

## Press Release

(embargoed until 4:30 p.m. on 13 August 2010)

### **Economic Situation in the Second Quarter of 2010 and Latest GDP and Price Forecasts for 2010**

The Government released today (Friday) the Half-yearly Economic Report 2010, together with the preliminary figures on Gross Domestic Product for the second quarter of 2010.

The economic situation in the second quarter of 2010 and the latest GDP and price forecasts for the year are set out below.

#### **MAIN POINTS**

- \* The Hong Kong economy continued to show a broadly-based recovery in the second quarter of 2010, benefited mainly from the robust growth momentum in the Mainland and other Asian economies. Real GDP leaped distinctly further by 6.5% in the second quarter over a year earlier, after a growth of 8.0% in the first quarter, the second quarter of above-trend growth. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 1.4%.
- \* Merchandise exports remained vibrant in the second quarter, expanding by 20.1% in real terms over a year earlier, propelled by the strong growth in many Asian markets and the further recovery in import demand in the United States. The European markets continued to lag behind the others, although the sovereign debt problem in Europe had not yet posed a significant drag on global trade flows.
- \* Exports of services likewise maintained strong momentum, up 16.9% year-on-year in real terms in the second quarter. Inbound tourism continued to benefit from the surge in Mainland visitors and the recovery in regional markets. Exports of trade-related services were buoyant, thanks mainly to the thriving intra-regional trade flows, which in turn rendered firm support to exports of transportation services. Exports of business services picked up strongly on vibrant commercial activities, but exports of financial services grew only moderately as the European sovereign debt problem dampened market sentiment during the quarter.
- \* Domestic sector stayed resilient in the second quarter. Private consumption expenditure rose by 4.6% year-on-year in real terms, thanks to a general improvement in overall economic situation and incomes. Overall investment spending accelerated to a distinct 15.2% growth. Construction activity was boosted by further marked growth in public sector works, while machinery and equipment acquisition also maintained strong momentum.
- \* The performance of the labour market was somewhat mixed. While the underemployment situation improved further, the seasonally adjusted

unemployment rate rose back slightly to 4.6% in the second quarter. The latter, when matched against the concurrent rise in job vacancies, indicates that the rise in unemployment was in large part due to frictional factors, as more workers were in search of employment opportunities with better terms and conditions.

- \* Local stock market saw some retreat in April and May, along with other major overseas stock markets in face of the sovereign debt problem in Europe, before stabilising somewhat in June. The local property market also turned slightly quieter in May, yet picked up again in June.
- \* The global economy remained on track to recovery in the second quarter. Asia continued to take the lead, with the Mainland and many other Asian economies growing robustly. However, the outlook for the external environment has turned more uncertain as the sovereign debt problem in Europe, leading many European economies to implement austerity measures, posed downside risks to the global recovery. Recent indications also suggest that the growth momentum in the United States has weakened. Given these developments, it is likely that Hong Kong's year-on-year export growth may experience some deceleration in the second half of the year.
- \* Nevertheless, local consumer sentiment remained firm so far. The results of the latest Quarterly Business Tendency Survey conducted in June and early July also indicated that large enterprises were still positive on the outlook, and their intention to hire new hands strengthened further. In addition, the sustained high level of public sector construction work will render a further support to domestic demand.
- \* Given the actual outturn of a 7.2% robust GDP growth in the first half of 2010, and even allowing for some possible deceleration in year-on-year growth in the second half of the year, there is still an upside to the annual GDP growth forecast of 4-5% put out earlier. The GDP growth forecast for 2010 as a whole is revised upwards to 5-6%, from the forecast of 4-5% growth in the May round.
- \* Inflationary pressure climbed up moderately in the second quarter amid the sustained economic revival and higher import prices. Underlying consumer price inflation went up to 1.5% in the second quarter from 0.8% in the first quarter, and may edge up further in the coming months, as the reflationary process proceeds and as import prices rise further. Nevertheless, the sustained productivity growth in the economy should provide a useful offset to the domestic cost pressures. With the developments on the price front so far in line with expectations, the forecast rate of the underlying consumer price inflation in 2010 as a whole is maintained at 1.5%. The corresponding forecast rate of the headline consumer price inflation is also kept unchanged at 2.3%.

## DETAILS

### GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP leaped by 6.5% in the second quarter of 2010 over a year earlier. This was further to the expansion of 8.0% in the first quarter of 2010 (revised from the earlier estimate of 8.2%). In the first half of 2010, real GDP grew by 7.2% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, GDP grew by 1.4% in real terms in the second quarter (*Chart*). As a result, the seasonally adjusted GDP level in the second quarter surpassed the pre-crisis peak in the first quarter of 2008 by some 1.6%.

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2010 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2010 are described below.

### External trade

3. *Total exports of goods* continued to fare strongly in the second quarter, amid the sustained global economic recovery. Total exports of goods surged by 20.1% in real terms in the second quarter over a year earlier, further to the 21.6% growth in the first quarter. The Asian markets still outperformed the other markets by a wide margin. Specifically, total exports to the Mainland continued to show a double-digit year-on-year growth, even against a higher base of comparison in the second quarter, and those to Taiwan, Japan, Korea and Singapore all recorded double-digit growth in the region of 15-30%. The US market also improved visibly further, as economic recovery there continued at a moderate pace. Although the full impact on global trade flows from the sovereign debt problem in Europe has yet to be seen, the European markets continued to lag markedly behind other markets in the quarter. On a seasonally adjusted quarter-to-quarter basis, total exports of goods leaped by 4.2% in real terms in the second quarter.

4. *Exports of services* maintained strong growth momentum in the second quarter, up 16.9% in real terms over a year earlier, after a 17.9% increase in the first quarter. With the strong influx of incoming visitors, exports of travel services rebounded sharply from the relatively low base due to human swine flu in the same quarter last year. Exports of transportation and trade-related services were buoyant, helped by the strong intra-regional trade in Asia and normalisation in global trade flows. Exports of business services picked up strongly on vibrant commercial activities, but exports of financial services grew only moderately as the European sovereign debt problem dampened market sentiment during the quarter. On a seasonally adjusted quarter-to-quarter basis, exports of services grew marginally, by 0.8% in real terms in the second quarter.

## **Domestic sector**

5. The domestic sector held firm in the second quarter, on the back of rising incomes and generally upbeat economic sentiment. *Private consumption expenditure* increased by 4.6% in real terms over a year earlier, further to the 7.1% growth in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew by 1.5% in real terms in the second quarter. Despite the correction in the stock market and concerns about the European debt problem, local consumer confidence remained rather sanguine, as evidenced by sustained increase in spending on big-ticket items, including motor vehicles and other consumer durables.

6. *Overall investment spending* picked up to a distinct increase of 15.2% in real terms in the second quarter over a year earlier, further to the 8.2% growth in the first quarter. Investment in machinery and equipment grew strongly further by 16.2% in the second quarter. The growth impetus came from a sharp increase in spending by the private sector, reflecting the prevailing positive business sentiment. Expenditure on building and construction resumed a marked increase of 11.4% in the second quarter, mainly contributed by a further pick-up in public sector works, following an already hectic growth in the first quarter. Private sector construction activity saw some relative improvement, but still registered a small year-on-year decline.

## **The labour sector**

7. The performance of the labour market was somewhat mixed. While the *seasonally adjusted unemployment rate* rose back slightly to 4.6% in the second quarter, the concurrent increase in job vacancies suggests that the relapse was in large part frictional, caused by workers temporarily breaking from employment whilst seeking jobs with better terms and conditions. The intensity of work actually improved slightly, as evidenced by the continued decline in the *underemployment rate*, to 2.0% in the second quarter. Labour wages and earnings picked up further in the first quarter of 2010.

## **The asset markets**

8. The *local stock market* experienced sharp volatilities and sell-off alongside other major overseas markets in April and May on deepening concerns over the European sovereign debt crisis. The market recovered somewhat towards the end of the second quarter as the situation in Europe stabilised. The Hang Seng Index closed the month of June at 20 129, down by 5.2% over end-March this year and by 8.0% over end-2009.

9. The *residential property market* also consolidated somewhat in May, subsequent to the Government's further measures to ensure a healthy and stable development of the property market. But the upward momentum resumed in June. Overall flat prices went up by a further 1.5% between March 2010 and June 2010,

after rising successively by a cumulative 28.5% during 2009 and a further 6.5% during the first quarter of 2010. Nevertheless, transactions in the second quarter fell slightly by 2.6% over the preceding quarter, mainly reflecting the cooling off in May. Thanks to the exceptionally low mortgage interest rates, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) was about 41.5% in the second quarter, as compared to the long-term average of 52.6% over 1989 to 2008.

## **Prices**

10. Inflationary pressure notched up moderately in the second quarter alongside the sustained economic recovery. *Underlying consumer price inflation* on a year-on-year basis rose to 1.5% in the second quarter from 0.8% in the first quarter. Taking into account the effect of the Government's one-off measures, *headline consumer price inflation* went up to 2.6% in the second quarter from 1.9% in the first quarter. The fading of the effect of electricity charge subsidy largely explains the difference in the two inflation rates.

## **Latest GDP and price forecasts for 2010**

11. The global economy remained on track to recovery in the second quarter. Asia continued to take the lead, with the Mainland and many other Asian economies growing robustly. However, the outlook for the external environment has turned more uncertain as the sovereign debt problem in Europe, leading many European economies to implement austerity measures, posed downside risks to the global recovery. Recent indications also suggest that the growth momentum in the United States has weakened. Given these developments, it is likely that Hong Kong's year-on-year export growth may experience some moderation in the second half of the year.

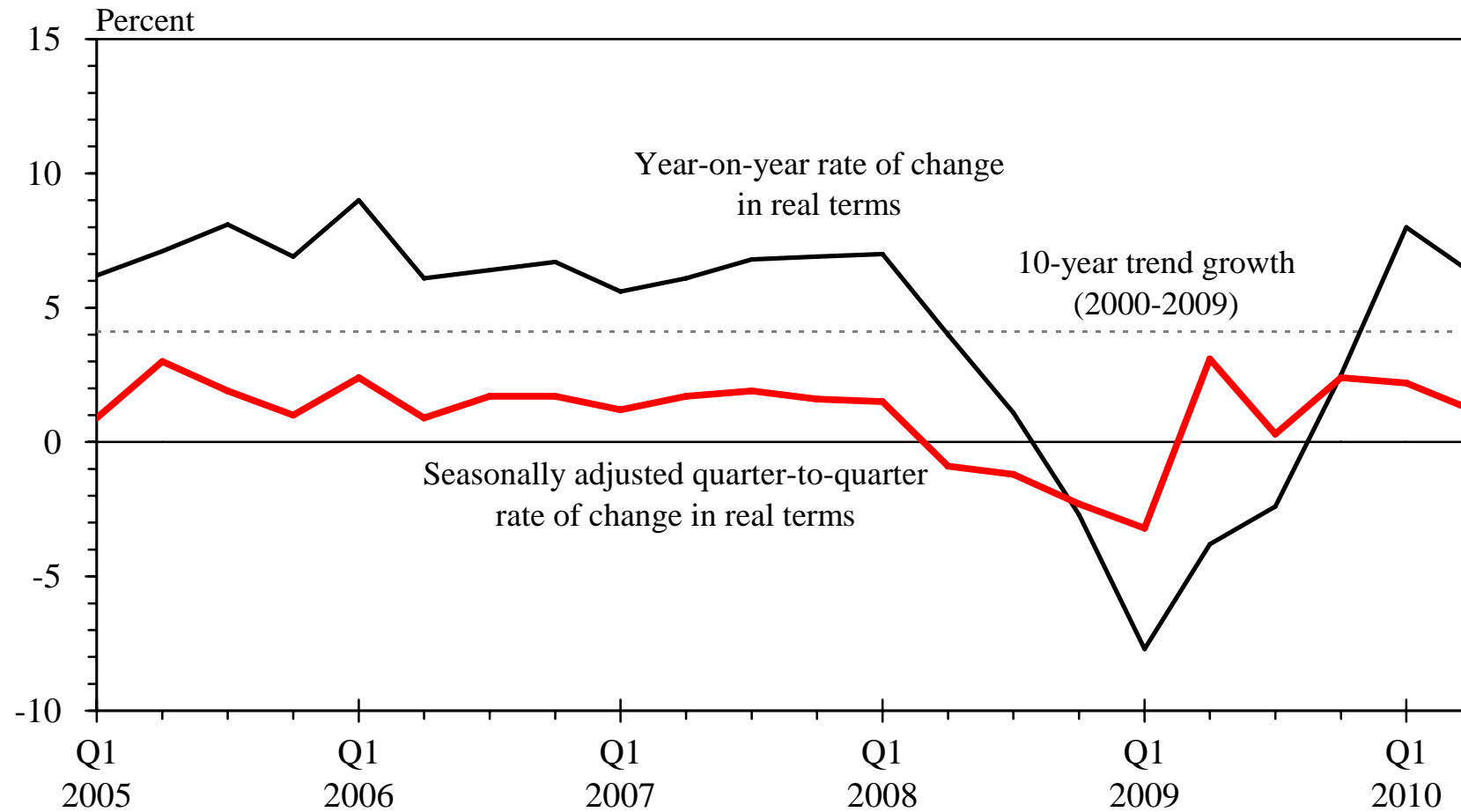
12. Nevertheless, local consumer sentiment remained firm so far. The results of the latest Quarterly Business Tendency Survey conducted in June and early July also indicated that large enterprises were still positive on the outlook, and their intention to hire new hands strengthened further. In addition, the sustained high level of public sector construction work will render a further support to domestic demand.

13. Given the actual outturn of a robust GDP growth in the first half of 2010, and even allowing for some possible deceleration in year-on-year growth in the second half of the year, there is still an upside to the annual GDP growth forecast of 4-5% put out earlier. The GDP growth forecast for 2010 as a whole is thus revised upwards to 5-6%, from the forecast of 4-5% growth in the May round (*Table 2*). For information, most private sector analysts are currently projecting the economy to expand by 4.5-7%, averaging at around 5.5%.

14. Underlying consumer price inflation may edge up further in the coming months, as the reflationary process proceeds and as import prices rise further. Nevertheless, the sustained productivity growth in the economy should provide a useful offset to the domestic cost pressures. With the developments on the price front so far in line with expectations, the forecast rate of the underlying consumer price inflation in 2010 as a whole is maintained at 1.5%. The corresponding forecast rate of the headline consumer price inflation is also kept unchanged at 2.3%.

(The Half-yearly Economic Report 2010 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The print version is available for sale at \$98 per issue, plus postage charge. Users can purchase the print version 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 Report of the Gross Domestic Product, Second Quarter 2010, which contains the GDP figures up to the second quarter of 2010, is also available for online download, free of charge at the homepage of the Census and Statistics Department, <http://www.censtatd.gov.hk>.)

## Hong Kong's Gross Domestic Product



Note : Figures for the second quarter of 2010 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>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>				<u>2010</u>	
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
<i><u>Change in real terms of GDP and its main expenditure components (%)</u></i>								
Private consumption expenditure	2.4	-0.4	-6.2 (-1.7)	-0.6 (4.1)	0.6 (0.4)	4.8 (2.0)	7.1 (0.6)	4.6 (1.5)
Government consumption expenditure	1.8	2.4	1.5 (-0.3)	2.6 (1.8)	3.4 (0.6)	2.0 (-0.2)	3.4 (1.2)	2.7 (1.0)
Gross domestic fixed capital formation	0.8	-1.8	-10.3	-11.8	3.2	14.1	8.2	15.2
<i>of which :</i>								
Building and construction	6.1	-0.5	-5.6	-2.4	5.4	1.3	-7.2	11.4
Machinery, equipment and computer software	-0.8	-2.6	-4.1	-16.6	-2.1	16.2	11.9	16.2
Total exports of goods	1.9	-12.7	-22.7 (-12.7)	-12.8 (6.0)	-13.2 (-1.3)	-2.9 (7.3)	21.6 (8.4)	20.1 (4.2)
Imports of goods	1.8	-9.5	-20.8 (-10.4)	-12.6 (5.3)	-8.3 (2.5)	3.3 (7.1)	28.0 (10.3)	23.6 (1.6)
Exports of services	5.0	0.3	-5.5 (-1.8)	-3.8 (1.9)	0.8 (3.7)	8.9 (4.8)	17.9 (6.7)	16.9 (0.8)
Imports of services	6.3	-3.7	-9.7 (-3.5)	-5.0 (1.9)	-2.7 (1.6)	2.5 (2.6)	10.9 (4.3)	12.3 (3.3)
<b>Gross Domestic Product</b>	<b>2.2</b>	<b>-2.8</b>	<b>-7.7 (-3.2)</b>	<b>-3.8 (3.1)</b>	<b>-2.4 (0.3)</b>	<b>2.5 (2.4)</b>	<b>8.0 (2.1)</b>	<b>6.5 (1.4)</b>
<i><u>Change in the main price indicators (%)</u></i>								
<b>GDP deflator</b>	<b>1.5</b>	<b>0.2</b>	<b>0.7 (0.2)</b>	<b>0.9 (0.2)</b>	<b>-1.0 (-0.6)</b>	<b>0.2 (0.4)</b>	<b>2.0 (2.0)</b>	<b>-0.6 (-2.4)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.3</b>	<b>0.5</b>	<b>1.7 (0.4)</b>	<b>-0.1 (-0.2)</b>	<b>-0.9 (-1.1)</b>	<b>1.3 (2.2)</b>	<b>1.9 (1.0)</b>	<b>2.6 (0.5)</b>
<b>Underlying<sup>^</sup></b>	<b>5.6</b>	<b>1.0</b>	<b>3.1 (-0.1)</b>	<b>1.2 (-0.3)</b>	<b>-0.3 (-0.2)</b>	<b>-0.1 (0.5)</b>	<b>0.8 (0.7)</b>	<b>1.5 (0.5)</b>
<i><u>Change in nominal GDP (%)</u></i>	<b>3.7</b>	<b>-2.6</b>	<b>-7.0</b>	<b>-2.9</b>	<b>-3.4</b>	<b>2.7</b>	<b>10.1</b>	<b>5.9</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.

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



**Table 2****Economic forecasts for 2010  
(rate of change (%))**

	Forecasts for 2010 as released on 14.5.2010 (%)	Latest forecasts for 2010 on 13.8.2010 (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	4 to 5	5 to 6
<i>Nominal GDP</i>	4 to 5	5 to 6
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	2.3	2.3
<i>Underlying CCPI</i>	1.5	1.5
<b>GDP Deflator</b>	0	0



# Half-yearly Economic Report 2010

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2010***

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

*August 2010*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

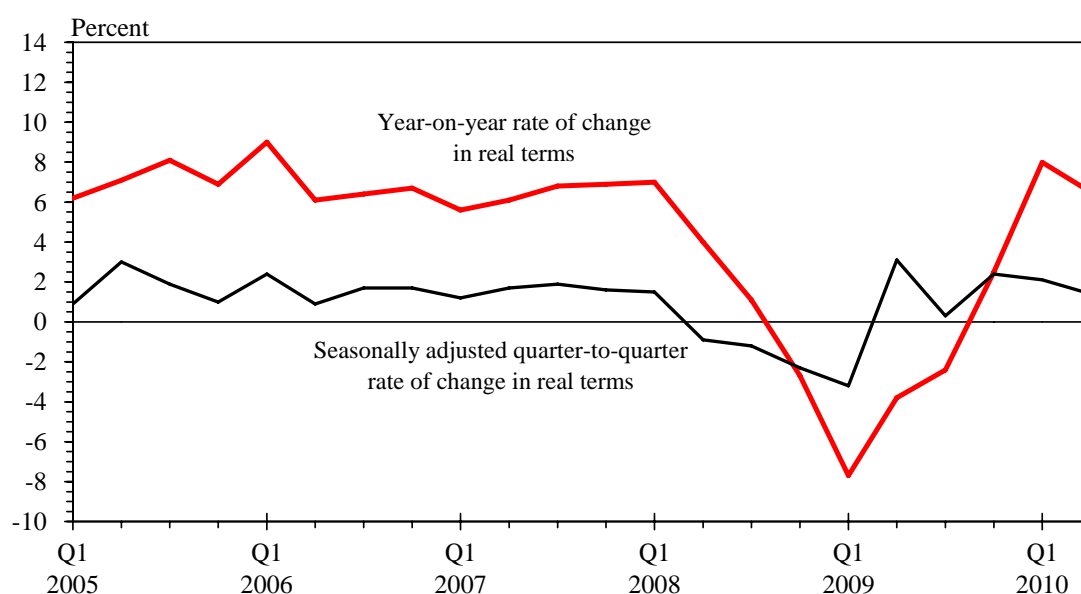
- *The Hong Kong economy continued to show a broadly-based recovery in the second quarter of 2010, benefited mainly from the robust growth momentum in the Mainland and other Asian economies. Real GDP leaped distinctly further by 6.5% over a year earlier, after a growth of 8.0% in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 1.4%.*
- *Merchandise exports remained vibrant in the second quarter, propelled by the strong growth in many Asian markets and the further recovery in import demand in the United States. The European markets continued to lag behind the others, although the sovereign debt problem in Europe had not yet posed a significant drag on global trade flows.*
- *Exports of services likewise maintained strong momentum in overall terms in the second quarter. Inbound tourism continued to benefit from the surge in Mainland visitors and the recovery in regional markets. Exports of trade-related services were buoyant, thanks mainly to the thriving intra-regional trade flows, and this in turn rendered a firm support to exports of transportation services. Exports of financial and business services also grew sizably, despite the intensification of the European sovereign debt problem during the quarter.*
- *Domestic sector stayed resilient. Private consumption expenditure grew solidly, on the back of the general improvement in overall economic situation and hence incomes. Overall investment spending picked up distinctly to a double-digit growth. Construction activity was boosted by the marked surge in public sector works. Machinery and equipment acquisition also maintained strong growth momentum.*
- *Labour market performance was somewhat mixed. Underemployment situation improved further, while job vacancies continued to rise along with a further pick-up in wages and earnings. Yet the seasonally adjusted unemployment rate rose back slightly to 4.6% in the second quarter, conceivably partly due to frictional factors as more workers were in search of employment opportunities with better terms and conditions.*
- *Local stock market saw some retreat in April and May, along with other major overseas stock markets in face of the intensification of the sovereign debt problem in Europe, before stabilising somewhat in June. The local property market also turned slightly quieter in May yet picked up again in June.*

- *Inflationary pressure climbed up moderately in the second quarter amid the increasingly entrenched economic recovery. Underlying inflation went up to 1.5% in the second quarter.*

## Overall situation

1.1 The Hong Kong economy expanded distinctly in the second quarter of 2010, with further improvements on both the domestic and external fronts, thereby consolidating the broadly-based economic recovery that started since the second quarter of last year. Merchandise exports remained vibrant, supported by the stellar performance of Asian markets and a moderate recovery in import demand from the advanced economies. Exports of services likewise expanded strongly, on the back of the brisk expansion of inbound tourism and offshore trade as well as the further growth in financial and commercial activities. In the midst of the economic recovery, consumption demand held firm and investment accelerated further. Although the sovereign debt problem in some of the member economies in the euro area (See **Box 1.1**) had limited impact on the overall economic performance of Hong Kong in the second quarter, it tempered market sentiment to some extent. The marked increase in uncertainty in the external environment also led to some correction in the asset markets, particularly in April and May. Unemployment rate rose back in the quarter, yet the concurrent surge in vacancies suggests that the relapse was in large part frictional, due to more workers in search of better employment opportunities. Inflation, while climbing up further, was still benign.

**Diagram 1.1 : The Hong Kong economy expanded distinctly in the second quarter of 2010**



1.2 In the second quarter of 2010, the *Gross Domestic Product* (GDP)<sup>(1)</sup> leaped by 6.5% in real terms over a year earlier, following the 8.0% growth in the first quarter (revised from the earlier estimate of 8.2%). In the first half of 2010, real GDP expanded by 7.2% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP grew by 1.4% in real terms in the second quarter, after the 2.1% growth in the first quarter (revised from the earlier estimate of 2.4%). As a result, the seasonally adjusted GDP level in the second quarter surpassed the pre-crisis peak in the first quarter of 2008 by some 1.6%.

## **The external sector**

1.3 *Total exports of goods* continued to fare strongly in the second quarter, amid the sustained global economic recovery<sup>(3)</sup>. The Asian markets still outperformed the other markets by a wide margin. Specifically, total exports to the Mainland continued to show a double-digit year-on-year growth even against a higher base of comparison in the second quarter, and those to Taiwan, Japan, Korea and Singapore all recorded double-digit growth in the region of 15-30%. The US market also improved visibly further, as economic recovery there continued at a moderate pace. Although the full impact on global trade flows from the sovereign debt problem in Europe has yet to be seen, the European markets continued to lag markedly behind other markets in the quarter. Hong Kong's total exports of goods surged by 20.1% in real terms in the second quarter over a year earlier, further to the 21.6% growth in the first quarter.

1.4 *Exports of services* maintained strong growth momentum in the second quarter, up 16.9% in real terms over a year earlier, after the 17.9% increase in the first quarter. With the strong influx of incoming visitors, exports of travel services rebounded sharply from the relatively low base due to human swine flu in the same quarter last year. Exports of transportation and trade-related services were also buoyant, helped by the strong intra-regional trade in Asia and normalisation in global trade flows. Exports of financial and business services also grew sizably, even amid the fall-out of the European sovereign debt problem during the quarter.



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

	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>				<u>2010</u>	
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	2.4	-0.4	-6.2 (-1.7)	-0.6 (4.1)	0.6 (0.4)	4.8 (2.0)	7.1 (0.6)	4.6 (1.5)
Government consumption expenditure	1.8	2.4	1.5 (-0.3)	2.6 (1.8)	3.4 (0.6)	2.0 (-0.2)	3.4 (1.2)	2.7 (1.0)
Gross domestic fixed capital formation	0.8	-1.8	-10.3	-11.8	3.2	14.1	8.2	15.2
<i>of which :</i>								
Building and construction	6.1	-0.5	-5.6	-2.4	5.4	1.3	-7.2	11.4
Machinery, equipment and computer software	-0.8	-2.6	-4.1	-16.6	-2.1	16.2	11.9	16.2
Total exports of goods	1.9	-12.7	-22.7 (-12.7)	-12.8 (6.0)	-13.2 (-1.3)	-2.9 (7.3)	21.6 (8.4)	20.1 (4.2)
Imports of goods	1.8	-9.5	-20.8 (-10.4)	-12.6 (5.3)	-8.3 (2.5)	3.3 (7.1)	28.0 (10.3)	23.6 (1.6)
Exports of services	5.0	0.3	-5.5 (-1.8)	-3.8 (1.9)	0.8 (3.7)	8.9 (4.8)	17.9 (6.7)	16.9 (0.8)
Imports of services	6.3	-3.7	-9.7 (-3.5)	-5.0 (1.9)	-2.7 (1.6)	2.5 (2.6)	10.9 (4.3)	12.3 (3.3)
<b>Gross Domestic Product</b>	<b>2.2</b>	<b>-2.8</b>	<b>-7.7 (-3.2)</b>	<b>-3.8 (3.1)</b>	<b>-2.4 (0.3)</b>	<b>2.5 (2.4)</b>	<b>8.0 (2.1)</b>	<b>6.5 (1.4)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>1.5</b>	<b>0.2</b>	<b>0.7 (0.2)</b>	<b>0.9 (0.2)</b>	<b>-1.0 (-0.6)</b>	<b>0.2 (0.4)</b>	<b>2.0 (2.0)</b>	<b>-0.6 (-2.4)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.3</b>	<b>0.5</b>	<b>1.7 (0.4)</b>	<b>-0.1 (-0.2)</b>	<b>-0.9 (-1.1)</b>	<b>1.3 (2.2)</b>	<b>1.9 (1.0)</b>	<b>2.6 (0.5)</b>
<b>Underlying<sup>^</sup></b>	<b>5.6</b>	<b>1.0</b>	<b>3.1 (-0.1)</b>	<b>1.2 (-0.3)</b>	<b>-0.3 (-0.2)</b>	<b>-0.1 (0.5)</b>	<b>0.8 (0.7)</b>	<b>1.5 (0.5)</b>
<i>Change in nominal GDP (%)</i>	<b>3.7</b>	<b>-2.6</b>	<b>-7.0</b>	<b>-2.9</b>	<b>-3.4</b>	<b>2.7</b>	<b>10.1</b>	<b>5.9</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.

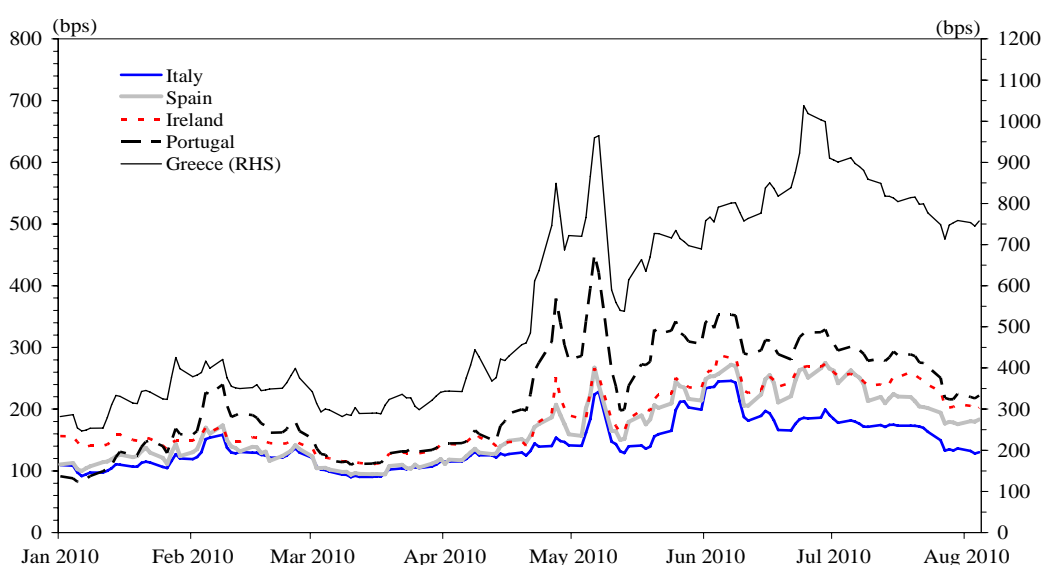
(^ ) After netting out effects of Government's one-off relief measures.

## Box 1.1

### Recent developments regarding the sovereign debt problem in the euro area

While global economic conditions generally improved further in the second quarter of 2010, the intensification of sovereign risks in some economies in the euro area (notably Portugal, Italy, Ireland, Greece and Spain, now commonly known as PIIGS collectively) had led to renewed financial turbulence in the second quarter of 2010 and increased notably the downside risks to the global economic outlook. Indeed, the macroeconomic vulnerabilities in these economies had been built up for years. Lax fiscal management, easy credit fueled by low interest rate differentials within the euro area, low savings rate, heavy reliance on external financing and housing market bubble all contributed. With the “Great Recession” in 2008-09, these fault lines were exposed, creating pressures on the public finances of these economies as their fiscal balances deteriorated abruptly and conditions for refinancing became more stringent. With the situation in Greece first coming to the fore in late 2009, concern over other PIIGS economies also intensified in the following months, with a string of negative rating actions on Spain, Portugal, and Ireland, on top of Greece. The sovereign credit default swap (CDS) spreads of the PIIGS economies, which measure the cost of insuring against default by the governments of these economies, soared in late April and early May, when market strains were most acute (*Chart 1*).

**Chart 1 : 5- year CDS on PIIGS soared and remained higher than the levels in mid-April**



In response, massive rescue measures had been rolled out jointly by the European Union (EU) and the International Monetary Fund (IMF) since April 2010. Although a potential contagion has been contained for the time being, financial markets are still skeptical, resulting in sharp gyrations in stock, currency and commodity markets in the second quarter. While strains in the financial markets had lately receded somewhat as compared to the situation in April and May, sovereign CDS spreads for the highly-indebted European nations remained elevated and those on Greek government bonds rose to a new high in late June. The rescue package may be sufficient to relieve the near-term refinancing needs of these heavily indebted economies and prevent an imminent default, but their medium to longer term fiscal sustainability will hinge on the effectiveness of their fiscal consolidation measures, which will be challenging in view of the domestic opposition and expected sluggish growth prospects of these economies.

### Box 1.1 (Cont'd)

The situation is still evolving and markets remain skeptical about the long-term resolution of the sovereign debt problem. Indeed, an abrupt worsening of the problem can trigger devastating chain reactions across the banking systems in the euro area and beyond, channelling through cross-border bank exposures to these economies. Based on information from the Bank for International Settlements, banks in France and Germany are the main creditors to banks in PIIGS on an immediate borrower basis (23% and 18% respectively of total claims on PIIGS at end-2009), followed by those in the UK and the US (11% and 5% respectively). Also, for some small economies such as Portugal, the Netherlands and Belgium, the exposures of their banking systems to PIIGS banks are notable (at 9%, 8% and 7% of their respective banking sector assets).

To prevent a further erosion of confidence and a downward spiraling of the debt problem, some European countries have introduced austerity measures to restore fiscal health. The key challenge is how to implement fiscal consolidation without jeopardising the recovery under way. Recovery in Europe is already lagging behind other parts of the world, growing by a mere 0.5% year-on-year in the first quarter of 2010, with unemployment rate still hovering at a high 10% in June. The fiscal tightening would inevitably weigh on the already fragile outlook for Europe. However, resilience in the core European economies such as Germany and France should render some momentum to the euro area, and their exports will also benefit from a weaker euro.

The evolving sovereign debt situation in Europe has emerged as a key risk factor to the global economic outlook, considering the sheer weight of Europe in the global economy (the EU accounted for about 28% of world GDP in 2009, even larger than the United States). Europe is also closely knit to world trade, being an important market for Asian exports of goods and services. Specifically, the EU market accounts for about 12% and 19% respectively of total merchandise exports and service exports of Hong Kong. Prolonged sluggishness in the EU economy will likely put a drag on the prevailing strong growth momentum in Asia. While the sovereign debt problem in Europe had not caused any significant dampening effect on global trade flows so far, the evolving situation needs to be closely monitored, as its negative impact on global demand may become more discernible later this year. Hong Kong's export outlook in the latter part of this year and in 2011 will also likely be affected to some extent.

#### *More notable developments regarding the sovereign debt problem in the euro area*

December 2009	Fitch Ratings cut Greece's sovereign credit rating to BBB+ with outlook negative on deteriorating public finance, the lowest in the eurozone and the first sub-A rating for Greece, triggering a flight from Greek assets. Greek government outlined plans to cut deficit but faced resistance.
January 2010	The European Commission (EC) condemned Greece for falsifying public accounts.
End-February	Fitch downgraded Greece's four largest banks from BBB+ to BBB.
Early March	The Greek government announced new austerity measures to reduce the deficit by €4.8 billion (about 2% of GDP).

### Box 1.1 (Cont'd)

Late March	Leaders of the eurozone backed a joint bailout deal with the IMF should Greece's debt troubles intensify. Fitch cut Portugal's sovereign debt rating from AA to AA- with outlook negative.
Mid-April	After much bickering, eurozone members agreed to provide Greece with €30 billion of three-year loans at below market interest rates upon formal request for financial assistance from the nation. The IMF agreed to provide another €15 billion loan in parallel. This, however, did not stop the yield on Greek government bonds from rising. Moody's downgraded Greece's debt rating after the country's fiscal deficit in 2009 was found to be underreported.
23 April	Greece announced that it would draw on emergency aid to tide it over for the rest of the year.
27 April	Standard & Poor's (S&P) downgraded Greece's rating to junk status (BB+) and cut Portugal's rating by two notches to A- with outlook negative on "weak macroeconomic structure."
28 April	S&P downgraded Spain's rating from AA+ to AA with outlook negative on "protracted economic adjustment and risks to budgetary position." The IMF said the aid package for Greece could be topped up to €100-120 billion over three years, more than double the amount pledged in mid-April.
2 May	A €110 billion package of emergency loans was jointly provided by the eurozone governments and the IMF in an attempt to avert a Greek default and prevent contagion. In return, Greece would adopt fiscal austerity package to cut its deficit over the next three years. The European Central Bank (ECB) also dropped the minimum credit requirement for Greek government debt collateral in the euro-system's credit operations.
10 May	The EU and IMF introduced further stabilisation measures of €750 billion, comprising €60 billion of EU-backed bonds, a €440 billion fund guaranteed by eurozone countries and up to €250 billion of IMF money, supplemented by the ECB's purchase of government and corporate debt, the reactivation of unlimited fixed rate offerings of three-month loans and US dollar swap lines with the Federal Reserve. CDS of the PIIGS countries retreated as a result, but the euro accelerated its downtrend, subsequently reaching a four-year low against the US dollar.
Mid-May	Following Greece and Ireland, a number of European economies, including Spain, Portugal, Italy, Hungary, Germany and the UK, successively began to introduce austerity plans with a view to restoring fiscal health.
17 May	In a backlash against opaque financial operations, EU finance ministers passed a draft Alternative Investment Fund Management Directive (AIFMD) to rein in hedge funds and private equity.

**Box 1.1 (Cont'd)**

22 May	The Bank of Spain took over a small savings bank, CajaSur, fanning fears of spillover to the interbank market, where three-month LIBOR had gradually climbed higher to levels back in July 2009.
4 June	A Hungarian official's remark that Hungary might face risks of a Greek-style crisis stirred a renewed bout of market jitters.
7 June	Eurozone finance ministers approved details of the €440 billion rescue package introduced in early May. A special purpose vehicle, European Financial Stability Facility (EFSF), was established to raise money in the markets backed by members' guarantees in proportion to their shares in the ECB, and the funds raised will be provided as loans to members in difficulty.
16 June	Spain announced that it will publish bank stress test results to improve market transparency.
17 June	The EU agreed to do the same by the second half of July. An interim review by the European Commission, ECB and IMF reported that fiscal developments in Greece were positive and austerity measures were being implemented as agreed.
30 June	Demand for the ECB's offer of three-month funds fell short of expectations, relieving fears over banks' reliance on the ECB lifeline to stay afloat.
7 July	German Cabinet approved a plan to reduce fiscal deficit by about €80 billion by 2014.
17 July	The IMF and EU suspended talks with Hungary in reviewing its €20 billion stabilisation programme, indicating that more measures should be taken to shrink its budget deficit.
19 July	Moody's downgraded Ireland's sovereign credit rating to Aa2 from Aa1 with outlook stable, on "government's gradual but significant loss of financial strength" and "weakened growth prospects."
23 July	The results of the EU-wide stress-testing exercise were released. Only 7 out of 91 banks put under the test (comprising 5 Spanish savings banks, Hypo Real Estate in Germany and ATEbank in Greece) fell short of the required 6% Tier 1 capital ratio under the adverse scenario with additional sovereign shock. The amount of under-capitalisation was at €3.5 billion. While the results were better than expected in the financial markets, some doubts remained about the rigour of the tests.

