residential property  | 1 692.8     | 1 142.7     | 1 002.5     | 790.0       | 1 038.4     | 530.0       | 550.7       |
| Commercial property   | 287.5       | 337.5       | 265.0       | 365.3       | 200.0       | 161.3       | 481.9       |
| Industrial property <sup>(f)</sup>  | 84.9        | 129.2       | 45.7        | 107.1       | 0.8         | 16.4        | 35.1        |
| Other properties  | 125.8       | 240.2       | 75.0        | 109.3       | 444.2       | 407.1       | 408.0       |
| Total   | 2 190.9     | 1 849.5     | 1 388.1     | 1 371.8     | 1 683.3     | 1 114.8     | 1 475.8     |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |             |             |             |             |
| <i>(Number)</i>   |             |             |             |             |             |             |             |
| Residential property <sup>(g)</sup>                                       | 77 087      | 65 340      | 69 667      | 72 974      | 71 576      | 100 630     | 103 362     |
| Primary market  | 18 325      | 13 911      | 18 366      | 23 088      | 26 498      | 25 694      | 15 994      |
| Secondary market  | 58 762      | 51 429      | 51 301      | 49 886      | 45 078      | 74 936      | 87 368      |
| Selected types of non-residential properties <sup>(h)</sup>               |             |             |             |             |             |             |             |
| Office space  | 1 378       | 1 724       | 1 774       | 1 639       | 1 817       | 3 213       | 3 431       |
| Other commercial premises   | 2 101       | 2 411       | 2 989       | 3 167       | 4 142       | 7 833       | 7 143       |
| Flatted factory space   | 2 726       | 3 393       | 3 493       | 3 756       | 3 813       | 5 889       | 6 560       |

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

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

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

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

**Table 12 : Property market (Cont'd)**

|   | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |        |        | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|--------|--------|-------------|
|   |             |             |             | Q2          | Q3     | Q4     | Q1          |
| <b>Completion of new property by the private sector</b>                   |             |             |             |             |        |        |             |
| <i>('000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |             |        |        |             |
| Residential property <sup>(a)</sup> (in units)                            | 16 579      | 10 471      | 8 776       | 678         | 1 404  | 5 736  | 1 645       |
| Commercial property   | 291         | 503         | 524         | 59          | 194    | 20     | 108         |
| <i>of which :</i>   |             |             |             |             |        |        |             |
| Office space  | 108         | 320         | 341         | 53          | 176    | 0      | 68          |
| Other commercial premises <sup>(b)</sup>                                  | 183         | 183         | 183         | 6           | 19     | 20     | 40          |
| Industrial property <sup>(c)</sup>  | 27          | 16          | 78          | 11          | 36     | 31     | 0           |
| <i>of which :</i>   |             |             |             |             |        |        |             |
| Industrial-cum-office premises  | 0           | 0           | 4           | 0           | 4      | 0      | 0           |
| Conventional flatted factory space  | 0           | 16          | 70          | 11          | 28     | 31     | 0           |
| Storage premises <sup>(d)</sup>   | 27          | 0           | 4           | 0           | 4      | 0      | 0           |
| <b>Production of public housing</b>                                       |             |             |             |             |        |        |             |
| <i>(in units)</i>   |             |             |             |             |        |        |             |
| Rental housing flats <sup>(e)</sup>                                       | 4 430       | 4 795       | 22 759      | 5 866       | 0      | 3 167  | 10 017      |
| Subsidized sales flats <sup>(e)</sup>                                     | 0           | 2 010       | 2 200       | 0           | 984    | 640    | 0           |
| <b>Building plans with consent to commence work in the private sector</b> |             |             |             |             |        |        |             |
| <i>('000 m<sup>2</sup> of usable floor area)</i>                          |             |             |             |             |        |        |             |
| Residential property  | 706.7       | 956.1       | 530.0       | 189.0       | 128.4  | 44.0   | 127.9       |
| Commercial property   | 468.4       | 327.5       | 147.7       | 39.5        | 0.9    | 0.3    | 41.7        |
| Industrial property <sup>(f)</sup>  | 23.9        | 103.5       | 106.6       | 54.0        | 0.0    | 3.0    | 6.1         |
| Other properties  | 199.2       | 207.7       | 212.8       | 52.9        | 16.7   | 69.1   | 63.9        |
| Total   | 1 398.2     | 1 594.8     | 997.1       | 335.5       | 146.0  | 116.4  | 239.7       |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |             |        |        |             |
| <i>(Number)</i>   |             |             |             |             |        |        |             |
| Residential property <sup>(g)</sup>                                       | 82 472      | 123 575     | 95 931      | 27 533      | 18 792 | 12 689 | 16 464      |
| Primary market  | 13 986      | 20 123      | 11 046      | 3 236       | 1 590  | 1 429  | 1 602       |
| Secondary market  | 68 486      | 103 452     | 84 885      | 24 297      | 17 202 | 11 260 | 14 862      |
| Selected types of non-residential properties <sup>(h)</sup>               |             |             |             |             |        |        |             |
| Office space  | 2 874       | 4 129       | 2 845       | 873         | 513    | 276    | 341         |
| Other commercial premises   | 4 402       | 5 490       | 4 155       | 1 317       | 946    | 502    | 588         |
| Flatted factory space   | 7 409       | 9 072       | 5 747       | 1 783       | 1 249  | 619    | 648         |

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

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

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

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

**Table 13 : Property prices and rentals**

|  | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>(Index (1999=100))</u>                |             |             |             |             |             |             |             |
| Property price indices :                 |             |             |             |             |             |             |             |
| Residential flats <sup>(a)</sup>         | 100.0       | 89.6        | 78.7        | 69.9        | 61.6        | 78.0        | 92.0        |
| Office space <sup>(b)</sup>              | 100.0       | 89.9        | 78.7        | 68.4        | 62.5        | 99.3        | 133.0       |
| Shopping space                           | 100.0       | 93.6        | 86.8        | 85.0        | 85.5        | 119.3       | 149.3       |
| Flatted factory space                    | 100.0       | 91.2        | 82.0        | 74.8        | 71.7        | 88.6        | 125.0       |
| Property rental indices <sup>(c)</sup> : |             |             |             |             |             |             |             |
| Residential flats                        | 100.0       | 98.1        | 95.4        | 83.4        | 73.6        | 77.7        | 86.5        |
| Office space <sup>(b)</sup>              | 100.0       | 98.5        | 101.0       | 85.4        | 74.6        | 78.1        | 96.4        |
| Shopping space                           | 100.0       | 101.3       | 99.4        | 92.9        | 86.4        | 92.8        | 100.5       |
| Flatted factory space                    | 100.0       | 95.4        | 90.3        | 82.7        | 74.9        | 77.3        | 82.6        |
| <u>(% change)</u>                        |             |             |             |             |             |             |             |
| Property price indices :                 |             |             |             |             |             |             |             |
| Residential flats <sup>(a)</sup>         | -14.6       | -10.4       | -12.2       | -11.2       | -11.9       | 26.6        | 17.9        |
| Office space <sup>(b)</sup>              | -25.7       | -10.1       | -12.5       | -13.1       | -8.6        | 58.9        | 33.9        |
| Shopping space                           | -22.1       | -6.4        | -7.3        | -2.1        | 0.6         | 39.5        | 25.1        |
| Flatted factory space                    | -24.1       | -8.8        | -10.1       | -8.8        | -4.1        | 23.6        | 41.1        |
| Property rental indices <sup>(c)</sup> : |             |             |             |             |             |             |             |
| Residential flats                        | -11.2       | -1.9        | -2.8        | -12.6       | -11.8       | 5.6         | 11.3        |
| Office space <sup>(b)</sup>              | -26.4       | -1.5        | 2.5         | -15.4       | -12.6       | 4.7         | 23.4        |
| Shopping space                           | -10.1       | 1.3         | -1.9        | -6.5        | -7.0        | 7.4         | 8.3         |
| Flatted factory space                    | -15.3       | -4.6        | -5.3        | -8.4        | -9.4        | 3.2         | 6.9         |

