

## Press Release

(embargoed until 4:30 p.m. on 11 May 2012)

### **Economic Situation in the First Quarter of 2012 and Latest GDP and Price Forecasts for 2012**

The Government released today (Friday) the First Quarter Economic Report 2012, together with the preliminary figures on Gross Domestic Product for the first quarter of 2012.

The Government Economist, Mrs Helen Chan, described the economic situation in the first quarter of 2012 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* The Hong Kong economy slowed further in the first quarter of 2012, with real GDP posting a slight year-on-year growth of 0.4%, after a 3.0% expansion in the fourth quarter of 2011. The weak performance in the first quarter was mainly dragged by the lull in exports amid a difficult external environment. The domestic sector nevertheless continued to display strength and help cushion the overall economic performance. On a seasonally adjusted quarter-to-quarter comparison, real GDP also grew slightly by 0.4% in the first quarter, similar to that in the preceding quarter.
- \* Total exports of goods dipped by 5.7% in real terms in the first quarter of 2012 over a year earlier. Although this was partly exaggerated by the exceptionally high base of comparison a year earlier, widespread weaknesses were seen across exports to many regions, including Asia. Exports of services likewise moderated but still grew modestly by 3.6% year-on-year in real terms in the first quarter of 2012, thanks to the strong cushion rendered by thriving inbound tourism.
- \* On the domestic front, private consumption expenditure held up well on the back of the much improved income conditions, with a further brisk growth of 5.6% year-on-year in real terms in the first quarter. Investment spending also remained strong with a further surge of 12.2% over a year earlier, buttressed by active machinery and equipment acquisition and hectic public sector infrastructure works.
- \* The labour market remained virtually in a state of full employment, with total employment reaching a fresh record high and the seasonally adjusted unemployment rate staying relatively low at 3.4% in the first quarter. Against this background and with the additional boost from the implementation of statutory minimum wage since May 2011, both wages and earnings saw notable increases over the past year. The median household income rose by 9.5% in the first quarter in nominal terms over a year earlier, or by 4.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose even more by 13.4% in nominal terms or by 8.4% in real terms.

- \* Local stock prices rebounded in the first quarter alongside other markets worldwide. Local property market likewise revived since February, with overall flat prices posting a 5% gain during the quarter, and with the number of transactions leaping by 36% over the preceding quarter.
- \* Looking ahead, the downside risks in the external environment remain notable, due mainly to the lingering eurozone sovereign debt crisis. The fragile fundamentals and fiscal restraints of the advanced economies, particularly the eurozone, would continue to weigh on their economic growth, with spillovers to the Asian economies. Yet the Mainland economy is expected to stay firm, thereby rendering an important stabilising force in the region. Also, the US economy has performed better than earlier expected. These positive developments, if continued, will provide some support to Hong Kong's exports going forward.
- \* The domestic sector is expected to stay relatively resilient. Local consumption demand will be underpinned by the still favourable income and employment conditions. The latest Quarterly Business Tendency Survey also indicated increased optimism among large enterprises lately. Meanwhile, hectic public sector infrastructure works and the package of measures in the 2012-13 Budget should render additional impetus to domestic demand.
- \* After the lacklustre performance in the first quarter, the Hong Kong economy is poised to gradually regain momentum in the coming quarters. In particular, in view of improved export orders and also a rise-back in business sentiment in the trade-related sectors lately, exports should bottom out and revert to some growth during the year. In addition, the sustained vibrancy of inbound tourism and further growth of infrastructure spending will continue to support the local economy. Barring any abrupt deterioration of the eurozone debt situation, the forecast GDP growth of 1-3% for 2012 as a whole announced in the Budget should be attainable, and is thus maintained in the current round of review.
- \* Underlying consumer price inflation, after an almost uninterrupted acceleration since late 2010, eased back to 5.9% in the first quarter of 2012, from 6.4% in the fourth quarter of 2011. The price pressures from the external sources have generally softened, following the retreat in global food and commodity prices and receding inflation in the Mainland. On the domestic front, the increase in fresh-letting rentals has also tapered. With both imported inflation and domestic cost pressures easing back progressively in tandem with a slowing global and local economy, Hong Kong's inflation is expected to taper further in the coming quarters. The forecast rates of headline and underlying consumer price inflation for 2012 as a whole put out in the Budget round, at 3.5% and 4% respectively, are therefore maintained in the current round of review. Nonetheless, some upside risks to inflation, including the elevated international oil prices stemming from geopolitical tensions as well as a possible resurgence in global commodity and food prices amid abundant global liquidity, need to be watched over closely.

## DETAILS

### GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP grew slightly by 0.4% in real terms over a year earlier in the first quarter of 2012, compared to the 3.0% growth in the fourth quarter of 2011 and the 5.0% growth for 2011 as a whole (both figures are the same as the earlier estimates). The slight year-on-year expansion has also to be viewed against the relatively high base of comparison in the first quarter of last year, when real GDP expanded strongly by 7.6%. On a seasonally adjusted quarter-to-quarter comparison, real GDP also expanded slightly by 0.4% in the first quarter of 2012, similar to that in the preceding quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2012 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2012 are described below.

### External trade

3. *Total exports of goods* fell by 5.7% in real terms in the first quarter of 2012 over a year earlier, after a brief rebound of 2.0% in the fourth quarter of 2011. While the rather noticeable year-on-year decline was partly exacerbated by the exceptionally high base of comparison in the same quarter of last year, the weakness of exports in the first quarter was widespread across the major markets. Apart from the further dip in exports to the US and the EU, those to the Asian markets also slackened distinctly alongside the slowing intra-regional trade flows, particularly those related to the intake of raw materials caused by the subdued final demand in the advanced markets. Yet on a seasonally adjusted quarter-to-quarter basis, total exports of goods actually grew modestly by 1.8% in real terms over the preceding quarter.

4. *Exports of services* grew by 3.6% year-on-year in real terms in the first quarter of 2012, following the 5.3% growth in the fourth quarter of 2011. Exports of trade-related services felt more of the pinch from the slackening trade flows, while exports of financial and business services also dipped marginally on slower cross-border financing activities. Nevertheless, exports of travel services continued to grow robustly amid the prevailing strength of inbound tourism, while exports of transportation services also fared somewhat better, thereby cushioning the overall services exports performance. On a seasonally adjusted basis, exports of services grew steadily further by 1.8% in real terms over the preceding quarter.

## **Domestic sector**

5. Domestically, *private consumption expenditure* held firm and grew briskly by 5.6% year-on-year in real terms in the first quarter of 2012, further to the 6.6% growth in the preceding quarter, thanks to the stable job conditions and notably improved income levels over the past year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure held broadly stable in the first quarter. *Government consumption expenditure* also expanded steadily in the first quarter, by 2.5% in real terms over a year earlier.

6. *Overall investment spending* posted a strong growth of 12.2% year-on-year in real terms in the first quarter of 2012, up further from the 9.8% growth in the preceding quarter. The significant investment growth in the first quarter was broadly based. On the one hand, machinery and equipment acquisition stayed robust, leaping by 23.1% year-on-year in real terms. On top of this, continued hectic pace of public sector infrastructure works, together with the further growth in private sector construction activity, had provided additional impetus. Overall building and construction expenditure showed a faster increase of 11.1% in real terms in the first quarter, up from 7.6% in the preceding quarter.

## **The labour sector**

7. Labour market conditions remained largely buoyant in the first quarter of 2012. Job creation continued across many sectors, pushing total employment to another record high, though this was matched by an even faster growth in the labour force. As a result, the *seasonally adjusted unemployment rate* edged up from 3.3% in the fourth quarter of 2011 to 3.4% in the first quarter of 2012, still a relatively low level. The *underemployment rate* also stayed low at 1.6%. With the labour market remaining virtually in a state of full employment, labour wages and earnings were notably higher than their year-ago levels. In particular, the median household income rose by 9.5% in the first quarter in nominal terms over a year earlier, or by 4.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose even more, by 13.4% in nominal terms or by 8.4% in real terms.

## **The asset markets**

8. The *local stock market* staged a rebound on entering 2012 alongside other markets worldwide, amid some positive developments pertinent to the US economy and the eurozone sovereign debt situation early in the year. The Hang Seng Index, though largely staying range-bound in March, closed the first quarter at 20 556, 12% higher than at end-2011.

9. The *residential property market* regained some momentum after the Lunar New Year Holidays, in tandem with the rebound in stock markets, and further helped by the cut in mortgage rates by several banks during the quarter. Residential property prices, after a slight dip in January, recouped all the lost ground

in February and March, resulting in a 5% gain during the first quarter of 2012, further to the 11% increase during 2011. By March 2012, overall flat prices surpassed the previous historical peak in 1997 by around 10%. On the other hand, flat rentals extended its softening trend on entering 2012, and posted a 2% decline during the first quarter. Yet both shop and office rentals edged up further by 3% and 1% respectively over the same period.

## Prices

10. Consumer price inflation, having risen almost uninterruptedly since late 2010, receded in the first quarter of 2012, thanks to the easing of price pressures on both the domestic and external fronts. Locally, the relative stabilisation of fresh-letting residential rentals in the latter part of 2011 was progressively fed through, resulting in a less rapid increase in the private housing rental component of the Consumer Price Index. Externally, global food and commodity prices also eased back visibly compared with the elevated levels a year ago. Thus, with slower increases in food prices and private housing rentals (which account for over half of the consumption basket), *headline consumer price inflation* went down to 5.2% in the first quarter of 2012, from 5.7% in the preceding quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* also receded to 5.9% in the first quarter, from 6.4% in the previous quarter.

## Latest GDP and price forecasts for 2012

11. Looking ahead, the downside risks in the external environment remain notable, due mainly to the lingering eurozone sovereign debt crisis. The fragile fundamentals and fiscal restraints of the advanced economies, particularly the eurozone, would continue to weigh on their economic growth, with spillovers to the Asian economies. Yet the Mainland economy is expected to stay firm, thereby rendering an important stabilising force in the region. Also, the US economy has performed better than earlier expected. These positive developments, if continued, will provide some support to Hong Kong's exports going forward.

12. The domestic sector is expected to stay relatively resilient. Local consumption demand will be underpinned by the still favourable income and employment conditions. The latest Quarterly Business Tendency Survey also indicated increased optimism among large enterprises lately. Meanwhile, hectic public sector infrastructure works and the package of measures in the 2012-13 Budget should render additional impetus to domestic demand.

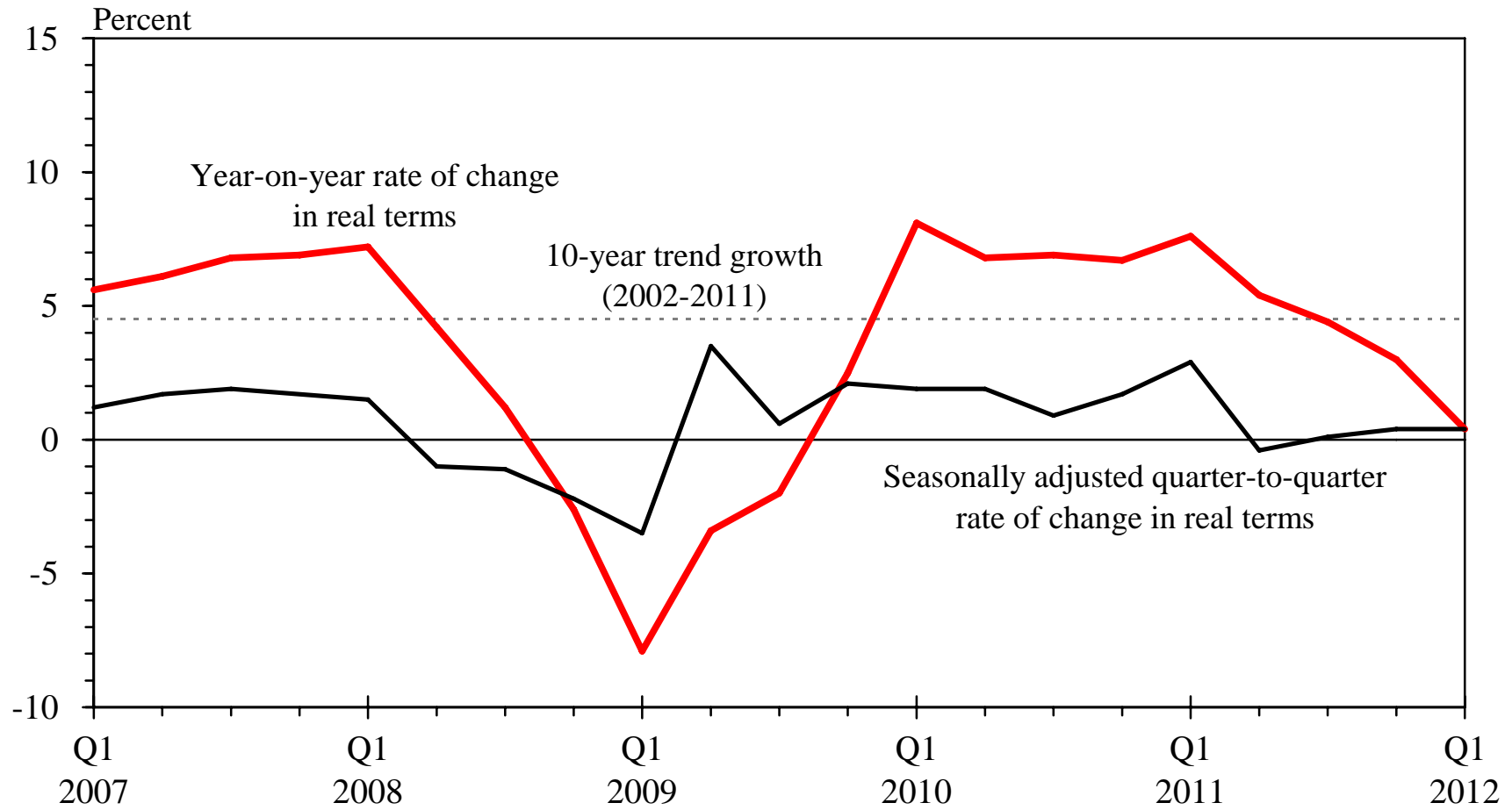
13. After the lacklustre performance in the first quarter, the Hong Kong economy is poised to gradually regain momentum in the coming quarters. In particular, in view of improved export orders and also a rise-back in business sentiment in the trade-related sectors lately, exports should bottom out and revert to some growth during the year. In addition, the sustained vibrancy of inbound tourism and further growth of infrastructure spending will continue to support the local economy. Barring any abrupt deterioration of the eurozone debt situation, the

forecast GDP growth of 1-3% for 2012 as a whole announced in the Budget should be attainable, and is thus maintained in the current round of review (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 2-3.5%, averaging at around 2.8%.

14. On inflation outlook, with both imported inflation and domestic cost pressures easing back progressively in tandem with a slowing global and local economy, Hong Kong's inflation is expected to taper further in the coming quarters. The forecast rates of headline and underlying consumer price inflation for 2012 as a whole put out in the Budget round, at 3.5% and 4% respectively, are therefore maintained in the current round of review (*Table 2*). Nonetheless, some upside risks to inflation, including the elevated international oil prices stemming from geopolitical tensions, as well as a possible resurgence in global commodity and food prices amid abundant global liquidity need to be watched over closely.

(The First Quarter Economic Report 2012 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 \$110 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, First Quarter 2012, which contains the GDP figures up to the first quarter of 2012, 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 first quarter of 2012 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>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> | <u>2011</u>                |                             |                             |                             | <u>2012</u>                |
|--|-------------------------|-------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
|  |                         |                         | <u>Q1<sup>#</sup></u>      | <u>Q2<sup>#</sup></u>       | <u>Q3<sup>#</sup></u>       | <u>Q4<sup>#</sup></u>       | <u>Q1<sup>+</sup></u>      |
| <i>Change in real terms of GDP and its main expenditure components (%)</i> |                         |                         |                            |                             |                             |                             |                            |
| Private consumption expenditure  | 6.7                     | 8.5                     | 8.0<br>(0.7)               | 9.9<br>(3.3)                | 9.5<br>(1.6)                | 6.6<br>(0.8)                | 5.6<br>(-0.2)              |
| Government consumption expenditure   | 2.8                     | 1.8                     | 2.5<br>(1.7)               | 1.0<br>(-0.8)               | 1.3<br>(1.0)                | 2.2<br>(0.4)                | 2.5<br>(1.8)               |
| Gross domestic fixed capital formation                                     | 7.7                     | 7.6                     | 0.7                        | 7.7                         | 11.7                        | 9.8                         | 12.2                       |
| <i>of which :</i>  |                         |                         |                            |                             |                             |                             |                            |
| Building and construction  | 5.6                     | 5.7                     | 17.8                       | -4.2                        | 3.0                         | 7.6                         | 11.1                       |
| Machinery, equipment and computer software                                 | 6.4                     | 13.7                    | -11.2                      | 17.8                        | 26.7                        | 20.5                        | 23.1                       |
| Total exports of goods   | 17.3                    | 3.6                     | 16.8<br>(10.1)             | 0.3<br>(-9.5)               | -2.2<br>(0.7)               | 2.0<br>(1.5)                | -5.7<br>(1.8)              |
| Imports of goods   | 18.1                    | 4.8                     | 12.6<br>(8.6)              | 2.6<br>(-5.1)               | 1.4<br>(-0.2)               | 3.9<br>(0.9)                | -2.7<br>(1.7)              |
| Exports of services  | 14.6                    | 6.7                     | 9.0<br>(3.5)               | 7.4<br>(0.6)                | 5.3<br>(0.4)                | 5.3<br>(0.7)                | 3.6<br>(1.8)               |
| Imports of services  | 10.4                    | 3.1                     | 5.6<br>(-0.2)              | 2.9<br>(0.3)                | 1.4<br>(-0.5)               | 2.8<br>(3.2)                | 2.5<br>(-0.5)              |
| <b>Gross Domestic Product</b>  | <b>7.1</b>              | <b>5.0</b>              | <b>7.6</b><br><b>(2.9)</b> | <b>5.4</b><br><b>(-0.4)</b> | <b>4.4</b><br><b>(0.1)</b>  | <b>3.0</b><br><b>(0.4)</b>  | <b>0.4</b><br><b>(0.4)</b> |
| <i>Change in the main price indicators (%)</i>                             |                         |                         |                            |                             |                             |                             |                            |
| <b>GDP deflator</b>  | <b>0.2</b>              | <b>3.7</b>              | <b>1.3</b><br><b>(1.3)</b> | <b>4.9</b><br><b>(1.4)</b>  | <b>4.8</b><br><b>(2.0)</b>  | <b>3.7</b><br><b>(-1.1)</b> | <b>2.8</b><br><b>(0.3)</b> |
| <b>Composite CPI</b>   |                         |                         |                            |                             |                             |                             |                            |
| <b>Headline</b>  | <b>2.4</b>              | <b>5.3</b>              | <b>3.8</b><br><b>(1.8)</b> | <b>5.2</b><br><b>(1.8)</b>  | <b>6.4</b><br><b>(-0.9)</b> | <b>5.7</b><br><b>(3.0)</b>  | <b>5.2</b><br><b>(1.3)</b> |
| <b>Underlying<sup>^</sup></b>  | <b>1.7</b>              | <b>5.3</b>              | <b>3.7</b><br><b>(1.8)</b> | <b>5.0</b><br><b>(1.7)</b>  | <b>6.1</b><br><b>(1.5)</b>  | <b>6.4</b><br><b>(1.2)</b>  | <b>5.9</b><br><b>(1.3)</b> |
| <i>Change in nominal GDP (%)</i>   | <b>7.3</b>              | <b>8.9</b>              | <b>9.0</b>                 | <b>10.6</b>                 | <b>9.4</b>                  | <b>6.8</b>                  | <b>3.2</b>                 |

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

(#) Revised figures.

(+) Preliminary figures.

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

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



**Table 2****Economic forecasts for 2012  
(rate of change (%))**

|  | Forecasts<br>for 2012<br>as released<br>on <u>1.2.2012</u><br>(%) | Latest<br>forecasts<br>for 2012<br>on <u>11.5.2012</u><br>(%) |
|--|---|---|
| <b>Gross Domestic Product (GDP)</b>          |   |   |
| <i>Real GDP</i>                              | 1 to 3  | <i>1 to 3</i>   |
| <i>Nominal GDP</i>                           | 2.5 to 4.5  | <i>2.5 to 4.5</i>   |
| <b>Composite Consumer Price Index (CCPI)</b> |   |   |
| <i>Headline CCPI</i>                         | 3.5   | <i>3.5</i>  |
| <i>Underlying CCPI</i>                       | 4   | <i>4</i>  |
| <b>GDP Deflator</b>                          | 1.5   | <i>1.5</i>  |



# First Quarter Economic Report 2012

Government of the Hong Kong  
Special Administrative Region

# ***FIRST QUARTER ECONOMIC REPORT 2012***

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

*May 2012*

# CONTENTS

## *Paragraphs*

### CHAPTER 1: OVERVIEW OF ECONOMIC PERFORMANCE

|  |             |
|--|-------------|
| Overall situation  | 1.1 - 1.2   |
| The external sector  | 1.3 - 1.4   |
| The domestic sector  | 1.5 - 1.6   |
| The labour sector  | 1.7         |
| The asset markets  | 1.8 - 1.9   |
| Inflation  | 1.10 - 1.11 |
| GDP by major economic sector   | 1.12        |
| Some highlights of economic policy   | 1.13 - 1.16 |
| Box 1.1 Diffusion indices on small and medium-sized enterprises<br>(an update) |             |
| Box 1.2 Labour productivity growth in Hong Kong                                |             |

### CHAPTER 2: THE EXTERNAL SECTOR

|  |             |
|--|-------------|
| Visible trade  |             |
| Total exports of goods   | 2.1 - 2.5   |
| Imports of goods   | 2.6         |
| Invisible trade  |             |
| Exports of services  | 2.7         |
| Imports of services  | 2.8         |
| Visible and invisible trade balance  | 2.9         |
| Other developments   | 2.10 - 2.12 |
| Box 2.1 The relative shift towards offshore trade and the implications<br>for dependence of Hong Kong's trade on the advanced<br>markets |             |

### CHAPTER 3: DEVELOPMENTS IN SELECTED SECTORS

|   |             |
|---|-------------|
| Property                                  | 3.1 - 3.11  |
| Land                                      | 3.12 - 3.13 |
| Tourism                                   | 3.14 - 3.15 |
| Logistics                                 | 3.16 - 3.18 |
| Transport                                 | 3.19        |
| Creativity and innovation                 | 3.20        |
| Environment                               | 3.21 - 3.22 |
| Box 3.1 Mobile data services in Hong Kong |             |

### CHAPTER 4: THE FINANCIAL SECTOR

|   |             |
|---|-------------|
| Interest rates and exchange rates                           | 4.1 - 4.5   |
| Money supply and banking sector                             | 4.6 - 4.15  |
| The debt market   | 4.16 - 4.17 |
| The stock and derivatives markets                           | 4.18 - 4.22 |
| Fund management and investment funds                        | 4.23        |
| Insurance sector  | 4.24 - 4.25 |
| Highlights of market developments                           | 4.26 - 4.27 |
| Box 4.1 Overseas investors in Hong Kong's securities market |             |

## CHAPTER 5: THE LABOUR SECTOR

|  |             |
|--|-------------|
| Overall labour market situation                            | 5.1         |
| Total employment and labour force                          | 5.2 - 5.5   |
| Profile of unemployment                                    | 5.6 - 5.10  |
| Profile of underemployment                                 | 5.11        |
| Profile of employment in establishments                    | 5.12 - 5.13 |
| Vacancies  | 5.14 - 5.17 |
| Wages and earnings   | 5.18 - 5.22 |
| Recent labour-related measures                             | 5.23 - 5.25 |
| Box 5.1 Characteristics of Low-paid Employees in Hong Kong |             |

## CHAPTER 6: PRICES

|  |           |
|--|-----------|
| Consumer prices  | 6.1 - 6.3 |
| Costs of factor inputs and import prices                                   | 6.4 - 6.5 |
| Output prices  | 6.6       |
| GDP deflator   | 6.7       |
| Box 6.1 Impact of oil price hikes on consumer price inflation in Hong Kong |           |

## STATISTICAL APPENDIX

## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy grew slightly by 0.4% in the first quarter of 2012 over a year earlier, after a 3.0% expansion in the fourth quarter of 2011. The lacklustre performance was mainly dragged by the notable fall-off in merchandise exports amid a difficult external environment. Nevertheless, the employment situation held firm, supported by the still-resilient domestic demand.*
- *The external trading environment was challenging in the first quarter. The pace of the US economic growth remained moderate, while the eurozone economy was largely stagnant, notwithstanding some stabilisation of the eurozone sovereign debt situation during the quarter. These developments, coupled with their fragile fundamentals, weighed heavily on the import demand in these advanced markets, with the associated negative spillovers also increasingly felt across the Asian markets. As a result, Hong Kong's total exports of goods fell markedly across many major markets in the first quarter, though the extent of the year-on-year declines was partly exaggerated by the exceptionally high base of comparison a year earlier. Exports of services decelerated in tandem but still attained modest growth, thanks to the cushion rendered by thriving inbound tourism.*
- *The domestic sector stayed rather resilient in the first quarter. Private consumption expenditure held firm on the back of the much improved income conditions. Investment spending likewise grew strongly further, alongside active machinery and equipment acquisition and hectic public sector infrastructure works.*
- *Despite the slowdown of the overall economy, the labour market remained virtually in a state of full employment, with total employment reaching a fresh record high. The seasonally adjusted unemployment rate, though edging up somewhat, was still relatively low at 3.4% in the first quarter. Against this background and with the additional boost from the implementation of statutory minimum wage since May 2011, both wages and earnings saw notable increases over the past year.*
- *Local stock prices rebounded in the first quarter on improved sentiments amid some stabilisation of the sovereign debt situation in Europe and favourable developments in the US economy earlier in the year. Local property market likewise revived, with both price and transaction volume picking up during the quarter.*

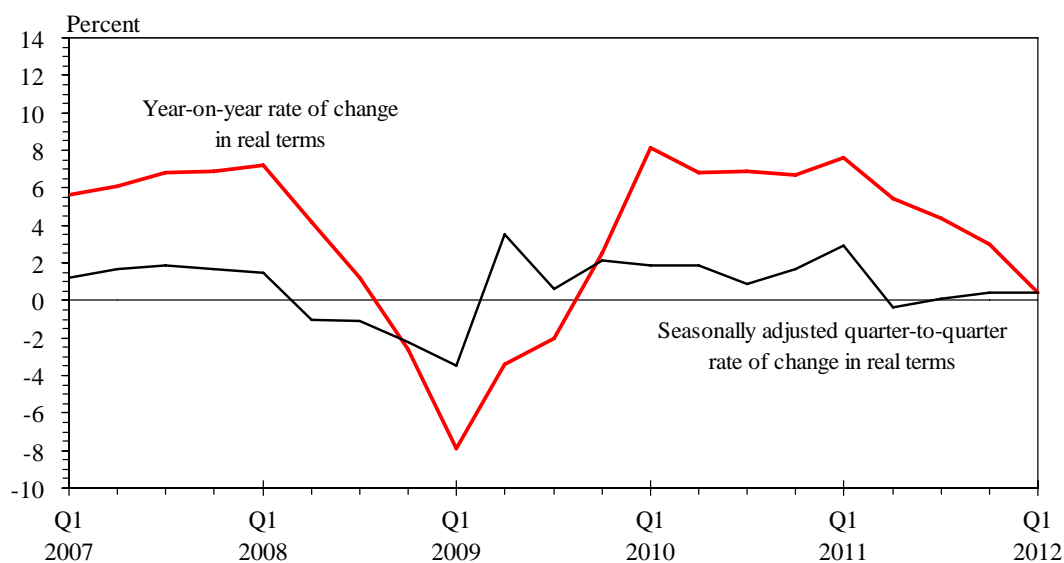
- *Inflation, after an almost uninterrupted acceleration since late 2010, eased back in the first quarter of 2012. The price pressures from import sources have softened, thanks to the retreat in global food and commodity prices in the latter half of 2011. On the domestic front, while wage cost pressures remained visible, the increase in rental costs has shown signs of stabilisation along with the economic slowdown.*

## **Overall situation**

1.1 The Hong Kong economy decelerated visibly to a meagre growth in the first quarter of 2012. Although economic sentiment in the US improved, the pace of its economic expansion was still modest. While the eurozone sovereign debt situation stabilised somewhat following the approval of the second bailout for Greece and the European Central Bank's liquidity injection, the eurozone economy was still stuck in the mire during the quarter. The sluggish import demand in the advanced economies also increasingly hampered the industrial and export activities in the Asian and other emerging economies. Thus, Hong Kong's external sector faced strong headwinds in the first quarter. Exports of goods to most major markets recorded year-on-year declines, while exports of services also decelerated along with slowing trade flows, though cushioned to a large extent by vibrant inbound tourism. Meanwhile, the domestic sector stayed resilient, thereby continuing to render firm support to the employment situation. With the eurozone debt crisis stabilising somewhat during the first quarter, its threat to the global economy diminished slightly from a few months ago, and sentiments in the global financial markets also improved. The local stock market and property market likewise revived in the first quarter. Meanwhile, consumer price inflation receded in the first quarter, thanks to the easing of price pressures on both the domestic and external fronts.

1.2 In the first quarter of 2012, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew slightly by 0.4% in real terms over a year earlier, compared to the growth of 3.0% in the fourth quarter of 2011 and 5.0% for 2011 as a whole. The slight year-on-year expansion has also to be viewed against the relatively high base of comparison in the first quarter of last year, when real GDP expanded strongly by 7.6%. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP grew mildly by 0.4% in the first quarter, similar to that in the preceding quarter.

**Diagram 1.1 : The economy decelerated visibly to only a meagre growth in the first quarter of 2012 on weak export performance**



## The external sector

1.3 *Total exports of goods* fell by 5.7% in real terms in the first quarter of 2012 over a year earlier, after a brief rebound of 2.0% in the fourth quarter of 2011. While the rather noticeable year-on-year decline was partly exacerbated by the exceptionally high base of comparison in the same quarter of last year, the weakness of exports in the first quarter was widespread across the major markets. Apart from the further dip in exports to the US and the EU, those to the Asian markets also slackened distinctly alongside the slowing intra-regional trade flows, particularly those related to the intake of raw materials, due to the weak final demand in the advanced markets.

1.4 *Exports of services* likewise slowed but still grew moderately by 3.6% year-on-year in real terms in the first quarter of 2012, following the 5.3% growth in the fourth quarter of 2011. Exports of trade-related services felt more of the pinch from the slackening trade flows, while exports of financial and business services also fell marginally on slower cross-border financing activities. Nevertheless, exports of travel services grew robustly further amid the prevailing strength of inbound tourism, and exports of transportation services continued to post a modest growth, which helped cushion the overall services export performance.



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

|  | <u>2010#</u> | <u>2011#</u> | <u>2011</u>                |                             |                             |                             | <u>2012</u>                |
|--|--------------|--------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
|  |              |              | <u>Q1#</u>                 | <u>Q2#</u>                  | <u>Q3#</u>                  | <u>Q4#</u>                  | <u>Q1+</u>                 |
| <i>Change in real terms of GDP and its main expenditure components (%)</i> |              |              |                            |                             |                             |                             |                            |
| Private consumption expenditure  | 6.7          | 8.5          | 8.0<br>(0.7)               | 9.9<br>(3.3)                | 9.5<br>(1.6)                | 6.6<br>(0.8)                | 5.6<br>(-0.2)              |
| Government consumption expenditure   | 2.8          | 1.8          | 2.5<br>(1.7)               | 1.0<br>(-0.8)               | 1.3<br>(1.0)                | 2.2<br>(0.4)                | 2.5<br>(1.8)               |
| Gross domestic fixed capital formation                                     | 7.7          | 7.6          | 0.7                        | 7.7                         | 11.7                        | 9.8                         | 12.2                       |
| <i>of which :</i>  |              |              |                            |                             |                             |                             |                            |
| Building and construction  | 5.6          | 5.7          | 17.8                       | -4.2                        | 3.0                         | 7.6                         | 11.1                       |
| Machinery, equipment and computer software                                 | 6.4          | 13.7         | -11.2                      | 17.8                        | 26.7                        | 20.5                        | 23.1                       |
| Total exports of goods   | 17.3         | 3.6          | 16.8<br>(10.1)             | 0.3<br>(-9.5)               | -2.2<br>(0.7)               | 2.0<br>(1.5)                | -5.7<br>(1.8)              |
| Imports of goods   | 18.1         | 4.8          | 12.6<br>(8.6)              | 2.6<br>(-5.1)               | 1.4<br>(-0.2)               | 3.9<br>(0.9)                | -2.7<br>(1.7)              |
| Exports of services  | 14.6         | 6.7          | 9.0<br>(3.5)               | 7.4<br>(0.6)                | 5.3<br>(0.4)                | 5.3<br>(0.7)                | 3.6<br>(1.8)               |
| Imports of services  | 10.4         | 3.1          | 5.6<br>(-0.2)              | 2.9<br>(0.3)                | 1.4<br>(-0.5)               | 2.8<br>(3.2)                | 2.5<br>(-0.5)              |
| <b>Gross Domestic Product</b>  | <b>7.1</b>   | <b>5.0</b>   | <b>7.6</b><br><b>(2.9)</b> | <b>5.4</b><br><b>(-0.4)</b> | <b>4.4</b><br><b>(0.1)</b>  | <b>3.0</b><br><b>(0.4)</b>  | <b>0.4</b><br><b>(0.4)</b> |
| <i>Change in the main price indicators (%)</i>                             |              |              |                            |                             |                             |                             |                            |
| <b>GDP deflator</b>  | <b>0.2</b>   | <b>3.7</b>   | <b>1.3</b><br><b>(1.3)</b> | <b>4.9</b><br><b>(1.4)</b>  | <b>4.8</b><br><b>(2.0)</b>  | <b>3.7</b><br><b>(-1.1)</b> | <b>2.8</b><br><b>(0.3)</b> |
| <b>Composite CPI</b>   |              |              |                            |                             |                             |                             |                            |
| <b>Headline</b>  | <b>2.4</b>   | <b>5.3</b>   | <b>3.8</b><br><b>(1.8)</b> | <b>5.2</b><br><b>(1.8)</b>  | <b>6.4</b><br><b>(-0.9)</b> | <b>5.7</b><br><b>(3.0)</b>  | <b>5.2</b><br><b>(1.3)</b> |
| <b>Underlying^</b>   | <b>1.7</b>   | <b>5.3</b>   | <b>3.7</b><br><b>(1.8)</b> | <b>5.0</b><br><b>(1.7)</b>  | <b>6.1</b><br><b>(1.5)</b>  | <b>6.4</b><br><b>(1.2)</b>  | <b>5.9</b><br><b>(1.3)</b> |
| <b>Change in nominal GDP (%)</b>   | <b>7.3</b>   | <b>8.9</b>   | <b>9.0</b>                 | <b>10.6</b>                 | <b>9.4</b>                  | <b>6.8</b>                  | <b>3.2</b>                 |

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

(#) Revised figures.

(+) Preliminary figures.

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

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

## The domestic sector

1.5 The domestic sector was rather resilient in the first quarter of 2012. Thanks to the stable job conditions and notably improved income levels over the past year, *private consumption expenditure* (PCE) grew briskly further by 5.6% in real terms over a year earlier, albeit slightly slower than the 6.6% growth in the preceding quarter. *Government consumption expenditure* expanded steadily by 2.5% in real terms over a year earlier.

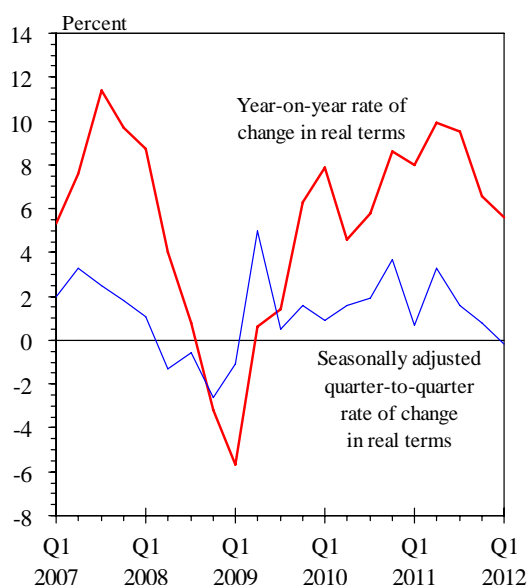
**Table 1.2 : Consumer spending by major component<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

|      |        | <i>Of which :</i>   |      |          |                  |          |                                     |                     |  |
|------|--------|---|------|----------|------------------|----------|-------------------------------------|---------------------|--|
|      |        | Total<br>consumer<br>spending in<br>the domestic<br>market <sup>(a)</sup> |      |          |                  |          | Residents'<br>expenditure<br>abroad | Visitor<br>spending | Private<br>consumption<br>expenditure <sup>(b)</sup> |
|      |        |   | Food | Durables | Non-<br>durables | Services |                                     |                     |  |
| 2011 | Annual | 9.9   | 0.7  | 35.6     | 20.4             | 3.2      | 1.8                                 | 14.2                | 8.5  |
|      | H1     | 10.0  | 1.1  | 34.1     | 22.2             | 3.7      | 3.2                                 | 12.5                | 9.0  |
|      | H2     | 9.8   | 0.3  | 36.8     | 18.7             | 2.8      | 0.5                                 | 15.7                | 8.0  |
|      | Q1     | 8.9   | 3.6  | 24.1     | 19.2             | 3.5      | 2.0                                 | 10.1                | 8.0  |
|      | Q2     | 11.1  | -0.9 | 45.5     | 25.2             | 3.8      | 4.3                                 | 15.1                | 9.9  |
|      | Q3     | 10.6  | 0.3  | 38.2     | 21.8             | 3.7      | -0.4                                | 10.7                | 9.5  |
|      | Q4     | 9.0   | 0.3  | 35.5     | 16.3             | 1.9      | 1.3                                 | 20.8                | 6.6  |
| 2012 | Q1     | 7.2   | -0.9 | 31.7     | 6.8              | 3.5      | 4.1                                 | 15.6                | 5.6  |

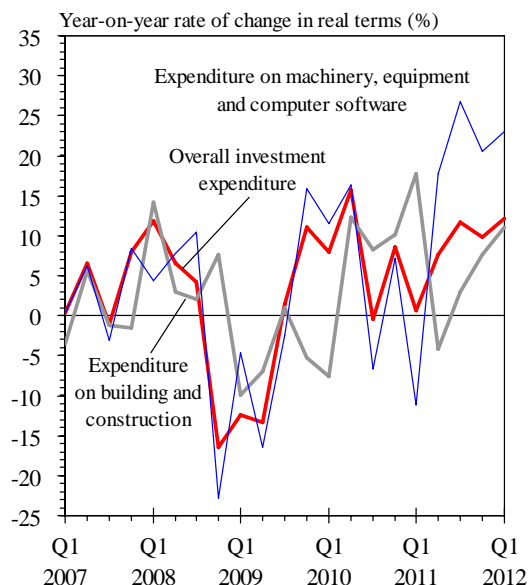
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

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

**Diagram 1.2 : Private consumption expenditure expanded briskly further in the first quarter of 2012**



**Diagram 1.3 : Investment spending likewise grew strongly**



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* posted a strong growth of 12.2% in real terms in the first quarter of 2012, up further from the 9.8% growth in the preceding quarter and 7.6% growth for 2011 as a whole. Growth in the first quarter was driven in part by robust private sector machinery and equipment acquisition, which surged by 25.2% year-on-year in real terms. Meanwhile, public sector infrastructure works continued apace, while private sector construction activity also picked up from the lull in the past two years. As such, overall building and construction expenditure leaped by 11.1% in real terms in the first quarter, thereby adding further momentum to overall investment. Reflecting the relative improvement in global economic prospects during the quarter, business sentiments as indicated by the results of the Quarterly Business Tendency Survey on large enterprises and diffusion indices on small and medium-sized enterprises (SMEs) brightened up somewhat in recent months (See **Box 1.1** for details of the consultation on SMEs).

## Box 1.1

### Diffusion indices on small and medium-sized enterprises (an update)

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.1* in the *2011 Economic Background and 2012 Prospects*.

From June 2011 onwards, the industry coverage and questionnaire design for the exercise have been modified. Specifically, three sectors (viz. travel agents, financing institutions, and insurance agents and brokers) are dropped from the exercise, while questions on access to credit have been modified to gauge SMEs' views as to whether the current and expected credit access situation are "easy", "fair" or "tight", rather than in respect of a comparison with the normal times. The sample size of the panel has consequently been reduced to around 400.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts and employment versus the preceding month. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, 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 set of diffusion indices, showed that the overall situation saw some relative improvement in the more recent months over late 2011 and early 2012 (*Table 1*). In April 2012, while a larger proportion of SMEs in the business services sector reported improvement in business receipts, the remaining six sectors reported still relatively weak business situations. However, compared with end-2011, the real estate sector saw the most visible improvement, in line with the revival in local property market after the Lunar New Year, while the externally-oriented sectors such as import/export trades and logistics also saw relative improvement in recent months, reflecting the more positive developments in the global economic prospects of late. Separately, the feedback from SMEs indicated that their employment situation remained largely stable in recent months (*Table 2*).

Specifically for import and export trading firms, their views on new export orders were sought separately to gauge the export performance. The diffusion index on new export orders climbed up further from the low in late 2011, to 50.0 in April 2012, on par with the boom-bust dividing line. The relative improvement in reading reflects a somewhat less grim near-term export outlook in light of the more positive signs of recovery exhibited by the US economy and the stabilisation of the euro debt crisis following the approval of the second bailout for Greece and the European Central Bank's liquidity injection.

---

(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 remained favourable in recent months, with only 0.7% of SMEs reporting tight current access to credit in April 2012, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

**Table 1 : Diffusion indices<sup>^</sup> on business receipts**

|                               | 2011        |             |             |             |             |             |             | 2012        |             |             |             |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                               | <u>Jun</u>  | <u>Jul</u>  | <u>Aug</u>  | <u>Sep</u>  | <u>Oct</u>  | <u>Nov</u>  | <u>Dec</u>  | <u>Jan</u>  | <u>Feb</u>  | <u>Mar</u>  | <u>Apr</u>  |
| <i>Local segments</i>         |             |             |             |             |             |             |             |             |             |             |             |
| Restaurants                   | 48.3        | 50.0        | 48.3        | 45.6        | 47.4        | 49.1        | 50.0        | 49.1        | 50.9        | 49.1        | 48.1        |
| Real estate                   | 33.8        | 42.9        | 45.7        | 35.7        | 41.4        | 42.6        | 39.7        | 44.1        | 60.3        | 54.4        | 47.1        |
| Retail trade                  | 45.1        | 49.1        | 48.7        | 46.9        | 49.1        | 48.6        | 46.8        | 48.6        | 47.9        | 47.9        | 47.4        |
| Wholesale trade               | 50.0        | 45.0        | 47.5        | 50.0        | 42.5        | 42.5        | 47.5        | 47.5        | 52.5        | 50.0        | 47.4        |
| Business services             | 46.8        | 43.3        | 45.5        | 47.0        | 50.0        | 46.9        | 45.3        | 46.9        | 51.5        | 51.5        | 51.5        |
| <i>External segments</i>      |             |             |             |             |             |             |             |             |             |             |             |
| Import/export trades          | 46.1        | 47.9        | 49.6        | 45.3        | 45.7        | 43.1        | 47.4        | 47.8        | 47.8        | 48.7        | 48.6        |
| Logistics                     | 47.4        | 47.5        | 45.0        | 42.5        | 45.0        | 42.5        | 36.1        | 41.7        | 38.9        | 44.4        | 44.4        |
| <b>All the above sectors*</b> | <b>45.7</b> | <b>47.4</b> | <b>48.3</b> | <b>45.6</b> | <b>46.6</b> | <b>45.1</b> | <b>46.3</b> | <b>47.5</b> | <b>49.1</b> | <b>49.0</b> | <b>48.2</b> |

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

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

**Table 2 : Diffusion indices on employment situation**

|                               | 2011        |             |             |             |             |             |             | 2012        |             |             |             |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                               | <u>Jun</u>  | <u>Jul</u>  | <u>Aug</u>  | <u>Sep</u>  | <u>Oct</u>  | <u>Nov</u>  | <u>Dec</u>  | <u>Jan</u>  | <u>Feb</u>  | <u>Mar</u>  | <u>Apr</u>  |
| <i>Local segments</i>         |             |             |             |             |             |             |             |             |             |             |             |
| Restaurants                   | 50.0        | 50.0        | 49.1        | 50.0        | 50.0        | 50.0        | 49.1        | 50.0        | 50.9        | 50.0        | 48.1        |
| Real estate                   | 50.0        | 54.3        | 51.4        | 50.0        | 50.0        | 51.5        | 48.5        | 47.1        | 50.0        | 51.5        | 51.5        |
| Retail trade                  | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 49.1        | 50.5        | 50.0        | 49.6        | 50.0        |
| Wholesale trade               | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        |
| Business services             | 50.0        | 50.0        | 51.5        | 48.5        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 51.5        | 50.0        |
| <i>External segments</i>      |             |             |             |             |             |             |             |             |             |             |             |
| Import/export trades          | 49.6        | 49.6        | 50.0        | 49.6        | 49.6        | 48.7        | 50.0        | 49.1        | 50.0        | 50.0        | 50.0        |
| Logistics                     | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        |
| <b>All the above sectors*</b> | <b>49.8</b> | <b>50.1</b> | <b>50.2</b> | <b>49.7</b> | <b>49.8</b> | <b>49.5</b> | <b>49.6</b> | <b>49.6</b> | <b>50.1</b> | <b>50.1</b> | <b>50.0</b> |

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

**Table 3 : Diffusion index on current new export orders**

|                      | 2011       |            |            |            |            |            |            | 2012       |            |            |            |
|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                      | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> |
| Import/export trades | 47.8       | 48.7       | 49.2       | 45.7       | 45.7       | 43.1       | 45.7       | 48.2       | 47.8       | 49.1       | 50.0       |

**Table 4 : Percentage of SMEs reporting tight current access to credit**

|                       | 2011       |            |            |            |            |            |            | 2012       |            |            |            |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                       | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> |
| All selected sectors* | 1.6        | 1.6        | 1.6        | 1.6        | 1.2        | 1.2        | 1.2        | 1.3        | 0.9        | 0.7        | 0.7        |

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

## **The labour sector**

1.7 Labour market conditions remained largely buoyant in the first quarter of 2012. Job creation continued across many sectors, pushing total employment to another record high. Yet this was matched by an even faster growth in the labour force. As a result, the *seasonally adjusted unemployment rate* edged up from 3.3% in the fourth quarter of 2011 to 3.4% in the first quarter of 2012, still a relatively low level. The *underemployment rate* also stayed low at 1.6%. With the labour market remaining virtually in a state of full employment, labour wages and earnings were notably higher than their year-ago levels. In particular, average employment earnings of full-time employees in the lowest decile went up considerably by 13.4% in nominal terms or 8.4% in real terms in the first quarter of 2012 over a year earlier, thanks to the additional boost from the implementation of statutory minimum wage since May 2011.

## **The asset markets**

1.8 The *local stock market* staged a rebound on entering 2012 alongside other markets worldwide, amid some positive developments pertinent to the US economy and the eurozone sovereign debt situation. The Hang Seng Index, though largely staying range-bound in March, closed the first quarter at 20 556, 12% higher than at end-2011. Average daily turnover of the stock market also revived somewhat from the previous quarter, but fund-raising activities shrank noticeably during the quarter.

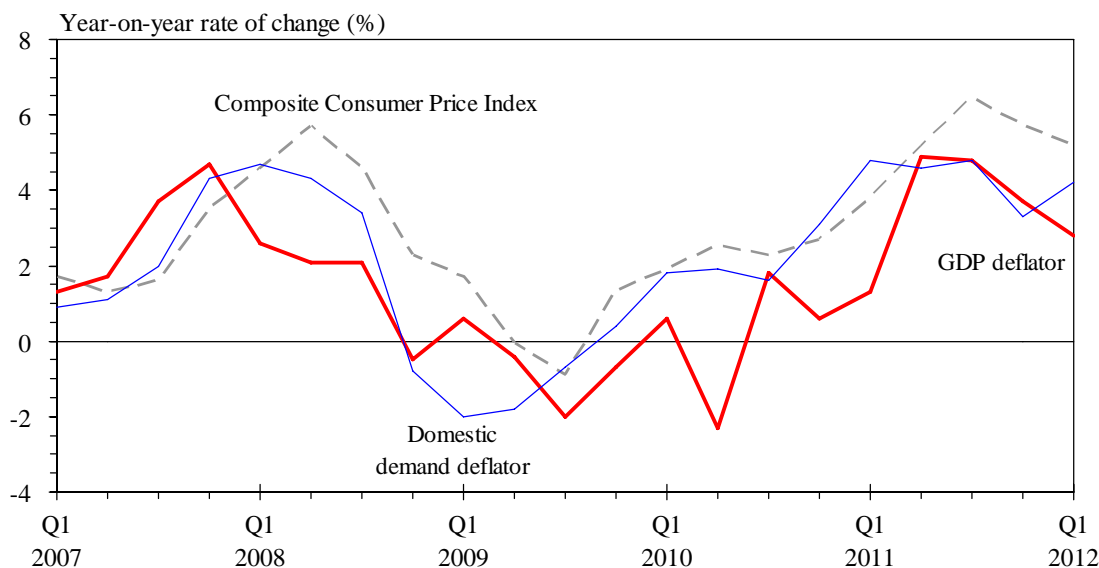
1.9 *Residential property market* regained some momentum since February 2012, after a period of consolidation since mid-2011. The revival came in tandem with the rebound in stock markets, further helped by the cut in mortgage rates by several banks during the quarter. Residential property prices continued to fall in January, but recouped the lost ground in February and March, resulting in a 5% gain during the first quarter of 2012, further to the 11% increase during 2011. By March 2012, overall flat prices surpassed the previous historic peak in 1997 by around 10%. Trading also turned more active in the first quarter, with the number of transactions up 36% over the preceding quarter. The housing affordability ratio worsened marginally to around 46.4% in the first quarter of 2012, though still below the long-term average of 50% over 1991-2010. On the other hand, flat rentals extended the softening trend on entering 2012, and posted a 2% decline during the first quarter. Yet both shop and office rentals edged up further by 3% and 1% respectively over the same period.

## Inflation

1.10 *Consumer price inflation* eased in the first quarter of 2012, having undergone an almost uninterrupted acceleration since late 2010. Both domestic and external price pressures receded in early 2012. Locally, the relative stabilisation of fresh-letting residential rentals in the latter part of 2011 was progressively fed through to lessen the upward pressure on the private housing rental component in the Consumer Price Index. Externally, global food and commodity prices had also eased back visibly compared with the elevated levels a year ago. Thus with slower increases in food prices and private housing rentals (which account for over half of the consumption basket), *headline consumer price inflation* went down to 5.2% in the first quarter of 2012, from 5.7% in the preceding quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* also receded to 5.9% in the first quarter, from 6.4% in the previous quarter.

1.11 The *GDP deflator* rose by 2.8% in the first quarter, mainly reflecting the further increase in domestic prices.

**Diagram 1.4 : Inflation receded on entering 2012**



## **GDP by major economic sector**

1.12 With the economy experiencing another year of above-trend growth in 2011, many major sectors saw further activity expansion, although their growth momentum slowed over the course of the year. Net output of the services sector as a whole grew solidly by 4.8% in real terms in 2011, further to the 7.0% growth in 2010. Among the major services sectors, wholesale and retail trades, financing and insurance saw the fastest growth, thanks to buoyant consumption demand and vibrant cross-border financing and trade settlement activities. This was followed by import and export trade, transportation and storage, professional and business services, reflecting thriving commercial activities, whereas trading activity progressively tapered after a very strong start of the year 2011. Meanwhile, accommodation and food services saw only muted growth, and real estate, which mainly reflects the net output of private sector developers and property agency activity, declined all through the quarters. As for the secondary sector, manufacturing output increased slightly by 0.7%, while construction output leaped further by 7.5%, backed by the intensive construction of large-scale infrastructure works under way.



