

## Press Release

(embargoed until 4:30 p.m. on 14 August 2009)

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

According to the preliminary figures on Gross Domestic Product (GDP) for the second quarter of 2009 released today by the Government, on a seasonally adjusted quarter-to-quarter comparison, real GDP resumed growth at 3.3% in the second quarter, after contracting for four consecutive quarters. The year-on-year decline of GDP in real terms also narrowed notably from 7.8% in the first quarter to 3.8% in the second quarter.

Commenting on the rebound, the Financial Secretary, Mr John C. Tsang said, “I am glad to see the economy resuming growth in the second quarter on a quarterly basis, reversing the contraction in the preceding four quarters.”

Mr Tsang said that thanks to the strong and forceful stimulus measures by the Mainland Authorities, the Mainland economy has regained faster growth momentum, thereby benefiting the Hong Kong economy. Equally important has been the confidence exhibited by the Hong Kong people despite the tremendous shocks of the global financial tsunami, which has underpinned the relatively stable local consumption.

“I am glad that the strategy of the Government to stabilise the financial system, support enterprises and preserve employment has yielded positive results in supporting the economy and helping to slow the rise in unemployment.”

Mr Tsang added, “We are seeing encouraging signs of an economic recovery and the economy will hopefully improve further in the second half of the year. For 2009 as a whole, the forecast for the economy is now revised upward to a contraction of 3.5-4.5%.”

However, he pointed out, “As the global economy is still subject to uncertainties, we cannot afford to be complacent. While continuing with the strategy of stabilising the financial system, supporting enterprises and preserving employment, the Government will remain vigilant and make timely moves in response to the evolving external situation.”

#### **MAIN POINTS**

- \* The Hong Kong economy rebounded in the second quarter, benefiting from the faster growth of the Mainland economy and the waning of recessionary forces in the advanced economies. Following a sharp year-on-year contraction of 7.8% in the first quarter of 2009, real GDP registered a smaller decline of 3.8% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the economy resumed growth at 3.3% in the second quarter, ending the contraction

in the previous four quarters.

- \* With the external environment improving relatively, Hong Kong's total exports of goods declined notably less year-on-year in the second quarter, and actually picked up strongly from the first quarter on a seasonally adjusted basis. Indeed, Hong Kong's export performance continued to fare relatively better than many other Asian economies in the second quarter.
- \* Exports of services also showed a smaller year-on-year rate of decline in the second quarter, helped by the rebound in financial market activities and the stabilisation in the global trading environment. The spread of the human swine flu, however, weighed on inbound tourism.
- \* Local consumer sentiments recovered during the quarter under the combined effects of more stable employment conditions, rebound in asset markets and the boost from the various rounds of relief measures by the Government. The year-on-year decline in private consumption expenditure tapered significantly in the second quarter, with a distinct pick-up on a quarter-to-quarter basis. Nevertheless, business sentiments remained cautious given the still uncertain global economic outlook, leading to a further notable year-on-year decline in investment.
- \* Labour market displayed much resilience. In tandem with the relative improvement in the economy, total employment stabilised in the second quarter, thereby helping to slow the pace of increase in unemployment rate. In the second quarter, the seasonally adjusted unemployment rate was 5.4%.
- \* Following the strong policy actions taken by governments around the world, the global economy is finally taking some breather after a dismal first quarter. In Asia, with the stimulus measures successively in place, the Mainland economy regained much strength by the second quarter, thereby providing an anchor in the region. Many other Asian economies have also shown different extents of relative improvement. With the global economy gradually bottoming out and the Mainland economy back to faster growth, Hong Kong's external sector is poised for some further improvement in the second half of 2009.
- \* Locally, consumption in the coming quarters should continue to benefit from lesser job loss, low interest rates and the boost from the several rounds of Government's relief packages. Nevertheless, business sentiments, though also somewhat better than at the beginning of the year, are still cautious. In the coming quarters, private sector investment is likely to remain depressed. But public sector investment should pick up further to provide a partial offset to the slack in its private sector counterpart, reflecting the Government's pursuit of counter-cyclical strategy to mitigate the impact from the global downturn.
- \* With the stronger-than-expected rebound in the second quarter, the gradual bottoming out in the global economy, and also taking into account the boost from the Government's additional relief measures announced on 26 May, GDP for 2009 as a whole is now forecast to contract by 3.5-4.5% in real terms, up from

the forecast decline of 5.5-6.5% in the May round.

- \* While Hong Kong is seeing light at the end of the tunnel, the economic outlook remains highly uncertain. For a small open economy like Hong Kong, a sustained and solid recovery still hinges on a visible improvement in the external environment. The impact of the human swine influenza is another risk factor. Locally, asset market gyrations could occur if the global recovery process turned out to be unsteady and weaker-than-expected. Also, the strength of recovery in the domestic sector will hinge on the evolving employment and income situation. In short, the recovery path ahead can still be rather bumpy.
- \* On the price front, the underlying consumer price inflation eased to 1.2% in the second quarter, as both local and external price pressures were virtually absent in the midst of the global recession. With import prices now falling and local costs also receding, it is not unlikely that consumer price inflation may turn slightly negative in the coming months. Taking into account the actual outturn in the first half of 2009, for the year as a whole, underlying consumer price inflation is forecast at 0.9%, same as in the May round. Taking into account the effects of the relief measures announced on 26 May 2009, the headline consumer price inflation for 2009 is forecast at 0.5%, revised downward from that of 1% in the May round.

## **DETAIL**

### **GDP**

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP registered a smaller decline of 3.8% in the second quarter over a year earlier. Compared to the 7.8% contraction in the first quarter, the rebound in the Hong Kong economy in the second quarter was underpinned by the faster growth of the Mainland economy and the easing of recessionary forces in the advanced economies. On a seasonally adjusted quarter-to-quarter comparison, GDP resumed growth at 3.3% in real terms in the second quarter of 2009, ending the contraction in the previous four quarters (*Chart*).

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

### **External trade**

3. *Total exports of goods* declined by 12.4% in real terms year-on-year in the second quarter of 2009, much smaller than the 22.7% decline in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rebounded strongly by 11.6% in real terms in the second quarter of 2009. The relative improvement was most evident in exports to the Mainland market, and to a lesser extent in some other Asian markets, while the performance of the US and EU markets still lagged behind others. As compared to many other Asian economies, Hong Kong's export performance continued to fare relatively better in the second quarter.

4. *Exports of services* declined by 5.7% in real terms in the second quarter over a year earlier, likewise narrowed from the 6.3% decline in the first quarter. Exports of services had benefited from the rebound in merchandise trade, manifested mainly in the lesser declines in trade-related services and freight transportation services. Exports of financial services also staged a recovery upon the more active financial markets since March. However, the double-digit decline in visitor arrivals in May and June following the spread of human swine flu had weighed on inbound tourism, putting a drag on the overall performance in exports of services in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, exports of services recovered to a 1.2% growth in real terms in the second quarter.

### **Domestic sector**

5. Local consumer sentiments recovered during the quarter, under the support of a more stable labour market, low interest rates, rebound in asset markets and cushion rendered by the various rounds of relief measures by the Government.

*Private consumption expenditure (PCE)* rebounded strongly, by 4.0% in real terms in the second quarter over the first quarter on a seasonally adjusted basis, leading to a much lesser year-on-year decline of 1.0% than the 6.0% decline in the first quarter.

6. Business sentiments however remained cautious given the still uncertain global economic outlook. *Overall investment spending* fell markedly further by 14.0% in the second quarter over a year earlier, having decreased by 13.7% in the first quarter. Machinery and equipment investment fell notably in the second quarter. Nevertheless, the results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in June and early July indicated that large companies are still worried about the near-term business situation, but the extent of pessimism has lessened significantly further compared with the survey results obtained three months earlier. The decline in expenditure on building and construction also tapered in the second quarter, as public sector construction work staged a strong rebound upon the Government's efforts to expedite public sector projects, thereby rendering a partial offset to the distinct decline in private sector construction activity.

### **The labour sector**

7. Labour market displayed much resilience. In tandem with the relative improvement in the economy, total employment stabilised in the second quarter, thereby helping to slow the pace of increase in unemployment rate. In the second quarter, the seasonally adjusted *unemployment rate* was 5.4% and the *underemployment rate* was 2.3%. Meanwhile, earnings and wages continued to face downward pressure.

### **Prices**

8. Consumer prices remained on an easing trend in the second quarter as both local and external inflationary pressures were virtually absent in the midst of the global recession. *Underlying consumer price inflation* came down to 1.2% in the second quarter, while *headline consumer price inflation*, being pulled down by the one-off measures (mainly the electricity subsidy), went even lower to -0.1%. On the *GDP deflator*, an increase of 1.7% was recorded in the second quarter, as the more favourable terms of trade offset the decline in domestic demand deflator.

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

9. Following the strong policy actions taken by governments around the world, the global economy is finally taking some breather after a dismal first quarter. In Asia, with the stimulus measures successively in place, the Mainland economy regained much strength by the second quarter, thereby providing an anchor in the region. Many other Asian economies have also shown different extents of relative improvement. With the global economy gradually bottoming out and the Mainland economy back to faster growth, Hong Kong's external sector is poised for some further improvement in the second half of 2009.

10. Locally, consumption in the coming quarters should continue to benefit from lesser job loss, low interest rates and the boost from the several rounds of Government's relief packages. Nevertheless, business sentiments, though also somewhat better than at the beginning of the year, are still cautious. In the coming quarters, private sector investment is likely to remain depressed. But public sector investments should pick up further to provide a partial offset to the slack in its private sector counterpart, reflecting the Government's pursuit of counter-cyclical strategy to mitigate the impact from the global downturn.

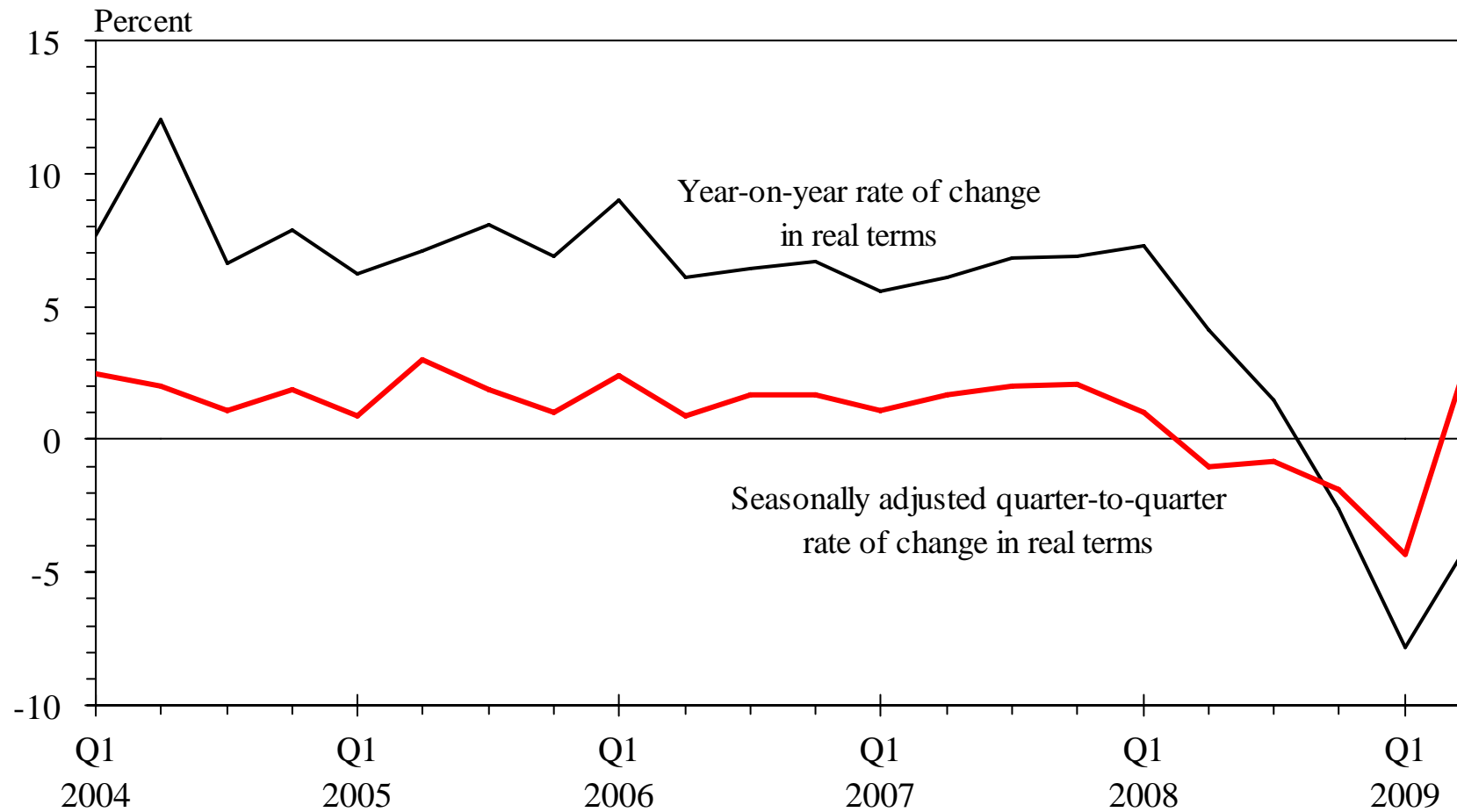
11. With the stronger-than-expected rebound in the second quarter, the gradual bottoming out in the global economy, and also taking into account the boost from the Government's additional relief measures announced on 26 May, GDP for 2009 as a whole is now forecast to contract by 3.5-4.5% in real terms, up from the forecast decline of 5.5-6.5% in the May round (*Table 2*). By comparison, most private sector analysts are currently projecting the economy to contract by 3.5-5.5%, averaging at around -4.5%.

12. While Hong Kong is seeing light at the end of the tunnel, the economic outlook remains highly uncertain. For a small open economy like Hong Kong, a sustained and solid recovery still hinges on a visible improvement in the external environment. The impact of the human swine influenza is another risk factor. Locally, asset market gyrations could occur if the global recovery process turned out to be unsteady and weaker-than-expected. Also, the strength of recovery in the domestic sector will hinge on the evolving employment and income situation. In short, the recovery path ahead can still be rather bumpy.

13. On the price outlook, with import prices now falling and local costs also receding, it is not unlikely that underlying CCPI inflation, as the benchmark indicator for the underlying trend in inflation, may turn slightly negative in the coming months. But this is all part of the global phenomenon, a manifestation of the necessary cost/price adjustments to weather the global financial tsunami and the ensuing global economic recession. Taking into account the actual outturn in the first half of 2009, for the year as a whole, *underlying consumer price inflation* is forecast at 0.9%, same as in the May round. Taking into account the effects of the relief measures announced on 26 May 2009, the *headline consumer price inflation* for 2009 is forecast at 0.5%, revised downward from that of 1% in the May round.

(The Half-yearly 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, Second Quarter 2009, which contains the GDP figures up to the second 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 \$90 and \$49 per issue respectively, plus postage charge.)

## Hong Kong's Gross Domestic Product



Note : Figures for the second 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>2008</u>           |                       |                       |                        | <u>2009</u>            |                        |
|--|--------------|--------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|
|  |              |              | <u>Q1#</u>            | <u>Q2#</u>            | <u>Q3#</u>            | <u>Q4#</u>             | <u>Q1#</u>             | <u>Q2+</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)         | -6.0<br>(-2.0)         | -1.0<br>(4.0)          |
| 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)           | 1.4<br>(-0.3)          | 1.6<br>(1.5)           |
| Gross domestic fixed capital formation                                     | 3.4          | -0.5         | 9.9                   | 5.1                   | 2.9                   | -17.8                  | -13.7                  | -14.0                  |
| <i>of which :</i>  |              |              |                       |                       |                       |                        |                        |                        |
| Building and construction  | -0.3         | 1.6          | 9.1                   | -0.1                  | -2.8                  | 0.1                    | -10.9                  | -5.9                   |
| Machinery, equipment and computer software                                 | 3.0          | -0.3         | 4.3                   | 7.4                   | 10.7                  | -21.1                  | -6.6                   | -18.0                  |
| 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)       | -12.4<br>(11.6)        |
| 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)       | -12.7<br>(10.9)        |
| 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)          | -6.3<br>(-5.6)         | -5.7<br>(1.2)          |
| 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)         | -9.6<br>(-5.5)         | -5.6<br>(1.8)          |
| <b>Gross Domestic Product</b>  | <b>6.4</b>   | <b>2.4</b>   | <b>7.3<br/>(1.0)</b>  | <b>4.1<br/>(-1.0)</b> | <b>1.5<br/>(-0.8)</b> | <b>-2.6<br/>(-1.9)</b> | <b>-7.8<br/>(-4.3)</b> | <b>-3.8<br/>(3.3)</b>  |
| <i>Change in the main price indicators (%)</i>                             |              |              |                       |                       |                       |                        |                        |                        |
| <b>GDP deflator</b>  | <b>2.9</b>   | <b>1.4</b>   | <b>2.3<br/>(-1.5)</b> | <b>1.9<br/>(0.6)</b>  | <b>2.0<br/>(0.9)</b>  | <b>-0.2<br/>(-0.2)</b> | <b>0.4<br/>(-0.8)</b>  | <b>1.7<br/>(1.9)</b>   |
| <b>Composite CPI</b>   |              |              |                       |                       |                       |                        |                        |                        |
| <b>Headline</b>  | <b>2.0</b>   | <b>4.3</b>   | <b>4.6<br/>(0.9)</b>  | <b>5.7<br/>(1.5)</b>  | <b>4.6<br/>(-0.2)</b> | <b>2.3<br/>(0.1)</b>   | <b>1.7<br/>(0.3)</b>   | <b>-0.1<br/>(-0.2)</b> |
| <b>Underlying<sup>^</sup></b>  | <b>2.8</b>   | <b>5.6</b>   | <b>4.9<br/>(2.0)</b>  | <b>5.7<br/>(1.5)</b>  | <b>6.3<br/>(1.3)</b>  | <b>5.4<br/>(0.4)</b>   | <b>3.1<br/>(-0.2)</b>  | <b>1.2<br/>(-0.3)</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>-7.4</b>            | <b>-2.2</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  
(rate of change (%))**

|  | Forecasts<br>for 2009<br>as released<br>on 15.5.2009<br>(%) | Latest<br>forecasts<br>for 2009<br>on 14.8.2009<br>(%) |
|--|---|--|
| <b>Gross Domestic Product (GDP)</b>          |   |  |
| <i>Real GDP</i>                              | -5.5 to -6.5  | -3.5 to -4.5   |
| <i>Nominal GDP</i>                           | -5.5 to -6.5  | -3.5 to -4.5   |
| <b>Composite Consumer Price Index (CCPI)</b> |   |  |
| <i>Headline CCPI</i>                         | 1   | 0.5  |
| <i>Underlying CCPI</i>                       | 0.9   | 0.9  |
| <b>GDP Deflator</b>                          | 0   | 0  |



# Half-yearly Economic Report 2009

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2009***

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

*August 2009*



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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy rebounded in the second quarter, benefiting from the faster growth of the Mainland economy and the easing of recessionary forces in the advanced economies. Following a sharp year-on-year contraction of 7.8% in the first quarter of 2009, real GDP registered a smaller decline of 3.8% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP resumed growth at 3.3% in the second quarter, ending the contraction in the previous four quarters.*
- *With the external environment showing a relative improvement, Hong Kong's merchandise trade declined notably less year-on-year in the second quarter, and actually picked up strongly from the preceding quarter on a seasonally adjusted basis. Indeed, Hong Kong's export performance continued to fare relatively better than many other Asian economies in the second quarter.*
- *Exports of services also showed a narrower year-on-year rate of decline in the second quarter, helped by the rebound in financial market activities and the stabilisation in the global trading environment. The spread of the human swine flu, however, weighed on inbound tourism in May and June.*
- *Local consumer sentiments held up firmly during the quarter, along with the rebound in asset markets and the support from the various rounds of relief measures by the Government. In consequence, the year-on-year decline in private consumption expenditure tapered significantly in the second quarter, with a distinct pick-up on a quarter-to-quarter basis. Nevertheless, business sentiments remained cautious, given the still uncertain global economic outlook, leading to a further notable decline in investment.*
- *Labour market displayed much resilience. In tandem with the relative improvement in the economy, total employment stabilised in the second quarter, thereby helping to slow the pace of increase in unemployment rate. Meanwhile, earnings and wages continued to face downward pressure.*
- *Consumer prices continued to ease as both local and external price pressures subsided further in the midst of the global economic downturn. This was similar to the developments in many other parts of the world.*

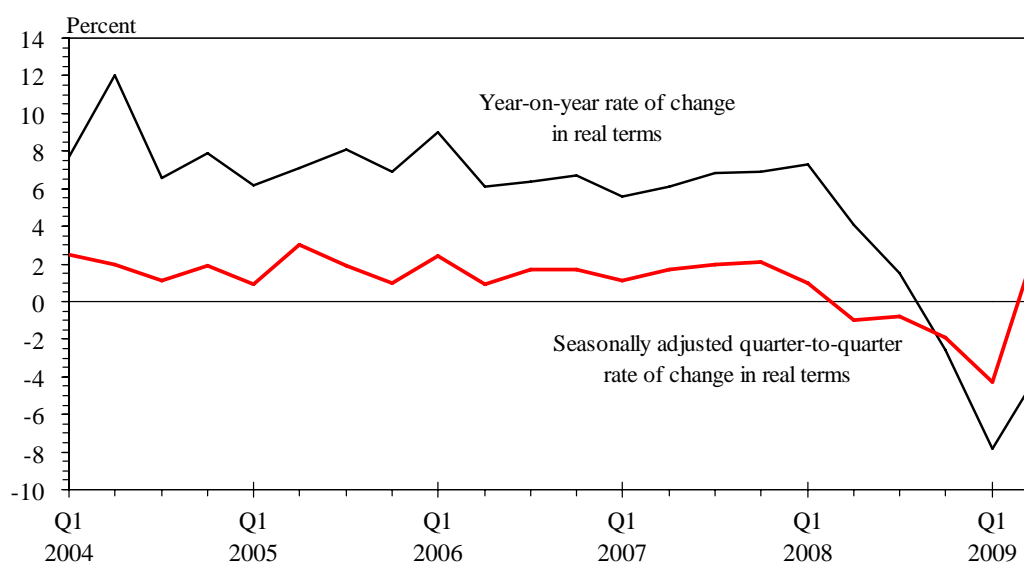


## Overall situation

1.1 After a dismal first quarter, Hong Kong's overall economic situation showed clear signs of improvements in the second quarter. On the external front, Hong Kong's exports have benefited from the relative stabilisation in the global economy, and particularly, the revival in Mainland's growth momentum. Locally, consumer sentiments were supported by a relatively stable labour market, the rebounds in the stock and housing markets, as well as the Government's relief measures. However, the spread of human swine flu had weighed heavily on inbound tourism, thereby dragging down the overall performance of exports of services. On the price front, inflation continued to come down, being part of a global phenomenon. On the whole, compared with the performance during the Asian Financial Crisis in 1997-98, the Hong Kong economy appears to be more resilient this time round, even though the current global financial crisis is of a much larger scale (see **Box 1.1** for details).

1.2 Reflecting the relative improvements both on the local and external fronts, the year-on-year decline in *Gross Domestic Product (GDP)*<sup>(1)</sup> in real terms narrowed considerably from 7.8% in the first quarter to 3.8% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP rebounded by 3.3% in real terms in the second quarter, ending the contraction in the preceding four quarters.

**Diagram 1.1 : The Hong Kong economy improved in the second quarter**



## Box 1.1

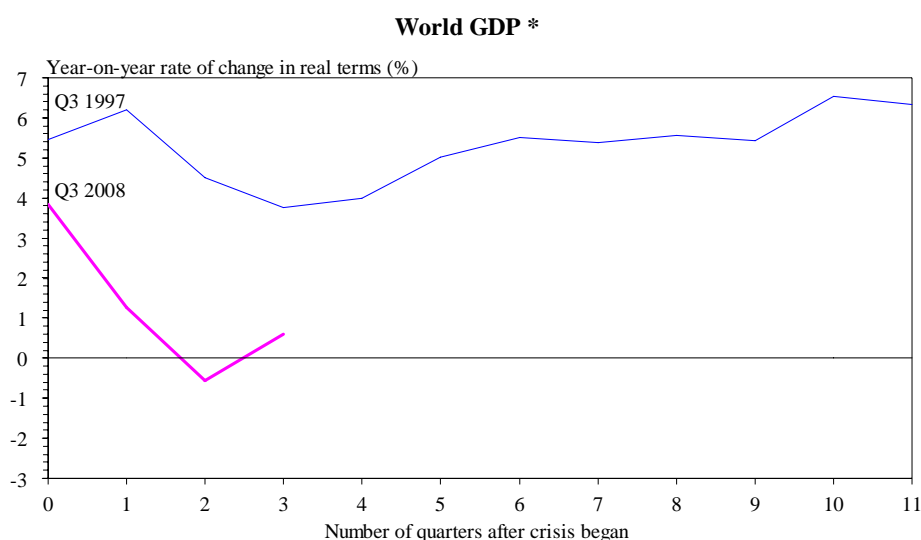
### A comparison on economic performance between the current crisis and the 1997-98 Asian Financial Crisis

Hong Kong economy has been hard hit by the global economic crisis since 2008. The four consecutive quarters of contraction starting from the second quarter of 2008 cumulated in a 7.8% contraction in the economy in the first quarter of 2009 over a year earlier. A recession of comparable length and magnitude was Hong Kong's performance during the Asian Financial Crisis (AFC) in 1997-98. This box article compares the economic performances during the two crises.

The natures of the two crises were different. The AFC was triggered by the burst of bubble in the asset prices across most of Asia and the fragile position in the balance of payments in many of the economies in the region. The negative effects were mainly confined in Asia. In the case of Hong Kong, the burst of the property market bubble during the AFC had substantially reduced the wealth of households and firms, and hence had severely affected the domestic sectors and employment. In comparison, the current crisis was due to the over-leveraging in the advanced economies, which mutated into the financial tsunami and slump in demand that led to collapse in international trade. In the case of Hong Kong, as the following paragraphs will show, the shocks this time came mainly from the external environment through trade and financial channels. The domestic sector in Hong Kong has held relatively firm in the current global financial tsunami.

The economic performance for the world as a whole during the two crises differs from each other notably. During the AFC, the world with the exception of the economies in Asia still performed well, and thus the world economy overall remained in the expansion phase even after the fall-out of the AFC. But in the current crisis, the recession was on a truly global scale spreading to economies worldwide from the advanced economies to the emerging economies. In short, the recession now faced by the global economy is the worst in 60 years, far more severe than the regional economic crisis experienced ten years ago (*Chart 1*).

**Chart 1: World economy slackened more severely during the current crisis**

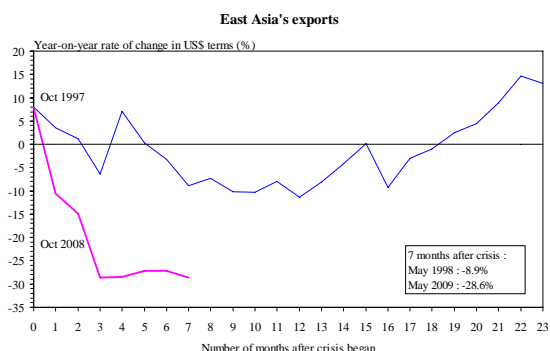


Note: (\*) The world GDP plotted here is weighed according to the shares of trading partners in Hong Kong's total exports.

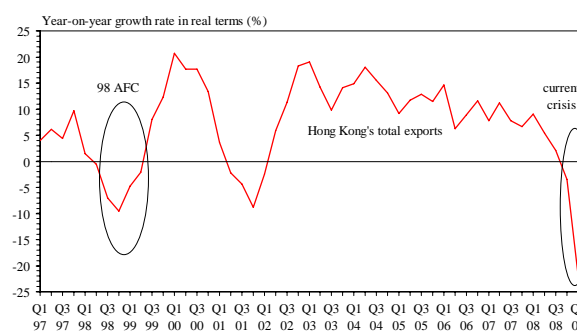
### Box 1.1 (Cont'd)

In face of the severe contraction in demand in the advanced economies, international trade contracted by a much larger degree in the current crisis. Merchandise exports of many Asian economies fell sharply by 20-40% in the early months of 2009, due to the double-whammy effect from a severe contraction in demand from the advanced economies and the ensuing collapse in intra-regional trade in Asia (*Chart 2a*). The fall in Hong Kong's merchandise exports was also more severe this time (*Chart 2b*).

**Chart 2a: Asian exports harder hit this time**



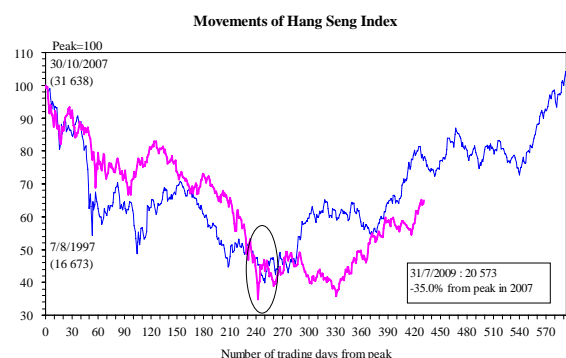
**Chart 2b: The fall in Hong Kong's exports is more severe this time**



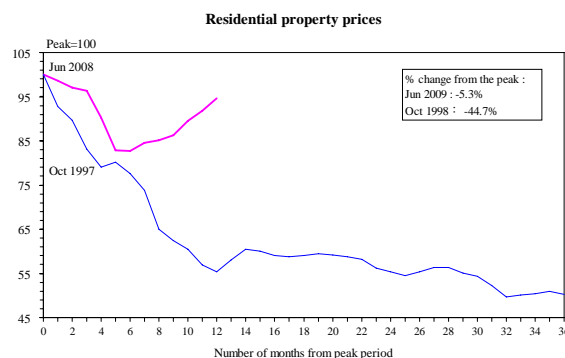
Both crises saw a sharp plunge in stock prices worldwide. For the local stock market, Hang Seng Index in mid-July 2009 was around 45% below its peak in 2007, and a similar extent of decline was seen during the AFC (*Chart 3a*). However, the performance in the domestic housing market fared much better this time, under the support of a much improved affordability. Residential prices in June 2009 were only around 5% lower its pre-crisis peak as compared to the cumulative fall of 45% in October 1998 during the AFC (*Chart 3b*). A more stable property market helped to contain the negative wealth effect. Furthermore, the monetary situation in Hong Kong was very accommodative this time round, unlike the situation during the AFC when the local currency was under speculative attack. The HIBOR stayed at a low level in the current crisis, whereas the rates spiked in several occasions during the AFC (*Chart 4a*). Credit conditions were also better this time (*Chart 4b*). These were all supportive to the domestic sector, on top of the series of relief measures introduced by the Government since last year. The discretionary relief measures amounted to some \$87.6 billion, or 5.2% of GDP. These measures taken together would raise GDP by about 2 percentage points this year alone.

**Box 1.1 (Cont'd)**

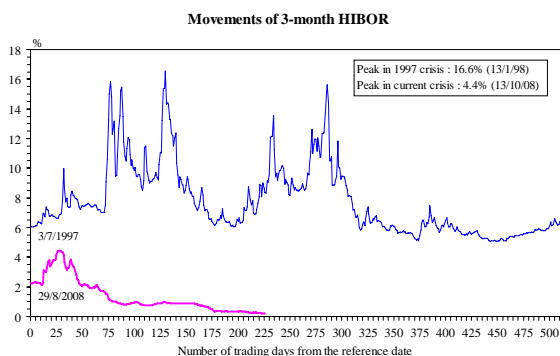
**Chart 3a: Stock market plunged during both crises**



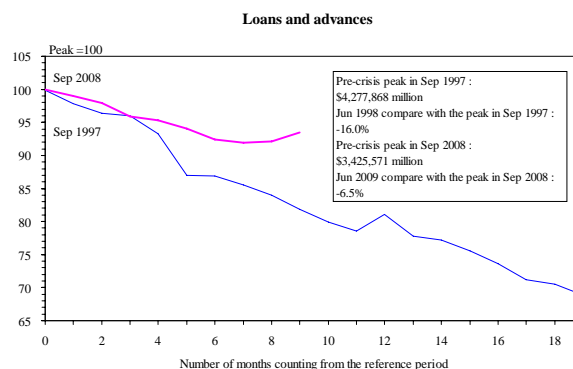
**Chart 3b: Hong Kong housing market held up better this time**



**Chart 4a: Local interest rates are much lower this time**

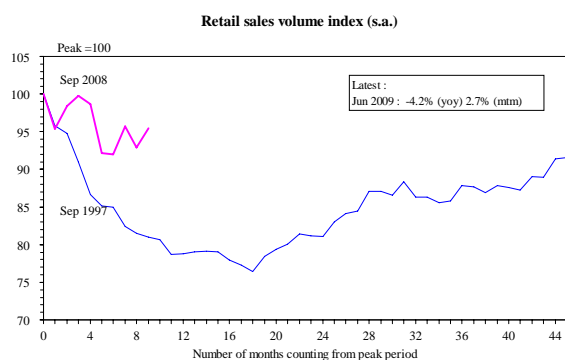


**Chart 4b: Credit conditions are also better this time**

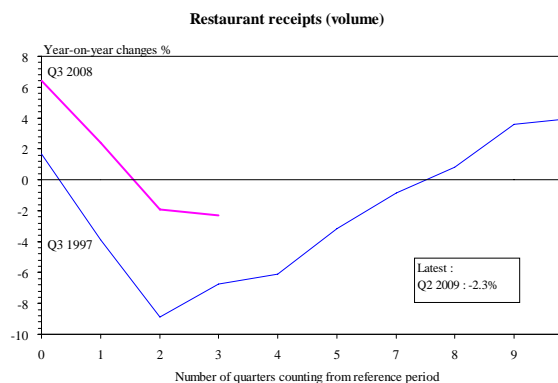


The domestic sector has performed relatively better in the current crisis. Retail sales volume fell by less than 10% from the pre-crisis peak compared with the fall of more than 20% in the similar period during the AFC (*Chart 5a*). Similar pattern was observed in the receipts of restaurants (*Chart 5b*).

**Chart 5a: Retail sales fell less in the current crisis...**



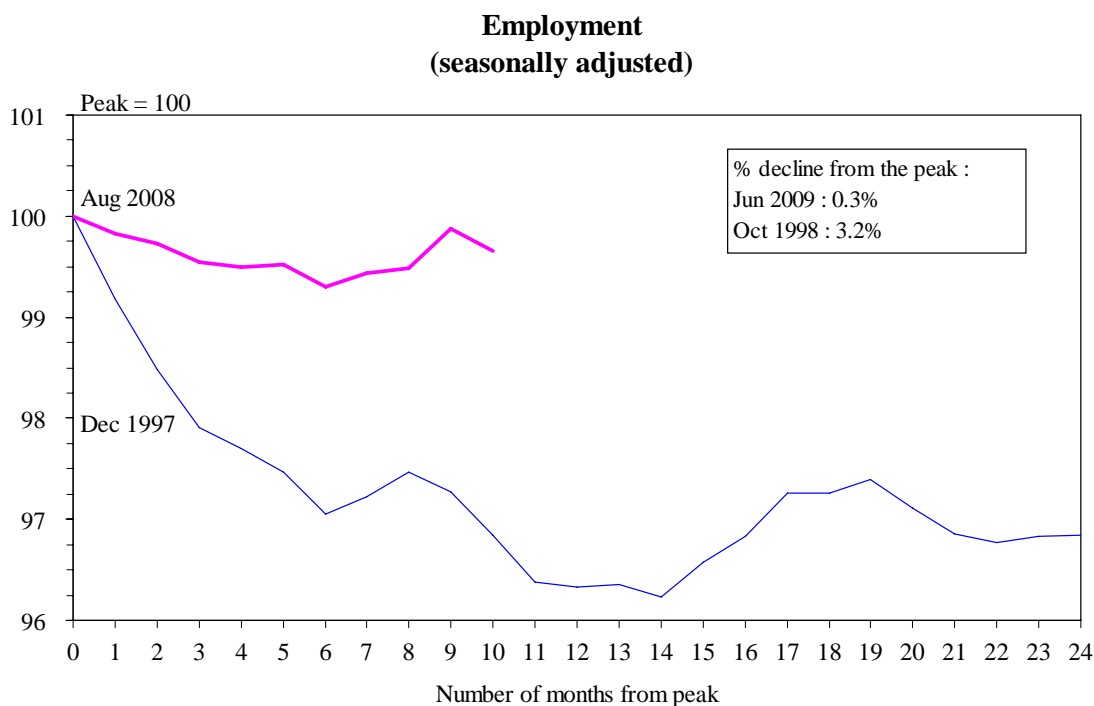
**Chart 5b: ...similar pattern was observed in the restaurant receipts**



### Box 1.1 (Cont'd)

With the more robust domestic sector, the local labour market is more resilient with less job loss this time. The seasonally adjusted employment was 0.3% lower in the three-month period ending June 2009 as compared to the pre-crisis peak ten months ago. The corresponding rate of contraction in employment during the AFC was 3.2% (*Chart 6*).

**Chart 6: Labour market more resilient with fewer job losses**



In conclusion, the Hong Kong economy has so far performed much better in the current crisis than the time during the AFC, despite the much more severe shocks from the external front this time especially in the form of collapse in international trade. While the relatively steady local property market and the Government's efforts in stimulating the economy have certainly helped, the performance underlines Hong Kong's much improved fundamentals in enduring external shocks.

1.3 The second quarter saw the global economy stabilising somewhat following the strong policy actions taken by governments around the world in restoring financial sector health and supporting aggregate demand. As a result, recessionary forces in the advanced economies lessened in the second quarter. In Asia, the Mainland economy regained much strength in the quarter, as the stimulus measures were successively in place, thereby providing an anchor in the region. Many other Asian economies also improved by varying degrees.

1.4 With the external environment taking a breather after a sharp fall in the first quarter, Hong Kong's merchandise exports staged a strong rebound in the second quarter on a seasonally adjusted quarter-to-quarter comparison. The year-on-year rate of decline also narrowed successively during the second quarter. The relative improvement was most evident in exports to the Mainland market, and to a lesser extent in some other Asian markets, while the performance of the US and EU markets still lagged behind others.

1.5 Exports of services likewise benefited from the rebound in merchandise trade, manifested mainly in the lesser declines in trade-related services and transportation services. Exports of financial services also staged a recovery upon the more active financial markets since March. However, the double-digit decline in visitor arrivals in May and June following the spread of human swine flu had weighed on inbound tourism, putting a drag on the overall performance in exports of services in the second quarter.

**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>2008</u>           |                       |                       |                        | <u>2009</u>            |                        |
|--|--------------|--------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|
|  |              |              | <u>Q1#</u>            | <u>Q2#</u>            | <u>Q3#</u>            | <u>Q4#</u>             | <u>Q1#</u>             | <u>Q2+</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)         | -6.0<br>(-2.0)         | -1.0<br>(4.0)          |
| 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)           | 1.4<br>(-0.3)          | 1.6<br>(1.5)           |
| Gross domestic fixed capital formation                                     | 3.4          | -0.5         | 9.9                   | 5.1                   | 2.9                   | -17.8                  | -13.7                  | -14.0                  |
| <i>of which :</i>  |              |              |                       |                       |                       |                        |                        |                        |
| Building and construction  | -0.3         | 1.6          | 9.1                   | -0.1                  | -2.8                  | 0.1                    | -10.9                  | -5.9                   |
| Machinery, equipment and computer software                                 | 3.0          | -0.3         | 4.3                   | 7.4                   | 10.7                  | -21.1                  | -6.6                   | -18.0                  |
| 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)       | -12.4<br>(11.6)        |
| 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)       | -12.7<br>(10.9)        |
| 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)          | -6.3<br>(-5.6)         | -5.7<br>(1.2)          |
| 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)         | -9.6<br>(-5.5)         | -5.6<br>(1.8)          |
| <b>Gross Domestic Product</b>  | <b>6.4</b>   | <b>2.4</b>   | <b>7.3<br/>(1.0)</b>  | <b>4.1<br/>(-1.0)</b> | <b>1.5<br/>(-0.8)</b> | <b>-2.6<br/>(-1.9)</b> | <b>-7.8<br/>(-4.3)</b> | <b>-3.8<br/>(3.3)</b>  |
| <i>Change in the main price indicators (%)</i>                             |              |              |                       |                       |                       |                        |                        |                        |
| <b>GDP deflator</b>  | <b>2.9</b>   | <b>1.4</b>   | <b>2.3<br/>(-1.5)</b> | <b>1.9<br/>(0.6)</b>  | <b>2.0<br/>(0.9)</b>  | <b>-0.2<br/>(-0.2)</b> | <b>0.4<br/>(-0.8)</b>  | <b>1.7<br/>(1.9)</b>   |
| <b>Composite CPI</b>   |              |              |                       |                       |                       |                        |                        |                        |
| <b>Headline</b>  | <b>2.0</b>   | <b>4.3</b>   | <b>4.6<br/>(0.9)</b>  | <b>5.7<br/>(1.5)</b>  | <b>4.6<br/>(-0.2)</b> | <b>2.3<br/>(0.1)</b>   | <b>1.7<br/>(0.3)</b>   | <b>-0.1<br/>(-0.2)</b> |
| <b>Underlying^</b>   | <b>2.8</b>   | <b>5.6</b>   | <b>4.9<br/>(2.0)</b>  | <b>5.7<br/>(1.5)</b>  | <b>6.3<br/>(1.3)</b>  | <b>5.4<br/>(0.4)</b>   | <b>3.1<br/>(-0.2)</b>  | <b>1.2<br/>(-0.3)</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>-7.4</b>            | <b>-2.2</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%.

