

Press Release

(embargoed until 4:30 p.m. on 12 November 2010)

Economic Situation in the Third Quarter of 2010 and Latest GDP and Price Forecasts for 2010

The Government released today (Friday) the Third Quarter Economic Report 2010, together with the preliminary figures on Gross Domestic Product for the third quarter of 2010.

The Government Economist, Mrs Helen Chan, described the economic situation in the third quarter of 2010 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy remained robust in the third quarter of 2010. Real GDP expanded briskly further by 6.8% year-on-year, following a strong growth of 7.2% in the first half of 2010. On a seasonally adjusted quarter-to-quarter comparison, GDP grew by 0.7% in real terms in the third quarter, the sixth consecutive quarter of expansion.
- * Merchandise exports maintained strong momentum in the third quarter, surging by 20.8% in real terms over a year earlier. The strong domestic demand and further expansion in intra-regional production activity in the Asian markets provided the main impetus. The further recovery in the US and European markets from their troughs was also contributory, though demand in these markets had yet to return to their pre-crisis levels in 2008.
- * Exports of services were likewise vibrant, up 14.0% year-on-year in real terms in the third quarter. Inbound tourism thrived on the surge in visitor arrivals from the Mainland and other Asian markets. Exports of trade-related and transportation services continued to benefit from the resurgence in trade flows. Exports of financial and business services grew solidly further.
- * Domestic sector held up rather well in the third quarter. Riding on improving employment situation and rising incomes, private consumption expenditure picked up further and grew by 5.7% year-on-year in real terms. Investment saw a slower growth of 0.3% in real terms over a year earlier, mainly due to the relapse in machinery and equipment acquisition after three quarters of very rapid growth. Construction activity grew notably further, as the surge in public sector works went on.
- * Labour market continued to improve on a broad front. Total employment rose to a new high since early 2009, pushing the seasonally adjusted unemployment rate down to 4.2%. Labour income continued to increase.
- * Local stock market was range-bound in July and August, and rallied in September alongside other markets worldwide on increasing market

expectations of a new round of monetary easing in the US. Local property market made further gains in July and August, turned quieter in September, yet picked up again lately.

- * The global economy continued to recover at an uneven pace across regions. While the strength of recovery in most advanced economies remained weak, many emerging and developing economies, in particular the Mainland China, saw further strong growth. Given that the advanced economies are still the main driving force behind the final demand in global trade, their dimmer growth prospect may eventually pose a drag on external trade performance in Hong Kong and Asia as a whole. The more volatile exchange rates as well as the rise of protectionism will also increase the headwinds in the trading environment. While export orders have held relatively stable so far, the downside risks to Hong Kong's trade outlook have increased somewhat going forward.
- * Nevertheless, local consumer sentiment should remain firm in the near term, supported by the improving income and job prospects. As to business sentiment, the latest Quarterly Business Tendency Survey results indicate that the large enterprises remain positive about the near-term business outlook. Public sector construction works will sustain at high levels, also rendering support to domestic demand. Yet the Government will closely monitor the increasing asset market bubble risks facing the region, especially with the new round of quantitative easing in the US.
- * In the first three quarters of 2010, GDP expanded strongly by 7.1% in real terms over a year earlier. Even allowing for some possible deceleration in the fourth quarter, economic growth in 2010 should exceed the forecast of 5-6% announced in August. Thus, the GDP growth forecast for 2010 as a whole is revised upwards to 6.5%.
- * Underlying consumer price inflation, which excludes the effects of the Government's relief measures to give a more accurate indication of the inflation trend, rose to 2.0% in the third quarter. Indeed, rising inflation along with strong economic expansion is a common phenomenon among many Asian economies, and Hong Kong is no exception. Looking ahead, inflation in Hong Kong is likely to go up further, as the rise-back in domestic costs, as well as higher import prices amid a weaker US dollar and elevated global food and commodity prices, continue to feed through. The new round of quantitative easing in the US, which could trigger further funds influx into the region, will also pose upside risks to inflation. Nevertheless, the sustained productivity growth in the economy should provide a partial offset. Underlying consumer price inflation, which averaged at 1.4% in the first three quarters of 2010, is now forecast at 1.7% for the year as a whole, revised upwards from 1.5% in the August round. The forecast rate of headline consumer price inflation for 2010 as a whole is also revised upwards accordingly, from 2.3% to 2.5%.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP leaped by 6.8% in the third quarter over a year earlier, following a 6.5% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.7% in the third quarter, the sixth consecutive quarter of expansion (*Chart*). As a result, the seasonally adjusted level of real GDP in the third quarter surpassed the pre-crisis peak in the first quarter of 2008 by some 2.3%.

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

External trade

3. *Total exports of goods* maintained strong momentum in the third quarter. Total exports of goods surged by 20.8% in real terms over a year earlier, further to the 20.1% growth in the second quarter. Exports to major Asian markets continued to be the key growth driver, thanks to the strong domestic demand in these economies and also the increase in intra-regional production activity. Exports to the US and Europe also improved further, as their import demand continued to rise back from their troughs in 2009. Yet demand in the US and European markets had yet to return to their pre-crisis levels in 2008. On a seasonally adjusted quarter-to-quarter basis, total exports of goods stayed steady in real terms in the third quarter.

4. *Exports of services* continued to perform well in the third quarter, up 14.0% in real terms over a year earlier, after the 17.1% increase in the second quarter. Exports of travel services were buoyed by robust growth in incoming visitors across most major markets, in particular the Mainland and other Asian markets. Exports of transportation and trade-related services continued to benefit from the vibrant trade flows in the region and the resurgence in trade with the rest of the world. Exports of financial and business services expanded further despite a higher base of comparison a year earlier. On a seasonally adjusted quarter-to-quarter basis, exports of services grew further by 0.8% in real terms in the third quarter.

Domestic sector

5. The domestic sector held up well in the third quarter. Supported by improving job and income prospects, *private consumption expenditure* picked up further in the third quarter, by 5.7% year-on-year in real terms, following a 4.4% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure leaped by 1.7% in real terms in the

third quarter. *Government consumption expenditure* also grew steadily further, by 3.4% in real terms in the third quarter as compared to a year earlier.

6. *Overall investment spending* increased marginally by 0.3% in real terms in the third quarter over a year earlier, after the strong growth of 15.6% in the second quarter. The slower growth of overall investment in the third quarter, despite the largely sanguine business confidence, was due to the 6.4% decline in machinery and equipment acquisitions after three quarters of double-digit year-on-year growth, the latter being a highly volatile component which can show big fluctuations from quarter to quarter. Expenditure on building and construction grew notably further by 9.2% in the third quarter, again driven by the continued surge in public sector works. Private sector construction activity was still flat.

The labour sector

7. The labour market improved further on a broad front, thanks to an increasingly entrenched economic recovery. Total employment continued to climb back, pushing the *seasonally adjusted unemployment rate* down further to 4.2% in the third quarter, the lowest since end-2008. The *underemployment rate* also continued its downtrend, reaching 1.9% in the third quarter. Meanwhile, labour wages and earnings rose further in the second quarter.

The asset markets

8. *Local stock market* showed some rebound in July but fell again in August, generally range-bound as market sentiment remained under the influence of the ongoing sovereign debt problem in Europe and the bumpy recovery in the advanced economies. Nevertheless, local stock market resumed an uptrend alongside other major markets worldwide entering September, on expectations of an extension of the super-loose monetary stance in the advanced economies and in particular, a new round of quantitative easing by the US. The Hang Seng Index rallied during September, closing the month at 22 358, up 11% and 2% respectively over end-June this year and end-2009.

9. *Residential property market* remained vibrant in July and August, gaining in both prices and transaction volume. It then turned quieter in September, after the Government's further round of measures in mid-August to contain the housing market bubble risk. Yet the market resumed momentum again lately, along with the stock market rally and market expectations that interest rates would remain exceptionally low for an expanded period of time. Overall flat prices rose by 5% between June 2010 and September 2010, giving a cumulative increase of 22% over the pre-crisis peak in June 2008. Transactions in the third quarter leaped by 18% over the preceding quarter, reflecting the active trading amid positive market sentiment. With the exceptionally low mortgage interest rates, 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 still below the long-term average of 53% over 1989 to 2008, but has risen further to 42%

in the third quarter. Meanwhile, rentals for flats, offices and shops notched up further, along with the pick-up in leasing demand and commercial activities.

Prices

10. *Underlying consumer price inflation* rose further from 1.5% in the second quarter to 2.0% in the third quarter. Taking into account the effect of the Government's one-off measures, *headline consumer price inflation* stood at 2.3% in the third quarter, down from 2.6% in the second quarter. The narrowing gap between the headline and underlying inflation rates in the third quarter was largely due to the dissipation of the lower base effect created by the electricity subsidy with the final payment ended in August last year, as well as an extra month of public housing rental waiver in the third quarter this year as compared to the previous year.

Latest GDP and price forecasts for 2010

11. The global economy continued to recover at an uneven pace across regions. While the strength of recovery in most advanced economies remained weak, many emerging and developing economies, in particular the Mainland China, saw further strong growth. Given that the advanced economies are still the main driving force behind the final demand in global trade, their dimmer growth prospect may eventually pose a drag on external trade performance in Hong Kong and Asia as a whole. The more volatile exchange rates as well as the rise of protectionism will also increase the headwinds in the trading environment. While export orders have held relatively stable so far, the downside risks to Hong Kong's trade outlook have increased somewhat going forward.

12. Nevertheless, local consumer sentiment should remain firm in the near term, supported by the improving income and job prospects. As to business sentiment, the latest Quarterly Business Tendency Survey results indicate that the large enterprises remain positive about the near-term business outlook. Public sector construction works will sustain at high levels, also rendering support to domestic demand. Yet the Government will closely monitor the increasing asset market bubble risks facing the region, especially with the new round of quantitative easing in the US.

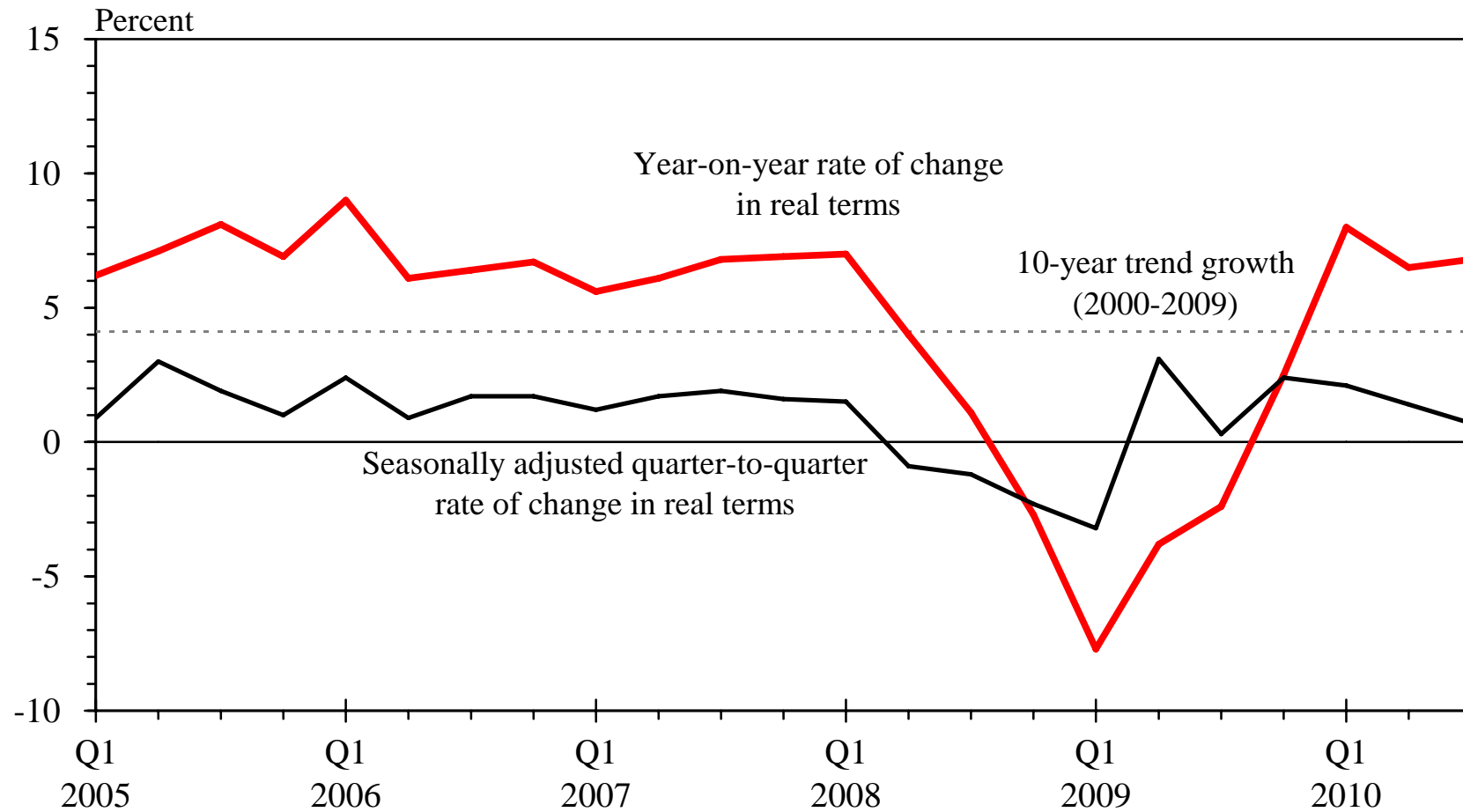
13. In the first three quarters of 2010, GDP expanded strongly by 7.1% in real terms over a year earlier. Even allowing for some possible deceleration in the fourth quarter, economic growth in 2010 should exceed the forecast of 5-6% announced in August. Thus, the GDP growth forecast for 2010 as a whole is revised upwards to 6.5% (*Table 2*). For information, most private sector analysts are currently projecting the economy to expand by 5-7%, averaging at around 6%.

14. Inflation in Hong Kong is likely to go up further, as the rise-back in domestic costs, as well as higher import prices amid a weaker US dollar and elevated global food and commodity prices, continue to feed through. The new round of quantitative easing in the US, which could trigger further funds influx into

the region, will also pose upside risks to inflation. Nevertheless, the sustained productivity growth in the economy should provide a partial offset. Underlying consumer price inflation, which averaged at 1.4% in the first three quarters of 2010, is now forecast at 1.7% for the year as a whole, revised upwards from 1.5% in the August round. The forecast rate of headline consumer price inflation for 2010 as a whole is also revised upwards accordingly, from 2.3% to 2.5%.

(The Third Quarter 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 \$100 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, Third Quarter 2010, which contains the GDP figures up to the third 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 third 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[#]</u>	<u>2009[#]</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>	<u>Q3⁺</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)	4.4 (1.4)	5.7 (1.7)
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)	3.4 (1.4)
Gross domestic fixed capital formation	0.8	-1.8	-10.3	-11.8	3.2	14.1	8.2	15.6	0.3
<i>of which :</i>									
Building and construction	6.1	-0.5	-5.6	-2.4	5.4	1.3	-7.2	12.3	9.2
Machinery, equipment and computer software	-0.8	-2.6	-4.1	-16.6	-2.1	16.2	11.9	16.4	-6.4
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)	20.8 (*)
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)	16.5 (-3.1)
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)	17.1 (0.9)	14.0 (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)	12.4 (3.4)	9.9 (-0.8)
Gross Domestic Product	2.2	-2.8	-7.7 (-3.2)	-3.8 (3.1)	-2.4 (0.3)	2.5 (2.4)	8.0 (2.1)	6.5 (1.4)	6.8 (0.7)
<i>Change in the main price indicators (%)</i>									
GDP deflator	1.5	0.2	0.7 (0.2)	0.9 (0.2)	-1.0 (-0.6)	0.2 (0.4)	2.0 (2.0)	* (-1.7)	2.5 (1.8)
Composite CPI									
Headline	4.3	0.5	1.7 (0.4)	-0.1 (-0.2)	-0.9 (-1.1)	1.3 (2.2)	1.9 (1.0)	2.6 (0.5)	2.3 (-1.4)
Underlying[^]	5.6	1.0	3.1 (-0.1)	1.2 (-0.3)	-0.3 (-0.2)	-0.1 (0.5)	0.8 (0.7)	1.5 (0.5)	2.0 (0.3)
<u>Change in nominal GDP (%)</u>	3.7	-2.6	-7.0	-2.9	-3.4	2.7	10.1	6.5	9.5

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

(#) Revised figures.

(+) Preliminary figures.

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

(*) Change of less than 0.05%.

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

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

	Forecasts for 2010 as released on 13.8.2010 (%)	Latest forecasts for 2010 on 12.11.2010 (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	5 to 6	6.5
<i>Nominal GDP</i>	5 to 6	8
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	2.3	2.5
<i>Underlying CCPI</i>	1.5	1.7
GDP Deflator	0	1.5



Third Quarter Economic Report 2010

Government of the Hong Kong
Special Administrative Region

THIRD QUARTER ECONOMIC REPORT 2010

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

November 2010

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

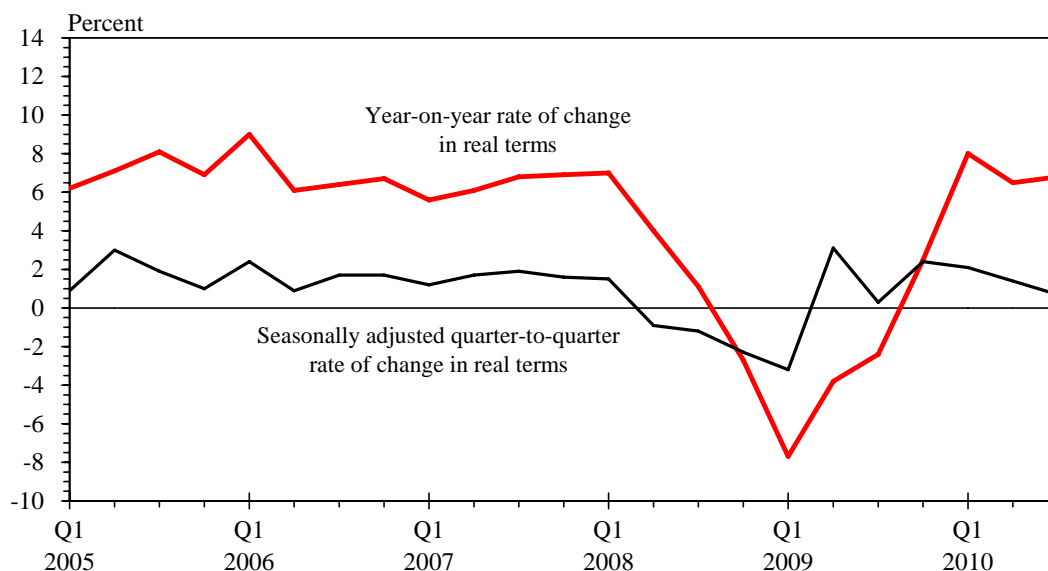
Summary

- *The Hong Kong economy remained robust in the third quarter of 2010. Real GDP expanded briskly further by 6.8% year-on-year, following a strong growth of 7.2% in the first half of 2010. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.7%.*
- *Merchandise exports maintained strong momentum in the third quarter. The strong domestic demand and further expansion in intra-regional production activity in the Asian markets provided the main impetus. The further recovery in the US and European markets was also contributory, though demand in these markets had yet to return to their pre-crisis peaks in 2008.*
- *Exports of services were likewise vibrant. Inbound tourism thrived on the surge in visitor arrivals from the Mainland and other Asian markets. Exports of trade-related and transportation services continued to benefit from the resurgence in trade flows. Exports of financial and business services grew solidly further.*
- *Domestic sector held up rather well. Private consumption expenditure picked up further, riding on improving employment situations and rising incomes. Investment saw a modest growth, mainly due to the relapse in machinery and equipment acquisition after three quarters of very fast growth. Construction activity grew notably further, as the surge in public sector works went on.*
- *Labour market continued to improve on a broad front. Total employment rose to a new high since early 2009, pushing the seasonally adjusted unemployment rate down to 4.2%. Underemployment rate also improved further to 1.9%. Labour income continued to increase.*
- *Local stock market was range-bound in July and August, then rallied in September alongside other markets worldwide on increasing market expectations of a new round of monetary easing in the United States. Local property market made further gains in July and August, yet turned quieter in September.*
- *Underlying consumer price inflation notched up to 2.0% in the third quarter, as both domestic and external cost pressures continued to feed through. Yet overall price pressures remained moderate so far, particularly when viewed alongside the brisk economic expansion.*

Overall situation

1.1 The Hong Kong economy continued to see a robust recovery in the third quarter of 2010. Private consumption picked up further, thanks to improving income and job prospects. While business sentiments remained sanguine in general, investment expanded modestly further after three quarters of notable growth. The strong growth momentum in the external sector extended well into the third quarter. Merchandise exports continued to perform very well in the Asian markets. Further revival in demand in the US and Europe also rendered additional support to the overall export performance. Exports of services were vibrant across the board, driven by buoyant inbound tourism, surging trade flows, as well as thriving fundraising and other commercial activities. Nevertheless, external trade environment remained subject to considerable headwinds, amid more volatile movements in the currency markets, rise in protectionist sentiment, and increasing signs of advanced economies losing steam. Local stock market was range-bound in July and August, but embarked on an uptrend during September alongside other market rally worldwide on expectations of an imminent round of quantitative easing in the US. Inflation notched up further, but remained moderate when viewed against the brisk economic expansion.

**Diagram 1.1 : Recovery continued to proceed robustly
in the third quarter of 2010**



1.2 In the third quarter of 2010, the *Gross Domestic Product* (GDP)⁽¹⁾ leaped by 6.8% in real terms over a year earlier, following a 6.5% growth in the second quarter (unchanged from the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP grew by 0.7% in real terms in the third quarter, the sixth consecutive quarter of expansion. As a result, the seasonally adjusted GDP level in the third quarter surpassed the pre-crisis peak in the first quarter of 2008 by some 2.3%.

The external sector

1.3 *Total exports of goods* maintained strong momentum in the third quarter. Exports to major Asian markets continued to be the growth driver, thanks to the strong domestic demand in these economies and also the increase in intra-regional production activity. Exports to the US and Europe also improved further, as their import demand continued to rise back from their troughs in 2009. The global economic recovery remained uneven across regions⁽³⁾. Asia was the bright spot, with strong domestic demand and thriving exports. Hong Kong was no exception. In the third quarter, total exports of goods surged by 20.8% in real terms over a year earlier, further to the 20.1% growth in the second quarter. Yet the fundamentals of advanced markets remained rather fragile, and the pace of expansion in economic activities tended to decelerate more recently. The near-term trade outlook in the Asia region has dimmed somewhat and remains subject to potential headwinds from the weakening recovery in the advanced economies.

1.4 *Exports of services* continued to perform well in the third quarter, up 14.0% in real terms over a year earlier, after the 17.1% increase in the second quarter. Exports of travel services were buoyed by robust growth in incoming visitors across most major markets, in particular the Mainland and other Asian markets. Exports of transportation and trade-related services continued to benefit from the vibrant trade flows in the region and the resurgence in trade with the rest of the world. Exports of financial and business services expanded solidly further from the higher base of comparison a year earlier.

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

	<u>2008[#]</u>	<u>2009[#]</u>	<u>2009</u>				<u>2010</u>		
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<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)	4.4 (1.4)	5.7 (1.7)
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)	3.4 (1.4)
Gross domestic fixed capital formation	0.8	-1.8	-10.3	-11.8	3.2	14.1	8.2	15.6	0.3
<i>of which :</i>									
Building and construction	6.1	-0.5	-5.6	-2.4	5.4	1.3	-7.2	12.3	9.2
Machinery, equipment and computer software	-0.8	-2.6	-4.1	-16.6	-2.1	16.2	11.9	16.4	-6.4
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)	20.8 (*)
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)	16.5 (-3.1)
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Gross Domestic Product	2.2	-2.8	-7.7 (-3.2)	-3.8 (3.1)	-2.4 (0.3)	2.5 (2.4)	8.0 (2.1)	6.5 (1.4)	6.8 (0.7)
<i>Change in the main price indicators (%)</i>									
GDP deflator	1.5	0.2	0.7 (0.2)	0.9 (0.2)	-1.0 (-0.6)	0.2 (0.4)	2.0 (2.0)	* (-1.7)	2.5 (1.8)
Composite CPI									
Headline	4.3	0.5	1.7 (0.4)	-0.1 (-0.2)	-0.9 (-1.1)	1.3 (2.2)	1.9 (1.0)	2.6 (0.5)	2.3 (-1.4)
Underlying[^]	5.6	1.0	3.1 (-0.1)	1.2 (-0.3)	-0.3 (-0.2)	-0.1 (0.5)	0.8 (0.7)	1.5 (0.5)	2.0 (0.3)
Change in nominal GDP (%)	3.7	-2.6	-7.0	-2.9	-3.4	2.7	10.1	6.5	9.5

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

(#) Revised figures.

(+) Preliminary figures.

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

(*) Change of less than 0.05%.

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

The domestic sector

1.5 The domestic sector held up rather well in the third quarter. Supported by improving job and income prospects, *private consumption expenditure* picked up further in the third quarter, growing by 5.7% year-on-year in real terms, following the 4.4% growth in the second quarter. *Government consumption expenditure* also grew steadily further in the third quarter.

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

Of which :

		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
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	4.8	27.3	5.7
	Q1	9.1	3.9	29.9	14.6	5.1	4.0	19.9	7.1
	Q2	7.6	2.9	26.4	12.6	4.6	5.6	36.7	4.4
	Q3	9.0	4.0	27.6	14.9	5.1	7.0	34.2	5.7

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 picked up further

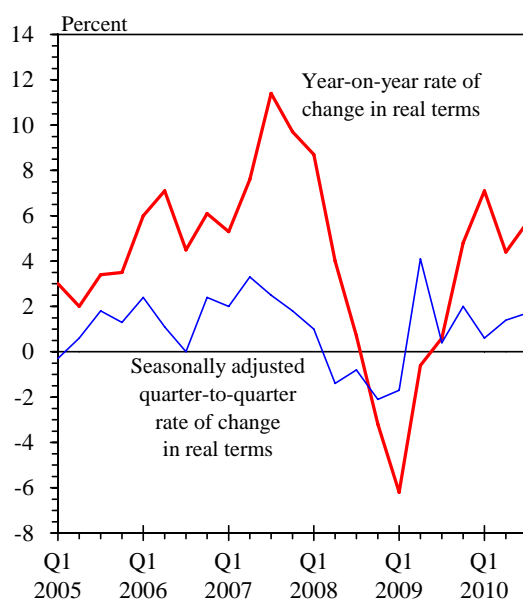
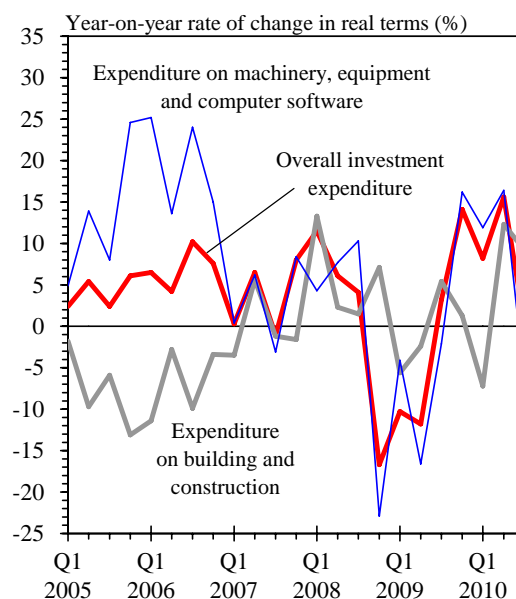


Diagram 1.3 : Fixed investment grew modestly after three quarters of notable growth



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* increased modestly by 0.3% in real terms in the third quarter of 2010 over a year earlier, after a strong growth of 15.6% in the second quarter. The more moderate growth in the third quarter was mainly due to a relapse in machinery and equipment acquisitions, a highly volatile component which can show big fluctuations from quarter to quarter. For the third quarter specifically, there was a decline of 6.4% in real terms over a year earlier, after three quarters of double-digit year-on-year growth. On the whole, business sentiments were still sanguine. The latest Quarterly Business Tendency Survey results indicated that the large enterprises remained positive about the near-term business outlook, while the views of small and medium enterprises (SMEs) were a bit mixed (See **Box 1.1** for details of the survey on SMEs). Expenditure on building and construction grew notably further by 9.2% in the third quarter, again driven by the continued surge in public sector works. Yet private sector construction activity still recorded a decline.

Box 1.1

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)⁽¹⁾, 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 *Half-yearly 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. 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 a slight tapering in September and held largely steady in October (**Table 1**). In October, a larger proportion of SMEs in seven out of the ten sectors surveyed reported stable or some improvement in business receipts. Among these sectors, the rise in reading for real estate, financing institutions and business services was particularly notable, in tandem with the robust pickup in public sector construction activity and commercial activity. On the other hand, SMEs in import/export trades, logistics, and travel reported some declines in business in October. Separately, the results of the consultation indicated that SMEs' employment situation held largely stable (**Table 2**).

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 rose to 50.9 in August but dipped again to 48.7 in September and 48.3 in October, below the boom-bust dividing line of 50, in tandem with the slowing growth in the advanced economies.

(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 1.1 (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 3.0% in October 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 had remained at zero since June 2010, 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 October, some 20 200 companies benefited under these schemes, involving approved loan amount of over \$98 billion. This also indirectly helped to secure the jobs of those employed by these companies, totaling over 330 000.

Table 1 : Diffusion indices[^] on business receipts

	<u>2010</u>				
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>					
Restaurants	47.5	49.1	50.8	49.2	51.8
Travel	46.6	53.4	53.4	48.3	48.3
Real estate	47.0	56.1	48.5	45.6	57.4
Retail trade	43.9	50.0	50.0	51.3	50.0
Wholesale trade	47.5	47.4	47.4	47.4	52.6
Insurance	45.3	45.0	47.5	47.5	52.5
Business services	43.8	50.0	45.5	45.5	51.5
<i>External segments</i>					
Import/export trades	50.0	50.0	50.9	47.3	48.3
Logistics	52.6	44.7	42.5	44.7	44.7
Financing institutions	47.2	44.7	44.9	50.0	56.6
All the above sectors*	47.5	49.7	49.3	48.1	49.8

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 1.1 (Cont'd)

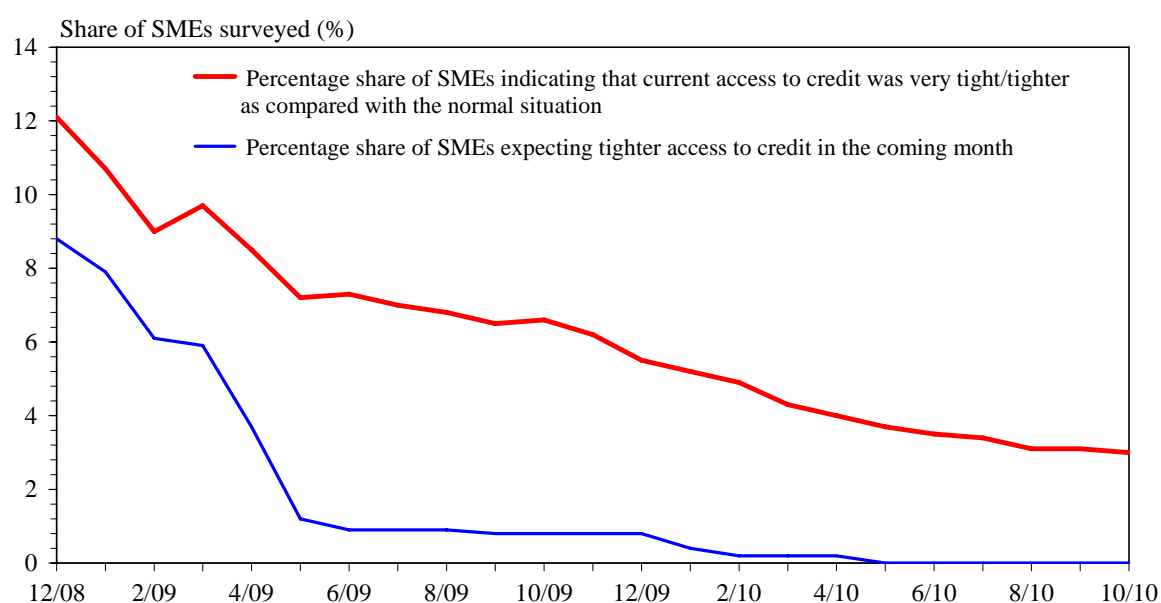
Table 2 : Diffusion indices^ on employment situation

	<u>2010</u>				
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>					
Restaurants	49.2	49.1	49.2	49.2	50.0
Travel	48.3	50.0	50.0	50.0	50.0
Real estate	50.0	48.5	48.5	51.5	50.0
Retail trade	50.0	49.6	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0
Insurance	54.8	50.0	50.0	50.0	50.0
Business services	48.4	53.0	48.5	48.5	50.0
<i>External segments</i>					
Import/export trades	50.5	50.0	50.0	50.0	50.0
Logistics	47.4	47.4	47.5	47.4	50.0
Financing institutions	50.0	51.3	51.3	51.3	55.3
All the above sectors*	49.9	49.9	49.6	49.8	50.0

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.