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

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

(c) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known. For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

|  | <u>2006</u> | <u>2007</u> | <u>2008</u> |       | <u>2008</u> |                 | <u>2009</u>     |
|--|-------------|-------------|-------------|-------|-------------|-----------------|-----------------|
|  |             |             |             | Q2    | Q3          | Q4 <sup>#</sup> | Q1 <sup>+</sup> |
| <u>(Index (1999=100))</u>                |             |             |             |       |             |                 |                 |
| Property price indices :                 |             |             |             |       |             |                 |                 |
| Residential flats <sup>(a)</sup>         | 92.7        | 103.5       | 120.5       | 125.9 | 123.2       | 108.0           | 107.5           |
| Office space <sup>(b)</sup>              | 139.3       | 165.5       | 199.0       | 210.4 | 204.3       | 174.9           | 154.5           |
| Shopping space                           | 153.5       | 172.5       | 192.5       | 204.2 | 193.9       | 174.6           | 163.9           |
| Flatted factory space                    | 158.5       | 199.5       | 235.7       | 244.4 | 244.7       | 217.1           | 196.1           |
| Property rental indices <sup>(c)</sup> : |             |             |             |       |             |                 |                 |
| Residential flats                        | 91.6        | 101.8       | 115.7       | 120.2 | 120.5       | 106.6           | 93.8            |
| Office space <sup>(b)</sup>              | 117.4       | 131.9       | 155.5       | 156.9 | 161.3       | 157.6           | 142.9           |
| Shopping space                           | 104.3       | 111.8       | 116.3       | 117.2 | 116.9       | 114.4           | 108.9           |
| Flatted factory space                    | 91.0        | 100.5       | 109.4       | 111.9 | 110.8       | 106.1           | 98.7            |
| <u>(% change over a year earlier)</u>    |             |             |             |       |             |                 |                 |
| Property price indices :                 |             |             |             |       |             |                 |                 |
| Residential flats <sup>(a)</sup>         | 0.8         | 11.7        | 16.4        | 25.5  | 18.5        | -4.6            | -14.0           |
| Office space <sup>(b)</sup>              | 4.7         | 18.8        | 20.2        | 34.7  | 22.0        | -7.8            | -25.1           |
| Shopping space                           | 2.8         | 12.4        | 11.6        | 21.0  | 9.8         | -6.1            | -16.9           |
| Flatted factory space                    | 26.8        | 25.9        | 18.1        | 26.5  | 17.8        | -1.3            | -17.1           |
| Property rental indices <sup>(c)</sup> : |             |             |             |       |             |                 |                 |
| Residential flats                        | 5.9         | 11.1        | 13.7        | 20.7  | 16.2        | -1.4            | -18.7           |
| Office space <sup>(b)</sup>              | 21.8        | 12.4        | 17.9        | 21.1  | 20.8        | 13.6            | -2.2            |
| Shopping space                           | 3.8         | 7.2         | 4.0         | 6.6   | 3.0         | -1.3            | -6.8            |
| Flatted factory space                    | 10.2        | 10.4        | 8.9         | 12.8  | 8.8         | 1.8             | -9.2            |

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

|   | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>(as at end of period)</u>                              |             |             |             |             |             |             |             |
| Hong Kong dollar money supply (\$Mn) :                    |             |             |             |             |             |             |             |
| M1  | 205,339     | 203,966     | 229,841     | 259,411     | 354,752     | 412,629     | 348,248     |
| M2 <sup>(a)</sup>   | 1,923,481   | 1,987,963   | 1,998,774   | 1,984,049   | 2,107,269   | 2,208,591   | 2,329,669   |
| M3 <sup>(a)</sup>   | 1,935,471   | 2,002,358   | 2,016,635   | 2,004,225   | 2,122,861   | 2,219,557   | 2,345,838   |
| Total money supply (\$Mn)                                 |             |             |             |             |             |             |             |
| M1  | 225,156     | 243,847     | 258,056     | 295,650     | 413,423     | 484,494     | 434,684     |
| M2  | 3,386,196   | 3,649,492   | 3,550,060   | 3,518,326   | 3,813,442   | 4,166,706   | 4,379,057   |
| M3  | 3,434,467   | 3,692,753   | 3,594,130   | 3,561,852   | 3,858,044   | 4,189,544   | 4,407,188   |
| Deposit (\$Mn)  |             |             |             |             |             |             |             |
| HK\$  | 1,773,169   | 1,851,177   | 1,854,651   | 1,824,911   | 1,930,790   | 2,017,911   | 2,131,579   |
| Foreign currency  | 1,477,448   | 1,676,670   | 1,551,852   | 1,492,631   | 1,636,227   | 1,848,145   | 1,936,322   |
| Total   | 3,250,617   | 3,527,847   | 3,406,502   | 3,317,542   | 3,567,018   | 3,866,056   | 4,067,901   |
| Loans and advances (\$Mn)                                 |             |             |             |             |             |             |             |
| HK\$  | 1,607,126   | 1,652,191   | 1,647,684   | 1,615,667   | 1,573,079   | 1,666,740   | 1,797,350   |
| Foreign currency  | 1,205,784   | 809,259     | 537,301     | 460,659     | 462,000     | 488,964     | 514,637     |
| Total   | 2,812,910   | 2,461,450   | 2,184,986   | 2,076,325   | 2,035,079   | 2,155,704   | 2,311,987   |
| Nominal Effective Exchange Rate Indices                   |             |             |             |             |             |             |             |
| (Jan 2000 = 100) <sup>(b)(c)</sup>                        |             |             |             |             |             |             |             |
| Trade-weighted  | 100.9       | 101.7       | 104.7       | 104.0       | 100.7       | 98.3        | 97.4        |
| Import-weighted   | 101.4       | 101.5       | 105.1       | 104.7       | 101.6       | 99.2        | 98.1        |
| Export-weighted   | 100.4       | 101.9       | 104.3       | 103.3       | 99.8        | 97.3        | 96.7        |
| <u>(% change)</u>   |             |             |             |             |             |             |             |
| Hong Kong dollar money supply :                           |             |             |             |             |             |             |             |
| M1  | 15.2        | -0.7        | 12.7        | 12.9        | 36.8        | 16.3        | -15.6       |
| M2 <sup>(a)</sup>   | 5.2         | 3.4         | 0.5         | -0.7        | 6.2         | 4.8         | 5.5         |
| M3 <sup>(a)</sup>   | 5.1         | 3.5         | 0.7         | -0.6        | 5.9         | 4.6         | 5.7         |
| Total money supply :                                      |             |             |             |             |             |             |             |
| M1  | 13.9        | 8.3         | 5.8         | 14.6        | 39.8        | 17.2        | -10.3       |
| M2  | 8.8         | 7.8         | -2.7        | -0.9        | 8.4         | 9.3         | 5.1         |
| M3  | 8.4         | 7.5         | -2.7        | -0.9        | 8.3         | 8.6         | 5.2         |
| Deposit   |             |             |             |             |             |             |             |
| HK\$  | 4.3         | 4.4         | 0.2         | -1.6        | 5.8         | 4.5         | 5.6         |
| Foreign currency  | 13.6        | 13.5        | -7.4        | -3.8        | 9.6         | 13.0        | 4.8         |
| Total   | 8.4         | 8.5         | -3.4        | -2.6        | 7.5         | 8.4         | 5.2         |
| Loans and advances  |             |             |             |             |             |             |             |
| HK\$  | -5.2        | 2.8         | -0.3        | -1.9        | -2.6        | 6.0         | 7.8         |
| Foreign currency  | -25.1       | -32.9       | -33.6       | -14.3       | 0.3         | 5.8         | 5.3         |
| Total   | -14.9       | -12.5       | -11.2       | -5.0        | -2.0        | 5.9         | 7.2         |
| Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup> |             |             |             |             |             |             |             |
| Trade-weighted  | -2.4        | 0.8         | 2.9         | -0.7        | -3.2        | -2.4        | -0.9        |
| Import-weighted   | -3.9        | 0.1         | 3.5         | -0.4        | -3.0        | -2.4        | -1.1        |
| Export-weighted   | -0.9        | 1.5         | 2.4         | -1.0        | -3.4        | -2.5        | -0.6        |

