

Press Release

(embargoed until 4:30 p.m. on 10 August 2012)

Economic Situation in the Second Quarter of 2012 and Latest GDP and Price Forecasts for 2012

The Government released today (Friday) the Half-yearly Economic Report 2012, together with the preliminary figures on Gross Domestic Product for the second quarter of 2012.

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

MAIN POINTS

- * The Hong Kong economy experienced another quarter of tepid growth, with real GDP up by 1.1% in the second quarter of 2012 over a year earlier, after a mild 0.7% growth in the first quarter (revised up from the earlier estimate of 0.4%). Merchandise exports remained sluggish amid the severe external headwinds and continued to weigh on economic growth. On the other hand, the domestic sector was still relatively resilient, thereby providing a buffer to overall economic performance. On a seasonally adjusted quarter-to-quarter comparison, real GDP dipped marginally by 0.1% in the second quarter, following a 0.6% growth in the first quarter (also revised up from the earlier estimate of 0.4%).
- * External trade stayed weak in the second quarter. The renewed deterioration of the eurozone sovereign debt crisis since May further dampened global economic sentiments. Hong Kong's total exports of goods thus posted a slight year-on-year decline of 0.4% in real terms even against a relatively low base of comparison in the same period of 2011. The year-on-year dip in exports to the EU enlarged further, while exports to the Mainland, the US and other Asian markets saw some relative improvement. Thanks to sustained vibrancy in inbound tourism, overall exports of services expanded further, though also decelerating to only a modest year-on-year increase of 2.1% in real terms.
- * The domestic sector held up relatively better and remained on the rise in the second quarter. Private consumption expenditure grew solidly by 3.7% in real terms over a year earlier, on the back of stable job conditions and improved incomes. Investment spending grew further by 5.7%, underpinned by a pick-up in private sector construction activity and hectic public sector infrastructure works, as well as continued growth in machinery and equipment acquisition.
- * The labour market remained in a state of full employment, with total employment reaching another record high. The seasonally adjusted unemployment rate came down to 3.2% in the second quarter. Thanks to a tight labour market and with the additional boost of statutory minimum wage

(SMW) implementation since May 2011, wages and earnings saw further notable growth. The median household income rose by 5.1% in the second quarter in nominal terms over a year earlier, or by 0.9% 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 10.4% in nominal terms or 6.4% in real terms.

- * The local stock market plunged in May alongside overseas markets on growing concerns over a possible Greek exit from the eurozone and worsening debt situation in Spain, but recouped some lost ground in June upon the joint efforts by EU leaders to stabilise the crisis. The local property market likewise turned somewhat quieter, with more moderate price rises and thinner transaction volume towards the end of the second quarter.
- * Since the last review in May, the external environment turned abruptly for the worse. Downside risks in the global economy continued to loom large, amid the lingering concerns over an eventual Greek exit from the eurozone, the setback in the eurozone economy, and the fragile fiscal positions of many of its member states. The US economic recovery has lost some momentum in recent months, clouded further by the uncertainties in the election year and its “fiscal cliff”. The negative spillovers from the sluggishness of the advanced economies to Asia have also turned increasingly visible. Amid mounting headwinds to the global economy, the external environment would thus remain difficult and continue to overshadow Hong Kong’s export outlook in the near term. Yet with the Asian economies generally having sounder fundamentals and larger room for policy maneuvering, many of them including the Mainland have gradually eased their policy to support growth in recent months. This should hopefully render some support to the region’s demand.
- * With the overhang of the euro debt crisis, the latest Quarterly Business Tendency Survey indicated that large enterprises have taken a slightly more cautious attitude towards the near-term business outlook. Nonetheless, the domestic sector is expected to hold up better. The prevailing favourable job and income conditions should continue to bode well for local consumption demand in the near term. The sustained high level of infrastructure works, thriving inbound tourism, and the boost from the package of measures announced in the Budget should also continue to provide a firm buffer to the local economy.
- * Given the meagre outturn of a 0.9% year-on-year real economic growth in the first half of 2012, and that downside risks on the external front have risen when compared to the last review three months ago, the Hong Kong economy is poised to attain only a modest growth for 2012 as a whole. The forecast GDP growth for 2012 as a whole is thus revised from 1-3% in the May round to 1-2% in the current round.
- * Underlying consumer price inflation receded further in the second quarter to 5.1%, from 5.9% in the first quarter. Softer global food and commodity prices as well as receding Mainland inflation had led to a further deceleration of import

prices in recent months. Locally, the relative stabilisation of fresh-letting residential rentals in the latter part of 2011 had also resulted in a visible moderation in the rise in the private housing rental component of the Consumer Price Index. As aggregate demand weakens and imported inflation is also easing, Hong Kong's inflation looks set to taper further in the coming months. However, in cognisance of a somewhat slower-than-expected pace of easing in inflation so far this year, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.7% and 4.3% respectively, from 3.5% and 4% in the previous round.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP continued to expand slowly by 1.1% in real terms in the second quarter of 2012 over a year earlier, after a 0.7% growth in the first quarter (revised from the earlier estimate of 0.4%), dragged by the sustained weakness in external trade. On a seasonally adjusted quarter-to-quarter comparison, real GDP shrank marginally by 0.1% in the second quarter, after a 0.6% growth in the preceding quarter (also revised from the earlier estimate of 0.4%) (*Chart*).

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

External trade

3. *Total exports of goods* shrank slightly by 0.4% in real terms in the second quarter over a year earlier, narrowing from the 5.7% decline in the first quarter. The EU market remained the weakest spot, falling further at a double-digit year-on-year rate in the second quarter, while exports to the Mainland, US and other Asian markets saw some relative improvement on a year-on-year basis, though largely helped by the lower base of comparison in the same period of 2011. The sluggish final demand in the advanced markets also manifested itself in reduced intake of raw materials by many Asian economies, thereby restraining Hong Kong's exports to these regional markets. On a seasonally adjusted basis, total exports of goods fell by 3.7% in real terms in the second quarter over the preceding quarter.

4. *Exports of services* fared somewhat better, though also decelerating further to a modest year-on-year growth of 2.1% in real terms in the second quarter, from 2.9% in the first quarter. Exports of travel services continued to provide the key impetus, with visitor arrivals sustaining a double-digit year-on-year growth in the quarter. On the other hand, exports of trade-related services and transportation services saw only mild increases amid the still sluggish trade flows, while exports of financial and business services contracted modestly owing to subdued fund-raising

and cross-border financing activities. On a seasonally adjusted quarter-to-quarter comparison, exports of services dipped slightly by 0.3% in the second quarter.

Domestic sector

5. The domestic sector stayed rather resilient in the second quarter. On the back of the sustained buoyancy in employment and income conditions, *private consumption expenditure* (PCE) grew further by 3.7% in real terms over a year earlier. The growth deceleration from the 6.5% growth in the first quarter was mainly on account of a distinctly high base of comparison a year earlier. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew by 0.6% in real terms in the second quarter, broadly similar to the growth pace in the first quarter. *Government consumption expenditure* grew solidly further by 3.5% in real terms in the second quarter over a year earlier.

6. *Overall investment spending* grew by 5.7% year-on-year in real terms in the second quarter, following the strong growth of 12.9% in the first quarter. The moderation was mainly affected by the slower year-on-year growth in machinery and equipment acquisition, at 5.7%, the latter partly reflecting the more cautious business sentiments amid the escalating euro debt crisis, but the difference in the base effects in the first and second quarters of 2011 was also a relevant factor. Nevertheless, private sector construction activity picked up during the quarter, while public sector infrastructure works grew further. As a result, overall building and construction expenditure expanded notably further by 12.4% in real terms in the second quarter.

The labour sector

7. The labour market remained in a state of full employment in the second quarter. With job creation continuing apace, total employment rose to another record high, thereby pushing the *seasonally adjusted unemployment rate* down to a low of 3.2% in the second quarter, from 3.4% in the first quarter. The *underemployment rate* likewise fell slightly further to 1.4%. Against the tight labour market conditions, labour wages and earnings saw further appreciable growth. In particular, the median household income rose by 5.1% in the second quarter in nominal terms over a year earlier, or by 0.9% 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 10.4% in nominal terms or 6.4% in real terms.

The asset markets

8. The *local stock market* exhibited sharp fluctuations along with other major overseas markets during the second quarter. With the renewed deterioration of the eurozone sovereign debt crisis on entering May, the Hang Seng Index plunged in May and early June, only to rebound subsequently on joint efforts by EU leaders to stem the crisis, closing the quarter at 19 441, down 5% from end-March 2012 but

still 5% higher than the level at end-2011.

9. The *residential property market* saw thinner trading during the second quarter on more cautious market sentiment amid the worsening euro debt crisis and subsequent global stock market gyrations. Residential property prices also turned more steady towards the end of the quarter, though still up by a cumulative 4% between March and June 2012. Overall flat prices in June surpassed the 1997 peak by around 16%. Meanwhile, flat rentals rebounded by 5% during the second quarter, and office and shop rentals also went up further by 2% and 6% respectively.

Prices

10. Consumer price inflation continued to taper in the second quarter along with receding price pressures from both the domestic and external sources. Locally, the relative stabilisation of fresh-letting residential rentals in the latter part of 2011 resulted in a moderated increase in the private housing rental component of the Consumer Price Index. Externally, the softening of global food and commodity prices and slower inflation in Hong Kong's major trading partners together helped alleviate imported inflation. Thus, with the peaking out of food prices and private housing rentals (which account for over half of the household consumption basket), *headline consumer price inflation* went down to 4.2% in the second quarter, from 5.2% in the first quarter. Netting the effects of the Government's relief measures, *underlying consumer price inflation* also receded to 5.1% in the second quarter, from 5.9% in the previous quarter.

Latest GDP and price forecasts for 2012

11. Since the last review in May, the external environment turned abruptly for the worse. Downside risks in the global economy continued to loom large, amid the lingering concerns over an eventual Greek exit from the eurozone, the setback in the eurozone economy, and the fragile fiscal positions of many of its member states. The US economic recovery has lost some momentum in recent months, clouded further by the uncertainties in the election year and its "fiscal cliff". The negative spillovers from the sluggishness of the advanced economies to Asia have also turned increasingly visible. Amid mounting headwinds to the global economy, the external environment would thus remain difficult and continue to overshadow Hong Kong's export outlook in the near term. Yet with the Asian economies generally having sounder fundamentals and larger room for policy maneuvering, many of them including the Mainland have gradually eased their policy to support growth in recent months. This should hopefully render some support to the region's demand.

12. With the overhang of the euro debt crisis, the latest Quarterly Business Tendency Survey indicated that large enterprises have taken a slightly more cautious attitude towards the near-term business outlook. Nonetheless, the domestic sector is expected to hold up better. The prevailing favourable job and income conditions should continue to bode well for local consumption demand in the near term. The

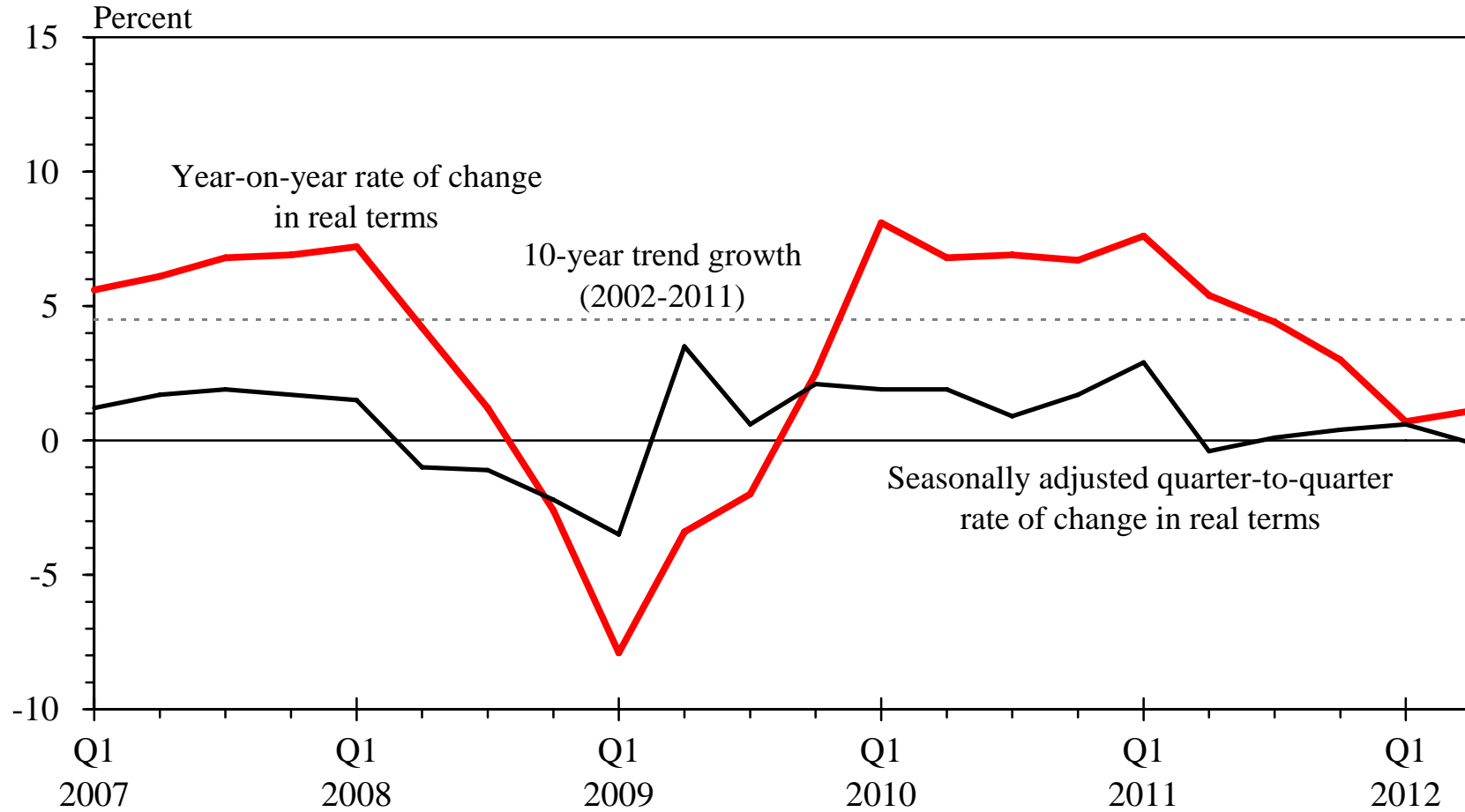
sustained high level of infrastructure works, thriving inbound tourism, and the boost from the package of measures announced in the Budget, should also continue to provide a firm buffer to the local economy.

13. Given the meagre outturn of a 0.9% year-on-year real economic growth in the first half of 2012, and that downside risks on the external front have risen when compared to the last review three months ago, the Hong Kong economy is poised to attain only a modest growth for 2012 as a whole. The forecast GDP growth for 2012 as a whole is thus revised from 1-3% in the May round to 1-2% in the current round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1.5-2.5%, averaging at around 2.2%.

14. On inflation outlook, as aggregate demand weakens and imported inflation is also easing, Hong Kong's inflation looks set to taper further in the coming months. However, in cognizance of a somewhat slower-than-expected pace of easing in inflation so far this year, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.7% and 4.3% respectively, from 3.5% and 4% in the previous round (*Table 2*).

(The Half-yearly 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, Second Quarter 2012, which contains the GDP figures up to the second 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 second 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[#]</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>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	6.7	8.5	8.0 (0.7)	9.9 (3.3)	9.5 (1.6)	6.6 (0.8)	6.5 (0.7)	3.7 (0.6)
Government consumption expenditure	2.8	1.8	2.5 (1.7)	1.0 (-0.8)	1.3 (1.0)	2.2 (0.4)	2.3 (1.6)	3.5 (0.5)
Gross domestic fixed capital formation	7.7	7.6	0.7	7.7	11.7	9.8	12.9	5.7
<i>of which :</i>								
Building and construction	5.6	5.7	17.8	-4.2	3.0	7.6	12.6	12.4
Machinery, equipment and computer software	6.4	13.7	-11.2	17.8	26.7	20.5	23.3	5.7
Total exports of goods	17.3	3.6	16.8 (10.1)	0.3 (-9.5)	-2.2 (0.7)	2.0 (1.5)	-5.7 (1.8)	-0.4 (-3.7)
Imports of goods	18.1	4.8	12.6 (8.6)	2.6 (-5.1)	1.4 (-0.2)	3.9 (0.9)	-2.7 (1.7)	0.7 (-1.5)
Exports of services	14.6	6.7	9.0 (3.5)	7.4 (0.6)	5.3 (0.4)	5.3 (0.7)	2.9 (1.2)	2.1 (-0.3)
Imports of services	10.4	3.1	5.6 (-0.2)	2.9 (0.3)	1.4 (-0.5)	2.8 (3.2)	3.5 (0.4)	1.5 (-1.5)
Gross Domestic Product	7.1	5.0	7.6 (2.9)	5.4 (-0.4)	4.4 (0.1)	3.0 (0.4)	0.7 (0.6)	1.1 (-0.1)
<i>Change in the main price indicators (%)</i>								
GDP deflator	0.2	3.7	1.3 (1.3)	4.9 (1.4)	4.8 (2.0)	3.7 (-1.1)	3.5 (1.0)	2.5 (0.7)
Composite CPI								
Headline	2.4	5.3	3.8 (1.8)	5.2 (1.8)	6.4 (-0.9)	5.7 (3.0)	5.2 (1.3)	4.2 (0.9)
Underlying[^]	1.7	5.3	3.7 (1.8)	5.0 (1.7)	6.1 (1.5)	6.4 (1.2)	5.9 (1.3)	5.1 (1.0)
<i>Change in nominal GDP (%)</i>	7.3	8.9	9.0	10.6	9.4	6.8	4.2	3.6

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 for 2012 as released on <u>11.5.2012</u> (%)	Latest forecasts for 2012 on <u>10.8.2012</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	1 to 3	<i>1 to 2</i>
<i>Nominal GDP</i>	2.5 to 4.5	<i>3 to 4</i>
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	3.5	3.7
<i>Underlying CCPI</i>	4	4.3



Half-yearly Economic Report 2012

Government of the Hong Kong
Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2012

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

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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 - 1.18
Box 1.1 Diffusion indices on small and medium-sized enterprises (an update)	

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 Recent developments of the eurozone sovereign debt crisis	
Box 2.2 Usefulness of monthly statistics on retained imports	

CHAPTER 3: DEVELOPMENTS IN SELECTED SECTORS

Property	3.1 - 3.12
Land	3.13 - 3.14
Tourism	3.15 - 3.17
Logistics	3.18 - 3.19
Transport	3.20 - 3.21
Environment	3.22 - 3.23

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 - 4.23
Fund management and investment funds	4.24
Insurance sector	4.25
Highlights of policy and market developments	4.26 - 4.28

CHAPTER 5: THE LABOUR SECTOR

Overall labour market situation	5.1
Total employment and labour force	5.2 - 5.4
Profile of unemployment	5.5 - 5.9
Profile of underemployment	5.10
Profile of employment in establishments	5.11 - 5.12
Vacancies	5.13 - 5.16
Wages and earnings	5.17 - 5.21
Recent labour-related measures	5.22 - 5.23
Box 5.1 A look at sectoral employment growth in relation to macroeconomic variables	
Box 5.2 The Gini coefficient of Hong Kong: trends and interpretations	

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 Recent global inflation situation	

STATISTICAL APPENDIX

CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy remained rather sluggish in the second quarter of 2012, expanding slowly by 1.1% over a year earlier, after the 0.7% growth in the first quarter. Merchandise exports continued to be the weakest spot amid the severe external headwinds. On the other hand, the domestic sector was still relatively resilient, thereby providing a buffer to the overall economic performance and maintaining the stability of the labour market.*
- *The external trading environment worsened again in the second quarter after a brief period of positive developments early in the year. The escalation of the eurozone sovereign debt crisis again in May weighed on economic sentiments around the globe and further hampered the already fragile EU economy. In the US, although economic growth still proceeded at a moderate pace, signs of renewed weakness turned more apparent in recent months. The lull in the US and EU economies had in turn inflicted negative ripple effects on the Asian economies. As a result, Hong Kong's total exports of goods remained weak in the second quarter, posting a slight year-on-year decline even against a relatively low base of comparison. Exports of services likewise decelerated and recorded only a modest growth. Inbound tourism was the only bright spot, thanks to thriving growth of the Mainland visitors.*
- *The domestic sector continued to display resilience despite the difficult external environment. Private consumption expenditure was underpinned by stable job conditions and past income increase. Investment spending grew solidly further, marked by a further pick-up in private building activity and sustained expansion in public sector infrastructure works, as well as continued growth in machinery and equipment acquisition.*
- *The labour market remained in a state of full employment, with total employment reaching another record high. The seasonally adjusted unemployment rate came down to 3.2% in the second quarter. Amid a tight labour market and with the additional boost of statutory minimum wage (SMW) implementation since May 2011, wages and earnings saw further notable growth.*
- *Local stock prices plunged in May on growing concerns over a possible Greek exit from the eurozone, but recovered somewhat in June upon the joint efforts by EU leaders to stem the crisis and the victory of pro-bailout parties in the Greek parliamentary election. Local property market likewise turned somewhat quieter, with more moderate price rises and thinner transaction*

volume towards the end of the second quarter.