Chart 1 : Access to credit improved further



The labour sector

1.7 The labour market improved further on a broad front, thanks to an increasingly entrenched economic recovery. Total employment continued to climb back, pushing the *seasonally adjusted unemployment rate* down further to 4.2% in the third quarter of 2010, the lowest level since end-2008. The *underemployment rate* also continued its downtrend, reaching 1.9% in the third quarter. Meanwhile, labour wages and earnings rose further in the second quarter.

The asset markets

1.8 *Local stock market* showed some rebound in July but fell again in August, generally range-bound as market sentiments remained under the influence of the ongoing sovereign debt problem in Europe and the bumpy recovery in the advanced economies. Nevertheless, local stock market resumed an uptrend alongside other major markets worldwide on entering September, on expectations of an extension of the super-loose monetary stance in the advanced economies and in particular, a new round of quantitative easing by the United States. Hang Seng Index rallied during September, closing the month at 22 358, up 11% and 2% respectively over end-June this year and end-2009.

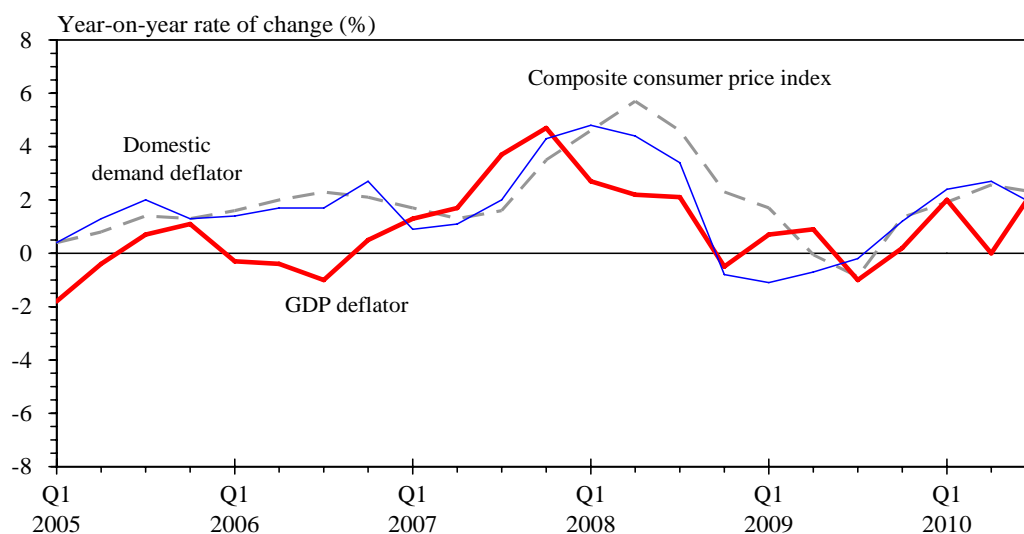
1.9 *Residential property market* remained vibrant in July and August, gaining in both prices and transaction volume, before turning somewhat quieter in September, after the Financial Secretary announced further measures in mid-August to control the potential risks of asset market bubble in the property sector. Overall flat prices rose by 5% between June 2010 and September 2010, following a cumulative increase of 29% during 2009 and a further rise of 9% during the first half of 2010. Transactions in the third quarter leaped by 18% over the preceding quarter, reflecting the active trading amid positive market sentiment. With the exceptionally low mortgage interest rates, 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 still below the long-term average of 53% over 1989 to 2008, but has risen further to around 42% in the third quarter. Meanwhile, rentals for flats, offices and shops notched up further, along with the pickup in leasing demand and commercial activities.

Inflation

1.10 Consumer price inflation climbed up further in the third quarter of 2010, as the reflationary process that accompanied the economic recovery went on. On the external front, renewed weakening of the US dollar during the third quarter, rising global food prices and higher inflation in Asia all added to the price pressure from imported sources. Yet hefty productivity growth in the overall economy has provided an effective cushion, which was the major contributory factor behind the still relatively moderate inflation notwithstanding the rapid economic growth so far this year. *Underlying consumer price inflation*, which nets out the effect of Government's relief measures to provide a more accurate indicator of the inflation trend, averaged at 2.0% in the third quarter, up from 1.5% in the second quarter. Taking into account the effect of Government's one-off measures, *headline consumer price inflation* stood at 2.3% in the third quarter as compared to 2.6% in the second quarter. The narrowing gap between the headline and underlying inflation rates in the third quarter was largely due to the dissipation of the low base effect created by the electricity subsidy with the final payment ended in August last year, as well as an extra month of public housing rental waiver in the third quarter this year as compared to the previous year.

1.11 The *GDP deflator* went up by 2.5% in the third quarter as compared to a year earlier. The faster increase as compared to virtually flat in the second quarter was due mainly to a reversion to improvement in the terms of trade, brought about by a narrower increase in the prices of imports of goods and services. Domestic demand deflator continued to rise in the third quarter, as inflationary pressure from domestic sources sustained alongside the economic recovery.

Diagram 1.4 : Inflationary pressures climbed up further in the third quarter



GDP by major economic sector

1.12 With the economic recovery becoming more entrenched, activity across most major sectors saw further expansion by varying extents in the second quarter of 2010. The manufacturing sector expanded moderately further by 2.5% in the second quarter, after reverting to growth in the first quarter. Construction sector expanded robustly by 16.2% over a year earlier, helped mainly by the surge in public sector works. The services sector, the mainstay of Hong Kong's economy, leaped further by 6.2% in the second quarter over a year earlier. Thanks to thriving trade flows and business activity, import and export trade continued to see the sharpest growth, followed by wholesale and retail trades, and transport and storage. Growth in financing and insurance decelerated notably alongside the intensification of the European sovereign debt problem in the earlier part of the second quarter. Real estate fell modestly further by 1.8% during the quarter.

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

	<u>2009</u>					<u>2010</u>	
	<u>2009</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-9.2	-12.3	-10.6	-8.0	-6.2	1.0	2.5
Construction	1.6	-3.4	-1.0	7.0	4.7	-0.6	16.2
Services ^(b)	-2.0	-6.9	-3.4	-1.4	3.4	8.4	6.2
Wholesale, retail and import and export trades, restaurants and hotels	-7.7	-15.4	-11.3	-8.3	2.4	19.8	16.3
Wholesale and retail trades	-3.5	-10.4	-7.9	-3.6	6.3	17.2	15.0
Import and export trade	-8.9	-18.4	-12.8	-9.5	2.2	22.9	18.0
Restaurants and hotels	-4.3	-5.3	-7.6	-4.0	-0.6	7.8	8.6
Transport, storage and communications	-4.9	-6.7	-7.5	-6.0	0.6	5.0	10.5
Transport and storage	-6.5	-8.4	-9.6	-7.9	-0.2	5.0	12.3
Communications	1.2	0.5	-0.2	1.3	3.2	5.0	4.3
Financing, insurance, real estate and business services	1.5	-6.4	*	5.2	7.6	6.1	0.9
Financing and insurance	1.9	-8.9	0.8	6.3	10.3	8.5	0.3
Real estate	1.8	-4.9	1.6	5.2	6.2	-1.5	-1.8
Business services	-0.1	-0.2	-1.5	0.6	0.5	7.2	5.7
Community, social and personal services	1.4	0.7	2.0	1.3	1.5	4.5	3.6

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

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

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

(*) Less than 0.05%.

Some highlights of economic policy

1.13 The Government announced further measures in August to control the potential risks and curb speculative activities in the property market. The measures include increasing the land supply, disallowing confirmor transactions of first-hand uncompleted flats, raising the forfeiture in cancelling property transactions to 10%, and monitoring the implementation of earlier measures to enhance the transparency of property information and transactions.

1.14 The 2010-11 Policy Address announced by the Government pledged to give priority to livelihood issues of principal concern to the community. These included housing, the ageing population and the wealth gap. The Policy Address also outlined continued efforts to promote the development of a diversified economy, while building on the strengths of the pillar industries and enhancing Hong Kong competitiveness. Specific measures, among others, are as follows:

- On livelihood issues, the Government will increase land and housing supply, introduce the rent-to-purchase scheme “My Home Purchase Plan” (see **Box 3.1** for details), combat inter-generational poverty through education, collaborate with the business sector in poverty alleviation through the “Community Care Fund”, and enhance employment support and elderly welfare. These measures are introduced with a view to improving the social life and fabric of the community.
- On the National 12th Five-Year Plan, the Government is working with Guangdong Province to incorporate the most important functions and roles of Hong Kong-Guangdong co-operation into the Five-Year Plan. The Government will strive to enhance Hong Kong’s status as an international centre for financial services, trade, shipping and logistics and help our service industries expand their presence in the Mainland market progressively.
- On regional co-operation, the Government will continue to work with the Shenzhen authorities to encourage the trades in Hong Kong to seize the opportunities arising from the development of Qianhai. The Government will continue to promote exchanges with Taiwan, as well as co-operations with other emerging markets.

- On long-term industrial development, the Government is implementing measures to consolidate our traditional pillar industries and develop the six industries⁽⁴⁾ where Hong Kong enjoys clear advantages, with a view to putting Hong Kong on a path towards a diversified and high value-added economy.
- The Government will also promote quality life through enhancing environmental protection, culture and recreation, youth development and family harmony.

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 October 2010, the International Monetary Fund (IMF) revised up further its global GDP growth forecast for 2010 to 4.8% from its July forecast of 4.6%, while lowering slightly its forecast for 2011 to 4.2%. Specifically for Asia, the IMF forecast the region to expand by 7.9% in 2010 and 6.7% in 2011, as compared to its corresponding forecasts of 7.5% and 6.8% in July. Yet the IMF still cautioned against the fragile recovery and predomination of downside risks to the outlook.
- (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, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The strong momentum in the external sector extended well into the third quarter of 2010, mainly supported by the robust economic activities in the Asian region, in particular the strong demand from a vibrant Mainland economy. World trade flows also saw further recovery and moved closer to pre-crisis peak, despite the more volatile movements in the currency markets and the rise in protectionist sentiment.*
- *Total exports of goods remained vibrant in the third quarter, up 23.2% in real terms over a year earlier⁽¹⁾. Exports to major Asian markets grew sizably further, thanks to the strong domestic demand in these economies and also the increase in intra-regional production activity. Exports to the US and Europe recovered further in the third quarter from the very low base a year earlier, but had yet to return to their pre-crisis peaks in 2008. Yet with increasing signs that the advanced economies are losing steam, the near-term trade outlook has dimmed somewhat lately.*
- *Exports of services sustained a double-digit growth in the third quarter. Travel services surged further amid vibrant inbound tourism. The further growth in merchandise trade flows also lent impetus to exports of trade-related and transportation services. Exports of financial and business services grew solidly further from a notably higher base of comparison last year.*
- *The 2010-11 Policy Address announced by the Chief Executive on 13 October 2010 outlined strategies to further promote regional co-operation and deepen trade ties with our hinterland and trading partners. These include collaboration with Shenzhen Qianhai and Taiwan, as well as developing the renminbi (RMB) business and enhancing access of local professional services to the Mainland market. The Government is also actively seeking to broaden trade ties with the emerging markets, for example by engaging in dialogue with Russia to explore further trade and investment facilitation and cooperation opportunities.*

Visible trade

Total exports of goods

2.1 Hong Kong's merchandise exports maintained strong growth momentum in the third quarter. Regional demand remained robust alongside the continued rapid growth in most of the Asian economies, in particular the Mainland. Demand from the US and Europe also saw further recovery, but still lagged far behind the Asian markets and had yet to return to their pre-crisis peak in 2008. In the third quarter, the sovereign debt problem in Europe lingered on, and more indications confirmed slowing growth momentum in the US, Europe and Japan. Nevertheless the headwinds from these developments had not yet shown up in Hong Kong's external trade performance. Total exports of goods (comprising re-exports and domestic exports) expanded briskly, by 23.2% in real terms over a year earlier, after the 19.7% increase in the previous quarter. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased slightly further by 0.1% in real terms in the third quarter, after the 3.9% growth in the second quarter.

2.2 The global economy continued to recover unevenly across regions in the third quarter. Asian economies remained in the leading position with strong domestic demand and thriving exports. In particular, the continued vibrant growth in the Mainland economy lent support to the robust intra-regional trade performance, thereby also supporting export growth in Hong Kong. In the US and Europe, import demand continued to recover. Nevertheless, the fundamentals of the advanced markets remained rather fragile, with only a modest pace of expansion in economic activities in the third quarter. This had dimmed the near-term trade outlook for Asia, especially as the import demand from these economies, which in many cases represent the final markets for the consumer and capital goods produced in the region, was still languishing below the pre-crisis level. As such, while the volume of world merchandise trade had been rising back to near the peak before the 2008-09 Great Recession, there remains much uncertainty and indeed headwinds regarding the trade performance going forward (See **Box 2.1**).

2.3 *Re-exports*⁽²⁾ remained the mainstay of overall merchandise exports, accounting for 97.8% of total export value in the third quarter of 2010. Re-exports rose sizably by 23.4% in real terms in the third quarter over a year earlier, as compared to the 19.7% growth in the second quarter. Domestic exports, which constitute the remaining share of total exports, likewise reported further notable growth of 14.9%, as against the 17.0% increase in the preceding quarter.

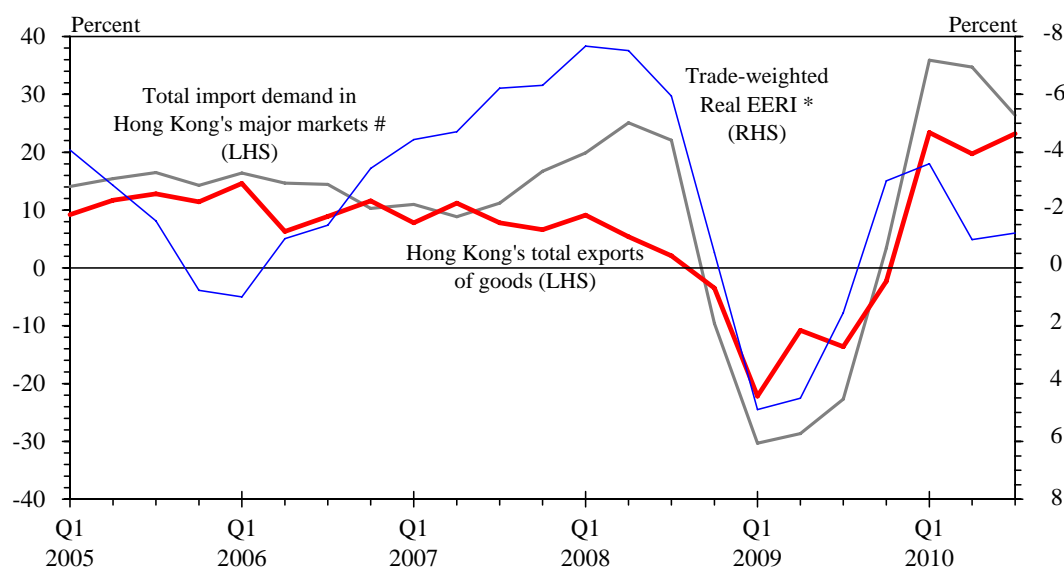
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

	<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
Q3	27.8	23.2 (0.1)	5.2	27.9	23.4 (0.3)	5.2	20.2	14.9 (-8.7)	5.7

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 third 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 third quarter of 2010 is based on statistics for July and August 2010.

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

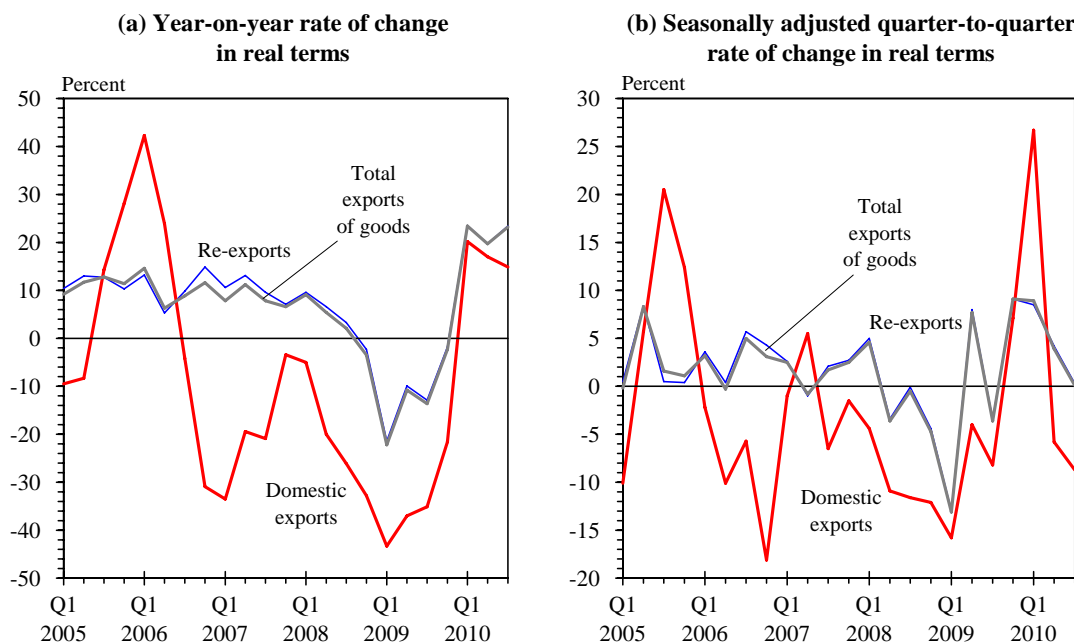
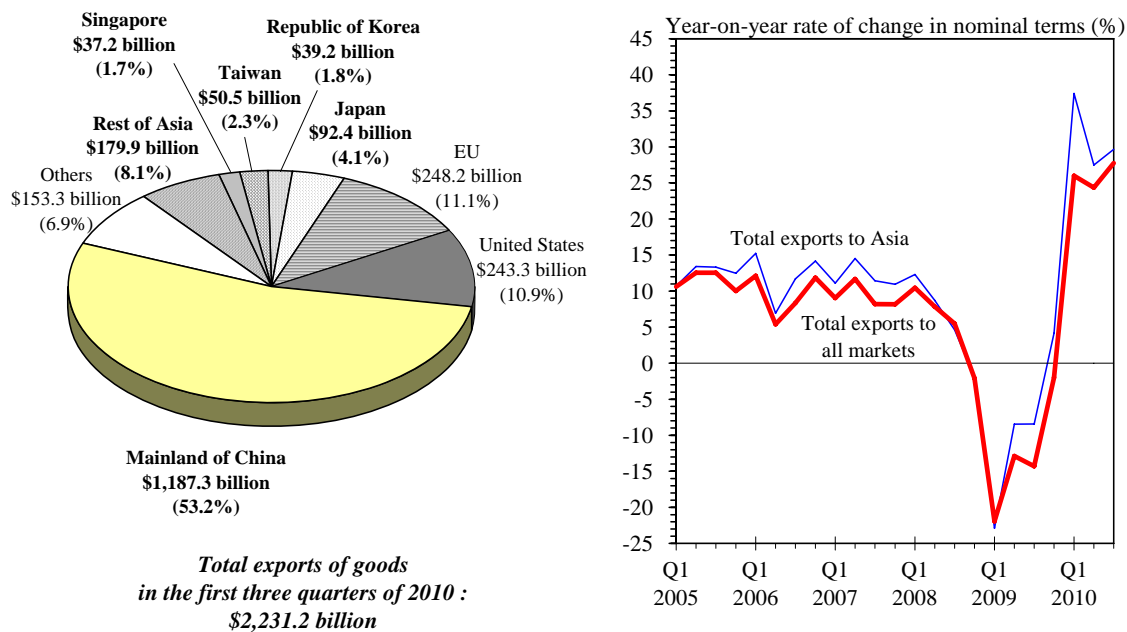


Diagram 2.3 : The Asian markets continued to be the major growth driver of Hong Kong's external trade

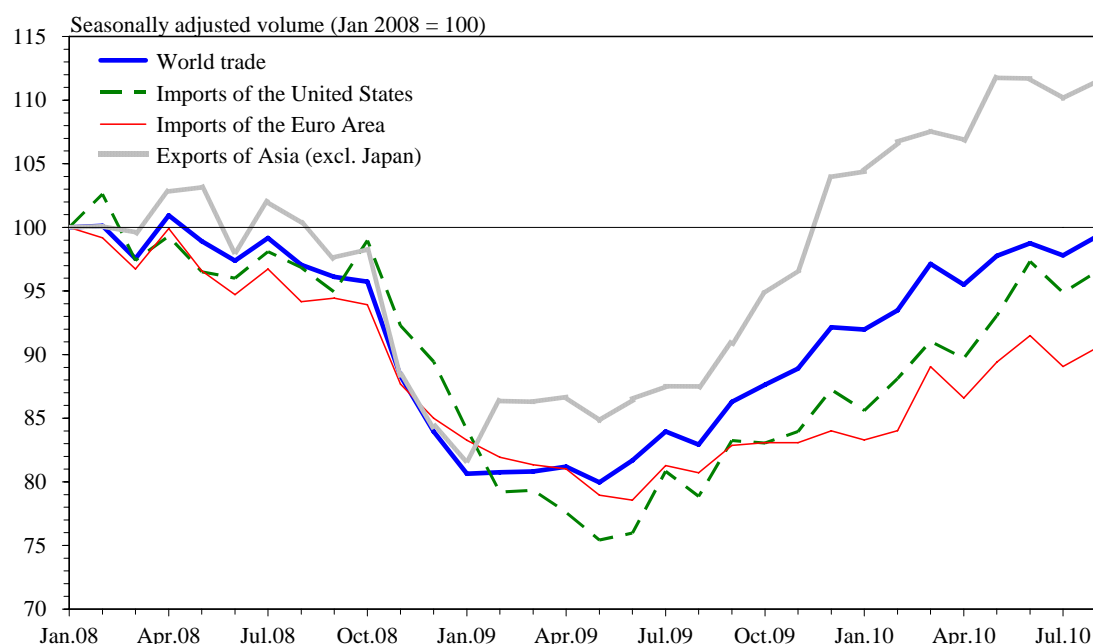


Box 2.1

Recovery of merchandise trade in Asia in the aftermath of the global financial crisis

With the Global Financial Crisis in autumn 2008, the economic downturn in the US and Europe in the earlier part of 2008 mutated into a synchronised recession around the world straddling 2008 and 2009. World trade volume plunged alongside the import demand in the US and Europe towards the end of 2008, and languished at low levels in most of 2009. The Asian economies, being the main exporters of many manufactured goods in the world, also saw a steep decline in merchandise trade flows in late 2008, which stayed low in early 2009 (*Chart 1*).

Chart 1 : World merchandise trade flows converging to pre-crisis peak, led by robust emerging Asia, but US and Europe still lagging behind



Source: Netherlands Bureau for Economic Policy Analysis
(<http://www.cpb.nl/eng/research/sector2/data/trademonitor.html>)

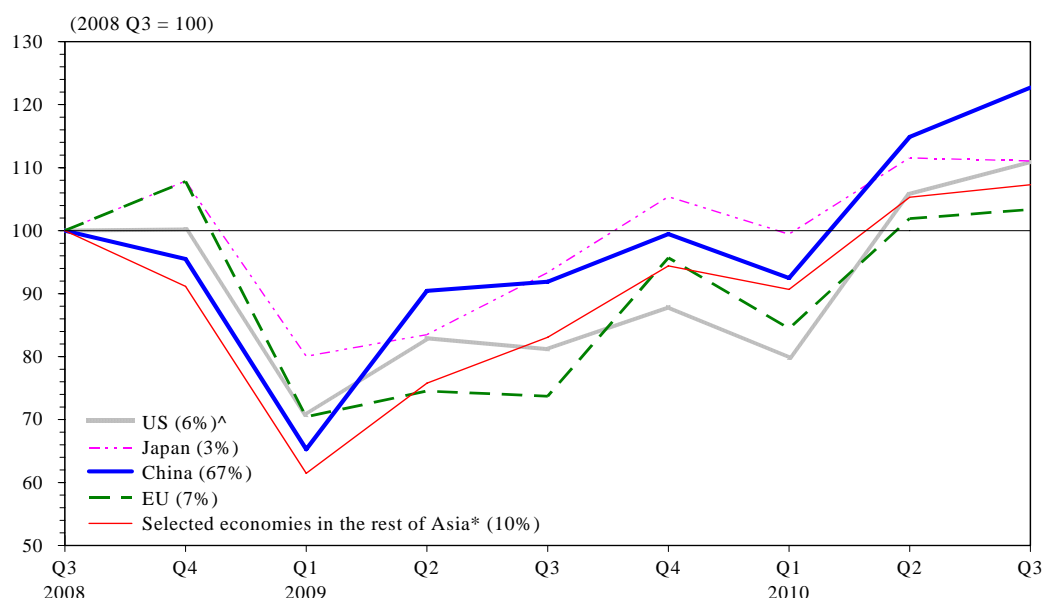
Nevertheless, the Asian economies were the first to recover, in particular the Mainland China economy which resumed faster growth in the second quarter of 2009. The gradual recovery in demand from the US and the euro area towards the end of 2009 was also contributory to the rapid rebound in exports of the Asian economies. However, the economic recovery in the US and Europe was slow, lagging far behind the robust Asian performance. By August 2010, while exports of emerging Asia exceeded the peak in 2008 by a notable margin, import demand from the US, and more visibly the euro area, had yet to resume their pre-crisis levels in 2008.

Box 2.1 (Cont'd)

Looking at Hong Kong's exports to selected markets by end-use categories (**Chart 2**) may also shed some light on the profile of import demand of our major markets. Key observations are as follows:

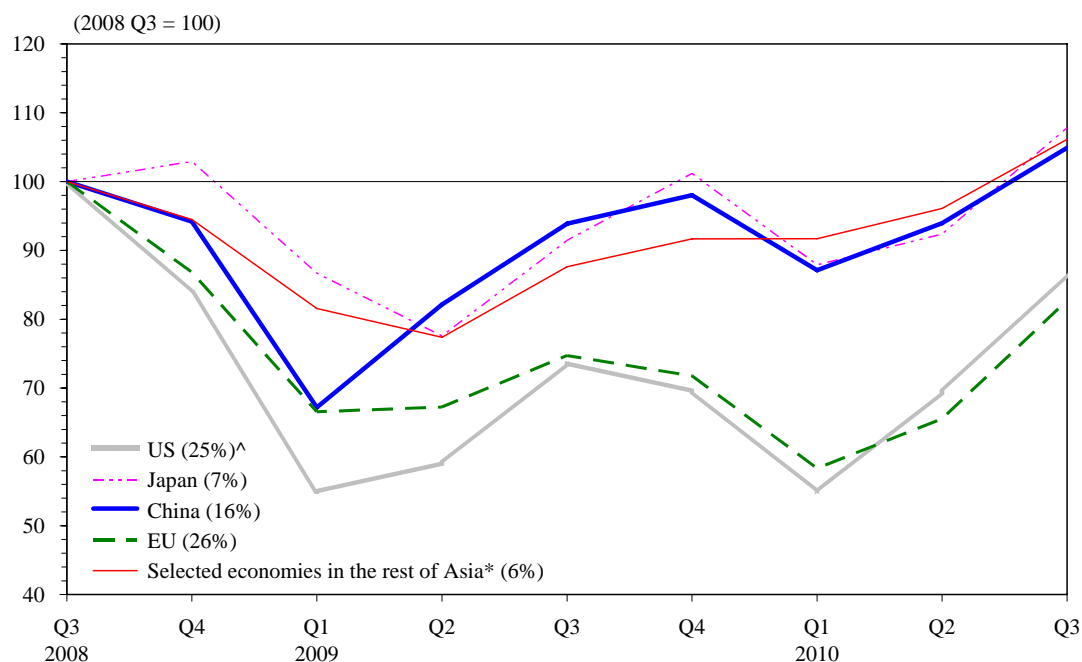
- Under the categories of capital goods and raw materials (**Chart 2a**), Hong Kong's exports to all major markets have surpassed their corresponding pre-crisis levels in 2008. The Mainland China market outperformed the others by a wide margin, while exports to Japan and the rest of Asia were also robust. Given that exports of capital goods and raw materials took up a large share of Hong Kong's exports to these markets, the sharp rebound in Hong Kong's trade flows with the rest of the Asian region was largely driven by the robust industrial production and investment activity in Asia. Exports of capital goods and raw materials to the US and Europe also showed some recovery. Yet the boost to Hong Kong's trade flows from this was relatively marginal in comparison, given the small shares of these end-use categories in Hong Kong's exports to these markets.
- Demand for consumer goods showed a clear divergence between the Asia region and the US and Europe markets (**Chart 2b**). Exports to the Asian markets were more resilient, while those to the US and Europe lagged behind and still fell short of the 2008 level by some notable margin. Given that the US and EU account for over 50% of Hong Kong's total exports of consumer goods, Hong Kong's external trade performance remained subject to a drag from the rather weak consumption demand there.

Chart 2 : Hong Kong's exports to selected markets
(a) Raw materials and capital goods



Notes: ([^]) Percentage in brackets refers to the share accounted by the market concerned in Hong Kong's total exports of raw materials and capital goods in 2009.

(*) These include Taiwan, Indonesia, Philippines, Korea, Thailand, Malaysia and Singapore.

Box 2.1 (Cont'd)**(b) Consumer goods**

Notes: (^) Percentage in brackets refers to the share accounted by the market concerned in Hong Kong's total exports of consumer goods in 2009.

(*) These include Taiwan, Indonesia, Philippines, Korea, Thailand, Malaysia and Singapore.

The above discussion illustrates the divergence between the robust Asian exports and the relatively weak import demand from the US and Europe. The uneven recovery highlights the need for growth rebalancing in the global economy. Advanced economies across regions need to rebuild saving and rely more on export growth, whereas export-dependent Asian economies need to rebalance their growth engine from external sources to domestic demand. While there has been some progress on this front, as can be seen from the rather notable pickup in Hong Kong's exports of consumer goods to Asia, the scale of consumption demand in emerging Asia is still small in comparison to that of the advanced economies, suggesting that this structural process has some way to go and it will take time before Asia can take over from the advanced economies as an engine driving global final demand. Moreover, to the extent that the resurgence in intra-regional trade in Asia is driven by final demand in the advanced economies, there is every reason for cautiousness in the regional export outlook ahead, despite the fact that the volume of world merchandise trade in recent months has already risen back to a level close to the pre-crisis peak.