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

1.6 The rebounds in the asset markets, coupled with the Government's relief measures announced since last year, appeared to have rendered a stabilising effect on local consumer sentiments. *Private consumption expenditure (PCE)* rebounded strongly, by 4.0% in real terms in the second quarter over the first quarter on a seasonally adjusted basis, leading to a much lesser year-on-year decline of 1.0% when compared with the first quarter. *Government consumption expenditure* continued to increase, by 1.6% year-on-year in the second quarter, reflecting the Government's pursuit of counter-cyclical policy stance in the current economic downturn.

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

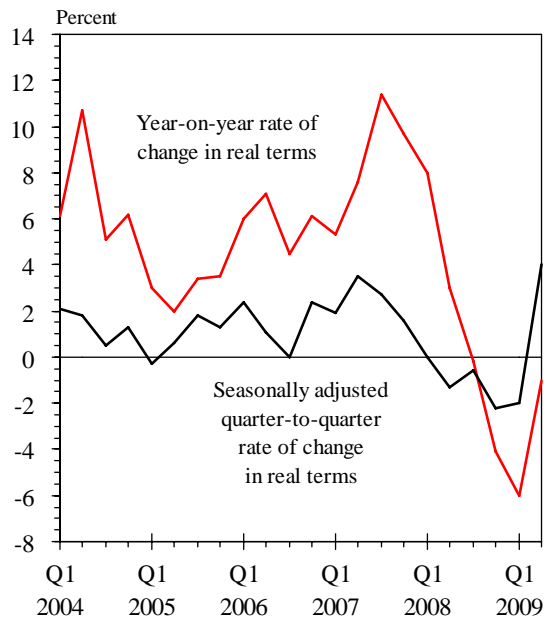
|      |        | <i>Of which :</i>   |      |          |                  |          |                                     |                     |  |
|------|--------|---|------|----------|------------------|----------|-------------------------------------|---------------------|--|
|      |        | Total<br>consumer<br>spending in<br>the domestic<br>market <sup>(a)</sup> | Food | Durables | Non-<br>durables | Services | Residents'<br>expenditure<br>abroad | Visitor<br>spending | Private<br>consumption<br>expenditure <sup>(b)</sup> |
| 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 | -5.5     | -5.7             | -3.9     | -4.1                                | 10.0                | -6.0   |
|      | Q2     | -1.9  | -2.4 | -7.8     | -5.9             | 0.4      | 7.4                                 | -2.6                | -1.0   |

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

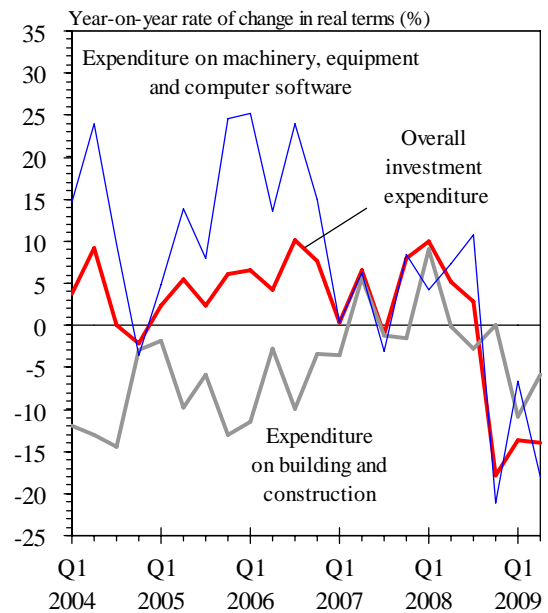
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.



**Diagram 1.2 : Private consumption improved visibly as compared to the first quarter**



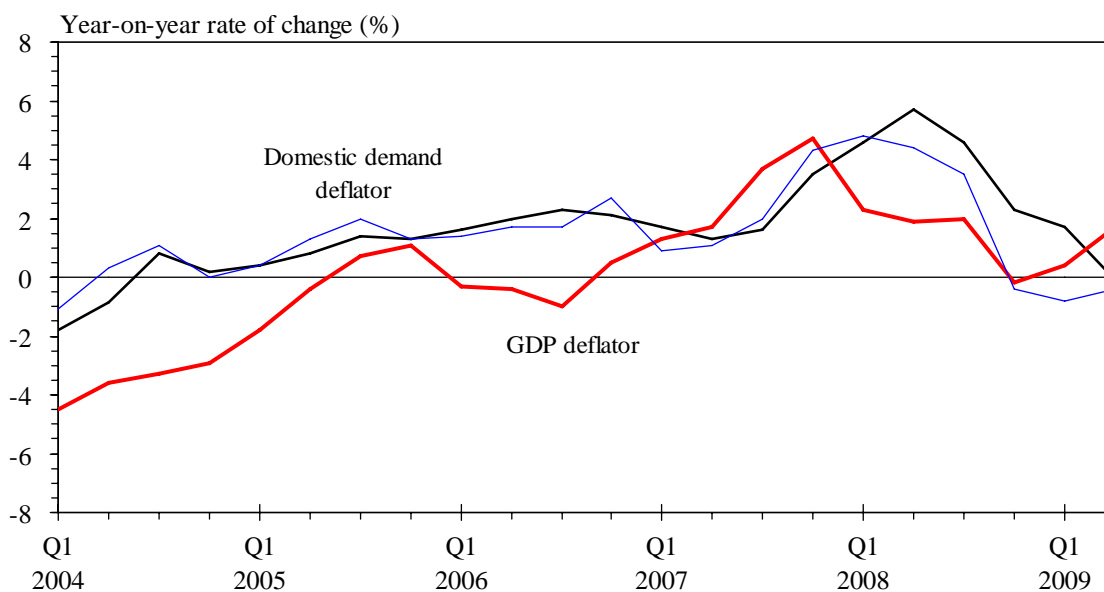
**Diagram 1.3 : Overall investment fell further as business sentiments remained cautious**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* fell markedly further by 14.0% in the second quarter over a year earlier, compared with the 13.7% decline in the first quarter. Machinery and equipment investment fell notably by 18.0% in the second quarter. The results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in June and early July indicated that large companies were still worried about the near-term business situation, but the extent of pessimism has lessened significantly further compared with the survey results obtained three months earlier. Expenditure on building and construction declined by 5.9% in the second quarter, due mainly to a notable fall in private sector construction activity. As to public sector construction work, there was a strong rebound in the second quarter, reflecting the Government's efforts to expedite public sector projects.

1.8 Consumer prices remained on an easing trend in the second quarter as both local and external inflationary pressure subsided, being part of the adjustment process in the midst of the global economic downturn. *Underlying consumer price inflation* came down to 1.2% in the second quarter, while *headline consumer price inflation*, being dragged by the one-off measures (mainly the electricity subsidy), went even lower to -0.1%. As to the *GDP deflator*, an increase of 1.7% was recorded in the second quarter, due to a more favourable terms of trade offsetting the decline in domestic demand deflator.

**Diagram 1.4 : Inflationary pressure came down further in the second quarter**



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

|  | <u>2008</u> |           |           |           |           | <u>2009</u> |
|--|-------------|-----------|-----------|-----------|-----------|-------------|
|  | <u>2008</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   |
| Manufacturing  | -6.6        | -4.4      | -4.1      | -6.7      | -10.4     | -12.2       |
| Construction   | 2.7         | 9.2       | -0.3      | -1.5      | 2.8       | -7.0        |
| Services <sup>(b)</sup>  | 2.4         | 7.1       | 4.0       | 1.7       | -2.3      | -7.2        |
| Wholesale, retail and import and export trades, restaurants and hotels | 4.1         | 9.0       | 7.2       | 4.2       | -2.1      | -15.7       |
| Import and export trade  | 4.6         | 9.7       | 8.0       | 4.9       | -1.9      | -18.4       |
| Wholesale and retail trades  | 2.9         | 9.1       | 6.0       | 2.2       | -3.6      | -10.0       |
| Restaurants and hotels   | 2.1         | 4.4       | 3.7       | 1.8       | -1.2      | -5.6        |
| Transport, storage and communications                                  | 2.2         | 7.6       | 3.9       | 2.0       | -4.3      | -8.8        |
| Transport and storage  | 1.9         | 8.3       | 3.8       | 1.5       | -5.4      | -10.8       |
| Communications   | 3.5         | 4.4       | 4.6       | 4.3       | 0.8       | 0.3         |
| Financing, insurance, real estate and business services                | 1.6         | 10.0      | 2.8       | -0.5      | -4.9      | -6.7        |
| Financing and insurance services                                       | 1.4         | 11.1      | 2.2       | -0.5      | -6.1      | -8.4        |
| Real estate and business services                                      | 2.1         | 7.9       | 3.6       | -0.1      | -2.4      | -3.3        |
| Community, social and personal services                                | 1.4         | 1.5       | 1.7       | 1.7       | 0.7       | 0.6         |

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 steep contraction of economic activity in the first quarter was spread across many economic sectors. The net output of the services sector fell by 7.2% in real terms over a year earlier. This was a sharp deterioration from the 2.3% contraction in the fourth quarter of 2008. In the first quarter, import and export trade showed the largest rate of decline in net output among various service sectors, followed by transport and storage, wholesale and retail trades, financing and insurance, restaurants and hotels, and real estate. Community, social and personal services continued to post a modest increase, nevertheless. Manufacturing output fell markedly again in the first quarter, while construction output reverted to a decline.

## **Some highlights of economic policy**

1.10 To counter the crisis, the Government continued with its strategy to maintain financial stability, support enterprises and preserve employment. In view of the worse-than-expected development in the first quarter, the Financial Secretary announced on 26 May 2009 additional relief measures worth a total of \$16.8 billion to assist the Hong Kong people and businesses to weather the financial crisis and to pave the way for an economic recovery<sup>(3)</sup>. The fiscal relief measures announced since last year amounted to some \$87.6 billion, or 5.2% of GDP. It is broadly estimated that these measures will help to raise the GDP by about 2 percentage points this year alone.

1.11 Separately, the enhanced and special loan guarantee schemes launched by the Government had been making good progress. As at end-July, a total of some \$36.5 billion worth of loans were approved under these schemes, benefiting around 11 000 firms and over 190 000 workers. These loan schemes have helped to ease the credit problems facing the small and medium-sized enterprises (See **Box 1.2** for details).

1.12 The Government has also proactively stepped up efforts to foster the longer-term growth and development of the economy. Following the final meeting of the Task Force on Economic Challenges on 22 June 2009, the Government gave full support to the Task Force's recommendations of adopting targeted policy and measures to help develop the six knowledge-based industries<sup>(4)</sup> which are considered of good potential and have a competitive edge.

## Box 1.2

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

Last September's global financial turbulence has led to a severe 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 1.2 in the First Quarter Economic Report 2009.

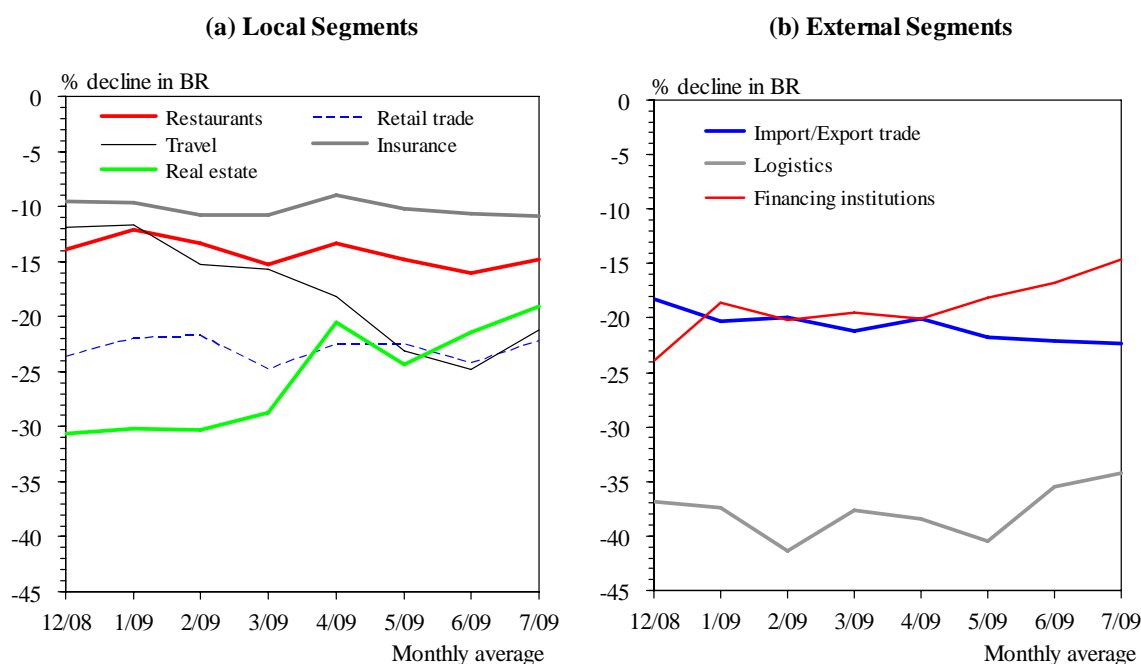
The results of the weekly consultation available up to July 2009 indicated that many SMEs continued to feel that their business situation was significantly hit by the financial tsunami and the ensuing economic downturn (*Table 1*). Analysed by sectors, those related to local demand tended to fare relatively better than those more related to the external demand. Specifically, business situation in travel agents deteriorated further on entering May, reflecting the dampening effect of human swine flu on tourism. Probably for the same reason, business sentiments in the restaurants and retail trade also weakened somewhat in May and June, but showed some relative improvement lately. On the other hand, business situation in real estate improved visibly in tandem with the rebound in the local property market (*Chart 1a*). Business situation for SMEs in financing institutions and logistics also saw some relative improvement more recently, this tallied with the rebounds in global stock markets and the stabilisation in the external trading environment. However, SMEs in the import/export trade had yet to report more discernible improvement (*Chart 1b*). It should be noted that given the coverage and nature of the consultation exercise, the consultation findings should be interpreted with considerable caution. They nevertheless can serve as rough indicator to enable high frequency monitoring of SMEs' situation.

On the employment front, the results of the consultation indicated that SMEs' employment situation weakened slightly on entering June, having stabilised in March to May. Among the various sectors, employment in real estate and construction, logistics, financing institutions and business services remained more severely hit than the others (*Table 2*).

(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)**



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

% decline as compared with normal situation (Monthly average)

| <u>SMEs by sectors</u>       | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Wholesale trade              | -16.3      | -8.3       | -9.3       | -16.2      | -18.7      | -19.4      | -15.2      | -15.4      |
| Retail trade                 | -23.6      | -22.0      | -21.8      | -24.8      | -22.5      | -22.6      | -24.2      | -22.2      |
| Import and export trade      | -18.2      | -20.3      | -20.0      | -21.2      | -20.1      | -21.7      | -22.2      | -22.3      |
| Restaurants                  | -13.9      | -12.1      | -13.4      | -15.3      | -13.4      | -14.8      | -16.1      | -14.8      |
| Logistics                    | -36.9      | -37.4      | -41.4      | -37.7      | -38.5      | -40.5      | -35.5      | -34.2      |
| Travel agents                | -11.9      | -11.7      | -15.3      | -15.8      | -18.2      | -23.1      | -24.8      | -21.2      |
| Financing institutions       | -23.9      | -18.6      | -20.2      | -19.5      | -20.1      | -18.1      | -16.8      | -14.6      |
| Insurance agents and brokers | -9.6       | -9.7       | -10.8      | -10.8      | -9.0       | -10.2      | -10.7      | -10.9      |
| Real estate and construction | -30.7      | -30.2      | -30.3      | -28.7      | -20.5      | -24.3      | -21.5      | -19.1      |
| Business services            | -9.0       | -10.6      | -14.2      | -14.8      | -15.1      | -15.0      | -13.7      | -11.9      |
| All the above sectors        | -18.3      | -19.3      | -19.4      | -20.9      | -20.0      | -21.5      | -21.5      | -21.4      |

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>% change as compared with normal situation (Monthly average)</u> |            |            |            |            |            |            |            |
|------------------------------|---|------------|------------|------------|------------|------------|------------|------------|
| <u>SMEs by sectors</u>       | <u>Dec</u>  | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> |
| Wholesale trade              | 0.0   | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | -0.3       |
| Retail trade                 | -0.5  | -0.5       | -0.6       | -0.4       | -0.2       | -0.2       | -0.4       | -0.5       |
| Import and export trade      | -1.1  | -0.9       | -1.0       | -0.6       | -0.9       | -1.2       | -1.4       | -1.4       |
| Restaurants                  | -3.1  | -3.2       | -3.7       | -2.6       | -1.7       | -1.2       | -1.8       | -2.0       |
| Logistics                    | -6.5  | -3.7       | -3.0       | -3.2       | -3.4       | -3.3       | -4.8       | -5.8       |
| Travel agents                | 0.2   | -0.1       | 0.1        | 0.2        | 0.2        | 0.2        | 0.4        | 0.3        |
| Financing institutions       | -0.9  | -0.7       | -1.4       | -1.6       | -2.3       | -3.9       | -3.7       | -3.0       |
| Insurance agents and brokers | 0.0   | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.1        | 0.9        |
| Real estate and construction | -7.3  | -8.2       | -8.0       | -8.0       | -8.0       | -8.4       | -9.9       | -9.1       |
| Business services            | -3.0  | -3.0       | -3.7       | -3.8       | -3.8       | -4.1       | -3.4       | -2.6       |
| All the above sectors        | -1.8  | -1.6       | -1.8       | -1.5       | -1.5       | -1.6       | -1.8       | -1.8       |

Credit access situation continued to improve. The proportion of SMEs reporting tighter-than-normal credit access went down to around 7% in recent weeks from above 12% in late November last year (*Table 3* and *Chart 2*). Moreover, supplementary information provided by SMEs surveyed indicated that credit pricing had also eased notably over the past few months. Amongst the sectors covered in the consultation, SMEs in restaurants, retail trade, wholesale trade, logistics and financing institutions saw more discernible improvements. This encouraging development, in some measure, reflected the effectiveness of the Government's efforts to help to ease credit strains facing SMEs, especially those under the enhanced and special loan guarantee schemes. As at end-July, some 11 000 firms have benefited under these schemes, involving approved loan amount of over 36.5 billion. Nevertheless, SMEs in some harder-hit sectors, especially import/export trade, continued to face tighter access to credit than other sectors.

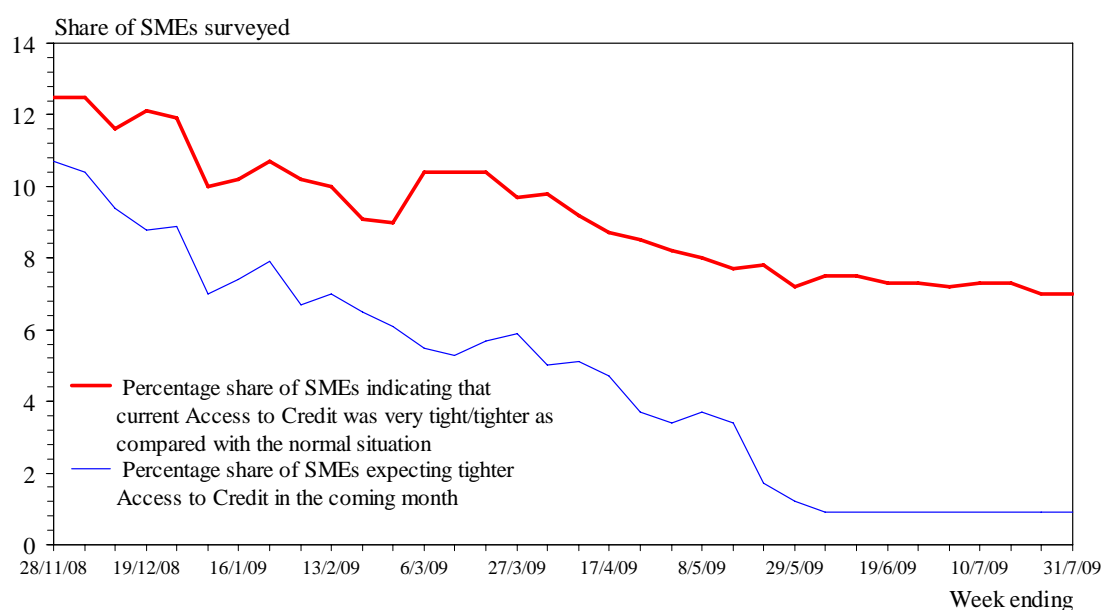
**Box 1.2 (Cont'd)**

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

| <u>SMEs by sectors</u>       | <u>% SMEs reporting very tight/tighter credit access</u> |            |            |            |            |            |            |            |            |
|------------------------------|--|------------|------------|------------|------------|------------|------------|------------|------------|
|                              | <u>Nov</u>   | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> |
| Wholesale trade              | 12.0   | 10.0       | 5.3        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| Retail trade                 | 10.0   | 8.8        | 6.5        | 6.6        | 4.6        | 3.5        | 3.5        | 2.7        | 1.8        |
| Import and export trade      | 17.1   | 17.0       | 15.7       | 14.0       | 14.5       | 13.7       | 11.3       | 12.1       | 12.1       |
| Restaurants                  | 19.0   | 10.7       | 11.8       | 11.8       | 8.6        | 7.1        | 5.5        | 5.2        | 5.4        |
| Logistics                    | 0.0  | 11.8       | 17.6       | 12.5       | 26.3       | 16.7       | 11.1       | 10.5       | 10.5       |
| Travel agents                | 3.3  | 3.8        | 3.7        | 3.6        | 3.7        | 3.7        | 3.6        | 3.3        | 3.3        |
| Financing institutions       | 12.5   | 10.8       | 7.9        | 7.7        | 8.3        | 7.9        | 7.7        | 7.7        | 2.6        |
| Insurance agents and brokers | 15.0   | 10.0       | 5.6        | 10.0       | 10.5       | 10.0       | 10.0       | 10.0       | 5.3        |
| Real estate and construction | 11.4   | 5.9        | 5.7        | 6.1        | 8.8        | 8.8        | 8.8        | 8.8        | 8.8        |
| Business services            | 5.7  | 6.1        | 0.0        | 0.0        | 2.9        | 3.1        | 2.9        | 3.0        | 3.0        |
| All the above sectors        | 12.5   | 11.9       | 10.2       | 9.0        | 9.7        | 8.5        | 7.2        | 7.3        | 7.0        |

**Chart 2: Access to credit showed some gradual improvement**

**Impact on Access to Credit**





1.13 On 9 May 2009, the Supplement VI to the Closer Economic Partnership Arrangement was signed. The new supplement contains 29 liberalisation measures covering 20 service sectors, including the two new sectors of research and development, and rail transport, and also covers enhancement in financial co-operation and progress in mutual recognition of professional qualifications between the two places. The supplement will take effect from 1 October 2009. This signified Hong Kong's closer integration with the Mainland, bringing further business opportunities to, as well as raising the competitiveness of, the Hong Kong economy.

1.14 Following the signing of the supplementary of Memorandum of Co-operation between the People's Bank of China and the Hong Kong Monetary Authority on 29 June 2009 to prepare for the implementation of the pilot scheme for the use of renminbi in settling cross-border trade transactions between the Mainland and Hong Kong, the relevant Mainland authorities promulgated on 2 July 2009 the Administrative Rules for the Pilot Scheme for Settlement of Cross-border Trade in Renminbi<sup>(5)</sup>. The scheme came into operation in early July. This marked another important milestone of further financial and economic integration between Hong Kong and the Mainland.

1.15 In sum, the Government will remain on guard for the risks posed by the financial tsunami and will continue to tackle the current crisis through the strategy of "stabilise the monetary sector, support enterprises and preserve employment", while not losing sight of the longer term needs of the economy for sustainable growth and development. As the large-scale infrastructure works progressively commence work and gather momentum in the coming one to two years, they should add strength to the economic recovery process and more importantly, the massive infrastructure programme is part of the Government's strategic plan to expand Hong Kong's productive capacity and hence long-term competitiveness. As always, the Government sees China as our key strength, and will continue to leverage on the rise of the Mainland economy, whilst at the same time, also striving to uphold Hong Kong's institutional strengths, raise the quality of human capital, consolidate the existing pillar industries, develop new growth engines and explore emerging markets.

## 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 new round of relief package includes the further enhancements to the loan guarantee schemes and a range of fiscal measures. The more notable ones are as follows:-
  - (a) *small and medium enterprises*, in general, can apply for maximum loans of \$12 million (for which Government provides a 80% guarantee) and enjoy maximum business registration fee and rates waiver of \$8,000. For those involved in export trade, the ceiling of “small credit limit” applications set by ECIC will be increased from \$500,000 or below to \$1 million or below;
  - (b) *individual sectors affected by the financial tsunami and the human swine flu* will be exempted the relevant licence fees; and
  - (c) *among members of the public*, the lower income group and the middle class will benefit from the full year rates waiver; some 700 000 public rental housing tenants will not need to pay rent for two months; parents of some 570 000 students will receive \$1,000 financial assistance. The middle class will also enjoy maximum tax relief of \$8,000. Some 1.1 million people will receive one additional month of the standard rate of Comprehensive Social Security Assistance payment, Old Age Allowance and Disability Allowance as appropriate.
- (4) 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.
- (5) These were the developments following the State Council’s decision on 8 April 2009 to introduce a pilot scheme for using renminbi for cross-border trade settlement in Shanghai and the four cities in the Guangdong Province, namely Guangzhou, Shenzhen, Zhuhai and Dongguan.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *With the Mainland economy regaining strength and increasing signs of green shoots emerging in the global economy, the external environment stabilised somewhat on entering the second quarter. Hong Kong's external trade likewise benefited and staged a relative improvement in the second quarter.*
- *Although merchandise exports remained on a double-digit year-on-year decline in the second quarter, there was a strong rebound over the first quarter on a seasonally adjusted basis. This was mainly contributed by a significant relative improvement in exports to the Mainland during the quarter. Exports to many overseas markets remained lacklustre amid the still depressed demand there. In the second quarter, Hong Kong's export performance continued to fare relatively better than many other Asian economies.*
- *The fall in exports of services likewise tapered in the second quarter. Exports of financial services improved relatively amid the rebounds in stock markets worldwide and increased fund-raising activity. Exports of trade-related services and transportation services fared slightly better in the second quarter, thanks again to the relative stabilisation in the external environment. However, exports of travel services reverted to a decline, as the wider spread of human swine flu put a drag on inbound tourism.*
- *Hong Kong's economic integration with the Mainland continued to proceed well. Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in May 2009. The further liberalisation measures will expand the market access and business opportunities of Hong Kong companies.*
- *Separately, the pilot program for the usage of the renminbi for cross-border trade settlements in Hong Kong and five other Mainland cities came into operation in July. The program will allow Hong Kong traders to enjoy greater flexibility in their operation, expand the scope of renminbi business for Hong Kong banks, and enhance the capability of Hong Kong as an offshore centre for renminbi.*

## Visible trade

### *Total exports of goods*

2.1 The external trading environment took a breather in the second quarter, as the global economy showed signs of stabilisation after a sharp contraction in the first quarter. Of particular note was the Mainland economy which, with boost from the massive stimulus package, had regained much strength by the second quarter. Against this backdrop, the year-on-year decline in merchandise exports (comprising re-exports and domestic exports) tapered distinctly to 10.8% in real terms<sup>(1)</sup> in the second quarter of 2009, much improved from the marked fall of 22.2% in the preceding quarter. On a seasonally adjusted basis, merchandise exports rebounded strongly, by 13.0% in the second quarter over the first quarter, following three consecutive quarters of decline.

2.2 Although the global economy displayed some “green shoots” in the second quarter following strong policy actions taken by governments to restore financial sector health and support aggregate demand, such stabilisation was rather uneven across regions. Indeed, the underlying conditions in many advanced economies had yet to show fundamental improvement<sup>(2)</sup>. Asian economies, being export-dependent, remained under the drag from the depressed demand in many advanced economies. Yet Hong Kong’s export performance continued to fare relatively better than many other Asian economies in the second quarter, thanks to the close ties with the Mainland.

2.3 *Re-exports*<sup>(3)</sup> remained the mainstay of merchandise exports in the second quarter of 2009, accounting for 97.7% by value. In the second quarter, re-exports fell by 9.9% in real terms over a year earlier, moderated notably from the decline of 21.4% in the first quarter. On the other hand, *domestic exports*, which only constitute a small share of total exports, continued to slump, by 37.0% in the second quarter, after falling by 43.3% in the first quarter. On a seasonally adjusted basis, re-exports rose by 13.4% in real terms in the second quarter over the first quarter, while domestic exports declined slightly by 1.9%.

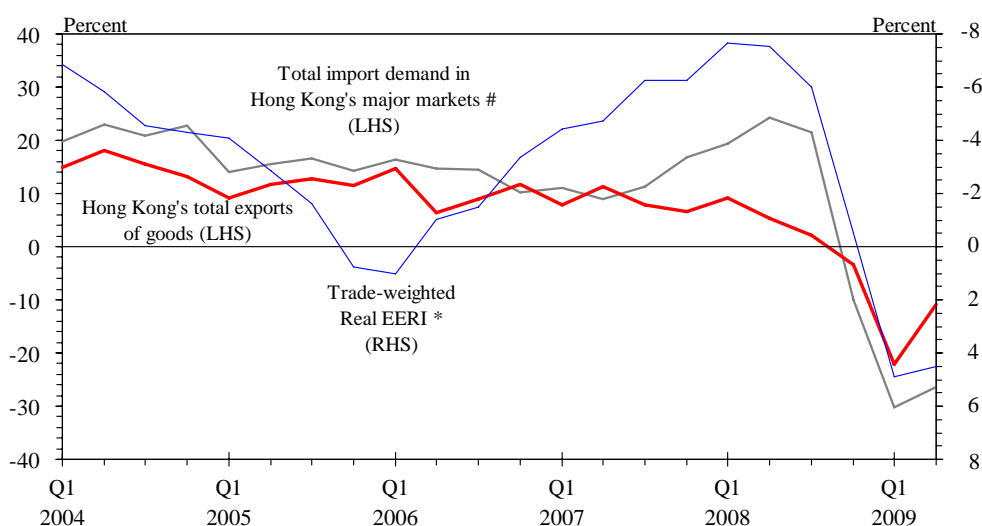
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

|             | <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                     |       |         |     |
| H1          | 9.1                           | 7.1                  | 3.3                     | 9.8                   | 8.0                  | 3.3                     | -7.8                    | -13.3                | 4.2                     |       |         |     |
| H2          | 1.7                           | -0.7                 | 4.4                     | 2.8                   | 0.5                  | 4.3                     | -24.4                   | -29.4                | 6.3                     |       |         |     |
| 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 H1     | -17.2                         | -16.3                |                         | 1.6                   | -16.3                | -15.5                   |                         | 1.6                  | -41.9                   | -40.1 |         | 1.2 |
| 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 |
| Q2          | -12.9                         | -10.8                | (13.0)                  | 0.8                   | -12.0                | -9.9                    | (13.4)                  | 0.8                  | -39.6                   | -37.0 | (-1.9)  | *   |

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

(\*) Change of less than 0.05%.

**Diagram 2.1 : Merchandise exports posted a much smaller year-on-year decline in the second quarter of 2009  
(year-on-year rate of change)**

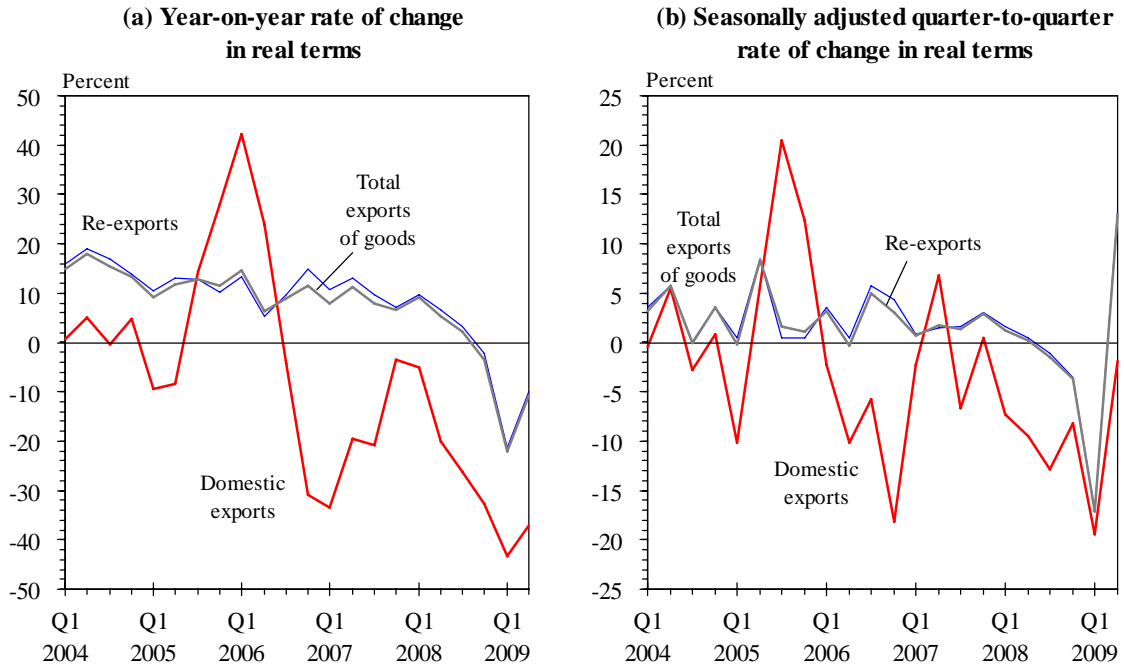


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

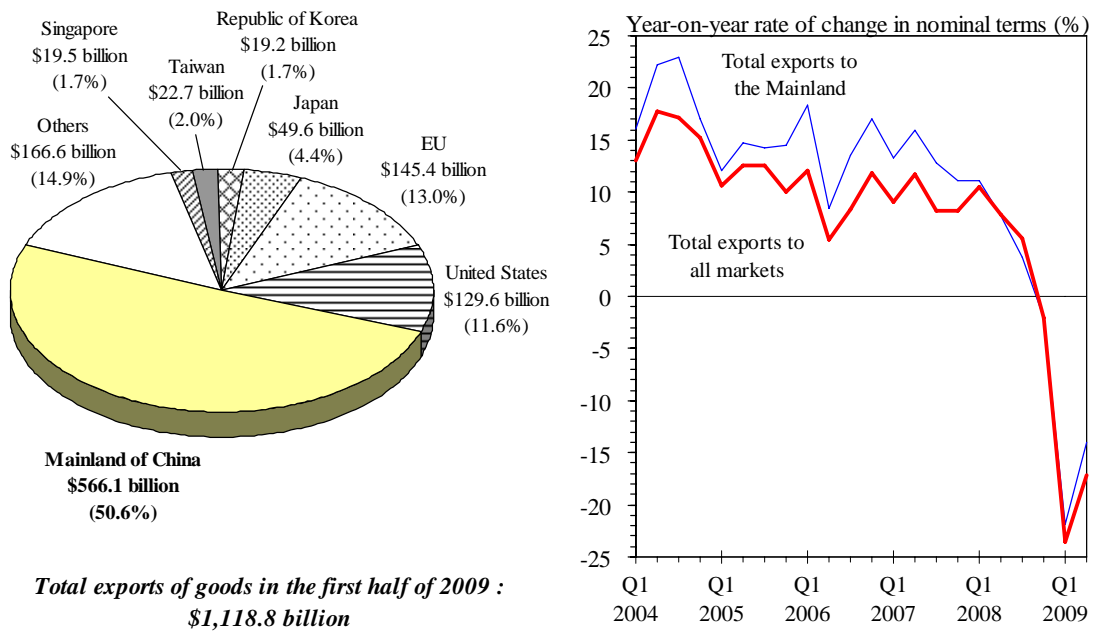
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the second quarter of 2009 is based on statistics for April and May 2009.

**Diagram 2.2 : Both re-exports and domestic exports saw some relative improvement**



**Diagram 2.3 : Exports to the Mainland, Hong Kong's largest market, benefited from the pick-up in industrial activity and improvement in export orders there**



**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              |
|      | H1     | 10.3                         | -6.6                     | 3.0                       | -3.7         | -1.6                         | 1.2           | 17.7             |
|      | H2     | 2.1                          | -10.0                    | -2.2                      | -1.1         | -14.5                        | -4.2          | -3.9             |
|      | 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 | H1     | -10.3                        | -23.0                    | -22.3                     | -18.7        | -26.3                        | -18.1         | -32.6            |
|      | Q1     | -20.2                        | -24.6                    | -22.1                     | -17.8        | -31.9                        | -27.4         | -37.0            |
|      | Q2     | -1.3                         | -21.6                    | -22.6                     | -19.6        | -20.8                        | -9.6          | -27.9            |

2.4 Analysed by major markets, merchandise exports to the Mainland showed the most significant relative improvement in the second quarter. Hong Kong's exports to the Mainland, comprising mainly raw materials and capital goods, had benefited from the pick-up in industrial activity and improvement in export orders there. Exports to Taiwan also recorded much smaller year-on-year decline in the second quarter. Indeed, for exports to some other Asian markets, the pace of decline slowed in a greater measure in June, lending further support to the view that the worst may have been over as far as the economic situation in Asia is concerned.

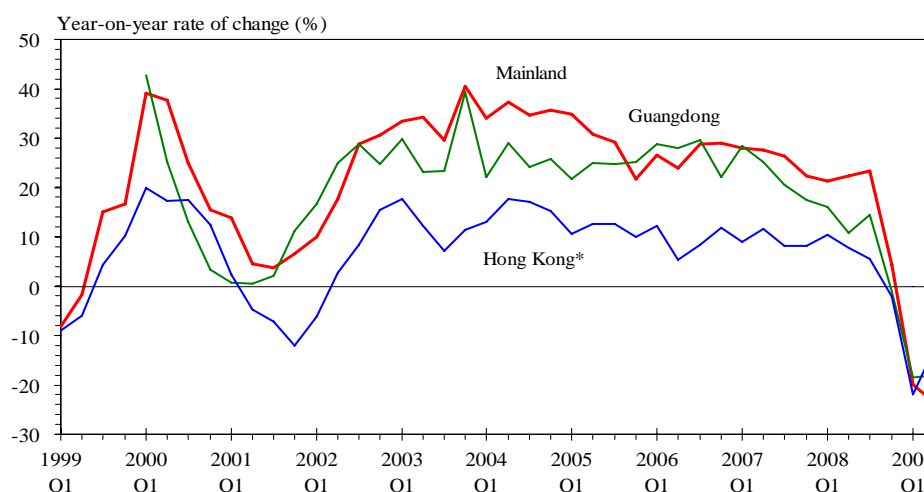
2.5 In contrast, improved economic sentiments in the advanced economies had yet to translate into a revival in import demand. In fact, the stabilisation was rather uneven across regions, with the European economies lagging behind the United States and Japan. Exports to the European Union and the United States continued to fall in the second quarter, at steeper rates than those to Japan.