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

|  | <u>2010</u> | <u>2011</u> | <u>2010</u> |           |           |           | <u>2011</u> |           |           |           |
|--|-------------|-------------|-------------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
|  |             |             | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> |
| Manufacturing  | 3.5         | 0.7         | 0.4         | 2.2       | 5.4       | 5.7       | 3.5         | 2.0       | 0.2       | -2.2      |
| Construction   | 15.4        | 7.5         | 2.1         | 20.9      | 19.6      | 19.5      | 23.4        | -0.3      | 2.1       | 6.4       |
| Services <sup>(b)</sup>                              | 7.0         | 4.8         | 8.1         | 6.2       | 7.2       | 6.4       | 7.4         | 5.2       | 3.9       | 2.9       |
| Import/export, wholesale and retail trades           | 16.7        | 8.0         | 22.3        | 19.3      | 17.5      | 10.5      | 15.4        | 7.1       | 4.9       | 6.3       |
| Import and export trade                              | 16.6        | 6.5         | 23.3        | 20.0      | 17.4      | 9.3       | 15.1        | 5.0       | 2.9       | 4.7       |
| Wholesale and retail trades                          | 17.0        | 16.0        | 18.1        | 16.1      | 17.3      | 16.5      | 16.8        | 17.7      | 15.7      | 14.5      |
| Accommodation <sup>(c)</sup> and food services       | 9.5         | 1.1         | 10.8        | 12.7      | 9.6       | 5.3       | 0.9         | 0.9       | 2.3       | 0.5       |
| Transportation, storage, postal and courier services | 6.1         | 6.5         | 4.6         | 9.4       | 6.4       | 4.3       | 9.2         | 4.5       | 6.0       | 6.3       |
| Transportation and storage                           | 5.5         | 6.4         | 4.0         | 8.9       | 5.9       | 3.5       | 9.0         | 4.0       | 6.1       | 6.6       |
| Postal and courier services                          | 17.8        | 8.1         | 19.1        | 20.0      | 17.1      | 15.6      | 13.7        | 13.3      | 4.4       | 2.8       |
| Information and communications                       | 1.5         | 1.6         | 1.7         | 1.5       | 2.1       | 0.8       | 2.0         | 1.5       | 0.8       | 2.0       |
| Financing and insurance                              | 7.3         | 7.8         | 8.8         | 1.3       | 5.5       | 13.3      | 12.2        | 12.9      | 8.5       | -0.7      |
| Real estate, professional and business services      | 2.3         | 1.4         | 2.7         | 1.4       | 0.9       | 4.3       | 2.3         | 1.3       | 0.9       | 1.0       |
| Real estate  | -1.4        | -2.6        | -1.2        | -2.7      | -3.1      | 1.3       | -0.6        | -3.1      | -4.2      | -2.7      |
| Professional and business services                   | 6.1         | 5.1         | 7.1         | 5.5       | 4.8       | 6.9       | 5.1         | 5.5       | 5.6       | 4.3       |
| Public administration, social and personal services  | 1.8         | 2.5         | 2.7         | 1.5       | 2.5       | 0.7       | 2.3         | 2.4       | 2.5       | 2.5       |

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

- (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.
- (b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

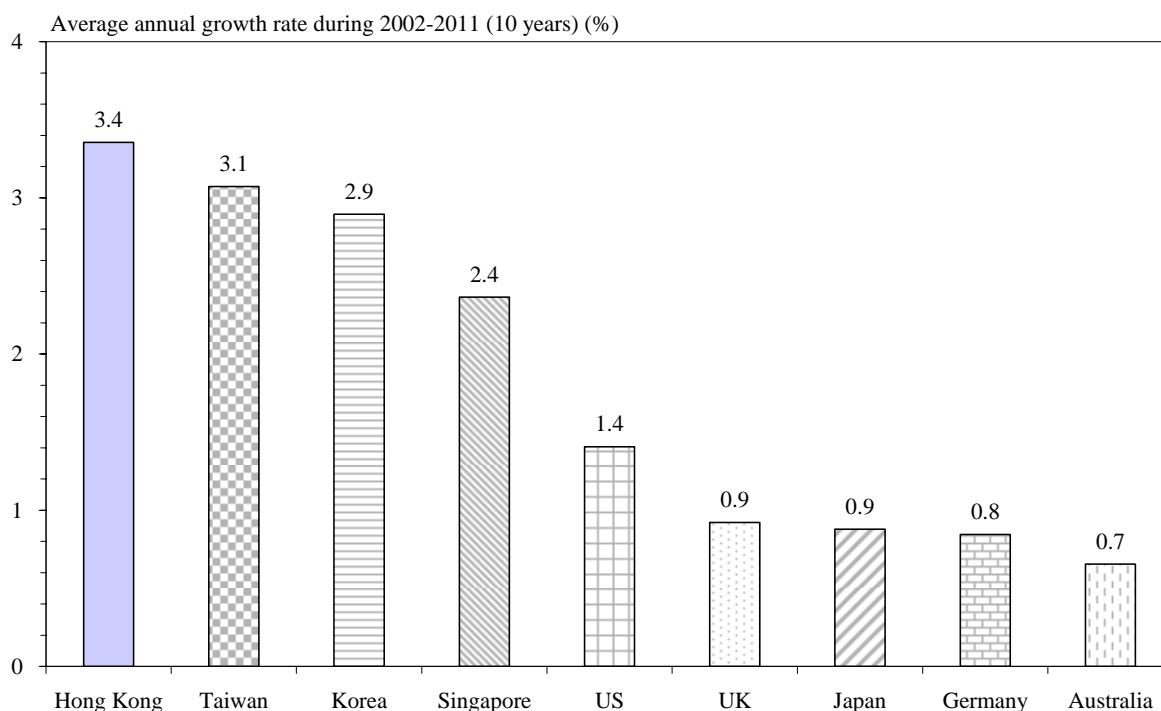
## Box 1.2

### Labour productivity growth in Hong Kong

Although short-term economic performance is mainly governed by vicissitudes in demand conditions and other cyclical factors, growth momentum of an economy over the medium to longer run is more determined by supply factors, including the growth in employed population and labour productivity. In particular, labour productivity growth increases the capacity of the economy as more outputs could be generated from any given amount of labour inputs, thereby enabling the economy to expand at a faster pace than otherwise possible while containing the pressure on local costs and hence prices. In the case of Hong Kong, a city economy with limited land and natural resources as well as modest population growth, the continued enhancement in labour productivity is particularly vital for rendering growth impetus to support a sustainable and healthy economic development. Moreover, productivity growth is crucial to the continued improvement in the living standards of an economy over the longer term.

Labour productivity growth hinges on a basket of factors, such as technological advancements, capital deepening and widening, as well as quality of labour. *Chart 1* provides an overview of the average annual growth rates of overall labour productivity during 2002–2011 (as measured by an economy's real GDP per employed person<sup>(1)</sup>) in Hong Kong and other selected economies. Notwithstanding a number of severe shocks, including the spread of SARS in 2003 and the 2008-09 global financial tsunami over the past decade, Hong Kong's labour productivity growth averaged at a remarkable 3.4% per annum, faster than its Asian peers and actually far outperforming the other major advanced economies.

**Chart 1 : Hong Kong's labour productivity growth outperformed many other economies**

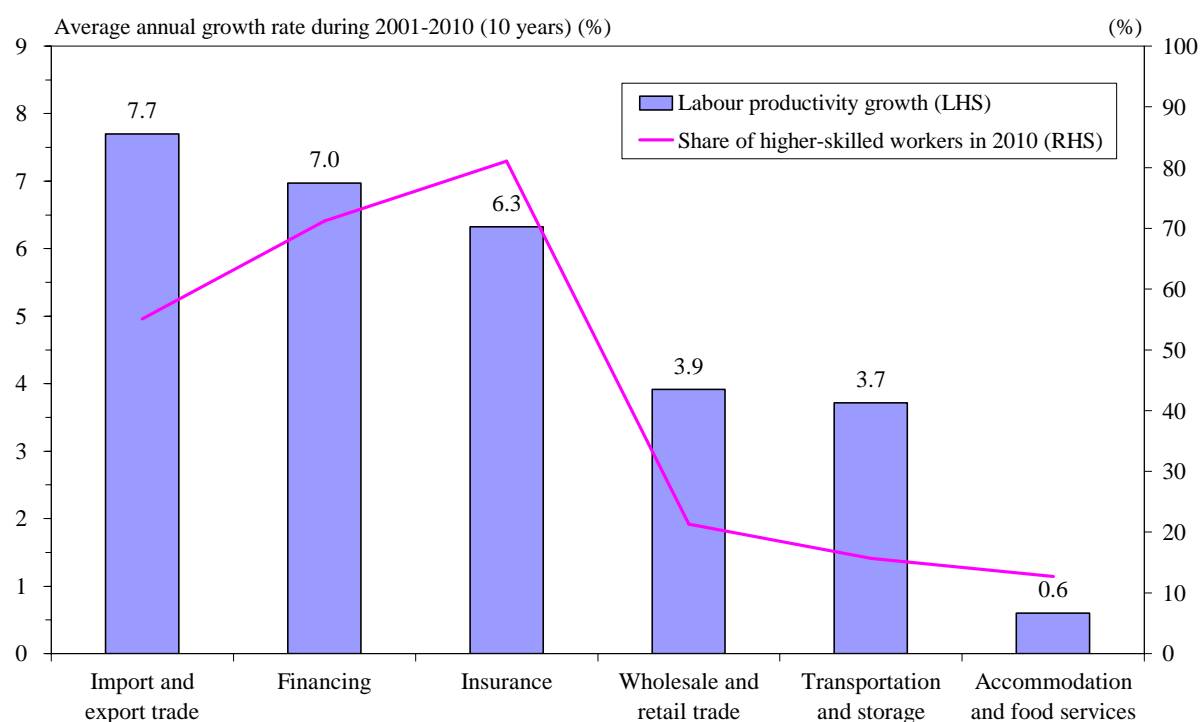


(1) Due to limited data availability for other economies, the estimation of labour productivity growth for comparison purpose does not adjust for changes in working hours.

## Box 1.2 (Cont'd)

The Census and Statistics Department compiled the Labour Productivity Indices of selected economic sectors in Hong Kong to enable more in-depth investigation into the sources of labour productivity growth<sup>(2)</sup>. During 2001–2010, all major sectors experienced labour productivity improvements, with those having a larger share of higher-skilled workers generally seeing more visible productivity growth (*Chart 2*). Analysed by service sector, “import and export trade”, “financing”, and “insurance” saw the fastest productivity growth, with average annual growth rates of 7.7%, 7.0%, and 6.3% respectively, plausibly reflecting their high requirement of skill and professional knowledge for the persons engaged. On the other hand, the more labour-intensive sectors, namely “wholesale and retail trade”, “transportation and storage”, and “accommodation and food services” had relatively slower productivity growth, at 3.9%, 3.7% and 0.6% per annum respectively, as capital accumulation and technological advancements could only benefit these sectors to a lesser extent. In sum, these sectoral developments reflect Hong Kong’s continued effort to go up the value chain and move towards a knowledge-based service economy, while also signifying Hong Kong’s renowned competitiveness as a regional trading hub and international financial centre.

**Chart 2 : Hong Kong’s labour productivity growth in selected service sectors**



Going forward, the further deepening economic ties with the Mainland as well as closer links with other emerging economies would generate ample business opportunities and help broaden Hong Kong’s economic base. Also, the successive completion of mass-scale infrastructure projects over the coming decade or so will strengthen the capacity and efficiency of the Hong Kong economy. Recognising an adaptable and efficient workforce is Hong Kong’s most treasured asset, the Government will continue to invest heavily in human capital and attract more talents into Hong Kong. All these should boost productivity growth and bode well for Hong Kong’s economic growth and development in a sustainable way.

(2) For details, please refer to the feature article in Hong Kong Monthly Digest of Statistics, November 2011. Changes in working hours had been taken into account in compiling these indices.

## **Some highlights of economic policy**

1.13 In view of the strong headwinds in the global economic environment and the envisaged growth moderation, the 2012-13 Budget unveiled a package of measures amounting to nearly \$80 billion, estimated to lift the 2012 GDP by about 1.5 percentage points, to support our enterprises and people for the potential near-term challenges ahead. In addition, the Budget set out a strategy for investing in the future and achieving long-term economic growth, through enhancing our linkage to the world and developing the industries.

1.14 On addressing the near-term uncertainties and investing in the future, a package of measures were proposed to address six aspects, namely supporting enterprises, preserving employment, caring for people's livelihood, stabilising our financial system, increasing land supply, and strengthening our social capital.

- Specifically, measures were proposed to tide small and medium enterprises (SMEs), which employ half of the total number of employees in the private sector in Hong Kong, over difficult times so as to mitigate possible pressure on unemployment. These include enhancing the Hong Kong Mortgage Corporation's SME Financing Guarantee Scheme through increasing the loan guarantee ratio and lowering the guarantee fee to address the financing difficulties faced by enterprises, reducing their operating costs by waiving the business registration fees, providing a one-off rebate on profits tax and halving the charges for import and export declarations.
- For the community at large, short-term relief measures were proposed to cushion against potential downside to the economy, including electricity subsidy, an extra month of allowances to Comprehensive Social Security Assistance, Old Age Allowance and Disability Allowance recipients, paying two months' rent for public housing tenants, and easing the tax burden of the middle class via adjusting seven tax allowances and deductions, waiving rates and providing a one-off rebate on salaries tax, in addition to our continued efforts to allocate substantial resources in our recurrent expenditure to education, health and social welfare.

1.15 On promoting long-term economic development, Hong Kong will continue to consolidate its strength in the four traditional pillar industries and develop the six industries where it enjoys clear advantage<sup>(3)</sup>. Specific proposals include, among others, promoting the development of retail bond market through a further issuance of iBond worth not more than \$10 billion,

allocating \$150 million to the Mega Events Fund and extending its operation for 5 years, setting up a \$1 billion fund to help Hong Kong enterprises tap the Mainland market, increasing the cash rebate under the Research and Development Cash Rebate Scheme, lifting the funding ceiling for each project under the Small Entrepreneur Research Assistance Programme, and introducing measures to encourage the use of industrial buildings and industrial lots for data centres. Reflecting Hong Kong's competitive advantage in these industries, the value added of the four pillars and six industries grew by 14.6% and 15.6% respectively in 2010, much faster than the 9.8% growth in nominal terms of the overall economy.

1.16 In addition, we will capitalise on our competitive edge in market infrastructure and connectivity with the Mainland and the world. Indeed, Hong Kong is ranked by the Heritage Foundation as the world's freest economy for the 18<sup>th</sup> year in a row. With our strong market institutions and strategic geographical location, an important part of our growth strategy is to expand our trade ties with new and emerging markets, as well as to deepen economic integration with the Mainland, making use of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and the early and pilot implementation of service areas under the Pearl River Delta Planning document. In this regard, the Government will continue to invest heavily in cross-border infrastructure to improve the connectivity and flows of people and goods between the two places. Hong Kong will also strive to complement the National 12<sup>th</sup> Five-Year Plan, and to provide high quality financial, trading and professional services to the Mainland. In this process, Hong Kong's role as an international financial, trade and shipping centre will continue to strengthen.

## Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The 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*

- *External trade suffered notably from the weak demand in overseas markets in the first quarter of 2012, thereby posing a severe drag on overall economic growth. The slack in the advanced economies also translated into weaker production and trading activities in other Asian economies during the quarter, resulting in a notable deceleration of Hong Kong's exports of raw materials to all the major Asian markets.*
- *Merchandise exports relapsed into a significant year-on-year decline in the first quarter of 2012, though the deterioration was to some extent exaggerated by the exceptionally high base of comparison in the same quarter of last year. Yet the sluggish trade performance in the first quarter was evident across almost all the major markets. While total exports to the US and the EU fell further, those to the Asian markets also decelerated considerably.*
- *Exports of services also slowed in the first quarter of 2012, yet still posted a moderate growth over a year earlier. The further moderation was mainly due to the fall-off in exports of trade-related services alongside the slackened trade flows. Exports of financial and other business services also fell as financing activities slowed. Yet thanks to the vibrant inbound tourism, exports of travel services remained robust and provided the key support. Exports of transportation services also fared somewhat better amid notable passenger transport growth driven by the thriving tourism.*
- *Economic linkages with Shanghai deepened further. In the Second Plenary Session of the Hong Kong-Shanghai Economic and Trade Co-operation Conference held in January 2012, the two Governments signed co-operation agreements in four aspects and reached agreement on 28 joint projects, benefiting both traditional and emerging service industries in Hong Kong. In addition, the Central Government's objective to boost consumption in the Mainland economy should lend solid support to Hong Kong's exports to the Mainland in the years ahead. Meanwhile, the 2012-2013 Budget introduced a number of enhanced measures to better prepare the Hong Kong traders to tide over the turbulent period ahead.*

## Visible trade

### *Total exports of goods*

2.1 Hong Kong's external sector continued to face strong headwinds upon entering 2012, against the backdrop of sluggish demand in the advanced economies and slackening intra-regional trade flows. *Merchandise exports* (comprising re-exports and domestic exports) relapsed to a notable decline of about 7.7% in real terms<sup>(1)</sup> in the first quarter of 2012 over a year earlier, after the modest 1.1% growth in the fourth quarter of 2011. Year-on-year declines were observed across all the major export markets, though this was partly exaggerated by a very high base of comparison due to the spectacular performance in the same quarter of last year. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports actually expanded modestly by about 2.3% in the first quarter, further to the 1.9% growth in the preceding quarter.

2.2 The global economic sentiment had improved somewhat during the first quarter, thanks to the more encouraging signs of recovery exhibited by the US economy and the stabilisation of the eurozone sovereign debt crisis. However, the deeply-rooted structural problems faced by the advanced economies were far from getting resolved, which had been holding back the pace of recovery and dragging on the import demand there. The negative spillovers from the lull in the advanced economies to the Asian region had also become increasingly apparent. Not only did Asia's direct exports to the US and the EU stay weak during the quarter, Asia's industrial production and intra-regional trading activities also decelerated notably in tandem. In order to counteract the slowing growth momentum amid a difficult external trading environment, some Asian economies had begun to loosen their macroeconomic policy in recent months. Yet in recognition of the slightly improved global economic prospects compared with that perceived in late 2011, the International Monetary Fund (IMF) in April lifted slightly its projected global economic growth for 2012 to 3.5% from 3.3% put out in January, though still pointing to a moderation from the 3.9% growth last year.

2.3 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.3% of total exports by value, fell by about 7.2% year-on-year in real terms in the first quarter of 2012, in contrast to the 2.0% growth in the fourth quarter of 2011. *Domestic exports*, which constitute the remaining 1.7% of total exports, plunged by about 31.7% in real terms in the first quarter of 2012, further to the sharp fall of 35.8% in the preceding quarter.



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

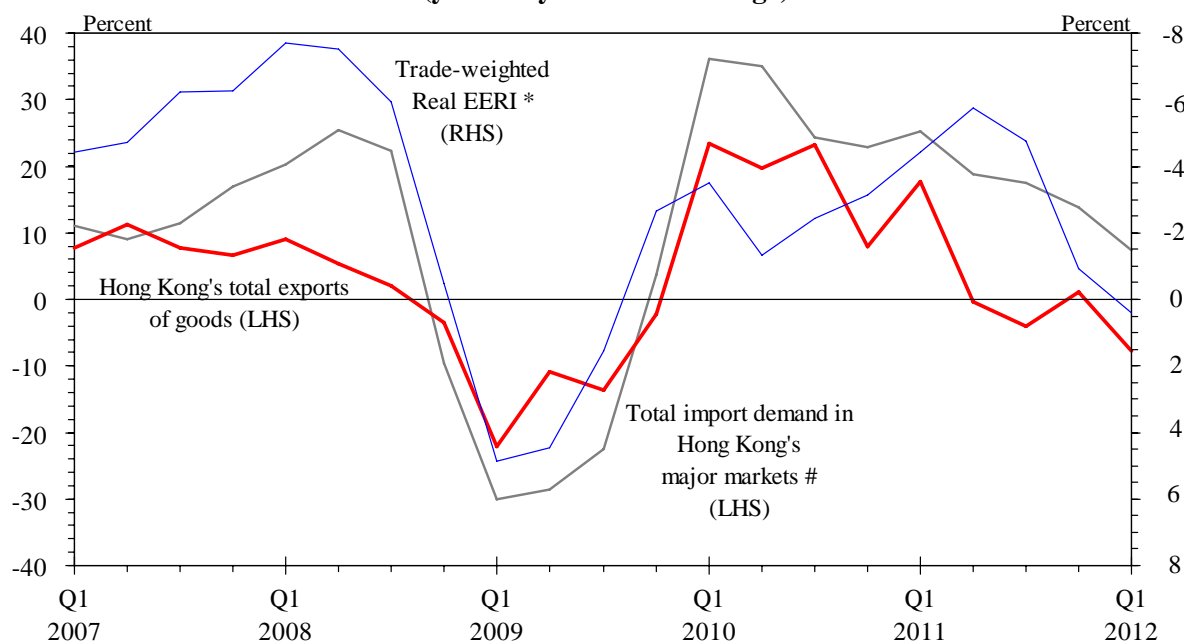
|                      | <u>Total exports of goods</u> |                      |                         | <u>Re-exports</u>     |                      |                         | <u>Domestic exports</u> |                      |                         |
|----------------------|-------------------------------|----------------------|-------------------------|-----------------------|----------------------|-------------------------|-------------------------|----------------------|-------------------------|
|                      | <u>In value terms</u>         | <u>In real terms</u> | <u>Change in prices</u> | <u>In value terms</u> | <u>In real terms</u> | <u>Change in prices</u> | <u>In value terms</u>   | <u>In real terms</u> | <u>Change in prices</u> |
| 2011 Annual          | 10.1                          | 2.9                  | 8.0                     | 10.5                  | 3.5                  | 8.0                     | -5.5                    | -22.2                | 6.4                     |
| Q1                   | 24.6                          | 17.7 (11.8)          | 7.6                     | 24.9                  | 18.2 (12.2)          | 7.6                     | 11.9                    | -4.1 (-5.0)          | 6.7                     |
| Q2                   | 7.7                           | -0.4 (-11.0)         | 8.6                     | 7.9                   | * (-10.9)            | 8.7                     | 1.2                     | -16.0 (-13.3)        | 6.4                     |
| Q3                   | 4.2                           | -4.0 (-0.5)          | 8.6                     | 4.6                   | -3.5 (-0.2)          | 8.6                     | -12.3                   | -30.0 (-17.2)        | 7.6                     |
| Q4                   | 6.9                           | 1.1 (1.9)            | 7.6                     | 7.5                   | 2.0 (2.1)            | 7.7                     | -19.5                   | -35.8 (-6.4)         | 5.8                     |
| 2012 Q1 <sup>#</sup> | -1.5                          | -7.7 (2.3)           | 6.4                     | -1.0                  | -7.2 (2.3)           | 6.5                     | -24.1                   | -31.7 (2.7)          | 2.9                     |

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

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

(#) Figures on rate of change in real terms and change in prices for the first quarter of 2012 are estimated based on actual unit value indices up to February 2012. They are subject to revision when data for the first quarter of 2012 become available.

**Diagram 2.1 : Merchandise exports declined notably in the first quarter of 2012  
(year-on-year rate of change)**

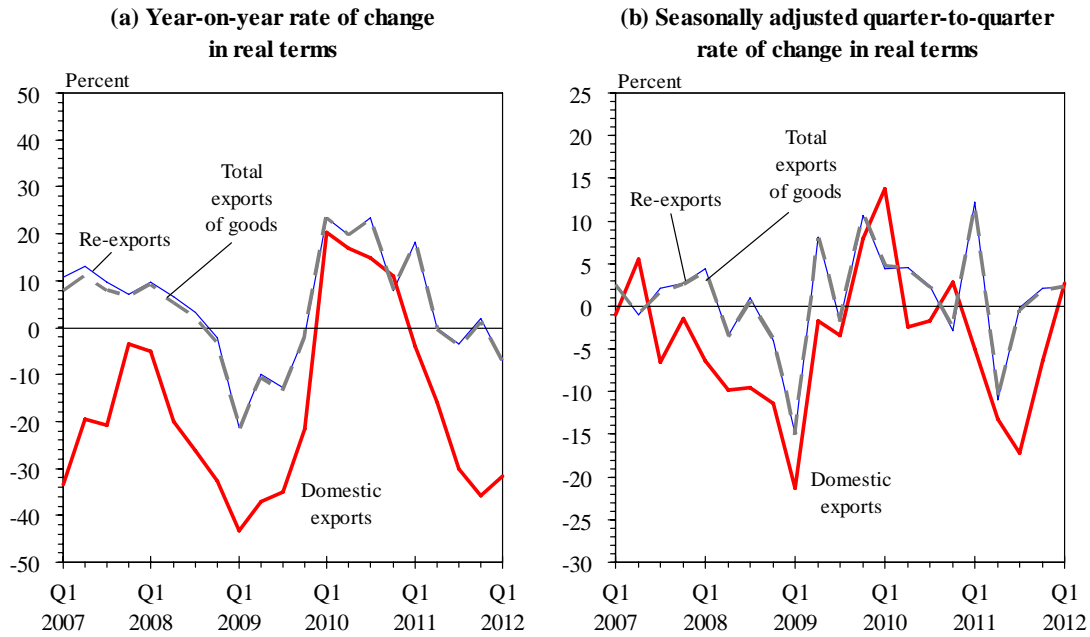


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

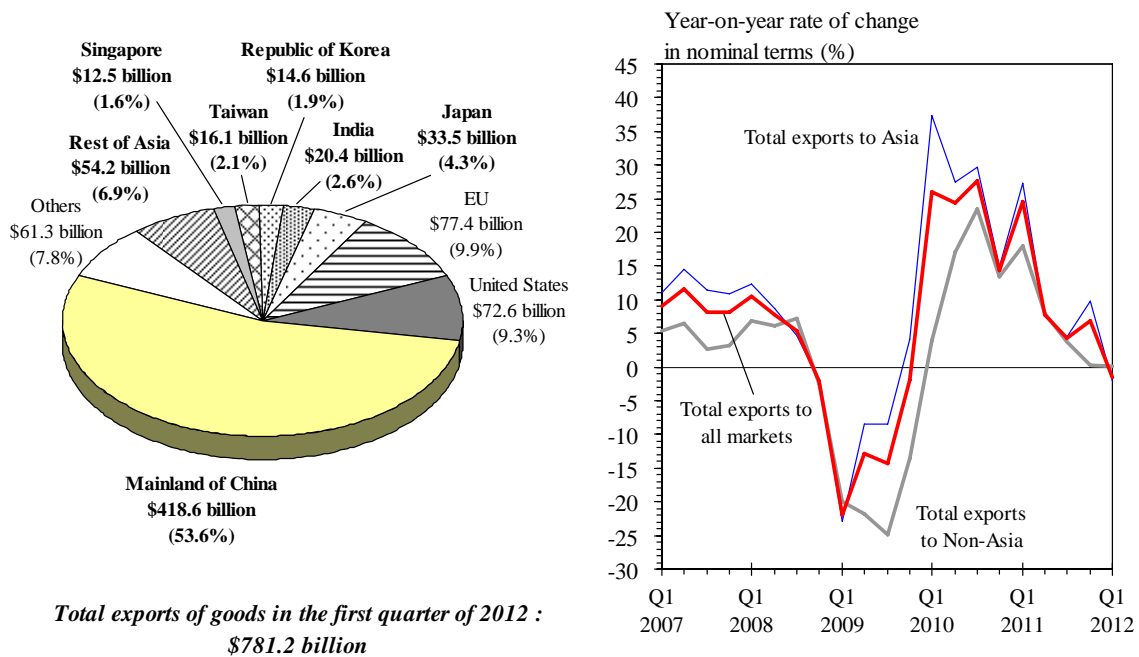
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the first quarter of 2012 is based on statistics for January and February 2012.

**Diagram 2.2 : Both re-exports and domestic exports fell year-on-year in the first quarter**



**Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports**



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

|                    | <u>Annual</u> | <u>2011</u> |           |           |           | <u>2012</u>           |
|--------------------|---------------|-------------|-----------|-----------|-----------|-----------------------|
|                    |               | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1<sup>#</sup></u> |
| Mainland of China  | 3.3           | 20.8        | -2.3      | -6.9      | 5.4       | -8.5                  |
| United States      | -9.7          | 7.0         | -12.4     | -16.0     | -12.8     | -7.9                  |
| European Union     | -1.9          | 6.4         | -0.9      | -3.1      | -8.3      | -9.3                  |
| Japan              | -2.1          | 3.2         | -5.7      | -2.4      | -2.9      | -1.9                  |
| India <sup>*</sup> | 15.7          | 38.4        | 14.8      | 9.3       | 3.0       | -20.2                 |
| Taiwan             | 16.2          | 20.5        | 18.2      | 19.9      | 6.8       | -21.9                 |
| Republic of Korea  | 5.6           | 14.8        | 9.4       | 2.2       | -2.8      | -7.6                  |
| Singapore          | 5.6           | 21.7        | 9.0       | 0.1       | -5.6      | -14.6                 |

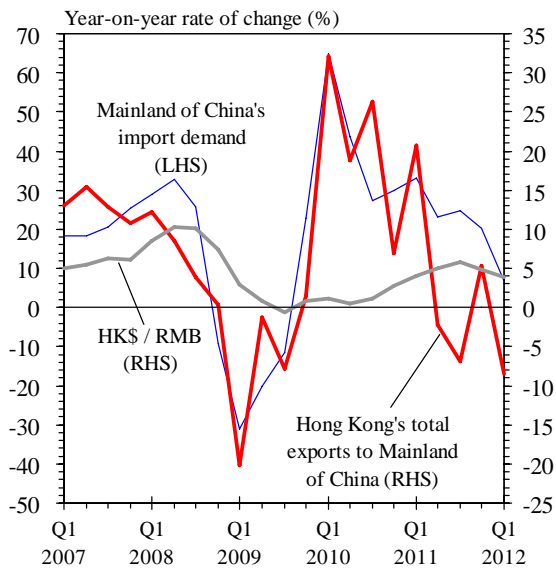
Notes : (#) Figures for the first quarter of 2012 are estimated based on actual unit value indices up to February 2012. They are subject to revision when data for the first quarter of 2012 become available.

(\*) The volume figures for exports to India are crude estimates, as a unit value index specifically compiled for exports to India is not available.

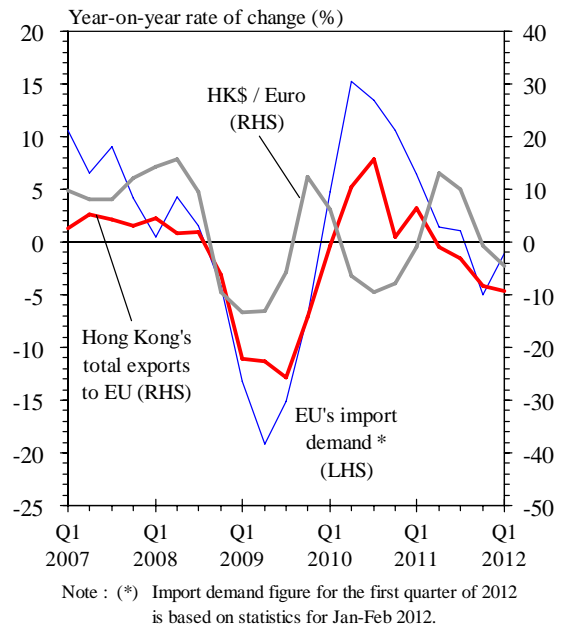
2.4 On a year-on-year comparison, merchandise exports to many major Asian markets saw marked declines in the first quarter of 2012. While the exceptionally high base of comparison in the same period in 2011 partly contributed, the continued moderation of production activities and intra-regional trade flows also hampered Hong Kong's merchandise exports to the region, particularly so for exports of raw materials. Meanwhile, Hong Kong's exports of consumer goods to Asia also faltered, plausibly due to the weakening consumer sentiments along with slowing growth momentum in many regional economies. Total exports to the Mainland fell by about 8.5% in real terms in the first quarter over a year earlier. Those to Japan also fell, by about 1.9%, amid the anaemic recovery there. Total exports to the Republic of Korea, Singapore, and Taiwan saw declines of about 7.6% to 21.9%, mainly dragged by the deceleration in raw material trades. Total exports to India likewise weakened notably on a year-on-year comparison in the first quarter.

2.5 Exports to the US and the EU remained subdued in the first quarter of 2012. Despite some relative improvements in sentiment in recent months, the US economy was yet to gain a firmer footing on recovery. The still-elevated unemployment, depressed housing market, and on-going deleveraging were still taking their toll on the private demand in the US. Consequently, total exports to the US continued to record a visible year-on-year decline, though already narrowed somewhat from that in the preceding three quarters. On the other hand, exports to the EU saw an enlarged decline in the first quarter, reflecting the continued sluggishness of import demand amid the severely dented business and consumer sentiments and the austerity measures there.

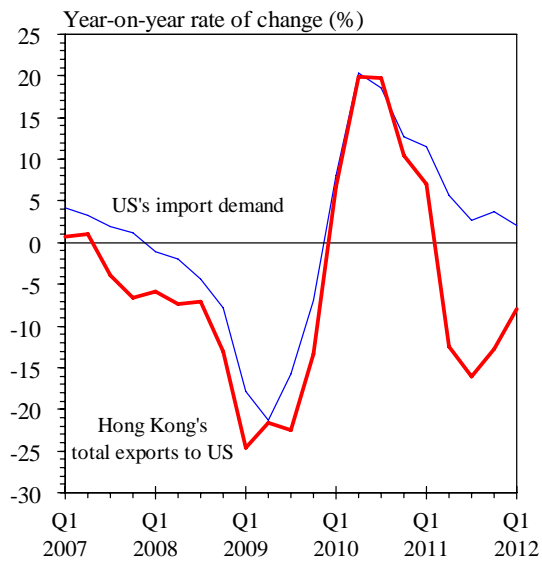
**Diagram 2.4 : Exports to the Mainland significantly affected by reduced import intake of raw materials**



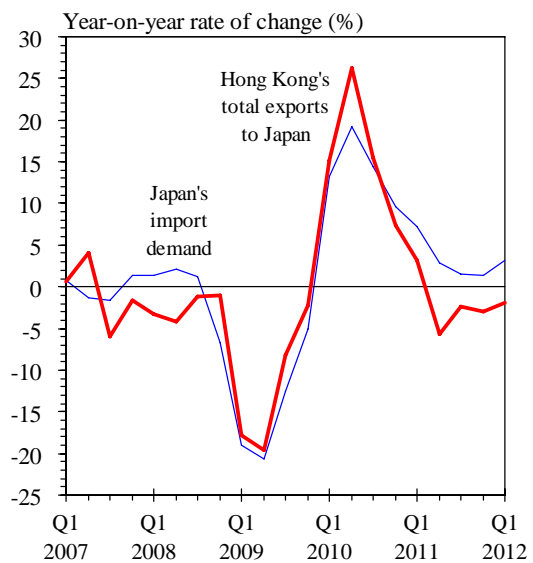
**Diagram 2.5 : Exports to the EU slackened further**



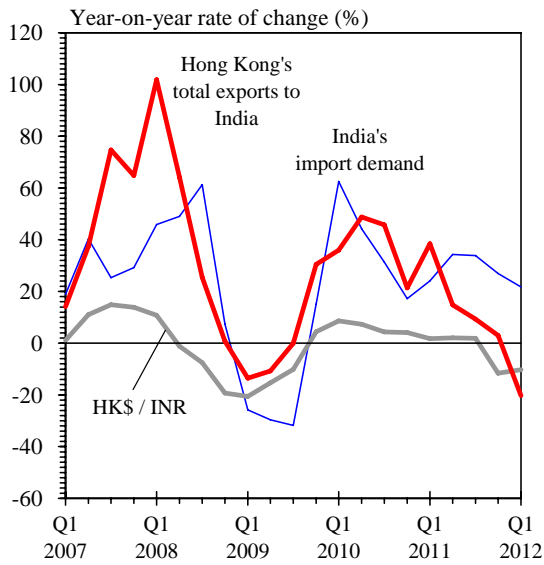
**Diagram 2.6 : Exports to the US stayed depressed**



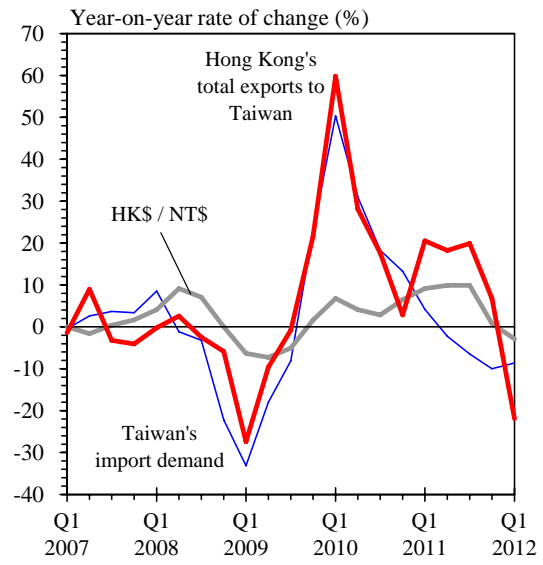
**Diagram 2.7 : Exports to Japan still weak**



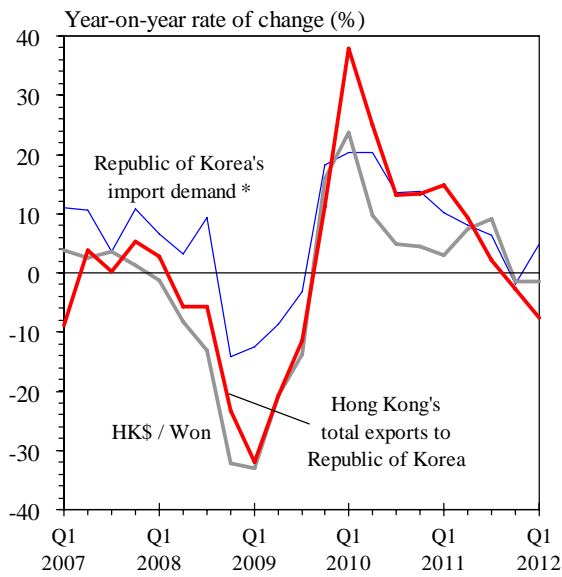
**Diagram 2.8 : Exports to India trended down alongside the moderating economy there**



**Diagram 2.9 : Exports to Taiwan plunged due to slackened production activities there**

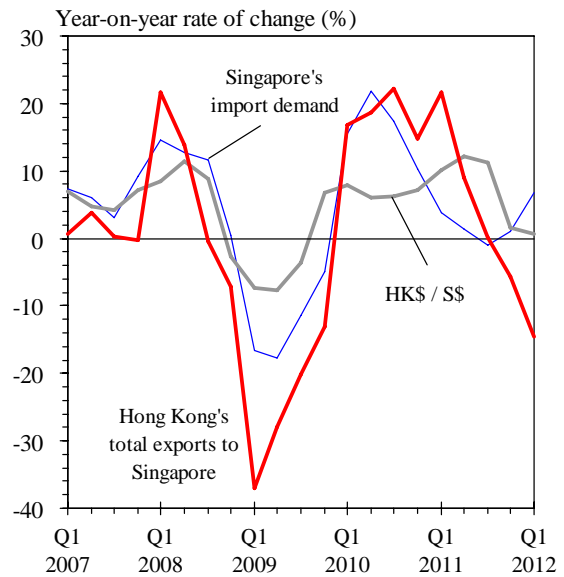


**Diagram 2.10 : Exports to the Republic of Korea saw a modest decline**



Note : (\*) Import demand figure for the first quarter of 2012 is based on statistics for Jan-Feb 2012.

**Diagram 2.11 : Exports to Singapore slowed significantly**



## **Box 2.1**

### **The relative shift towards offshore trade and the implications for dependence of Hong Kong's trade on the advanced markets**

Offshore trade has featured prominently in Hong Kong's trade structure. This article examines the importance of offshore trade relative to the conventional re-export trade, as well as Hong Kong's export dependence on the US and EU markets after considering offshore trade and re-exports together.

Offshore trade covers the services of "merchanting" and "merchandising for offshore transactions" provided by establishments operating in Hong Kong. Merchanting involves the trading of goods which are purchased from and then sold to parties outside Hong Kong without the goods entering or leaving Hong Kong, for which the Hong Kong trader takes ownership of the goods involved. Merchandising involves the service of arranging on behalf of buyers/sellers outside Hong Kong the purchases/sales of goods according to their specifications, in which the Hong Kong broker or agent does not take ownership of the goods.

#### ***The relative importance of offshore trade and conventional re-export trade***

Latest survey data indicated that in 2010, the value of goods involved in offshore trade amounted to \$3,886 billion, 31% more than that of re-exports of goods at \$2,962 billion. This difference widened from 23% in 2008, and those before 2008 at only around 3% or less. Indeed, the value of goods involved in offshore trade grew at an average annual rate of 13% between 2002 (the earliest year when data are available) and 2010, faster than the corresponding rate of 10% for re-exports.

Apart from examining the values of goods involved, the relative importance of re-exports and offshore trade can also be analysed in terms of the earnings derived. In the present exercise, earnings from re-exports are defined to comprise the re-export margin, and those from offshore trade to include gross margin from merchanting and commission from merchandising. In 2010, earnings from re-exports amounted to \$471 billion, still 102% larger than those from offshore trade at \$233 billion. Yet the difference narrowed visibly from 148% in 2005 and 247% in 2000. The larger earnings still derived from re-exports were mainly on account of the much higher rate of re-export margin than the gross margin rate of merchanting and the commission rate on merchandising. In 2010 the re-export margin rate was 15.9%, whereas the gross margin rate from merchanting was only 6.1% and the commission rate from merchandising was even less at 5.5%.

Regardless of the indicators used, it is clear that there has been a relative shift in Hong Kong's trade structure towards offshore trade, which is partly a consequence of our deepening economic ties with the Mainland, and also a manifestation of Hong Kong's strength in supply chain management, taking advantage of the cost and time saving in sourcing trade flows without the goods physically passing through Hong Kong.

## Box 2.1 (Cont'd)

### *Hong Kong's trade dependence on the advanced markets*

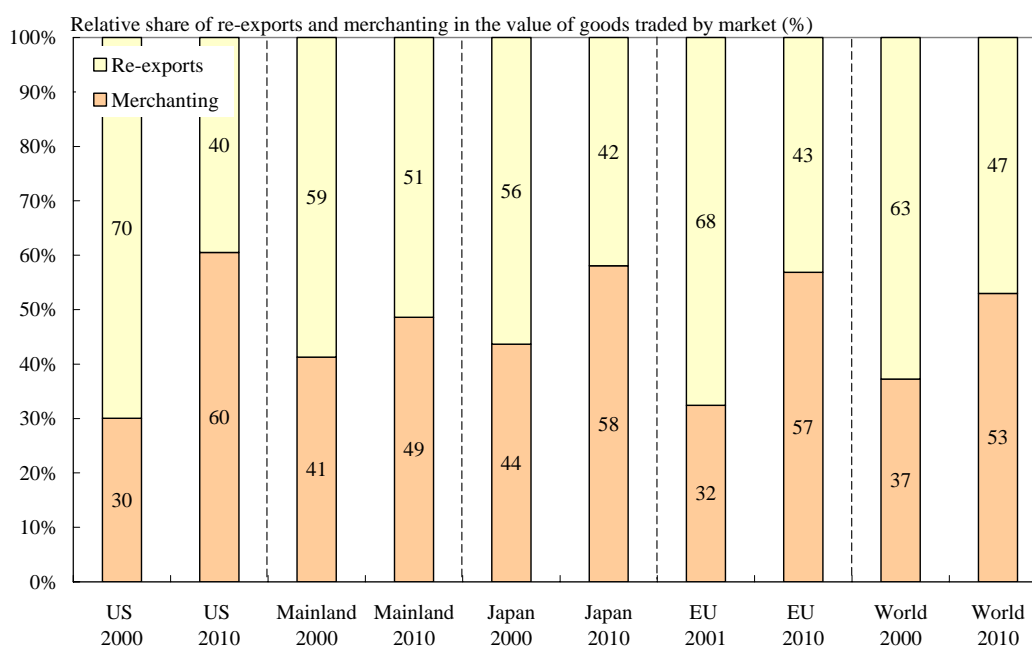
It is worth examining the market composition of our offshore trade in greater detail. However, due to the lack of detailed breakdowns for “merchandising”, the following analysis of offshore trade, in terms of the value of goods involved, focuses on “merchanting” only. As the value of goods involved in merchanting accounted for 86% of offshore trade in 2010, the patterns observed for merchanting should be fairly representative of overall offshore trade.

**Table 1 : The value of goods in merchanting saw much faster growth than re-exports**

|          | <u>Re-exports of goods</u> |                     | <u>2010</u><br><u>Merchanting</u> |                     | <u>Combined</u>        |                     |
|----------|----------------------------|---------------------|-----------------------------------|---------------------|------------------------|---------------------|
|          | <u>Value</u><br>(\$Bn)     | <u>Share</u><br>(%) | <u>Value</u><br>(\$Bn)            | <u>Share</u><br>(%) | <u>Value</u><br>(\$Bn) | <u>Share</u><br>(%) |
| Mainland | 1,567<br>(12.4)            | 52.9                | 1,481<br>(15.7)                   | 44.4                | 3,048<br>(13.9)        | 48.4                |
| US       | 324<br>(0.4)               | 10.9                | 496<br>(14.0)                     | 14.9                | 819<br>(6.3)           | 13.0                |
| EU       | 333<br>(6.1)               | 11.2                | 438<br>(18.7)                     | 13.1                | 771<br>(11.6)          | 12.2                |
| Japan    | 126<br>(4.4)               | 4.2                 | 174<br>(10.6)                     | 5.2                 | 300<br>(7.5)           | 4.8                 |
| World    | 2,962<br>(7.8)             | 100.0               | 3,337<br>(15.0)                   | 100.0               | 6,299<br>(11.0)        | 100.0               |

Note : ( ) Figures in brackets are average annual growth rates over 2001-2010 (2002-2010 for the EU).

**Chart 1 : Hong Kong's trade structure increasingly tilted towards offshore trade over time, particularly for the advanced markets (US, EU and Japan)**





### **Box 2.1 (Cont'd)**

During 2001 – 2010, the value of goods involved in merchanting grew rapidly by 15.0% per annum, much faster than that of re-exports at 7.8% per annum (*Table 1*). The faster growth in merchanting than re-exports was observed across all major markets, especially so for the advanced markets. As a result, the relative shift towards offshore trade was particularly evident for such advanced markets as the US, the EU and Japan, and less so for the Mainland market (*Chart 1*).

The conventional way to assess our trade dependence on the advanced markets is to look at their shares in our merchandise exports. Given the rising importance of offshore trade, it should be better to examine the market compositions of both conventional re-export trade and offshore trade. In 2010, the three major advanced markets (namely, the US, the EU and Japan) accounted for 26% of re-exports, compared with 30% of the goods involved in re-exports and merchanting combined. The corresponding shares in 2001 were 42% and 40% respectively. Thus the conventional method could have underestimated our dependence on the advanced markets to some extent in the more recent years.

Yet the underestimation of our trade dependence on the advanced markets using the conventional method would be more pronounced, when comparing with the results from the analysis in terms of earnings from trade. During 2001-2010, the earnings from offshore trade (including both gross margin from merchanting and commission from merchandising) saw much faster growth (at 10.7% per annum) than re-export margin (at 4.8% per annum) (*Table 2*). This was again more evident in the advanced markets (*Chart 2*). In terms of earnings from re-exports and offshore trade combined, the combined shares of the three major advanced markets in 2010 amounted to 41%, even larger than that of the Mainland market at 38%. This was mainly on account of their higher rates of offshore trade margin. The corresponding shares a decade ago were 54% and 24% respectively (*Chart 3*). Although our increasing dependence on the Mainland market is unmistakable, this analysis in terms of earnings from trade indicates that the advanced markets still exert significant influence on our economy through the conventional and offshore trade. At this stage, it is thus still hard to decouple our economic performance fully from the fragility of the advanced economies, and therefore the eurozone debt situation and the unsteady recovery in the US economy warrant close monitoring.

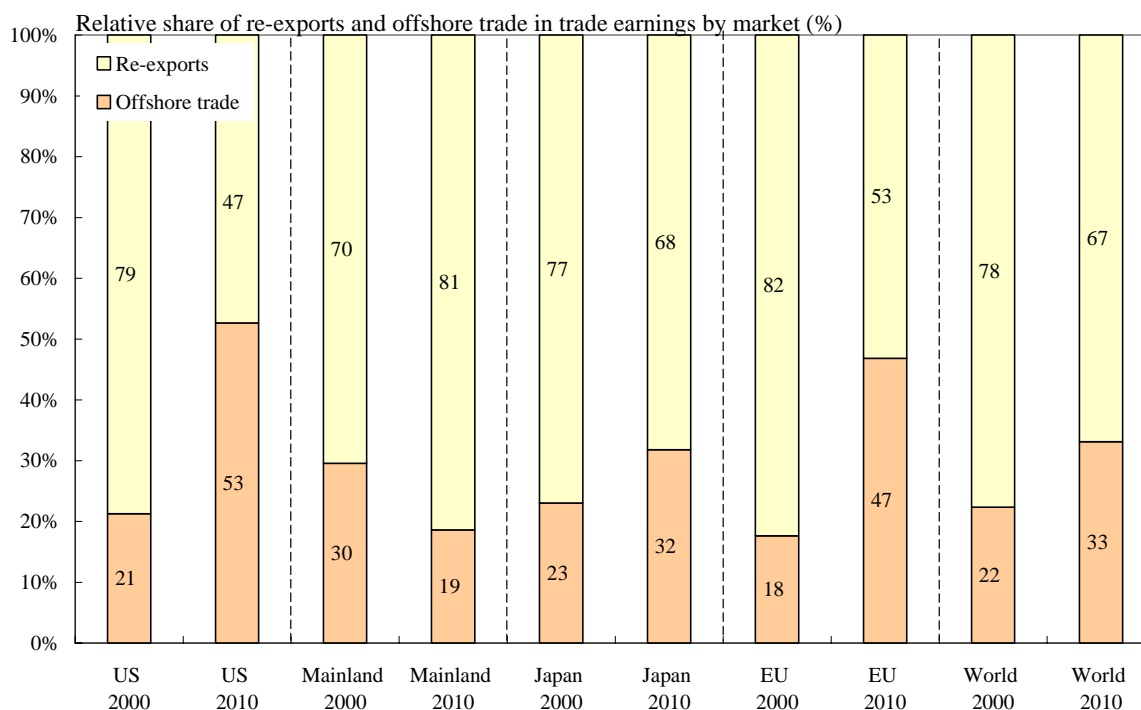
**Box 2.1 (Cont'd)**

**Table 2 : Earnings from offshore trade grew faster than those from re-exports across the major advanced markets**

|          | <u>Re-exports of goods</u> |              | <u>2010<br/>Offshore trade</u> |              | <u>Combined</u> |              |
|----------|----------------------------|--------------|--------------------------------|--------------|-----------------|--------------|
|          | <u>Earnings</u>            | <u>Share</u> | <u>Earnings</u>                | <u>Share</u> | <u>Earnings</u> | <u>Share</u> |
|          | (\$Bn)                     | (%)          | (\$Bn)                         | (%)          | (\$Bn)          | (%)          |
| Mainland | 218<br>(13.1)              | 46.2         | 50<br>(6.5)                    | 21.4         | 268<br>(11.5)   | 38.0         |
| US       | 63<br>(-2.8)               | 13.4         | 70<br>(12.0)                   | 30.0         | 133<br>(2.3)    | 18.9         |
| EU       | 65<br>(1.2)                | 13.7         | 57<br>(16.6)                   | 24.4         | 122<br>(5.8)    | 17.3         |
| Japan    | 24<br>(1.2)                | 5.2          | 11<br>(5.8)                    | 4.9          | 36<br>(2.5)     | 5.1          |
| World    | 471<br>(4.8)               | 100.0        | 233<br>(10.7)                  | 100.0        | 705<br>(6.4)    | 100.0        |

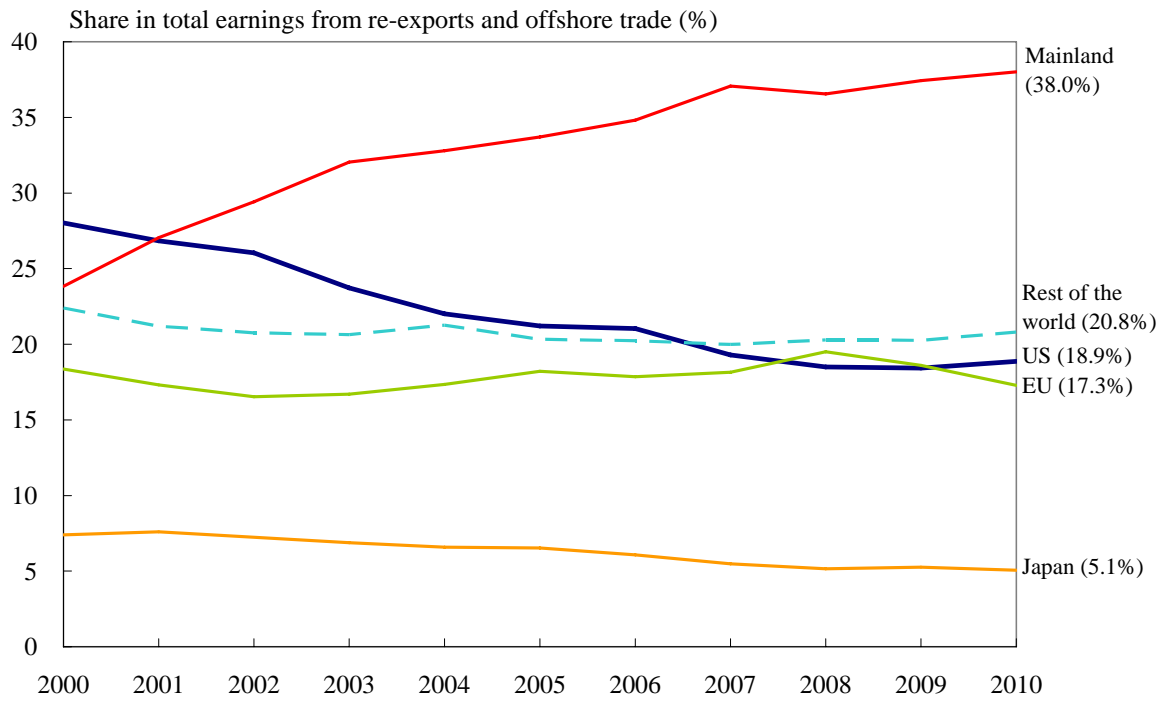
Note : ( ) Figures in brackets are average annual growth rates over 2001-2010.