**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
	Q3	26.3	19.7	15.8	15.4	13.1	17.6	22.2

2.4 Total exports of goods grew robustly further across all major markets in the third quarter as compared to a year earlier. The Asian markets continued to be the growth driver, with growth momentum particularly strong in the Mainland market. Other Asian markets such as Japan, Korea, Taiwan and Singapore also saw double-digit growth, despite the higher base of comparison in the same quarter last year. The vibrant exports to the Asian markets were in particular driven by the strong industrial production activities and investment demand there. But strong demand for consumer goods in some markets was also contributory.

2.5 Total exports to the US and the European Union saw further recovery alongside the revival in import demand in the third quarter. Nevertheless, it is to be noted that the demand from these regions was to some extent still below the peak in 2008 before the Global Financial Crisis struck. In particular, the demand for consumer goods, which accounts for the largest proportion of Hong Kong's exports to these markets, remained weak. The intakes of raw materials and capital goods in these economies performed relatively better and saw continued recovery, but were in many cases also far behind those in the Asian economies. With growth momentum in these economies losing some steam lately, alongside the more volatile movements in the currency markets and the rise in protectionist sentiment, the uncertainties in the external trading environment facing Hong Kong going forward remain considerable.

Diagram 2.4 : Exports to the Mainland remained robust

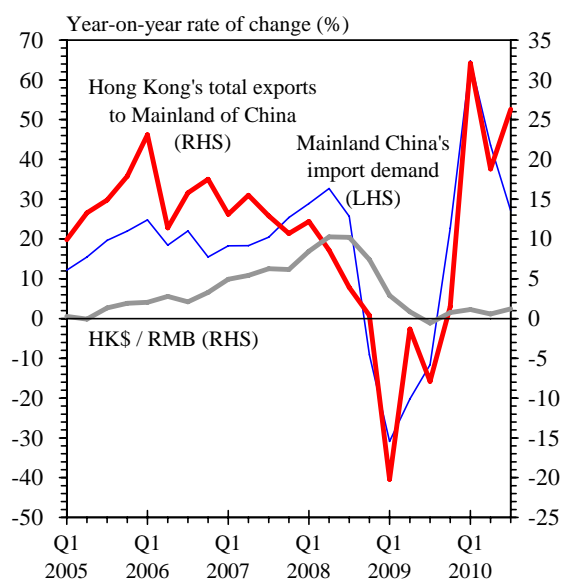


Diagram 2.5 : Exports to the EU picked up further

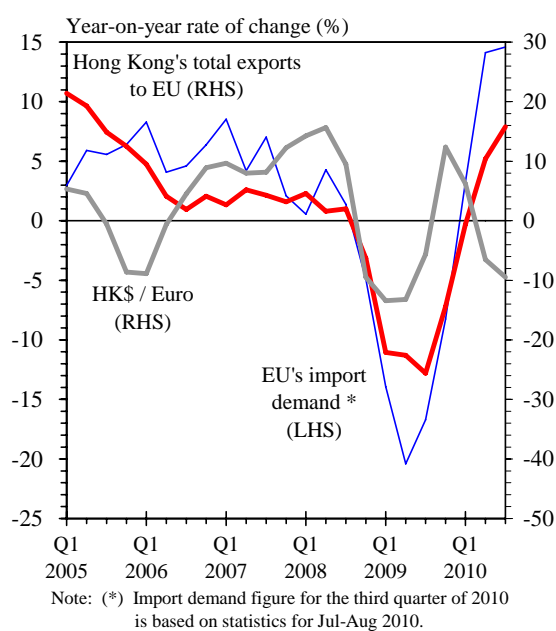


Diagram 2.6 : Exports to the US continued to recover

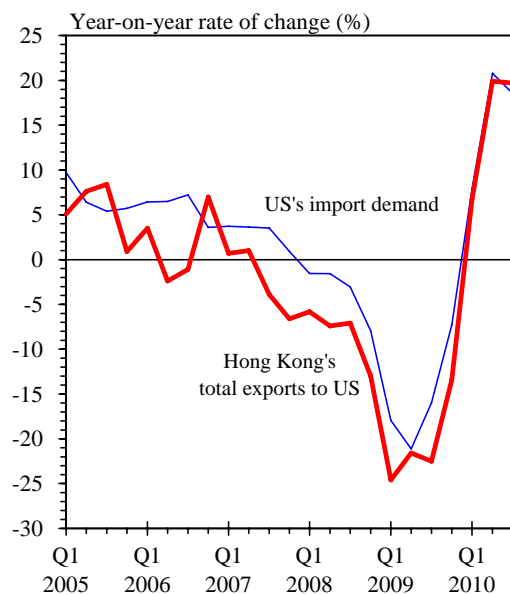


Diagram 2.7 : Exports to Japan grew notably

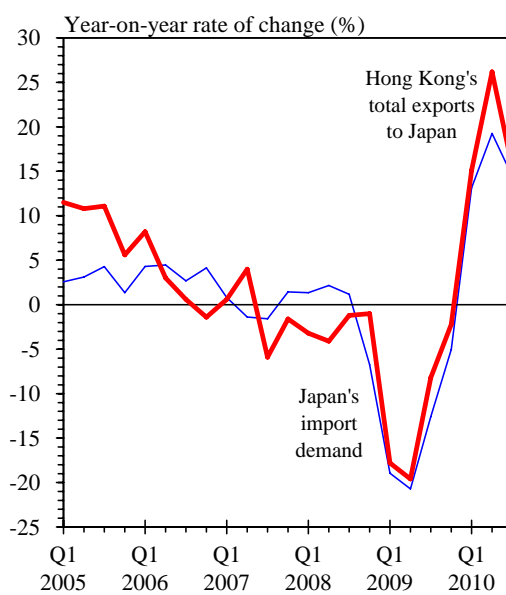


Diagram 2.8 : Exports to Singapore sustained double-digit growth again

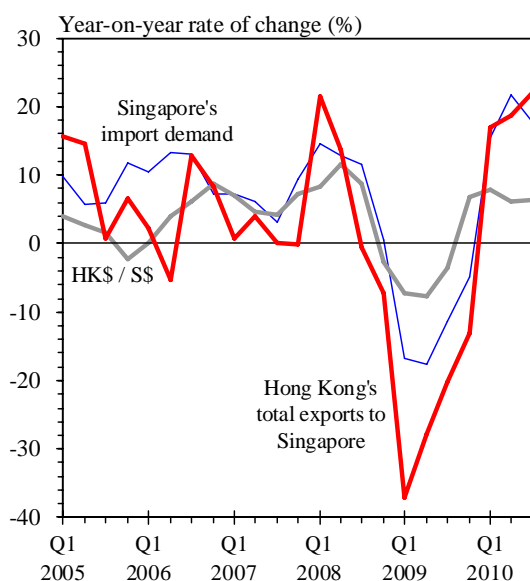
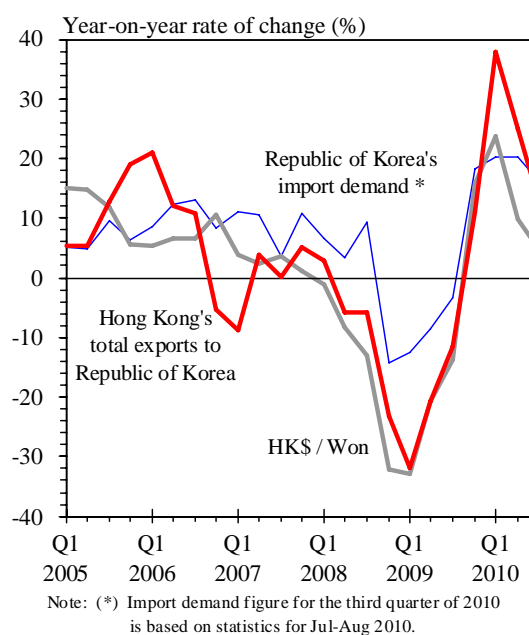


Diagram 2.9 : And so did exports to the Republic of Korea



Imports of goods

2.6 *Imports of goods* likewise expanded sizably in the third quarter, by 17.3% in real terms over a year earlier, as compared to the 22.8% growth in the second quarter. *Retained imports*, referring to the imports for domestic use, grew by 2.5% in the third quarter, a deceleration from the 32.0% growth in the second quarter as the inventory accumulation faded out and the base of comparison in the same quarter last year shifted higher. Retained imports of foodstuffs, consumer goods, fuels and capital goods all recorded smaller though still solid growth rates. Those of raw materials recorded a decline after four quarters of very rapid growth. On a seasonally adjusted quarter-to-quarter basis, retained imports shrank by 4.9% in real terms in the third quarter, following a decline of 9.2% in the previous quarter.

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

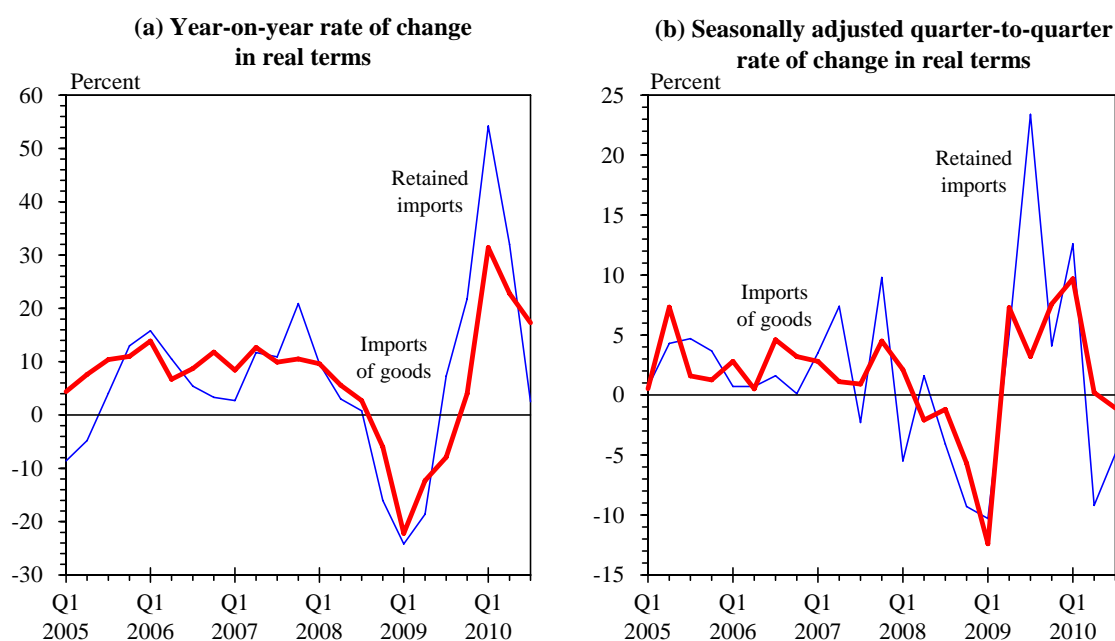
		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u>		<u>Change In prices</u>	<u>In value terms</u>	<u>In real terms</u>		<u>Change in prices</u>
2009	Annual	-11.0	-9.4		-0.1	-10.8	-3.8		-5.8
	H1	-18.6	-17.0		*	-26.7	-21.3		-6.7
	H2	-3.8	-2.1		-0.5	5.8	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
	Q3	24.1	17.3	(-1.1)	7.2	13.7	2.5	(-4.9)	13.3

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 : Imports grew faster than retained imports in the third quarter



**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
	Q3	7.2	2.8	7.2	-18.1	14.6

Invisible trade

Exports of services

2.7 *Exports of services* continued to perform well in the third quarter, growing by 14.0% in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services climbed further by 0.8% in real terms in the third quarter. Exports of travel services rose sharply further by 34.4%, driven by strong influx of visitors across most major markets, in particular the Mainland and other Asian markets. Exports of transportation and trade-related services (mainly offshore trade) continued to benefit from the vibrant trade flows in the region and some gradual return in trade with the rest of the world, surging further by 8.4% and 15.5% respectively. Exports of financial and business services likewise grew solidly further by 5.2%, from a notably higher base of comparison a year earlier.

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

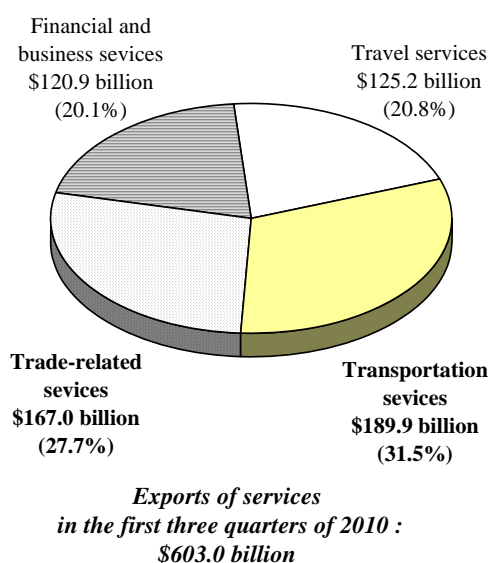


Diagram 2.12 : Exports of services continued to perform well

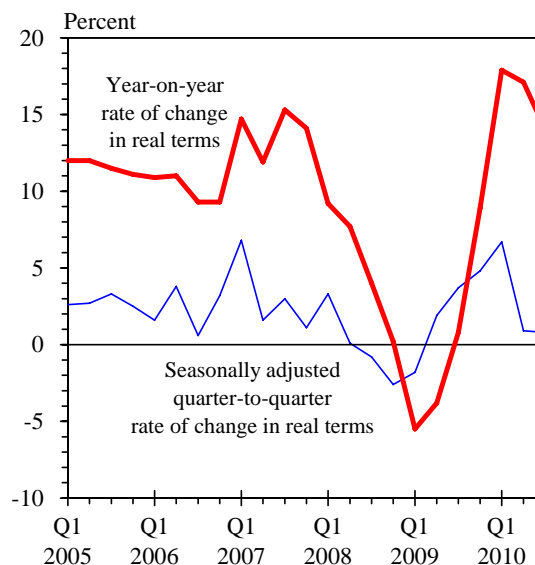


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		<u>Exports of services</u>		<u>Trade-related services</u> ^(a)	<u>Transportation services</u>	<u>Travel services</u> ^(b)	<u>Financial and business services</u>
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	17.5		19.4	13.0	27.4	14.3
	Q1	17.9	(6.7)	20.7	15.2	20.0	16.9
	Q2	17.1	(0.9)	18.1	11.1	36.9	11.1
	Q3	14.0	(0.8)	15.5	8.4	34.4	5.2

- 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* were likewise sanguine, up 9.9% in real terms over a year earlier in the third quarter. On a seasonally adjusted quarter-to-quarter comparison, imports of services nevertheless fell modestly by 0.8% after notable increases in the previous five quarters. The robust trade flows continued to lend support to imports of transportation and trade-related services. The year-on-year growth in imports of financial and business services and travel services remained notable, as sanguine local consumer and business sentiments buoyed financial market and commercial activities as well as the demand for outbound tourism.

Diagram 2.13 : Robust trade flows continued to lend support to imports of transportation and trade-related services

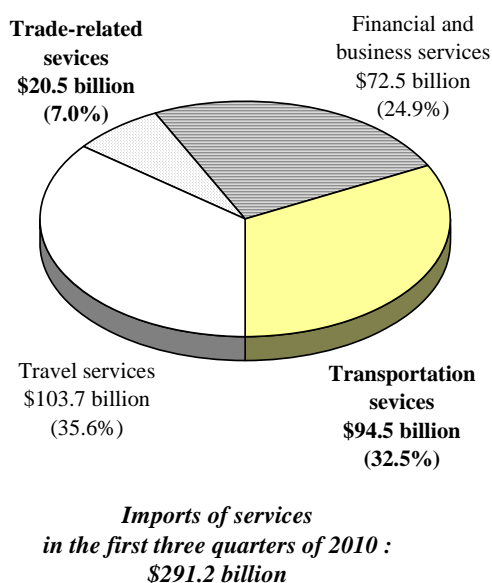
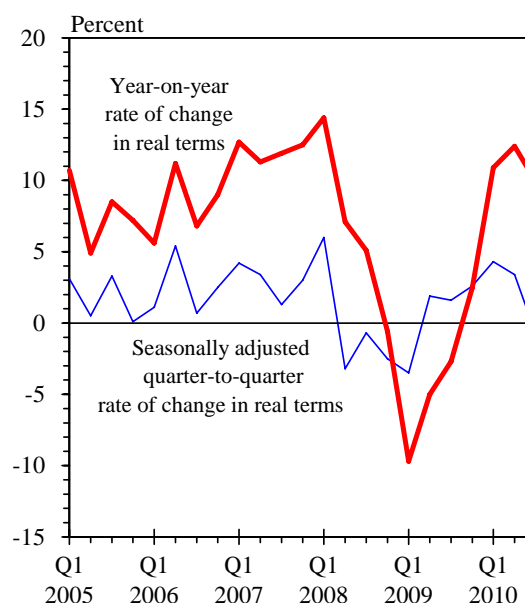


Diagram 2.14 : Imports of services grew solidly



**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⁽⁺⁾</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		6.4	14.1	18.8	14.6
	Q1	10.9	(4.3)	5.4	12.3	20.1	14.9
	Q2	12.4	(3.4)	7.5	15.7	17.5	14.2
	Q3	9.9	(-0.8)	9.2	10.9	14.9	8.0

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 After dipping into a small deficit in the second quarter, the combined visible and invisible trade account reverted to a sizable surplus of \$57.1 billion, or 5.7% of the total value of imports of goods and services, in the third quarter. As compared to a year earlier, visible trade deficit narrowed in the third quarter due to a faster expansion in merchandise exports than imports. The surplus in invisible trade account also widened, thanks to more rapid growth in exports of services than imports. As a result, the combined surplus in the third quarter was considerably larger than the corresponding figures of \$20.1 billion or 2.5% in the same quarter last year, a reflection of Hong Kong's resilience in external competitiveness.

**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	381	1,599	187	-185	195	10	0.6
	Q1	640	193	728	93	-88	100	13	1.5
	Q2	774	189	871	94	-97	95	-3	-0.3
	Q3	838	222	898	105	-60	117	57	5.7

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

Other developments

2.10 The 2010-11 Policy Address announced by the Chief Executive on 13 October 2010 outlined strategies to further promote regional co-operation and deepen trade ties with our hinterland and trading partners. Specific directions include working with the Shenzhen authorities to encourage trades in Hong Kong to seize the opportunities arising from the development of Qianhai, continuing to promote multi-faceted and multi-level exchanges with Taiwan, strengthening financial co-operation with the Mainland in developing Hong Kong into a global capital formation, asset management and offshore renminbi (RMB) business centre through “early and pilot implementation”, and further promoting access of local professional services to the Mainland market through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

2.11 The Government is actively seeking to expand trade and investment relations with emerging markets. In September, the Government was in dialogue with Russia to explore the possibility of avoidance of double taxation as well as other trade and investment facilitation and cooperation opportunities.

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

- *Riding on the ongoing economic recovery and low interest rate environment, the residential property market remained buoyant in the early part of the third quarter before showing a brief consolidation starting mid-August. Overall flat prices soared by another 5% between June and September, with transactions in the quarter rising to a high since late 2007.*
- *Given that the major economies might engage in another round of quantitative easing with the resulting abundant liquidity and low interest rates, the Government is mindful of the risks of a housing bubble. The Government has rolled out further measures in August and October to ensure a healthy and stable property market.*
- *Inbound tourism continued to boom in the third quarter on the back of continued surge of Mainland visitors. Visitors from other major sources also registered solid growth.*
- *The logistics sector showed further growth in the third quarter, though the pace decelerated as the base of comparison shifted higher.*

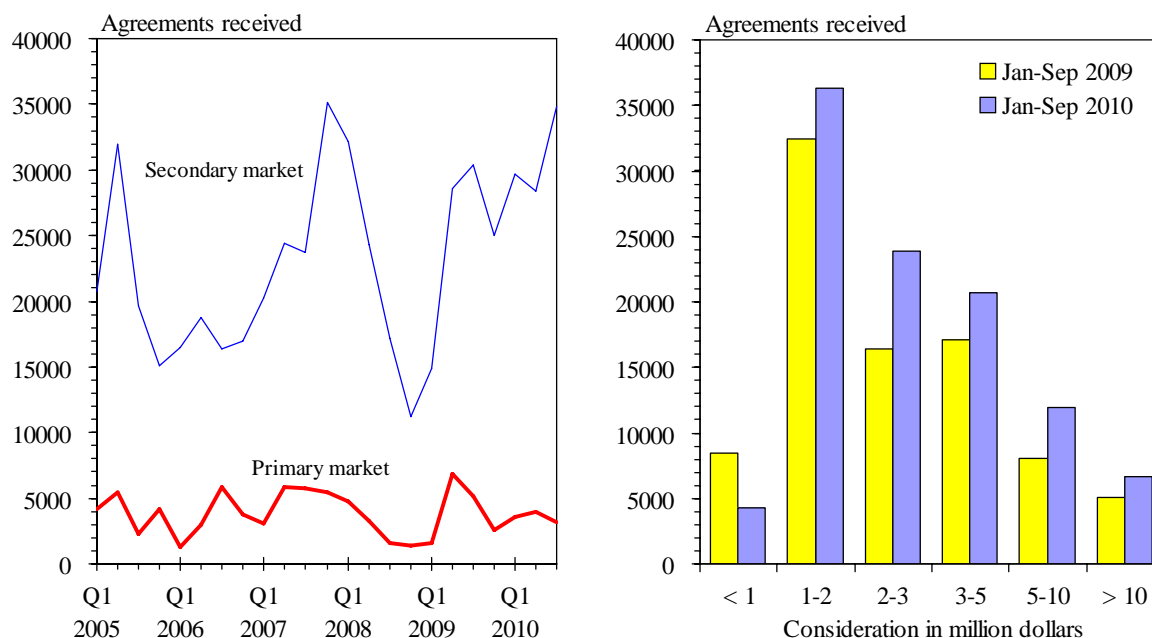
Property

3.1 The residential property market remained buoyant in the early part of the third quarter, as the ongoing economic recovery and low interest rates continued to lend support to both prices and transactions. This was followed by a consolidation starting mid-August after the Government rolled out another round of measures to ensure the healthy and stable development of the market⁽¹⁾. With buyers becoming more cautious in face of increased uncertainties, property prices generally moved sideways amid dwindling transactions in the latter part of the third quarter.

3.2 Reflecting the vibrant trading in July and early August, the number of sale and purchase (S&P) agreements for residential property received by the Land Registry increased by 7% over a year earlier to 38 080 for the third quarter as a whole. The total consideration for the agreements increased even more, by 16% to \$162.6 billion. Indeed, both the number and the total consideration of S&P agreements for residential property in the quarter were the highest since the fourth quarter of 2007. Taking the first nine months of 2010 together, the

number of S&P agreements surged by 19% over a year earlier, with increases recorded for almost all price ranges.

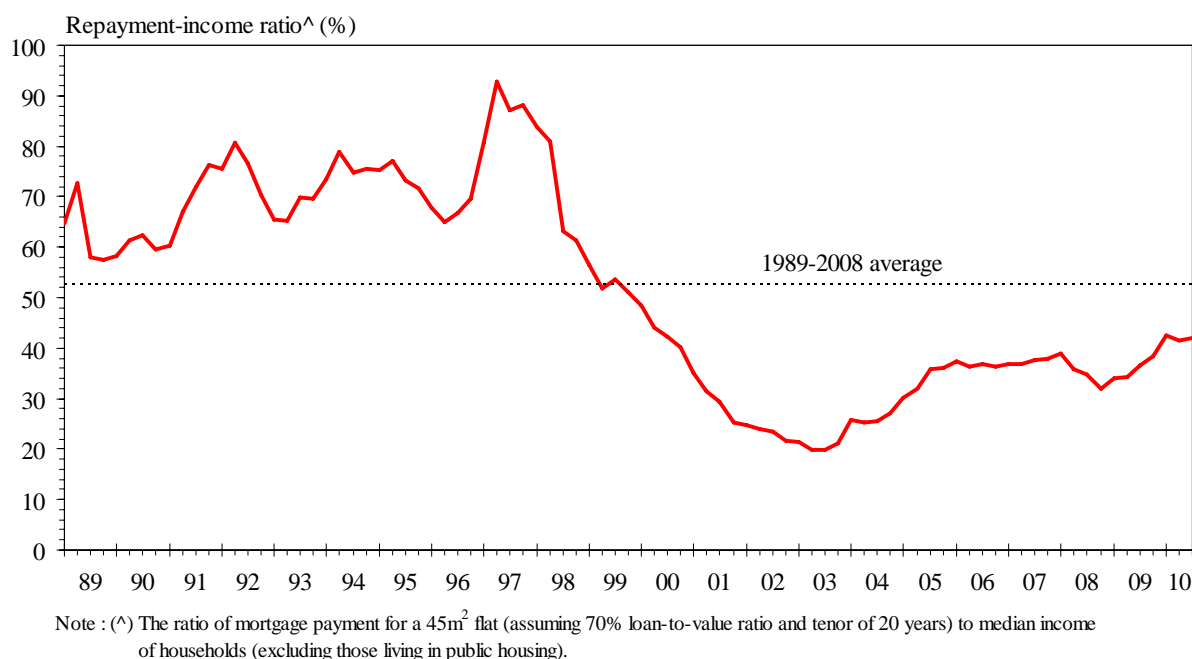
Diagram 3.1 : Trading remained buoyant for the third quarter as a whole



3.3 Sale prices of residential property recorded further gains during the third quarter of 2010. Overall flat prices in September soared by another 5% over June, though most of the increase was recorded in July and August. Prices of large flats and small/medium-sized flats rose by 7% and 5% respectively. As a result of the rally since early 2009, overall flat prices in September already exceeded the recent peak in 2008 by 22%. While overall flat prices were still 11% below the peak in 1997, prices of large flats were already 10% higher.

3.4 In parallel, 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) rose to around 42% in the third quarter. The ratio would rise further and move closer to the long-term average of 53% if interest rates were to return to more normal levels.

Diagram 3.2 : Home purchase affordability was deteriorating



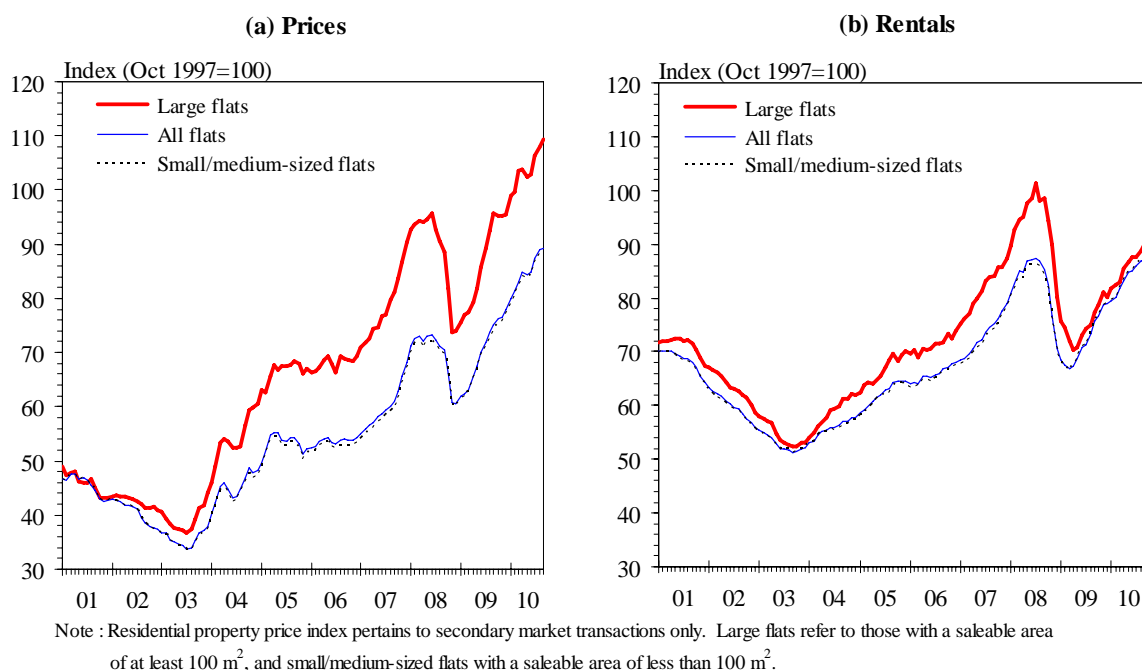
3.5 With the Government's efforts in increasing land supply, 43 sites that together could produce some 16 300 residential units were disposed in the first nine months of 2010, lifting the total supply of flats in the coming few years from 53 000 units as estimated at end-2009 to 61 000 units as estimated at end-September 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 1 600 units could be added to the potential supply⁽²⁾. Following the Government's measures to forestall excessive leverage, the average loan-to-value ratio of new mortgages fell from 64.0% in 2009 to 61.2% in the first eight months of 2010 and further to 58.6% in September after the further tightening of mortgage standards by the Hong Kong Monetary Authority. Commercial banks also followed the HKMA's prudential guidelines on debt-servicing ratio when extending mortgage loans.

3.6 Nonetheless, the Government is mindful of the risks of a property market bubble given that the abundant liquidity and low interest rates are expected to persist for an extended period. In August the Financial Secretary announced another round of measures to ensure a healthy and stable property market along the four directions stated in the 2010-11 Budget. Separately, the HKMA announced further measures to prevent excessive mortgage lending. In October the Chief Executive introduced in the 2010-11 Policy Address further measures premised on three principles of the Government's housing policy (**Box 3.1**). The full effects of these measures will take time to feed through. The Government will continue to monitor the situation closely and introduce

further measures when necessary.

3.7 As to the leasing market, flat rentals firmed up further in the third quarter, though at a more moderate pace than prices. Flat rentals in September rose by another 2% over June, and were marginally higher than the recent peak in 2008. Analysed by flat size, the increase in rentals for large flats, at 3%, was slightly larger than that for small/medium-sized flats, at 2%. In overall terms, the average rental yield for residential flats edged down from 3.6% in June to 3.5% in September.

Diagram 3.3 : Flat prices surged further and rentals firmed up in the third quarter



Box 3.1

Latest Government measures on the property market (August and October 2010)

Further to the measures released in February and April, the Financial Secretary announced another round of measures in August to ensure a healthy and stable development of the property market. In October the Chief Executive introduced in the 2010-11 Policy Address further measures premised on three principles of the Government's housing policy. The major measures announced in August and October are summarised below :

(1) Ensure sufficient land and housing supply

Short-term measures

- Earmark three residential sites in Chai Wan, Hung Hom and Fanling for auction or tender on the Government's initiative.
- Sell by tender the former Yuen Long Estate site, with inclusion of restrictions on the minimum number and size of flats in the sale conditions, by end 2010.
- Continue to discuss with MTR Corporation Limited and the Urban Renewal Authority the provision of more small and medium flats in their residential developments along the West Rail and urban renewal projects respectively.

Medium to long-term measures

- Speed up infrastructure construction at the Kai Tak Development Area so that some residential sites in the area can be made available earlier, in 2015.
- Explore the feasibility of providing more residential land at the Anderson Road, Lam Tei and Lamma Island quarry sites and sites in the New Development Areas in the northern New Territories.
- Identify some 30 hectares of land currently earmarked for industrial and business use that may be turned into residential use.

Institutional arrangements

- Set up a "Steering Committee on Housing Land Supply", to be chaired by the Financial Secretary, to ensure that issues relating to housing land will be dealt with as a matter of priority to ensure a stable and adequate supply of such land.

(2) Discourage speculation and improve the transparency of property transactions

- Disallow confirmor transactions of first-hand uncompleted flats which are granted pre-sale consent by the Lands Department on or after 13 August 2010.
- Raise the amount of deposit to be forfeited from 5% of the total purchase price to 10% in case buyers cancel transactions for first-hand uncompleted flats.
- Set up a steering committee to discuss specific issues on regulating the sale of first-hand flats by legislation and put forward practical recommendations within one year.