## Box 2.1

### Merchandise trade performance in Hong Kong, the Guangdong province and the Mainland as a whole

External trade in the Guangdong province or the Mainland as a whole had been vibrant during the past 10 years, with the values of merchandise exports growing by 18.2% and 22.8% per annum respectively, as compared to Hong Kong's per annum increase of 7.7% over the same period. Nevertheless, the performances of such exports all reverted to decline towards the latter end of 2008 and plunged in the beginning months of this year, despite some narrower decline in Hong Kong's exports of goods, particularly so in June, as compared to those in the Guangdong province or the Mainland as a whole in the months of the second quarter (*Chart 1*). This article intends to illustrate the dynamics between the export performances of Hong Kong, Guangdong and the Mainland as a whole.

**Chart 1: Merchandise exports performance of Hong Kong, Guangdong and the Mainland as a whole**



Note: (\*) Hong Kong's merchandise exports refer to total exports of goods.

Hong Kong's total exports of goods saw some relative improvement in the second quarter of 2009, posting a narrower year-on-year rate of decline of 12.9% in value terms as compared to the 21.9% decline in the first quarter (*Table 1*). Exports to some of the major trading partners improved more discernibly, particularly those to the Mainland, with a notably smaller rate of decline of 5.3% in the second quarter as compared to the 23.5% drop in the first quarter (*Table 3*). Thanks to the Mainland's massive fiscal stimulus packages and its accommodative monetary policy, the Mainland's domestic sector held up relatively solid, with the industrial and investment activities picking up in the more recent months. These have provided some support to Hong Kong's total exports. Meanwhile, Hong Kong's exports to some other Asian economies also showed slower rates of decline by varying extents as some short and quick orders returned.

The analysis by the end-use category of Hong Kong's total exports to the Mainland also sheds some light on the relative improvement in the export performance of Hong Kong in recent months. Exports of raw materials and capital goods, which constituted more than 88% of Hong Kong's total exports of goods to the Mainland in 2008, improved notably in the second quarter and even posted a year-on-year increase of 7.3% and 19.6% respectively in June (*Table 4*). This is in line with the Mainland's economic developments mentioned in the previous paragraph.



**Box 2.1 (Cont'd)**

As for the export activities in the Mainland, they remained sluggish well into the second quarter. In fact, merchandise exports to the major trading partners from Guangdong or the Mainland as a whole plummeted further in the second quarter (*Table 3*). Also, the latest round of hike in export tax rebate to be effective from 1 June 2009 could possibly motivate exporters to put on hold their exports originally scheduled in April and May, and to dispatch only after June so as to capture the new tax benefits. Considering this and the recent pick-up in industrial activities in the Mainland, it is likely to see some improvement in the Mainland and Guangdong's exports in the coming few months, as was observed in the narrower rate of decline in June 2009.

On the flow of merchandise goods by water in particular, Shenzhen's container throughput (as measured by the number of TEUs) expanded visibly in the last decade, with a 10-year average growth rate of 27.1% per annum, as compared to Hong Kong's 5.3% trend growth during the same period. Yet, similar to the development in export performances, Hong Kong's container throughput showed some relative improvement in the second quarter, and fell by a slightly lesser degree than the ports in Shenzhen in the aftermath of the financial tsunami (*Table 2*). This underlines the competitiveness of Hong Kong's port sector in the region amid the global recession, and Hong Kong's resilience of being a regional hub of logistics.

In conclusion, a sustainable recovery in Hong Kong's external trade will hinge much on whether there will be a fundamental improvement in the external environment, which will need several more months of data to confirm. Nevertheless, in the months ahead, the external trade of Guangdong and the Mainland as a whole should see some pick-up in momentum given the improvement in the Mainland's industrial production lately, the return to the expansionary zone of the Purchasing Managers' Index on export orders and the implementation of export tax rebate.

**Table 1: Hong Kong, Mainland and Guangdong's export performance**  
(year-on-year rate of change in value terms (%))

|         | Hong Kong | Mainland | Guangdong |
|---------|-----------|----------|-----------|
| 2009 Q1 | -21.9     | -19.8    | -18.4     |
| Q2      | -12.9     | -23.5    | -18.6     |
| Apr     | -18.2     | -22.8    | -16.1     |
| May     | -14.5     | -26.5    | -21.2     |
| Jun     | -5.4      | -21.4    | -18.0     |

**Table 2: Hong Kong and Shenzhen's container throughput**  
(year-on-year rate of change (%))

|                      | Hong Kong | Shenzhen |
|----------------------|-----------|----------|
| 1998-2008 (10 years) | 5.3       | 27.1     |
| 2008                 | 2.1       | 1.5      |
| 2008 Q3              | 7.4       | 3.5      |
| Q4                   | -7.6      | -10.0    |
| 2009 Q1              | -19.6     | -20.9    |
| Q2                   | -15.2#    | -20.4    |

Note: (#) Provisional figures.

**Box 2.1 (Cont'd)****Table 3: Hong Kong, Mainland and Guangdong's exports by major market  
(year-on-year rate of change in value terms(%))**

|         | Hong Kong |       |       |       | Mainland |       |       |       | Guangdong |        |        |       |
|---------|-----------|-------|-------|-------|----------|-------|-------|-------|-----------|--------|--------|-------|
|         | Mainland  | US    | EU    | Japan | HK       | US    | EU    | Japan | HK        | US     | EU     | Japan |
| 2008    | 4.7       | -2.4  | 6.2   | 1.2   | 3.4      | 8.4   | 19.5  | 13.8  | 3.0       | 4.5    | 18.1   | 11.3  |
| 2008 Q1 | 11.1      | -1.0  | 8.4   | -1.9  | 10.0     | 5.4   | 24.2  | 12.2  | 8.3       | 4.8    | 32.6   | 11.5  |
| Q2      | 7.7       | -1.5  | 8.0   | -0.6  | 6.4      | 12.1  | 29.6  | 17.7  | 7.3       | 6.3    | 23.9   | 10.8  |
| Q3      | 3.8       | 0.5   | 9.9   | 3.5   | 10.8     | 15.3  | 23.4  | 17.9  | 10.4      | 11.8   | 21.8   | 12.2  |
| Q4      | -2.0      | -7.5  | -0.6  | 3.7   | -10.9    | 0.7   | 3.9   | 7.8   | -11.1     | -4.6   | 1.2    | 10.5  |
| 2009 Q1 | -23.5     | -20.9 | -18.1 | -13.3 | -24.6    | -14.9 | -22.1 | -16.2 | -24.4     | -15.5  | -21.5  | -16.9 |
| Q2      | -5.3      | -21.5 | -21.4 | -17.7 | -21.7    | -18.6 | -26.6 | -23.8 | -23.2*    | -14.9* | -22.3* | N.A.  |
| Apr     | -12.5     | -24.7 | -24.6 | -19.0 | -21.4    | -17.7 | -27.6 | -23.5 | -20.7     | -12.3  | -22.9  | -19.2 |
| May     | -10.8     | -15.7 | -21.0 | -20.9 | -25.6    | -21.2 | -29.2 | -26.0 | -28.0     | -16.9  | -24.8  | -18.8 |
| Jun     | 9.3       | -23.7 | -19.1 | -13.0 | -17.9    | -16.6 | -23.0 | -21.7 | -21.1*    | -15.9* | -22.4* | N.A.  |

Notes: (\*) Provisional figures

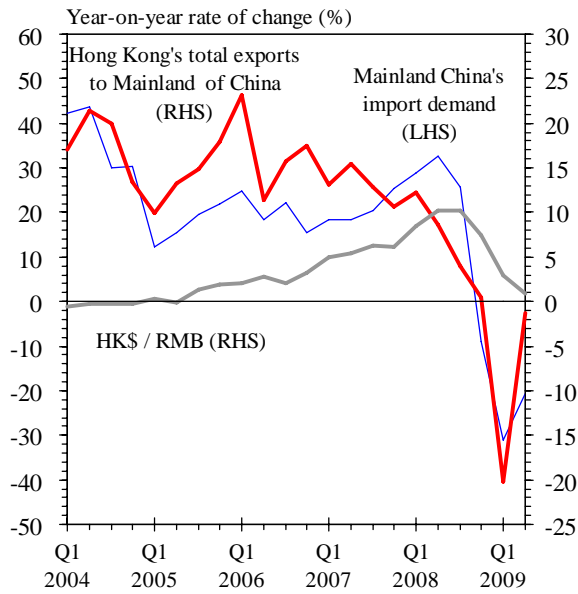
N.A. Not available

**Table 4: Hong Kong's exports to the Mainland by end-use category  
(year-on-year rate of change in value terms (%))**

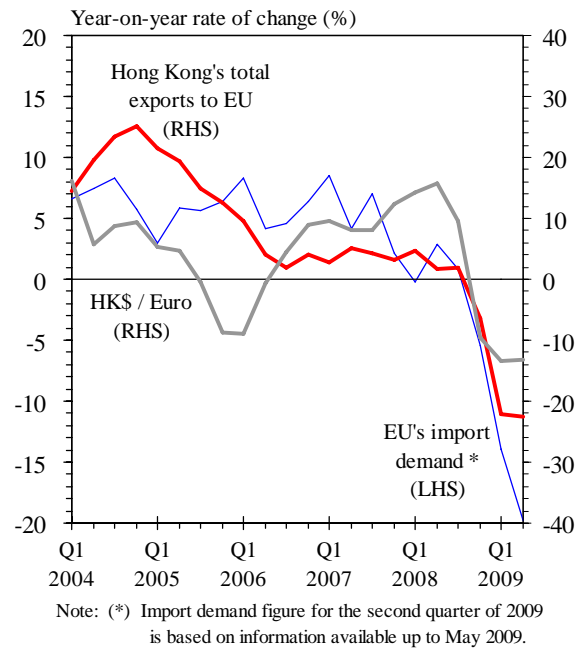
|         | Raw Materials | Capital goods | Consumer goods | Foodstuffs | Fuels |
|---------|---------------|---------------|----------------|------------|-------|
| 2008    | 0.8           | 9.5           | 5.4            | 47.4       | 21.5  |
| 2009 Q1 | -21.1         | -26.9         | -23.1          | -16.9      | -40.1 |
| Q2      | -5.4          | -1.3          | -15.9          | -15.9      | -38.8 |
| Apr     | -11.6         | -10.9         | -21.0          | -18.7      | -35.3 |
| May     | -10.2         | -8.7          | -17.3          | -20.3      | -54.4 |
| Jun     | 7.3           | 19.6          | -8.6           | -8.1       | -18.1 |

Note: Raw material accounted for 52.3% of Hong Kong's exports to the Mainland in 2008, followed by capital goods (36.4%); consumer goods (9.7%); foodstuffs (1.1%) and fuels (0.4%).

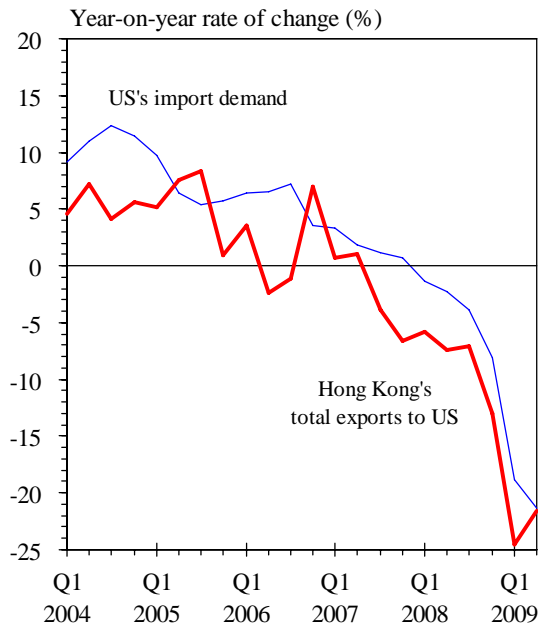
**Diagram 2.4 : Exports to the Mainland improved visibly in the second quarter**



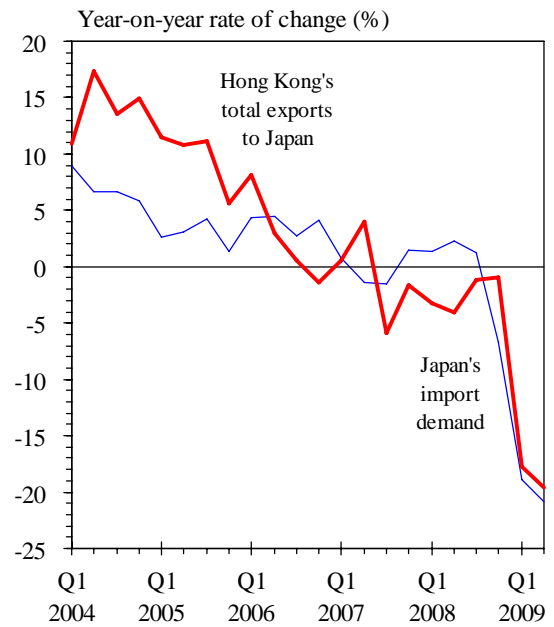
**Diagram 2.5 : Exports to EU remained weak amid the fragile situation in European economy**



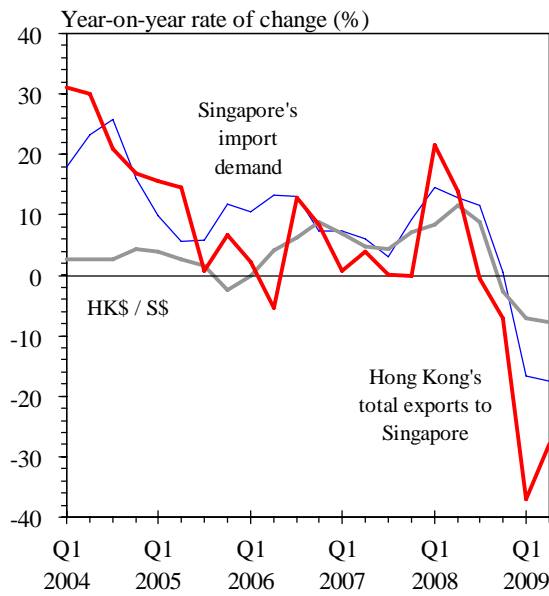
**Diagram 2.6 : Exports to US fell sharply further**



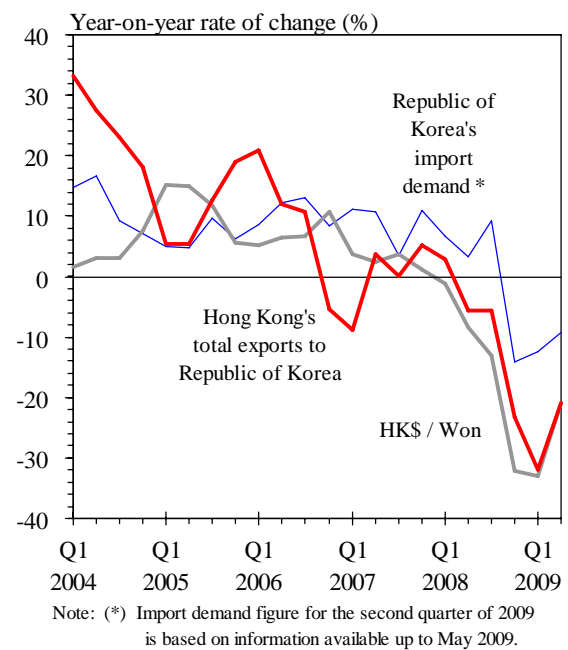
**Diagram 2.7 : Exports to Japan slumped further along with the plunge in import demand**



**Diagram 2.8 : Exports to Singapore remained on a sharp decline...**



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



### *Imports of goods*

2.6 In tandem with the relative improvement in re-exports, *imports of goods* likewise contracted at a smaller rate of 12.3% in real terms in the second quarter of 2009, as compared to the 22.2% decrease in the first quarter. *Retained imports*, referring to the imports for domestic uses, still had a rather notable decline of 18.6% in real terms in the second quarter, as against that of 24.2% in the first quarter. Analysed by end-use, retained imports of foodstuffs reverted to an increase, while those of consumer goods and raw materials and semi-manufactures declined less. Retained imports of fuels rose further, while those of capital goods remained on a decline.

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

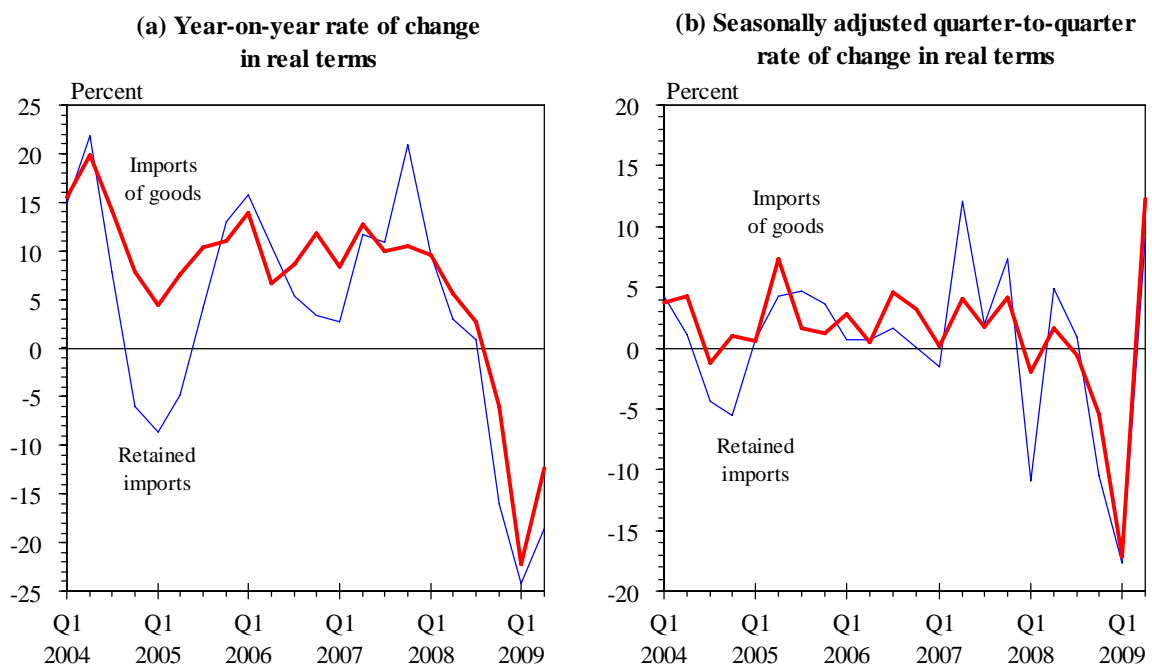
|      |        | <u>Imports of goods</u> |                      |                         |                       | <u>Retained imports</u> <sup>(a)</sup> |                         |  |
|------|--------|-------------------------|----------------------|-------------------------|-----------------------|--|-------------------------|--|
|      |        | <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                     | 5.3                   | -1.4                                   | 7.6                     |  |
|      | H1     | 10.3                    | 7.5                  | 4.3                     | 13.1                  | 6.0                                    | 8.4                     |  |
|      | H2     | 1.3                     | -1.7                 | 4.6                     | -1.8                  | -8.0                                   | 6.9                     |  |
|      | Q1     | 11.6                    | 9.6                  | (-1.9)                  | 15.1                  | 9.6                                    | (-10.9)                 |  |
|      | Q2     | 9.1                     | 5.6                  | (1.6)                   | 11.4                  | 3.0                                    | (4.9)                   |  |
|      | Q3     | 7.0                     | 2.7                  | (-0.6)                  | 10.0                  | 0.8                                    | (0.9)                   |  |
|      | Q4     | -4.2                    | -6.0                 | (-5.4)                  | -12.5                 | -16.0                                  | (-10.5)                 |  |
| 2009 | H1     | -18.6                   | -17.0                | *                       | -24.9                 | -21.3                                  | -4.3                    |  |
|      | Q1     | -22.8                   | -22.2                | (-17.2)                 | -27.4                 | -24.2                                  | (-17.7)                 |  |
|      | Q2     | -14.9                   | -12.3                | (12.3)                  | -22.7                 | -18.6                                  | (9.0)                   |  |

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.

(\*) Change of less than 0.05%.

**Diagram 2.10 : Total imports also contracted at a narrowed rate**



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

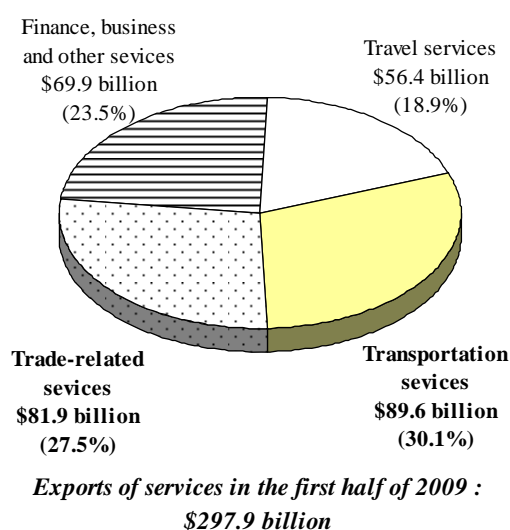
|      |        | <u>Consumer goods</u> | <u>Foodstuffs</u> | <u>Capital goods</u> | <u>Raw materials and semi-manufactures</u> | <u>Fuels</u> |
|------|--------|-----------------------|-------------------|----------------------|--|--------------|
| 2008 | Annual | 12.4                  | 13.3              | 7.5                  | -29.9                                      | -3.9         |
|      | H1     | 22.6                  | 15.8              | 12.7                 | -16.9                                      | -9.2         |
|      | H2     | 3.2                   | 10.8              | 3.1                  | -41.9                                      | 1.4          |
|      | 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 | H1     | -26.4                 | 1.5               | -10.9                | -57.4                                      | 24.0         |
|      | Q1     | -30.7                 | -3.4              | -8.1                 | -69.5                                      | 30.8         |
|      | Q2     | -22.4                 | 6.3               | -13.4                | -47.4                                      | 17.4         |

## **Invisible trade**

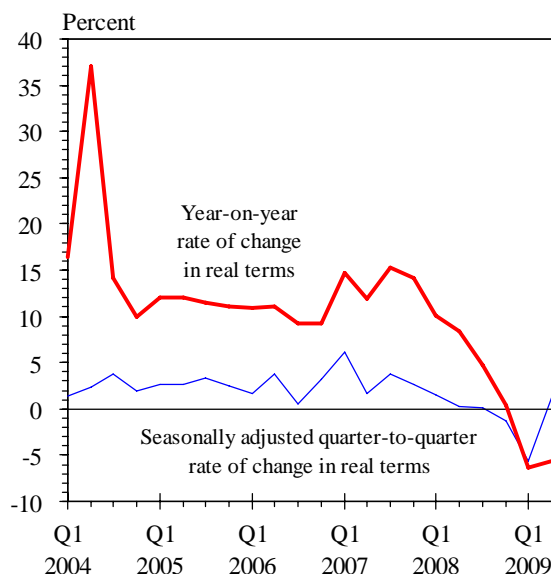
### *Exports of services*

2.7 *Exports of services* fared somewhat better in the second quarter. Though still on a decline of 5.7% over a year earlier, it had tapered from that of 6.3% in the first quarter and actually rebounded by 1.2% on a seasonally adjusted quarter-to-quarter basis. As fund-raising and other financial market activities regained some strength, exports of financial services turned up somewhat in the second quarter. Exports of trade-related services (mainly offshore trade) and transportation services also fell less, thanks again to the stabilisation of the trading environment. However, the spread of human swine flu put a heavy drag on the world demand for travel. As a result, exports of travel services reverted to a decline in the second quarter, having held up rather well in the first 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 : Decline in exports of services tapered as external environment improved relatively**



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

*Of which :*

|      |        | Exports of services | Trade-related services <sup>(a)</sup> | Transportation services | Travel services <sup>(b)</sup> | Finance, business and other services |      |
|------|--------|---------------------|---------------------------------------|-------------------------|--------------------------------|--------------------------------------|------|
| 2008 | Annual | 5.7                 | 5.8                                   | 2.2                     | 6.2                            | 9.6                                  |      |
|      | H1     | 9.3                 | 9.7                                   | 4.6                     | 7.5                            | 15.9                                 |      |
|      | H2     | 2.6                 | 3.0                                   | 0.0                     | 5.0                            | 3.5                                  |      |
|      | Q1     | 10.1                | (1.5)                                 | 9.6                     | 5.2                            | 17.7                                 |      |
|      | Q2     | 8.4                 | (0.3)                                 | 9.9                     | 4.1                            | 13.7                                 |      |
|      | Q3     | 4.8                 | (0.1)                                 | 6.0                     | 1.2                            | 6.2                                  |      |
|      | Q4     | 0.4                 | (-1.3)                                | 0.3                     | -1.4                           | 0.7                                  |      |
|      | 2009   | H1                  | -6.0                                  | -13.2                   | -7.9                           | 4.0                                  | -2.6 |
|      | Q1     | -6.3                | (-5.6)                                | -14.6                   | -8.1                           | 10.0                                 | -6.4 |
|      | Q2     | -5.7                | (1.2)                                 | -11.7                   | -7.8                           | -2.6                                 | 2.4  |

Notes : (a) Comprising mainly offshore trade.

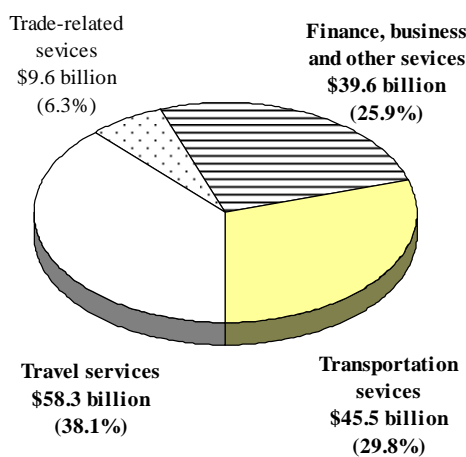
(b) Comprising mainly inbound tourism receipts.

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

## Imports of services

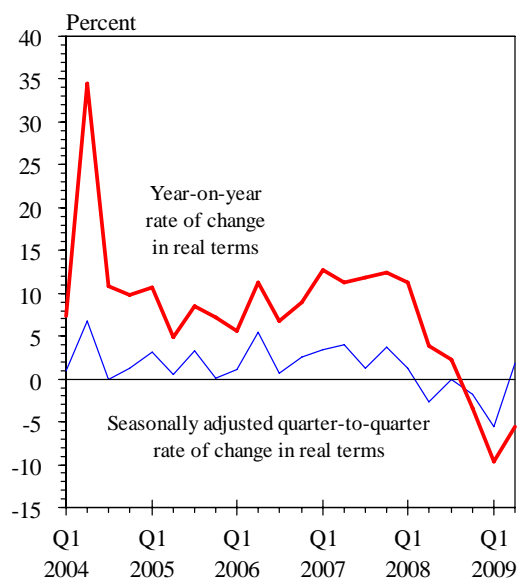
2.8 *Imports of services* fell by 5.6% in real terms in the second quarter of 2009 over a year earlier, after contracting by 9.6% in the preceding quarter. Imports of travel services reverted to an increase in the second quarter, but imports of transportation services remained on a downtrend amid the fall-off in merchandise imports and tourism. Meanwhile, financial market and other commercial activities turned more stable, leading to a smaller decrease in imports of financial, business and other services. As for the imports of trade-related services, a slight relative improvement was also noted, alongside the stabilisation in the external trading environment.

**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 half of 2009 :*  
\$153.1 billion

**Diagram 2.14 : Imports of services saw a smaller decrease**





**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> |   |
| 2008 | Annual | 3.3                            | 2.2                                      | 1.8                                | 6.3                               | 5.9   |
|      | H1     | 7.5                            | 5.7                                      | 7.7                                | 10.3                              | 8.9   |
|      | H2     | -0.5                           | -1.1                                     | -3.5                               | 3.5                               | 3.0   |
|      | 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                               | 0.8                               | 1.9   |
| 2009 | H1     | -7.6                           | -0.6                                     | -15.7                              | -13.6                             | -5.4  |
|      | Q1     | -9.6                           | (-5.5)                                   | -4.2                               | -15.1                             | -7.9  |
|      | Q2     | -5.6                           | (1.8)                                    | 3.2                                | -12.1                             | -2.4  |

Notes : (+) Comprising mainly outbound travel spending.

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

### **Visible and invisible trade balance**

2.9 With the deficit in the merchandise trade account declining significantly over the same quarter of 2008 and with the sizeable surplus in the invisible trade account, the combined visible and invisible trade balance grew to \$30.4 billion in the second quarter of 2009, equivalent to 4.1% of the total value of imports of goods and services. The corresponding figures in the same quarter last year were \$17.8 billion and 2.1%. The sizable surplus pinpoints Hong Kong's continued strong external position and the cushion it renders in weathering the impact of the global financial 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> |                 |                 | As % of<br><u>imports</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                | 719             | 3,024          | 357             | -180                 | 362             | 182             | 5.4                       |
|      | H1     | 1,359                | 341             | 1,467          | 177             | -108                 | 164             | 56              | 3.4                       |
|      | H2     | 1,485                | 378             | 1,557          | 180             | -72                  | 198             | 126             | 7.2                       |
|      | Q1     | 651                  | 174             | 697            | 90              | -46                  | 84              | 38              | 4.9                       |
|      | Q2     | 709                  | 167             | 771            | 87              | -62                  | 80              | 18              | 2.1                       |
|      | Q3     | 764                  | 194             | 806            | 95              | -41                  | 98              | 57              | 6.3                       |
|      | Q4     | 720                  | 184             | 751            | 85              | -31                  | 99              | 69              | 8.2                       |
| 2009 | H1     | 1,131                | 298             | 1,205          | 153             | -74                  | 145             | 71              | 5.2                       |
|      | Q1     | 512                  | 151             | 547            | 76              | -35                  | 75              | 40              | 6.5                       |
|      | Q2     | 619                  | 147             | 658            | 77              | -39                  | 70              | 30              | 4.1                       |

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

## Other developments

2.10 Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed on 9 May 2009. The new supplement contains 29 liberalisation measures covering 20 service sectors. This also brings the total number of service sectors covered to 42, and signifies a closer economic integration between Hong Kong and the Mainland. Apart from service liberalisation, the two sides also agreed to enhance financial cooperation and take forward the work on mutual recognition of professional qualifications.

2.11 The pilot program for the usage of the renminbi for cross-border trade settlements in Hong Kong and five other Mainland cities came into operation in early July, following the agreements signed earlier between the People's Bank of China and the Hong Kong Monetary Authority. The program will allow Hong Kong trading enterprises to enjoy greater flexibility in their operation and managing their exchange rate risks. The scheme will also expand the scope of renminbi business for Hong Kong banks, enhance the diversity of renminbi assets in the banking system, and increase the local capital liquidity of renminbi. This will bolster Hong Kong's role as the renminbi clearing platform, and facilitate the trade and economic developments in the region.

## 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 July 2009, the International Monetary Fund (IMF) revised upwards its global growth forecast for 2010 notably from 1.9% made in April, to 2.5%, while marking down that for 2009 marginally from -1.3% to -1.4%. Separately in June, the Organisation for Economic Cooperation and Development (OECD) raised the forecast for the economy of its 30 member nations for the first time in two years.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

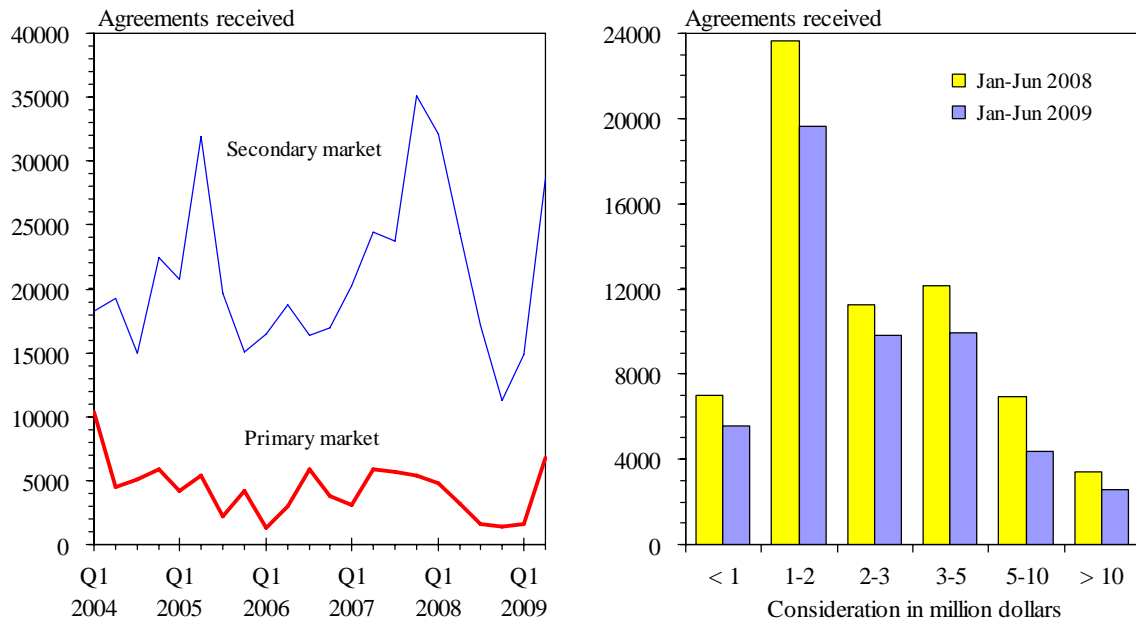
### *Summary*

- *The residential property market staged a solid recovery in the first half of 2009, in terms of both transacted prices and volume. A broadly similar trend was observed for non-residential property, which also showed a rebound in prices particularly during the second quarter. Yet for rentals, the performance remained generally subdued during the same period.*
- *Inbound tourism slackened under the combined influence of the global recession and the outbreak of human swine flu. Although Mainland visitor arrivals recorded an increase in the first half, this was more than offset by the decreases in arrivals from other source markets.*
- *The logistics sector likewise remained under pressure from the slackened external trading environment. The rate of decline in cargo throughput nevertheless moderated in the second quarter.*
- *The Government has been striving hard, in collaboration with the private sector, to promote technology innovation and creativity which is instrumental to the transformation of Hong Kong into a knowledge-based economy. In particular, strenuous efforts have been made to foster an environment conducive to the development of research and development activities and the creative industries.*

### **Property**

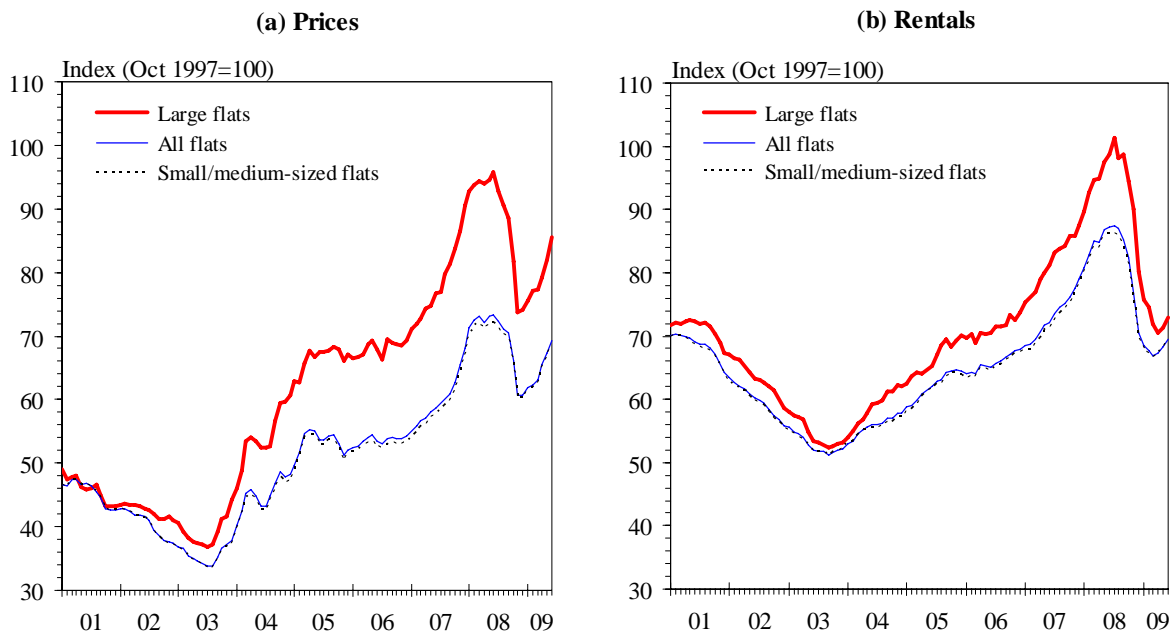
3.1 The *residential property market* rebounded sharply in the first half of 2009. Both the transaction volume and flat prices showed a distinct upsurge from the low levels in the second half of 2008, underpinned not only by the green shoots in the local economy and more stable employment conditions, but also by a sizeable inflow of funds and hence lower mortgage rates offered by local banks. Indicating the increased trading activity, the total number of sale and purchase agreements of residential property received by the Land Registry surged to 51 913 in the first half of 2009, up by 65% over the second half of 2008, albeit still 19% below the level a year earlier. Total consideration for transactions likewise jumped to \$175.9 billion during the period, 73% higher than the second half of 2008, though 27% down from a year earlier.

**Diagram 3.1 : Transaction volume for residential property rebounded visibly from the low level in the second half of last year**



3.2 Flat prices bounced up notably by an average of 14% between December 2008 and June 2009, with most of the gain occurring during the second quarter. Consequential to the latest upsurge, the overall sale prices were only 5% below the high levels seen in mid-2008. Despite this, home purchase affordability remained better than their 20-year average and far better than in 1997. Indeed, compared with the peaks in 1997, the prices of small/medium and large flats were still 31% and 14% lower respectively. As for flat rentals, there was a slight decrease of 1% for the first half as a whole, reflecting mainly the losses during the earlier months of the year. Consequential to the latest jump in flat prices, the average rental yield for residential flats moved lower from 4.1% in December 2008 to 3.4% in June 2009.

**Diagram 3.2 : Residential property prices bounced up significantly while rentals started to stabilise more recently**

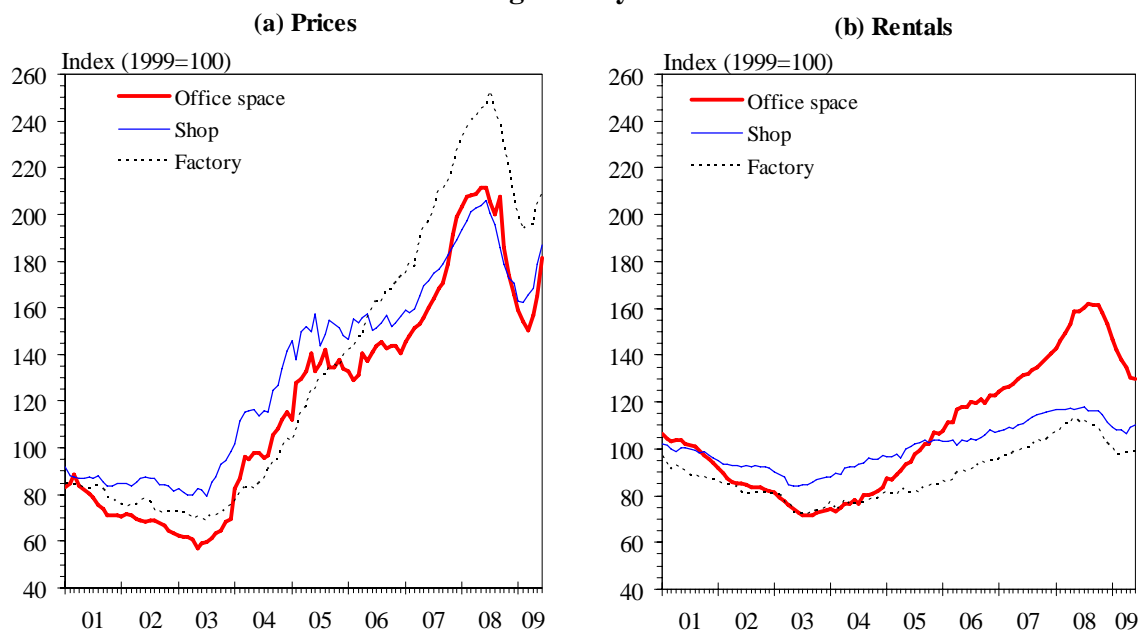


Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m<sup>2</sup>, and small/medium-sized flats with a saleable area of less than 100 m<sup>2</sup>.