- *Inflation receded further in the second quarter. Price pressures from import sources eased amid softer global food and commodity prices as well as slower inflation in the region. Domestically, while wage costs remained elevated, office rentals moderated on a year-on-year basis in the second quarter. Although the increases in retail rentals were still rather notable, the concurrent solid expansion of retail sales volume helped alleviate the cost pressure reckoned on a unit cost basis.*

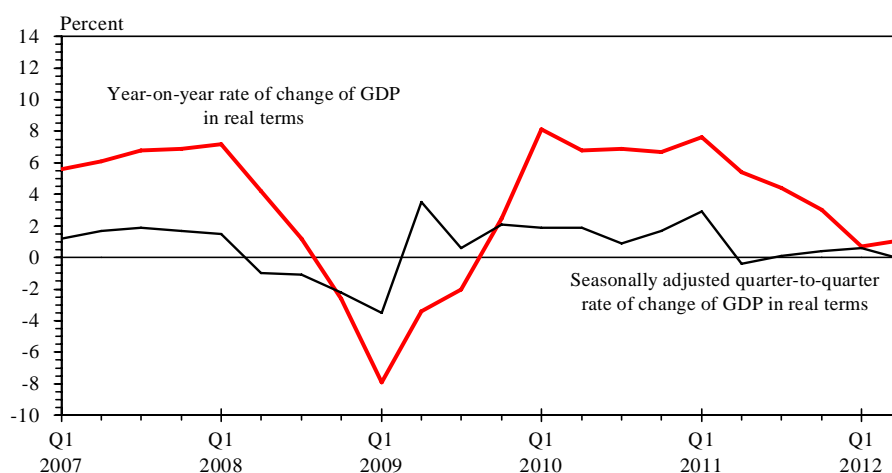
Overall situation

1.1 The Hong Kong economy saw another quarter of tepid growth in the second quarter of 2012. The euro debt crisis re-intensified in early May on concerns over a possible Greek exit from the eurozone and its contagion effects on other European economies. This triggered a fresh round of financial market gyrations and dealt a further blow to the already feeble economic sentiments in Europe. Meanwhile, the US economy, being hampered by fragile fundamentals and fiscal conditions, showed renewed signs of slackening during the quarter. These developments also took their toll on production and export activities in Asia. In response, many regional economies, including notably the Mainland, pursued further policy easing with a view to countering the strong external headwinds. Against this background, Hong Kong's total exports of goods fell slightly further in the second quarter, with the persistent weakness in exports to the EU outweighing some relative improvement seen in the US and Asian markets. Exports of services posted further modest growth, backed by thriving inbound tourism, which continued to cushion the lacklustre performance of the trade-related and financial services components. On the other hand, domestic demand stayed relatively resilient on the back of a tight labour market and elevated public sector infrastructure works. With the worsening euro debt crisis and more cautious market sentiments amid a dimmer global economic outlook, the local stock market drifted visibly lower and the property market turned quieter towards the end of the second quarter. Meanwhile, consumer price inflation stayed on an easing path in the second quarter, as both domestic and external price pressures continued to taper.

1.2 In the second quarter of 2012, the *Gross Domestic Product (GDP)*⁽¹⁾ posted a muted growth of 1.1% in real terms over a year earlier, after the 0.7% growth in the first quarter (revised from the earlier estimate of 0.4%). In the first half of 2012, real GDP expanded only by 0.9% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP shrank

marginally by 0.1% in the second quarter, following a 0.6% growth in the preceding quarter.

Diagram 1.1 : The external headwinds continued to pose a severe drag on the economy in the second quarter of 2012



The external sector

1.3 *Total exports of goods* shrank slightly by 0.4% in real terms in the second quarter over a year earlier, narrowing from the 5.7% decline in the first quarter. The EU market remained the weakest spot, falling further at a double-digit year-on-year rate in the second quarter. On the other hand, exports to the Mainland, US and other Asian markets saw some relative improvement on a year-on-year basis in second quarter, though largely helped by the lower base of comparison in the same period of 2011. The sluggish final demand in the advanced markets also manifested itself in a reduced intake of raw materials by many Asian economies, thereby restraining Hong Kong's exports to these regional markets.

1.4 Compared to goods trade, *exports of services* fared somewhat better, though also decelerating further to a modest year-on-year growth of 2.1% in real terms in the second quarter, from 2.9% in the first quarter. Exports of travel services continued to provide the key impetus, with visitor arrivals sustaining a double-digit year-on-year growth in the quarter. On the other hand, exports of trade-related services and transportation services saw only mild increases amid the still sluggish trade flows, while exports of financial and business services contracted modestly owing to subdued fund-raising and cross-border financing activities amid increased downside risks to the global economy and more cautious market sentiments.

**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>	<u>Q2+</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	6.7	8.5	8.0 (0.7)	9.9 (3.3)	9.5 (1.6)	6.6 (0.8)	6.5 (0.7)	3.7 (0.6)
Government consumption expenditure	2.8	1.8	2.5 (1.7)	1.0 (-0.8)	1.3 (1.0)	2.2 (0.4)	2.3 (1.6)	3.5 (0.5)
Gross domestic fixed capital formation	7.7	7.6	0.7	7.7	11.7	9.8	12.9	5.7
<i>of which :</i>								
Building and construction	5.6	5.7	17.8	-4.2	3.0	7.6	12.6	12.4
Machinery, equipment and computer software	6.4	13.7	-11.2	17.8	26.7	20.5	23.3	5.7
Total exports of goods	17.3	3.6	16.8 (10.1)	0.3 (-9.5)	-2.2 (0.7)	2.0 (1.5)	-5.7 (1.8)	-0.4 (-3.7)
Imports of goods	18.1	4.8	12.6 (8.6)	2.6 (-5.1)	1.4 (-0.2)	3.9 (0.9)	-2.7 (1.7)	0.7 (-1.5)
Exports of services	14.6	6.7	9.0 (3.5)	7.4 (0.6)	5.3 (0.4)	5.3 (0.7)	2.9 (1.2)	2.1 (-0.3)
Imports of services	10.4	3.1	5.6 (-0.2)	2.9 (0.3)	1.4 (-0.5)	2.8 (3.2)	3.5 (0.4)	1.5 (-1.5)
Gross Domestic Product	7.1	5.0	7.6 (2.9)	5.4 (-0.4)	4.4 (0.1)	3.0 (0.4)	0.7 (0.6)	1.1 (-0.1)
<i>Change in the main price indicators (%)</i>								
GDP deflator	0.2	3.7	1.3 (1.3)	4.9 (1.4)	4.8 (2.0)	3.7 (-1.1)	3.5 (1.0)	2.5 (0.7)
Composite CPI								
Headline	2.4	5.3	3.8 (1.8)	5.2 (1.8)	6.4 (-0.9)	5.7 (3.0)	5.2 (1.3)	4.2 (0.9)
Underlying^	1.7	5.3	3.7 (1.8)	5.0 (1.7)	6.1 (1.5)	6.4 (1.2)	5.9 (1.3)	5.1 (1.0)
<i>Change in nominal GDP (%)</i>	7.3	8.9	9.0	10.6	9.4	6.8	4.2	3.6

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 stayed rather resilient in the second quarter. On the back of the sustained buoyancy in employment and income conditions, *private consumption expenditure* (PCE) grew further by 3.7% in real terms over a year earlier, though moderating from the 6.5% growth in the first quarter. The growth deceleration was mainly on account of a distinctly high base of comparison a year earlier. *Government consumption expenditure* grew solidly by 3.5% in real terms in the second quarter over a year earlier.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)	Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
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	H1	5.8	0.1	26.5	4.8	2.8	4.0	9.9	5.1
	Q1	7.1	-1.0	31.7	6.8	3.4	5.7	10.1	6.5
	Q2	4.6	1.0	21.5	2.9	2.3	2.3	9.6	3.7

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

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

Diagram 1.2 : Private consumption expenditure expanded moderately further in the second quarter of 2012

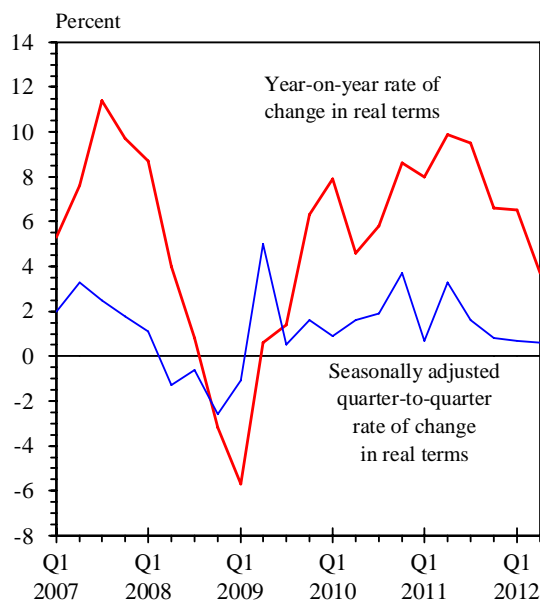
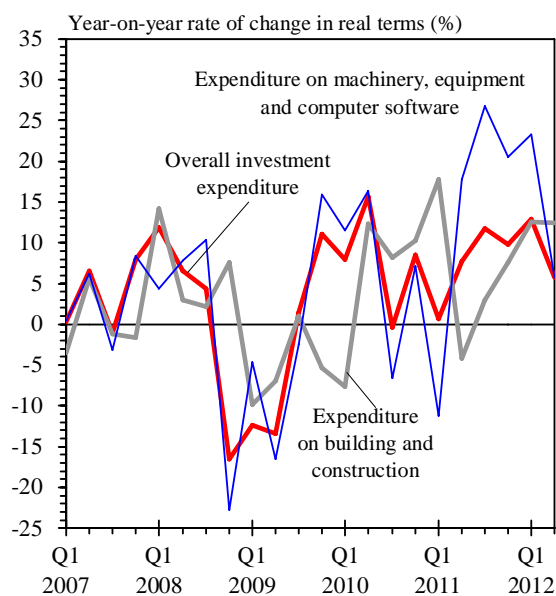


Diagram 1.3 : Investment spending likewise decelerated amid slower machinery and equipment acquisition



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* grew by 5.7% year-on-year in real terms in the second quarter, following the strong growth of 12.9% in the first quarter. The moderation was mainly affected by the slower year-on-year growth in machinery and equipment acquisition, at 5.7%. The latter partly reflected the more cautious business sentiments amid the escalating euro debt crisis, but the difference in the base effects in the first and second quarters of 2011 was also a relevant factor. The results of the Quarterly Business Tendency Survey on large enterprises and diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.1** for details of the consultation on SMEs) also indicated that business sentiments generally turned more cautious in recent months. Nevertheless, private sector construction activity picked up during the quarter, while public sector infrastructure works grew further. As such, overall building and construction expenditure expanded notably further by 12.4% in real terms in the second quarter.

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)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.1* in the *First Quarter Economic Report 2012*.

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 stayed rather weak in the more recent months (*Table 1*). In July 2012, a larger proportion of SMEs in all the sectors surveyed except logistics and real estates reported some worsening in their business situations. In tandem with a dimmer global economic outlook, the import/export trades and wholesale sectors remained sluggish, while domestic sectors such as business services and retail trade also lost some steam. Nevertheless, despite the relatively difficult business situation, 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 edged up slightly to 46.8 in July from 46.4 in June, albeit still lower than the reading of 50.0 in April 2012. The deterioration reflected the sluggish external demand against the background of the slackening US economy, the depressed EU market, and a visible slowdown in activities across many major Asian markets.

(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)

The proportion of SMEs reporting tight credit access rose slightly more recently, but was still at a low level of 1.1% in July 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[^] on business receipts

	<u>2011</u>					<u>2012</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>												
Restaurants	48.3	45.6	47.4	49.1	50.0	49.1	50.9	49.1	48.1	49.1	49.1	49.1
Real estate	45.7	35.7	41.4	42.6	39.7	44.1	60.3	54.4	47.1	42.6	41.2	50.0
Retail trade	48.7	46.9	49.1	48.6	46.8	48.6	47.9	47.9	47.4	45.3	46.1	46.4
Wholesale trade	47.5	50.0	42.5	42.5	47.5	47.5	52.5	50.0	47.4	44.7	44.7	47.4
Business services	45.5	47.0	50.0	46.9	45.3	46.9	51.5	51.5	51.5	48.5	48.5	45.5
<i>External segments</i>												
Import/export trades	49.6	45.3	45.7	43.1	47.4	47.8	47.8	48.7	48.6	47.7	46.8	47.7
Logistics	45.0	42.5	45.0	42.5	36.1	41.7	38.9	44.4	44.4	47.1	50.0	50.0
All the above sectors*	48.3	45.6	46.6	45.1	46.3	47.5	49.1	49.0	48.2	46.7	46.6	47.5

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

	<u>2011</u>					<u>2012</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>												
Restaurants	49.1	50.0	50.0	50.0	49.1	50.0	50.9	50.0	48.1	49.1	49.1	50.0
Real estate	51.4	50.0	50.0	51.5	48.5	47.1	50.0	51.5	51.5	50.0	50.0	50.0
Retail trade	50.0	50.0	50.0	50.0	49.1	50.5	50.0	49.6	50.0	50.0	50.0	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	50.0
Business services	51.5	48.5	50.0	50.0	50.0	50.0	50.0	51.5	50.0	48.5	50.0	50.0
<i>External segments</i>												
Import/export trades	50.0	49.6	49.6	48.7	50.0	49.1	50.0	50.0	50.0	49.5	49.1	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	50.0
All the above sectors*	50.2	49.7	49.8	49.5	49.6	49.6	50.1	50.1	50.0	49.6	49.6	50.0

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

Table 3 : Diffusion index on current new export orders

	<u>2011</u>					<u>2012</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Import/export trades	49.2	45.7	45.7	43.1	45.7	48.2	47.8	49.1	50.0	46.4	46.4	46.8

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

	<u>2011</u>					<u>2012</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
All selected sectors*	1.6	1.6	1.2	1.2	1.2	1.3	0.9	0.7	0.7	0.7	1.1	1.1

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

The labour sector

1.7 The labour market remained in a state of full employment in the second quarter. With job creation continuing at a solid pace, total employment rose to another record high, thereby pushing the *seasonally adjusted unemployment rate* down to a low of 3.2% in the second quarter, from 3.4% in the first quarter. The *underemployment rate* likewise fell slightly further to 1.4%. Against the tight labour market conditions, labour wages and earnings saw further appreciable growth. In particular, average employment earnings of full-time employees in the lowest decile rose markedly further by 10.4% in nominal terms or 6.4% in real terms in the second quarter over a year earlier, thanks to the additional boost from SMW implementation since May 2011.

The asset markets

1.8 The *local stock market* exhibited sharp fluctuations along with other major overseas markets in the second quarter. With the renewed deterioration of the eurozone sovereign debt crisis on entering May and generally softer data from the US, the Hang Seng Index (HSI) plunged in May and early June to close at 18 186 on 4 June, the lowest level since late-2011. Nonetheless, the HSI subsequently rebounded on easing threat of a “Grexit” and joint efforts by EU leaders to stem the crisis, closing the second quarter at 19 441, down 5% from end-March 2012 but still 5% higher than the level at end-2011. Average daily turnover of the stock market shrank visibly in the second quarter, while fund-raising activities remained sluggish.

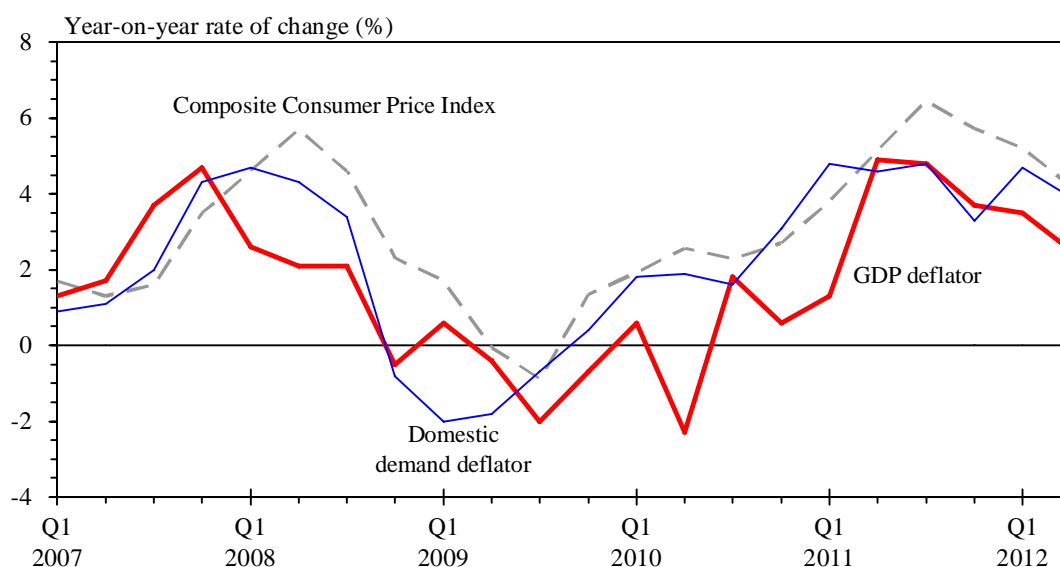
1.9 *Residential property market* saw thinner trading during the second quarter, as market sentiment turned more cautious amid the worsening euro debt crisis and subsequent global stock market gyrations. Residential property prices also turned more steady towards the end of the second quarter, though still rising by a cumulative 4% between March and June 2012. Overall flat prices in June surpassed the 1997 peak by around 16%. The number of transactions came down successively during the quarter from the hectic level in March and was 15% lower in the second quarter than a year earlier. The mortgage-to-income ratio stayed elevated at around 46% in the second quarter, which was still below the long-term average of 50% over 1991-2010. Meanwhile, flat rentals rebounded by 5% during the second quarter, and office and shop rentals also went up further by 2% and 6% respectively.