## The domestic sector

1.5 The domestic sector held firm in the second quarter on the back of rising incomes and generally upbeat economic sentiment. *Private consumption expenditure* grew solidly by 4.6% year-on-year in real terms over a year earlier, further to the 7.1% growth in the first quarter. Despite the correction in the stock market and concerns about the European debt problem, local consumer confidence remained rather sanguine, as evidenced by sustained increase in spending on big-ticket items, including motor vehicles and other consumer durables. Meanwhile, *government consumption expenditure* grew steadily further in the second quarter.

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

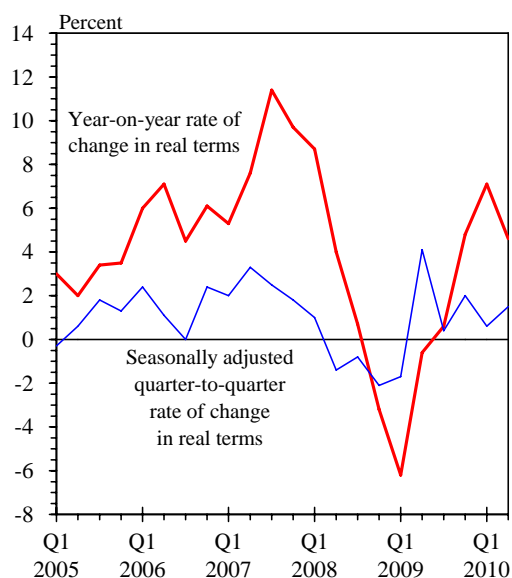
*Of which :*

		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2009	Annual	0.4	-2.0	0.7	-0.1	1.0	1.9	7.8	-0.4
	H1	-2.7	-3.0	-6.9	-5.8	-1.0	1.4	6.7	-3.4
	H2	3.5	-1.0	7.7	5.6	3.1	2.3	8.8	2.7
	Q1	-4.1	-3.7	-5.8	-5.7	-3.1	-3.8	14.3	-6.2
	Q2	-1.4	-2.4	-8.2	-5.9	1.0	7.2	-1.6	-0.6
	Q3	0.7	-1.3	-2.4	-1.4	2.5	0.3	1.7	0.6
	Q4	6.1	-0.8	18.3	11.8	3.7	4.5	15.3	4.8
2010	H1	8.3	3.3	28.3	13.6	4.8	4.3	26.2	5.8
	Q1	9.1	3.9	29.9	14.6	5.1	4.0	19.9	7.1
	Q2	7.5	2.8	26.5	12.7	4.5	4.6	34.3	4.6

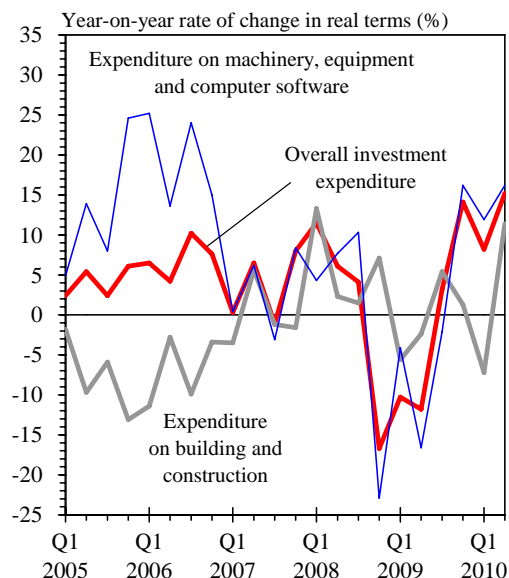
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

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

**Diagram 1.2 : Private consumption expenditure held firm**



**Diagram 1.3 : Overall investment spending picked up markedly in the second quarter**



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* surged by 15.2% in real terms in the second quarter of 2010 over a year earlier, accelerating sharply from the 8.2% growth in the first quarter. Investment in machinery and equipment picked up notably further, expanding by 16.2% in the second quarter. The growth impetus came from a sharp increase in spending by the private sector, reflecting the prevailing positive business sentiment despite the near-term business outlook in the latter part of this year being somewhat overshadowed by increased uncertainty in the global economic environment (See **Box 1.2** for the latest business situation of small and medium enterprises). Indeed, the extent of optimism among the large enterprises held up rather well, as indicated by the results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in June and early July. Expenditure on building and construction resumed a marked increase of 11.4% in the second quarter, mainly contributed by the surge in public sector works. Private sector construction activity saw some relative improvement, but had yet to turn around into a year-on-year increase.

## Box 1.2

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

To gain a better understanding of the impact of the financial tsunami on business receipts, employment and credit access situations of small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc 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 feedback. This note provides a further update of the results reported in **Box 1.2** in the *First Quarter Economic Report 2010*.

From June 2010 onwards, the SMEs surveyed were asked to compare their business and employment situation with that *in the previous month* instead of that *under normal situation*, to improve the relevance of the survey. A set of diffusion indices is thus compiled to indicate the general directions of change in the respondents' views on business receipts and employment compared with the prior month. Given the change in questions, the results regarding their views on business receipts and employment in the latest two rounds of the exercise cannot be compared with those in the preceding rounds. It should be noted that the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise. Nevertheless, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the new set of diffusion indices, showed some slight tapering in June but held largely stable in July compared with the preceding months (**Table 1**). In July, a larger proportion of SMEs in five out of ten sectors surveyed reported stable or some improvement in business receipts versus those reporting otherwise. Among the various sectors, SMEs in the logistics, financing institutions and insurance sectors reported the least favourable results, while a larger proportion of SMEs in the real estate and travel sectors reported increases in business receipts. The results of the consultation also indicated that SMEs' employment situation held largely stable, with more notable improvement recorded in the business services and financing institutions sectors. On the other hand, employment situation saw some slight relapse in the logistics, real estate, restaurants and retail trade sectors.

Specifically for import and export firms, from the June round onwards, their views on new export orders were sought, at weekly intervals, in order to better gauge the impact of the European debt problem on export performance. The diffusion index on new export orders stood at 49.6 in both June and July, marginally below the boom-bust dividing line of 50. Indeed, those import and export firms dealing with the European markets fared slightly worse than the others in terms of new orders received in June, yet the gap closed up in July.

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(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)**

Credit access situation improved further in recent months. The proportion of SMEs reporting very tight/tighter-than-normal credit access came down successively to 3.4% in July 2010 from above 12% in late November 2008, the lowest since the consultation exercise started (*Chart 1*). Moreover, the proportion of SMEs expecting tighter credit access in the coming month fell to zero for the first time in June 2010 since the global financial crisis took hold, while credit pricing continued to hold broadly stable over the past few months, thanks to the accommodative monetary conditions and also to the Government's efforts to relieve credit strains through the enhanced and special loan guarantee schemes. As at the end of July, some 19 400 companies benefited under these schemes, involving approved loan amount of over \$92 billion. This also indirectly helped to secure the jobs of those employed by these companies, totaling over 320 000.

**Table 1: Diffusion indices<sup>^</sup> on business and employment situations**

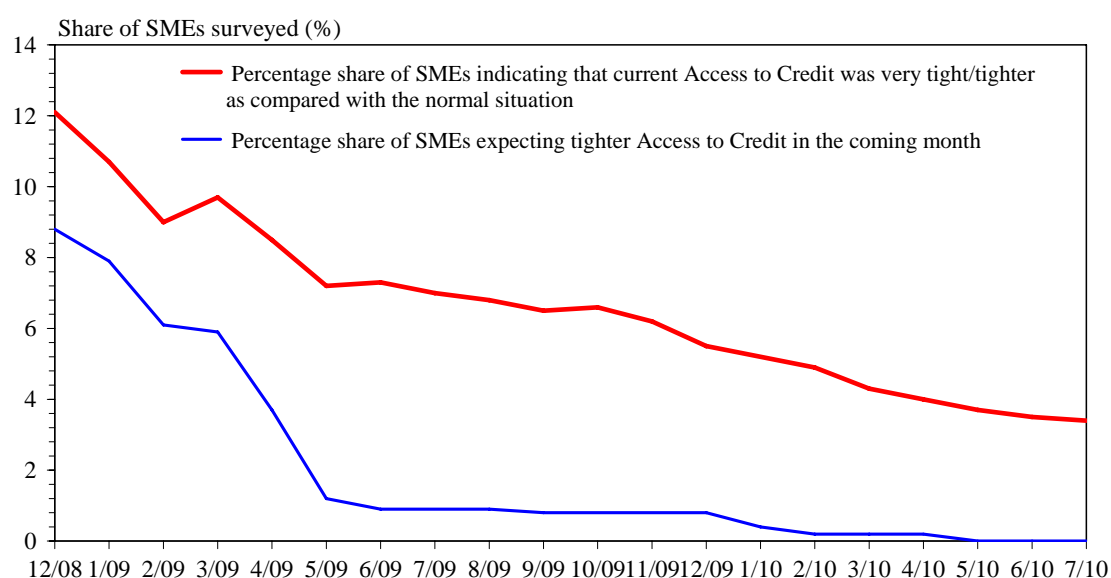
	<u>Business receipts</u>		<u>Employment</u>	
	<u>Jun 2010</u>	<u>Jul 2010</u>	<u>Jun 2010</u>	<u>Jul 2010</u>
<i>Local segments</i>				
Restaurants	47.5	49.1	49.2	49.1
Travel	46.6	53.4	48.3	50.0
Real estate	47.0	56.1	50.0	48.5
Retail trade	43.9	50.0	50.0	49.6
Wholesale trade	47.5	47.4	50.0	50.0
Insurance	45.3	45.0	54.8	50.0
Business services	43.8	50.0	48.4	53.0
<i>External segments</i>				
Import/export trades	50.0	50.0	50.5	50.0
Logistics	52.6	44.7	47.4	47.4
Financing institutions	47.2	44.7	50.0	51.3
<b>All the above sectors*</b>	<b>47.5</b>	<b>49.7</b>	<b>49.9</b>	<b>49.9</b>

Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same." A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(\*) Weighted average using total number of SMEs in individual sectors as weights.

## Box 1.2 (Cont'd)

**Chart 1: Access to credit improved further**



## The labour sector

1.7 The performance of the labour market was somewhat mixed. The *seasonally adjusted unemployment rate* rose back slightly to 4.6% in the second quarter of 2010, after successive declines since mid-2009. While total employment was marginally lower during the quarter, this was mainly due to a fall in the number of self-employed whereas the number of employees actually rose further to an all-time high. The concurrent increase in job vacancies also suggests that the relapse was in large part frictional, caused by workers temporarily breaking from employment whilst seeking jobs with better terms and conditions. Meanwhile, the *underemployment rate* continued its downtrend, reaching 2.0% in the second quarter. Labour wages and earnings picked up further in the first quarter.

## The asset markets

1.8 The *local stock market* experienced sharp volatilities and sell-off alongside other major overseas markets in April and May, as concerns deepened over the sovereign debt risks in some part of the euro area. The Hang Seng Index (HSI) plummeted to 18 986 on 25 May, the lowest level since

July 2009. There was some recovery towards the end of the second quarter as the acute strains in the financial markets showed some easing following the massive rescue packages by the European Union and the International Monetary Fund (IMF). HSI closed the month of June at 20 129, down by 5.2% over end-March this year and by 8.0% over end-2009.

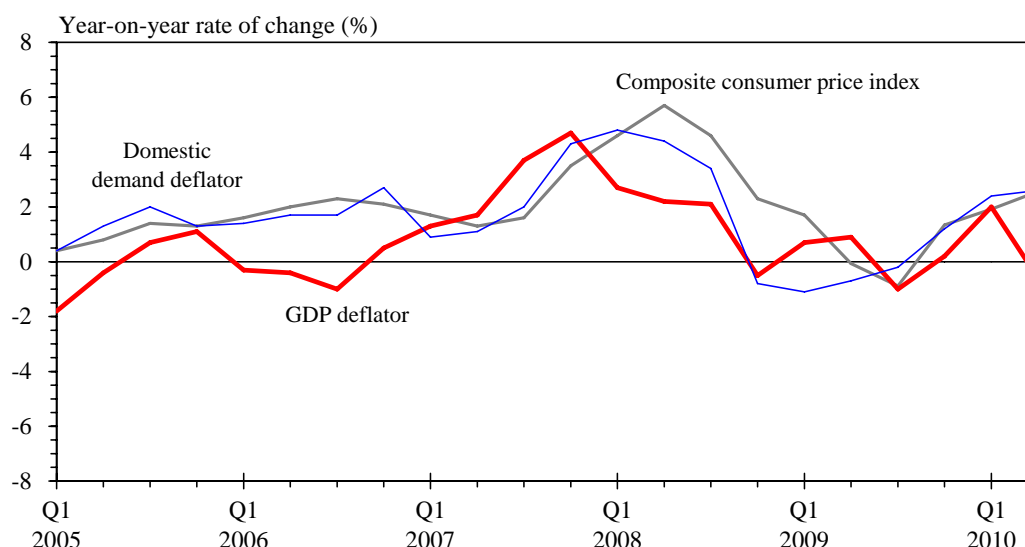
1.9 *Residential property market* consolidated somewhat in May, subsequent to the Government's further measures to ensure a healthy and stable development of the property market. But the upward momentum resumed in June, partly boosted by the favourable land auction results. Overall flat prices rose by a further 1.5% between March 2010 and June 2010, after rising successively by a cumulative 28.5% during 2009 and a further 6.5% during the first quarter of 2010. Nevertheless, transactions in the second quarter fell slightly by 2.6% over the preceding quarter, mainly reflecting the cooling off in May. Thanks to the exceptionally low mortgage interest rates, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) was 41.5% in the second quarter, compared with the long-term average of 52.6% over 1989 to 2008. Meanwhile, flat rentals continued to firm up in tandem with reviving leasing demand. Office and shop rentals also went up further, supported by the resurgence in commercial and retail activities.

## **Inflation**

1.10 Inflationary pressure, though still moderate, notched up slightly in the second quarter of 2010 alongside the sustained economic recovery. In fact, many Asian economies experienced stronger inflationary pressure in the second quarter given their robust growth momentum. *Underlying consumer price inflation*, which nets out the effect of Government's relief measures to provide a more accurate indicator of the inflation trend, rose moderately to 1.5% in the second quarter from 0.8% in the first quarter. Taking into account the effect of Government's one-off measures, *headline consumer price inflation* went up to 2.6% in the second quarter from the 1.9% in the first quarter. The effect of the electricity charge subsidy, which faded out progressively, largely accounted for the difference between the headline and underlying inflation rates.

1.11 The *GDP deflator* reverted to a modest decline in the second quarter, due to the deterioration in the terms of trade amid the faster increase in import prices as compared to export prices.

**Diagram 1.4 : Inflationary pressures climbed up moderately  
in the second quarter**



## GDP by major economic sector

1.12 With the economy gaining traction on entering 2010, activity across many major sectors saw a notable turnaround, with the year-on-year comparison in particular favourable considering the low base of comparison in the same period last year. In the first quarter of 2010, the manufacturing sector, which went through a steep decline of 9.2% in 2009, finally reverted to a modest year-on-year growth of 1.0%. The growth in net output of the services sector gathered further steam, accelerating to 8.4% from 3.4% in the fourth quarter of 2009. In tandem with the resurgence in trade flows and business activity, import and export trade saw the sharpest growth, followed by wholesale and retail trades, financing and insurance, and restaurants and hotels. The growth in business services also picked up markedly compared with the previous quarter. However, construction output reverted to a slight decline, and real estate also fell slightly in the first quarter, after the relatively brisk expansion in the preceding two quarters.

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

	<u>2009</u>		<u>2009</u>			<u>2010</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-9.2	-12.3	-10.6	-8.0	-6.2	1.0
Construction	1.6	-3.4	-1.0	7.0	4.7	-0.6
Services <sup>(b)</sup>	-2.0	-6.9	-3.4	-1.4	3.4	8.4
Wholesale, retail and import and export trades, restaurants and hotels	-7.7	-15.4	-11.3	-8.3	2.4	19.8
Wholesale and retail trades	-3.5	-10.4	-7.9	-3.6	6.3	17.2
Import and export trade	-8.9	-18.4	-12.8	-9.5	2.2	22.9
Restaurants and hotels	-4.3	-5.3	-7.6	-4.0	-0.6	7.8
Transport, storage and communications	-4.9	-6.7	-7.5	-6.0	0.6	5.0
Transport and storage	-6.5	-8.4	-9.6	-7.9	-0.2	5.0
Communications	1.2	0.5	-0.2	1.3	3.2	5.0
Financing, insurance, real estate and business services	1.5	-6.4	*	5.2	7.6	6.1
Financing and insurance	1.9	-8.9	0.8	6.3	10.3	8.5
Real estate	1.8	-4.9	1.6	5.2	6.2	-1.5
Business services	-0.1	-0.2	-1.5	0.6	0.5	7.2
Community, social and personal services	1.4	0.7	2.0	1.3	1.5	4.5

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.

(\*) Less than 0.05%.

## **Some highlights of economic policy**

1.13 On 27 May 2010, Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed. The new supplement provides for 35 market liberalisation and trade and investment facilitation measures in 19 sectors, including the two new sectors of “technical testing, analysis and product testing” and “specialty design”, bringing the number of liberalised service sectors from 42 to 44. The measures will take effect on 1 January 2011. The supplement will expedite the entry of Hong Kong’s service industries into the Mainland market, and foster integration and professional exchanges with the Mainland. Most of the market liberalisation and facilitation measures cover the four pillar industries and the six economic industries where Hong Kong enjoys a competitive edge<sup>(4)</sup>, and hence will serve to consolidate Hong Kong’s status as an international financial, trade, shipping, logistics and high value-added service centre.

1.14 The Mainland authorities announced on 22 June 2010 that the renminbi (RMB) trade settlement scheme, which was introduced in July 2009, was expanded to cover 20 provinces and cities<sup>(5)</sup> on the Mainland. The expansion of the scheme was seen as a welcome opportunity for Hong Kong to further develop the RMB business. The Government is working closely with the Mainland authorities to explore ways to enhance the RMB’s depth and breadth in building Hong Kong into a major RMB offshore centre. In July 2010, the Hong Kong Monetary Authority and People’s Bank of China signed two memoranda of co-operation, one on the exchange, supply and repatriation of RMB cashnotes with Taiwan<sup>(6)</sup> and another on the expansion of the RMB trade-settlement scheme<sup>(7)</sup>, with a view to further promoting Hong Kong’s RMB business platform to new heights.

1.15 The Government stepped up measures to stabilise the property market. Specifically, the nine new proposals to regulate the sales of first-hand private residential properties came into force on 1 June 2010. To further address the housing issue, a five-month public consultation on subsidising home ownership was launched to collect views from the public, and an account of the findings will be given in the Policy Address to be delivered in October this year.

## 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) In July 2010, the International Monetary Fund (IMF) revised slightly upward its global GDP growth forecast for 2010 to 4.6% from its April forecast of 4.2%, mainly reflecting the higher economic activity in the first half of the year, while keeping its forecast for 2011 unchanged at 4.3%. Specifically for Asia, the IMF forecast the region to expand by 7.5% in 2010 and 6.8% in 2011, as compared to its corresponding forecasts of 6.9% and 7.0% in April. Yet the IMF also cautioned the increased risks to global economic outlook due to the sovereign debt problems in some euro-zone economies.
- (4) The four traditional pillar industries refer to financial services, tourism, trading and logistics, and producer and professional services. The six industries where Hong Kong enjoys clear advantages refer to medical services, educational services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.
- (5) The cities and provinces are: Beijing, Tianjin, Inner Mongolia, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Yunnan, Jilin, Heilongjiang, Xizang and Xinjiang.
- (6) Under the arrangement, the Renminbi Clearing Bank in Hong Kong will provide renminbi cashnote exchange and related services to the Hong Kong branches of eligible Taiwan commercial banks as determined by Taiwan. In turn, the Taiwan head offices of such commercial banks will provide renminbi cashnote exchange services to other authorised financial institutions in Taiwan, for the purpose of serving personal customers locally.
- (7) Under the agreement, there will no longer be restrictions on banks in Hong Kong in establishing renminbi accounts for and providing related services to financial institutions; and individuals and corporations will be able to conduct renminbi payments and transfers through the banks. The relaxation is expected to enable more types of financial intermediary activities denominated in the renminbi to be introduced in the market.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *The strong momentum in the external sector continued in the second quarter of 2010, thanks mainly to the resurgence in intra-regional trade as well as the further rise-back in demand from the advanced economies in tandem with the sustained global recovery. The sovereign debt problem in Europe, while entailing more downside risks to the global economic outlook later this year, had not caused any significant disruption to global trade flows so far.*
- *Total exports of goods increased markedly further in the second quarter, by 19.7% in real terms over a year earlier. Exports to many major markets continued to record double-digit growth, a reflection of the brisk economic activity in Asia and the sustained moderate recovery in the United States. European markets also staged some rebound, but still lagged significantly behind other markets, and exports to these markets remained distinctly lower than the pre-crisis level.*
- *Exports of services likewise expanded strongly further in the second quarter. Exports of travel services saw a steep gain over a year earlier, boosted mostly by the strong influx of visitors from major sources and also partly by the low base due to human swine flu last year. Exports of trade-related and transportation services were also buoyant, thanks mainly to the robust intra-regional trade flows. Exports of financial and business services picked up notably, despite the intensification of the sovereign debt problem in Europe during the quarter.*
- *On Hong Kong's integration with the Mainland and regional co-operation, Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in May 2010. This will improve market access and open new opportunities for Hong Kong's service industries. So far, CEPA has already covered a total of 44 service areas. Also of note was the signing of the Economic Cooperation Framework Agreement (ECFA) between the Mainland and Taiwan in June, which would facilitate trade flows and exchanges between the two places, thereby promoting regional economic co-operation.*



## Visible trade

### *Total exports of goods*

2.1 Hong Kong's merchandise exports continued to expand markedly in the second quarter of 2010, in the midst of the strong trade performance of many Asian economies and gradual recovery in demand from the advanced economies. The full impact on global trade flows from the sovereign debt problem in Europe had yet to be seen, with limited impact having emerged so far. Total exports of goods (comprising re-exports and domestic exports) expanded by 19.7% in real terms<sup>(1)</sup> over a year earlier, after a 23.4% increase in the previous quarter. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased by 3.9% in real terms in the second quarter, further to the 8.9% growth in the first quarter.

2.2 The sustained global economic recovery provided a favourable environment for the normalisation of trade flows. Asian economies continued to outpace the advanced economies by a large margin in the global recovery process, thanks to continued buoyancy in exports and strong private domestic demand. Against this backdrop, the robust intra-regional trade continued to be the major growth driver of Hong Kong's external trade in the second quarter. The gradual recovery in demand from the United States and to a lesser extent Europe also contributed.

2.3 *Re-exports*<sup>(2)</sup> remained dominant in Hong Kong's overall merchandise exports, accounting for 97.7% of the value of total exports in the second quarter of 2010. Re-exports rose further by 19.7% in real terms in the second quarter over a year earlier, after the 23.5% growth in the first quarter. *Domestic exports*, which constitute the remaining small share of total exports, expanded further by 17.0% over a year earlier, moderating from the 20.2% increase in the previous quarter.

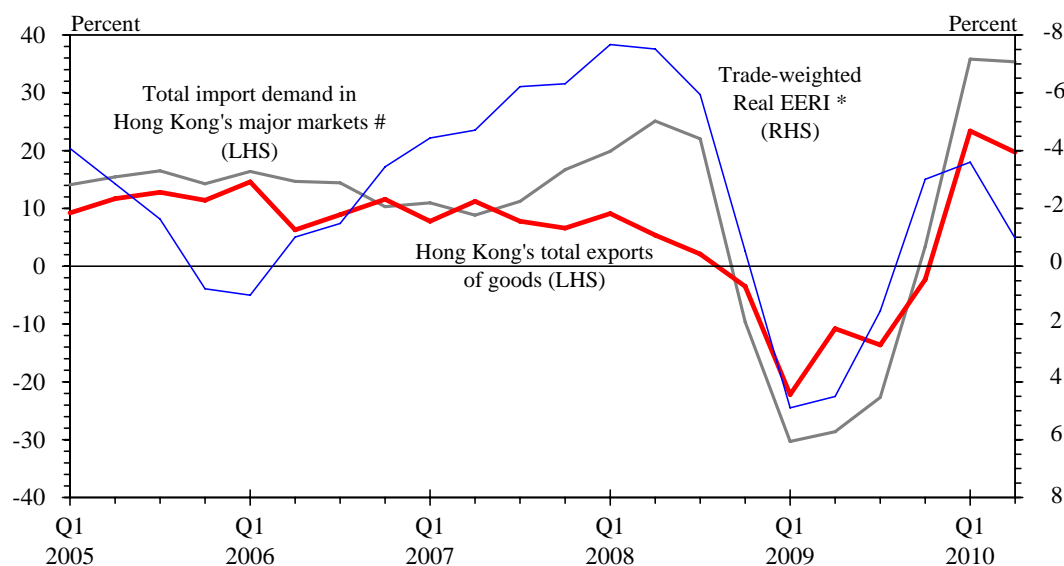
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

<u>Total exports of goods</u>					<u>Re-exports</u>			<u>Domestic exports</u>				
	In value <u>terms</u>		In real <u>terms</u>	Change <u>in prices</u>	In value <u>terms</u>		In real <u>terms</u>	Change <u>in prices</u>	In value <u>terms</u>		In real <u>terms</u>	Change <u>in prices</u>
2009 Annual	-12.6	-12.0		1.1	-11.8	-11.3		1.2	-36.4	-34.6		-0.2
H1	-17.2	-16.3		1.6	-16.3	-15.5		1.6	-41.9	-40.1		1.2
H2	-8.3	-8.1		0.5	-7.6	-7.5		0.6	-30.8	-28.8		-1.7
Q1	-21.9	-22.2	(-13.1)	2.5	-21.1	-21.4	(-13.0)	2.5	-44.3	-43.3	(-15.8)	2.5
Q2	-12.9	-10.8	(7.7)	0.8	-12.0	-9.9	(8.0)	0.8	-39.6	-37.0	(-4.0)	*
Q3	-14.3	-13.6	(-3.6)	0.2	-13.5	-12.9	(-3.5)	0.3	-38.7	-35.1	(-8.2)	-2.2
Q4	-2.0	-2.3	(9.1)	0.8	-1.4	-1.8	(9.1)	0.9	-21.2	-21.6	(7.1)	-1.2
2010 H1	25.1	21.4		3.4	25.1	21.4		3.4	22.7	18.5		4.7
Q1	26.0	23.4	(8.9)	2.8	26.1	23.5	(8.5)	2.8	23.1	20.2	(26.7)	3.2
Q2	24.3	19.7	(3.9)	4.0	24.4	19.7	(4.2)	3.9	22.4	17.0	(-5.8)	6.1

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

(\*) Change of less than 0.05%.

**Diagram 2.1 : Merchandise exports continued to expand markedly  
in the second quarter of 2010  
(year-on-year rate of change)**

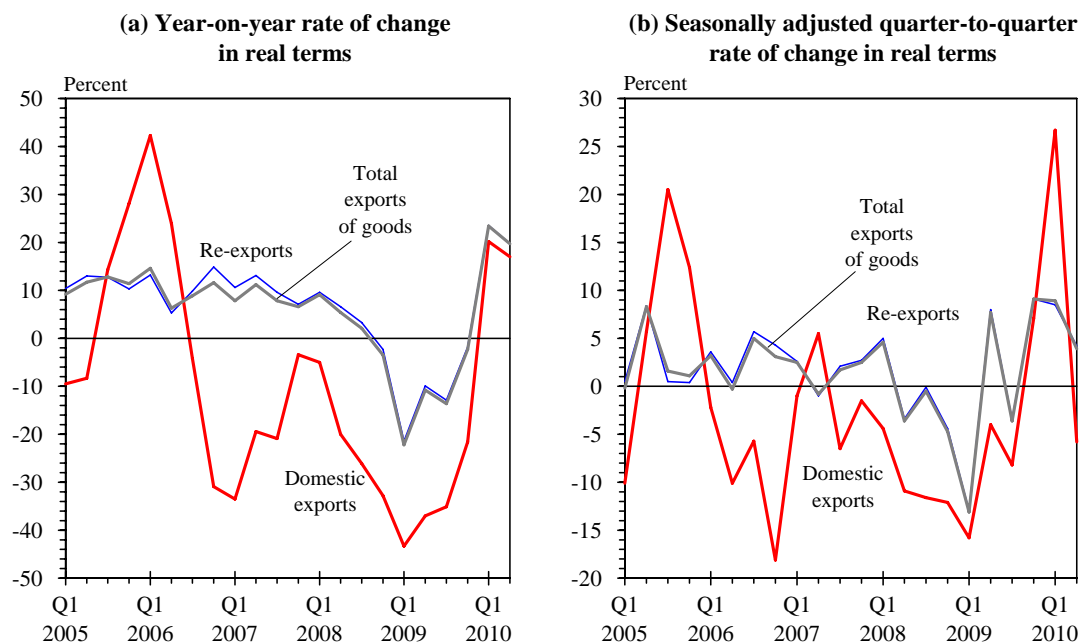


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

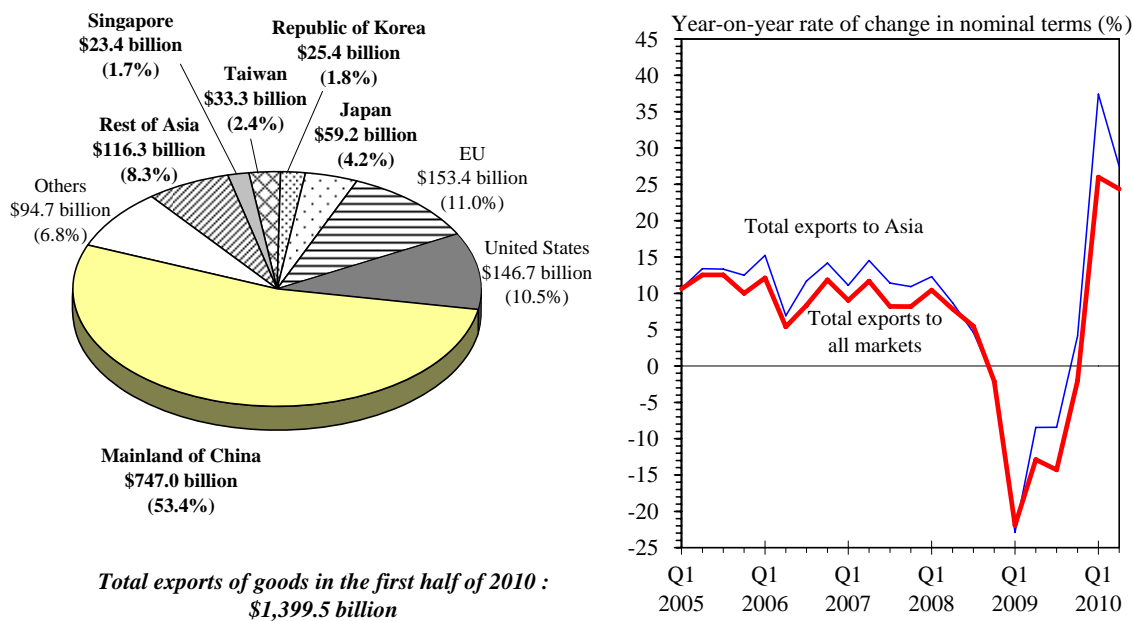
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the second quarter of 2010 is based on statistics for April and May 2010.

**Diagram 2.2 : Both re-exports and domestic exports maintained strong growth momentum**



**Diagram 2.3 : The Asian markets continued to be the major growth driver of Hong Kong's external trade**



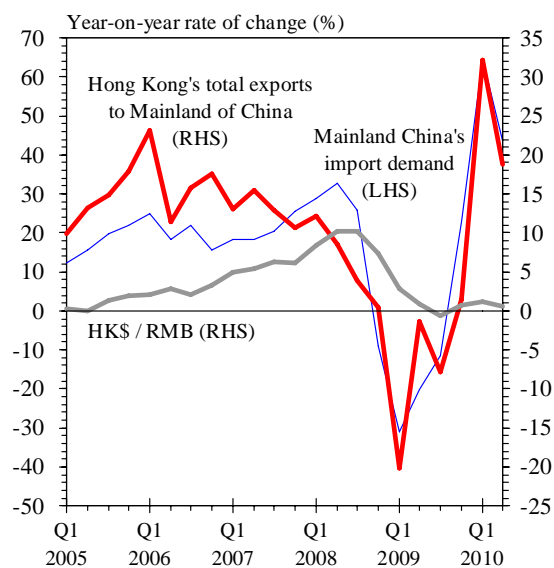
**Table 2.2 : Total exports of goods by major market  
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2009	Annual	-6.6	-20.5	-21.2	-11.8	-14.3	-3.8	-25.0
	H1	-10.3	-23.0	-22.3	-18.7	-26.3	-18.1	-32.6
	H2	-3.3	-18.2	-20.2	-5.1	-1.3	10.3	-16.7
	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
	Q3	-7.9	-22.5	-25.6	-8.2	-11.5	-0.8	-20.2
	Q4	1.5	-13.4	-14.4	-2.2	11.2	21.6	-13.1
2010	H1	24.4	13.8	5.0	20.7	30.9	41.6	17.8
	Q1	32.1	6.7	-0.6	15.1	37.9	59.8	16.9
	Q2	18.8	19.9	10.4	26.2	24.9	28.1	18.6

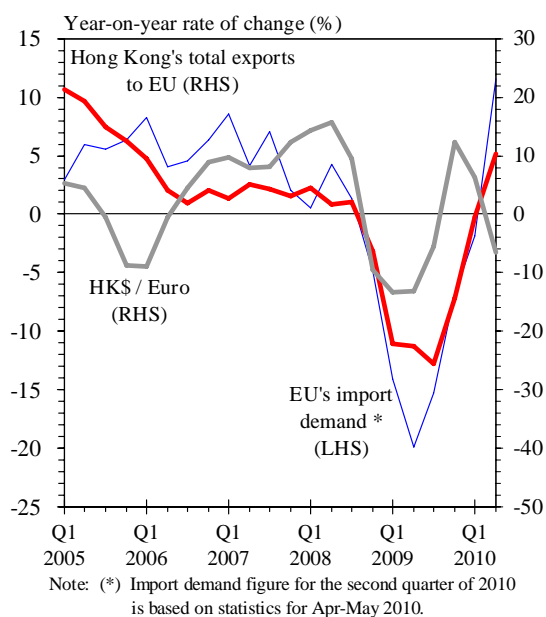
2.4 Total exports of goods to many major markets in Asia continued to turn in marked increases in the second quarter over a year earlier. The vigorous performance of the Asian markets provided the major impetus to the strong growth of Hong Kong's exports. Total exports to the Mainland surged further, even against a higher base effect in the second quarter of last year. Total exports to many other destinations in Asia also expanded significantly. In particular, exports to Taiwan, Japan, Korea and Singapore all recorded double-digit growth in the region of 15-30%.

2.5 Meanwhile, demand from advanced economies also recovered further. Total exports to the United States continued to recoup the lost ground and picked up to a double-digit growth over a year earlier, as economic activities there continued to expand and imports grew even faster. Total exports to the European Union also showed some rebound over the exceptionally low base a year earlier, in tandem with a slowly reviving import demand. The sovereign debt problem in Europe, which had prompted many European and other advanced economies to adopt plans to redress fiscal issues, had not caused any significant dampening effect on global trade flows as yet. However, the evolving situation needs to be closely monitored, as its negative impact on global demand may become more evident in the latter half of the year.