**Chart 2 : Hong Kong's earnings from trade were still mainly derived from re-exports**



**Box 2.1 (Cont'd)**

**Chart 3 : The advanced markets took up a larger share in Hong Kong's earnings from re-exports and offshore trade than the Mainland in 2010**



## *Imports of goods*

2.6 *Imports of goods* fell by about 3.5% year-on-year in real terms in the first quarter of 2012, in contrast to the 3.1% growth in the fourth quarter of 2011, partly due to the reduced import intake for subsequent re-exporting in tandem with the deceleration in re-export trade. On the other hand, *retained imports*, which accounted for over one-quarter of total imports, grew by about 6.6% in real terms in the first quarter of 2012, slightly faster than the 6.1% growth in the preceding quarter. Analysed by end-use category, retained imports of consumer goods grew appreciably further in the first quarter of 2012, reflecting the resilient local consumption demand and buoyant tourist spending. Retained imports of capital goods also maintained a strong growth on the back of keen business demand for machinery and equipment. In stark contrast, retained imports of raw materials plummeted, conceivably due to the much weakened region-wide production activities and a slowing local economy. Retained imports of fuels continued to slide, while those of foodstuffs held largely unchanged from a year earlier.

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

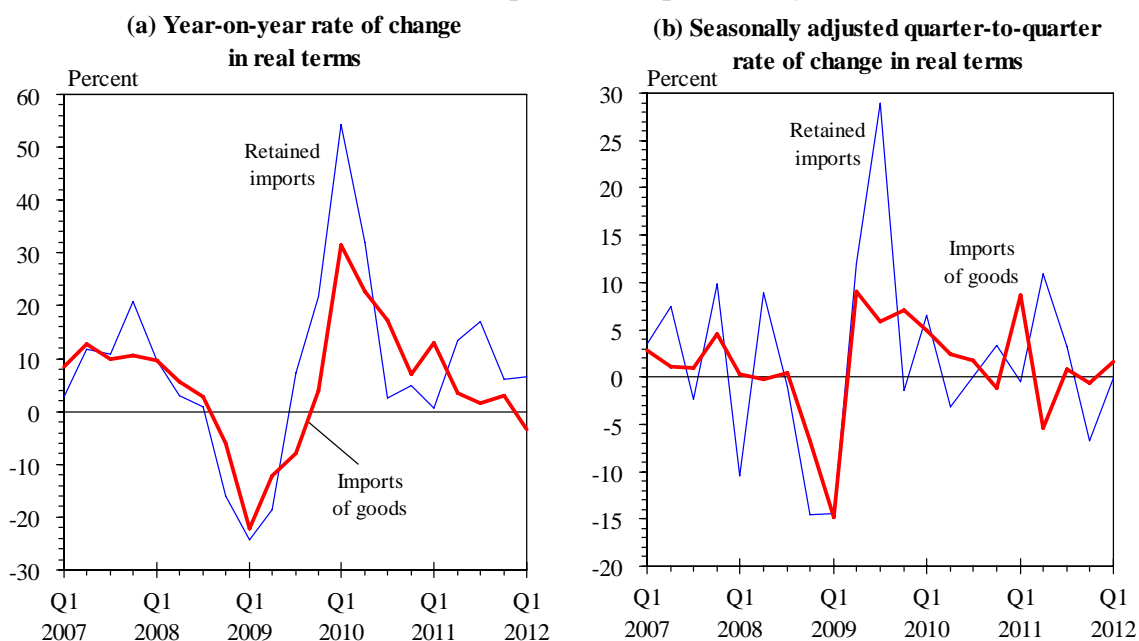
|      |                 | <u>Imports of goods</u> |                      |                         | <u>Retained imports</u> <sup>(a)</sup> |                      |                         |        |      |
|------|-----------------|-------------------------|----------------------|-------------------------|--|----------------------|-------------------------|--------|------|
|      |                 | <u>In value terms</u>   | <u>In real terms</u> | <u>Change in prices</u> | <u>In value terms</u>                  | <u>In real terms</u> | <u>Change in prices</u> |        |      |
| 2011 | Annual          | 11.9                    | 5.1                  | 8.1                     | 15.9                                   | 9.2                  | 8.2                     |        |      |
|      | Q1              | 20.6                    | 12.9                 | (8.6)                   | 8.9                                    | 9.5                  | 0.5                     | (-0.5) | 12.6 |
|      | Q2              | 10.3                    | 3.6                  | (-5.4)                  | 8.1                                    | 16.8                 | 13.4                    | (10.9) | 6.5  |
|      | Q3              | 8.9                     | 1.7                  | (0.8)                   | 8.6                                    | 22.7                 | 17.0                    | (3.2)  | 8.2  |
|      | Q4              | 9.3                     | 3.1                  | (-0.6)                  | 7.1                                    | 14.3                 | 6.1                     | (-6.7) | 5.7  |
| 2012 | Q1 <sup>#</sup> | 0.7                     | -3.5                 | (1.6)                   | 5.4                                    | 5.5                  | 6.6                     | (-0.1) | 2.5  |

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.

(#) Figures on rate of change in real terms and change in prices for the first quarter of 2012 are estimated based on actual unit value indices up to February 2012. They are subject to revision when data for the first quarter of 2012 become available.

**Diagram 2.12 : Imports moderated along with the slowdown in re-exports, but retained imports held up relatively well**



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

|      |                 | Consumer goods | Foodstuffs | Capital goods | Raw materials and semi-manufactures | Fuels |
|------|-----------------|----------------|------------|---------------|-------------------------------------|-------|
| 2011 | Annual          | 24.2           | 1.9        | 15.0          | -8.5                                | -11.1 |
|      | Q1              | 20.4           | -6.1       | 2.3           | -22.6                               | 4.6   |
|      | Q2              | 34.6           | 3.8        | 16.3          | 9.0                                 | -25.0 |
|      | Q3              | 33.3           | 12.8       | 21.9          | 6.2                                 | -12.6 |
|      | Q4              | 10.2           | -1.6       | 18.3          | -22.1                               | -7.0  |
| 2012 | Q1 <sup>#</sup> | 10.9           | 0.3        | 28.3          | -29.4                               | -8.3  |

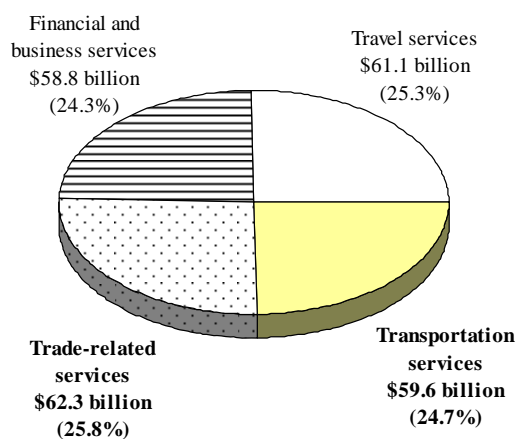
Note : (#) Figures for the first quarter of 2012 are estimated based on actual unit value indices up to February 2012. They are subject to revision when data for the first quarter of 2012 become available.

## Invisible trade

### *Exports of services*

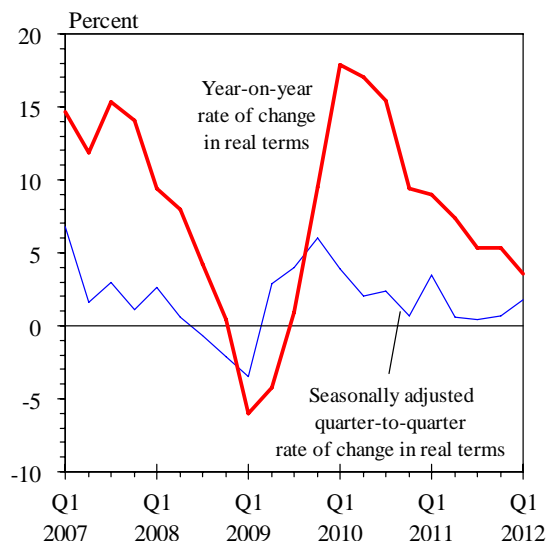
2.7 *Exports of services* grew by 3.6% in real terms in the first quarter of 2012 over a year earlier, moderating further from 5.3% in the preceding quarter. The further slowdown in the first quarter was mainly due to the fall-off in exports of trade-related services, comprising mainly offshore trade activities, being severely hit by the faltering trade and cargo flows. Exports of financial and business services also relapsed to a marginal decline as cross-border financing, fund raising and other commercial activities slowed. Yet exports of travel services continued to thrive, on the back of further surge in inbound tourism, thereby rendering a strong cushion against the setback in trade-related and financial services. Exports of transportation services also fared somewhat better, thanks to the notable growth in passenger transport in tandem with the thriving tourism.

**Diagram 2.13 : Trade-related and transportation services accounted for over half of service exports, reflecting Hong Kong's position as a trading hub**



*Exports of services in the first quarter of 2012 :  
\$241.8 billion*

**Diagram 2.14 : Exports of services slowed further**



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

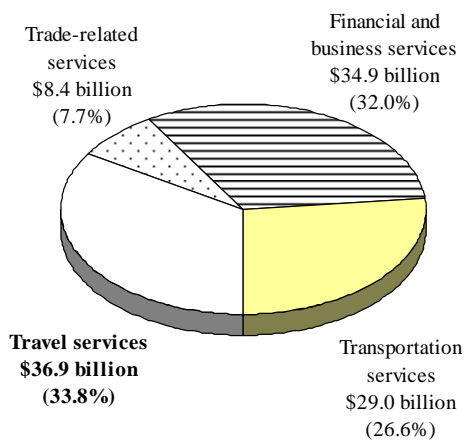
|      |        | <i>Of which :</i>              |   |                                    |  |  |
|------|--------|--------------------------------|---|------------------------------------|--|--|
|      |        | <u>Exports<br/>of services</u> | <u>Trade-related<br/>services<sup>(a)</sup></u> | <u>Transportation<br/>services</u> | <u>Travel<br/>services<sup>(b)</sup></u> | <u>Financial and<br/>business<br/>services</u> |
| 2011 | Annual | 6.7                            | 4.2   | 2.4                                | 14.3                                     | 7.9  |
|      | Q1     | 9.0 (3.5)                      | 11.4  | 0.8                                | 10.2                                     | 13.4   |
|      | Q2     | 7.4 (0.6)                      | 3.4   | 4.7                                | 15.1                                     | 9.2  |
|      | Q3     | 5.3 (0.4)                      | 2.4   | 1.9                                | 10.7                                     | 8.6  |
|      | Q4     | 5.3 (0.7)                      | 1.6   | 2.0                                | 20.8                                     | 0.2  |
| 2012 | Q1     | 3.6 (1.8)                      | -1.6  | 2.5                                | 15.6                                     | -0.2   |

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

### ***Imports of services***

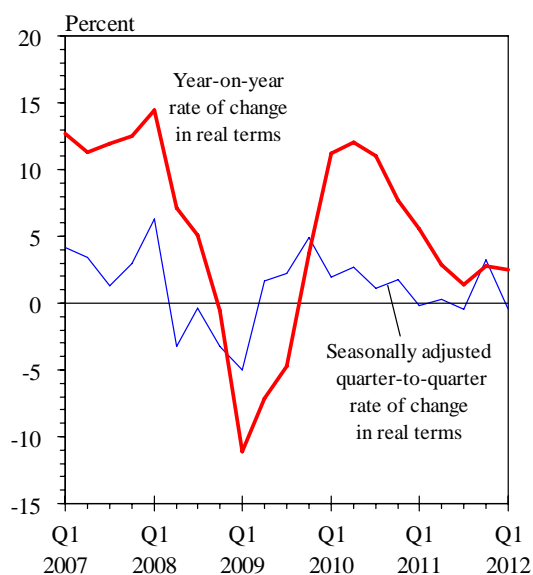
2.8 *Imports of services* recorded a mild 2.5% growth in real terms in the first quarter of 2012 over a year earlier, after expanding by 2.8% in the preceding quarter, but performance was mixed among major components. Imports of travel and transportation services held up rather well, thanks to the solid growth in outbound travel of local residents. On the other hand, imports of trade-related services showed zero growth alongside the much decelerated regional trade flows. Imports of financial and other business services also slowed markedly amid an uncertain global economic environment.

**Diagram 2.15 : Travel services had the largest share in imports of services**



**Imports of services in the first quarter of 2012 :  
\$109.1 billion**

**Diagram 2.16 : Imports of services grew mildly**



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

*Of which :*

|      |        | Imports of services | Travel services <sup>(+)</sup> | Transportation services | Trade-related services | Financial and business services |
|------|--------|---------------------|--------------------------------|-------------------------|------------------------|---------------------------------|
| 2011 | Annual | 3.1                 | 2.9                            | 1.2                     | 4.0                    | 5.0                             |
|      | Q1     | 5.6 (-0.2)          | 3.4                            | 3.2                     | 13.0                   | 8.1                             |
|      | Q2     | 2.9 (0.3)           | 3.7                            | 0.1                     | 6.3                    | 4.1                             |
|      | Q3     | 1.4 (-0.5)          | 1.7                            | -0.5                    | 0.4                    | 3.3                             |
|      | Q4     | 2.8 (3.2)           | 2.8                            | 2.4                     | -0.3                   | 4.3                             |
| 2012 | Q1     | 2.5 (-0.5)          | 4.1                            | 2.9                     | *                      | 1.2                             |

Notes : (+) Comprising mainly outbound travel spending.

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

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



## Visible and invisible trade balance

2.9 The invisible trade account surplus was only slightly larger than the deficit in the merchandise trade account in the first quarter of 2012, resulting in an overall surplus of \$1 billion in the combined visible and invisible trade balance (equivalent to 0.1% of the total value of imports of goods and services). As a combined result of the strong headwinds in the external environment and the fairly resilient domestic demand, the overall trade surplus was substantially smaller than the corresponding figures of \$25 billion and 2.5% in the same quarter of 2011.

**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> |                        |
| 2011 | Annual | 3,409                | 946             | 3,846          | 435             | -437                 | 511             | 74              | 1.7                    |
|      | Q1     | 796                  | 222             | 890            | 103             | -94                  | 118             | 25              | 2.5                    |
|      | Q2     | 835                  | 215             | 960            | 103             | -126                 | 112             | -14             | -1.3                   |
|      | Q3     | 891                  | 250             | 991            | 113             | -100                 | 137             | 37              | 3.4                    |
|      | Q4     | 888                  | 259             | 1,005          | 116             | -117                 | 143             | 26              | 2.3                    |
| 2012 | Q1     | 802                  | 242             | 933            | 109             | -131                 | 133             | 1               | 0.1                    |

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

## Other developments

2.10 Economic relations between Hong Kong and Shanghai enjoyed further good progress at the start of 2012. In the Second Plenary Session of the Hong Kong-Shanghai Economic and Trade Co-operation Conference, the two Governments signed co-operation agreements in business and trading, culture, civil servant exchange and hospital management. In addition, agreements were reached on 28 joint projects, covering such service sectors as business and investment, air transport, maritime and logistics, tourism, as well as education, medicine and hygiene. The two Governments would also proceed with the measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement and help Shanghai enterprises reach the overseas markets through Hong Kong's business platform. All these would unleash huge business potentials for Hong Kong's service providers, while they leverage on their competitive strengths in helping expedite Shanghai's transformation into a service-oriented economy.

2.11 In early March, the Central Government set a growth target of 7.5% this year and placed more emphasis on boosting private consumption. Re-engineering the Mainland economy towards domestic demand will help achieve a more balanced economic structure to the benefit of sustainable growth, which will in turn be beneficial to the Hong Kong economy over the longer term. Given the sheer size of the Mainland population, the Mainland market has long entailed an enormous potential market for consumer goods. In this regard, a more rapid growth in consumption demand in the Mainland can be expected to render a strong impetus to Hong Kong's external sector in the coming years. Hong Kong's exports of consumer goods to the Mainland currently only account for less than one-tenth of Hong Kong's total exports to the Mainland and should have ample room for further expansion.

2.12 In light of the highly uncertain global economic outlook, the Financial Secretary introduced in the 2012-13 Budget a number of enhanced measures to better prepare the Hong Kong exporters, particularly the small and medium-sized enterprises (SMEs), for the expected lull in overseas markets and increased risk of default in payment by buyers. A new loan guarantee product with a higher guarantee ratio of 80 per cent and a much lower fee would be provided by the SME Financing Guarantee Scheme to support the liquidity needs of the SMEs. Further, the SMEs would enjoy special policy terms and various premium discounts for their insurance policies with the Hong Kong Export Credit Insurance Corporation. The sales-by insurance policy cover was also extended to contracts between Hong Kong exporters' overseas or Mainland subsidiaries, of which the Hong Kong policyholders have control, and their buyers. Moreover, to help enterprises lower their operating costs, business registration fees for 2012-13 were waived while charges for import and export declarations were halved.

**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*

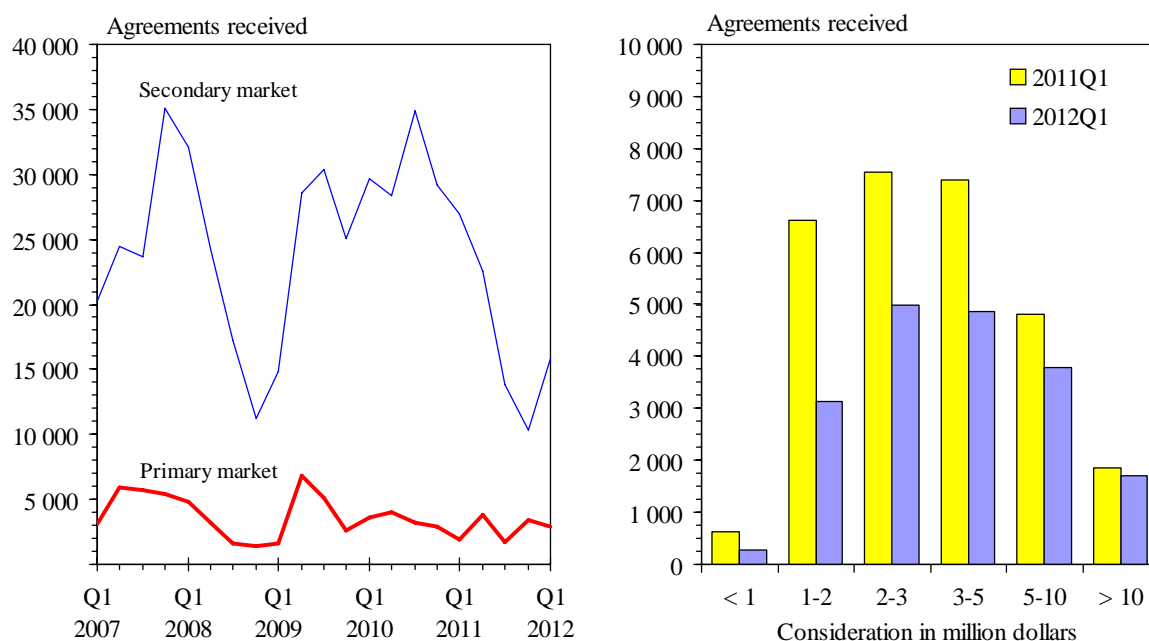
- *After undergoing some consolidation in the latter part of 2011, the residential property market showed a sharp revival in the first quarter of 2012 amid a slightly improved external environment, the ongoing low interest rate environment and release of pent-up demand. Overall flat prices surged by 5% between December 2011 and March 2012, while transactions also rebounded sharply by 36% over the preceding quarter.*
- *Following through the efforts to ensure a stable and healthy development of the residential property market, in February the Government announced the 2012-13 Land Sale Programme that could provide for a total of about 13 500 flats. Taking together the supply from various sources, it is estimated that housing land supply in the coming year could provide for some 30 000 private flats.*
- *The various Government efforts on the property market have yielded notable results. Nonetheless, as the major advanced economies are likely to maintain an ultra-loose monetary policy for a prolonged period, the Government would stay vigilant to the risk of a property market bubble and would introduce further measures when necessary.*
- *Inbound tourism continued to record remarkable growth in the first quarter. The total number of visitor arrivals leapt by another 15.6%, with Mainland visitors remaining the major growth impetus.*
- *The logistics sector continued to be dented by the sluggish external trade. Container throughput recorded moderate growth while air freight throughput retreated further.*

## Property

3.1 After undergoing some consolidation in the latter part of 2011, the *residential property market* showed a sharp revival in the first quarter of 2012 amid a slightly improved, albeit still challenging, external environment. Signs of stabilisation of the European debt situation, a stronger-than-expected US recovery and the global equity market revival have helped boost market sentiment. The ongoing low interest rate environment with abundant liquidity also rendered support. All these, coupled with the release of pent-up demand, have led to a notable rebound in trading activities and flat prices in February and March.

3.2 The total number of sale and purchase agreements for residential property received by the Land Registry rebounded appreciably by 36% from the preceding quarter to 18 749 in the first quarter of 2012. Yet the rebound should be viewed against the earlier plunge, as the number of transactions in the first quarter was still 35% below a year earlier and much lower than the hectic levels observed during most of 2009 and 2010. Analysed by type of trading, secondary market transactions leapt by 53% over the preceding quarter while primary market transactions retreated by 15%. In parallel, total consideration rose by 20% over the preceding quarter to \$100.3 billion in the first quarter.

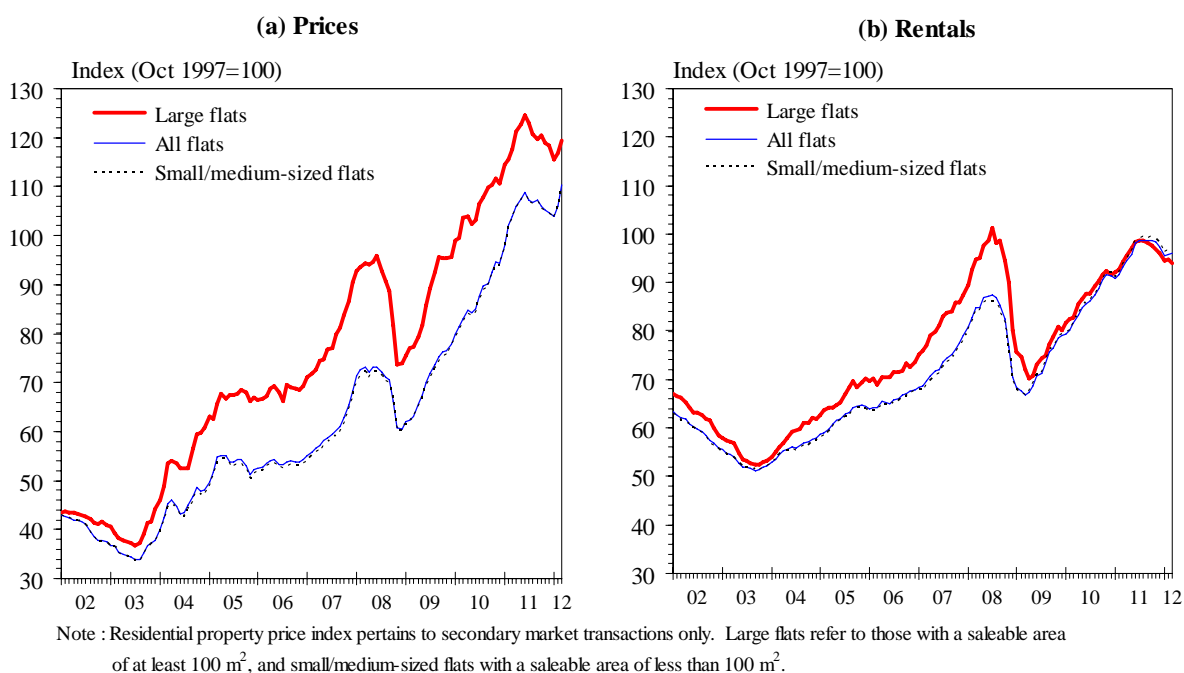
**Diagram 3.1 : Trading activities rebounded sharply from a subdued level**



3.3 Overall flat prices rebounded by 5% between December 2011 and March 2012, with all the gains occurring in the last two months. Prices of small/medium-sized flats surged by 6% while prices of large flats rose by a more modest 1%. With the latest rebound, overall flat prices have recouped all the losses recorded in the second half of 2011 and exceeded the peak in June 2011 by 1%. Compared with the peak in 1997, overall flat prices were 10% higher, with prices of large flats even higher by a rampant 20%.

3.4 By comparison, the leasing market was relatively steady. Overall flat rentals in March 2012 edged down by 2% from December 2011, as the fall in January was partly offset by the slight increase in the latter part of the quarter. Analysed by class, rentals of large flats and small/medium-sized flats exhibited similar declines of 2%. Given the general uptrend since mid-2009, overall flat rentals were only 4% below the peak in 1997. The average rental yield for residential property declined from 3.4% in December 2011 to 3.1% in March 2012.

**Diagram 3.2 : Flat prices rebounded in the first quarter while flat rentals edged down**



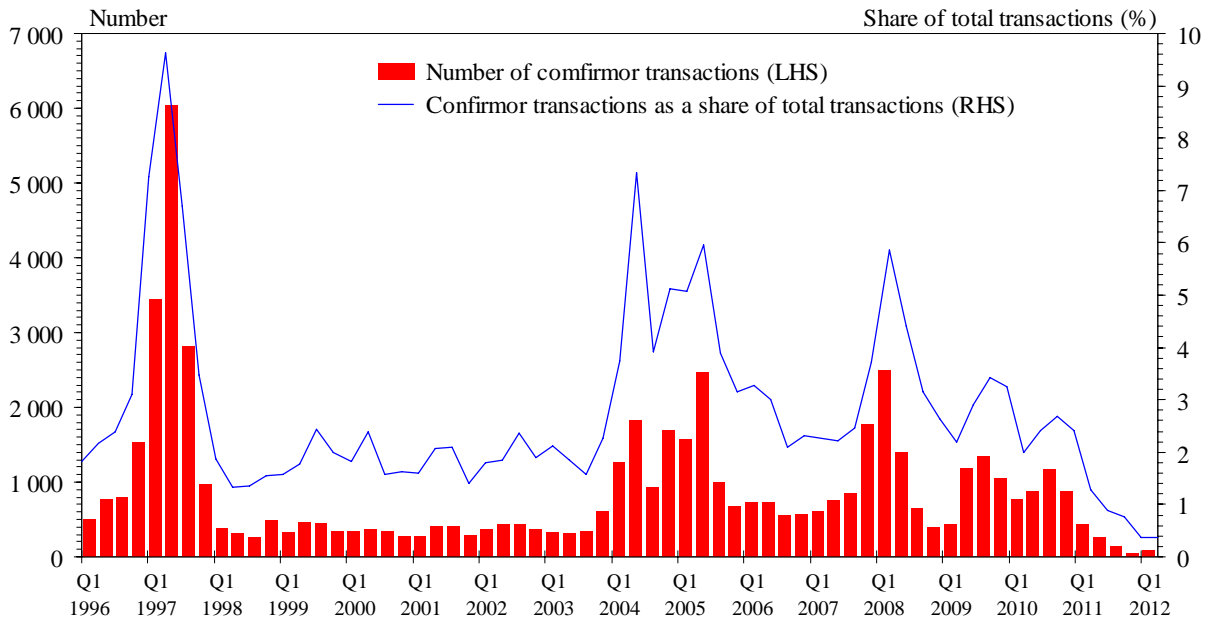
3.5 The Government has always been mindful of the ramifications that wild fluctuations in property prices would have on overall macroeconomic and financial stability. To ensure a healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raising flat supply through increasing the land supply, curbing speculative activities, preventing excessive growth of mortgage lending and increasing transparency of the property market<sup>(1)</sup>. To sustain these efforts,

in February 2012 the Government announced the 2012-13 Land Sale Programme that would include 47 residential sites and provide for a total of about 13 500 units. Also, the Government has designated four residential sites in the Application List for government-initiated sale by tender during April to June, within which three sites are stipulated with flat number restrictions. Taking together the Land Sale Programme, railway property projects, redevelopment projects of Urban Renewal Authority, projects subject to lease modification/land exchange and other sources, it is estimated that the housing land supply in the coming year could provide for some 30 000 private residential flats.

3.6 The various Government efforts have yielded notable results. The *total supply of flats* in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) increased from 62 000 units as estimated at end-2011 to 64 000 units as estimated at end-March 2012, the highest since late 2008. In addition, another 3 200 units could be added to the supply through conversion of a number of residential sites into “disposed sites” and the completions of auction/tendering of some sites in the months ahead.

3.7 *Speculative activities* almost vanished after the introduction of the Special Stamp Duty in November 2010. Confirmed transactions plunged by 80% over a year earlier to 87 cases in the first quarter of 2012, and its share in total transactions shrank to a meagre 0.4%. As regards *mortgage lending*, the average loan-to-value ratio of new mortgages was 56%, below the average of 64% in January to October 2009 before the first round of prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority. Regarding *market transparency*, following an earlier public consultation exercise, the Government introduced the Residential Properties (First-hand Sales) Bill into the Legislative Council in March.

**Diagram 3.3 : Speculative activities almost vanished**

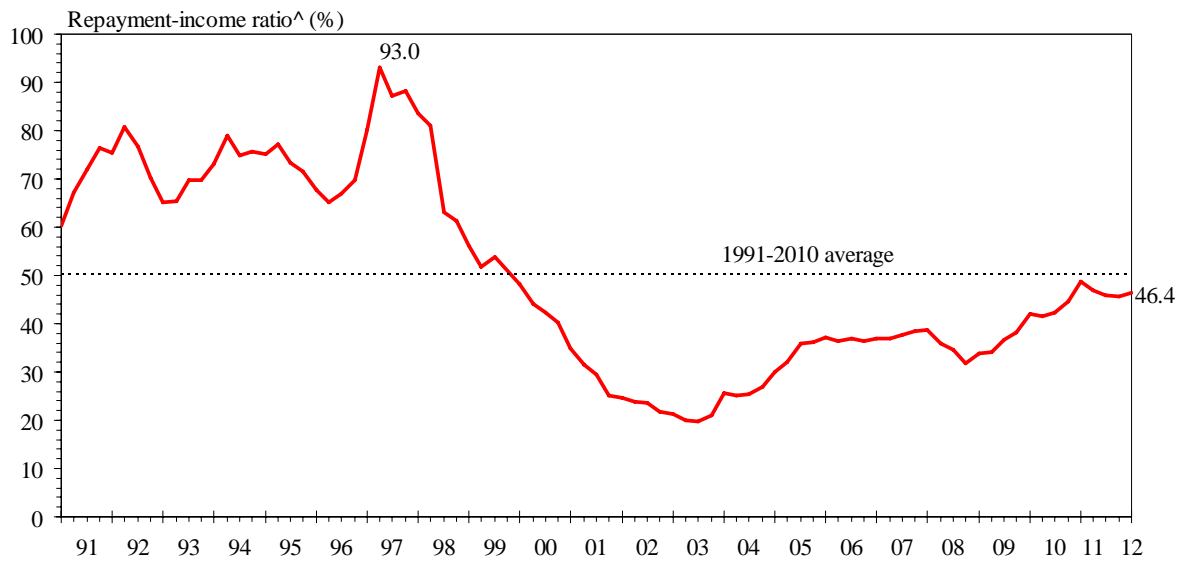


Note : Confirmor transactions refer to resale before assignment.

3.8 Nonetheless, the Government would stay vigilant to the risk of a property market bubble. The revival in the first quarter of 2012 served as a timely reminder that low interest rates and abundant liquidity could easily drive the property market to an exuberant state again when the external environment shows even a slight improvement. Following the surge over the past few years, flat prices in March 2012 have soared by a cumulative 82% over the trough in late 2008. Also, 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) worsened slightly from 45.8% in the preceding quarter to 46.4% in the first quarter of 2012, and would exceed the long-term average of 50.4% over 1991-2010 by a significant extent should interest rates return to a more normal level.



**Diagram 3.4 : The mortgage payment to income ratio worsened slightly**



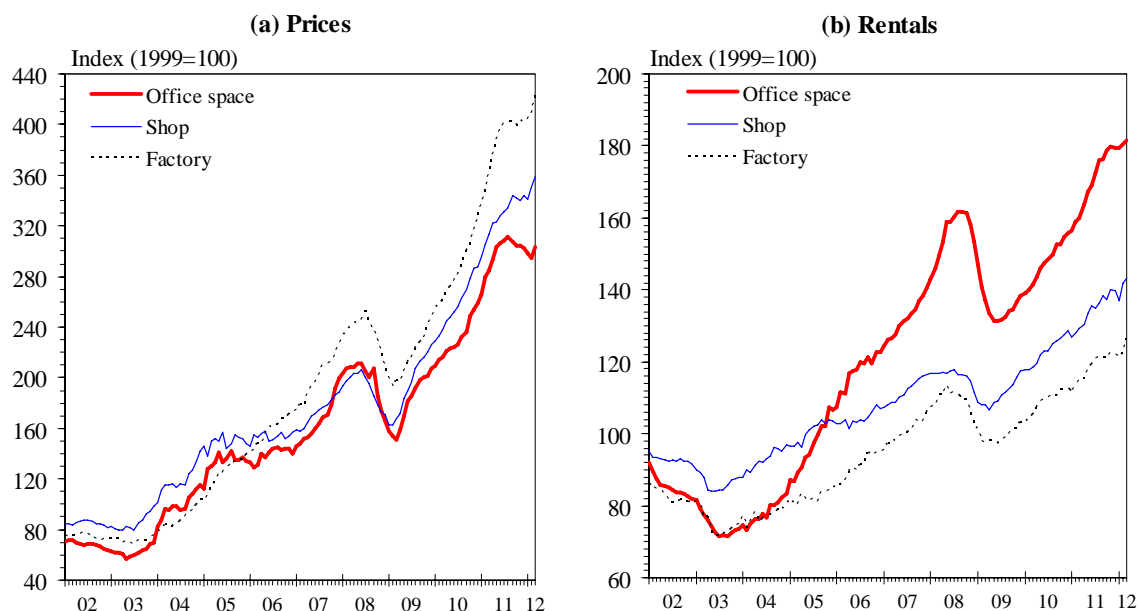
Note : (^) The ratio of mortgage payment for a 45m<sup>2</sup> flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

3.9 The *commercial* and *industrial property markets* also re-gathered strength recently. Sale prices of *office space* were little changed between December 2011 and March 2012, as the sharp rebound in March offset all the declines in the first two months. Within the total, prices of Grade A office space fell by 1% and prices of Grade B office space showed virtually no change, while prices of Grade C office space recorded a gain of 3%. Meanwhile, overall office rentals edged up by 1%. Rentals for Grade A office space were virtually flat while those for Grade B and C office space rose by 2% and 3% respectively. Office prices and rentals in March 2012 already exceeded the recent peak before the onset of the global financial crisis in 2008 by 44% and 12% respectively. The average rental yields for Grade A, B and C office space all hovered at 3.4% in March 2012, unchanged from the levels in December 2011. Meanwhile, transactions for office space rebounded sharply by 44% from the low base in the preceding quarter to 560 cases in the first quarter.

3.10 The *retail shop space* market was buoyant amid generally robust retail sales. Between December 2011 and March 2012, the increase in sale prices and rentals for retail shop space re-accelerated to 4% and 3% respectively. The average rental yield for retail shop space stayed at 2.9% in March 2012. Transactions for retail shop space also turned more active, surging by 58% from the preceding quarter to 1 210 cases in the first quarter<sup>(2)</sup>.

3.11 Prices and rentals of *flatted factory space* soared by 5% and 4% respectively between December 2011 and March 2012, while transactions surged by 53% over the preceding quarter to 1 660 cases in the first quarter. The average rental yield stayed unchanged at 3.7% in March.

**Diagram 3.5: Prices and rentals of non-residential properties generally increased**



## Land

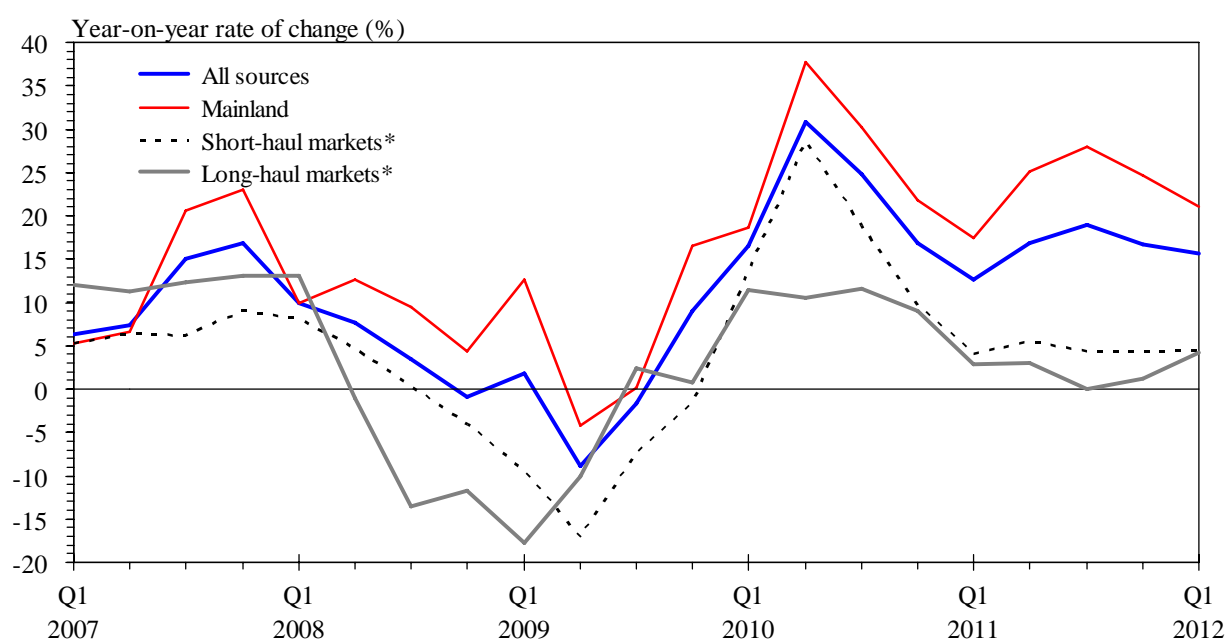
3.12 In the first quarter of 2012, seven land sites with a total area of about 12.1 hectares were sold, fetching land premium of \$9.5 billion. Within the total, five were residential sites, one was commercial site, and one was for logistics development purpose. In March the tender exercises for two residential sites in Repulse Bay and Tuen Mun also commenced.

3.13 Regarding exchange of land, four sites with a total area of about 6.6 hectares were approved in the first quarter. Among the approved cases, two were designated for residential use. As to lease modifications, seven sites were approved, of which three were for residential use.

## Tourism

3.14 The inbound tourism sector continued to record remarkable growth. Overall *visitor arrivals* leapt further by 15.6% over a year earlier to 11.2 million in the first quarter. The Mainland market remained the bright spot, with its visitor arrivals jumping by another 21.1% to 7.9 million, or 70% of the total. By comparison, visitor arrivals from the short-haul and long-haul markets recorded more moderate growth of 4.5% and 4.2% respectively<sup>(3)</sup>. Analysed by length of stay, the growth in same-day visitors, at 23.4%, continued to outpace that of overnight visitors, at 8.6%. As a result, the share of same-day visitors in total arrivals expanded further from 47.3% a year earlier to 50.5% in the first quarter, while the share of overnight visitors declined from 52.7% to 49.5%.

**Diagram 3.6 : Inbound tourism showed remarkable growth amid continued surge in Mainland visitors**



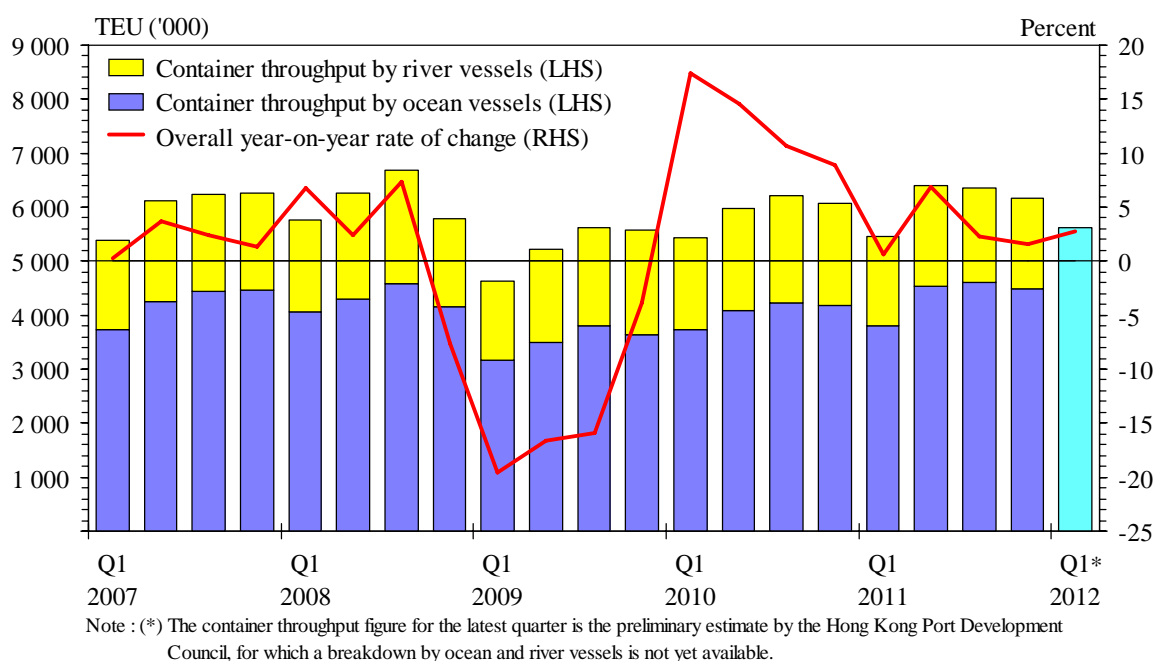
Note : (\*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

3.15 Supported by strong demand, the average hotel room occupancy rate hovered at a high level of 87% in the first quarter, and the average achieved hotel room rate rose further by 13.9% over a year earlier to \$1,480<sup>(4)</sup>. Total Tourism Expenditure Associated to Inbound Tourism surged by 24.0% to \$263 billion in 2011, underpinned by a surge in visitors and also a higher per capita visitor spending.

## Logistics

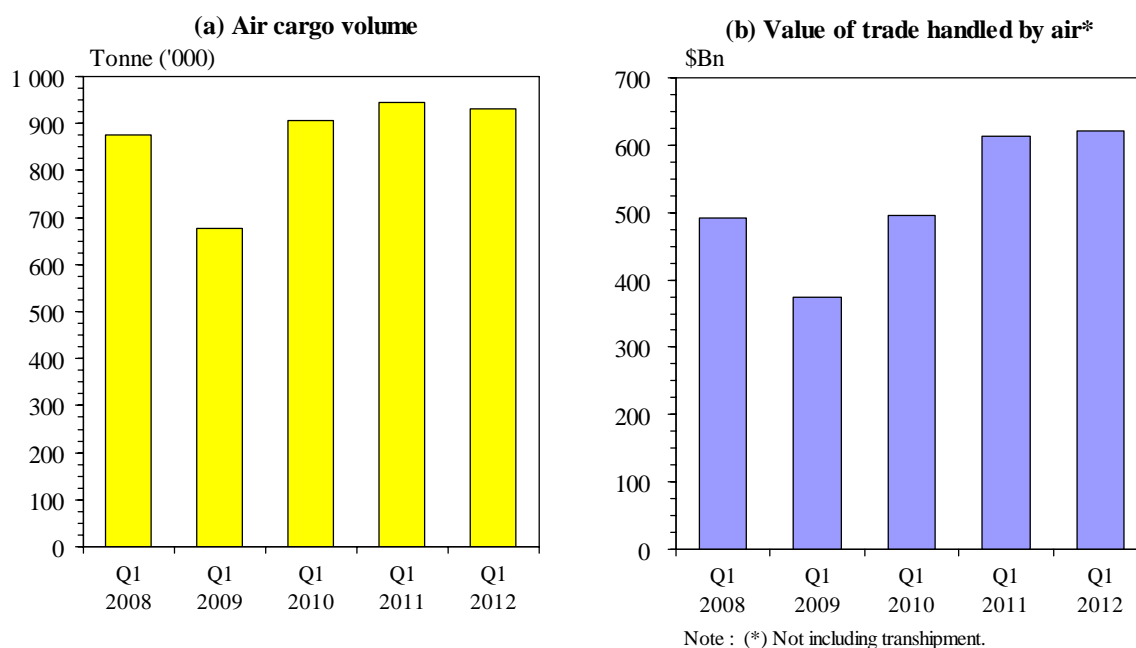
3.16 Performance of the logistics sector continued to be dented by the sluggish external trade. *Total container throughput* grew by a modest 2.7% over a year earlier to 5.6 million TEUs in the first quarter. The value of trade handled at the Hong Kong Port shrank by 5.3%, and its share in overall trade value declined from 26.3% a year earlier to 25.0%.

**Diagram 3.7 : Port container traffic recorded a modest growth**



3.17 *Air freight throughput* retreated by another 1.5% over a year earlier to 930 000 tonnes in the first quarter. Yet the total value of trade by air edged up by 1.1%, and its share in overall trade value rose further from 36.8% a year earlier to a record high of 37.3%.

**Diagram 3.8 : Air freight throughput continued to decline while the value of trade handled by air edged up**



3.18 In March the Chief Executive in Council approved in principle the recommendation by the Airport Authority Hong Kong (AA) to adopt the option of expanding into a three-runway system as the future development option for the Hong Kong International Airport for planning purposes. The AA could proceed with the next stage of planning related to the development of the three-runway system, including the statutory environmental impact assessment, the associated design details and the financial arrangements. The AA will report to the Government upon completion of the planning work, and the Government will then assess in detail all relevant considerations before making the final decision on whether the option of expanding into a three-runway system should be adopted.

## Transport

3.19 Traffic flows for most major modes of transport maintained steady growth in the first quarter. Air passenger traffic rose by 8.0% over a year earlier to 13.6 million, and water-borne passenger trips by 3.0% to 6.6 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 4.9% to 527 600 though average daily vehicular movements edged down by 1.0% to 40 400.

## **Creativity and innovation**

3.20 The Government announced in the 2012-13 Budget two time-limited measures to facilitate the development of data centres. *First*, the waiver fee for changing parts of industrial building aged 15 years or above located in “Industrial”, “Commercial” or “Other Specified Use annotated Business” zones into data centres will be exempted. *Second*, for development of high-tier data centre involving lease modification on industrial lots, the Government will assess the land premium for lease modification in the part of data centre on the basis of actual development intensity and high-tier data centre use instead of maximum development intensity and optimal use. These two measures will be introduced within 2012-13 for application until end-March 2016.

## **Environment**

3.21 In January 2012 the Government announced the proposal of adopting the new Air Quality Objectives (AQOs) with a view to better protecting public health. Benchmarking against the World Health Organization’s Interim Targets and Air Quality Guidelines, the new AQOs are comparable to those adopted by the European Union and the United States. To attain the new AQOs as soon as practicable, the Government will implement 22 air quality improvement measures in areas including emission capping and control, traffic, and infrastructure development and planning. Subject to the completion of the legislative process, the Government expects the proposed new AQOs to take effect in 2014. Also, the Government will review the AQOs no less than every five years and formulate the air quality improvement package accordingly.

3.22 In January the Government launched a three-month public consultation on the introduction of a charging scheme as an economic means to reduce the generation of municipal solid waste (MSW). Apart from outlining the waste management policy in Hong Kong and international experience in implementing waste charging, the consultation document highlighted a number of key considerations for introducing such a scheme in Hong Kong, such as the unique city fabric of Hong Kong and the way MSW is currently collected in Hong Kong. Based on the views and comments collected in the public consultation, the Government would draw up the recommended way forward as soon as possible.

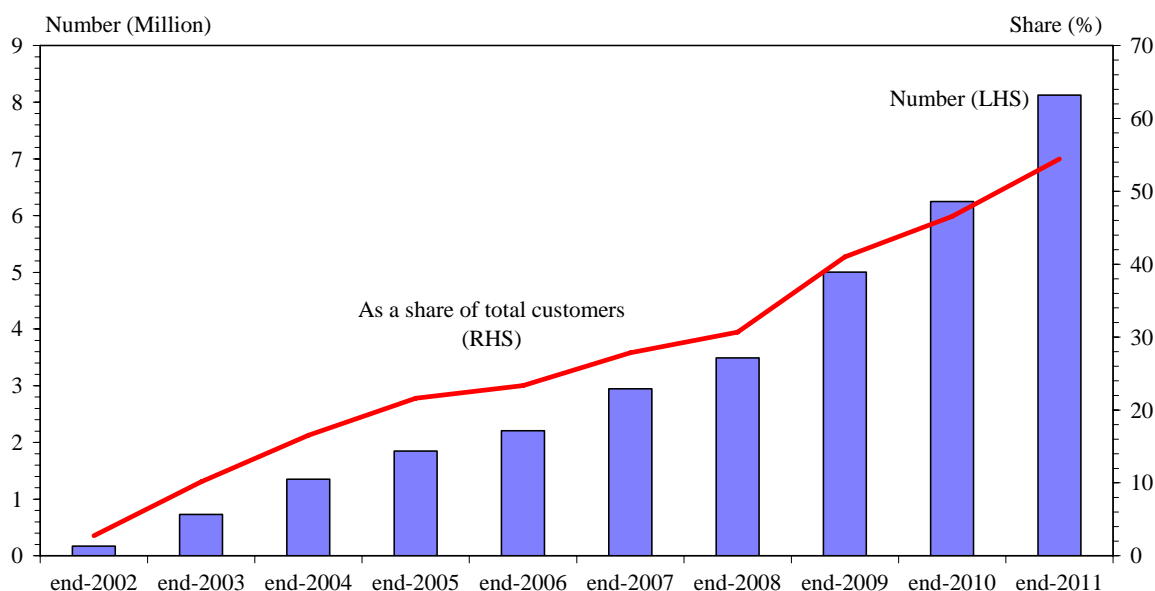
### Box 3.1

#### Mobile data services in Hong Kong

Being one of the most sophisticated and successful telecommunications markets in the world, the public mobile service market in Hong Kong has seen rapid developments through the years. Featured by quality services at affordable prices, a wide variety of services available, keen competition and a level playing field, there is a widespread use of mobile services in Hong Kong. With a total of 14.9 million mobile service subscribers in Hong Kong at end-2011<sup>(1)</sup>, the penetration rate (the ratio of subscriber to population) was equivalent to around 210% and was one of the highest in the world.

In recent years, stimulated by increasingly reliable and faster data transmission services and greater availability of smartphones, the demand for data-related services in the public mobile services market has exhibited spectacular growth. One vivid example is the jump in subscribers for 2.5G/3G mobile services, which provide a wide array of mobile data services such as mobile internet services, social networking services, video calls and entertainment services. The number of 2.5G/3G mobile services subscribers surged by 1.5 million per annum in 2009-2011, sharply above the average increase of 0.6 million per annum during 2003-2008. As a result, the share of these subscribers in total mobile service subscribers rose gradually from 10% at end-2003 to 31% at end-2008, and then rapidly to 54% at end-2011. The mobile data market is further advanced with the launch of the first 4G-LTE mobile network in Hong Kong in November 2010.