3.3 As to *commercial and industrial properties*, sale prices firmed up during the second quarter, when bargain hunting activities re-emerged for such properties. By contrast, the leasing market was kept in check, with rentals generally drifting further down. More specifically for *office space*, the prices jumped on average by 10% between December 2008 and June 2009. Analysed by type of office space, Grade A, B and C offices registered price rebounds of 13%, 6% and 8% respectively. Meanwhile, rentals for office space fell further by 15%, bringing the cumulative drop to 20% as compared to their recent peaks in August 2008. The decline actually occurred across-the-board, with Grade A, B and C offices registering rental decreases of 18%, 13% and 7% respectively. As a result, the average rental yield for Grade A office went down from 5.1% in December 2008 to 3.5% in June 2009, as did those for Grade B and C offices from 5.2% and 5.3% to 4.1% and 4.5% respectively.

3.4 For *retail shop space*, sale prices in June 2009 were on average 10% higher than those in December 2008, while rentals recorded a slight decrease of 1%. As to *flatted factory space*, prices rose modestly by 2% between December 2008 and June 2009, whereas rentals were down by 4%. As a result, the rental yields for retail shop space and flatted factory space both declined, from 4.7% and 6.2% in December 2008 to 4.2% and 5.7% in June 2009 respectively.

**Diagram 3.3 : Non-residential property prices staged a rebound whereas rentals generally weakened further**



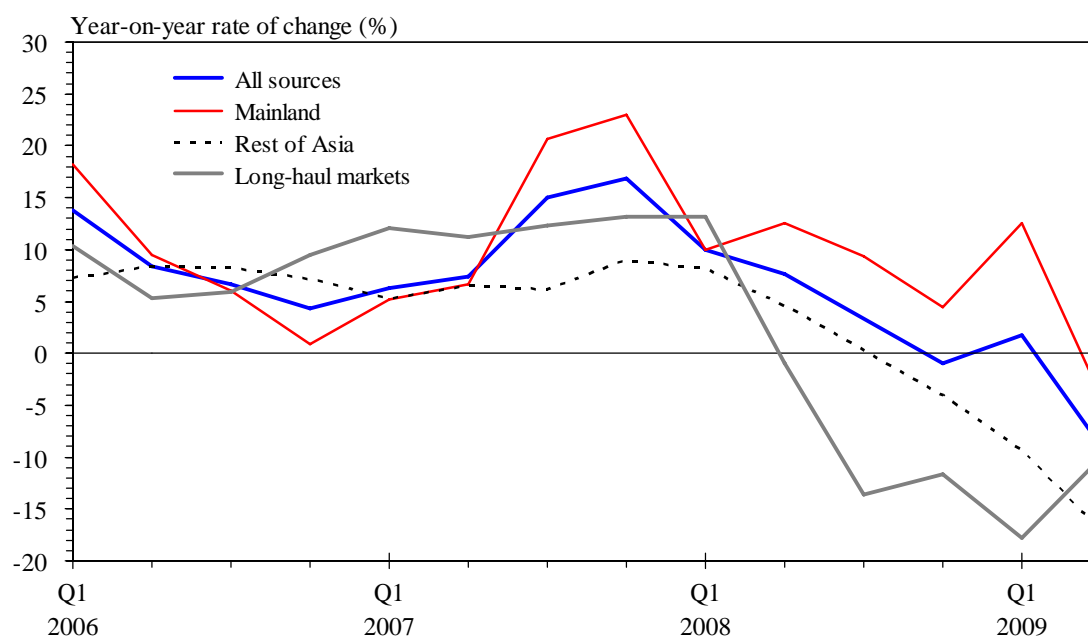
## Land

3.5 The land sales market stayed quiet in the first half of 2009 with limited transactions recorded. Despite the recent upsurge in trading activities in the local property market, developers generally remained cautious towards land acquisition, in face of the still sluggish economic performance and uncertain near-term prospects. During the period, only one land site on the *Application List* was successfully triggered and sold via public auction. Together with the three other sites sold by public tender, total proceeds of \$438 million was attained through land sales.

## Tourism

3.6 Inbound tourism continued to be beset by the global economic downturn. The total number of *incoming visitor arrivals* fell by 3.4% over a year earlier to 13.7 million in the first half of 2009, with more visible decreases occurring in May and June due to the added impact of human swine flu worldwide. Although visitor arrivals from the Mainland (57% of which comprised visitors under the Individual Visit Scheme) continued to grow rather notably in the first four months, the figure posted year-on-year declines in May and June after the first confirmed human swine flu case in early May. For the first half as a whole, there was still a small increase of 4.6% year-on-year for visitors from this source market. By contrast, visitor arrivals from the rest of Asia and the long-haul markets recorded double-digit drops of 13.4% and 14.0% respectively from a year earlier.

**Diagram 3.4 : Inbound tourism felt the brunt from the global economic downturn and the human swine flu outbreak**



3.7 Overnight visitor arrivals were 5.3% fewer in the first half than a year earlier. Consequently, their share in total visitor arrivals to Hong Kong was reduced over the same period, from 58.2% to 57.1%. On the other hand, the share of same-day visitor arrivals went up modestly, from 41.8% to 42.9%, as the number of visitors in this category had a comparatively smaller decline of 0.8% in the period.



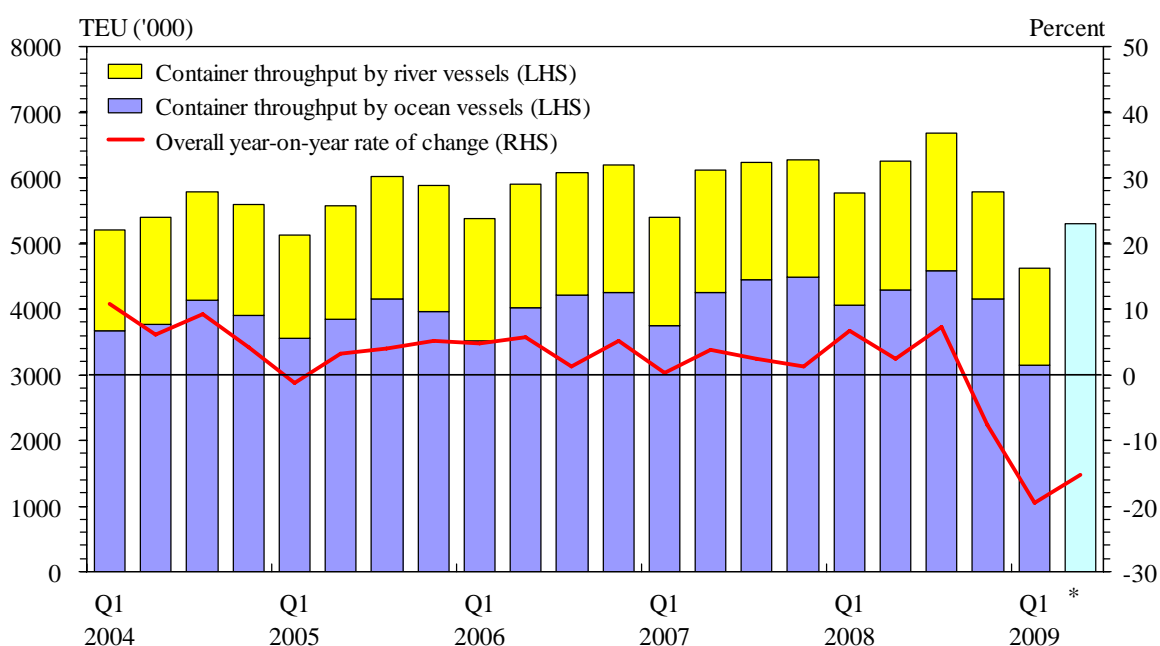
3.8 In line with the subdued performance of inbound tourism, hotel occupancy fell across-the-board to an average rate of 74% during the first half from 83% a year earlier. More notably, the occupancy rate dipped below the 70%-mark in both May and June, for the first time since the SARS outbreak in 2003. The average hotel room rate fell in tandem, by 17.1% year-on-year to \$1,026 per night<sup>(1)</sup>.

3.9 Under Supplement VI to CEPA signed in May, Mainland travel agents authorised to operate group tours to Taiwan can organise group tours for Mainland residents, who hold a valid exit/entry permit for travelling to and from Taiwan and travel endorsement, to enter and remain in Hong Kong in transit. This measure will facilitate the travel trade in the Mainland and Hong Kong in developing multi-destination tour products.

## Logistics

3.10 The logistics sector remained in the doldrums, alongside the fall-off in external trade flows. The total *container throughput* contracted by 17.3% over a year earlier to 9.9 million TEUs in the first half of 2009, although the pace of decline moderated rather visibly in the more recent months of May and June. Meanwhile, the value of trade handled at the Hong Kong Port also witnessed a distinct reduction of 21.7%, but it still accounted for 29.2% of the overall trade value.

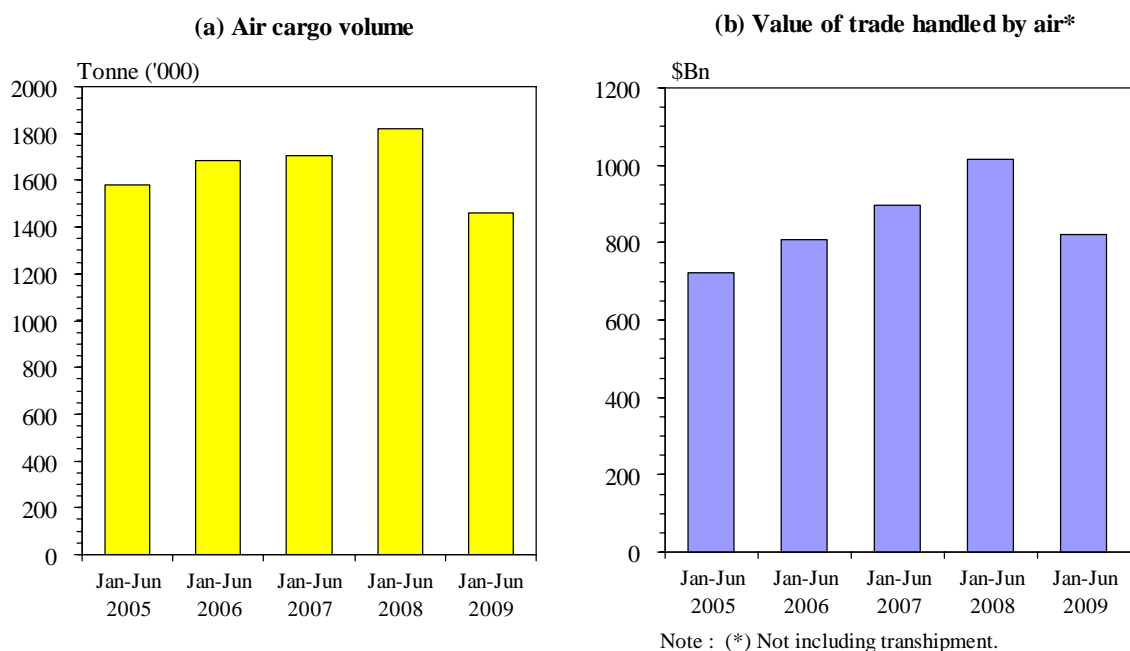
**Diagram 3.5 : Port container traffic slowed noticeably in the first half, but signs of stabilisation have emerged more recently**



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.

3.11 *Air freight throughput* had an even larger drop of 19.8% year-on-year to 1.46 million tonnes in the first half. This notwithstanding, the downward trend seemed to have tapered somewhat since May. Whereas the total value of trade by air also plummeted by 19.3%, its share in total trade value remained high at 35.4%.

**Diagram 3.6 : Air freight traffic dropped visibly in both volume and value terms during the first half, along with the slowdown in overall trade flow**



## Transport

3.12 Air passenger traffic fell by 8.2% from a year earlier to 22.4 million in the first half of 2009. In addition to the global economic slowdown and cross-strait “direct-flights”, passenger traffic in the second quarter was also affected by the outbreak of human swine flu worldwide. Meanwhile, water-borne passenger traffic recorded a more visible decrease of 9.3% to 11.7 million.

3.13 By comparison, land-based cross-boundary passenger flow seemed to have fared relatively better, which still witnessed a year-on-year increase of 1.5% in the first half, to an average of 456 000 per day. Cross-boundary vehicular movements averaged at about 38 400 per day in the first half, which was however 7.4% fewer than a year earlier. Whereas a drop of 17.9% was also observed for movements of goods vehicles, the adverse impact was somewhat offset by the 6.6% rise in passenger vehicle movements.

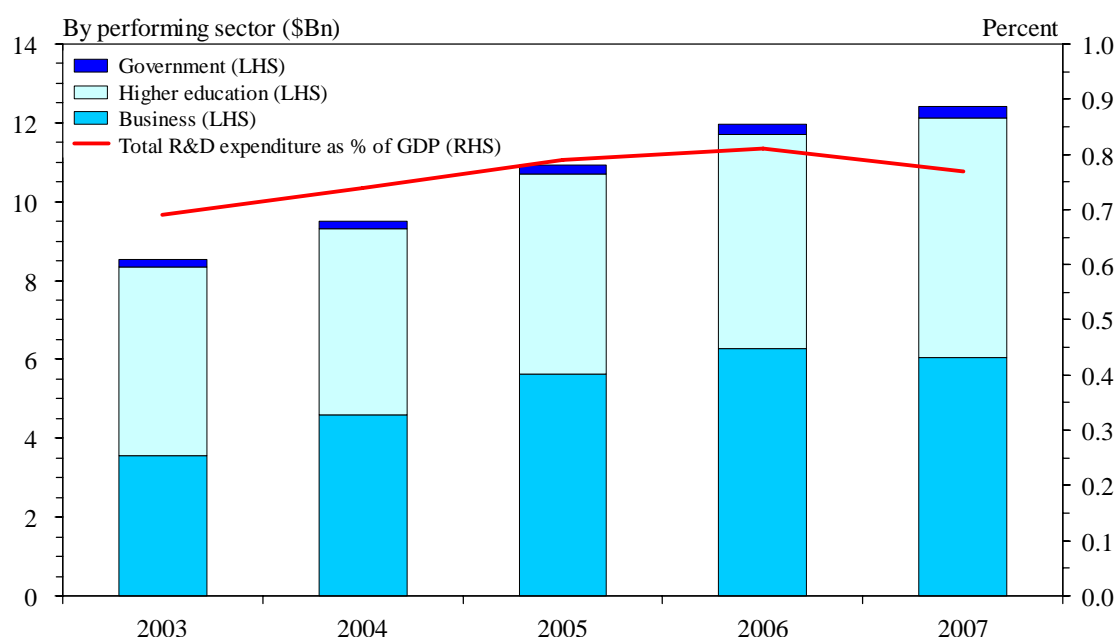
3.14 Regarding cross-boundary transportation projects, amendments to the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) scheme were gazetted in April. The proposed amendments represent improvements to the scheme, when taking into account the land, engineering, operation and other design considerations. The construction work of the Hong Kong Section of XRL is expected to start by the end of this year and is due for completion in 2015. The XRL, upon completion, will integrate Hong Kong into the Mainland's rapidly growing express rail network. Furthermore, through connecting with the Pearl River Delta (PRD) Rapid Transit System, the XRL will greatly increase accessibility between Hong Kong and the PRD region. The rail project is expected to create 5 500 jobs during construction and another 10 000 jobs during its operation.

3.15 On the domestic front, the Executive Council has authorised the Central-Wan Chai Bypass and Island Eastern Corridor Link (the Trunk Road) project in May. The Trunk Road is a dual three-lane carriageway with a total length of approximately 4.5km, of which about 3.7km is in tunnel form. It will connect the Rumsey Street Flyover in Central and the Island Eastern Corridor in North Point. The Trunk Road should provide relief for the very congested Connaught Road Central/Harcourt Road/Gloucester Road Corridor of Hong Kong Island during peak hours. Construction works are scheduled to start by the end of this year for completion in early 2017. The project, costing about \$28 billion according to the latest estimate, is expected to create around 6 400 jobs during the construction phase.

## Creativity and innovation

3.16 Hong Kong is undergoing a transformation into a knowledge-based economy (**Box 3.1**). In 2007, research and development (R&D) expenditure went up by 3.9% year-on-year to \$12.4 billion, equivalent to about 0.8% of GDP. The Government has been endeavouring to promote R&D activities in the economy mainly through infrastructural and funding support. In fact, 45% of Hong Kong's R&D expenditure in 2007 was financed by the Government.

**Diagram 3.7 : R&D expenditure rose further in 2007, in line with Hong Kong's restructuring into a knowledge-based economy**



3.17 On 28 May, the Government signed a Memorandum of Understanding on co-operation in science and technology with Denmark. Co-operation will be carried out on many fronts, including notably nanotechnology and advanced materials; biotechnology and medical life science; solar energy; and energy efficiency.

### Box 3.1

#### Hong Kong as a knowledge-based economy

Hong Kong is moving steadily towards a knowledge-based economy, as borne out by the set of selected indicators below<sup>1</sup>.

| <u>Indicator</u>  | <u>1998</u>            | <u>2008</u>              |
|---|------------------------|--------------------------|
| Value-added of knowledge-based industries (KBI) <sup>2</sup> (\$Bn)       | 222                    | 414 <sup>(2007)</sup>    |
| <i>As % of GDP at current factor cost</i>                                 | 18.2                   | 26.7 <sup>(2007@)</sup>  |
| Persons engaged in KBI ('000)   | 403.3                  | 492.3 <sup>(2007)</sup>  |
| Professionals and associate professionals as % of employed population (%) | 21.0                   | 26.1                     |
| Percentage of labour force with post-secondary educational attainment (%) | 22.4                   | 31.0                     |
| Number of information technology (IT) workers                             | 44 800                 | 66 700                   |
| <i>Per 1 000 persons in labour force</i>                                  | 14                     | 18                       |
| Total IT expenditure in the business sector (\$Bn)                        | 15.6                   | 32.2 <sup>(2007)</sup>   |
| <i>As % of GDP</i>  | 1.2                    | 2.0 <sup>(2007@)</sup>   |
| Business technological innovation expenditure (\$Bn)                      | 6.7 <sup>(2001)</sup>  | 15.7 <sup>(2007)</sup>   |
| <i>As % of total business receipts</i>                                    | 0.09 <sup>(2001)</sup> | 0.17 <sup>(2007)</sup>   |
| Expenditure on research and development (\$Bn)                            | 5.6                    | 12.4 <sup>(2007)</sup>   |
| <i>As % of GDP</i>  | 0.43                   | 0.77 <sup>(2007@)</sup>  |
| Number of researchers (Full-time equivalent)                              | 6 800                  | 19 600 <sup>(2007)</sup> |
| <i>Per 1 000 persons in labour force</i>                                  | 2.1                    | 5.4 <sup>(2007)</sup>    |
| Mobile subscriber penetration rate (%)                                    | 44                     | 162                      |
| Broadband subscribers ('000)  | 392 <sup>(2000)</sup>  | 1 948                    |
| <i>Per 1 000 population</i>   | 58 <sup>(2000)</sup>   | 278                      |

Note : (@) Figures are subject to revision later on.

<sup>1</sup> Extract from "Hong Kong as a Knowledge-based Economy – A Statistical Perspective 2009" published by the Census and Statistics Department.

<sup>2</sup> Knowledge-based industries cover high-technology industries (such as pharmaceuticals, office and computing machinery); medium-high-technology industries (including machinery and equipment, electrical machinery and apparatus); communications; finance and insurance; and business services (excluding property services). The classification of KBI in Hong Kong is modelled on the relevant industry classification of Organisation for Economic Co-operation and Development.

### **Box 3.1 (Cont'd)**

The indicators revealed that knowledge-based activities have been on the increase in the Hong Kong economy. From a share of 18% in 1998, the value-added of KBI has risen solidly to around 27% of GDP at current factor cost in 2007. To meet the new employment opportunities and work requirements, the labour force has been undergoing an upgrading in both skill and education levels. By 2008, 31% of the labour force had post-secondary education, a notable increase from a share of 22% in 1998. Business sector likewise has been keen to invest in technological innovation and enhancement, with its IT spending doubling between 1998 and 2007 and the expenditure on technological innovation rising by over 130% between 2001 and 2007. The general public in Hong Kong is also savvy users of information and communication technology. Mobile phone and broadband penetration rates, having surged almost continuously over the past decade, now rank among the top both regionally and globally. The Government will continue to promote the development of knowledge-based activities and render support via provision of infrastructural facilities, manpower training, increased co-operation with the Mainland, etc. conducive to the competitiveness and growth of the Hong Kong economy.

3.18 Creative industries are an important economic driver for Hong Kong. Create Hong Kong (CreateHK), a new office dedicated to promoting the development of creative industries in Hong Kong, was set up on 1 June. CreateHK will provide one-stop services and better support for creative industries by coordinating efforts from different parties within the Government. In addition, funding support under the newly established \$300 million CreateSmart Initiative has been opened for applications since 1 June.

3.19 Local mobile data usage surged to 234 Terabytes (234 000 Gigabytes) in April 2009, equivalent to an average of 62 Mbytes per 2.5G/3G mobile user, according to the Office of the Telecommunications Authority (OFTA). This represented 19 times and 5 times the mobile data usage over the same period in 2007 and 2008 respectively, indicating that Hong Kong has matured as a leading wireless city in the region.

3.20 Moreover, OFTA announced on 10 June that three mobile network operators have successfully bid for a total of 9.6 MHz of radio spectrum in the 1 800 MHz frequency band at a total upfront spectrum utilisation fee of \$46 million and annual spectrum utilisation fees of at least \$142 million over the next 12 years. The assignment of spectrum enables the operators to expand their network capacity to cope with the continuous growth in demand for public mobile telecommunications services.

## **Environment**

3.21 The Environmental Levy Scheme on Plastic Shopping Bags has commenced on 7 July. Under the scheme, registered retailers are required to charge customers a 50-cent environmental levy for providing a plastic shopping bag with handle. Registered retailers include major and chain supermarkets, convenience stores, personal health and beauty stores, and department stores with supermarkets. The scheme should provide a direct economic incentive to discourage the indiscriminate use of plastic shopping bags, thereby reducing the generation of solid waste.

### **Note :**

- (1) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *Stability and order were gradually restored in the global financial markets in the first half of 2009, following the series of monetary and fiscal measures introduced by the governments in various countries. Asset prices bounced back and recouped part of their heavy losses incurred in late 2008, while tension in the credit market eased notably over the same period.*
- *Hong Kong dollar interbank interest rates hovered at low levels throughout the first half. A further softening of interest rates was observed during the second quarter amid an increased inflow of funds, and banks generally switched to a more accommodative credit stance.*
- *Tracking closely the movements of the US dollar, the Hong Kong dollar Effective Exchange Rate Indices edged down somewhat for the first half as a whole. Demand for Hong Kong dollars re-emerged alongside the stock market rally, and the HKMA was prompted to passively sell Hong Kong dollars against US dollars to banks on a number of occasions.*
- *Local share prices continued their slide in January and February, but started to bounce up in March. In line with the improving market sentiment, stock trading and fund raising activities gathered momentum during the second quarter, although the respective volumes were still distinctly below those a year earlier.*
- *Despite the turbulent economic and financial conditions over the past year, the Government's efforts to promote development in the financial sector, both in terms of breadth and depth of activities, continue apace. This is borne out by the significant headways made with cross-boundary renminbi settlement and the broadening of product base in the bond market.*

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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 global financial system, having been largely in a state of flux in late 2008, witnessed a progressive return to order in the first half of 2009. In Hong Kong, the financial sector exhibited a high degree of resilience throughout the entire period. While some financial institutions had been harder hit by the financial turmoil than the others, all of them managed to survive the crisis without the need for government bailout. Meanwhile, financial markets showed variations in performance, with a distinct rebound observed for the stock market. There was also an easing in local interest rates upon an increased inflow of funds, while banks generally adopted a more accommodative attitude towards loan extension.

4.2 Sustainable and healthy development of financial markets is key to promoting the long-term economic growth of Hong Kong. Being the financial gateway to the Mainland, Hong Kong has been performing an important role in facilitating internationalisation of the Mainland financial markets. Expanding Hong Kong's capacity for handling renminbi-denominated transactions is an area where tremendous progress has been achieved over the past several years, with the use of renminbi for cross-border trade settlements and further expansion of renminbi bond market being the more notable cases in point (*Box 4.1*). Coupled with other initiatives such as the Government Bond Programme, this has helped to consolidate Hong Kong's status as an international financial centre as well as a major platform for fund-raising, investment and intermediation.

## Interest rates and exchange rates

4.3 The *Hong Kong dollar interbank interest rates* held broadly stable in the first quarter of 2009 but recorded notable declines in the second quarter amid strong funds inflow. Consequently, the overnight and three-month HIBORs fell from 0.23% and 0.89% at end-2008 to 0.13% and 0.25% at end-June 2009 respectively. With an aim to allow the functioning of interest rate adjustment under the Currency Board system as necessary, the HKMA on 26 March 2009 announced to retain the smaller spread of 50 basis points over the US Federal Funds Target Rate (FFTR) (compared to the previous spread of 150 basis points prior to 9 October 2008) in calculating the *Base Rate* under the Discount Window operated by the HKMA<sup>(1)</sup>. The other leg relating to the moving averages of the relevant interbank interest rates (the "HIBOR leg") was also reinstated. As the US FFTR was stable at 0-0.25%, the Base Rate stayed at 0.5% throughout the first half.

## **Box 4.1**

### **Renminbi business in Hong Kong**

Hong Kong plays a very unique and important role in the global financial market. Apart from being an international financial centre in the Asian time zone that is strategically located between the trading days of London and New York, the city also serves as an important interface between the global and Mainland financial systems. Leveraging on this favourable position, Hong Kong has great potential to develop renminbi business.

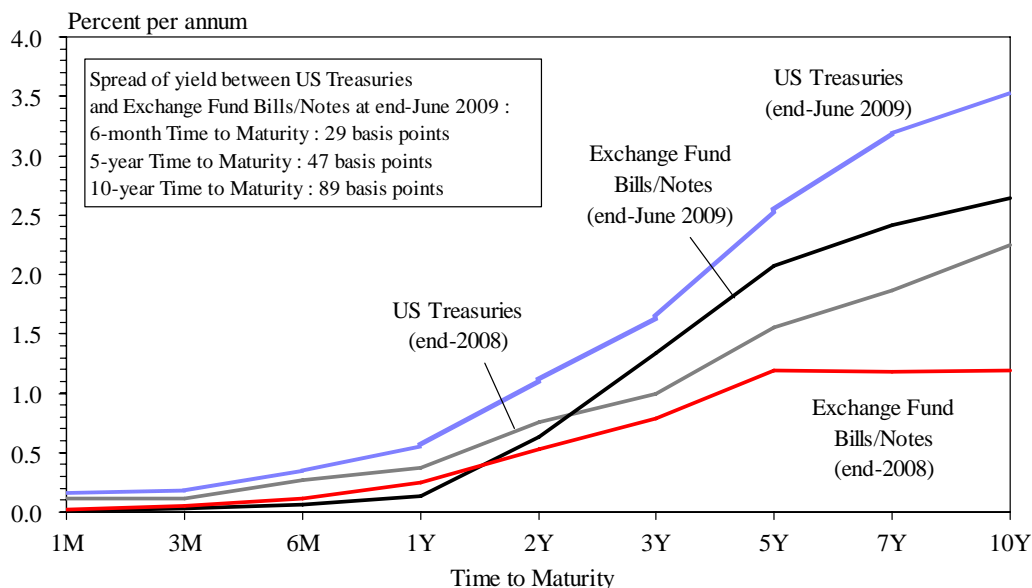
#### **Renminbi business in Hong Kong – A timeline**

- 2004 Renminbi business in Hong Kong commenced, with banks offering renminbi deposit-taking, exchange, remittance and debit/credit cards services.
- 2005 Renminbi cheque service was introduced and certain restrictions of the renminbi business were relaxed.
- 2007 Mainland financial institutions, upon obtaining approval by relevant Mainland authorities, can issue renminbi-denominated bonds in Hong Kong. The first issue of renminbi bonds in Hong Kong was issued in July.
- 2009 With the introduction of the pilot scheme for using renminbi for cross-border trade settlements, renminbi business in Hong Kong was further expanded. Enterprises in Hong Kong trading with the approved enterprises in five Mainland cities (namely Shanghai, Guangzhou, Shenzhen, Zhuhai, and Dongguan) can choose to settle trade transactions in renminbi. Banks in Hong Kong can provide related services to relevant enterprises, including renminbi deposit-taking, currency exchange, remittance and trade finance.
- Meanwhile, Mainland subsidiaries of two Hong Kong banks issued renminbi-denominated bonds in Hong Kong.

Hong Kong has thus achieved good progress in renminbi business over the past few years. The value of renminbi deposits outstanding stood at RMB54.4 billion at end-June 2009, a 348% jump from RMB12.1 billion at end-2004. By end-July, there have been nine issues of renminbi bonds in Hong Kong, totaling RMB27 billion, of which two issues were issued by the Mainland subsidiaries of Hong Kong banks. Hong Kong is the only place outside the Mainland with a renminbi bond market. The vast Mainland market will continue to provide abundant business opportunities for the Hong Kong financial sector.

4.4 The negative differentials between Hong Kong dollar and US dollar interest rates moved within a narrow range during the first half. In particular, the discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate decreased slightly from 53 basis points at end-2008 to 40 basis points at end-June 2009. Meanwhile, the *Hong Kong dollar yield curve* steepened during the period. While long-dated yields bounced up in tandem with their US dollar counterparts, the short-dated rates remained at low levels partly due to local banks' strong demand for Exchange Fund Bills for liquidity management purposes. Concurrently, the negative interest rate spreads between the Exchange Fund paper and the US Treasuries persisted.

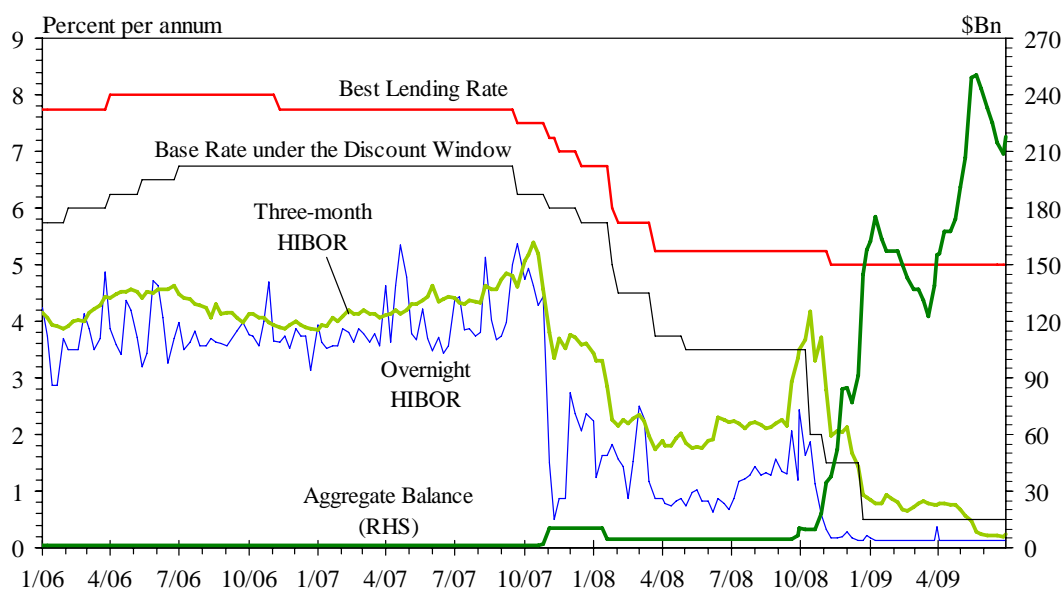
**Diagram 4.1 : The Hong Kong dollar yield curve steepened during the first half of 2009, same as its US dollar counterpart**



4.5 At the retail level, the two Best Lending Rates (BLRs) in the market remained intact at 5.00% and 5.25% throughout the first half. Meanwhile, the average savings deposit rate quoted by major banks edged down from 0.01% at end-2008 to 0.009% at end-June 2009. The average one-month time deposit rate also declined slightly from 0.04% to 0.01% during the same period. As a result, the composite interest rate<sup>(2)</sup>, which indicates the average cost of funds for banks, fell from 0.68% to 0.19%. On the mortgage front, the proportion of new mortgage loans approved at rates more than 2.5% below the BLR surged from a meager 3.3% in December 2008 to 52.0% in June 2009, reflecting the abundant liquidity locally and a return of keen competition in the mortgage market. Moreover, another 39.8% of newly approved mortgage loans in June 2009 were priced with reference to rates other than the BLR (mostly HIBOR-based), much higher than the ratio of 17.7% in December 2008, as customers took advantage of the prevailing low interbank interest rates.

4.6 Following repeated triggering of the strong-side Convertibility Undertaking (CU) between late March and June, the Aggregate Balance climbed to a record of \$257.0 billion on 18 May 2009, from \$158.0 billion at end-2008. Yet the figure dropped back somewhat to \$217.7 billion at end-June, following additional issues of Exchange Fund Bills to meet the increased demand by local banks.

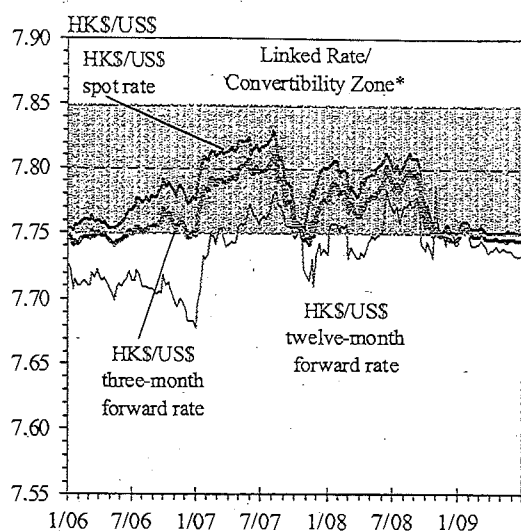
**Diagram 4.2 : Hong Kong dollar interbank interest rates fell to exceptionally low levels in the second quarter amid ample liquidity locally (end for the week)**



4.7 The Hong Kong dollar spot exchange rate hovered at levels close to 7.75 per US dollar during the entire first half. Meanwhile, the discounts of the 12-month Hong Kong dollar forward rates to the spot rates widened from 95 pips (each pip equivalent to HK\$0.0001) at end-2008 to 180 pips at end-June 2009.

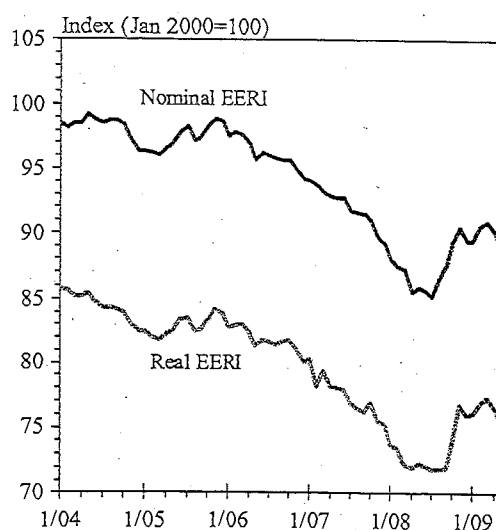
4.8 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those in the US dollar. The Hong Kong dollar generally strengthened against other major currencies from January to mid-March due to a broad-based appreciation of the greenback. Afterwards, the Hong Kong dollar softened as the US dollar depreciated against other major currencies amid concerns about the impact of the US Federal Reserve's credit and quantitative easing policies. On the whole, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices weakened by 1.4% and 2.1% respectively between December 2008 and June 2009<sup>(3)</sup>.

Diagram 4.3 : Forward spreads widened mostly in the first half (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.

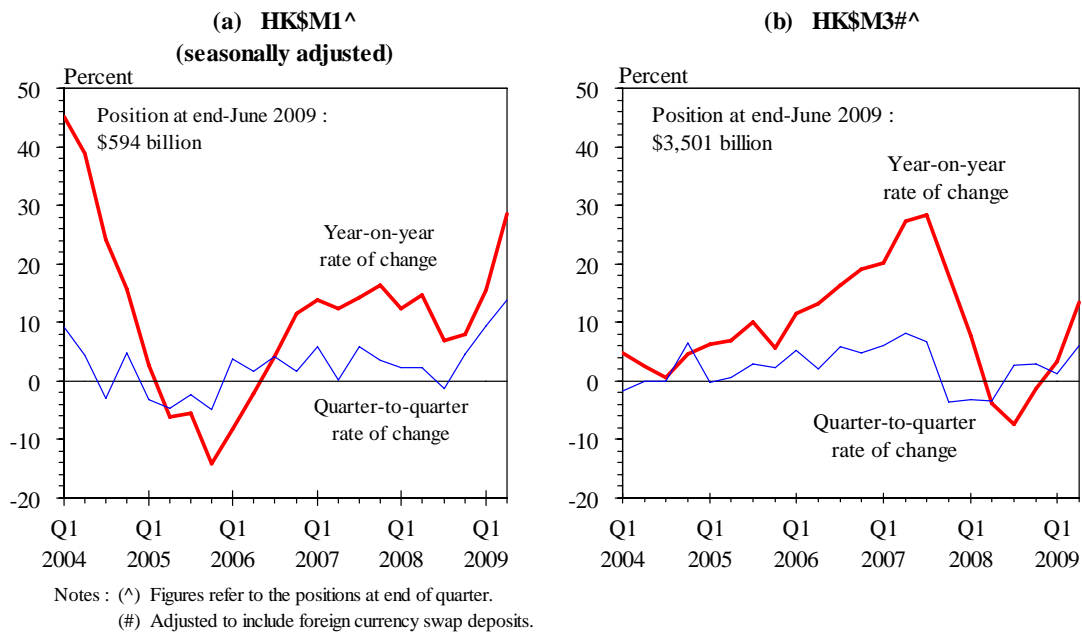
Diagram 4.4 : Trade-weighted EERIs strengthened in early 2009 but eased back afterwards (average for the month)



## Money supply and banking sector

4.9 Both Hong Kong dollar narrow money and broad money grew briskly in the first half of 2009. Compared with end-2008, broad *money supply* (HK\$M3) at end-June 2009 increased by 7.3%<sup>(4)</sup>. Meanwhile, the seasonally adjusted narrow money supply (HK\$M1) grew by a larger magnitude of 24.6%, reflecting the progressive shift away from time deposits in a low interest rate environment, inflow of funds and increased stock market activities. After edging down by 0.6% during the first quarter, *total deposits* with authorised institutions (AIs) managed to post a 3.5% increase for the first half as a whole and stood at \$6,274 billion at end-June<sup>(5)</sup>. It was mainly attributable to the 8.2% expansion in Hong Kong dollar deposits, to \$3,282 billion, which more than offset a 1.1% decrease in foreign currency deposits, to \$2,992 billion.

**Diagram 4.5 : Money supply grew notably, alongside an increased inflow of funds**



4.10 *Total loans and advances* were down by 2.5% for the first half as a whole. However, the aggregate loan balance actually rebounded by 1.2% during the second quarter, to \$3,203 billion at end-June (comprising Hong Kong dollar loans of \$2,366 billion and foreign currency loans of \$837 billion), amid signs of stabilisation in both domestic and external economic activities. Loans for use in Hong Kong likewise fell 2.2% between end-2008 and end-June 2009 but recorded an increase of 1.7% during the second quarter. Analysed by economic use, outstanding balance of residential mortgage loans bounced up by 2.0% in the second quarter, reflecting the buoyancy observed in the residential property market and accommodative mortgage interest rates due to intensifying competition among local lenders. Loans for trade finance also registered a notable growth of 3.4% during the second quarter, recovering from two consecutive double-digit quarterly drops. In addition, resurgence in stock market and IPO activities boosted lending to stockbrokers in the second quarter, even though loan outstanding in this category remained much lower than the frenetic levels seen in 2007. Meanwhile, the Hong Kong dollar loan-to-deposit ratio dropped further from 77.6% at end-2008 to 72.1% at end-June 2009.