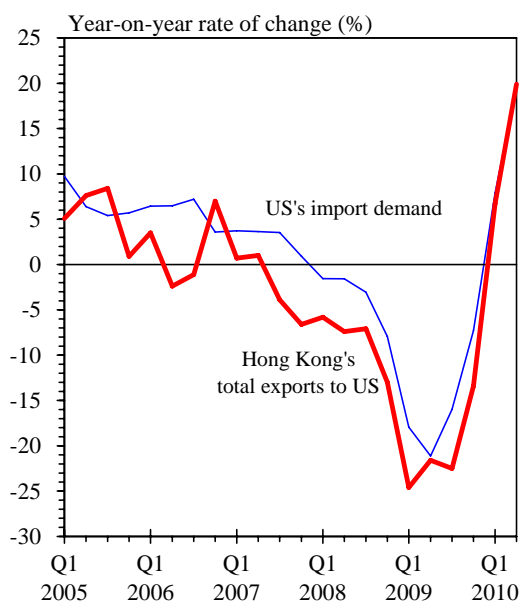
**Diagram 2.4 : Exports to the Mainland surged further**



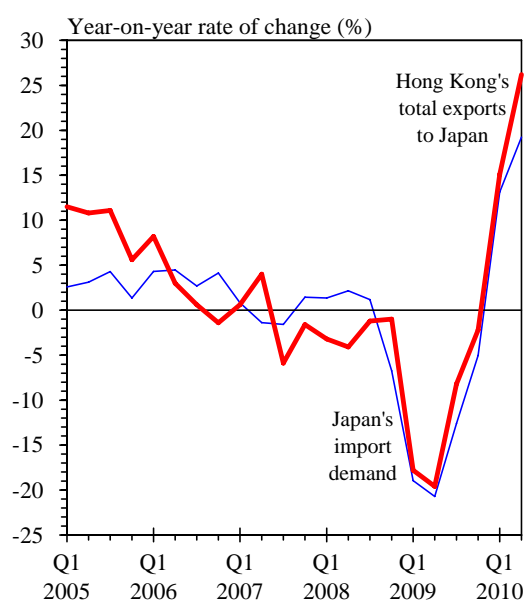
**Diagram 2.5 : Exports to EU also showed some growth**



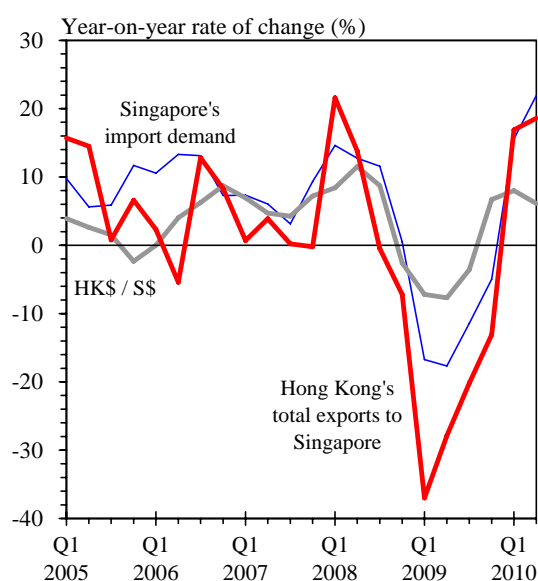
**Diagram 2.6 : Exports to US continued to recoup lost ground**



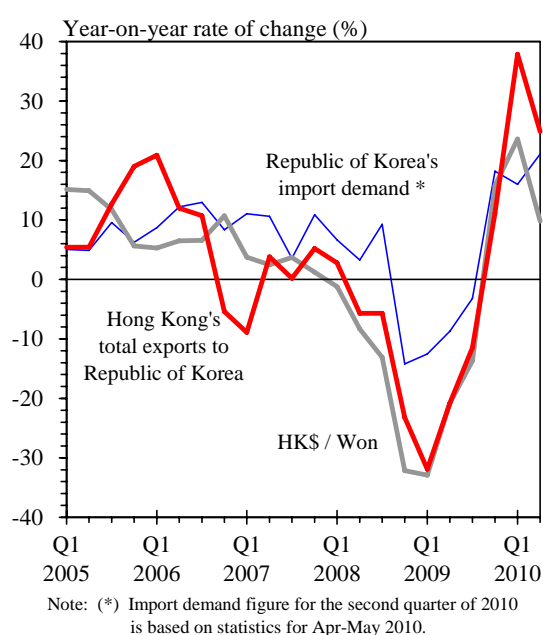
**Diagram 2.7 : Exports to Japan expanded significantly**



**Diagram 2.8 : Exports to Singapore  
recorded double-digit growth**



**Diagram 2.9 : And so did exports to  
the Republic of Korea**



### ***Imports of goods***

2.6 *Imports of goods* continued to grow strongly in the second quarter, by 22.8% in real terms over a year earlier, as compared to the 31.4% expansion in the previous quarter. *Retained imports*, referring to the imports for domestic uses, likewise increased sizably further by 32.0% over a year earlier as compared to the 54.2% increase in the previous quarter. Analysed by end-use category, retained imports of raw materials, consumer goods, and to a lesser extent capital goods all registered substantial increases in the second quarter, which by a varying degree were exaggerated by the very low bases of comparison in the same quarter of last year. Retained imports of fuels reverted to a significant increase over the same period, and retained imports of food also increased notably. On a seasonally adjusted quarter-to-quarter basis, retained imports declined by 9.2% in the second quarter, after the 12.6% increase in the first quarter.

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

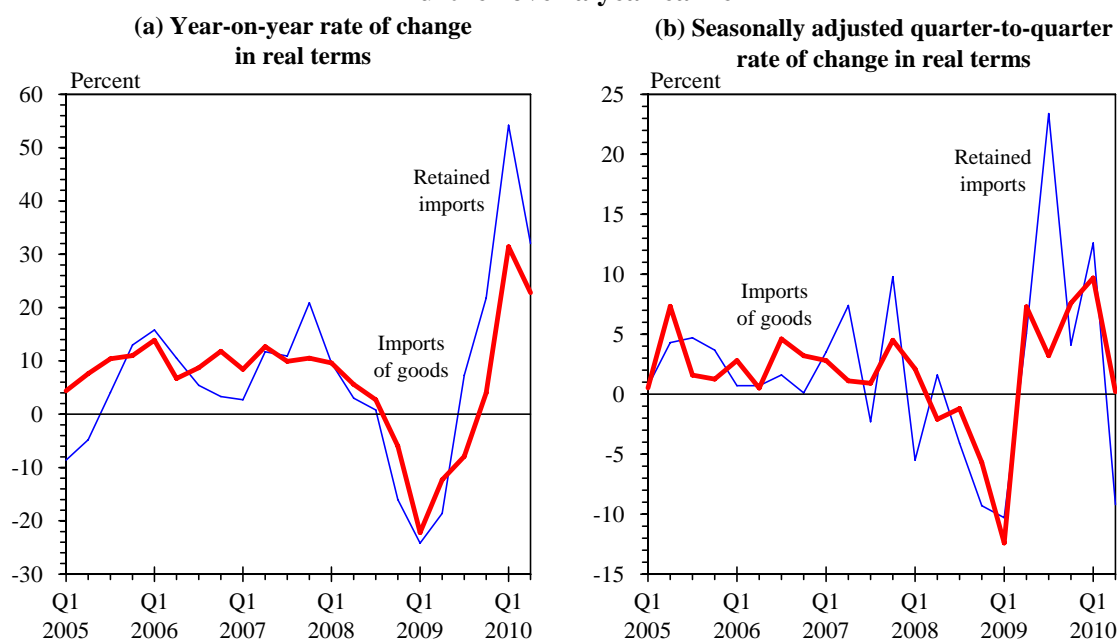
		<u>Imports of goods</u>				<u>Retained imports</u> <sup>(a)</sup>			
		<u>In value terms</u>	<u>In real terms</u>		<u>Change In prices</u>	<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>
2009	Annual	-11.0	-9.4		-0.1	-10.8	-3.8		-5.8
	H1	-18.6	-17.0		*	-26.7	-21.3		-6.7
	H2	-3.8	-2.1		-0.5	5.8	14.2		-5.3
	Q1	-22.8	-22.2	(-12.4)	1.0	-29.2	-24.2	(-10.3)	-5.8
	Q2	-14.9	-12.3	(7.3)	-0.8	-24.5	-18.6	(5.1)	-7.4
	Q3	-10.4	-7.9	(3.2)	-1.5	-3.3	7.3	(23.4)	-8.2
	Q4	3.4	4.0	(7.6)	0.6	16.3	21.8	(4.1)	-2.1
2010	H1	31.9	26.7		5.2	53.2	42.1		10.5
	Q1	34.3	31.4	(9.7)	3.6	60.5	54.2	(12.6)	6.1
	Q2	29.9	22.8	(0.2)	6.6	47.2	32.0	(-9.2)	14.8

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 : Both imports and retained imports increased sizably further over a year earlier**



**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>
2009	Annual	-8.8	7.0	-4.4	-9.7	23.2
	H1	-26.4	1.5	-10.9	-57.4	24.0
	H2	9.8	12.3	1.6	53.7	22.5
	Q1	-30.7	-3.4	-8.1	-69.5	30.8
	Q2	-22.4	6.3	-13.4	-47.4	17.4
	Q3	0.1	11.1	-3.7	41.1	24.1
	Q4	20.8	13.4	7.6	68.2	21.1
2010	H1	40.1	17.9	22.8	160.1	20.5
	Q1	48.7	28.6	21.2	344.4	-0.2
	Q2	32.9	8.5	24.2	70.8	42.6

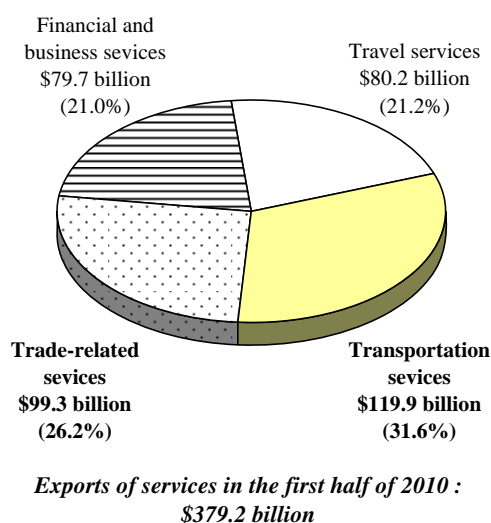
## **Invisible trade**

### ***Exports of services***

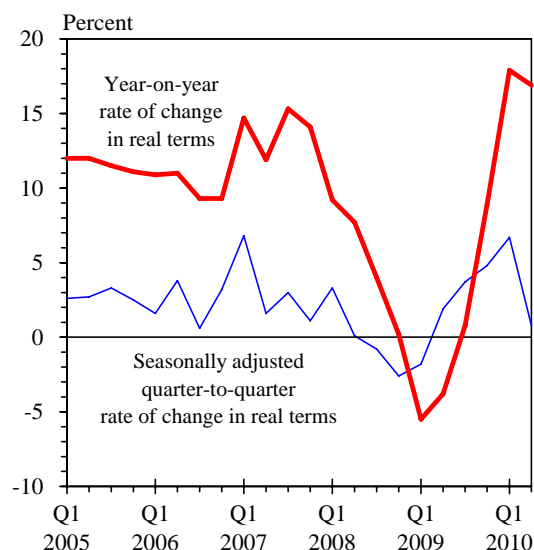
2.7 *Exports of services* remained vibrant in the second quarter, expanding by 16.9% in real terms over a year earlier, and were marginally higher than the previous quarter by 0.8% on a seasonally adjusted basis. Exports of travel services saw the sharpest gain, surging by 34.5%. Even discounting the relatively low base of comparison in the second quarter of 2009 due to concern over human swine flu, the sharp increase still reflected the strong influx of visitors from the Mainland and other major sources over the period. Exports of trade-related services, comprising mainly offshore trade, surged by 18.1% amid buoyant intra-regional trade flows and normalisation of global trade. In tandem with the robust passenger and cargo flows, exports of transportation services were also vibrant, up 11.0%. Exports of financial and business services went up by 12.4% over a year earlier. Exports of business services picked up notably further with reviving commercial activities in the region, but those of financial services grew only moderately as the European sovereign debt problem dampened market sentiment somewhat during the quarter.



**Diagram 2.11 : Trade-related and transportation services accounted for nearly 60% of service exports, reflecting Hong Kong's position as a trading hub**



**Diagram 2.12 : Exports of services remained vibrant**



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

*Of which :*

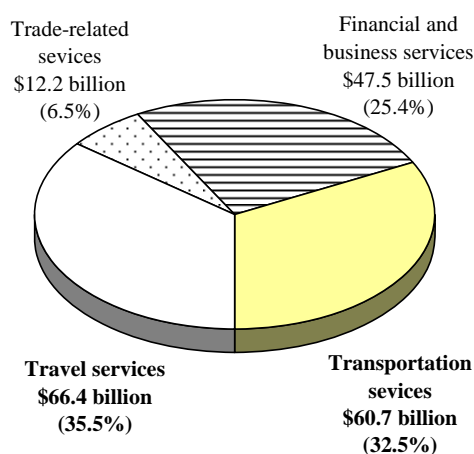
		Exports of services	Trade-related services <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Financial and business services
2009	Annual	0.3	-7.4	2.1	7.9	2.5
	H1	-4.7	-13.6	-2.5	6.8	-5.1
	H2	4.8	-2.8	6.7	8.8	10.6
	Q1	-5.5 (-1.8)	-15.0	-5.6	14.4	-7.0
	Q2	-3.8 (1.9)	-12.2	0.4	-1.6	-2.5
	Q3	0.8 (3.7)	-9.0	5.1	1.7	8.5
	Q4	8.9 (4.8)	3.4	8.5	15.3	12.8
2010	H1	17.4	19.4	13.0	26.3	14.9
	Q1	17.9 (6.7)	20.7	15.2	20.0	16.9
	Q2	16.9 (0.8)	18.1	11.0	34.5	12.4

Notes : (a) Comprising mainly offshore trade.  
 (b) Comprising mainly inbound tourism receipts.  
 ( ) Seasonally adjusted quarter-to-quarter rate of change.

## Imports of services

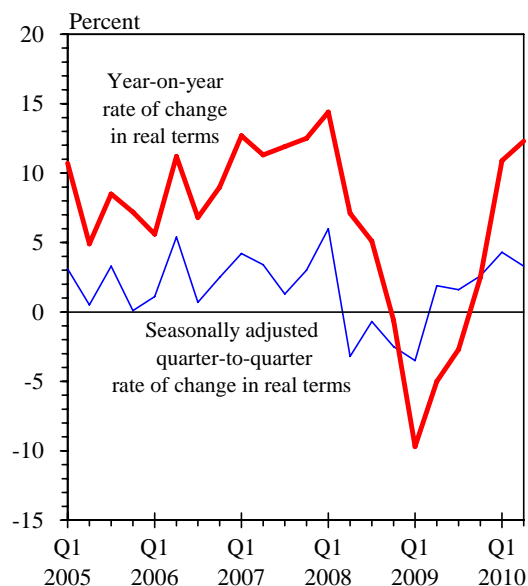
2.8 *Imports of services* rose further by 12.3% in real terms over a year earlier in the second quarter, or 3.3% over the previous quarter on a seasonally adjusted basis. On a year-on-year basis, growth accelerated in imports of travel services and transportation services, to 6.7% and 15.6% respectively, along with strengthening consumer demand for outbound tourism and the continued recovery in global and regional trade flows. Imports of trade-related services also benefited, expanding by 17.5%. Imports of financial and business services were likewise strong, up 15.2% year-on-year.

**Diagram 2.13 : Growth in travel and transportation services, which accounted for nearly 70% of Hong Kong's imports of services, accelerated further**



*Imports of services in the first half of 2010 :  
\$186.8 billion*

**Diagram 2.14 : Imports of services leaped further**



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

*Of which :*

		<u>Imports of services</u>		<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2009	Annual	-3.7		2.0	-10.4	-7.7	-1.4
	H1	-7.4		0.5	-13.6	-14.0	-8.2
	H2	-0.2		3.5	-7.3	-3.1	5.3
	Q1	-9.7	(-3.5)	-4.0	-16.1	-15.4	-8.2
	Q2	-5.0	(1.9)	5.4	-11.3	-12.6	-8.2
	Q3	-2.7	(1.6)	2.0	-8.9	-9.4	1.9
	Q4	2.5	(2.6)	5.2	-5.4	2.9	8.7
2010	H1	11.6		6.0	14.1	18.8	15.0
	Q1	10.9	(4.3)	5.4	12.3	20.1	14.9
	Q2	12.3	(3.3)	6.7	15.6	17.5	15.2

Notes : (+) Comprising mainly outbound travel spending.

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

## Visible and invisible trade balance

2.9 With the surplus in the invisible trade account being outweighed by the deficit in the merchandise trade account, the combined visible and invisible trade account recorded a deficit in the second quarter of 2010, at \$5.0 billion, equivalent to 0.5% of the total value of imports of goods and services. In contrast, a surplus of \$25.4 billion was recorded in the same quarter of last year, equivalent to 3.4% of the total value of imports of goods and services. This was the first deficit in the visible and invisible trade account in more than ten years, in large part reflecting the strong growth in imports of goods on the back of the economic recovery, but the deterioration in terms of trade was also relevant.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2009	Annual	2,495	669	2,703	344	-208	325	117	3.8
	H1	1,131	296	1,205	158	-74	138	64	4.7
	H2	1,364	373	1,498	186	-134	187	52	3.1
	Q1	512	152	547	78	-35	74	39	6.2
	Q2	619	145	658	80	-39	65	25	3.4
	Q3	657	178	723	92	-66	86	20	2.5
	Q4	706	195	775	95	-68	101	32	3.7
2010	H1	1,414	379	1,599	187	-185	192	8	0.4
	Q1	640	193	728	93	-88	100	13	1.5
	Q2	774	186	871	94	-97	92	-5	-0.5

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

## Other developments

2.10 Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed on 27 May 2010. The new supplement provides for 35 market liberalisation and trade and investment facilitation measures in 19 sectors, bringing the total number of service sectors covered to 44. The supplement will further liberalise trade in services, as well as broaden the scope of economic cooperation and professional exchanges with the Mainland.

2.11 The Mainland and Taiwan signed the Economic Cooperation Framework Agreement (ECFA) on 29 June 2010. Tariffs on 539 export items from Taiwan to the Mainland and those on 267 export items from the Mainland to Taiwan will be removed in two years. The pact will also give Taiwanese firms access to 11 service sectors in the Mainland, including banking, accounting, insurance and hospitals. This will facilitate trade flows and exchanges between the two economies, thereby promoting regional co-operation. Hong Kong will continue to enhance its competitiveness and to strengthen its exchanges with Taiwan in order to take advantage of the increase in economic activity in the region arising from these developments.

**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) 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*

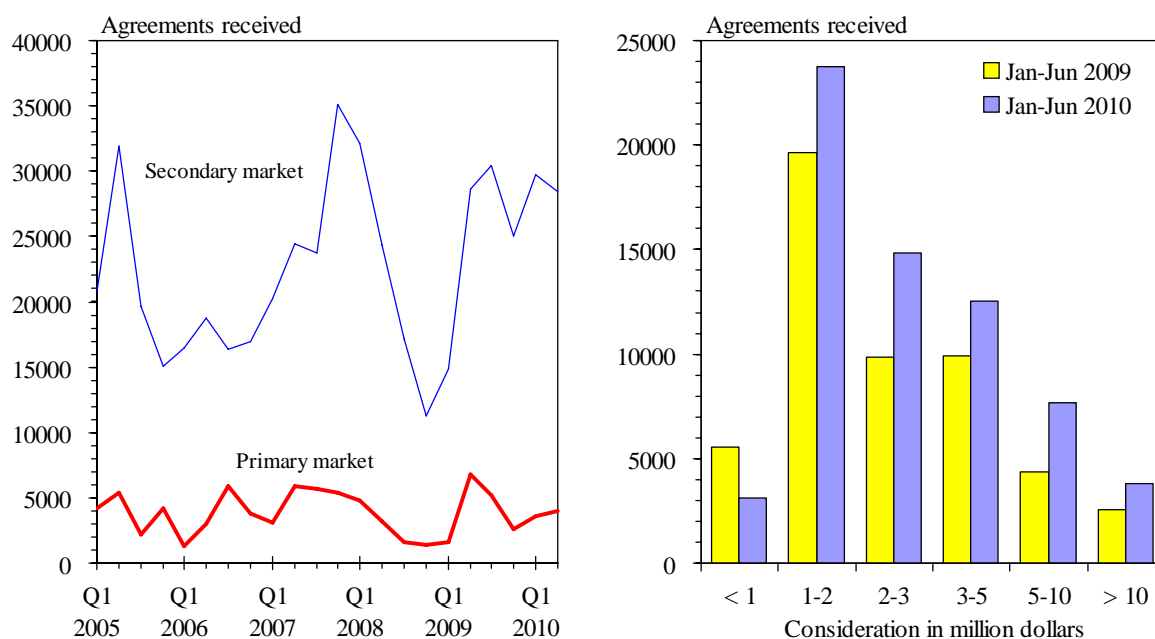
- *Supported by improved economic outlook and accommodative interest rates, the residential property market was buoyant in most part of the first half of 2010, except for some consolidation in May. On the back of active transactions, overall flat prices jumped by a cumulative 8% during the first six months of the year.*
- *While the residential property market remained largely end-user led, with the sustained surge in home prices the risk of a property market bubble remains. The Government has announced a series of measures in February and subsequently also in April to ensure a healthy and stable development of the property market, and will introduce further appropriate measures when necessary.*
- *Inbound tourism staged a strong performance in the first half of 2010 with a sharp growth of 23.1% in visitor arrivals. Mainland visitors remained the major growth impetus, while visitors from both the short-haul and long-haul markets also gained visibly.*
- *The logistics sector recovered further in the first half, with throughput of both port and air cargoes recording significant growth.*

### **Property**

3.1 Supported by improved economic outlook and low interest rates, the *residential property market* regained momentum in the first four months of 2010. There was some cooling off in May following the announcement of further Government measures along the four directions as contained in the 2010-11 Budget to ensure the healthy and stable development of the property market in late April, namely increase flat supply, discourage property speculation, improve transparency of property transactions and prices, and prevent excessive expansion in mortgage lending<sup>(1)</sup>. The market regained momentum in June, with both transactions and prices rebounding upon improved market sentiment after the favourable land auction result. Taking the first half of 2010 as a whole, the number of sale and purchase agreements for residential property received by the Land Registry reached 65 629, representing a sharp 26% increase over the low base a year earlier or 4% over the preceding half-year period. Likewise, total consideration for the agreements jumped by 45% over

a year earlier or 2% over the preceding half-year period to \$254.4 billion.

**Diagram 3.1 : Transactions for residential property were buoyant in most part of the first half of 2010**



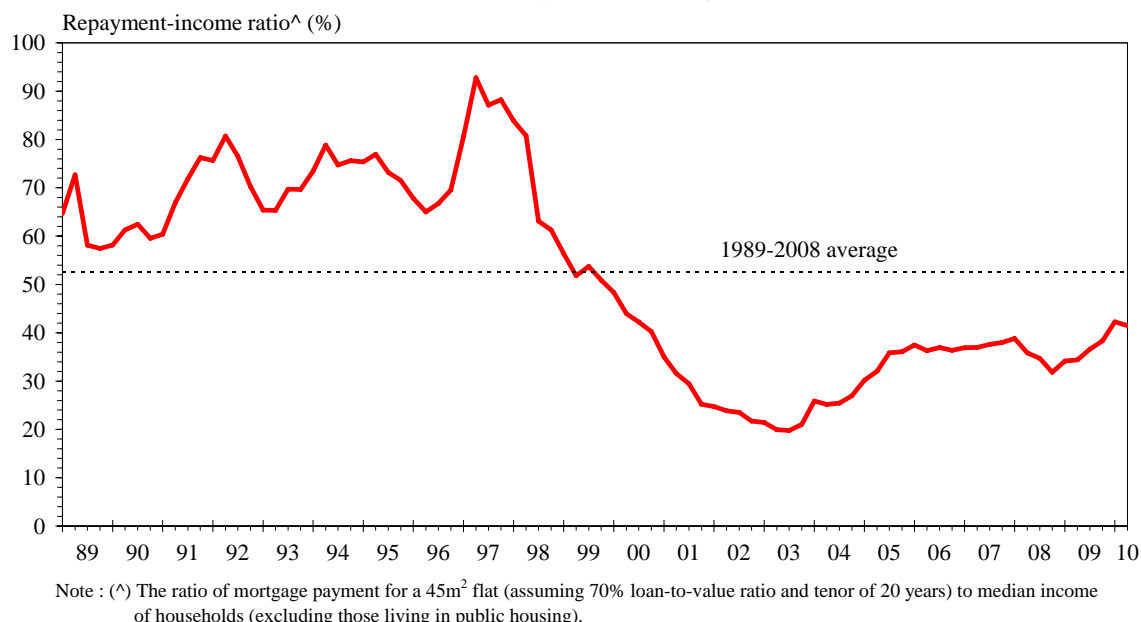
3.2 Flat prices rose further in the first half of 2010, though most of the gains occurred in the first four months. Overall flat prices rose by 8% between December 2009 and June 2010, and were 15% higher than the peak in 2008. Analysed by size of properties, prices of large flats and small/medium-sized flats rose by 7% and 8% respectively between December 2009 and June 2010. Compared with their highs in 1997, prices of large flats in June were already 2% higher while prices of small/medium-sized flats were still 16% lower.

3.3 Notwithstanding the active transactions, the residential property market remained largely led by end-users. In the first half of 2010, almost 90% of the secondary market transactions involved flats in the mass market (i.e. flats smaller than 70 square metres). Speculative activities, as indicated by the number of confirmor cases and their share in total transactions, were generally not rampant. Thanks to the exceptionally low mortgage interest rates, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) was 41.5% in the second quarter, as compared with the long-term average of 52.6% over 1989 to 2008.

3.4 Nonetheless, the risk of a property market bubble remains with the surge in flat prices. The repayment burden to homebuyers would increase should the interest rates eventually return to a more normal level. The

Government has announced a series of measures in February and subsequently in April to ensure a healthy and stable development of the property market. The Government will continue to monitor the situation closely and introduce further measures when necessary.

**Diagram 3.2 : Home purchase affordability still compared favourably with the long-term average**

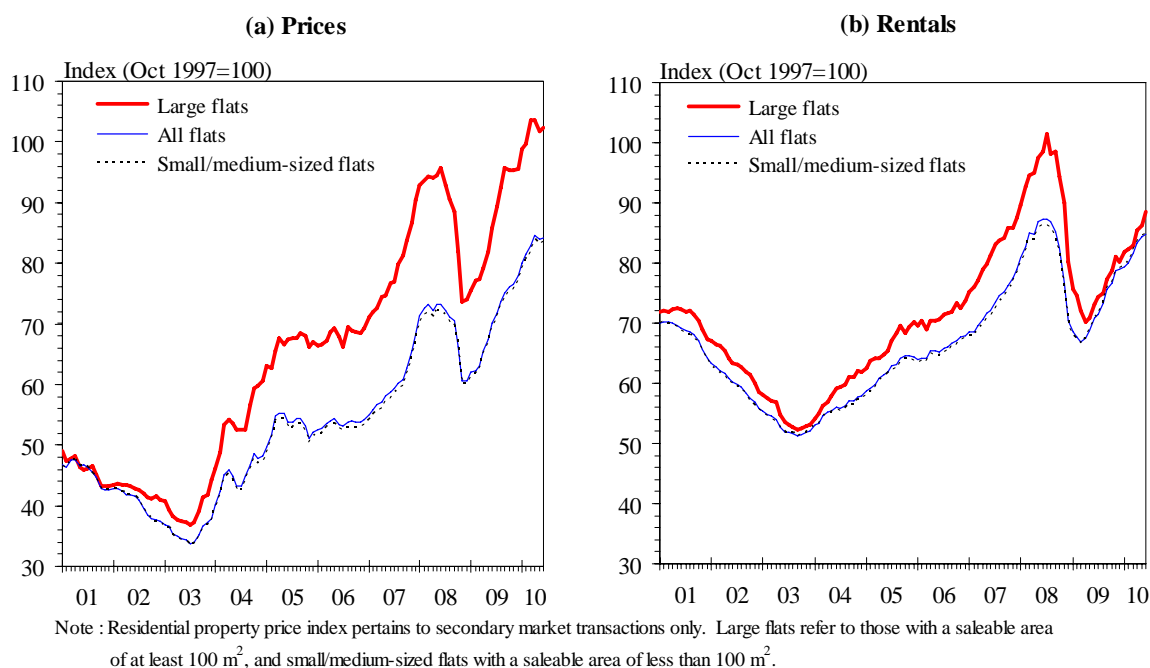


3.5 As regards flat supply, *completions* of private residential properties surged by 124% over a year earlier to 7 030 units in the first half of 2010. The medium-term supply has also picked up, as a result of the developers' keener interest in land acquisitions and the Government's various land-related measures. In the first half of 2010, 26 sites that together could produce some 13 900 residential units were disposed, lifting the total supply of flats in the coming few years from 53 000 units as estimated at end-2009 to 61 000 units as estimated at end-June 2010. Granting the conversion of a number of residential sites into "disposed sites" and the completion of auctions/tendering of some sites in the months ahead, another 1 700 units could be added to the potential supply<sup>(2)</sup>.

3.6 As to the leasing market, flat rentals also picked up in the first half of 2010. Flat rentals in June 2010 rose by 7% over December 2009 and were only 3% below the recent peak in 2008. Analysed by flat size, the increase in rentals for large flats, at 11%, outpaced that for small/medium-sized flats, at 7%. The average rental yield for residential flats stayed at 3.6% in June 2010, virtually unchanged from December 2009.



**Diagram 3.3 : Both flat prices and rentals showed sharp rise in the first half**

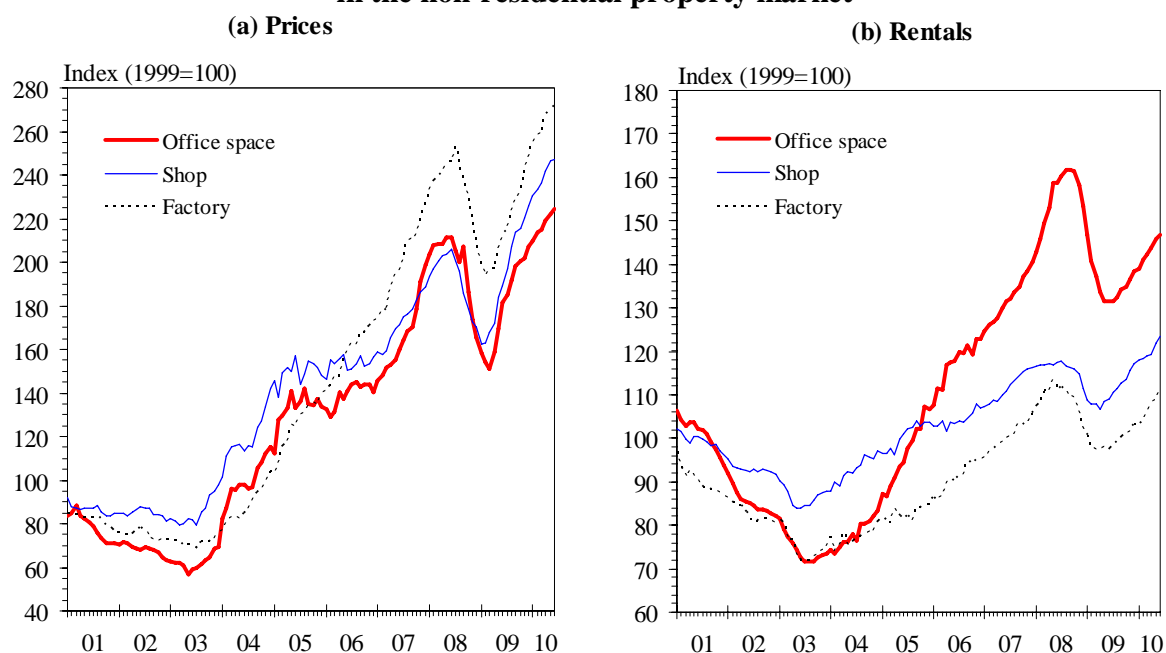


3.7 In tandem with the economic recovery, the *commercial* and *industrial property markets* firmed up further in the first half of 2010. For *office space*, overall prices in June 2010 rose by 8% over December 2009, and have surpassed the recent high in 2008 by 6%. Prices of Grade A, B and C office space all registered gains, of 9%, 11% and 7% respectively. On the leasing front, office rentals in June 2010 gained by 6% over December 2009, but were still 9% below the 2008 peak. Rentals of Grade A, B and C office space all registered gains of 6%. The average rental yields for Grade A, B and C office space were 3.3%, 3.8% and 4.2% respectively in June 2010, compared with 3.3%, 4.0% and 4.2% in December 2009.

3.8 On *retail shop space*, prices in June 2010 surged by 9% over December 2009, and have surpassed the high in 2008 by a sharp 20%. Shop rentals in June 2010 rose by a relatively modest 5% over December 2009, and were 5% above the high in 2008. The average rental yield for retail space edged down from 3.7% in December 2009 to 3.5% in June 2010.

3.9 As to *flatted factory space*, prices and rentals gained notably by 10% and 9% respectively between December 2009 and June 2010. With the surge in the first half of 2010, prices of factory space in June 2010 were 8% above the high in 2008, while rentals have almost fully recouped the loss suffered in the global financial crisis. The average rental yield for flatted factory space was 5.1% in June 2010, unchanged from December 2009.

**Diagram 3.4 : Prices and rentals likewise rose further  
in the non-residential property market**



## Land

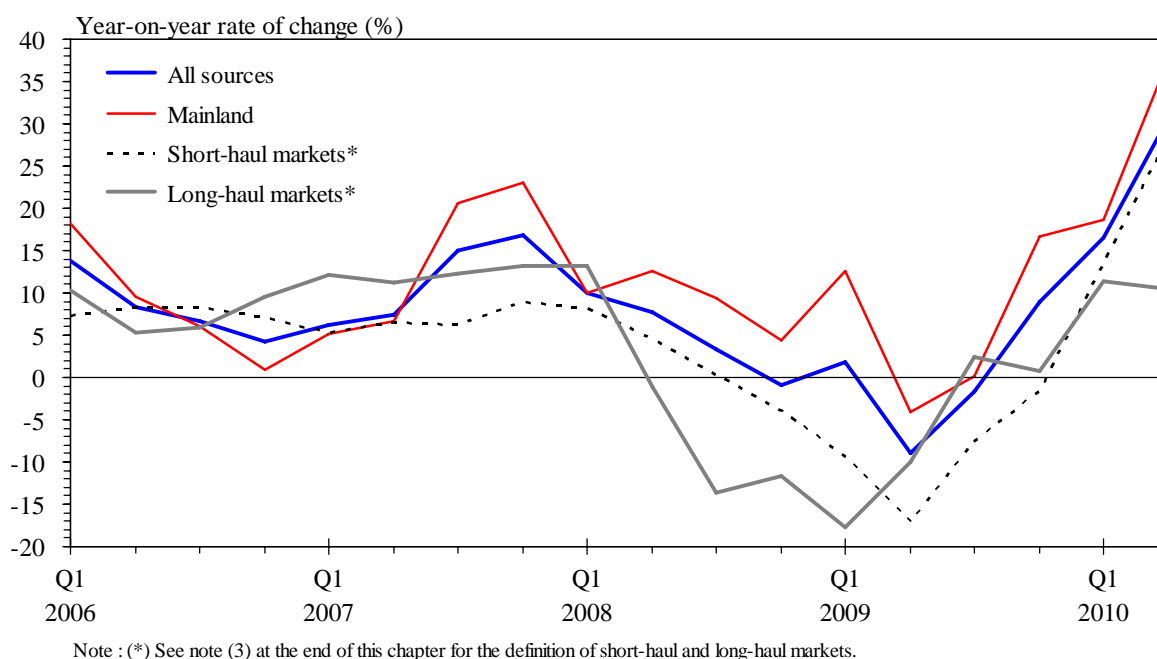
3.10 The land sales market turned more active in the first half of 2010, as developers showed keener interests in land acquisition amid the buoyant property market. A total of eight land sites were sold, comprising four sites from the *Application List* (AL) through auction (including one initiated by the Government) and four sites for petrol filling stations through public tender. These plots of land had a total area of 6.6 hectares and fetched a combined premium of \$19.5 billion. In addition, the Government has put up another residential site for auction in July, and three other residential sites on the AL have been successfully triggered for sale in August. As regards lease modification, 42 sites were approved in the first half of 2010, among which 27 were designated for residential use. On exchange of land, one site was approved for institution/community use, three for commercial/residential use and four for residential use.

## Tourism

3.11 Riding on the global economic recovery, the inbound tourism sector continued to boom. The number of *incoming visitor arrivals* surged by 23.1% over a year earlier to a record high of 16.9 million in the first half of 2010. The growth was particularly strong in May and June, though partly boosted by a lower base of comparison last year amid heightened concern about the spread of human swine flu. Visitor arrivals from the Mainland remained the major growth impetus, soaring by 26.9% over a year earlier to 10.5 million in the first

half of 2010, among which 60.8% came under the Individual Visit Scheme. Visitor arrivals from the short-haul markets and long-haul markets also recorded visible gains, by 20.9% and 10.9% respectively<sup>(3)</sup>. Analysed by length of stay, growth in the number of same-day visitors, at 25.5%, continued to exceed that of overnight visitors, at 21.2%. As a result, the share of same-day visitors in total arrivals rose further from 42.9% in the first half of 2009 to 43.8% in the first half of 2010.

**Diagram 3.5 : Growth of incoming visitor arrivals accelerated further in the second quarter of 2010**

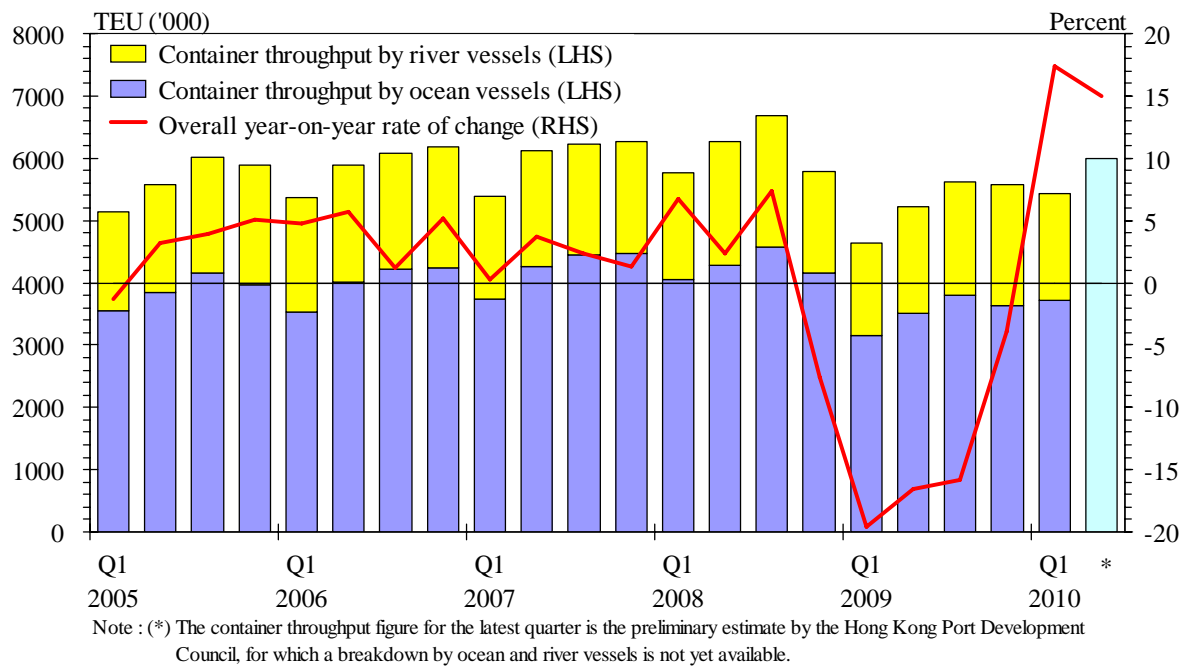


3.12 Boosted by the surge in incoming visitor arrivals, the hotel room occupancy rate soared by ten percentage points over a year earlier to 84% in the first half of 2010. The average achieved hotel room rate also rose by 7.7% to \$1,105 per night<sup>(4)</sup>.