**Chart 1: 2.5G/3G mobile services subscribers<sup>^</sup>**



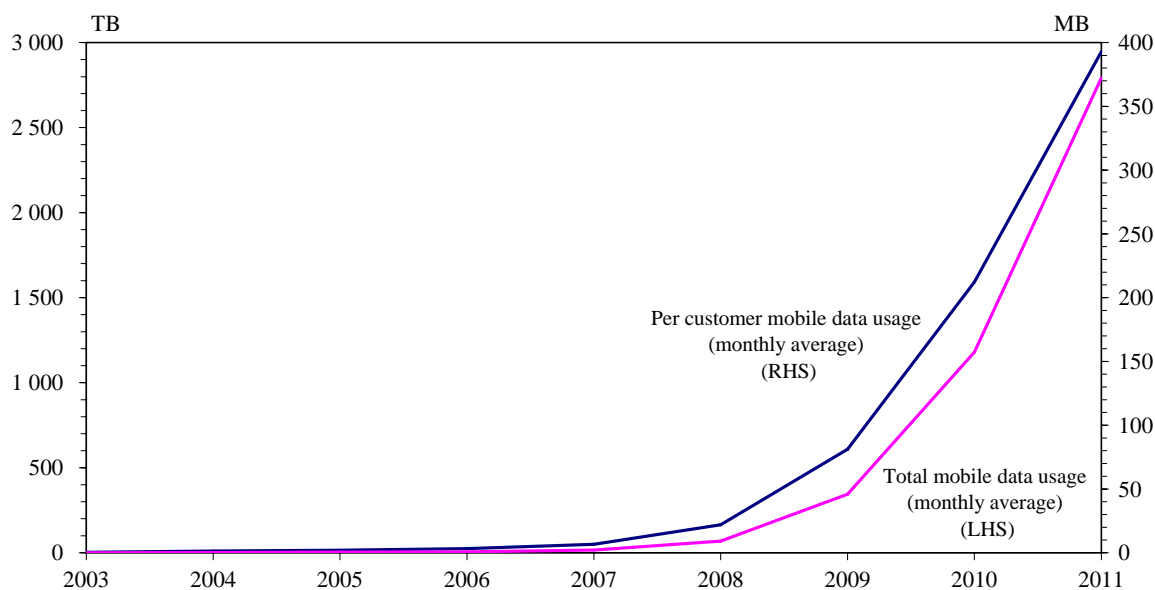
Note : (^) Data not available before 2002.

(1) Mobile service subscribers include mobile users with pre-paid and post-paid SIM card for 2.5G, 3G, mobile virtual network operators and other services.

### Box 3.1 (Cont'd)

The volume of mobile data traffic has also exhibited exponential growth. Total mobile data usage per month soared from a meagre 0.1 terabytes (TB) in 2003 to 69 TB in 2008 and further to 2 792 TB in 2011. On a per 2.5/3G customer basis, the usage per month also surged from a 0.2 megabytes (MB) in 2003 to 22 MB in 2008, and further exploded to 393 MB in 2011. These were equivalent to average annual growth rates of 145% and 162% respectively during 2004-2008 and 2009-2011.

**Chart 2: Mobile data usage<sup>^</sup>**



Note : (^) Data not available before 2003.

Looking ahead, the ever growing interest in various mobile data services and applications, such as video streaming, social networking and location services, is expected to continue to fuel the growth in mobile data traffic. As such, it is vital for the mobile industry to invest in additional network capacity to ensure the provision of high value-added and creative services. Meanwhile, the Government will continue with the policy of ensuring timely release of new radio spectrum to the market as a key enabler to network capacity expansion. Following the release of 90 MHz of unpaired spectrum in the 2.3 GHz band in February 2012, the Office of the Communications Authority is planning for the release of 50 MHz of paired spectrum in the 2.5/2.6 GHz band in the first quarter of 2013. To facilitate efficient use of frequency spectrum at all time, the Commerce and Economic Development and the then Telecommunications Authority jointly launched a consultation in March 2012 on the possible arrangements for the frequency spectrum in the 1.9 – 2.2 GHz band upon expiry of the current assignments for 3G mobile services in 2016.



## Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the first quarter of 2012, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 70%, 19% and 11% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *The low interest rate environment in Hong Kong continued in the first quarter of 2012 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range against the US dollar in the first quarter. Meanwhile, the trade-weighted Hong Kong dollar Effective Exchange Rate Indices edged down alongside the weakening of the US dollar against most major currencies.*
- *Total loans and advances showed further growth in the first quarter. Among the total, loans for use outside Hong Kong continued to expand at a solid pace, but loans for use in Hong Kong only posted a modest growth amid further economic slowdown.*
- *The local stock market rebounded in the first quarter, thanks to the slightly improved external environment. The Hang Seng Index rose by 11.5% over end-2011 to 20 556 at end-March 2012. Yet fund raising activities remained generally subdued.*

---

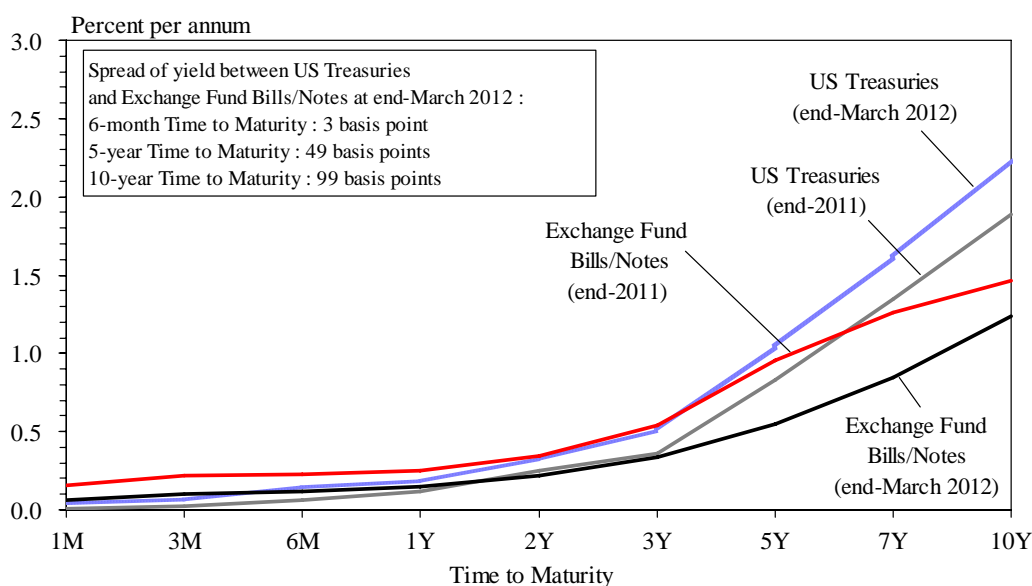
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first quarter of 2012 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate kept unchanged at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5% through the quarter<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* generally hovered at low levels. The overnight HIBOR showed little change during the quarter and stayed at 0.13% at end-March 2012, while its three-month counterpart edged up from 0.33% to 0.55%.

4.2 The *US dollar yield curve* steepened, as the temporary stabilisation of the European debt problems and mild recovery of the US economy led to reduced safe-haven demand for US government bonds. Meanwhile, the *Hong Kong dollar yield curve* flattened. As a result, the yield spread between 6-month Exchange Funds Bills and 6-month US Treasury Bills turned from a positive 17 basis points at end-2011 to a negative 3 basis points at end-March 2012. The negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes also widened from 43 basis points to 99 basis points, the highest level since early 2010.

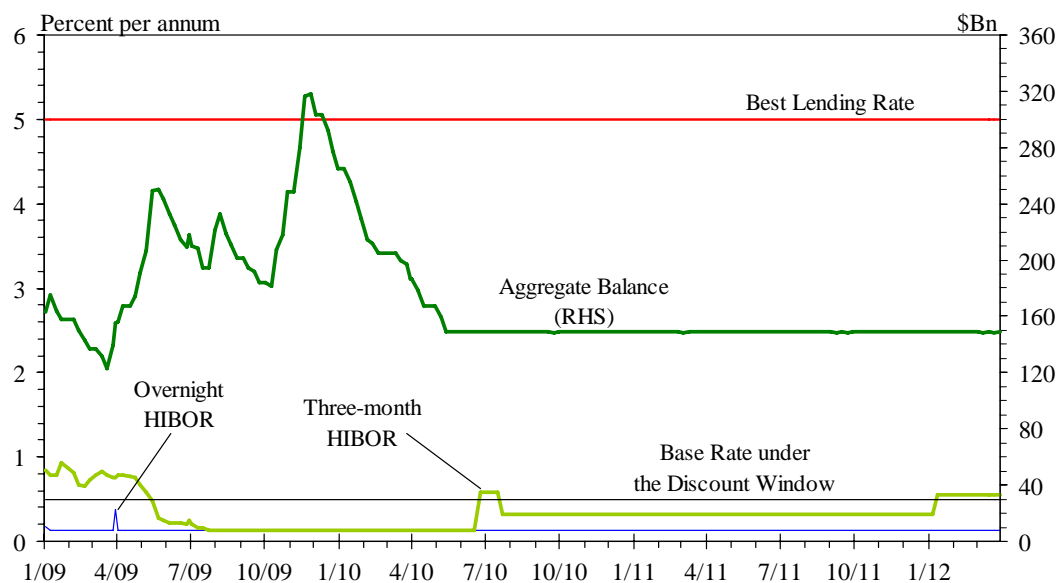
**Diagram 4.1 : The US dollar yield curve steepened while the Hong Kong dollar yield curve flattened**



4.3 Interest rates at the retail level remained steady at relatively low levels. The *Best Lending Rates* (BLR) stayed unchanged at 5.00% or 5.25% in the quarter. While the *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 held steady at

0.01% and 0.16% respectively, reportedly many banks have cut the preferential interest rates offered to new customers with large and longer-term deposits. As a consequence, the *composite interest rate*, which reflects the average cost of funds for banks, declined from 0.53% at end-2011 to 0.42% at end-March 2012<sup>(2)</sup>.

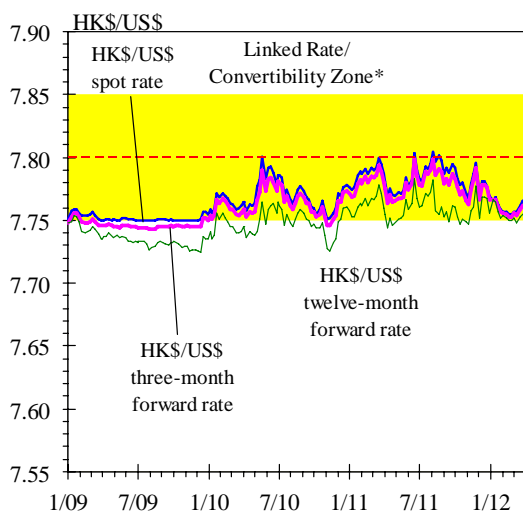
**Diagram 4.2 : Hong Kong dollar interest rates generally stayed low  
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.753 to 7.770 per US dollar in the first quarter. It closed at 7.765 at end-March 2012, little changed from the level of 7.766 at end-2011. Meanwhile, the *3-month Hong Kong dollar forward discount* also stayed unchanged at 31 pips (each pip equivalent to HK\$0.0001) while its 12-month counterpart narrowed from 138 pips at end-2011 to 95 pips at end-March 2012.

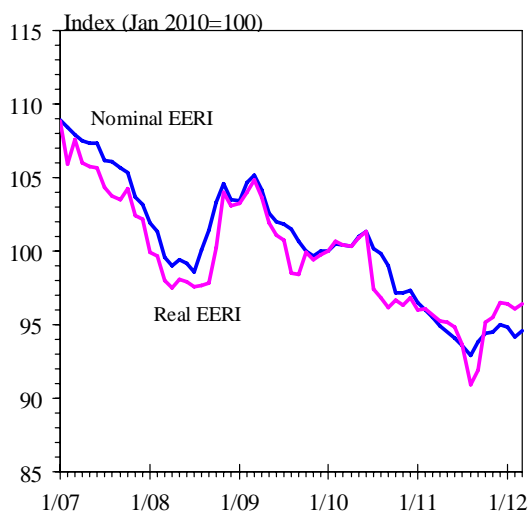
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those in the US dollar. As the US dollar weakened against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* edged down by 0.4% and 0.1% respectively during the first quarter<sup>(3)</sup>.

**Diagram 4.3 : Hong Kong dollar remained stable against the US dollar  
(end for the week)**



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

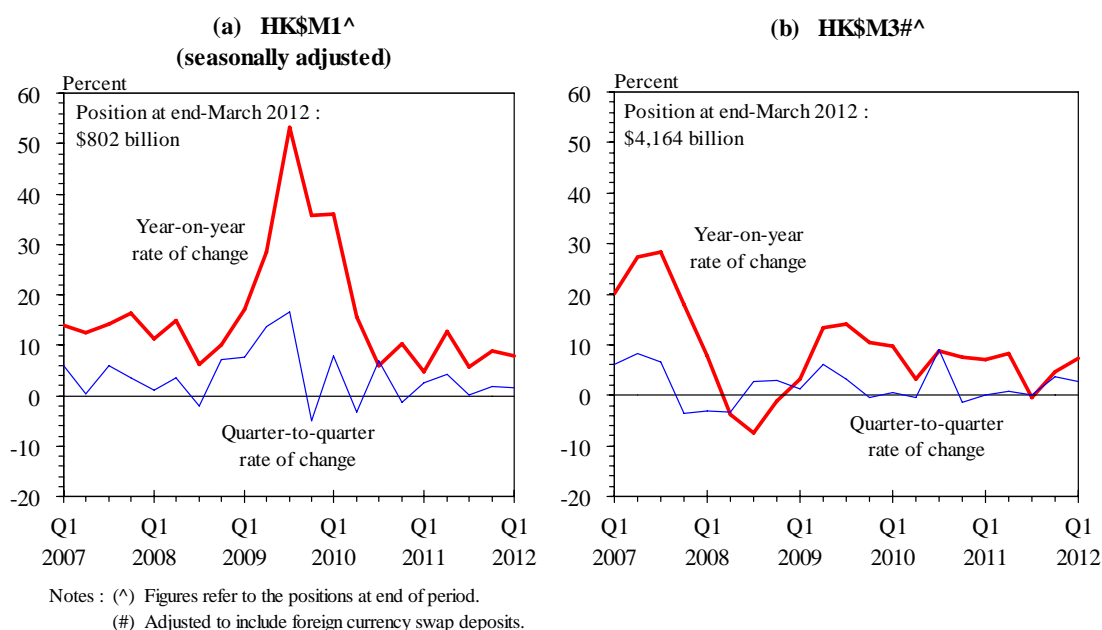
**Diagram 4.4 : Trade-weighted EERIs edged down during the first quarter  
(average for the month)**



## Money supply and banking sector

4.6 The Hong Kong dollar monetary aggregates continued to expand, yet at a decelerated pace. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) increased by 1.5% over end-2011 to \$802 billion at end-March 2012, and the broad money supply (HK\$M3) by 2.7% to \$4,164 billion<sup>(4)</sup>. Meanwhile, *total deposits* with authorized institutions (AIs) grew by 1.0% to \$7,669 billion<sup>(5)</sup>. Within the total, Hong Kong dollar deposits rose by 2.2% while foreign currency deposits edged down by 0.1%.

**Diagram 4.5 : The monetary aggregates expanded at a decelerated pace**



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

| % change during<br>the quarter              |    | <u>M1</u>         |       | <u>M2</u>           |       | <u>M3</u>           |       |
|---|----|-------------------|-------|---------------------|-------|---------------------|-------|
|   |    | HK\$ <sup>^</sup> | Total | HK\$ <sup>(a)</sup> | Total | HK\$ <sup>(a)</sup> | Total |
| 2011  | Q1 | 2.5               | 2.9   | 0.1                 | 3.3   | 0.1                 | 3.4   |
|   | Q2 | 4.2               | 4.4   | 0.8                 | 3.4   | 0.7                 | 3.4   |
|   | Q3 | 0.1               | 2.3   | 0.1                 | 1.9   | 0.1                 | 1.8   |
|   | Q4 | 1.8               | 0.7   | 3.6                 | 3.7   | 3.6                 | 3.8   |
| 2012  | Q1 | 1.5               | 4.6   | 2.8                 | 2.5   | 2.7                 | 2.5   |
| Total amount at<br>end-March 2012<br>(\$Bn) |    | 802               | 1,179 | 4,158               | 8,261 | 4,164               | 8,279 |
| % change over<br>a year earlier             |    | 7.8               | 12.6  | 7.5                 | 12.0  | 7.3                 | 11.9  |

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* expanded by a modest 2.3% over end-2011 to \$5,196 billion at end-March 2012. The increase was entirely due to the 6.3% growth in foreign currency loans to \$2,042 billion, as Hong Kong dollar loans edged down by 0.2% to \$3,154 billion. As a result, the foreign currency loan-to-deposit ratio surged from 49.9% at end-2011 to a record-high of 53.1% at end-March 2012. While the Hong Kong dollar loan-to-deposit ratio

declined from 84.5% to 82.5% over the period, it was still a relatively high level in recent years.

4.8 Analysed by type, loans for use outside Hong Kong grew by a solid 4.5% to \$1,429 billion, while loans for use in Hong Kong posted a modest growth of 1.5% to \$3,767 billion amid further economic slowdown. Within loans for use in Hong Kong, trade financing and loans to wholesale and retail trade rebounded by 7.5% and 2.9% respectively. On the other hand, following the consolidation of the property market in late 2011, loans to building, construction, property development and investment contracted by 1.5%, and loans for purchase of residential property only edged up by 0.1%. Loans to stockbrokers plunged by 14.7% amid the subdued fund raising activities in the equity market.

**Table 4.2 : Loans and advances**

| All loans and advances for use in Hong Kong |    |            |           |           |               |             |           |         |              |       |          |
|---|----|------------|-----------|-----------|---------------|-------------|-----------|---------|--------------|-------|----------|
|   |    | Loans to : |           |           |               |             |           |         |              |       |          |
|   |    | Trade      | Manu-     | Wholesale | Building,     | Purchase    | Financial | Stock-  | All loans    |       | Total    |
|   |    | finance    | facturing | and       | construction, | of          | concerns  | brokers | and advances |       | loans    |
|   |    |            |           | retail    | property      | residential |           |         | for use      |       | and      |
|   |    |            |           | trade     | development   | property    |           |         | outside      |       | advances |
| %   |    |            |           |           | and           | (a)         |           |         | Hong Kong    |       |          |
| change                                      |    |            |           |           | investment    |             |           |         | (b)          |       |          |
| during                                      |    |            |           |           |               |             |           |         | (c)          |       |          |
| the   |    |            |           |           |               |             |           |         |              |       |          |
| quarter                                     |    |            |           |           |               |             |           |         |              |       |          |
| 2011  | Q1 | 13.0       | 7.4       | 17.0      | 4.2           | 2.4         | 13.2      | 25.7    | 7.1          | 8.6   | 7.4      |
|   | Q2 | 11.7       | 5.9       | 16.6      | 2.2           | 3.1         | -1.4      | 9.5     | 4.4          | 11.9  | 6.1      |
|   | Q3 | 3.7        | 4.3       | 3.3       | 3.1           | 1.1         | 10.4      | -20.1   | 2.4          | 10.5  | 4.4      |
|   | Q4 | -3.0       | 0.9       | -3.0      | 0.5           | *           | -5.7      | 1.9     | -0.5         | 5.5   | 1.0      |
| 2012  | Q1 | 7.5        | 1.3       | 2.9       | -1.5          | 0.1         | 3.1       | -14.7   | 1.5          | 4.5   | 2.3      |
| Total amount at end-March 2012 (\$Bn)       |    | 373        | 193       | 323       | 899           | 851         | 281       | 17      | 3,767        | 1,429 | 5,196    |
| % change over a year earlier                |    | 20.6       | 10.8      | 20.2      | 4.3           | 4.4         | 5.8       | -24.0   | 7.9          | 36.3  | 14.4     |

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

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

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

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

(\*) Change of less than 0.05%.

4.9 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 15.8% at end-2011. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA. In addition, Hong Kong has already implemented the enhancements to Basel II introduced by the Basel Committee in July 2009 ("Basel 2.5")<sup>(6)</sup>. The Banking (Capital) (Amendment) Rules 2011 and the Banking (Disclosure) (Amendment) Rules 2011 have already come into effect on 1 January 2012 in line with the Basel Committee's timetable.

4.10 Following the release of the Basel III rules text by the Basel Committee in December 2010, the HKMA issued a circular to all AIs in January 2011 indicating its intention to fully implement Basel III in accordance with the Basel Committee's timetable, including the transitional arrangements<sup>(7)</sup>. In this connection, the HKMA has commenced discussion with individual institutions on their plans to ensure compliance with Basel III, and the Banking (Amendment) Bill was introduced into the Legislative Council in December 2011 and subsequently passed by the Legislative Council in February 2012.

4.11 Meanwhile, the HKMA is taking steps to amend the Banking (Capital) Rules and the Banking (Disclosure) Rules for the first phase of Basel III implementation from 1 January 2013. To help inform its rule-making, the HKMA issued the first batch of detailed implementation proposals covering key areas of Basel III capital and liquidity standards in January 2012 for industry consultation. The consultation closed in March and the HKMA is reviewing the comments received. The HKMA aims to conduct a statutory consultation on the draft amendment rules in the third quarter of 2012 before submission to the Legislative Council in the fourth quarter.

4.12 Based on the results of the Quantitative Impact Study (QIS) on the Basel III consultative proposals conducted by the HKMA in the first quarter of 2010, AIs in Hong Kong are expected to have little difficulty in meeting the higher capital requirements, given that they are well-capitalised with common equity accounting for a major portion of their capital, and that most of the Basel III regulatory adjustments have been deducted from Tier 1 capital under Hong Kong's existing capital rules. To inform its policy decisions on implementation, the HKMA has commenced another round of QIS on selected AIs' positions as at end-2011 to assess the impact of the new Basel III requirements on AIs.



4.13 Asset quality of the local banking sector stayed at a high level. The ratio of classified loans to total loans declined further from 0.60% at end-September 2011 to a record-low of 0.59% at end-2011. While the delinquency ratio for credit card lending edged up from 0.18% to 0.19%, it was still low by historical standards. The delinquency ratio for residential mortgage loans hovered at a low level of 0.01% at end-March 2012.

**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><br>(gross) |
|----------------------------|----|-------------------|------------------------------|------------------------------------|
| 2010                       | Q1 | 97.08             | 1.72                         | 1.20                               |
|                            | Q2 | 97.50             | 1.53                         | 0.96                               |
|                            | Q3 | 97.72             | 1.43                         | 0.84                               |
|                            | Q4 | 97.95             | 1.28                         | 0.77                               |
| 2011                       | Q1 | 98.17             | 1.17                         | 0.66                               |
|                            | Q2 | 98.20             | 1.19                         | 0.61                               |
|                            | Q3 | 98.21             | 1.19                         | 0.60                               |
|                            | Q4 | 98.29             | 1.12                         | 0.59                               |

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

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

4.14 On Renminbi (RMB) business, *RMB deposits* in Hong Kong retreated by 5.8% from end-2011 to RMB554.3 billion at end-March 2012, though still accounting for 17.8% of total foreign currency deposits. *RMB trade settlement handled by banks* in Hong Kong also declined by 2.4% from the preceding quarter to RMB571.2 billion in the first quarter, conceivably due to the sluggish external trade. Meanwhile, more banks have deployed the issuance of certificates of deposit (CDs) as a means of tapping RMB funds. As a result, the outstanding amount of CDs issued soared from RMB73 billion at end-2011 to RMB118 billion at end-March 2012. With a more diversified base of debt issuers and investors coming from Asia, Europe, America and the Middle East, *RMB bond* issuance also rose sharply from RMB9 billion a year earlier to around RMB25 billion in the first quarter.

4.15 In March the Mainland authorities announced to further expand the RMB trade settlement scheme, by allowing all enterprises in the Mainland to settle export transactions in RMB. Effectively this allows all trade and current account transactions to be settled in RMB, and would further promote the development of RMB trade settlement business in Hong Kong.

**Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong**

| <u>As at end of period</u>       |    | Demand and savings deposits (RMB Mn) | Time deposits (RMB Mn) | Total deposits (RMB Mn) | <u>Interest rates on<sup>(a)</sup></u> |  | Number of authorized institutions engaged in RMB business | Amount of cross-border RMB trade settlement <sup>(c)</sup> (RMB Mn) |
|----------------------------------|----|--------------------------------------|------------------------|-------------------------|--|--|---|---|
|                                  |    |                                      |                        |                         | Savings deposits <sup>(b)</sup> (%)    | Three-month time deposits <sup>(b)</sup> (%) |   |   |
| 2011                             | Q1 | 137,454                              | 313,965                | 451,419                 | 0.46                                   | 0.66   | 118   | 311,279   |
|                                  | Q2 | 180,346                              | 373,256                | 553,602                 | 0.28                                   | 0.52   | 128   | 492,727   |
|                                  | Q3 | 191,528                              | 430,708                | 622,236                 | 0.26                                   | 0.52   | 131   | 525,425   |
|                                  | Q4 | 176,398                              | 412,132                | 588,529                 | 0.25                                   | 0.52   | 133   | 585,488   |
| 2012                             | Q1 | 156,788                              | 397,528                | 554,317                 | 0.25                                   | 0.52   | 135   | 571,176   |
| % change in 2012 Q1 over 2011 Q4 |    | -11.1                                | -3.5                   | -5.8                    | N.A.                                   | N.A.   | N.A.  | -2.4  |

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## The debt market

4.16 The Hong Kong dollar debt market continued to expand in the first quarter. Total gross issuance of Hong Kong dollar debt securities rose by 8.2% over a year earlier to \$546.6 billion, due mainly to the strong growth in private sector debt issuance<sup>(8)</sup>. On the back of a rapid growth in debt issued by AIs and local corporations, private sector debt issuance surged by 87.6%. Meanwhile, public sector debt issuance edged up by 0.6%. At end-March 2012, the total outstanding balance of Hong Kong dollar debt securities rose by 1.3% over a year earlier to another record high of \$1,281.9 billion, equivalent to 30.8% of HK\$M3 or 25.3% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(9)</sup>.

4.17 As to the Government Bond (“GB”) Programme, a total worth of \$5 billion institutional GBs were issued in the first quarter, including a \$1.5 billion ten-year institutional GB re-opening in January and a \$3.5 billion new two-year institutional GB in March. Meanwhile, the sixth half-yearly tentative issuance schedule, which includes a total of \$8 billion institutional GB issuances from March to August, was announced in January. The outstanding size of institutional GBs amounted to \$39.5 billion at end-March 2012. Apart

from the institutional bonds, the GB Programme also consists of a retail part. Following the issuance of the \$10 billion 3-year inflation-linked bond (iBond) in July 2011, in February 2012 the Financial Secretary announced additional issuance of up to \$10 billion iBonds under the retail GB Programme to further promote the sustainable development of the bond market in Hong Kong. Preparatory work is in progress and further details of the offering, including the subscription period and offering parameters, will be announced in due course.

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

|  |                                 | Exchange<br>Fund paper | Statutory<br>bodies/govern<br>ment-owned<br>corporations | Govern-<br>ment | Public<br>sector<br>total | AIs <sup>(a)</sup> | Local<br>corporations | Non-MDBs<br>overseas<br>borrowers <sup>(b)</sup> | Private<br>sector<br>total | MDBs <sup>(b)</sup> | Total   |
|--|---------------------------------|------------------------|--|-----------------|---------------------------|--------------------|-----------------------|--|----------------------------|---------------------|---------|
| <b>New issuance</b>                      |                                 |                        |  |                 |                           |                    |                       |  |                            |                     |         |
| 2011                                     | Annual                          | 1,841.3                | 20.2   | 27.5            | 1,889.0                   | 136.8              | 26.7                  | 18.9   | 182.4                      | -                   | 2,071.3 |
|  | Q1                              | 452.9                  | 4.8  | 3.5             | 461.2                     | 32.8               | 6.1                   | 5.0  | 43.8                       | -                   | 505.0   |
|  | Q2                              | 459.4                  | 4.4  | 2.5             | 466.4                     | 39.9               | 9.0                   | 5.5  | 54.3                       | -                   | 520.7   |
|  | Q3                              | 462.0                  | 6.5  | 16.0            | 484.5                     | 35.4               | 3.6                   | 2.8  | 41.8                       | -                   | 526.3   |
|  | Q4                              | 467.0                  | 4.4  | 5.5             | 476.9                     | 28.7               | 8.1                   | 5.6  | 42.4                       | -                   | 519.3   |
| 2012                                     | Q1                              | 455.6                  | 3.4  | 5.0             | 464.0                     | 67.4               | 9.5                   | 5.4  | 82.2                       | 0.4                 | 546.6   |
|  | % change over<br>a year earlier | 0.6                    | -29.0  | 42.9            | 0.6                       | 105.4              | 57.5                  | 6.9  | 87.6                       | -                   | 8.2     |
| <b>Outstanding (as at end of period)</b> |                                 |                        |  |                 |                           |                    |                       |  |                            |                     |         |
| 2011                                     | Q1                              | 653.8                  | 58.6   | 29.0            | 741.4                     | 236.5              | 87.5                  | 185.4  | 509.4                      | 15.1                | 1,265.8 |
|  | Q2                              | 654.4                  | 52.6   | 31.5            | 738.5                     | 245.3              | 93.7                  | 177.4  | 516.5                      | 14.7                | 1,269.7 |
|  | Q3                              | 654.8                  | 53.0   | 44.0            | 751.8                     | 245.5              | 94.8                  | 170.9  | 511.2                      | 14.7                | 1,277.7 |
|  | Q4                              | 655.4                  | 51.0   | 49.5            | 755.9                     | 229.3              | 95.7                  | 165.3  | 490.3                      | 14.7                | 1,260.9 |
| 2012                                     | Q1                              | 655.9                  | 50.6   | 51.0            | 757.5                     | 252.4              | 100.3                 | 159.3  | 512.0                      | 12.4                | 1,281.9 |
|  | % change over<br>a year earlier | 0.3                    | -13.6  | 75.9            | 2.2                       | 6.7                | 14.6                  | -14.1  | 0.5                        | -17.8               | 1.3     |

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

(a) AIs : Authorized institutions.

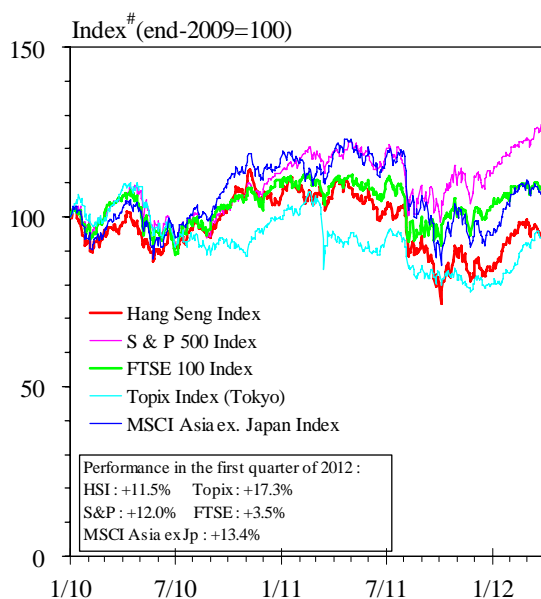
(b) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.18 The *local stock market* rebounded in the first quarter of 2012, as the temporary stabilisation of the European debt situation and better-than-expected recovery in the US helped revive market sentiment. The *Hang Seng Index* (HSI) rose by 11.5% over end-2011 to 20 556 at end-March 2012, a performance comparable to most major overseas markets. Yet the HSI remained 15.7% below the recent peak in April 2011 and 35.0% below the peak in October 2007. In parallel, *market capitalisation* of the Hong Kong stock market rose by 12.8% to \$19.8 trillion. According to the World Federation of Exchanges, the local bourse was the sixth largest in the world and second largest in Asia<sup>(10)</sup>.

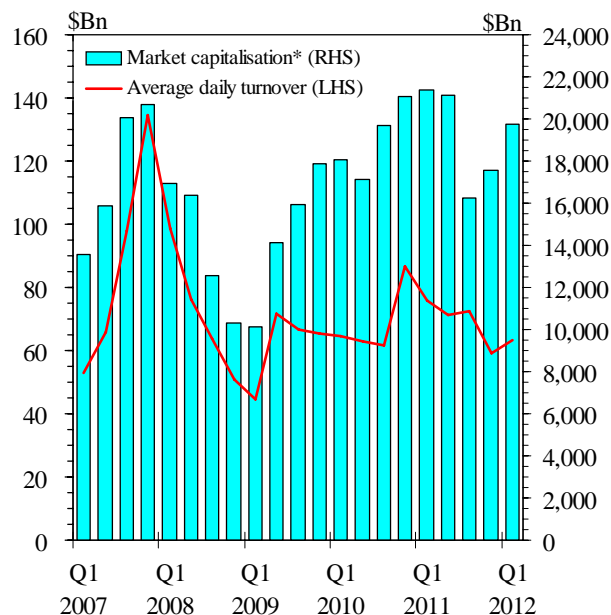
4.19 Trading activities also turned more active. *Average daily turnover* in the securities market rebounded by 6.5% over the preceding quarter to \$63.2 billion in the first quarter, though declining by 16.7% from the high base a year earlier (**Box 4.1**). Meanwhile, trading of *derivatives products* declined, with the average daily trading volume of futures and options retreating by 11.1% from the preceding quarter or 9.6% from a year earlier<sup>(11)</sup>. Analysed by products, trading of stock options and HSI futures fell by 16.0% and 8.6% respectively from the preceding quarter. Trading of HSI options and H-shares Index futures also recorded respective declines of 4.9% and 3.5%. Average daily trading value of securitised derivatives products shrank by 12.6%, with the fall due entirely to the plunge in trading of callable bull/bear contracts.

**Diagram 4.6 : The Hang Seng Index rebounded in the first quarter**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation rose and trading activities turned more active**



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

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

|  |        | Hang Seng<br>Index<br><u>futures</u> | Hang Seng<br>Index<br><u>options</u> | H-shares<br>Index<br><u>futures</u> | Stock<br><u>options</u> | Total<br>futures and<br>options<br><u>traded</u> * | Derivative<br>warrants<br>(\$Mn) | Callable<br>bull/bear<br>contracts<br>(\$Mn) | Total<br>securitised<br>derivatives<br>traded<br>(\$Mn) <sup>^</sup> |
|--|--------|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------|--|----------------------------------|--|--|
| 2011                                   | Annual | 94 036                               | 43 452                               | 61 116                              | 302 750                 | 572 274  | 10,691                           | 7,529  | 18,220   |
|  | Q1     | 90 884                               | 43 476                               | 52 133                              | 299 477                 | 546 164  | 13,378                           | 5,921  | 19,299   |
|  | Q2     | 87 592                               | 43 806                               | 57 151                              | 276 966                 | 531 141  | 10,786                           | 5,523  | 16,308   |
|  | Q3     | 104 945                              | 49 166                               | 69 187                              | 348 598                 | 652 827  | 10,383                           | 8,225  | 18,608   |
|  | Q4     | 92 210                               | 37 284                               | 65 597                              | 283 945                 | 555 467  | 8,225                            | 10,340                                       | 18,565   |
| 2012                                   | Q1     | 84 278                               | 35 475                               | 63 286                              | 238 445                 | 493 555  | 8,621                            | 7,612  | 16,234   |
| % change in<br>2012 Q1 over<br>2011 Q1 |        | -7.3                                 | -18.4                                | 21.4                                | -20.4                   | -9.6   | -35.6                            | 28.6   | -15.9  |
| % change in<br>2012 Q1 over<br>2011 Q4 |        | -8.6                                 | -4.9                                 | -3.5                                | -16.0                   | -11.1  | 4.8                              | -26.4  | -12.6  |

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.

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

## Box 4.1

### Overseas investors in Hong Kong's securities market

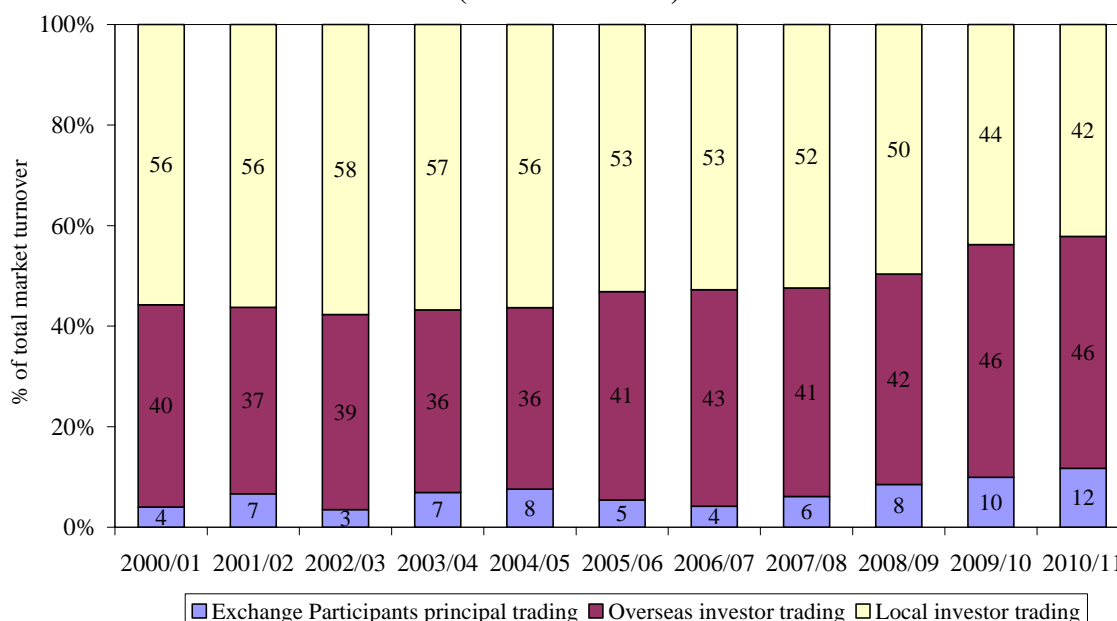
The securities market in Hong Kong is renowned for the active participation of both local and overseas investors. To better understand different types of investors' involvement in the market, the Hong Kong Exchanges and Clearing Limited (HKEx) has been conducting an annual survey on investor profile since 1991. The latest issue, "Cash Market Transaction Survey 2010/11", covered HKEx's securities market turnover<sup>(1)</sup> from October 2010 to September 2011 and was published in March 2012.

#### *Trading value by investor type*

In 2010/11, total turnover in the securities market surged by 20% over a year earlier to \$19.0 trillion. Though remaining 17% below the peak in 2007/08, total turnover has indeed surged at an average annual growth rate of 25% from 2001/02 to 2010/11. Within the total, Exchange Participants (EP) principal trading (i.e. trading of the participant firm's own account), overseas and local investors all recorded very substantial growth, at 39%, 27% and 21% per annum respectively.

Reflecting the rapid growth in the past ten years, the share of EP principal trading in total trading expanded from a mere 4% in 2000/01 to 12% in 2010/11. Overseas investors contributed 46% of total market turnover in 2010/11, compared with 40% ten years ago. Meanwhile, the contribution of local investors dropped sharply from 56% to 42%, the lowest level on record. Indeed, since 2009/10 the contribution of overseas investors has surpassed that of local investors.

**Chart 1 : Distribution of securities market trading value by investor type (2000/01-2010/11)**



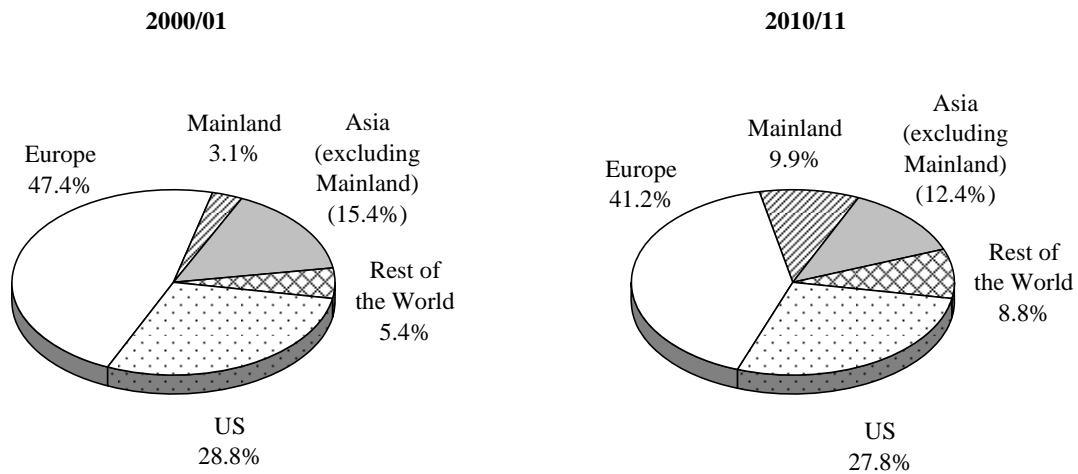
(1) Securities market turnover included trading of shares, bonds, funds, derivative, warrants and other products traded on HKEx.

**Box 4.1 (Cont'd)**

*Overseas investors by origin*

Further analysis showed that investors from the advanced economies had an active participation in the securities market. Turnover by US and European investors together accounted for a high 69% of overseas investor trading in 2010/11, though this represents a dip from the 76% a decade ago. Meanwhile, despite some fluctuations over the years, the contribution of Asian investors notched up from 18% in 2000/01 to 22% in 2010/11. Mainland investors were the major driving force, with their share rising from only 3% to 10%. Meanwhile, the share of Asian investors (excluding Mainland) retreated from 15% to 12%.

**Chart 2 : Distribution of overseas investor in the securities market by origin**



4.20 Notwithstanding the rebound in equity market, fund raising activities remained subdued. *Total equity capital raised*, including new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM), declined by 7.1% from a year earlier or a sharper 51.4% from the preceding quarter to \$62.0 billion<sup>(12)</sup>. Within the total, the amount of funds raised through IPOs tumbled by 44.9% from a year earlier to \$9.8 billion, the lowest level since early 2009 when market sentiment was hard hit by the global financial tsunami.

4.21 Mainland enterprises continued to play a dominant role in the local stock market. At end-March 2012, a total of 689 Mainland enterprises (including 167 H-share companies, 107 “Red Chips” companies and 415 private enterprises) were listed on the Main Board and GEM, accounting for 46% of the total number of listed companies and 58% of total market capitalisation. Mainland-related stocks also accounted for 70% of equity turnover and 44% of total equity fund raised in the Hong Kong stock exchange in the first quarter.

4.22 In March 2012 the legislation for short position reporting regime was gazetted and subsequently passed by the Legislative Council for taking effect in June. The introduction of the new reporting regime would enhance the regulators’ ability to monitor short selling activities in the market and help maintain financial stability in Hong Kong.

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

4.23 The fund management industry also showed some revival alongside the rebound in global equity market. Aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* rose by 9.7% over end-2011 to \$391 billion at end-March 2012<sup>(13)</sup>. Gross retail sales of *mutual funds* in the first two months of 2012 recorded substantial growth of 19.0% over a year earlier to US\$7.5 billion<sup>(14)</sup>. The amount of net assets managed by *retail hedge funds* also recorded some increases<sup>(15)</sup>.

### **Insurance sector**

4.24 The *insurance sector* staged a solid expansion in 2011, though the pace of growth decelerated somewhat in the second half<sup>(16)</sup>. For 2011 as a whole, gross premium income from long-term business surged by 19.5%. Within the total, premium income from non-investment linked plans soared by



27.8% while that from investment-linked plans rose by a mild 3.9%. Meanwhile, gross and net premium income from general business recorded decent growth of 10.7% and 8.5% respectively.

4.25 Following an earlier public consultation exercise, in January 2012 the Government announced the consultation conclusions and final proposals on the establishment of a Policyholders' Protection Fund (PPF). To provide a safety net for policyholders against insurer insolvency, the Government proposed that the PPF would comprise two independently operated schemes, focussing on individual policyholders while also including building owners' corporations as well as small and medium enterprises. All authorised direct life and non-life insurers will be required to participate in the PPF and pay a levy. The Government would continue to engage the stakeholders in the process of preparing the enabling legislation, and aims to introduce the legislation into the Legislative Council in the 2012-13 legislative year for setting up the PPF in 2013-14.

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

|                                | General business |             |                     | Premium for long-term business <sup>^</sup> |                                      |                           |                                      |                        | Gross premium from long-term business and general business |
|--------------------------------|------------------|-------------|---------------------|---|--------------------------------------|---------------------------|--------------------------------------|------------------------|--|
|                                | Gross premium    | Net premium | Underwriting profit | Individual life and annuity (non-linked)    | Individual life and annuity (linked) | Other individual business | Non-retirement scheme group business | All long-term business |  |
| 2010 Annual                    | 31,361           | 21,927      | 2,615               | 38,673                                      | 20,015                               | 92                        | 230                                  | 59,010                 | 90,371   |
| 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   |
| Q3                             | 7,756            | 5,498       | 439                 | 9,689                                       | 4,155                                | 11                        | 65                                   | 13,920                 | 21,676   |
| Q4                             | 6,990            | 4,690       | 903                 | 9,181                                       | 7,343                                | 18                        | 56                                   | 16,598                 | 23,588   |
| 2011 Annual                    | 34,717           | 23,798      | 2,996               | 49,409                                      | 20,794                               | 53                        | 250                                  | 70,506                 | 105,223  |
| Q1                             | 10,263           | 7,003       | 482                 | 11,231                                      | 5,619                                | 14                        | 69                                   | 16,933                 | 27,196   |
| Q2                             | 8,456            | 5,919       | 970                 | 15,320                                      | 6,281                                | 17                        | 53                                   | 21,671                 | 30,127   |
| Q3                             | 8,700            | 6,051       | 642                 | 12,846                                      | 4,998                                | 16                        | 103                                  | 17,963                 | 26,663   |
| Q4                             | 7,298            | 4,825       | 902                 | 10,012                                      | 3,896                                | 6                         | 25                                   | 13,939                 | 21,237   |
| % change in 2011Q4 over 2010Q4 | 4.4              | 2.9         | -0.1                | 9.1   | -46.9                                | -66.7                     | -55.4                                | -16.0                  | -10.0  |
| % change in 2011 over 2010     | 10.7             | 8.5         | 14.6                | 27.8  | 3.9                                  | -42.4                     | 8.7                                  | 19.5                   | 16.4   |

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

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

## Highlights of market developments

4.26 In March 2012 the Government launched a two-month consultation on the proposed legislative amendments which aim to facilitate the development of Islamic bond (sukuk) market in Hong Kong. As the structuring of sukuk often involves transfer of underlying assets and setting up of special purpose vehicle, this may give rise to additional tax and stamp duty implications and uncertainty under the existing laws, thereby putting sukuk at a disadvantage. Through levelling the playing field for common types of sukuk vis-à-vis their conventional bond counterparts, the legislative exercise would help broaden the financial platform in Hong Kong and strengthen its role as an international financial centre. The Government plans to finalise the legislative amendments with a view to introducing the bill into the Legislative Council in the next legislative session.

4.27 In March the Government launched a public consultation on the detailed legislative proposals on trust law reform. Aiming at providing a better framework for the operation of trusts in Hong Kong, the reform includes proposals on clarification of trustees' duties and powers, better protection of beneficiaries' interests and modernisation of trust law. It is a major initiative to strengthen the competitiveness of the trust services industry in Hong Kong and further enhance its position as an international asset management centre. The Government plans to introduce an amendment bill into the Legislative Council in the 2012-13 legislative year to take forward the reform.

### 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 15 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 2009 and 2010.

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-March 2012, there were 153 licensed banks, 20 restricted licence banks and 25 deposit-taking companies in Hong Kong. Altogether, 198 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) Basel 2.5 strengthens the risk coverage of Basel II in the light of lessons drawn from the global financial crisis. The main improvements include raising banks' capital requirements for exposures booked in banks' trading books and for securitization exposures, providing supplemental guidance on risk management principles and strengthening disclosure in corresponding areas.
- (7) Basel III tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6%; requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% at times of excessive credit growth, both to be met by common equity. It introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and enhances the transparency of the capital base. In addition, Basel III introduces two liquidity standards i.e. the Liquidity Coverage Ratio of at least 100% to promote short term liquidity resilience and the Net Stable Funding Ratio of above 100% to encourage more stable funding structures.
- (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 54 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-March 2012, there were 60 classes of stock options contracts and 38 classes of stock futures contracts.
- (12) At end-March 2012, there were 1 337 and 173 companies listed on the Main Board and GEM respectively.
- (13) At end-March 2012, there were 19 approved trustees. On MPF products, 37 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 445 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 254 000 employers, 2.35 million employees and 229 000 self-employed persons have participated in MPF schemes.
- (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-February 2012, the survey covered a total of 1 227 active authorized funds.
- (15) At end-March 2012, there were 6 SFC-authorized retail hedge funds with combined net asset size of US\$752 million. The amount of net assets under management was 6.9% above the end-2011 level and was more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-March 2012, there were 162 authorized insurers in Hong Kong. Within this total, 45 were engaged in long-term insurance business, 97 in general insurance business, and 20 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

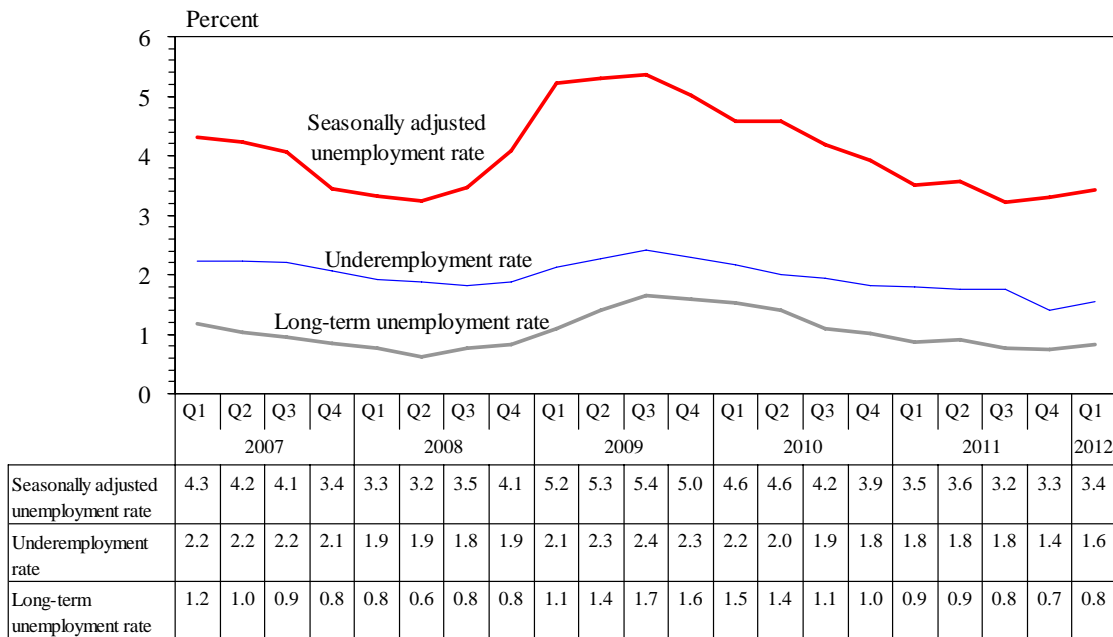
### *Summary*

- *Following the solid economic expansion in 2011 and notwithstanding the economic slowdown in the first quarter of 2012, labour market conditions held firm and remained virtually in a state of full employment, supported by resilient domestic demand as well as vibrant inbound tourism.*
- *On the back of buoyant labour demand, job creation remained brisk during the first quarter, rising by a seasonally adjusted 1.2%, pushing total employment to another record high of 3 649 600.*
- *With increased job opportunities and better income prospects following the implementation of statutory minimum wage (SMW), the seasonally adjusted labour supply surged at an even faster pace of 1.3% during the first quarter, slightly outpacing labour demand growth. As a result, unemployment increased by 8 100 to 124 100, with the seasonally adjusted unemployment rate edging up to 3.4% in the first quarter of 2012.*
- *Reflecting the prevailing tight labour market conditions and the additional boost from SMW implementation, wages and earnings sustained notable growth in the fourth quarter of 2011. More recent income indicators showed a notable year-on-year income growth for full-time employees, of 5.6%, and a more impressive 13.4% increase for the lowest decile, in the first quarter of 2012, equivalent to increases of 0.4% and 8.4% respectively in real terms.*

### **Overall labour market situation<sup>(1)</sup>**

5.1 In the first quarter of 2012, labour market conditions remained firm, despite the challenging external environment and uncertain global economic outlook. While job creation continued apace, labour supply grew even faster. As a result, the number of unemployed persons increased by 8 100 to 124 100, with the seasonally adjusted *unemployment rate*<sup>(2)</sup> edging up to 3.4%, from 3.3% in the fourth quarter of 2011. The *underemployment*<sup>(3)</sup> rate also rose slightly by 0.2 percentage point to 1.6% from the preceding quarter. With the labour market in virtually full employment, labour wages and earnings saw further notable growth in the fourth quarter of 2011, particularly for those in the lower segment, thanks to the additional boost from SMW implementation. Meanwhile, labour shortage was still apparent in some sectors.