Inflation

1.10 *Consumer price inflation* continued to taper in the second quarter of 2012 along with receding price pressures from both the domestic and external sources. Locally, the relative stabilisation of fresh-letting residential rentals in the latter part of 2011 resulted in a moderated increase in the private housing rental component of the Consumer Price Index. Externally, the softening of global food and commodity prices and slower inflation in Hong Kong's major trading partners together helped alleviate imported inflation. Thus, with the peaking out of food prices and private housing rentals (which account for over half of the household consumption basket), *headline consumer price inflation* went down to 4.2% in the second quarter, from 5.2% in the first quarter. Netting the effects of the Government's relief measures, *underlying consumer price inflation* also receded to 5.1% in the second quarter, from 5.9% in the previous quarter.

1.11 The year-on-year increase in the *GDP deflator* likewise slowed to 2.5% in the second quarter, consistent with the easing CPI inflation.

Diagram 1.4 : Inflation eased further in the second quarter of 2012



GDP by major economic sector

1.12 With the visible slowdown of the economy on entering 2012, activity across many major sectors moderated progressively further. In the first quarter of 2012, net output of the services sector as a whole decelerated to a modest growth of 1.9% in real terms over a year earlier, from 2.9% in the fourth quarter of 2011. Among the major services sectors, the slowdown was most visible in import/export trade, accommodation and food services, and information and communications, some of which relapsed to declines. On the other hand, wholesale and retail trades sustained notable growth, thanks to a strong consumption market, followed by transportation and storage, financing and insurance, and professional and business services. Meanwhile, real estate activity, which mainly reflects the net output of private sector developers and property agencies, resumed a moderate growth after four straight quarters of year-on-year declines. As for the secondary sector, while manufacturing output contracted further by 1.6%, construction output picked up to a strong 11.6% growth, on the back of intensive public sector infrastructure works and revival in private sector construction activity.

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

	<u>2011</u>	<u>2011</u>				<u>2012</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	0.7	3.5	2.0	0.2	-2.2	-1.6
Construction	7.5	23.4	-0.3	2.1	6.4	11.6
Services ^(b)	4.8	7.4	5.2	3.9	2.9	1.9
Import/export, wholesale and retail trades	8.0	15.4	7.1	4.9	6.3	0.1
Import and export trade	6.5	15.1	5.0	2.9	4.7	-1.8
Wholesale and retail trades	16.0	16.8	17.7	15.7	14.5	9.1
Accommodation ^(c) and food services	1.1	0.9	0.9	2.3	0.5	-0.6
Transportation, storage, postal and courier services	6.5	9.2	4.5	6.0	6.3	5.5
Transportation and storage	6.4	9.0	4.0	6.1	6.6	5.5
Postal and courier services	8.1	13.7	13.3	4.4	2.8	4.7
Information and communications	1.6	2.0	1.5	0.8	2.0	0.2
Financing and insurance	7.8	12.2	12.9	8.5	-0.7	4.2
Real estate, professional and business services	1.4	2.3	1.3	0.9	1.0	2.8
Real estate	-2.6	-0.6	-3.1	-4.2	-2.7	3.2
Professional and business services	5.1	5.1	5.5	5.6	4.3	2.4
Public administration, social and personal services	2.5	2.3	2.4	2.5	2.5	2.1

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.

Some highlights of economic policy

1.13 The Government continued to foster closer economic and trade ties with the Mainland and overseas markets. Notably, a package of measures were unveiled by the Central Government in late June to strengthen the cooperation between the Mainland and Hong Kong in six areas, viz. economy and trade, financial services, education, science and technology, tourism, and Guangdong – Hong Kong collaboration. Specific initiatives included, among others, the signing of Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) on 29 June to broaden the number of beneficial service sectors to 48 with a cumulative 338 liberalisation measures, strengthening the physical linkages within the Pearl River Delta region, supporting third-party settlement of renminbi (RMB) trade and investment and further developing offshore RMB products in Hong Kong, as well as introducing exchange-traded funds (ETFs) that are tradable in both the Mainland and Hong Kong stock markets.

1.14 As for overseas linkages, InvestHK assisted more than 200 overseas and Mainland companies in setting up or expanding their business in Hong Kong in the first half of 2012, up 5.6% over a year earlier. These companies are mainly engaged in the tourism and hospitality, transport and industrial, and financial services sectors. These developments would enable Hong Kong to leverage on its competitive advantage as a global financial centre and regional business hub to tap the vast business opportunities from the Mainland's rapid economic development and gain a firmer footing in the international arena. Indeed, Hong Kong has been ranked the world's most competitive economy for the second consecutive year in the International Institute for Management Development's World Competitiveness Yearbook 2012, and also ranked fourth in the world's destinations for foreign direct investment flows in the United Nations' World Investment Report 2012.

1.15 Locally, the Competition Bill was passed by the Legislative Council in mid-June, marking a major milestone in the development of competition policy in Hong Kong. The bill aims to provide a legal framework to maintain fair and free competition in the market and to curb anti-competitive conduct. The legislation will be implemented in phases so that the public and the business sector can familiarise themselves with the new legal requirements during the transitional period and make necessary adjustments, while the two enforcement bodies, i.e. the Competition Commission and the Competition Tribunal, will be established in due course.

1.16 To carry through with efforts to ensure a healthy and stable development of the housing market, the Government announced at end-May that land supply for residential property would be further increased in the third quarter. The Government-initiated land sales, together with the West Rail property development projects, should provide for the construction of no less than 5 000 flats. This will help tackle the issue of demand-supply balance of residential flats from the root.

1.17 On financial development, the Ministry of Finance issued for the fourth time in Hong Kong RMB-denominated government bonds totalling RMB23 billion. The issuance included for the first time 15-year bonds for institutional investors as well as RMB2 billion allocation to overseas central banks, which would be conducive to setting a benchmark yield for long-term RMB bonds in Hong Kong and the internationalisation of the RMB and its usage as a potential reserve currency. In addition, the Hong Kong Government's second issuance of inflation-linked bonds (iBonds) was well received, with trading commencing on 25 June. These developments would help broaden and deepen the local retail bond market.

1.18 The Chief Executive unveiled a package of initiatives on improving people's livelihood at the Legislative Council Q&A session on 16 July. These initiatives cover the issues of housing, caring for the elderly, and social development. Specific measures include extending the arrangement for the sale of second-hand Home Ownership Scheme flats without premium payment from Green-form applicants to White-form applicants (subject to a quota of 5 000 per year), formulating a long-term housing strategy to increase public housing supply, subsidising non-governmental organisations to build youth hostels, introducing a new Old Age Living Allowance Scheme with an expanded monthly allowance of \$2,200, doubling the amount of the Elderly Health Care Voucher to \$1,000 per year, and setting up the Social Enterprise Development Fund.

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.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The difficult external environment continued to put a severe drag on Hong Kong's trade performance in the second quarter of 2012. Many European economies had entered into recession under the unsettling eurozone debt crisis. The US economy, facing notable uncertainty over its fiscal conditions, was also losing momentum. As a result, the negative spillover effects on production and trading activities in Asia remained significant in the quarter.*
- *Merchandise exports fell modestly in real terms in the second quarter of 2012 from the already low base of comparison in the same period of last year. This was mainly dragged by the continued noticeable decline in exports to the EU, although those to the US and most of the major Asian markets generally saw some relative improvements.*
- *Exports of services likewise decelerated, and showed only a modest growth in the second quarter of 2012. Exports of trade-related services and exports of transportation services both remained sluggish, reflecting the lull in regional trade and cargo flows. Exports of financial and other business services fell amid the difficult global economic environment. Travel services remained the only bright spot among the major components of service exports, thanks to the still-thriving inbound tourism.*
- *Hong Kong continued to strengthen economic ties with the traditional trading partners while actively exploring business opportunities with other emerging economies. Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement and the newly established Hong Kong Economic, Trade and Cultural Office in Taipei would foster closer economic collaborations with both the Mainland and Taiwan. Separately, the possibility of Hong Kong joining the ASEAN-China Free Trade Area was keenly discussed. Meanwhile, facilitative tax agreements were reached with Malaysia and Mexico. In addition, a Declaration of Intent on Co-operation in Wine-related Businesses with Germany was signed to consolidate Hong Kong's role as a world-class wine trading hub.*

Visible trade

Total exports of goods

2.1 Hong Kong's external sector continued to face severe challenges in the second quarter of 2012, due to the slack in Europe, slowing growth momentum of the US economy, and their negative spillovers onto the Asian region. *Merchandise exports* (comprising re-exports and domestic exports) shrank further by about 1.9% in real terms⁽¹⁾ in the second quarter of 2012 over a year earlier. This narrowed visibly from the 7.1% decline in the first quarter, thanks largely to the relatively low base of comparison in the same quarter of 2011. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports dipped by about 3.9% in the second quarter, in contrast to the 2.1% growth in the preceding quarter.

2.2 The downside risks to the global economy intensified during the second quarter. The unsettling European sovereign debt crisis was placed under the spotlight again, first sparked by the political uncertainties in Greece associated with its parliamentary election and then by the banking problems in Spain. The government borrowing costs for Spain and Italy rose to uncomfortably high levels towards the end of the quarter. In consequence, economic sentiments in Europe weakened further. Meanwhile, the US economy had also lost some steam in the face of the uncertainty arising from the fiscal cliff, resulting in the Federal Reserve's substantial mark-down of its growth projections and extension of the Operation Twist until the end of this year. In Asia, the austere external environment continued to dampen the regional growth momentum, and also led to some slackening of domestic demand more recently. In response, Asian economies with ample policy space, notably the Mainland, rolled out support measures to counter the external headwinds, though the effects of these recent policy actions would probably be felt only in the second half of the year. Against this background, the International Monetary Fund (IMF) in July trimmed its projected global economic growth for 2012 and 2013 slightly to 3.5% and 3.9% respectively.

2.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.2% of total exports by value, fell by about 1.5% year-on-year in real terms in the second quarter of 2012, further to the 6.7% decline in the first quarter. *Domestic exports*, which constitute the remaining 1.8% of total exports, shrank noticeably further by about 17.9% over a year earlier in real terms in the second quarter of 2012, after the plunge of 26.9% in the preceding quarter.

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

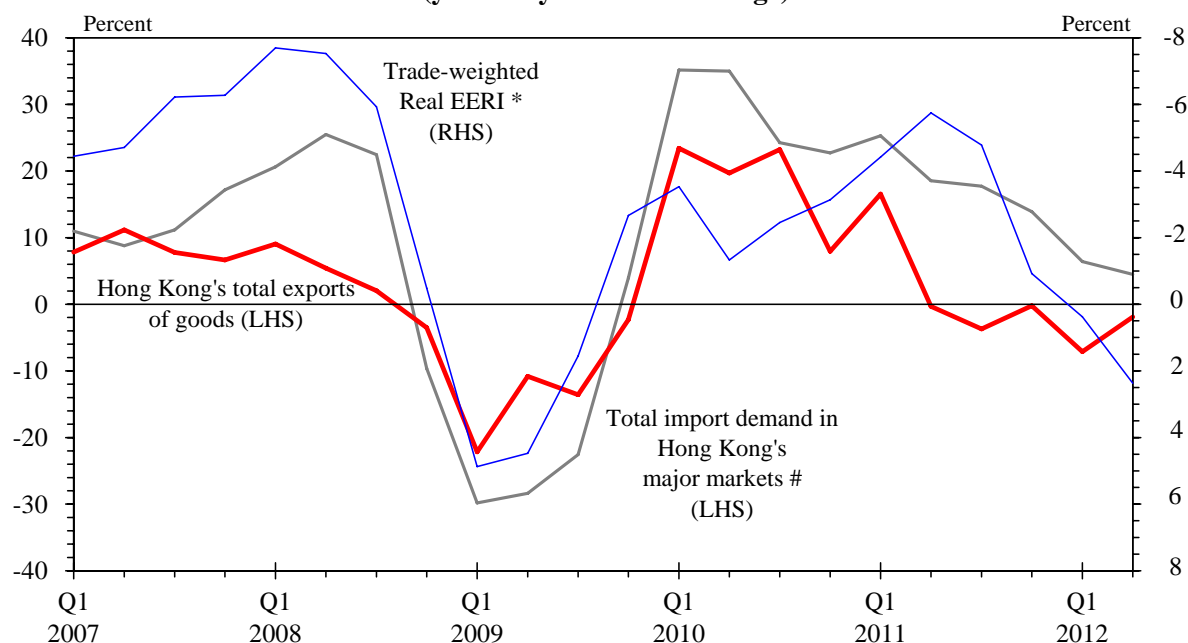
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>					
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>			
2011 Annual	10.1	2.4	8.0	10.5	2.7	8.0	-5.5	-11.9	6.4			
H1	15.4	7.4	8.1	15.6	7.6	8.1	6.2	-0.9	6.5			
H2	5.5	-2.0	8.1	6.0	-1.6	8.2	-16.0	-21.9	6.7			
Q1	24.6	16.5	(9.6)	7.6	24.9	16.9	(9.8)	7.6	11.9	3.9	(2.3)	6.7
Q2	7.7	-0.3	(-9.6)	8.6	7.9	-0.2	(-9.6)	8.7	1.2	-5.2	(-9.8)	6.4
Q3	4.2	-3.7	(*)	8.6	4.6	-3.4	(0.3)	8.6	-12.3	-19.0	(-14.2)	7.6
Q4	6.9	-0.2	(0.5)	7.6	7.5	0.4	(0.6)	7.7	-19.5	-24.7	(-5.2)	5.8
2012 H1 [#]	0.3	-4.5		5.1	0.7	-4.1		5.1	-19.4	-22.4		3.1
Q1	-1.5	-7.1	(2.1)	6.2	-1.0	-6.7	(2.1)	6.2	-24.1	-26.9	(0.4)	3.0
Q2 [#]	1.9	-1.9	(-3.9)	4.0	2.3	-1.5	(-4.0)	4.0	-14.8	-17.9	(1.0)	3.1

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 second quarter and the first half of 2012 are estimates based on actual unit value indices up to May 2012. They are subject to revision when data for June 2012 become available.

**Diagram 2.1 : Merchandise exports remained sluggish in the second 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 second quarter of 2012 is based on statistics for April and May 2012.

Diagram 2.2 : Re-exports fell modestly year-on-year in the second quarter

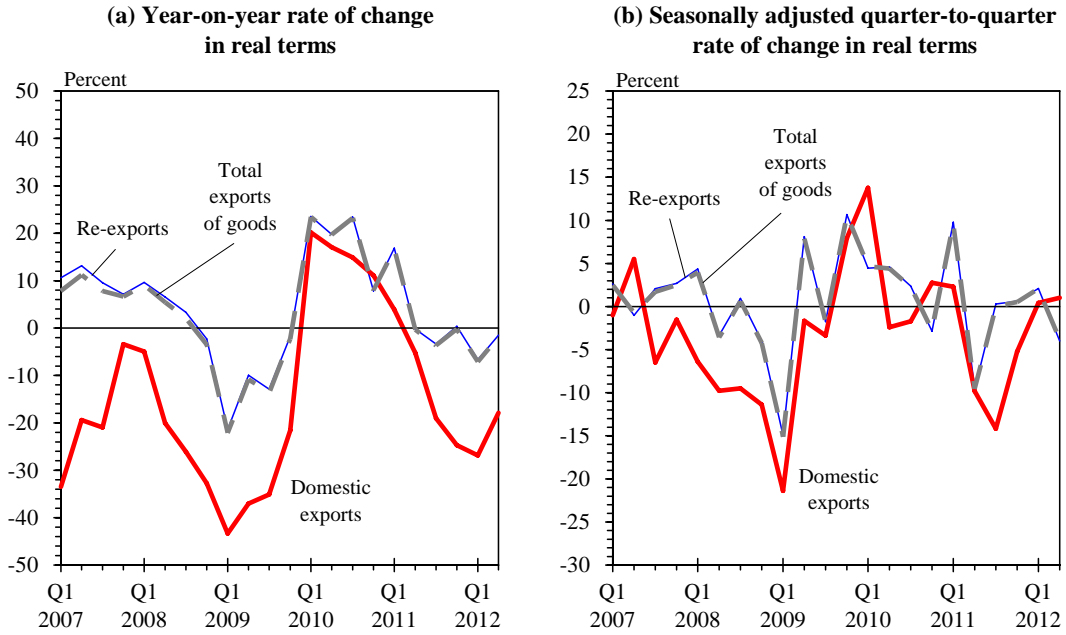
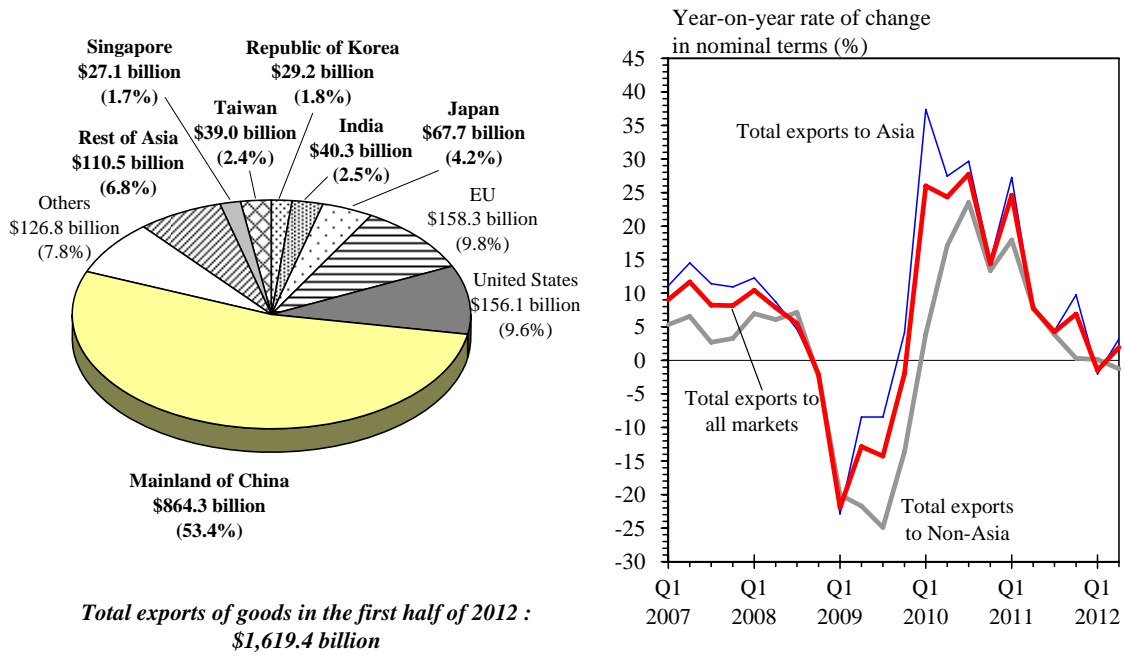


Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports



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

	<u>Annual</u>	<u>Q1</u>	<u>2011</u>			<u>2012</u>	
			<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>
Mainland of China	2.5	19.3	-2.5	-6.2	2.8	-7.8	-0.3
United States	-9.2	5.4	-12.0	-15.1	-11.0	-7.1	0.5
European Union	-2.2	6.6	-0.9	-4.3	-8.3	-9.7	-12.2
Japan	-2.2	4.1	-5.9	-4.1	-2.3	-1.5	1.7
India*	15.7	38.5	14.8	9.4	2.6	-23.8	-22.2
Taiwan	14.7	14.5	18.8	19.0	6.9	-21.4	-1.9
Republic of Korea	7.1	15.1	9.8	4.8	-0.5	-5.2	-5.5
Singapore	4.7	19.2	7.4	-0.4	-4.9	-14.1	2.2

Notes : (#) Figures for the second quarter of 2012 are estimates based on actual unit value indices up to May 2012. They are subject to revision when data for June 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 Exports to the major Asian markets showed mixed performance in the second quarter of 2012. Specifically, Hong Kong's total exports to the Mainland posted a much narrowed decline of about 0.3% in real terms over a year earlier in the second quarter of 2012, thanks to the sustained demand for capital goods. Exports to Japan likewise revived alongside the pick-up in import demand there, reflecting the post-tsunami re-construction works, but the lower base of comparison last year was also a relevant factor. Total exports to Singapore resumed positive year-on-year growth after shrinking for three consecutive quarters, but those to Taiwan and South Korea declined further. Total exports to India plunged amid the slower economic growth there. It is also noteworthy that exports of raw materials to the major Asian markets were still lacking momentum in the second quarter, albeit with a smaller year-on-year decline against a relatively low base of comparison. Those of consumer goods also slowed due to the weakening consumer sentiment amid the region-wide growth moderation.