## Logistics

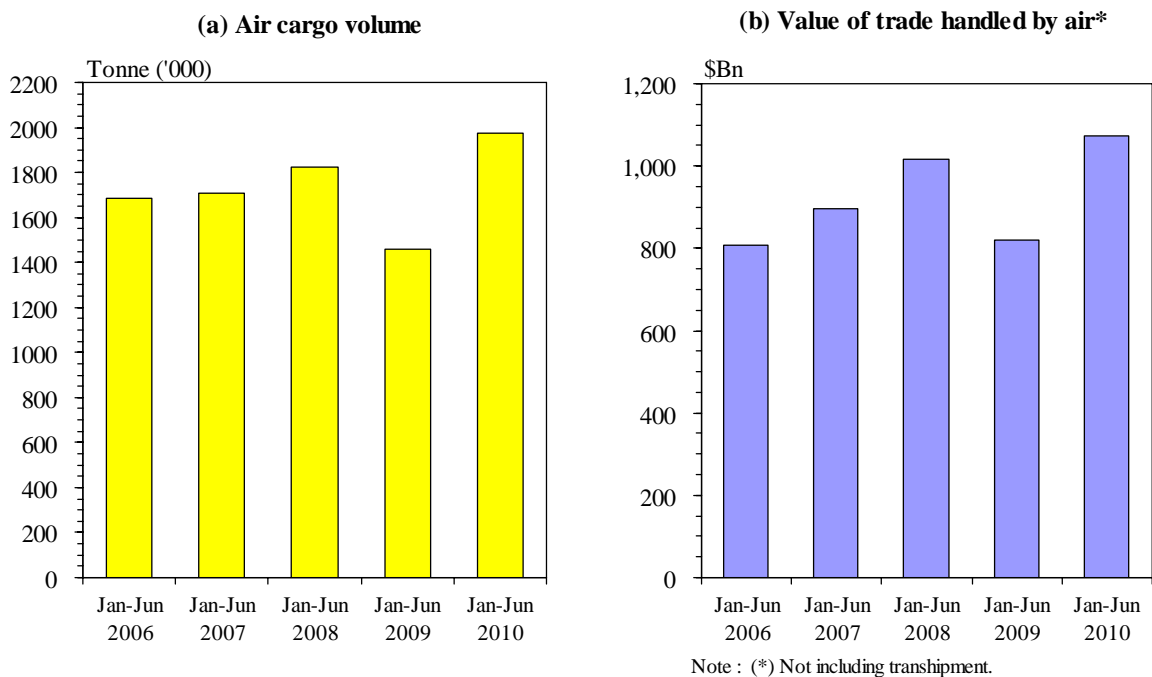
3.13 The logistics sector fared well in the first half of 2010 on the back of vibrant external trade. The total *container throughput* jumped by 16.1% from the trough a year earlier to 11.4 million TEUs. The value of trade handled at the Hong Kong Port likewise soared by 18.5%, though its share in the overall trade value declined from 29.2% in the first half of 2009 to 27.0% in the first half of 2010.

**Diagram 3.6 : Port container traffic rebounded sharply amid ongoing global economic recovery**



3.14 *Air freight throughput* recorded an even sharper growth of 35.1% over a year earlier to 1.97 million tonnes in the first half of 2010. The total value of trade by air also surged by 30.9%, and its share in overall trade value rose slightly from 35.4% a year earlier to 36.0%.

**Diagram 3.7 : Both air cargo volume and the value of trade soared in the first half**



## **Transport**

3.15 In parallel with the continued economic recovery, traffic flows for the various modes of transports recorded accelerated growth. Air passenger traffic grew by 9.3% from a year earlier to 24.5 million in the first half of 2010, and water-borne passenger trips by 7.0% to 12.5 million. As to cross-boundary land traffic, two-way land-based passenger trips increased by 7.5% to an average of 490 600 per day, and cross-boundary vehicular movements by 9.2% to 42 000 per day.

3.16 In May 2010, Hong Kong International Airport (HKIA) has been named the World's Best Airport among facilities serving 40 million-plus passengers annually by the Airports Council International (ACI) for the fourth consecutive year<sup>(5)</sup>. To strengthen Hong Kong's competitiveness as an international and regional aviation centre, the Airport Authority Hong Kong will launch the midfield expansion project in phases to provide additional aircraft stands and apron facilities, and a new passenger concourse. The project will increase both the passenger and cargo handling capacity of HKIA to cope with air traffic demand up to 2020.

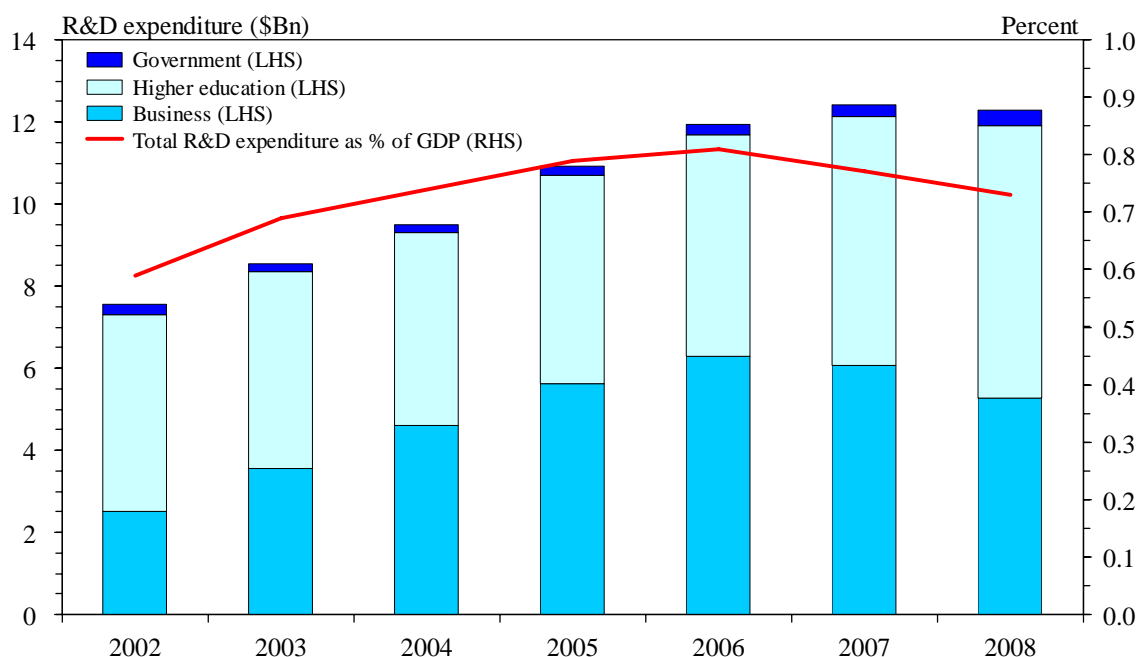
3.17 On the domestic front, amendments to the railway scheme of the South Island Line (East) and the Kwun Tong Line Extension were gazetted under the Railways Ordinance in June 2010. The proposed amendments are to address public concerns expressed after the railway schemes were gazetted in 2009, and to incorporate the latest improvement measures proposed by the MTR Corporation Limited (MTRCL). The Government and the MTRCL will continue to engage the local community and various stakeholders closely. Subject to the authorisation of the railway schemes by the Chief Executive in Council, construction works for the above railway lines will start in 2011 for completion in 2015.

## **Creativity and innovation**

3.18 Research and development (R&D) expenditure in 2008 retreated by 1% from a year earlier to \$12,290 million, equivalent to about 0.7% of GDP. Within this total, the expenditure by the business sector dropped by 13% to \$5,260 million, as some businesses suspended or postponed their R&D projects amid the global financial crisis. In contrast, R&D expenditures by the higher education and government sectors continued to grow, by 10% to \$6,650 million and 28% to \$380 million respectively. Notwithstanding the recent decline, total R&D expenditure in 2008 still represented a surge of 63% from the level in 2002, manifesting Hong Kong's continuous transition towards a

knowledge-based economy.

**Diagram 3.8 : The transition towards a knowledge-based economy continues**



3.19 As to cross-boundary technological cooperation, the Fourth meeting of the Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology was held in late June 2010. At the meeting, the two sides reviewed the progress of work since the third meeting, and examined the first-year operation of the three-year action plan under the Shenzhen/Hong Kong Innovation Circle. The action plan, comprising 24 co-operation projects with involvement from government departments, universities, R&D institutions and community organisations in the two places, achieved satisfactory results over the past year.

3.20 Regarding the West Kowloon Cultural District (WKCD), the three Conceptual Plan Consultants presented their respective Conceptual Plans to the WKCD Authority in July 2010. In addition to the consultants' innovation and inspiration, the Plans have incorporated the views from the public and stakeholders expressed during the Stage 1 Public Engagement exercise about the visions and expectations for a world-class integrated arts and cultural district. The three Conceptual Plans will be displayed to the public during the Stage 2 Public Engagement exercise from August to November 2010, with the aim of soliciting public and stakeholders' views on the master planning and land use of WKCD.

## **Environment**

3.21 Following the introduction of the Environmental Levy Scheme on Plastic Shopping Bags in July 2009, plastic shopping bags distributed by registered retailers have reduced by almost 90%, and many people have developed the habit of bringing their own shopping bags. Considering that the achievement of the Scheme is obvious and the Scheme should move forward, the Government is now consolidating and analysing the relevant data and materials, as well as studying in detail the experiences of other places. In bringing the Scheme to the next stage, the Government will present different options for discussion by the public and the trade, and then draw up a feasible proposal.

3.22 In April 2010, the Government submitted the Motor Vehicle Idling (Fixed Penalty) Bill to the Legislative Council. To reduce air pollution, heat and noise nuisances caused by idling motor vehicles with running engines, the Bill introduces a statutory requirement for drivers to switch off the engines while the vehicles are stationary. The requirement is applicable to all roads, including private roads and car parks, and a driver contravening the prohibition against idling vehicles is liable to a fixed penalty.

### **Notes :**

- (1) The Government announced a series of measures in February 2010 to ensure the healthy and stable development of the property market, targeting at four different aspects, namely increase the flat supply via fine-tuning the land supply arrangements, discourage property speculation, improve transparency in property transactions and transaction prices, and prevent excessive expansion in mortgage lending. In April, Government announced further measures along the same directions and indicated that it would consider introducing further appropriate measures when necessary. See Box 3.1 in the First Quarter Economic Report 2010 for details.
- (2) Position as at 30 June 2010.
- (3) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets here refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.
- (5) Airports Council International (ACI) was established in 1991 as the global trade representative of airports. As of May 2010, it had 575 members operating 1 633 airports in 179 countries and territories, which account for 96% of the world's airport traffic. For the annual ACI Airport Service Quality passenger survey of 2009, over 275 000 passengers were surveyed worldwide at the 118 eligible airports.

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

### *Summary*

- *Interest rates generally stayed low in the first half of 2010. Yet Hong Kong dollar interbank interest rates of longer tenors edged up towards the end of the period, due to upward movements in the US dollar counterparts and strong funding demand associated with local equity fund raising activities.*
- *After trading within a narrow range in the first four months of 2010, the spot exchange rate of the Hong Kong dollar weakened slightly against the US dollar in May and June upon concerns about possible outflow of funds in face of the European debt problems. Meanwhile, the Hong Kong dollar Effective Exchange Rate Indices appreciated further, in parallel with the strengthening of the US dollar.*
- *On the back of the entrenched economic recovery, domestic loans to most economic sectors recorded sharp gains during the first half of 2010. Yet the stock market underwent some consolidation due to uncertainties about the global situation. Fund raising activities turned quieter in the early months, but have revived sharply since late June.*
- *In the first half of 2010, significant progress has been achieved in such areas as expanding renminbi banking business in Hong Kong and improving market access to the Mainland's banking and securities services sectors.*

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

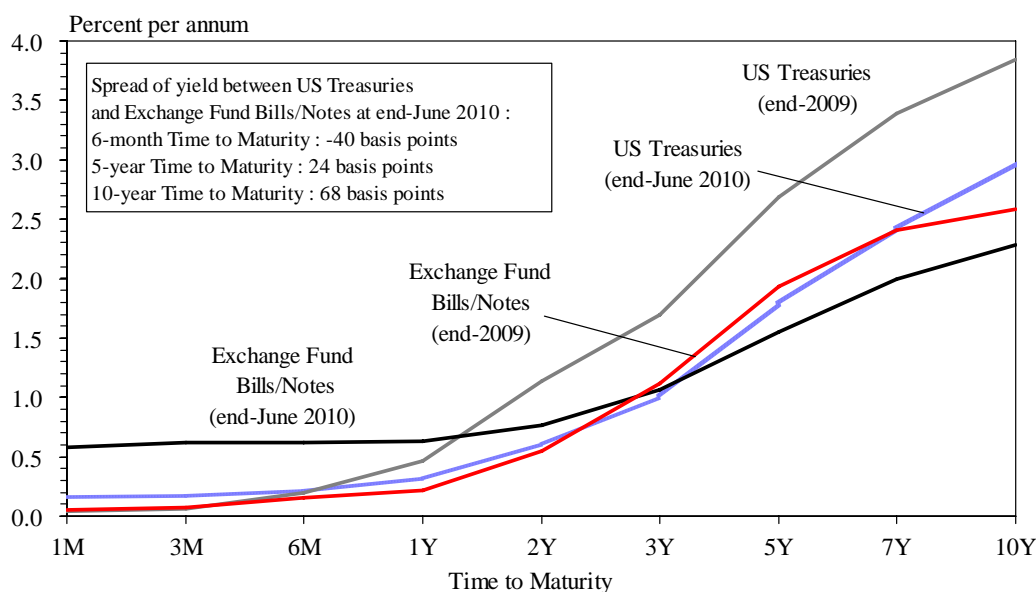


## Interest rates and exchange rates

4.1 Against the background of an accommodative monetary policy in the United States, interest rates generally stayed low in Hong Kong during the first half of 2010. With the US Federal Funds rate staying at 0-0.25%<sup>(1)</sup>, the *Base Rate* under the Discount Window operated by the HKMA remained unchanged at 0.5% during the first half of 2010. Meanwhile, *Hong Kong dollar interbank interest rates* especially those of longer tenors edged up towards the end of the period, due to the upward movements in the US dollar counterparts and strong funding demand associated with the equity fund raising activities in late June. The three-month HIBOR rose from 0.13% at end-2009 to 0.58% at end-June 2010, though the overnight HIBOR stayed close to zero.

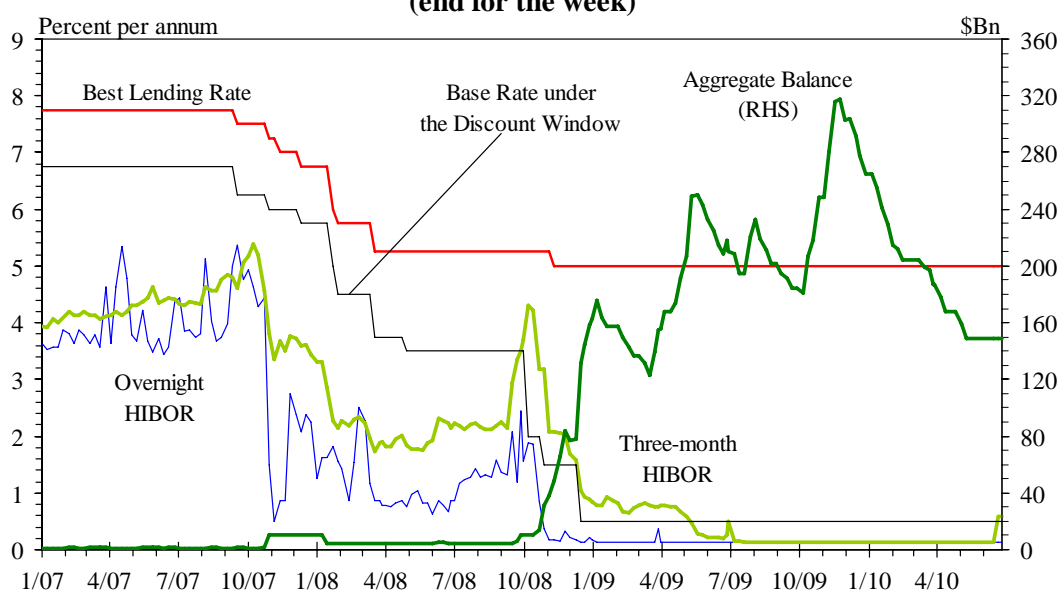
4.2 The spreads between Hong Kong dollar interest rates and US dollar interest rates remained negative. The discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate widened from 20 basis points at end-2009 to 33 basis points at end-June 2010. The *Hong Kong dollar yield curve* flattened during the first half of 2010, reflecting a pick-up in short-dated yields and a fall in long-dated ones. The *US dollar yield curve* flattened even more, as a result of the visible fall in long-dated yields. As a consequence, the yield spread between 10-year US Treasury and 10-year Exchange Fund Notes narrowed from 127 basis points at end-2009 to 68 basis points at end-June 2010, and that between 6-month US Treasury and 6-month Exchange Funds Bills turned from a positive 4 basis points to a negative 40 basis points.

**Diagram 4.1 : Both Hong Kong dollar and US dollar yield curves flattened**



4.3 At the retail level, the *Best Lending Rates* (BLR) were unchanged at 5.00% or 5.25% during the first half of 2010, while the *average savings deposit rate* and one-month *time deposit rate* quoted by major banks likewise held steady at around 0.01%. Yet time deposit rates of longer tenors, such as the six-month and one-year time deposit rates, crawled up towards the end of the second quarter in parallel with the up-tick of HIBOR. These have contributed to a slight increase in the average cost of funds for banks, with the *composite interest rate* rising from a low of 0.11% in December 2009 to 0.20% in June 2010<sup>(2)</sup>. On the mortgage front, loans priced with reference to HIBOR (the rate of which could be as low as one-month HIBOR plus 0.65 percentage point, capped at BLR minus 2.5 percentage points) continued to draw favourable market responses, with the proportion of such loans in newly approved mortgage loans ballooning from 61.6% in December 2009 to 83.9% in June 2010.

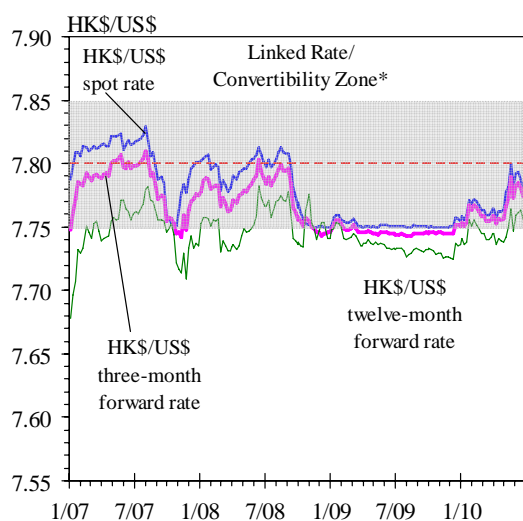
**Diagram 4.2 : Hong Kong dollar interest rates  
generally stayed low  
(end for the week)**



4.4 After trading within a narrow range in the first four months of 2010, the Hong Kong dollar spot exchange rate weakened slightly in May and June upon concerns about possible outflow of funds in face of the European debt crisis. The spot exchange rate closed at 7.786 per US dollar at end-June 2010, weakening from 7.756 per US dollar at end-2009. Meanwhile, the discounts of the 3-month and 12-month Hong Kong dollar forward rates closed at 43 and 215 pips (each pip equivalent to HK\$0.0001) respectively at end-June 2010, compared with 48 and 193 pips at end-2009. As a result of the additional issuance of Exchange Fund Bills by the HKMA, the Aggregate Balance declined from \$264.6 billion to \$148.7 billion over the period.

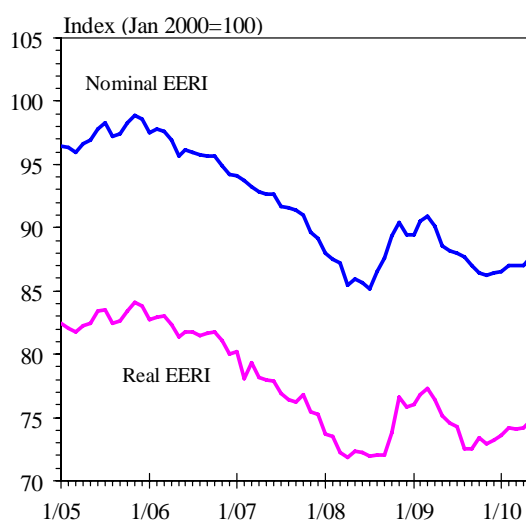
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. During the first half of 2010, the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* rose by 1.9% and 2.6%<sup>(3)</sup>, as the US dollar appreciated against other major currencies, in particular the Euro, amid heightened concerns about the European debt problems.

**Diagram 4.3 : Hong Kong dollar weakened against the US dollar (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.

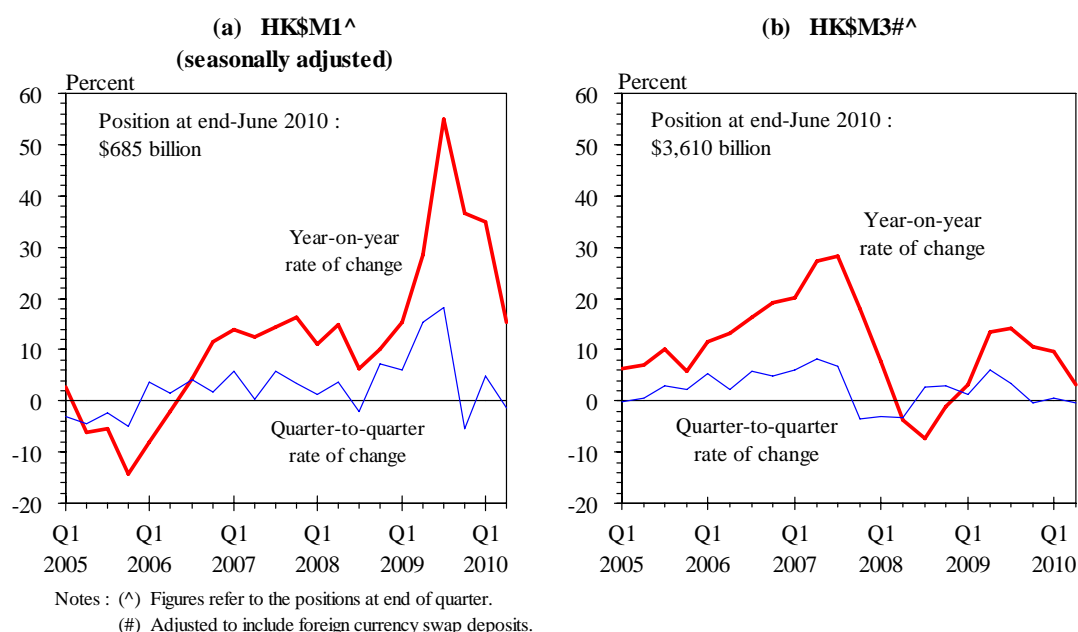
**Diagram 4.4 : Trade-weighted EERIs strengthened further alongside the US dollar (average for the month)**



## Money supply and banking sector

4.6 Hong Kong dollar broad *money supply* (HK\$M3) only edged up by 0.2% from end-2009 to \$3,610 billion at end-June 2010<sup>(4)</sup>. Meanwhile, the seasonally adjusted narrow money supply (HK\$M1) grew by a modest 3.3% to \$685 billion, with the growth occurring entirely during the first quarter. Over the same period, *total deposits* with authorized institutions (AIs) declined slightly by 0.5% to \$6,352 billion<sup>(5)</sup>. Analysed by currency, foreign currency deposits contracted by 0.9% to \$2,981 billion and Hong Kong dollar deposits edged down by 0.1% to \$3,371 billion.

**Diagram 4.5 : Growth momentum of both HK\$M1 and HK\$M3 tapered**



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

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2009	Q1	6.1	6.9	1.3	-0.5	1.3	-0.6
	Q2	15.3	10.1	6.1	4.0	6.0	4.0
	Q3	18.1	19.5	3.4	2.4	3.3	2.3
	Q4	-5.5	-0.7	-0.3	-0.5	-0.3	-0.6
2010	Q1	4.8	4.7	0.4	-0.1	0.5	*
	Q2	-1.4	-4.3	-0.2	-0.3	-0.4	-0.4
Total amount at end-June 2010 (\$Bn)		685	904	3,597	6,579	3,610	6,600
% change from end-2009		3.3	0.2	0.2	-0.4	0.2	-0.4
% change over a year earlier		15.3	18.9	3.3	1.4	3.1	1.3

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(\*) Change of less than 0.05%.

4.7 On the back of the entrenched economic recovery, *total loans and advances* grew at a brisk pace in the first half of 2010, particularly in the second quarter. Total loans outstanding expanded by 14.7% over end-2009 to \$3,773 billion at end-June 2010 (comprising Hong Kong dollar loans of \$2,620 billion

and foreign currency loans of \$1,152 billion), the highest level since early 1998. Within the total, loans for use in Hong Kong grew by 12.9% to \$3,020 billion, while loans for use outside Hong Kong recorded an even sharper growth of 22.5% to \$753 billion.

4.8 Domestic loans to most economic sectors went sharply up. Boosted by the equity fund raising activities towards the end of June, loans to stockbrokers at end-June 2010 soared by 111.0% over end-2009. This was followed by notable growth in lending to trade finance, and wholesale and retail trade, of 35.8% and 28.0% respectively. Lending to financial concerns, manufacturing, and building, construction, property development and investment also rose visibly, by 22.0%, 14.6% and 12.3% respectively. As a result of the robust growth in loans against a slight retreat in deposits, the Hong Kong dollar loan-to-deposit ratio rose sharply from 71.2% at end-2009 to 77.7% at end-June 2010.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
Loans to :											
% change during the quarter		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers	Total <sup>(b)</sup>	All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
2009	Q1	-15.1	-1.5	-5.5	-1.0	-0.3	-14.5	-10.3	-3.8	-2.8	-3.6
	Q2	3.3	-5.8	1.9	-0.5	2.0	-9.0	443.6	1.6	-1.0	1.2
	Q3	2.3	1.9	3.8	-2.3	3.5	2.1	-17.2	1.6	5.6	2.3
	Q4	4.6	-2.6	2.0	3.2	2.0	-13.9	-70.8	-0.7	5.1	0.3
2010	Q1	12.8	4.9	10.6	6.5	2.5	8.0	12.3	5.0	7.6	5.5
	Q2	20.3	9.3	15.7	5.4	2.6	12.9	87.9	7.6	13.8	8.8
Total amount at end-June 2010 (\$Bn)		237	155	198	767	734	236	26	3,020	753	3,773
% change from end-2009		35.8	14.6	28.0	12.3	5.1	22.0	111.0	12.9	22.5	14.7
% change over a year earlier		45.4	13.8	35.4	13.3	10.9	7.2	-48.9	14.0	35.9	17.8

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.

4.9 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. 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 these institutions stayed high at an average of 17% at end-March 2010. Moreover, all individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.10 The Basel Committee issued two consultative documents setting out proposals to strengthen global capital and liquidity standards in December 2009, and subsequently launched a comprehensive impact assessment of its proposals in February 2010 in order to determine the appropriate calibration of the final set of standards. The finalised standards will be phased in when financial conditions improve and economic recovery is assured. As a member of the Basel Committee, the HKMA has been closely involved in the development of the new standards. In line with established policy of adhering to international standards of supervision, the HKMA is also conducting an impact assessment study of the proposals on the local banking sector so as to formulate its implementation plan once the proposals are finalised.

4.11 Asset quality of the local banking sector continued to improve. The ratio of classified loans to total loans declined further to 1.20% at end-March 2010, down for three straight quarters from the recent peak of 1.51% at end-June 2009. Arrears for over three months in credit card repayment followed a similar pattern, declining gradually to 0.32% at end-March 2010 from 0.50% at end-June 2009. Meanwhile, the delinquency ratio for residential mortgage loans, at 0.03% at end-June 2010, was little changed from end-2009.

**Table 4.3 : 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> (gross)
2009	Q1	96.09	2.44	1.47
	Q2	96.14	2.35	1.51
	Q3	96.47	2.12	1.42
	Q4	96.74	1.91	1.35
2010	Q1	97.08	1.72	1.20

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".

4.12 Renminbi banking business in Hong Kong continued to grow steadily. The outstanding amount of renminbi deposits increased from RMB62.7 billion at end-2009 to RMB89.7 billion at end-June 2010. The increased demand for such deposits was due partly to the expanding scope of renminbi banking business in Hong Kong and partly to the expected revaluation gains following the People's Bank of China's decision to proceed further with the reform of the RMB exchange rate regime and to enhance the currency's exchange rate flexibility<sup>(6)</sup>. Yet renminbi deposits accounted for only about 3.5% of total foreign currency deposits in Hong Kong at end-June 2010.

4.13 The scope of renminbi banking business in Hong Kong expanded further in the first half of 2010. Based on the existing policy framework and having regard to the views of the industry, in February the HKMA issued a circular to elucidate the supervisory principles and operational arrangements regarding renminbi business in Hong Kong, with a view to simplifying banks' operational procedures and increasing flexibility. Further in June, the Mainland authorities announced an expansion of the renminbi trade settlement scheme to cover a total of 20 Mainland provinces and cities. Also, the location of the other leg of the cross-border trades is no longer limited to Hong Kong, Macao and ASEAN (i.e. will cover the whole world). In July, the Settlement Agreement on the Clearing of Renminbi Business ("Clearing Agreement") was revised. Under the revised Clearing Agreement, there will no longer be restrictions on banks in Hong Kong in establishing renminbi accounts for and providing related services to financial institutions, and individuals and corporations will be able to conduct renminbi payments and transfers through the banks. These expansions and developments marked a milestone in the development of offshore renminbi business in the territory and could strengthen Hong Kong's capacity in the provision of renminbi financial intermediation activities.

**Table 4.4 : Renminbi deposits in Hong Kong**

<u>As at end of period</u>		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Interest rates on<sup>(a)</sup></u>		<u>Number of authorised institutions engaged in RMB business</u>
					<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)	
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
	Q3	40,559	17,616	58,174	0.46	0.66	44
	Q4	40,662	22,056	62,718	0.46	0.67	60
2010	Q1	44,609	26,145	70,755	0.46	0.68	73
	Q2	52,426	37,275	89,702	0.46	0.68	77
% change over a year earlier		45.9	102.0	65.0	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.

## The debt market

4.14 The Hong Kong dollar debt market continued to expand during the first half of 2010, driven by the remarkable growth in public sector debt. Total gross issuance of Hong Kong dollar debt securities in the period grew by 126.7% over a year earlier to \$979.5 billion. Within the total, issuance of Exchange Fund Bills and Notes soared by 177.7% to \$893.9 billion, or 91.3% of all new debt issuance, due to the increased supply of short-dated Exchange Fund papers to meet the strong demand by banks for liquidity management. On the other hand, the issuance of Hong Kong dollar debt by the private sector (comprising AIs, local corporations and overseas borrowers excluding the multilateral development banks) declined by 13.4% to \$68.4 billion. At end-June 2010, the total outstanding balance of Hong Kong dollar debt soared to a record level of \$1,220.8 billion, up by 9.8% from end-2009<sup>(7)</sup>. This was equivalent to 33.8% of HK\$M3 or 26.7% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(8)</sup>.

4.15 Under the Institutional Bond Issuance Programme of the Government Bond Programme, a total of four tenders were completed in the first half of 2010, namely a ten-year bond of an issue size of \$2.5 billion in January, a two-year bond of \$3.5 billion in March, a ten-year re-opening of existing bond of \$3 billion in May, and a five-year re-opening of existing bond of \$1.5 billion in June. These issues were all greeted with favourable responses by investors. At end-June 2010, the total outstanding size of institutional bonds was \$16 billion.



**Table 4.5 : New issuance and outstanding value of  
Hong Kong dollar debt securities (\$Bn)**

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs<sup>(a)</sup></u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers<sup>(b)</sup></u>	<u>Private sector total</u>	<u>MDBs<sup>(b)</sup></u>	<u>Total</u>
<b>New issuance</b>											
2009	Annual	1,047.7	29.9	5.5	1,083.1	43.9	19.5	82.4	145.8	13.1	1,242.1
	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	15.0	4.8	21.2	41.0	6.2	248.9
	Q3	333.8	9.4	3.5	346.7	11.6	5.2	17.6	34.4	0.4	381.5
	Q4	392.1	1.2	2.0	395.2	11.7	6.7	14.1	32.5	0.8	428.5
2010	Q1	437.4	2.8	6.0	446.2	20.5	4.3	13.8	38.6	-	484.9
	Q2	456.5	3.6	4.5	464.6	17.9	3.2	8.7	29.8	0.3	494.6
During the first half of 2010		893.9	6.3	10.5	910.8	38.5	7.5	22.5	68.4	0.3	979.5
% change over a year earlier		177.7	-67.1	N.A.	167.0	86.7	-2.2	-55.7	-13.4	-97.4	126.7
<b>Outstanding (as at end of period)</b>											
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	80.9	72.0	322.9	475.8	25.5	862.9
	Q3	413.0	74.4	5.0	492.5	82.8	73.7	319.8	476.3	23.9	992.7
	Q4	534.1	69.7	7.0	610.8	84.7	79.5	312.1	476.2	24.3	1,111.3
2010	Q1	612.5	68.0	13.0	693.5	90.7	82.6	304.9	478.2	21.1	1,192.8
	Q2	651.4	65.0	17.5	733.9	94.0	84.1	290.3	468.4	18.4	1,220.8
% change from end-2009		22.0	-6.8	150.0	20.2	11.0	5.9	-7.0	-1.6	-24.4	9.8
% change over a year earlier		125.8	-4.5	250.0	103.0	16.1	16.9	-10.1	-1.6	-27.8	41.5

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

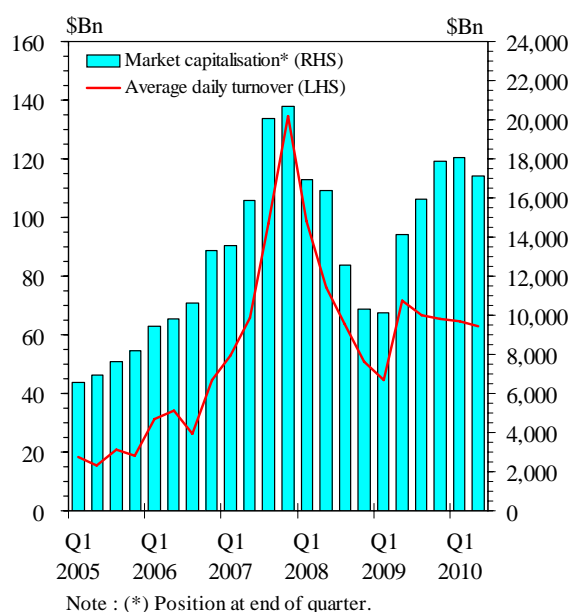
N.A. Not available.

## The stock and derivatives markets

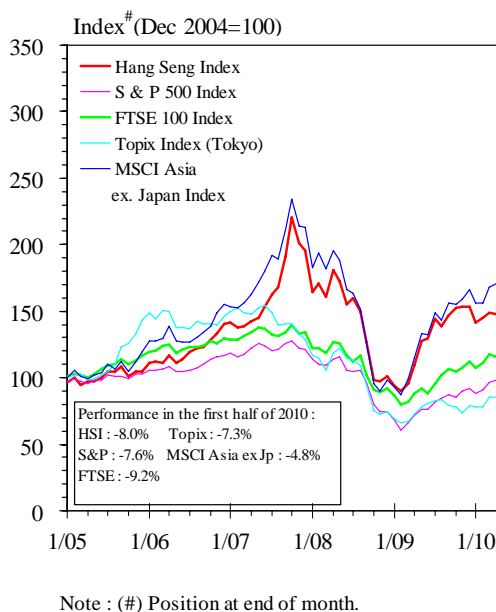
4.16 The *local stock market* showed some consolidation in the first half of 2010, as concerns about the European debt problems and possible exit of expansionary monetary policy in the major economies led to cautious market sentiment. The *Hang Seng Index* (HSI) fell by 8.0% from end-2009 to close at 20 129 at end-June 2010, with noticeable fluctuations from time to time alongside similar gyrations in other major stock markets. Trading activities turned quieter in tandem, with the *average daily turnover* declining by 3.4% from the second half of 2009 to \$63.8 billion in the first half of 2010, albeit rising by 9.5% over the low base a year earlier.

4.17 As a result of the consolidation, the *market capitalisation* shrank by 4.2% from end-2009 to \$17.1 trillion at end-June 2010. Yet according to the *World Federation of Exchanges*, the local bourse rose to the sixth largest in the world and second largest in Asia due to the even larger falls in other markets<sup>(9)</sup>. Fund raising activities were relatively quiet in early 2010, but have rebounded sharply since late June. Reflecting the subdued activities in the earlier months, *equity capital* raised through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) fell to \$160.6 billion in the first half of 2010 taken together, down by 62.2% from the relatively high base in the second half of 2009 or 26.2% from a year earlier. Within the total, funds raised from initial public offerings plummeted by 78.2% from the second half of 2009, but rose by 185.1% over the low base a year earlier<sup>(10)</sup>.

**Diagram 4.6 : The local stock market consolidated in the first half of 2010**



**Diagram 4.7 : The Hong Kong and major overseas stock markets showed comparable performance**



4.18 Mainland enterprises continued to play a prominent role in the local stock market. At end-June 2010, a total of 540 Mainland enterprises (including 156 H-share companies, 97 “Red Chips” companies and 287 private enterprises) were listed on the Main Board and GEM, representing 40% of the total number of listed companies and 59% of the total market capitalisation. In the first half of 2010, Mainland-related stocks accounted for 69% of equity turnover and 48% of total equity fund raised in the Hong Kong stock exchange.