**Table 4.1 : Loans and advances**

All loans and advances for use in Hong Kong

|  |         | Loans to :       |                    |  |  |  |                       |                   |                      |   | Total<br>loans<br>and<br>advances |
|--|---------|------------------|--------------------|--|--|--|-----------------------|-------------------|----------------------|---|-----------------------------------|
|  |         | Trade<br>finance | Manu-<br>facturing | Whole-<br>sale<br>and<br>retail<br>trade | Building,<br>construction,<br>property<br>development<br>and<br>investment | Purchase<br>of<br>residential<br>property <sup>(a)</sup> | Financial<br>concerns | Stock-<br>brokers | Total <sup>(b)</sup> | All loans<br>and advances<br>for use<br>outside<br>Hong Kong <sup>(c)</sup> |                                   |
| % change<br>during<br>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      | -16.2            | -5.3               | -3.3                                     | 1.9  | -1.4   | -5.4                  | -10.4             | -3.5                 | -6.7  | -4.1                              |
| 2009                                       | Q1      | -15.1            | -3.6               | -3.5                                     | -1.0   | -0.3   | -14.5                 | -10.3             | -3.8                 | -2.8  | -3.6                              |
|  | Q2      | 3.4              | -5.2               | 1.9                                      | -0.4   | 2.0  | -8.9                  | 433.8             | 1.7                  | -1.3  | 1.2                               |
| Total amount at<br>end-June 2009<br>(\$Bn) |         | 163              | 136                | 147                                      | 677  | 661  | 221                   | 50                | 2,652                | 552   | 3,203                             |
| % change from<br>end-2008                  |         | -12.3            | -8.6               | -1.7                                     | -1.4   | 1.7  | -22.0                 | 378.7             | -2.2                 | -4.1  | -2.5                              |
| % change<br>over a year earlier            |         | -28.6            | -9.6               | -4.9                                     | 5.0  | 1.0  | -20.3                 | 240.8             | -3.1                 | -10.0   | -4.3                              |

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%

4.11 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 stayed high at an average of 15.6% at end-March. 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 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.

4.12 Asset quality of the local banking sector remained sound by historical standards, although there were signs of deterioration as the impact of the global economic downturn filtered through. The ratio of classified loans increased from 1.24% at end-2008 to 1.47% at end-March 2009. Over the same period, arrears for over three months in credit card repayment also rose from 0.34% to 0.49%. On the other hand, the delinquency ratio for residential mortgage loans was steady at 0.05% during the first half.

**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) |
|----------------------------|----|-------------------|------------------------------|------------------------------------|
| 2008                       | Q1 | 97.72             | 1.47                         | 0.81                               |
|                            | Q2 | 97.75             | 1.38                         | 0.88                               |
|                            | Q3 | 97.61             | 1.43                         | 0.96                               |
|                            | Q4 | 96.56             | 2.20                         | 1.24                               |
| 2009                       | Q1 | 96.09             | 2.44                         | 1.47                               |

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”.

4.13 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit-taking, currency exchange and remittance. At end-June, a total of 40 licensed banks were engaged in this line of business. Outstanding renminbi deposits in Hong Kong declined in the first four months of this year, from RMB56.1 billion at end-2008 to RMB53.0 billion at end-April 2009, partly because of the increased uncertainty about the renminbi exchange rate. However, deposit outstanding bounced back somewhat to RMB54.4 billion at end-June, accounting for around 2.0% of total foreign currency deposits in Hong Kong. The increase was possibly due to the anticipation of the renminbi-denominated bonds issues in June and July.



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

| <u>As at end of period</u>   |    | <u>Interest rates on<sup>(a)</sup></u>         |                                  |                                   |  |   | <u>Number of licensed banks engaged in RMB business</u> |
|------------------------------|----|--|----------------------------------|-----------------------------------|--|---|---|
|                              |    | <u>Demand and savings deposits</u><br>(RMB Mn) | <u>Time deposits</u><br>(RMB Mn) | <u>Total deposits</u><br>(RMB Mn) | <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  |
|                              | Q2 | 35,924   | 18,457                           | 54,381                            | 0.46   | 0.64  | 40  |
| % change from end-2008       |    | -5.8   | 2.9                              | -3.0                              | N.A.   | N.A.  | N.A.  |
| % change over a year earlier |    | -29.9  | -30.1                            | -30.0                             | 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.

4.14 A pilot scheme to allow eligible Mainland and Hong Kong enterprises to use renminbi to settle trade transactions was launched recently, and Hong Kong was the first place outside the Mainland to participate in such a scheme. The scheme is significant in three aspects, namely, enabling import and export enterprises to manage flexibly and thus reducing 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

4.15 The Hong Kong dollar *debt market* expanded sharply in the first half of 2009, with the growth of public sector debt picking up further. Total gross issuance of Hong Kong dollar debt securities in the period registered a remarkable jump of 99.7% from a year earlier. In particular, issuance of Exchange Fund Bills and Notes rose by a larger extent of 129.9% and accounted for 74.6% of all new debt issuance, as the HKMA continued to increase the supply of short-dated Exchange Fund paper to meet the demand from banks for the purpose of liquidity management. Against this backdrop, total outstanding balance of Hong Kong dollar debt reached a record level of \$862.5 billion at end-June 2009, up by 20.4% from end-2008<sup>(6)</sup>. This was equivalent to 24.6% of HK\$M3 or 20.3% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>. Noticeably, the public sector accounted for 41.9% of the outstanding balance at end-June, as compared with 30.0% a year earlier.

4.16 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. Relevant resolutions were passed by the Legislative Council on 8 July and became effective upon gazettal on 10 July. Subsequent to that, the Financial Secretary directed the HKMA as the representative of the Government to assist in the implementation of the Programme.

4.17 As representative of the Government, the HKMA announced on 3 August the appointment of 12 Primary Dealers and 97 Recognised Dealers to assist in taking forward the institutional tranche of the Programme. A tentative issuance schedule for the institutional tranche, covering the six months from September 2009 to February 2010, was also announced on the same day. For the institutional tranche, two-year, five-year and ten-year Government Bonds will tentatively be issued with a total issue size of \$8 billion within the first six months. Regarding the retail tranche, the Government will take into account the advice of the Co-arrangers and prevailing market conditions in determining the timing of issue. The Programme is expected 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.

**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 |
|  | Q2                                 | 191.1                  | 10.6   | -               | 201.8                     | 14.6               | 4.8                   | 21.2   | 40.6                       | 6.2                 | 248.5 |
|  | During the first<br>half of 2009   | 321.9                  | 19.3   | -               | 341.1                     | 20.2               | 7.6                   | 50.8   | 78.6                       | 12.0                | 431.7 |
|  | % change<br>over a year<br>earlier | 129.9                  | 36.2   | N.A.            | 121.3                     | -15.8              | -21.1                 | 78.8   | 26.6                       | N.A.                | 99.7  |
| <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 |
|  | Q2                                 | 288.4                  | 68.1   | 5.0             | 361.5                     | 80.5               | 72.0                  | 322.9  | 475.4                      | 25.5                | 862.5 |
|  | % change from<br>end-2008          | 82.9                   | 5.4  | 0.0             | 59.1                      | -15.3              | 7.4                   | 3.2  | 0.1                        | 78.9                | 20.4  |
|  | % change<br>over a year<br>earlier | 99.9                   | 5.6  | -35.1           | 67.0                      | -24.4              | 5.2                   | 1.4  | -3.7                       | 104.8               | 19.4  |

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

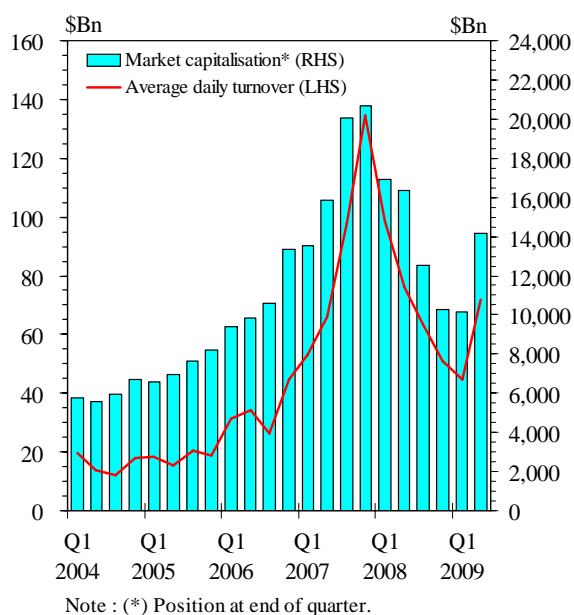
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## The stock and derivatives markets

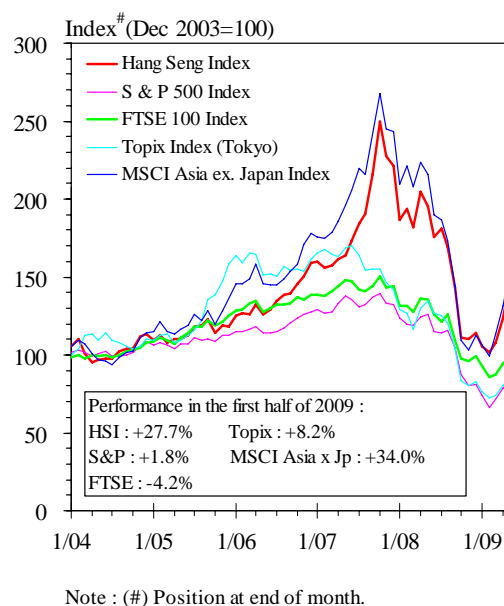
4.18 The *local stock market*, having remained depressed and listless in the early part of 2009, started to regain vitality and strength after March. Share prices, especially those related to the Mainland enterprises, showed a particularly notable rise in more active trading during the second quarter. For the first half of 2009 as a whole, the *Hang Seng Index (HSI)* leapt by 27.7% to 18 379 at end-June 2009. The increase was even more impressive, at 62.0%, when compared to the closing low of 11 345 on 9 March 2009. The *daily turnover* averaged at \$58.3 billion in the first half, up marginally by 2.0% compared with the second half of 2008, albeit still 33.2% less than a year earlier.

4.19 The *market capitalisation* likewise bounced back visibly by 37.4% during the first half, to \$14.1 trillion at end-June. This put the local bourse at the seventh largest in the world and the third largest in Asia, according to the *World Federation of Exchanges*<sup>(8)</sup>. As to fund raising activities, there was a substantial upsurge in value in the second quarter, attributable to the enormous rights issue from a bank in April. Consequently, the equity capital raised through new share flotation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) jumped by 77.9% over a year earlier to a total of \$217.4 billion for the first half as a whole<sup>(9)</sup>. IPOs also witnessed a revival of activity in the latter part of the second quarter.

**Diagram 4.6 : The local stock market staged a strong rebound in the second quarter**



**Diagram 4.7 : Major international stock markets reverted to an uptrend in the second quarter**



4.20 The Mainland enterprises continued to occupy a dominant position in the Hong Kong stock market. At end-June, there were 473 Mainland enterprises (including 150 H-share companies, 96 “Red Chips” companies and 227 private enterprises) listed on the market, accounting for 37% of the total number of listed companies and 59% of the total market capitalisation. For the first half as a whole, the Mainland-related stocks accounted for as much as 71% of equity turnover. This notwithstanding, the share of Mainland enterprises in total equity capital raised in the market shrank to only 22% in the period, due to the dilution effect from the mega rights offering from a non-Mainland bank.

4.21 The *derivatives market* remained buoyant in overall terms during the first half, even though the average daily trading volume for futures and options contracts was still slightly down by 2.4% year-on-year<sup>(10)</sup>. There existed considerable variations in performance among the derivative products, however. Average daily turnover volume in stock options dropped by 13.8% year-on-year, in stark contrast to a 33.6% surge in trading of HSI options. Meanwhile, trading in securitised derivatives, which accounted for 22% of total market turnover value, contracted by 45.2% in value terms from a year earlier. This was attributable entirely to a 71.7% plunge in trading of derivative warrants, more than offsetting the 216.5% jump in trading of callable bull/bear contracts. Yet taken together, the overall transacted value in the securitised derivatives market in the second quarter was noticeably higher than the subdued levels prevailing in late 2008 and early 2009, upon a return of confidence among the investors.

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

|      |                                  | Hang Seng<br>Index<br>futures | Hang Seng<br>Index<br>options | H-shares<br>Index<br>futures | Stock<br>options | Total<br>futures and<br>options<br>traded* | Derivative<br>warrants<br>(\$Mn) | Callable<br>bull/bear<br>contracts<br>(\$Mn) | Total<br>securitised<br>derivatives<br>traded<br>(\$Mn)^ |
|------|----------------------------------|-------------------------------|-------------------------------|------------------------------|------------------|--|----------------------------------|--|--|
| 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   |
|      | Q2                               | 95 356                        | 21 465                        | 55 346                       | 217 696          | 449 160                                    | 6,770                            | 7,720  | 14,490   |
|      | During the first<br>half of 2009 | 87 788                        | 19 334                        | 55 068                       | 206 084          | 419 714                                    | 6,011                            | 6,795  | 12,807   |
|      | % change over a<br>year earlier  | 4.3                           | 33.6                          | -1.4                         | -13.8            | -2.4                                       | -71.7                            | 216.5  | -45.2  |

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

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

4.22 In May, the Supplement VI to CEPA was signed which proposed to actively explore the introduction in the Mainland of “open-end index-tracking exchange-traded fund”, the portfolios of which are constituted by Hong Kong listed stocks. This could potentially provide an important channel for Mainland residents to invest in Hong Kong equities.

4.23 Moreover, the Securities and Futures Commission and the Taiwan Financial Supervisory Commission signed a Side Letter to a bilateral Memorandum of Understanding on 22 May which would facilitate cross listing of exchange-traded funds (ETFs) in the two markets. This would not only help to consolidate Hong Kong’s position as a preferred platform with ETF exposure to the Greater China region, but also serve as another important milestone for co-operation between the financial sectors in Hong Kong and Taiwan.

## Fund management and investment funds

4.24 Wealth management business experienced a steady recovery in the first half of 2009, along with the rebound in most financial markets globally. Gross retail sales of *mutual funds* in the period amounted to US\$5.1 billion<sup>(11)</sup>, representing a 14.5% increase over the second half of 2008, although this sales figure was still 62.1% down from a year earlier. The aggregate net asset value of the approved constituent funds under the *MPF schemes* posted a larger rise of 24.0% from \$209 billion at end-2008 to \$260 billion at end-June 2009<sup>(12)</sup>, but that for retail hedge funds dropped over the same period<sup>(13)</sup>.

## Insurance sector

4.25 Gross premium income from new long-term business for the *insurance sector* plunged by 60.5% in the first quarter of 2009 from a year earlier<sup>(14)</sup>. Nevertheless, it was still markedly higher by 33.1% over the fourth quarter of 2008, thanks to the relatively sturdy performance in non-linked insurance plans. As for general business, gross premium registered a mild increase of 3.9% in the first quarter over a year earlier.

**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 |
| 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   |
| 2009 | Q1                           | 7,940            | 5,647       | 694                 | 6,223                                       | 2,198                                | 54                        | 69                                   | 8,544                  | 16,484   |
|      | % change over a year earlier | 3.9              | 3.1         | 8.8                 | -24.2                                       | -83.5                                | -15.6                     | 40.8                                 | -60.5                  | -43.7  |

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 temporarily 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. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the US FFTR was retained while the HIBOR leg were re-instated in the calculation of the Base Rate after 31 March 2009.
- (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-June 2009, there were 144 licensed banks, 26 restricted licence banks and 28 deposit-taking companies in Hong Kong. Altogether, 198 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 25 July 2009), covering almost all globally recognised stock exchanges.
- (9) At end-June 2009, there were 1 103 and 170 companies listed on the Main Board and GEM respectively.
- (10) At end-June 2009, there were 48 classes of stock options contracts and 41 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-June 2009, there were 1 245 authorised funds, according to the survey.
- (12) At end-June 2009, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 354 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 239 000 employers, 2.19 million employees and 265 000 self-employed persons have participated in MPF schemes.
- (13) At end-June 2009, there were 13 SFC-authorised retail hedge funds with combined net asset size of US\$666 million. This amount of net assets under management represented a 13.5% decrease from end-2008 level, although it was still more than 4 times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-June 2009, there were 172 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 107 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*

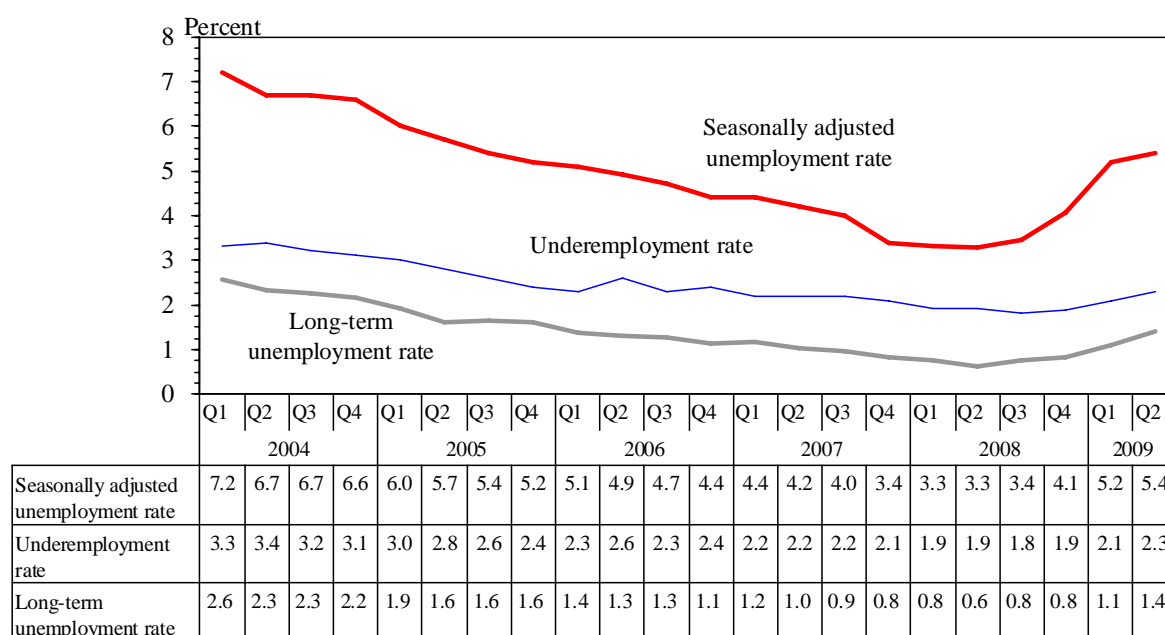
- *The labour market, after the distinct weakening in the first quarter, showed signs of stabilisation in the second quarter, thanks to the rebound in the economy both on the external and domestic fronts. Apart from the high degree of flexibility and resilience of the labour market, the recent encouraging development was also helped by the Government's fiscal stimulus packages and the cushion from the Loan Guarantee Schemes.*
- *On a seasonally adjusted quarter-to-quarter comparison, total employment stabilised after experiencing three consecutive quarters of decline, thereby helping to slow the pace of increase in unemployment rate during the quarter.*
- *Vacancies in private sector establishments fell almost across-the-board in March 2009. Reflecting the weak labour market conditions in the first quarter, pay reductions were widespread in many industries in both nominal and real terms.*
- *Updated information from the General Household Survey showed an encouraging development that in the second quarter of 2009 the average employment earnings rose back slightly over a year earlier. According to the latest data, the number of private sector vacancies posted by the Labour Department in June increased over the number in May this year, the first positive change since March 2009.*
- *Looking ahead, given the still weak state of the economy and the entry of fresh graduates and school leavers into the labour market in the coming months, the unemployment rate would continue to face further upward pressure in the near term.*

### **Overall labour market situation**

5.1 Labour market conditions weakened significantly in early 2009 as recessionary forces led to job losses and pay cuts. However, signs of stabilisation emerged in the second quarter of 2009 in tandem with the relative improvement in the economy. On a quarter-to-quarter comparison, the seasonally adjusted unemployment rate<sup>(1)</sup> rose only marginally, by 0.2 percentage point to 5.4% in the second quarter of 2009, after a sharp rise of 1.1 percentage points to 5.2% in the first quarter. Still, in the first half of 2009,

the seasonally adjusted unemployment rate has risen by a cumulative 1.3 percentage points, from 4.1% in the fourth quarter of 2008<sup>(2)</sup> to a 43-month high of 5.4% in the second quarter of 2009. The corresponding number of unemployed soared by 61 900 to 203 000 in the second quarter of 2009. At the same time, the underemployment rate<sup>(3)</sup> increased from 1.9% in the fourth quarter of 2008 to 2.1% in the first quarter of 2009 and further to 2.3% in the second quarter of 2009.

**Diagram 5.1 : The rise in unemployment rate slowed down visibly in the second quarter of 2009**



## Total employment and labour supply

5.2 *Total employment*<sup>(4)</sup> contracted by 0.3% in the second quarter of 2009 as compared to a year earlier, same as in the first quarter of 2009. Yet on a seasonally quarter-to-quarter basis, total employment increased in the second quarter over the first quarter of 2009, following declines over three consecutive quarters. Indeed, the labour market has exhibited a greater degree of resilience in the current global financial crisis than in the Asian Financial Crisis, even though in terms of the scale of disruptions the current crisis is on a truly global scale than the regional crisis ten years ago (see Box 5.1 for details).

5.3 Analysed by employment status, the data show that full-time employee jobs decreased by 21 400 while the number of self-employed increased by 12 700 in the second quarter of 2009 as compared to the preceding quarter. These figures suggest that labour market conditions remained weak, albeit the slowdown in deterioration. Analysed by sector, notable decreases in employment were observed in the import/export trade, professional and business services (excluding cleaning and similar services), construction and

real estate sectors. On the other hand, there were notable job gains in the miscellaneous personal services, financing, information and communications, education, and insurance sectors.

5.4 Comparing the second quarter of 2009 with the first quarter, the higher-skilled segment of the labour market suffered from a further job loss of 1 800 while the lower-skilled segment recorded a slight job gain of 400. In terms of occupation, clerks, craft and related workers, and managers and administrators had larger shrinkages in employment. At the same time, larger declines in employment were found among persons aged 15-29, and individuals with non-degree post-secondary education. When compared with the employment level just before the outbreak of global financial crisis (June – August 2008), the higher-skilled segment had a cumulative job loss of 1.7%, larger than that in the lower-skilled segment, at 0.1%.

5.5 Driven mainly by demographic factors, the *labour force*<sup>(5)</sup> grew by 2.0% year-on-year in the second quarter of 2009, as compared to the rate of 1.6% year-on-year in the preceding quarter. Against the first quarter of 2009, the overall labour force participation rate (LFPR) held stable at 61.3%, while the population aged 15 and above expanded by 0.4%. The differential in growth rates between the labour force and employment is a manifestation of demand-supply imbalance, leading to a further rise in the unemployment rate in the second quarter of 2009.

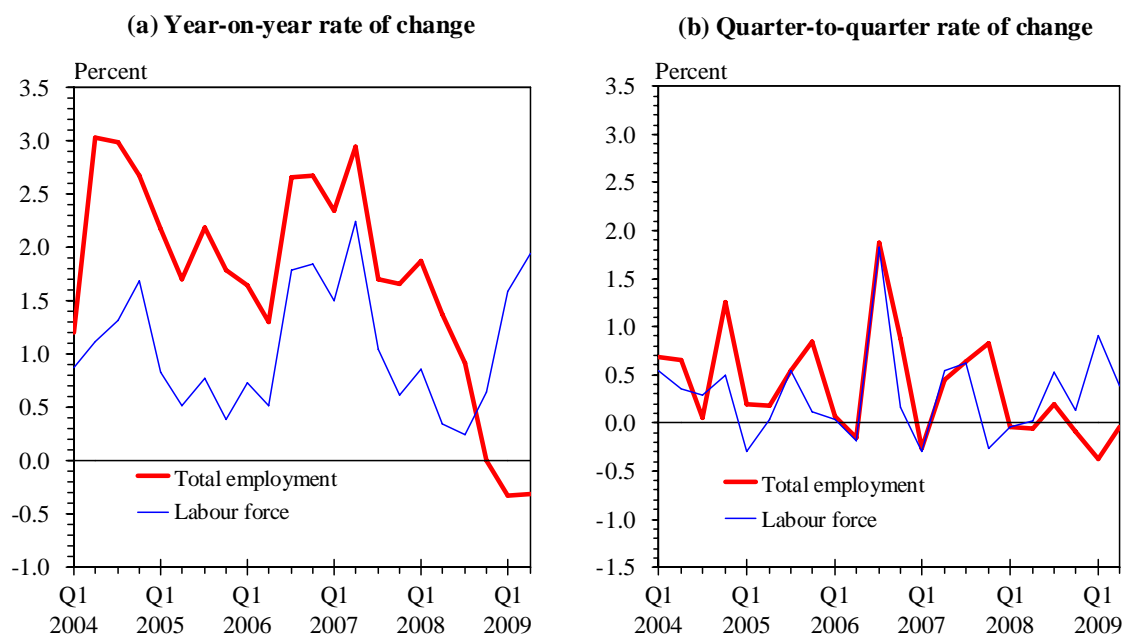
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

|                            | <u>Labour force</u> | <u>Persons employed</u> | <u>Persons unemployed</u> <sup>(a)</sup> | <u>Persons underemployed</u> |
|----------------------------|---------------------|-------------------------|--|------------------------------|
| 2008 Annual                | 3 648 900 (0.5)     | 3 518 800 (1.0)         | 130 100                                  | 69 000                       |
| Q1                         | 3 637 100 (0.9)     | 3 519 000 (1.9)         | 118 200                                  | 69 900                       |
| Q2                         | 3 638 200 (0.3)     | 3 517 100 (1.4)         | 121 100                                  | 67 900                       |
| Q3                         | 3 657 400 (0.2)     | 3 523 700 (0.9)         | 133 600                                  | 66 300                       |
| Q4                         | 3 661 900 (0.6)     | 3 520 700 (#)           | 141 200                                  | 69 000                       |
| 2009 Q1                    | 3 694 900 (1.6)     | 3 507 600 (-0.3)        | 187 200                                  | 79 200                       |
| <i>Three months ending</i> |                     |                         |  |                              |
| Apr                        | 3 699 000 (1.6)     | 3 502 100 (-0.5)        | 196 900                                  | 79 900                       |
| May                        | 3 714 700 (2.1)     | 3 514 900 (#)           | 199 700                                  | 85 200                       |
| Jun                        | 3 709 200 (2.0)     | 3 506 200 (-0.3)        | 203 000                                  | 84 900                       |
|                            | <0.4>               | <#>                     |  |                              |

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) Year-on-year % change.  
 < > % change between the first quarter and second quarter of 2009.  
 # Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Employment contraction narrowed in the second quarter of 2009**



## Profile of unemployment

5.6 Reflecting the intensifying drag from the global recession, the unemployment rate rose markedly in the first quarter of 2009 but the pace of increase slowed on entering the second quarter of 2009. Likewise, the rise in the number of unemployed persons tapered. On a quarter-to-quarter

comparison, the number of unemployed persons increased by 15 800 to 203 000, while the seasonally adjusted unemployment rate climbed by a mere 0.2 percentage point to 5.4% in the second quarter of 2009. Over the same period, the rise in unemployment rate (seasonally unadjusted) was similar for both the higher- and lower-skilled, by 0.3 and 0.2 percentage points respectively to 3.1% and 6.1%. Compared to the situation just before the outbreak of global financial crisis (June – August 2008), the unemployment rate for lower-skilled workers had risen by a total of 2.4 percentage points, while that for higher-skilled workers had a smaller increase of 1.7 percentage points.

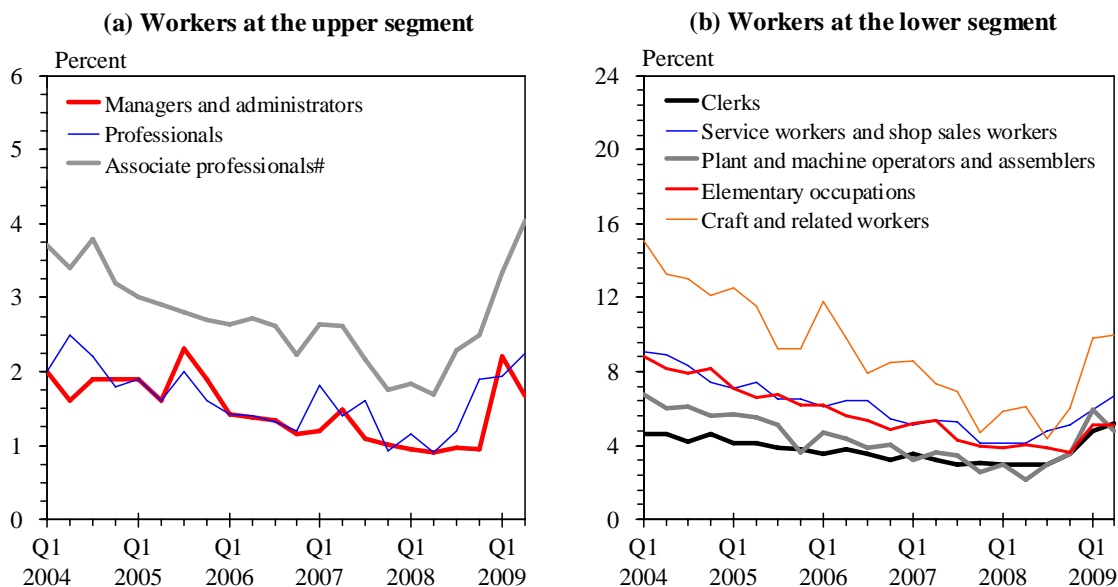
5.7 Analysed by economic sector, the rise in unemployment rate was most visible in the social work activities, food services and wholesale sectors. In terms of other socio-economic characteristics, individuals engaged as service workers and shop sales workers, and associate professionals, as well as workers aged 15-29 and those with secondary or above education 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>   | <u>Q2</u> |
| Import/export trade and wholesale  | 2.4         | 2.4       | 2.5       | 3.3       | 4.6         | 4.9       |
| Retail   | 4.0         | 4.4       | 4.6       | 5.4       | 6.0         | 6.5       |
| Accommodation and food services  | 5.2         | 4.6       | 5.6       | 6.2       | 7.3         | 8.2       |
| Transportation, storage, postal and courier services                     | 3.3         | 2.8       | 2.9       | 3.9       | 5.8         | 4.9       |
| Information and communications   | 1.9         | 2.4       | 2.1       | 3.3       | 4.6         | 4.8       |
| Financing and insurance, real estate, professional and business services | 2.5         | 2.3       | 2.6       | 2.3       | 3.6         | 4.0       |
| Public administration, social and personal services                      | 1.3         | 1.1       | 1.6       | 1.4       | 1.8         | 2.0       |
| Manufacturing  | 4.0         | 4.3       | 4.6       | 5.0       | 6.2         | 6.8       |
| Construction   | 7.5         | 7.6       | 5.5       | 6.1       | 11.2        | 11.8      |
| Overall (seasonally adjusted)  | 3.3         | 3.3       | 3.4       | 4.1       | 5.2         | 5.4       |

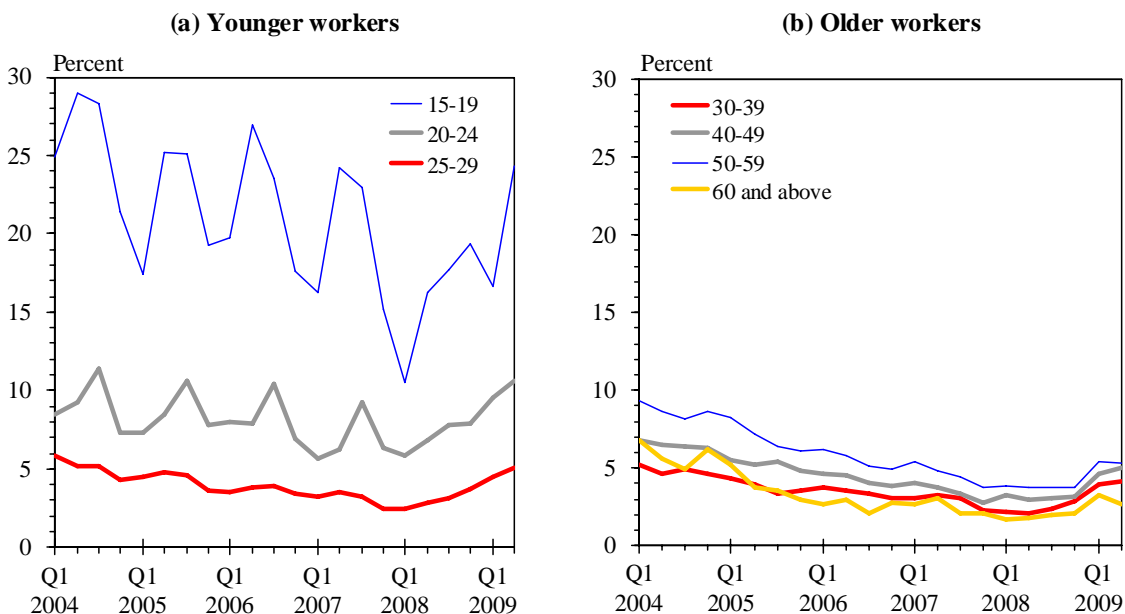
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : The rise in unemployment rate\* tapered in most occupations in the second quarter of 2009**



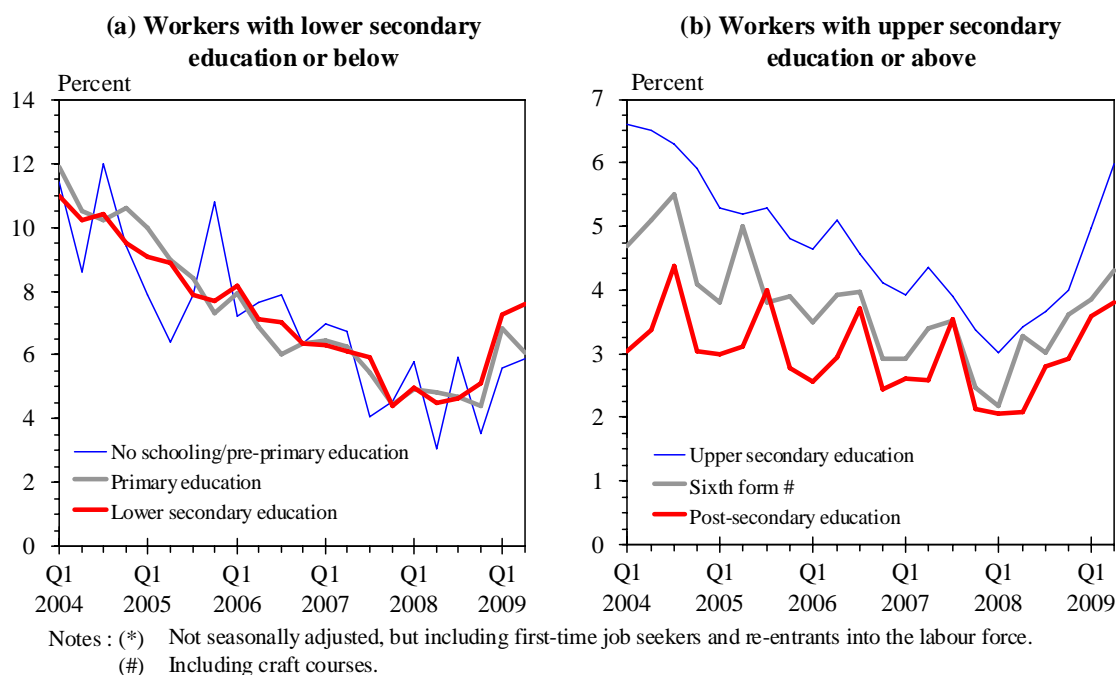
Notes : (\*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.  
(#) Including technicians and supervisors.

**Diagram 5.4 : Notable increase in unemployment rate\* was observed among younger workers in the second 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 secondary education or above suffered from the largest rise in unemployment rate\* in the second quarter of 2009**



5.8 Indicators measuring the intensity of unemployment still depicted weak labour market conditions. The median duration of unemployment lengthened from 74 days in the first quarter of 2009 to 87 days in the second quarter. Both the number and the long-term unemployment rate (i.e. six months or longer) have been on the rise since the third quarter of 2008, reaching 51 700 persons and 1.4% respectively in the second quarter of 2009. On the other hand, the proportion of layoffs among the unemployed (excluding first-time job seekers) fell slightly from 72.0% in the first quarter to 70.7% in the second quarter of 2009.

### Profile of underemployment

5.9 In the second quarter of 2009, the underemployment rate rose to 2.3% from 2.1% in the first quarter. The rise was particularly distinct in the construction sector (up by 2.9 percentage points to 13.4%). With over half of craft and related workers engaged in construction work, this occupation group thus recorded the largest increase in underemployment rate, by 2.3 percentage points to 10.8%.

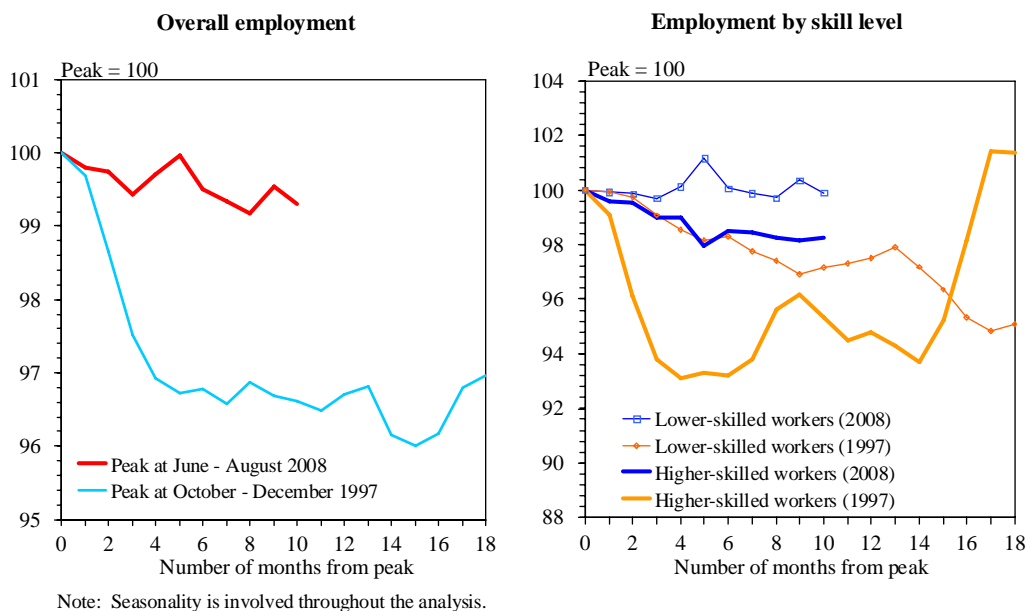


## Box 5.1

### Comparison of labour market conditions by skill segment in the aftermath of Asian Financial Crisis and after the onset of the current global financial crisis

This box article aims to compare the adjustments in the labour market in the current global financial crisis (GFC) with the Asian Financial Crisis (AFC) in 1997.

**Chart 1: Labour market is more resilient with fewer job losses in GFC**



### Contraction in employment is less severe in GFC than AFC

Although the real economy contracted more severely in the early phase of GFC than that after AFC, the labour market as a whole has exhibited greater resilience in the current crisis (Chart 1). Ten months after the pre-crisis employment peaked at June – August 2008, total employment declined by a cumulative of 24 800 in the second quarter of 2009. This was much smaller than the job loss of 109 200 during the first ten months of AFC. The increase in unemployed persons was also smaller in GFC than in AFC, at 74 100 as against 109 100 (Table 1).