Box 3.1 (Cont'd)**(3) Prevent excessive mortgage lending**

- Apply a maximum loan-to-value ratio of 60% to properties valued at or above \$12 million and non-owner occupied properties.
- Standardise the limit on debt servicing ratios (DSRs) of mortgage applicants to 50%, from the previous range of 50% to 60%.
- Require banks to stress-test mortgage applicants' repayment ability with an assumed increase in mortgage rates of at least two percentage points, and cap the stressed DSR at 60%.

(4) Subsidise home ownership

- Introduce My Home Purchase Plan (MHPP). Under MHPP, the Hong Kong Housing Society will build “no-frills’ small and medium flats for lease at prevailing market rent for a maximum of five years. Tenants will receive a Purchase Subsidy equivalent to half of the net rental they have paid during the tenancy period, and may use it for part of the down payment.

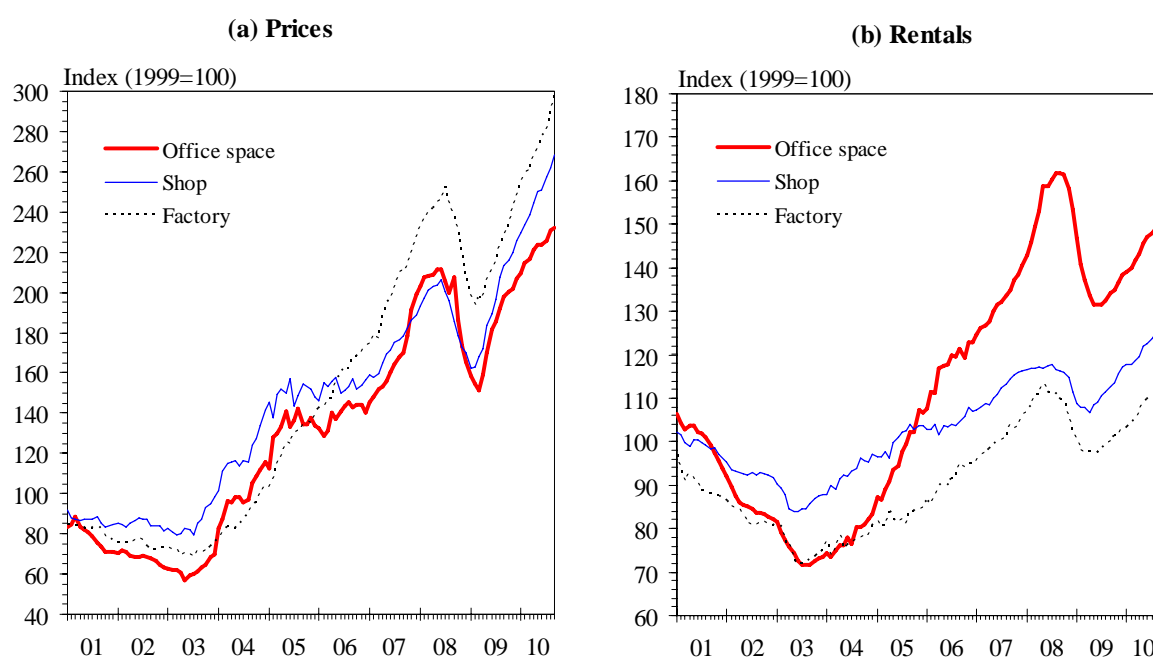
The full effects of these measures will take time to feed through. The Government will continue to closely monitor the market situation and introduce further measures when necessary.

3.8 The *commercial and industrial property markets* gathered further momentum in the third quarter of 2010 against the background of sustained economic recovery. For *office space*, overall prices in September rose notably by 4% over June, and have surpassed the recent high in 2008 by 10%. Prices of Grade A office space edged up by 1% and those of Grade B and C rose substantially by 5% and 6% respectively. On the leasing front, office rentals also firmed up by 3% between June and September 2010, though they were still 6% below the 2008 peak. Rentals of Grade A, B and C office space increased by 3%, 2% and 4% respectively. The average rental yields for Grade A, B and C office space were 3.4%, 3.8% and 4.1% respectively in September, not much changed from those of 3.3%, 3.9% and 4.2% in June.

3.9 On *retail shop space*, prices and rentals surged by 7% and 5% respectively between June and September. Compared with their respective peaks in 2008, prices have surpassed by a wide 30% and rentals by a smaller 9%. As prices rose more than rentals, the average rental yield for retail space edged down from 3.5% in June to 3.4% in September.

3.10 As to *flatted factory space*, prices in September 2010 surged by 8% over June, and have exceeded the recent high in 2008 by 18%. Rentals also increased, albeit more moderately by 2% over the period, and have almost recouped the losses recorded during the global financial crisis. As a result of the faster increase in prices than in rentals, the average rental yield for flatted factory space notched down from 4.9% in June to 4.7% in September.

Diagram 3.4 : Both prices and rentals of non-residential properties rose further



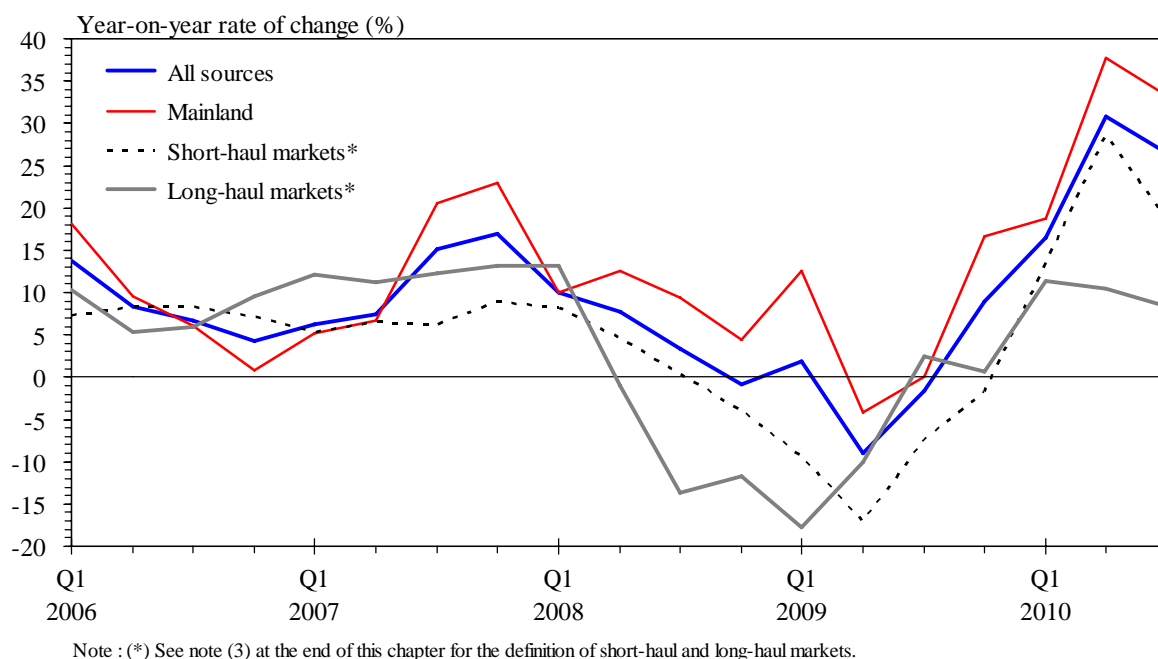
Land

3.11 The land sales market stayed active in the third quarter of 2010. Developers continued to show keen interests in land acquisition amid optimistic outlook for the property market. A total of five residential sites from the *Application List* (AL) were sold through auction (including two initiated by the Government) in the quarter. These plots of land had a total area of 4.3 hectares and fetched a combined premium of \$19.8 billion. In addition, two more residential sites were triggered and subsequently sold in October and November. As regards lease modification, 14 sites were approved in the third quarter, among which 11 were designated for residential use. On exchange of land, three sites were approved for residential use.

Tourism

3.12 The inbound tourism sector continued to boom in the third quarter of 2010, with the number of *incoming visitor arrivals* surging by a further 24.9% over a year earlier to 9.3 million. Analysed by major source, visitor arrivals from the Mainland grew the fastest, by 30.2% over a year earlier to 6.0 million. Mainland visitors accounted for 64.5% of total visitors to Hong Kong, among which 64.9% came under the Individual Visit Scheme. Visitor arrivals from the short- and long-haul markets also registered considerable growth, of 18.8% and 11.6% respectively⁽³⁾. Analysed by length of stay, growth in the number of same-day visitors, at 27.5%, outpaced that of overnight visitors, at 22.9%. As a result, the share of same-day visitors in total arrivals rose further from 42.9% in the third quarter of 2009 to 43.8% in the third quarter of 2010.

Diagram 3.5 : Incoming visitor arrivals surged further

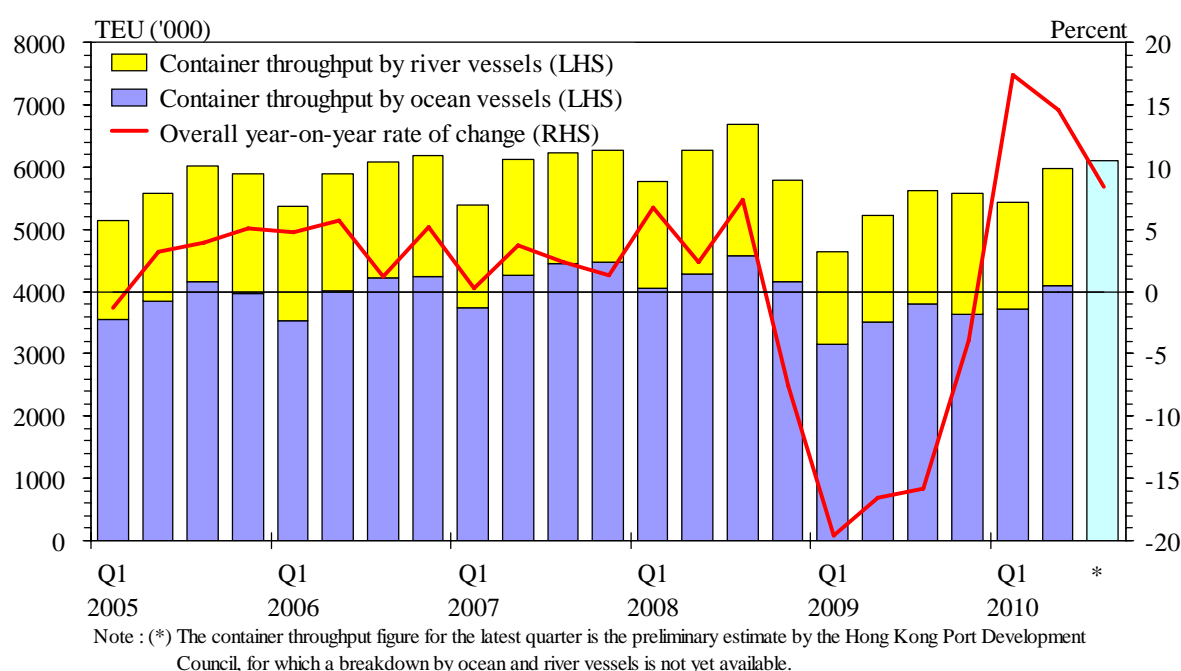


3.13 The surge in overnight visitor arrivals rendered a strong boost to the hotel sector. The hotel room occupancy rate soared by ten percentage points over a year earlier to 86% in the third quarter of 2010, and the average achieved hotel room rate rose considerably by 16.4% to \$1,089 per night⁽⁴⁾.

Logistics

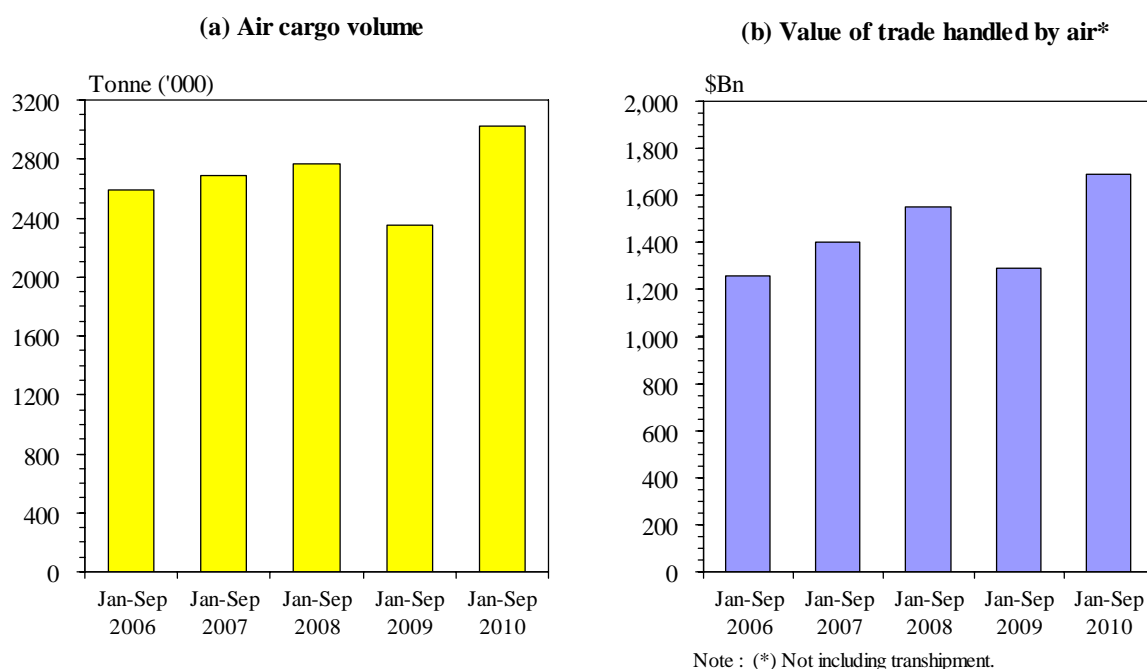
3.14 The logistics sector continued to grow in the third quarter of 2010, though the pace tapered somewhat as the base of comparison shifted higher. Taking the third quarter as a whole, the total *container throughput* rose by 8.4% over a year earlier to 6.1 million TEUs. Meanwhile, the value of trade handled at the Hong Kong Port soared by 15.3%. Yet its share in the overall trade value in the third quarter declined further from 29.1% a year earlier to 26.7%, largely because of even faster growth in trade by air and land.

Diagram 3.6 : Port container traffic showed further growth albeit at a slower rate



3.15 Likewise, *air freight throughput* registered strong growth, by 18.4% over a year earlier to 1.06 million tonnes in the third quarter. The total value of trade by air grew even more sharply by 31.0%, and its share in overall trade value rose from 34.2% a year earlier to 35.6%.

Diagram 3.7 : Both air cargo volume and the value of trade by air recorded strong growth



Transport

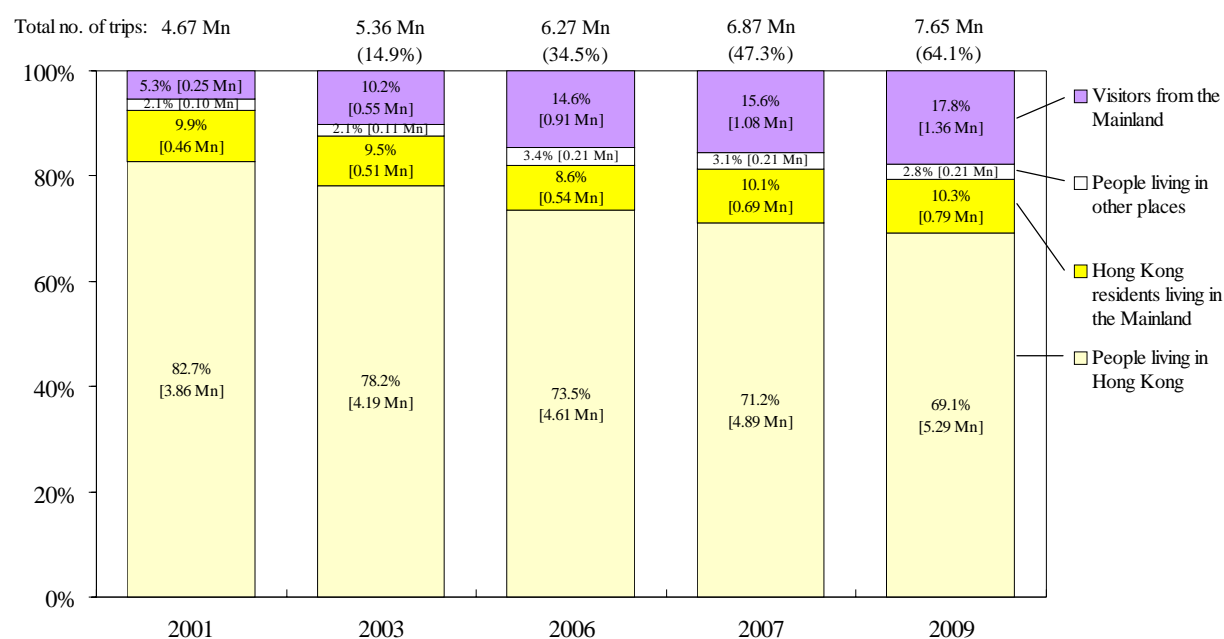
3.16 Traffic flows for the major modes of transport continued to grow solidly in the third quarter of 2010. Air passenger traffic expanded by 14.3% over a year earlier to 13.5 million, and water-borne passenger trips by 12.9% to 6.7 million. Two-way land-based passenger trips also rose by 8.0% to 502 700 per day while cross-boundary vehicular movements increased by 4.7% to 44 800 per day (**Box 3.2**).

3.17 In July 2010, the Civil Aviation Administration of China and the Transport and Housing Bureau jointly announced that Shanghai Hongqiao Airport would be added as a point for scheduled air services between the Mainland and Hong Kong. Each side may operate up to 14 flights per week, and four airlines have already commenced the services in September. Through providing an additional choice for passengers travelling between the two cities, the new arrangement will give a strong push to aviation co-operation between Hong Kong and Shanghai. It will also strengthen Hong Kong's access to the huge market of the Yangtze River Delta, thereby reinforcing Hong Kong's position as an international and regional aviation centre.

Box 3.2**Characteristics of cross-boundary trip makers**

The ever increasing socio-economic links between Hong Kong and the Mainland, in particular the Pearl River Delta (PRD) region, have been providing a boost to cross-boundary travel activities over the years. With a view to having a better understanding of these trips, the Planning Department commissioned the Cross-boundary Travel Survey 2009 (the Survey) to collect information about the trip makers, including their places of residence and the purpose of their trips, and subsequently released a report entitled *Northbound Southbound 2009* (the Report).

During the two-week period covered by the Survey, there were 7.7 million cross-boundary passenger trips, representing a significant 64% increase over 2001. Among the total, trips made by people living in Hong Kong increased by 37% between 2001 and 2009, but its share in the total number of trips declined from 82.7% to 69.1%. Over the period, trips made by Hong Kong residents living in the Mainland grew markedly by 70% to 0.8 million trips, and their share rose from 9.9% to 10.3%. Meanwhile, trips made by visitors from the Mainland witnessed the sharpest gain, by 452% to 1.4 million. Their share in the total number of cross-boundary trips, at 17.8% in 2009, represented a sharp rise over the share of 5.3% in 2001. The trip purposes of the different major groups of trip maker are examined below.

Cross-boundary passenger trips by trip makers' usual place of residence**People living in Hong Kong**

The Report revealed that leisure was the most common purpose of the cross-boundary trips made by people living in Hong Kong. The number of such trips surged by 84% over 2001 to 3.0 million in 2009, lifting the share from 42.4% to 56.8%. Conceivably, the wide variety of entertainment and leisure activities available, and the improving quality yet competitive prices of the services, have enhanced the attractiveness of Shenzhen and many other cities in Guangdong as a leisure destination.

Box 3.2 (Cont'd)

Trips for work and business purposes combined have dropped persistently since 2003. The number of such trips in 2009, at 1.1 million, was 17% lower than in 2001, and its corresponding share dropped to 21.1% from 34.7%. Conceivably, many Hong Kong employers and employees might find it more cost effective to station in the Mainland rather than to make frequent trips between the two places. The gradual improvement in the physical and living environment in the Mainland has made this an increasingly workable option. Moreover, the advancement in information technology (e.g. emails, instant message computer programme) has facilitated more efficient cross-boundary operational monitoring and management, thereby reducing the need for traveling.

Hong Kong residents living in the Mainland

Most of these trip makers travelled to Hong Kong for work, accounting for 39.5% of the total. Yet the number of such trips rose by only 23% between 2001 and 2009. Over the period, trips for schooling and leisure purposes recorded much faster growth, of 255% and 263% respectively. With the significant improvement in cross-boundary infrastructure and boundary-crossing facilities (e.g. introduction of the 24-hour passenger crossing at the Lok Ma Chau (LMC) Control Point in 2003, opening of the Shenzhen Bay Port and LMC Spur Line Control Point in 2007), more Hong Kong residents, especially those with daily socio-economic activities in northern part of the New Territories, might find it attractive to move to the Mainland given the lower cost of living there. Indeed, most trip makers in this group (60.4% of total) ended their trips in Northeast or Northwest New Territories.

Mainland visitors

With the introduction of the Individual Visit Scheme, the number of cross-boundary leisure trips made by Mainland visitors to Hong Kong grew by eight times, from 90 000 trips in 2001 to 811 000 trips in 2009. These trips accounted for almost 60% of the cross-boundary trips made by Mainlanders. Most of the remaining 40% Mainland visitors came to Hong Kong either to visit relatives and friends or for work and business.

Cultural development

3.18 The West Kowloon Cultural District (WKCD) Authority commenced the three-month Stage 2 Public Engagement exercise in August 2010 to solicit public and stakeholders' views on three Conceptual Plan Options. With reference to the views collected, one of the Conceptual Plan Options will be selected to serve as the basis for developing a detailed Development Plan for the WKCD. The Authority plans to launch the Stage 3 Public Engagement exercise later in 2011 with a view to further seeking views from the public and stakeholders on the detailed Development Plan.

Environment

3.19 The Government launched a three-month public consultation on Hong Kong's climate change strategy and action agenda in September 2010. To mitigate climate change and reduce greenhouse gas (GHG) emissions, the Government proposes to set for Hong Kong a target to reduce the carbon intensity (i.e. the amount of GHG emission per unit of GDP) by 50-60% by the year 2020. The proposed target for Hong Kong sits well with the Mainland's target of a 40-45% reduction, and befits Hong Kong's position as an international city and a highly advanced economy. To achieve this target, a comprehensive action agenda along five strategic directions has been proposed, viz. maximising energy efficiency, greening road transport, promoting the use of clean fuels for motor vehicles, turning waste into energy and revamping the fuel mix for electricity generation. The consultation document also proposes the broad direction for adaptation measures for major sectors in Hong Kong that are more vulnerable to the impact of climate change, with a view to cushioning the risks associated with climate change and enhancing Hong Kong's resilience towards its possible impacts.

3.20 In October 2010, the Chief Executive announced in the 2010-11 Policy Address a number of measures to protect the environment, particularly to improve the air quality. The Government will impose additional requirements in new franchises for the bus companies to switch to zero emission or the most environment-friendly buses when replacing existing ones, taking into account the feasibility and affordability for bus operators and passengers. The Government will also fully fund the costs for procuring six hybrid buses by the franchised bus companies to test their environmental protection performance, and conducting a trial of retrofitting Euro II and Euro III franchised buses with catalytic reduction devices to reduce their nitrogen oxides emissions. Furthermore, low emission zones will be designated in such busy districts as Causeway Bay, Central and Mong Kok, where the ratio of low-emission

franchised buses will be increased as much as possible from next year, with the target of having only low-emission buses in these zones by 2015.

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 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. Subsequently in April and August, the 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 of the measures announced in February and April.
- (2) Position as at 30 September 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.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Interest rates generally stayed low in the third quarter amid the ongoing accommodative monetary policy in the United States. Having risen briefly in June, Hong Kong dollar interbank interest rates retreated back alongside their US dollar counterparts in the third quarter.*
- *After weakening in May and June, the Hong Kong dollar spot exchange rate strengthened against the US dollar again in the third quarter. Meanwhile, the Hong Kong dollar Effective Exchange Rate Indices declined in parallel with the depreciation of the US dollar against most major currencies.*
- *Domestic loans recorded further growth during the third quarter, underpinned by the entrenched economic recovery and vibrant activities in the asset markets.*
- *The stock market regained momentum towards the end of the third quarter on expectation for another round of quantitative easing measures in the major economies. Fund raising activities, in particular initial public offerings, also showed renewed strength.*

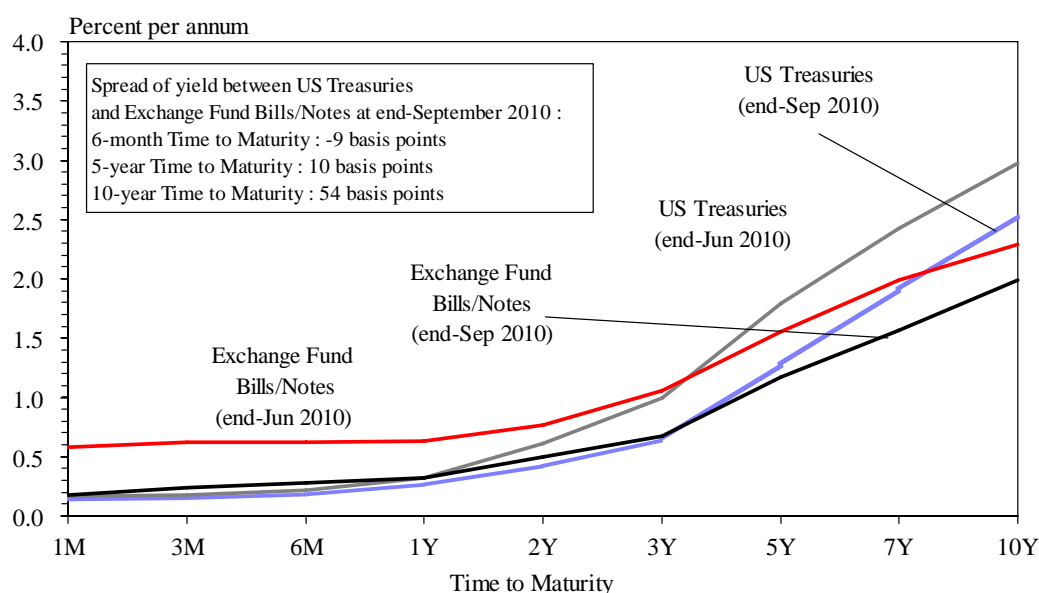
Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the third quarter of 2010 amid the ongoing accommodative monetary policy in the United States. With the US Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA stayed unchanged at 0.5% through the period⁽¹⁾. Having risen briefly during the preceding quarter, *Hong Kong dollar interbank interest rates* generally edged down alongside their major US dollar counterparts during the third quarter. The three-month HIBOR declined from 0.58% at end-June to 0.33% at end-September, and the overnight HIBOR stayed unchanged at 0.13%.

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

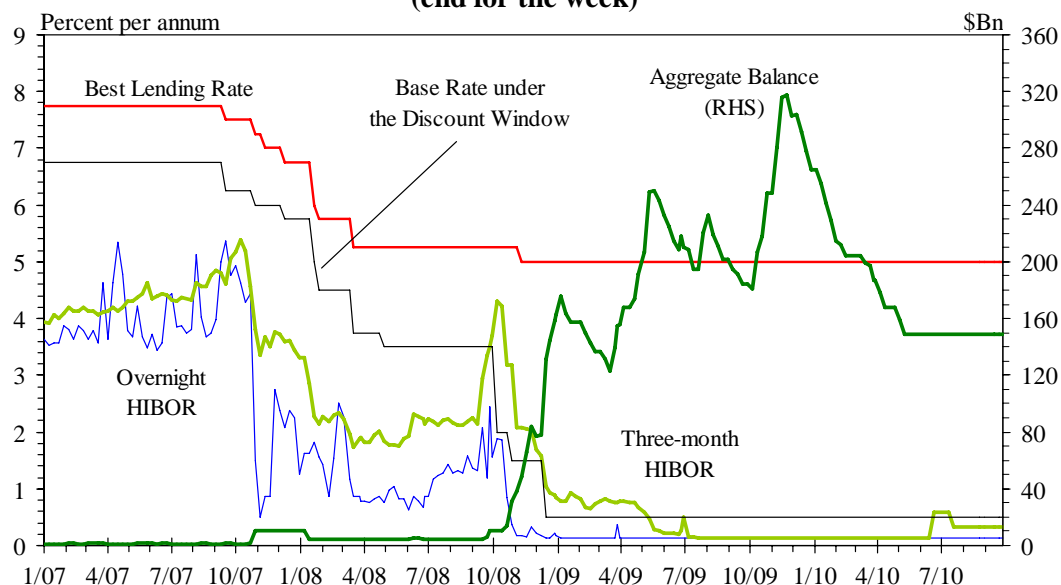
4.2 Hong Kong dollar interest rates continued to stay below their US dollar counterparts, but the negative spreads narrowed during the third quarter. The discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate declined from 33 basis points at end-June to six basis points at end-September. On the other hand, the *Hong Kong dollar yield curve* shifted downward while the *US dollar yield curve* flattened. As a result, the negative yield spread between 6-month US Treasury and 6-month Exchange Funds Bills narrowed substantially from 40 basis points at end-June to only nine basis points at end-September. The positive yield spread between 10-year US Treasury and 10-year Exchange Fund Notes also narrowed, albeit modestly from 68 basis points to 54 basis points over the period.

Diagram 4.1 : Hong Kong dollar yield curve shifted downward while the US dollar yield curve flattened



4.3 Interest rates at the retail level remained stable. The *Best Lending Rates* (BLR) stayed at 5.00% or 5.25% throughout the third quarter, while the *average savings deposit rate* and *one-month time deposit rate* quoted by major banks likewise held steady at around 0.01%. Nonetheless, after some pick-up in May and June, time deposit rates of longer tenors retreated during the third quarter following the movement of HIBOR. In parallel, the *composite interest rate*, which reflects the average cost of funds for banks, edged down from 0.20% at end-June to 0.18% at end-September⁽²⁾. On the mortgage front, loans priced with reference to HIBOR (the rate of which can 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 rising further from 83.9% in June to 90.5% in September.

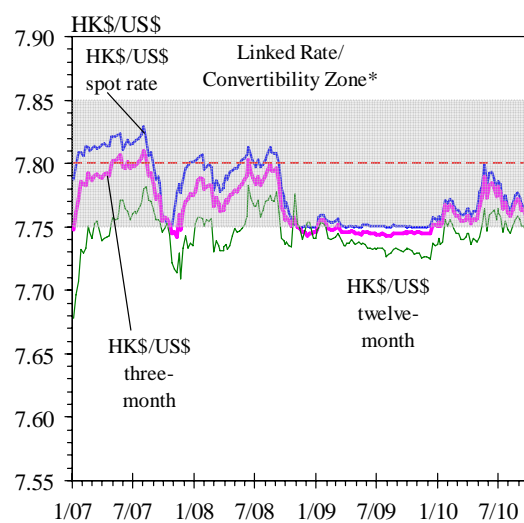
**Diagram 4.2 : Hong Kong dollar interest rates
continued to stay low
(end for the week)**



4.4 After weakening slightly in the preceding quarter, the Hong Kong dollar spot exchange rate strengthened against the US dollar again in the third quarter, conceivably driven by renewed fund inflows particularly to the stock market. The spot HK\$/US\$ exchange rate closed at 7.762 at end-September, compared with 7.786 at end-June. Meanwhile, the discounts of the *3-month and 12-month Hong Kong dollar forward rates* narrowed from 43 and 215 pips (each pip equivalent to HK\$0.0001) at end-June to 35 and 133 pips respectively at end-September, in line with the narrowing spreads between Hong Kong dollar and US dollar interest rates.