4.19 In contrast to the setback in overall trading activities, trading of *derivatives* products picked up. The average daily trading volume of futures and options in the first half of 2010 rose sharply by 16.3% over the second half of 2009 or 4.6% over a year earlier<sup>(11)</sup>. The different types of product showed mixed performance though. While trading of HSI options rose by a sharp 60.2% and that of stock options by a moderate 7.5% over a year earlier, trading of HSI futures and H-shares Index futures fell by 4.3% and 7.1% respectively. As to securitised derivatives, the average daily trading value in the first half of 2010 rose by 1.9% from the second half of 2009 or a more visible 10.8% over a year earlier. Within the total, trading of derivative warrants soared by 54.9% over a year earlier, more than offsetting the 28.3% plunge in trading of callable bull/bear contracts.

**Table 4.6 : Average daily turnover of derivatives products  
of the Hong Kong market**

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock options <u>options</u>	Total futures and options <u>traded</u> *	Derivative warrants <u>(\$Mn)</u>	Callable bull/bear contracts <u>(\$Mn)</u>	Total securitised derivatives traded <u>(\$Mn)</u> <sup>^</sup>
2009	Annual	83 750	21 686	50 077	191 676	398 134	6,646	6,731	13,377
	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
	Q3	84 197	21 857	47 683	168 876	373 514	7,458	6,681	14,139
	Q4	75 403	26 100	42 828	187 277	381 632	7,027	6,660	13,687
2010	Q1	84 138	29 731	48 617	205 581	417 305	9,646	4,757	14,402
	Q2	83 863	32 252	53 719	237 708	461 361	8,972	4,994	13,966
% change in 2010 H1 over 2009 H1		-4.3	60.2	-7.1	7.5	4.6	54.9	-28.3	10.8
% change in 2010 H1 over 2009 H2		5.2	29.4	12.9	24.5	16.3	28.5	-26.9	1.9

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.

## Fund management and investment funds

4.20 Fund management business remained generally solid in the first half of 2010. Gross retail sales of *mutual funds* surged by 147.5% over the low base a year earlier or 28.6% over the second half of 2009 to US\$12.7 billion in the first half of 2010<sup>(12)</sup>. Retail hedge funds business also posted a decent performance so far this year<sup>(13)</sup>. The aggregate net asset value of the approved constituent funds under the *MPF schemes*, at \$308 billion at end-June 2010, stayed virtually unchanged from end-2009<sup>(14)</sup>.

4.21 The Securities and Futures (Levy) (Amendment) Order 2010, which provides for a 25% reduction of the levy payable in respect of trading in securities, futures or options contracts, was passed in May and will take effect on 1 October 2010. The levy reduction will help reduce the transaction cost borne by investors and is thus conducive to the development of the securities and futures markets.

## Insurance sector

4.22 The *insurance sector* continued to recover from the global financial crisis. Gross premium income from long-term business in the first quarter of 2010 jumped by 50.0% from the low base a year earlier<sup>(15)</sup>. Within the total, premium income from non-linked plans showed a solid 40.3% gain. On the other hand, while premium income from investment-linked plans surged by 82.1%, it was still far below the pre-crisis level in early 2008. For general business, gross premium in the first quarter rose by 16.2% over a year earlier but underwriting profit went down by 19.5%.

4.23 In July 2010, the Government commenced a three-month public consultation on the proposed establishment of an independent insurance authority (IIA). In line with international regulatory practices, the proposed IIA will be financially and operationally independent of the Government. In lieu of the existing self-regulatory system, IIA will supervise the conduct of insurance intermediaries directly through introducing a licensing regime. Replacing the current Office of the Commissioner of Insurance, it would be given the regulatory powers to conduct inspections and investigations, and impose supervisory sanctions against breaches. The proposed set up of the IIA would enable better regulation of insurers and insurance intermediaries, and thus help enhance protection for insurance policyholders.

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

		General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2009	Annual	28,550	20,512	2,209	30,965	15,066	279	207	46,517	75,067
	Q1	7,940	5,647	694	6,223	2,198	54	69	8,544	16,484
	Q2	6,568	4,853	600	7,040	3,827	69	37	10,973	17,541
	Q3	7,026	5,122	670	9,658	4,582	72	73	14,385	21,411
	Q4	7,016	4,890	245	8,044	4,459	84	28	12,615	19,631
2010	Q1	9,230	6,460	559	8,729	4,002	33	54	12,818	22,048
% change in 2010 Q1 over 2009 Q1		16.2	14.4	-19.5	40.3	82.1	-38.9	-21.7	50.0	33.8

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

(^) Figures refer to new business only. Retirement scheme business is excluded.

## **Some highlights of market developments**

4.24 With effect from 1 January 2011, market access to the Mainland for the banking and securities services sector of Hong Kong will be further enhanced under Supplement VII to CEPA signed in May 2010. For banking services, Hong Kong banks that have maintained representative offices in the Mainland for more than one year can apply for setting up a wholly foreign-funded bank or a foreign bank branch, and their operating institutions in the Mainland can apply for conducting renminbi business if they have been operating for more than two years and profitable for one year. In addition, foreign banking institutions established in the Mainland by Hong Kong banks can set up specialised institutions to provide financial services to small enterprises. For securities services, open-end index-tracking exchange traded funds constituted by Hong Kong listed stocks will be launched in the Mainland at an appropriate time.

4.25 The Legislative Council passed the Deposit Protection Scheme (Amendment) Bill 2010 in June. Under the enhanced Deposit Protection Scheme (DPS), which will take effect after the expiry of the full deposit guarantee at end-2010, the protection limit would be raised from \$100,000 to \$500,000. The higher limit would fully cover about 90% of depositors, on par with the higher end of international standards in terms of percentage of depositors fully covered. In addition, the scheme's coverage would also be expanded to include secured deposits.

### **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 FFTR was retained while the HIBOR leg was 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 2010, there were 146 licensed banks, 24 restricted licence banks and 27 deposit-taking companies in Hong Kong. Altogether, 197 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) On 19 June 2010, the People's Bank of China announced the decision to proceed further with reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. In further proceeding with reform of the RMB exchange rate regime, continued emphasis would be put on reflecting market supply and demand with reference to a basket of currencies. The daily exchange rate floating bands, at 0.5%, remains the same as previously announced in the inter-bank foreign exchange market.
- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from 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.
- (9) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 52 securities exchanges (as of 6 August 2010), covering almost all globally recognised stock exchanges.

- (10) At end-June 2010, there were 1 170 and 174 companies listed on the Main Board and GEM respectively.
- (11) At end-June 2010, there were 51 classes of stock options contracts and 38 classes of stock futures contracts.
- (12) 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. At end-June 2010, the survey covered a total of 1 136 active authorised funds.
- (13) At end-June 2010, there were 11 SFC-authorised retail hedge funds with combined net asset size of US\$731 million. The amount of net assets under management was 7.7% higher than the end-2009 level and more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-June 2010, there were 19 approved trustees. On MPF products, 36 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 376 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 238 000 employers, 2.20 million employees and 262 000 self-employed persons have participated in MPF schemes.
- (15) At end-June 2010, there were 170 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 105 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).



## CHAPTER 5 : THE LABOUR SECTOR

### *Summary*

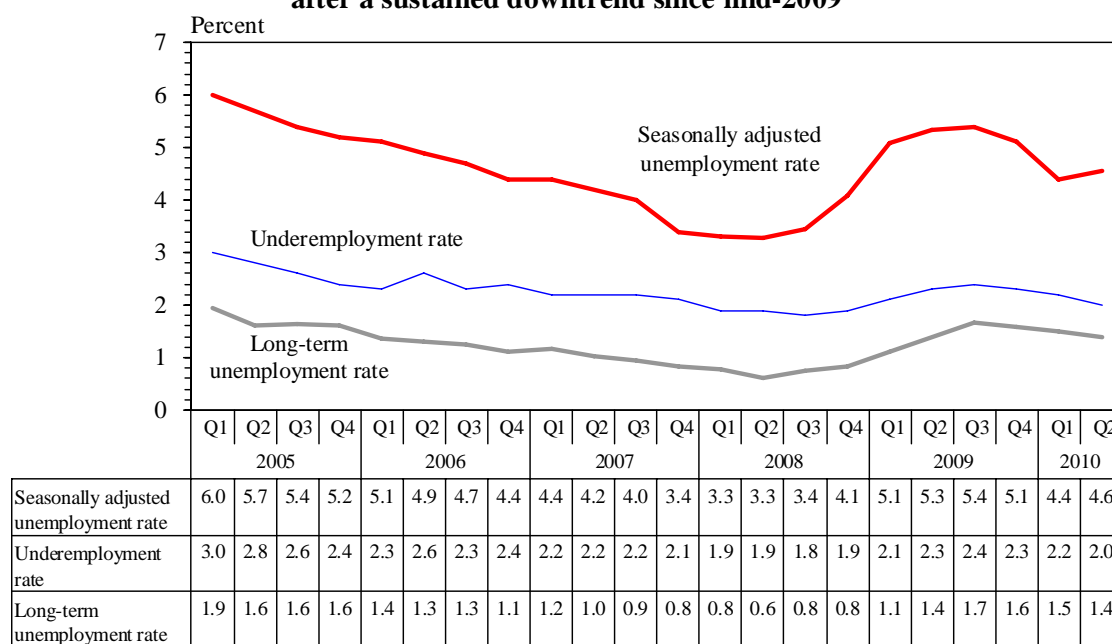
- *The labour market, after embarking on an improving trend between mid-2009 and early 2010, showed somewhat mixed developments in the second quarter of 2010. More specifically, the seasonally adjusted unemployment rate edged up from 4.4% in the first quarter to 4.6% in the second quarter alongside a marginal decline in total employment.*
- *Yet except for the slight rise-back in overall unemployment rate, there were actually several positive developments in the labour market, marked by decreases in both long-term unemployment and underemployment, a further pick-up in wages and earnings among employees across a broad spectrum of sectors and a sharp rise in job vacancies.*
- *Indeed, the bounce-back in unemployment rate, when matched with the concurrent surge in vacancies, indicated that the relapse was at least in part frictional, due to more workers in search of employment opportunities with better terms and conditions. A number of supplementary evidence also lent support to this development, including the continued decline in the proportion of dismissals among job-seekers; the increase in new hirings by companies resulting in a notable rise in the number of employees accompanied by a concomitant fall in the self-employed; and the recent change in the employment mix towards higher-skilled jobs.*
- *Labour earnings improved almost across the board during the first half of 2010, indicating that the general improvement in the economy had begun to trickle down to benefit workers on a wide front.*

### **Overall labour market situation**

5.1 The labour market, after a buoyant start in 2010, showed mixed developments in the second quarter. For this particular quarter, the number of unemployed persons rose by 11 200 to 171 800, thereby pushing the seasonally adjusted unemployment rate<sup>(1)</sup> back up by 0.2 percentage point to 4.6%, the first quarterly increase since mid-2009. Yet the intensity of work among the employed improved slightly, as borne out by a continued decline in the underemployment rate<sup>(2)</sup>, by 0.2 percentage point to 2.0%. Moreover, while total employment was marginally lower during the quarter, the decline was

mainly due to a reduction in the number of self-employed persons whereas the number of employees actually rose further to an all-time high. When viewed in conjunction with the concurrent increase in job vacancies, the slight decrease in employment was in large part frictional, caused by workers temporarily breaking from employment whilst awaiting or actively seeking jobs with better terms and conditions. As to wages and earnings, the uptrend established since mid-2009 sustained well into the first half of 2010. More notable increases in labour earnings was observed among higher-skilled workers especially those engaged in the professional and business services, and financing sectors.

**Diagram 5.1 : The unemployment rate bounced up in the second quarter of 2010 after a sustained downtrend since mid-2009**



## Total employment and labour force

5.2 *Total employment*<sup>(3)</sup>, after recording a notable 0.8% gain in the first quarter of 2010 on a seasonally adjusted quarter-to-quarter basis, declined marginally by 0.1% in the second quarter. Nevertheless, the figure showed signs of improvement lately, with a bounce-back in the latest three-month period of April – June from that of March – May. Moreover, total employment was still 0.2% higher in the second quarter than a year earlier, following a 0.1% increase in the preceding quarter.

5.3 At present there is no seasonally adjusted data series on employment and labour force by component. An analysis of the relevant breakdowns has thus to be carried out based on the unadjusted figures.

5.4 Among the major economic sectors, social and personal services, retail trade, and accommodation and food services registered more noticeable decreases in employment during the second quarter, following the seasonal upsurges in the first quarter upon the impact of the Lunar New Year. On the other hand, real estate, import and export trade, and information and communications witnessed some increases in employment, thanks to the generally robust economy and property market locally.

5.5 A more detailed analysis revealed that the recent decline in employment occurred mainly in lower-skilled jobs, which went down by 17 600 in the second quarter, led by the drops in service workers and shop sales workers and in craft and related workers. But this decrease should be viewed in conjunction with the notable gain in higher-skilled jobs by 13 000 over the same period, in particular among professionals and associate professionals. Conceivably, a considerable proportion of employees who previously had moved down the job hierarchy to retain employment during the 2009 recession were able to return to higher-skilled positions more recently, amid the further improvement in the economic environment. In terms of other socio-economic attributes, the decline in employment was more visible among persons aged 15-29 and those with lower secondary or tertiary education attainment.

5.6 On the supply side, the *labour force*<sup>(4)</sup> fell by 0.7% in the second quarter of 2010 from a year earlier, but the figure actually bounced up by 0.1% on a seasonally adjusted quarter-to-quarter basis. The labour supply is expected to pick up further during the summer months upon the seasonal influx of fresh graduates and school leavers into the labour market (**Box 5.1**). The Government will continue to monitor the situation and act proactively in helping these new entrants to find jobs.

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2009	Annual	3 676 600 (0.8)		3 479 800 (-1.1)		196 700	86 400
	Q1	3 681 700 (1.2)		3 494 000 (-0.7)		187 700	78 500
	Q2	3 688 600 (1.4)		3 485 700 (-0.9)		202 900	84 000
	Q3	3 692 200 (1.0)		3 483 000 (-1.2)		209 200	89 300
	Q4	3 653 400 (-0.2)		3 480 700 (-1.1)		172 600	83 800
2010	Q1	3 657 300 (-0.7)		3 496 700 (0.1)		160 600	80 000
	<i>Three months ending</i>						
	Apr	3 655 200 (-0.7)		3 490 400 (0.2)		164 800	76 500
	May	3 655 700 (-1.0)		3 483 300 (-0.3)		172 400	74 700
	Jun	3 664 000 (-0.7)		3 492 100 (0.2)		171 800	73 700
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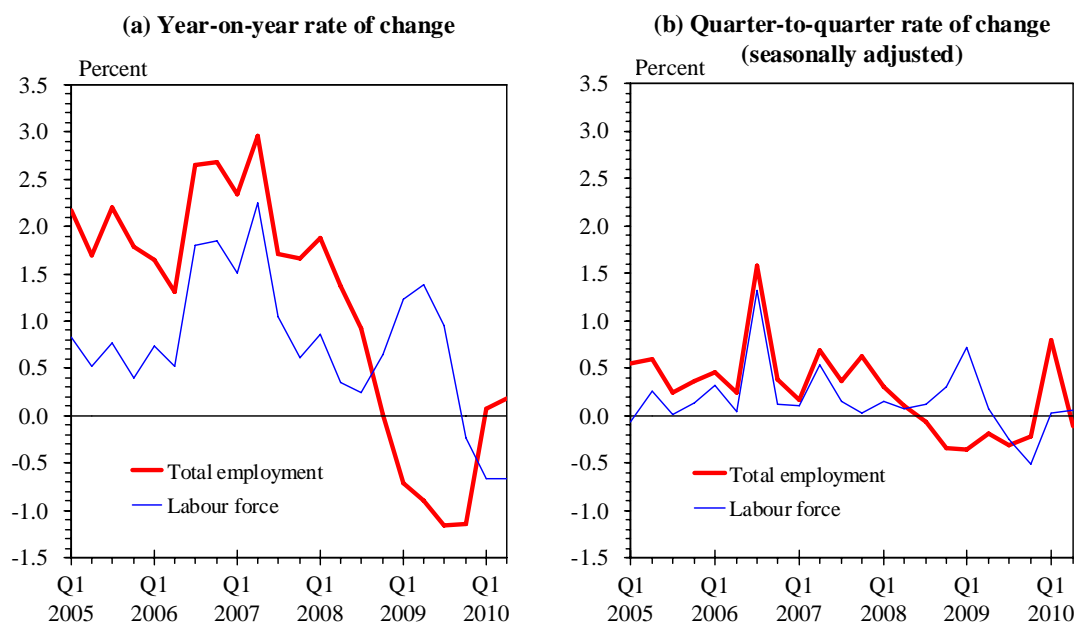
Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change for April – June 2010.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment increased slightly in the second quarter of 2010 over a year earlier**



**Table 5.2 : Labour force participation rates by sex (%)**

		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2009	Q1	69.6	53.7	61.1
	Q2	69.7	53.5	61.1
	Q3	69.8	53.3	60.9
	Q4	68.7	52.7	60.1
2010	Q1	68.7	52.4	60.0
	Q2	68.6	52.4	59.9

Source : General Household Survey, Census and Statistics Department.

**Table 5.3 : Labour force participation rates by sex and by age group (%)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 Q2</u>
<u>Male</u>						
15-19	15.8	14.3	14.8	13.0	12.6	9.7
20-24	69.5	69.0	67.6	65.8	64.8	60.2
25-29	95.3	95.6	95.0	94.3	94.8	93.8
30-39	96.8	96.7	97.1	96.5	96.3	96.6
40-49	95.4	95.2	95.5	95.1	95.0	95.1
50-59	83.7	83.3	83.3	84.0	84.3	84.4
≥ 60	18.3	19.3	19.6	20.0	21.2	21.9
Overall	71.1	70.9	70.5	69.7	69.4	68.6
<u>Female</u>						
15-19	13.3	13.1	13.5	12.4	11.4	7.9
20-24	72.6	71.1	71.7	69.5	66.2	60.7
25-29	86.2	87.2	87.4	87.3	87.0	86.2
30-39	75.1	75.5	76.2	76.8	77.0	76.3
40-49	63.7	65.1	66.6	66.7	68.5	68.8
50-59	44.3	45.7	46.7	48.5	48.8	49.4
≥ 60	4.2	4.5	5.2	5.7	6.6	7.4
Overall	51.8	52.6	53.1	53.1	53.1	52.4
<u>Both sexes</u>						
15-19	14.5	13.7	14.2	12.7	12.0	8.8
20-24	71.2	70.1	69.8	67.7	65.5	60.5
25-29	90.3	90.9	90.7	90.3	90.4	89.4
30-39	84.5	84.6	85.1	85.1	85.1	84.7
40-49	78.8	79.3	80.1	79.8	80.7	80.5
50-59	64.1	64.5	64.9	66.1	66.5	66.7
≥ 60	11.0	11.7	12.1	12.6	13.7	14.4
Overall	60.9	61.2	61.2	60.9	60.7	59.9

Source : General Household Survey, Census and Statistics Department.

## Box 5.1

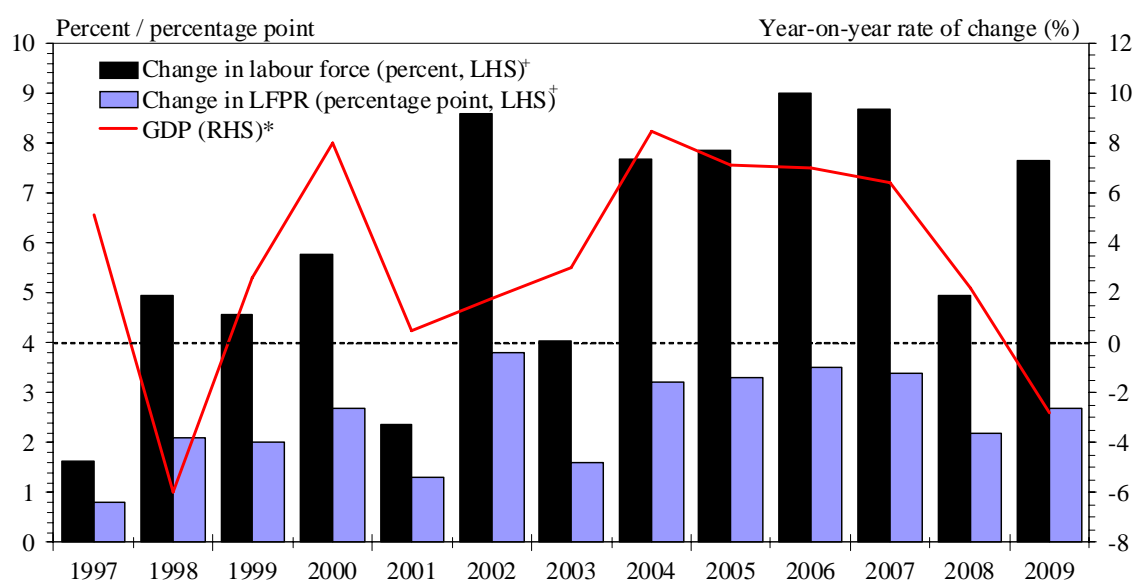
### Seasonal pattern of youth workers<sup>1</sup>

Influx of young graduates and school leavers during summer has been a regular feature of labour markets worldwide, and Hong Kong is no exception. By applying the X-12 ARIMA method to perform seasonal adjustment on the labour force data between 1997 and 2009, it is observed that labourers aged 15-24 typically posted notable seasonal upsurges between March – May and June – August, before decreasing steadily afterwards as some of these youth workers returned to school.

#### Seasonality versus cyclicality

During 1997 to 2009, the youth labour force (comprising people aged 15-24) grew by an average of 6.0% between March – May and June – August in each year (translating into an average increase of 2.5 percentage points in their labour force participation rate (LFPR)). Yet growth fluctuated widely between individual years. In particular, the growth in this particular labour segment experienced visible slowdowns during 1997 to 1999, 2001, 2003 and 2008, when the increase in LFPR was relatively tame amid the anaemic economic performance and weaker labour market conditions.

**Chart 1 : Youth labour supply typically expands during summer months**



Notes : (+) Changes in labour force and LFPR between March - May and June - August.  
(\*) GDP figures on an annual basis.

#### Labour supply versus unemployment

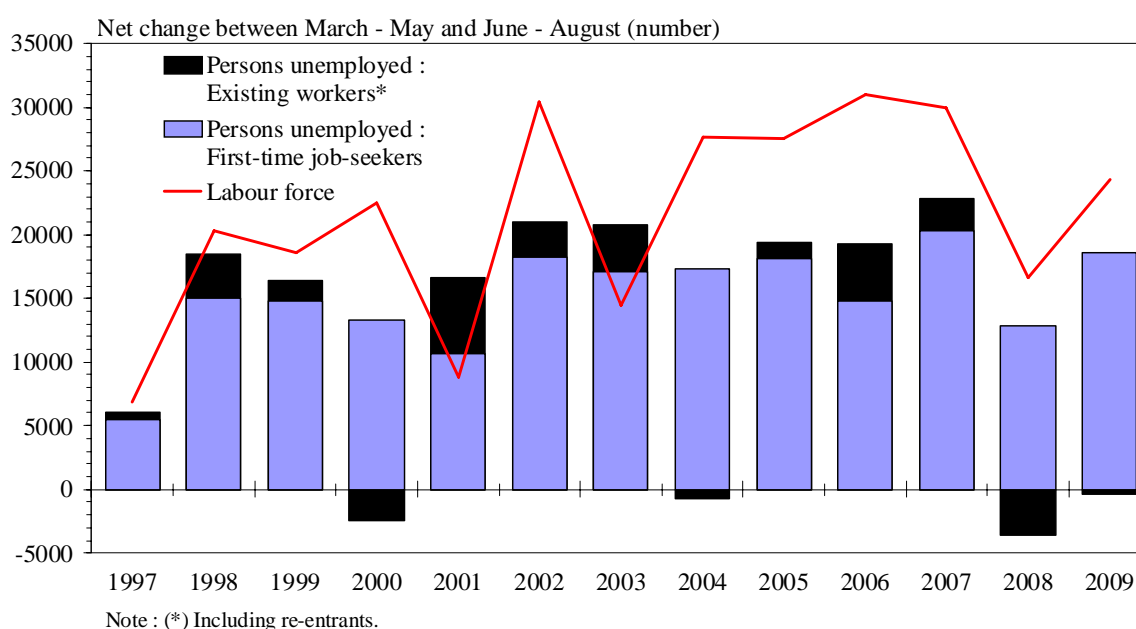
Given that these new entrants into the labour force are largely inexperienced, in terms of both on-the-job know-how and job-hunting process, it is not inconceivable that many of them would remain unemployed at least in the short term. Reflecting this, there was a high

<sup>1</sup> Youth workers are defined as those in the labour force who are aged 15-24.

### Box 5.1 (Cont'd)

correlation of 0.80 between changes in the labour force and the number of first-time job-seekers during March – May to June – August each year for persons aged 15-24. For the whole period of 1997 to 2009, the increase in first-time job-seekers between March – May and June – August on average contributed to 76.1% of the expansion in labour force for this age group. Also worthy of note was that the growth in youth labour supply would more readily translate into higher unemployment when the economy underwent cyclical downturns and job creation was slow. An estimation showed that over the period 1997-2009, the increase in the number of unemployed youth between March – May and June – August on average corresponded to 86.0% of the increase in labour force.

**Chart 2 : The increase of youth labour supply in summer largely reflected a surge in first-time job-seekers**



### Conclusion

The discussion above provides a quantitative perspective on the impact of youth workers entering the labour force during the summer months of 1997-2009. While similar seasonal effects can be expected for the coming years, the actual outturn will depend on such factors as the youth's perception of labour market conditions and the number of new jobs to be created by employers. The Government will closely monitor developments on this front.

## **Profile of unemployment**

5.7 The unemployment figures, having been generally on a downward trend since mid-2009, rose back slightly in the second quarter of 2010. On a quarter-to-quarter basis, the number of unemployed persons (not seasonally adjusted) went up by 11 200 to 171 800. The seasonally adjusted unemployment rate rose by 0.2 percentage point to 4.6%, from 4.4% in the preceding quarter. Among the major economic sectors, noticeable increases were observed in professional and business services, retail trade and manufacturing. Notwithstanding the rebound in their numbers unemployed, the professional and business services sector and the manufacturing sector had actually posted job gains during the quarter while retail trade, alongside the manufacturing sector, registered a substantial reduction in unemployment versus their peaks in 2009. In addition, the notable decreases in the numbers unemployed in the transportation sector as well as in the decoration, repair, and maintenance for buildings sector helped buffer the overall unemployment situation to some extent. Also noteworthy was a further decline in the proportion of dismissals among the unemployed persons, indicating that the recent increase in the number of job-seekers was in part due to people leaving their jobs on their own accord, conceivably in a bid for more favourable employment opportunities and conditions.

5.8 In terms of occupation categories, unemployment rose quite noticeably among associate professionals and unskilled workers, while there were decreases among plant and machine operators and, to a lesser extent, among managers and administrators as well as professionals. Regarding other attributes, persons aged 15-29 faced a general rise in unemployment rate, but the unemployment situation in other age groups was steady. In terms of education profile, the recent increase in unemployment was relatively more apparent among workers with tertiary education.



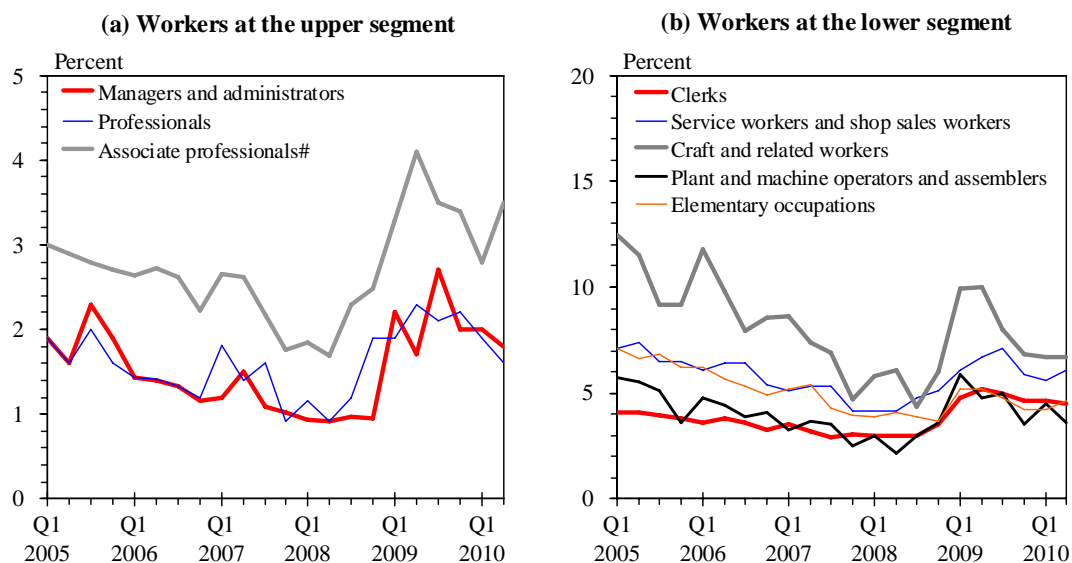
**Table 5.4 : Unemployment rate by major economic sector**

	<u>2009</u>				<u>2010</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	4.6	4.9	4.8	4.0	4.3	4.5
Retail	6.1	6.5	6.8	5.8	5.1	6.0
Accommodation and food services	7.3	8.3	8.5	7.1	6.8	6.6
Transportation, storage, postal and courier services	5.8	5.0	4.3	3.9	4.1	3.8
Information and communications	4.8	4.8	4.3	5.4	4.5	4.7
Financing, insurance, real estate, professional and business services	3.6	4.0	3.8	3.7	3.4	3.8
Public administration, social and personal services	1.8	2.0	2.4	2.0	1.8	1.9
Manufacturing	6.2	6.8	6.2	5.2	4.5	5.9
Construction	11.3	12.0	9.4	7.4	8.0	7.6
Overall	5.1 (5.1)	5.5 (5.3)	5.7 (5.4)	4.7 (5.1)	4.4 (4.4)	4.7 (4.6)

Note : ( ) Seasonally adjusted unemployment figures.

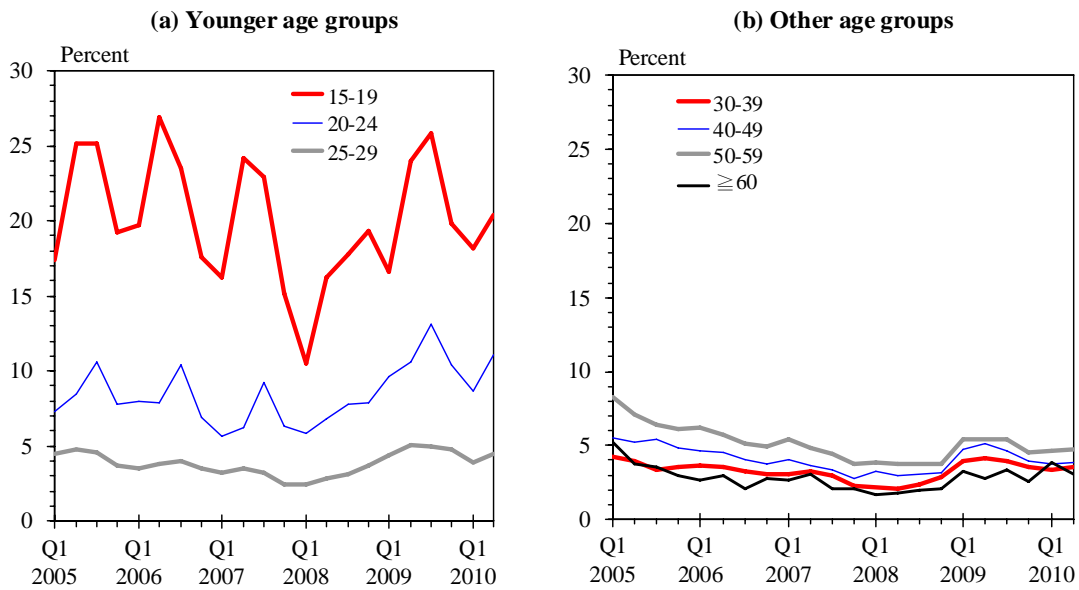
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : Mixed movements were observed in unemployment rates\* for different occupation categories**



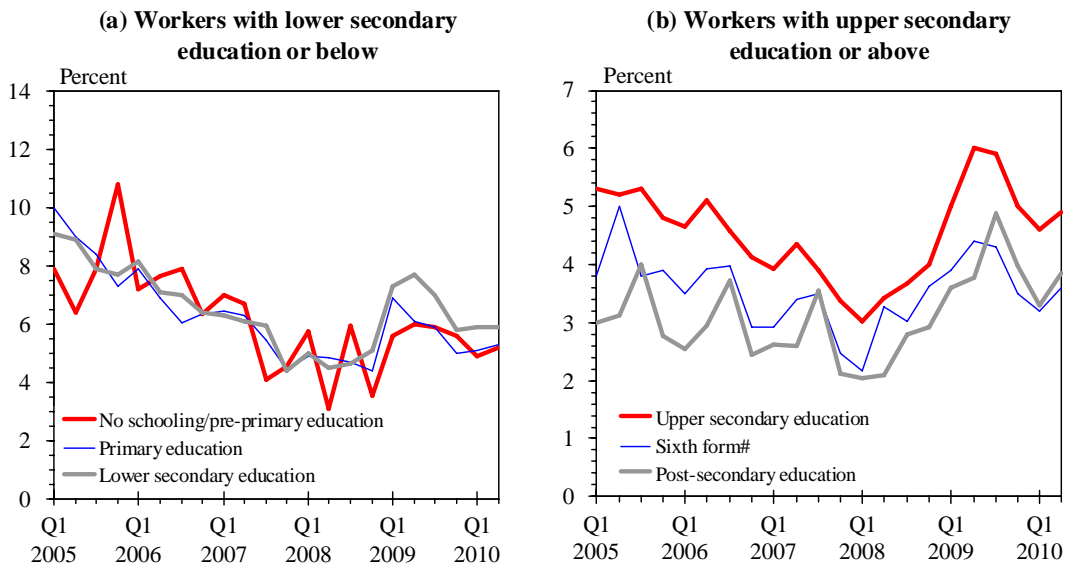
Notes : (\*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.  
(#) Including technicians and supervisors.

**Diagram 5.4 : Unemployment rate\* for younger persons aged 15-29 showed a relatively larger increase**



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

**Diagram 5.5 : More noticeable rise in unemployment rate\* was found in the upper end of the educational attainment spectrum**



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

(#) Including craft courses.

5.9 The intensity of the unemployment situation can be assessed by reference to the long-term unemployment (i.e. unemployed for six months or longer) figures. The latest data available indicated a further decrease in the number of long-term unemployed persons from 54 700 in the first quarter of 2010 to 50 400 in the second quarter. When compiled as a proportion of the labour force, the long-term unemployment rate likewise fell to 1.4%. Furthermore, the share of dismissed or laid-off workers among all the unemployed persons shrank markedly further to 55.8% in the second quarter, from 70.5% a year earlier and 62.1% in the preceding quarter. Combined with the continued high level of vacancies, this suggested that a large part of the latest rise in unemployment was frictional in nature, caused by workers leaving their employment whilst awaiting or searching for job opportunities with better offers.

### **Profile of underemployment**

5.10 The underemployment situation continued to improve, with the respective rate edging further down from 2.2% in the first quarter of 2010 to 2.0% in the second quarter. In absolute terms, the number of underemployed persons declined from 80 000 to 73 700, which was the lowest level recorded since the fourth quarter of 2008. This pointed to a progressive improvement in work intensity, along with the upturn in overall economic activity over the past one and a half years. As for the second quarter more specifically, noticeable decreases in underemployment took place mainly in the construction and transportation sectors.

## **Profile of employment in establishments**

5.11 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only after some time lag, with the latest figures referring only to March 2010. In view of this limitation, attempts have been made to bring the analysis more up-to-date, by making reference to information from supplementary sources.

5.12 The employment figures compiled from the Quarterly Survey of Employment and Vacancies and the Quarterly Employment Survey of Construction Sites revealed that total employment in private sector establishments picked up distinctly by 2.8% year-on-year in March 2010, and also rose by 0.7% on a seasonally adjusted basis from the previous all-time high recorded in December 2009. The gain in employment was broad-based, and was particularly notable in sectors like social and personal services (up 5.1% year-on-year), and financing, insurance, real estate, professional and business services (4.1%). At the same time, the decline in employment for manufacturing continued to taper to 2.5% year-on-year, from 4.4% in the preceding period. Analysed by establishment size, employment in small and medium-sized enterprises (SMEs)<sup>(5)</sup> posted a 4.8% gain in March 2010 over a year earlier, after a marginal decrease of 0.1% in December 2009. For large enterprises, employment went up by 1.0% in March 2010 over a year earlier, after a 3.0% increase in December 2009. Employment in the civil service expanded further by 0.9% year-on-year, which was in line with the pace seen over the past year or so, reflecting the continued recruitment drive undertaken by the Government.

5.13 As announced by the Financial Secretary in the 2010-11 Budget Speech, the Labour Department (LD) will launch a two-year “Pilot Employment Navigator Programme”. Under this programme, a cash incentive of \$5,000 will be payable to each person who has worked for a continuous period of three months after receiving the department’s intensive employment counselling service. The programme will provide 11 000 places a year. It is designed to address the problem of manpower mismatch, fully utilise the productivity from the labour force and encourage employment.

5.14 To step up the efforts to help young people with special employment difficulties, LD will also launch a targeted employment programme under which non-governmental organisations will provide training and internship for 12 months to young people aged 15-24 with low educational qualifications, who need special assistance because of emotional and behavioural problems or learning difficulties. The programme will provide 500 places.