**Diagram 5.1 : Unemployment rate edged up to 3.4% in the first quarter of 2012**



## Total employment and labour force

5.2 Thanks to the resilient local economy, labour demand stayed firm in the first quarter of 2012. *Total employment*<sup>(4)</sup> reached another record high of 3 649 600, rising by a distinct 3.3% over a year earlier, up further from the already notable growth pace of 2.9% in the fourth quarter of 2011.

5.3 On a quarter-to-quarter comparison, employment grew strongly further by 30 700 in the first quarter of 2012. Employment growth was observed across many sectors, with more prominent gains in import and export trade, social and personal services, professional and business services, and accommodation and food services, which more than offset employment losses in transportation, storage, postal and courier services, information and communications, financing and insurance, and retail. Analysed by occupational category and educational attainment, employment gains were witnessed for both higher-skilled and lower-skilled workers. Those engaged as service and sales workers, professionals and associate professionals, and those with lower secondary and post-secondary education were the ones benefiting most from growth in total employment during the period.

5.4 Compared with June – August 2008 (i.e. just before the outbreak of the global financial crisis), total employment was higher by 130 100, or 3.7%. Analysed by skill level, employment expansion was observed in both higher-skilled and lower-skilled segments, with the former registering a larger increase than the latter group (at 107 500 or 8.3% as against 22 600 or 1.0%). The increase was largely concentrated in the domestic-oriented sectors, in particular social and personal services, financing, insurance, real estate, professional and business services, retail, accommodation services, and construction, which more than offset the job losses seen in the external-oriented sectors, such as manufacturing, import/export trade and wholesale, and transportation.

5.5 On the labour supply side, growth in the *labour force*<sup>(5)</sup> outstripped the employment gains, surging by 38 800 in the first quarter of 2012 over the preceding quarter, or by 3.2% year-on-year, also faster than the 2.3% year-on-year growth in the fourth quarter of 2011. The quarterly gain in labour force was mainly contributed by older persons aged 50 or above, conceivably due to increased job opportunities and better income prospects following SMW implementation. The labour force participation rate for those aged 50 – 59 reached its record high at 69.9%, while that for those aged 60 or above reached its highest level since 1993 at 16.6%, up further by 1.3 and 1.1 percentage points respectively over the preceding quarter.

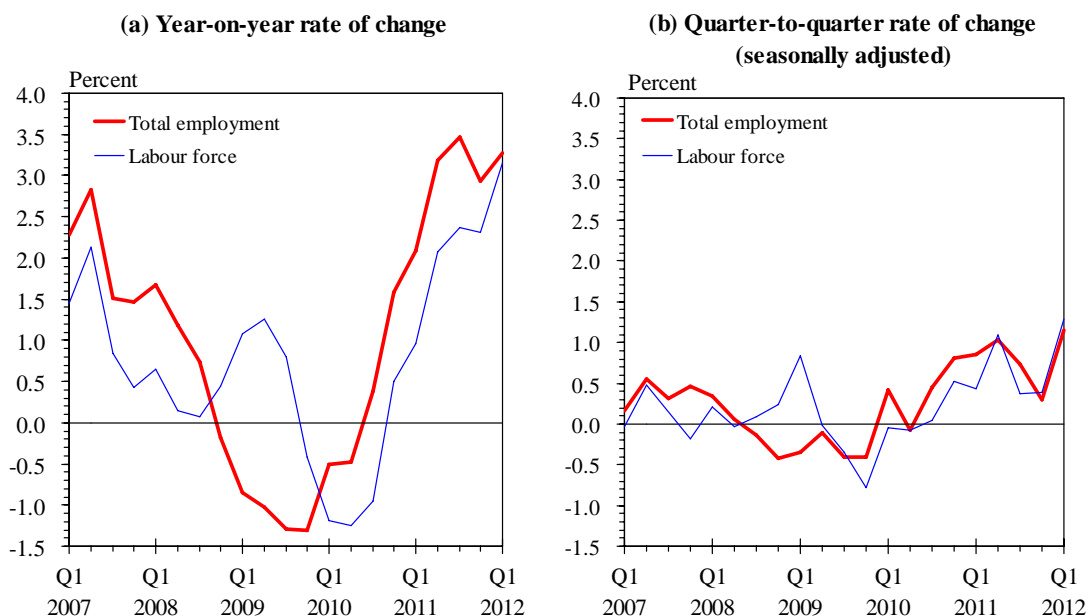
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

|                            |        | <u>Labour force</u> |       | <u>Persons employed</u> |       | <u>Persons unemployed<sup>(a)</sup></u> |  | <u>Persons underemployed</u> |
|----------------------------|--------|---------------------|-------|-------------------------|-------|---|--|------------------------------|
| 2011                       | Annual | 3 703 100           | (2.0) | 3 576 400               | (2.9) | 126 700                                 |  | 63 300                       |
|                            | Q1     | 3 658 200           | (1.0) | 3 534 200               | (2.1) | 124 000                                 |  | 65 600                       |
|                            | Q2     | 3 701 700           | (2.1) | 3 564 000               | (3.2) | 137 600                                 |  | 65 000                       |
|                            | Q3     | 3 725 700           | (2.4) | 3 599 800               | (3.5) | 125 900                                 |  | 65 300                       |
|                            | Q4     | 3 734 900           | (2.3) | 3 618 900               | (2.9) | 116 000                                 |  | 52 400                       |
| <i>Three months ending</i> |        |                     |       |                         |       |   |  |                              |
| 2012                       | Jan    | 3 746 500           | (2.3) | 3 634 800               | (2.9) | 111 800                                 |  | 55 700                       |
|                            | Feb    | 3 767 700           | (3.1) | 3 648 600               | (3.3) | 119 100                                 |  | 56 500                       |
|                            | Mar    | 3 773 700           | (3.2) | 3 649 600               | (3.3) | 124 100                                 |  | 58 600                       |
|                            |        |                     | <1.3> |                         | <1.2> |   |  |                              |

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 the first quarter of 2012.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Employment growth was outstripped by labour supply growth on a quarter-to-quarter comparison**





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

|      |    | <u>Male</u> | <u>Female</u> | <u>Both genders combined</u> |
|------|----|-------------|---------------|------------------------------|
| 2011 | Q1 | 67.9        | 52.5          | 59.6                         |
|      | Q2 | 68.5        | 53.0          | 60.1                         |
|      | Q3 | 68.6        | 53.2          | 60.3                         |
|      | Q4 | 68.3        | 53.5          | 60.3                         |
| 2012 | Q1 | 68.9        | 53.6          | 60.7                         |

Source : General Household Survey, Census and Statistics Department.

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

|                              | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012 Q1</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| <u>Male</u>                  |             |             |             |             |             |                |
| 15-19                        | 14.7        | 13.0        | 12.5        | 10.2        | 9.9         | 10.1           |
| 20-24                        | 67.6        | 65.5        | 64.1        | 60.6        | 61.1        | 61.3           |
| 25-29                        | 94.8        | 94.2        | 94.7        | 94.0        | 93.9        | 94.4           |
| 30-39                        | 97.1        | 96.6        | 96.4        | 96.5        | 96.5        | 97.0           |
| 40-49                        | 95.5        | 95.2        | 95.1        | 95.0        | 95.1        | 95.4           |
| 50-59                        | 83.1        | 83.9        | 84.3        | 84.4        | 84.9        | 85.8           |
| ≥ 60                         | 19.5        | 19.9        | 21.3        | 22.0        | 23.4        | 25.1           |
| Overall                      | 70.4        | 69.7        | 69.4        | 68.5        | 68.4        | 68.9           |
| <u>Female</u>                |             |             |             |             |             |                |
| 15-19                        | 13.5        | 12.4        | 11.3        | 9.2         | 9.1         | 7.6            |
| 20-24                        | 71.6        | 69.3        | 66.0        | 61.4        | 62.1        | 61.1           |
| 25-29                        | 87.3        | 87.4        | 87.0        | 86.6        | 87.5        | 88.0           |
| 30-39                        | 76.4        | 77.0        | 77.3        | 75.6        | 76.8        | 77.9           |
| 40-49                        | 66.6        | 66.6        | 68.8        | 68.2        | 69.9        | 70.3           |
| 50-59                        | 46.6        | 48.6        | 48.9        | 49.0        | 51.6        | 54.6           |
| ≥ 60                         | 5.1         | 5.6         | 6.6         | 6.8         | 8.1         | 8.7            |
| Overall                      | 53.1        | 53.1        | 53.2        | 51.9        | 53.0        | 53.6           |
| <u>Both genders combined</u> |             |             |             |             |             |                |
| 15-19                        | 14.1        | 12.7        | 11.9        | 9.7         | 9.5         | 8.9            |
| 20-24                        | 69.7        | 67.5        | 65.1        | 61.0        | 61.6        | 61.2           |
| 25-29                        | 90.6        | 90.4        | 90.3        | 89.8        | 90.2        | 90.7           |
| 30-39                        | 85.2        | 85.2        | 85.3        | 84.3        | 84.9        | 85.7           |
| 40-49                        | 80.1        | 79.8        | 80.8        | 80.2        | 81.0        | 81.2           |
| 50-59                        | 64.8        | 66.1        | 66.5        | 66.5        | 68.0        | 69.9           |
| ≥ 60                         | 12.1        | 12.5        | 13.7        | 14.1        | 15.5        | 16.6           |
| Overall                      | 61.2        | 60.9        | 60.8        | 59.6        | 60.1        | 60.7           |

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

5.6 With labour supply growth outpacing that of labour demand, the number of unemployed persons increased by 8 100 to 124 100 during the first quarter of 2012. The seasonally adjusted unemployment rate in tandem edged up by 0.1 percentage point to 3.4%, still a very low level by historical standard.

5.7 Analysed by economic sector, more notable increases in unemployment rate (not seasonally adjusted) in the first quarter of 2012 were found in the construction, information and communications, manufacturing, and retail sectors. On the other hand, import and export trade registered some improvement in unemployment rate during the quarter. The unemployment rate of the *low-paying sectors*<sup>(6)</sup> as a whole edged up by 0.1 percentage point to 3.2%, reverting to the same level before the implementation of SMW in May 2011.

5.8 In terms of skill level, the unemployment rate for higher-skilled workers edged up by 0.1 percentage point to 1.7% during the first quarter, while that for lower-skilled workers went up by 0.2 percentage point to 3.7%, due largely to employment generation failing to catch up with labour supply growth. A further breakdown by occupational category revealed that within the lower-skilled segment, craft and related workers, and plant and machine operators and assemblers witnessed more visible increases in the unemployment rate, while that of clerical support workers saw some improvement. As for the higher-skilled segment, the unemployment rate of professionals rose, whereas that of managers and administrators fell during the quarter.

5.9 In terms of other socio-economic attributes, while the unemployment rate rose across people with different educational attainments, the situation was mixed across age groups. More pronounced increases in unemployment rate were observed among younger workers aged 15 – 19 and older workers aged 60 or above (up 1.4 and 0.8 percentage points respectively over the preceding quarter to 12.6% and 2.7%), and those with upper secondary education (up 0.3 percentage point to 3.4%). On the other hand, workers aged 50 – 59 saw a decline in the unemployment rate during the quarter (down 0.2 percentage point to 3.2%).

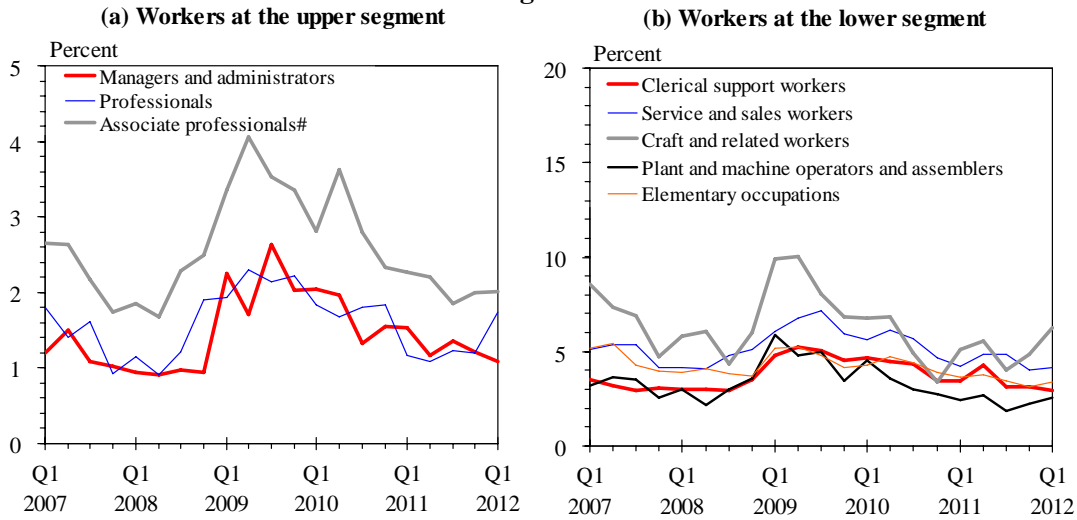
**Table 5.4 : Unemployment rate by major economic sector**

|  | <u>2011</u>  |              |              |              | <u>2012</u>  |
|--|--------------|--------------|--------------|--------------|--------------|
|  | <u>Q1</u>    | <u>Q2</u>    | <u>Q3</u>    | <u>Q4</u>    | <u>Q1</u>    |
| Import/export trade and wholesale                    | 3.2          | 3.4          | 2.8          | 2.7          | 2.5          |
| Retail   | 4.3          | 4.5          | 4.6          | 3.8          | 4.3          |
| Accommodation and food services                      | 4.6          | 6.1          | 5.1          | 4.3          | 4.5          |
| Transportation, storage, postal and courier services | 3.1          | 3.6          | 2.9          | 3.0          | 3.3          |
| Information and communications                       | 2.7          | 2.8          | 2.5          | 2.3          | 2.9          |
| Financing and insurance                              | 2.1          | 2.1          | 1.8          | 2.2          | 2.4          |
| Real estate  | 2.9          | 3.1          | 2.8          | 2.4          | 2.5          |
| Professional and business services                   | 3.2          | 3.5          | 2.9          | 2.4          | 2.7          |
| Public administration, social and personal services  | 1.3          | 1.6          | 1.3          | 1.4          | 1.4          |
| Manufacturing  | 3.7          | 3.4          | 4.9          | 3.8          | 4.3          |
| Construction   | 6.5          | 5.7          | 4.4          | 5.4          | 6.1          |
| Overall  | 3.4<br>(3.5) | 3.7<br>(3.6) | 3.4<br>(3.2) | 3.1<br>(3.3) | 3.3<br>(3.4) |

Note : ( ) Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : Unemployment rate\* showed a mixed picture across occupational categories^**

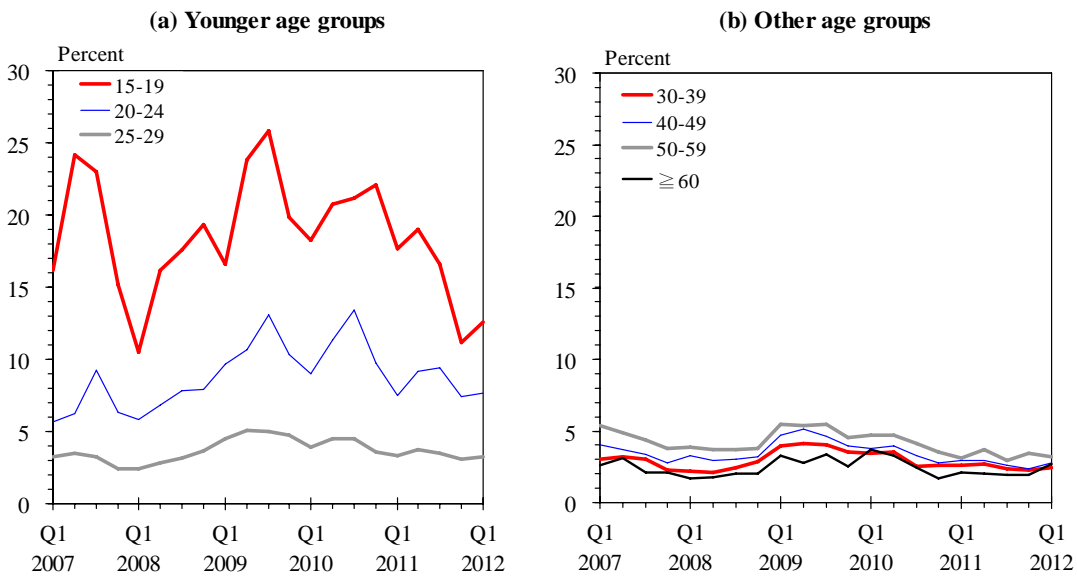


Notes : (^) Statistics since Q1 2011 are compiled based on International Standard Classification of Occupations (ISCO), 2008 while statistics prior to Q1 2011 are compiled based on ISCO, 1988.

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

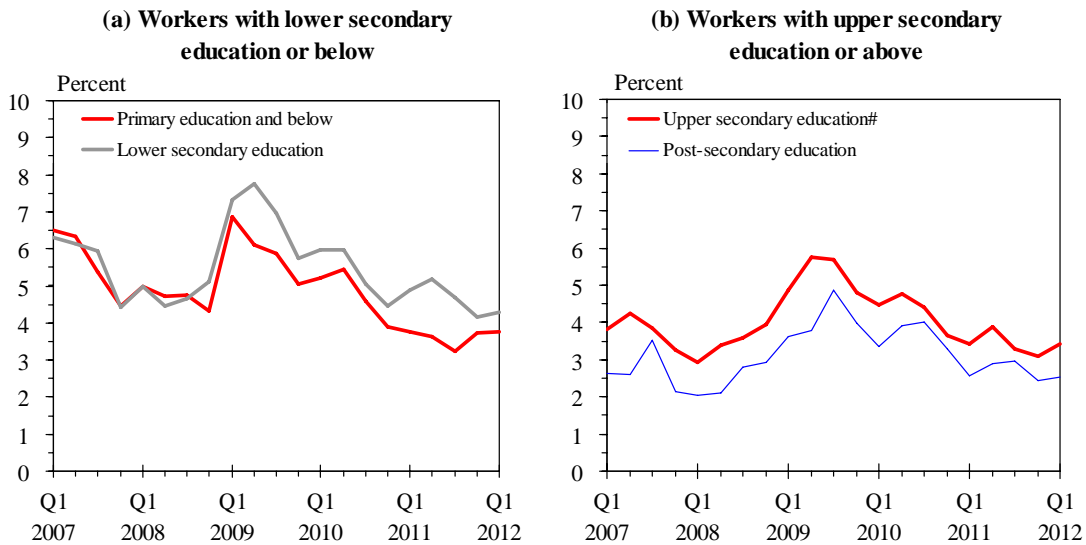
(#) Including technicians and supervisors.

**Diagram 5.4 : More visible rises in unemployment rate\* were found among younger workers aged 15 - 19 and older workers aged 60 or above**



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

**Diagram 5.5 : Rises in unemployment rate\* were observed across the board among workers with different educational attainment**



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

5.10 As regards long-term unemployment (i.e. unemployed for six months or longer), the number of long-term unemployed persons increased by 3 500 to 31 200 during the first quarter of 2012. Consequently, the long-term unemployment rate edged up by 0.1 percentage point to 0.8%, having been on a downtrend since the latter part of 2009. Moreover, among the total number of unemployed persons, the proportion of dismissal or lay-offs was 54.4%, higher than that of 50.7% in the previous quarter. All these indicators hinted at some slackening in the employment situation in terms of both scale and intensity.

### Profile of underemployment

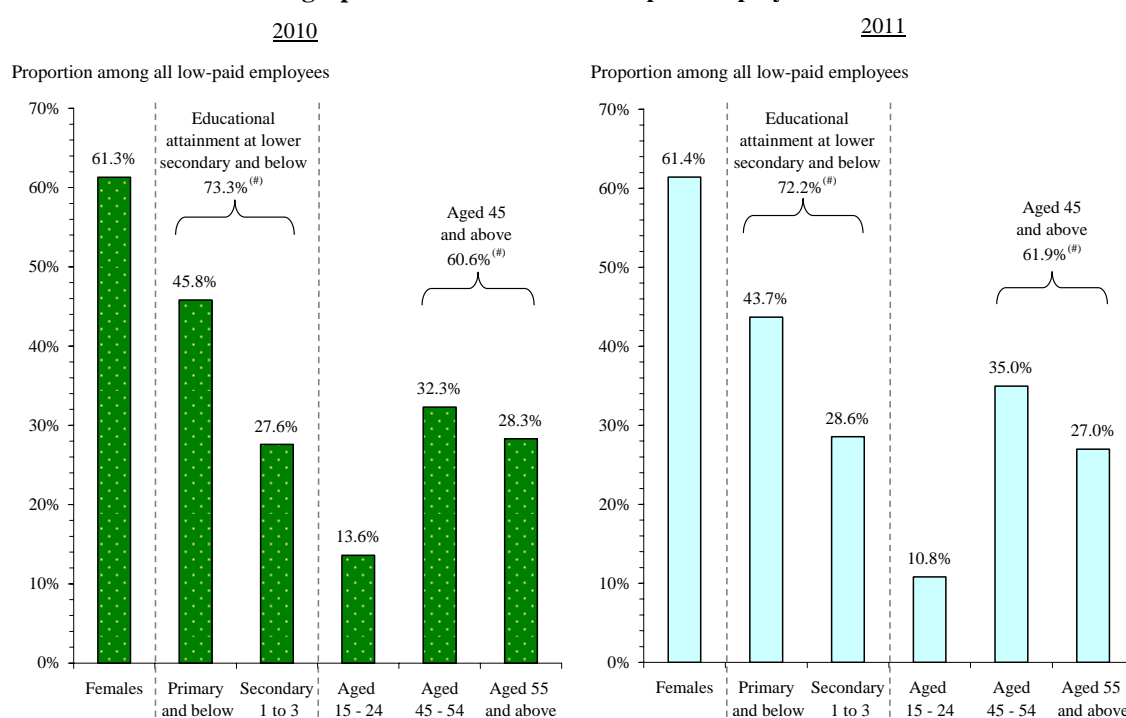
5.11 In the first quarter of 2012, the underemployment rate likewise turned up after reaching a 13-year low in late 2011. The number of underemployed persons rose by 6 100 during the quarter, with the underemployment rate rising by 0.2 percentage point to 1.6%. The increase in underemployment was more visible among workers engaged in construction, conceivably due to slackening construction activities around the Lunar New Year holidays.

## Box 5.1

### Characteristics of Low-paid Employees in Hong Kong

The 2011 Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD) provides comprehensive data on employees<sup>(1)</sup> in Hong Kong regarding the level and distribution of their wages, employment details and demographic profile after the implementation of the initial statutory minimum wage (SMW) rate, which came into effect on 1 May 2011. Based on the survey results, we can identify the socio-economic characteristics of low-paid employees and examine whether their employment characteristics have undergone notable changes since SMW implementation. For the purpose of discussion, employees with hourly wages within the lowest 10% of the overall hourly wage distribution are described as low-paid. Under this definition, there were 279 400 low-paid employees (i.e. with hourly wage less than \$29.3) in 2011, of whom 180 600 (64.6%) were minimum wage earners (i.e. with hourly wage at \$28).

**Chart 1 : Demographic characteristics of low-paid employees<sup>(\*)</sup> in 2010 and 2011<sup>(^)</sup>**



- Notes: (\*) Low-paid employees in 2010 and 2011 were defined as employees with hourly wages within the lowest 10% of the overall hourly wage distribution in the respective year.  
 (^) The reference period of 2011 AEHS was May – June 2011, while that of the 2010 survey round was the second quarter (i.e. April – June 2010).  
 (#) Individual figures may not add up exactly to the total due to rounding.

Sources: 2010 and 2011 AEHS, C&SD.

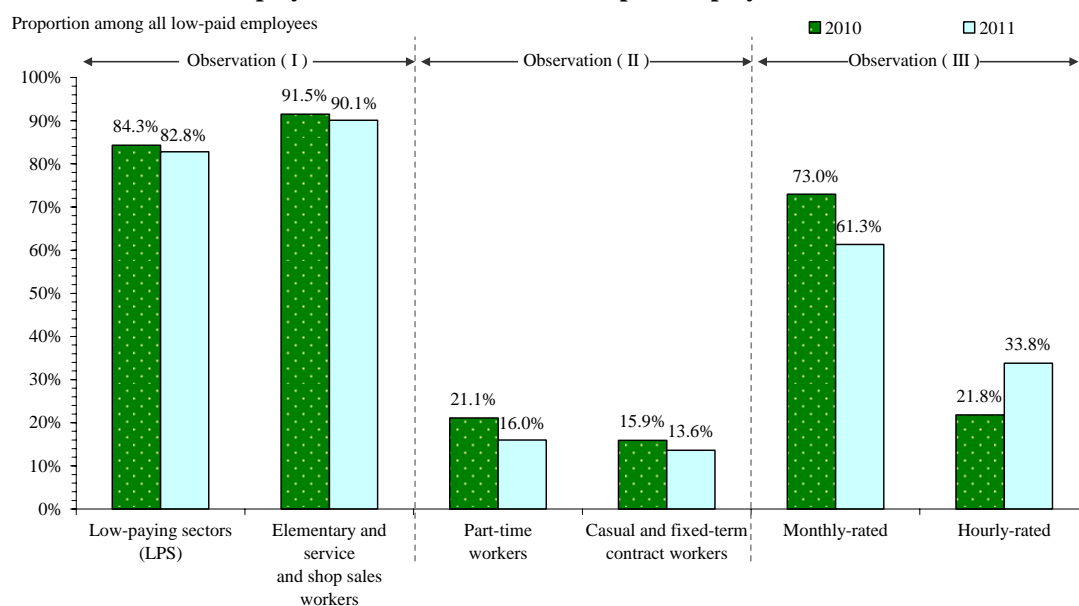
**Chart 1** shows the demographic characteristics of low-paid employees. In 2011, most of them were females (61.4%); workers with lower educational attainment (72.2%); and middle-aged/elderly workers (aged 45 and above) (61.9%). While the situation was largely similar to that in 2010, the proportion of low-paid younger workers (aged 15-24) actually fell in 2011. Specifically, only 10.8% of all low-paid were younger employees in 2011, visibly down from 13.6% in 2010.

(1) The 2011 AEHS covers all employees but excludes employees in the Government as well as student interns, work experience students and live-in domestic workers as exempted by the Minimum Wage Ordinance. According to the results of AEHS, there were 2 807 000 employees in 2011, up by 14 000 from 2 793 000 employees in 2010.

## Box 5.1 (Cont'd)

**Chart 2** compares the employment characteristics of low-paid employees over the past two years. Three distinctive observations are outlined below:

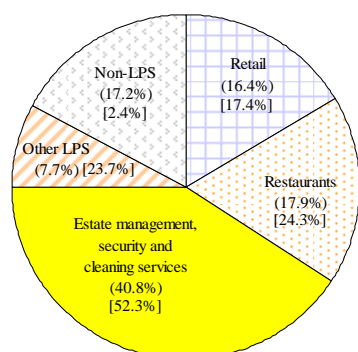
**Chart 2 : Employment characteristics of low-paid employees in 2010 and 2011**



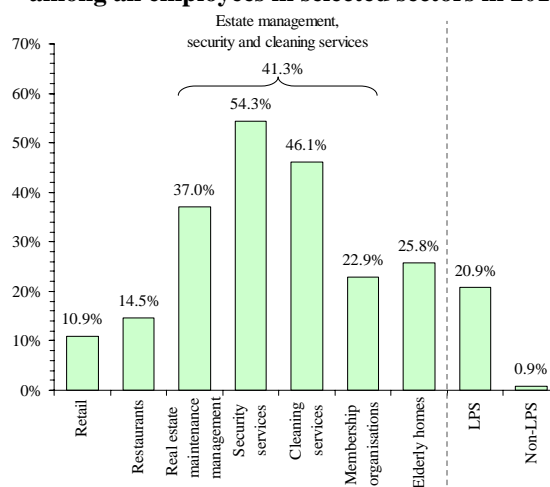
Sources: 2010 and 2011 AEHS, C&SD.

- (I) Over 80% of low-paid employees worked in the low-paying sectors<sup>(2)</sup> (LPS). Of all elementary, and service and shop sales workers in Hong Kong, 67.2% were employed in LPS. Conceivably, most of the low-paid were also engaged in these occupations (90.1% in 2011). Among LPS, low-paid employees were mainly concentrated in estate management, security and cleaning services (**Chart 3a**). In fact, over half (52.3%) of the employees in this sector were low-paid, and 41.3% were minimum wage earners, as compared to only 10.9% in retail and 14.5% in restaurants. Although low-paid employees in elderly homes only accounted for 2.4% of the low-paid group, the incidence of minimum wage earners in the sector was particularly high at 25.8% (**Chart 3b**).

**Chart 3a : Composition of low-paid employees by sector in 2011**



**Chart 3b : Proportion of minimum wage earners among all employees in selected sectors in 2011**



Notes: ( ) Proportion of low-paid employees by sector.

[ ] Proportion of low-paid employees among all employees in selected sectors.

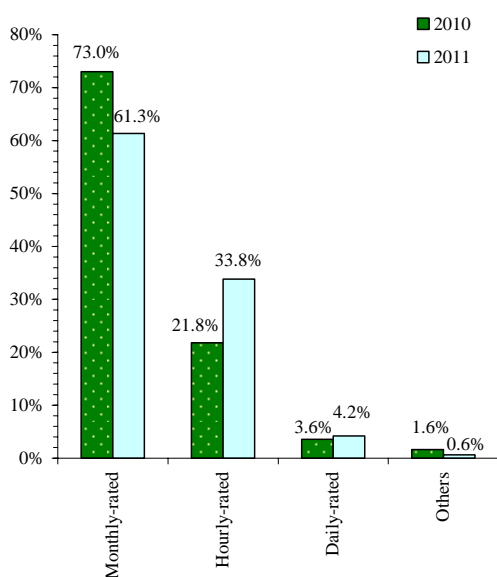
Source: 2011 AEHS, C&SD.

- (2) For the coverage of the low-paying sectors, please refer to Note (6) in Chapter 5 of this economic report.

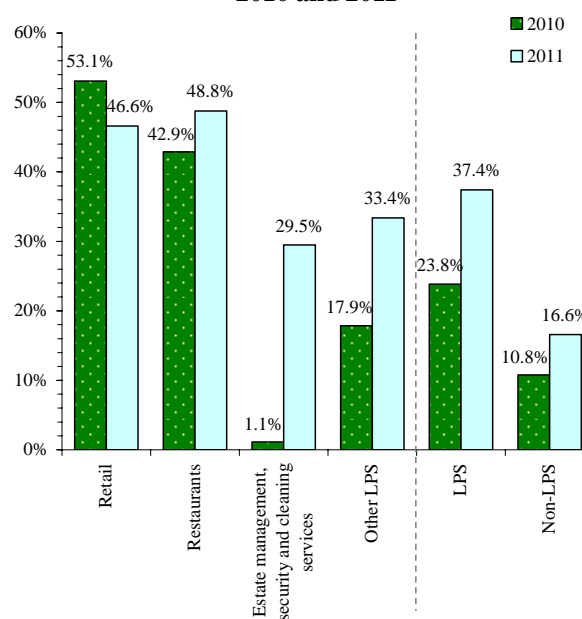
## Box 5.1 (Cont'd)

- (II) While most of the low-paid employees worked full-time or on a permanent basis, the incidence of part-time, casual or fixed-term contract<sup>(3)</sup> workers being low-paid was typically more pronounced. However, with the thriving economy and buoyant labour market, workers who were employed to meet seasonal or temporary demand became less likely to be low-paid in 2011. More specifically, 30.6% of part-time employees were low-paid in 2010, whereas the corresponding figure was only 22.7% in 2011. Similarly, there were 15.5% of casual and fixed-term contract workers who were low-paid in 2010, while only 13.2% of their counterparts were found to be low-paid in 2011.
- (III) Like the majority of employees in Hong Kong, most of the low-paid workers were monthly-rated before the implementation of SMW. Yet the proportion of low-paid employees being hourly-rated after SMW implementation was noticeably higher, amounting to 33.8% in 2011 as compared to 21.8% in 2010. The proportion of daily-rated low-paid employees likewise went up slightly from 3.6% to 4.2% (*Chart 4a*). Among all low-paid employees in LPS, for example, 37.4% were hourly-rated in 2011, up quite visibly from 23.8% in 2010. The most dramatic change was seen in estate management, security and cleaning services, with merely 1.1% of low-paid employees in the sector being hourly-rated in 2010 but surging to 29.5% in 2011 (*Chart 4b*).

**Chart 4a : Composition of low-paid employees by basis of wage rate in 2010 and 2011**



**Chart 4b : Proportion of hourly-rated employees among all low-paid employees in selected sectors in 2010 and 2011**



Sources: 2010 and 2011 AEHS, C&SD.

So far, the statistics indicated that the demographic composition of low-paid employees remained by and large stable after SMW implementation. Thanks to the robust economic growth over the past two years, the incidence of low-paid jobs among part-timers and temporary employees improved. The basis of wage rate demonstrated some visible changes, partly reflecting employers' responses to the new statutory requirement. Nevertheless, the effects on whether and how these adjustments will gradually accumulate and in turn affect local employment practices will have to be evaluated over a longer period of time.

(3) Casual workers refer to individuals employed on a day-to-day basis or for a fixed period of less than 60 days. Fixed term contract workers refer to individuals with a contract of employment for a fixed period of 60 days or more, and is due to end when a specified date is reached.



## **Profile of employment in establishments**

5.12 Statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to December 2011. Attempts have been made where possible to bring the analysis more up-to-date by drawing reference to information from supplementary sources.

5.13 The statistics enumerated in December 2011 showed that total employment in private sector establishments continued to grow apace on a broad front to reach a record high of 2 630 200, representing a year-on-year increase of 2.8%, though decelerating somewhat from the 3.6% increase in September. Thanks to intensive public infrastructure works, distinctly prominent employment gain was observed on construction sites (up 25.2% year-on-year). Other sectors such as financing, insurance, real estate, professional and business services (up 5.6%), information and communications (up 4.9%), accommodation and food services (up 4.3%) also saw notable increases, while retail (up 2.7%), and transportation, storage, postal and courier services (up 2.4%) saw more moderate growth. On the other hand, manufacturing continued its structural downtrend (down 6.1% year-on-year), and import/export trade and wholesale posted mild employment loss (down 0.9%). Analysed by establishment size, larger enterprises, which contributed around 60% of the total job creation in December 2011, increased their headcounts by 3.1% over a year earlier, while employment in small and medium-sized enterprises (SMEs)<sup>(7)</sup> also grew by 2.4%, further to the 4.6% and 2.4% year-on-year increases respectively in September. For 2011 as a whole, total employment in private sector establishments grew markedly by 3.1%, faster than the 2.6% growth in 2010. As for the civil service, employment grew at a modest pace of 1.2% year-on-year in December 2011, and by 0.7% for 2011 as a whole.

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

|  | <u>2010</u>                |                            |                            |                            |                            | <u>2011</u>                |                            |                            |                            |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|  | <u>Annual average</u>      | <u>Mar</u>                 | <u>Jun</u>                 | <u>Sep</u>                 | <u>Dec</u>                 | <u>Annual average</u>      | <u>Mar</u>                 | <u>Jun</u>                 | <u>Sep</u>                 | <u>Dec</u>                 |
| Import/export trade and wholesale                                      | 563 800<br>(0.9)           | 564 300<br>(0.8)           | 562 200<br>(1.4)           | 563 700<br>(1.0)           | 564 900<br>(0.4)           | 562 400<br>(-0.2)          | 565 000<br>(0.1)           | 560 800<br>(-0.2)          | 564 300<br>(0.1)           | 559 600<br>(-0.9)          |
| Retail   | 243 100<br>(3.3)           | 240 600<br>(3.7)           | 240 800<br>(3.5)           | 242 700<br>(2.5)           | 248 300<br>(3.6)           | 252 800<br>(4.0)           | 251 300<br>(4.5)           | 252 000<br>(4.7)           | 252 900<br>(4.2)           | 255 000<br>(2.7)           |
| Accommodation <sup>(a)</sup> and food services                         | 249 300<br>(3.4)           | 247 400<br>(3.8)           | 247 500<br>(3.6)           | 247 000<br>(2.8)           | 255 300<br>(3.3)           | 265 400<br>(6.5)           | 263 000<br>(6.3)           | 266 100<br>(7.5)           | 266 300<br>(7.8)           | 266 300<br>(4.3)           |
| Transportation, storage, postal and courier services                   | 160 300<br>(1.5)           | 159 400<br>(0.9)           | 160 400<br>(2.3)           | 160 000<br>(1.4)           | 161 500<br>(1.4)           | 163 600<br>(2.0)           | 162 100<br>(1.6)           | 163 100<br>(1.7)           | 163 800<br>(2.4)           | 165 500<br>(2.4)           |
| Information and communications   | 88 300<br>(1.3)            | 87 400<br>(1.5)            | 88 400<br>(1.7)            | 88 400<br>(0.6)            | 88 900<br>(1.2)            | 91 300<br>(3.4)            | 89 300<br>(2.1)            | 91 100<br>(3.0)            | 91 700<br>(3.6)            | 93 300<br>(4.9)            |
| Financing, insurance, real estate, professional and business services  | 609 100<br>(4.6)           | 596 300<br>(4.1)           | 604 600<br>(4.7)           | 612 300<br>(4.9)           | 623 300<br>(4.5)           | 646 500<br>(6.1)           | 632 900<br>(6.1)           | 642 300<br>(6.2)           | 652 500<br>(6.6)           | 658 400<br>(5.6)           |
| Social and personal services   | 429 100<br>(3.5)           | 427 700<br>(5.1)           | 426 900<br>(3.7)           | 429 200<br>(2.9)           | 432 800<br>(2.4)           | 439 300<br>(2.4)           | 436 200<br>(2.0)           | 438 700<br>(2.8)           | 440 600<br>(2.7)           | 441 700<br>(2.1)           |
| Manufacturing  | 119 400<br>(-4.5)          | 122 600<br>(-2.5)          | 119 800<br>(-3.9)          | 117 700<br>(-5.6)          | 117 600<br>(-5.9)          | 112 700<br>(-5.6)          | 115 100<br>(-6.1)          | 113 800<br>(-5.0)          | 111 500<br>(-5.2)          | 110 400<br>(-6.1)          |
| Construction sites (manual workers only)                               | 55 300<br>(9.6)            | 53 900<br>(3.8)            | 55 500<br>(13.4)           | 56 500<br>(17.8)           | 55 400<br>(4.3)            | 62 600<br>(13.2)           | 58 800<br>(9.1)            | 58 600<br>(5.6)            | 63 700<br>(12.8)           | 69 400<br>(25.2)           |
| <i>All establishments surveyed in the private sector<sup>(b)</sup></i> | <i>2 528 800<br/>(2.6)</i> | <i>2 510 300<br/>(2.8)</i> | <i>2 517 000<br/>(3.0)</i> | <i>2 528 700<br/>(2.6)</i> | <i>2 559 200<br/>(2.2)</i> | <i>2 607 700<br/>(3.1)</i> | <i>2 584 700<br/>(3.0)</i> | <i>2 597 600<br/>(3.2)</i> | <i>2 618 500<br/>(3.6)</i> | <i>2 630 200<br/>(2.8)</i> |
| <i>Civil service<sup>(c)</sup></i>                                     | <i>156 500<br/>(0.5)</i>   | <i>156 600<br/>(0.9)</i>   | <i>156 300<br/>(0.6)</i>   | <i>156 400<br/>(0.3)</i>   | <i>156 700<br/>(0.3)</i>   | <i>157 600<br/>(0.7)</i>   | <i>156 900<br/>(0.2)</i>   | <i>157 300<br/>(0.7)</i>   | <i>157 700<br/>(0.8)</i>   | <i>158 500<br/>(1.2)</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) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

(c) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the 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.

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

## Vacancies

5.14 Job vacancies in private sector establishments likewise witnessed a further upsurge in December 2011. The number of private sector vacancies, at 55 100, rose by 14.6% over a year earlier, further to the 12.9% year-on-year increase in September. For 2011 as a whole, job vacancies leaped by 19.0% to reach the highest annual level since 1994. On a seasonally adjusted basis, the number of vacancies increased by 11.5% in December over September.

5.15 Analysed by economic sector, more visible increases in job vacancies in December 2011 were found in the domestic and consumption-related sectors, such as retail (up 27.2% year-on-year); social and personal services (19.9%); and accommodation and food services (15.1%), reflecting the resilient local demand and buoyant tourist spending. Analysed by skill level, vacancies for both lower-skilled and higher-skilled jobs leaped in December 2011 by a similar pace of 14.6% and 14.5% respectively over a year earlier, further to the respective increases of 8.0% and 21.8% in September 2011. In terms of occupational group, job openings increased more notably among craft and related workers (66.0%) and associate professionals (30.3%). In terms of establishment size, while large enterprises posted a year-on-year increase of 13.1% in job vacancies, SMEs posted an even larger increase of 16.1%. Within the civil service, the number of vacancies rose by 5.4% year-on-year in December 2011. For 2011 as a whole, these vacancies registered an increase of 9.7%, slightly lower than the 10.9% annual increase in 2010.

5.16 Analysing the number of job openings in private sector establishments relative to that of job-seekers, the ratio of job vacancies per 100 unemployed persons was 48 in December 2011, higher than that of 46 in September. Concurrently, the ratio for lower-skilled jobs rose from 42 to 45, and that for higher-skilled jobs fell from 98 to 84, signifying mixed conditions in different segments of the labour market. Moreover, some sectors such as human health, residential care and social work services, arts, entertainment and recreation, and accommodation services were apparently suffering from labour shortages, with the vacancy per 100 unemployed ratio far above 100. When measured in terms of the percentage of job vacancies to total employment opportunities, the vacancy rate for private sector establishments fell slightly to 2.1% in December 2011 from 2.2% in September, though still higher than the 1.8% a year ago. More apparent declines were seen in the social and personal services, manufacturing, financing, insurance, real estate, professional and business services, and import/export trade and wholesale sectors.

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

|  | <u>Number of vacancies</u> |                          |                          |                          |                          |                           |                          |                          |                          |                          | Vacancy<br>rate in<br><u>Dec 2011</u><br>(%) |
|--|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|
|  | <u>2010</u>                |                          |                          |                          |                          | <u>2011</u>               |                          |                          |                          |                          |  |
|  | <u>Annual<br/>average</u>  | <u>Mar</u>               | <u>Jun</u>               | <u>Sep</u>               | <u>Dec</u>               | <u>Annual<br/>average</u> | <u>Mar</u>               | <u>Jun</u>               | <u>Sep</u>               | <u>Dec</u>               |  |
| Import/export trade<br>and wholesale   | 6 500<br>(54.8)            | 6 600<br>(101.0)         | 6 100<br>(41.1)          | 7 000<br>(55.9)          | 6 500<br>(34.8)          | 7 800<br>(20.0)           | 8 300<br>(26.5)          | 8 300<br>(35.7)          | 7 700<br>(10.4)          | 7 100<br>(8.9)           | 1.2  |
| Retail   | 4 900<br>(28.8)            | 4 900<br>(68.4)          | 4 400<br>(20.1)          | 5 600<br>(32.0)          | 4 900<br>(7.9)           | 5 900<br>(19.6)           | 6 000<br>(23.9)          | 5 200<br>(18.2)          | 6 100<br>(10.3)          | 6 300<br>(27.2)          | 2.4  |
| Accommodation <sup>(a)</sup> and<br>food services                              | 7 000<br>(29.9)            | 6 100<br>(18.8)          | 6 600<br>(47.9)          | 7 300<br>(2.9)           | 7 800<br>(65.4)          | 8 200<br>(17.8)           | 7 700<br>(26.0)          | 8 100<br>(22.4)          | 8 000<br>(9.7)           | 9 000<br>(15.1)          | 3.3  |
| Transportation, storage,<br>postal and courier<br>services                     | 2 000<br>(72.7)            | 1 700<br>(70.7)          | 2 000<br>(100.5)         | 2 100<br>(87.8)          | 2 100<br>(43.2)          | 2 600<br>(33.0)           | 2 500<br>(52.4)          | 3 000<br>(51.8)          | 2 400<br>(13.2)          | 2 500<br>(20.2)          | 1.5  |
| Information and<br>communications  | 2 300<br>(78.4)            | 2 200<br>(155.1)         | 2 300<br>(51.9)          | 2 600<br>(92.3)          | 2 100<br>(46.0)          | 2 300<br>(1.0)            | 2 700<br>(19.1)          | 2 200<br>(-4.8)          | 2 200<br>(-13.9)         | 2 200<br>(6.6)           | 2.3  |
| Financing, insurance,<br>real estate, professional<br>and business services    | 12 400<br>(45.9)           | 11 800<br>(73.8)         | 12 200<br>(64.1)         | 12 900<br>(16.2)         | 12 700<br>(46.7)         | 14 100<br>(13.5)          | 14 100<br>(19.5)         | 14 600<br>(19.6)         | 14 300<br>(10.8)         | 13 300<br>(4.7)          | 2.0  |
| Social and personal<br>services  | 10 800<br>(38.1)           | 11 100<br>(55.2)         | 10 100<br>(19.3)         | 11 800<br>(45.8)         | 10 400<br>(34.6)         | 13 100<br>(20.8)          | 13 200<br>(19.9)         | 12 700<br>(26.5)         | 13 900<br>(17.6)         | 12 400<br>(19.9)         | 2.7  |
| Manufacturing  | 1 500<br>(66.5)            | 1 500<br>(133.9)         | 1 400<br>(120.6)         | 1 600<br>(30.8)          | 1 600<br>(35.0)          | 2 200<br>(42.7)           | 2 400<br>(52.7)          | 2 200<br>(49.8)          | 2 300<br>(44.9)          | 1 900<br>(24.2)          | 1.7  |
| Construction sites<br>(manual workers only)                                    | 100<br>(347.3)             | #<br>(1 466.7)           | 100<br>(1 375.0)         | 100<br>(300.0)           | 100<br>(126.7)           | 300<br>(434.6)            | 100<br>(217.0)           | 300<br>(411.9)           | 500<br>(641.7)           | 300<br>(385.3)           | 0.5  |
| <i>All establishments<br/>surveyed in the private<br/>sector<sup>(b)</sup></i> | <i>47 600<br/>(43.5)</i>   | <i>46 000<br/>(65.4)</i> | <i>45 200<br/>(43.4)</i> | <i>51 100<br/>(31.7)</i> | <i>48 100<br/>(39.3)</i> | <i>56 700<br/>(19.0)</i>  | <i>57 200<br/>(24.4)</i> | <i>56 600<br/>(25.3)</i> | <i>57 700<br/>(12.9)</i> | <i>55 100<br/>(14.6)</i> | <i>2.1</i>                                   |
|  |                            | <i>&lt;15.9&gt;</i>      | <i>&lt;2.1&gt;</i>       | <i>&lt;6.6&gt;</i>       | <i>&lt;10.0&gt;</i>      |                           | <i>&lt;4.3&gt;</i>       | <i>&lt;2.3&gt;</i>       | <i>&lt;-3.8&gt;</i>      | <i>&lt;11.5&gt;</i>      |  |
| <i>Civil service<sup>(c)</sup></i>   | <i>5 700<br/>(10.9)</i>    | <i>5 300<br/>(0.9)</i>   | <i>5 700<br/>(10.7)</i>  | <i>5 900<br/>(18.7)</i>  | <i>5 900<br/>(13.9)</i>  | <i>6 300<br/>(9.7)</i>    | <i>6 000<br/>(13.2)</i>  | <i>6 200<br/>(8.5)</i>   | <i>6 600<br/>(11.8)</i>  | <i>6 200<br/>(5.4)</i>   | <i>3.8</i>                                   |

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

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

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

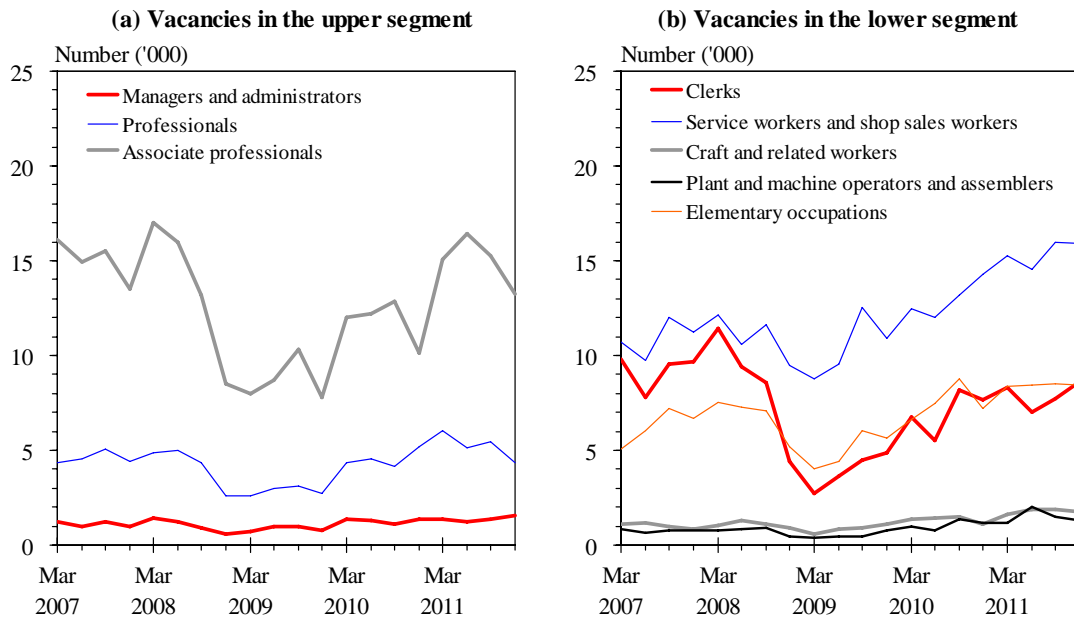
( ) % change over a year earlier.

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

# Less than 50.

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 vacancy levels remained high**



5.17 Data on private sector vacancies registered via the Labour Department (LD) may provide a more up-to-date picture on the latest developments in the labour market. In March 2012, the number of private sector job vacancies posted by the LD was 98 940, representing a visible increase of 22.7% over a year earlier. Comparing the first quarter of 2012 with the previous quarter, the average number of vacancies fell modestly by 3.1%, which was partly attributable to the seasonality factors around the Lunar New Year holidays.

## Wages and earnings

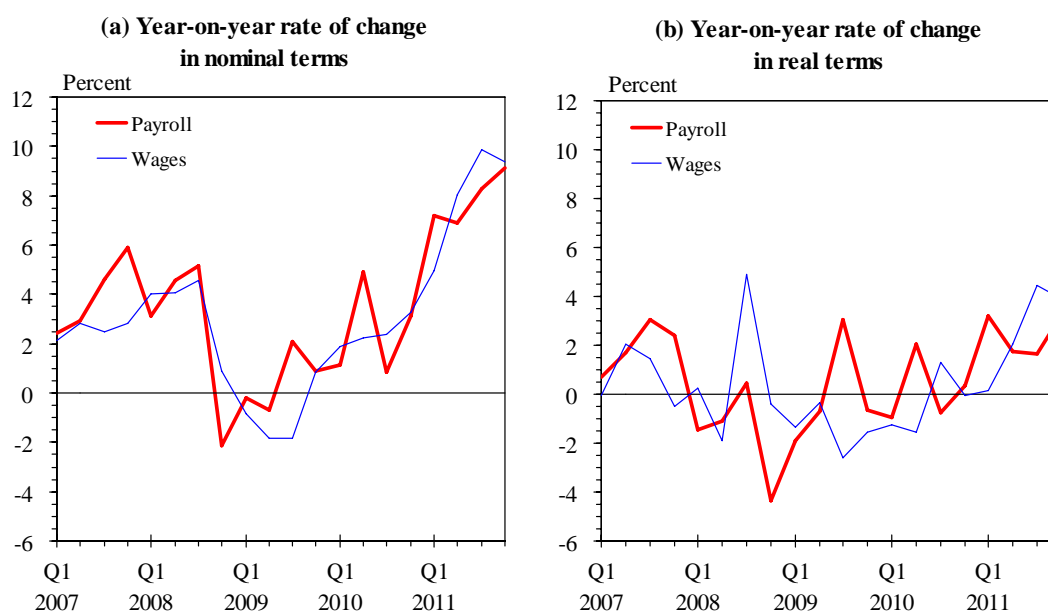
5.18 With a tighter labour market in late 2011, coupled with the additional boost from the implementation of SMW, wages and earnings sustained notable and broad-based growth. *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, jumped by 9.4% year-on-year in December 2011, after an equally impressive growth of 9.9% in September. After adjusting for consumer price inflation<sup>(8)</sup>, labour wages still rose by an appreciable 3.9% in real terms over a year earlier. For 2011 as a whole, labour wages leaped by 8.1% in nominal terms, the fastest since 1994, and by a still respectable 2.7% in real terms, the strongest increase in a decade.