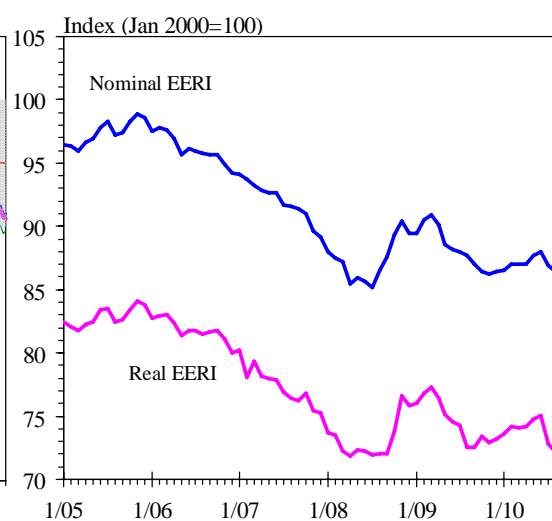
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. The trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* declined by 2.5% and 4.4% respectively during the third quarter, as the US dollar depreciated against most major currencies, including the Australian dollar, the Euro and the British Pound, on widespread expectations for further quantitative easing measures in the United States⁽³⁾.

Diagram 4.3 : Hong Kong dollar strengthened against the US dollar again (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.

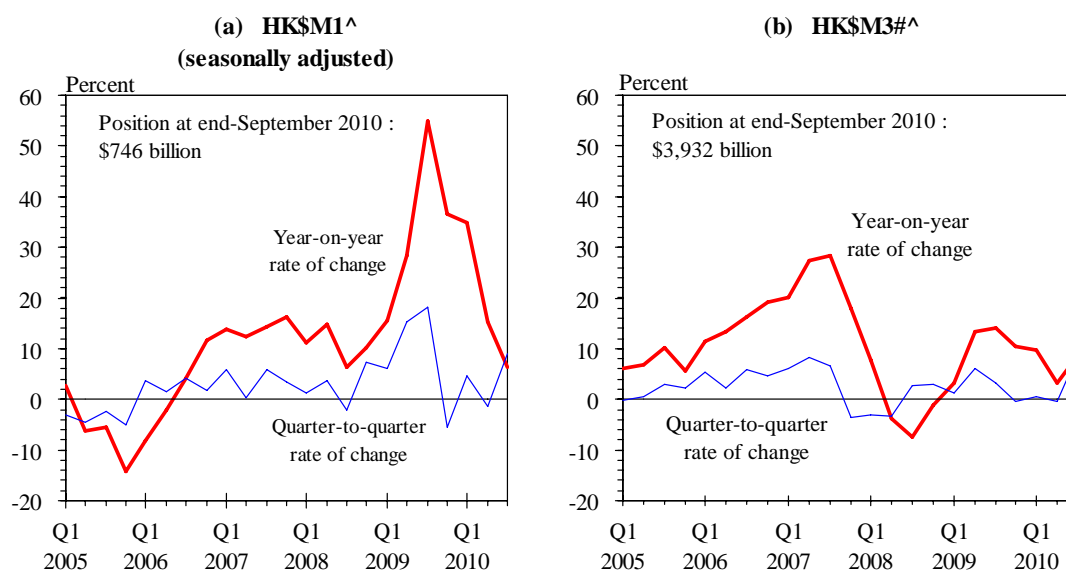
Diagram 4.4 : Trade-weighted EERIs declined as the US dollar weakened (average for the month)



Money supply and banking sector

4.6 On the back of renewed fund inflows amid active Initial Public Offerings (IPOs) activities, Hong Kong dollar broad *money supply* (HK\$M3) and the seasonally adjusted narrow money supply (HK\$M1) each rebounded by 8.9% during the third quarter, to \$3,932 billion and \$746 billion respectively at end-September⁽⁴⁾. Over the same period, *total deposits* with authorized institutions (AIs) expanded by 6.0% to \$6,736 billion⁽⁵⁾. Analysed by currency, Hong Kong dollar deposits surged by 9.2% to \$3,680 billion while foreign currency deposits grew by a moderate 2.5% to \$3,056 billion.

Diagram 4.5 : Both HK\$M1 and HK\$M3 rebounded



Notes : (^) Figures refer to the positions at end of quarter.
(#) Adjusted to include foreign currency swap deposits.

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\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</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
	Q3	8.9	19.1	9.0	6.2	8.9	6.2
Total amount at end-September 2010 (\$Bn)		746	1,076	3,919	6,989	3,932	7,010
% change over a year earlier		6.3	18.5	8.9	5.3	8.7	5.2

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

4.7 Demand for loans stayed strong in the third quarter of 2010. Following a distinct rise of 8.8% during the preceding quarter, *total loans and advances* expanded sharply further by 9.4% during the quarter to \$4,126 billion at end-September (comprising Hong Kong dollar loans of \$2,856 billion and foreign currency loans of \$1,270 billion). Within the total, loans for use in Hong Kong grew by 9.5% to \$3,308 billion, and loans for use outside Hong Kong by 8.7% to \$818 billion.

4.8 Loans to all major economic sectors recorded further growth, underpinned by the broad-based economic recovery and vibrant activities in the asset markets. The strong demand for funds related to IPO activities led to a 316.5% surge in loans to stockbrokers. Supported by the strong momentum in external trade, lending to wholesale and retail trade, and trade finance also showed notable gains of 17.6% and 9.1% respectively. Amid the buoyant property market, loans for building, construction, property development and investment expanded by 6.1%, and those for purchase of flats by 5.2%. As the growth in deposits slightly outpaced the growth in loans, the Hong Kong dollar loan-to-deposit ratio edged down from 77.7% at end-June to 77.6% at end-September.

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 ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	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	20.1	9.3	15.8	5.5	2.6	12.8	87.9	7.6	13.8	8.8
	Q3	9.1	7.9	17.6	6.1	5.2	3.8	316.5	9.5	8.7	9.4
Total amount at end-September 2010 (\$Bn)		258	167	234	814	772	245	108	3,308	818	4,126
% change over a year earlier		54.7	20.5	53.6	23.0	12.8	8.9	156.9	22.8	40.0	25.9

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 16.2% at end-June 2010. Moreover, all individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.10 In September 2010 the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and an introduction of a global minimum liquidity standards based on the two consultative documents issued by the Basel Committee in December 2009 which are commonly referred to as "Basel III"⁽⁶⁾. The Basel Committee plans to finalise the review and calibration of Basel III by the end of 2010, with phase-in arrangements for

implementation between 1 January 2013 and 1 January 2019. Once the new standards are finalised by the Basel Committee, the HKMA will consider its approach to and timeline of implementation of the various measures in consultation with the industry.

4.11 The HKMA has conducted impact assessment of the proposed enhancements to capital and liquidity requirements. Given that banks in Hong Kong are well capitalised and place more reliance on common equity to meet regulatory capital requirements, the local banks are generally able to meet the tighter capital requirements, though some banks may need to adjust their liquid assets composition to meet the new liquidity standards.

4.12 Asset quality of the local banking sector continued to improve, with the ratio of classified loans to total loans declining further from 1.20% at end-March to 0.96% at end-June. Arrears for over three months in credit card repayment also fell from 0.32% to 0.25%. Meanwhile, the delinquency ratio for residential mortgage loans edged down from 0.03% at end-June to 0.02% at end-September.

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	1.88	1.37
2010	Q1	97.08	1.72	1.20
	Q2	97.50	1.53	0.96

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

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

4.13 The scope of renminbi banking business in Hong Kong expanded further in the third quarter. The Settlement Agreement on the Clearing of Renminbi Business (“Clearing Agreement”) was revised in July. Under the revised Clearing Agreement, there are no longer restrictions on banks in Hong Kong in establishing renminbi accounts for and providing related services to financial institutions, and individuals and corporations are 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. In August, the pilot scheme for Renminbi Clearing Bank and other eligible institutions outside the Mainland to invest in the Mainland's interbank bond market was announced. The scheme is expected to increase banks' renminbi investment channels and boost returns on renminbi capital.

4.14 As a result of the expanded scope of renminbi banking business in Hong Kong, and the ongoing expectation for valuation gains following the People's Bank of China's earlier decision to proceed further with the reform of the RMB exchange rate regime and to enhance the currency's exchange rate flexibility, renminbi banking business in Hong Kong grew notably in the third quarter⁽⁷⁾. The outstanding amount of renminbi deposits leapt further from RMB89.7 billion at end-June to RMB149.3 billion at end-September, and its share in Hong Kong's total foreign currency deposits rose to a record high of 5.7%.

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</u> ^(a)		<u>Number of authorized institutions engaged in RMB business</u>
					<u>Savings deposits</u> ^(b) (%)	<u>Three-month time deposits</u> ^(b) (%)	
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
	Q3	71,948	77,378	149,326	0.46	0.68	92
% change over a year earlier		77.4	339.3	156.7	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

4.15 The Hong Kong dollar debt market continued to expand at a brisk pace in the third quarter, mainly supported by the growth in public sector debt. Total gross issuance of Hong Kong dollar debt securities rose sharply by 31.9% over a year earlier to \$503.2 billion. Within the total, issuance of Exchange Fund Bills and Notes jumped by 37.4% to \$458.7 billion amid increased supply of short-dated Exchange Fund papers to meet the banks' strong demand for liquidity management. Meanwhile, private sector debt issuance grew by a more moderate 15.8%. The total outstanding balance of Hong Kong dollar debt rose 24.3% over a year earlier to a record level of \$1,233.4 billion at end-September 2010⁽⁸⁾. This was equivalent to 31.4% of HK\$M3 or 24.9% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁹⁾.

4.16 The tentative issuance schedule under the Institutional Bond Issuance Programme of the Government Bond Programme, covering the six-month period between September 2010 and February 2011, was published in July 2010. Subsequently, a two-year new bond of \$3.5 billion and a ten-year re-opening of existing bond of \$2.0 billion were offered to the market in August and October respectively. Both issues received favourable market responses. Furthermore, a tender for a \$2.5 billion five-year new issue is scheduled in December. At end-September, the total outstanding size of institutional bonds was \$19.5 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^(a)</u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New issuance											
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
	Q3	458.7	1.2	3.5	463.4	21.3	2.8	15.7	39.8	-	503.2
% change over a year earlier		37.4	-87.3	0.0	33.7	84.4	-47.3	-10.5	15.8	N.A.	31.9
Outstanding (as at end of period)											
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
	Q3	652.1	63.8	21.0	736.9	105.2	85.2	290.2	480.6	15.9	1,233.4
% change over a year earlier		57.9	-14.2	320.0	49.6	27.1	15.6	-9.3	0.9	-33.4	24.3

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

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

N.A. Not available.

The stock and derivatives markets

4.17 After the consolidation since the beginning of 2010, the *local stock market* regained momentum towards the end of the third quarter. Market sentiment turned increasingly positive in September on the back of receding concerns over the European debt problems, expectation of another round of quantitative easing measures in the major economies and solid corporate earnings of local blue chips companies. The *Hang Seng Index* (HSI) rebounded by 11.1% over end-June to 22 358 at end-September, comparable to the performance of most benchmark indices for other major markets. Trading also picked up sharply in September, though *average daily turnover* for the third quarter as a whole, at \$61.8 billion, still declined by 1.8% from the preceding quarter or 7.5% from a year earlier.

4.18 In tandem with the market rebound, the *market capitalisation* increased noticeably by 14.9% over end-June to \$19.7 trillion at end-September. According to the *World Federation of Exchanges*, the local bourse remained the sixth largest in the world and second largest in Asia⁽¹⁰⁾. Fund raising activities, having stayed relatively quiet in most of the first half, also paced up. With the listing of a major Mainland financial institution, *equity capital raised* through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) reached \$167.9 billion in the third quarter, up 13.9% over a year earlier or a sharp 108% over the low base in the preceding quarter. Among the total, fund raising activities through IPOs were particularly active. A total of 28 newly listed companies raised \$110.0 billion of equity funds in the third quarter, representing a sharp jump of 142% over a year earlier or 569% over the preceding quarter⁽¹¹⁾.

Diagram 4.6 : The local stock market regained momentum in the third quarter

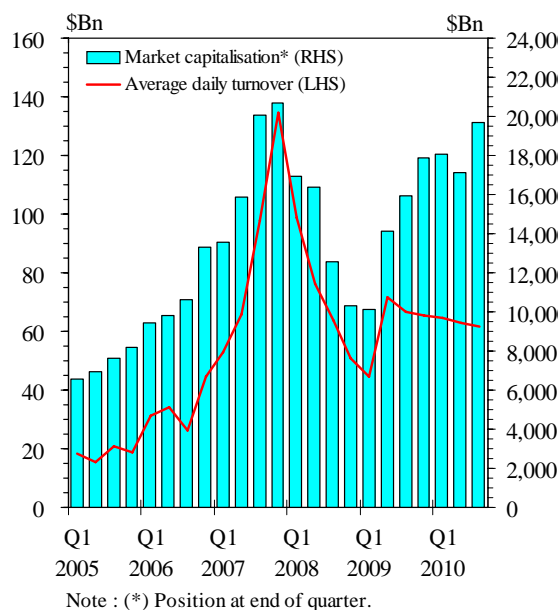
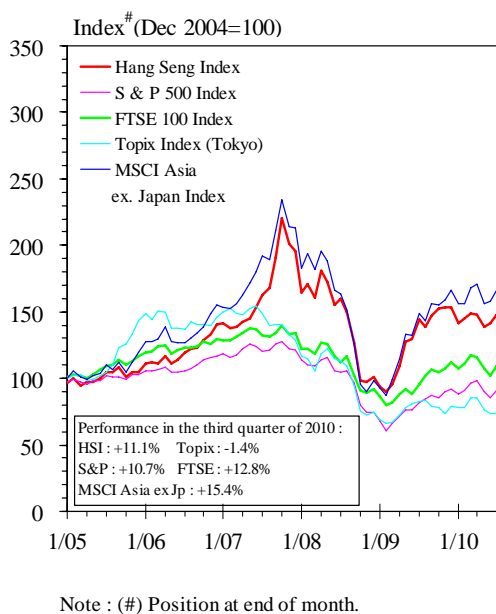


Diagram 4.7 : Performance of Hong Kong stock market was comparable to overseas counterparts



4.19 Mainland enterprises continued to play a prominent role in the local stock market. At end-September, a total of 556 Mainland enterprises (including 158 H-share companies, 97 “Red Chips” companies and 301 private enterprises) were listed on the Main Board and GEM, representing 41% of the total number of listed companies and 57% of the total market capitalisation. In the third quarter, Mainland-related stocks accounted for 69% of equity turnover and a even higher 92% of total equity fund raised in the Hong Kong stock exchange.

4.20 Trading of *derivatives products* picked up further in the third quarter. The average daily trading volume of futures and options rose by 12.7% over a year earlier, though it was 8.8% lower than in the preceding quarter⁽¹²⁾. Different types of products continued to show mixed performance. While trading of HSI options and stock options jumped by 45.5% and 28.4% respectively over a year earlier, trading of H-shares Index futures and HSI futures declined modestly by 1.7% and 6.7% respectively. As to securitised derivatives, the average daily trading value increased by 12.7% over a year earlier. Within the total, trading of derivative warrants soared by 40.2% while trading of callable bull/bear contracts dropped by another 17.9%.

**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 <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> [^]
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
	Q3	78 556	31 800	46 850	216 830	420 924	10,455	5,486	15,941
% change over a year earlier		-6.7	45.5	-1.7	28.4	12.7	40.2	-17.9	12.7
% change over the preceding quarter		-6.3	-1.4	-12.8	-8.8	-8.8	16.5	9.9	14.1

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

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

4.21 In September 2010, the Hong Kong Exchanges and Clearing Limited published a consultation paper on the proposals to change the trading hours. It proposed that the opening time of the morning Continuous Trading Sessions (CTS) be advanced by half an hour, and that of the afternoon CTS by either one or one and a half hours⁽¹³⁾. The proposed changes would increase the overlap of the local bourse's trading hours with the Mainland's, thereby enhancing its price discovery function for Mainland-related securities.

Fund management and investment funds

4.22 Fund management business remained generally solid in the third quarter. Gross retail sales of *mutual funds* leapt by 52.3% over the relatively low base a year earlier to US\$7.1 billion in the third quarter, though they were still far lower than the pre-crisis peak of US\$13.6 billion in late 2007⁽¹⁴⁾. Retail hedge funds business continued to show decent performance⁽¹⁵⁾. As to the Mandatory Provident Fund (MPF), the aggregate net asset value of the approved constituent funds under the *MPF schemes* rose by 12.4% over end-June to \$346 billion at end-September⁽¹⁶⁾.

Insurance sector

4.23 The *insurance sector* continued to recover. In the second quarter, gross premium income from long-term business soared by 42.8% from the low base a year earlier, though it was still sharply below the pre-crisis level in 2008⁽¹⁷⁾. Analysed by market segment, premium income from non-linked plans leapt by 57.3% and that from investment-linked plans by 18.0%. For general business, gross premium and underwriting profit increased by 12.4% and 19.0% respectively over the same period.

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

		General business			Premium for long-term business [^]					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
	Q2	7,385	5,279	714	11,074	4,515	30	55	15,674	23,059
% change over a year earlier		12.4	8.8	19.0	57.3	18.0	-56.5	48.6	42.8	31.5

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

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

Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the 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) Authorized institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2010, there were 146 licensed banks, 22 restricted licence banks and 27 deposit-taking companies in Hong Kong. Altogether, 195 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The Basel III will tighten the definition of capital and increase the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6%. In addition, banks will be required to hold a capital conservation buffer of 2.5%, bringing the total common equity requirements to 7%. This reinforces the higher capital requirements for trading, derivatives and securitisation activities to be introduced by Basel Committee members including Hong Kong at the end of 2011. The Basel III will also introduce liquidity standards covering a liquidity coverage ratio and a net stable funding ratio.
- (7) 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.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from Authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of 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.
- (10) 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 5 November 2010), covering almost all globally recognised stock exchanges.
- (11) At end-September 2010, there were 1 194 and 171 companies listed on the Main Board and GEM respectively.
- (12) At end-September 2010, there were 54 classes of stock options contracts and 38 classes of stock futures contracts.
- (13) Currently, the morning and afternoon Continuous Trading Sessions (CTS) of the local securities and derivative markets are as follows :

	Securities <u>market</u>	Stock futures/ <u>options markets</u>	Index futures/ <u>options markets</u>
Morning CTS	10:00-12:30	10:00-12:30	09:45-12:30
Afternoon CTS	14:30-16:00	14:30-16:00	14:30-16:15

In additional to CTS, the securities and index futures/ options markets each have an auction session of half an hour before the morning CTS. Also, the index futures/ options markets have an auction session of half an hour before the afternoon CTS.

- (14) 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 authorized funds that have responded to the survey. At end-September 2010, the survey covered a total of 1 202 active authorized funds.

- (15) At end-September 2010, there were 10 SFC-authorized retail hedge funds with combined net asset size of US\$788 million. The amount of net assets under management was 16.1% 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.
- (16) At end-September 2010, there were 19 approved trustees. On MPF products, 36 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 389 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 241 000 employers, 2.23 million employees and 261 000 self-employed persons have participated in MPF schemes.
- (17) At end-September 2010, there were 168 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 103 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

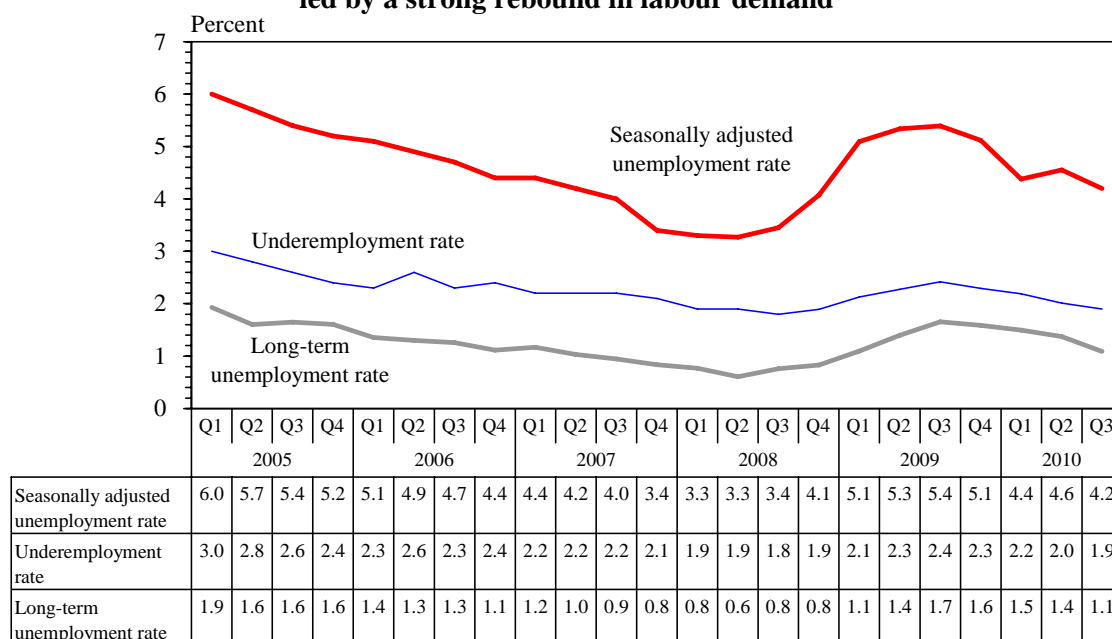
Summary

- *The labour market showed a broad-based and distinct improvement in the third quarter of 2010.*
- *With labour demand strengthening visibly in tandem with an improving economy, total employment picked up distinctly in the third quarter, up by 0.8% over the preceding quarter and by 1.1% over a year earlier. Such a pace of job creation was more than adequate to absorb many of the fresh graduates and school leavers entering the job market during the summer months, and also provided additional job openings for the previously unemployed to get back to work.*
- *Consequently, the number of unemployed persons fell markedly, by 10 000 over the quarter to 161 800, as did the seasonally adjusted unemployment rate, by 0.4 percentage point to 4.2%.*
- *Labour earnings and wages went up across a wide spectrum of the workforce, indicating that workers at the lower segment were able to benefit from the recent strong rebound in the economy, similar to the experience in the previous recoveries.*

Overall labour market situation

5.1 Labour market conditions showed a visible improvement in the third quarter of 2010. Of particular note was the distinct decline in the numbers unemployed, thanks to the sanguine business sentiment and increased hiring intentions of the corporate sector following the sustained economic expansion over the past few quarters. After discounting for the seasonal influence, the seasonally adjusted unemployment rate⁽¹⁾ fell visibly to 4.2%, the lowest quarterly figure since end-2008. Meanwhile, the underemployment rate⁽²⁾ also went down, albeit modestly, to 1.9%. Against this favourable backdrop, labour earnings and wages went up extensively across most major segments of the workforce.

Diagram 5.1 : The unemployment rate fell notably in the third quarter of 2010, led by a strong rebound in labour demand



Total employment and labour force

5.2 *Total employment*⁽³⁾ posted a quarter-to-quarter gain of 0.8% on an unadjusted basis in the third quarter of 2010, in stark contrast to the decrease of 0.1% in the second quarter. On a year-on-year comparison, the growth pace likewise picked up markedly from 0.2% to 1.1% between the two periods, reflecting improving hiring sentiment of business enterprises on the back of the strong economic recovery.

5.3 Among the major economic sectors, transportation, warehousing and support activities, manufacturing, professional and business services, arts, entertainment and recreation, and hotels were those registering more distinct increases in employment in the third quarter of 2010. These more than offset the decreases seen in financing, foundation and superstructure, and health-related activities sectors.

5.4 Analysed by skill level, total employment growth, amounting to some 28 500 in the third quarter, was evenly spread between the lower-skilled and higher-skilled workers, at 14 900 and 13 600 respectively. More specifically, the job gain was concentrated among managers and administrators, and clerks. Analysed in terms of other socio-economic attributes, the increase in employment was most apparent among persons aged 15-24 and 50-59, as well as those with upper secondary and degree education.

5.5 On the supply side, the most significant factor affecting the growth in the third quarter of 2010 was the seasonal influx of fresh graduates and school leavers into the labour market, which led to a quarter-to-quarter increase of 0.5% in the *labour force*⁽⁴⁾ on an unadjusted basis. On a year-on-year comparison, there was however a marginal decrease of 0.3%, mainly due to the lesser participation of young persons aged 15-24 in the labour force this summer compared with a year earlier.

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

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> ^(a)	<u>Persons underemployed</u>
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
	Q2	3 664 000 (-0.7)	3 492 100 (0.2)	171 800	73 700
<i>Three months ending</i>					
	Jul	3 667 600 (-0.8)	3 500 200 (0.5)	167 400	72 900
	Aug	3 680 100 (-0.5)	3 512 600 (0.9)	167 500	70 500
	Sep	3 682 500 (-0.3)	3 520 600 (1.1)	161 800	71 000
		<0.3>	<0.7>		

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 July – September 2010.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment posted a strong upsurge
in the third quarter of 2010**

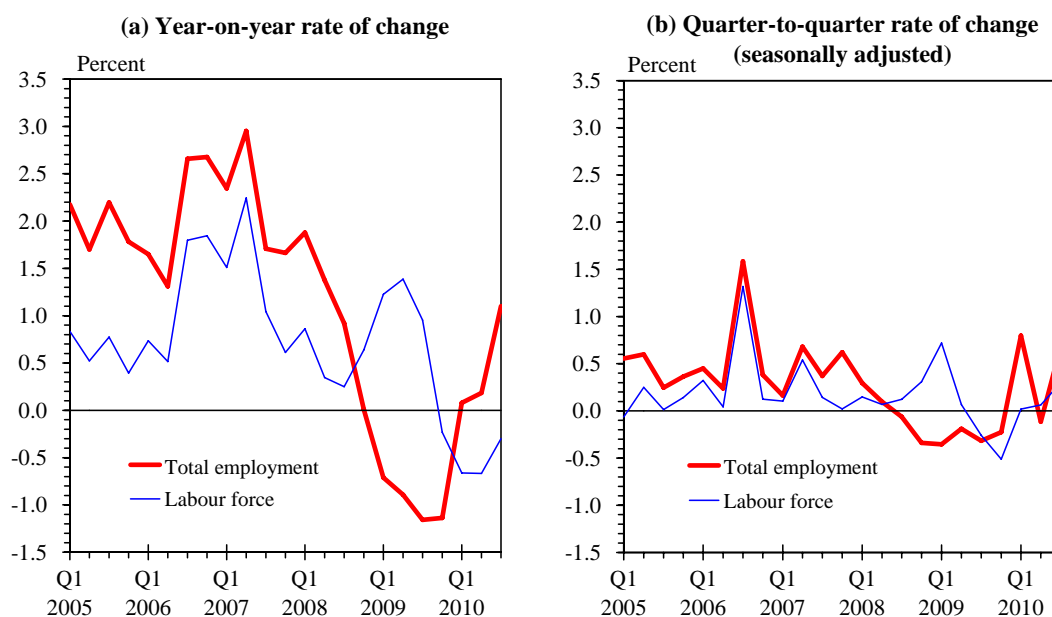


Table 5.2 : Labour force participation rates by sex (%)

		<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
	Q3	68.9	52.2	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 Q3</u>
<u>Male</u>						
15-19	15.8	14.3	14.8	13.0	12.6	11.7
20-24	69.5	69.0	67.6	65.8	64.8	63.7
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	96.3
40-49	95.4	95.2	95.5	95.1	95.0	95.2
50-59	83.7	83.3	83.3	84.0	84.3	85.5
≥ 60	18.3	19.3	19.6	20.0	21.2	21.7
Overall	71.1	70.9	70.5	69.7	69.4	68.9
<u>Female</u>						
15-19	13.3	13.1	13.5	12.4	11.4	9.9
20-24	72.6	71.1	71.7	69.5	66.2	63.2
25-29	86.2	87.2	87.4	87.3	87.0	87.1
30-39	75.1	75.5	76.2	76.8	77.0	75.9
40-49	63.7	65.1	66.6	66.7	68.5	67.9
50-59	44.3	45.7	46.7	48.5	48.8	49.3
≥ 60	4.2	4.5	5.2	5.7	6.6	6.6
Overall	51.8	52.6	53.1	53.1	53.1	52.2
<u>Both sexes combined</u>						
15-19	14.5	13.7	14.2	12.7	12.0	10.8
20-24	71.2	70.1	69.8	67.7	65.5	63.4
25-29	90.3	90.9	90.7	90.3	90.4	90.0
30-39	84.5	84.6	85.1	85.1	85.1	84.3
40-49	78.8	79.3	80.1	79.8	80.7	80.1
50-59	64.1	64.5	64.9	66.1	66.5	67.2
≥ 60	11.0	11.7	12.1	12.6	13.7	13.9
Overall	60.9	61.2	61.2	60.9	60.7	59.9

Source : General Household Survey, Census and Statistics Department.

Box 5.1

The recent self-employment situation : An update

This box article aims to provide an update of the self-employment situation since 2006, as a sequel to the one published in the Half-yearly Economic Report 2007.

Developments since 2006

After falling by 5.5% in 2007, the number of self-employed workers rebounded by 5.0% in 2008 and then held largely steady in 2009. While over this period such workers still decreased by 1.2% (or 2 900 persons), their share in total employment was relatively steady, hovering within the range of 7-8%, which was broadly in line with that observed earlier in the decade.

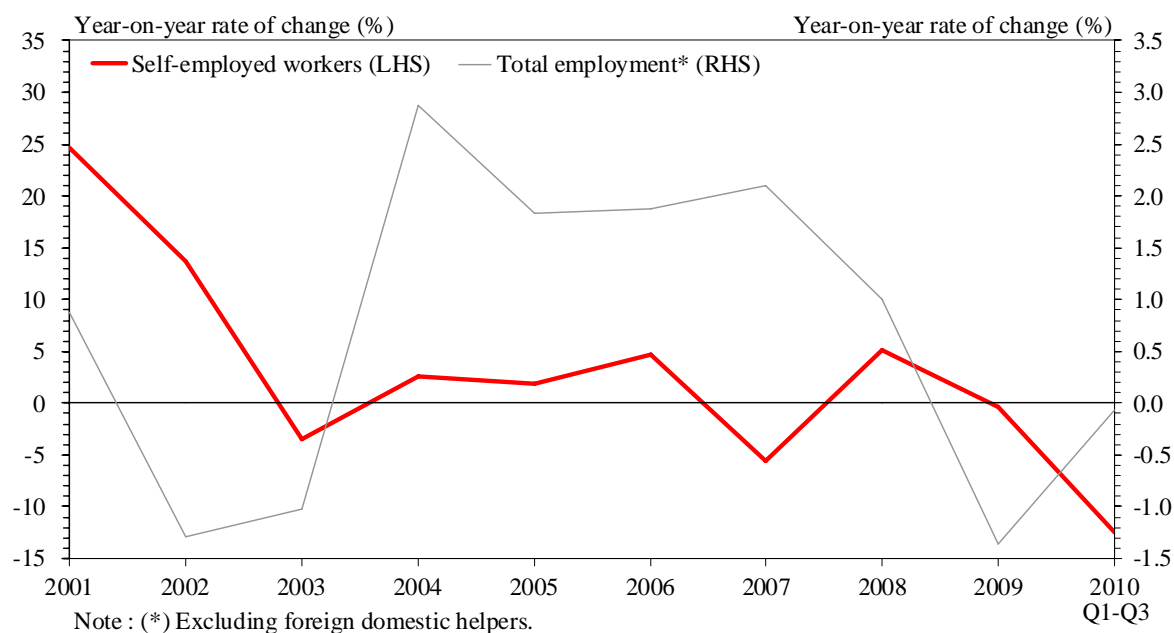
An analysis of main components indicated that the number of self-employed persons aged 35-44 fell visibly by 19.5% (12 900) between 2006 and 2009, attributable mainly to the reduced proportion of people in this age group engaging in such type of employment. This was however offset by the increase of 19.5% (14 500) in the number of persons aged 50-64, due to the general increase in total employment in this age segment. In terms of educational attainment, there was a reduction of 6.0% (6 000) in self-employed persons with lower secondary education or below, which was in stark contrast to a 10.2% (5 500) increase in those with post-secondary education. The latter increase was mostly consistent with the progressive upgrading of educational level of the overall workforce, hence the increase in labourers with higher educational attainment, over the period.