**Table 5.5 : Employment by major economic sector**

	<u>2009</u>					<u>2010</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	558 700 (-4.1)	559 800 (-4.5)	554 200 (-5.3)	558 300 (-4.1)	562 600 (-2.4)	564 300 (0.8)
Retail	235 300 (-0.3)	232 000 (-0.6)	232 600 (-1.5)	236 800 (-0.4)	239 800 (1.2)	240 600 (3.7)
Accommodation and food services	241 100 (-0.2)	238 200 (*)	238 800 (-1.3)	240 200 (-2.0)	247 000 (2.6)	247 400 (3.8)
Transportation, storage, postal and courier services	158 000 (1.1)	158 000 (1.6)	156 900 (-0.1)	157 700 (0.5)	159 300 (2.2)	159 400 (0.9)
Information and communications	87 200 (-1.6)	86 100 (-0.9)	86 900 (-3.3)	87 900 (-2.2)	87 800 (0.1)	87 400 (1.5)
Financing, insurance, real estate, professional and business services	582 600 (0.9)	572 700 (-0.2)	577 500 (-0.2)	583 700 (0.3)	596 400 (3.8)	596 300 (4.1)
Social and personal services	414 600 (3.2)	407 100 (2.6)	411 600 (3.2)	417 100 (3.0)	422 700 (4.1)	427 700 (5.1)
Manufacturing	125 000 (-5.7)	125 700 (-7.0)	124 700 (-6.2)	124 700 (-5.0)	124 900 (-4.4)	122 600 (-2.5)
Construction sites (manual workers only)	50 500 (2.2)	51 900 (2.8)	48 900 (-1.2)	48 000 (-0.4)	53 200 (7.5)	53 900 (3.8)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>2 463 600 (-0.5)</i>	<i>2 442 200 (-1.0)</i>	<i>2 442 600 (-1.5)</i>	<i>2 464 900 (-1.0)</i>	<i>2 504 700 (1.4)</i>	<i>2 510 300 (2.8)</i>
		<i>&lt;-0.7&gt;</i>	<i>&lt;-0.1&gt;</i>	<i>&lt;0.9&gt;</i>	<i>&lt;1.3&gt;</i>	<i>&lt;0.7&gt;</i>
<i>Civil service<sup>(b)</sup></i>	<i>155 700 (1.1)</i>	<i>155 100 (1.1)</i>	<i>155 400 (1.1)</i>	<i>156 000 (1.1)</i>	<i>156 200 (1.2)</i>	<i>156 600 (0.9)</i>

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

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

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in Hong Kong Economic and Trade Offices 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**

5.15 Vacancies in private sector establishments surged by 65.4% year-on-year in March 2010, distinctly faster than the 7.5% growth in December 2009. Significant increases in vacancies were also observed across-the-board, including in particular information and communications (up 155.1%), manufacturing (133.9%), import/export trade and wholesale (101.0%), and financing, insurance, real estate, professional and business services (73.8%).

5.16 Analysed by occupation category, the surge in job vacancies was likewise seen across all skill levels in March 2010 over a year earlier. For the lower-skilled workers, vacancies increased markedly by 70.9% year-on-year in March 2010, after a 13.9% increase in December 2009. As for higher-skilled workers, there was an equally impressive jump of 57.4% in March 2010, reversing the 3.7% decline in December 2009. Among all the workers, upsurges in vacancies were most notable among plant and machine operators and assemblers (up 163.4%), clerks (144.7%), craft and related workers (127.1%), and managers and administrators (96.8%). In terms of establishment size, SMEs reported an 83.4% year-on-year leap in vacancies in March 2010, far outstripping the 17.4% rise in December 2009. As to large enterprises, there was also a significant rebound of 51.3% in vacancies, the first increase since mid-2008.

5.17 Comparing the number of vacancies with that of unemployed persons, the ratio improved from 20 job vacancies to 29 job vacancies per 100 job-seekers between December 2009 and March 2010. The corresponding ratio for higher-skilled jobs increased from 31 to 59, while that for lower-skilled jobs rose from 20 to 24. When expressed as a percentage of total employment opportunities, the vacancy rate for private sector establishments climbed from 1.4% in December 2009 to 1.8% in March 2010. As regards the civil service, the number of vacancies held broadly steady at 5 300 in March 2010.

**Table 5.6 : Vacancies by major economic sector**

	<u>2009</u>					<u>2010</u>	Vacancy rate in Mar 2010 (%)
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Import/export trade and wholesale	4 200 (-44.1)	3 300 (-67.1)	4 300 (-51.9)	4 500 (-37.6)	4 800 (16.5)	6 600 (101.0)	1.1
Retail	3 800 (-22.9)	2 900 (-49.6)	3 700 (-29.4)	4 200 (-22.8)	4 600 (29.7)	4 900 (68.4)	2.0
Accommodation and food services	5 400 (-2.7)	5 200 (-4.2)	4 500 (-19.2)	7 100 (31.0)	4 700 (-17.0)	6 100 (18.8)	2.4
Transportation, storage, postal and courier services	1 100 (-32.5)	1 000 (-58.2)	1 000 (-49.1)	1 100 (-28.7)	1 500 (65.4)	1 700 (70.7)	1.0
Information and communications	1 300 (-30.7)	900 (-57.8)	1 500 (-36.7)	1 400 (-37.1)	1 400 (70.9)	2 200 (155.1)	2.5
Financing, insurance, real estate, professional and business services	8 500 (-35.2)	6 800 (-58.4)	7 400 (-48.2)	11 100 (-15.3)	8 600 (0.2)	11 800 (73.8)	1.9
Social and personal services	7 800 (-25.4)	7 100 (-42.6)	8 400 (-24.2)	8 100 (-27.5)	7 700 (5.0)	11 100 (55.2)	2.5
Manufacturing	900 (-43.7)	700 (-67.1)	700 (-67.2)	1 200 (-19.2)	1 200 (10.6)	1 500 (133.9)	1.2
Construction sites (manual workers only)	# (-54.2)	# (-92.1)	# (-86.7)	# (-56.1)	# (172.7)	# (1 466.7)	0.1
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>33 200 (-29.4)</i>	<i>27 800 (-50.6)</i>	<i>31 500 (-38.9)</i>	<i>38 800 (-18.8)</i>	<i>34 600 (7.5)</i>	<i>46 000 (65.4)</i>	<i>1.8</i>
		<-26.8>	<19.8>	<14.2>	<7.1>	<13.3>	
<i>Civil service<sup>(b)</sup></i>	<i>5 200 (-10.2)</i>	<i>5 300 (-3.8)</i>	<i>5 200 (-15.8)</i>	<i>5 000 (-9.7)</i>	<i>5 200 (-10.8)</i>	<i>5 300 (0.9)</i>	<i>3.3</i>

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

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

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

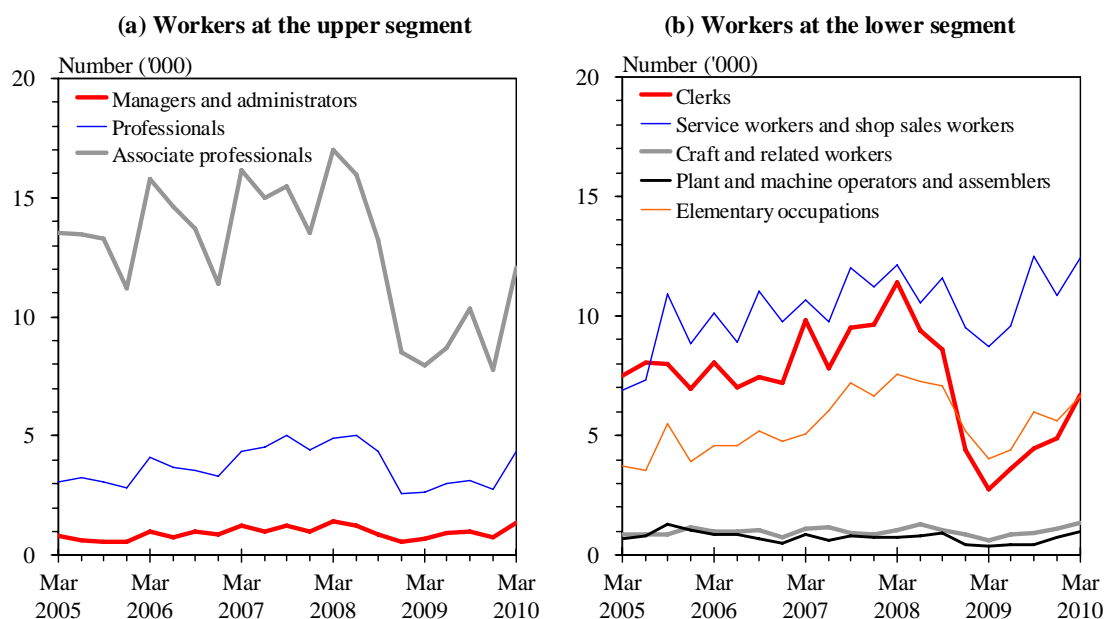
( ) % change over a year earlier.

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

(#) Less than 50.

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

**Diagram 5.6 : An across-the-board surge in vacancies was observed  
for workers with different skill levels**



5.18 The vacancy figures compiled by the LD, notwithstanding its smaller sample size, may provide some clue to the more recent trend in the job market. In June 2010, the number of private sector job vacancies posted by the department was about 61 300, a 33.3% jump over a year earlier. On a quarter-to-quarter comparison, the average number of private sector job vacancies in the second quarter was also up by 17.4%.



## Wages and earnings

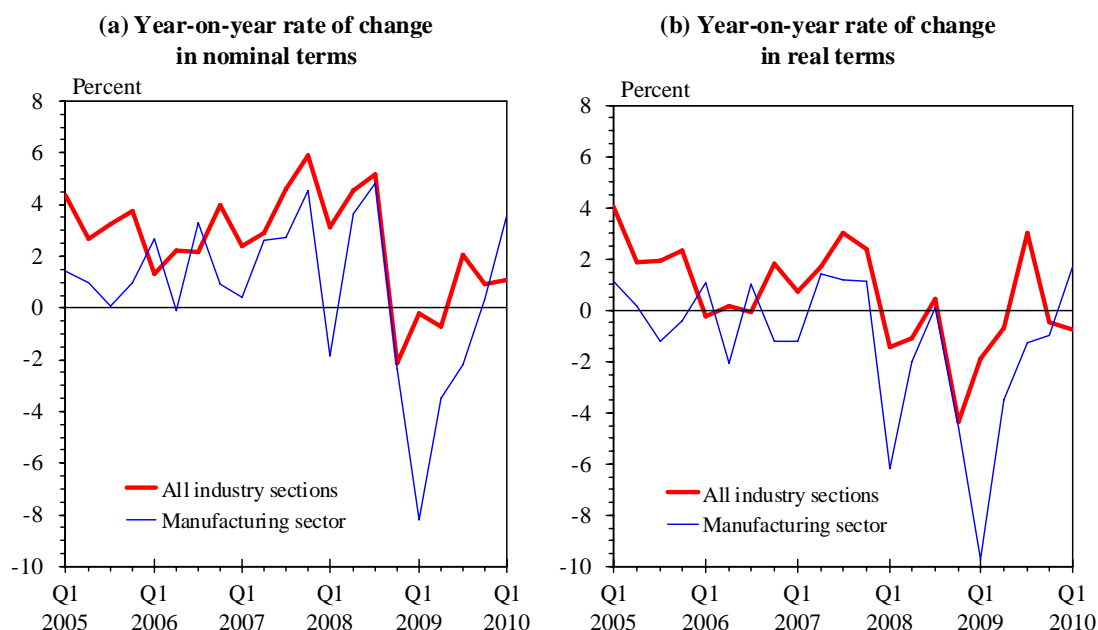
5.19 The progressive improvement in the labour market conditions has gradually trickled down and translated into a general rise-back in employment earnings. *Labour wages*, which measure regular payments to employees at the supervisory level or below, picked up distinctly to a 1.9% year-on-year increase in March 2010, accelerating from the 0.8% gain in December 2009. After discounting price change<sup>(6)</sup>, wages in March 2010 were slightly lower by 0.6% from a year earlier, but the decline was narrower than that of 0.8% in December 2009.

5.20 The rise in wages was across-the-board among all major occupation categories. In terms of economic sectors, more notable wage increases were found in financial and insurance activities (up 3.9% as against 2.1% in December 2009); professional and business services (up 3.1% as against 2.2%); and personal services (up 3.4% as against a 0.1% fall).

5.21 *Labour earnings*<sup>(7)</sup>, as measured by payroll per person engaged in private sector, remained steadily on the increase, by another 1.1% in the first quarter of 2010 over a year earlier. On a seasonally adjusted quarter-to-quarter basis, the increase was 0.1%, reversing the decline of 2.3% in the preceding quarter. After discounting the price effect, the decrease was 0.7% on a year-on-year comparison. The corresponding decline on a seasonally adjusted quarter-to-quarter basis was also 0.7%, which nevertheless was distinctly improved from the 4.2% fall in the previous quarter.

5.22 Analysed by economic sector, labour earnings picked up across most major segments in the first quarter of 2010, although the magnitudes of improvement varied in accordance with the manpower demand and supply conditions of the sectors concerned. During the quarter, earnings in most sectors either reversed their earlier declining trend, including financial and insurance activities (up 4.7% year-on-year); import/export trade (1.3%); and retail trade (1.2%), or witnessed a further acceleration in growth such as electricity and gas supply (up 8.3%); information and communications (5.2%); and accommodation and food services (4.4%). On the other hand, downward pressures on earnings remained in a few sectors, including waste management and remediation activities (down 4.3%), and social and personal services (3.0%).

**Diagram 5.7 : Uptrend in nominal payroll remained intact on entering 2010**



5.23 More recent data from the General Household Survey, whilst not strictly comparable to those from the business establishment surveys, indicated that the average monthly employment earnings<sup>(8)</sup> (excluding foreign domestic helpers) for the local workforce rose by 3.2% in the second quarter of 2010 over a year earlier, following a 10.0% increase in the first quarter which was boosted by discretionary payments in some sectors and also the low comparison base a year earlier. Earnings for higher-skilled workers rose by 5.0% in the second quarter, following a 16.7% surge in the previous quarter. Yet the pay increases among these employees in the two periods were much more in line after adjusting for the effect of discretionary payments. As to the lower-skilled workers, their pay hikes were steadier, at 2.2% and 1.8% respectively in the two periods.

## 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 among 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 X-11 ARIMA method, has now been a standard method used by statistical offices for performing seasonal adjustment of statistical series in many countries/territories. Since the two seasonal adjustment methods are indeed very similar, the revision made to the seasonally adjusted unemployment rate series due to the use of the new method is insignificant.

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

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

- (3) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.

- (5) 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 and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (6) 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.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) 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

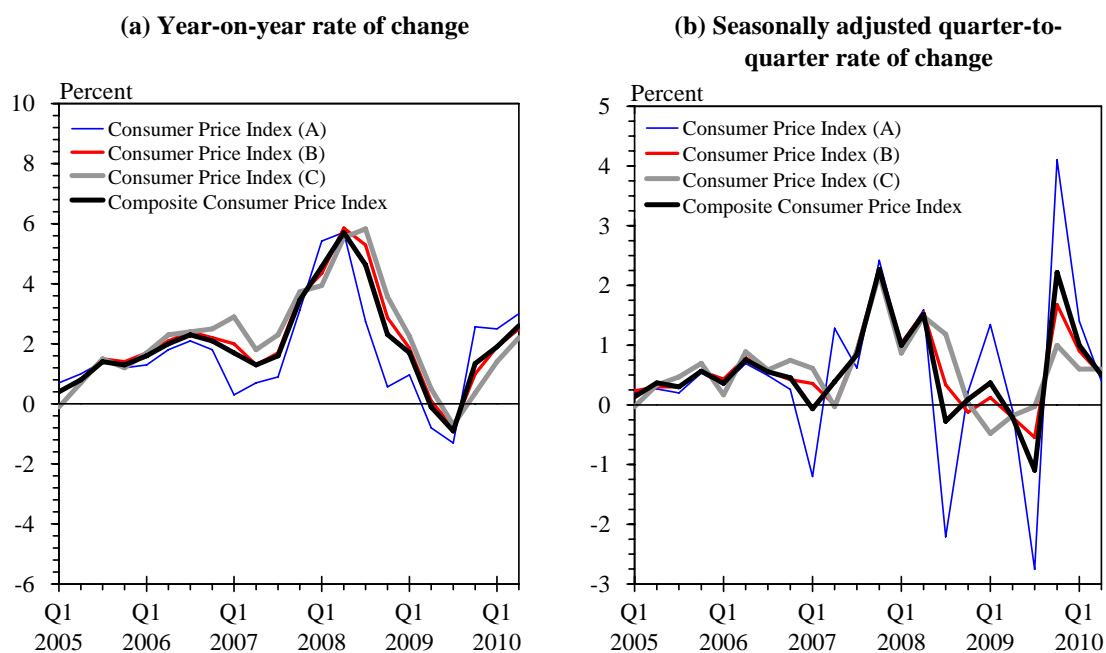
### *Summary*

- *The economy experienced a moderate climb-up in inflationary pressure in the second quarter of 2010, amid a sustained strong revival in activities. The headline Composite Consumer Price Index rose faster, by 2.6% in the second quarter over a year earlier. Part of such faster increase was nevertheless due to a distinctly low base caused by the significant loading of Government relief measures in the second quarter of 2009. After netting out the effects of the Government's one-off relief measures, underlying inflation as a more accurate indicator of the inflation trend picked up only modestly, from 0.8% in the first quarter to 1.5% in the second quarter.*
- *Wages and salaries resumed modest increases, while rentals for retail premises and offices advanced further. Yet both labour and rental costs remained largely commensurate when matched against the concurrent brisk growth in business volume and in labour productivity.*
- *Import prices in overall terms rose quite notably in the second quarter, adding inflationary pressure from the external front. The faster year-on-year increase again reflected partly the lower base of comparison a year earlier but the trend of higher prices for raw materials and fuels in the world markets was still evident. Import prices of foodstuffs and consumer goods also accelerated moderately.*

### **Consumer prices**

6.1 Headline consumer price inflation, as measured by the year-on-year rise in the headline *Composite Consumer Price Index*<sup>(1)</sup> (Composite CPI), notched up further from 1.9% in the first quarter to 2.6% in the second quarter. Netting out the effects of the Government's one-off relief measures to give a more accurate indicator of the inflation trend, underlying consumer price inflation, as measured by the year-on-year increase in the underlying Composite CPI, notched up from 0.8% in the first quarter to 1.5% in the second quarter. The effect of the electricity charge subsidy, which faded out progressively, largely accounted for the difference between the headline and underlying inflation rates. The higher inflationary pressure in the second quarter took place under the backdrop of the increasingly entrenched recovery of the local economy and a vibrant consumption market. Moreover, the robust performance of Asian economies also contributed to somewhat stronger price pressure in the region<sup>(2)</sup>.

**Diagram 6.1 : Inflationary pressures edged up further in the second quarter of 2010**



**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>			
2009	Annual	1.0	0.5	0.4	0.5	0.6
	H1	2.1	0.8	0.1	1.0	1.4
	H2	-0.2	0.2	0.6	0.1	-0.1
	Q1	3.1 (-0.1)	1.7 (0.4)	1.0 (1.3)	1.9 (0.1)	2.2 (-0.5)
	Q2	1.2 (-0.3)	-0.1 (-0.2)	-0.8 (-0.1)	0.1 (-0.2)	0.5 (-0.2)
	Q3	-0.3 (-0.2)	-0.9 (-1.1)	-1.3 (-2.8)	-0.8 (-0.5)	-0.7 (*)
	Q4	-0.1 (0.5)	1.3 (2.2)	2.6 (4.1)	1.0 (1.7)	0.4 (1.0)
2010	H1	1.2	2.2	2.8	2.2	1.8
	Q1	0.8 (0.7)	1.9 (1.0)	2.5 (1.4)	1.9 (0.9)	1.4 (0.6)
	Q2	1.5 (0.5)	2.6 (0.5)	3.0 (0.4)	2.5 (0.5)	2.2 (0.6)

Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension of Employees Retraining Levy, and subsidies for household electricity charges.

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

(\*) Change of less than 0.05%.

6.2 On a year-on-year comparison, most major components of the underlying Composite CPI recorded price increases. Food prices showed a larger increase, partly due to the general uptrend in international prices, as well as the adverse weather conditions in some import sources of basic foodstuffs. Prices of miscellaneous services also showed a faster increase, mainly driven by higher prices for package tours, as well as other entertainment and holiday expenses. Private housing cost resumed a marginal increase, reflecting the gradual feed-through from the continued increase in market rentals after the first quarter of 2009. The faster increases in the prices of the transport component and the component of electricity, gas and water were due mainly to higher utility and fuel prices. In contrast, the increase in the prices of alcoholic drinks and tobacco tapered notably from the earlier surge arising from higher duty on cigarettes. Meanwhile, the secular downtrend of prices for durable goods continued.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2009</u>				<u>2010</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	26.94	4.6	1.5	-0.5	-0.3	1.1	2.0
<i>Meals bought away from home</i>	16.86	3.4	1.7	0.7	0.6	0.8	1.4
<i>Other foodstuffs</i>	10.08	6.5	1.2	-2.3	-1.5	1.5	2.8
Housing <sup>(a)</sup>	29.17	6.6	4.5	1.7	1.9	-0.1	0.3
		(6.6)	(4.1)	(1.4)	(-0.2)	(-0.4)	(0.2)
<i>Private dwellings</i>	23.93	7.7	5.1	2.0	0.0	0.0	0.4
		(7.7)	(4.7)	(1.6)	(-0.4)	(-0.4)	(0.4)
<i>Public dwellings</i>	2.49	-0.2	0.6	-7.0	45.4	0.6	-0.3
		(0.2)	(0.2)	(0.2)	(0.0)	(0.0)	(-0.2)
Electricity, gas and water	3.59	-42.7	-42.7	-26.1	32.3	61.1	64.0
		(-8.1)	(-8.2)	(-7.3)	(-2.9)	(5.3)	(6.4)
Alcoholic drinks and tobacco	0.87	7.6	22.6	22.9	22.0	13.1	0.8
Clothing and footwear	3.91	1.8	2.5	2.6	3.7	1.4	2.0
Durable goods	5.50	-2.9	-3.3	-3.1	-2.8	-1.7	-1.6
Miscellaneous goods	4.78	3.2	2.3	1.7	1.9	2.0	2.3
Transport	9.09	0.7	-0.7	-2.4	-1.0	1.1	1.7
Miscellaneous services	16.15	-1.7	-3.0	-2.8	-0.7	0.5	2.1
		(-1.1)	(-2.3)	(-2.1)	(-0.1)	(1.1)	(2.5)
All items	100.00	1.7	-0.1	-0.9	1.3	1.9	2.6
		(3.1)	(1.2)	(-0.3)	(-0.1)	(0.8)	(1.5)

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.

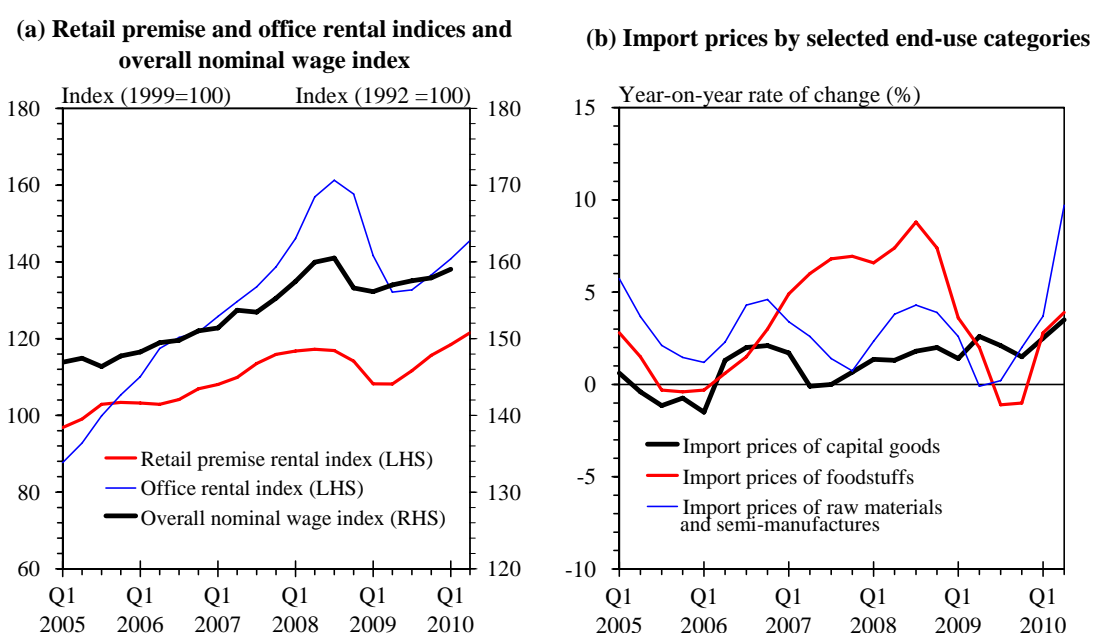
( ) Underlying rate of change after netting out the effect of Government's one-off relief measures.



## Costs of factor inputs and import prices

6.3 Wages and salaries rose modestly further in the first quarter of 2010, after resuming slight increases in the final quarter of last year. In the second quarter, rents of both retail premises and offices also picked up further. Nonetheless, the pressures on business costs arising from higher wages and rentals should still be largely contained on a unit cost basis, judging from the fast pace of expansion in business volume as well as productivity growth across many sectors in the second quarter.

**Diagram 6.2 : Local cost pressures increased slightly but still remained contained, while import prices picked up further**



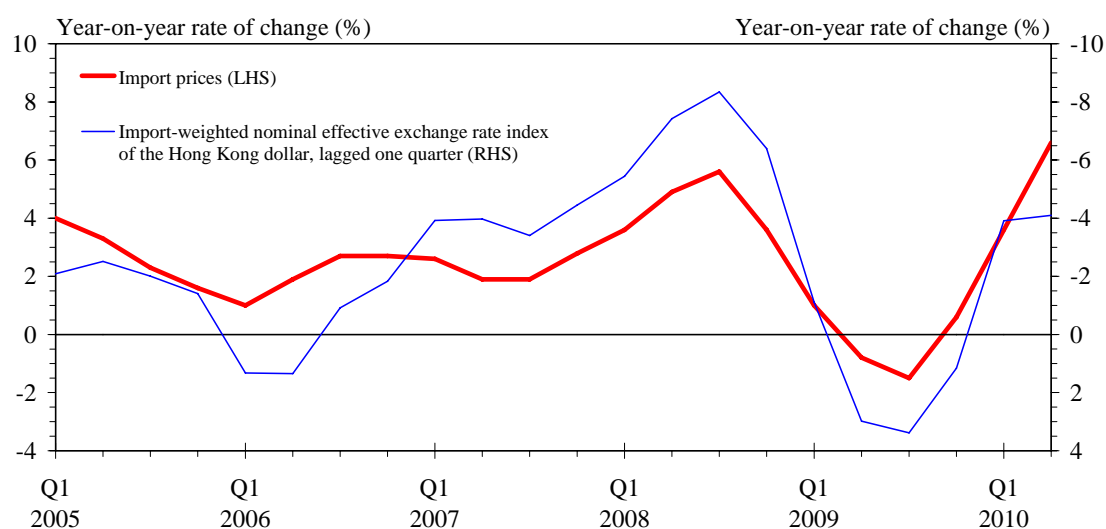
6.4 On the external front, import prices increased by 6.6% in the second quarter over a year earlier, faster than the 3.6% increase in the first quarter. Import prices of most major end-use categories saw larger year-on-year increases in the second quarter, particularly those of raw materials. This was conceivably due to the robust performance of the Asian economies, exerting stronger price pressures on raw materials on a region-wide basis. Import prices of consumer goods and foodstuffs accelerated moderately, partly reflecting the weaker Hong Kong dollar and partly higher global food prices. Meanwhile, import prices of fuels continued to increase markedly in the second quarter, when compared against the low base of comparison in the same period last year (*Box 6.1*).

**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>
2009	Annual	0.9	-0.2	1.2	-32.1	2.0	-0.1
	H1	2.8	1.7	1.1	-41.5	2.1	*
	H2	-1.0	-1.9	1.1	-23.1	1.8	-0.5
	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
	Q3	-1.1	-2.1	0.2	-37.6	2.1	-1.5
	Q4	-1.0	-1.8	2.0	-3.6	1.5	0.6
2010	H1	3.4	2.4	7.0	35.0	3.0	5.2
	Q1	2.8	1.1	3.7	42.8	2.5	3.6
	Q2	3.9	3.7	9.7	27.7	3.5	6.6

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

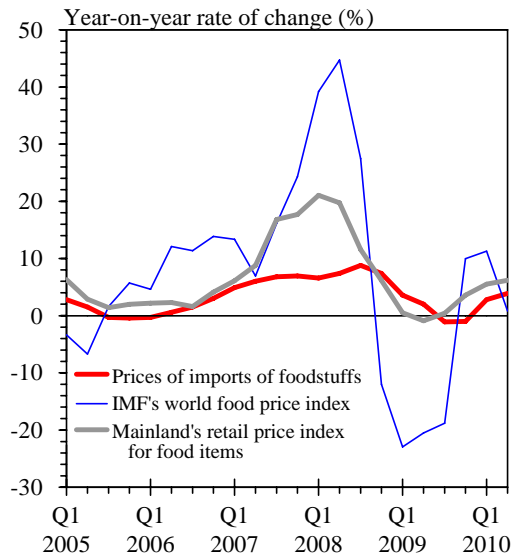
**Diagram 6.3 : Import prices rose faster in the second quarter, partly due to a weaker Hong Kong dollar**



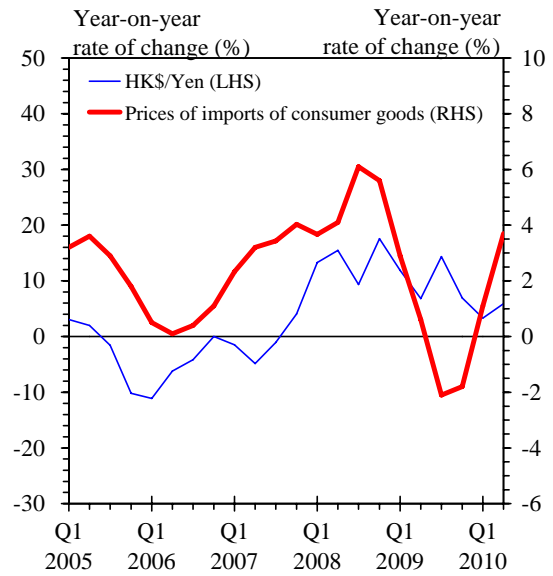
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**Diagram 6.4 : Import prices by end-use categories**

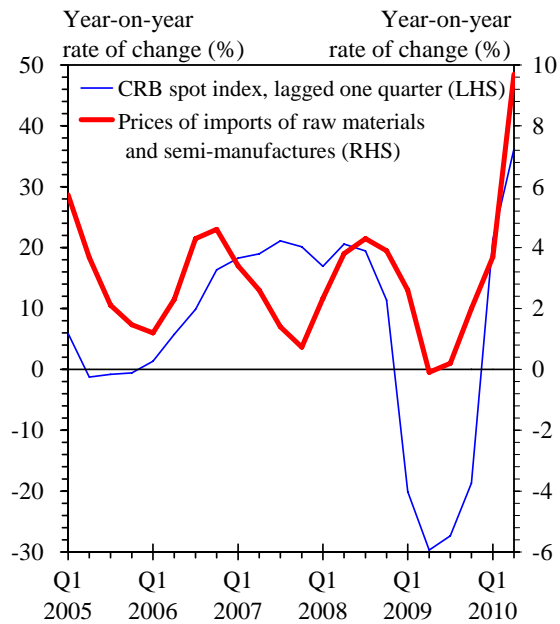
**(a) Import prices of foodstuffs increased further along with world food prices**



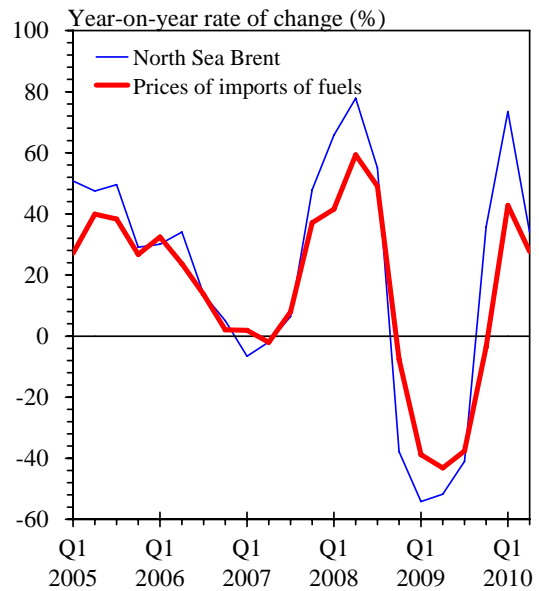
**(b) Import prices of consumer goods picked up moderately**



**(c) Import prices of raw materials went up notably**



**(d) Fuel prices were distinctly higher than the low base a year earlier, but still markedly below the 2008 peaks**



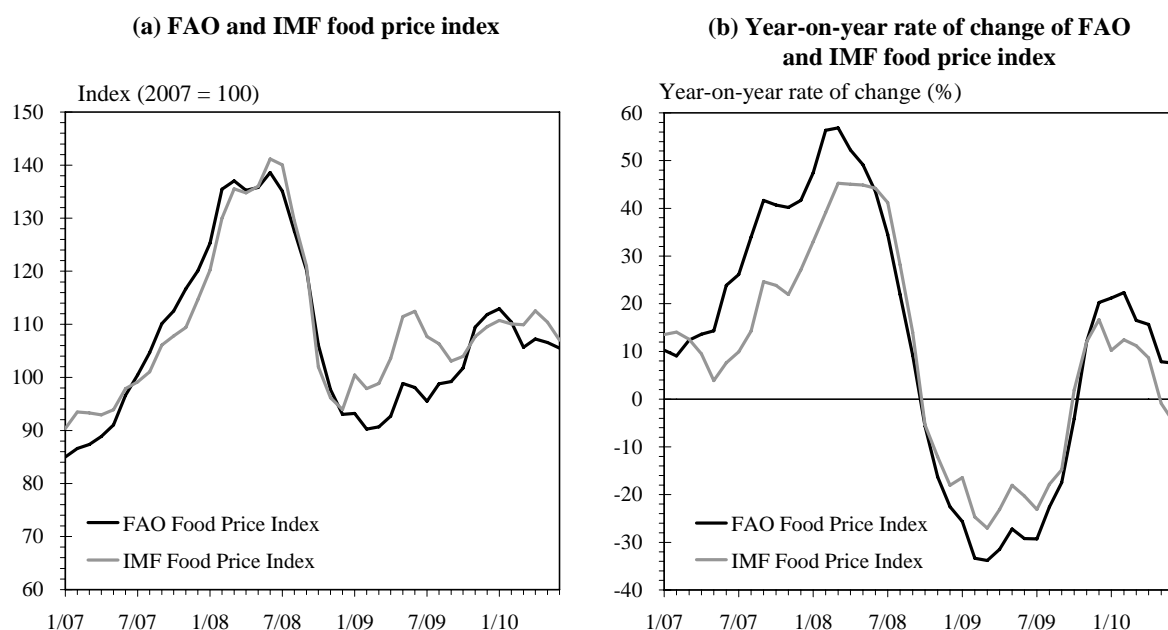
## Box 6.1

### Recent movements of global food and fuel prices

With the global economy struck by the “Great Recession” in 2008-09 followed by the subsequent recovery, global food and fuel prices also showed much volatility over the period. Given that the movements of these prices bear implications on the relevant consumer prices in Hong Kong, a survey on their recent movements can be indicative of the likely price pressure in Hong Kong from these sources in the near term.

**Charts 1(a) and (b)** illustrate the movements of global food prices since January 2007, as indicated by the relevant indices compiled by the International Monetary Fund (IMF) and the Food and Agriculture Organization of the United Nations (FAO). Food prices rose sharply during 2007 and the first half of 2008 upon a spate of supply and demand factors (see **Box 6.1 of Half-yearly Quarter Economic Report 2008**), but retreated to levels comparable to that in early 2007 towards end-2008 as the global financial crisis struck. Then, as the free-fall in the global economy was arrested in early 2009, food prices began to bottom out. Since then, global food prices rebounded notably amid some fluctuations over the course of 2009, alongside the global recovery. However, global food prices turned more stable on entering 2010. As in June 2010, global food prices were still around 24% lower than the peak in mid-2008. According to the FAO<sup>(1)</sup>, the main contributory factor for the relatively stable global food prices in overall terms in recent months was from the supply side, as the earlier rally in prices spurred agricultural production, resulting in a recovery in inventories. Yet due to successive rise-back during 2009, in the first half of 2010 global food prices were on average around 15% higher than in the same period last year.