**Definition of Terms :**

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placements of less than one month in the monetary aggregates.

**Total Money Supply:**

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



**Table 14 : Monetary aggregates (Cont'd)**

|   | 2006      | 2007      | 2008      |           | 2008      |           | 2009      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   |           |           |           | Q2        | Q3        | Q4        | Q1        |
| <u>(as at end of period)</u>  |           |           |           |           |           |           |           |
| Hong Kong dollar money supply (\$Mn) :  |           |           |           |           |           |           |           |
| M1  | 387,909   | 454,342   | 491,103   | 452,845   | 447,627   | 491,103   | 528,633   |
| M2 <sup>(a)</sup>   | 2,777,679 | 3,281,017 | 3,239,838 | 3,068,926 | 3,146,767 | 3,239,838 | 3,282,860 |
| M3 <sup>(a)</sup>   | 2,795,545 | 3,300,500 | 3,261,287 | 3,089,145 | 3,170,167 | 3,261,287 | 3,302,414 |
| Total money supply (\$Mn)   |           |           |           |           |           |           |           |
| M1  | 491,648   | 616,709   | 645,802   | 611,147   | 597,914   | 645,802   | 690,327   |
| M2  | 5,054,332 | 6,106,348 | 6,269,598 | 5,907,278 | 6,052,619 | 6,269,598 | 6,236,852 |
| M3  | 5,089,741 | 6,139,758 | 6,302,291 | 5,944,671 | 6,091,633 | 6,302,291 | 6,268,511 |
| Deposit (\$Mn)  |           |           |           |           |           |           |           |
| HK\$  | 2,568,283 | 3,075,042 | 3,033,962 | 2,872,799 | 2,945,355 | 3,033,962 | 3,077,660 |
| Foreign currency  | 2,188,993 | 2,793,856 | 3,025,563 | 2,832,158 | 2,901,760 | 3,025,563 | 2,944,232 |
| Total   | 4,757,275 | 5,868,898 | 6,059,525 | 5,704,957 | 5,847,115 | 6,059,525 | 6,021,892 |
| Loans and advances (\$Mn)   |           |           |           |           |           |           |           |
| HK\$  | 1,917,437 | 2,184,705 | 2,354,864 | 2,354,337 | 2,396,395 | 2,354,864 | 2,322,923 |
| Foreign currency  | 550,392   | 776,971   | 930,976   | 994,228   | 1,029,176 | 930,976   | 843,430   |
| Total   | 2,467,828 | 2,961,676 | 3,285,839 | 3,348,565 | 3,425,571 | 3,285,839 | 3,166,353 |
| Nominal Effective Exchange Rate Indices<br>(Jan 2000 = 100) <sup>(b)(c)</sup> |           |           |           |           |           |           |           |
| Trade-weighted  | 96.1      | 91.9      | 87.1      | 85.7      | 86.4      | 89.7      | 90.3      |
| Import-weighted   | 96.8      | 92.5      | 87.1      | 85.7      | 86.3      | 89.4      | 89.9      |
| Export-weighted   | 95.5      | 91.3      | 87.2      | 85.7      | 86.5      | 90.0      | 90.6      |
| <u>(% change over a year earlier)</u>   |           |           |           |           |           |           |           |
| Hong Kong dollar money supply :   |           |           |           |           |           |           |           |
| M1  | 11.4      | 17.1      | 8.1       | -10.3     | -7.4      | 8.1       | 15.5      |
| M2 <sup>(a)</sup>   | 19.2      | 18.1      | -1.3      | -3.9      | -7.6      | -1.3      | 3.3       |
| M3 <sup>(a)</sup>   | 19.2      | 18.1      | -1.2      | -3.8      | -7.4      | -1.2      | 3.3       |
| Total money supply :  |           |           |           |           |           |           |           |
| M1  | 13.1      | 25.4      | 4.7       | -5.0      | -5.5      | 4.7       | 11.2      |
| M2  | 15.4      | 20.8      | 2.7       | 5.6       | 1.8       | 2.7       | 4.2       |
| M3  | 15.5      | 20.6      | 2.6       | 5.7       | 1.9       | 2.6       | 4.2       |
| Deposit   |           |           |           |           |           |           |           |
| HK\$  | 20.5      | 19.7      | -1.3      | -3.8      | -8.1      | -1.3      | 3.5       |
| Foreign currency  | 13.0      | 27.6      | 8.3       | 20.9      | 16.5      | 8.3       | 5.6       |
| Total   | 16.9      | 23.4      | 3.2       | 7.1       | 2.7       | 3.2       | 4.5       |
| Loans and advances  |           |           |           |           |           |           |           |
| HK\$  | 6.7       | 13.9      | 7.8       | 6.5       | 2.7       | 7.8       | 2.0       |
| Foreign currency  | 6.9       | 41.2      | 19.8      | 53.2      | 45.4      | 19.8      | -5.6      |
| Total   | 6.7       | 20.0      | 10.9      | 17.1      | 12.6      | 10.9      | -0.1      |
| Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>                     |           |           |           |           |           |           |           |
| Trade-weighted  | -1.3      | -4.4      | -5.2      | -7.6      | -5.7      | -0.2      | 3.6       |
| Import-weighted   | -1.3      | -4.4      | -5.8      | -8.3      | -6.4      | -0.8      | 3.0       |
| Export-weighted   | -1.2      | -4.4      | -4.5      | -6.8      | -4.8      | 0.7       | 4.0       |

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

(b) Period average.