**Table 1: Snapshot on employment contraction in ten months after financial crises**

|                       | 10 months after 1997 AFC<br>(Change between Q4 97<br>& Aug-Oct 98) |                    |                             | 10 months after 2008 GFC<br>(Change between Jun-Aug 08<br>& Q2 09) |                    |                            |
|-----------------------|--|--------------------|-----------------------------|--|--------------------|----------------------------|
|                       | Employment   | Labour force       | Unemployment (rate)         | Employment   | Labour force       | Unemployment (rate)        |
| <b>Overall</b>        | -109 200<br>(-3.4%)  | -100<br>(#)        | +109 100<br>(+3.2% points*) | -24 800<br>(-0.7%)   | +49 300<br>(+1.3%) | +74 100<br>(+2.1% points*) |
| <b>Of which:</b>      |  |                    |                             |  |                    |                            |
| <i>Higher-skilled</i> | -44 800<br>(-4.7%)   | -31 600<br>(-3.3%) | +13 300<br>(+1.4% points)   | -22 400<br>(-1.7%)   | -400<br>(#)        | +22 000<br>(+1.7% points)  |
| <i>Lower-skilled</i>  | -64 400<br>(-2.8%)   | +11 000<br>(+0.5%) | +75 400<br>(+3.2% points)   | -2 400<br>(-0.1%)  | +56 700<br>(+2.4%) | +59 100<br>(+2.4% points)  |

Notes: (\*) Seasonally adjusted figures.

(#) Less than 0.05%.

It is worthy to note that the labour force participation rate (LFPR) and hence the labour force had moved in different directions during the two crises. During the first ten months of AFC,

### Box 5.1 (Cont'd)

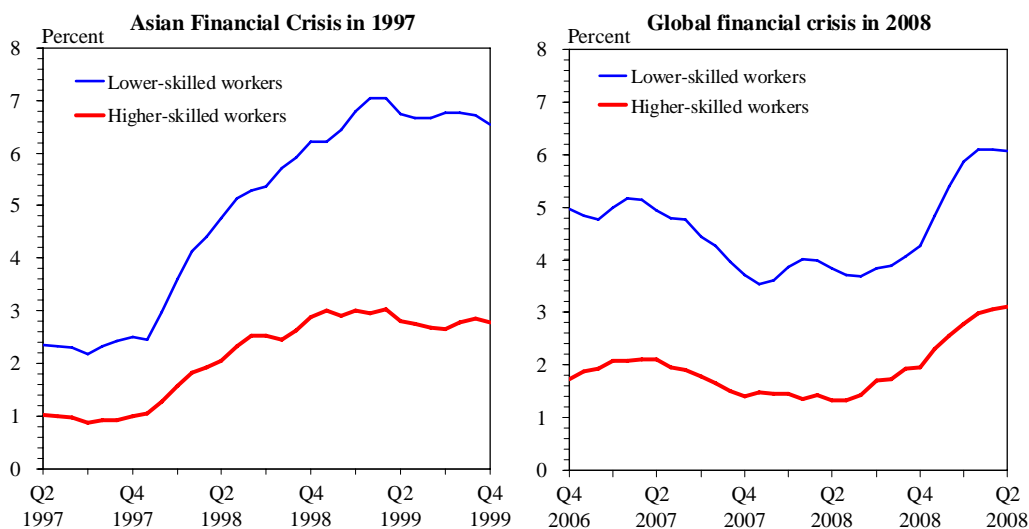
LFPR decreased by 0.7 percentage point for the economy as a whole and across most age groups, reflecting the drop-outs from the workforce amid the gloomy employment outlook at that time. On the contrary, the overall LFPR increased by 0.3 percentage point under the current crisis, in which more significant increase was seen among females aged 35-54. As such, the increase in unemployment rate could have been even more notable if not for the drop-outs in the labour force in AFC.

#### Higher-skilled workers suffered from a larger percentage decline in employment in the initial phase of both crises while unemployment rate of lower-skilled workers rose more

Analysed by skill segment, higher-skilled workers suffered from a larger percentage decline in employment in the first ten months after AFC (Table 1). A similar pattern is also observed during the early stage of GFC, with the decline in employment for higher-skilled segment also larger than lower-skilled segment, by 1.7% as against 0.1%. Over the whole period of AFC, total employment declined for five consecutive quarters, but most of the job-shedding took place in the first two quarters, particularly in the higher-skilled segment. In contrast, job-shedding for lower-skilled workers lasted over a longer period of six consecutive quarters.

In both crises, the increase in unemployment was across-the-board, but it was the lower-skilled segment that bore more of the brunt of the economic downturn. The unemployment rate for higher-skilled workers rose by 2.1 percentage points from a pre-crisis low of 0.9% in the third quarter of 1997 to 3.0% in March – May 1999 (Chart 2). Meanwhile, the unemployment rate for lower-skilled workers jumped by a larger extent of 4.8 percentage points from a pre-crisis low of 2.2% in the third quarter of 1997 to a peak of 7.0% in March – May 1999. A similar observation is found in the current crisis that lower-skilled workers have also experienced a larger rise in unemployment than higher-skilled workers. The unemployment rate for lower-skilled workers increased by 2.4 percentage points from 3.7% in June – August 2008 to 6.1% in the second quarter of 2009. In comparison, the unemployment rate for higher-skilled workers rose by 1.7 percentage points from 1.4% to 3.1% over the same period.

Chart 2: Unemployment rate\* by skill segment in both crises



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

#### More moderate layoffs during GFC than AFC

As most companies did not have the experience to cope with an economic shock with scale similar to AFC, panic downsizing was not an uncommon response (Table 2). After experiencing different crises over the decade, employers appeared to have exercised greater restraint in laying off workers, despite the much weaker business environment during GFC.

### Box 5.1 (Cont'd)

At the same time, workers also appeared to be more willing to accommodate wage reductions, shorter working hours and fewer working days. As a result, the increase in layoffs has been more moderate for both skill segments (Table 3). Mirroring this fact, the rise in unemployment rates for both skill segments is smaller this time round.

**Table 2: Upsurge in layoffs during Asian Financial Crisis**

|                       | Change within one quarter after AFC<br>(i.e. Q4 97-Q1 98) |        | Change within two quarters after AFC<br>(i.e. Q4 97-Q2 98) |         | Change within three quarters after AFC<br>(i.e. Q4 97-Q3 98) |         |
|-----------------------|---|--------|--|---------|--|---------|
|                       | No.   | %      | No.  | %       | No.  | %       |
| <b>Overall</b>        | +27 600   | +73.1% | +53 300  | +141.0% | +71 100  | +188.1% |
| <b>Of which:</b>      |   |        |  |         |  |         |
| <i>Higher-skilled</i> | +3 700  | +81.2% | +6 500   | +142.2% | +12 300  | +268.4% |
| <i>Lower-skilled</i>  | +23 900   | +72.0% | +46 800  | +140.9% | +58 800  | +177.0% |

**Table 3: The current situation of layoffs was more moderate**

|                       | Change within one quarter after GFC<br>(i.e. Q3 08-Q4 08) |        | Change within two quarters after GFC<br>(i.e. Q3 08-Q1 09) |         | Change within three quarters after GFC<br>(i.e. Q3 08-Q2 09) |         |
|-----------------------|---|--------|--|---------|--|---------|
|                       | No.   | %      | No.  | %       | No.  | %       |
| <b>Overall</b>        | +16 900   | +28.0% | +65 900  | +109.3% | +70 800  | +117.4% |
| <b>Of which:</b>      |   |        |  |         |  |         |
| <i>Higher-skilled</i> | +5 100  | +59.2% | +15 200  | +176.3% | +19 700  | +228.2% |
| <i>Lower-skilled</i>  | +11 800   | +22.8% | +50 700  | +98.1%  | +51 100  | +98.9%  |

### Counter-cyclical measures have been introduced by the Government in GFC

Complementing the experience gained in the private sector, the Government also responds faster and more proactively to deal with the global financial crisis, especially in the direction of creating employment opportunities and providing assistance to companies in financial difficulties. Apart from the measures to preserve employment, the Government has also introduced several rounds of fiscal stimulus measures to mitigate the impact of the global recession. For 2008 and 2009 taken together, the total value of discretionary fiscal measures introduced by the Hong Kong Government has amounted to \$87.6 billion or 5.2% of GDP, which would lift Hong Kong's GDP in 2009 by around 2 percentage points after taking into account import leakage and spillover effects. Clearly, in the absence of discretionary measures, the extent of recession in Hong Kong and correspondingly the extent of job loss, would have been more severe. Also, as part of the three-pronged strategy of 'Stabilise the financial system, Support enterprises and Preserve jobs', the Government has extended the existing SME Loan Guarantee Scheme and introduced a Special Loan Guarantee Scheme to help business firms during this difficult period. By end-July 2009, some 11 000 companies, employing over 190 000 people, have benefited from these loan schemes. These loan schemes have rendered the assistance at a time when credit is restrained, thereby contributing towards the goal of preserving employment both directly in the companies that applied for the loans and indirectly in other companies that provide goods and services to them.

### Further analysis

In order to more completely understand the labour market conditions between AFC and GFC, another box article focuses on sectoral analysis, will be provided in the next economic report.

## **Profile of employment in establishments**

5.10 Quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only after a relatively long time lag, with the latest figures referring only to March 2009. In view of this limitation, attempts have been made to bring the analysis more up-to-date, based particularly on information supplied from supplementary sources.

5.11 Comparing March 2009 with a year earlier, total employment in private sector establishments declined by 1.0%, reversing the uptrend since March 2004. By economic sector, notable job losses were seen in the manufacturing (down 7.0%), import/export trade and wholesale (down 4.5%), and real estate (down 1.2%) sectors; offsetting job gains recorded in the sectors of construction sites<sup>(6)</sup> (up 2.8%), accommodation services (up 2.7%), and social and personal services (up 2.6%). By establishment size, larger enterprises in the private sector appeared to have retained some capacity for job creation with a gain of 45 200 jobs (up 3.6%), whereas jobs in small and medium-sized enterprises (SMEs)<sup>(7)</sup> were reduced by 70 100 (down 5.7%) from a year earlier. As regards the civil service, the number of employees rose by 1.1% as compared with a year earlier. This reflected the efforts of the Government to speed up recruitment, as part of the measures to mitigate the impact of the global financial and economic crisis.

5.12 In addition to regular employment and placement services, the Labour Department (LD) has organised large-scale and mini-job fairs at various locations to respond speedily to the recruitment needs of employers and offer convenient services to job seekers. In the first half of 2009, the LD has organised nine large-scale job fairs and 198 mini-job fairs. At the same time, the Employees Retraining Board will closely monitor changes in labour market conditions to flexibly adjust the allocation of training places. 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 increasing demand.

5.13 Faced with the entry of fresh graduates and school leavers into the labour market in the coming months, the Government has enhanced its employment programmes to encourage employment among youths and launched the “Internship Programme for University Graduates” in August this year. The programme aims to provide about 4 000 places for university graduates to work as interns and receive training in local and Mainland enterprises for 6 to 12 months.

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

|   | <u>2008</u>                |                            |                            |                            |                            | <u>2009</u>                 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|
|   | <u>Annual average</u>      | <u>Mar</u>                 | <u>Jun</u>                 | <u>Sep</u>                 | <u>Dec</u>                 | <u>Mar</u>                  |
| Import/export trade and wholesale   | 582 500<br>(-0.6)          | 586 200<br>(0.1)           | 585 400<br>(-0.1)          | 582 000<br>(-0.5)          | 576 600<br>(-1.8)          | 559 800<br>(-4.5)           |
| Retail  | 236 000<br>(2.8)           | 233 400<br>(3.3)           | 236 100<br>(2.8)           | 237 800<br>(3.6)           | 236 900<br>(1.5)           | 232 000<br>(-0.6)           |
| Accommodation and food services   | 241 500<br>(2.0)           | 238 200<br>(1.8)           | 241 900<br>(3.7)           | 245 100<br>(2.5)           | 240 700<br>(*)             | 238 200<br>(*)              |
| Transportation, storage, postal and courier services <sup>(a)</sup>                     | 156 300<br>(3.5)           | 155 500<br>(5.1)           | 157 000<br>(3.1)           | 156 900<br>(3.8)           | 155 800<br>(1.8)           | 158 000<br>(1.6)            |
| Information and communications  | 88 600<br>(3.6)            | 86 900<br>(2.2)            | 89 800<br>(5.3)            | 89 900<br>(5.2)            | 87 700<br>(1.7)            | 86 100<br>(-0.9)            |
| Financing and insurance, real estate, professional and business services <sup>(a)</sup> | 577 100<br>(3.4)           | 573 700<br>(5.2)           | 578 600<br>(3.8)           | 581 800<br>(3.7)           | 574 400<br>(1.1)           | 572 700<br>(-0.2)           |
| Social and personal services <sup>(a)</sup>   | 401 600<br>(3.6)           | 396 600<br>(3.3)           | 399 000<br>(2.9)           | 405 000<br>(4.5)           | 406 000<br>(3.8)           | 407 100<br>(2.6)            |
| Manufacturing   | 132 500<br>(-3.5)          | 135 200<br>(-2.9)          | 133 000<br>(-3.7)          | 131 300<br>(-3.7)          | 130 600<br>(-3.8)          | 125 700<br>(-7.0)           |
| Construction sites (manual workers only)  | 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)           | 51 900<br>(2.8)             |
| <i>All establishments surveyed in the private sector<sup>(a)(b)</sup></i>               | <i>2 476 400<br/>(1.8)</i> | <i>2 467 200<br/>(2.5)</i> | <i>2 480 800<br/>(2.1)</i> | <i>2 488 900<br/>(2.2)</i> | <i>2 468 900<br/>(0.5)</i> | <i>2 442 200<br/>(-1.0)</i> |
|   |                            | <i>&lt;0.9&gt;</i>         | <i>&lt;0.2&gt;</i>         | <i>&lt;0.5&gt;</i>         | <i>&lt;-1.0&gt;</i>        | <i>&lt;-0.7&gt;</i>         |
| <i>Civil service<sup>(c)</sup></i>  | <i>154 000<br/>(0.1)</i>   | <i>153 500<br/>(-0.2)</i>  | <i>153 700<br/>(*)</i>     | <i>154 300<br/>(0.4)</i>   | <i>154 300<br/>(0.3)</i>   | <i>155 100<br/>(1.1)</i>    |

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

(a) Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and social and personal services.

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

(c) 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 outside Hong Kong, and other Government employees such as non-civil service contract staff are not included.

( ) % change over a year earlier.

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

(\*) Less than 0.05%.

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

## Vacancies

5.14 With the heavy drag from the global crisis stifling firms' expansion and staffing plans, job vacancies had been dwindling since September 2008 and the decline had widened further in March 2009. Following a year-on-year decline of 33.1% in December 2008, private sector vacancies plummeted even more by 50.6% in March 2009 over a year earlier. Marked declines occurred almost across all major economic sectors, except the food and beverage services sector, which registered an increase of 5.3%. Notable decreases were found in the import/export trade and wholesale (down 67.1%), arts, entertainment, recreation and other services (down 66.2%), financing and insurance (down 65.8%), and professional and business services (excluding cleaning and similar services) (down 58.4%) sectors.

5.15 In the midst of such a difficult economic climate, job vacancies had dwindled across-the-board. Specifically, job vacancies for the higher-skilled and lower-skilled workers were cut back by 51.6% and 49.9% respectively in March 2009 over a year earlier. The declines were most serious among clerks (down 76.0%), followed by associate professionals (down 53.1%), managers and administrators (down 51.4%), and plant and machine operators and assemblers (down 50.1%). Compared to the unemployment numbers in March 2009, this gave a ratio of 15 job vacancies per 100 unemployed, in contrast to 48 in March 2008. In general, there were significantly more job-seekers but far fewer vacancies in the current job market. The corresponding ratio for lower-skilled jobs fell from 36 to 12, while that for higher-skilled jobs exhibited a greater decline from 124 to 31. These figures suggest that employment conditions for workers in both skill segments, especially those in the higher-skilled segment, remain austere under the prevailing weak economic climate. By establishment size, vacancies at SMEs and large enterprises were both significantly lower by 54.7% and 46.9% respectively in March 2009 when compared to a year earlier.

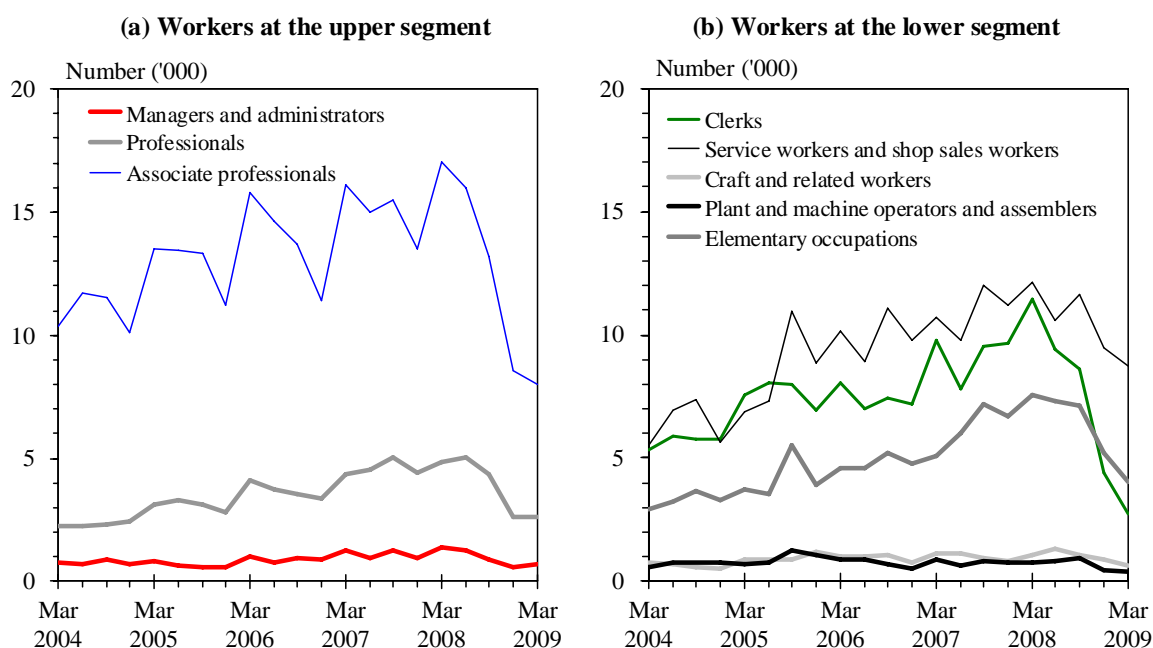
5.16 Over the period, the vacancy rate fell further from 1.3% in December 2008 to 1.1% in March 2009, and distinctly down from 2.2% a year ago. As compared to a year earlier, notable decreases were found in the financing and insurance, real estate, professional and business services (from 2.8% to 1.2%), information and communications (from 2.3% to 1.0%), and social and personal services (from 3.0% to 1.7%) sectors.

5.17 As regards the civil service, the total number of vacancies in March 2009 was 5 300, slightly down from 5 500 a year earlier. As a result of 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 remainder of this year.

5.18 Up-to-date information showed that the Labour Department (LD) posted around 46 000 private sector vacancies in June 2009, a number which was lower by 11.3% over June 2008 but up 13.5% over May 2009. When compared with a year earlier, private sector vacancies in the second quarter of 2009 decreased by 23.9%. In view of the current economic environment, employers are likely to remain cautious in recruitment decisions. The LD will continue its efforts to provide employment and placement services to facilitate job matching, in particular to those employees being made redundant amid the financial crisis. The LD will contact the affected employees and provide them with priority referral and job matching services so that they can find suitable jobs as soon as possible. The LD will also organise more job fairs to provide job seekers with up-to-date and relevant employment information.

**Diagram 5.6 : Vacancies in most occupations have fallen in the first quarter of 2009**



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

|   | <u>Number of vacancies</u> |                  |                  |                   |                   |                   | <u>Vacancy Rate</u> |
|---|----------------------------|------------------|------------------|-------------------|-------------------|-------------------|---------------------|
|   | <u>Annual average</u>      | <u>2008</u>      |                  |                   |                   | <u>2009</u>       |                     |
|   |                            | <u>Mar</u>       | <u>Jun</u>       | <u>Sep</u>        | <u>Dec</u>        | <u>Mar</u>        |                     |
| Import/export trade and wholesale   | 7 600<br>(-17.1)           | 9 900<br>(-4.2)  | 9 000<br>(-0.6)  | 7 200<br>(-18.0)  | 4 100<br>(-50.1)  | 3 300<br>(-67.1)  | 0.6                 |
| Retail  | 5 000<br>(7.6)             | 5 700<br>(14.7)  | 5 200<br>(25.5)  | 5 500<br>(9.8)    | 3 500<br>(-19.7)  | 2 900<br>(-49.6)  | 1.2                 |
| Accommodation and food services   | 5 500<br>(5.0)             | 5 400<br>(24.6)  | 5 600<br>(21.7)  | 5 400<br>(-19.4)  | 5 700<br>(5.6)    | 5 200<br>(-4.2)   | 2.1                 |
| Transportation, storage, postal and courier services <sup>(a)</sup>                         | 1 700<br>(-12.0)           | 2 300<br>(28.4)  | 1 900<br>(0.3)   | 1 600<br>(-24.9)  | 900<br>(-50.8)    | 1 000<br>(-58.2)  | 0.6                 |
| Information and communications  | 1 900<br>(-9.7)            | 2 100<br>(-5.0)  | 2 400<br>(26.1)  | 2 200<br>(-6.2)   | 800<br>(-55.5)    | 900<br>(-57.8)    | 1.0                 |
| Financing and insurance, real estate, and professional and business services <sup>(a)</sup> | 13 100<br>(-9.6)           | 16 300<br>(10.1) | 14 300<br>(2.9)  | 13 100<br>(-14.0) | 8 600<br>(-38.2)  | 6 800<br>(-58.4)  | 1.2                 |
| Social and personal services <sup>(a)</sup>   | 10 500<br>(9.9)            | 12 400<br>(41.5) | 11 100<br>(30.2) | 11 200<br>(8.7)   | 7 300<br>(-31.2)  | 7 100<br>(-42.6)  | 1.7                 |
| Manufacturing   | 1 600<br>(-9.2)            | 2 000<br>(0.1)   | 2 000<br>(12.4)  | 1 500<br>(-16.2)  | 1 100<br>(-36.2)  | 700<br>(-67.1)    | 0.5                 |
| Construction sites (manual workers only)  | #<br>(26.3)                | #<br>(*)         | #<br>(87.5)      | #<br>(57.7)       | #<br>(-26.7)      | #<br>(-92.1)      | *                   |
| All establishments surveyed in the private sector <sup>(a)(b)</sup>                         | 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) | 27 800<br>(-50.6) | 1.1                 |
|   |                            | <-3.0>           | <-1.5>           | <-12.2>           | <-20.4>           | <-28.2>           |                     |
| Civil service <sup>(c)</sup>  | 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)  | 5 300<br>(-3.8)   | 3.3                 |

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

(a) Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and social and personal services.

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

(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % change over a year earlier.

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

(#) Less than 50.

(\*) Less than 0.05%.

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

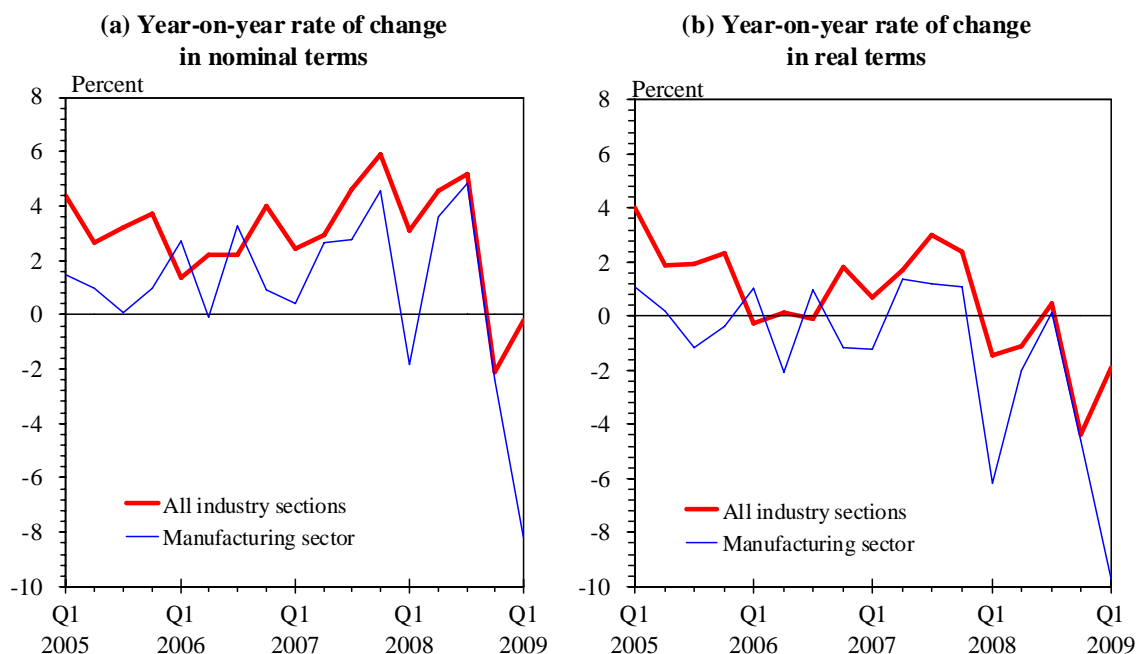


## Earnings and wages

5.19 *Labour earnings*<sup>(8)</sup>, as measured by payroll per person engaged in the private sector, fell by 0.2% in nominal terms in the first quarter of 2009 over a year earlier. The year-on-year rate of decline narrowed as compared to the 2.1% decline in the fourth quarter of 2008. After adjusting for inflation, labour earnings fell by 1.9% in real terms<sup>(9)</sup>. On a seasonally adjusted basis, private sector payroll remained stable in nominal terms but declined slightly by 0.9% in real terms over the preceding quarter.

5.20 Nominal pay reductions were widespread in many economic sectors. Although the property market staged a rebound in the first quarter of 2009, the total number of sale and purchase agreements received for registration in the first quarter of 2009 was still significantly lower than a year earlier. As a result, workers in real estate activities suffered the largest reduction in earnings, by 14.2% over a year earlier. A lower but still significant year-on-year reduction in earnings (by 9.8%) was observed in financing and insurance activities. External-oriented sectors such as manufacturing, and import/export trade and wholesale also experienced pay cuts of 8.2% and 5.7% respectively, conceivably due to an acute deterioration in export business in the first quarter. On the other hand, workers in the social and personal services sectors enjoyed visible earnings growth of 6.8%.

**Diagram 5.7 : Payroll continued to decline in the first quarter of 2009**



5.21 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, fell by 0.9% year-on-year in nominal terms in March 2009. This was in contrast to the 0.9% increase recorded in December 2008. The decrease was partly due to reduction in guaranteed bonuses and allowances. After adjusting for inflation, labour wages in real terms declined by 1.4% year-on-year in March 2009, as against the decrease of 0.4% year-on-year in December 2008.

5.22 In March 2009, decreases in nominal wages were more notable in the accommodation and food service activities (down 2.1%), and import/export and wholesale and retail trades (down 1.1%) and transportation (down 0.9%) sectors. On the other hand, workers engaged in the manufacturing, personal services, and professional and business services sectors enjoyed year-on-year increases in wages of 2.2%, 1.9% and 1.0% respectively. In terms of occupation category, some lower-skilled groups such as services workers, miscellaneous non-production workers and craftsmen still recorded mild increases in wages, by 1.2%, 1.1% and 0.7% respectively. In contrast, year-on-year declines were registered in the remaining occupations of operatives (down 2.7%), supervisory and technical workers (down 1.3%) and clerks (down 0.4%).

5.23 Latest statistics from the General Household Survey, though not strictly comparable to figures gathered from business establishments, revealed that in the second quarter of 2009, the overall average monthly employment earnings<sup>(10)</sup> of employed persons (excluding foreign domestic helpers) increased by 1.6% over a year earlier. Lower-skilled workers suffered a decline of 1.4% in average earnings, whereas higher-skilled workers enjoyed an increase of 3.5%.

## 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) Labour force and employment statistics compiled from the General Household Survey for the period from Q1 2008 to Q4 2008 have been revised to take into account the results of the revised population of 2008.
- (3) 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.

- (4) 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).
- (5) 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.

- (6) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually decreased by 0.2% in the second 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.

- (7) 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.
- (8) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (9) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers in occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (10) 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

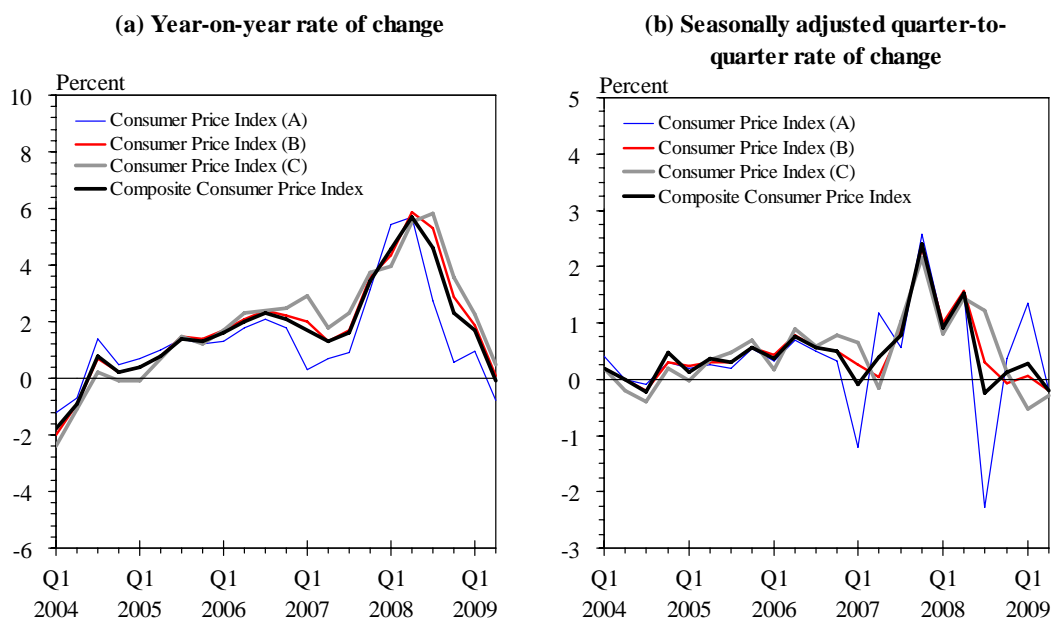
### *Summary*

- *Worldwide prices eased further in the second quarter in the midst of the economic downturn. Against this background, headline consumer prices in Hong Kong turned into a decline of 0.1% in the second quarter of 2009 compared with the same period last year. After netting out the effects of Government's one-off relief measures, underlying inflation also decelerated notably, to 1.2% in the second quarter.*
- *Reflecting the continuing cost and price adjustments, price pressures from both external and internal fronts subsided further. Externally, world commodity prices, particularly food and energy prices, remained much lower than the levels a year earlier, despite the recent pick-up. This, together with the lower inflation rates in the major supplier economies, resulted in a marginal decline in Hong Kong's import prices in the second quarter.*
- *Domestically, price pressure likewise came down along with the economic downturn. In particular, the pressures on local business costs, including rentals and wages, continued to recede in recent months.*

### **Consumer prices**

6.1 Consumer prices came down further, with the *Composite Consumer Price Index*<sup>(1)</sup> (CPI) turned into a 0.1% year-on-year decrease in the second quarter of 2009, from a 1.7% increase in the first quarter. Price pressures from both external and internal sources continued to subside as demand conditions remained sluggish in the midst of the global economic downturn<sup>(2)</sup>. Netting out the effects of Government's one-off relief measures, underlying consumer price inflation also fell notably, to 1.2% in the second quarter from 3.1% in the preceding quarter. On 26 May, the Government announced a new round of additional relief measures, which will lower the headline Composite CPI further by about 0.5 percentage point for 2009 as a whole.

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



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

|      |        | <u>Composite CPI</u>            |                 | <u>CPI(A)</u> | <u>CPI(B)</u> | <u>CPI(C)</u> |
|------|--------|---------------------------------|-----------------|---------------|---------------|---------------|
|      |        | <u>Underlying<sup>(a)</sup></u> | <u>Headline</u> |               |               |               |
| 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 | H1     | 2.1                             | 0.8             | 0.1           | 1.0           | 1.4           |
|      | Q1     | 3.1 (-0.2)                      | 1.7 (0.3)       | 1.0 (1.3)     | 1.9 (0.1)     | 2.2 (-0.5)    |
|      | Q2     | 1.2 (-0.3)                      | -0.1 (-0.2)     | -0.8 (-0.2)   | 0.1 (-0.2)    | 0.5 (-0.3)    |

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, the rates concession of up to \$5000 per quarter in the second and third quarters of 2007, in 2008 and in the first quarter of 2009, up to \$1500 per quarter in the second 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 Analysing the major components of the Composite CPI, private housing cost, while softening recently, was still notably higher in the second quarter than a year earlier, and continued to make the largest contribution to the increase in the Composite CPI in the quarter. Prices of basic foodstuffs and meals-out rose more slowly by 1.2% and 1.7% respectively in the second quarter. Prices of durable goods, miscellaneous services and transport softened over a year earlier. Prices of alcoholic drinks and tobacco rose notably, mainly reflecting the earlier increase of duty on tobacco. Meanwhile, the prices of electricity, gas and water dropped significantly, attributable mainly to the subsidies for household electricity charges.

**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>   | <u>Q2</u> |
| Food                               | 26.94                | 10.0        | 11.2      | 10.6      | 8.8       | 4.6         | 1.5       |
| <i>Meals bought away from home</i> | 16.86                | 5.4         | 6.3       | 6.4       | 5.6       | 3.4         | 1.7       |
| <i>Other foodstuffs</i>            | 10.08                | 17.4        | 19.2      | 17.2      | 13.8      | 6.5         | 1.2       |
| Housing <sup>(a)</sup>             | 29.17                | 3.9         | 5.9       | 3.9       | 2.7       | 6.6         | 4.5       |
|                                    |                      | (5.0)       | (6.0)     | (7.8)     | (8.3)     | (6.6)       | (4.1)     |
| <i>Private dwellings</i>           | 23.93                | 3.5         | 8.0       | 9.5       | 6.4       | 7.7         | 5.1       |
|                                    |                      | (6.9)       | (7.9)     | (9.5)     | (9.9)     | (7.7)       | (4.7)     |
| <i>Public dwellings</i>            | 2.49                 | 14.4        | -13.0     | -63.6     | -39.5     | -0.2        | 0.6       |
|                                    |                      | (-10.8)     | (-10.8)   | (-3.7)    | (0.2)     | (0.2)       | (0.2)     |
| Electricity, gas and water         | 3.59                 | 7.2         | 7.7       | -5.3      | -34.9     | -42.7       | -42.7     |
|                                    |                      | (7.2)       | (7.7)     | (7.3)     | (1.7)     | (-8.1)      | (-8.2)    |
| Alcoholic drinks and tobacco       | 0.87                 | 0.5         | 0.6       | -0.2      | -0.6      | 7.6         | 22.6      |
| Clothing and footwear              | 3.91                 | 1.6         | 1.6       | 0.7       | -0.5      | 1.8         | 2.5       |
| Durable goods                      | 5.50                 | -3.5        | -2.3      | -1.0      | -1.1      | -2.9        | -3.3      |
| Miscellaneous goods                | 4.78                 | 4.6         | 5.3       | 5.6       | 4.7       | 3.2         | 2.3       |
| Transport                          | 9.09                 | 1.3         | 2.5       | 4.0       | 2.1       | 0.7         | -0.7      |
| Miscellaneous services             | 16.15                | 1.3         | 1.2       | 0.8       | -0.3      | -1.7        | -3.0      |
| All items                          | 100.00               | 4.6         | 5.7       | 4.6       | 2.3       | 1.7         | -0.1      |
|                                    |                      | (4.9)       | (5.7)     | (6.3)     | (5.4)     | (3.1)       | (1.2)     |

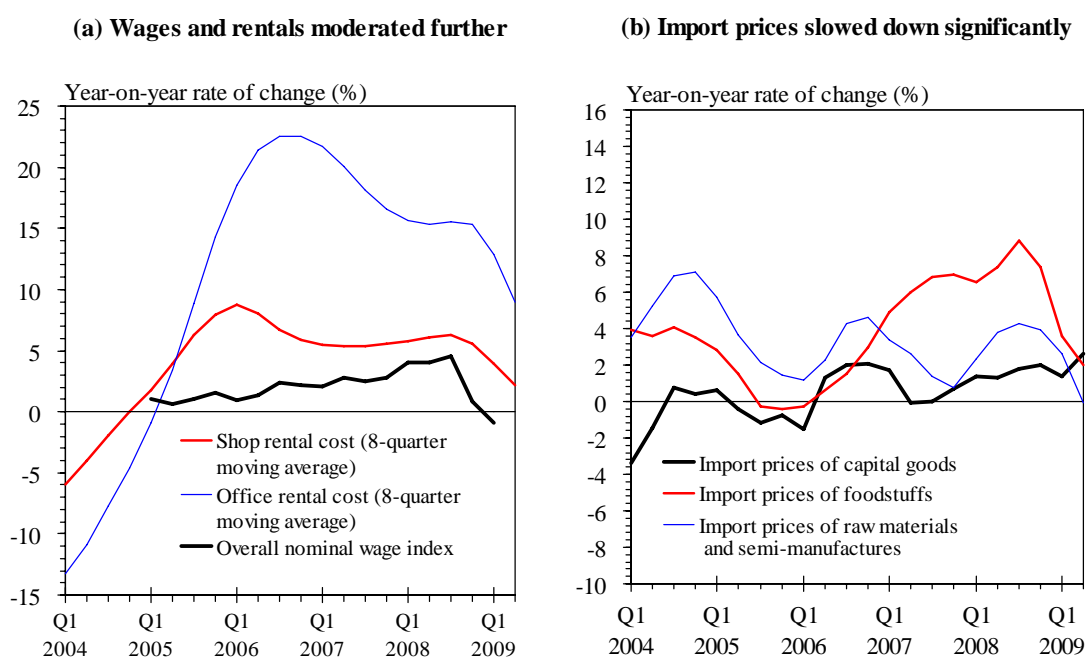
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings 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 Rentals for retail premises and offices fell further in the second quarter of 2009, while wages also continued to face downward pressure. These were all natural adjustments in response to the weakness of the overall economic situation. The downward adjustment in local business cost will help to maintain the vitality of the companies, enabling them to meet the current difficult challenges.

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



6.4 On the external front, overall import prices drifted lower in the second quarter. International fuel and food prices, though picked up recently, remained notably lower than levels a year earlier. Furthermore, the subdued price pressure in major supplier economies, coupled with the moderate appreciation of the Hong Kong dollar along with the US dollar over the year, also contributed to the slight decline in overall import prices. Against this background, import prices of fuels dropped sharply in the second quarter, while those of raw materials dropped slightly. Import prices of other end-use categories recorded only marginal to modest increases.