Analysed by economic sector, self-employment was found to be increasingly prevalent in the community, social and personal services sector in recent years, with the respective workers rising by 7.7% (3 400) over 2006 – 2009. Whereas transportation and related services grew at a somewhat slower pace (6.0% or 3 900), this sector remained the largest source of self-employment over the same period.

Yet the development profile was completely different over the course of 2010. Self-employment witnessed a distinct fall-back during the first half of the year to 186 800, the lowest level since 2001. The broad-based decline across various sectors, occupations and other socio-economic attributes, together with a concurrent increase in the number of workers with employee status, suggested that some of the self-employed persons might have managed to move away from self-employment and join the corporate sector which offered jobs with greater security and better employment terms and conditions. Such a shift seems to have gathered momentum lately when the economic and labour market conditions have become increasingly favourable.

Box 5.1 (Cont'd)

Chart 1 : The number of self-employed workers exhibited a higher degree of volatility in recent years



Conclusion

Self-employed workers constitute a rather significant proportion of the local workforce. By virtue of their work nature, these workers tend to be more flexible in response to the changing economic conditions. This helps to sustain and improve the resilience of the labour market and also the economy as a whole. Yet in view of the relatively high volatility of such labour segment, there is a need to monitor the developments on this front.

Profile of unemployment

5.6 In tandem with the general strengthening in labour demand, the unemployment situation saw a broad-based improvement across all industry groups in the third quarter of 2010. Compared with the preceding quarter, unemployment fell visibly both in absolute terms and in proportionate terms, by 10 000 to 161 800 (non-seasonally adjusted basis) and by 0.4 percentage point to 4.2% (seasonally adjusted basis). Among the major economic sectors, the import and export trade registered the largest decline in unemployment, followed by construction; financing, insurance, real estate, professional and business services; and manufacturing.

5.7 In terms of occupation categories, the decrease in unemployment, whilst also occurring almost across the board, was more visible among associate professionals, craft and related workers, and service workers and shop sales workers. In terms of age, persons aged 30 or above were the group with more pronounced improvement in unemployment. While unemployment rate for younger people aged 15-24 recorded some increase in the third quarter, this was largely due to the seasonal upsurge in students looking for summer work, and also the influx of fresh graduates and school leavers over the period. The unemployment situation for this particular age group actually eased somewhat towards the end of the quarter, as many summer workers returned to school after commencement of the new academic year. Regarding educational profile, the decline in unemployment was concentrated among persons with educational attainment of upper secondary or below. Whereas unemployment among workers with post-secondary education went up over the period, this was again largely due to the seasonal influx of fresh graduates.

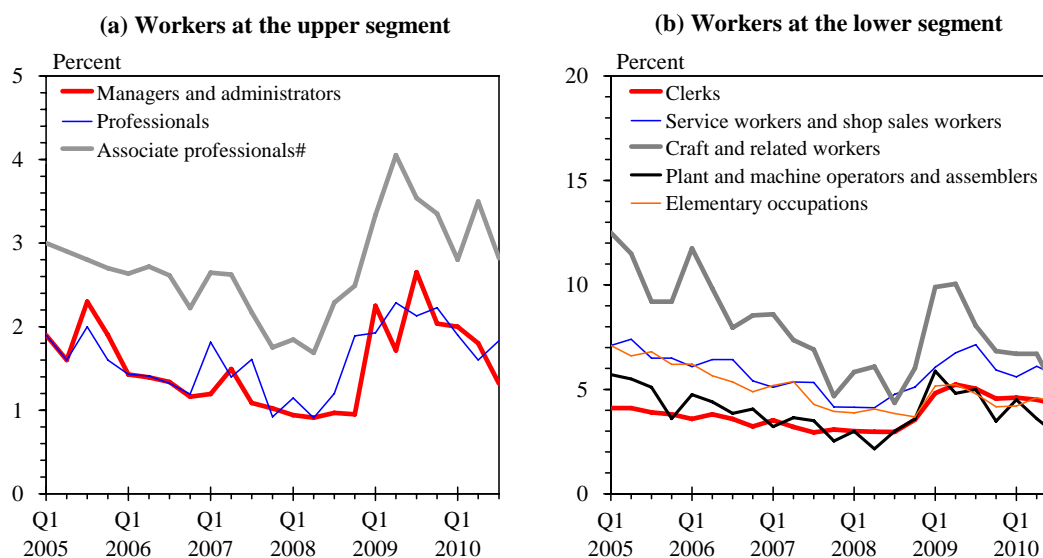
Table 5.4 : Unemployment rate by major economic sector

	<u>2009</u>				<u>2010</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	4.6	4.9	4.8	4.0	4.3	4.5	3.8
Retail	6.1	6.5	6.8	5.8	5.1	6.0	5.7
Accommodation and food services	7.3	8.3	8.5	7.1	6.8	6.6	5.9
Transportation, storage, postal and courier services	5.8	5.0	4.3	3.9	4.1	3.8	3.6
Information and communications	4.8	4.8	4.3	5.4	4.5	4.7	3.6
Financing, insurance, real estate, professional and business services	3.6	4.0	3.8	3.7	3.4	3.8	3.3
Public administration, social and personal services	1.8	2.0	2.4	2.0	1.8	1.9	1.8
Manufacturing	6.2	6.8	6.2	5.2	4.5	5.9	4.0
Construction	11.3	12.0	9.4	7.4	8.0	7.6	6.6
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)	4.4 (4.2)

Note : () Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

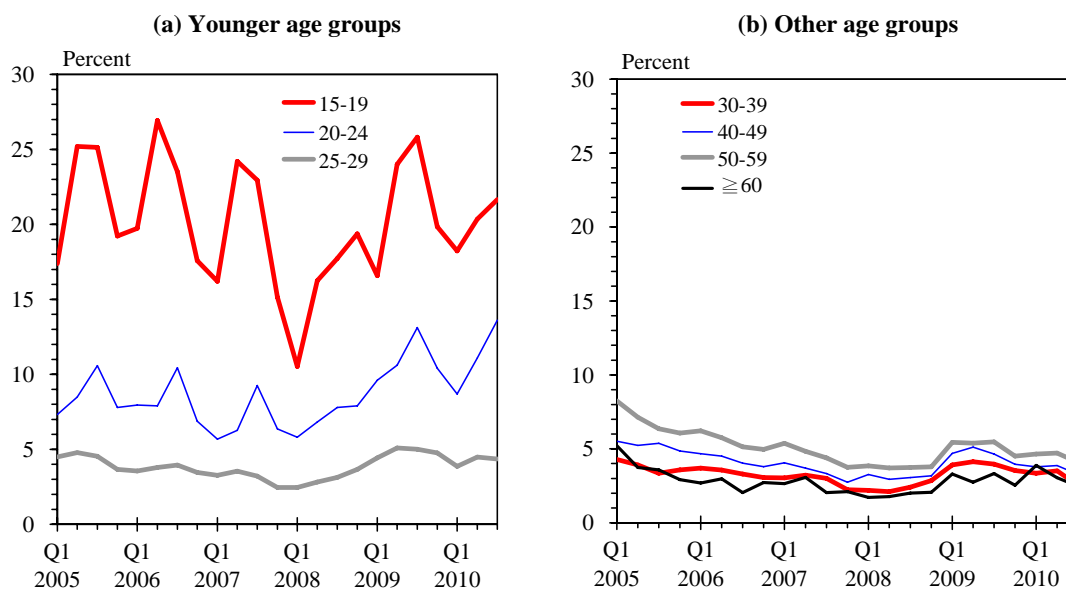
Diagram 5.3 : A broad-based decline in unemployment rate* was observed in terms of occupation categories



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

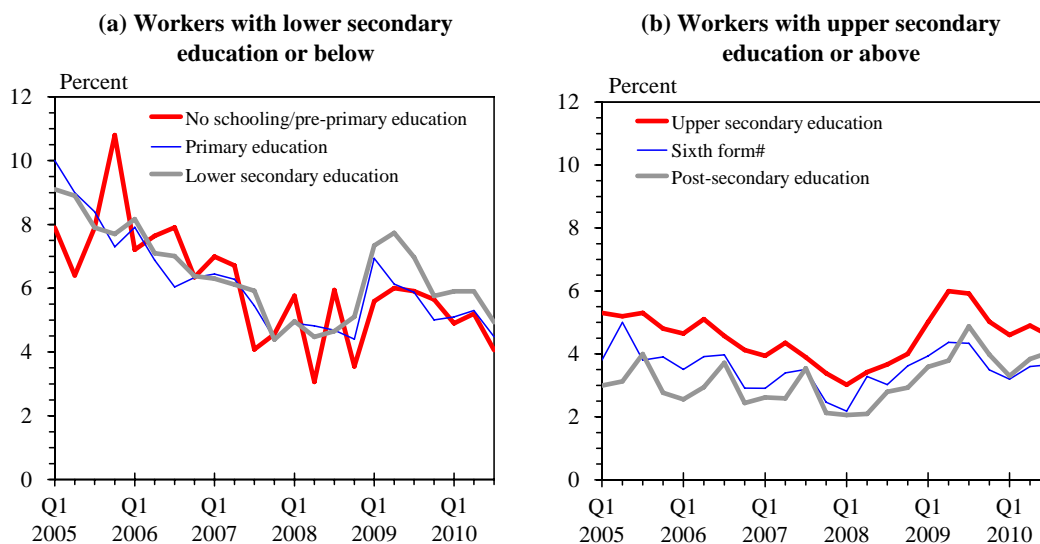
(#) Including technicians and supervisors.

Diagram 5.4 : Unemployment rate* for younger persons aged 15-29 showed a seasonal surge, yet those for other age groups declined



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

Diagram 5.5 : The unemployment rate* for persons with post-secondary education went up on account of increased labour supply



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

(#) Including craft courses.

5.8 An assessment of the intensity of the unemployment situation likewise indicated a further improvement. The number of long-term unemployed persons (i.e. unemployed for six months or longer) dropped substantially further to 40 100 in the third quarter of 2010, from 50 400 in the preceding quarter. When compiled as a proportion of the labour force, the long-term unemployment rate declined to 1.1%, the lowest since early 2009. Meanwhile, the share of dismissed or laid-off workers among all the unemployed persons fell to 53.7%, from 55.8% in the second quarter.

Profile of underemployment

5.9 At 1.9% in the third quarter of 2010, the underemployment rate was slightly down from 2.0% in the second quarter. The numbers underemployed likewise shrank from 73 700 to 71 000 over the same period. These figures pointed to an increase in work intensity for workers. Analysed by economic sector, construction, repair, laundry, domestic and other personal service activities, and professional and business services saw more visible improvements in underemployment.

Profile of employment in establishments

5.10 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 June 2010. In view of this limitation, attempts have been made to bring the analysis more up-to-date, by drawing reference to information from supplementary sources.

5.11 The employment figures compiled from the Quarterly Survey of Employment and Vacancies and the Quarterly Employment Survey of Construction Sites showed that the growth in total employment in private sector establishments picked up further to 3.0% year-on-year in June 2010, as against 2.8% in March 2010. More specifically, notable employment gain was found in the construction sector (up by 13.4% from a year earlier), followed by education (5.4%), financing, insurance, real estate, professional and business services (4.7%), and food and beverage services (4.0%). Analysed by establishment size, employment in small and medium-sized enterprises (SMEs)⁽⁵⁾ rose by 2.6% in June 2010 over a year earlier, following a 4.8% surge in March 2010. For large enterprises, the pace of employment gain accelerated from 1.0% to 3.5%. As for the civil service, the number of employees in June 2010 was 0.6% higher than a year earlier, following a 0.9% increase in March 2010.

5.12 As announced by the Chief Executive in the 2010-11 Policy Address, the Government will launch a Work Incentive Transport Subsidy Scheme to further alleviate the pressure from travelling expenses on low-income earners and encourage them to stay in employment. The monthly allowance will be \$600 per person for all eligible employees.

5.13 In addition, the Labour Department (LD) will launch a two-year Pilot Employment Navigator Programme later this year to address the problem of manpower mismatch, fully utilise the productivity from the labour force and encourage employment. The programme, offering 11 000 places a year, will provide a \$5,000 cash incentive to each person who has worked for a continuous period of three months after receiving the department's intensive employment counselling service. LD will also set up a pilot one-stop employment and training centre in Tin Shui Wai next year to offer targeted assistance to job-seekers. Moreover, the 3 000 temporary work opportunities created for young people aged 15-29 to gain work experience will be extended to March 2012.

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>	<u>Jun</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)	562 200 (1.4)
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)	240 800 (3.5)
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)	247 500 (3.6)
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)	160 400 (2.3)
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)	88 400 (1.7)
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)	604 600 (4.7)
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)	426 900 (3.7)
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)	119 800 (-3.9)
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)	55 500 (13.4)
<i>All establishments surveyed in the private sector^(a)</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>2 517 000 (3.0)</i>
		<i><-0.7></i>	<i><*></i>	<i><0.9></i>	<i><1.3></i>	<i><0.6></i>	<i><0.2></i>
<i>Civil service^(b)</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>	<i>156 300 (0.6)</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

5.14 In June 2010, vacancies in private sector establishments posted a significant increase of 43.4% over a year earlier, further to the 65.4% surge in March 2010. Analysed by sector, marked increases in vacancies were observed in manufacturing (up by 120.6%), financing and insurance (112.5%), transportation, storage, postal and courier services (100.5%), and professional and business services (63.6%).

5.15 The surge in job vacancies remained broad-based, with the lower-skilled and higher-skilled categories both up markedly, by 43.8% and 42.9% respectively in June 2010 over a year earlier, further to the 70.9% and 57.4% increases in March 2010. In terms of occupation categories, the upsurge in job vacancies was most pronounced among plant and machine operators and assemblers (up by 86.2%), workers in elementary occupations (68.4%), craft and related workers (67.6%), and professionals (52.2%). In terms of establishment size, SMEs reported a 43.0% year-on-year leap in vacancies in June 2010, following the 83.4% surge in March 2010. Regarding large enterprises, the increase was likewise substantial, at 43.9% in June 2010, following a 51.3% rise in March 2010.

5.16 Comparing the number of job vacancies with that of unemployed persons, the ratio of job vacancies was 26 per 100 job-seekers in June 2010, slightly lower than that of 29 in March 2010. The corresponding ratio for lower-skilled jobs decreased marginally from 24 in March 2010 to 23 in June 2010, and that for higher-skilled jobs from 59 to 51. When expressed as a percentage of total employment opportunities, the vacancy rate for private sector establishments in June 2010 held steady at 1.8%. As for the civil service, the number of vacancies posted a year-on-year increase of 10.7%.

Table 5.6 : Vacancies by major economic sector

	<u>2009</u>					<u>2010</u>		Vacancy rate in Jun 2010 (%)
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</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)	6 100 (41.1)	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)	4 400 (20.1)	1.8
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)	6 600 (47.9)	2.6
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)	2 000 (100.5)	1.2
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)	2 300 (51.9)	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)	12 200 (64.1)	2.0
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)	10 100 (19.3)	2.3
Manufacturing	900 (-43.7)	700 (-67.1)	700 (-67.2)	1 200 (-19.2)	1 200 (10.6)	1 500 (133.9)	1 400 (120.6)	1.2
Construction sites (manual workers only)	# (-54.2)	# (-92.1)	# (-86.7)	# (-56.1)	# (172.7)	# (1 466.7)	100 (1 375.0)	0.1
<i>All establishments surveyed in the private sector^(a)</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>45 200 (43.4)</i>	<i>1.8</i>
		<i><-27.2></i>	<i><20.5></i>	<i><13.9></i>	<i><7.2></i>	<i><12.8></i>	<i><4.1></i>	
<i>Civil service^(b)</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>5 700 (10.7)</i>	<i>3.5</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.

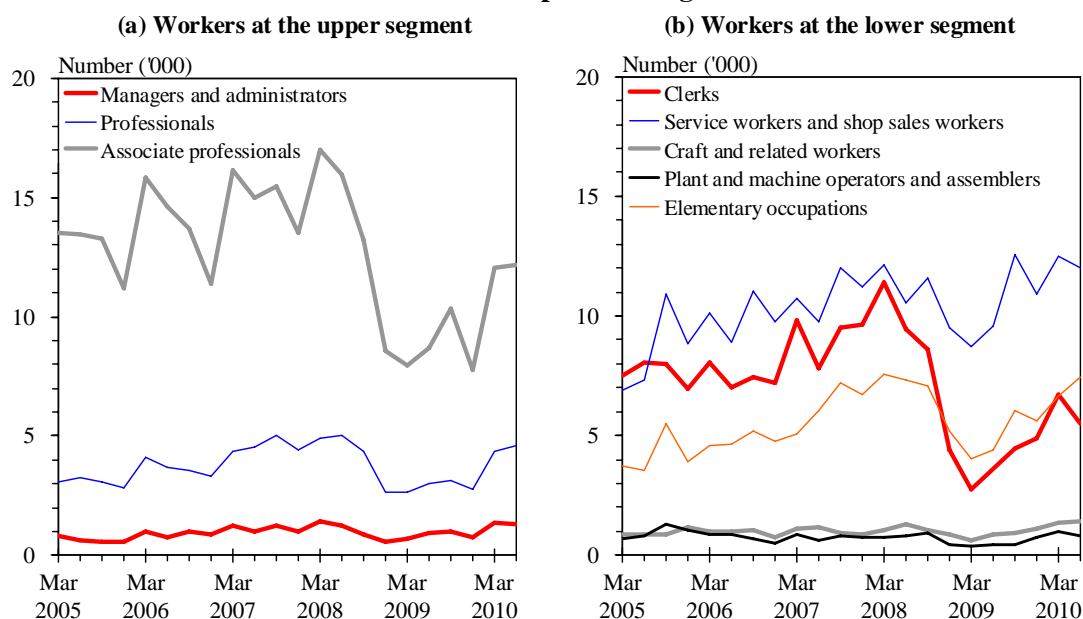
() % change over a year earlier.

< > 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 : Job vacancies remained substantially higher than a year earlier
across all occupation categories**



5.17 The vacancy figures compiled by the LD, notwithstanding its smaller sample size, may provide a more up-to-date trend in the job market. In September 2010, the number of private sector job vacancies posted by the department amounted to almost 71 500, up by 17.2% over a year earlier. On a quarter-to-quarter comparison, the average number of private sector job vacancies in the third quarter also went up by 17.9%. These figures suggested that recruitment activities remained very buoyant during the recent period.

Wages and earnings

5.18 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, rose by 2.2% year-on-year in nominal terms in June 2010. This represented a further improvement from the 1.9% rise in March 2010. After adjusting for the change in prices⁽⁶⁾, labour wages in real terms fell slightly by 1.0% year-on-year in June 2010, broadly similar to the 0.6% decline in March 2010.

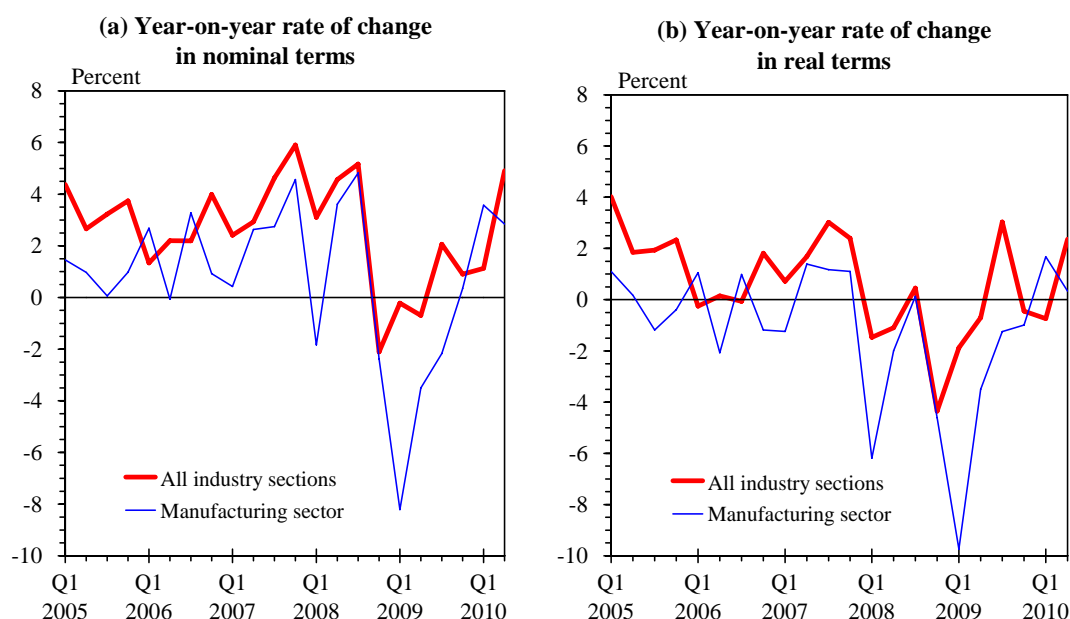
5.19 In June 2010, the increase in nominal wages was more noticeable among workers engaged in professional and business services (up by 3.7%), real estate leasing and maintenance management (3.3%), and personal services (3.1%). As for individual occupations at supervisory level or below, most categories saw upward movements in wages, with a larger increase observed for service workers (up by 3.0%).

5.20 Compensation at the higher end of the work hierarchy likewise recorded decent increases, according to the Salary Indices for Managerial and Professional Employees. Compared with a year earlier, the index in June 2010 rose by 3.2% in nominal terms and 0.8% in real terms in respect of staff remaining in the same occupation and the same company over the period. Including the newly recruited and promoted employees, the corresponding increases were 2.5% and 0.1% respectively.

5.21 *Labour earnings*⁽⁷⁾, as measured by payroll per person engaged in the private sector, increased by 4.9% in nominal terms in the second quarter of 2010 over a year earlier, distinctly improved from the 1.1% increase in the previous quarter. After adjusting for inflation, labour earnings rose by 2.4% in real terms, reversing the decline of 0.7% in the preceding quarter. On a seasonally adjusted basis, private sector payroll moved up by 4.2% in nominal terms and 4.3% in real terms in the second quarter over the first quarter, thanks to the disbursement of discretionary bonuses and allowances by business establishments.

5.22 The increases in nominal payroll were virtually across the board in the second quarter of 2010. In particular, earnings for workers engaged in financial and insurance activities were higher by 6.8% over a year earlier, as were those for transportation, storage, postal and courier services by 6.6%. On the other hand, earnings for workers in social and personal services remained under downward pressure, with a decrease of 2.9%.

**Diagram 5.7 : Nominal payroll sustained the upward momentum
in the second quarter of 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⁽⁸⁾ (excluding foreign domestic helpers) for the local workforce fell by 4.1% in the third quarter of 2010 from a year earlier, in contrast to the 3.2% rise in the second quarter. The decline was mainly attributable to the high base a year earlier caused by the payments of discretionary bonuses in the financial services sector. In fact, earnings continued to improve extensively in most other sectors like decoration, repair and maintenance for buildings, retail and hotels. Analysed by occupation, earnings for higher-skilled workers dropped by 7.8% in the third quarter, after a 5.0% gain in the second quarter, while the earnings growth for lower-skilled workers remained broadly steady at 3.2% and 2.2% 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. Meanwhile, the CPI(C) is taken as the price deflator for salaries in respect of middle-level managerial and professional employees.
- (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

- *Consumer price inflation, though still benign when viewed against the brisk economic expansion, notched up further in the third quarter. The underlying inflation rate, which excludes the effects of the Government's relief measures to give a more accurate indication of the inflation trend, rose from 1.5% in the second quarter to 2.0% in the third quarter, giving an average of 1.4% in the first three quarters of 2010.*
- *Part of the faster year-on-year increase in underlying Composite CPI in the third quarter was due to the low base a year ago when the economy drifted into deflation. The seasonally adjusted quarter-to-quarter increase, which reflects the price pressures in the more recent period, eased from 0.5% in the second quarter to 0.3% in the third quarter.*
- *Local cost pressures have risen back alongside the economic recovery, yet on the whole they remained largely in check in the third quarter. Unit labour cost actually showed a further decline, as the modest increase in wages was more than outweighed by the concurrent hefty productivity growth. But the cost pressure from rising rentals was somewhat more visible, even though in large part the rapid increases in shop and office rentals were also driven by the rapidly expanding business volume.*
- *On the external front, the weakness of the US dollar, rising global food prices, and higher inflation in the region have all brought further price pressures from imported inflation. As a result, import prices picked up on a wide front in the third quarter.*

Consumer prices

6.1 The reflationary process that accompanied the economic recovery extended into the third quarter. Indeed, this was a common phenomenon among many Asian economies⁽¹⁾. For Hong Kong in particular, local cost pressures have continued to emerge, as wages and rentals rose back from their troughs last year, and as pricing power of retailers has also returned along with the strength of local consumption and inbound tourism. On the external front, renewed weakening of the US dollar during the third quarter, rising global food prices and higher inflation in Asia all added to the price pressure from import sources. Yet hefty productivity growth in the overall economy has provided an effective cushion, which was the major contributory factor behind the still

relatively moderate inflation despite the very fast economic growth so far this year.

6.2 Specifically, headline consumer price inflation, as measured by the year-on-year rate of change in the headline *Composite Consumer Price Index*⁽²⁾ (Composite CPI), stood at 2.3% in the third quarter, down from 2.6% in the second quarter. Netting out the effect 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 further from 1.5% in the second quarter to 2.0% in the third quarter. The narrowing gap between the headline and underlying inflation rates in the third quarter was largely due to the dissipation of the lower base effect created by the electricity subsidy with the final payment ended in August last year, as well as an extra month of public housing rental waiver in the third quarter this year as compared to the previous year.

6.3 Part of the faster year-on-year increase in the underlying Composite CPI in the third quarter was due to the low base a year ago when the economy drifted into deflation. The seasonally adjusted quarter-to-quarter increase, which reflects the price pressures in the more recent period, eased from 0.5% in the second quarter to 0.3% in the third quarter.

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^(a)</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)
	Q3	2.0 (0.3)	2.3 (-1.4)	1.9 (-3.8)	2.6 (-0.6)	2.3 (0.1)

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%.

Diagram 6.1 : Inflationary pressure went up modestly in the third quarter of 2010

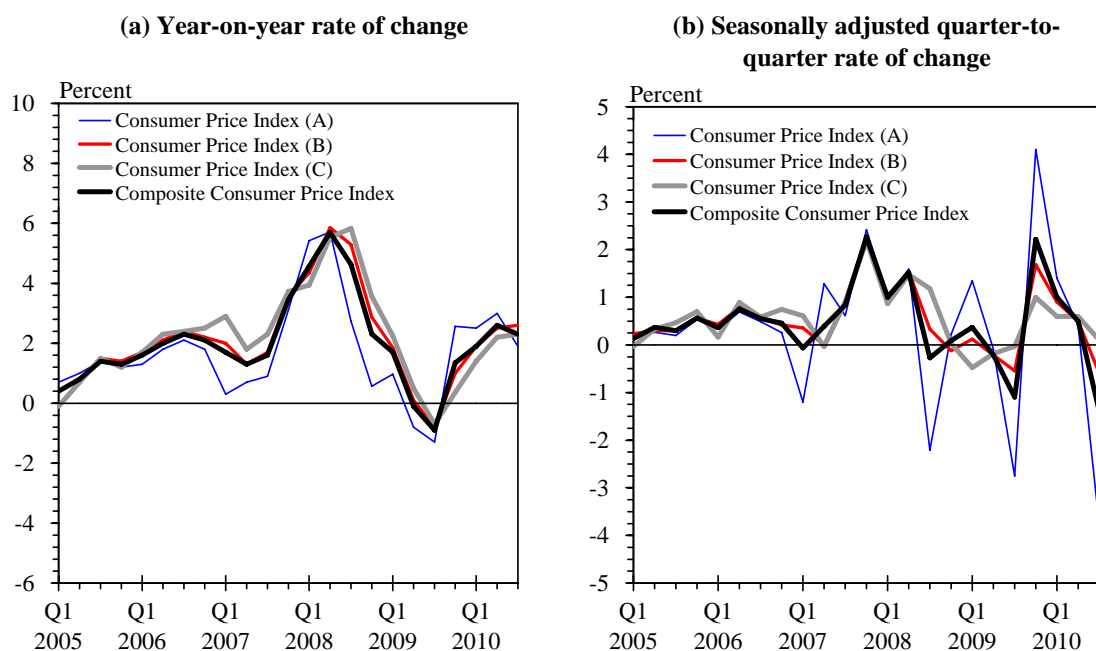
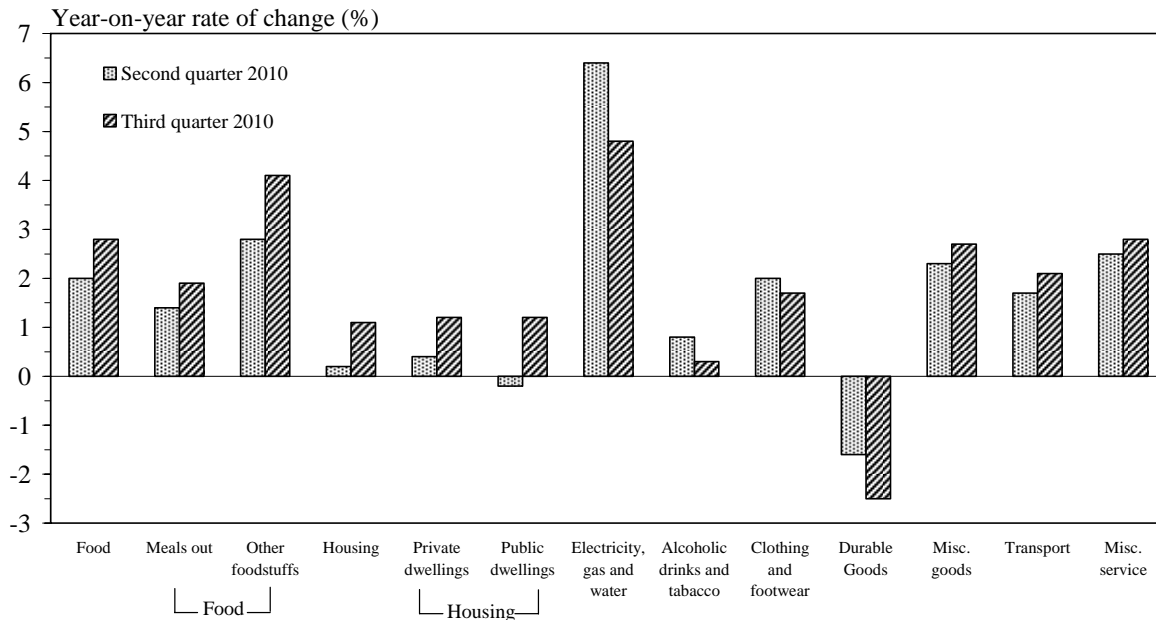


Diagram 6.2 : Many major components of the underlying Composite CPI showed a faster increase in the third quarter



6.4 On a year-on-year comparison, many major components of the underlying Composite CPI showed a slightly faster increase in the third quarter, though partly also because of the low base a year earlier when the economy experienced deflation. The pick-up in food prices was particularly notable, reflecting rising import prices under the dual forces of higher global food prices and the general weakening of the US dollar. Another important contributor of the higher underlying inflation in the third quarter was the pick-up in private housing costs, which also carry a relatively large weight in the Composite CPI, due to the continued feed-through of the higher market rentals. Meanwhile, the increases in prices of electricity, gas and water, alcoholic drinks and tobacco, as well as clothing and footwear eased slightly, while prices of durable goods remained on a secular decline.