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

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

|   | (%)         |             |             |             |             |             |      |       |       |
|---|-------------|-------------|-------------|-------------|-------------|-------------|------|-------|-------|
|   | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |      |       |       |
|   |             |             |             |             |             | Q1          | Q2   | Q3    | Q4    |
| Wholesale trade                             | 4.7         | 5.6         | 7.9         | 10.4        | 6.3         | 9.6         | 14.1 | 10.1  | -6.9  |
| Retail trade                                | 10.8        | 6.8         | 7.3         | 12.8        | 10.5        | 17.5        | 14.4 | 10.4  | 0.8   |
| Import/export trade                         | 12.4        | 10.6        | 10.2        | 8.0         | 7.4         | 13.2        | 14.6 | 9.3   | -5.7  |
| Restaurants                                 | 10.1        | 6.0         | 9.5         | 13.4        | 13.2        | 16.0        | 15.3 | 13.4  | 8.6   |
| Hotels                                      | 39.4        | 22.1        | 13.7        | 15.2        | 3.8         | 9.9         | 9.6  | 5.9   | 6.5   |
| Transport <sup>(a)</sup>                    | 22.8        | 17.8        | 10.6        | 10.8        | 4.6         | 15.9        | 11.0 | 5.7   | -10.8 |
| Storage                                     | 17.0        | 10.4        | 10.2        | 16.0        | 6.7         | 10.7        | 3.5  | 7.2   | 5.6   |
| Communications                              | 1.0         | 5.1         | 0.8         | 10.0        | 8.3         | 11.2        | 13.5 | 9.1   | 0.2   |
| Banking                                     | 4.4         | 10.9        | 19.5        | 38.3        | -16.9       | 6.4         | -6.8 | -13.1 | -45.5 |
| Financing (other than banking)              | 33.2        | 14.3        | 47.9        | 68.8        | -19.4       | 32.8        | 4.7  | -27.2 | -57.6 |
| Insurance                                   | 22.3        | 16.0        | 21.3        | 28.8        | *           | 11.7        | 8.3  | 2.1   | -17.8 |
| Real estate                                 | 13.5        | 16.0        | -0.4        | 39.8        | -3.8        | 14.5        | 10.0 | -1.9  | -27.2 |
| Business services                           | 8.3         | 4.9         | 19.6        | 13.2        | 7.3         | 11.5        | 10.3 | 6.3   | 1.8   |
| Film entertainment                          | 3.7         | 5.0         | 1.7         | 6.0         | -0.6        | 0.7         | 5.6  | 2.0   | -10.7 |
| Tourism, convention and exhibition services | 26.5        | 12.9        | 14.0        | 18.7        | 9.1         | 14.2        | 14.0 | 8.3   | -0.5  |
| Computer and information services           | 20.5        | 23.4        | 9.7         | 6.7         | 5.3         | 18.5        | 16.5 | 2.6   | -12.1 |

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

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

**Table 16 : Labour force characteristics**

|                                       | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |         |         | <u>2009</u>     |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|---------|-----------------|
|                                       |             |             |             |             |             | Q2          | Q3      | Q4      | Q1 <sup>+</sup> |
| <u>(%)</u>                            |             |             |             |             |             |             |         |         |                 |
| Labour force participation rate       | 61.3        | 60.9        | 61.2        | 61.2        | 60.9        | 61.0        | 61.1    | 61.1    | 61.3            |
| Seasonally adjusted unemployment rate | 6.8         | 5.6         | 4.8         | 4.0         | 3.6         | 3.3         | 3.4     | 4.1     | 5.2             |
| Underemployment rate                  | 3.3         | 2.7         | 2.4         | 2.2         | 1.9         | 1.9         | 1.8     | 1.9     | 2.1             |
| <u>('000)</u>                         |             |             |             |             |             |             |         |         |                 |
| Population of working age             | 5 733.6     | 5 800.7     | 5 832.2     | 5 928.4     | 5 993.9     | 5 992.1     | 6 014.5 | 6 034.3 | 6 026.7         |
| Labour force                          | 3 512.8     | 3 534.2     | 3 571.8     | 3 629.6     | 3 648.9     | 3 654.3     | 3 677.2 | 3 685.7 | 3 694.9         |
| Persons employed                      | 3 273.5     | 3 336.6     | 3 400.8     | 3 483.8     | 3 518.8     | 3 532.8     | 3 543.1 | 3 544.3 | 3 507.6         |
| Persons unemployed                    | 239.2       | 197.6       | 171.1       | 145.7       | 130.1       | 121.5       | 134.0   | 141.3   | 187.2           |
| Persons underemployed                 | 114.3       | 96.3        | 86.3        | 79.2        | 69.0        | 67.8        | 66.3    | 69.8    | 79.2            |
| <u>(% change over a year earlier)</u> |             |             |             |             |             |             |         |         |                 |
| Population of working age             | 1.6         | 1.2         | 0.5         | 1.6         | 1.1         | 1.2         | 1.3     | 1.3     | 0.9             |
| Labour force                          | 1.4         | 0.6         | 1.1         | 1.6         | 0.5         | 0.8         | 0.8     | 1.3     | 1.1             |
| Persons employed                      | 2.6         | 1.9         | 1.9         | 2.4         | 1.0         | 1.8         | 1.5     | 0.7     | -0.8            |
| Persons unemployed                    | -13.1       | -17.4       | -13.4       | -14.8       | -10.7       | -22.3       | -14.4   | 19.6    | 57.4            |
| Persons underemployed                 | -6.3        | -15.7       | -10.4       | -8.2        | -12.9       | -16.2       | -17.5   | -6.5    | 12.5            |

Note : (+) Provisional figures.