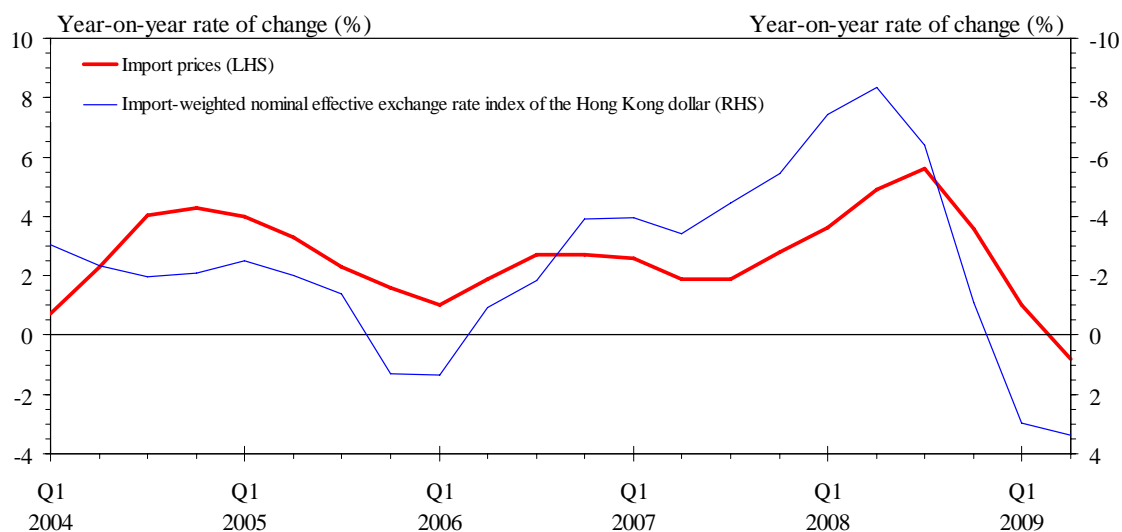


**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

|      |        | <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 | H1     | 2.8               | 1.7                   | 1.1                  | -41.5        | 2.1                  | *          |
|      | Q1     | 3.6               | 2.9                   | 2.6                  | -38.8        | 1.4                  | 1.0        |
|      | Q2     | 2.0               | 0.6                   | -0.1                 | -43.2        | 2.6                  | -0.8       |

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

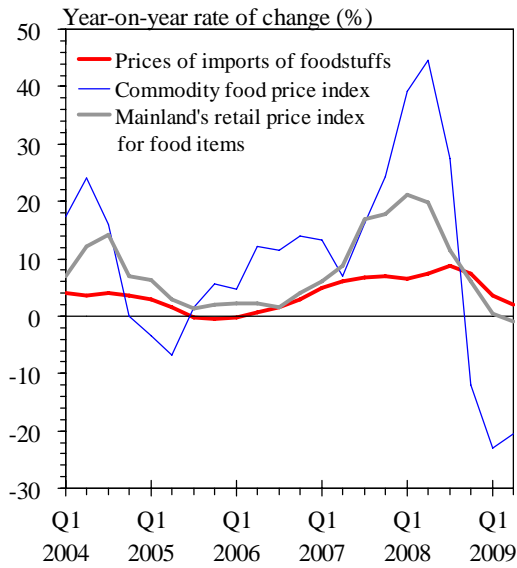
**Diagram 6.3 : Import prices softened, partly due to the earlier strengthening of the US dollar**



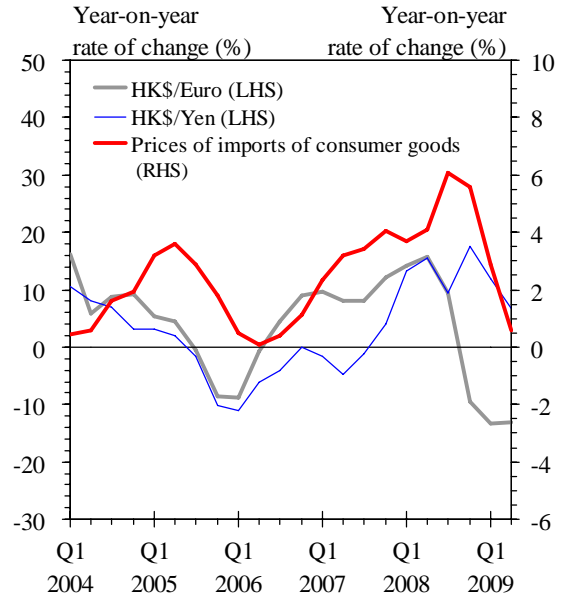
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**Diagram 6.4 : Import prices eased further for most end-use categories**

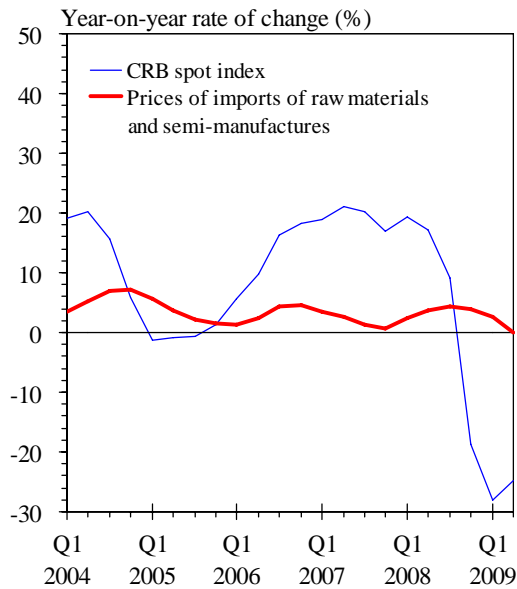
**(a) Import prices of foodstuffs rose more slowly**



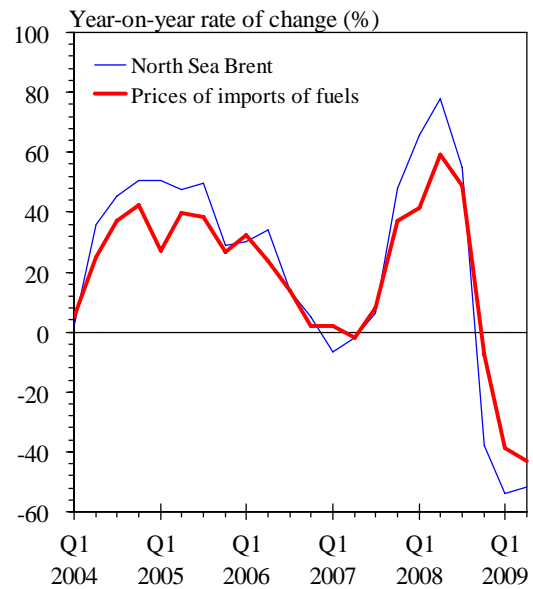
**(b) Import prices of consumer goods also decelerated further**



**(c) Import prices of raw materials fell marginally**



**(d) Fuel prices still much lower than a year earlier**



## Output prices

6.5 Output prices, as measured by *Producer Price Indices*<sup>(3)</sup>, continued to retreat in most economic sectors in the first quarter of 2009. Prices of local manufacturing output reversed to a decrease, reflecting the shrinking external demand in that quarter. Most of the service sectors also recorded decreases in output prices in the first quarter, as a result of the weakened demand conditions in the midst of the global economic downturn. Hotel tariffs went down notably, due to the fall in the number of overseas visitors. Notable decreases were also found in the output prices of maritime transport and air transport. In contrast, prices of courier services increased slightly.

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

| <u>Industry group</u>                   | <u>Annual</u> | <u>2008</u> |           |           |           | <u>2009</u>           |
|---|---------------|-------------|-----------|-----------|-----------|-----------------------|
|   |               | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1<sup>@</sup></u> |
| Manufacturing                           | 5.6           | 5.9         | 6.9       | 5.8       | 3.9       | -1.4                  |
| Selected services sector <sup>(a)</sup> |               |             |           |           |           |                       |
| Accommodation services <sup>(b)</sup>   | 7.8           | 11.1        | 10.7      | 10.7      | -0.5      | -7.0                  |
| Land transport <sup>(b)</sup>           | 0.4           | 0.6         | 1.5       | 1.1       | -1.5      | -0.4                  |
| Maritime transport <sup>(b)</sup>       | 2.1           | 5.3         | 3.1       | 3.4       | -3.1      | -13.2                 |
| Air transport                           | 5.1           | 3.3         | 8.8       | 9.0       | -0.5      | -10.7                 |
| Telecommunications                      | -2.6          | -1.8        | -2.0      | -3.4      | -3.2      | -2.5                  |
| Courier services <sup>(b)</sup>         | 3.5           | 3.9         | 4.4       | 4.1       | 1.8       | 2.0                   |

Notes : The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0.

(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.

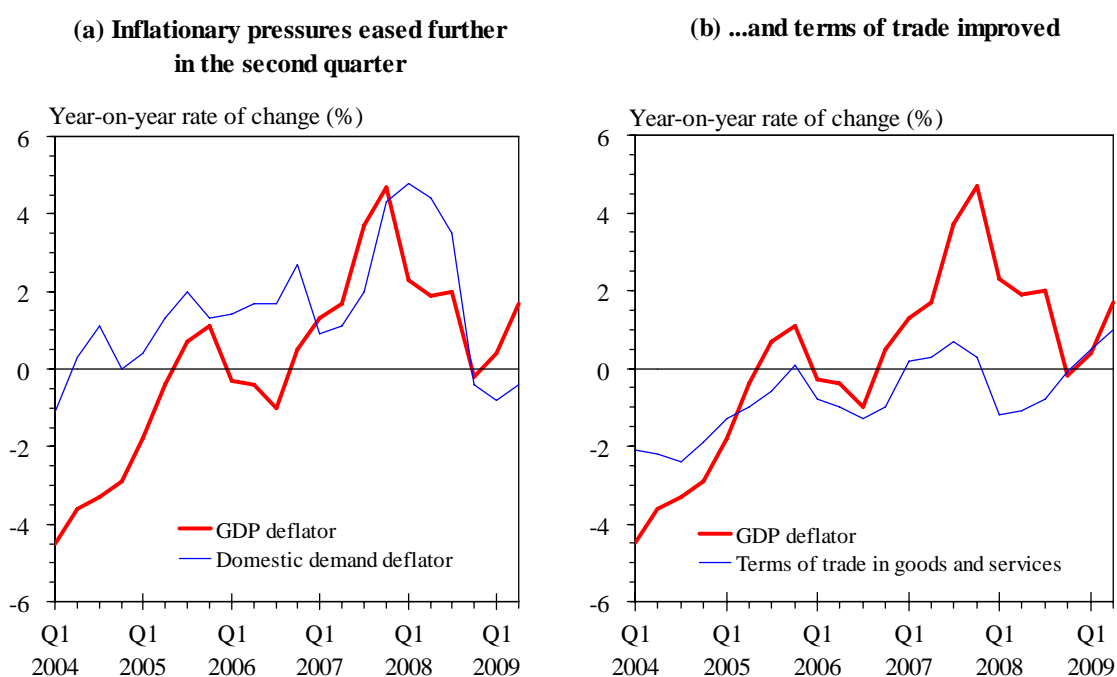
(b) The previous "Hotels and boarding houses" has been renamed to "Accommodation services". The coverage of "Maritime transport" has been revised and does not include container haulage services, which are now covered in "Land freight transport" of "Land transport". The previous "Miscellaneous communication services" has been renamed to "Courier services".

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

## GDP deflator

6.6 The *GDP deflator*<sup>(4)</sup>, a broad measure of the overall prices of the economy, increased by 1.7% year-on-year in the second quarter of 2009, after a marginal increase in the first quarter. This was mainly 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 0.4% in the second quarter of 2009, partly reflecting the weakened 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</u> | <u>Q1</u>            | <u>Q2</u>           | <u>Q3</u>           | <u>Q4</u>             | <u>Q1<sup>#</sup></u> | <u>Q2<sup>+</sup></u> |
| Private consumption expenditure        | 2.8           | 4.9                  | 5.2                 | 3.3                 | -1.4                  | -1.0                  | -1.6                  |
| Government consumption expenditure     | 5.2           | 4.2                  | 5.5                 | 6.0                 | 5.0                   | 4.2                   | 0.7                   |
| Gross domestic fixed capital formation | 1.8           | 4.9                  | -0.3                | 3.0                 | 0.3                   | -2.3                  | 4.4                   |
| Total exports of goods                 | 3.4           | 2.3                  | 3.4                 | 4.4                 | 3.3                   | 1.8                   | -0.3                  |
| Imports of goods                       | 4.1           | 3.4                  | 4.6                 | 5.4                 | 3.1                   | -0.1                  | -2.2                  |
| Exports of services                    | 3.0           | 3.6                  | 4.4                 | 5.0                 | -0.6                  | -7.3                  | -6.8                  |
| Imports of services                    | 4.1           | 6.3                  | 6.2                 | 5.4                 | -1.1                  | -6.1                  | -6.4                  |
| <b>Gross Domestic Product</b>          | <b>1.4</b>    | <b>2.3</b><br><-1.5> | <b>1.9</b><br><0.6> | <b>2.0</b><br><0.9> | <b>-0.2</b><br><-0.2> | <b>0.4</b><br><-0.8>  | <b>1.7</b><br><1.9>   |
| Total final demand                     | 3.2           | 3.2                  | 3.9                 | 4.3                 | 1.7                   | -0.5                  | -1.2                  |
| Domestic demand                        | 3.0           | 4.8                  | 4.4                 | 3.5                 | -0.4                  | -0.8                  | -0.4                  |

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

(#) Revised figures.

(+) Preliminary figures.

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

## Notes :

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

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

|        | <u>Approximate proportion of<br/>households covered</u> | <u>Average monthly expenditure range<br/>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<br/>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<br/>    home</i>                 | <i>16.86</i>         | <i>18.63</i>  | <i>17.65</i>  | <i>13.74</i>  |
| <i>Other foodstuffs</i>                                    | <i>10.08</i>         | <i>13.47</i>  | <i>9.67</i>   | <i>6.67</i>   |
| Housing  | 29.17                | 30.54         | 27.70         | 29.66         |
| <i>Private dwellings</i>                                   | <i>23.93</i>         | <i>22.07</i>  | <i>23.89</i>  | <i>26.11</i>  |
| <i>Public dwellings</i>                                    | <i>2.49</i>          | <i>6.18</i>   | <i>1.25</i>   | <i>--</i>     |
| <i>Maintenance costs and<br/>    other housing charges</i> | <i>2.75</i>          | <i>2.29</i>   | <i>2.56</i>   | <i>3.55</i>   |
| Electricity, gas and water                                 | 3.59                 | 4.84          | 3.37          | 2.45          |
| Alcoholic drinks and<br>tobacco                            | 0.87                 | 1.35          | 0.79          | 0.42          |
| Clothing and footwear                                      | 3.91                 | 2.81          | 4.28          | 4.67          |
| Durable goods  | 5.50                 | 4.01          | 5.67          | 6.99          |
| Miscellaneous goods  | 4.78                 | 4.68          | 4.76          | 4.91          |
| Transport  | 9.09                 | 8.07          | 9.05          | 10.35         |
| Miscellaneous services                                     | 16.15                | 11.60         | 17.06         | 20.14         |
| All items  | 100.00               | 100.00        | 100.00        | 100.00        |

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

|                              | <u>2008</u>   |           | <u>2009</u> |            |            |            |
|------------------------------|---------------|-----------|-------------|------------|------------|------------|
|                              | <u>Annual</u> | <u>Q1</u> | <u>Q2</u>   | <u>Apr</u> | <u>May</u> | <u>Jun</u> |
| Selected developed economies |               |           |             |            |            |            |
| US                           | 3.8           | *         | -1.2        | -0.7       | -1.3       | -1.4       |
| Canada                       | 2.3           | 1.2       | 0.1         | 0.4        | 0.1        | -0.3       |
| EU                           | 3.7           | 1.6       | 0.9         | 1.3        | 0.8        | 0.6        |
| Japan                        | 1.4           | -0.1      | -1.0        | -0.1       | 1.1        | -1.8       |
| Major emerging economies     |               |           |             |            |            |            |
| Mainland China               | 5.9           | -0.6      | -1.5        | -1.5       | -1.4       | -1.7       |
| Russia                       | 14.1          | 13.7      | 12.4        | 13.1       | 12.3       | 11.9       |
| India                        | 8.3           | 9.4       | 8.9         | 8.7        | 8.6        | 9.3        |
| Brazil                       | 5.7           | 5.8       | 5.2         | 5.5        | 5.2        | 4.8        |
| Selected Asian economies     |               |           |             |            |            |            |
| Hong Kong                    | 4.3           | 1.7       | -0.1        | 0.6        | *          | -0.9       |
| Singapore                    | 6.5           | 2.1       | -0.5        | -0.7       | -0.3       | -0.5       |
| Taiwan                       | 3.5           | *         | -0.8        | -0.5       | -0.1       | -2.0       |
| South Korea                  | 4.7           | 3.9       | 2.8         | 3.6        | 2.7        | 2.0        |
| Malaysia                     | 5.4           | 3.7       | 1.3         | 3.0        | 2.4        | -1.4       |
| Thailand                     | 5.5           | -0.2      | -2.8        | -0.9       | -3.3       | -4.0       |
| Indonesia                    | 9.8           | 8.6       | 5.6         | 7.3        | 6.0        | 3.7        |
| Philippines                  | 9.3           | 6.9       | 3.2         | 4.8        | 3.3        | 1.5        |
| Vietnam                      | 23.1          | 14.4      | 6.2         | 9.2        | 5.6        | 3.9        |
| Macao                        | 8.6           | 3.3       | 1.8         | 2.5        | 1.8        | 1.1        |

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

- (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> | <u>2008</u>     |                 | <u>2009</u>     |                 |
|  |                  |                  |                         |                         | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> |
| Private consumption expenditure                        | 804,936          | 863,591          | 972,027                 | 1,014,183               | 251,054         | 252,351         | 233,608         | 252,814         |
| Government consumption expenditure                     | 121,435          | 123,033          | 130,398                 | 139,537                 | 34,692          | 35,656          | 37,932          | 34,085          |
| Gross domestic fixed capital formation                 | 289,170          | 322,691          | 325,349                 | 329,755                 | 84,506          | 73,835          | 72,366          | 76,909          |
| <i>of which:</i>                                       |                  |                  |                         |                         |                 |                 |                 |                 |
| Building and construction                              | 105,993          | 106,268          | 111,777                 | 126,270                 | 29,845          | 30,068          | 30,198          | 30,352          |
| Machinery, equipment and computer software             | 163,287          | 199,631          | 189,075                 | 178,634                 | 49,513          | 40,724          | 39,260          | 41,001          |
| Changes in inventories                                 | -4,761           | -2,129           | 12,841                  | 11,751                  | 3,109           | 4,666           | -4,725          | -1,471          |
| Total exports of goods                                 | 2,251,744        | 2,467,357        | 2,698,850               | 2,843,998               | 764,283         | 720,342         | 512,316         | 618,781         |
| Imports of goods                                       | 2,311,091        | 2,576,340        | 2,852,522               | 3,024,089               | 805,638         | 750,980         | 547,074         | 658,136         |
| Exports of services                                    | 495,394          | 565,054          | 660,728                 | 718,835                 | 193,601         | 184,295         | 151,161         | 146,766         |
| Imports of services                                    | 264,237          | 287,900          | 332,240                 | 357,041                 | 95,457          | 84,847          | 76,024          | 77,037          |
| <b>GDP</b>   | <b>1,382,590</b> | <b>1,475,357</b> | <b>1,615,431</b>        | <b>1,676,929</b>        | <b>430,150</b>  | <b>435,318</b>  | <b>379,560</b>  | <b>392,711</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>454,420</b>  | <b>452,494</b>  | <b>388,168</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               | 1,331,245       | 1,271,145       | 1,002,658       | 1,127,884       |
| Total final demand excluding re-exports <sup>(a)</sup> | 2,212,697        | 2,406,861        | 2,660,003               | 2,795,671               | 722,813         | 696,880         | 595,449         | 632,755         |
| Domestic demand  | 1,210,780        | 1,307,186        | 1,440,615               | 1,495,226               | 373,361         | 366,508         | 339,181         | 362,337         |
| Private  | 1,048,026        | 1,149,285        | 1,278,461               | 1,320,171               | 330,968         | 321,298         | 289,541         | 319,662         |
| Public   | 162,754          | 157,901          | 162,154                 | 175,055                 | 42,393          | 45,210          | 49,640          | 42,675          |
| External demand  | 2,747,138        | 3,032,411        | 3,359,578               | 3,562,833               | 957,884         | 904,637         | 663,477         | 765,547         |

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:           |   |
|--|-------------|-------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|--|---|
|  |             |             |                         |                         | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> | 10 years<br>1998 to<br>2008 <sup>#</sup> | 5 years<br>2003 to<br>2008 <sup>#</sup> |
| Private consumption expenditure                        | 3.0         | 5.9         | 8.5                     | 1.5                     | -0.2            | -4.1            | -6.0            | -1.0            | 3.1                                      | 5.2                                     |
| Government consumption expenditure                     | -3.2        | 0.3         | 3.0                     | 1.7                     | 1.6             | 1.8             | 1.4             | 1.6             | 1.8                                      | 0.5                                     |
| Gross domestic fixed capital formation                 | 4.1         | 7.1         | 3.4                     | -0.5                    | 2.9             | -17.8           | -13.7           | -14.0           | 0.4                                      | 3.3                                     |
| <i>of which:</i>                                       |             |             |                         |                         |                 |                 |                 |                 |  |   |
| Building and construction                              | -7.6        | -7.1        | -0.3                    | 1.6                     | -2.8            | 0.1             | -10.9           | -5.9            | -5.8                                     | -4.9                                    |
| Machinery, equipment and computer software             | 12.8        | 19.2        | 3.0                     | -0.3                    | 10.7            | -21.1           | -6.6            | -18.0           | 5.3                                      | 8.8                                     |
| Total exports of goods                                 | 10.4        | 9.3         | 7.0                     | 1.9                     | 1.3             | -4.9            | -22.7           | -12.4           | 8.2                                      | 8.6                                     |
| Imports of goods                                       | 8.0         | 9.2         | 8.8                     | 1.8                     | 2.0             | -6.4            | -21.4           | -12.7           | 7.7                                      | 8.3                                     |
| Exports of services                                    | 11.6        | 10.1        | 14.1                    | 5.7                     | 4.8             | 0.4             | -6.3            | -5.7            | 10.6                                     | 11.8                                    |
| Imports of services                                    | 7.8         | 8.1         | 12.1                    | 3.3                     | 2.2             | -3.4            | -9.6            | -5.6            | 4.7                                      | 9.1                                     |
| <b>GDP</b>   | <b>7.1</b>  | <b>7.0</b>  | <b>6.4</b>              | <b>2.4</b>              | <b>1.5</b>      | <b>-2.6</b>     | <b>-7.8</b>     | <b>-3.8</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>5.8</b>      | <b>0.7</b>      | <b>-9.6</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                     | 1.9             | -5.0            | -15.8           | -9.3            | 6.3                                      | 7.6                                     |
| Total final demand excluding re-exports <sup>(a)</sup> | 5.4         | 7.3         | 7.9                     | 1.5                     | 1.4             | -5.9            | -10.7           | -7.3            | 4.4                                      | 6.2                                     |
| Domestic demand  | 1.6         | 6.0         | 7.9                     | 0.8                     | 1.5             | -7.5            | -8.1            | -5.2            | 2.5                                      | 4.2                                     |
| Private  | 3.0         | 7.5         | 9.0                     | 0.6                     | 1.5             | -8.8            | -9.4            | -6.3            | 2.9                                      | 5.2                                     |
| Public   | -6.2        | -3.8        | 0.2                     | 2.5                     | 1.5             | 2.7             | 1.5             | 3.9             | -0.3                                     | -1.8                                    |
| External demand  | 10.6        | 9.4         | 8.3                     | 2.7                     | 2.0             | -3.8            | -19.3           | -11.1           | 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>     |                 |                 | <u>2009</u>     |
|   |             |             |             |             |             |                         | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> |
| Agriculture and fishing   | -6.3        | 2.7         | -1.0        | -5.0        | -6.4        | -16.6                   | -18.2           | -15.1           | -13.7           | -3.6            |
| Mining and quarrying  | 2.3         | -16.7       | 10.1        | 10.2        | 13.7        | -3.2                    | -3.2            | -0.9            | -9.2            | -12.0           |
| Manufacturing   | -10.3       | 1.7         | 2.1         | 2.2         | -1.5        | -6.6                    | -4.1            | -6.7            | -10.4           | -12.2           |
| Electricity, gas and water  | 1.8         | 2.3         | 2.5         | 0.8         | 1.2         | 0.2                     | -3.4            | -1.3            | 2.2             | -1.2            |
| Construction  | -4.6        | -9.3        | -8.1        | -9.4        | -1.1        | 2.7                     | -0.3            | -1.5            | 2.8             | -7.0            |
| Services  | 4.3         | 9.9         | 7.5         | 7.1         | 7.0         | 2.4                     | 4.0             | 1.7             | -2.3            | -7.2            |
| <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                     | 7.2             | 4.2             | -2.1            | -15.7           |
| <i>Transport, storage and<br/>communications</i>                                      | 0.6         | 13.9        | 7.4         | 6.8         | 5.1         | 2.2                     | 3.9             | 2.0             | -4.3            | -8.8            |
| <i>Financing, insurance,<br/>real estate and business<br/>services</i>                | 5.5         | 13.4        | 8.6         | 12.2        | 13.5        | 1.6                     | 2.8             | -0.5            | -4.9            | -6.7            |
| <i>Community, social and<br/>personal services</i>                                    | 0.4         | 2.6         | -0.1        | 1.3         | 1.7         | 1.4                     | 1.7             | 1.7             | 0.7             | 0.6             |
| <i>Ownership of premises</i>  | 2.8         | 1.5         | 2.9         | 2.4         | 3.3         | 1.9                     | 1.4             | 1.8             | 2.2             | 1.3             |
| Taxes on production and<br>imports  | 2.6         | 12.3        | 0.8         | 6.8         | 16.4        | -0.2                    | 4.5             | -5.2            | -12.9           | -20.8           |
| <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>4.1</b>      | <b>1.5</b>      | <b>-2.6</b>     | <b>-7.8</b>     |

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

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

|   | (\$Mn)        |               |               |                |                         |                 |                 |                 |                 |
|---|---------------|---------------|---------------|----------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   | <u>2004</u>   | <u>2005</u>   | <u>2006</u>   | <u>2007</u>    | <u>2008<sup>#</sup></u> | <u>2008</u>     |                 |                 | <u>2009</u>     |
|   |               |               |               |                |                         | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> |
| Current account <sup>(a)</sup>                        | 122,512       | 156,933       | 178,166       | 199,160        | 237,628                 | 32,319          | 74,761          | 80,253          | 42,987          |
| Goods   | -72,514       | -59,347       | -108,983      | -153,672       | -180,091                | -62,020         | -41,355         | -30,638         | -34,758         |
| Services  | 187,077       | 231,157       | 277,154       | 328,488        | 361,794                 | 79,786          | 98,144          | 99,448          | 75,137          |
| Income  | 23,410        | 1,648         | 27,348        | 44,437         | 81,443                  | 22,035          | 24,270          | 17,176          | 8,608           |
| Current transfers                                     | -15,461       | -16,524       | -17,353       | -20,093        | -25,518                 | -7,483          | -6,298          | -5,733          | -6,000          |
| Capital and financial account <sup>(a)</sup>          | -184,640      | -182,431      | -209,935      | -259,247       | -215,822                | -20,619         | -92,360         | -69,081         | -30,212         |
| Capital and financial non-reserve assets (net change) | -159,155      | -171,752      | -163,199      | -144,749       | 48,047                  | -10,356         | -41,101         | 78,236          | 38,688          |
| Capital transfers                                     | -2,561        | -4,939        | -2,900        | 10,338         | 16,909                  | 1,835           | 8,104           | 4,319           | 7,447           |
| Financial non-reserve assets (net change)             | -156,594      | -166,812      | -160,300      | -155,086       | 31,138                  | -12,191         | -49,205         | 73,917          | 31,241          |
| <i>Direct investment</i>                              | -91,038       | 49,996        | 635           | -52,577        | 23,915                  | -80,172         | 32,443          | 15,467          | 56,331          |
| <i>Portfolio investment</i>                           | -306,368      | -245,017      | -207,879      | -21,452        | -292,474                | 23,685          | 80,852          | -210,125        | 74,899          |
| <i>Financial derivatives</i>                          | 44,319        | 30,502        | 25,925        | 43,534         | 63,611                  | 11,663          | 32,769          | 8,475           | 774             |
| <i>Other investment</i>                               | 196,492       | -2,294        | 21,019        | -124,592       | 236,085                 | 32,633          | -195,269        | 260,099         | -100,764        |
| Reserve assets (net change)                           | -25,486       | -10,679       | -46,735       | -114,498       | -263,869                | -10,263         | -51,259         | -147,317        | -68,900         |
| Net errors and omissions                              | 62,128        | 25,498        | 31,769        | 60,087         | -21,806                 | -11,700         | 17,599          | -11,172         | -12,775         |
| <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>10,263</b>   | <b>51,259</b>   | <b>147,317</b>  | <b>68,900</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>        |                    |
|  |                    |                    |                    |                         |                         | Q3 <sup>#</sup>    | Q4 <sup>#</sup>    | Q1 <sup>#</sup>    | Q2 <sup>#</sup>    |
| Total exports of goods                     | 2,027,031          | 2,251,744          | 2,467,357          | 2,698,850               | 2,843,998               | 764,283            | 720,342            | 512,316            | 618,781            |
| Imports of goods                           | 2,099,545          | 2,311,091          | 2,576,340          | 2,852,522               | 3,024,089               | 805,638            | 750,980            | 547,074            | 658,136            |
| <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>-41,355</b>     | <b>-30,638</b>     | <b>-34,758</b>     | <b>-39,355</b>     |
|  | <b>(-3.5)</b>      | <b>(-2.6)</b>      | <b>(-4.2)</b>      | <b>(-5.4)</b>           | <b>(-6.0)</b>           | <b>(-5.1)</b>      | <b>(-4.1)</b>      | <b>(-6.4)</b>      | <b>(-6.0)</b>      |
| Exports of services                        | 429,584            | 495,394            | 565,054            | 660,728                 | 718,835                 | 193,601            | 184,295            | 151,161            | 146,766            |
| Imports of services                        | 242,507            | 264,237            | 287,900            | 332,240                 | 357,041                 | 95,457             | 84,847             | 76,024             | 77,037             |
| <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>98,144</b>      | <b>99,448</b>      | <b>75,137</b>      | <b>69,729</b>      |
|  | <b>(77.1)</b>      | <b>(87.5)</b>      | <b>(96.3)</b>      | <b>(98.9)</b>           | <b>(101.3)</b>          | <b>(102.8)</b>     | <b>(117.2)</b>     | <b>(98.8)</b>      | <b>(90.5)</b>      |
| Exports of goods and services              | 2,456,615          | 2,747,138          | 3,032,411          | 3,359,578               | 3,562,833               | 957,884            | 904,637            | 663,477            | 765,547            |
| Imports of goods and services              | 2,342,052          | 2,575,328          | 2,864,240          | 3,184,762               | 3,381,130               | 901,095            | 835,827            | 623,098            | 735,173            |
| <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>56,789</b>      | <b>68,810</b>      | <b>40,379</b>      | <b>30,374</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;6.3&gt;</b> | <b>&lt;8.2&gt;</b> | <b>&lt;6.5&gt;</b> | <b>&lt;4.1&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)           | Q3                             | Q4          | Q1           | Q2           |
|                    |             |             |             |             |             |                  | (% 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>5.5</b>                     | <b>-2.1</b> | <b>-21.9</b> | <b>-12.9</b> |
| Mainland of China  | 19.7        | 14.0        | 14.2        | 13.2        | 4.7         | 1,370,445        | 3.8                            | -2.0        | -23.5        | -5.3         |
| United States      | 5.4         | 5.6         | 2.9         | -0.8        | -2.4        | 359,255          | 0.5                            | -7.5        | -20.9        | -21.5        |
| Japan              | 14.4        | 10.3        | 1.6         | -0.7        | 1.2         | 120,952          | 3.5                            | 3.7         | -13.3        | -17.7        |
| Germany            | 11.9        | 15.6        | 4.0         | 7.2         | 15.8        | 93,942           | 22.7                           | 9.0         | -7.2         | -18.9        |
| United Kingdom     | 14.8        | 5.2         | 6.3         | 1.7         | 0.7         | 75,388           | 5.8                            | -6.1        | -21.2        | -20.2        |
| Singapore          | 22.0        | 6.8         | 4.4         | 3.8         | 9.6         | 55,315           | 4.4                            | -3.5        | -32.9        | -28.8        |
| Taiwan             | 16.2        | 2.7         | 3.3         | 1.6         | 3.8         | 54,943           | 4.6                            | 0.7         | -26.2        | -5.6         |
| Republic of Korea  | 24.0        | 9.5         | 7.5         | 2.0         | -6.4        | 49,564           | -4.3                           | -22.1       | -30.1        | -21.1        |
| Rest of the world  | 17.3        | 13.3        | 8.5         | 13.2        | 11.3        | 644,348          | 11.5                           | 0.5         | -20.9        | -20.5        |

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)           | Q3                             | Q4          | Q1           | Q2           |
|                    |             |             |             |             |             |                  | (% 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>7.0</b>                     | <b>-4.2</b> | <b>-22.8</b> | <b>-14.9</b> |
| Mainland of China  | 16.9        | 14.3        | 13.7        | 11.5        | 6.1         | 1,410,735        | 10.1                           | -0.2        | -19.0        | -13.0        |
| Japan              | 19.7        | 0.1         | 4.5         | 7.2         | 3.6         | 297,552          | 4.6                            | -7.4        | -40.8        | -25.3        |
| Singapore          | 22.5        | 21.8        | 21.9        | 18.2        | 0.1         | 194,951          | -3.3                           | -9.3        | -27.3        | -15.0        |
| Taiwan             | 22.8        | 9.4         | 15.9        | 5.2         | -6.4        | 192,041          | -9.3                           | -21.8       | -31.8        | -14.9        |
| United States      | 13.4        | 6.5         | 3.6         | 12.3        | 8.6         | 150,738          | 16.0                           | -6.1        | -9.8         | -9.4         |
| Republic of Korea  | 15.0        | 2.6         | 16.1        | -0.2        | -1.1        | 118,084          | 5.8                            | -24.7       | -31.6        | -26.8        |
| Rest of the world  | 13.6        | 8.4         | 7.6         | 10.7        | 11.5        | 661,187          | 8.5                            | 0.8         | -19.4        | -13.0        |

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)         | Q3                             | Q4           | Q1           | Q2           |
|  |             |             |             |             |             |                | (% 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>5.3</b>  | <b>770,430</b> | <b>10.0</b>                    | <b>-12.5</b> | <b>-27.4</b> | <b>-22.7</b> |
| Foodstuffs                             | 8.6         | 3.1         | 4.3         | 12.9        | 19.7        | 71,525         | 14.1                           | 18.6         | 2.9          | 7.6          |
| Consumer goods                         | 7.4         | 5.5         | 3.1         | 11.4        | 9.0         | 160,041        | 2.0                            | -7.4         | -40.1        | -26.9        |
| Raw materials and<br>semi-manufactures | 17.6        | 4.2         | 8.8         | 17.7        | -4.5        | 263,942        | -4.1                           | -17.0        | -38.2        | -30.9        |
| Fuels                                  | 37.5        | 23.5        | 22.8        | 20.1        | 26.6        | 106,395        | 53.2                           | -11.1        | -24.3        | -36.7        |
| Capital goods                          | 13.3        | 10.8        | 33.2        | -8.3        | 2.5         | 168,549        | 21.2                           | -20.5        | -9.0         | -11.3        |

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

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

|                                | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007<sup>#</sup></u> | <u>2008<sup>#</sup></u> |                | <u>2008</u>                    | <u>2009</u>     |                 |                 |
|--------------------------------|-------------|-------------|-------------|-------------------------|-------------------------|----------------|--------------------------------|-----------------|-----------------|-----------------|
|                                | (% change)  |             |             | (% change)              |                         | (\$Mn)         | Q3 <sup>#</sup>                | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> |
|                                |             |             |             |                         |                         |                | (% change over a year earlier) |                 |                 |                 |
| <b>Exports of services</b>     | <b>18.5</b> | <b>15.3</b> | <b>14.1</b> | <b>16.9</b>             | <b>8.8</b>              | <b>718,835</b> | <b>10.0</b>                    | <b>-0.2</b>     | <b>-13.1</b>    | <b>-12.1</b>    |
| Transportation                 | 25.5        | 16.9        | 10.2        | 14.6                    | 11.6                    | 222,748        | 14.0                           | 2.2             | -18.6           | -16.2           |
| Travel                         | 26.1        | 14.2        | 12.9        | 18.7                    | 11.0                    | 119,135        | 14.0                           | 4.0             | 8.2             | -6.8            |
| Trade-related                  | 12.6        | 10.7        | 9.9         | 11.6                    | 9.9                     | 218,752        | 11.1                           | 4.4             | -12.5           | -11.0           |
| Other services                 | 12.8        | 22.3        | 28.4        | 26.7                    | 2.1                     | 158,200        | 0.4                            | -13.5           | -21.0           | -10.9           |
| <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>7.8</b>                     | <b>-4.4</b>     | <b>-15.2</b>    | <b>-11.6</b>    |
| Transportation                 | 29.4        | 20.3        | 10.9        | 20.4                    | 5.9                     | 115,044        | 5.5                            | -7.3            | -21.6           | -21.1           |
| Travel                         | 15.9        | 0.1         | 5.4         | 7.6                     | 6.5                     | 125,008        | 6.6                            | -7.7            | -11.4           | -3.8            |
| Trade-related                  | 3.2         | 12.8        | 12.6        | 15.9                    | 8.6                     | 26,399         | 9.6                            | 2.6             | -14.3           | -12.8           |
| Other services                 | 19.7        | 10.5        | 11.2        | 21.2                    | 10.5                    | 90,590         | 12.0                           | 1.1             | -13.1           | -8.8            |
| <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>12.3</b>                    | <b>3.8</b>      | <b>-11.0</b>    | <b>-12.6</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><br>Q3 | Q4             | <u>2009</u><br>Q1 | Q2             |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|----------------|-------------------|----------------|
| <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>7 583.3</b>    | <b>7 737.8</b> | <b>7 403.7</b>    | <b>6 293.1</b> |
| Mainland of China                     | 12 245.9        | 12 541.4        | 13 591.3        | 15 485.8        | 16 862.0        | 4 609.1           | 4 357.9        | 4 675.8           | 3 586.1        |
| South and Southeast Asia              | 2 077.7         | 2 413.0         | 2 659.7         | 2 888.1         | 2 936.2         | 623.4             | 890.6          | 627.7             | 700.6          |
| Taiwan                                | 2 074.8         | 2 130.6         | 2 177.2         | 2 238.7         | 2 240.5         | 612.4             | 543.2          | 484.9             | 457.6          |
| Europe                                | 1 142.7         | 1 398.0         | 1 548.2         | 1 772.2         | 1 711.4         | 352.2             | 473.7          | 390.1             | 382.2          |
| Japan                                 | 1 126.3         | 1 210.8         | 1 311.1         | 1 324.3         | 1 324.8         | 335.8             | 356.1          | 316.1             | 230.5          |
| United States                         | 1 051.7         | 1 143.1         | 1 159.0         | 1 230.9         | 1 146.4         | 247.0             | 297.3          | 243.1             | 268.4          |
| Others                                | 2 091.7         | 2 522.6         | 2 804.5         | 3 229.2         | 3 285.3         | 803.4             | 819.0          | 665.9             | 667.7          |
| <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>3.4</b>        | <b>-0.9</b>    | <b>1.8</b>        | <b>-8.9</b>    |
| Mainland of China                     | 44.6            | 2.4             | 8.4             | 13.9            | 8.9             | 9.4               | 4.4            | 12.6              | -4.1           |
| South and Southeast Asia              | 52.8            | 16.1            | 10.2            | 8.6             | 1.7             | -4.0              | -3.5           | -1.8              | -10.5          |
| Taiwan                                | 12.0            | 2.7             | 2.2             | 2.8             | 0.1             | 0.7               | -3.8           | -9.2              | -16.9          |
| Europe                                | 46.3            | 22.3            | 10.7            | 14.5            | -3.4            | -14.8             | -9.8           | -17.5             | -7.4           |
| Japan                                 | 29.9            | 7.5             | 8.3             | 1.0             | *               | 0.7               | 2.3            | -2.9              | -25.0          |
| United States                         | 53.8            | 8.7             | 1.4             | 6.2             | -6.9            | -13.4             | -16.6          | -18.5             | -11.6          |
| Others                                | 37.1            | 20.6            | 11.2            | 15.1            | 1.7             | -3.5              | -10.4          | -21.8             | -17.7          |