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>	<u>Q3</u>
Food	26.94	4.6	1.5	-0.5	-0.3	1.1	2.0	2.8
<i>Meals bought away from home</i>	16.86	3.4	1.7	0.7	0.6	0.8	1.4	1.9
<i>Other foodstuffs</i>	10.08	6.5	1.2	-2.3	-1.5	1.5	2.8	4.1
Housing ^(a)	29.17	6.6	4.5	1.7	1.9	-0.1	0.3	-0.7
		(6.6)	(4.1)	(1.4)	(-0.2)	(-0.4)	(0.2)	(1.1)
<i>Private dwellings</i>	23.93	7.7	5.1	2.0	0.0	0.0	0.4	1.2
		(7.7)	(4.7)	(1.6)	(-0.4)	(-0.4)	(0.4)	(1.2)
<i>Public dwellings</i>	2.49	-0.2	0.6	-7.0	45.4	0.6	-0.3	-85.7
		(0.2)	(0.2)	(0.2)	(0.0)	(0.0)	(-0.2)	(1.2)
Electricity, gas and water	3.59	-42.7	-42.7	-26.1	32.3	61.1	64.0	43.1
		(-8.1)	(-8.2)	(-7.3)	(-2.9)	(5.3)	(6.4)	(4.8)
Alcoholic drinks and tobacco	0.87	7.6	22.6	22.9	22.0	13.1	0.8	0.3
Clothing and footwear	3.91	1.8	2.5	2.6	3.7	1.4	2.0	1.7
Durable goods	5.50	-2.9	-3.3	-3.1	-2.8	-1.7	-1.6	-2.5
Miscellaneous goods	4.78	3.2	2.3	1.7	1.9	2.0	2.3	2.7
Transport	9.09	0.7	-0.7	-2.4	-1.0	1.1	1.7	2.1
Miscellaneous services	16.15	-1.7	-3.0	-2.8	-0.7	0.5	2.1	2.5
		(-1.1)	(-2.3)	(-2.1)	(-0.1)	(1.1)	(2.5)	(2.8)
All items	100.00	1.7	-0.1	-0.9	1.3	1.9	2.6	2.3
		(3.1)	(1.2)	(-0.3)	(-0.1)	(0.8)	(1.5)	(2.0)

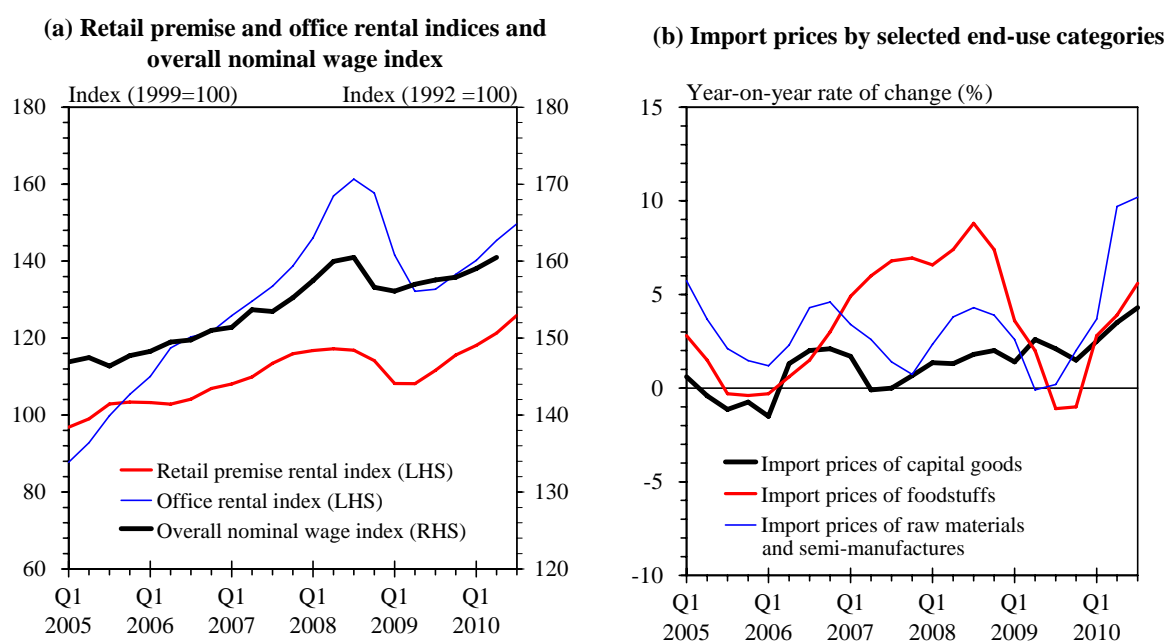
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

6.5 Domestic cost pressures, while showing some gradual increase in recent quarters, were still rather contained up till the third quarter of 2010. Wages and salaries showed a modest pick-up in tandem with an improving labour market. Yet this was matched by the concurrent hefty growth in labour productivity, leading to a further decline in unit labour cost. Market rentals of offices and retail premises, continuing their uptrend since early 2009, picked up more in the third quarter. The cost pressures from rising rentals were thus somewhat more visible, even though in large part the rental upturn was also driven by the rapidly expanding business volume.

Diagram 6.3 : Wages and rentals rose amid the brisk economic expansion, while import prices picked up notably



6.6 Inflationary pressures from the external side have built up further during the third quarter, mainly due to the feed through from the US dollar weakness, rises in global commodity prices, and higher inflation in many Asian economies. On a year-on-year comparison, import prices rose by 7.2% in the third quarter, as compared to 6.6% in the second quarter. Analysed by major end-use categories, import prices of foodstuffs and consumer goods both showed notably faster increases. These were partly driven by the further pick-up in global food prices during the third quarter, but the strengthening of the currencies of the major import sources (e.g. Australian dollar and Japanese yen) was also a major reason. The increase in import prices of raw materials was particularly strong, reflecting the continued rebound in international prices of industrial materials and metals from the low base last year. The

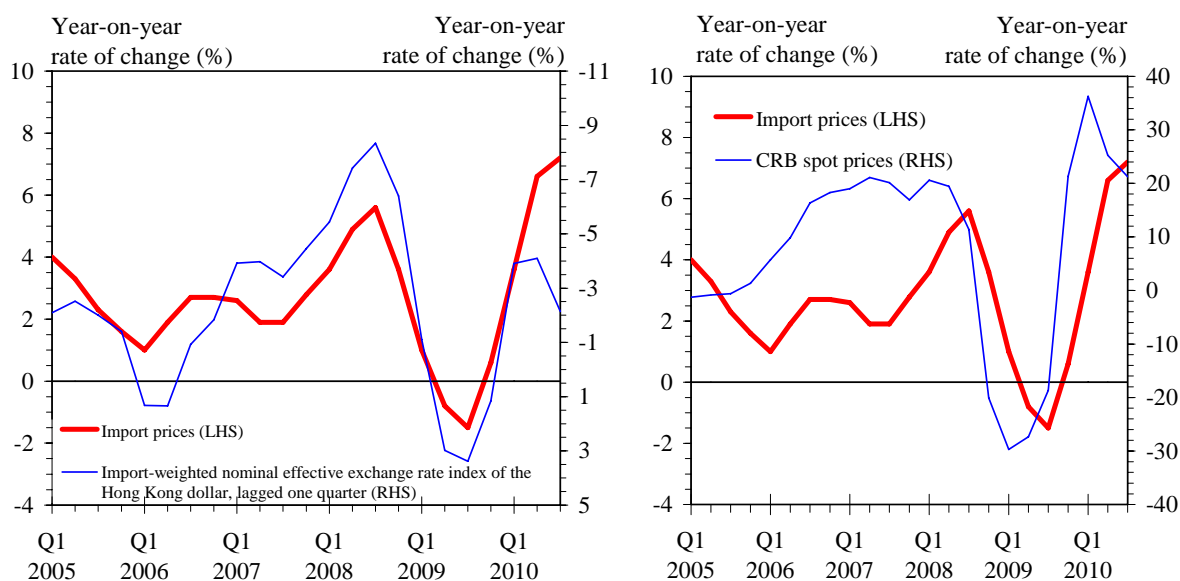
acceleration in the import prices of capital goods was more moderate in comparison. The year-on-year change in import prices of fuels decelerated further, though this was mainly affected by the differences in base effects over the course of 2009.

**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
	Q3	5.6	5.8	10.2	9.9	4.3	7.2

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

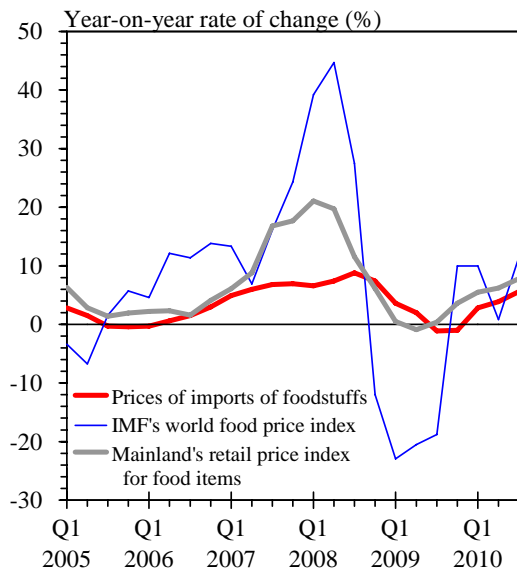
Diagram 6.4 : The faster increase in import prices was due partly to the weakening of the Hong Kong dollar alongside the US dollar



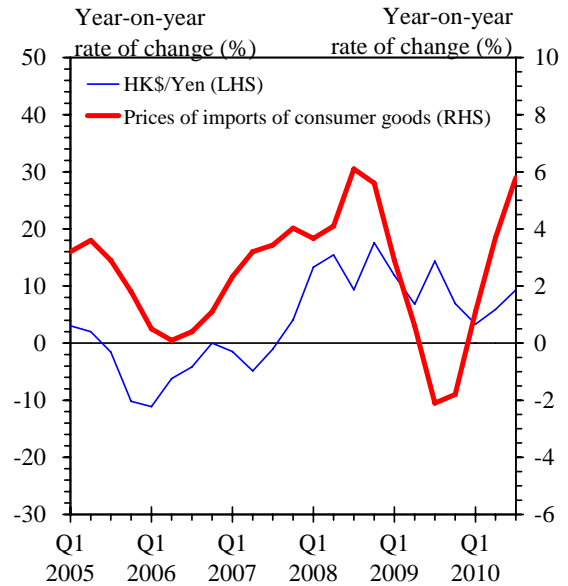
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

Diagram 6.5 : Import prices by end-use categories

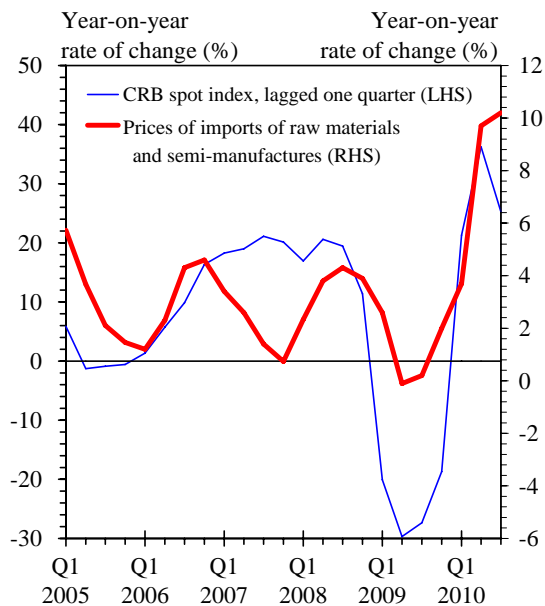
(a) Import prices of foodstuffs increased further



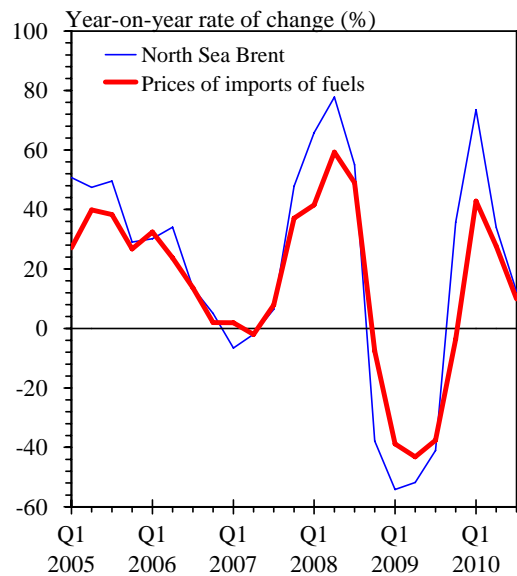
(b) Import prices of consumer goods picked up further



(c) Import prices of raw materials rose sharply



(d) The year-on-year increase of fuel prices slowed substantially as the low base effect faded



Output prices

6.7 Output prices, as measured by the *Producer Price Indices*⁽³⁾, picked up further in most sectors in the second quarter. Prices of local manufacturing output rose further. Among the service sectors, prices for maritime transport and air transport both increased distinctly, due mainly to increased fuel costs as compared to a year earlier, with the recovery in demand for these services also being contributory. Prices for accommodation services continued to increase alongside the vibrant inbound tourism. Prices for courier services and land transport also showed slightly faster increases. The only exception was the telecommunications services, in which prices continued to fall as the result of technological advancement and competitive pressure.

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

<u>Industry group</u>	<u>Annual</u>	<u>2009</u>				<u>2010</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[@]</u>
Manufacturing	-1.7	-1.4	-3.0	-2.0	-0.3	4.0	6.0
Selected services sector ^(a)							
Accommodation services	-8.1	-7.0	-10.8	-10.5	-4.3	4.4	6.9
Land transport	-1.0	-0.6	-1.5	-2.0	0.2	0.1	0.9
Maritime transport	-16.2	-12.7	-21.0	-20.8	-10.5	13.0	43.7
Air transport	-8.7	-10.3	-13.6	-15.2	4.7	13.9	17.4
Telecommunications	-2.5	-2.5	-2.8	-2.5	-2.0	-2.3	-2.1
Courier services	2.0	2.1	1.9	1.9	2.1	1.6	2.3

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.

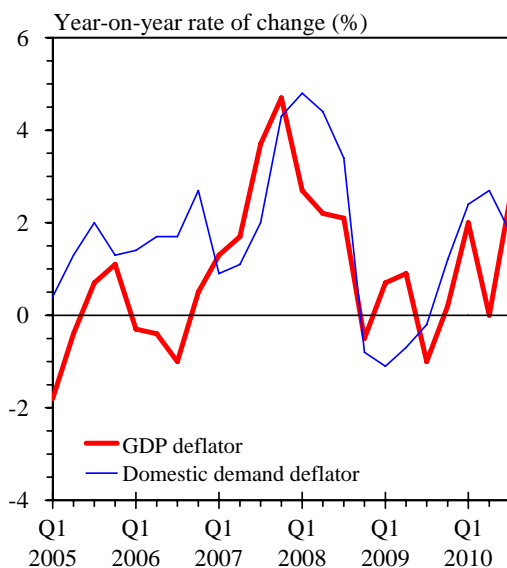
([@]) Provisional figures except manufacturing.

GDP deflator

6.8 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ increased by 2.5% in the third quarter of 2010 from a year earlier after staying steady in the previous quarter. This was due to a reversion to improvement in the *terms of trade*⁽⁵⁾, a dominant item in the GDP deflator, with export prices rising faster than import prices in the third quarter. Taking out the external components, the domestic demand deflator increased by 1.8% in the third quarter over a year earlier, after the 2.7% increase in the second quarter.

Diagram 6.6 : GDP deflator

(a) Domestic demand deflator increased further in the third quarter



(b) Terms of trade reverted to improvement in the third quarter

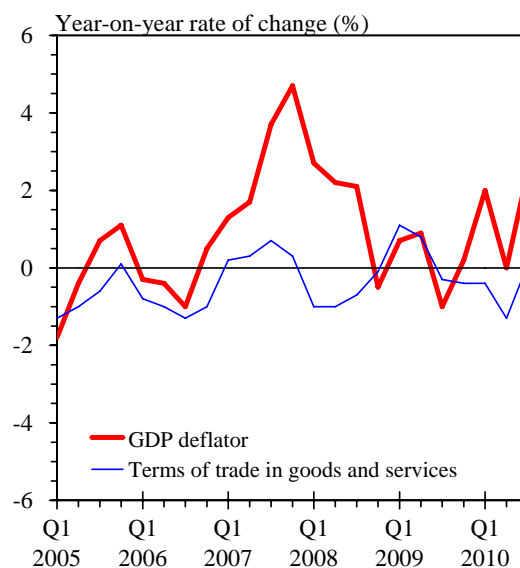


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

		<u>2009</u>				<u>2010</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>	<u>Q3⁺</u>
Private consumption expenditure	-1.5	-1.1	-2.2	-2.5	*	0.1	-0.1	0.1
Government consumption expenditure	0.1	3.3	-0.9	-1.6	-0.6	-0.9	*	0.5
Gross domestic fixed capital formation	3.9	-2.6	4.5	7.9	5.0	11.1	11.7	5.9
Total exports of goods	0.5	1.8	0.1	-0.9	0.9	2.8	4.1	5.6
Imports of goods	-1.3	-0.8	-2.3	-2.1	-0.1	3.9	7.1	6.6
Exports of services	-7.0	-7.6	-9.8	-8.4	-2.9	7.9	11.3	9.4
Imports of services	-2.5	-6.2	-6.0	-3.3	5.2	7.3	4.7	3.7
Gross Domestic Product	0.2	0.7	0.9	-1.0	0.2	2.0	*	2.5
		<0.2>	<0.2>	<-0.6>	<0.4>	<2.0>	<-1.7>	<1.8>
Total final demand	-0.9	-0.6	-1.5	-1.9	0.4	3.4	4.6	5.1
Domestic demand	-0.2	-1.1	-0.7	-0.2	1.2	2.4	2.7	1.8

Notes : Figures are derived based on the 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 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>Q3</u>	<u>Jul</u>	<u>Aug</u>	<u>Sept</u>
Selected developed economies							
US	-0.4	2.4	1.8	1.2	1.2	1.1	1.1
Canada	0.3	1.6	1.4	1.8	1.8	1.7	1.9
EU	1.0	1.7	2.0	2.1	2.1	2.0	2.2
Japan	-1.4	-1.2	-0.9	-0.8	-0.9	-0.9	-0.6
Major emerging economies							
Mainland China	-0.7	2.2	2.9	3.5	3.3	3.5	3.6
Russia	11.7	7.2	5.9	6.2	5.5	6.1	7.0
India	10.9	15.3	13.7	10.3	11.3	9.9	9.8
Brazil	4.9	4.9	5.1	5.0	4.6	4.5	4.7
Selected Asian economies							
Hong Kong	0.5	1.9	2.6	2.3	1.3	3.0	2.6
Singapore	0.6	0.9	3.1	3.4	3.1	3.3	3.7
Taiwan	-0.9	1.3	1.1	0.4	1.3	-0.5	0.3
South Korea	2.8	2.7	2.6	2.9	2.6	2.6	3.6
Malaysia	0.6	1.3	1.6	1.9	1.9	2.1	1.8
Thailand	-0.8	3.7	3.2	3.3	3.5	3.3	3.0
Indonesia	4.8	3.7	4.4	6.2	6.2	6.4	5.8
Philippines	3.2	4.3	4.2	3.8	3.9	4.0	3.5
Vietnam	6.7	8.5	9.0	8.4	8.2	8.2	8.9
Macao	1.2	1.5	2.7	3.1	3.0	2.5	3.8

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

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

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

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

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

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

Statistical Appendix

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

	(\$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
GDP	1,317,650	1,299,218	1,277,314	1,234,761	1,291,923	1,382,590
Per capita GDP (\$)	197,697	193,500	189,397	183,449	190,451	202,928
GNP	1,326,404	1,327,761	1,282,966	1,263,252	1,315,333	1,384,238
Per capita GNP (\$)	199,010	197,751	190,235	187,682	193,902	203,170
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 ^(a)	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[#]</u>	<u>2009[#]</u>	<u>2009</u> Q4 [#]	Q1 [#]	<u>2010</u> Q2 [#]	Q3 [#]
Private consumption expenditure	863,591	972,028	1,022,678	1,004,235	265,940	251,841	266,188	262,562
Government consumption expenditure	123,033	130,404	139,374	142,784	36,034	38,574	34,697	36,691
Gross domestic fixed capital formation	322,691	325,366	334,195	340,861	89,429	91,335	103,513	101,256
<i>of which:</i>								
Building and construction	106,268	111,776	127,305	129,781	32,973	33,135	39,158	38,602
Machinery, equipment and computer software	199,631	189,093	182,039	186,842	48,789	50,165	55,444	52,045
Changes in inventories	-2,129	12,841	8,394	27,618	21,917	26,037	14,189	-3,668
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	706,434	640,479	773,959	838,073
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	774,627	728,114	871,131	898,127
Exports of services	565,054	660,728	717,249	669,015	195,042	192,761	188,574	221,674
Imports of services	287,900	332,240	366,484	344,009	94,536	92,599	94,068	104,530
GDP	1,475,357	1,615,455	1,675,315	1,632,284	445,633	420,314	415,921	453,931
<i>Per capita GDP (\$)</i>	<i>215,158</i>	<i>233,248</i>	<i>240,096</i>	<i>233,060</i>	--	--	--	--
GNP	1,502,705	1,659,892	1,758,621	1,681,676	455,800	445,933	433,489	N.A.
<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	1,314,796	1,241,027	1,381,120	1,456,588
Total final demand excluding re-exports ^(a)	2,406,861	2,660,027	2,803,500	2,669,625	745,019	723,069	757,253	776,641
Domestic demand	1,307,186	1,440,639	1,504,641	1,515,498	413,320	407,787	418,587	396,841
Private	1,149,285	1,278,479	1,329,413	1,331,803	366,321	354,751	371,474	345,809
Public	157,901	162,160	175,228	183,695	46,999	53,036	47,113	51,032
External demand	3,032,411	3,359,578	3,561,247	3,163,761	901,476	833,240	962,533	1,059,747

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
GDP	8.0	0.5	1.8	3.0	8.5	7.1
<i>Per capita GDP</i>	7.0	-0.2	1.4	3.2	7.6	6.6
GNP	6.6	2.0	0.1	4.9	7.9	5.3
<i>Per capita GNP</i>	5.6	1.3	-0.3	5.1	7.0	4.8
Total final demand	12.6	-0.7	5.0	7.9	11.8	7.7
Total final demand excluding re-exports ^(a)	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[#]</u>	<u>2009[#]</u>	<u>2009</u>	<u>2010</u>			Average annual rate of change:	
					Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 1999 to 2009 [#]	5 years 2004 to 2009 [#]
Private consumption expenditure	5.9	8.5	2.4	-0.4	4.8	7.1	4.4	5.7	3.1	3.9
Government consumption expenditure	0.3	3.0	1.8	2.4	2.0	3.4	2.7	3.4	1.7	0.8
Gross domestic fixed capital formation	7.1	3.4	0.8	-1.8	14.1	8.2	15.6	0.3	2.2	2.7
<i>of which:</i>										
Building and construction	-7.1	-0.3	6.1	-0.5	1.3	-7.2	12.3	9.2	-3.7	-2.0
Machinery, equipment and computer software	19.2	3.0	-0.8	-2.6	16.2	11.9	16.4	-6.4	7.0	6.0
Total exports of goods	9.3	7.0	1.9	-12.7	-2.9	21.6	20.1	20.8	6.3	2.8
Imports of goods	9.2	8.8	1.8	-9.5	3.3	28.0	23.6	16.5	6.7	3.4
Exports of services	10.1	14.1	5.0	0.3	8.9	17.9	17.1	14.0	9.6	8.1
Imports of services	8.1	12.1	6.3	-3.7	2.5	10.9	12.4	9.9	5.0	6.0
GDP	7.0	6.4	2.2	-2.8	2.5	8.0	6.5	6.8	4.1	3.9
<i>Per capita GDP</i>	<i>6.3</i>	<i>5.3</i>	<i>1.4</i>	<i>-3.1</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>3.5</i>	<i>3.2</i>
GNP	8.8	7.4	4.3	-4.6	-1.0	12.1	5.1	N.A.	4.2	4.1
<i>Per capita GNP</i>	<i>8.1</i>	<i>6.3</i>	<i>3.5</i>	<i>-4.9</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>3.6</i>	<i>3.5</i>
Total final demand	8.4	8.2	2.3	-6.8	2.9	19.2	17.0	12.8	5.5	3.8
Total final demand excluding re-exports ^(a)	7.3	7.9	1.7	-2.5	7.2	16.8	14.4	6.5	4.3	3.9
Domestic demand	6.0	7.9	1.6	0.9	11.1	16.2	11.6	-1.2	3.0	3.5
Private	7.5	9.0	1.4	0.5	12.0	17.7	11.8	-2.8	3.5	4.2
Public	-3.8	0.2	2.7	4.1	4.2	7.0	10.2	11.7	-0.1	-0.7
External demand	9.4	8.3	2.5	-10.1	-0.4	20.7	19.5	19.3	7.0	3.9

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

	<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008[#]</u>		<u>2009[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	847	0.1	849	0.1	895	0.1	824	0.1	1,044	0.1
Mining and quarrying	100	*	93	*	114	*	96	*	65	*
Manufacturing	45,547	3.4	45,761	3.2	39,319	2.5	38,710	2.5	35,783	2.3
Electricity, gas and water	39,924	3.0	40,364	2.8	39,673	2.6	38,421	2.5	34,010	2.2
Construction	38,538	2.9	38,688	2.7	40,153	2.6	47,922	3.1	49,523	3.2
Services	1,207,873	90.6	1,297,545	91.2	1,431,815	92.3	1,441,908	92.0	1,412,920	92.1
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	386,726	29.0	397,252	27.9	417,339	26.9	442,454	28.2	409,363	26.7
<i>Transport, storage and communications</i>	135,119	10.1	137,166	9.6	141,749	9.1	120,647	7.7	121,150	7.9
<i>Financing, insurance, real estate and business services</i>	294,260	22.1	356,371	25.0	450,989	29.1	418,389	26.7	411,635	26.8
<i>Community, social and personal services</i>	253,312	19.0	256,347	18.0	265,108	17.1	279,881	17.9	289,872	18.9
<i>Ownership of premises</i>	138,455	10.4	150,408	10.6	156,631	10.1	180,537	11.5	180,900	11.8
GDP at current factor cost	1,332,830	100.0	1,423,299	100.0	1,551,970	100.0	1,567,880	100.0	1,533,345	100.0
Taxes on production and imports	62,891	--	71,071	--	93,981	--	84,889	--	80,997	--
Statistical discrepancy (%)	-0.9	--	-1.3	--	-1.9	--	1.3	--	1.1	--
GDP at current market prices	1,382,590	--	1,475,357	--	1,615,455	--	1,675,315	--	1,632,284	--

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[#]</u>	<u>2009</u>		<u>2010</u>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Agriculture and fishing	2.7	-1.0	-5.0	-6.4	-18.8	0.9	4.4	5.3	2.2	0.1
Mining and quarrying	-16.7	10.1	10.2	13.7	-3.2	-16.1	-16.3	-20.9	-23.0	-25.7
Manufacturing	1.7	2.1	2.2	-1.5	-6.6	-9.2	-8.0	-6.2	1.0	2.5
Electricity, gas and water	2.3	2.5	0.8	1.2	0.2	1.9	5.2	-0.3	2.4	0.3
Construction	-9.3	-8.1	-9.4	-1.1	8.8	1.6	7.0	4.7	-0.6	16.2
Services	9.9	7.5	7.1	7.0	2.5	-2.0	-1.4	3.4	8.4	6.2
<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>-8.3</i>	<i>2.4</i>	<i>19.8</i>	<i>16.3</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>-6.0</i>	<i>0.6</i>	<i>5.0</i>	<i>10.5</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>5.2</i>	<i>7.6</i>	<i>6.1</i>	<i>0.9</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>1.3</i>	<i>1.5</i>	<i>4.5</i>	<i>3.6</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>0.4</i>	<i>0.1</i>	<i>*</i>	<i>*</i>
Taxes on production and imports	12.3	0.8	6.8	16.4	-0.4	-6.4	1.3	2.0	12.3	2.0
GDP in chained (2008) dollars	8.5	7.1	7.0	6.4	2.2	-2.8	-2.4	2.5	8.0	6.5

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[#]</u>	<u>2009</u>		<u>2010</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Current account ^(a)	156,933	178,166	199,160	228,125	141,687	22,812	36,235	31,604	8,690
Goods	-59,347	-108,983	-153,672	-180,091	-208,220	-65,914	-68,193	-87,635	-97,172
Services	231,157	277,154	328,488	350,765	325,006	86,034	100,506	100,162	94,506
Income	1,648	27,348	44,437	83,306	49,392	9,106	10,167	25,619	17,568
Current transfers	-16,524	-17,353	-20,093	-25,855	-24,491	-6,414	-6,244	-6,542	-6,212
Capital and financial account ^(a)	-182,431	-209,935	-259,247	-231,162	-164,924	-42,123	-28,647	-36,921	7,152
Capital and financial non-reserve assets (net change)	-171,752	-163,199	-144,749	32,707	384,338	64,502	201,995	-16,746	12,650
Capital transfers	-4,939	-2,900	10,338	16,393	36,154	12,274	9,504	11,834	6,652
Financial non-reserve assets (net change)	-166,812	-160,300	-155,086	16,314	348,184	52,228	192,491	-28,580	5,998
<i>Direct investment</i>	49,996	635	-52,577	70,393	-29,610	-22,141	9,226	-12,409	12,905
<i>Portfolio investment</i>	-245,017	-207,879	-21,452	-295,148	-342,329	-75,181	-114,607	-85,587	-101,069
<i>Financial derivatives</i>	30,502	25,925	43,534	63,338	25,641	1,776	8,165	7,728	10,777
<i>Other investment</i>	-2,294	21,019	-124,592	177,732	694,483	147,774	289,706	61,688	83,384
Reserve assets (net change)	-10,679	-46,735	-114,498	-263,869	-549,262	-106,625	-230,641	-20,175	-5,498
Net errors and omissions	25,498	31,769	60,087	3,037	23,237	19,311	-7,589	5,317	-15,842
Overall balance of payments	10,679	46,735	114,498	263,869	549,262	106,625	230,641	20,175	5,498

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[#]</u>	<u>2009[#]</u>	<u>2009</u>		<u>2010</u>	
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Total exports of goods	2,251,744	2,467,357	2,698,850	2,843,998	2,494,746	706,434	640,479	773,959	838,073
Imports of goods	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966	774,627	728,114	871,131	898,127
Visible trade balance	-59,347	-108,983	-153,672	-180,091	-208,220	-68,193	-87,635	-97,172	-60,054
	(-2.6)	(-4.2)	(-5.4)	(-6.0)	(-7.7)	(-8.8)	(-12.0)	(-11.2)	(-6.7)
Exports of services	495,394	565,054	660,728	717,249	669,015	195,042	192,761	188,574	221,674
Imports of services	264,237	287,900	332,240	366,484	344,009	94,536	92,599	94,068	104,530
Invisible trade balance	231,157	277,154	328,488	350,765	325,006	100,506	100,162	94,506	117,144
	(87.5)	(96.3)	(98.9)	(95.7)	(94.5)	(106.3)	(108.2)	(100.5)	(112.1)
Exports of goods and services	2,747,138	3,032,411	3,359,578	3,561,247	3,163,761	901,476	833,240	962,533	1,059,747
Imports of goods and services	2,575,328	2,864,240	3,184,762	3,390,573	3,046,975	869,163	820,713	965,199	1,002,657
Visible and invisible trade balance	171,810	168,171	174,816	170,674	116,786	32,313	12,527	-2,666	57,090
	<6.7>	<5.9>	<5.5>	<5.0>	<3.8>	<3.7>	<1.5>	<-0.3>	<5.7>