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

| Major economic sector  | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |             |             |             | No.              |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|
|  | (% change)  |             |             |             |             | <u>Mar</u>  | <u>Jun</u>  | <u>Sep</u>  | <u>Dec</u>  |                  |
| <b>Manufacturing</b>   | <b>-3.0</b> | <b>-2.0</b> | <b>-2.5</b> | <b>-2.2</b> | <b>-3.4</b> | <b>-3.6</b> | <b>-3.2</b> | <b>-3.0</b> | <b>-3.9</b> | <b>149 957</b>   |
| <i>of which :</i>  |             |             |             |             |             |             |             |             |             |                  |
| Printing, publishing and allied industries                             | -1.2        | -3.1        | 2.0         | 0.5         | -2.5        | -1.8        | -2.0        | -2.0        | -4.3        | 36 917           |
| Food, manufacturing  | 3.9         | 5.4         | 5.2         | 5.3         | -1.1        | -3.0        | 0.9         | -1.9        | -0.4        | 22 676           |
| Wearing apparel, except footwear                                       | -0.8        | -4.7        | -10.5       | -14.1       | -15.9       | -16.8       | -13.7       | -14.1       | -19.1       | 12 995           |
| Textiles   | -11.1       | 0.5         | -4.4        | -4.8        | -11.7       | -11.0       | -8.9        | -13.4       | -13.6       | 14 715           |
| Electronics  | -2.3        | -4.7        | -12.9       | -6.1        | -3.1        | 1.5         | -3.9        | -5.5        | -4.5        | 11 432           |
| Transport equipment, manufacturing                                     | -3.3        | 8.6         | 3.6         | 5.7         | 1.9         | 0.8         | -0.3        | 2.9         | 4.1         | 10 637           |
| <b>Wholesale, retail, import/export trades, restaurants and hotels</b> | <b>2.9</b>  | <b>2.6</b>  | <b>1.9</b>  | <b>1.7</b>  | <b>0.7</b>  | <b>1.2</b>  | <b>1.2</b>  | <b>1.0</b>  | <b>-0.6</b> | <b>1 057 352</b> |
| <i>of which :</i>  |             |             |             |             |             |             |             |             |             |                  |
| Wholesale, retail and import/export trades                             | 2.1         | 2.3         | 1.1         | 1.1         | 0.3         | 0.9         | 0.7         | 0.6         | -0.9        | 817 543          |
| Restaurants and hotels   | 6.0         | 3.6         | 5.1         | 3.8         | 2.0         | 2.2         | 2.9         | 2.5         | 0.4         | 239 809          |
| <b>Transport, storage and communications</b>                           | <b>3.7</b>  | <b>2.6</b>  | <b>1.1</b>  | <b>2.2</b>  | <b>2.9</b>  | <b>4.2</b>  | <b>3.1</b>  | <b>3.4</b>  | <b>1.1</b>  | <b>193 628</b>   |
| <i>of which :</i>  |             |             |             |             |             |             |             |             |             |                  |
| Land transport   | -2.2        | -1.5        | 0.3         | 0.4         | -1.1        | -1.1        | -2.0        | -1.2        | *           | 37 860           |
| Water transport  | 0.1         | -0.3        | -4.4        | -1.0        | 7.8         | 8.2         | 6.5         | 9.6         | 7.0         | 28 414           |
| Air transport  | 5.2         | 6.2         | 5.4         | 4.5         | 3.1         | 6.8         | 3.9         | 2.6         | -0.7        | 30 136           |
| Services incidental to transport                                       | 11.3        | 8.0         | 3.1         | 4.2         | 2.9         | 6.1         | 4.4         | 2.7         | -1.5        | 60 094           |
| <b>Financing, insurance, real estate and business services</b>         | <b>3.6</b>  | <b>4.4</b>  | <b>5.0</b>  | <b>5.5</b>  | <b>4.4</b>  | <b>6.4</b>  | <b>5.0</b>  | <b>4.7</b>  | <b>1.8</b>  | <b>526 533</b>   |
| <i>of which :</i>  |             |             |             |             |             |             |             |             |             |                  |
| Financial institutions   | 1.1         | 4.7         | 5.9         | 8.6         | 5.8         | 8.6         | 7.5         | 6.2         | 1.0         | 151 284          |
| Insurance  | 2.4         | 5.9         | -1.2        | 1.5         | 4.9         | 11.1        | 5.5         | 3.6         | -0.2        | 29 954           |
| Real estate  | 2.2         | 6.8         | 5.3         | 4.3         | 2.9         | 5.9         | 2.6         | 3.2         | *           | 104 293          |
| Business services except machinery and equipment rental and leasing    | 6.0         | 2.9         | 5.3         | 4.7         | 4.2         | 4.8         | 4.5         | 4.4         | 3.3         | 240 057          |
| <b>Community, social and personal services</b>                         | <b>3.2</b>  | <b>4.5</b>  | <b>3.6</b>  | <b>2.6</b>  | <b>3.2</b>  | <b>2.8</b>  | <b>2.7</b>  | <b>4.1</b>  | <b>3.2</b>  | <b>484 116</b>   |
| <i>of which :</i>  |             |             |             |             |             |             |             |             |             |                  |
| Sanitary and similar services  | 1.5         | 2.4         | 2.5         | 1.0         | -0.3        | -2.5        | -2.4        | 1.9         | 1.9         | 59 112           |
| Education services   | 1.8         | 1.8         | 4.9         | 3.0         | 4.6         | 4.0         | 3.4         | 5.6         | 5.5         | 151 461          |
| Medical, dental and other health services                              | 2.5         | 1.6         | 4.0         | 5.6         | 5.4         | 6.6         | 4.6         | 5.1         | 5.2         | 90 150           |
| Welfare institutions   | 2.1         | -0.4        | 1.5         | 1.3         | 1.3         | 0.1         | 2.4         | 2.2         | 0.4         | 54 352           |
| <b>Civil Service<sup>(a)</sup></b>                                     | <b>-3.8</b> | <b>-2.7</b> | <b>-1.3</b> | <b>-0.4</b> | <b>0.1</b>  | <b>-0.2</b> | <b>*</b>    | <b>0.4</b>  | <b>0.3</b>  | <b>154 337</b>   |

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

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

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

|                                       | <u>2004</u>   | <u>2005</u>   | <u>2006</u>   | <u>2007</u>   | <u>2008</u>   |               | <u>2008</u>   |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       |               |               |               |               |               | Mar           | Jun           | Sep           | Dec           |
| <u>(number)</u>                       |               |               |               |               |               |               |               |               |               |
| Building sites                        |               |               |               |               |               |               |               |               |               |
| Private sector                        | 33 619        | 31 556        | 30 993        | 29 240        | 28 899        | 29 919        | 29 192        | 28 305        | 28 179        |
| Public sector <sup>(a)</sup>          | 13 325        | 10 135        | 7 643         | 7 767         | 8 136         | 8 491         | 7 102         | 7 714         | 9 235         |
| Sub-total                             | 46 944        | 41 690        | 38 636        | 37 007        | 37 034        | 38 410        | 36 294        | 36 019        | 37 414        |
| Civil engineering sites               |               |               |               |               |               |               |               |               |               |
| Private sector                        | 2 564         | 2 198         | 1 569         | 1 674         | 1 686         | 1 657         | 1 977         | 1 393         | 1 715         |
| Public sector <sup>(a)</sup>          | 16 772        | 15 378        | 12 661        | 11 504        | 10 703        | 10 474        | 11 285        | 10 732        | 10 319        |
| Sub-total                             | 19 336        | 17 576        | 14 230        | 13 178        | 12 388        | 12 131        | 13 262        | 12 125        | 12 034        |
| <b>Total</b>                          | <b>66 280</b> | <b>59 266</b> | <b>52 865</b> | <b>50 185</b> | <b>49 422</b> | <b>50 541</b> | <b>49 556</b> | <b>48 144</b> | <b>49 448</b> |
| <u>(% change over a year earlier)</u> |               |               |               |               |               |               |               |               |               |
| Building sites                        |               |               |               |               |               |               |               |               |               |
| Private sector                        | -0.8          | -6.1          | -1.8          | -5.7          | -1.2          | 6.4           | -3.0          | -2.5          | -5.2          |
| Public sector <sup>(a)</sup>          | -17.7         | -23.9         | -24.6         | 1.6           | 4.7           | 1.2           | -6.1          | 8.4           | 15.6          |
| Sub-total                             | -6.3          | -11.2         | -7.3          | -4.2          | 0.1           | 5.2           | -3.6          | -0.3          | -0.8          |
| Civil engineering sites               |               |               |               |               |               |               |               |               |               |
| Private sector                        | -6.9          | -14.3         | -28.6         | 6.7           | 0.7           | -1.0          | 11.9          | -0.1          | -7.8          |
| Public sector <sup>(a)</sup>          | -4.0          | -8.3          | -17.7         | -9.1          | -7.0          | -14.0         | -3.3          | -7.8          | -2.0          |
| Sub-total                             | -4.4          | -9.1          | -19.0         | -7.4          | -6.0          | -12.4         | -1.3          | -7.0          | -2.9          |
| <b>Total</b>                          | <b>-5.7</b>   | <b>-10.6</b>  | <b>-10.8</b>  | <b>-5.1</b>   | <b>-1.5</b>   | <b>0.3</b>    | <b>-3.0</b>   | <b>-2.1</b>   | <b>-1.3</b>   |