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><br>Q3 | Q4     | <u>2009</u><br>Q1 | Q2     |
|---|-------------|-------------|-------------|-------------------|--------|-------------------|--------|
| <b>Completion of new property by the private sector</b>                   |             |             |             |                   |        |                   |        |
| <i>('000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |                   |        |                   |        |
| Residential property <sup>(a)</sup> (in units)                            | 16 579      | 10 471      | 8 776       | 1 404             | 5 736  | 1 645             | 1 499  |
| Commercial property   | 291         | 368         | 390         | 194               | 20     | 108               | 3      |
| <i>of which :</i>   |             |             |             |                   |        |                   |        |
| Office space  | 108         | 320         | 341         | 176               | 0      | 68                | 1      |
| Other commercial premises <sup>(b)</sup>                                  | 183         | 48          | 49          | 19                | 20     | 40                | 2      |
| Industrial property <sup>(c)</sup>  | 27          | 16          | 78          | 36                | 31     | 0                 | 3      |
| <i>of which :</i>   |             |             |             |                   |        |                   |        |
| Industrial-cum-office premises  | 0           | 0           | 4           | 4                 | 0      | 0                 | 0      |
| Conventional flatted factory space  | 0           | 16          | 70          | 28                | 31     | 0                 | 3      |
| Storage premises <sup>(d)</sup>   | 27          | 0           | 4           | 4                 | 0      | 0                 | 0      |
| <b>Production of public housing</b>                                       |             |             |             |                   |        |                   |        |
| <i>(in units)</i>   |             |             |             |                   |        |                   |        |
| Rental housing flats <sup>(e)</sup>                                       | 4 430       | 4 795       | 22 759      | 0                 | 3 167  | 10 017            | 4 270  |
| Subsidized sales flats <sup>(e)</sup>                                     | 0           | 2 010       | 2 200       | 984               | 640    | 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  | 706.7       | 956.1       | 530.0       | 128.4             | 44.0   | 127.9             | 92.7   |
| Commercial property   | 468.4       | 327.5       | 147.7       | 0.9               | 0.3    | 41.7              | 76.6   |
| Industrial property <sup>(f)</sup>  | 23.9        | 103.5       | 106.6       | 0.0               | 3.0    | 6.1               | 29.2   |
| Other properties  | 199.2       | 207.7       | 212.8       | 16.7              | 69.1   | 63.9              | 20.7   |
| Total   | 1 398.2     | 1 594.8     | 997.1       | 146.0             | 116.4  | 239.7             | 219.2  |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |                   |        |                   |        |
| <i>(Number)</i>   |             |             |             |                   |        |                   |        |
| Residential property <sup>(g)</sup>                                       | 82 472      | 123 575     | 95 931      | 18 792            | 12 689 | 16 464            | 35 449 |
| Primary market  | 13 986      | 20 123      | 11 046      | 1 590             | 1 429  | 1 602             | 6 829  |
| Secondary market  | 68 486      | 103 452     | 84 885      | 17 202            | 11 260 | 14 862            | 28 620 |
| Selected types of non-residential properties <sup>(h)</sup>               |             |             |             |                   |        |                   |        |
| Office space  | 2 874       | 4 129       | 2 845       | 513               | 276    | 305               | 659    |
| Other commercial premises   | 4 402       | 5 490       | 4 149       | 946               | 496    | 576               | 1 436  |
| Flatted factory space   | 7 409       | 9 072       | 5 741       | 1 249             | 613    | 613               | 1 363  |

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><br>Q3 | Q4    | <u>2009</u><br>Q1 <sup>#</sup> | Q2 <sup>+</sup> |
|--|-------------|-------------|-------------|-------------------|-------|--------------------------------|-----------------|
| <u>(Index (1999=100))</u>                |             |             |             |                   |       |                                |                 |
| Property price indices :                 |             |             |             |                   |       |                                |                 |
| Residential flats <sup>(a)</sup>         | 92.7        | 103.5       | 120.5       | 123.2             | 108.0 | 108.0                          | 116.5           |
| Office space <sup>(b)</sup>              | 139.3       | 165.5       | 199.0       | 204.3             | 175.0 | 154.5                          | 167.8           |
| Shopping space                           | 153.5       | 172.5       | 192.5       | 193.9             | 173.7 | 163.5                          | 177.9           |
| Flatted factory space                    | 158.5       | 199.5       | 235.9       | 244.7             | 217.9 | 195.5                          | 203.0           |
| Property rental indices <sup>(c)</sup> : |             |             |             |                   |       |                                |                 |
| Residential flats                        | 91.6        | 101.8       | 115.7       | 120.5             | 106.6 | 94.3                           | 95.2            |
| Office space <sup>(b)</sup>              | 117.4       | 131.9       | 155.5       | 161.3             | 157.7 | 142.5                          | 131.7           |
| Shopping space                           | 104.3       | 111.8       | 116.2       | 116.9             | 114.1 | 108.3                          | 108.7           |
| Flatted factory space                    | 91.0        | 100.5       | 109.3       | 110.8             | 105.7 | 98.5                           | 98.3            |
| <u>(% change over a year earlier)</u>    |             |             |             |                   |       |                                |                 |
| Property price indices :                 |             |             |             |                   |       |                                |                 |
| Residential flats <sup>(a)</sup>         | 0.8         | 11.7        | 16.4        | 18.5              | -4.6  | -13.6                          | -7.5            |
| Office space <sup>(b)</sup>              | 4.7         | 18.8        | 20.2        | 22.0              | -7.7  | -25.1                          | -20.2           |
| Shopping space                           | 2.8         | 12.4        | 11.4        | 9.8               | -6.6  | -17.1                          | -12.9           |
| Flatted factory space                    | 26.8        | 25.9        | 18.2        | 17.8              | -0.9  | -17.3                          | -16.9           |
| Property rental indices <sup>(c)</sup> : |             |             |             |                   |       |                                |                 |
| Residential flats                        | 5.9         | 11.1        | 13.7        | 16.2              | -1.4  | -18.3                          | -20.8           |
| Office space <sup>(b)</sup>              | 21.8        | 12.4        | 17.9        | 20.8              | 13.7  | -2.5                           | -16.1           |
| Shopping space                           | 3.8         | 7.2         | 3.9         | 3.0               | -1.6  | -7.3                           | -7.3            |
| Flatted factory space                    | 10.2        | 10.4        | 8.8         | 8.8               | 1.4   | -9.4                           | -12.2           |

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)**

|  | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u><br>Q3 | Q4        | <u>2009</u><br>Q1 | Q2        |
|--|-------------|-------------|-------------|-------------------|-----------|-------------------|-----------|
| <u>(as at end of period)</u>   |             |             |             |                   |           |                   |           |
| Hong Kong dollar money supply (\$Mn) :                                       |             |             |             |                   |           |                   |           |
| M1   | 387,909     | 454,342     | 491,115     | 447,627           | 491,115   | 528,633           | 581,965   |
| M2 <sup>(a)</sup>  | 2,777,679   | 3,281,017   | 3,239,857   | 3,146,767         | 3,239,857 | 3,282,859         | 3,482,447 |
| M3 <sup>(a)</sup>  | 2,795,545   | 3,300,500   | 3,261,306   | 3,170,167         | 3,261,306 | 3,302,413         | 3,500,873 |
| Total money supply (\$Mn)  |             |             |             |                   |           |                   |           |
| M1   | 491,648     | 616,709     | 645,833     | 597,914           | 645,833   | 690,327           | 759,881   |
| M2   | 5,054,332   | 6,106,348   | 6,269,578   | 6,052,619         | 6,269,578 | 6,236,463         | 6,485,032 |
| M3   | 5,089,741   | 6,139,758   | 6,302,270   | 6,091,633         | 6,302,270 | 6,268,122         | 6,514,058 |
| Deposit (\$Mn)   |             |             |             |                   |           |                   |           |
| HK\$   | 2,568,283   | 3,075,042   | 3,033,980   | 2,945,355         | 3,033,980 | 3,077,660         | 3,281,975 |
| Foreign currency   | 2,188,993   | 2,793,856   | 3,025,524   | 2,901,760         | 3,025,524 | 2,944,232         | 2,991,979 |
| Total  | 4,757,275   | 5,868,898   | 6,059,504   | 5,847,115         | 6,059,504 | 6,021,892         | 6,273,955 |
| Loans and advances (\$Mn)  |             |             |             |                   |           |                   |           |
| HK\$   | 1,917,437   | 2,184,705   | 2,354,755   | 2,396,395         | 2,354,755 | 2,322,923         | 2,366,010 |
| Foreign currency   | 550,392     | 776,971     | 930,892     | 1,029,176         | 930,892   | 843,430           | 837,352   |
| Total  | 2,467,828   | 2,961,676   | 3,285,647   | 3,425,571         | 3,285,647 | 3,166,353         | 3,203,362 |
| Nominal Effective Exchange Rate Indices<br>(Jan 2000 =100) <sup>(b)(c)</sup> |             |             |             |                   |           |                   |           |
| Trade-weighted   | 96.1        | 91.9        | 87.1        | 86.4              | 89.7      | 90.3              | 88.9      |
| Import-weighted  | 96.8        | 92.5        | 87.1        | 86.3              | 89.4      | 89.9              | 88.6      |
| Export-weighted  | 95.5        | 91.3        | 87.2        | 86.5              | 90.0      | 90.6              | 89.2      |
| <u>(% change over a year earlier)</u>  |             |             |             |                   |           |                   |           |
| Hong Kong dollar money supply :  |             |             |             |                   |           |                   |           |
| M1   | 11.4        | 17.1        | 8.1         | -7.4              | 8.1       | 15.5              | 28.5      |
| M2 <sup>(a)</sup>  | 19.2        | 18.1        | -1.3        | -7.6              | -1.3      | 3.3               | 13.5      |
| M3 <sup>(a)</sup>  | 19.2        | 18.1        | -1.2        | -7.4              | -1.2      | 3.3               | 13.3      |
| Total money supply :   |             |             |             |                   |           |                   |           |
| M1   | 13.1        | 25.4        | 4.7         | -5.5              | 4.7       | 11.2              | 24.3      |
| M2   | 15.4        | 20.8        | 2.7         | 1.8               | 2.7       | 4.2               | 9.8       |
| M3   | 15.5        | 20.6        | 2.6         | 1.9               | 2.6       | 4.2               | 9.6       |
| Deposit  |             |             |             |                   |           |                   |           |
| HK\$   | 20.5        | 19.7        | -1.3        | -8.1              | -1.3      | 3.5               | 14.2      |
| Foreign currency   | 13.0        | 27.6        | 8.3         | 16.5              | 8.3       | 5.6               | 5.6       |
| Total  | 16.9        | 23.4        | 3.2         | 2.7               | 3.2       | 4.5               | 10.0      |
| Loans and advances   |             |             |             |                   |           |                   |           |
| HK\$   | 6.7         | 13.9        | 7.8         | 2.7               | 7.8       | 2.0               | 0.5       |
| Foreign currency   | 6.9         | 41.2        | 19.8        | 45.4              | 19.8      | -5.6              | -15.8     |
| Total  | 6.7         | 20.0        | 10.9        | 12.6              | 10.9      | -0.1              | -4.3      |
| Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>                    |             |             |             |                   |           |                   |           |
| Trade-weighted   | -1.3        | -4.4        | -5.2        | -5.7              | -0.2      | 3.6               | 3.7       |
| Import-weighted  | -1.3        | -4.4        | -5.8        | -6.4              | -1.1      | 3.0               | 3.4       |
| Export-weighted  | -1.2        | -4.4        | -4.5        | -4.8              | 0.7       | 4.0               | 4.1       |

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>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |       |       | <u>2009</u>     |
|   |             |             |             | Q2          | Q3    | Q4    | Q1 <sup>+</sup> |
| <b>Service Industry</b>                         |             |             |             |             |       |       |                 |
| Import and export trade                         | 10.3        | 8.1         | 7.4         | 14.4        | 9.6   | -5.8  | -23.1           |
| Wholesale                                       | 7.9         | 10.4        | 6.3         | 14.0        | 10.0  | -6.9  | -25.7           |
| Retail  | 7.2         | 12.8        | 10.6        | 14.3        | 10.5  | 0.9   | -3.9            |
| Transportation                                  | 10.0        | 10.5        | 4.4         | 12.0        | 6.1   | -10.3 | -22.8           |
| <i>within which :</i>                           |             |             |             |             |       |       |                 |
| Land transport                                  | 4.3         | 3.7         | 2.2         | 5.1         | 1.2   | -2.2  | -2.9            |
| Water transport                                 | 16.4        | 16.8        | 6.1         | 14.8        | 4.5   | -10.3 | -24.7           |
| Air transport                                   | 6.8         | 7.3         | 3.5         | 11.4        | 8.8   | -12.3 | -26.7           |
| Warehousing and storage                         | 10.2        | 15.9        | 6.6         | 3.8         | 7.1   | 5.7   | -10.1           |
| Courier   | 6.9         | 5.5         | 2.1         | 8.8         | 7.1   | -10.8 | -20.1           |
| Accommodation                                   | 13.8        | 15.2        | 3.8         | 9.6         | 5.9   | -6.5  | -18.1           |
| Food services                                   | 9.6         | 13.4        | 13.1        | 15.7        | 13.2  | 8.2   | 1.5             |
| Information and communications                  | 6.1         | 8.4         | 6.6         | 7.9         | 5.4   | 2.5   | -4.6            |
| <i>within which :</i>                           |             |             |             |             |       |       |                 |
| Telecommunications                              | -0.7        | 11.0        | 9.8         | 14.5        | 9.5   | 3.6   | 6.4             |
| Film entertainment                              | 1.7         | 6.1         | -0.7        | 5.9         | 1.2   | -10.7 | -18.4           |
| Banking   | 19.5        | 38.3        | -16.9       | -6.8        | -13.1 | -45.5 | -15.8           |
| Financing (except banking)                      | 47.9        | 68.8        | -19.4       | 4.7         | -27.2 | -57.6 | -46.9           |
| <i>within which :</i>                           |             |             |             |             |       |       |                 |
| Financial markets and asset management          | 49.3        | 71.7        | -20.0       | 7.4         | -29.2 | -60.9 | -51.8           |
| <i>within which : Asset management</i>          | 51.8        | 56.8        | -5.2        | 21.5        | -15.2 | -45.9 | -48.1           |
| Insurance                                       | 21.3        | 28.8        | *           | 12.1        | -0.4  | -22.4 | -10.3           |
| Real estate                                     | -0.3        | 39.5        | -3.7        | 10.1        | -1.8  | -26.9 | -13.2           |
| Professional, scientific and technical services | 13.2        | 12.3        | 6.8         | 7.7         | 5.3   | 1.1   | -9.0            |
| Administrative and support services             | 20.9        | 11.5        | 9.4         | 9.4         | 13.5  | 2.8   | -15.9           |
| <b>Service Domain</b>                           |             |             |             |             |       |       |                 |
| Tourism, convention and exhibition services     | 14.1        | 18.9        | 10.1        | 12.6        | 12.8  | 1.7   | -5.5            |
| Computer and information technology services    | 9.8         | 6.8         | 5.3         | 16.2        | 2.4   | -12.2 | -27.5           |

Notes : Upon the implementation of the new HSIC Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the quarterly business receipts indices. Starting from the first quarter of 2009, all business receipts indices are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The series of business receipts indices under the HSIC Version 2.0 has also been backcasted to the first quarter of 2005.

(+) Provisional figures.

(\*) 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> |                 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|-------------|-----------------|
|                                       |             |             |             |             |             | Q3          | Q4      | Q1          | Q2 <sup>+</sup> |
| <u>(%)</u>                            |             |             |             |             |             |             |         |             |                 |
| Labour force participation rate       | 61.3        | 60.9        | 61.2        | 61.2        | 60.9        | 60.9        | 60.9    | 61.3        | 61.3            |
| Seasonally adjusted unemployment rate | 6.8         | 5.6         | 4.8         | 4.0         | 3.6         | 3.4         | 4.1     | 5.2         | 5.4             |
| Underemployment rate                  | 3.3         | 2.7         | 2.4         | 2.2         | 1.9         | 1.8         | 1.9     | 2.1         | 2.3             |
| <u>('000)</u>                         |             |             |             |             |             |             |         |             |                 |
| Population of working age             | 5 733.6     | 5 800.7     | 5 832.2     | 5 928.4     | 5 993.9     | 6 001.4     | 6 017.0 | 6 026.7     | 6 050.1         |
| Labour force                          | 3 512.8     | 3 534.2     | 3 571.8     | 3 629.6     | 3 648.9     | 3 657.4     | 3 661.9 | 3 694.9     | 3 709.2         |
| Persons employed                      | 3 273.5     | 3 336.6     | 3 400.8     | 3 483.8     | 3 518.8     | 3 523.7     | 3 520.7 | 3 507.6     | 3 506.2         |
| Persons unemployed                    | 239.2       | 197.6       | 171.1       | 145.7       | 130.1       | 133.6       | 141.2   | 187.2       | 203.0           |
| Persons underemployed                 | 114.3       | 96.3        | 86.3        | 79.2        | 69.0        | 66.3        | 69.0    | 79.2        | 84.9            |
| <u>(% change over a year earlier)</u> |             |             |             |             |             |             |         |             |                 |
| Population of working age             | 1.6         | 1.2         | 0.5         | 1.6         | 1.1         | 1.1         | 1.0     | 0.9         | 1.0             |
| Labour force                          | 1.4         | 0.6         | 1.1         | 1.6         | 0.5         | 0.2         | 0.6     | 1.6         | 2.0             |
| Persons employed                      | 2.6         | 1.9         | 1.9         | 2.4         | 1.0         | 0.9         | *       | -0.3        | -0.3            |
| Persons unemployed                    | -13.1       | -17.4       | -13.4       | -14.8       | -10.7       | -14.7       | 19.5    | 58.4        | 67.7            |
| Persons underemployed                 | -6.3        | -15.7       | -10.4       | -8.2        | -12.9       | -17.6       | -7.6    | 13.4        | 24.9            |

Notes : (+) Provisional figures.

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

**Table 17 : Employment in selected major industries**

| Selected major industries   | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u>                    |      |      | <u>2009</u> | No.     |
|---|-------------|-------------|-------------|-------------|--------------------------------|------|------|-------------|---------|
|   | (% change)  |             |             |             | Jun                            | Sep  | Dec  | Mar         |         |
|   |             |             |             |             | (% change over a year earlier) |      |      |             |         |
| Manufacturing   | -2.6        | -3.2        | -2.9        | -3.5        | -3.7                           | -3.7 | -3.8 | -7.0        | 125 682 |
| Construction sites (manual workers only)  | -10.6       | -10.8       | -5.1        | -1.5        | -3.0                           | -2.1 | -1.3 | 2.8         | 51 944  |
| Import and export trade   | 2.5         | 1.0         | 0.8         | -0.3        | 0.4                            | -0.3 | -1.5 | -4.7        | 496 435 |
| Wholesale   | 2.0         | -4.2        | -0.3        | -2.7        | -4.3                           | -2.0 | -3.6 | -3.1        | 63 380  |
| Retail  | 2.0         | 3.1         | 2.1         | 2.8         | 2.8                            | 3.6  | 1.5  | -0.6        | 232 014 |
| Food and beverage services  | 2.4         | 5.0         | 3.3         | 1.8         | 3.8                            | 2.2  | -0.3 | -0.4        | 206 179 |
| Accommodation services  | 8.5         | 8.0         | 5.4         | 3.1         | 2.8                            | 4.8  | 2.5  | 2.7         | 32 041  |
| Transportation, storage, postal and courier services                            | 3.2         | 1.6         | 2.5         | 3.5         | 3.1                            | 3.8  | 1.8  | 1.6         | 157 977 |
| Information and communications  | -0.7        | 1.4         | 2.2         | 3.6         | 5.3                            | 5.2  | 1.7  | -0.9        | 86 124  |
| Financing and insurance   | 4.9         | 4.6         | 7.3         | 5.6         | 7.0                            | 5.6  | 0.9  | -0.6        | 181 860 |
| Real estate   | 6.6         | 5.3         | 4.4         | 2.7         | 2.7                            | 3.2  | -0.1 | -1.2        | 104 368 |
| Professional and business services<br>(excluding cleaning and similar services) | 3.3         | 4.9         | 4.8         | 3.4         | 3.9                            | 3.3  | 1.8  | 0.6         | 229 903 |
| Cleaning and similar services   | 3.4         | 2.5         | 0.6         | -1.7        | -3.6                           | 0.3  | 1.0  | 0.1         | 56 595  |
| Education   | 1.8         | 5.0         | 3.3         | 4.8         | 3.7                            | 5.7  | 5.7  | 4.6         | 157 029 |
| Human health services   | 1.7         | 3.7         | 5.5         | 5.1         | 4.1                            | 5.1  | 5.5  | 3.0         | 88 495  |
| Residential care and social work services                                       | -0.4        | 1.5         | 1.4         | 1.3         | 2.5                            | 2.2  | 0.3  | 0.6         | 55 221  |
| Arts, entertainment, recreation and other services                              | 18.1        | 3.3         | 1.5         | 1.9         | 1.2                            | 3.5  | 1.5  | 0.6         | 106 348 |
| Civil Service <sup>(a)</sup>  | -2.7        | -1.3        | -0.4        | 0.1         | *                              | 0.4  | 0.3  | 1.1         | 155 128 |
| Others <sup>(b)</sup>   | -6.9        | -0.3        | 0.9         | 7.0         | 5.1                            | 9.1  | 4.3  | -2.8        | 10 647  |

Notes : Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and arts, entertainment, recreation and other services. The series of employment statistics under the HSIC Version 2.0 has also been backcasted to March 2004.

(a) 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 outside Hong Kong, and other Government employees such as non-civil service contract staff are not included.

(b) Include employment in mining and quarrying and in electricity, gas and waste management.

(\*) 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>   |               | <u>2009</u>   |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       |               |               |               |               |               | Jun           | Sep           | Dec           | Mar           |
| <u>(number)</u>                       |               |               |               |               |               |               |               |               |               |
| Building sites                        |               |               |               |               |               |               |               |               |               |
| Private sector                        | 33 619        | 31 556        | 30 993        | 29 240        | 28 899        | 29 192        | 28 305        | 28 179        | 29 666        |
| Public sector <sup>(a)</sup>          | 13 325        | 10 135        | 7 643         | 7 767         | 8 136         | 7 102         | 7 714         | 9 235         | 11 106        |
| Sub-total                             | 46 944        | 41 690        | 38 636        | 37 007        | 37 034        | 36 294        | 36 019        | 37 414        | 40 772        |
| Civil engineering sites               |               |               |               |               |               |               |               |               |               |
| Private sector                        | 2 564         | 2 198         | 1 569         | 1 674         | 1 686         | 1 977         | 1 393         | 1 715         | 1 453         |
| Public sector <sup>(a)</sup>          | 16 772        | 15 378        | 12 661        | 11 504        | 10 703        | 11 285        | 10 732        | 10 319        | 9 719         |
| Sub-total                             | 19 336        | 17 576        | 14 230        | 13 178        | 12 388        | 13 262        | 12 125        | 12 034        | 11 172        |
| <b>Total</b>                          | <b>66 280</b> | <b>59 266</b> | <b>52 865</b> | <b>50 185</b> | <b>49 422</b> | <b>49 556</b> | <b>48 144</b> | <b>49 448</b> | <b>51 944</b> |
| <u>(% change over a year earlier)</u> |               |               |               |               |               |               |               |               |               |
| Building sites                        |               |               |               |               |               |               |               |               |               |
| Private sector                        | -0.8          | -6.1          | -1.8          | -5.7          | -1.2          | -3.0          | -2.5          | -5.2          | -0.8          |
| Public sector <sup>(a)</sup>          | -17.7         | -23.9         | -24.6         | 1.6           | 4.7           | -6.1          | 8.4           | 15.6          | 30.8          |
| Sub-total                             | -6.3          | -11.2         | -7.3          | -4.2          | 0.1           | -3.6          | -0.3          | -0.8          | 6.1           |
| Civil engineering sites               |               |               |               |               |               |               |               |               |               |
| Private sector                        | -6.9          | -14.3         | -28.6         | 6.7           | 0.7           | 11.9          | -0.1          | -7.8          | -12.3         |
| Public sector <sup>(a)</sup>          | -4.0          | -8.3          | -17.7         | -9.1          | -7.0          | -3.3          | -7.8          | -2.0          | -7.2          |
| Sub-total                             | -4.4          | -9.1          | -19.0         | -7.4          | -6.0          | -1.3          | -7.0          | -2.9          | -7.9          |
| <b>Total</b>                          | <b>-5.7</b>   | <b>-10.6</b>  | <b>-10.8</b>  | <b>-5.1</b>   | <b>-1.5</b>   | <b>-3.0</b>   | <b>-2.1</b>   | <b>-1.3</b>   | <b>2.8</b>    |

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

**Table 19 : Rate of change in payroll indices by selected industry section**

(%)

| Selected industry section                             | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |      |      | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|------|------|-------------|
|   |             |             |             |             | Q2          | Q3   | Q4   | Q1          |
| <b>(in nominal terms)</b>                             |             |             |             |             |             |      |      |             |
| Manufacturing   | 0.9         | 1.7         | 2.5         | 0.9         | 3.6         | 4.8  | -2.4 | -8.2        |
| Sewerage, waste management and remediation activities | 28.0        | 10.4        | 17.0        | -8.6        | -20.1       | 4.6  | -7.6 | 1.6         |
| Import/export and wholesale trade                     | 6.9         | 3.9         | 1.8         | 6.3         | 6.4         | 7.4  | 2.6  | -5.7        |
| Retail trade  | 9.0         | 2.1         | 2.6         | 8.1         | 8.0         | 15.6 | 8.4  | 0.4         |
| Transportation, storage, postal and courier services  | 5.2         | 3.0         | 3.9         | -0.6        | -0.6        | 1.7  | -3.3 | 0.6         |
| Accommodation and food service activities             | 2.0         | 2.6         | 3.9         | 2.6         | 4.2         | 5.2  | 1.6  | -2.3        |
| Information and communications                        | *           | 0.6         | -2.9        | 6.6         | 1.6         | 7.2  | 8.7  | -3.2        |
| Financing and insurance activities                    | 5.5         | 10.0        | 9.8         | 9.0         | 10.0        | 12.4 | 0.2  | -9.8        |
| Real estate activities                                | 5.7         | -2.5        | -0.4        | 8.0         | 9.1         | 3.6  | 0.6  | -14.2       |
| Professional and business services                    | 2.5         | 3.3         | 4.8         | 3.5         | 5.3         | 6.3  | -4.9 | -1.7        |
| Social and personal services                          | -3.2        | 1.0         | 1.5         | 3.1         | 4.9         | 4.2  | 1.4  | 6.8         |
| <b>All industries surveyed</b>                        | 3.5         | 2.4         | 4.0         | 2.6         | 4.6         | 5.2  | -2.1 | -0.2        |
| <b>(in real terms)</b>                                |             |             |             |             |             |      |      |             |
| Manufacturing   | *           | -0.3        | 0.5         | -3.3        | -2.0        | 0.1  | -4.6 | -9.7        |
| Sewerage, waste management and remediation activities | 26.8        | 8.2         | 14.8        | -12.3       | -24.4       | *    | -9.8 | *           |
| Import/export and wholesale trade                     | 5.9         | 1.8         | -0.2        | 1.9         | 0.6         | 2.6  | 0.2  | -7.3        |
| Retail trade  | 8.0         | 0.1         | 0.6         | 3.6         | 2.2         | 10.4 | 5.9  | -1.3        |
| Transportation, storage, postal and courier services  | 4.2         | 0.9         | 1.9         | -4.7        | -5.9        | -2.9 | -5.5 | -1.1        |
| Accommodation and food service activities             | 1.0         | 0.6         | 1.8         | -1.7        | -1.5        | 0.5  | -0.7 | -4.0        |
| Information and communications                        | -0.9        | -1.4        | -4.7        | 2.2         | -3.9        | 2.4  | 6.2  | -4.8        |
| Financing and insurance activities                    | 4.5         | 7.9         | 7.7         | 4.6         | 4.1         | 7.3  | -2.1 | -11.3       |
| Real estate activities                                | 4.8         | -4.4        | -2.3        | 3.5         | 3.2         | -1.0 | -1.7 | -15.7       |
| Professional and business services                    | 1.6         | 1.3         | 2.8         | -0.7        | -0.4        | 1.6  | -7.1 | -3.3        |
| Social and personal services                          | -4.1        | -1.0        | -0.5        | -1.2        | -0.8        | -0.5 | -0.9 | 5.0         |
| <b>All industries surveyed</b>                        | 2.6         | 0.4         | 1.9         | -1.7        | -1.1        | 0.5  | -4.3 | -1.9        |

Notes : 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.

Upon the implementation of the new HSIC Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the payroll statistics. Starting from the first quarter of 2009, all the payroll statistics, unless otherwise specified, are compiled based on the HSIC Version 2.0. The series of payroll statistics under the HSIC Version 2.0 has also been backcasted to the first quarter of 2004.

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

**Table 20 : Rates of change in wage indices by selected industry section**

|   | (%)         |             |             |             |             |            |             |             |
|---|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
| Selected industry section                         | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2008</u> |            |             | <u>2009</u> |
|   |             |             |             |             | Jun         | Sep        | Dec         | Mar         |
| <b>(in nominal terms)</b>                         |             |             |             |             |             |            |             |             |
| Manufacturing                                     | 1.6         | 0.2         | 4.3         | 2.6         | 4.5         | 3.3        | 1.4         | 2.2         |
| Import/export and wholesale trade                 | 2.7         | 1.0         | 2.8         | 3.1         | 4.4         | 4.0        | -0.3        | -1.6        |
| Retail trades                                     | 0.8         | 0.8         | -1.7        | 4.9         | 3.6         | 12.1       | 6.2         | 7.0         |
| Transportation                                    | 1.2         | 0.1         | 1.5         | 1.8         | 1.6         | 3.1        | -1.0        | -0.9        |
| Accommodation and food service activities         | *           | 1.0         | 1.4         | 3.1         | 3.0         | 4.1        | 1.9         | -2.1        |
| Information and communications                    | 4.2         | 6.3         | 1.0         | *           | 2.9         | 4.4        | -1.6        | 0.8         |
| Financing and insurance activities <sup>(a)</sup> | 0.1         | 2.1         | 2.4         | 2.8         | 5.1         | 6.1        | -0.1        | 0.1         |
| Real estate leasing and maintenance management    | 0.5         | 2.3         | 1.4         | 2.7         | 2.6         | 4.2        | 1.0         | -0.9        |
| Professional and business services                | -1.9        | 2.4         | 4.8         | 4.9         | 5.0         | 5.1        | 3.5         | 1.0         |
| Personal services                                 | 2.4         | 3.4         | 8.5         | 0.5         | 1.1         | 1.4        | -1.2        | 1.9         |
| <b>All industries surveyed</b>                    | <b>1.1</b>  | <b>1.7</b>  | <b>2.6</b>  | <b>3.4</b>  | <b>4.1</b>  | <b>4.6</b> | <b>0.9</b>  | <b>-0.9</b> |
| <b>(in real terms)</b>                            |             |             |             |             |             |            |             |             |
| Manufacturing                                     | 0.4         | -1.5        | 2.4         | -0.1        | -1.5        | 3.6        | 0.2         | 1.6         |
| Import/export and wholesale trade                 | 1.5         | -0.7        | 0.9         | 0.4         | -1.6        | 4.4        | -1.6        | -2.1        |
| Retail trades                                     | -0.5        | -0.9        | -3.5        | 2.2         | -2.4        | 12.5       | 4.9         | 6.5         |
| Transportation                                    | *           | -1.7        | -0.4        | -0.8        | -4.2        | 3.4        | -2.2        | -1.4        |
| Accommodation and food service activities         | -1.3        | -0.8        | -0.4        | 0.4         | -2.9        | 4.4        | 0.6         | -2.6        |
| Information and communications                    | 2.9         | 4.4         | -0.8        | -2.6        | -3.0        | 4.7        | -2.8        | 0.3         |
| Financing and insurance activities <sup>(a)</sup> | -1.1        | 0.3         | 0.6         | 0.2         | -0.9        | 6.4        | -1.3        | -0.4        |
| Real estate leasing and maintenance management    | -0.8        | 0.6         | -0.5        | 0.1         | -3.3        | 4.5        | -0.3        | -1.4        |
| Professional and business services                | -3.0        | 0.7         | 2.9         | 2.2         | -1.0        | 5.4        | 2.2         | 0.5         |
| Personal services                                 | 1.2         | 1.6         | 6.5         | -2.1        | -4.7        | 1.7        | -2.4        | 1.4         |
| <b>All industries surveyed</b>                    | <b>-0.2</b> | <b>*</b>    | <b>0.7</b>  | <b>0.7</b>  | <b>-1.9</b> | <b>4.9</b> | <b>-0.4</b> | <b>-1.4</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).

Upon the implementation of the new HSIC Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the wage statistics. Starting from March 2009, all the wage statistics, unless otherwise specified, are compiled based on the HSIC Version 2.0. The series of wage statistics under the HSIC Version 2.0 has also been backcasted to March 2004.

(a) Excluding stock, commodity and bullion brokers, exchanges and services companies; insurance agents and brokers; and real estate agencies.

(\*) 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 <sup>(b)</sup> | -1.6        | 0.2         | -1.6        | -2.7        | -0.3        | 2.2         | 0.8         | 2.2         |
| 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.

(b) Starting from the first quarter of 2009, the producer price indices for all manufacturing industries are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The new series has also been backcasted to the first quarter of 2005. The rates of change before 2006 presented here are the old series compiled based on the HSIC Version 1.1. The two series are therefore not strictly comparable.

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

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

(--) Not applicable.

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> |        | Average annual<br><u>rate of change:</u> |                         |
|   |             |             | Q3          | Q4     | Q1          | Q2     | 10 years<br>1998 to 2008                 | 5 years<br>2003 to 2008 |
| GDP deflator  | 2.9 #       | 1.4 #       | 2.0 #       | -0.2 # | 0.4 #       | 1.7 #  | -2.0 #                                   | 0.1 #                   |
| Domestic demand deflator  | 2.1 #       | 3.0 #       | 3.5 #       | -0.4 # | -0.8 #      | -0.4 # | -0.9 #                                   | 1.7 #                   |
| Consumer Price Indices <sup>(a)</sup> :                                 |             |             |             |        |             |        |  |                         |
| Composite CPI   | 2.0         | 4.3         | 4.6         | 2.3    | 1.7         | -0.1   | -0.6                                     | 1.8                     |
| CPI(A)  | 1.3         | 3.6         | 2.7         | 0.6    | 1.0         | -0.8   | -0.6                                     | 1.5                     |
| CPI(B)  | 2.2         | 4.6         | 5.3         | 2.9    | 1.9         | 0.1    | -0.7                                     | 1.9                     |
| CPI(C)  | 2.7         | 4.7         | 5.8         | 3.6    | 2.2         | 0.5    | -0.6                                     | 1.9                     |
| Unit Value Indices :  |             |             |             |        |             |        |  |                         |
| Domestic exports  | 0.8         | 5.1         | 6.4         | 6.2    | 2.5         | *      | -0.4                                     | 1.5                     |
| Re-exports  | 2.4         | 3.8         | 4.7         | 4.0    | 2.5         | 0.8    | 0.1                                      | 1.9                     |
| Total exports of goods  | 2.3         | 3.8         | 4.8         | 4.1    | 2.5         | 0.8    | *  | 1.9                     |
| Imports of goods  | 2.3         | 4.4         | 5.6         | 3.6    | 1.0         | -0.8   | 0.5                                      | 2.9                     |
| Terms of Trade Index  | 0.1         | -0.5        | -0.8        | 0.5    | 1.6         | 1.6    | -0.5                                     | -0.9                    |
| Producer Price Index <sup>(b)</sup><br>for all manufacturing industries | 3.0         | 5.6         | 5.8         | 3.9    | -1.4        | N.A.   | --                                       | --                      |
| Tender Price Indices :  |             |             |             |        |             |        |  |                         |
| Public sector<br>building projects                                      | 20.1        | 41.9        | 54.6        | 26.5   | N.A.        | N.A.   | 1.8                                      | 12.3                    |
| Public housing projects   | 19.7        | 30.8        | 33.9        | 18.0   | -0.7        | N.A.   | 1.3                                      | 14.2                    |

**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: |                            |
|  |                |             |              |              | Q3           | Q4           | Q1          | Q2          | 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>4.6</b>   | <b>2.3</b>   | <b>1.7</b>  | <b>-0.1</b> | <b>-0.6</b>                       | <b>1.8</b>                 |
| Food   | 26.94          | 1.7         | 4.3          | 10.1         | 10.6         | 8.8          | 4.6         | 1.5         | 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>6.4</i>   | <i>5.6</i>   | <i>3.4</i>  | <i>1.7</i>  | <i>0.5</i>                        | <i>2.2</i>                 |
| <i>Food, excluding meals bought</i><br><i>away from home</i> | <i>(10.08)</i> | <i>2.5</i>  | <i>7.1</i>   | <i>16.8</i>  | <i>17.2</i>  | <i>13.8</i>  | <i>6.5</i>  | <i>1.2</i>  | <i>1.7</i>                        | <i>6.3</i>                 |
| Housing <sup>(a)</sup>                                       | 29.17          | 4.7         | 2.0          | 4.1          | 3.9          | 2.7          | 6.6         | 4.5         | -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>9.5</i>   | <i>6.4</i>   | <i>7.7</i>  | <i>5.1</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>-63.6</i> | <i>-39.5</i> | <i>-0.2</i> | <i>0.6</i>  | <i>-4.7</i>                       | <i>-9.2</i>                |
| Electricity, gas and water                                   | 3.59           | 2.1         | -0.7         | -6.5         | -5.3         | -34.9        | -42.7       | -42.7       | 0.5                               | 1.9                        |
| Alcoholic drinks and tobacco                                 | 0.87           | -3.7        | -1.2         | 0.1          | -0.2         | -0.6         | 7.6         | 22.6        | 0.1                               | -0.9                       |
| Clothing and footwear  | 3.91           | 1.0         | 4.1          | 0.8          | 0.7          | -0.5         | 1.8         | 2.5         | -2.6                              | 2.8                        |
| Durable goods  | 5.50           | -6.4        | -4.7         | -2.0         | -1.0         | -1.1         | -2.9        | -3.3        | -4.9                              | -3.7                       |
| Miscellaneous goods  | 4.78           | 1.7         | 2.5          | 5.0          | 5.6          | 4.7          | 3.2         | 2.3         | 2.0                               | 2.9                        |
| Transport  | 9.09           | 0.7         | -0.1         | 2.5          | 4.0          | 2.1          | 0.7         | -0.7        | 0.6                               | 1.0                        |
| Miscellaneous services                                       | 16.15          | 1.9         | 1.7          | 0.8          | 0.8          | -0.3         | -1.7        | -3.0        | -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>     |                 | <u>Average annual rate of change:</u>    |   |  |
|  |             |                         |                         | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <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                     | 3.3             | -1.4            | -1.0            | -1.6            | -0.7                                     | 1.8                                     |  |
| Government consumption expenditure     | 1.0         | 2.9                     | 5.2                     | 6.0             | 5.0             | 4.2             | 0.7             | *  | 0.9                                     |  |
| Gross domestic fixed capital formation | 4.2         | -2.5                    | 1.8                     | 3.0             | 0.3             | -2.3            | 4.4             | -2.0                                     | 1.4                                     |  |
| Total exports of goods                 | 0.3         | 2.2                     | 3.4                     | 4.4             | 3.3             | 1.8             | -0.3            | -0.4                                     | 1.5                                     |  |
| Imports of goods                       | 2.1         | 1.7                     | 4.1                     | 5.4             | 3.1             | -0.1            | -2.2            | 0.2                                      | 2.5                                     |  |
| Exports of services                    | 3.6         | 2.5                     | 3.0                     | 5.0             | -0.6            | -7.3            | -6.8            | *  | 2.6                                     |  |
| Imports of services                    | 0.8         | 2.9                     | 4.1                     | 5.4             | -1.1            | -6.1            | -6.4            | 1.5                                      | 2.6                                     |  |
| <b>Gross Domestic Product</b>          | <b>-0.3</b> | <b>2.9</b>              | <b>1.4</b>              | <b>2.0</b>      | <b>-0.2</b>     | <b>0.4</b>      | <b>1.7</b>      | <b>-2.0</b>                              | <b>0.1</b>                              |  |
| Total final demand                     | 1.2         | 2.2                     | 3.2                     | 4.3             | 1.7             | -0.5            | -1.2            | -0.5                                     | 1.7                                     |  |
| Domestic demand                        | 1.9         | 2.1                     | 3.0                     | 3.5             | -0.4            | -0.8            | -0.4            | -0.9                                     | 1.7                                     |  |