5.19 In December 2011, nominal pay rises were observed across all economic sectors, with more prominent year-on-year increases in professional and business services (up 14.7%), personal services (13.1%), and real estate leasing and maintenance management (11.6%). In terms of occupational category, the surge in nominal wages was likewise across the board. Thanks to SMW implementation, the pay rise was more visible among workers in the lower-skilled segment, in particular, miscellaneous non-production workers (13.8%) and service workers (12.9%).

5.20 *Labour earnings*<sup>(9)</sup>, as measured by payroll per person engaged in the private sector, surged further by 9.1% in the fourth quarter of 2011 over a year earlier, faster than the 8.3% rise in the third quarter. After discounting for changes in consumer prices, there was a real improvement in labour earnings of 3.2%. For 2011 as a whole, earnings growth was also notable at 7.9% in nominal terms, the fastest since 1997, and 2.5% in real terms, the fastest since 2005.

5.21 Analysed by economic sector, nominal payroll picked up across all major sectors in the fourth quarter of 2011. In particular, workers engaged in real estate activities (up 18.2% year-on-year), retail trade (13.6%), import/export trade and wholesale (12.7%) enjoyed more sizeable increases in earnings.

**Diagram 5.7 : Labour earnings and wages sustained notable growth**



5.22 Latest statistics available from the General Household Survey, though not strictly comparable to those from the business establishment surveys, showed that average monthly employment earnings<sup>(10)</sup> (excluding foreign domestic helpers) for full-time employees rose notably by 5.6% year-on-year in the first quarter of 2012, further to the 6.1% increase in the fourth quarter of 2011. Those in the lowest decile group continued to enjoy strong earnings growth of 13.4% in the latest period, similar to the 13.7% growth in the fourth quarter of 2011. After discounting the price effects, real earnings for all full-time employees rose mildly by 0.4%, while those for the lowest decile group leaped by 8.4% year-on-year.

## **Recent labour-related measures**

5.23 To encourage job search and sustainable employment, LD launched a two-year Pilot Employment Navigator Programme in December 2010. Under the programme, a cash incentive of up to \$5,000 will be payable to each unemployed person who has successfully found work after receiving the department's intensive employment consultation service. The programme provides 11 000 places each year. Separately, LD set up a pioneer one-stop employment and training centre called "Employment in One-stop" in Tin Shui Wai in December 2011 to offer targeted assistance to job-seekers.

5.24 In a move to assist young people to find jobs, LD set up two Youth Employment Resources Centres in 2007 and 2008 respectively to provide one-stop advisory and support services on employment and self-employment to young people aged 15-29. In addition, the Youth Pre-employment Training Programme (YPTP) and the Youth Work Experience and Training Scheme (YWETS) have been integrated and enhanced into a "through-train" programme – YPTP&YWETS, to provide seamless and comprehensive training and employment support to school leavers aged 15-24 with educational attainment at sub-degree level or below.

5.25 To relieve the burden on travelling expenses commuting to and from work on the part of low-income households with employed members and to promote sustained employment, the territory-wide Work Incentive Transport Subsidy Scheme has started receiving applications since October 2011, with payment dating back to April 2011 the earliest. Employees and self-employed persons may apply under the scheme, and each qualified person will receive the monthly subsidy of \$600, or \$300 at half-rate. The household income and asset limits of the Scheme have been adjusted upwards across the board with effect from March 2012 to keep pace with changes in Hong Kong's economic situation and the income levels of target beneficiaries.



## Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. These statistics have been revised and backcasted to the three-month period of May – July 2006 to take into account the results of the 2011 Population Census which provided a benchmark for revising the population figures compiled since the 2006 Population By-census.

The classification of occupation adopted by the Census and Statistics Department follows the International Standard Classification of Occupations (ISCO), which is used to classify the occupation of an employed person or the previous occupation of an unemployed person. After the implementation of the new ISCO, 2008 (ISCO-08), the General Household Survey has been enhanced to adopt the ISCO-08 in compiling labour force statistics by occupation, with statistics backcasted to the quarter of January to March 2011. Starting from the reference quarter of January to March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

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

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

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

The seasonally adjusted series is compiled using the X-12 ARIMA method, which is a standard method applied in compiling seasonally adjusted statistical data series.

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

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

- (4) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).

- (5) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (6) The low-paying sectors as identified by the Provisional Minimum Wage Commission include:
- (i) retail;
  - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong-style tea cafes. However, beverage serving places, event catering and other food service activities are not included.);
  - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
  - (iv) other low-paying sectors, namely
    - elderly homes;
    - laundry and dry cleaning services;
    - hairdressing and other personal services;
    - local courier services; and
    - food processing and production.
- (7) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (8) 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 relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (9) In addition to wages, which include all regular and guaranteed 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.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 6 : PRICES

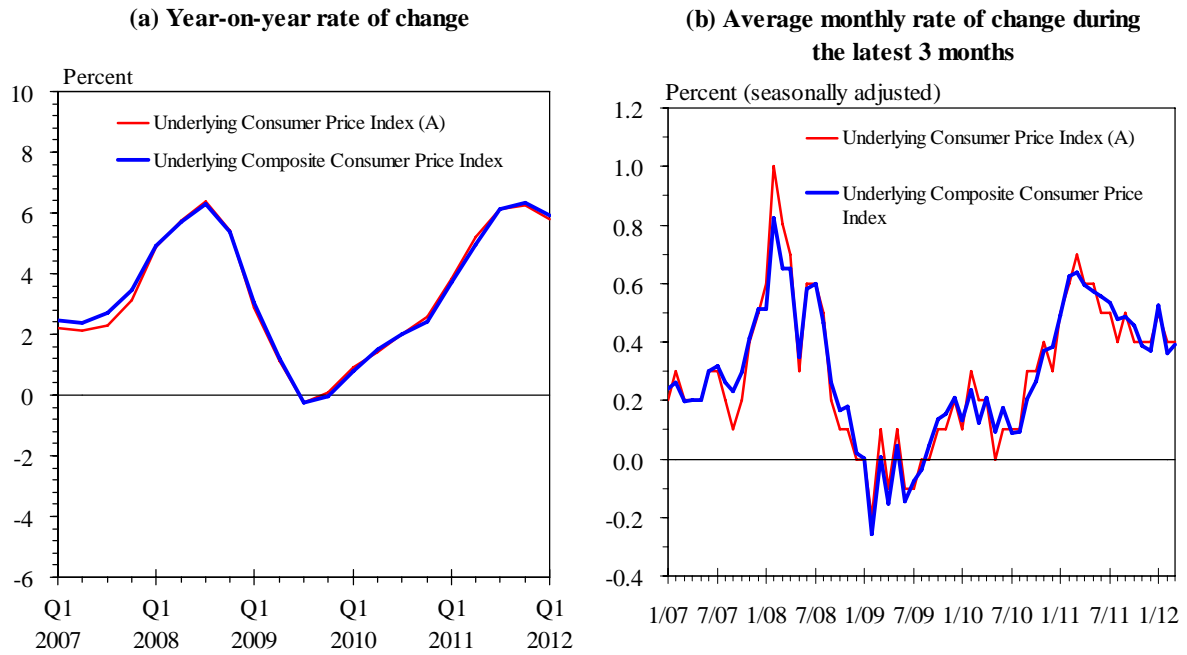
### *Summary*

- *Inflation receded in the first quarter of 2012, thanks to the easing of price pressures on both the domestic and external fronts. The Composite Consumer Price Index (Composite CPI)<sup>(1)</sup> rose by 5.2% in the first quarter over a year earlier, compared to 5.7% in the preceding quarter. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the year-on-year increase in the underlying Composite CPI eased from 6.4% to 5.9% over the period.*
- *On the domestic cost front, unit labour costs rose further amid a buoyant labour market, yet both flat and office rentals showed some signs of stabilisation on entering 2012. Externally, the retreat in global food and commodity prices as well as slower inflation in the Mainland helped alleviate imported inflation in Hong Kong, as reflected by a slower increase in overall import prices in the first quarter.*
- *Looking ahead, domestic cost pressures are expected to ease back somewhat along with a slowing local economy. Imported inflation should also taper further in the months ahead. Against this background, local inflation is expected to gradually come down over the course of 2012.*

### **Consumer prices**

6.1 Following an almost uninterrupted acceleration since late 2010, inflation stabilised in the latter part of 2011 and eased in the first quarter of 2012. Although international oil prices stayed elevated amid the geopolitical tension in the Middle East, imported inflation in Hong Kong eased back somewhat in early 2012, thanks to the retreat in global food and commodity prices as well as the receding inflation in the Mainland. Locally, the extent of the pass-through of the earlier surges in market rentals to consumer prices also began to taper. Against the background of a weaker global economy and slower inflation in the region, local inflation is likely to come down further in the period ahead, in line with the inflation developments in many other Asian and emerging economies<sup>(2)</sup>.

**Diagram 6.1 : Inflation eased slightly in early 2012**



Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite Consumer Price Index (Composite CPI), went down to 5.2% in the first quarter of 2012 from 5.7% in the fourth quarter of 2011. Underlying consumer price inflation, being more indicative of the underlying inflation trend by netting out the effects of Government’s one-off relief measures, likewise decelerated from 6.4% to 5.9% over the same period.

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

|      |        | <u>Composite CPI</u>            |                 | <u>CPI(A)</u> | <u>CPI(B)</u> | <u>CPI(C)</u> |
|------|--------|---------------------------------|-----------------|---------------|---------------|---------------|
|      |        | <u>Underlying<sup>(a)</sup></u> | <u>Headline</u> |               |               |               |
| 2011 | Annual | 5.3                             | 5.3             | 5.6           | 5.2           | 5.1           |
|      | H1     | 4.4                             | 4.5             | 4.8           | 4.4           | 4.3           |
|      | H2     | 6.2                             | 6.1             | 6.5           | 6.0           | 5.9           |
|      | Q1     | 3.7                             | 3.8             | 4.1           | 3.7           | 3.7           |
|      | Q2     | 5.0                             | 5.2             | 5.5           | 5.1           | 4.8           |
|      | Q3     | 6.1                             | 6.4             | 7.7           | 6.0           | 5.9           |
|      | Q4     | 6.4                             | 5.7             | 5.3           | 6.0           | 6.0           |
| 2012 | Q1     | 5.9                             | 5.2             | 4.6           | 5.5           | 5.4           |

**(seasonally adjusted quarter-to-quarter rate of change (%))**

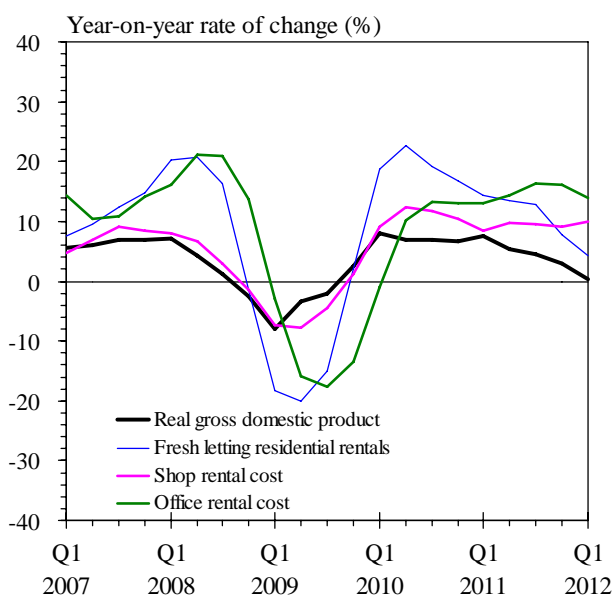
|      |    |     |      |      |     |     |
|------|----|-----|------|------|-----|-----|
| 2011 | Q1 | 1.8 | 1.8  | 2.0  | 1.8 | 1.7 |
|      | Q2 | 1.7 | 1.8  | 1.7  | 1.8 | 1.8 |
|      | Q3 | 1.5 | -0.9 | -4.3 | 0.4 | 1.2 |
|      | Q4 | 1.2 | 3.0  | 5.9  | 1.9 | 1.1 |
| 2012 | Q1 | 1.3 | 1.3  | 1.4  | 1.3 | 1.1 |

Note : (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.

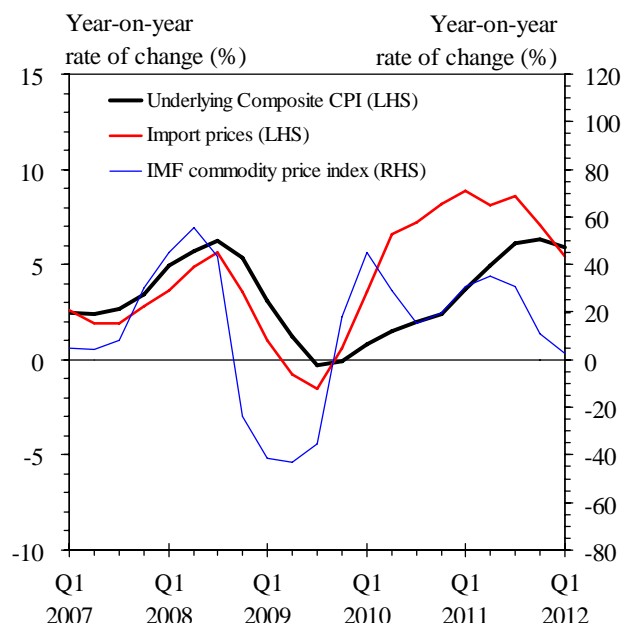
6.3 Many of the major components in the underlying Composite CPI saw slower year-on-year price increases in the first quarter of 2012, suggesting a more broad-based easing of price pressures. Of particular note were food and housing, the two key drivers of the rise in inflation during 2011. Local food inflation (including costs of dining out), having gone up almost continuously since late 2009, eased rather visibly to 7.4% in the first quarter of 2012 from 8.2% in the preceding quarter, thanks to the earlier peaking out of international food prices and Mainland's food inflation. Meanwhile, the rate of increase in private housing rentals also edged slightly lower, from 9.5% in the fourth quarter of 2011 to 9.1% in the first quarter of 2012, reflecting the relative stabilisation of fresh-letting rentals in the latter part of 2011. Prices of many other major CPI components like clothing and footwear and miscellaneous services also saw narrower increases in the first quarter of 2012, while prices of durable goods continued their secular downtrend.

**Diagram 6.2: Inflation pressures eased on both domestic and external fronts**

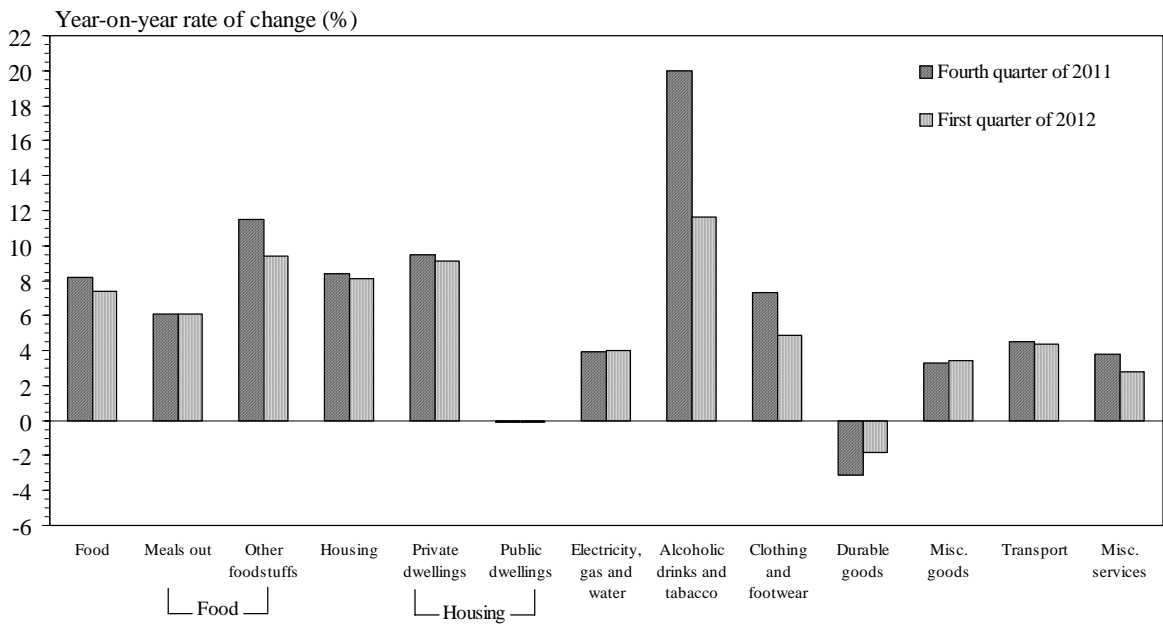
**(a) Rental costs showed signs of moderation in tandem with the economic slowdown**



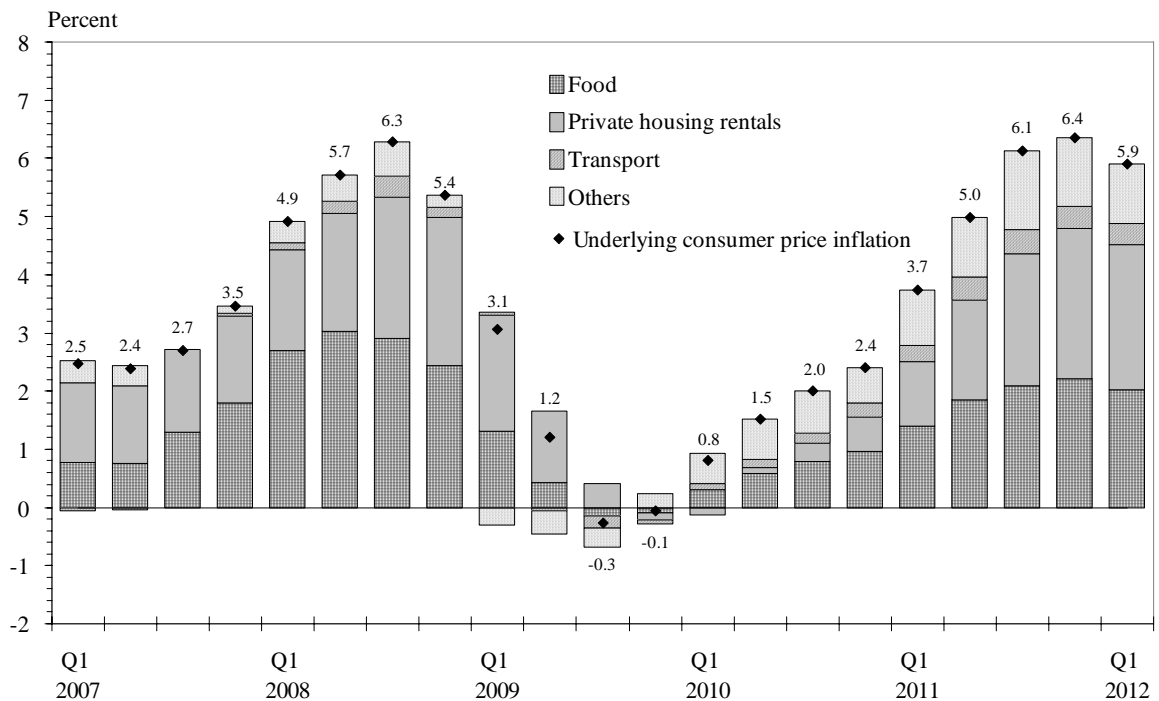
**(b) Retreat of global commodity prices helped alleviate imported inflation**



**Diagram 6.3 (a) : Many components in the underlying Composite CPI showed slower increases in the first quarter of 2012**



**Diagram 6.3 (b) : Contribution to underlying consumer price inflation by major component**



Note : The year-on-year rates of change of the Composite CPI from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series.

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

| <u>Expenditure component</u>       | <u>Weighting (%)</u> | <u>2010</u>   | <u>2011</u>   | <u>Q1</u>    | <u>2011</u>  |                |                | <u>2012</u>    |
|------------------------------------|----------------------|---------------|---------------|--------------|--------------|----------------|----------------|----------------|
|                                    |                      |               |               |              | <u>Q2</u>    | <u>Q3</u>      | <u>Q4</u>      | <u>Q1</u>      |
| Food                               | 27.45                | 2.4           | 7.0           | 5.2          | 6.9          | 7.8            | 8.2            | 7.4            |
| <i>Meals bought away from home</i> | 17.07                | 1.7           | 5.2           | 4.1          | 5.1          | 5.7            | 6.1            | 6.1            |
| <i>Other foodstuffs</i>            | 10.38                | 3.5           | 9.9           | 7.0          | 9.8          | 11.3           | 11.5           | 9.4            |
| Housing <sup>(a)</sup>             | 31.66                | 0.4<br>(0.8)  | 7.2<br>(6.4)  | 3.8<br>(3.9) | 5.9<br>(5.9) | 11.0<br>(7.6)  | 8.4<br>(8.4)   | 8.1<br>(8.1)   |
| <i>Private dwellings</i>           | 27.14                | 0.9<br>(0.8)  | 7.2<br>(7.1)  | 4.1<br>(4.1) | 6.5<br>(6.4) | 8.4<br>(8.3)   | 9.6<br>(9.5)   | 9.2<br>(9.1)   |
| <i>Public dwellings</i>            | 2.05                 | -7.8<br>(1.2) | 11.9<br>(2.5) | 4.0<br>(3.8) | 2.7<br>(3.9) | 676.7<br>(2.5) | -1.5<br>(-0.1) | -1.5<br>(-0.1) |
| Electricity, gas and water         | 3.10                 | 43.3<br>(5.1) | -4.2<br>(3.8) | 7.3<br>(3.8) | 8.0<br>(3.6) | -16.1<br>(3.8) | -16.1<br>(3.9) | -17.2<br>(4.0) |
| Alcoholic drinks and tobacco       | 0.59                 | 3.4           | 17.1          | 8.1          | 19.9         | 20.3           | 20.0           | 11.6           |
| Clothing and footwear              | 3.45                 | 1.8           | 6.8           | 5.6          | 6.3          | 7.8            | 7.3            | 4.9            |
| Durable goods                      | 5.27                 | -2.7          | -3.8          | -4.4         | -4.3         | -3.1           | -3.1           | -1.8           |
| Miscellaneous goods                | 4.17                 | 2.4           | 3.8           | 3.1          | 4.2          | 4.5            | 3.3            | 3.4            |
| Transport                          | 8.44                 | 2.0           | 4.4           | 3.3          | 4.7          | 5.0            | 4.5            | 4.4            |
| Miscellaneous services             | 15.87                | 2.0<br>(2.3)  | 3.5<br>(3.5)  | 3.3<br>(3.4) | 2.9<br>(2.9) | 4.0<br>(4.0)   | 3.8<br>(3.8)   | 2.8<br>(2.8)   |
| All items                          | 100.00               | 2.4<br>(1.7)  | 5.3<br>(5.3)  | 3.8<br>(3.7) | 5.2<br>(5.0) | 6.4<br>(6.1)   | 5.7<br>(6.4)   | 5.2<br>(5.9)   |

Notes : The year-on-year rates of change in the Consumer Price Indices are computed from the 2009/10-based CPI series.

- (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.
- (b) Figures in bracket represent the underlying rates of change after netting out the effect of Government's one-off relief measures.



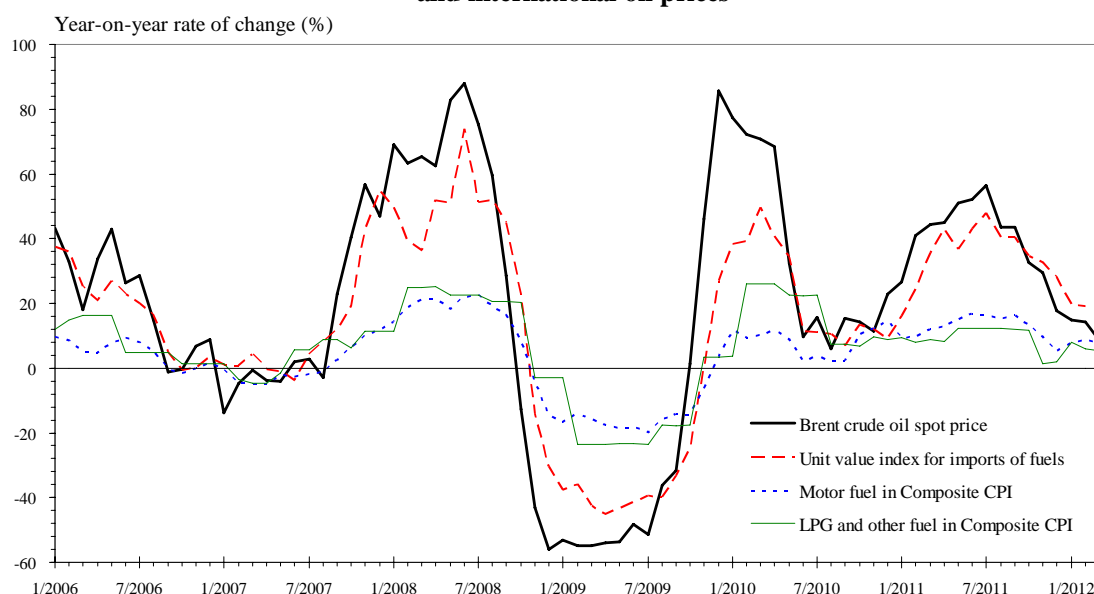
## Box 6.1

### Impact of oil price hikes on consumer price inflation in Hong Kong

International oil prices have undergone huge gyrations in recent years amid the fast-changing global economic environment as well as the occurrence of bouts of supply shocks emanating from the oil-producing countries. Such drastic swings in oil prices have been one of the key factors in driving the rise and fall of consumer price inflation in many economies around the globe over the past few years.

As Hong Kong's energy supplies are almost entirely from external sources, the fluctuations in international oil prices, which affect the import prices of fuels, will inevitably have some bearing on the consumer price inflation in Hong Kong. Among the components in the Composite CPI, "motor fuel" and "LPG and other fuel" are the two items directly affected by or closely associated with the movements of the oil prices in the international markets (**Chart 1**). Yet, taken together, these two items have a combined weighting of only 0.77% in the Composite CPI. Indeed, these two items contributed only 0.09 percentage point to the underlying inflation rate of 5.3% in 2011, while Brent crude oil price was on average nearly 40% higher than a year earlier. As such, the direct impact of international oil price movement on the Composite CPI should be rather limited.

**Chart 1: Movements of oil-related consumer prices, import prices of fuel and international oil prices**

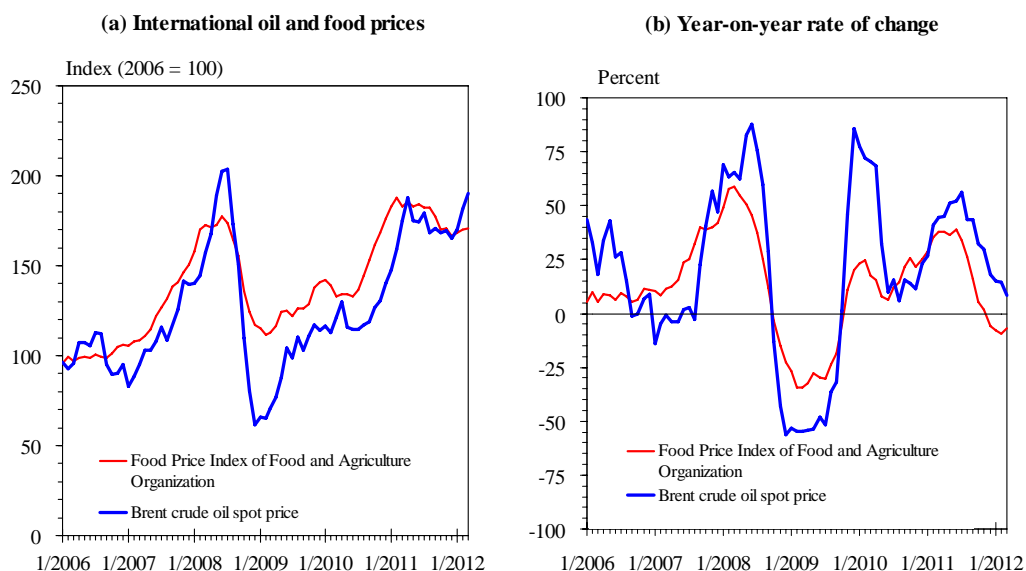


There would also be some indirect or spill-over effects on consumer price inflation, when business operators pass part or all of the increase in fuel costs onto their customers should oil prices stay elevated for a period of time. The extent of pass-through will in turn be influenced by the prevailing demand conditions. Nevertheless, Hong Kong is a highly service-oriented economy and not very oil-dependent, with fuel cost accounting for an average of around 4% of the total business operating cost (or around 6% if labour cost is excluded) in 2010. Although the more energy-intensive industries such as transport services, accommodation and food services and fishery are more affected by oil price hike, the indirect impacts on business costs and inflation from higher oil prices should be rather moderate for the economy as a whole.

## Box 6.1 (Cont'd)

Yet, the indirect impacts on local inflation from rising oil prices could also be manifested through other channels, such as higher price pressures from our major import sources as well as higher international food prices. For instance, higher oil prices could raise the costs along the supply chain of a multitude of products, including the expenses on packaging and transportation. Oil price hikes could also bolster the incentives in producing biofuel, thereby boosting the demand and hence prices of a number of food products, such as corn and sugar. In fact, the movements of the international food prices have been broadly in line with the ebb and flow of the oil prices over the past few years (**Chart 2**). All in all, higher oil prices might render some notable impacts on the local inflationary pressures at some point in time by directly pushing up the prices in oil-related products, and indirectly, also business costs and import prices. Given the notable price volatilities in the oil markets of late, we will continue to closely monitor the movements of global oil prices, and their possible impacts on the inflation in Hong Kong.

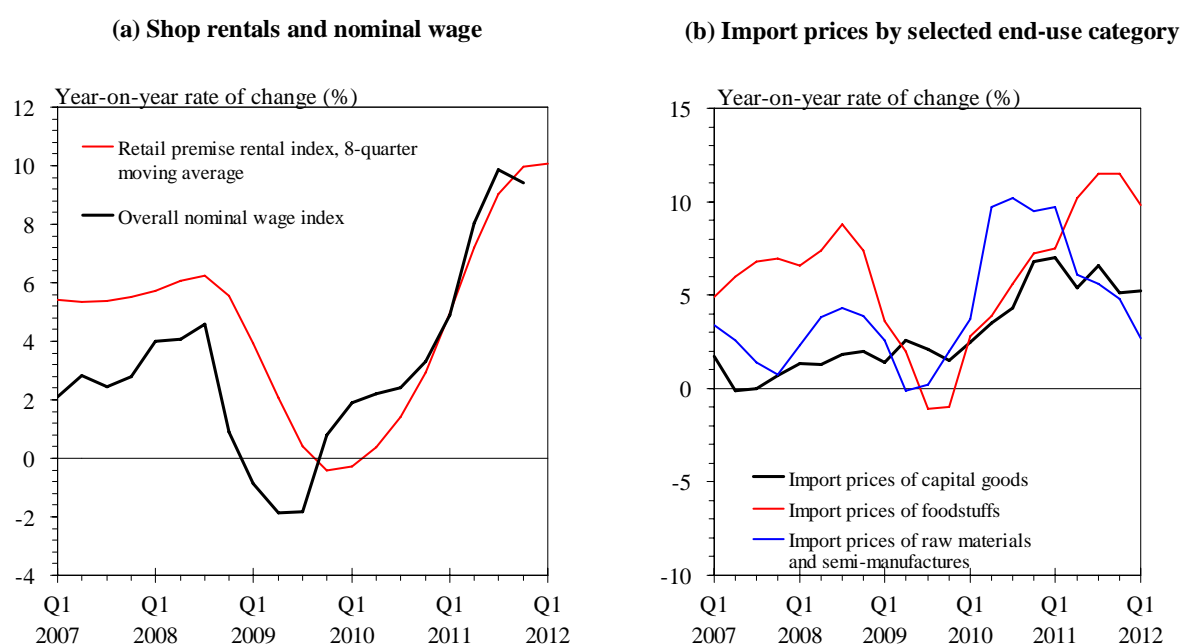
**Chart 2: Movements of international oil and food prices**



## Costs of factor inputs and import prices

6.4 Domestic cost pressures remained fairly notable in the first quarter of 2012, on the back of strong increases in wages and earnings over the past year amid a virtually full-employment situation and still-elevated commercial rentals alongside the relatively resilient domestic sector. Nonetheless, the increases in market rentals for retail premises and offices tapered somewhat in the recent period. The upward pressures on other business costs, including labour cost, also look set to recede gradually along with the economic slowdown.

**Diagram 6.4 : Both local and external cost pressures showed signs of tapering**



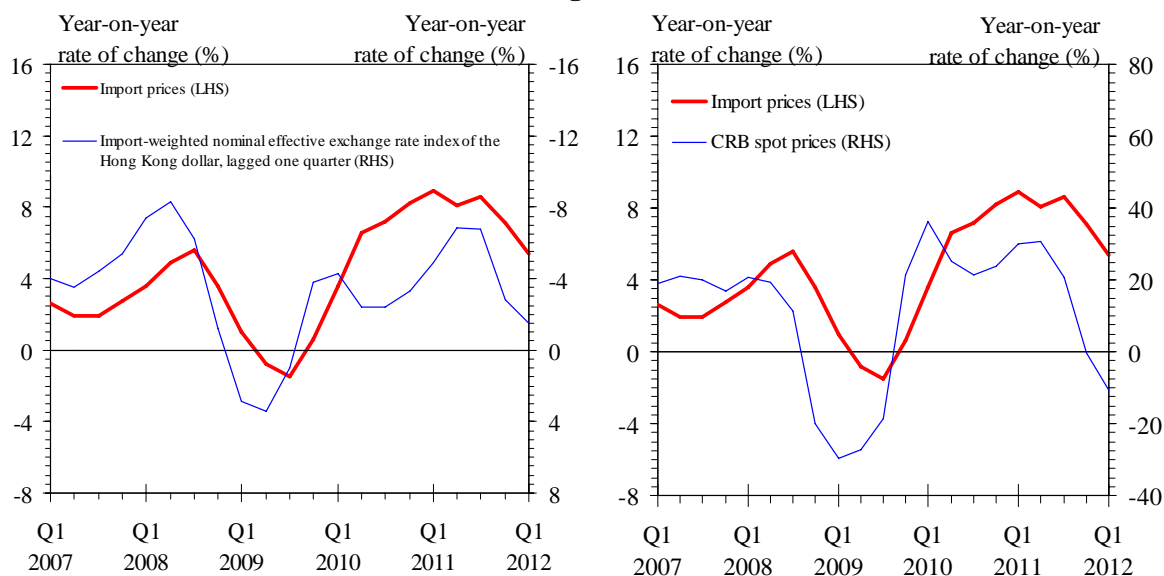
6.5 On the external front, import prices showed somewhat smaller increases on entering 2012, thanks to the peaking out of food and many other commodity prices in the international markets as well as the recent easing of inflation in the major import sources. Overall import prices rose by about 5.4% in the first quarter of 2012 over a year earlier, down further from the 7.1% increase in the preceding quarter. Analyzed by major end-use category, import prices of fuels continued to post the largest increase in the first quarter, as international oil prices staged a rebound during the first quarter of 2012 after some relative stabilisation during the second half of 2011. The year-on-year increases in import prices of foodstuffs and consumer goods, though elevated, tapered gradually further. Meanwhile, import prices of raw materials and capital goods showed relatively moderate increases in the first quarter of 2012.

**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> |
|------|-----------------|-------------------|-----------------------|----------------------|--------------|----------------------|------------|
| 2011 | Annual          | 10.3              | 9.2                   | 6.4                  | 35.2         | 5.9                  | 8.1        |
|      | H1              | 8.9               | 8.9                   | 7.6                  | 33.1         | 6.1                  | 8.4        |
|      | H2              | 11.4              | 9.7                   | 5.2                  | 37.1         | 5.9                  | 7.9        |
|      | Q1              | 7.5               | 8.0                   | 9.7                  | 24.8         | 7.0                  | 8.9        |
|      | Q2              | 10.2              | 9.7                   | 6.1                  | 41.0         | 5.4                  | 8.1        |
|      | Q3              | 11.5              | 10.4                  | 5.6                  | 42.8         | 6.6                  | 8.6        |
|      | Q4              | 11.5              | 9.0                   | 4.8                  | 31.6         | 5.1                  | 7.1        |
| 2012 | Q1 <sup>#</sup> | 9.8               | 7.3                   | 2.7                  | 16.3         | 5.2                  | 5.4        |

Note : (#) Figures for the first quarter of 2012 are estimates based on actual unit value indices up to February 2012. They are subject to revision when data for the first quarter of 2012 become available.

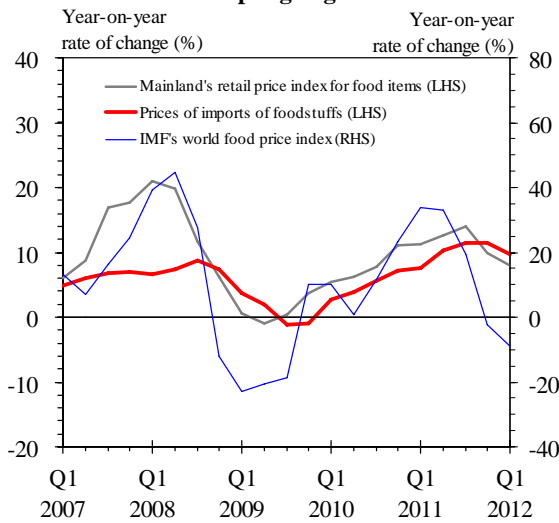
**Diagram 6.5 : Increase in import prices, though still elevated, tapered further on entering 2012**



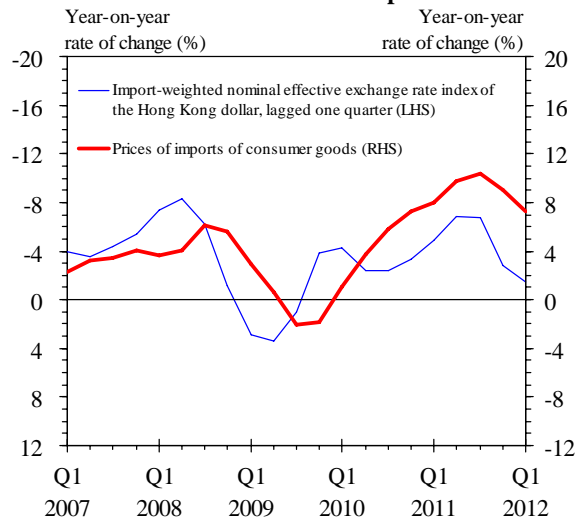
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

## Diagram 6.6 : Import prices by end-use categories

**(a) Import prices of foodstuffs  
look set to taper going forward**

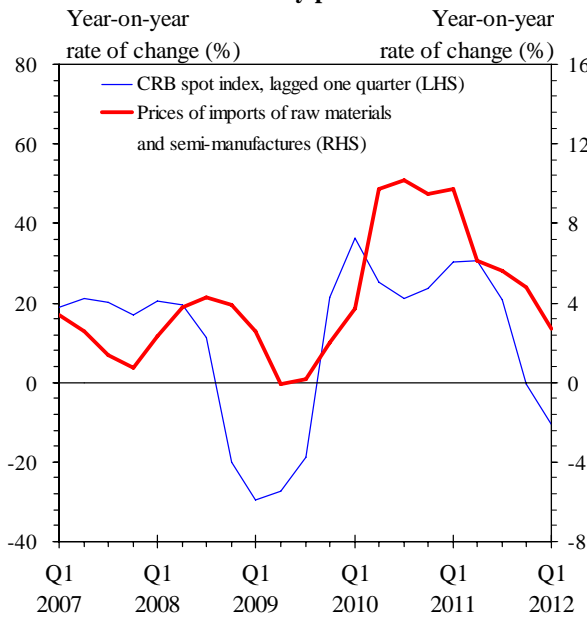


**(b) Import prices of consumer goods  
rose at a less notable pace**

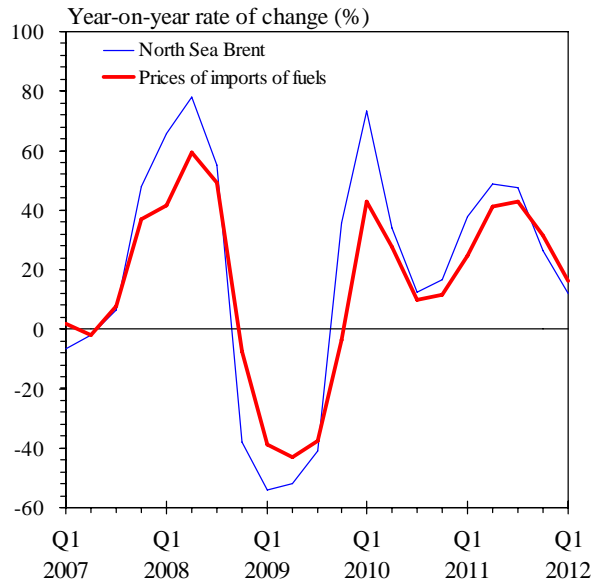


Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**(c) Increase in import prices of raw materials  
moderated alongside the retreat in world  
commodity prices**



**(d) Oil prices posted less sharp but still visible year-on-  
year increase in early 2012**



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, exhibited diverse trends across different sectors in 2011. Output prices for the manufacturing sector rose visibly further for 2011 as a whole, though the pace of increase moderated in the fourth quarter alongside the retreat in global commodity prices. Among the service sectors, output prices for accommodation services posted double-digit year-on-year increases throughout 2011 on the back of thriving inbound tourism, but the increases in output prices for courier services and land transport were nevertheless much more moderate. On the other hand, output prices for water and air transport fell markedly further in the fourth quarter of 2011 over a year earlier, conceivably reflecting the slower global trade flows. Separately, the downtrend in output prices for telecommunications services continued under an environment of technological breakthrough and intense competition.

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

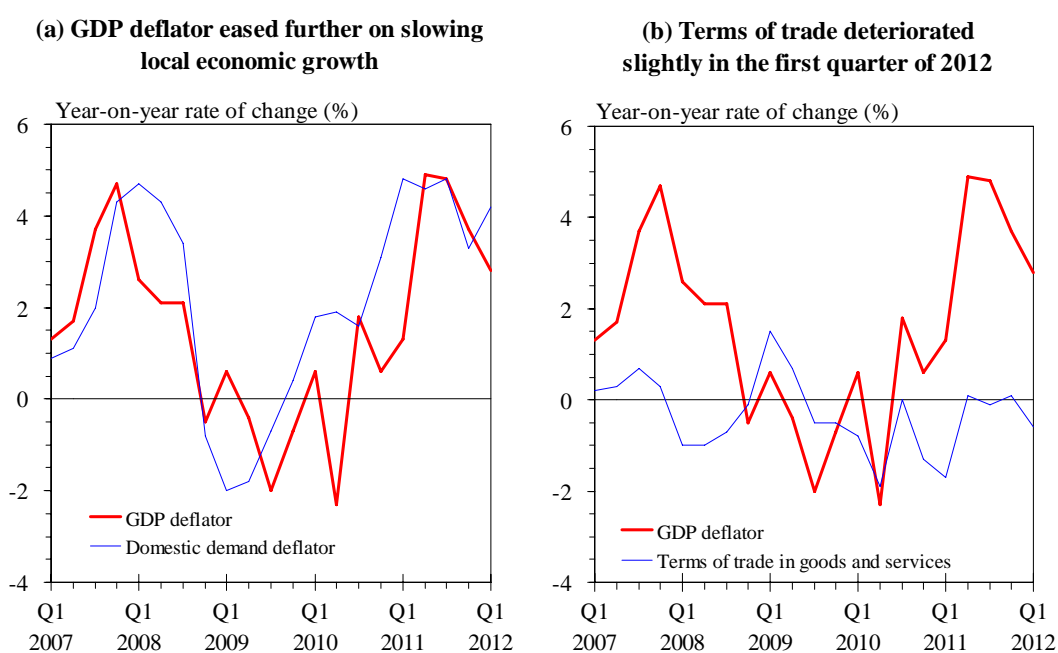
| <u>Industry group</u>                   | <u>2010</u> <u>2011</u> |       | <u>2010</u> |           |           |           | <u>2011</u> |           |           |           |
|---|-------------------------|-------|-------------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
|   |                         |       | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> |
| Manufacturing                           | 6.0                     | 8.3   | 4.0         | 6.0       | 6.4       | 7.6       | 8.2         | 9.0       | 9.5       | 6.6       |
| Selected services sector <sup>(a)</sup> |                         |       |             |           |           |           |             |           |           |           |
| Accommodation services                  | 8.9                     | 13.2  | 4.4         | 6.8       | 9.1       | 15.0      | 12.7        | 13.3      | 12.8      | 13.7      |
| Land transport                          | 1.3                     | 2.1   | 0.1         | 0.9       | 2.2       | 1.9       | 1.6         | 2.0       | 2.2       | 2.5       |
| Water transport                         | 27.4                    | -11.6 | 13.0        | 43.7      | 41.4      | 15.0      | -2.3        | -12.6     | -21.1     | -8.9      |
| Air transport                           | 16.5                    | 0.7   | 13.9        | 17.4      | 23.5      | 12.0      | 8.8         | 5.5       | -2.1      | -8.2      |
| Telecommunications                      | -1.5                    | -2.5  | -2.3        | -2.1      | -1.3      | -0.1      | -0.6        | -2.9      | -2.6      | -3.9      |
| Courier services                        | 2.2                     | 3.0   | 1.6         | 2.3       | 2.3       | 2.4       | 2.2         | 2.6       | 3.4       | 3.8       |

Note : (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.

## GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 2.8% year-on-year in the first quarter of 2012, following an increase of 3.7% in the fourth quarter of 2011, broadly in line with the easing in consumer price inflation. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> saw a mild deterioration in the first quarter of 2012 from a year earlier. Taking out the external components, the domestic demand deflator went up by 4.2% in the first quarter of 2012, slightly slower than the average rate of increase of 4.4% for 2011 as a whole.

**Diagram 6.7 : GDP deflator**



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

|  | <u>2010</u>               |                           | <u>Q1<sup>#</sup></u> | <u>2011</u>           |                       |                       | <u>2012</u>           |
|--|---------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | <u>Annual<sup>#</sup></u> | <u>Annual<sup>#</sup></u> |                       | <u>Q2<sup>#</sup></u> | <u>Q3<sup>#</sup></u> | <u>Q4<sup>#</sup></u> | <u>Q1<sup>+</sup></u> |
| Private consumption expenditure        | 1.0                       | 4.1                       | 3.2                   | 4.7                   | 4.9                   | 3.4                   | 3.5                   |
| Government consumption expenditure     | 0.3                       | 5.0                       | 1.8                   | 5.7                   | 6.1                   | 6.4                   | 6.1                   |
| Gross domestic fixed capital formation | 6.6                       | 4.7                       | 9.7                   | 4.1                   | 3.7                   | 1.9                   | 4.6                   |
| Total exports of goods                 | 4.6                       | 7.5                       | 6.4                   | 7.6                   | 8.7                   | 7.6                   | 6.9                   |
| Imports of goods                       | 6.3                       | 8.0                       | 8.5                   | 7.5                   | 8.8                   | 7.8                   | 7.8                   |
| Exports of services                    | 7.4                       | 7.5                       | 6.9                   | 8.1                   | 7.9                   | 7.2                   | 5.4                   |
| Imports of services                    | 5.3                       | 6.4                       | 6.8                   | 8.5                   | 7.0                   | 3.9                   | 3.1                   |
| <b>Gross Domestic Product</b>          | <b>0.2</b>                | <b>3.7</b>                | <b>1.3</b>            | <b>4.9</b>            | <b>4.8</b>            | <b>3.7</b>            | <b>2.8</b>            |
|  |                           |                           | <1.3>                 | <1.4>                 | <2.0>                 | <-1.1>                | <0.3>                 |
| Total final demand                     | 4.3                       | 6.6                       | 6.0                   | 6.7                   | 7.4                   | 6.2                   | 5.8                   |
| Domestic demand                        | 2.1                       | 4.4                       | 4.8                   | 4.6                   | 4.8                   | 3.3                   | 4.2                   |
| Terms of trade in goods and services   | -0.9                      | -0.3                      | -1.7                  | 0.1                   | -0.1                  | 0.1                   | -0.6                  |

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.