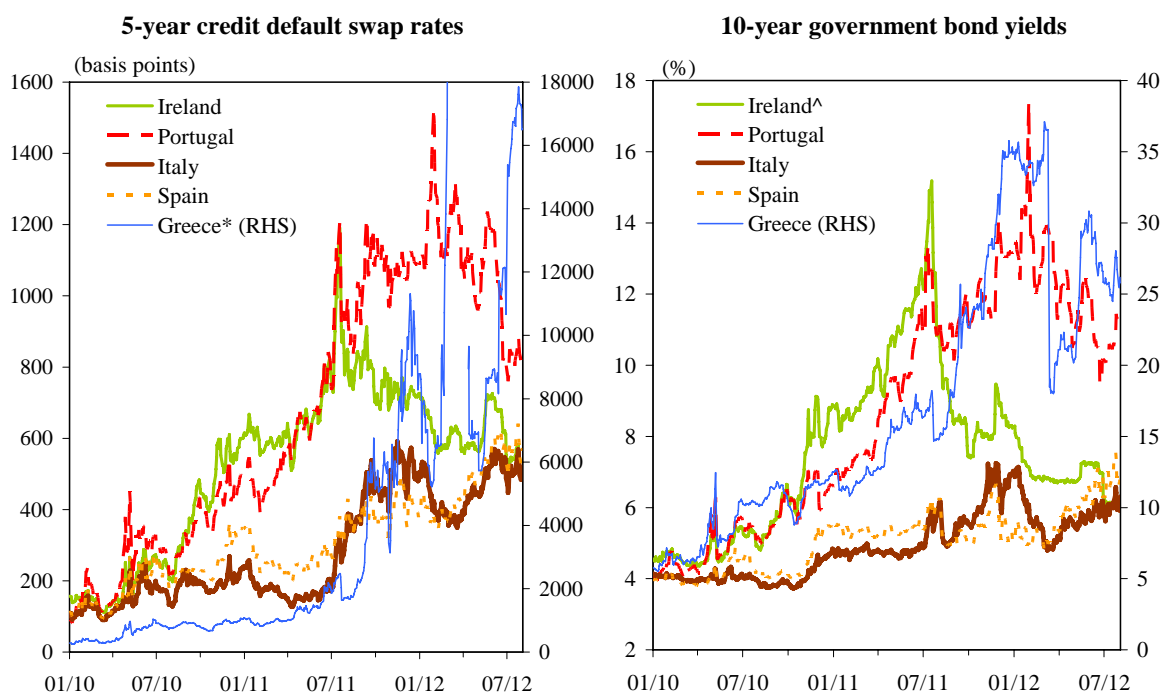
2.5 The economic environment in the EU turned increasingly austere in the second quarter of 2012, with consumer and business sentiments being hampered by the re-intensifying sovereign debt crisis as well as the ongoing implementation of austerity measures. As a result, total exports to the EU represented the weakest spot among Hong Kong's major trading partners, falling noticeably by about 12.2% year-on-year in real terms in the second quarter. Meanwhile, total exports to the US fared better in the early part of the second quarter, yet this favourable development was short-lived given the renewed slackening of the US economy in the latter part of the quarter. For the second quarter as a whole, Hong Kong's total exports to the US expanded marginally by about 0.5% over a year earlier in real terms, after recording visible year-on-year declines for four quarters in a row.

Box 2.1

Recent developments of the eurozone sovereign debt crisis

The eurozone sovereign debt situation worsened again during the second quarter of 2012, triggered by the heightened risk of a “Grexit” and also growing fears over contagion to the larger economies such as Spain and Italy, especially so for the former which was being saddled by a feeble banking sector (for earlier developments, please see *Box 2.1* of the *Half-yearly Economic Report 2011*). Although the likelihood of an imminent “Grexit” subsided upon the victory of the pro-bailout parties in the parliament election in mid-June, Greece still looks set to face a difficult road ahead while striving to meet the bailout requirements. Moreover, while EU leaders made some progress towards tackling the debt crisis at the EU Summit on 28-29 June, the Summit failed to reassure markets given its conditionality and lack of details, as evidenced by the sustained high borrowing costs for Spain and Italy, with the former ten-year government bond yield at times surging over 7% to successive highs in recent months (*Chart 1*).

Chart 1 : Risk premiums on Spain and Italy stayed elevated



Notes : (*) Greece completed a bond swap with private creditors in early March and the corresponding CDS was settled and terminated. The subsequent CDS protects the renewed Greek bonds and is hence not directly comparable with that in preceding period.

(^) 9-year government bond.

Specifically, the late-June summit (see *Table 1* for details) addressed three important dimensions, i.e. (i) the balance between national sovereignty and burden sharing, through greater consensus on specific and time-bound roadmaps to further fiscal integration as well as a banking union; (ii) provision of liquidity to banks and sovereigns, through direct recapitalisation of banks and bond purchases by the rescue funds, viz the European Financial Stability Facility/European Stability Mechanism (EFSF/ESM), without gaining preferential seniority status; and (iii) prospects for improved growth, through agreeing to mobilise around €120 billion to boost growth.

Nevertheless, the proposed direct recapitalisation of banks by EFSF/ESM is subject to the setting up of a single eurozone banking supervisory authority, involving the European Central Bank (ECB), by end-2012. Also, the envisioned banking union would entail a common deposit insurance and bank resolution in addition to bank supervision, which will likely take time to materialise and command more bickering amid divided national interests.

Box 2.1 (Cont'd)**Table 1 : Summary of recent major events pertinent to the euro debt crisis***

2 Feb	The treaty on European Stability Mechanism (ESM) was signed
9 Feb	The European Central Bank (ECB) left its benchmark interest rate unchanged at 1.0% and approved the increase in the available pool of eligible collateral for credit operations temporarily
13 Feb	Moody's cut Italy's rating from A2 to A3, Spain from A1 to A3, Portugal from Ba2 to Ba3 (junk), Slovakia from A1 to A2, Slovenia from A1 to A2, Malta from A2 to A3. The ratings of these sovereigns along with France, Austria and the UK were given negative outlooks
21 Feb	Eurogroup agreed to a €130 billion bailout for Greece, aimed at lowering its debt-to-GDP ratio to 120.5% by 2020. Private investors were called on to waive 53.5% of principal under a debt swap. The official sector will retroactively cut rates for the Greek Loan Facility, national central banks which hold Greek debt in their investment portfolios will pass all accrued income to Greece until 2020, and the ECB will disperse any profits made under its Securities Markets Programme to Member States to support Greece
27 Feb	S&P cut Greece's credit rating from CC to selective default and the outlook of European Financial Stability Facility (EFSF) from developing to negative; Spanish government announced its budget deficit stood at 8.5% of GDP in 2011
29 Feb	The ECB allotted €29.5 billion in its three-year long-term refinancing operation to 800 financial institutions
2 Mar	25 European countries signed the Treaty on Stability, Coordination and Governance aimed at strengthening fiscal discipline and introducing stricter surveillance within the eurozone; Moody's cut Greece's credit rating to C
9 Mar	Greece averted the immediate threat of an disorderly default after winning acceptance from its private creditors for a bond swap deal
13 Mar	Fitch lifted Greece's credit rating to B- after the debt swap, outlook stable, while Moody's cut Cyprus' credit rating from Baa3 to Ba1, outlook negative
14 Mar	Eurozone Member States approved the second adjustment programme for Greece. Member States also authorised the EFSF to release the first €9.4 billion instalment, to be disbursed in several tranches
15 Mar	The International Monetary Fund (IMF) approved a €28 billion loan for Greece
30 Mar	The Eurogroup agreed to raise the overall ceiling for EFSF/ESM from €500 billion to €700 billion; Spain unveiled a harsh budget to raise taxes and slash spending to achieve €7 billion in deficit cuts in order to trim its budget deficit from 8.5% of GDP in 2011 to 5.3% in 2012
20 Apr	IMF members agreed to increase its crisis-fighting resources by US\$430 billion
26 Apr	S&P downgraded Spain's credit rating from A to BBB+, outlook negative
2 May	S&P raised Greece's credit rating to CCC with a stable outlook from selective default after completion of the debt exchange
6 May	French Socialist Party Mr. Hollande won the presidential election and Greek election failed to form a coalition government. These signalled increasing pressure on European leaders to switch from austerity to a pro-growth strategy
9 May	Spanish government took over 45% indirect stake in Bankia, trying to dispel concerns over the government's ability to clean up the financial sector
1 June	Moody's lowered the highest assignable rating to domestic debt issuers in Greece to Caa2 based on the increasing risk of an exit from the eurozone
9 June	Eurozone finance ministers announced that they were willing to approve a loan of up to €100 billion to help recapitalise Spain's banking sector
13 June	Moody's downgraded Spain's and Cyprus' credit rating by three and two notches to Baa3 and Ba3 respectively, and put both on review for further downgrades

Box 2.1 (Cont'd)

- 17-20 June Pro-bailout New Democracy party won the Greek parliamentary election and successfully formed a new administration with PASOK and the Democratic Left
- 18 June More IMF members agreed to boost its crisis-fighting resources, bringing the newly raised fund to US\$456 billion
- 22 June The ECB decided to increase collateral availability to improve access of the banking sector to Eurosystem operations
- 25 June The Spanish government formally requested aid to recapitalise its banking sector. Cyprus also requested aid for its banks and budget. Fitch downgraded Cyprus from BBB- to BB+ (junk), outlook negative
- 28-29 June The European Council decided to establish a single eurozone banking supervisory authority, involving the ECB, by the end of 2012, and to enable the ESM to recapitalise banks directly. Existing EFSF/ESM instruments can be used more flexibly to stabilise markets without forcing austerity on recipient countries. They also agreed to develop a roadmap for fiscal integration, and mobilise €120 billion to boost growth
- 6 July The ECB cut its rates by 0.25%, bringing the refinancing rate to a record low of 0.75%, and the overnight deposit rate to 0%. No changes were announced regarding the non-standard measures. Italy approved additional spending cuts worth €26 billion over three years to remove an expected VAT hike in October
- 9 July Eurogroup gave Spain an extra year until 2014 to meet the agreed public deficit target
- 12 July Spain announced a package of fiscal consolidation measures worth €65 billion, comprising a VAT increase, suspension of Christmas bonus for public sector workers and cut in unemployment benefits etc., as part of a deal with eurozone leaders to help rescue Spain's banks
- 13 July Moody's cut Italy's rating by two notches to Baa2 from A3, outlook negative
- 20 July Eurogroup unanimously agreed to grant financial assistance up to €100 billion for the Spanish banking sector
- 23 July Spanish market regulators announced a 3-month ban on short-selling of all financial stocks; Moody's cut the credit rating outlook of three triple-A European countries, viz Germany, the Netherlands and Luxembourg to negative
- 26 July ECB President Draghi indicated that the ECB would, within its mandate, do whatever it takes to preserve the euro

Note : (*) Please see **Box 2.1** of the **2011 Economic Background and 2012 Prospects** for earlier developments.

Also, EU leaders did not touch upon expanding the firepower of EFSF/ESM at the Summit meeting in late June. Although the overall ceiling of these funds was raised from €500 billion to €700 billion in March 2012, it is hardly sufficient when viewed against the sheer sizes of Italy's and Spain's outstanding debts alone (at €1.9 trillion and €735 billion respectively at end-2011). The capacity of the EFSF/ESM is also limited by the absence of the ECB's back-up as the lender of last resort and the grim prospect of having joint eurobonds anytime soon. Indeed, with the eurozone's unemployment rate staying elevated at 11.2% in June and its economy poised for an annual recession this year, the debt-ridden eurozone Member States will face an uphill battle in resuming growth, leaving their fiscal sustainability seriously in doubt. All in all, the eurozone sovereign debt crisis will remain the key threat to the global economy for an extended period of time.

Diagram 2.4 : Exports to the Mainland recovered somewhat amid sustained demand for capital goods

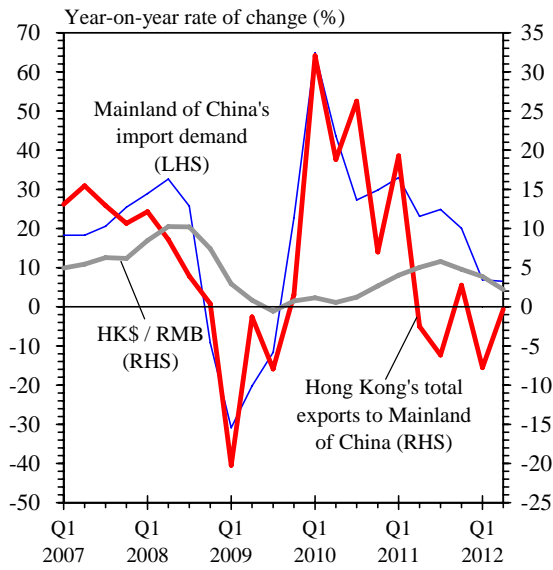
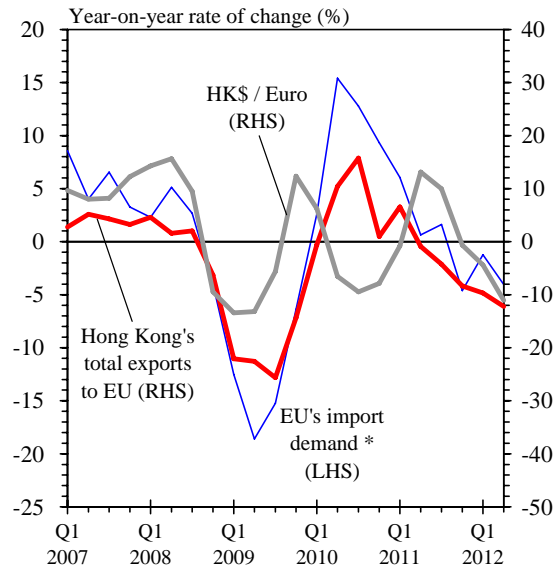


Diagram 2.5 : Exports to the EU remained in doldrums



Note : (*) Import demand figure for the second quarter of 2012 is based on statistics for Apr-May 2012.

Diagram 2.6 : Exports to the US saw some relative improvement

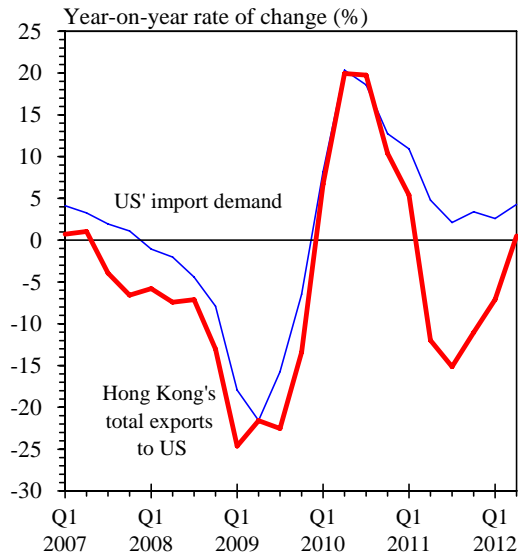


Diagram 2.7 : Exports to Japan continued to recover

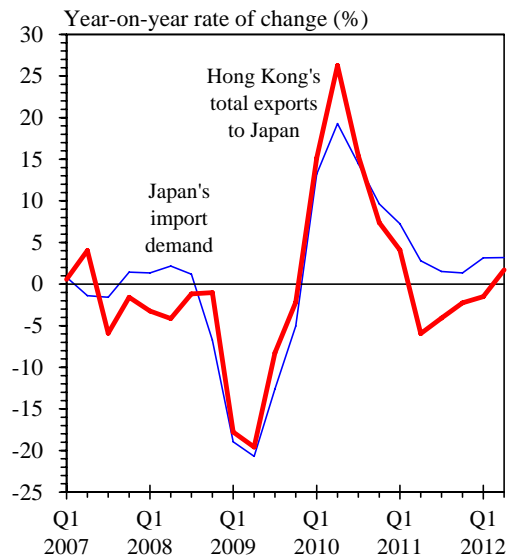


Diagram 2.8 : Exports to India fell noticeably further alongside the economic slowdown there

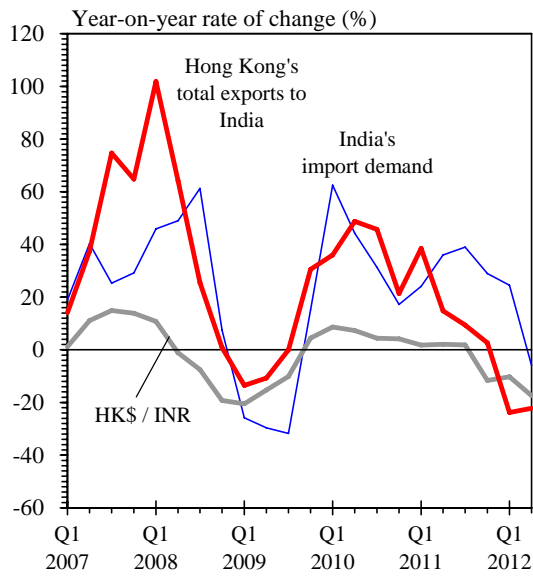


Diagram 2.9 : Exports to Taiwan still fell slightly

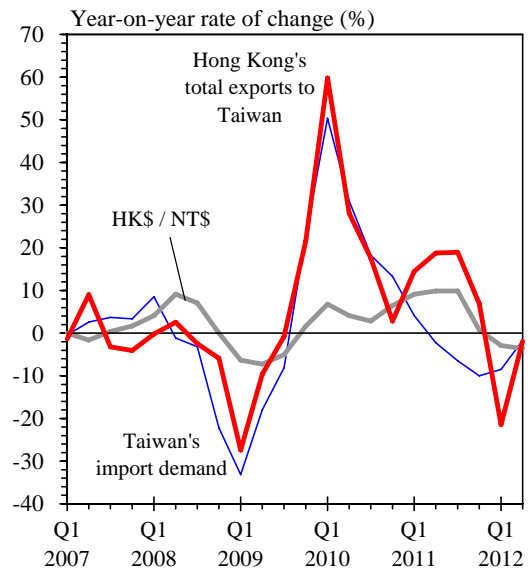
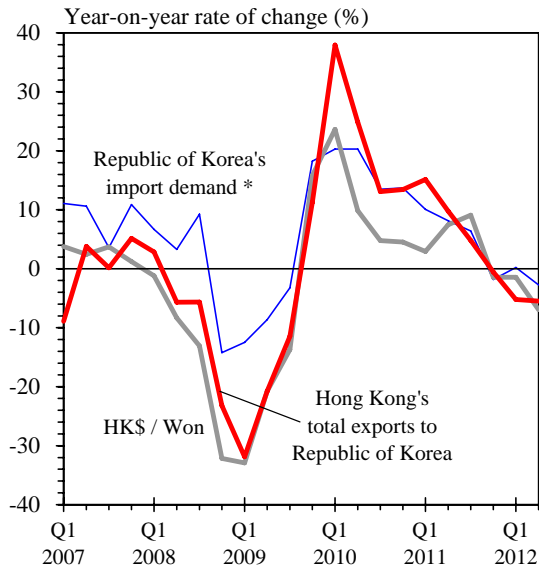
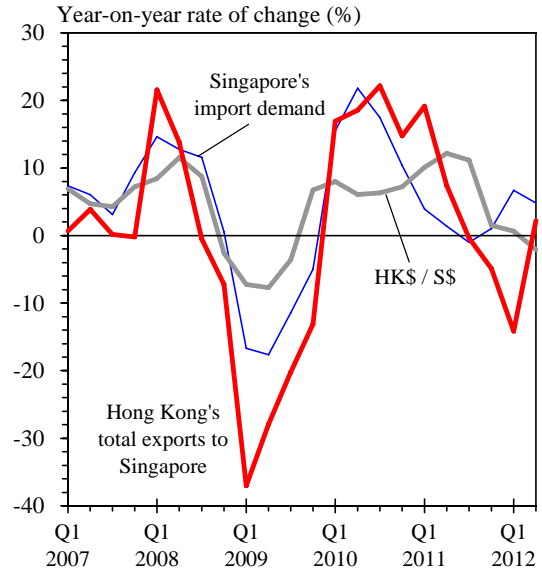


Diagram 2.10 : Exports to the Republic of Korea declined further



Note : (*) Import demand figure for the second quarter of 2012 is based on statistics for Apr-May 2012.