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>	
							Q4	Q1	Q2	Q3
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	11.4	9.4	9.2	5.1	-12.6	2,469,089	-2.0	26.0	24.3	27.8
Mainland of China	14.0	14.2	13.2	4.7	-7.8	1,263,249	4.0	40.2	25.9	31.1
United States	5.6	2.9	-0.8	-2.4	-20.6	285,236	-15.5	4.4	21.1	23.4
Japan	10.3	1.6	-0.7	1.2	-10.0	108,869	-2.0	12.4	26.5	18.4
Germany	15.6	4.0	7.2	15.8	-15.5	79,342	-12.2	-10.5	2.1	11.2
United Kingdom	5.2	6.3	1.7	0.7	-20.8	59,671	-16.5	-2.1	2.1	7.1
Singapore	6.8	4.4	3.8	9.6	-23.6	42,252	-11.6	18.3	21.4	26.0
Taiwan	2.7	3.3	1.6	3.8	-0.4	54,713	24.8	71.4	29.3	18.1
Republic of Korea	9.5	7.5	2.0	-6.4	-13.0	43,133	13.1	37.2	27.3	17.5
Rest of the world	13.3	8.5	13.2	11.3	-17.3	532,622	-6.3	16.6	26.8	30.8

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>	
							Q4	Q1	Q2	Q3
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	10.3	11.6	10.3	5.5	-11.0	2,692,356	3.4	34.3	29.9	24.1
Mainland of China	14.3	13.7	11.5	6.1	-11.4	1,249,374	-3.0	25.7	26.6	22.9
Japan	0.1	4.5	7.2	3.6	-20.6	236,369	*	57.4	37.9	25.2
Singapore	21.8	21.9	18.2	0.1	-10.4	174,659	7.4	49.0	48.0	37.0
Taiwan	9.4	15.9	5.2	-6.4	-8.5	175,649	20.4	62.0	39.5	20.3
United States	6.5	3.6	12.3	8.6	-5.7	142,137	9.6	24.8	25.2	31.8
Republic of Korea	2.6	16.1	-0.2	-1.1	-12.7	103,046	26.3	51.9	52.3	22.9
Rest of the world	8.4	7.6	10.7	11.5	-7.6	611,122	8.4	32.7	23.2	22.2

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>	
							Q4	Q1	Q2	Q3
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Overall	7.3	14.3	9.4	5.3	-10.8	687,346	16.3	60.5	47.2	13.7
Foodstuffs	3.1	4.3	12.9	19.7	9.9	78,629	15.3	30.3	9.3	9.6
Consumer goods	5.5	3.1	11.4	9.0	-14.0	137,619	23.2	79.3	56.8	18.4
Raw materials and semi-manufactures	4.2	8.8	17.7	-4.5	-6.4	247,076	27.6	86.2	55.3	17.2
Fuels	23.5	22.8	20.1	26.6	-18.4	86,794	19.3	34.8	73.6	26.2
Capital goods	10.8	33.2	-8.3	2.5	-18.7	137,053	-13.3	26.6	26.7	-5.8

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[#]</u>	<u>2009[#]</u>		<u>2009</u>		<u>2010</u>	
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	15.3	14.1	16.9	8.6	-6.7	669,015	5.8	27.2	30.3	24.7
Transportation	16.9	10.2	14.6	12.7	-13.6	194,342	-3.3	33.5	35.9	29.4
Travel	14.2	12.9	18.7	11.1	7.1	127,616	17.6	28.6	50.4	47.9
Trade-related	10.7	9.9	11.6	8.5	-6.4	202,039	4.2	24.1	22.8	21.5
Other services	22.3	28.4	26.7	1.5	-7.7	145,018	11.2	22.0	14.9	5.2
Imports of services	9.0	9.0	15.4	10.3	-6.1	344,009	7.9	19.0	17.6	14.0
Transportation	20.3	10.9	20.4	13.5	-14.0	106,033	-0.9	21.9	23.1	17.5
Travel	0.1	5.4	7.6	6.8	-1.3	123,716	11.3	13.5	12.0	12.1
Trade-related	12.8	12.6	15.9	10.6	-7.9	24,755	3.5	24.4	25.3	23.2
Other services	10.5	11.2	21.2	11.0	-1.6	89,505	15.7	22.0	17.0	9.7
Net exports of services	23.6	19.9	18.5	6.8	-7.3	325,006	3.9	35.9	46.0	36.2

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> Q4	Q1	<u>2010</u> Q2	Q3
<u>('000)</u>									
All sources	23 359.4	25 251.1	28 169.3	29 506.6	29 590.7	8 430.7	8 624.7	8 231.3	9 319.9
Mainland of China	12 541.4	13 591.3	15 485.8	16 862.0	17 956.7	5 080.0	5 548.9	4 938.3	6 008.2
South and Southeast Asia	2 413.0	2 659.7	2 888.1	2 936.2	2 885.2	905.4	715.2	954.1	820.7
Taiwan	2 130.6	2 177.2	2 238.7	2 240.5	2 009.6	523.0	537.0	519.1	582.8
Europe	1 398.0	1 548.2	1 772.2	1 711.4	1 610.5	468.5	438.3	408.4	399.2
Japan	1 210.8	1 311.1	1 324.3	1 324.8	1 204.5	325.8	334.2	309.2	339.5
United States	1 143.1	1 159.0	1 230.9	1 146.4	1 070.1	300.7	265.2	300.4	280.4
Others	2 522.6	2 804.5	3 229.2	3 285.3	2 854.0	827.2	785.9	801.8	889.1
<u>(% change over a year earlier)</u>									
All sources	7.1	8.1	11.6	4.7	0.3	9.0	16.5	30.8	24.9
Mainland of China	2.4	8.4	13.9	8.9	6.5	16.6	18.7	37.7	30.2
South and Southeast Asia	16.1	10.2	8.6	1.7	-1.7	1.7	13.9	36.2	26.0
Taiwan	2.7	2.2	2.8	0.1	-10.3	-3.7	10.7	13.4	7.1
Europe	22.3	10.7	14.5	-3.4	-5.9	-1.1	12.3	6.9	8.0
Japan	7.5	8.3	1.0	*	-9.1	-8.5	5.7	34.1	2.2
United States	8.7	1.4	6.2	-6.9	-6.7	1.2	9.1	11.9	8.8
Others	20.6	11.2	15.1	1.7	-13.1	1.0	18.0	20.1	28.2

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>
Completion of new property by the private sector (<u>'000 m² of internal floor area</u>)							
Residential property ^(a) (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 ^(b)	64	132	138	118	91	111	183
Industrial property ^(c)	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 ^(d)	6	0	27	0	0	13	27
Production of public housing (<u>in units</u>)							
Rental housing flats ^(e)	40 944	47 590	20 154	13 705	20 614	24 691	4 430
Subsidized sales flats ^(e)	22 768	25 702	1 072	320	0	0	0
Building plans with consent to commence work in the private sector (<u>'000 m² 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 ^(f)	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
Agreements for sale and purchase of property (<u>Number</u>)							
Residential property ^(g)	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 ^(h)							
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> Q4	Q1	<u>2010</u> Q2	Q3
Completion of new property by the private sector (^{'000 m²} of internal floor area)							
Residential property ^(a) (in units)	10 471	8 776	7 157	1 637	4 879	2 151	4 042
Commercial property	368	390	235	28	75	33	52
<i>of which :</i>							
Office space	320	341	151	25	66	0	34
Other commercial premises ^(b)	48	49	84	4	9	33	18
Industrial property ^(c)	16	78	3	0	0	0	21
<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	21
Storage premises ^(d)	0	4	0	0	0	0	0
Production of public housing (in units)							
Rental housing flats ^(e)	4 795	22 759	19 021	3 158	6 385	0	0
Subsidized sales flats ^(e)	2 010	2 200	370	370	0	1 110	0
Building plans with consent to commence work in the private sector (^{'000 m²} of usable floor area)							
Residential property	956.1	530.0	546.8	184.3	150.6	84.7	239.3
Commercial property	327.5	147.7	178.3	42.8	95.0	32.2	28.5
Industrial property ^(f)	103.5	106.6	97.1	18.0	17.5	6.7	9.3
Other properties	207.7	212.8	253.2	66.2	39.7	146.3	193.4
Total	1 594.8	997.1	1 075.4	311.3	302.8	269.9	470.5
Agreements for sale and purchase of property (Number)							
Residential property ^(g)	123 575	95 931	115 092	27 621	33 249	32 380	38 080
Primary market	20 123	11 046	16 161	2 590	3 567	3 978	3 224
Secondary market	103 452	84 885	98 931	25 031	29 682	28 402	34 856
Selected types of non-residential properties ^(h)							
Office space	4 129	2 845	2 521	852	812	838	1 028
Other commercial premises	5 490	4 149	5 359	1 649	1 755	1 731	2 228
Flatted factory space	9 072	5 741	5 554	1 914	1 685	1 899	2 298

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 ^(a)	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 ^(b) :							
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 ^(a)	-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 ^(b) :							
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> Q4	Q1	<u>2010</u> Q2 [#]	Q3 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	103.5	120.5	121.3	132.9	140.8	146.4	153.2
Office space	165.5	199.0	179.8	203.0	213.5	222.7	229.4
Shopping space	172.5	192.2	193.1	220.6	233.7	248.4	262.6
Flatted factory space	199.5	235.9	216.3	241.2	258.3	272.2	289.2
Property rental indices ^(b) :							
Residential flats	101.8	115.7	100.4	108.8	112.0	117.8	121.3
Office space	131.9	155.5	135.7	136.6	140.2	145.4	149.7
Shopping space	111.8	116.2	110.9	115.6	118.1	121.3	125.9
Flatted factory space	100.5	109.3	99.4	102.0	104.3	108.6	111.1
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	11.7	16.4	0.7	23.1	30.4	25.0	20.5
Office space	18.8	20.2	-9.6	16.0	38.1	30.9	19.7
Shopping space	12.4	11.4	0.5	27.0	42.2	36.7	27.5
Flatted factory space	25.9	18.2	-8.3	10.7	31.6	32.7	30.0
Property rental indices ^(b) :							
Residential flats	11.1	13.7	-13.2	2.1	18.8	22.6	18.6
Office space	12.4	17.9	-12.7	-13.4	-1.0	10.1	12.8
Shopping space	7.2	3.9	-4.6	1.3	9.1	12.1	12.8
Flatted factory space	10.4	8.8	-9.1	-3.5	5.7	11.2	12.0

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 ^(a)	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679
M3 ^(a)	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) ^{(b)(c)}							
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 ^(a)	3.4	0.5	-0.7	6.2	4.8	5.5	19.2
M3 ^(a)	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 ^{(b)(c)}							
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> Q4	Q1	<u>2010</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	454,342	491,115	671,241	671,241	713,252	671,558	831,730
M2 ^(a)	3,281,017	3,239,857	3,587,717	3,587,717	3,603,170	3,596,605	3,919,053
M3 ^(a)	3,300,500	3,261,306	3,604,843	3,604,843	3,623,214	3,610,315	3,932,327
Total money supply (\$Mn)							
M1	616,709	645,833	901,819	901,819	944,516	903,577	1,075,764
M2	6,106,348	6,268,058	6,602,310	6,602,310	6,596,941	6,578,945	6,989,183
M3	6,139,758	6,300,751	6,626,843	6,626,843	6,623,605	6,599,942	7,010,353
Deposit (\$Mn)							
HK\$	3,075,042	3,033,980	3,373,595	3,373,595	3,379,965	3,370,815	3,680,087
Foreign currency	2,793,856	3,024,004	3,007,445	3,007,445	2,990,665	2,981,399	3,056,000
Total	5,868,898	6,057,984	6,381,040	6,381,040	6,370,630	6,352,214	6,736,087
Loans and advances (\$Mn)							
HK\$	2,184,705	2,354,755	2,401,323	2,401,323	2,478,636	2,620,076	2,856,209
Foreign currency	776,971	930,883	887,160	887,160	989,922	1,152,454	1,269,836
Total	2,961,676	3,285,638	3,288,483	3,288,483	3,468,558	3,772,531	4,126,045
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	91.9	87.1	88.2	86.3	86.8	87.6	86.4
Import-weighted	92.5	87.1	87.9	85.9	86.2	86.7	85.4
Export-weighted	91.3	87.2	88.5	86.8	87.5	88.5	87.5
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	17.1	8.1	36.7	36.7	34.9	15.4	19.8
M2 ^(a)	18.1	-1.3	10.7	10.7	9.8	3.3	8.9
M3 ^(a)	18.1	-1.2	10.5	10.5	9.7	3.1	8.7
Total money supply :							
M1	25.4	4.7	39.6	39.6	36.8	18.9	18.5
M2	20.8	2.6	5.3	5.3	5.8	1.4	5.3
M3	20.6	2.6	5.2	5.2	5.7	1.3	5.2
Deposit							
HK\$	19.7	-1.3	11.2	11.2	9.8	2.7	8.5
Foreign currency	27.6	8.2	-0.5	-0.5	1.7	-0.4	0.8
Total	23.4	3.2	5.3	5.3	5.8	1.2	4.9
Loans and advances							
HK\$	13.9	7.8	2.0	2.0	6.7	10.7	20.0
Foreign currency	41.2	19.8	-4.7	-4.7	17.4	37.6	41.6
Total	20.0	10.9	0.1	0.1	9.5	17.8	25.9
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	-4.4	-5.2	1.3	-3.8	-3.9	-1.5	-1.4
Import-weighted	-4.4	-5.8	0.9	-3.9	-4.1	-2.1	-2.2
Export-weighted	-4.4	-4.5	1.5	-3.6	-3.4	-0.8	-0.5

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>	
					Q3	Q4	Q1	Q2
Service Industry								
Import and export trade	10.3	8.1	7.4	-13.7	-14.8	2.2	23.5	21.2
Wholesale	7.9	10.4	6.3	-12.6	-11.4	2.6	32.6	28.6
Retail	7.2	12.8	10.6	0.6	-1.1	12.8	18.8	16.9
Transportation	10.0	10.5	4.4	-19.9	-25.6	-4.3	17.3	34.6
<i>within which :</i>								
Land transport	4.3	3.7	2.2	-2.6	-2.7	2.0	2.6	8.7
Water transport	16.4	16.8	6.1	-24.1	-28.7	-14.0	11.0	27.4
Air transport	6.8	7.3	3.5	-21.0	-28.8	2.0	28.1	50.1
Warehousing and storage	10.2	15.9	6.6	1.4	4.8	7.3	16.3	11.1
Courier	6.9	5.5	2.1	-6.1	-5.4	18.4	34.4	35.4
Accommodation	13.8	15.2	3.8	-17.4	-17.8	-7.4	18.1	32.3
Food services	9.6	13.4	13.1	0.6	-0.3	2.0	5.1	4.4
Information and communications	6.1	8.4	6.0	-3.2	-4.9	-0.7	0.9	2.6
<i>within which :</i>								
Telecommunications	-0.7	11.0	9.8	1.4	-3.2	0.6	-2.9	-1.1
Film entertainment	1.7	6.1	-0.7	-12.6	-13.0	0.8	5.7	-16.0
Banking	19.5	38.3	-16.9	1.5	-3.6	35.3	6.3	-0.3
Financing (except banking)	47.9	68.8	-19.4	-10.3	5.4	45.3	54.4	-2.7
<i>within which :</i>								
Financial markets and asset management	49.3	71.7	-20.0	-11.7	4.5	55.5	60.2	-6.6
<i>within which : Asset management</i>	51.8	56.8	-5.2	-12.1	-0.3	55.2	62.5	26.5
Insurance	21.3	28.8	*	0.7	5.4	18.1	10.0	11.9
Real estate	-0.3	39.5	-3.7	9.7	26.7	19.1	20.5	3.6
Professional, scientific and technical services	13.2	12.3	6.8	-0.5	2.7	5.8	16.4	15.1
Administrative and support services	20.9	11.5	9.4	-12.4	-15.2	-2.3	6.4	14.9
Service Domain								
Tourism, convention and exhibition services	14.1	18.9	10.1	3.5	-2.3	15.4	24.2	43.4 ⁺
Computer and information technology services	9.8	6.8	5.3	-15.0	-18.1	-0.2	23.9	34.0

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 figure.

(*) 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> Q4	Q1 ⁺	<u>2010</u> Q2 ⁺	Q3 ⁺
<u>(%)</u>									
Labour force participation rate	60.9	61.2	61.2	60.9	60.7	60.1	60.0	59.9	59.9
Seasonally adjusted unemployment rate	5.6	4.8	4.0	3.6	5.4	5.1	4.4	4.6	4.2
Underemployment rate	2.7	2.4	2.2	1.9	2.3	2.3	2.2	2.0	1.9
<u>('000)</u>									
Population of working age	5 800.7	5 832.2	5 928.4	5 993.9	6 056.6	6 080.9	6 099.4	6 116.7	6 145.4
Labour force	3 534.2	3 571.8	3 629.6	3 648.9	3 676.6	3 653.4	3 657.3	3 664.0	3 682.5
Persons employed	3 336.6	3 400.8	3 483.8	3 518.8	3 479.8	3 480.7	3 496.7	3 492.1	3 520.6
Persons unemployed	197.6	171.1	145.7	130.1	196.7	172.6	160.6	171.8	161.8
Persons underemployed	96.3	86.3	79.2	69.0	86.4	83.8	80.0	73.7	71.0
<u>(% change over a year earlier)</u>									
Population of working age	1.2	0.5	1.6	1.1	1.0	1.1	1.3	1.3	1.4
Labour force	0.6	1.1	1.6	0.5	0.8	-0.2	-0.7	-0.7	-0.3
Persons employed	1.9	1.9	2.4	1.0	-1.1	-1.1	0.1	0.2	1.1
Persons unemployed	-17.4	-13.4	-14.8	-10.7	51.2	22.3	-14.4	-15.3	-22.7
Persons underemployed	-15.7	-10.4	-8.2	-12.9	25.2	21.5	2.0	-12.2	-20.4

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>			
						Sep	Dec	Mar	Jun		
Selected major industries	(% change)					(% change over a year earlier)					No.
Manufacturing	-2.6	-3.2	-2.9	-3.5	-5.7	-5.0	-4.4	-2.5	-3.9	119 816	
Construction sites (manual workers only)	-10.6	-10.8	-5.1	-1.5	2.2	-0.4	7.5	3.8	13.4	55 523	
Import and export trade	2.5	1.0	0.8	-0.3	-4.4	-4.3	-2.7	0.7	1.5	498 329	
Wholesale	2.0	-4.2	-0.3	-2.7	-2.0	-2.2	-0.5	1.9	1.1	63 825	
Retail	2.0	3.1	2.1	2.8	-0.3	-0.4	1.2	3.7	3.5	240 803	
Food and beverage services	2.4	5.0	3.3	1.8	*	-1.7	3.3	4.7	4.0	215 466	
Accommodation services	8.5	8.0	5.4	3.1	-1.0	-4.1	-2.0	-1.9	1.4	31 998	
Transportation, storage, postal and courier services	3.2	1.6	2.5	3.5	1.1	0.5	2.2	0.9	2.3	160 409	
Information and communications	-0.7	1.4	2.2	3.6	-1.6	-2.2	0.1	1.5	1.7	88 385	
Financing and insurance	4.9	4.6	7.3	5.6	-0.5	-2.3	2.4	2.6	4.7	190 839	
Real estate	6.6	5.3	4.4	2.7	0.5	0.6	3.3	5.1	4.7	110 068	
Professional and business services (excluding cleaning and similar services)	3.3	4.9	4.8	3.4	0.9	0.6	2.1	2.3	2.4	236 158	
Cleaning and similar services	3.4	2.5	0.6	-1.7	6.7	7.5	16.5	14.3	13.9	67 571	
Education	1.8	5.0	3.3	4.8	5.3	5.6	6.3	5.5	5.4	166 078	
Human health services	1.7	3.7	5.5	5.1	3.8	3.9	3.2	4.1	2.2	92 005	
Residential care and social work services	-0.4	1.5	1.4	1.3	1.5	1.7	3.2	2.0	1.3	56 190	
Arts, entertainment, recreation and other services	18.1	3.3	1.5	1.9	0.8	-0.8	2.2	6.8	3.8	112 663	
Civil Service ^(a)	-2.7	-1.3	-0.4	0.1	1.1	1.1	1.2	0.9	0.6	156 281	
Others ^(b)	-6.9	-0.3	0.9	7.0	-1.0	-4.4	1.9	1.2	2.2	10 847	

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> Sep	<u>2009</u> Dec	<u>2010</u> Mar	<u>2010</u> Jun
<u>(number)</u>									
Building sites									
Private sector	31 556	30 993	29 240	28 899	28 776	27 301	29 778	28 429	30 154
Public sector ^(a)	10 135	7 643	7 767	8 136	10 277	9 540	11 165	11 532	10 325
Sub-total	41 690	38 636	37 007	37 034	39 053	36 841	40 943	39 961	40 479
Civil engineering sites									
Private sector	2 198	1 569	1 674	1 686	1 618	1 733	1 675	1 635	1 665
Public sector ^(a)	15 378	12 661	11 504	10 703	9 831	9 391	10 536	12 317	13 379
Sub-total	17 576	14 230	13 178	12 388	11 449	11 124	12 211	13 952	15 044
Total	59 266	52 865	50 185	49 422	50 501	47 965	53 154	53 913	55 523
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-6.1	-1.8	-5.7	-1.2	-0.4	-3.5	5.7	-4.2	6.3
Public sector ^(a)	-23.9	-24.6	1.6	4.7	26.3	23.7	20.9	3.8	11.1
Sub-total	-11.2	-7.3	-4.2	0.1	5.5	2.3	9.4	-2.0	7.5
Civil engineering sites									
Private sector	-14.3	-28.6	6.7	0.7	-4.0	24.4	-2.3	12.5	3.4
Public sector ^(a)	-8.3	-17.7	-9.1	-7.0	-8.1	-12.5	2.1	26.7	38.3
Sub-total	-9.1	-19.0	-7.4	-6.0	-7.6	-8.3	1.5	24.9	33.3
Total	-10.6	-10.8	-5.1	-1.5	2.2	-0.4	7.5	3.8	13.4

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

(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						Q3	Q4	Q1	Q2
(in nominal terms)									
Manufacturing	0.9	1.7	2.5	0.9	-3.5	-2.2	0.4	3.6	2.8
Sewerage, waste management and remediation activities	28.0	10.4	17.0	-8.6	2.1	1.2	-5.4	-4.3	2.1
Import/export and wholesale trade	6.9	3.9	1.8	6.3	-1.6	-0.2	-0.3	2.2	2.7
Retail trade	9.0	2.1	2.6	8.1	-1.5	-4.7	-1.3	1.2	3.6
Transportation, storage, postal and courier services	5.2	3.0	3.9	-0.6	-0.2	4.9	0.2	2.4	6.6
Accommodation and food service activities	2.0	2.6	3.9	2.6	-0.6	0.2	0.3	4.4	3.8
Information and communications	*	0.6	-2.9	6.6	0.2	0.5	1.3	5.2	4.6
Financial and insurance activities	5.5	10.0	9.8	9.0	-3.3	0.6	-1.7	4.7	6.8
Real estate activities	5.7	-2.5	-0.4	8.0	-2.4	4.5	2.5	3.7	0.5
Professional and business services	2.5	3.3	4.8	3.5	0.6	4.6	2.7	4.6	2.7
Social and personal services	-3.2	1.0	1.5	3.1	1.7	-1.5	-0.4	-3.0	-2.9
All industries surveyed	3.5	2.4	4.0	2.6	0.5	2.1	0.9	1.1	4.9
(in real terms)									
Manufacturing	*	-0.3	0.5	-3.3	-4.0	-1.2	-1.0	1.7	0.3
Sewerage, waste management and remediation activities	26.8	8.2	14.8	-12.3	1.5	2.2	-6.6	-6.1	-0.4
Import/export and wholesale trade	5.9	1.8	-0.2	1.9	-2.2	0.8	-1.7	0.3	0.2
Retail trade	8.0	0.1	0.6	3.6	-2.1	-3.8	-2.6	-0.7	1.1
Transportation, storage, postal and courier services	4.2	0.9	1.9	-4.7	-0.7	5.9	-1.1	0.5	4.0
Accommodation and food service activities	1.0	0.6	1.8	-1.7	-1.2	1.2	-1.1	2.5	1.3
Information and communications	-0.9	-1.4	-4.7	2.2	-0.4	1.4	*	3.3	2.1
Financial and insurance activities	4.5	7.9	7.7	4.6	-3.9	1.6	-3.0	2.7	4.2
Real estate activities	4.8	-4.4	-2.3	3.5	-3.0	5.5	1.2	1.8	-2.0
Professional and business services	1.6	1.3	2.8	-0.7	*	5.6	1.3	2.6	0.2
Social and personal services	-4.1	-1.0	-0.5	-1.2	1.2	-0.5	-1.7	-4.8	-5.2
All industries surveyed	2.6	0.4	1.9	-1.7	*	3.0	-0.4	-0.7	2.4

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>2009</u>	<u>2010</u>	
Selected industry section						Sep	Dec	Mar	Jun
(in nominal terms)									
Manufacturing	1.6	0.2	4.3	2.6	-1.2	-2.0	-2.9	-1.6	-1.0
Import/export, wholesale and retail trades ^(a)	1.6	1.1	2.3	3.6	-1.1	-1.8	0.7	1.5	1.8
<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	*	-1.1	1.7	1.1	0.8
Accommodation and food service activities	*	1.0	1.4	3.1	-2.3	-3.2	-0.2	1.6	2.6
Financial and insurance activities ^(b)	0.1	2.1	2.4	2.8	-0.5	-2.5	2.1	3.9	2.8
Real estate leasing and maintenance management	0.5	2.3	1.4	2.7	-0.4	-1.0	1.2	3.0	3.3
Professional and business services	-1.9	2.4	4.8	4.9	0.8	0.1	2.2	3.1	3.7
Personal services	2.4	3.4	8.5	0.5	-0.7	-3.4	-0.1	3.4	3.1
All industries surveyed	1.1	1.7	2.6	3.4	-0.9	-1.8	0.8	1.9	2.2
(in real terms)									
Manufacturing	0.4	-1.5	2.4	-0.1	-1.6	-2.8	-4.4	-4.0	-4.1
Import/export, wholesale and retail trades ^(a)	0.4	-0.6	0.4	0.9	-1.4	-2.5	-0.9	-1.0	-1.4
<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	-1.8	*	-1.4	-2.4
Accommodation and food service activities	-1.3	-0.8	-0.4	0.4	-2.6	-3.9	-1.8	-0.9	-0.6
Financial and insurance activities ^(b)	-1.1	0.3	0.6	0.2	-0.8	-3.3	0.5	1.3	-0.4
Real estate leasing and maintenance management	-0.8	0.6	-0.5	0.1	-0.7	-1.8	-0.4	0.5	0.1
Professional and business services	-3.0	0.7	2.9	2.2	0.5	-0.6	0.6	0.6	0.5
Personal services	1.2	1.6	6.5	-2.1	-1.0	-4.2	-1.7	0.9	-0.2
All industries surveyed	-0.2	*	0.7	0.7	-1.3	-2.6	-0.8	-0.6	-1.0

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 ^(a) :								
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 ^(b)	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>			<u>Average annual rate of change:</u>	
			Q4	Q1	Q2	Q3	10 years 1999 to 2009	5 years 2004 to 2009
GDP deflator	1.5 #	0.2 #	0.2 #	2.0 #	* #	2.5 #	-1.5 #	0.8 #
Domestic demand deflator	2.8 #	-0.2 #	1.2 #	2.4 #	2.7 #	1.8 #	-0.6 #	1.6 #
Consumer Price Indices ^(a) :								
Composite CPI	4.3	0.5	1.3	1.9	2.6	2.3	-0.2	1.9
CPI(A)	3.6	0.4	2.6	2.5	3.0	1.9	-0.2	1.6
CPI(B)	4.6	0.5	1.0	1.9	2.5	2.6	-0.2	2.1
CPI(C)	4.7	0.6	0.4	1.4	2.2	2.3	-0.2	2.2
Unit Value Indices :								
Domestic exports	5.1	-0.2	-1.2	3.2	6.1	5.7	-0.2	1.1
Re-exports	3.8	1.2	0.9	2.8	3.9	5.2	0.4	1.9
Total exports of goods	3.8	1.1	0.8	2.8	4.0	5.2	0.4	1.9
Imports of goods	4.4	-0.1	0.6	3.6	6.6	7.2	0.7	2.3
Terms of Trade Index	-0.5	1.3	0.2	-0.8	-2.4	-1.9	-0.3	-0.4
Producer Price Index ^(b) for all manufacturing industries	5.6	-1.7	-0.3	4.0	6.0	N.A.	--	--
Tender Price Indices :								
Public sector building projects	41.9	-15.9	-12.3	5.6	18.1	N.A.	0.5	8.8
Public housing projects	30.8	-6.8	-4.4	3.4	5.5	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>
All items	100.0	-3.8 (--)	-1.6 (--)	-3.0 (--)	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)
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 ^(a)	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:	
					Q4	Q1	Q2	Q3	10 years 1999 to 2009	5 years 2004 to 2009
All items	100.0	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)	1.3 (-0.1)	1.9 (0.8)	2.6 (1.5)	2.3 (2.0)	-0.2 (--)	1.9 (--)
Food	26.94	4.3	10.1	1.3	-0.3	1.1	2.0	2.8	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>0.6</i>	<i>0.8</i>	<i>1.4</i>	<i>1.9</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>-1.5</i>	<i>1.5</i>	<i>2.8</i>	<i>4.1</i>	<i>2.1</i>	<i>5.9</i>
Housing ^(a)	29.17	2.0	4.1	3.7	1.9	-0.1	0.3	-0.7	-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>*</i>	<i>*</i>	<i>0.4</i>	<i>1.2</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>45.4</i>	<i>0.6</i>	<i>-0.3</i>	<i>-85.7</i>	<i>-4.0</i>	<i>-8.0</i>
Electricity, gas and water	3.59	-0.7	-6.5	-25.3	32.3	61.1	64.0	43.1	-2.4	-5.9
Alcoholic drinks and tobacco	0.87	-1.2	0.1	18.7	22.0	13.1	0.8	0.3	1.8	2.6
Clothing and footwear	3.91	4.1	0.8	2.7	3.7	1.4	2.0	1.7	-0.1	2.1
Durable goods	5.50	-4.7	-2.0	-3.0	-2.8	-1.7	-1.6	-2.5	-4.6	-4.0
Miscellaneous goods	4.78	2.5	5.0	2.3	1.9	2.0	2.3	2.7	2.3	2.6
Transport	9.09	-0.1	2.5	-0.9	-1.0	1.1	1.7	2.1	0.4	0.7
Miscellaneous services	16.15	1.7	0.8	-2.1	-0.7	0.5	2.1	2.5	-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
Gross Domestic Product	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3
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[#]</u>	<u>2009[#]</u>	<u>2009</u>	<u>2010</u>			Average annual rate of change:	
				Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 1999 to 2009 [#]	5 years 2004 to 2009 [#]
Private consumption expenditure	3.7	2.8	-1.5	*	0.1	-0.1	0.1	-0.3	1.6
Government consumption expenditure	2.9	4.9	0.1	-0.6	-0.9	*	0.5	0.1	1.5
Gross domestic fixed capital formation	-2.5	1.9	3.9	5.0	11.1	11.7	5.9	-1.7	1.7
Total exports of goods	2.2	3.4	0.5	0.9	2.8	4.1	5.6	*	1.4
Imports of goods	1.7	4.1	-1.3	-0.1	3.9	7.1	6.6	0.3	1.7
Exports of services	2.5	3.4	-7.0	-2.9	7.9	11.3	9.4	-0.4	1.1
Imports of services	2.9	3.8	-2.5	5.2	7.3	4.7	3.7	1.4	1.2
Gross Domestic Product	2.9	1.5	0.2	0.2	2.0	*	2.5	-1.5	0.8
Total final demand	2.2	3.2	-0.9	0.4	3.4	4.6	5.1	-0.3	1.4
Domestic demand	2.1	2.8	-0.2	1.2	2.4	2.7	1.8	-0.6	1.6