**Chart 1: After the rally of food prices, the international food market slowly returned to balance since late-2009**



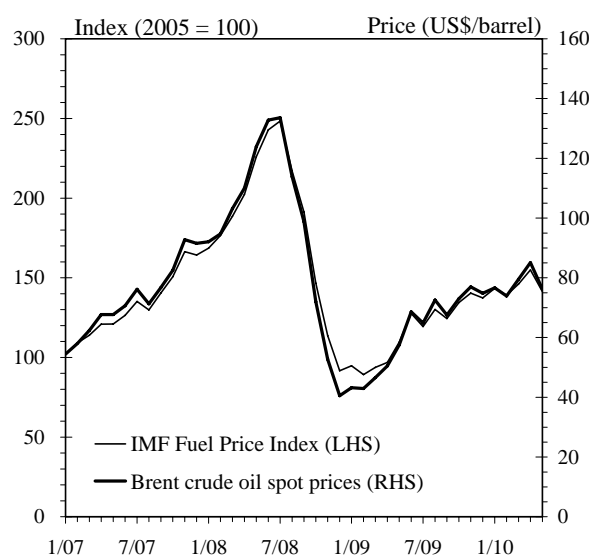
(1) Food Outlook, Global Market Analysis (June 2010 issue), FAO

### Box 6.1 (Cont'd)

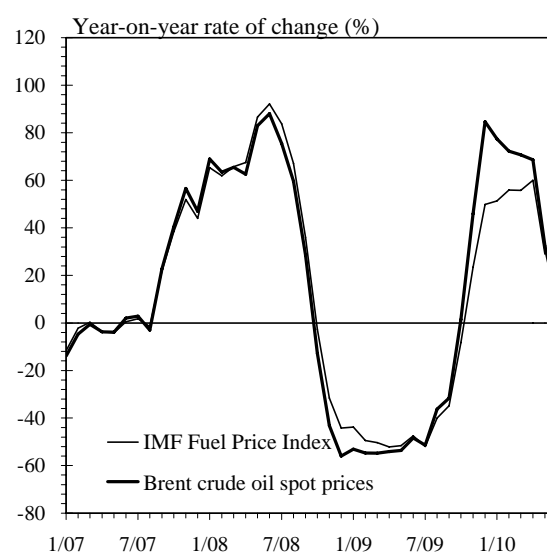
The movements of fuel prices in the international markets showed a similar pattern in recent years, as shown in **Charts 2(a) and (b)**. For example, Brent crude oil price, after reaching the historical peak in July 2008, averaging at around US\$134 per barrel in that month, it experienced a sharp decline of over 70% towards the end of 2008 amid the global financial crisis. After languishing at around US\$40 per barrel in late 2008 and early 2009, it rose back and moved within a narrow range of around US\$70-80 per barrel in the past several months. The gradual recovery in industrial production activities and the general improvement in financial market sentiments since the second quarter of 2009 were the factors driving the bounce-back in crude oil prices.

**Chart 2: Fuel prices bottomed out since early 2009, mainly the result of recovery of industrial production and improved market sentiments**

**(a) IMF fuel price index and Brent crude oil spot prices**



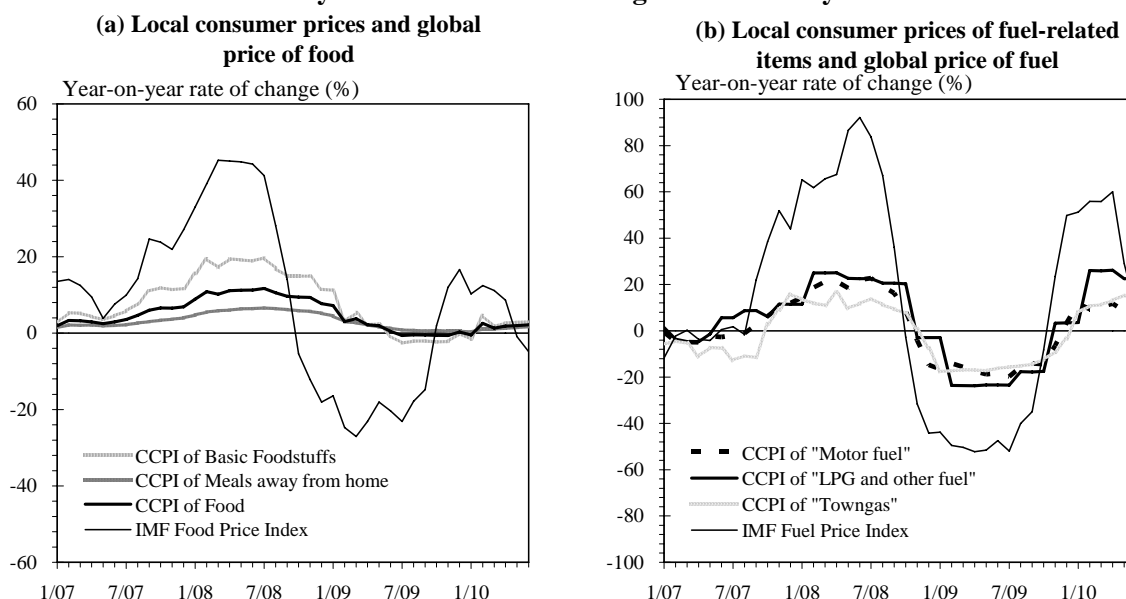
**(b) Year-on-year rate of change of IMF fuel price index and Brent crude oil spot prices**



### Box 6.1 (Cont'd)

As shown in **Charts 3(a) and (b)**, local retail prices of both food and fuel-related items generally moved broadly in line with their counterparts in the global markets, though with a notably smaller degree of volatility. This is because local retail prices also depend on such factors as local wage, rental and other business cost movements.

**Chart 3: The movements of local retail prices of food and oil-related products generally followed the movements of global food and oil prices, yet with a much lower degree of volatility**



Generally speaking, because food items account for a large share of household spending, large fluctuations in food prices can have a rather noticeable impact on local consumer price inflation, as in 2007 and 2008. By contrast, oil-related items account for only a small share of household spending. This, together with the fact that Hong Kong is not an oil-dependent economy, suggests that local consumer price inflation is less susceptible to oil price fluctuations. Although global food and oil prices have held relative stable in overall terms in recent months, they can turn more volatile in the period ahead, considering the high degree of uncertainty surrounding the global economic outlook and the volatile nature of these prices. In case of food prices, the adverse weather conditions and exchange rate movements in the key supplier economies can also cause upward price pressures. Therefore the upside risk to local consumer price inflation from these sources need to be monitored closely.

## Output prices

6.5 Output prices, measured by *Producer Price Indices*<sup>(3)</sup>, rose in most sectors in the first quarter of 2010. Prices of local manufacturing output reversed to an increase, reflecting the recovery in demand from overseas markets. Prices of air and maritime transport rebounded notably amidst the normalization of global trade flows. Prices of accommodation services also resumed a year-on-year increase, supported by the robust expansion of inbound tourism. The fall in prices of telecommunication services persisted, in tandem with the keen competition in the industry and the sustained productivity growth.

**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>2009</u>					<u>2010</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u> <sup>@</sup>
Manufacturing	-1.7	-1.4	-3.0	-2.0	-0.3	4.0
Selected services sector <sup>(a)</sup>						
Accommodation services	-8.1	-7.0	-10.8	-10.5	-4.3	4.4
Land transport	-1.0	-0.6	-1.5	-2.0	0.2	0.1
Maritime transport	-16.2	-12.7	-21.0	-20.8	-10.5	13.0
Air transport	-8.7	-10.3	-13.6	-15.2	4.7	13.9
Telecommunications	-2.5	-2.5	-2.8	-2.5	-2.0	-2.3
Courier services	2.0	2.1	1.9	1.9	2.1	1.6

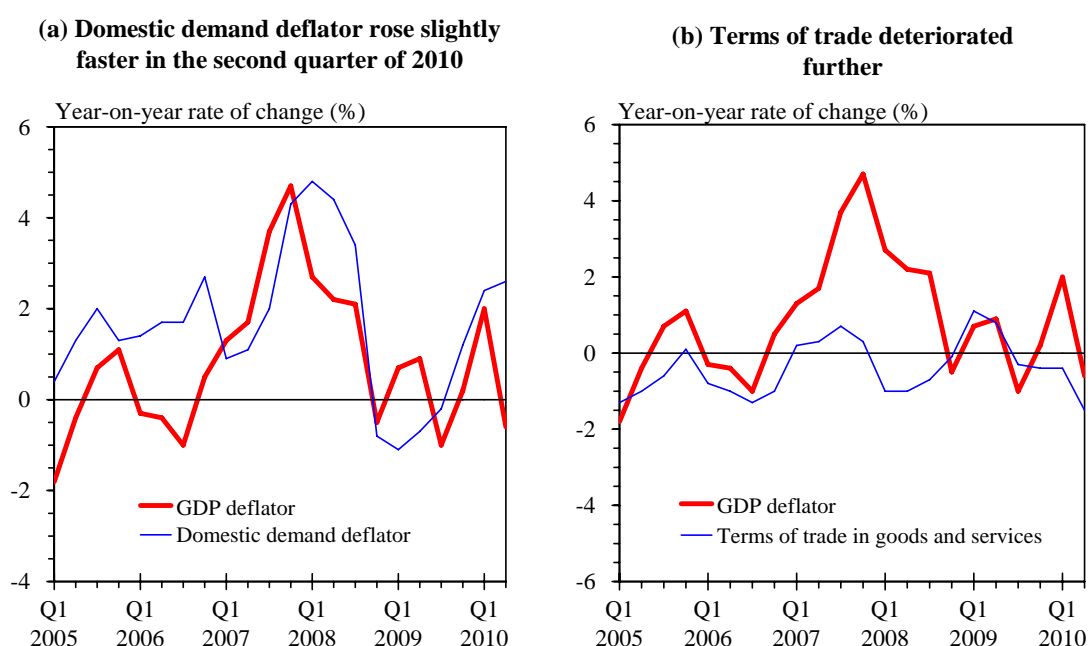
Notes : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

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

## GDP deflator

6.6 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> dropped by 0.6% in the second quarter of 2010 from a year earlier, after a 2.0% increase in the previous quarter. This was due to the further deterioration in the *terms of trade*<sup>(5)</sup>, a dominant item in the GDP deflator, with import prices rising faster than export prices. Taking out the external components, the domestic demand deflator increased by 2.6% over a year earlier in the second quarter, slightly faster than the 2.4% increase in the first quarter.

**Diagram 6.5 : GDP deflator**





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

		<u>2009</u>				<u>2010</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	-1.5	-1.1	-2.2	-2.5	*	0.1	-0.2
Government consumption expenditure	0.1	3.3	-0.9	-1.6	-0.6	-0.9	-0.1
Gross domestic fixed capital formation	3.9	-2.6	4.5	7.9	5.0	11.1	11.3
Total exports of goods	0.5	1.8	0.1	-0.9	0.9	2.8	4.1
Imports of goods	-1.3	-0.8	-2.3	-2.1	-0.1	3.9	7.1
Exports of services	-7.0	-7.6	-9.8	-8.4	-2.9	7.9	10.2
Imports of services	-2.5	-6.2	-6.0	-3.3	5.2	7.3	4.9
<b>Gross Domestic Product</b>	0.2	0.7 <0.2>	0.9 <0.2>	-1.0 <-0.6>	0.2 <0.4>	2.0 <2.0>	-0.6 <-2.4>
Total final demand	-0.9	-0.6	-1.5	-1.9	0.4	3.4	4.4
Domestic demand	-0.2	-1.1	-0.7	-0.2	1.2	2.4	2.6

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

(#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter rate of change.

(\*) Change of less than 0.05%.

## Notes :

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

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

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

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

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

- (2) The table below presents the year-on-year rates of consumer price inflation in selected economies.

	<u>2009</u>		<u>2010</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>
Selected developed economies						
US	-0.4	2.4	1.8	2.2	2.0	1.1
Canada	0.3	1.6	1.4	1.8	1.4	1.0
EU	1.0	1.7	2.0	2.1	2.0	1.9
Japan	-1.4	-1.2	-0.9	-1.2	-0.9	-0.7
Major emerging economies						
Mainland China	-0.7	2.2	2.9	2.8	3.1	2.9
Russia	11.7	7.2	5.9	6.1	6.0	5.8
India	10.9	15.3	13.7	13.3	13.9	13.7
Brazil	4.9	4.9	5.1	5.3	5.2	4.8
Selected Asian economies						
Hong Kong	0.5	1.9	2.6	2.4	2.5	2.8
Singapore	0.6	0.9	3.1	3.2	3.2	2.7
Taiwan	-0.9	1.3	1.1	1.3	0.7	1.2
South Korea	2.8	2.7	2.6	2.6	2.7	2.6
Malaysia	0.6	1.3	1.6	1.5	1.6	1.7
Thailand	-0.8	3.7	3.2	2.9	3.4	3.3
Indonesia	4.8	3.7	4.4	3.9	4.2	5.0
Philippines	3.2	4.3	4.2	4.4	4.3	3.9
Vietnam	6.7	8.5	9.0	9.2	9.1	8.7
Macao	1.2	1.5	2.7	2.6	2.8	2.7

- (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)**

	(\$Mn)					
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Private consumption expenditure	777,141	782,984	748,402	719,873	767,923	804,936
Government consumption expenditure	120,172	128,866	131,291	130,151	127,327	121,435
Gross domestic fixed capital formation	347,375	333,044	286,025	261,576	275,034	289,170
<i>of which:</i>						
Building and construction	155,441	142,659	131,757	116,628	107,692	105,993
Machinery, equipment and computer software	180,204	180,011	144,832	136,537	150,545	163,287
Changes in inventories	14,399	-4,060	5,660	9,111	7,076	-4,761
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091
Exports of services	315,012	320,799	347,836	362,420	429,584	495,394
Imports of services	192,427	194,180	202,494	203,400	242,507	264,237
<b>GDP</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>	<b>1,382,590</b>
<i>Per capita GDP (\$)</i>	<i>197,697</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>	<i>202,928</i>
<b>GNP</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>	<b>1,384,238</b>
<i>Per capita GNP (\$)</i>	<i>199,010</i>	<i>197,751</i>	<i>190,235</i>	<i>187,682</i>	<i>193,902</i>	<i>203,170</i>
Total final demand	3,146,788	3,042,620	3,081,335	3,232,220	3,633,975	3,957,918
Total final demand excluding re-exports <sup>(a)</sup>	2,048,719	1,983,301	1,923,623	1,896,483	2,062,142	2,212,697
Domestic demand	1,259,087	1,240,834	1,171,378	1,120,711	1,177,360	1,210,780
Private	1,078,515	1,053,973	986,542	939,104	1,001,588	1,048,026
Public	180,572	186,861	184,836	181,607	175,772	162,754
External demand	1,887,701	1,801,786	1,909,957	2,111,509	2,456,615	2,747,138

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>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u> Q3 <sup>#</sup>	<u>2009</u> Q4 <sup>#</sup>	<u>2010</u> Q1 <sup>#</sup>	<u>2010</u> Q2 <sup>#</sup>
Private consumption expenditure	863,591	972,028	1,022,678	1,004,235	248,196	265,940	251,841	266,374
Government consumption expenditure	123,033	130,404	139,374	142,784	35,328	36,034	38,574	34,646
Gross domestic fixed capital formation	322,691	325,366	334,195	340,861	95,312	89,429	91,335	102,781
<i>of which:</i>								
Building and construction	106,268	111,776	127,305	129,781	32,489	32,973	33,135	38,529
Machinery, equipment and computer software	199,631	189,093	182,039	186,842	54,716	48,789	50,165	55,341
Changes in inventories	-2,129	12,841	8,394	27,618	15,560	21,917	26,037	14,620
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	657,215	706,434	640,479	773,959
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	723,129	774,627	728,114	871,130
Exports of services	565,054	660,728	717,249	669,015	177,720	195,042	192,761	186,411
Imports of services	287,900	332,240	366,484	344,009	91,686	94,536	92,599	94,196
<b>GDP</b>	<b>1,475,357</b>	<b>1,615,455</b>	<b>1,675,315</b>	<b>1,632,284</b>	<b>414,516</b>	<b>445,633</b>	<b>420,314</b>	<b>413,465</b>
<i>Per capita GDP (\$)</i>	<i>215,158</i>	<i>233,248</i>	<i>240,096</i>	<i>233,060</i>	--	--	--	--
<b>GNP</b>	<b>1,502,705</b>	<b>1,659,892</b>	<b>1,758,621</b>	<b>1,681,676</b>	<b>423,622</b>	<b>455,800</b>	<b>445,933</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>219,146</i>	<i>239,664</i>	<i>252,034</i>	<i>240,113</i>	--	--	--	--
Total final demand	4,339,597	4,800,217	5,065,888	4,679,259	1,229,331	1,314,796	1,241,027	1,378,791
Total final demand excluding re-exports <sup>(a)</sup>	2,406,861	2,660,027	2,803,500	2,669,625	698,374	745,019	723,069	754,924
Domestic demand	1,307,186	1,440,639	1,504,641	1,515,498	394,396	413,320	407,787	418,421
Private	1,149,285	1,278,479	1,329,413	1,331,803	349,388	366,321	354,751	371,409
Public	157,901	162,160	175,228	183,695	45,008	46,999	53,036	47,012
External demand	3,032,411	3,359,578	3,561,247	3,163,761	834,935	901,476	833,240	960,370

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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Private consumption expenditure	5.1	1.8	-0.9	-1.3	7.0	3.0
Government consumption expenditure	2.0	6.0	2.4	1.8	0.7	-3.2
Gross domestic fixed capital formation	7.9	2.6	-4.7	0.9	2.5	4.1
<i>of which:</i>						
Building and construction	-7.9	-1.1	-1.3	-5.4	-10.7	-7.6
Machinery, equipment and computer software	27.3	6.2	-7.6	7.0	10.3	12.8
Total exports of goods	16.9	-3.3	8.6	14.0	14.9	10.4
Imports of goods	18.4	-1.9	7.9	13.1	13.7	8.0
Exports of services	13.4	6.4	11.1	7.6	18.0	11.6
Imports of services	2.2	2.0	3.9	-2.2	14.6	7.8
<b>GDP</b>	<b>8.0</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>
<b><i>Per capita GDP</i></b>	<b>7.0</b>	<b>-0.2</b>	<b>1.4</b>	<b>3.2</b>	<b>7.6</b>	<b>6.6</b>
<b>GNP</b>	<b>6.6</b>	<b>2.0</b>	<b>0.1</b>	<b>4.9</b>	<b>7.9</b>	<b>5.3</b>
<b><i>Per capita GNP</i></b>	<b>5.6</b>	<b>1.3</b>	<b>-0.3</b>	<b>5.1</b>	<b>7.0</b>	<b>4.8</b>
Total final demand	12.6	-0.7	5.0	7.9	11.8	7.7
Total final demand excluding re-exports <sup>(a)</sup>	9.8	0.3	2.0	3.1	8.9	5.4
Domestic demand	7.7	0.9	-0.7	-0.2	5.0	1.6
Private	9.5	0.5	-1.0	-0.5	6.2	3.0
Public	-2.1	3.3	1.1	1.4	-1.2	-6.2
External demand	16.3	-1.7	9.0	12.8	15.4	10.6

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>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>		<u>2010</u>		Average annual rate of change:	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 1999 to 2009 <sup>#</sup>	5 years 2004 to 2009 <sup>#</sup>
Private consumption expenditure	5.9	8.5	2.4	-0.4	0.6	4.8	7.1	4.6	3.1	3.9
Government consumption expenditure	0.3	3.0	1.8	2.4	3.4	2.0	3.4	2.7	1.7	0.8
Gross domestic fixed capital formation	7.1	3.4	0.8	-1.8	3.2	14.1	8.2	15.2	2.2	2.7
<i>of which:</i>										
Building and construction	-7.1	-0.3	6.1	-0.5	5.4	1.3	-7.2	11.4	-3.7	-2.0
Machinery, equipment and computer software	19.2	3.0	-0.8	-2.6	-2.1	16.2	11.9	16.2	7.0	6.0
Total exports of goods	9.3	7.0	1.9	-12.7	-13.2	-2.9	21.6	20.1	6.3	2.8
Imports of goods	9.2	8.8	1.8	-9.5	-8.3	3.3	28.0	23.6	6.7	3.4
Exports of services	10.1	14.1	5.0	0.3	0.8	8.9	17.9	16.9	9.6	8.1
Imports of services	8.1	12.1	6.3	-3.7	-2.7	2.5	10.9	12.3	5.0	6.0
<b>GDP</b>	<b>7.0</b>	<b>6.4</b>	<b>2.2</b>	<b>-2.8</b>	<b>-2.4</b>	<b>2.5</b>	<b>8.0</b>	<b>6.5</b>	<b>4.1</b>	<b>3.9</b>
<i>Per capita GDP</i>	<i>6.3</i>	<i>5.3</i>	<i>1.4</i>	<i>-3.1</i>	--	--	--	--	<i>3.5</i>	<i>3.2</i>
<b>GNP</b>	<b>8.8</b>	<b>7.4</b>	<b>4.3</b>	<b>-4.6</b>	<b>-6.2</b>	<b>-1.0</b>	<b>12.1</b>	<b>N.A.</b>	<b>4.2</b>	<b>4.1</b>
<i>Per capita GNP</i>	<i>8.1</i>	<i>6.3</i>	<i>3.5</i>	<i>-4.9</i>	--	--	--	--	<i>3.6</i>	<i>3.5</i>
Total final demand	8.4	8.2	2.3	-6.8	-5.9	2.9	19.2	17.0	5.5	3.8
Total final demand excluding re-exports <sup>(a)</sup>	7.3	7.9	1.7	-2.5	-0.4	7.2	16.8	14.4	4.3	3.9
Domestic demand	6.0	7.9	1.6	0.9	5.3	11.1	16.2	11.7	3.0	3.5
Private	7.5	9.0	1.4	0.5	5.1	12.0	17.7	11.9	3.5	4.2
Public	-3.8	0.2	2.7	4.1	6.9	4.2	7.0	10.4	-0.1	-0.7
External demand	9.4	8.3	2.5	-10.1	-10.4	-0.4	20.7	19.5	7.0	3.9



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

	<u>2004</u>		<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	886	0.1	847	0.1	849	0.1	895	0.1	824	0.1
Mining and quarrying	72	*	100	*	93	*	114	*	96	*
Manufacturing	44,455	3.6	45,547	3.4	45,761	3.2	39,319	2.5	38,710	2.5
Electricity, gas and water	39,726	3.2	39,924	3.0	40,364	2.8	39,673	2.6	38,421	2.5
Construction	40,376	3.2	38,538	2.9	38,688	2.7	40,153	2.6	47,922	3.1
Services	1,119,304	89.9	1,207,873	90.6	1,297,545	91.2	1,431,815	92.3	1,441,908	92.0
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	345,092	27.7	386,726	29.0	397,252	27.9	417,339	26.9	442,454	28.2
<i>Transport, storage and communications</i>	126,820	10.2	135,119	10.1	137,166	9.6	141,749	9.1	120,647	7.7
<i>Financing, insurance, real estate and business services</i>	266,855	21.4	294,260	22.1	356,371	25.0	450,989	29.1	418,389	26.7
<i>Community, social and personal services</i>	257,630	20.7	253,312	19.0	256,347	18.0	265,108	17.1	279,881	17.9
<i>Ownership of premises</i>	122,906	9.9	138,455	10.4	150,408	10.6	156,631	10.1	180,537	11.5
<b>GDP at current factor cost</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>	<b>1,567,880</b>	<b>100.0</b>
Taxes on production and imports	58,729	--	62,891	--	71,071	--	93,981	--	84,889	--
Statistical discrepancy (%)	-0.9	--	-0.9	--	-1.3	--	-1.9	--	1.3	--
<b>GDP at current market prices</b>	<b>1,291,923</b>	<b>--</b>	<b>1,382,590</b>	<b>--</b>	<b>1,475,357</b>	<b>--</b>	<b>1,615,455</b>	<b>--</b>	<b>1,675,315</b>	<b>--</b>

Notes : Individual 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2009</u>			<u>2010</u>
							Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Agriculture and fishing	2.7	-1.0	-5.0	-6.4	-18.8	0.9	-1.7	4.4	5.3	2.2
Mining and quarrying	-16.7	10.1	10.2	13.7	-3.2	-16.1	-14.7	-16.3	-20.9	-23.0
Manufacturing	1.7	2.1	2.2	-1.5	-6.6	-9.2	-10.6	-8.0	-6.2	1.0
Electricity, gas and water	2.3	2.5	0.8	1.2	0.2	1.9	2.4	5.2	-0.3	2.4
Construction	-9.3	-8.1	-9.4	-1.1	8.8	1.6	-1.0	7.0	4.7	-0.6
Services	9.9	7.5	7.1	7.0	2.5	-2.0	-3.4	-1.4	3.4	8.4
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>15.1</i>	<i>14.1</i>	<i>8.8</i>	<i>6.6</i>	<i>6.2</i>	<i>-7.7</i>	<i>-11.3</i>	<i>-8.3</i>	<i>2.4</i>	<i>19.8</i>
<i>Transport, storage and communications</i>	<i>13.9</i>	<i>7.4</i>	<i>6.8</i>	<i>5.1</i>	<i>2.4</i>	<i>-4.9</i>	<i>-7.5</i>	<i>-6.0</i>	<i>0.6</i>	<i>5.0</i>
<i>Financing, insurance, real estate and business services</i>	<i>13.4</i>	<i>8.6</i>	<i>12.2</i>	<i>13.5</i>	<i>-0.4</i>	<i>1.5</i>	<i>*</i>	<i>5.2</i>	<i>7.6</i>	<i>6.1</i>
<i>Community, social and personal services</i>	<i>2.6</i>	<i>-0.1</i>	<i>1.3</i>	<i>1.7</i>	<i>2.2</i>	<i>1.4</i>	<i>2.0</i>	<i>1.3</i>	<i>1.5</i>	<i>4.5</i>
<i>Ownership of premises</i>	<i>1.5</i>	<i>2.9</i>	<i>2.4</i>	<i>3.3</i>	<i>1.7</i>	<i>0.7</i>	<i>1.1</i>	<i>0.4</i>	<i>0.1</i>	<i>*</i>
Taxes on production and imports	12.3	0.8	6.8	16.4	-0.4	-6.4	-5.0	1.3	2.0	12.3
<b>GDP in chained (2008) dollars</b>	<b>8.5</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.2</b>	<b>-2.8</b>	<b>-3.8</b>	<b>-2.4</b>	<b>2.5</b>	<b>8.0</b>

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

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

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

	(\$Mn)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2009</u>			<u>2010</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Current account <sup>(a)</sup>	156,933	178,166	199,160	228,125	141,687	41,066	22,812	36,235	31,604
Goods	-59,347	-108,983	-153,672	-180,091	-208,220	-39,355	-65,914	-68,193	-87,635
Services	231,157	277,154	328,488	350,765	325,006	64,742	86,034	100,506	100,162
Income	1,648	27,348	44,437	83,306	49,392	21,511	9,106	10,167	25,619
Current transfers	-16,524	-17,353	-20,093	-25,855	-24,491	-5,832	-6,414	-6,244	-6,542
Capital and financial account <sup>(a)</sup>	-182,431	-209,935	-259,247	-231,162	-164,924	-63,942	-42,123	-28,647	-36,921
Capital and financial non-reserve assets (net change)	-171,752	-163,199	-144,749	32,707	384,338	79,154	64,502	201,995	-16,746
Capital transfers	-4,939	-2,900	10,338	16,393	36,154	6,929	12,274	9,504	11,834
Financial non-reserve assets (net change)	-166,812	-160,300	-155,086	16,314	348,184	72,225	52,228	192,491	-28,580
<i>Direct investment</i>	49,996	635	-52,577	70,393	-29,610	-73,027	-22,141	9,226	-12,409
<i>Portfolio investment</i>	-245,017	-207,879	-21,452	-295,148	-342,329	-227,441	-75,181	-114,607	-85,587
<i>Financial derivatives</i>	30,502	25,925	43,534	63,338	25,641	14,926	1,776	8,165	7,728
<i>Other investment</i>	-2,294	21,019	-124,592	177,732	694,483	357,766	147,774	289,706	61,688
Reserve assets (net change)	-10,679	-46,735	-114,498	-263,869	-549,262	-143,096	-106,625	-230,641	-20,175
Net errors and omissions	25,498	31,769	60,087	3,037	23,237	22,877	19,311	-7,589	5,317
<b>Overall balance of payments</b>	<b>10,679</b>	<b>46,735</b>	<b>114,498</b>	<b>263,869</b>	<b>549,262</b>	<b>143,096</b>	<b>106,625</b>	<b>230,641</b>	<b>20,175</b>

Notes : Individual 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>		<u>2010</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Total exports of goods	2,251,744	2,467,357	2,698,850	2,843,998	2,494,746	657,215	706,434	640,479	773,959
Imports of goods	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966	723,129	774,627	728,114	871,130
<b>Visible trade balance</b>	<b>-59,347</b>	<b>-108,983</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-208,220</b>	<b>-65,914</b>	<b>-68,193</b>	<b>-87,635</b>	<b>-97,171</b>
	<b>(&lt;2.6&gt;)</b>	<b>(&lt;-4.2&gt;)</b>	<b>(&lt;-5.4&gt;)</b>	<b>(&lt;-6.0&gt;)</b>	<b>(&lt;-7.7&gt;)</b>	<b>(&lt;-9.1&gt;)</b>	<b>(&lt;-8.8&gt;)</b>	<b>(&lt;-12.0&gt;)</b>	<b>(&lt;-11.2&gt;)</b>
Exports of services	495,394	565,054	660,728	717,249	669,015	177,720	195,042	192,761	186,411
Imports of services	264,237	287,900	332,240	366,484	344,009	91,686	94,536	92,599	94,196
<b>Invisible trade balance</b>	<b>231,157</b>	<b>277,154</b>	<b>328,488</b>	<b>350,765</b>	<b>325,006</b>	<b>86,034</b>	<b>100,506</b>	<b>100,162</b>	<b>92,215</b>
	<b>(87.5)</b>	<b>(96.3)</b>	<b>(98.9)</b>	<b>(95.7)</b>	<b>(94.5)</b>	<b>(93.8)</b>	<b>(106.3)</b>	<b>(108.2)</b>	<b>(97.9)</b>
Exports of goods and services	2,747,138	3,032,411	3,359,578	3,561,247	3,163,761	834,935	901,476	833,240	960,370
Imports of goods and services	2,575,328	2,864,240	3,184,762	3,390,573	3,046,975	814,815	869,163	820,713	965,326
<b>Visible and invisible trade balance</b>	<b>171,810</b>	<b>168,171</b>	<b>174,816</b>	<b>170,674</b>	<b>116,786</b>	<b>20,120</b>	<b>32,313</b>	<b>12,527</b>	<b>-4,956</b>
	<b>&lt;6.7&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;5.0&gt;</b>	<b>&lt;3.8&gt;</b>	<b>&lt;2.5&gt;</b>	<b>&lt;3.7&gt;</b>	<b>&lt;1.5&gt;</b>	<b>&lt;-0.5&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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		<u>2010</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
<b>All markets</b>	<b>11.4</b>	<b>9.4</b>	<b>9.2</b>	<b>5.1</b>	<b>-12.6</b>	<b>2,469,089</b>	<b>-14.3</b>	<b>-2.0</b>	<b>26.0</b>	<b>24.3</b>
Mainland of China	14.0	14.2	13.2	4.7	-7.8	1,263,249	-8.0	4.0	40.2	25.9
United States	5.6	2.9	-0.8	-2.4	-20.6	285,236	-24.2	-15.5	4.4	21.1
Japan	10.3	1.6	-0.7	1.2	-10.0	108,869	-7.6	-2.0	12.4	26.5
Germany	15.6	4.0	7.2	15.8	-15.5	79,342	-22.5	-12.2	-10.5	2.1
United Kingdom	5.2	6.3	1.7	0.7	-20.8	59,671	-25.2	-16.5	-2.1	2.1
Singapore	6.8	4.4	3.8	9.6	-23.6	42,252	-20.3	-11.6	18.3	21.4
Taiwan	2.7	3.3	1.6	3.8	-0.4	54,713	3.0	24.8	71.4	29.3
Republic of Korea	9.5	7.5	2.0	-6.4	-13.0	43,133	-9.5	13.1	37.2	27.3
Rest of the world	13.3	8.5	13.2	11.3	-17.3	532,622	-21.5	-6.3	16.6	26.8

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		<u>2010</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
<b>All sources</b>	<b>10.3</b>	<b>11.6</b>	<b>10.3</b>	<b>5.5</b>	<b>-11.0</b>	<b>2,692,356</b>	<b>-10.4</b>	<b>3.4</b>	<b>34.3</b>	<b>29.9</b>
Mainland of China	14.3	13.7	11.5	6.1	-11.4	1,249,374	-11.9	-3.0	25.7	26.6
Japan	0.1	4.5	7.2	3.6	-20.6	236,369	-16.0	*	57.4	37.9
Singapore	21.8	21.9	18.2	0.1	-10.4	174,659	-6.7	7.4	49.0	48.0
Taiwan	9.4	15.9	5.2	-6.4	-8.5	175,649	-5.6	20.4	62.0	39.5
United States	6.5	3.6	12.3	8.6	-5.7	142,137	-11.9	9.6	24.8	25.2
Republic of Korea	2.6	16.1	-0.2	-1.1	-12.7	103,046	-13.3	26.3	51.9	52.3
Rest of the world	8.4	7.6	10.7	11.5	-7.6	611,122	-6.0	8.4	32.7	23.2

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

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

**Table 9 : Retained imports of goods by end-use category  
(in value terms)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		<u>2010</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
<b>Overall</b>	<b>7.3</b>	<b>14.3</b>	<b>9.4</b>	<b>5.3</b>	<b>-10.8</b>	<b>687,346</b>	<b>-3.3</b>	<b>16.3</b>	<b>60.5</b>	<b>47.2</b>
Foodstuffs	3.1	4.3	12.9	19.7	9.9	78,629	11.0	15.3	30.3	9.3
Consumer goods	5.5	3.1	11.4	9.0	-14.0	137,619	-3.5	23.2	79.3	56.8
Raw materials and semi-manufactures	4.2	8.8	17.7	-4.5	-6.4	247,076	7.8	27.6	86.2	55.3
Fuels	23.5	22.8	20.1	26.6	-18.4	86,794	-24.3	19.3	34.8	73.6
Capital goods	10.8	33.2	-8.3	2.5	-18.7	137,053	-11.1	-13.3	26.6	26.7

Note : Individual 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>		<u>2009</u>		<u>2010</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
<b>Exports of services</b>	<b>15.3</b>	<b>14.1</b>	<b>16.9</b>	<b>8.6</b>	<b>-6.7</b>	<b>669,015</b>	<b>-7.6</b>	<b>5.8</b>	<b>27.2</b>	<b>28.8</b>
Transportation	16.9	10.2	14.6	12.7	-13.6	194,342	-15.1	-3.3	33.5	32.6
Travel	14.2	12.9	18.7	11.1	7.1	127,616	0.2	17.6	28.6	48.5
Trade-related	10.7	9.9	11.6	8.5	-6.4	202,039	-8.8	4.2	24.1	22.8
Other services	22.3	28.4	26.7	1.5	-7.7	145,018	0.2	11.2	22.0	14.5
<b>Imports of services</b>	<b>9.0</b>	<b>9.0</b>	<b>15.4</b>	<b>10.3</b>	<b>-6.1</b>	<b>344,009</b>	<b>-5.9</b>	<b>7.9</b>	<b>19.0</b>	<b>17.8</b>
Transportation	20.3	10.9	20.4	13.5	-14.0	106,033	-13.5	-0.9	21.9	23.0
Travel	0.1	5.4	7.6	6.8	-1.3	123,716	-1.5	11.3	13.5	11.2
Trade-related	12.8	12.6	15.9	10.6	-7.9	24,755	-10.8	3.5	24.4	25.3
Other services	10.5	11.2	21.2	11.0	-1.6	89,505	0.2	15.7	22.0	19.2
<b>Net exports of services</b>	<b>23.6</b>	<b>19.9</b>	<b>18.5</b>	<b>6.8</b>	<b>-7.3</b>	<b>325,006</b>	<b>-9.4</b>	<b>3.9</b>	<b>35.9</b>	<b>42.4</b>

Notes : Individual 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u> Q3	Q4	<u>2010</u> Q1	Q2
<u>('000)</u>									
<b>All sources</b>	<b>23 359.4</b>	<b>25 251.1</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>29 590.7</b>	<b>7 463.2</b>	<b>8 430.7</b>	<b>8 624.7</b>	<b>8 231.3</b>
Mainland of China	12 541.4	13 591.3	15 485.8	16 862.0	17 956.7	4 614.8	5 080.0	5 548.9	4 938.3
South and Southeast Asia	2 413.0	2 659.7	2 888.1	2 936.2	2 885.2	651.5	905.4	715.2	954.1
Taiwan	2 130.6	2 177.2	2 238.7	2 240.5	2 009.6	544.1	523.0	537.0	519.1
Europe	1 398.0	1 548.2	1 772.2	1 711.4	1 610.5	369.7	468.5	438.3	408.4
Japan	1 210.8	1 311.1	1 324.3	1 324.8	1 204.5	332.1	325.8	334.2	309.2
United States	1 143.1	1 159.0	1 230.9	1 146.4	1 070.1	257.8	300.7	265.2	300.4
Others	2 522.6	2 804.5	3 229.2	3 285.3	2 854.0	693.3	827.2	785.9	801.8
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>7.1</b>	<b>8.1</b>	<b>11.6</b>	<b>4.7</b>	<b>0.3</b>	<b>-1.6</b>	<b>9.0</b>	<b>16.5</b>	<b>30.8</b>
Mainland of China	2.4	8.4	13.9	8.9	6.5	0.1	16.6	18.7	37.7
South and Southeast Asia	16.1	10.2	8.6	1.7	-1.7	4.5	1.7	13.9	36.2
Taiwan	2.7	2.2	2.8	0.1	-10.3	-11.2	-3.7	10.7	13.4
Europe	22.3	10.7	14.5	-3.4	-5.9	5.0	-1.1	12.3	6.9
Japan	7.5	8.3	1.0	*	-9.1	-1.1	-8.5	5.7	34.1
United States	8.7	1.4	6.2	-6.9	-6.7	4.4	1.2	9.1	11.9
Others	20.6	11.2	15.1	1.7	-13.1	-13.7	1.0	18.0	20.1