Diagram 2.11 : Exports to Singapore recouped some lost ground



Imports of goods

2.6 *Imports of goods* fell mildly further by about 1.4% year-on-year in real terms in the second quarter of 2012, after the 4.1% decline in the first quarter. This partly reflected the reduced import intake for subsequent re-exporting along with the sluggish re-export trade. In addition, *retained imports*, which accounted for over one-quarter of total imports, dipped by about 1.0% in real terms in the second quarter of 2012 over a year earlier, following the 3.5% growth in the preceding quarter. Analysed by end-use category, retained imports of consumer goods fell marginally over a year earlier in the second quarter, while those of foodstuffs grew at a moderated pace, reflecting the somewhat slower growth in local consumption demand. Retained imports of capital goods grew moderately in the second quarter after the exceptionally strong growth in the preceding quarter. Meanwhile, retained imports of raw materials and fuels saw another quarter of decline.

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2011	Annual	11.9	4.1	8.1	17.3	7.8		9.5	
	H1	15.0	6.6	8.4	14.8	4.1		10.6	
	H2	9.1	1.7	7.9	19.8	11.5		8.3	
	Q1	20.6	11.4	(7.8)	8.9	11.0	-2.1	(2.2)	13.8
	Q2	10.3	2.5	(-5.1)	8.1	18.1	10.1	(8.8)	7.7
	Q3	8.9	0.9	(0.4)	8.6	24.2	14.4	(0.6)	9.8
	Q4	9.3	2.5	(-0.3)	7.1	15.6	8.7	(-2.8)	6.9
2012	H1 [#]	1.4	-2.7		4.5	3.3	1.1		2.7
	Q1	0.7	-4.1	(0.7)	5.0	5.4	3.5	(-2.9)	1.7
	Q2 [#]	2.1	-1.4	(-1.9)	3.9	1.5	-1.0	(3.8)	3.7

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

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

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

Diagram 2.12 : Imports dipped slightly alongside the decline in re-exports and the further moderation in retained imports

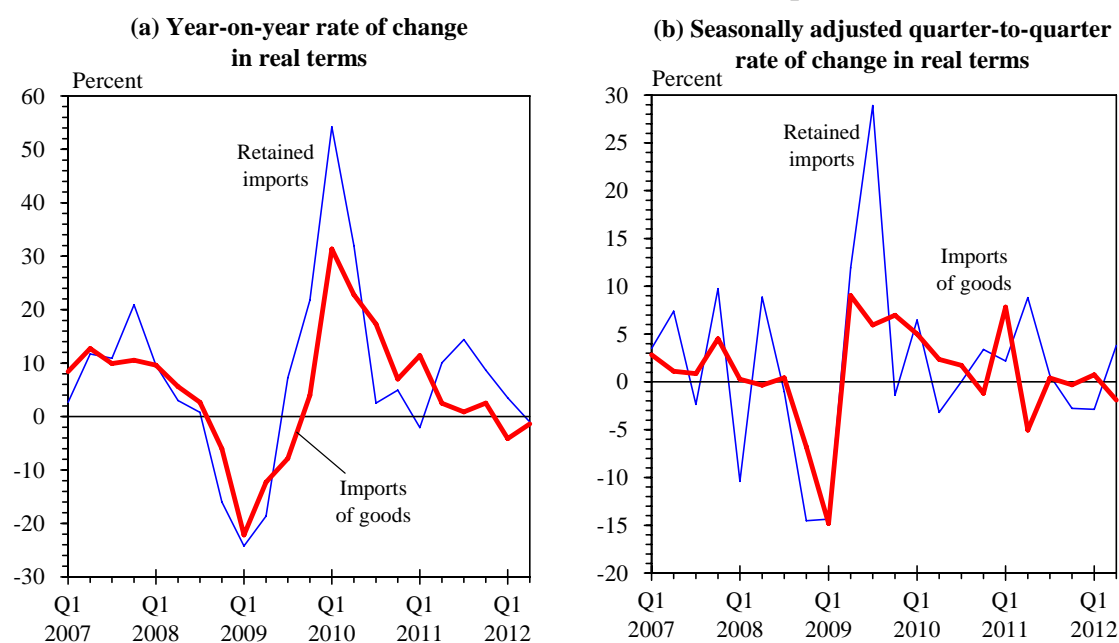


Table 2.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2011	Annual	32.9	5.7	14.8	-3.7	-9.6
	H1	36.2	0.2	-3.5	-3.7	-10.6
	H2	29.8	11.1	34.0	-3.7	-8.7
	Q1	25.3	-5.7	-25.6	-7.2	4.0
	Q2	46.3	6.7	19.4	-0.2	-21.3
	Q3	48.6	18.9	28.1	-2.7	-12.2
	Q4	14.2	5.0	39.8	-4.8	-5.1
2012	H1 [#]	7.0	3.5	22.9	-12.4	-7.0
	Q1	16.1	4.8	50.7	-19.8	-6.9
	Q2 [#]	-0.3	2.4	4.8	-5.5	-7.1

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

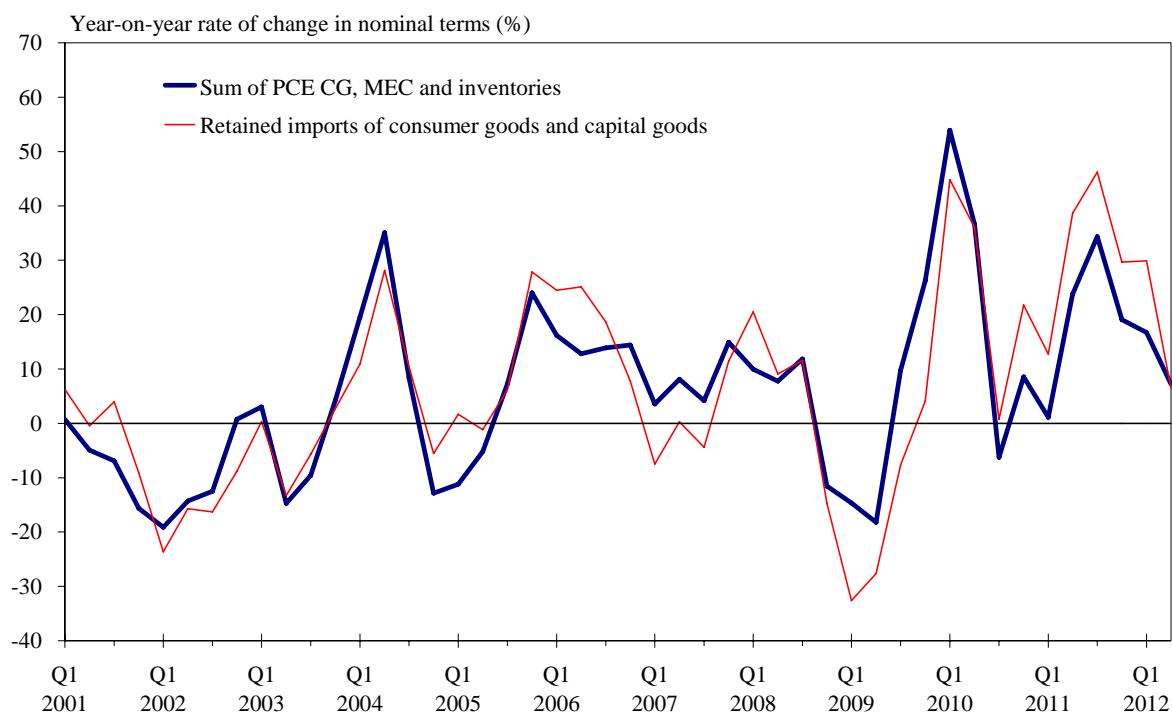
Box 2.2

Usefulness of monthly statistics on retained imports

All commodities in an economy, whether produced domestically or imported from other economies, must be used in either one of the three following ways – exports (or re-exports) to other economies, local consumption or inventory accumulation. Such supply and use relationship is in fact the cornerstone for estimating and interpreting certain components in the national accounts. In the case of Hong Kong where domestic production of goods is limited in scale, retained imports (imported goods not for subsequent re-exports) fulfil almost all of the commodities demanded by the domestic market. As such, the size of retained imports is often regarded as the flipside of the domestic demand condition, providing yet another high frequency indicator for monitoring the Hong Kong economy.

Hong Kong's retained imports are grouped into five major end-use categories. Among them, consumer goods and capital goods have the most straightforward linkages with the expenditure components of GDP. Retained imports of consumer goods are closely related to the “private consumption expenditure on consumer goods” (PCE CG), while those of capital goods are often eventually reflected in “investment spending on machinery, equipment and computer software” (MEC). These two expenditure components together already accounted for around 38% of Hong Kong's domestic demand in 2011. *Chart 1* shows that in nominal terms, the movements of retained imports of consumer goods and capital goods combined closely tracked the changes in the sum of the abovementioned two GDP expenditure components plus inventories. The occasional discrepancies between the two series are plausibly due to fluctuations in domestic production as well as data limitations on the breakdown of inventories by end-use.

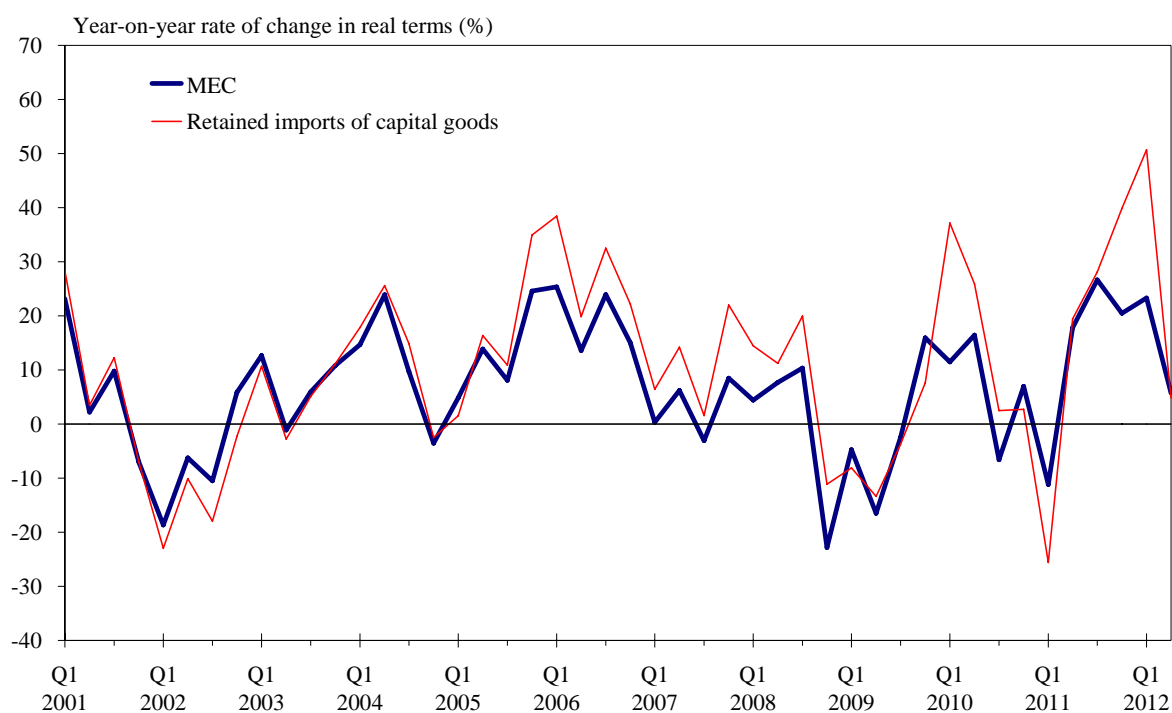
Chart 1 : Uses of retained imports of consumer goods and capital goods in Hong Kong



Box 2.2 (Cont'd)

In the context of economic surveillance, the inferences derived from retained imports of capital goods are perhaps even more useful. While the prevailing trend of PCE CG can be more frequently observed from the monthly retail sales statistics, capital goods intake by local businesses are much more difficult to monitor. Statistics on retained imports of capital goods serve to fill this gap and provide the backbone for measuring MEC (*Chart 2*). That said, as some adjustments are required to align retained imports of capital goods with the coverage of MEC, the link between these two series is not as close as that between retained imports of consumer goods and PCE CG⁽¹⁾. Nonetheless, the movements of retained imports of capital goods have still mirrored those of MEC fairly well. Therefore, these statistics are a useful tool for macroeconomic monitoring, given that MEC is one of the most volatile expenditure components in the national accounts.

Chart 2 : Relationship between retained imports of capital goods and investment spending on machinery, equipment and computer software



Hong Kong's unique economic structure enables retained import statistics to serve as an instrumental indicator for the domestic demand condition, as far as the demand for goods is concerned, given that nearly all the goods consumed here are sourced from abroad. With the external environment being extremely fluid at this juncture, higher frequency indicators (i.e. monthly instead of quarterly) such as retained import statistics are deemed useful for timely recognition of any significant changes in growth trend, which will in turn facilitate deliberations of proactive policy measures to maintain macroeconomic stability.

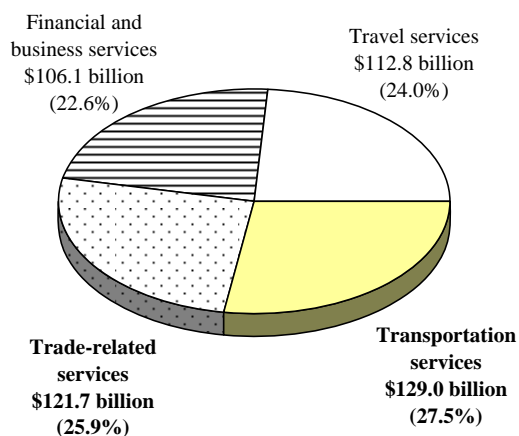
(1) The required adjustments include, inter alia, subtracting the capital goods bought by households not for the purpose of capital formation and adding acquisitions of computer software by business enterprises.

Invisible trade

Exports of services

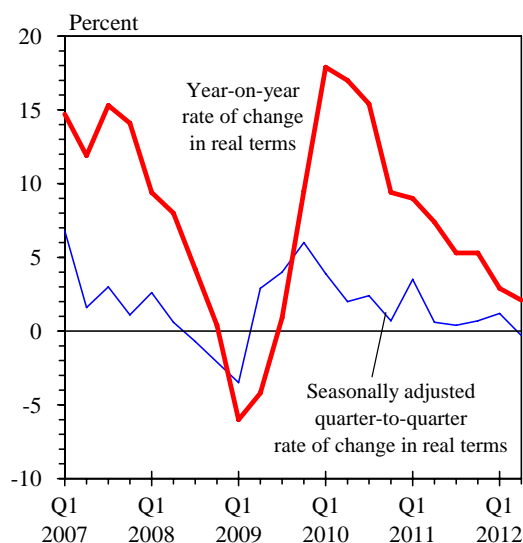
2.7 *Exports of services* expanded by a mere 2.1% year-on-year in real terms in the second quarter of 2012, down from the 2.9% growth in the preceding quarter. Among the major components, exports of travel services, supported by the sustained vibrancy of inbound tourism, were the key growth driver, continuing to post notable growth in the second quarter. Exports of trade-related services, comprising mainly offshore trade activities, and exports of transportation services both expanded only modestly over a year earlier, reflecting the still-sluggish trade and cargo flows. Meanwhile, exports of financial and business services fell, as cross-border financing, fund raising and other commercial activities turned quieter amid a highly uncertain global economic outlook.

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 half of 2012 : \$469.5 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 (%))**

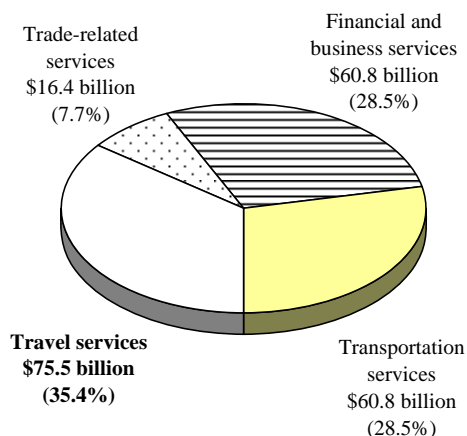
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2011	Annual	6.7	4.2	2.4	14.3	7.9
	H1	8.2	7.4	2.9	12.5	11.6
	H2	5.3	2.0	1.9	15.8	4.3
	Q1	9.0 (3.5)	11.4	0.8	10.2	13.4
	Q2	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	H1	2.5	-0.5	1.5	9.9	0.3
	Q1	2.9 (1.2)	-1.6	2.7	10.2	1.8
	Q2	2.1 (-0.3)	0.7	0.6	9.6	-1.6

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

Imports of services

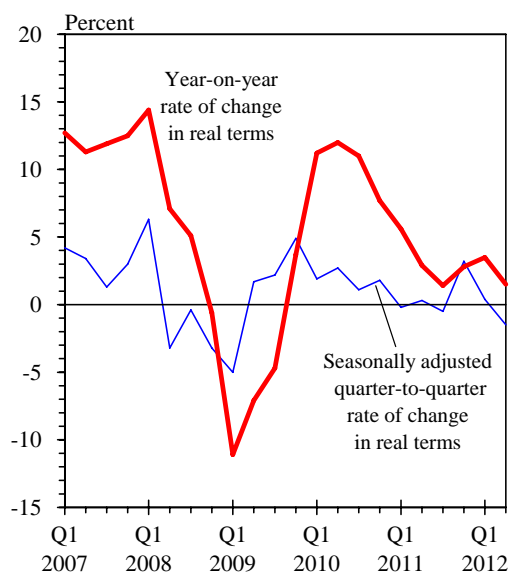
2.8 *Imports of services* recorded only a mild growth of 1.5% in real terms in the second quarter of 2012 over a year earlier, after expanding by 3.5% in the preceding quarter. Imports of travel services and those of transportation services both registered moderated growth as outbound travel of local residents faltered. On the other hand, imports of trade-related services stayed soft against the austere trading environment, while imports of financial and other business services expanded only modestly from a year earlier.