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

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

(\$)

| Major economic sector                                   | <u>2004</u>   | <u>2005</u>   | <u>2006</u>   | <u>2007</u>   | <u>2008</u>  | <u>2008</u>  |  |   |   |
|---|---|---|---|---|--|--|--|---|---|
|   |   |   |   |   |  | Q1   | Q2   | Q3  | Q4  |
| Wholesale, retail and import/export trades              | 12,300<br>(0.4)<br><0.9>                              | 13,200<br>(7.3)<br><6.3>                            | 13,800<br>(4.1)<br><2.0>                            | 14,100<br>(2.4)<br><0.4>                            | 14,600<br>(3.7)<br><-0.6>                            | 16,300<br>(4.7)<br><0.1>                             | 13,300<br>(4.0)<br><-1.6>                            | 14,200<br>(5.3)<br><0.6>                            | 14,700<br>(0.7)<br><-1.6>                             |
| Restaurants and hotels                                  | 8,100<br>(-0.1)<br><0.4>                              | 8,200<br>(1.9)<br><0.9>                             | 8,500<br>(2.6)<br><0.6>                             | 8,800<br>(3.8)<br><1.8>                             | 9,000<br>(2.6)<br><-1.6>                             | 9,300<br>(-0.4)<br><-4.8>                            | 8,700<br>(4.2)<br><-1.5>                             | 8,900<br>(5.3)<br><0.6>                             | 9,100<br>(1.8)<br><-0.5>                              |
| Transport, storage and communications                   | 18,300<br>(-1.3)<br><-0.9>                            | 19,200<br>(5.0)<br><4.1>                            | 19,600<br>(2.1)<br><0.1>                            | 20,300<br>(3.3)<br><1.3>                            | 20,300<br>(0.5)<br><-3.7>                            | 20,800<br>(1.0)<br><-3.5>                            | 19,300<br>(1.0)<br><-4.5>                            | 19,700<br>(2.7)<br><-1.9>                           | 21,600<br>(-2.4)<br><-4.7>                            |
| Financing, insurance, real estate and business services | 18,500<br>(-0.1)<br><0.4>                             | 19,100<br>(2.8)<br><1.8>                            | 20,100<br>(5.6)<br><3.6>                            | 21,200<br>(5.6)<br><3.5>                            | 22,100<br>(4.3)<br>*                                 | 25,600<br>(8.9)<br><4.0>                             | 20,800<br>(5.1)<br><-0.6>                            | 20,300<br>(6.2)<br><1.5>                            | 21,900<br>(-3.0)<br><-5.2>                            |
| Community, social and personal services                 | 18,400<br>(-2.6)<br><-2.2>                            | 18,000<br>(-2.2)<br><-3.1>                          | 17,900<br>(-0.1)<br><-2.0>                          | 18,400<br>(2.4)<br><0.4>                            | 18,600<br>(1.4)<br><-2.8>                            | 18,100<br>(1.6)<br><-2.9>                            | 18,400<br>(3.4)<br><-2.2>                            | 19,500<br>(2.4)<br><-2.2>                           | 18,500<br>(-1.8)<br><-4.0>                            |
| Manufacturing   | 11,300<br>(-0.6)<br><-0.2>                            | 11,600<br>(1.8)<br><0.9>                            | 11,700<br>(1.4)<br><-0.6>                           | 12,100<br>(2.9)<br><-0.1>                           | 12,400<br>(2.4)<br><-0.9>                            | 13,400<br>(3.0)<br><-1.6>                            | 12,200<br>(4.0)<br><-1.6>                            | 11,800<br>(4.0)<br><-0.6>                           | 12,000<br>(-1.1)<br><-3.4>                            |
| <b>All sectors surveyed</b>                             | <b>14,900</b><br><b>(-0.7)</b><br><b>&lt;-0.2&gt;</b> | <b>15,400</b><br><b>(3.5)</b><br><b>&lt;2.6&gt;</b> | <b>15,800</b><br><b>(2.4)</b><br><b>&lt;0.4&gt;</b> | <b>16,400</b><br><b>(4.0)</b><br><b>&lt;1.9&gt;</b> | <b>16,800</b><br><b>(2.6)</b><br><b>&lt;-1.7&gt;</b> | <b>18,000</b><br><b>(3.1)</b><br><b>&lt;-1.5&gt;</b> | <b>16,000</b><br><b>(4.6)</b><br><b>&lt;-1.1&gt;</b> | <b>16,400</b><br><b>(5.2)</b><br><b>&lt;0.5&gt;</b> | <b>16,900</b><br><b>(-2.1)</b><br><b>&lt;-4.3&gt;</b> |

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

&lt; &gt; % change over a year earlier in real terms.

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

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

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

(%)

| Selected major<br>economic sector                             | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |             |            |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
|   |             |             |             |             |             | Mar         | Jun         | Sep        | Dec         |
| <u>(in money terms)</u>                                       |             |             |             |             |             |             |             |            |             |
| Wholesale, retail and<br>import/export trades                 | -1.6        | 1.6         | 1.1         | 2.3         | 3.6         | 4.5         | 4.6         | 5.0        | 0.3         |
| Restaurants and hotels  | -2.2        | *           | 1.0         | 1.4         | 3.1         | 3.3         | 3.0         | 4.1        | 1.9         |
| Transport services  | -1.0        | 1.0         | -0.6        | 1.6         | 2.4         | 4.5         | 2.3         | 3.7        | -0.7        |
| Financing, insurance,<br>real estate and<br>business services | -0.5        | *           | 3.2         | 3.2         | 3.7         | 3.8         | 4.7         | 4.9        | 1.3         |
| Personal services   | 1.3         | -1.5        | 2.5         | 5.5         | 1.1         | 1.9         | 0.7         | 1.4        | 0.6         |
| Manufacturing   | -1.3        | 1.2         | 2.9         | 2.0         | 2.0         | 0.7         | 4.5         | 3.1        | -0.2        |
| <b>All sectors surveyed</b>                                   | <b>-1.1</b> | <b>0.8</b>  | <b>1.5</b>  | <b>2.4</b>  | <b>3.2</b>  | <b>3.8</b>  | <b>3.9</b>  | <b>4.4</b> | <b>0.7</b>  |
| <u>(in real terms)</u>  |             |             |             |             |             |             |             |            |             |
| Wholesale, retail and<br>import/export trades                 | -1.7        | 0.4         | -0.6        | 0.4         | 0.9         | 0.6         | -1.4        | 5.3        | -1.0        |
| Restaurants and hotels  | -2.3        | -1.3        | -0.8        | -0.4        | 0.4         | -0.5        | -2.9        | 4.4        | 0.6         |
| Transport services  | -1.0        | -0.2        | -2.3        | -0.2        | -0.2        | 0.5         | -3.5        | 4.0        | -1.9        |
| Financing, insurance,<br>real estate and<br>business services | -0.6        | -1.2        | 1.5         | 1.3         | 1.0         | -0.1        | -1.3        | 5.2        | *           |
| Personal services   | 1.3         | -2.7        | 0.7         | 3.6         | -1.5        | -2.0        | -5.0        | 1.7        | -0.7        |
| Manufacturing   | -1.4        | -0.1        | 1.1         | 0.1         | -0.7        | -3.1        | -1.5        | 3.4        | -1.5        |
| <b>All sectors surveyed</b>                                   | <b>-1.2</b> | <b>-0.4</b> | <b>-0.3</b> | <b>0.5</b>  | <b>0.5</b>  | <b>-0.1</b> | <b>-2.1</b> | <b>4.7</b> | <b>-0.6</b> |