## Notes :

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

The expenditure ranges of the households covered in the 2009/10-based CPIs are shown below:

|        | <u>Approximate proportion of<br/>households covered</u><br>(%) | <u>Average monthly expenditure range<br/>during Oct 2009 to Sep 2010</u><br>(\$) |
|--------|--|--|
| CPI(A) | 50   | 4,500 to 18,499  |
| CPI(B) | 30   | 18,500 to 32,499   |
| CPI(C) | 10   | 32,500 to 65,999   |

The weightings of the various components in the 2009/10-based CPIs are as follows:

| <u>Expenditure<br/>component</u>                           | <u>Composite CPI</u><br>(%) | <u>CPI(A)</u><br>(%) | <u>CPI(B)</u><br>(%) | <u>CPI(C)</u><br>(%) |
|--|-----------------------------|----------------------|----------------------|----------------------|
| Food   | 27.45                       | 33.68                | 27.16                | 20.87                |
| <i>Meals bought away from<br/>    home</i>                 | <i>17.07</i>                | <i>19.23</i>         | <i>17.90</i>         | <i>13.55</i>         |
| <i>Other foodstuffs</i>                                    | <i>10.38</i>                | <i>14.45</i>         | <i>9.26</i>          | <i>7.32</i>          |
| Housing  | 31.66                       | 32.19                | 31.43                | 31.36                |
| <i>Private dwellings</i>                                   | <i>27.14</i>                | <i>24.78</i>         | <i>28.13</i>         | <i>28.45</i>         |
| <i>Public dwellings</i>                                    | <i>2.05</i>                 | <i>5.49</i>          | <i>0.72</i>          | <i>--</i>            |
| <i>Maintenance costs and<br/>    other housing charges</i> | <i>2.47</i>                 | <i>1.92</i>          | <i>2.58</i>          | <i>2.91</i>          |
| Electricity, gas and water                                 | 3.10                        | 4.36                 | 2.84                 | 2.03                 |
| Alcoholic drinks and<br>tobacco                            | 0.59                        | 0.91                 | 0.56                 | 0.29                 |
| Clothing and footwear                                      | 3.45                        | 2.60                 | 3.45                 | 4.39                 |
| Durable goods  | 5.27                        | 3.73                 | 5.73                 | 6.39                 |
| Miscellaneous goods  | 4.17                        | 3.87                 | 4.17                 | 4.49                 |
| Transport  | 8.44                        | 7.22                 | 8.35                 | 9.93                 |
| Miscellaneous services                                     | 15.87                       | 11.44                | 16.31                | 20.25                |
| All items  | 100.00                      | 100.00               | 100.00               | 100.00               |

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

|                              | <u>2009</u>   | <u>2010</u>   | <u>2011</u>   |           |           |           | <u>2012</u> |           |
|------------------------------|---------------|---------------|---------------|-----------|-----------|-----------|-------------|-----------|
|                              | <u>Annual</u> | <u>Annual</u> | <u>Annual</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u>   | <u>Q1</u> |
| Selected developed economies |               |               |               |           |           |           |             |           |
| US                           | -0.4          | 1.6           | 3.2           | 2.1       | 3.4       | 3.8       | 3.3         | 2.8       |
| Canada                       | 0.3           | 1.8           | 2.9           | 2.6       | 3.4       | 3.0       | 2.7         | 2.3       |
| EU                           | 1.0           | 2.1           | 3.1           | 2.9       | 3.2       | 3.1       | 3.2         | 2.9       |
| Japan                        | -1.3          | -0.7          | -0.3          | -0.5      | -0.4      | 0.1       | -0.3        | 0.3       |
| Major emerging economies     |               |               |               |           |           |           |             |           |
| Mainland China               | -0.7          | 3.3           | 5.4           | 5.0       | 5.7       | 6.3       | 4.6         | 3.8       |
| Russia                       | 11.7          | 6.9           | 8.4           | 9.5       | 9.5       | 8.1       | 6.7         | 3.9       |
| India                        | 10.9          | 12.0          | 8.9           | 9.0       | 8.9       | 9.2       | 8.4         | 7.2       |
| Brazil                       | 4.9           | 5.0           | 6.6           | 6.1       | 6.6       | 7.1       | 6.7         | 5.8       |
| Selected Asian economies     |               |               |               |           |           |           |             |           |
| Hong Kong                    | 0.5           | 2.4           | 5.3           | 3.8       | 5.2       | 6.4       | 5.7         | 5.2       |
| Singapore                    | 0.6           | 2.8           | 5.2           | 5.2       | 4.7       | 5.5       | 5.5         | 4.9       |
| Taiwan                       | -0.9          | 1.0           | 1.4           | 1.3       | 1.6       | 1.3       | 1.4         | 1.3       |
| South Korea                  | 2.8           | 2.9           | 4.0           | 3.8       | 4.0       | 4.3       | 4.0         | 3.0       |
| Malaysia                     | 0.6           | 1.7           | 3.2           | 2.8       | 3.3       | 3.4       | 3.2         | 2.3       |
| Thailand                     | -0.8          | 3.3           | 3.8           | 3.0       | 4.1       | 4.1       | 4.0         | 3.4       |
| Indonesia                    | 4.8           | 5.1           | 5.4           | 6.8       | 5.9       | 4.7       | 4.1         | 3.7       |
| Philippines                  | 4.1           | 3.8           | 4.8           | 4.5       | 5.0       | 4.8       | 4.7         | 3.1       |
| Vietnam                      | 6.7           | 9.2           | 18.7          | 12.8      | 19.4      | 22.5      | 19.8        | 15.9      |
| Macao                        | 1.2           | 2.8           | 5.8           | 5.0       | 5.2       | 6.2       | 6.7         | 6.3       |

- (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

|  | <u>Table</u> | <u>Page</u> |
|--|--------------|-------------|
| 1. Gross Domestic Product by expenditure component (at current market prices)                                  |              | 112-113     |
| 2. Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms) |              | 114-115     |
| 3. Gross Domestic Product by economic activity (at current prices)   |              | 116         |
| 4. Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)     |              | 117         |
| 5. Balance of payments account by major component (at current prices)  |              | 118         |
| 6. Visible and invisible trade (at current market prices)  |              | 119         |
| 7. Total exports of goods by market (in value terms)   |              | 120         |
| 8. Imports of goods by source (in value terms)   |              | 121         |
| 9. Retained imports of goods by end-use category (in value terms)  |              | 121         |
| 10. Exports and imports of services by component (at current market prices)                                    |              | 122         |
| 11. Incoming visitors by source  |              | 123         |
| 12. Property market  |              | 124-125     |
| 13. Property prices and rentals  |              | 126-127     |
| 14. Monetary aggregates  |              | 128-129     |
| 15. Rates of change in business receipts indices for service industries/domains                                |              | 130         |
| 16. Labour force characteristics   |              | 131         |
| 17. Employment in selected major industries  |              | 132         |
| 18. Number of workers engaged at building and construction sites   |              | 133         |
| 19. Rates of change in indices of payroll per person engaged by selected industry section                      |              | 134         |
| 20. Rates of change in wage indices by selected industry section   |              | 135         |
| 21. Rates of change in prices  |              | 136-137     |
| 22. Rates of change in Composite Consumer Price Index  |              | 138-139     |
| 23. Rates of change in implicit price deflators of GDP and its main expenditure components                     |              | 140-141     |

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

|  | <u>2002</u>      | <u>2003</u>      | <u>2004</u>      | <u>2005</u>      | <u>2006</u>      | <u>2007</u>      |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | (\$Mn)           |                  |                  |                  |                  |                  |
| Private consumption expenditure                        | 748,402          | 719,873          | 767,923          | 804,936          | 863,591          | 972,028          |
| Government consumption expenditure                     | 131,291          | 130,151          | 127,327          | 121,435          | 123,033          | 130,404          |
| Gross domestic fixed capital formation                 | 286,025          | 261,576          | 275,034          | 289,170          | 322,691          | 325,366          |
| <i>of which:</i>                                       |                  |                  |                  |                  |                  |                  |
| Building and construction                              | 131,757          | 116,628          | 107,692          | 105,993          | 106,268          | 111,776          |
| Machinery, equipment and computer software             | 144,832          | 136,537          | 150,545          | 163,287          | 199,631          | 189,093          |
| Changes in inventories                                 | 5,660            | 9,111            | 7,076            | -4,761           | -2,129           | 12,841           |
| Total exports of goods                                 | 1,562,121        | 1,749,089        | 2,027,031        | 2,251,744        | 2,467,357        | 2,698,850        |
| Imports of goods                                       | 1,601,527        | 1,794,059        | 2,099,545        | 2,311,091        | 2,576,340        | 2,852,522        |
| Exports of services                                    | 347,836          | 362,420          | 429,584          | 495,394          | 565,054          | 660,847          |
| Imports of services                                    | 202,494          | 203,400          | 242,507          | 264,237          | 287,900          | 332,240          |
| <b>GDP</b>   | <b>1,277,314</b> | <b>1,234,761</b> | <b>1,291,923</b> | <b>1,382,590</b> | <b>1,475,357</b> | <b>1,615,574</b> |
| <i>Per capita GDP (\$)</i>                             | <i>189,397</i>   | <i>183,449</i>   | <i>190,451</i>   | <i>202,928</i>   | <i>215,158</i>   | <i>233,589</i>   |
| <b>GNP</b>   | <b>1,282,966</b> | <b>1,263,252</b> | <b>1,315,333</b> | <b>1,384,238</b> | <b>1,502,705</b> | <b>1,660,011</b> |
| <i>Per capita GNP (\$)</i>                             | <i>190,235</i>   | <i>187,682</i>   | <i>193,902</i>   | <i>203,170</i>   | <i>219,146</i>   | <i>240,014</i>   |
| Total final demand                                     | 3,081,335        | 3,232,220        | 3,633,975        | 3,957,918        | 4,339,597        | 4,800,336        |
| Total final demand excluding re-exports <sup>(a)</sup> | 1,923,623        | 1,896,483        | 2,062,142        | 2,212,697        | 2,406,861        | 2,660,146        |
| Domestic demand  | 1,171,378        | 1,120,711        | 1,177,360        | 1,210,780        | 1,307,186        | 1,440,639        |
| Private  | 986,542          | 939,104          | 1,001,588        | 1,048,026        | 1,149,285        | 1,278,479        |
| Public   | 184,836          | 181,607          | 175,772          | 162,754          | 157,901          | 162,160          |
| External demand  | 1,909,957        | 2,111,509        | 2,456,615        | 2,747,138        | 3,032,411        | 3,359,697        |

**Definition 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>2008</u>      | <u>2009</u>      | <u>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> | Q2 <sup>#</sup> | <u>2011</u><br>Q3 <sup>#</sup> | Q4 <sup>#</sup> | <u>2012</u><br>Q1 <sup>#</sup> |
| Private consumption expenditure                        | 1,022,862        | 1,012,774        | 1,091,524               | 1,232,205               | 311,045         | 306,904                        | 328,611         | 312,107                        |
| Government consumption expenditure                     | 139,262          | 142,924          | 147,388                 | 157,423                 | 37,244          | 39,527                         | 40,213          | 43,987                         |
| Gross domestic fixed capital formation                 | 334,352          | 322,869          | 370,453                 | 417,204                 | 105,320         | 109,458                        | 110,808         | 107,585                        |
| <i>of which:</i>                                       |                  |                  |                         |                         |                 |                                |                 |                                |
| Building and construction                              | 127,312          | 123,752          | 139,212                 | 161,471                 | 39,026          | 40,970                         | 42,518          | 46,025                         |
| Machinery, equipment and computer software             | 182,189          | 174,879          | 193,206                 | 219,613                 | 55,420          | 60,434                         | 61,690          | 54,893                         |
| Changes in inventories                                 | 8,480            | 22,941           | 37,522                  | 16,045                  | 7,448           | -1,932                         | 1,373           | 1,085                          |
| Total exports of goods                                 | 2,843,998        | 2,494,746        | 3,061,252               | 3,409,192               | 834,799         | 891,033                        | 887,629         | 802,021                        |
| Imports of goods                                       | 3,024,089        | 2,702,966        | 3,395,057               | 3,845,943               | 960,405         | 990,906                        | 1,005,090       | 933,411                        |
| Exports of services                                    | 718,630          | 669,829          | 824,751                 | 945,519                 | 214,610         | 250,227                        | 259,073         | 241,834                        |
| Imports of services                                    | 366,484          | 340,601          | 396,269                 | 434,950                 | 102,654         | 113,123                        | 115,939         | 109,135                        |
| <b>GDP</b>   | <b>1,677,011</b> | <b>1,622,516</b> | <b>1,741,564</b>        | <b>1,896,695</b>        | <b>447,407</b>  | <b>491,188</b>                 | <b>506,678</b>  | <b>466,073</b>                 |
| <i>Per capita GDP (\$)</i>                             | <i>241,026</i>   | <i>232,692</i>   | <i>247,938</i>          | <i>268,213</i>          | --              | --                             | --              | --                             |
| <b>GNP</b>   | <b>1,760,317</b> | <b>1,665,382</b> | <b>1,769,863</b>        | <b>1,953,528</b>        | <b>471,717</b>  | <b>497,273</b>                 | <b>512,978</b>  | <b>N.A.</b>                    |
| <i>Per capita GNP (\$)</i>                             | <i>252,999</i>   | <i>238,840</i>   | <i>251,966</i>          | <i>276,250</i>          | --              | --                             | --              | --                             |
| Total final demand                                     | 5,067,584        | 4,666,083        | 5,532,890               | 6,177,588               | 1,510,466       | 1,595,217                      | 1,627,707       | 1,508,619                      |
| Total final demand excluding re-exports <sup>(a)</sup> | 2,805,196        | 2,656,449        | 3,027,499               | 3,383,527               | 828,232         | 864,904                        | 899,890         | 849,392                        |
| Domestic demand  | 1,504,956        | 1,501,508        | 1,646,887               | 1,822,877               | 461,057         | 453,957                        | 481,005         | 464,764                        |
| Private  | 1,329,853        | 1,317,682        | 1,442,237               | 1,596,073               | 409,598         | 398,808                        | 421,506         | 396,277                        |
| Public   | 175,103          | 183,826          | 204,650                 | 226,804                 | 51,459          | 55,149                         | 59,499          | 68,487                         |
| External demand  | 3,562,628        | 3,164,575        | 3,886,003               | 4,354,711               | 1,049,409       | 1,141,260                      | 1,146,702       | 1,043,855                      |

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>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Private consumption expenditure                        | -0.9        | -1.3        | 7.0         | 3.0         | 5.9         | 8.5         |
| Government consumption expenditure                     | 2.4         | 1.8         | 0.7         | -3.2        | 0.3         | 3.0         |
| Gross domestic fixed capital formation                 | -4.7        | 0.9         | 2.5         | 4.1         | 7.1         | 3.4         |
| <i>of which:</i>                                       |             |             |             |             |             |             |
| Building and construction                              | -1.3        | -5.4        | -10.7       | -7.6        | -7.1        | -0.3        |
| Machinery, equipment and computer software             | -7.6        | 7.0         | 10.3        | 12.8        | 19.2        | 3.0         |
| Total exports of goods                                 | 8.6         | 14.0        | 14.9        | 10.4        | 9.3         | 7.0         |
| Imports of goods                                       | 7.9         | 13.1        | 13.7        | 8.0         | 9.2         | 8.8         |
| Exports of services                                    | 11.1        | 7.6         | 18.0        | 11.6        | 10.1        | 14.1        |
| Imports of services                                    | 3.9         | -2.2        | 14.6        | 7.8         | 8.1         | 12.1        |
| <b>GDP</b>   | <b>1.8</b>  | <b>3.0</b>  | <b>8.5</b>  | <b>7.1</b>  | <b>7.0</b>  | <b>6.4</b>  |
| <i>Per capita GDP</i>                                  | <i>1.4</i>  | <i>3.2</i>  | <i>7.6</i>  | <i>6.6</i>  | <i>6.3</i>  | <i>5.5</i>  |
| <b>GNP</b>   | <b>0.1</b>  | <b>4.9</b>  | <b>7.9</b>  | <b>5.3</b>  | <b>8.8</b>  | <b>7.4</b>  |
| <i>Per capita GNP</i>                                  | <i>-0.3</i> | <i>5.1</i>  | <i>7.0</i>  | <i>4.8</i>  | <i>8.1</i>  | <i>6.5</i>  |
| Total final demand                                     | 5.0         | 7.9         | 11.8        | 7.7         | 8.4         | 8.2         |
| Total final demand excluding re-exports <sup>(a)</sup> | 2.0         | 3.1         | 8.9         | 5.4         | 7.3         | 7.9         |
| Domestic demand  | -0.7        | -0.2        | 5.0         | 1.6         | 6.0         | 7.9         |
| Private  | -1.0        | -0.5        | 6.2         | 3.0         | 7.5         | 9.0         |
| Public   | 1.1         | 1.4         | -1.2        | -6.2        | -3.8        | 0.2         |
| External demand  | 9.0         | 12.8        | 15.4        | 10.6        | 9.4         | 8.3         |

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>2008</u> | <u>2009</u> | <u>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> | <u>2011</u>     |                 |                 | <u>2012</u>     | Average annual rate of change:           |   |
|--|-------------|-------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|--|---|
|  |             |             |                         |                         | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | 10 years<br>2001 to<br>2011 <sup>#</sup> | 5 years<br>2006 to<br>2011 <sup>#</sup> |
| Private consumption expenditure                        | 2.4         | 0.7         | 6.7                     | 8.5                     | 9.9             | 9.5             | 6.6             | 5.6             | 4.0                                      | 5.3                                     |
| Government consumption expenditure                     | 1.8         | 2.4         | 2.8                     | 1.8                     | 1.0             | 1.3             | 2.2             | 2.5             | 1.4                                      | 2.3                                     |
| Gross domestic fixed capital formation                 | 1.0         | -3.9        | 7.7                     | 7.6                     | 7.7             | 11.7            | 9.8             | 12.2            | 2.5                                      | 3.1                                     |
| <i>of which:</i>                                       |             |             |                         |                         |                 |                 |                 |                 |  |   |
| Building and construction                              | 6.8         | -5.5        | 5.6                     | 5.7                     | -4.2            | 3.0             | 7.6             | 11.1            | -2.2                                     | 2.3                                     |
| Machinery, equipment and computer software             | -0.7        | -2.9        | 6.4                     | 13.7                    | 17.8            | 26.7            | 20.5            | 23.1            | 5.8                                      | 3.7                                     |
| Total exports of goods                                 | 1.9         | -12.7       | 17.3                    | 3.6                     | 0.3             | -2.2            | 2.0             | -5.7            | 7.1                                      | 3.0                                     |
| Imports of goods                                       | 1.8         | -9.5        | 18.1                    | 4.8                     | 2.6             | 1.4             | 3.9             | -2.7            | 7.4                                      | 4.4                                     |
| Exports of services                                    | 5.2         | 0.3         | 14.6                    | 6.7                     | 7.4             | 5.3             | 5.3             | 3.6             | 9.8                                      | 8.0                                     |
| Imports of services                                    | 6.3         | -4.9        | 10.4                    | 3.1                     | 2.9             | 1.4             | 2.8             | 2.5             | 5.8                                      | 5.2                                     |
| <b>GDP</b>   | <b>2.3</b>  | <b>-2.6</b> | <b>7.1</b>              | <b>5.0</b>              | <b>5.4</b>      | <b>4.4</b>      | <b>3.0</b>      | <b>0.4</b>      | <b>4.5</b>                               | <b>3.6</b>                              |
| <b>Per capita GDP</b>                                  | <b>1.7</b>  | <b>-2.9</b> | <b>6.3</b>              | <b>4.3</b>              | --              | --              | --              | --              | <b>4.0</b>                               | <b>2.9</b>                              |
| <b>GNP</b>   | <b>4.5</b>  | <b>-4.8</b> | <b>6.0</b>              | <b>6.4</b>              | <b>9.5</b>      | <b>5.3</b>      | <b>3.5</b>      | <b>N.A.</b>     | <b>4.6</b>                               | <b>3.8</b>                              |
| <b>Per capita GNP</b>                                  | <b>3.8</b>  | <b>-5.0</b> | <b>5.2</b>              | <b>5.7</b>              | --              | --              | --              | --              | <b>4.0</b>                               | <b>3.2</b>                              |
| Total final demand                                     | 2.3         | -6.9        | 13.7                    | 4.8                     | 3.5             | 2.4             | 3.5             | -1.3            | 6.1                                      | 4.2                                     |
| Total final demand excluding re-exports <sup>(a)</sup> | 1.8         | -2.6        | 10.6                    | 5.5                     | 6.0             | 6.3             | 4.5             | 2.2             | 4.9                                      | 4.6                                     |
| Domestic demand  | 1.6         | 0.8         | 7.5                     | 6.0                     | 7.8             | 10.2            | 5.3             | 4.5             | 3.5                                      | 4.7                                     |
| Private  | 1.5         | 0.3         | 7.1                     | 6.1                     | 8.4             | 11.4            | 5.4             | 4.2             | 3.8                                      | 4.7                                     |
| Public   | 2.6         | 4.3         | 10.2                    | 5.6                     | 3.5             | 2.0             | 4.8             | 6.4             | 1.3                                      | 4.5                                     |
| External demand  | 2.6         | -10.1       | 16.7                    | 4.2                     | 1.6             | -0.6            | 2.7             | -3.8            | 7.6                                      | 4.0                                     |

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

|   | 2006             |              | 2007             |              | 2008             |              | 2009             |              | 2010 <sup>#</sup> |              |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|-------------------|--------------|
|   | \$Mn             | % share      | \$Mn             | % share      | \$Mn             | % share      | \$Mn             | % share      | \$Mn              | % share      |
| Agriculture, fishing, mining and quarrying                  | 947              | 0.1          | 1,015            | 0.1          | 925              | 0.1          | 1,090            | 0.1          | 948               | 0.1          |
| Manufacturing   | 39,303           | 2.7          | 31,729           | 2.0          | 30,993           | 1.9          | 28,227           | 1.8          | 29,965            | 1.8          |
| Electricity, gas and water supply, and waste management     | 41,239           | 2.8          | 40,685           | 2.6          | 39,585           | 2.5          | 34,961           | 2.3          | 34,466            | 2.0          |
| Construction  | 39,124           | 2.7          | 40,611           | 2.6          | 48,357           | 3.0          | 50,146           | 3.2          | 56,277            | 3.3          |
| Services  | 1,332,191        | 91.7         | 1,466,109        | 92.8         | 1,473,037        | 92.5         | 1,436,427        | 92.6         | 1,581,310         | 92.9         |
| <i>Import/export, wholesale and retail trades</i>           | <i>361,169</i>   | <i>24.9</i>  | <i>374,614</i>   | <i>23.7</i>  | <i>393,914</i>   | <i>24.7</i>  | <i>365,880</i>   | <i>23.6</i>  | <i>408,361</i>    | <i>24.0</i>  |
| <i>Accommodation<sup>(a)</sup> and food services</i>        | <i>42,697</i>    | <i>2.9</i>   | <i>48,827</i>    | <i>3.1</i>   | <i>53,596</i>    | <i>3.4</i>   | <i>48,787</i>    | <i>3.1</i>   | <i>56,409</i>     | <i>3.3</i>   |
| <i>Transportation, storage, postal and courier services</i> | <i>116,104</i>   | <i>8.0</i>   | <i>119,728</i>   | <i>7.6</i>   | <i>98,245</i>    | <i>6.2</i>   | <i>99,048</i>    | <i>6.4</i>   | <i>137,769</i>    | <i>8.1</i>   |
| <i>Information and communications</i>                       | <i>48,243</i>    | <i>3.3</i>   | <i>50,873</i>    | <i>3.2</i>   | <i>48,258</i>    | <i>3.0</i>   | <i>46,808</i>    | <i>3.0</i>   | <i>54,318</i>     | <i>3.2</i>   |
| <i>Financing and insurance</i>                              | <i>228,178</i>   | <i>15.7</i>  | <i>304,764</i>   | <i>19.3</i>  | <i>255,586</i>   | <i>16.0</i>  | <i>235,581</i>   | <i>15.2</i>  | <i>262,021</i>    | <i>15.4</i>  |
| <i>Real estate, professional and business services</i>      | <i>128,111</i>   | <i>8.8</i>   | <i>146,562</i>   | <i>9.3</i>   | <i>165,594</i>   | <i>10.4</i>  | <i>173,583</i>   | <i>11.2</i>  | <i>187,850</i>    | <i>11.0</i>  |
| <i>Public administration, social and personal services</i>  | <i>245,295</i>   | <i>16.9</i>  | <i>254,391</i>   | <i>16.1</i>  | <i>269,601</i>   | <i>16.9</i>  | <i>279,453</i>   | <i>18.0</i>  | <i>285,630</i>    | <i>16.8</i>  |
| <i>Ownership of premises</i>                                | <i>162,393</i>   | <i>11.2</i>  | <i>166,352</i>   | <i>10.5</i>  | <i>188,244</i>   | <i>11.8</i>  | <i>187,286</i>   | <i>12.1</i>  | <i>188,952</i>    | <i>11.1</i>  |
| <b>GDP at basic prices</b>                                  | <b>1,452,803</b> | <b>100.0</b> | <b>1,580,148</b> | <b>100.0</b> | <b>1,592,897</b> | <b>100.0</b> | <b>1,550,851</b> | <b>100.0</b> | <b>1,702,966</b>  | <b>100.0</b> |
| Taxes on products   | 40,348           | --           | 64,634           | --           | 59,919           | --           | 55,967           | --           | 68,707            | --           |
| Statistical discrepancy (%)                                 | -1.2             | --           | -1.8             | --           | 1.4              | --           | 1.0              | --           | -1.7              | --           |
| <b>GDP at current market prices</b>                         | <b>1,475,357</b> | <b>--</b>    | <b>1,615,574</b> | <b>--</b>    | <b>1,677,011</b> | <b>--</b>    | <b>1,622,516</b> | <b>--</b>    | <b>1,741,564</b>  | <b>--</b>    |

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

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

(--) Not applicable.



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

|   | (%)         |             |             |             |                         |                         |                 |                 |                 |                 |
|---|-------------|-------------|-------------|-------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> | <u>2011</u>     |                 |                 |                 |
|   |             |             |             |             |                         |                         | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> |
| Agriculture, fishing,<br>mining and quarrying                   | -3.3        | -4.3        | -17.0       | -4.6        | 3.9                     | -7.6                    | -13.9           | -3.9            | -3.6            | -9.6            |
| Manufacturing   | 2.2         | -1.4        | -6.7        | -8.3        | 3.5                     | 0.7                     | 3.5             | 2.0             | 0.2             | -2.2            |
| Electricity, gas and water supply,<br>and waste management      | 0.8         | 1.3         | 0.7         | 1.5         | -0.2                    | 1.2                     | -2.9            | 3.2             | 1.3             | 2.8             |
| Construction  | -9.4        | -1.0        | 8.9         | -7.6        | 15.4                    | 7.5                     | 23.4            | -0.3            | 2.1             | 6.4             |
| Services  | 7.0         | 6.9         | 2.5         | -1.6        | 7.0                     | 4.8                     | 7.4             | 5.2             | 3.9             | 2.9             |
| <i>Import/export,<br/>wholesale and retail trades</i>           | 8.6         | 6.1         | 6.8         | -9.4        | 16.7                    | 8.0                     | 15.4            | 7.1             | 4.9             | 6.3             |
| <i>Accommodation<sup>(a)</sup> and<br/>food services</i>        | 9.7         | 10.7        | 1.7         | -11.3       | 9.5                     | 1.1                     | 0.9             | 0.9             | 2.3             | 0.5             |
| <i>Transportation, storage,<br/>postal and courier services</i> | 6.5         | 5.2         | 2.5         | -5.5        | 6.1                     | 6.5                     | 9.2             | 4.5             | 6.0             | 6.3             |
| <i>Information and communications</i>                           | 8.0         | 6.5         | -1.5        | 0.9         | 1.5                     | 1.6                     | 2.0             | 1.5             | 0.8             | 2.0             |
| <i>Financing and insurance</i>                                  | 19.6        | 17.7        | -0.8        | 4.3         | 7.3                     | 7.8                     | 12.2            | 12.9            | 8.5             | -0.7            |
| <i>Real estate, professional and<br/>business services</i>      | 2.3         | 6.5         | 1.7         | 1.7         | 2.3                     | 1.4                     | 2.3             | 1.3             | 0.9             | 1.0             |
| <i>Public administration, social<br/>and personal services</i>  | 0.6         | 1.5         | 2.2         | 2.8         | 1.8                     | 2.5                     | 2.3             | 2.4             | 2.5             | 2.5             |
| <i>Ownership of premises</i>                                    | 2.6         | 2.8         | 1.8         | 1.3         | 0.7                     | 0.9                     | 0.4             | 0.9             | 1.1             | 1.1             |
| Taxes on products   | 7.7         | 24.9        | -1.7        | -4.6        | 6.1                     | -5.2                    | 7.6             | -3.6            | -5.3            | -17.2           |
| <b>GDP in chained (2009) dollars</b>                            | <b>7.0</b>  | <b>6.4</b>  | <b>2.3</b>  | <b>-2.6</b> | <b>7.1</b>              | <b>5.0</b>              | <b>7.6</b>      | <b>5.4</b>      | <b>4.4</b>      | <b>3.0</b>      |

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

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

|   | (\$Mn)         |                |                |               |                         |                 |                 |                 |                 |
|---|----------------|----------------|----------------|---------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   | <u>2007</u>    | <u>2008</u>    | <u>2009</u>    | <u>2010</u>   | <u>2011<sup>#</sup></u> | <u>2011</u>     |                 |                 |                 |
|   |                |                |                |               |                         | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> |
| Current account <sup>(a)</sup>                        | 199,279        | 229,506        | 139,249        | 96,224        | 100,479                 | 37,443          | 3,801           | 34,902          | 24,334          |
| Goods   | -153,672       | -180,091       | -208,220       | -333,805      | -436,751                | -93,811         | -125,606        | -99,873         | -117,461        |
| Services  | 328,607        | 352,146        | 329,228        | 428,482       | 510,569                 | 118,375         | 111,956         | 137,104         | 143,134         |
| Income  | 44,437         | 83,306         | 42,866         | 28,299        | 56,833                  | 20,137          | 24,310          | 6,085           | 6,300           |
| Current transfers                                     | -20,093        | -25,855        | -24,625        | -26,752       | -30,172                 | -7,258          | -6,860          | -8,415          | -7,640          |
| Capital and financial account <sup>(a)</sup>          | -259,247       | -231,162       | -155,371       | -152,502      | -139,527                | -21,254         | -20,897         | -56,473         | -40,903         |
| Capital and financial non-reserve assets (net change) | -144,749       | 32,707         | 393,891        | -81,416       | -27,921                 | -2,561          | -1,293          | -32,917         | 8,850           |
| Capital transfers                                     | 10,338         | 16,393         | 36,210         | 40,898        | 57,701                  | 12,966          | 12,392          | 21,619          | 10,723          |
| Financial non-reserve assets (net change)             | -155,086       | 16,314         | 357,680        | -122,314      | -85,621                 | -15,527         | -13,685         | -54,537         | -1,873          |
| <i>Direct investment</i>                              | -52,577        | 70,393         | -89,900        | -188,998      | 12,054                  | 58,767          | -2,171          | 6,825           | -51,367         |
| <i>Portfolio investment</i>                           | -21,452        | -295,148       | -332,417       | -467,379      | -27,806                 | 17,598          | -62,784         | -94,475         | 111,856         |
| <i>Financial derivatives</i>                          | 43,534         | 63,338         | 24,560         | 18,677        | 22,937                  | 5,199           | -4,059          | 2,323           | 19,474          |
| <i>Other investment</i>                               | -124,592       | 177,732        | 755,438        | 515,386       | -92,807                 | -97,091         | 55,329          | 30,790          | -81,835         |
| Reserve assets (net change)                           | -114,498       | -263,869       | -549,262       | -71,086       | -111,606                | -18,694         | -19,604         | -23,556         | -49,753         |
| Net errors and omissions                              | 59,968         | 1,656          | 16,122         | 56,278        | 39,048                  | -16,189         | 17,097          | 21,571          | 16,569          |
| <b>Overall balance of payments</b>                    | <b>114,498</b> | <b>263,869</b> | <b>549,262</b> | <b>71,086</b> | <b>111,606</b>          | <b>18,694</b>   | <b>19,604</b>   | <b>23,556</b>   | <b>49,753</b>   |

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

(a) In accordance with the Balance of Payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. For the capital and financial account, a positive value indicates a net capital and financial inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the 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>2007</u>        | <u>2008</u>        | <u>2009</u>        | <u>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> |                     | <u>2011</u>        |                    | <u>2012</u>        |
|  |                    |                    |                    |                         |                         | Q2 <sup>#</sup>     | Q3 <sup>#</sup>    | Q4 <sup>#</sup>    | Q1 <sup>#</sup>    |
| Total exports of goods                     | 2,698,850          | 2,843,998          | 2,494,746          | 3,061,252               | 3,409,192               | 834,799             | 891,033            | 887,629            | 802,021            |
| Imports of goods                           | 2,852,522          | 3,024,089          | 2,702,966          | 3,395,057               | 3,845,943               | 960,405             | 990,906            | 1,005,090          | 933,411            |
| <b>Visible trade balance</b>               | <b>-153,672</b>    | <b>-180,091</b>    | <b>-208,220</b>    | <b>-333,805</b>         | <b>-436,751</b>         | <b>-125,606</b>     | <b>-99,873</b>     | <b>-117,461</b>    | <b>-131,390</b>    |
|  | <b>(-5.4)</b>      | <b>(-6.0)</b>      | <b>(-7.7)</b>      | <b>(-9.8)</b>           | <b>(-11.4)</b>          | <b>(-13.1)</b>      | <b>(-10.1)</b>     | <b>(-11.7)</b>     | <b>(-14.1)</b>     |
| Exports of services                        | 660,847            | 718,630            | 669,829            | 824,751                 | 945,519                 | 214,610             | 250,227            | 259,073            | 241,834            |
| Imports of services                        | 332,240            | 366,484            | 340,601            | 396,269                 | 434,950                 | 102,654             | 113,123            | 115,939            | 109,135            |
| <b>Invisible trade balance</b>             | <b>328,607</b>     | <b>352,146</b>     | <b>329,228</b>     | <b>428,482</b>          | <b>510,569</b>          | <b>111,956</b>      | <b>137,104</b>     | <b>143,134</b>     | <b>132,699</b>     |
|  | <b>(98.9)</b>      | <b>(96.1)</b>      | <b>(96.7)</b>      | <b>(108.1)</b>          | <b>(117.4)</b>          | <b>(109.1)</b>      | <b>(121.2)</b>     | <b>(123.5)</b>     | <b>(121.6)</b>     |
| Exports of goods and services              | 3,359,697          | 3,562,628          | 3,164,575          | 3,886,003               | 4,354,711               | 1,049,409           | 1,141,260          | 1,146,702          | 1,043,855          |
| Imports of goods and services              | 3,184,762          | 3,390,573          | 3,043,567          | 3,791,326               | 4,280,893               | 1,063,059           | 1,104,029          | 1,121,029          | 1,042,546          |
| <b>Visible and invisible trade balance</b> | <b>174,935</b>     | <b>172,055</b>     | <b>121,008</b>     | <b>94,677</b>           | <b>73,818</b>           | <b>-13,650</b>      | <b>37,231</b>      | <b>25,673</b>      | <b>1,309</b>       |
|  | <b>&lt;5.5&gt;</b> | <b>&lt;5.1&gt;</b> | <b>&lt;4.0&gt;</b> | <b>&lt;2.5&gt;</b>      | <b>&lt;1.7&gt;</b>      | <b>&lt;-1.3&gt;</b> | <b>&lt;3.4&gt;</b> | <b>&lt;2.3&gt;</b> | <b>&lt;0.1&gt;</b> |

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

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

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

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

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

|                    | <u>2007</u> | <u>2008</u> | <u>2009</u>  | <u>2010</u> | <u>2011</u> |                  | <u>2011</u>                    |            |            | <u>2012</u> |
|--------------------|-------------|-------------|--------------|-------------|-------------|------------------|--------------------------------|------------|------------|-------------|
|                    | (% change)  |             |              |             | (% change)  | (\$Mn)           | Q2                             | Q3         | Q4         | Q1          |
|                    |             |             |              |             |             |                  | (% change over a year earlier) |            |            |             |
| <b>All markets</b> | <b>9.2</b>  | <b>5.1</b>  | <b>-12.6</b> | <b>22.8</b> | <b>10.1</b> | <b>3,337,253</b> | <b>7.7</b>                     | <b>4.2</b> | <b>6.9</b> | <b>-1.5</b> |
| Mainland of China  | 13.2        | 4.7         | -7.8         | 26.5        | 9.3         | 1,747,355        | 4.3                            | 0.2        | 9.3        | -2.1        |
| United States      | -0.8        | -2.4        | -20.6        | 16.4        | -0.4        | 330,771          | -3.1                           | -5.7       | -2.1       | -0.1        |
| Japan              | -0.7        | 1.2         | -10.0        | 17.2        | 5.9         | 135,155          | 2.0                            | 5.6        | 5.2        | 6.2         |
| India              | 51.2        | 50.0        | 0.2          | 42.4        | 25.6        | 93,518           | 26.6                           | 20.8       | 10.4       | -16.4       |
| Germany            | 7.2         | 15.8        | -15.5        | 1.6         | 10.7        | 89,264           | 19.7                           | 7.1        | 2.2        | -11.9       |
| Taiwan             | 1.6         | 3.8         | -0.4         | 25.4        | 24.3        | 85,270           | 28.3                           | 29.9       | 17.4       | -18.5       |
| Republic of Korea  | 2.0         | -6.4        | -13.0        | 24.4        | 14.2        | 61,274           | 18.9                           | 13.1       | 3.4        | -3.6        |
| United Kingdom     | 1.7         | 0.7         | -20.8        | 1.9         | -3.4        | 58,688           | -1.9                           | 3.9        | -14.1      | 1.7         |
| Singapore          | 3.8         | 9.6         | -23.6        | 20.7        | 10.3        | 56,244           | 13.8                           | 5.6        | 1.0        | -9.4        |
| Netherlands        | 8.2         | 2.0         | -17.8        | 18.4        | -4.1        | 42,302           | -11.1                          | 1.2        | -5.5       | 6.0         |
| Rest of the world  | 11.8        | 9.4         | -19.0        | 21.8        | 18.1        | 637,412          | 20.5                           | 16.3       | 9.3        | 4.8         |

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>2007</u> | <u>2008</u> | <u>2009</u>  | <u>2010</u> | <u>2011</u> |                  | <u>2011</u>                    |            |            | <u>2012</u> |
|--------------------|-------------|-------------|--------------|-------------|-------------|------------------|--------------------------------|------------|------------|-------------|
|                    |             | (% change)  |              |             | (% change)  | (\$Mn)           | Q2                             | Q3         | Q4         | Q1          |
|                    |             |             |              |             |             |                  | (% change over a year earlier) |            |            |             |
| <b>All sources</b> | <b>10.3</b> | <b>5.5</b>  | <b>-11.0</b> | <b>25.0</b> | <b>11.9</b> | <b>3,764,596</b> | <b>10.3</b>                    | <b>8.9</b> | <b>9.3</b> | <b>0.7</b>  |
| Mainland of China  | 11.5        | 6.1         | -11.4        | 22.4        | 10.9        | 1,696,807        | 10.3                           | 7.4        | 7.0        | 3.0         |
| Japan              | 7.2         | 3.6         | -20.6        | 30.4        | 3.4         | 318,601          | -5.2                           | 3.4        | 2.1        | -6.6        |
| Singapore          | 18.2        | 0.1         | -10.4        | 35.9        | 7.2         | 254,556          | -0.1                           | -4.2       | 12.9       | -7.4        |
| Taiwan             | 5.2         | -6.4        | -8.5         | 28.0        | 7.2         | 240,916          | -2.4                           | 4.3        | 14.9       | -9.9        |
| United States      | 12.3        | 8.6         | -5.7         | 26.0        | 18.0        | 211,368          | 19.2                           | 11.7       | 21.8       | 5.1         |
| Republic of Korea  | -0.2        | -1.1        | -12.7        | 29.8        | 12.2        | 149,969          | 6.6                            | 5.1        | 11.3       | -11.6       |
| Malaysia           | 4.1         | 5.3         | 2.8          | 24.5        | 5.1         | 89,015           | 8.5                            | -3.3       | 0.8        | -9.5        |
| India              | 29.7        | 21.5        | -9.3         | 36.5        | 20.6        | 86,603           | 33.3                           | 20.4       | 6.0        | 3.3         |
| Thailand           | 8.1         | 11.1        | -9.7         | 32.5        | 0.3         | 76,537           | -6.1                           | 11.8       | -25.1      | -24.2       |
| Germany            | 8.1         | 11.2        | -6.2         | 15.1        | 13.9        | 65,688           | 25.8                           | 16.9       | -0.8       | -12.3       |
| Rest of the world  | 10.5        | 11.4        | -8.8         | 20.5        | 24.5        | 574,536          | 29.3                           | 26.1       | 20.4       | 15.6        |

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

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

|                                     | <u>2007</u> | <u>2008</u> | <u>2009</u>  | <u>2010</u> | <u>2011</u> |                  | <u>2011</u>                    |             |             | <u>2012</u> |
|-------------------------------------|-------------|-------------|--------------|-------------|-------------|------------------|--------------------------------|-------------|-------------|-------------|
|                                     |             | (% change)  |              |             | (% change)  | (\$Mn)           | Q2                             | Q3          | Q4          | Q1          |
|                                     |             |             |              |             |             |                  | (% change over a year earlier) |             |             |             |
| <b>Overall</b>                      | <b>9.4</b>  | <b>5.3</b>  | <b>-10.8</b> | <b>27.3</b> | <b>15.9</b> | <b>1,013,744</b> | <b>16.8</b>                    | <b>22.7</b> | <b>14.3</b> | <b>5.5</b>  |
| Foodstuffs                          | 12.9        | 19.7        | 9.9          | 17.0        | 17.9        | 108,508          | 19.7                           | 34.4        | 16.5        | 14.2        |
| Consumer goods                      | 11.4        | 9.0         | -14.0        | 33.8        | 41.3        | 260,100          | 56.2                           | 61.0        | 19.5        | 21.0        |
| Raw materials and semi-manufactures | 17.7        | -4.5        | -6.4         | 32.3        | -3.3        | 316,028          | -2.4                           | -3.6        | -8.2        | -25.4       |
| Fuels                               | 20.1        | 26.6        | -18.4        | 33.8        | 22.0        | 141,667          | 12.4                           | 24.6        | 24.3        | 9.0         |
| Capital goods                       | -8.3        | 2.5         | -18.7        | 12.9        | 19.7        | 185,253          | 16.6                           | 28.5        | 42.2        | 45.5        |

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>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> |                | <u>2011</u>                    | <u>2012</u>     |                 |                 |
|--------------------------------|-------------|-------------|-------------|-------------------------|-------------------------|----------------|--------------------------------|-----------------|-----------------|-----------------|
|                                | (% change)  |             |             | (% change)              |                         | (\$Mn)         | Q2 <sup>#</sup>                | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> |
|                                |             |             |             |                         |                         |                | (% change over a year earlier) |                 |                 |                 |
| <b>Exports of services</b>     | <b>17.0</b> | <b>8.7</b>  | <b>-6.8</b> | <b>23.1</b>             | <b>14.6</b>             | <b>945,519</b> | <b>16.1</b>                    | <b>13.6</b>     | <b>12.9</b>     | <b>9.1</b>      |
| Transportation                 | 14.6        | 12.7        | -18.4       | 26.5                    | 9.5                     | 254,166        | 13.3                           | 8.5             | 7.5             | 4.6             |
| Travel                         | 18.7        | 11.1        | 6.7         | 35.6                    | 25.0                    | 215,507        | 25.0                           | 23.0            | 32.1            | 25.1            |
| Trade-related                  | 11.6        | 8.5         | -4.3        | 18.0                    | 12.6                    | 274,613        | 12.3                           | 11.2            | 9.3             | 4.5             |
| Other services                 | 26.8        | 2.3         | -4.0        | 15.7                    | 14.2                    | 201,233        | 16.8                           | 15.1            | 5.6             | 4.7             |
| <b>Imports of services</b>     | <b>15.4</b> | <b>10.3</b> | <b>-7.1</b> | <b>16.3</b>             | <b>9.8</b>              | <b>434,950</b> | <b>11.6</b>                    | <b>8.6</b>      | <b>6.8</b>      | <b>5.7</b>      |
| Transportation                 | 20.4        | 13.5        | -23.0       | 19.7                    | 7.7                     | 122,341        | 8.3                            | 7.2             | 6.1             | 5.8             |
| Travel                         | 7.6         | 6.8         | -3.1        | 12.0                    | 9.6                     | 148,974        | 13.1                           | 9.1             | 6.9             | 7.2             |
| Trade-related                  | 15.9        | 10.6        | 0.5         | 21.6                    | 12.3                    | 36,868         | 15.0                           | 9.0             | 6.7             | 5.0             |
| Other services                 | 21.2        | 11.0        | 6.8         | 17.1                    | 11.3                    | 126,767        | 12.8                           | 9.2             | 7.4             | 4.4             |
| <b>Net exports of services</b> | <b>18.6</b> | <b>7.2</b>  | <b>-6.5</b> | <b>30.1</b>             | <b>19.2</b>             | <b>510,569</b> | <b>20.6</b>                    | <b>18.2</b>     | <b>18.3</b>     | <b>12.1</b>     |

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

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

**Table 11 : Incoming visitors by source**

|                                       | <u>2007</u>     | <u>2008</u>     | <u>2009</u>     | <u>2010</u>     | <u>2011</u>     |                | <u>2011</u>     |                 | <u>2012</u>     |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|
|                                       |                 |                 |                 |                 |                 | Q2             | Q3              | Q4              | Q1              |
| <u>('000)</u>                         |                 |                 |                 |                 |                 |                |                 |                 |                 |
| <b>All sources</b>                    | <b>28 169.3</b> | <b>29 506.6</b> | <b>29 590.7</b> | <b>36 030.3</b> | <b>41 921.3</b> | <b>9 623.2</b> | <b>11 092.2</b> | <b>11 497.9</b> | <b>11 222.7</b> |
| Mainland of China                     | 15 485.8        | 16 862.0        | 17 956.7        | 22 684.4        | 28 100.1        | 6 176.9        | 7 686.6         | 7 716.2         | 7 895.5         |
| South and Southeast Asia              | 2 888.1         | 2 936.2         | 2 885.2         | 3 500.9         | 3 751.1         | 1 011.3        | 887.3           | 1 076.2         | 816.0           |
| Taiwan                                | 2 238.7         | 2 240.5         | 2 009.6         | 2 164.8         | 2 148.7         | 546.3          | 585.9           | 509.1           | 495.7           |
| Europe                                | 1 772.2         | 1 711.4         | 1 610.5         | 1 757.8         | 1 801.3         | 425.2          | 412.6           | 521.7           | 483.4           |
| Japan                                 | 1 324.3         | 1 324.8         | 1 204.5         | 1 316.6         | 1 283.7         | 272.0          | 331.2           | 353.6           | 344.1           |
| United States                         | 1 230.9         | 1 146.4         | 1 070.1         | 1 171.4         | 1 212.3         | 311.5          | 279.8           | 341.8           | 284.2           |
| Others                                | 3 229.2         | 3 285.3         | 2 854.0         | 3 434.5         | 3 623.9         | 880.1          | 909.0           | 979.3           | 903.8           |
| <u>(% change over a year earlier)</u> |                 |                 |                 |                 |                 |                |                 |                 |                 |
| <b>All sources</b>                    | <b>11.6</b>     | <b>4.7</b>      | <b>0.3</b>      | <b>21.8</b>     | <b>16.4</b>     | <b>16.9</b>    | <b>19.0</b>     | <b>16.7</b>     | <b>15.6</b>     |
| Mainland of China                     | 13.9            | 8.9             | 6.5             | 26.3            | 23.9            | 25.1           | 27.9            | 24.7            | 21.1            |
| South and Southeast Asia              | 8.6             | 1.7             | -1.7            | 21.3            | 7.1             | 6.0            | 8.1             | 6.5             | 5.1             |
| Taiwan                                | 2.8             | 0.1             | -10.3           | 7.7             | -0.7            | 5.2            | 0.5             | -3.2            | -2.3            |
| Europe                                | 14.5            | -3.4            | -5.9            | 9.1             | 2.5             | 4.1            | 3.4             | 1.9             | 9.4             |
| Japan                                 | 1.0             | *               | -9.1            | 9.3             | -2.5            | -12.0          | -2.5            | 5.9             | 5.3             |
| United States                         | 6.2             | -6.9            | -6.7            | 9.5             | 3.5             | 3.7            | -0.2            | 5.0             | 1.7             |
| Others                                | 15.1            | 1.7             | -13.1           | 20.3            | 5.5             | 9.8            | 2.2             | 2.3             | 5.6             |

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

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

**Table 12 : Property market**

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Completion of new property by the private sector</b>                   |             |             |             |             |             |             |             |
| <i>(‘000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |             |             |             |             |
| Residential property <sup>(a)</sup> (in units)                            | 31 052      | 26 397      | 26 036      | 17 321      | 16 579      | 10 471      | 8 776       |
| Commercial property   | 304         | 417         | 371         | 145         | 291         | 368         | 390         |
| <i>of which :</i>   |             |             |             |             |             |             |             |
| Office space  | 166         | 299         | 280         | 34          | 108         | 320         | 341         |
| Other commercial premises <sup>(b)</sup>                                  | 138         | 118         | 91          | 111         | 183         | 48          | 49          |
| Industrial property <sup>(c)</sup>  | 29          | 15          | 1           | 17          | 27          | 16          | 78          |
| <i>of which :</i>   |             |             |             |             |             |             |             |
| Industrial-cum-office premises  | 0           | 15          | 0           | 4           | 0           | 0           | 4           |
| Conventional flatted factory space  | 3           | 0           | 1           | 0           | 0           | 16          | 70          |
| Storage premises <sup>(d)</sup>   | 27          | 0           | 0           | 13          | 27          | 0           | 4           |
| <b>Production of public housing</b>                                       |             |             |             |             |             |             |             |
| <i>(in units)</i>   |             |             |             |             |             |             |             |
| Rental housing flats <sup>(e)</sup>                                       | 20 154      | 13 705      | 20 614      | 24 691      | 4 430       | 4 795       | 22 759      |
| Subsidized sales flats <sup>(e)</sup>                                     | 1 072       | 320         | 0           | 0           | 0           | 2 010       | 2 200       |
| <b>Building plans with consent to commence work in the private sector</b> |             |             |             |             |             |             |             |
| <i>(‘000 m<sup>2</sup> of usable floor area)</i>                          |             |             |             |             |             |             |             |
| Residential property  | 790.0       | 1 038.4     | 530.0       | 550.7       | 706.7       | 900.0       | 530.0       |
| Commercial property   | 365.3       | 200.0       | 161.3       | 481.9       | 468.4       | 327.5       | 147.7       |
| Industrial property <sup>(f)</sup>  | 107.1       | 0.8         | 16.4        | 35.1        | 23.9        | 103.5       | 106.6       |
| Other properties  | 109.3       | 444.2       | 407.1       | 408.0       | 199.2       | 207.7       | 212.8       |
| Total   | 1 371.8     | 1 683.3     | 1 114.8     | 1 475.8     | 1 398.2     | 1 538.6     | 997.1       |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |             |             |             |             |
| <i>(Number)</i>   |             |             |             |             |             |             |             |
| Residential property <sup>(g)</sup>                                       | 72 974      | 71 576      | 100 630     | 103 362     | 82 472      | 123 575     | 95 931      |
| Primary market  | 23 088      | 26 498      | 25 694      | 15 994      | 13 986      | 20 123      | 11 046      |
| Secondary market  | 49 886      | 45 078      | 74 936      | 87 368      | 68 486      | 103 452     | 84 885      |
| Selected types of non-residential properties <sup>(h)</sup>               |             |             |             |             |             |             |             |
| Office space  | 1 639       | 1 817       | 3 213       | 3 431       | 2 874       | 4 129       | 2 845       |
| Other commercial premises   | 3 167       | 4 142       | 7 833       | 7 143       | 4 402       | 5 490       | 4 149       |
| Flatted factory space   | 3 756       | 3 813       | 5 889       | 6 560       | 7 409       | 9 072       | 5 741       |

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>2009</u> | <u>2010</u> | <u>2011</u> |        | <u>2011</u> |        | <u>2012</u> |
|---|-------------|-------------|-------------|--------|-------------|--------|-------------|
|   |             |             |             | Q2     | Q3          | Q4     | Q1          |
| <b>Completion of new property by the private sector</b>                   |             |             |             |        |             |        |             |
| <i>('000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |        |             |        |             |
| Residential property <sup>(a)</sup> (in units)                            | 7 157       | 13 405      | 9 449       | 1 227  | 2 189       | 2 774  | 632         |
| Commercial property   | 235         | 189         | 197         | 61     | 8           | 16     | 62          |
| <i>of which :</i>   |             |             |             |        |             |        |             |
| Office space  | 151         | 124         | 155         | 57     | 0           | 10     | 39          |
| Other commercial premises <sup>(b)</sup>                                  | 84          | 65          | 42          | 4      | 8           | 7      | 23          |
| Industrial property <sup>(c)</sup>  | 3           | 21          | 105         | 47     | 24          | 2      | 120         |
| <i>of which :</i>   |             |             |             |        |             |        |             |
| Industrial-cum-office premises  | 0           | 0           | 0           | 0      | 0           | 0      | 0           |
| Conventional flatted factory space  | 3           | 21          | 32          | 0      | 0           | 0      | 0           |
| Storage premises <sup>(d)</sup>   | 0           | 0           | 73          | 47     | 24          | 2      | 120         |
| <b>Production of public housing</b>                                       |             |             |             |        |             |        |             |
| <i>(in units)</i>   |             |             |             |        |             |        |             |
| Rental housing flats <sup>(e)</sup>                                       | 19 021      | 6 385       | 17 787      | 0      | 2 002       | 2 113  | 7 071       |
| Subsidized sales flats <sup>(e)</sup>                                     | 370         | 1 110       | 0           | 0      | 0           | 0      | 0           |
| <b>Building plans with consent to commence work in the private sector</b> |             |             |             |        |             |        |             |
| <i>('000 m<sup>2</sup> of usable floor area)</i>                          |             |             |             |        |             |        |             |
| Residential property  | 546.8       | 560.3       | 580.6       | 66.6   | 248.1       | 102.8  | 369.2       |
| Commercial property   | 178.3       | 156.3       | 133.6       | 14.5   | 39.8        | 34.5   | 125.8       |
| Industrial property <sup>(f)</sup>  | 97.1        | 34.3        | 109.3       | 9.5    | 4.9         | 72.5   | 12.4        |
| Other properties  | 253.2       | 459.2       | 232.7       | 86.4   | 23.6        | 55.3   | 43.6        |
| Total   | 1 075.4     | 1 210.0     | 1 056.2     | 177.0  | 316.5       | 265.1  | 551.0       |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |        |             |        |             |
| <i>(Number)</i>   |             |             |             |        |             |        |             |
| Residential property <sup>(g)</sup>                                       | 115 092     | 135 778     | 84 462      | 26 359 | 15 516      | 13 739 | 18 749      |
| Primary market  | 16 161      | 13 646      | 10 880      | 3 845  | 1 723       | 3 407  | 2 895       |
| Secondary market  | 98 931      | 122 132     | 73 582      | 22 514 | 13 793      | 10 332 | 15 854      |
| Selected types of non-residential properties <sup>(h)</sup>               |             |             |             |        |             |        |             |
| Office space  | 2 521       | 3 591       | 3 053       | 1 012  | 604         | 385    | 555         |
| Other commercial premises   | 5 359       | 7 639       | 5 966       | 2 055  | 1 283       | 764    | 1 205       |
| Flatted factory space   | 5 554       | 8 206       | 7 619       | 2 431  | 1 519       | 1 083  | 1 658       |

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>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>(Index (1999=100))</u>                |             |             |             |             |             |             |             |
| Property price indices :                 |             |             |             |             |             |             |             |
| Residential flats <sup>(a)</sup>         | 69.9        | 61.6        | 78.0        | 92.0        | 92.7        | 103.5       | 120.5       |
| Office space                             | 68.4        | 62.5        | 99.3        | 133.0       | 139.3       | 165.5       | 199.0       |
| Shopping space                           | 85.0        | 85.5        | 119.3       | 149.3       | 153.5       | 172.5       | 192.2       |
| Flatted factory space                    | 74.8        | 71.7        | 88.6        | 125.0       | 158.5       | 199.5       | 235.9       |
| Property rental indices <sup>(b)</sup> : |             |             |             |             |             |             |             |
| Residential flats                        | 83.4        | 73.6        | 77.7        | 86.5        | 91.6        | 101.8       | 115.7       |
| Office space                             | 85.4        | 74.6        | 78.1        | 96.4        | 117.4       | 131.9       | 155.5       |
| Shopping space                           | 92.9        | 86.4        | 92.8        | 100.5       | 104.3       | 111.8       | 116.2       |
| Flatted factory space                    | 82.7        | 74.9        | 77.3        | 82.6        | 91.0        | 100.5       | 109.3       |
| <u>(% change)</u>                        |             |             |             |             |             |             |             |
| Property price indices :                 |             |             |             |             |             |             |             |
| Residential flats <sup>(a)</sup>         | -11.2       | -11.9       | 26.6        | 17.9        | 0.8         | 11.7        | 16.4        |
| Office space                             | -13.1       | -8.6        | 58.9        | 33.9        | 4.7         | 18.8        | 20.2        |
| Shopping space                           | -2.1        | 0.6         | 39.5        | 25.1        | 2.8         | 12.4        | 11.4        |
| Flatted factory space                    | -8.8        | -4.1        | 23.6        | 41.1        | 26.8        | 25.9        | 18.2        |
| Property rental indices <sup>(b)</sup> : |             |             |             |             |             |             |             |
| Residential flats                        | -12.6       | -11.8       | 5.6         | 11.3        | 5.9         | 11.1        | 13.7        |
| Office space                             | -15.4       | -12.6       | 4.7         | 23.4        | 21.8        | 12.4        | 17.9        |
| Shopping space                           | -6.5        | -7.0        | 7.4         | 8.3         | 3.8         | 7.2         | 3.9         |
| Flatted factory space                    | -8.4        | -9.4        | 3.2         | 6.9         | 10.2        | 10.4        | 8.8         |