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



*Imports of services in the first half of 2012 :
\$213.5 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 ⁽⁺⁾	Transportation services	Trade-related services	Financial and business services
2011	Annual	3.1	2.9	1.2	4.0	5.0
	H1	4.2	3.6	1.5	9.6	6.3
	H2	2.1	2.2	0.9	*	3.8
	Q1	5.6	(-0.2)	3.4	13.0	8.1
	Q2	2.9	(0.3)	3.7	6.3	4.1
	Q3	1.4	(-0.5)	1.7	0.4	3.3
	Q4	2.8	(3.2)	2.8	-0.3	4.3
	2012	H1	2.5	4.3	1.7	-0.7
	Q1	3.5	(0.4)	5.6	*	2.3
	Q2	1.5	(-1.5)	3.1	-1.3	1.8

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 fell short of the deficit in the merchandise trade account in the second quarter of 2012, resulting in an overall deficit of \$28 billion in the combined visible and invisible trade balance (equivalent to 2.5% of the total value of imports of goods and services). The deficit was larger than the corresponding figures of \$14 billion and 1.3% in the same quarter of 2011, due to the confluence of the difficult external trade environment and the relatively resilient domestic demand.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>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
	H1	1,631	436	1,850	206	-219	230	11	0.5
	H2	1,779	509	1,996	229	-217	280	63	2.8
	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	H1	1,677	470	1,962	213	-285	256	-29	-1.3
	Q1	802	241	933	109	-131	131	*	#
	Q2	875	229	1,028	104	-153	125	-28	-2.5

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

(*) Within \pm \$0.5 billion.

(#) Within \pm 0.05%.

Other developments

2.10 Hong Kong continued to strengthen economic ties with the major trading partners. Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed on 29 June 2012, introducing 43 services liberalisation and trade and investment facilitation measures. Inclusive of the measures in Supplement IX, a total of 338 liberalisation measures have been announced in 48 service sectors under CEPA. Separately, the Hong Kong Economic, Trade and Cultural Office in Taipei officially opened in May to further enhance closer collaborations between Hong Kong and Taiwan on various fronts. In 2011, Taiwan was our fifth largest trading partner (only after the Mainland, the EU, the US and Japan) and

Taiwanese companies also represented the fifth largest group of non-local companies using Hong Kong as their regional business hub.

2.11 The Government is committed to actively broaden our economic ties with other emerging markets. During the Financial Secretary's visit to Vietnam, Malaysia and Thailand in April, the possibility of Hong Kong joining the ASEAN-China Free Trade Area (ACFTA) was discussed and the enterprises there were encouraged to take advantage of Hong Kong's unique renminbi platform in conducting businesses with their Mainland counterparts. Separately, agreements for avoidance of double taxation were signed with Malaysia and Mexico in the second quarter, lifting the total number of economies entering similar bilateral deal with Hong Kong to 25.

2.12 Hong Kong and Germany signed a Declaration of Intent on Co-operation in Wine-related Businesses, facilitating the collaboration in exhibitions and wine fairs, auctioneering, storage, education and tourism. Germany has been among Hong Kong's major wine importing regions since the abolition of duties on all alcoholic beverages in 2008. The value of wine imported from Germany leaped spectacularly by 173% in 2010 and 60% in 2011, much faster than the corresponding growth rates of total imports of wine. This co-operation would render additional support to Hong Kong's rapid development into a world-class wine trading hub. So far, Hong Kong had entered into similar agreements with most of the major supply sources of wine, such as France, Spain, Italy, the US, Australia, New Zealand and Chile.

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

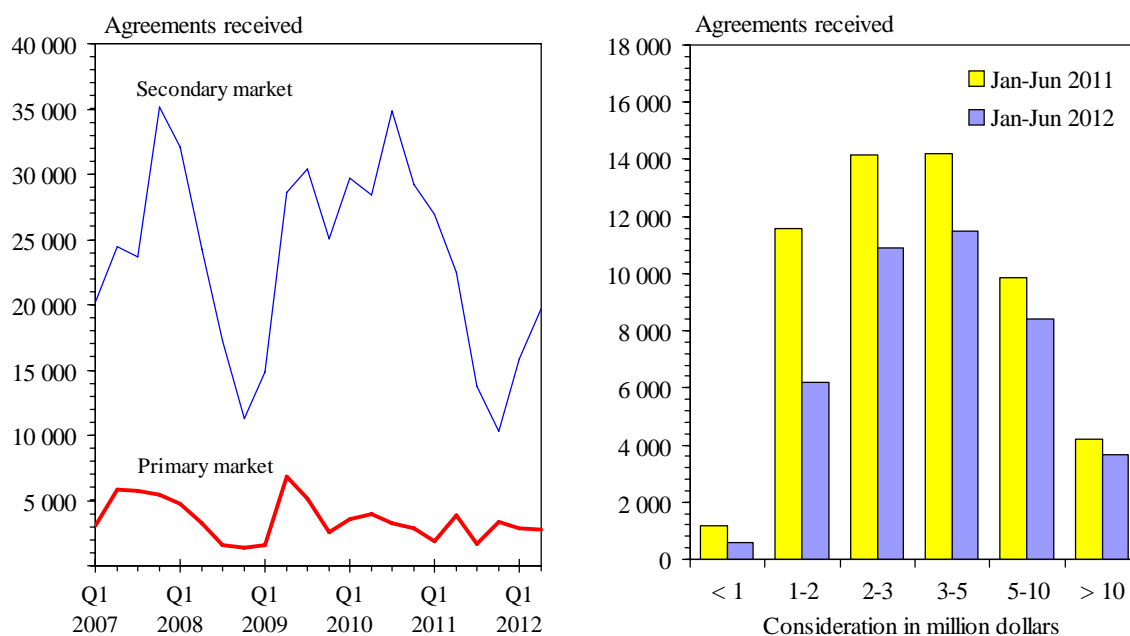
- *The residential property market entered 2012 on a soft note, then revived in February to April, yet quietened down again since May, matching closely the swings in market sentiment about the eurozone debt crisis and global economic outlook. Yet overall flat prices still surged by 11% during the first half, while transactions also rebounded sharply by 41% over the second half of 2011.*
- *The Government has introduced various measures since early 2010 to ensure a stable and healthy development of the residential property market, and these measures have yielded notable results. To address the public's concerns over housing issues, in July the Chief Executive also announced several housing initiatives.*
- *Inbound tourism sector continued to put up robust performance in the first half, mainly supported by the Mainland market. The total number of visitor arrivals surged by 15.5% over a year earlier to 22.3 million.*
- *Hit by the sluggish external trade, the logistics sector was rather subdued. Container throughput recorded a marginal decline while air freight throughput showed no increase.*

Property

3.1 The *residential property market* showed sharp fluctuations in the first half of 2012, matching the big swings in market sentiment resonated with the eurozone debt crisis and global economic outlook. After entering the year with a weak tone, the market staged a marked revival from February to April, helped on one hand by the temporary stabilisation of the eurozone debt crisis, and also by the ongoing low interest rates. Yet the market cooled off again starting early May, not long after the eurozone crisis showed renewed worsening leading to the ensuing global-wide stock market correction.

3.2 In the first half of 2012, the total number of sale and purchase agreements for residential property received by the Land Registry rebounded sharply by 41% from the low base in the preceding half-year period to 41 201, but was still 25% lower than a year earlier. The number of transactions varied widely in different months, from a low of 3 507 in January to a high of 11 358 in March. Within the total, secondary market transactions surged by 47% over the second half of 2011 while primary market transactions rose by a lesser 10%. In parallel, total consideration rebounded by 33% over the preceding half-year period to \$226.4 billion.

Diagram 3.1 : Trading activities rebounded sharply from a low level

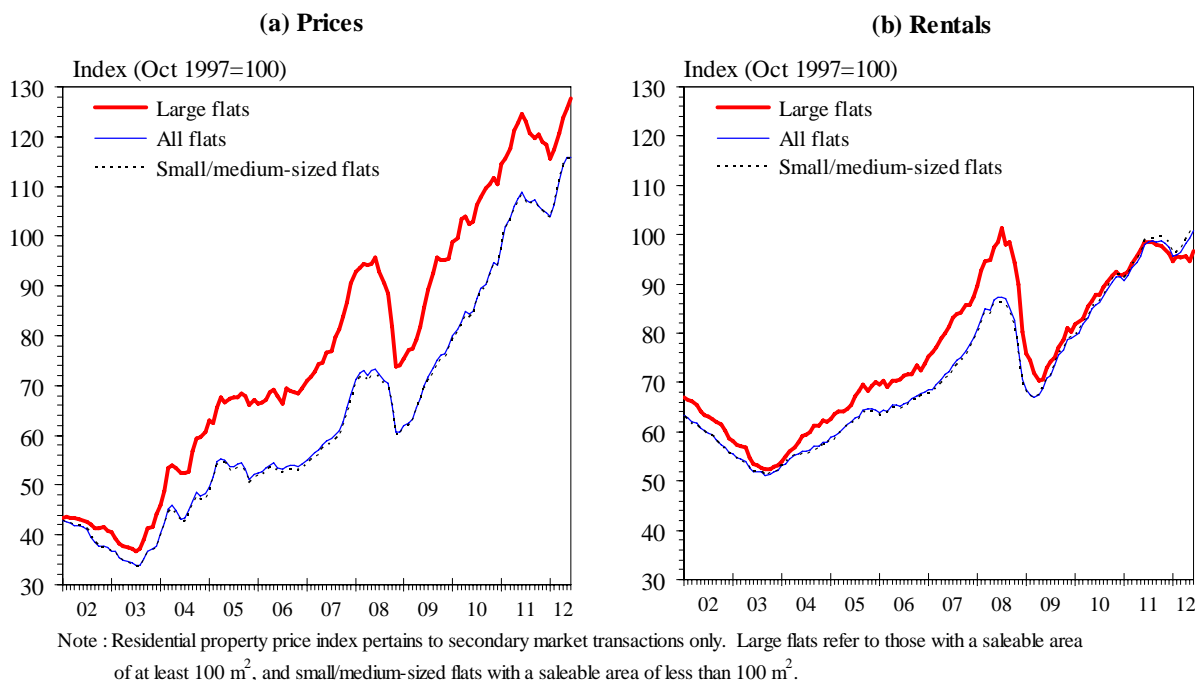


3.3 Overall flat prices rose by a hefty 11% between December 2011 and June 2012. Yet the surge was mainly recorded during February to April, and prices have turned more stable in May and June. Analysed by type, prices of small/medium-sized flats and large flats soared by 11% and 8% respectively. As a result of the general uptrend since early 2009, overall flat prices in June 2012 were 16% higher than the 1997 peak, with prices of large flats exceeding the peak by an even sharper 28%.

3.4 By comparison, the leasing market was less rampant. Overall flat rentals rose by 3% between December 2011 and June 2012. Analysed by type, rentals of small/medium-sized flats rose by 4% while rentals of large flats edged up by 1%. Following the rally since mid-2009, overall flat rentals in June 2012 exceeded the peak in 1997 for the first time, by 1%. Reflecting the faster

increase in flat prices than rentals, the average rental yield for residential property declined from 3.4% in December 2011 to 3.2% in June 2012.

Diagram 3.2 : Both flat prices and rentals resumed an uptrend



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. In order 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⁽¹⁾. With a view to sustaining the momentum of increasing land supply to address the fundamental issue of demand-supply balance in the property market, in May the Government designated six residential sites in the Application List for government-initiated sale by tender in the third quarter of 2012. Two West Rail property development projects in Tsuen Wan West Station and Long Ping Station will also be tendered in the third quarter. The six sites and two railway property development projects together could provide for about 5 000 flats.

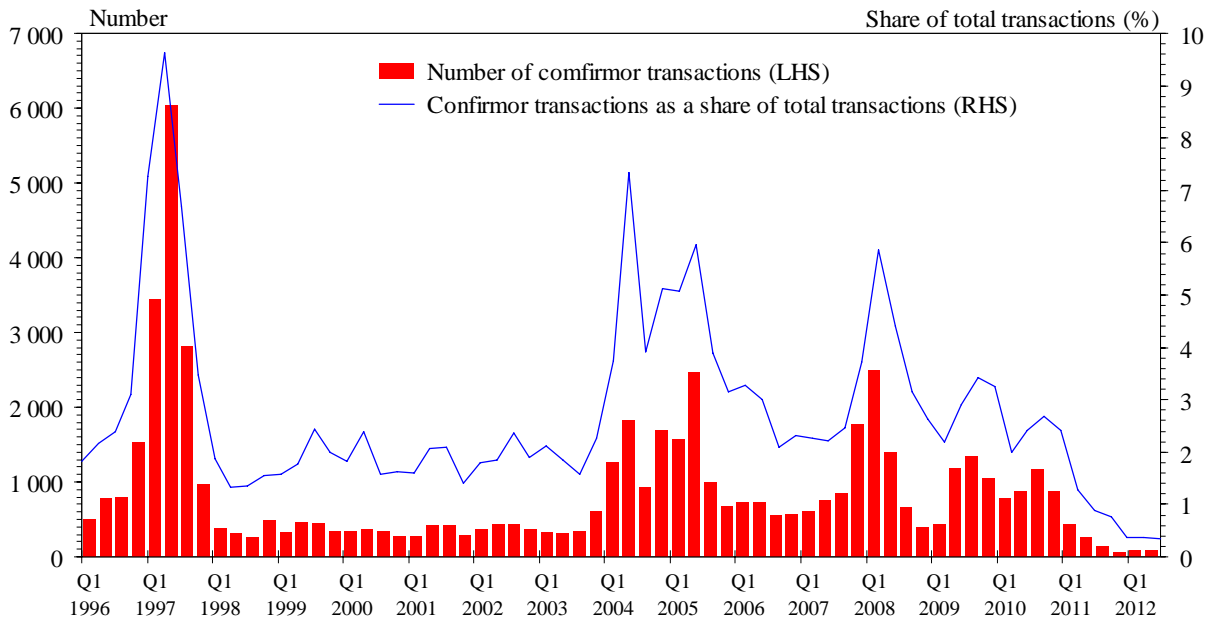
3.6 To address the public's concerns over housing issues, in July the Chief Executive announced several housing initiatives. *First*, before the new flats under the Home Ownership Scheme (HOS) are completed in 2016-17, each year 5 000 White Form applicants will be allowed to purchase HOS flats with premium not yet paid in the HOS secondary market⁽²⁾. The proposal would

help facilitate the circulation of second-hand HOS flats and assist low to middle income households to purchase their own homes. The Housing Authority will study details for implementation in January 2013. *Second*, the Government would devise suitable arrangements to shorten the waiting time of singleton applicants for public rental housing aged above 35. *Third*, the Government would activate the study of Long Term Housing Strategy and try to assess the housing needs of different sectors and different income groups, particularly their needs for public rental housing and HOS.

3.7 The various Government efforts have yielded notable results. Boosted by the Government's sustained efforts on *land supply*, the number of domestic units with notification of commencement of general building and superstructure work jumped by 240% over a year earlier or 29% over the preceding six-month period to 10 000 in the first half of 2012, the highest level since the first half of 2004. 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 65 000 units as estimated at end-June 2012, the highest since early 2008. In addition, another 7 000 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.

3.8 *Speculative activities* virtually vanished after the introduction of the Special Stamp Duty (SSD) in November 2010. Confirmor transactions shrank to a monthly average of 28 cases in the first half of 2012, and its share in total transactions to a meagre 0.4%. These were sharply below the respective averages of 318 cases and 2.4% in January to November 2010 (i.e. the period before the introduction of the SSD). As to *mortgage lending*, the average loan-to-value ratio of new residential mortgages was 56% in the first half of 2012, much 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. As to *market transparency*, the Residential Properties (First-hand Sales) Bill was passed by the Legislative Council in June 2012. The Government plans to set up an enforcement authority within 12 months after the passage of the Bill to implement the new legislation.

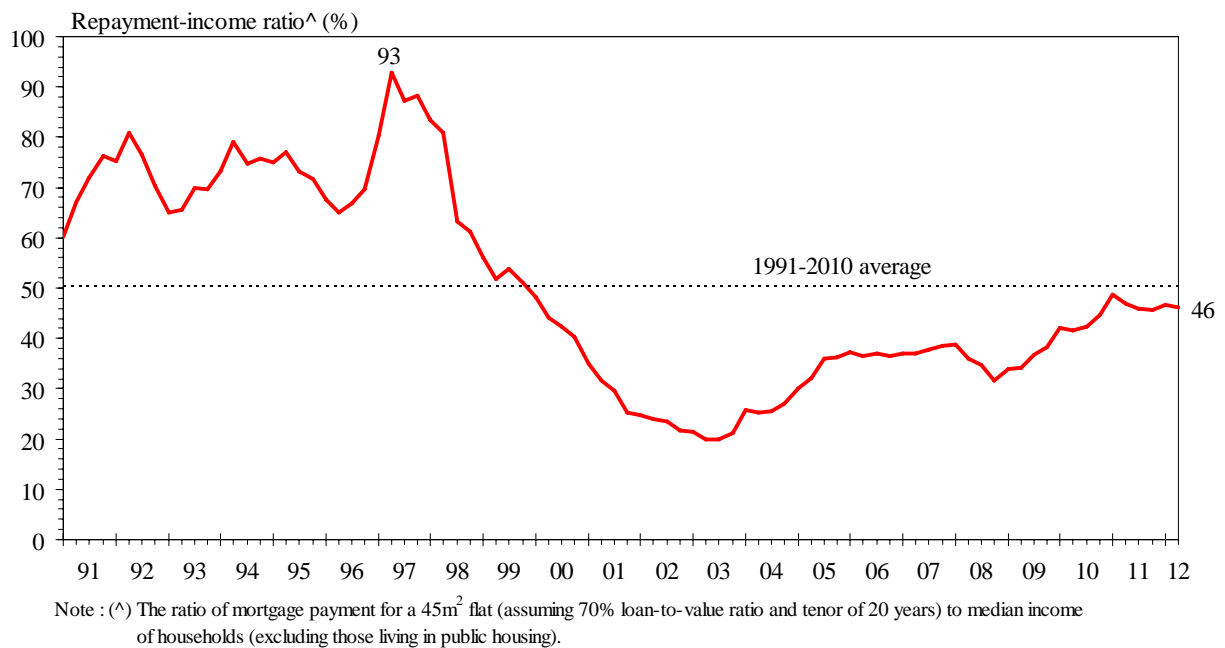
Diagram 3.3 : Speculative activities virtually vanished



Note : Confirmor transactions refer to resale before assignment.