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

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

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

(%)

|  | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| GDP deflator   | -4.5        | -3.6        | -1.9        | -3.5        | -6.2        | -3.5        | -0.1        | -0.3        |
| Domestic demand deflator                                 | -3.1        | -2.6        | -2.3        | -4.9        | -4.2        | 0.1         | 1.2         | 1.9         |
| Consumer Price Indices <sup>(a)</sup> :                  |             |             |             |             |             |             |             |             |
| Composite CPI  | -4.0        | -3.8        | -1.6        | -3.0        | -2.6        | -0.4        | 1.0         | 2.0         |
| CPI(A)   | -3.3        | -3.0        | -1.7        | -3.2        | -2.1        | *           | 1.1         | 1.7         |
| CPI(B)   | -4.7        | -3.9        | -1.6        | -3.1        | -2.7        | -0.5        | 1.0         | 2.1         |
| CPI(C)   | -3.7        | -4.5        | -1.5        | -2.8        | -2.9        | -0.9        | 0.8         | 2.2         |
| Unit Value Indices :                                     |             |             |             |             |             |             |             |             |
| Domestic exports   | -2.4        | -1.0        | -4.7        | -3.3        | 0.2         | 1.5         | 2.2         | -2.1        |
| Re-exports   | -2.8        | -0.1        | -2.0        | -2.7        | -1.5        | 1.1         | 1.2         | 1.1         |
| Total exports of goods                                   | -2.7        | -0.2        | -2.3        | -2.7        | -1.4        | 1.2         | 1.3         | 1.0         |
| Imports of goods   | -2.0        | 0.8         | -3.1        | -3.9        | -0.4        | 2.9         | 2.7         | 2.1         |
| Terms of Trade Index                                     | -0.7        | -1.0        | 0.9         | 1.2         | -1.0        | -1.7        | -1.4        | -1.1        |
| Producer Price Index<br>for all manufacturing industries | -1.6        | 0.2         | -1.6        | -2.7        | -0.3        | 2.2         | 0.8         | 2.3         |
| Tender Price Indices :                                   |             |             |             |             |             |             |             |             |
| Public sector<br>building projects                       | -4.4        | -13.1       | -8.5        | -11.7       | -0.3        | -1.5        | 1.4         | 5.0         |
| Public housing projects                                  | -3.3        | -11.9       | -15.1       | -9.6        | -10.0       | 3.5         | 7.7         | 11.2        |

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

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

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

(^) Average annual rate of change for the 10-year period 1997-2007.

(~) Average annual rate of change for the 5-year period 2002-2007.

N.A. Not yet available.



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

|  | (%)         |             |             |       |        |             |                                       |                         |
|--|-------------|-------------|-------------|-------|--------|-------------|---------------------------------------|-------------------------|
|  | <u>2007</u> | <u>2008</u> | <u>2008</u> |       |        | <u>2009</u> | <u>Average annual rate of change:</u> |                         |
|  |             |             | Q2          | Q3    | Q4     | Q1          | 10 years<br>1998 to 2008              | 5 years<br>2003 to 2008 |
| GDP deflator   | 2.9 #       | 1.4 #       | 1.9 #       | 2.0 # | -0.2 # | 0.5 #       | -2.0 #                                | 0.1 #                   |
| Domestic demand deflator                                 | 2.1 #       | 3.0 #       | 4.4 #       | 3.5 # | -0.4 # | -0.6 #      | -0.9 #                                | 1.7 #                   |
| Consumer Price Indices <sup>(a)</sup> :                  |             |             |             |       |        |             |                                       |                         |
| Composite CPI  | 2.0         | 4.3         | 5.7         | 4.6   | 2.3    | 1.7         | -0.6                                  | 1.8                     |
| CPI(A)   | 1.3         | 3.6         | 5.7         | 2.7   | 0.6    | 1.0         | -0.6                                  | 1.5                     |
| CPI(B)   | 2.2         | 4.6         | 5.9         | 5.3   | 2.9    | 1.9         | -0.7                                  | 1.9                     |
| CPI(C)   | 2.7         | 4.7         | 5.5         | 5.8   | 3.6    | 2.2         | -0.6                                  | 1.9                     |
| Unit Value Indices :                                     |             |             |             |       |        |             |                                       |                         |
| Domestic exports   | 0.8         | 5.1         | 5.0         | 6.4   | 6.2    | 2.5         | -0.4                                  | 1.5                     |
| Re-exports   | 2.4         | 3.8         | 3.9         | 4.7   | 4.0    | 2.5         | 0.1                                   | 1.9                     |
| Total exports of goods                                   | 2.3         | 3.8         | 3.9         | 4.8   | 4.1    | 2.5         | *                                     | 1.9                     |
| Imports of goods   | 2.3         | 4.4         | 4.9         | 5.6   | 3.6    | 1.0         | 0.5                                   | 2.9                     |
| Terms of Trade Index                                     | 0.1         | -0.5        | -0.9        | -0.8  | 0.5    | 1.6         | -0.5                                  | -0.9                    |
| Producer Price Index<br>for all manufacturing industries | 3.0         | 5.4         | 6.7         | 5.6   | 3.8    | N.A.        | 0.7                                   | 2.7                     |
| Tender Price Indices :                                   |             |             |             |       |        |             |                                       |                         |
| Public sector<br>building projects                       | 20.1        | N.A.        | 51.9        | 54.6  | N.A.   | N.A.        | -0.8 ^                                | 4.7 ~                   |
| Public housing projects                                  | 19.7        | N.A.        | 42.2        | 33.9  | N.A.   | N.A.        | -0.5 ^                                | 6.0 ~                   |

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

(%)

|  | Weight         | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>All items</b>                                   | <b>100.0</b>   | <b>-4.0</b> | <b>-3.8</b> | <b>-1.6</b> | <b>-3.0</b> | <b>-2.6</b> | <b>-0.4</b> | <b>1.0</b>  |
| Food   | 26.94          | -1.8        | -2.2        | -0.8        | -2.1        | -1.5        | 1.0         | 1.8         |
| <i>Meals bought away from home</i>                 | <i>(16.86)</i> | <i>-1.2</i> | <i>-0.9</i> | <i>-0.3</i> | <i>-1.5</i> | <i>-1.5</i> | <i>0.2</i>  | <i>0.9</i>  |
| <i>Food, excluding meals bought away from home</i> | <i>(10.08)</i> | <i>-2.8</i> | <i>-4.2</i> | <i>-1.7</i> | <i>-3.1</i> | <i>-1.7</i> | <i>2.5</i>  | <i>3.2</i>  |
| Housing <sup>(a)</sup>                             | 29.17          | -5.1        | -8.2        | -3.1        | -5.7        | -4.8        | -5.2        | 0.1         |
| <i>Private housing rent</i>                        | <i>(23.93)</i> | <i>-6.1</i> | <i>-9.8</i> | <i>-2.9</i> | <i>-6.5</i> | <i>-6.3</i> | <i>-6.6</i> | <i>-0.1</i> |
| <i>Public housing rent</i>                         | <i>(2.49)</i>  | <i>1.4</i>  | <i>1.1</i>  | <i>-8.3</i> | <i>-2.7</i> | <i>9.1</i>  | <i>2.5</i>  | <i>0.2</i>  |
| Electricity, gas and water                         | 3.59           | -0.4        | 3.6         | -1.9        | -7.0        | 1.4         | 11.4        | 4.1         |
| Alcoholic drinks and tobacco                       | 0.87           | 1.2         | -0.9        | 3.3         | 2.4         | 0.1         | *           | 0.4         |
| Clothing and footwear                              | 3.91           | -20.6       | -10.1       | -4.6        | 0.7         | -2.7        | 6.4         | 2.0         |
| Durable goods                                      | 5.50           | -6.3        | -4.6        | -7.1        | -6.3        | -6.4        | -2.2        | -3.2        |
| Miscellaneous goods                                | 4.78           | -0.7        | 0.9         | 1.3         | 1.7         | 2.3         | 3.6         | 1.5         |
| Transport  | 9.09           | 0.5         | 1.0         | 0.4         | -0.6        | -0.4        | 0.4         | 1.4         |
| Miscellaneous services                             | 16.15          | -1.3        | -0.2        | 0.5         | -2.3        | -3.2        | -0.2        | 1.0         |