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

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



**Table 12 : Property market**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Completion of new property by the private sector</b> ( <u>'000 m<sup>2</sup> of internal floor area</u> )							
Residential property <sup>(a)</sup> (in units)	25 790	26 262	31 052	26 397	26 036	17 321	16 579
Commercial property	160	208	304	417	371	145	291
<i>of which :</i>							
Office space	96	76	166	299	280	34	108
Other commercial premises <sup>(b)</sup>	64	132	138	118	91	111	183
Industrial property <sup>(c)</sup>	62	45	29	15	1	17	27
<i>of which :</i>							
Industrial-cum-office premises	37	14	0	15	0	4	0
Conventional flatted factory space	19	30	3	0	1	0	0
Storage premises <sup>(d)</sup>	6	0	27	0	0	13	27
<b>Production of public housing</b> ( <u>in units</u> )							
Rental housing flats <sup>(e)</sup>	40 944	47 590	20 154	13 705	20 614	24 691	4 430
Subsidized sales flats <sup>(e)</sup>	22 768	25 702	1 072	320	0	0	0
<b>Building plans with consent to commence work in the private sector</b> ( <u>'000 m<sup>2</sup> of usable floor area</u> )							
Residential property	1 142.7	1 002.5	790.0	1 038.4	530.0	550.7	706.7
Commercial property	337.5	265.0	365.3	200.0	161.3	481.9	468.4
Industrial property <sup>(f)</sup>	129.2	45.7	107.1	0.8	16.4	35.1	23.9
Other properties	240.2	75.0	109.3	444.2	407.1	408.0	199.2
Total	1 849.5	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2
<b>Agreements for sale and purchase of property</b> ( <u>Number</u> )							
Residential property <sup>(g)</sup>	65 340	69 667	72 974	71 576	100 630	103 362	82 472
Primary market	13 911	18 366	23 088	26 498	25 694	15 994	13 986
Secondary market	51 429	51 301	49 886	45 078	74 936	87 368	68 486
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 724	1 774	1 639	1 817	3 213	3 431	2 874
Other commercial premises	2 411	2 989	3 167	4 142	7 833	7 143	4 402
Flatted factory space	3 393	3 493	3 756	3 813	5 889	6 560	7 409

Notes : Individual 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u> Q3	Q4	<u>2010</u> Q1	Q2
<b>Completion of new property by the private sector</b> ( <sup>'000 m<sup>2</sup></sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	10 471	8 776	7 157	2 376	1 637	4 879	2 151
Commercial property	368	390	235	95	28	75	33
<i>of which :</i>							
Office space	320	341	151	58	25	66	0
Other commercial premises <sup>(b)</sup>	48	49	84	38	4	9	33
Industrial property <sup>(c)</sup>	16	78	3	0	0	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	16	70	3	0	0	0	0
Storage premises <sup>(d)</sup>	0	4	0	0	0	0	0
<b>Production of public housing</b> (in units)							
Rental housing flats <sup>(e)</sup>	4 795	22 759	19 021	1 576	3 158	6 385	0
Subsidized sales flats <sup>(e)</sup>	2 010	2 200	370	0	370	0	1 110
<b>Building plans with consent to commence work in the private sector</b> ( <sup>'000 m<sup>2</sup></sup> of usable floor area)							
Residential property	956.1	530.0	546.8	141.9	184.3	139.1	84.7
Commercial property	327.5	147.7	178.3	17.1	42.8	95.0	32.2
Industrial property <sup>(f)</sup>	103.5	106.6	97.1	43.7	18.0	17.5	6.7
Other properties	207.7	212.8	253.2	102.4	66.2	39.7	146.3
Total	1 594.8	997.1	1 075.4	305.1	311.3	291.3	269.9
<b>Agreements for sale and purchase of property</b> (Number)							
Residential property <sup>(g)</sup>	123 575	95 931	115 092	35 558	27 621	33 249	32 380
Primary market	20 123	11 046	16 161	5 140	2 590	3 567	3 978
Secondary market	103 452	84 885	98 931	30 418	25 031	29 682	28 402
Selected types of non-residential properties <sup>(h)</sup>							
Office space	4 129	2 845	2 521	752	852	802	909
Other commercial premises	5 490	4 149	5 359	1 792	1 649	1 736	1 769
Flatted factory space	9 072	5 741	5 554	1 780	1 914	1 673	2 016

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>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	89.6	78.7	69.9	61.6	78.0	92.0	92.7
Office space	89.9	78.7	68.4	62.5	99.3	133.0	139.3
Shopping space	93.6	86.8	85.0	85.5	119.3	149.3	153.5
Flatted factory space	91.2	82.0	74.8	71.7	88.6	125.0	158.5
Property rental indices <sup>(b)</sup> :							
Residential flats	98.1	95.4	83.4	73.6	77.7	86.5	91.6
Office space	98.5	101.0	85.4	74.6	78.1	96.4	117.4
Shopping space	101.3	99.4	92.9	86.4	92.8	100.5	104.3
Flatted factory space	95.4	90.3	82.7	74.9	77.3	82.6	91.0
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-10.4	-12.2	-11.2	-11.9	26.6	17.9	0.8
Office space	-10.1	-12.5	-13.1	-8.6	58.9	33.9	4.7
Shopping space	-6.4	-7.3	-2.1	0.6	39.5	25.1	2.8
Flatted factory space	-8.8	-10.1	-8.8	-4.1	23.6	41.1	26.8
Property rental indices <sup>(b)</sup> :							
Residential flats	-1.9	-2.8	-12.6	-11.8	5.6	11.3	5.9
Office space	-1.5	2.5	-15.4	-12.6	4.7	23.4	21.8
Shopping space	1.3	-1.9	-6.5	-7.0	7.4	8.3	3.8
Flatted factory space	-4.6	-5.3	-8.4	-9.4	3.2	6.9	10.2

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

(b) 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u> Q3	Q4	<u>2010</u> Q1 <sup>#</sup>	Q2 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	103.5	120.5	121.3	127.1	132.9	140.8	145.7
Office space	165.5	199.0	179.8	191.6	203.0	212.6	221.9
Shopping space	172.5	192.2	193.1	205.9	220.6	233.6	245.1
Flatted factory space	199.5	235.9	216.3	222.5	241.2	257.7	269.9
Property rental indices <sup>(b)</sup> :							
Residential flats	101.8	115.7	100.4	102.3	108.8	112.0	117.2
Office space	131.9	155.5	135.7	132.7	136.6	140.8	145.6
Shopping space	111.8	116.2	110.9	111.6	115.6	118.4	121.5
Flatted factory space	100.5	109.3	99.4	99.2	102.0	104.4	109.7
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	11.7	16.4	0.7	3.2	23.1	30.4	24.4
Office space	18.8	20.2	-9.6	-6.2	16.0	37.5	30.5
Shopping space	12.4	11.4	0.5	6.2	27.0	42.1	34.9
Flatted factory space	25.9	18.2	-8.3	-9.1	10.7	31.3	31.6
Property rental indices <sup>(b)</sup> :							
Residential flats	11.1	13.7	-13.2	-15.1	2.1	18.8	22.0
Office space	12.4	17.9	-12.7	-17.7	-13.4	-0.6	10.2
Shopping space	7.2	3.9	-4.6	-4.5	1.3	9.4	12.3
Flatted factory space	10.4	8.8	-9.1	-10.5	-3.5	5.8	12.3

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	203,966	229,841	259,411	354,752	412,629	348,248	387,909
M2 <sup>(a)</sup>	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679
M3 <sup>(a)</sup>	2,002,358	2,016,635	2,004,225	2,122,861	2,219,557	2,345,838	2,795,545
Total money supply (\$Mn)							
M1	243,847	258,056	295,650	413,423	484,494	434,684	491,648
M2	3,649,492	3,550,060	3,518,326	3,813,442	4,166,706	4,379,057	5,054,332
M3	3,692,753	3,594,130	3,561,852	3,858,044	4,189,544	4,407,188	5,089,741
Deposit (\$Mn)							
HK\$	1,851,177	1,854,651	1,824,911	1,930,790	2,017,911	2,131,579	2,568,283
Foreign currency	1,676,670	1,551,852	1,492,631	1,636,227	1,848,145	1,936,322	2,188,993
Total	3,527,847	3,406,502	3,317,542	3,567,018	3,866,056	4,067,901	4,757,275
Loans and advances (\$Mn)							
HK\$	1,652,191	1,647,684	1,615,667	1,573,079	1,666,740	1,797,350	1,917,437
Foreign currency	809,259	537,301	460,659	462,000	488,964	514,637	550,392
Total	2,461,450	2,184,986	2,076,325	2,035,079	2,155,704	2,311,987	2,467,828
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) <sup>(b)(c)</sup>							
Trade-weighted	101.7	104.7	104.0	100.7	98.3	97.4	96.1
Import-weighted	101.5	105.1	104.7	101.6	99.2	98.1	96.8
Export-weighted	101.9	104.3	103.3	99.8	97.3	96.7	95.5
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	-0.7	12.7	12.9	36.8	16.3	-15.6	11.4
M2 <sup>(a)</sup>	3.4	0.5	-0.7	6.2	4.8	5.5	19.2
M3 <sup>(a)</sup>	3.5	0.7	-0.6	5.9	4.6	5.7	19.2
Total money supply :							
M1	8.3	5.8	14.6	39.8	17.2	-10.3	13.1
M2	7.8	-2.7	-0.9	8.4	9.3	5.1	15.4
M3	7.5	-2.7	-0.9	8.3	8.6	5.2	15.5
Deposit							
HK\$	4.4	0.2	-1.6	5.8	4.5	5.6	20.5
Foreign currency	13.5	-7.4	-3.8	9.6	13.0	4.8	13.0
Total	8.5	-3.4	-2.6	7.5	8.4	5.2	16.9
Loans and advances							
HK\$	2.8	-0.3	-1.9	-2.6	6.0	7.8	6.7
Foreign currency	-32.9	-33.6	-14.3	0.3	5.8	5.3	6.9
Total	-12.5	-11.2	-5.0	-2.0	5.9	7.2	6.7
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	0.8	2.9	-0.7	-3.2	-2.4	-0.9	-1.3
Import-weighted	0.1	3.5	-0.4	-3.0	-2.4	-1.1	-1.3
Export-weighted	1.5	2.4	-1.0	-3.4	-2.5	-0.6	-1.2

**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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u> Q3	Q4	<u>2010</u> Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	454,342	491,115	671,241	694,046	671,241	713,252	671,558
M2 <sup>(a)</sup>	3,281,017	3,239,857	3,587,717	3,599,862	3,587,717	3,603,170	3,596,605
M3 <sup>(a)</sup>	3,300,500	3,261,306	3,604,843	3,616,373	3,604,843	3,623,214	3,610,315
Total money supply (\$Mn)							
M1	616,709	645,833	901,819	908,031	901,819	944,516	903,577
M2	6,106,348	6,268,058	6,602,310	6,638,110	6,602,310	6,596,941	6,578,945
M3	6,139,758	6,300,751	6,626,843	6,665,330	6,626,843	6,623,605	6,599,942
Deposit (\$Mn)							
HK\$	3,075,042	3,033,980	3,373,595	3,392,085	3,373,595	3,379,965	3,370,815
Foreign currency	2,793,856	3,024,004	3,007,445	3,032,220	3,007,445	2,990,665	2,981,399
Total	5,868,898	6,057,984	6,381,040	6,424,305	6,381,040	6,370,630	6,352,214
Loans and advances (\$Mn)							
HK\$	2,184,705	2,354,755	2,401,323	2,380,617	2,401,323	2,478,636	2,620,076
Foreign currency	776,971	930,883	887,160	896,774	887,160	989,922	1,152,454
Total	2,961,676	3,285,638	3,288,483	3,277,392	3,288,483	3,468,558	3,772,531
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) <sup>(b)(c)</sup>							
Trade-weighted	91.9	87.1	88.2	87.6	86.3	86.8	87.6
Import-weighted	92.5	87.1	87.9	87.3	85.9	86.2	86.7
Export-weighted	91.3	87.2	88.5	87.9	86.8	87.5	88.5
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	17.1	8.1	36.7	55.1	36.7	34.9	15.4
M2 <sup>(a)</sup>	18.1	-1.3	10.7	14.4	10.7	9.8	3.3
M3 <sup>(a)</sup>	18.1	-1.2	10.5	14.1	10.5	9.7	3.1
Total money supply :							
M1	25.4	4.7	39.6	51.9	39.6	36.8	18.9
M2	20.8	2.6	5.3	9.7	5.3	5.8	1.4
M3	20.6	2.6	5.2	9.4	5.2	5.7	1.3
Deposit							
HK\$	19.7	-1.3	11.2	15.2	11.2	9.8	2.7
Foreign currency	27.6	8.2	-0.5	4.5	-0.5	1.7	-0.4
Total	23.4	3.2	5.3	9.9	5.3	5.8	1.2
Loans and advances							
HK\$	13.9	7.8	2.0	-0.7	2.0	6.7	10.7
Foreign currency	41.2	19.8	-4.7	-12.9	-4.7	17.4	37.6
Total	20.0	10.9	0.1	-4.3	0.1	9.5	17.8
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-4.4	-5.2	1.3	1.4	-3.8	-3.9	-1.5
Import-weighted	-4.4	-5.8	0.9	1.2	-3.9	-4.1	-2.1
Export-weighted	-4.4	-4.5	1.5	1.6	-3.6	-3.4	-0.8

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.

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

	(%)							
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>		<u>2010</u>	
					Q2	Q3	Q4	Q1
<b>Service Industry</b>								
Import and export trade	10.3	8.1	7.4	-13.7	-17.4	-14.8	2.2	23.5
Wholesale	7.9	10.4	6.3	-12.6	-16.2	-11.4	2.6	32.6
Retail	7.2	12.8	10.6	0.6	-5.1	-1.1	12.8	18.8
Transportation	10.0	10.5	4.4	-19.9	-25.9	-25.6	-4.3	17.3
<i>within which :</i>								
Land transport	4.3	3.7	2.2	-2.6	-6.0	-2.7	2.0	2.6
Water transport	16.4	16.8	6.1	-24.1	-26.4	-28.7	-14.0	11.0
Air transport	6.8	7.3	3.5	-21.0	-30.8	-28.8	2.0	28.1
Warehousing and storage	10.2	15.9	6.6	1.4	-0.2	4.8	7.3	16.3
Courier	6.9	5.5	2.1	-6.1	-17.1	-5.4	18.4	34.4
Accommodation	13.8	15.2	3.8	-17.4	-27.8	-17.8	-7.4	18.1
Food services	9.6	13.4	13.1	0.6	-0.7	-0.3	2.0	5.1
Information and communications	6.1	8.4	6.0	-3.2	-2.0	-4.9	-0.7	0.9
<i>within which :</i>								
Telecommunications	-0.7	11.0	9.8	1.4	1.2	-3.2	0.6	-2.9
Film entertainment	1.7	6.1	-0.7	-12.6	-19.7	-13.0	0.8	5.7
Banking	19.5	38.3	-16.9	1.5	-0.3	-3.6	35.3	6.3
Financing (except banking)	47.9	68.8	-19.4	-10.3	-19.2	5.4	45.3	54.4
<i>within which :</i>								
Financial markets and asset management	49.3	71.7	-20.0	-11.7	-19.6	4.5	55.5	60.2
<i>within which : Asset management</i>	51.8	56.8	-5.2	-12.1	-30.5	-0.3	55.2	62.5
Insurance	21.3	28.8	*	0.7	-8.1	5.4	18.1	10.0
Real estate	-0.3	39.5	-3.7	9.7	7.5	26.7	19.1	20.5
Professional, scientific and technical services	13.2	12.3	6.8	-0.5	-3.4	2.7	5.8	16.4
Administrative and support services	20.9	11.5	9.4	-12.4	-15.5	-15.2	-2.3	6.4
<b>Service Domain</b>								
Tourism, convention and exhibition services	14.1	18.9	10.1	3.5	-6.7	-2.3	15.4	21.6 <sup>+</sup>
Computer and information technology services	9.8	6.8	5.3	-15.0	-12.9	-18.1	-0.2	23.9

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u> Q3	Q4	<u>2010</u> Q1 <sup>+</sup>	Q2 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	60.9	61.2	61.2	60.9	60.7	60.9	60.1	60.0	59.9
Seasonally adjusted unemployment rate	5.6	4.8	4.0	3.6	5.4	5.4	5.1	4.4	4.6
Underemployment rate	2.7	2.4	2.2	1.9	2.3	2.4	2.3	2.2	2.0
<u>('000)</u>									
Population of working age	5 800.7	5 832.2	5 928.4	5 993.9	6 056.6	6 059.4	6 080.9	6 099.4	6 116.7
Labour force	3 534.2	3 571.8	3 629.6	3 648.9	3 676.6	3 692.2	3 653.4	3 657.3	3 664.0
Persons employed	3 336.6	3 400.8	3 483.8	3 518.8	3 479.8	3 483.0	3 480.7	3 496.7	3 492.1
Persons unemployed	197.6	171.1	145.7	130.1	196.7	209.2	172.6	160.6	171.8
Persons underemployed	96.3	86.3	79.2	69.0	86.4	89.3	83.8	80.0	73.7
<u>(% change over a year earlier)</u>									
Population of working age	1.2	0.5	1.6	1.1	1.0	1.0	1.1	1.3	1.3
Labour force	0.6	1.1	1.6	0.5	0.8	1.0	-0.2	-0.7	-0.7
Persons employed	1.9	1.9	2.4	1.0	-1.1	-1.2	-1.1	0.1	0.2
Persons unemployed	-17.4	-13.4	-14.8	-10.7	51.2	56.6	22.3	-14.4	-15.3
Persons underemployed	-15.7	-10.4	-8.2	-12.9	25.2	34.6	21.5	2.0	-12.2

Note : (+) Provisional figures.



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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>			<u>2010</u>	
						Jun	Sep	Dec	Mar	No.
Selected major industries	(% change)					(% change over a year earlier)				
Manufacturing	-2.6	-3.2	-2.9	-3.5	-5.7	-6.2	-5.0	-4.4	-2.5	122 567
Construction sites (manual workers only)	-10.6	-10.8	-5.1	-1.5	2.2	-1.2	-0.4	7.5	3.8	53 913
Import and export trade	2.5	1.0	0.8	-0.3	-4.4	-5.7	-4.3	-2.7	0.7	499 695
Wholesale	2.0	-4.2	-0.3	-2.7	-2.0	-2.1	-2.2	-0.5	1.9	64 604
Retail	2.0	3.1	2.1	2.8	-0.3	-1.5	-0.4	1.2	3.7	240 598
Food and beverage services	2.4	5.0	3.3	1.8	*	-1.4	-1.7	3.3	4.7	215 915
Accommodation services	8.5	8.0	5.4	3.1	-1.0	-0.5	-4.1	-2.0	-1.9	31 439
Transportation, storage, postal and courier services	3.2	1.6	2.5	3.5	1.1	-0.1	0.5	2.2	0.9	159 435
Information and communications	-0.7	1.4	2.2	3.6	-1.6	-3.3	-2.2	0.1	1.5	87 430
Financing and insurance	4.9	4.6	7.3	5.6	-0.5	-1.6	-2.3	2.4	2.6	186 654
Real estate	6.6	5.3	4.4	2.7	0.5	-0.9	0.6	3.3	5.1	109 676
Professional and business services (excluding cleaning and similar services)	3.3	4.9	4.8	3.4	0.9	0.5	0.6	2.1	2.3	235 232
Cleaning and similar services	3.4	2.5	0.6	-1.7	6.7	2.7	7.5	16.5	14.3	64 698
Education	1.8	5.0	3.3	4.8	5.3	4.5	5.6	6.3	5.5	165 602
Human health services	1.7	3.7	5.5	5.1	3.8	4.9	3.9	3.2	4.1	92 140
Residential care and social work services	-0.4	1.5	1.4	1.3	1.5	0.5	1.7	3.2	2.0	56 343
Arts, entertainment, recreation and other services	18.1	3.3	1.5	1.9	0.8	1.2	-0.8	2.2	6.8	113 599
Civil Service <sup>(a)</sup>	-2.7	-1.3	-0.4	0.1	1.1	1.1	1.1	1.2	0.9	156 573
Others <sup>(b)</sup>	-6.9	-0.3	0.9	7.0	-1.0	1.4	-4.4	1.9	1.2	10 780

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		<u>2010</u>
						Jun	Sep	Dec	Mar
<u>(number)</u>									
Building sites									
Private sector	31 556	30 993	29 240	28 899	28 776	28 360	27 301	29 778	28 429
Public sector <sup>(a)</sup>	10 135	7 643	7 767	8 136	10 277	9 295	9 540	11 165	11 532
Sub-total	41 690	38 636	37 007	37 034	39 053	37 655	36 841	40 943	39 961
Civil engineering sites									
Private sector	2 198	1 569	1 674	1 686	1 618	1 610	1 733	1 675	1 635
Public sector <sup>(a)</sup>	15 378	12 661	11 504	10 703	9 831	9 677	9 391	10 536	12 317
Sub-total	17 576	14 230	13 178	12 388	11 449	11 287	11 124	12 211	13 952
<b>Total</b>	<b>59 266</b>	<b>52 865</b>	<b>50 185</b>	<b>49 422</b>	<b>50 501</b>	<b>48 942</b>	<b>47 965</b>	<b>53 154</b>	<b>53 913</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-6.1	-1.8	-5.7	-1.2	-0.4	-2.9	-3.5	5.7	-4.2
Public sector <sup>(a)</sup>	-23.9	-24.6	1.6	4.7	26.3	30.9	23.7	20.9	3.8
Sub-total	-11.2	-7.3	-4.2	0.1	5.5	3.7	2.3	9.4	-2.0
Civil engineering sites									
Private sector	-14.3	-28.6	6.7	0.7	-4.0	-18.6	24.4	-2.3	12.5
Public sector <sup>(a)</sup>	-8.3	-17.7	-9.1	-7.0	-8.1	-14.2	-12.5	2.1	26.7
Sub-total	-9.1	-19.0	-7.4	-6.0	-7.6	-14.9	-8.3	1.5	24.9
<b>Total</b>	<b>-10.6</b>	<b>-10.8</b>	<b>-5.1</b>	<b>-1.5</b>	<b>2.2</b>	<b>-1.2</b>	<b>-0.4</b>	<b>7.5</b>	<b>3.8</b>

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

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

	(%)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>		<u>2010</u>	
Selected industry section						Q2	Q3	Q4	Q1
<b>(in nominal terms)</b>									
Manufacturing	0.9	1.7	2.5	0.9	-3.5	-3.5	-2.2	0.4	3.6
Sewerage, waste management and remediation activities	28.0	10.4	17.0	-8.6	2.1	12.7	1.2	-5.4	-4.3
Import/export and wholesale trade	6.9	3.9	1.8	6.3	-1.6	0.5	-0.2	-0.3	2.2
Retail trade	9.0	2.1	2.6	8.1	-1.5	-0.6	-4.7	-1.3	1.2
Transportation, storage, postal and courier services	5.2	3.0	3.9	-0.6	-0.2	-6.6	4.9	0.2	2.4
Accommodation and food service activities	2.0	2.6	3.9	2.6	-0.6	-0.6	0.2	0.3	4.4
Information and communications	*	0.6	-2.9	6.6	0.2	2.3	0.5	1.3	5.2
Financial and insurance activities	5.5	10.0	9.8	9.0	-3.3	-0.2	0.6	-1.7	4.7
Real estate activities	5.7	-2.5	-0.4	8.0	-2.4	-0.3	4.5	2.5	3.7
Professional and business services	2.5	3.3	4.8	3.5	0.6	-2.9	4.6	2.7	4.6
Social and personal services	-3.2	1.0	1.5	3.1	1.7	2.2	-1.5	-0.4	-3.0
<b>All industries surveyed</b>	<b>3.5</b>	<b>2.4</b>	<b>4.0</b>	<b>2.6</b>	<b>0.5</b>	<b>-0.7</b>	<b>2.1</b>	<b>0.9</b>	<b>1.1</b>
<b>(in real terms)</b>									
Manufacturing	*	-0.3	0.5	-3.3	-4.0	-3.5	-1.2	-1.0	1.7
Sewerage, waste management and remediation activities	26.8	8.2	14.8	-12.3	1.5	12.7	2.2	-6.6	-6.1
Import/export and wholesale trade	5.9	1.8	-0.2	1.9	-2.2	0.5	0.8	-1.7	0.3
Retail trade	8.0	0.1	0.6	3.6	-2.1	-0.6	-3.8	-2.6	-0.7
Transportation, storage, postal and courier services	4.2	0.9	1.9	-4.7	-0.7	-6.6	5.9	-1.1	0.5
Accommodation and food service activities	1.0	0.6	1.8	-1.7	-1.2	-0.6	1.2	-1.1	2.5
Information and communications	-0.9	-1.4	-4.7	2.2	-0.4	2.3	1.4	*	3.3
Financial and insurance activities	4.5	7.9	7.7	4.6	-3.9	-0.2	1.6	-3.0	2.7
Real estate activities	4.8	-4.4	-2.3	3.5	-3.0	-0.3	5.5	1.2	1.8
Professional and business services	1.6	1.3	2.8	-0.7	*	-2.9	5.6	1.3	2.6
Social and personal services	-4.1	-1.0	-0.5	-1.2	1.2	2.2	-0.5	-1.7	-4.8
<b>All industries surveyed</b>	<b>2.6</b>	<b>0.4</b>	<b>1.9</b>	<b>-1.7</b>	<b>*</b>	<b>-0.7</b>	<b>3.0</b>	<b>-0.4</b>	<b>-0.7</b>

Notes : The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2004/05-based Composite CPI.

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) 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 V2.0. The series of payroll indices under HSIC V2.0 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**

	(%)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>		<u>2010</u>	
Selected industry section						Jun	Sep	Dec	Mar
<b>(in nominal terms)</b>									
Manufacturing	1.6	0.2	4.3	2.6	-1.2	-2.1	-2.0	-2.9	-1.6
Import/export, wholesale and retail trades <sup>(a)</sup>	1.6	1.1	2.3	3.6	-1.1	-2.2	-1.8	0.7	1.5
<i>within which :</i>									
Import/export and wholesale trades	2.7	1.0	2.8	3.1	-1.2	--	-1.5	--	1.7
Retail trade	0.8	0.8	-1.7	4.9	-0.2	--	-3.6	--	-0.8
Transportation	1.2	0.1	1.5	1.8	*	0.4	-1.1	1.7	1.1
Accommodation and food service activities	*	1.0	1.4	3.1	-2.3	-3.5	-3.2	-0.2	1.6
Financial and insurance activities <sup>(b)</sup>	0.1	2.1	2.4	2.8	-0.5	-1.5	-2.5	2.1	3.9
Real estate leasing and maintenance management	0.5	2.3	1.4	2.7	-0.4	-0.9	-1.0	1.2	3.0
Professional and business services	-1.9	2.4	4.8	4.9	0.8	-0.1	0.1	2.2	3.1
Personal services	2.4	3.4	8.5	0.5	-0.7	-0.9	-3.4	-0.1	3.4
<b>All industries surveyed</b>	<b>1.1</b>	<b>1.7</b>	<b>2.6</b>	<b>3.4</b>	<b>-0.9</b>	<b>-1.9</b>	<b>-1.8</b>	<b>0.8</b>	<b>1.9</b>
<b>(in real terms)</b>									
Manufacturing	0.4	-1.5	2.4	-0.1	-1.6	-0.5	-2.8	-4.4	-4.0
Import/export, wholesale and retail trades <sup>(a)</sup>	0.4	-0.6	0.4	0.9	-1.4	-0.6	-2.5	-0.9	-1.0
<i>within which :</i>									
Import/export and wholesale trades	1.5	-0.7	0.9	0.4	-1.5	--	-2.2	--	-0.8
Retail trade	-0.5	-0.9	-3.5	2.2	-0.5	--	-4.3	--	-3.2
Transportation	*	-1.7	-0.4	-0.8	-0.3	2.1	-1.8	*	-1.4
Accommodation and food service activities	-1.3	-0.8	-0.4	0.4	-2.6	-2.0	-3.9	-1.8	-0.9
Financial and insurance activities <sup>(b)</sup>	-1.1	0.3	0.6	0.2	-0.8	0.1	-3.3	0.5	1.3
Real estate leasing and maintenance management	-0.8	0.6	-0.5	0.1	-0.7	0.7	-1.8	-0.4	0.5
Professional and business services	-3.0	0.7	2.9	2.2	0.5	1.5	-0.6	0.6	0.6
Personal services	1.2	1.6	6.5	-2.1	-1.0	0.7	-4.2	-1.7	0.9
<b>All industries surveyed</b>	<b>-0.2</b>	<b>*</b>	<b>0.7</b>	<b>0.7</b>	<b>-1.3</b>	<b>-0.3</b>	<b>-2.6</b>	<b>-0.8</b>	<b>-0.6</b>

Notes : The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2004/05-based CPI(A).

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) 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 V2.0. The series of wage indices under HSIC V2.0 has also been backcasted to March 2004.

(a) Starting from 2009, the sample size of the wage enquiry conducted in the second and fourth quarters of a year will be reduced. Therefore, wage statistics at detailed industry breakdowns will not be available for June and December of a year.

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

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

(--) Not applicable.

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

(%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
GDP deflator	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3	2.9
Domestic demand deflator	-2.6	-2.3	-4.9	-4.2	0.1	1.2	1.9	2.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-3.8	-1.6	-3.0	-2.6	-0.4	1.0	2.0	2.0
CPI(A)	-3.0	-1.7	-3.2	-2.1	*	1.1	1.7	1.3
CPI(B)	-3.9	-1.6	-3.1	-2.7	-0.5	1.0	2.1	2.2
CPI(C)	-4.5	-1.5	-2.8	-2.9	-0.9	0.8	2.2	2.7
Unit Value Indices :								
Domestic exports	-1.0	-4.7	-3.3	0.2	1.5	2.2	-2.1	0.8
Re-exports	-0.1	-2.0	-2.7	-1.5	1.1	1.2	1.1	2.4
Total exports of goods	-0.2	-2.3	-2.7	-1.4	1.2	1.3	1.0	2.3
Imports of goods	0.8	-3.1	-3.9	-0.4	2.9	2.7	2.1	2.3
Terms of Trade Index	-1.0	0.9	1.2	-1.0	-1.7	-1.4	-1.1	0.1
Producer Price Index for all manufacturing industries <sup>(b)</sup>	0.2	-1.6	-2.7	-0.3	2.2	0.8	2.2	3.0
Tender Price Indices :								
Public sector building projects	-13.1	-8.5	-11.7	-0.3	-1.5	1.4	5.0	20.1
Public housing projects	-11.9	-15.1	-9.6	-10.0	3.5	7.7	11.2	19.7

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

(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>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>		Average annual rate of change:		
			Q3	Q4	Q1	Q2	10 years 1999 to 2009	5 years 2004 to 2009
GDP deflator	1.5 #	0.2 #	-1.0 #	0.2 #	2.0 #	-0.6 #	-1.5 #	0.8 #
Domestic demand deflator	2.8 #	-0.2 #	-0.2 #	1.2 #	2.4 #	2.6 #	-0.6 #	1.6 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.3	0.5	-0.9	1.3	1.9	2.6	-0.2	1.9
CPI(A)	3.6	0.4	-1.3	2.6	2.5	3.0	-0.2	1.6
CPI(B)	4.6	0.5	-0.8	1.0	1.9	2.5	-0.2	2.1
CPI(C)	4.7	0.6	-0.7	0.4	1.4	2.2	-0.2	2.2
Unit Value Indices :								
Domestic exports	5.1	-0.2	-2.2	-1.2	3.2	6.1	-0.2	1.1
Re-exports	3.8	1.2	0.3	0.9	2.8	3.9	0.4	1.9
Total exports of goods	3.8	1.1	0.2	0.8	2.8	4.0	0.4	1.9
Imports of goods	4.4	-0.1	-1.5	0.6	3.6	6.6	0.7	2.3
Terms of Trade Index	-0.5	1.3	1.7	0.2	-0.8	-2.4	-0.3	-0.4
Producer Price Index <sup>(b)</sup> for all manufacturing industries	5.6	-1.7	-2.0	-0.3	4.0	N.A.	--	--
Tender Price Indices :								
Public sector building projects	41.9	-15.9	-20.7	-12.3	5.6	N.A.	0.5	8.8
Public housing projects	30.8	-6.8	-10.0	-4.4	N.A.	N.A.	1.0	11.8

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

(%)								
	Weight	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>All items</b>	<b>100.0</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> (--)	<b>2.0</b> (--)
Food	26.94	-2.2	-0.8	-2.1	-1.5	1.0	1.8	1.7
<i>Meals bought away from home</i>	16.86	-0.9	-0.3	-1.5	-1.5	0.2	0.9	1.3
<i>Food, excluding meals bought away from home</i>	10.08	-4.2	-1.7	-3.1	-1.7	2.5	3.2	2.5
Housing <sup>(a)</sup>	29.17	-8.2	-3.1	-5.7	-4.8	-5.2	0.1	4.7
<i>Private housing rent</i>	23.93	-9.8	-2.9	-6.5	-6.3	-6.6	-0.1	5.6
<i>Public housing rent</i>	2.49	1.1	-8.3	-2.7	9.1	2.5	0.2	0.1
Electricity, gas and water	3.59	3.6	-1.9	-7.0	1.4	11.4	4.1	2.1
Alcoholic drinks and tobacco	0.87	-0.9	3.3	2.4	0.1	*	0.4	-3.7
Clothing and footwear	3.91	-10.1	-4.6	0.7	-2.7	6.4	2.0	1.0
Durable goods	5.50	-4.6	-7.1	-6.3	-6.4	-2.2	-3.2	-6.4
Miscellaneous goods	4.78	0.9	1.3	1.7	2.3	3.6	1.5	1.7
Transport	9.09	1.0	0.4	-0.6	-0.4	0.4	1.4	0.7
Miscellaneous services	16.15	-0.2	0.5	-2.3	-3.2	-0.2	1.0	1.9

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.

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

(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  $\pm 0.05\%$ .

(--) Not applicable.

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

(%)										
	Weight	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>		<u>2010</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 1999 to 2009	5 years 2004 to 2009
<b>All items</b>	<b>100.0</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>-0.9</b> <b>(-0.3)</b>	<b>1.3</b> <b>(-0.1)</b>	<b>1.9</b> <b>(0.8)</b>	<b>2.6</b> <b>(1.5)</b>	<b>-0.2</b> <b>(--)</b>	<b>1.9</b> <b>(--)</b>
Food	26.94	4.3	10.1	1.3	-0.5	-0.3	1.1	2.0	1.3	3.8
<i>Meals bought away from</i>	<i>16.86</i>	<i>2.5</i>	<i>5.9</i>	<i>1.6</i>	<i>0.7</i>	<i>0.6</i>	<i>0.8</i>	<i>1.4</i>	<i>0.8</i>	<i>2.4</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>10.08</i>	<i>7.1</i>	<i>16.8</i>	<i>0.9</i>	<i>-2.3</i>	<i>-1.5</i>	<i>1.5</i>	<i>2.8</i>	<i>2.1</i>	<i>5.9</i>
Housing <sup>(a)</sup>	29.17	2.0	4.1	3.7	1.7	1.9	-0.1	0.3	-1.3	2.9
<i>Private housing rent</i>	<i>23.93</i>	<i>4.0</i>	<i>6.8</i>	<i>3.6</i>	<i>2.0</i>	<i>*</i>	<i>*</i>	<i>0.4</i>	<i>-1.4</i>	<i>4.0</i>
<i>Public housing rent</i>	<i>2.49</i>	<i>-17.7</i>	<i>-27.2</i>	<i>9.5</i>	<i>-7.0</i>	<i>45.4</i>	<i>0.6</i>	<i>-0.3</i>	<i>-4.0</i>	<i>-8.0</i>
Electricity, gas and water	3.59	-0.7	-6.5	-25.3	-26.1	32.3	61.1	64.0	-2.4	-5.9
Alcoholic drinks and tobacco	0.87	-1.2	0.1	18.7	22.9	22.0	13.1	0.8	1.8	2.6
Clothing and footwear	3.91	4.1	0.8	2.7	2.6	3.7	1.4	2.0	-0.1	2.1
Durable goods	5.50	-4.7	-2.0	-3.0	-3.1	-2.8	-1.7	-1.6	-4.6	-4.0
Miscellaneous goods	4.78	2.5	5.0	2.3	1.7	1.9	2.0	2.3	2.3	2.6
Transport	9.09	-0.1	2.5	-0.9	-2.4	-1.0	1.1	1.7	0.4	0.7
Miscellaneous services	16.15	1.7	0.8	-2.1	-2.8	-0.7	0.5	2.1	-0.2	0.6



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

	(%)						
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Private consumption expenditure	-3.3	-1.1	-3.6	-2.5	-0.3	1.8	1.3
Government consumption expenditure	-1.8	1.1	-0.5	-2.6	-2.9	-1.4	1.0
Gross domestic fixed capital formation	-1.0	-6.6	-9.9	-9.4	2.6	1.0	4.2
Total exports of goods	-0.3	-2.6	-2.9	-1.8	0.9	0.6	0.3
Imports of goods	0.7	-3.5	-4.2	-0.9	2.9	1.9	2.1
Exports of services	0.5	-4.3	-2.4	-3.1	0.5	3.3	3.6
Imports of services	1.7	-1.1	0.3	2.7	4.1	1.0	0.8
<b>Gross Domestic Product</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>	<b>-0.3</b>
Total final demand	-1.1	-2.7	-3.6	-2.8	0.6	1.2	1.2
Domestic demand	-2.6	-2.3	-4.9	-4.2	0.1	1.2	1.9

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>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>		<u>2010</u>		Average annual rate of change:	
				Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 1999 to 2009 <sup>#</sup>	5 years 2004 to 2009 <sup>#</sup>
Private consumption expenditure	3.7	2.8	-1.5	-2.5	*	0.1	-0.2	-0.3	1.6
Government consumption expenditure	2.9	4.9	0.1	-1.6	-0.6	-0.9	-0.1	0.1	1.5
Gross domestic fixed capital formation	-2.5	1.9	3.9	7.9	5.0	11.1	11.3	-1.7	1.7
Total exports of goods	2.2	3.4	0.5	-0.9	0.9	2.8	4.1	*	1.4
Imports of goods	1.7	4.1	-1.3	-2.1	-0.1	3.9	7.1	0.3	1.7
Exports of services	2.5	3.4	-7.0	-8.4	-2.9	7.9	10.2	-0.4	1.1
Imports of services	2.9	3.8	-2.5	-3.3	5.2	7.3	4.9	1.4	1.2
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>1.5</b>	<b>0.2</b>	<b>-1.0</b>	<b>0.2</b>	<b>2.0</b>	<b>-0.6</b>	<b>-1.5</b>	<b>0.8</b>
Total final demand	2.2	3.2	-0.9	-1.9	0.4	3.4	4.4	-0.3	1.4
Domestic demand	2.1	2.8	-0.2	-0.2	1.2	2.4	2.6	-0.6	1.6