3.9 Nonetheless, as interest rates are expected to remain low for a prolonged period, the Government would remain vigilant to the risk of a property market bubble. Following the surge over the past few years, flat prices in June 2012 have soared by a cumulative 91% 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) stayed elevated at around 46% in the second quarter of 2012, and would exceed the long-term average of 50% 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 stayed elevated

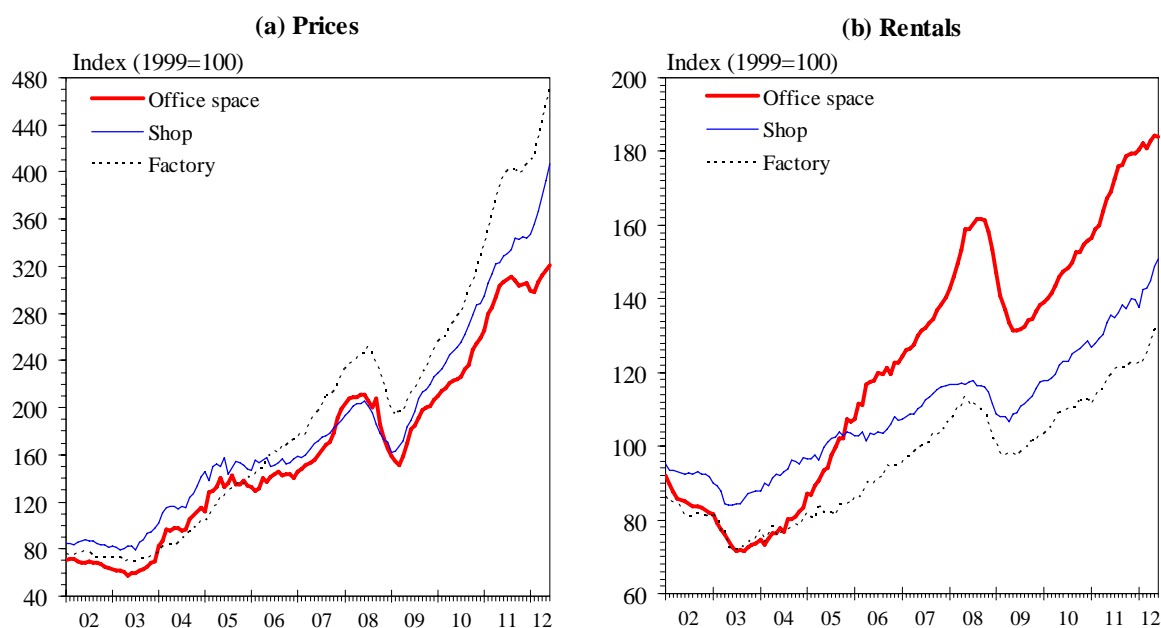


3.10 The *commercial* and *industrial property* markets also staged some rebound in the first half of 2012, having stayed subdued in the latter part of 2011. The solid though moderating growth in retail sales continued to render support to the *retail shop space* market. Between December 2011 and June 2012, sale prices for retail shop space surged by 18% and rentals by 7%. The average rental yield for retail shop space edged down from 2.9% to 2.7% over the period. Transactions for retail shop space also jumped by 59% from the preceding half-year period to 3 270 cases in the first half⁽³⁾, but were still 16% lower than a year earlier.

3.11 By comparison, the *office space* market was relatively steady. Overall prices and rentals for office space rose moderately, by 5% and 2% respectively between December 2011 and June 2012. Prices of Grade A, B and C office space rose by 2%, 6% and 8% respectively. Meanwhile, rentals of Grade A and B office space rose by 1% and 3% respectively, and that of Grade C office space by a higher 6%. The average rental yields for Grade A, B and C office space edged down from 3.3%, 3.3% and 3.4% respectively in December 2011 to 3.2%, 3.2% and 3.3% in June 2012. In the first half of 2012, transactions for *office space* rebounded markedly by 43% over the low base in the preceding half-year period to 1 440 cases, but were still 30% lower than the hectic level a year earlier.

3.12 For *flatted factory space*, prices and rentals in June 2012 surged by 16% and 7% respectively over December 2011. The average rental yield declined further from 3.7% to 3.5% over the period. Transactions also soared by 46% over the preceding half-year period to 3 790 cases in the first half of 2012, but were still 24% lower than a year earlier.

Diagram 3.5: Prices and rentals of non-residential properties rose further



Land

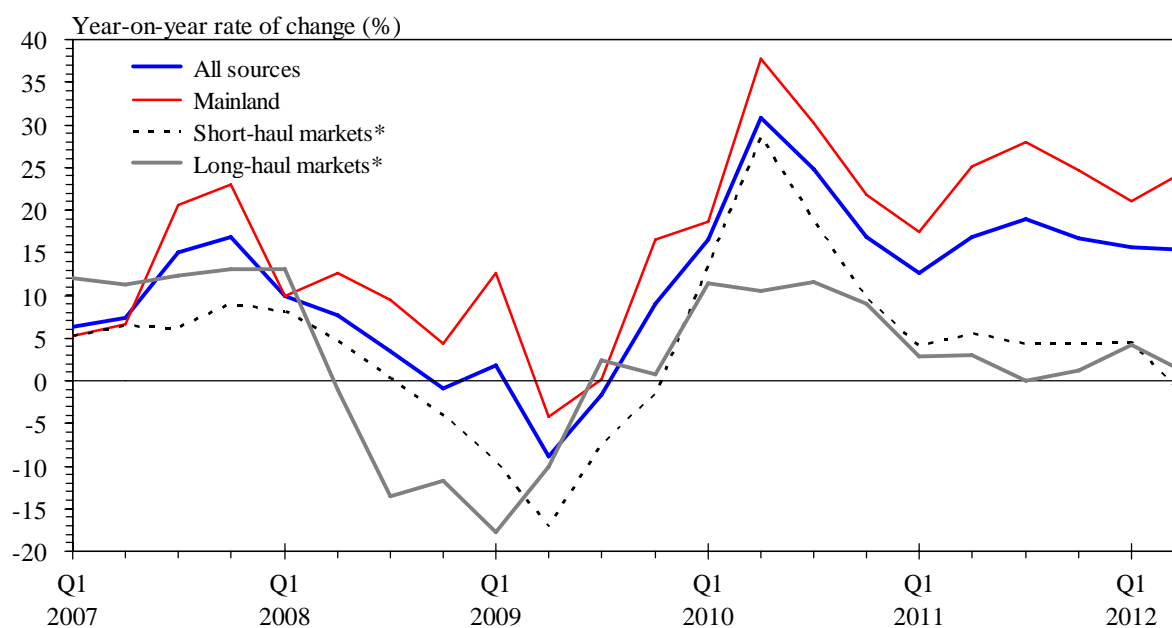
3.13 Reflecting the Government efforts to increase land supply, 14 land sites with a total area of about 15.7 hectares were sold in the first half of 2012, fetching land premium of \$19.0 billion. Among these sites, 11 were residential sites, one was commercial site, one was for logistics development purpose, and one was petrol filling station. In July the tender exercises for one residential/commercial site in North Point and one residential site in Tseung Kwan O were closed, and those for one residential/commercial site in Ping Chau and one residential site in Sha Tin also commenced.

3.14 Regarding exchange of land, five sites with a total area of about 6.8 hectares were approved in the first half. Among the approved cases, two were designated for residential use. As to lease modifications, 25 sites were approved.

Tourism

3.15 The inbound tourism sector continued to put up robust performance in the first half of 2012, with *visitor arrivals* jumping by 15.5% over a year earlier to 22.3 million. The Mainland market remained the major growth engine. Mainland visitors surged by another 22.7% to 15.6 million, and accounted for 69.8% of total visitor arrivals. But the other markets were much weaker, especially in the second quarter. Visitor arrivals from the short-haul market and the long-haul market grew by only 1.1% and 2.6% respectively for the first half as a whole⁽⁴⁾. Analysed by length of stay, same-day visitors soared further by 25.3%, much faster than the 6.8% growth in overnight visitors. As a result, the share of same-day visitors in total arrivals expanded from 46.8% a year earlier to 50.8% while the share of overnight visitors declined from 53.2% to 49.2%.

Diagram 3.6 : Inbound tourism remained robust amid a sustained surge in Mainland visitors



Note : (*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

3.16 Supported by the strong growth in incoming visitors, the average hotel room occupancy rate stayed at a high level of 87% in the first half of 2012. In parallel, the average achieved hotel room rate rose further by 12.0% over a year earlier to \$1,446⁽⁵⁾.

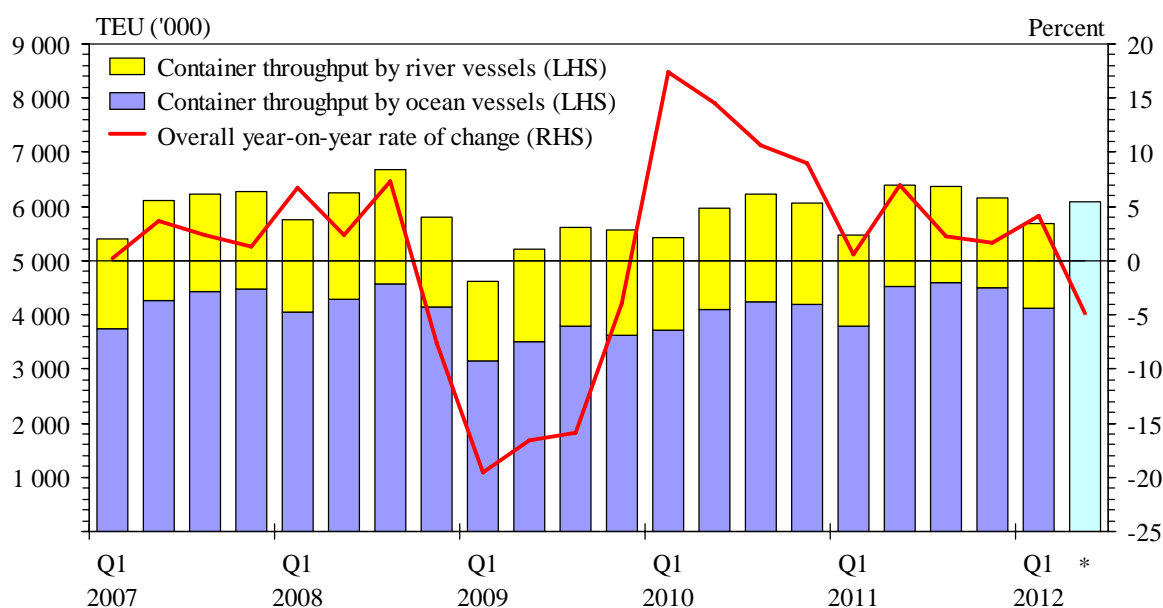
3.17 In late June the Central Government announced a package of measures to strengthen co-operation between the Mainland and Hong Kong, which also covered the tourism sector. Specifically, under Supplement IX to the Closer

Economic Partnership Arrangement (CEPA), Hong Kong travel agents established on a wholly-owned or joint venture basis in the Mainland would be allowed to apply for the operation of group tours to Hong Kong and Macao for residents registered with permanent residence of the original provinces, autonomous regions and municipalities. Also, one qualified Mainland-Hong Kong joint venture travel agent would be allowed to operate outbound group tours for Mainland residents to destinations beyond Hong Kong and Macao (excluding Taiwan) on a pilot basis. For cruise tourism, Mainland tours groups taking cruise from Hong Kong to Taiwan would be allowed to travel on the same cruise beyond Taiwan to Japan or Korea before returning to the Mainland. This new measure can facilitate the cruise operators in organising more attractive itineraries in the East Asia region. This is also conducive to encouraging more cruise deployments to this region and promoting the development of cruise industry in the Mainland and Hong Kong.

Logistics

3.18 The logistics sector was rather subdued, hit by the sluggish external trade. *Total container throughput* edged down by 0.7% over a year earlier to 11.8 million TEUs for the first half as a whole, as dragged by a decline of 4.9% in the second quarter, which was the first year-on-year quarterly decline since late 2009. The value of trade handled at the Hong Kong Port also fell by 4.5%, and its share in overall trade value declined from 26.7% a year earlier to 25.2%.

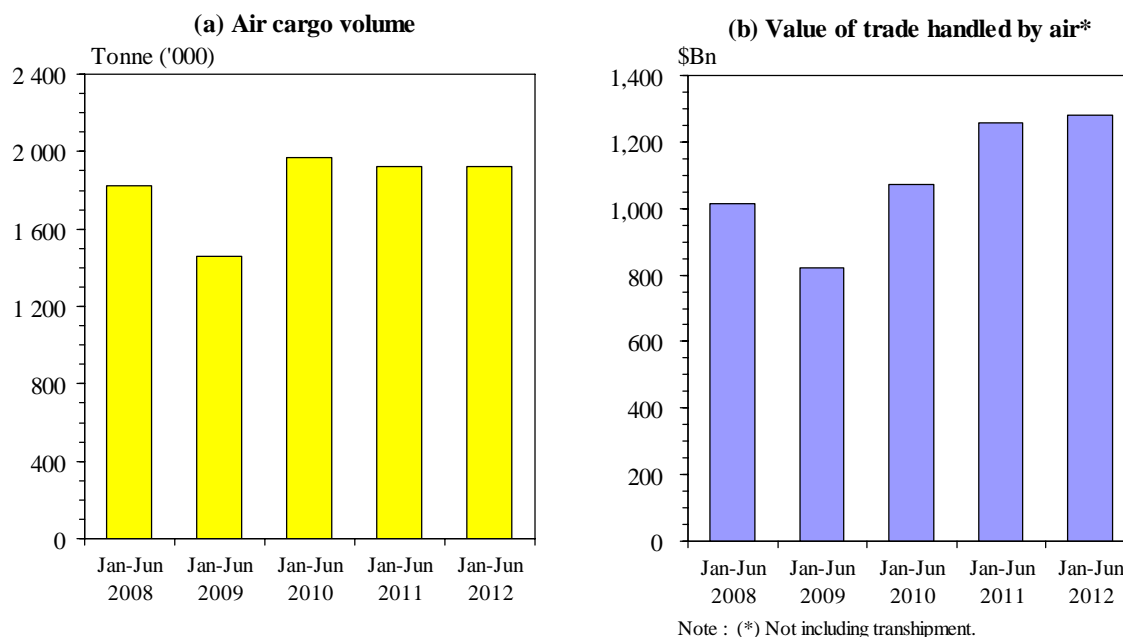
Diagram 3.7 : The sluggish external trade continued to weigh on port container traffic



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

3.19 *Air freight throughput* was virtually unchanged from a year earlier with 1.92 million tonnes in the first half. Yet the total value of trade by air still edged up by 1.7%, and its share in overall trade value rose from 36.7% a year earlier to 37.0%.

Diagram 3.8 : Air freight throughput was virtually unchanged while the value of trade handled by air edged up



Transport

3.20 Traffic flows for different modes of transport showed mixed performance in the first half of 2012. Air passenger traffic increased by 6.9% over a year earlier to 27.6 million while the number of water-borne passenger trips stayed virtually unchanged at 13.1 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 5.7% to 535 100 while average daily vehicular movements edged down by 0.5% to 41 500.

3.21 In April the Government launched the three-month “Our Future Railway” Stage 1 Public Engagement exercise for the Review and Update of the Railway Development Strategy 2000 to map out a long-term railway development blueprint for Hong Kong. Based on the public’s views and comments collected during the Stage 1 Public Engagement exercise, the Government will further study the ideas and conceptual schemes of the major regional railway corridors and explore local enhancement schemes for the Stage 2 Public Engagement exercise, tentatively scheduled to be launched at the end of 2012.

Environment

3.22 In June Hong Kong, Guangdong and Macao jointly published the Regional Co-operation Plan on Building a Quality Living Area. The Plan covers long-term co-operation in five major areas, namely environment and ecology, low-carbon development, culture and social living, spatial planning, and green transportation systems. To jointly improve environmental and ecological quality, the Plan recommends strengthening regional co-operation in air emission reduction control by means of, for example, enhancing the regional air quality monitoring network and exploring opportunities in reducing emissions from vessels in Greater Pearl River Delta waters. The Plan also recommends that the three places jointly promote low-carbon development and take forward regional co-operation in combating climate change.

3.23 Under the Supplement IX to CEPA announced in June, the Guangdong Provincial Government may approve Hong Kong service suppliers for undertaking entrusted environmental monitoring activities in Guangdong.

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) Green Form applicants for HOS flats are sitting tenants of public rental housing (PRH) or those successful Waiting List applicants where eligibility for PRH has been established. White Form applicants are private housing people who fulfil the eligibility criteria including the income limit as well as the asset limit for HOS flats.
- (3) 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.
- (4) 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 half of 2012, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 70%, 20% and 11% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Amid the ongoing accommodative monetary policy in the United States, the low interest rate environment in Hong Kong continued through the first half of 2012.*
- *The Hong Kong dollar spot exchange rate was relatively stable against the US dollar. Meanwhile, the trade-weighted Hong Kong dollar Effective Exchange Rate Indices notched up, as the US dollar strengthened against most major currencies amid the intensified eurozone debt crisis.*
- *Total loans and advances continued to grow steadily in the first half. Yet loans for use in Hong Kong only recorded a moderate growth along with the slowdown in the domestic economy.*
- *The local stock market had a volatile time in the first half as market sentiment shifted in tandem with gyrations in the external environment and global financial markets. The Hang Seng Index rose by a modest 5.5% over end-2011 to 19 441 at end-June. Trading activities and fund raising activities were generally quiet.*
- *In June the Central Government announced a package of measures to strengthen co-operation between the Mainland and Hong Kong in six board areas including, among others, the financial sector. These measures covered RMB business, the banking industry, insurance services, securities market and accounting sector respectively. These measures would further promote integration and sustainable co-operation between the Mainland and Hong Kong, and help enhance Hong Kong's status as an international financial centre.*

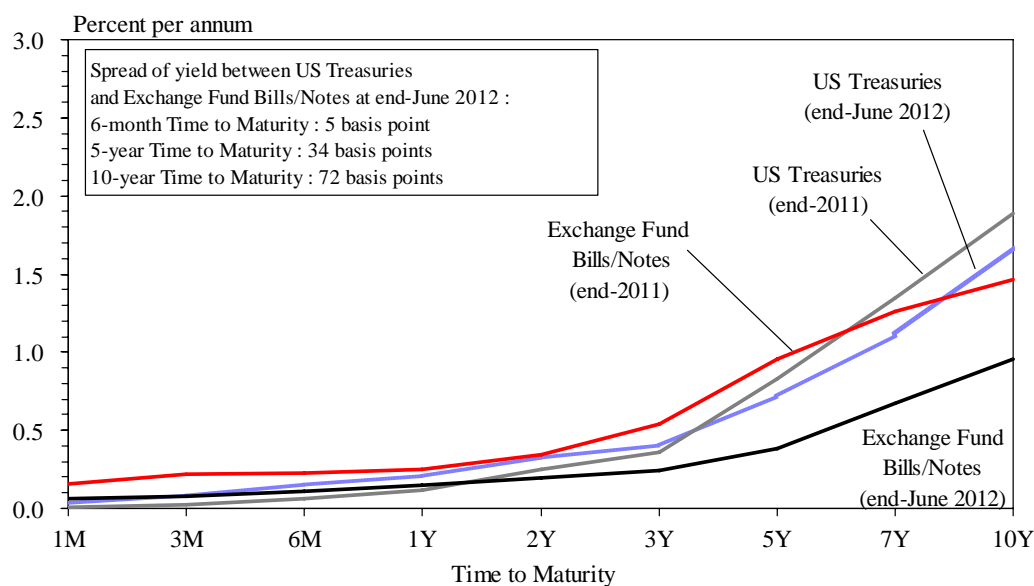
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 Amid the ongoing accommodative monetary policy in the United States, the low interest rate environment in Hong Kong continued through the first half of 2012. With the Federal Funds Target Rate unchanged at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5%⁽¹⁾. The *Hong Kong dollar interbank interest rates* also hovered at low levels. The overnight HIBOR declined from 0.13% at end-2011 to a record-low of 0.06% at end-June 2012. The three-month HIBOR crawled up from 0.33% at end-2011 to 0.55% at end-March 2012, but then retreated to 0.45% at end-June.