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

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

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

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

|  |                | (%)         |              |              |              |              |              |             |                                   |                            |
|--|----------------|-------------|--------------|--------------|--------------|--------------|--------------|-------------|-----------------------------------|----------------------------|
|  | Weight         | <u>2006</u> | <u>2007</u>  | <u>2008</u>  | <u>2008</u>  |              |              | <u>2009</u> | Average annual<br>rate of change: |                            |
|  |                |             |              |              | Q2           | Q3           | Q4           | Q1          | 10 years<br>1998 to<br>2008       | 5 years<br>2003 to<br>2008 |
| <b>All items</b>   | <b>100.0</b>   | <b>2.0</b>  | <b>2.0</b>   | <b>4.3</b>   | <b>5.7</b>   | <b>4.6</b>   | <b>2.3</b>   | <b>1.7</b>  | <b>-0.6</b>                       | <b>1.8</b>                 |
| Food   | 26.94          | 1.7         | 4.3          | 10.1         | 11.2         | 10.6         | 8.8          | 4.6         | 1.0                               | 3.7                        |
| <i>Meals bought away from</i>                              | <i>(16.86)</i> | <i>1.3</i>  | <i>2.5</i>   | <i>5.9</i>   | <i>6.3</i>   | <i>6.4</i>   | <i>5.6</i>   | <i>3.4</i>  | <i>0.5</i>                        | <i>2.2</i>                 |
| <i>Food, excluding meals bought<br/>    away from home</i> | <i>(10.08)</i> | <i>2.5</i>  | <i>7.1</i>   | <i>16.8</i>  | <i>19.2</i>  | <i>17.2</i>  | <i>13.8</i>  | <i>6.5</i>  | <i>1.7</i>                        | <i>6.3</i>                 |
| Housing <sup>(a)</sup>                                     | 29.17          | 4.7         | 2.0          | 4.1          | 5.9          | 3.9          | 2.7          | 6.6         | -2.2                              | 1.1                        |
| <i>Private housing rent</i>                                | <i>(23.93)</i> | <i>5.6</i>  | <i>4.0</i>   | <i>6.8</i>   | <i>8.0</i>   | <i>9.5</i>   | <i>6.4</i>   | <i>7.7</i>  | <i>-2.3</i>                       | <i>1.8</i>                 |
| <i>Public housing rent</i>                                 | <i>(2.49)</i>  | <i>0.1</i>  | <i>-17.7</i> | <i>-27.2</i> | <i>-13.0</i> | <i>-63.6</i> | <i>-39.5</i> | <i>-0.2</i> | <i>-4.7</i>                       | <i>-9.2</i>                |
| Electricity, gas and water                                 | 3.59           | 2.1         | -0.7         | -6.5         | 7.7          | -5.3         | -34.9        | -42.7       | 0.5                               | 1.9                        |
| Alcoholic drinks and tobacco                               | 0.87           | -3.7        | -1.2         | 0.1          | 0.6          | -0.2         | -0.6         | 7.6         | 0.1                               | -0.9                       |
| Clothing and footwear                                      | 3.91           | 1.0         | 4.1          | 0.8          | 1.6          | 0.7          | -0.5         | 1.8         | -2.6                              | 2.8                        |
| Durable goods  | 5.50           | -6.4        | -4.7         | -2.0         | -2.3         | -1.0         | -1.1         | -2.9        | -4.9                              | -3.7                       |
| Miscellaneous goods  | 4.78           | 1.7         | 2.5          | 5.0          | 5.3          | 5.6          | 4.7          | 3.2         | 2.0                               | 2.9                        |
| Transport  | 9.09           | 0.7         | -0.1         | 2.5          | 2.5          | 4.0          | 2.1          | 0.7         | 0.6                               | 1.0                        |
| Miscellaneous services                                     | 16.15          | 1.9         | 1.7          | 0.8          | 1.2          | 0.8          | -0.3         | -1.7        | -0.2                              | 1.0                        |

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

(%)

|  | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Private consumption expenditure        | -5.0        | -3.3        | -1.1        | -3.6        | -2.5        | -0.3        | 1.8         |
| Government consumption expenditure     | -0.2        | -1.8        | 1.1         | -0.5        | -2.6        | -2.9        | -1.4        |
| Gross domestic fixed capital formation | 0.5         | -1.0        | -6.6        | -9.9        | -9.4        | 2.6         | 1.0         |
| Total exports of goods                 | -3.4        | -0.3        | -2.6        | -2.9        | -1.8        | 0.9         | 0.6         |
| Imports of goods                       | -2.4        | 0.7         | -3.5        | -4.2        | -0.9        | 2.9         | 1.9         |
| Exports of services                    | -3.2        | 0.5         | -4.3        | -2.4        | -3.1        | 0.5         | 3.3         |
| Imports of services                    | -1.3        | 1.7         | -1.1        | 0.3         | 2.7         | 4.1         | 1.0         |
| <b>Gross Domestic Product</b>          | <b>-4.5</b> | <b>-3.6</b> | <b>-1.9</b> | <b>-3.5</b> | <b>-6.2</b> | <b>-3.5</b> | <b>-0.1</b> |
| Total final demand                     | -3.3        | -1.1        | -2.7        | -3.6        | -2.8        | 0.6         | 1.2         |
| Domestic demand                        | -3.1        | -2.6        | -2.3        | -4.9        | -4.2        | 0.1         | 1.2         |

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

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

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

|  | <u>2006</u> | <u>2007<sup>#</sup></u> | <u>2008<sup>#</sup></u> | <u>2008</u>     |                 |                 | <u>2009</u>     | Average annual<br><u>rate of change:</u> |   |
|--|-------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|--|---|
|  |             |                         |                         | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | 10 years<br>1998 to<br>2008 <sup>#</sup> | 5 years<br>2003 to<br>2008 <sup>#</sup> |
| Private consumption expenditure        | 1.3         | 3.7                     | 2.8                     | 5.2             | 3.3             | -1.4            | -1.0            | -0.7                                     | 1.8                                     |
| Government consumption expenditure     | 1.0         | 2.9                     | 5.2                     | 5.5             | 6.0             | 5.0             | 4.2             | *  | 0.9                                     |
| Gross domestic fixed capital formation | 4.2         | -2.5                    | 1.8                     | -0.3            | 3.0             | 0.3             | -1.5            | -2.0                                     | 1.4                                     |
| Total exports of goods                 | 0.3         | 2.2                     | 3.4                     | 3.4             | 4.4             | 3.3             | 1.8             | -0.4                                     | 1.5                                     |
| Imports of goods                       | 2.1         | 1.7                     | 4.1                     | 4.6             | 5.4             | 3.1             | -0.1            | 0.2                                      | 2.5                                     |
| Exports of services                    | 3.6         | 2.5                     | 3.0                     | 4.4             | 5.0             | -0.6            | -6.3            | *  | 2.6                                     |
| Imports of services                    | 0.8         | 2.9                     | 4.1                     | 6.2             | 5.4             | -1.1            | -4.0            | 1.5                                      | 2.6                                     |
| <b>Gross Domestic Product</b>          | <b>-0.3</b> | <b>2.9</b>              | <b>1.4</b>              | <b>1.9</b>      | <b>2.0</b>      | <b>-0.2</b>     | <b>0.5</b>      | <b>-2.0</b>                              | <b>0.1</b>                              |
| Total final demand                     | 1.2         | 2.2                     | 3.2                     | 3.9             | 4.3             | 1.7             | -0.2            | -0.5                                     | 1.7                                     |
| Domestic demand                        | 1.9         | 2.1                     | 3.0                     | 4.4             | 3.5             | -0.4            | -0.6            | -0.9                                     | 1.7                                     |