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>2009</u> | <u>2010</u> | <u>2011<sup>#</sup></u> |       | <u>2011</u> |                 | <u>2012</u>     |
|--|-------------|-------------|-------------------------|-------|-------------|-----------------|-----------------|
|  |             |             |                         | Q2    | Q3          | Q4 <sup>#</sup> | Q1 <sup>+</sup> |
| <u>(Index (1999=100))</u>                |             |             |                         |       |             |                 |                 |
| Property price indices :                 |             |             |                         |       |             |                 |                 |
| Residential flats <sup>(a)</sup>         | 121.3       | 150.9       | 182.1                   | 185.8 | 185.2       | 182.1           | 184.6           |
| Office space                             | 179.8       | 230.4       | 297.7                   | 301.2 | 309.4       | 303.6           | 298.9           |
| Shopping space                           | 193.1       | 257.2       | 326.8                   | 324.6 | 336.1       | 342.0           | 349.9           |
| Flatted factory space                    | 216.3       | 284.4       | 384.9                   | 387.2 | 401.8       | 401.6           | 412.2           |
| Property rental indices <sup>(b)</sup> : |             |             |                         |       |             |                 |                 |
| Residential flats                        | 100.4       | 119.7       | 134.0                   | 133.8 | 137.4       | 136.8           | 133.5           |
| Office space                             | 135.7       | 147.6       | 169.8                   | 166.7 | 174.9       | 179.2           | 180.6           |
| Shopping space                           | 110.9       | 122.9       | 134.2                   | 133.2 | 136.6       | 139.1           | 140.8           |
| Flatted factory space                    | 99.4        | 108.9       | 118.5                   | 117.5 | 121.2       | 122.0           | 123.4           |
| <u>(% change over a year earlier)</u>    |             |             |                         |       |             |                 |                 |
| Property price indices :                 |             |             |                         |       |             |                 |                 |
| Residential flats <sup>(a)</sup>         | 0.7         | 24.4        | 20.7                    | 26.9  | 20.2        | 12.2            | 5.4             |
| Office space                             | -9.6        | 28.1        | 29.2                    | 35.1  | 33.7        | 19.6            | 8.0             |
| Shopping space                           | 0.5         | 33.2        | 27.1                    | 30.9  | 27.9        | 20.3            | 14.9            |
| Flatted factory space                    | -8.3        | 31.5        | 35.3                    | 41.9  | 38.6        | 26.9            | 18.1            |
| Property rental indices <sup>(b)</sup> : |             |             |                         |       |             |                 |                 |
| Residential flats                        | -13.2       | 19.2        | 11.9                    | 13.6  | 12.7        | 7.7             | 4.3             |
| Office space                             | -12.7       | 8.8         | 15.0                    | 14.4  | 16.4        | 16.1            | 14.0            |
| Shopping space                           | -4.6        | 10.8        | 9.2                     | 9.6   | 9.6         | 9.0             | 10.0            |
| Flatted factory space                    | -9.1        | 9.6         | 8.8                     | 8.3   | 9.9         | 8.4             | 8.8             |

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>(as at end of period)</u>  |             |             |             |             |             |             |             |
| Hong Kong dollar money supply (\$Mn) :                                    |             |             |             |             |             |             |             |
| M1  | 259,411     | 354,752     | 412,629     | 348,248     | 387,909     | 454,342     | 491,115     |
| M2 <sup>(a)</sup>   | 1,984,049   | 2,107,269   | 2,208,591   | 2,329,669   | 2,777,679   | 3,281,017   | 3,239,857   |
| M3 <sup>(a)</sup>   | 2,004,225   | 2,122,861   | 2,219,557   | 2,345,838   | 2,795,545   | 3,300,500   | 3,261,306   |
| Total money supply (\$Mn)   |             |             |             |             |             |             |             |
| M1  | 295,650     | 413,423     | 484,494     | 434,684     | 491,648     | 616,709     | 645,833     |
| M2  | 3,518,326   | 3,813,442   | 4,166,706   | 4,379,057   | 5,054,332   | 6,106,348   | 6,268,058   |
| M3  | 3,561,852   | 3,858,044   | 4,189,544   | 4,407,188   | 5,089,741   | 6,139,758   | 6,300,751   |
| Deposit (\$Mn)  |             |             |             |             |             |             |             |
| HK\$  | 1,824,911   | 1,930,790   | 2,017,911   | 2,131,579   | 2,568,283   | 3,075,042   | 3,033,980   |
| Foreign currency  | 1,492,631   | 1,636,227   | 1,848,145   | 1,936,322   | 2,188,993   | 2,793,856   | 3,024,004   |
| Total   | 3,317,542   | 3,567,018   | 3,866,056   | 4,067,901   | 4,757,275   | 5,868,898   | 6,057,984   |
| Loans and advances (\$Mn)   |             |             |             |             |             |             |             |
| HK\$  | 1,615,667   | 1,573,079   | 1,666,740   | 1,797,350   | 1,917,437   | 2,184,705   | 2,354,755   |
| Foreign currency  | 460,659     | 462,000     | 488,964     | 514,637     | 550,392     | 776,971     | 930,883     |
| Total   | 2,076,325   | 2,035,079   | 2,155,704   | 2,311,987   | 2,467,828   | 2,961,676   | 3,285,638   |
| Nominal Effective Exchange Rate Indices<br>(Jan 2010 =100) <sup>(b)</sup> |             |             |             |             |             |             |             |
| Trade-weighted  | 120.2       | 116.4       | 113.6       | 112.6       | 111.1       | 106.3       | 100.7       |
| Import-weighted   | 121.8       | 118.2       | 115.4       | 114.1       | 112.6       | 107.6       | 101.3       |
| Export-weighted   | 118.6       | 114.5       | 111.7       | 110.9       | 109.6       | 104.8       | 100.1       |
| <u>(% change)</u>   |             |             |             |             |             |             |             |
| Hong Kong dollar money supply :   |             |             |             |             |             |             |             |
| M1  | 12.9        | 36.8        | 16.3        | -15.6       | 11.4        | 17.1        | 8.1         |
| M2 <sup>(a)</sup>   | -0.7        | 6.2         | 4.8         | 5.5         | 19.2        | 18.1        | -1.3        |
| M3 <sup>(a)</sup>   | -0.6        | 5.9         | 4.6         | 5.7         | 19.2        | 18.1        | -1.2        |
| Total money supply :  |             |             |             |             |             |             |             |
| M1  | 14.6        | 39.8        | 17.2        | -10.3       | 13.1        | 25.4        | 4.7         |
| M2  | -0.9        | 8.4         | 9.3         | 5.1         | 15.4        | 20.8        | 2.6         |
| M3  | -0.9        | 8.3         | 8.6         | 5.2         | 15.5        | 20.6        | 2.6         |
| Deposit   |             |             |             |             |             |             |             |
| HK\$  | -1.6        | 5.8         | 4.5         | 5.6         | 20.5        | 19.7        | -1.3        |
| Foreign currency  | -3.8        | 9.6         | 13.0        | 4.8         | 13.0        | 27.6        | 8.2         |
| Total   | -2.6        | 7.5         | 8.4         | 5.2         | 16.9        | 23.4        | 3.2         |
| Loans and advances  |             |             |             |             |             |             |             |
| HK\$  | -1.9        | -2.6        | 6.0         | 7.8         | 6.7         | 13.9        | 7.8         |
| Foreign currency  | -14.3       | 0.3         | 5.8         | 5.3         | 6.9         | 41.2        | 19.8        |
| Total   | -5.0        | -2.0        | 5.9         | 7.2         | 6.7         | 20.0        | 10.9        |
| Nominal Effective Exchange Rate Indices <sup>(b)</sup>                    |             |             |             |             |             |             |             |
| Trade-weighted  | -0.7        | -3.2        | -2.4        | -0.9        | -1.3        | -4.3        | -5.3        |
| Import-weighted   | -0.4        | -3.0        | -2.4        | -1.1        | -1.3        | -4.4        | -5.9        |
| Export-weighted   | -0.9        | -3.5        | -2.4        | -0.7        | -1.2        | -4.4        | -4.5        |

**Definition of Terms :**

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate.

**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>2009</u> | <u>2010</u> | <u>2011</u> |           | <u>2011</u> |           | <u>2012</u> |
|---|-------------|-------------|-------------|-----------|-------------|-----------|-------------|
|   |             |             |             | Q2        | Q3          | Q4        | Q1          |
| <u>(as at end of period)</u>  |             |             |             |           |             |           |             |
| Hong Kong dollar money supply (\$Mn) :                                    |             |             |             |           |             |           |             |
| M1  | 671,241     | 730,093     | 794,726     | 755,406   | 781,835     | 794,726   | 803,741     |
| M2 <sup>(a)</sup>   | 3,587,717   | 3,866,788   | 4,046,216   | 3,901,804 | 3,906,427   | 4,046,216 | 4,157,766   |
| M3 <sup>(a)</sup>   | 3,604,843   | 3,878,193   | 4,055,404   | 3,911,982 | 3,915,089   | 4,055,404 | 4,164,459   |
| Total money supply (\$Mn)   |             |             |             |           |             |           |             |
| M1  | 901,819     | 1,017,227   | 1,127,320   | 1,093,570 | 1,119,185   | 1,127,320 | 1,179,311   |
| M2  | 6,602,310   | 7,136,271   | 8,057,530   | 7,626,662 | 7,769,534   | 8,057,530 | 8,261,176   |
| M3  | 6,626,843   | 7,156,260   | 8,081,079   | 7,649,796 | 7,788,982   | 8,081,079 | 8,279,189   |
| Deposit (\$Mn)  |             |             |             |           |             |           |             |
| HK\$  | 3,373,595   | 3,617,183   | 3,740,240   | 3,616,810 | 3,608,323   | 3,740,240 | 3,822,955   |
| Foreign currency  | 3,007,445   | 3,245,081   | 3,851,020   | 3,618,675 | 3,715,297   | 3,851,020 | 3,845,838   |
| Total   | 6,381,040   | 6,862,265   | 7,591,260   | 7,235,485 | 7,323,620   | 7,591,260 | 7,668,793   |
| Loans and advances (\$Mn)   |             |             |             |           |             |           |             |
| HK\$  | 2,401,323   | 2,824,445   | 3,160,002   | 3,045,210 | 3,126,171   | 3,160,002 | 3,154,068   |
| Foreign currency  | 887,160     | 1,403,281   | 1,920,368   | 1,773,240 | 1,903,745   | 1,920,368 | 2,041,671   |
| Total   | 3,288,483   | 4,227,726   | 5,080,370   | 4,818,450 | 5,029,915   | 5,080,370 | 5,195,740   |
| Nominal Effective Exchange Rate Indices<br>(Jan 2010 =100) <sup>(b)</sup> |             |             |             |           |             |           |             |
| Trade-weighted  | 101.9       | 99.5        | 94.6        | 94.5      | 93.4        | 94.6      | 94.5        |
| Import-weighted   | 102.2       | 99.2        | 93.9        | 93.8      | 92.6        | 94.0      | 93.9        |
| Export-weighted   | 101.6       | 99.8        | 95.4        | 95.2      | 94.4        | 95.3      | 95.2        |
| <u>(% change over a year earlier)</u>                                     |             |             |             |           |             |           |             |
| Hong Kong dollar money supply :   |             |             |             |           |             |           |             |
| M1  | 36.7        | 8.8         | 8.9         | 12.5      | -6.0        | 8.9       | 7.8         |
| M2 <sup>(a)</sup>   | 10.7        | 7.8         | 4.6         | 8.5       | -0.3        | 4.6       | 7.5         |
| M3 <sup>(a)</sup>   | 10.5        | 7.6         | 4.6         | 8.4       | -0.4        | 4.6       | 7.3         |
| Total money supply :  |             |             |             |           |             |           |             |
| M1  | 39.6        | 12.8        | 10.8        | 21.0      | 4.0         | 10.8      | 12.6        |
| M2  | 5.3         | 8.1         | 12.9        | 15.9      | 11.2        | 12.9      | 12.0        |
| M3  | 5.2         | 8.0         | 12.9        | 15.9      | 11.1        | 12.9      | 11.9        |
| Deposit   |             |             |             |           |             |           |             |
| HK\$  | 11.2        | 7.2         | 3.4         | 7.3       | -2.0        | 3.4       | 6.0         |
| Foreign currency  | -0.5        | 7.9         | 18.7        | 21.4      | 21.6        | 18.7      | 10.8        |
| Total   | 5.3         | 7.5         | 10.6        | 13.9      | 8.7         | 10.6      | 8.4         |
| Loans and advances  |             |             |             |           |             |           |             |
| HK\$  | 2.0         | 17.6        | 11.9        | 16.2      | 9.4         | 11.9      | 7.1         |
| Foreign currency  | -4.7        | 58.2        | 36.8        | 53.9      | 49.9        | 36.8      | 28.0        |
| Total   | 0.1         | 28.6        | 20.2        | 27.7      | 21.9        | 20.2      | 14.4        |
| Nominal Effective Exchange Rate Indices <sup>(b)</sup>                    |             |             |             |           |             |           |             |
| Trade-weighted  | 1.2         | -2.4        | -4.9        | -6.3      | -6.3        | -2.8      | -1.6        |
| Import-weighted   | 0.9         | -2.9        | -5.3        | -6.9      | -6.7        | -2.8      | -1.5        |
| Export-weighted   | 1.5         | -1.8        | -4.4        | -5.8      | -5.7        | -2.7      | -1.6        |

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

(b) Period average.

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

(%)

|   | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2011</u>       |                   |                   |                   |
|---|-------------|-------------|-------------|-------------|-------------------|-------------------|-------------------|-------------------|
|   |             |             |             |             | Q1                | Q2                | Q3                | Q4                |
| <b>Service Industry</b>                                 |             |             |             |             |                   |                   |                   |                   |
| Import and export trade                                 | 7.4         | -13.7       | 19.7        | 8.9         | 22.6              | 7.6               | 3.4               | 4.9               |
| Wholesale   | 6.3         | -12.6       | 25.0        | 12.7        | 21.7              | 8.9               | 9.1               | 12.7              |
| Retail  | 10.6        | 0.6         | 18.3        | 24.9        | 21.0              | 28.1              | 27.4              | 23.3              |
| Transportation<br><i>within which :</i>                 | 4.4         | -19.9       | 24.5        | 4.4         | 13.4              | 4.3               | 2.4               | -0.7              |
| Land transport  | 2.2         | -2.6        | 6.0         | 7.0         | 10.4              | 5.8               | 4.2               | 7.8               |
| Water transport   | 6.1         | -24.1       | 20.5        | 0.6         | 8.7               | 2.7               | -2.1              | -5.7              |
| Air transport   | 3.5         | -21.0       | 33.7        | 6.7         | 18.0              | 5.3               | 5.5               | 0.7               |
| Warehousing and storage                                 | 6.6         | 1.4         | 9.5         | 9.4         | 10.7              | 10.4              | 10.3              | 6.6               |
| Courier   | 2.1         | -6.1        | 28.3        | 17.3        | 26.2              | 25.9              | 11.2              | 8.8               |
| Accommodation   | 3.8         | -17.4       | 25.3        | 19.6        | 23.3              | 20.8              | 22.4              | 13.9              |
| Food services   | 13.1        | 0.6         | 5.1         | 6.4         | 5.9               | 6.0               | 6.2               | 7.3               |
| Information and communications<br><i>within which :</i> | 6.0         | -3.2        | 4.9         | 8.8         | 9.2               | 10.1              | 7.8               | 8.1               |
| Telecommunications                                      | 9.8         | 1.4         | 3.0         | 8.1         | 8.0               | 10.2              | 7.9               | 6.5               |
| Film entertainment                                      | -0.7        | -12.6       | -6.4        | -5.6        | -17.0             | 6.9               | -10.3             | 1.4               |
| Banking   | -16.9       | 1.5         | 8.8         | 10.8        | 23.0              | 17.6              | 7.1               | -1.5              |
| Financing (except banking)<br><i>within which :</i>     | -19.4       | -10.3       | 16.7        | -2.4        | 12.2              | 21.9              | -11.8             | -22.8             |
| Financial markets and asset management                  | -20.0       | -11.7       | 15.3        | -3.2        | 12.3              | 25.2              | -13.6             | -25.9             |
| <i>within which : Asset management</i>                  | -5.2        | -12.1       | 28.4        | 10.6        | 24.5              | 27.6              | 15.7              | -15.2             |
| Insurance   | *           | 0.7         | 8.3         | 9.4         | 7.8               | 12.7              | 10.3              | 6.7               |
| Real estate   | -3.7        | 9.7         | 11.4        | -1.4        | 11.4              | 12.5              | -15.4             | -9.7              |
| Professional, scientific and technical services         | 6.8         | -0.5        | 13.9        | 7.3         | 10.5              | 5.4               | 9.3               | 4.3               |
| Administrative and support services                     | 9.4         | -12.4       | 12.3        | 10.2        | 14.9              | 10.7              | 8.6               | 7.7               |
| <b>Service Domain</b>                                   |             |             |             |             |                   |                   |                   |                   |
| Tourism, convention and exhibition services             | 10.1        | 3.2         | 30.6        | 22.2        | 16.9 <sup>+</sup> | 23.6 <sup>+</sup> | 24.6 <sup>+</sup> | 23.3 <sup>+</sup> |
| Computer and information technology services            | 5.3         | -15.0       | 32.5        | 10.4        | 27.7              | 3.8               | 0.8               | 13.6              |

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

(+) Provisional figures.

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

**Table 16 : Labour force characteristics**

|                                       | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011<sup>+</sup></u> |                 | <u>2011</u>     |                 | <u>2012</u>     |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
|                                       |             |             |             |             |                         | Q2 <sup>+</sup> | Q3 <sup>+</sup> | Q4 <sup>+</sup> | Q1 <sup>+</sup> |
| <u>(%)</u>                            |             |             |             |             |                         |                 |                 |                 |                 |
| Labour force participation rate       | 61.2        | 60.9        | 60.8        | 59.6        | 60.1                    | 60.1            | 60.3            | 60.3            | 60.7            |
| Seasonally adjusted unemployment rate | 4.0         | 3.5         | 5.3         | 4.3         | 3.4                     | 3.6             | 3.2             | 3.3             | 3.4             |
| Underemployment rate                  | 2.2         | 1.9         | 2.3         | 2.0         | 1.7                     | 1.8             | 1.8             | 1.4             | 1.6             |
| <u>('000)</u>                         |             |             |             |             |                         |                 |                 |                 |                 |
| Population of working age             | 5 916.0     | 5 977.1     | 6 022.9     | 6 093.8     | 6 164.4                 | 6 155.0         | 6 177.7         | 6 195.6         | 6 221.8         |
| Labour force                          | 3 622.3     | 3 637.2     | 3 660.3     | 3 631.3     | 3 703.1                 | 3 701.7         | 3 725.7         | 3 734.9         | 3 773.7         |
| Persons employed                      | 3 476.9     | 3 509.1     | 3 467.6     | 3 474.1     | 3 576.4                 | 3 564.0         | 3 599.8         | 3 618.9         | 3 649.6         |
| Persons unemployed                    | 145.3       | 128.1       | 192.6       | 157.2       | 126.7                   | 137.6           | 125.9           | 116.0           | 124.1           |
| Persons underemployed                 | 79.4        | 67.9        | 83.8        | 72.5        | 63.3                    | 65.0            | 65.3            | 52.4            | 58.6            |
| <u>(% change over a year earlier)</u> |             |             |             |             |                         |                 |                 |                 |                 |
| Population of working age             | 1.4         | 1.0         | 0.8         | 1.2         | 1.2                     | 1.1             | 1.1             | 1.2             | 1.3             |
| Labour force                          | 1.4         | 0.4         | 0.6         | -0.8        | 2.0                     | 2.1             | 2.4             | 2.3             | 3.2             |
| Persons employed                      | 2.2         | 0.9         | -1.2        | 0.2         | 2.9                     | 3.2             | 3.5             | 2.9             | 3.3             |
| Persons unemployed                    | -15.0       | -11.9       | 50.4        | -18.4       | -19.4                   | -20.3           | -21.3           | -13.8           | 0.1             |
| Persons underemployed                 | -8.0        | -14.5       | 23.4        | -13.5       | -12.7                   | -10.2           | -7.8            | -20.9           | -10.7           |

Note : (+) Provisional figures.

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

| Selected major industries  | 2007       | 2008 | 2009 | 2010 | 2011 | 2011 |      |      |      | No.     |
|--|------------|------|------|------|------|------|------|------|------|---------|
|  | (% change) |      |      |      |      | Mar  | Jun  | Sep  | Dec  |         |
| Manufacturing  | -2.9       | -3.5 | -5.7 | -4.5 | -5.6 | -6.1 | -5.0 | -5.2 | -6.1 | 110 379 |
| Construction sites (manual workers only)                                     | -5.1       | -1.5 | 2.2  | 9.6  | 13.2 | 9.1  | 5.6  | 12.8 | 25.2 | 69 395  |
| Import and export trade  | 0.8        | -0.3 | -4.4 | 0.9  | -0.3 | 0.2  | -0.3 | 0.1  | -1.0 | 495 847 |
| Wholesale  | -0.3       | -2.7 | -2.0 | 1.2  | *    | -0.3 | 0.3  | 0.5  | -0.5 | 63 763  |
| Retail   | 2.1        | 2.8  | -0.3 | 3.3  | 4.0  | 4.5  | 4.7  | 4.2  | 2.7  | 254 974 |
| Food and beverage services   | 3.3        | 1.8  | *    | 3.7  | 6.6  | 6.5  | 7.7  | 7.9  | 4.3  | 231 333 |
| Accommodation services   | 5.4        | 3.1  | -1.0 | 1.5  | 5.8  | 5.1  | 6.1  | 7.1  | 4.8  | 34 982  |
| Transportation, storage, postal and courier services                         | 2.5        | 3.5  | 1.1  | 1.5  | 2.0  | 1.6  | 1.7  | 2.4  | 2.4  | 165 474 |
| Information and communications   | 2.2        | 3.6  | -1.6 | 1.3  | 3.4  | 2.1  | 3.0  | 3.6  | 4.9  | 93 268  |
| Financing and insurance  | 7.3        | 5.6  | -0.5 | 4.8  | 6.3  | 6.4  | 6.3  | 7.0  | 5.6  | 207 324 |
| Real estate  | 4.4        | 2.7  | 0.5  | 4.1  | 8.0  | 6.5  | 7.9  | 8.8  | 8.6  | 122 252 |
| Professional and business services (excluding cleaning and similar services) | 4.8        | 3.4  | 0.9  | 2.2  | 4.2  | 3.3  | 4.0  | 5.0  | 4.5  | 252 572 |
| Cleaning and similar services  | 0.6        | -1.7 | 6.7  | 13.7 | 9.5  | 15.0 | 11.3 | 7.2  | 5.0  | 76 221  |
| Education  | 3.3        | 4.8  | 5.3  | 3.4  | 1.5  | 1.1  | 0.7  | 1.9  | 2.3  | 169 337 |
| Human health services  | 5.5        | 5.1  | 3.8  | 3.0  | 4.1  | 3.2  | 4.6  | 4.1  | 4.5  | 98 501  |
| Residential care and social work services                                    | 1.4        | 1.3  | 1.5  | 1.8  | 1.3  | 1.7  | 2.6  | 1.4  | -0.5 | 57 131  |
| Arts, entertainment, recreation and other services                           | 1.5        | 1.9  | 0.8  | 5.0  | 2.8  | 2.5  | 4.3  | 3.3  | 1.0  | 116 736 |
| Civil Service <sup>(a)</sup>   | -0.4       | 0.1  | 1.1  | 0.5  | 0.7  | 0.2  | 0.7  | 0.8  | 1.2  | 158 527 |
| Others <sup>(b)</sup>  | 0.9        | 7.0  | -1.0 | 3.1  | -0.6 | 1.8  | 2.2  | -2.1 | -4.2 | 10 687  |

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 2000.

(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 and gas supply, and waste management.

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



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

|                                       | <u>2007</u>   | <u>2008</u>   | <u>2009</u>   | <u>2010</u>   | <u>2011</u>   |               | <u>2011</u>   |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       |               |               |               |               |               | Mar           | Jun           | Sep           | Dec           |
| <u>(number)</u>                       |               |               |               |               |               |               |               |               |               |
| Building sites                        |               |               |               |               |               |               |               |               |               |
| Private sector                        | 29 240        | 28 899        | 28 776        | 28 620        | 31 780        | 26 777        | 28 704        | 34 248        | 37 391        |
| Public sector <sup>(a)</sup>          | 7 767         | 8 136         | 10 277        | 11 463        | 12 335        | 14 077        | 13 139        | 10 947        | 11 177        |
| Sub-total                             | 37 007        | 37 034        | 39 053        | 40 083        | 44 115        | 40 854        | 41 843        | 45 195        | 48 568        |
| Civil engineering sites               |               |               |               |               |               |               |               |               |               |
| Private sector                        | 1 674         | 1 686         | 1 618         | 1 544         | 1 250         | 1 068         | 1 220         | 1 254         | 1 457         |
| Public sector <sup>(a)</sup>          | 11 504        | 10 703        | 9 831         | 13 714        | 17 270        | 16 885        | 15 546        | 17 279        | 19 370        |
| Sub-total                             | 13 178        | 12 388        | 11 449        | 15 258        | 18 520        | 17 953        | 16 766        | 18 533        | 20 827        |
| <b>Total</b>                          | <b>50 185</b> | <b>49 422</b> | <b>50 501</b> | <b>55 341</b> | <b>62 635</b> | <b>58 807</b> | <b>58 609</b> | <b>63 728</b> | <b>69 395</b> |
| <u>(% change over a year earlier)</u> |               |               |               |               |               |               |               |               |               |
| Building sites                        |               |               |               |               |               |               |               |               |               |
| Private sector                        | -5.7          | -1.2          | -0.4          | -0.5          | 11.0          | -5.8          | -4.8          | 15.8          | 42.0          |
| Public sector <sup>(a)</sup>          | 1.6           | 4.7           | 26.3          | 11.5          | 7.6           | 22.1          | 27.3          | *             | -14.4         |
| Sub-total                             | -4.2          | 0.1           | 5.5           | 2.6           | 10.1          | 2.2           | 3.4           | 11.6          | 23.3          |
| Civil engineering sites               |               |               |               |               |               |               |               |               |               |
| Private sector                        | 6.7           | 0.7           | -4.0          | -4.6          | -19.0         | -34.7         | -26.7         | -33.0         | 45.4          |
| Public sector <sup>(a)</sup>          | -9.1          | -7.0          | -8.1          | 39.5          | 25.9          | 37.1          | 16.2          | 22.4          | 28.8          |
| Sub-total                             | -7.4          | -6.0          | -7.6          | 33.3          | 21.4          | 28.7          | 11.4          | 15.9          | 29.8          |
| <b>Total</b>                          | <b>-5.1</b>   | <b>-1.5</b>   | <b>2.2</b>    | <b>9.6</b>    | <b>13.2</b>   | <b>9.1</b>    | <b>5.6</b>    | <b>12.8</b>   | <b>25.2</b>   |

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.

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

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

(%)

| Selected industry section                             | 2007       | 2008        | 2009        | 2010       | 2011       | 2011       |            |            |            |
|---|------------|-------------|-------------|------------|------------|------------|------------|------------|------------|
|   |            |             |             |            |            | Q1         | Q2         | Q3         | Q4         |
| <b>(in nominal terms)</b>                             |            |             |             |            |            |            |            |            |            |
| Manufacturing   | 2.5        | 0.9         | -3.5        | 2.6        | 7.2        | 9.6        | 6.2        | 4.9        | 8.0        |
| Sewerage, waste management and remediation activities | 17.0       | -8.6        | 2.1         | -0.1       | 5.6        | 4.6        | 3.7        | 1.7        | 12.4       |
| Import/export and wholesale trade                     | 1.8        | 6.3         | -1.6        | 2.6        | 12.9       | 10.0       | 16.4       | 12.8       | 12.7       |
| Retail trade  | 2.6        | 8.1         | -1.5        | 3.9        | 12.3       | 5.3        | 15.9       | 15.3       | 13.6       |
| Transportation, storage, postal and courier services  | 3.9        | -0.6        | -0.2        | 3.4        | 4.0        | 8.3        | 8.1        | -3.1       | 3.1        |
| Accommodation and food service activities             | 3.9        | 2.6         | -0.6        | 3.3        | 9.7        | 9.6        | 12.1       | 7.3        | 9.9        |
| Information and communications                        | -2.9       | 6.6         | 0.2         | 2.6        | 7.4        | 3.8        | 7.3        | 7.8        | 10.8       |
| Financial and insurance activities                    | 9.8        | 9.0         | -3.3        | 7.2        | 11.5       | 16.5       | 14.1       | 7.9        | 7.0        |
| Real estate activities                                | -0.4       | 8.0         | -2.4        | 1.3        | 11.4       | 4.7        | 10.4       | 12.8       | 18.2       |
| Professional and business services                    | 4.8        | 3.5         | 0.6         | 2.4        | 2.0        | -4.8       | 0.2        | 7.2        | 5.6        |
| Social and personal services                          | 1.5        | 3.1         | 1.7         | -2.4       | 3.1        | -2.3       | -0.2       | 9.0        | 5.9        |
| <b>All industries surveyed</b>                        | <b>4.0</b> | <b>2.6</b>  | <b>0.5</b>  | <b>2.4</b> | <b>7.9</b> | <b>7.2</b> | <b>6.9</b> | <b>8.3</b> | <b>9.1</b> |
| <b>(in real terms)</b>                                |            |             |             |            |            |            |            |            |            |
| Manufacturing   | 0.5        | -3.3        | -4.1        | 0.3        | 1.9        | 5.5        | 1.1        | -1.5       | 2.2        |
| Sewerage, waste management and remediation activities | 14.8       | -12.3       | 1.5         | -2.3       | 0.3        | 0.7        | -1.3       | -4.5       | 6.3        |
| Import/export and wholesale trade                     | -0.2       | 1.9         | -2.3        | 0.2        | 7.2        | 5.9        | 10.8       | 5.9        | 6.6        |
| Retail trade  | 0.6        | 3.6         | -2.1        | 1.6        | 6.7        | 1.4        | 10.3       | 8.2        | 7.5        |
| Transportation, storage, postal and courier services  | 1.9        | -4.7        | -0.8        | 1.1        | -1.2       | 4.3        | 2.9        | -9.0       | -2.5       |
| Accommodation and food service activities             | 1.8        | -1.7        | -1.2        | 1.0        | 4.2        | 5.5        | 6.7        | 0.7        | 4.0        |
| Information and communications                        | -4.7       | 2.2         | -0.4        | 0.3        | 2.0        | *          | 2.1        | 1.2        | 4.8        |
| Financial and insurance activities                    | 7.7        | 4.6         | -3.9        | 4.8        | 6.0        | 12.2       | 8.6        | 1.3        | 1.3        |
| Real estate activities                                | -2.3       | 3.5         | -3.0        | -1.0       | 5.8        | 0.8        | 5.1        | 5.9        | 11.8       |
| Professional and business services                    | 2.8        | -0.7        | *           | 0.1        | -3.1       | -8.3       | -4.6       | 0.6        | -0.1       |
| Social and personal services                          | -0.5       | -1.2        | 1.1         | -4.6       | -2.1       | -5.9       | -5.0       | 2.3        | 0.2        |
| <b>All industries surveyed</b>                        | <b>1.9</b> | <b>-1.7</b> | <b>-0.1</b> | <b>0.1</b> | <b>2.5</b> | <b>3.2</b> | <b>1.8</b> | <b>1.6</b> | <b>3.2</b> |

Notes : The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2009/10-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>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2011</u> |            |            |            |
| Selected industry section   |             |             |             |             |             | Mar         | Jun        | Sep        | Dec        |
| <b>(in nominal terms)</b>   |             |             |             |             |             |             |            |            |            |
| Manufacturing   | 4.3         | 2.6         | -1.2        | -1.0        | 6.7         | 3.0         | 5.7        | 7.3        | 10.6       |
| Import/export, wholesale<br>and retail trades <sup>(a)</sup><br><i>within which :</i> | 2.3         | 3.6         | -1.1        | 2.6         | 7.8         | 5.8         | 7.1        | 9.7        | 8.4        |
| Import/export and wholesale trades:   | 2.8         | 3.1         | -1.2        | 2.7         | 8.3         | 6.1         | --         | 10.3       | --         |
| Retail trade  | -1.7        | 4.9         | -0.2        | 1.1         | -0.3        | 0.8         | --         | -1.1       | --         |
| Transportation  | 1.5         | 1.8         | *           | 1.1         | 4.0         | 2.0         | 3.7        | 5.2        | 5.1        |
| Accommodation and food<br>service activities  | 1.4         | 3.1         | -2.3        | 2.5         | 9.3         | 6.5         | 9.2        | 10.5       | 10.9       |
| Financial and insurance activities <sup>(b)</sup>                                     | 2.4         | 2.8         | -0.5        | 3.0         | 6.7         | 5.0         | 7.3        | 7.5        | 7.0        |
| Real estate leasing and<br>maintenance management                                     | 1.4         | 2.7         | -0.4        | 2.6         | 8.6         | 1.7         | 10.3       | 10.6       | 11.6       |
| Professional and business services  | 4.8         | 4.9         | 0.8         | 3.4         | 12.6        | 5.7         | 14.1       | 15.6       | 14.7       |
| Personal services   | 8.5         | 0.5         | -0.7        | 3.4         | 9.6         | 3.6         | 8.6        | 12.8       | 13.1       |
| <b>All industries surveyed</b>  | <b>2.6</b>  | <b>3.4</b>  | <b>-0.9</b> | <b>2.4</b>  | <b>8.1</b>  | <b>4.9</b>  | <b>8.0</b> | <b>9.9</b> | <b>9.4</b> |
| <b>(in real terms)</b>  |             |             |             |             |             |             |            |            |            |
| Manufacturing   | 2.4         | -0.1        | -1.8        | -3.7        | 1.3         | -1.7        | -0.1       | 2.0        | 5.1        |
| Import/export, wholesale<br>and retail trades <sup>(a)</sup><br><i>within which :</i> | 0.4         | 0.9         | -1.7        | -0.2        | 2.4         | 1.0         | 1.1        | 4.3        | 3.0        |
| Import/export and wholesale trades:   | 1.0         | 0.4         | -1.7        | -0.1        | 2.8         | 1.3         | --         | 4.8        | --         |
| Retail trade  | -3.5        | 2.2         | -0.7        | -1.6        | -5.3        | -3.7        | --         | -6.0       | --         |
| Transportation  | -0.4        | -0.8        | -0.5        | -1.7        | -1.2        | -2.7        | -2.1       | *          | -0.1       |
| Accommodation and food<br>service activities  | -0.4        | 0.4         | -2.8        | -0.3        | 3.8         | 1.7         | 3.2        | 5.0        | 5.3        |
| Financial and insurance activities <sup>(b)</sup>                                     | 0.6         | 0.2         | -1.0        | 0.2         | 1.3         | 0.2         | 1.3        | 2.2        | 1.6        |
| Real estate leasing and<br>maintenance management                                     | -0.4        | 0.1         | -1.0        | -0.2        | 3.1         | -2.9        | 4.2        | 5.2        | 6.0        |
| Professional and business services  | 2.9         | 2.2         | 0.3         | 0.6         | 6.9         | 0.9         | 7.7        | 9.9        | 8.9        |
| Personal services   | 6.5         | -2.1        | -1.2        | 0.6         | 4.1         | -1.1        | 2.6        | 7.2        | 7.4        |
| <b>All industries surveyed</b>  | <b>0.7</b>  | <b>0.7</b>  | <b>-1.5</b> | <b>-0.4</b> | <b>2.7</b>  | <b>0.2</b>  | <b>2.0</b> | <b>4.4</b> | <b>3.9</b> |

Notes : The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2009/10-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>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| GDP deflator  | -3.5        | -6.2        | -3.5        | -0.1        | -0.3        | 2.9         | 1.5         | -0.6        |
| Domestic demand deflator  | -4.9        | -4.2        | 0.1         | 1.2         | 1.9         | 2.1         | 2.8         | -1.0        |
| Consumer Price Indices <sup>(a)</sup> :                                 |             |             |             |             |             |             |             |             |
| Composite CPI   | -3.0        | -2.6        | -0.4        | 1.0         | 2.0         | 2.0         | 4.3         | 0.5         |
| CPI(A)  | -3.2        | -2.1        | *           | 1.1         | 1.7         | 1.3         | 3.6         | 0.4         |
| CPI(B)  | -3.1        | -2.7        | -0.5        | 1.0         | 2.1         | 2.2         | 4.6         | 0.5         |
| CPI(C)  | -2.8        | -2.9        | -0.9        | 0.8         | 2.2         | 2.7         | 4.7         | 0.6         |
| Unit Value Indices :  |             |             |             |             |             |             |             |             |
| Domestic exports  | -3.3        | 0.2         | 1.5         | 2.2         | -2.1        | 0.8         | 5.1         | -0.2        |
| Re-exports  | -2.7        | -1.5        | 1.1         | 1.2         | 1.1         | 2.4         | 3.8         | 1.2         |
| Total exports of goods  | -2.7        | -1.4        | 1.2         | 1.3         | 1.0         | 2.3         | 3.8         | 1.1         |
| Imports of goods  | -3.9        | -0.4        | 2.9         | 2.7         | 2.1         | 2.3         | 4.4         | -0.1        |
| Terms of Trade Index  | 1.2         | -1.0        | -1.7        | -1.4        | -1.1        | 0.1         | -0.5        | 1.3         |
| Producer Price Index<br>for all manufacturing industries <sup>(b)</sup> | -2.7        | -0.3        | 2.2         | 0.8         | 2.2         | 3.0         | 5.6         | -1.7        |
| Tender Price Indices :  |             |             |             |             |             |             |             |             |
| Public sector<br>building projects                                      | -11.7       | -0.3        | -1.5        | 1.4         | 5.0         | 20.1        | 41.9        | -15.9       |
| Public housing projects   | -9.6        | -10.0       | 3.5         | 7.7         | 11.2        | 19.7        | 30.8        | -6.8        |

Notes : (a) The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same 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  $\pm 0.05\%$ .

(+) Figures on rate of change in unit value indices and terms of trade index for the first quarter of 2012 are estimated based on actual indices up to February 2012. They are subject to revision when data for the first quarter of 2012 become available.

(--) Not applicable.

N.A. Not yet available.

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

|   | (%)         |             |             |       |       |             |                                   |                         |
|---|-------------|-------------|-------------|-------|-------|-------------|-----------------------------------|-------------------------|
|   | <u>2010</u> | <u>2011</u> | <u>2011</u> |       |       | <u>2012</u> | Average annual<br>rate of change: |                         |
|   |             |             | Q2          | Q3    | Q4    | Q1          | 10 years<br>2001 to 2011          | 5 years<br>2006 to 2011 |
| GDP deflator  | 0.2 #       | 3.7 #       | 4.9 #       | 4.8 # | 3.7 # | 2.8 #       | -0.6 #                            | 1.5 #                   |
| Domestic demand deflator  | 2.1 #       | 4.4 #       | 4.6 #       | 4.8 # | 3.3 # | 4.2 #       | 0.4 #                             | 2.1 #                   |
| Consumer Price Indices <sup>(a)</sup> :                                 |             |             |             |       |       |             |                                   |                         |
| Composite CPI   | 2.4         | 5.3         | 5.2         | 6.4   | 5.7   | 5.2         | 1.1                               | 2.9                     |
| CPI(A)  | 2.7         | 5.6         | 5.5         | 7.7   | 5.3   | 4.6         | 1.1                               | 2.7                     |
| CPI(B)  | 2.3         | 5.2         | 5.1         | 6.0   | 6.0   | 5.5         | 1.1                               | 3.0                     |
| CPI(C)  | 2.1         | 5.1         | 4.8         | 5.9   | 6.0   | 5.4         | 1.1                               | 3.0                     |
| Unit Value Indices :  |             |             |             |       |       |             |                                   |                         |
| Domestic exports  | 5.5         | 6.4         | 6.4         | 7.6   | 5.8   | 2.9 +       | 1.6                               | 3.5                     |
| Re-exports  | 4.6         | 8.0         | 8.7         | 8.6   | 7.7   | 6.5 +       | 1.9                               | 4.0                     |
| Total exports of goods  | 4.7         | 8.0         | 8.6         | 8.6   | 7.6   | 6.4 +       | 1.9                               | 4.0                     |
| Imports of goods  | 6.4         | 8.1         | 8.1         | 8.6   | 7.1   | 5.4 +       | 2.4                               | 4.2                     |
| Terms of Trade Index  | -1.7        | -0.1        | 0.5         | *     | 0.5   | 1.0 +       | -0.5                              | -0.2                    |
| Producer Price Index <sup>(b)</sup><br>for all manufacturing industries | 6.0         | 8.3         | 9.0         | 9.5   | 6.6   | N.A.        | --                                | 4.2                     |
| Tender Price Indices :  |             |             |             |       |       |             |                                   |                         |
| Public sector<br>building projects                                      | 12.5        | 11.6        | 13.7        | 9.6   | 11.2  | N.A.        | 5.2                               | 12.5                    |
| Public housing projects   | 6.7         | 10.1        | 10.9        | 9.6   | 9.1   | N.A.        | 5.6                               | 11.4                    |

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

(%)

|  | Weight       | <u>2002</u>         | <u>2003</u>         | <u>2004</u>         | <u>2005</u>        | <u>2006</u>        | <u>2007</u>         | <u>2008</u>         |
|--|--------------|---------------------|---------------------|---------------------|--------------------|--------------------|---------------------|---------------------|
| <b>All items</b>                                   | <b>100.0</b> | <b>-3.0</b><br>(--) | <b>-2.6</b><br>(--) | <b>-0.4</b><br>(--) | <b>1.0</b><br>(--) | <b>2.0</b><br>(--) | <b>2.0</b><br>(2.8) | <b>4.3</b><br>(5.6) |
| Food   | 27.45        | -2.1                | -1.5                | 1.0                 | 1.8                | 1.7                | 4.3                 | 10.1                |
| <i>Meals bought away from home</i>                 | 17.07        | -1.5                | -1.5                | 0.2                 | 0.9                | 1.3                | 2.5                 | 5.9                 |
| <i>Food, excluding meals bought away from home</i> | 10.38        | -3.1                | -1.7                | 2.5                 | 3.2                | 2.5                | 7.1                 | 16.8                |
| Housing <sup>(a)</sup>                             | 31.66        | -5.7                | -4.8                | -5.2                | 0.1                | 4.7                | 2.0                 | 4.1                 |
| <i>Private housing rent</i>                        | 27.14        | -6.5                | -6.3                | -6.6                | -0.1               | 5.6                | 4.0                 | 6.8                 |
| <i>Public housing rent</i>                         | 2.05         | -2.7                | 9.1                 | 2.5                 | 0.2                | 0.1                | -17.7               | -27.2               |
| Electricity, gas and water                         | 3.10         | -7.0                | 1.4                 | 11.4                | 4.1                | 2.1                | -0.7                | -6.5                |
| Alcoholic drinks and tobacco                       | 0.59         | 2.4                 | 0.1                 | *                   | 0.4                | -3.7               | -1.2                | 0.1                 |
| Clothing and footwear                              | 3.45         | 0.7                 | -2.7                | 6.4                 | 2.0                | 1.0                | 4.1                 | 0.8                 |
| Durable goods                                      | 5.27         | -6.3                | -6.4                | -2.2                | -3.2               | -6.4               | -4.7                | -2.0                |
| Miscellaneous goods                                | 4.17         | 1.7                 | 2.3                 | 3.6                 | 1.5                | 1.7                | 2.5                 | 5.0                 |
| Transport  | 8.44         | -0.6                | -0.4                | 0.4                 | 1.4                | 0.7                | -0.1                | 2.5                 |
| Miscellaneous services                             | 15.87        | -2.3                | -3.2                | -0.2                | 1.0                | 1.9                | 1.7                 | 0.8                 |

Notes : The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2009/10-based index series.

Figures in bracket represent the underlying rate of change after netting out the effects 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       | 2009                       | 2010                       | 2011                       | 2011                       |                            |                            | 2012                       | Average annual rate of change: |                             |
|--|--------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------------|-----------------------------|
|  |              |                            |                            |                            | Q2                         | Q3                         | Q4                         |                            | Q1                             | 10 years<br>2001 to<br>2011 |
| <b>All items</b>                                   | <b>100.0</b> | <b>0.5</b><br><b>(1.0)</b> | <b>2.4</b><br><b>(1.7)</b> | <b>5.3</b><br><b>(5.3)</b> | <b>5.2</b><br><b>(5.0)</b> | <b>6.4</b><br><b>(6.1)</b> | <b>5.7</b><br><b>(6.4)</b> | <b>5.2</b><br><b>(5.9)</b> | <b>1.1</b><br><b>(-)</b>       | <b>2.9</b><br><b>(-)</b>    |
| Food   | 27.45        | 1.3                        | 2.4                        | 7.0                        | 6.9                        | 7.8                        | 8.2                        | 7.4                        | 2.5                            | 5.0                         |
| <i>Meals bought away from</i>                      | <i>17.07</i> | <i>1.6</i>                 | <i>1.7</i>                 | <i>5.2</i>                 | <i>5.1</i>                 | <i>5.7</i>                 | <i>6.1</i>                 | <i>6.1</i>                 | <i>1.6</i>                     | <i>3.4</i>                  |
| <i>Food, excluding meals bought away from home</i> | <i>10.38</i> | <i>0.9</i>                 | <i>3.5</i>                 | <i>9.9</i>                 | <i>9.8</i>                 | <i>11.3</i>                | <i>11.5</i>                | <i>9.4</i>                 | <i>4.0</i>                     | <i>7.5</i>                  |
| Housing <sup>(a)</sup>                             | 31.66        | 3.7                        | 0.4                        | 7.2                        | 5.9                        | 11.0                       | 8.4                        | 8.1                        | 0.5                            | 3.5                         |
| <i>Private housing rent</i>                        | <i>27.14</i> | <i>3.6</i>                 | <i>0.9</i>                 | <i>7.2</i>                 | <i>6.5</i>                 | <i>8.4</i>                 | <i>9.6</i>                 | <i>9.2</i>                 | <i>0.7</i>                     | <i>4.5</i>                  |
| <i>Public housing rent</i>                         | <i>2.05</i>  | <i>9.5</i>                 | <i>-7.8</i>                | <i>11.9</i>                | <i>2.7</i>                 | <i>676.7</i>               | <i>-1.5</i>                | <i>-1.5</i>                | <i>-3.0</i>                    | <i>-7.5</i>                 |
| Electricity, gas and water                         | 3.10         | -25.3                      | 43.3                       | -4.2                       | 8.0                        | -16.1                      | -16.1                      | -17.2                      | 0.6                            | -1.0                        |
| Alcoholic drinks and tobacco                       | 0.59         | 18.7                       | 3.4                        | 17.1                       | 19.9                       | 20.3                       | 20.0                       | 11.6                       | 3.5                            | 7.3                         |
| Clothing and footwear                              | 3.45         | 2.7                        | 1.8                        | 6.8                        | 6.3                        | 7.8                        | 7.3                        | 4.9                        | 2.3                            | 3.2                         |
| Durable goods                                      | 5.27         | -3.0                       | -2.7                       | -3.8                       | -4.3                       | -3.1                       | -3.1                       | -1.8                       | -4.1                           | -3.2                        |
| Miscellaneous goods                                | 4.17         | 2.3                        | 2.4                        | 3.8                        | 4.2                        | 4.5                        | 3.3                        | 3.4                        | 2.7                            | 3.2                         |
| Transport  | 8.44         | -0.9                       | 2.0                        | 4.4                        | 4.7                        | 5.0                        | 4.5                        | 4.4                        | 0.9                            | 1.6                         |
| Miscellaneous services                             | 15.87        | -2.1                       | 2.0                        | 3.5                        | 2.9                        | 4.0                        | 3.8                        | 2.8                        | 0.3                            | 1.1                         |

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

(%)

|  | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Private consumption expenditure        | -3.6        | -2.5        | -0.3        | 1.8         | 1.3         | 3.7         | 2.8         |
| Government consumption expenditure     | -0.5        | -2.6        | -2.9        | -1.4        | 1.0         | 2.9         | 4.9         |
| Gross domestic fixed capital formation | -9.9        | -9.4        | 2.6         | 1.0         | 4.2         | -2.5        | 1.7         |
| Total exports of goods                 | -2.9        | -1.8        | 0.9         | 0.6         | 0.3         | 2.2         | 3.4         |
| Imports of goods                       | -4.2        | -0.9        | 2.9         | 1.9         | 2.1         | 1.7         | 4.1         |
| Exports of services                    | -2.4        | -3.1        | 0.5         | 3.3         | 3.6         | 2.5         | 3.4         |
| Imports of services                    | 0.3         | 2.7         | 4.1         | 1.0         | 0.8         | 2.9         | 3.8         |
| <b>Gross Domestic Product</b>          | <b>-3.5</b> | <b>-6.2</b> | <b>-3.5</b> | <b>-0.1</b> | <b>-0.3</b> | <b>2.9</b>  | <b>1.5</b>  |
| Total final demand                     | -3.6        | -2.8        | 0.6         | 1.2         | 1.2         | 2.2         | 3.2         |
| Domestic demand                        | -4.9        | -4.2        | 0.1         | 1.2         | 1.9         | 2.1         | 2.8         |

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



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

|  | <u>2009</u> | <u>2010<sup>#</sup></u> | <u>2011<sup>#</sup></u> | <u>2011</u>     |                 |                 | <u>2012</u>     | Average annual<br><u>rate of change:</u> |   |
|--|-------------|-------------------------|-------------------------|-----------------|-----------------|-----------------|-----------------|--|---|
|  |             |                         |                         | Q2 <sup>#</sup> | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | 10 years<br>2001 to<br>2011 <sup>#</sup> | 5 years<br>2006 to<br>2011 <sup>#</sup> |
| Private consumption expenditure        | -1.6        | 1.0                     | 4.1                     | 4.7             | 4.9             | 3.4             | 3.5             | 0.6                                      | 2.0                                     |
| Government consumption expenditure     | 0.2         | 0.3                     | 5.0                     | 5.7             | 6.1             | 6.4             | 6.1             | 0.7                                      | 2.6                                     |
| Gross domestic fixed capital formation | 0.5         | 6.6                     | 4.7                     | 4.1             | 3.7             | 1.9             | 4.6             | -0.2                                     | 2.1                                     |
| Total exports of goods                 | 0.5         | 4.6                     | 7.5                     | 7.6             | 8.7             | 7.6             | 6.9             | 1.5                                      | 3.6                                     |
| Imports of goods                       | -1.3        | 6.3                     | 8.0                     | 7.5             | 8.8             | 7.8             | 7.8             | 2.0                                      | 3.7                                     |
| Exports of services                    | -7.0        | 7.4                     | 7.5                     | 8.1             | 7.9             | 7.2             | 5.4             | 1.5                                      | 2.6                                     |
| Imports of services                    | -2.3        | 5.3                     | 6.4                     | 8.5             | 7.0             | 3.9             | 3.1             | 2.5                                      | 3.2                                     |
| <b>Gross Domestic Product</b>          | <b>-0.6</b> | <b>0.2</b>              | <b>3.7</b>              | <b>4.9</b>      | <b>4.8</b>      | <b>3.7</b>      | <b>2.8</b>      | <b>-0.6</b>                              | <b>1.5</b>                              |
| Total final demand                     | -1.1        | 4.3                     | 6.6                     | 6.7             | 7.4             | 6.2             | 5.8             | 1.1                                      | 3.0                                     |
| Domestic demand                        | -1.0        | 2.1                     | 4.4                     | 4.6             | 4.8             | 3.3             | 4.2             | 0.4                                      | 2.1                                     |