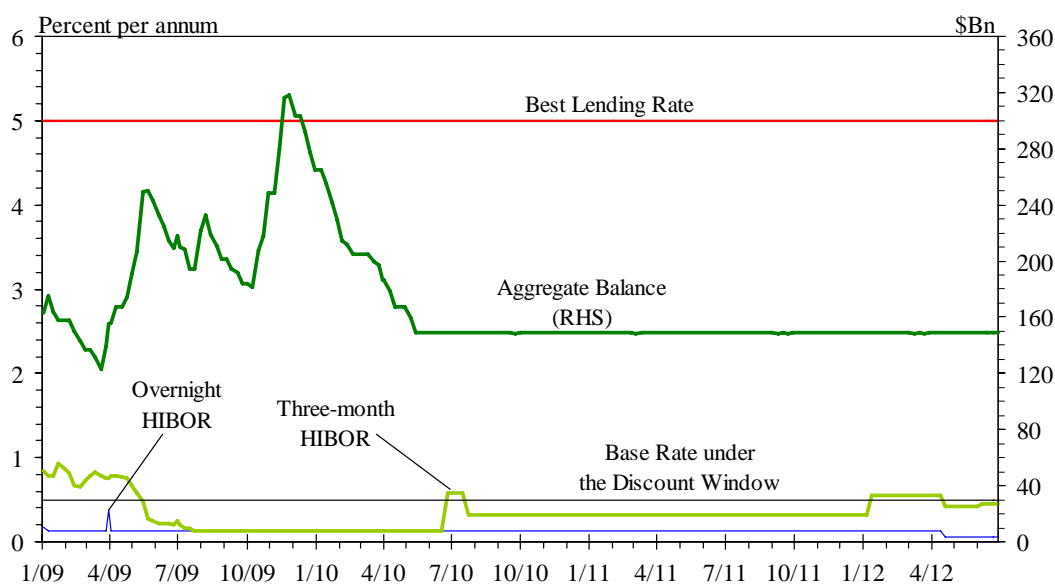
4.2 The *US dollar yield curve* flattened with a pick-up in short-dated yields and a fall in long-dated ones, partly due to the impact of the maturity extension program by the Federal Open Market Committee⁽²⁾ and partly due to the stronger safe-haven demand for government bonds in face of the intensification of the eurozone crisis in the second quarter. Meanwhile, the *Hong Kong dollar yields* exhibited noticeable fall, especially at the longer tenor. 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 five basis points at end-June 2012, while the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes widened from 43 basis points to 72 basis points.

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



4.3 Interest rates on the retail front remained steady at low levels. The *Best Lending Rates* (BLR) stayed unchanged at 5.00% or 5.25% in the first half. 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 were unchanged at 0.01% and 0.16% respectively, reportedly many banks have cut the preferential interest rates previously offered to new customers with large and longer-term deposits. As a result, 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-June 2012⁽³⁾.

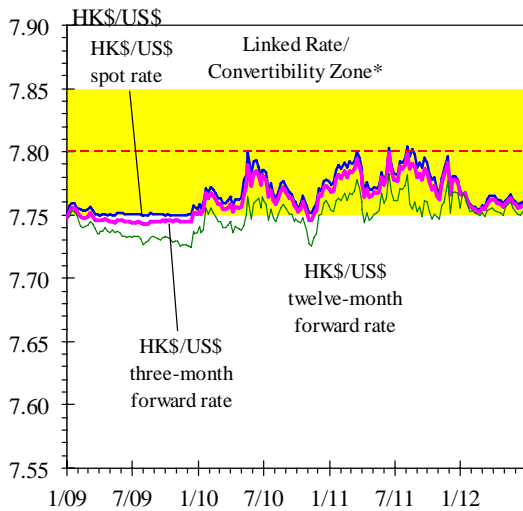
**Diagram 4.2 : Hong Kong dollar interest rates generally stayed low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* was relatively stable against the US dollar in the first half, moving within a narrow range of 7.753 to 7.769 per US dollar. It closed at 7.756 at end-June 2012, slightly strengthened from the level of 7.766 at end-2011. Meanwhile, the discount of the *3-month Hong Kong dollar forward rate* narrowed from 31 pips (each pip equivalent to HK\$0.0001) at end-2011 to 24 pips at end-June 2012, and its 12-month counterpart from 138 pips to 70 pips.

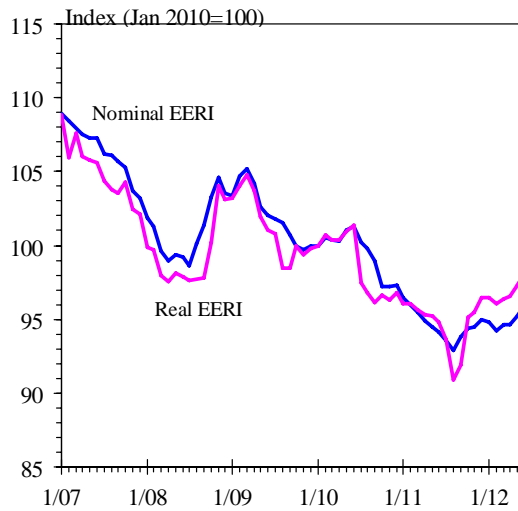
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those in the US dollar. With the US dollar strengthening against most major currencies including Euro, Australian dollar and Sterling amid the intensified eurozone crisis, the *trade-weighted Hong Kong dollar Nominal and Real Exchange Rate Indices* went up by 1.1% and 1.7% respectively during the first half⁽⁴⁾.

**Diagram 4.3 : Hong Kong dollar was relatively 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 went up in the first half of 2012
(average for the month)**



Money supply and banking sector

4.6 The Hong Kong dollar monetary aggregates continued to grow steadily. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) increased by 5.2% over end-2011 to \$831 billion at end-June 2012, and the broad money supply (HK\$M3) by 2.4% to \$4,151 billion⁽⁵⁾. Meanwhile, *total deposits* with authorized institutions (AIs) grew by 1.5% to \$7,706 billion, within which Hong Kong dollar deposits and foreign currency deposits picked up by 1.9% and 1.1% respectively⁽⁶⁾.

Diagram 4.5 : The monetary aggregates expanded at a steady pace

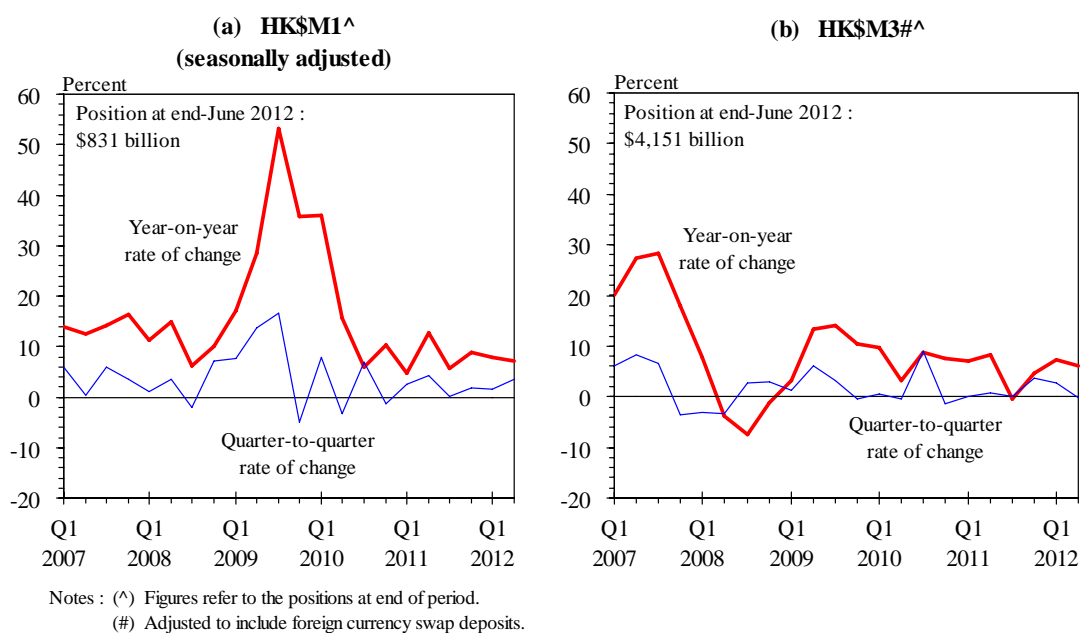


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
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	2.4
	Q2	3.6	3.2	-0.3	0.7	-0.3	0.7
Total amount at end-June 2012 (\$Bn)		831	1,217	4,144	8,319	4,151	8,335
% change from end-2011		5.2	8.0	2.4	3.2	2.4	3.1
% change over a year earlier		7.2	11.3	6.2	9.1	6.1	9.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew by a decelerated 4.7% over end-2011 to \$5,317 billion at end-June 2012. The growth was mainly due to the 10.0% increase in foreign currency loans to \$2,113 billion, as Hong Kong dollar loans only edged up by 1.4% to \$3,204 billion. Reflecting the corresponding movements in deposits and loans, the foreign currency loan-to-deposit ratio

surged from 49.9% at end-2011 to 54.3% at end-June 2012. Meanwhile, the Hong Kong dollar loan-to-deposit ratio edged down from 84.5% to 84.0%, still a relatively high level in recent years.

4.8 Along with the slowdown of the domestic economy, loans for use in Hong Kong only grew by a modest 3.0% over end-2011 to \$3,824 billion at end-June 2012. Yet the performance was mixed among loans to the different major economic sectors. Growth in trade financing and loans to wholesale and retail trade rebounded to 12.9% and 6.2% respectively. Loans for purchase of residential property rose by a modest 2.5%. In contrast, loans to stockbrokers, financial concerns, manufacturing, and building, construction, property development and investment recorded declines of 15.9%, 3.5%, 3.0% and 1.9% respectively.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	Total ^(b)	All loans	Total
		finance	facturing	and	construction,	of	concerns	brokers		and advances	loans
				retail	property	residential				for use	and
				trade	and	property ^(a)				outside	advances
					investment					Hong Kong ^(c)	
% change	during										
	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	1.8	-0.6	5.5	1.0
2012	Q1	7.4	*	3.0	-1.5	0.1	3.0	-14.6	1.5	4.4	2.3
	Q2	5.1	-3.0	3.1	-0.4	2.3	-6.3	-1.4	1.5	4.6	2.3
Total amount at end-June 2012 (\$Bn)		392	185	333	895	871	263	17	3,824	1,494	5,317
% change from end-2011		12.9	-3.0	6.2	-1.9	2.5	-3.5	-15.9	3.0	9.2	4.7
% change over a year earlier		13.5	0.2	6.4	1.6	3.7	0.4	-31.6	4.9	27.3	10.4

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 The 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 15.9% at end-March 2012. 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”)⁽⁷⁾. The Banking (Capital) (Amendment) Rules 2011 and the Banking (Disclosure) (Amendment) Rules 2011 already came into effect on 1 January 2012 in line with the Basel Committee’s timetable.

4.10 The HKMA intends to fully implement the regulatory capital and liquidity standards set out in the Basel III rules text released by the Basel Committee in December 2010 in accordance with the Committee’s transitional timetable⁽⁸⁾. To this end, the Banking (Amendment) Bill 2012 was passed by the Legislative Council in February 2012. The Banking (Amendment) Ordinance 2012 sets out the broad legal framework for implementing Basel III in Hong Kong, empowering the Monetary Authority to make rules to prescribe the detailed capital and liquidity standards as well as the associated disclosure requirements under the framework.

4.11 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 package of detailed implementation proposals covering key areas of Basel III capital and liquidity standards in January 2012 for industry consultation. The HKMA has responded to the comments received from the industry and has continued its dialogue with the industry. HKMA issued two further packages of policy proposals in June. The second package set out in detail the proposed changes to the risk-weighting framework for counterparty credit risk and proposals on certain aspects of the proposed liquidity framework. The third package covered proposals on disclosure requirements associated with the capital standards that are scheduled for implementation from 1 January 2013. 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 from 0.59% at end-2011 to a record-low of 0.57% at end-March 2012. The delinquency ratio for credit card lending edged up from 0.19% to 0.21%, still a low level by historical standards. The delinquency ratio for residential mortgage loans hovered at a low level of 0.01% at end-June.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2011 Q1	98.17	1.17	0.66
Q2	98.20	1.19	0.61
Q3	98.21	1.19	0.60
Q4	98.28	1.13	0.59
2012 Q1	98.17	1.27	0.57

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 Renminbi (RMB) business in Hong Kong developed further in the first half of 2012. With a more diversified base of debt issuers and investors coming from Asia, Europe, America and the Middle East, *RMB bond issuance* surged by 52% over a year earlier to RMB67 billion. Also, with more banks deploying the issuance of certificates of deposit (CDs) as a means of tapping RMB funds, the outstanding amount of CDs issued soared from RMB73 billion at end-2011 to RMB126 billion at end-June 2012. *RMB lending business* has developed progressively, with outstanding RMB loans in Hong Kong increasing from RMB30.8 billion at end-2011 to RMB53.4 billion at end-June 2012. Yet over the same period, *RMB deposits* retreated by 5.2% to RMB557.7 billion, and accounted for 17.5% of total foreign currency deposits. Meanwhile, *RMB trade settlement handled by banks in Hong Kong* amounted to RMB1,213.1 billion in the first half of 2012, representing a growth of 50.9%

over a year earlier or 9.2% over the preceding half-year period.

4.15 In June the Central Government announced a series of measures to support the development of offshore RMB business in Hong Kong. These include, among others, issuing more RMB sovereign bonds in Hong Kong; arranging more RMB bond issuance in Hong Kong by Mainland entities; further expanding the use of RMB outside the Mainland; and supporting the use of Hong Kong's RMB financial platform by parties from other places. These measures underscore the important role played by Hong Kong in promoting the cross-border use of RMB and help enhance Hong Kong's status as a global centre for offshore RMB trade settlement, financing and asset management.

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^(a)</u>		Number of authorized institutions engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
					Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
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
	Q2	136,616	421,094	557,710	0.25	0.52	133	641,907
% change from end-2011		-22.6	2.2	-5.2	N.A.	N.A.	N.A.	N.A.
% change over a year earlier		-24.2	12.8	0.7	N.A.	N.A.	N.A.	30.3

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 expanded further in the first half. Total gross issuance increased by 5.3% over a year earlier to \$1,079.9 billion, underpinned by a robust growth in private sector debt issuance⁽⁹⁾. Private sector debt issuance leapt by 37.9% to \$135.4 billion, with debt issued by AIs and non-MDBs overseas borrowers soaring by 49.1% and 45.3% respectively. Meanwhile, public sector debt issuance rose marginally by 1.7% to \$943.7 billion. As a result, the total outstanding amount of Hong Kong dollar debt securities registered a mild growth of 1.1% over a year earlier or 1.8% over end-2011 to a record-high of \$1,283.2 billion at end-June 2012. This was equivalent to 30.9% of HK\$M3 or 25.5% of Hong Kong dollar-denominated assets of the entire banking sector⁽¹⁰⁾.

4.17 As to the Government Bond (“GB”) Programme, a total worth of \$9.5 billion institutional GBs were issued in the first half, including a \$1.5 billion ten-year institutional GB re-opening in January, a \$3.5 billion new two-year institutional GB in March, a \$3.0 billion new three-year institutional GB in May and a \$1.5 billion five-year institutional GB re-opening in June. The outstanding size of institutional GBs amounted to \$44.0 billion at end-June 2012. Apart from the institutional bonds, the GB Programme also consists of a retail part. Following the issuance of the \$10.0 billion 3-year inflation-linked bond (iBond) in July 2011, in February 2012 the Financial Secretary announced additional issuance of up to \$10.0 billion iBonds to further promote the sustainable development of the bond market in Hong Kong. The issuance of the additional iBonds in May was very well-received by the general public, receiving over 332 000 valid applications for \$49.8 billion of subscription. The bond was subsequently issued on 22 June and was listed on the Hong Kong Stock Exchange on 25 June.

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

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New issuance											
2011	Annual	1,841.3	20.2	27.5	1,889.0	136.3	28.3	17.8	182.4	-	2,071.3
	Q1	452.9	4.8	3.5	461.2	32.4	6.1	5.4	43.8	-	505.0
	Q2	459.4	4.4	2.5	466.4	39.9	10.5	3.9	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	66.9	10.0	5.4	82.2	0.4	546.6
	Q2	462.3	2.9	14.5	479.7	40.8	4.1	8.3	53.1	0.4	533.2
	During the first half of 2012	917.9	6.3	19.5	943.7	107.7	14.1	13.6	135.4	0.8	1,079.9
	% change over a year earlier	0.6	-32.0	225.0	1.7	49.1	-15.0	45.3	37.9	-	5.3
Outstanding (as at end of period)											
2011	Q1	653.8	58.6	29.0	741.4	235.9	87.5	186.0	509.4	15.1	1,265.8
	Q2	654.4	52.6	31.5	738.5	245.3	95.3	175.9	516.5	14.7	1,269.7
	Q3	654.8	53.0	44.0	751.8	245.5	96.3	169.4	511.2	14.7	1,277.7
	Q4	655.4	51.0	49.5	755.9	229.2	97.3	163.7	490.3	14.7	1,260.9
2012	Q1	655.9	50.6	51.0	757.5	251.9	102.3	157.8	512.0	12.4	1,281.9
	Q2	656.4	47.9	65.5	769.8	246.6	104.8	151.4	502.8	10.6	1,283.2
	% change from end-2011	0.2	-6.1	32.3	1.8	7.6	7.7	-7.6	2.6	-28.2	1.8
	% change over a year earlier	0.3	-9.0	107.9	4.2	0.5	10.0	-14.0	-2.7	-28.2	1.1

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* had a volatile time in the first half of 2012, as market sentiment shifted in tandem with gyrations in the external environment and global financial markets. After a strong start in the first four months, equity prices experienced a marked correction in May in face of the intensified eurozone debt crisis, anaemic economic growth in the United States and the ensuing global stock market slide. Yet with some rebound towards the end of June on expectation of further quantitative easing measures in the advanced economies, the *Hang Seng Index* (HSI) closed the first half of 2012 at 19 441 or 5.5% higher than at end-2011. In parallel, *market capitalisation* of the Hong Kong stock market expanded by 5.1% over end-2011 to \$18.4 trillion at end-June 2012. It was the seventh largest stock exchange in the world and third largest in Asia according to the World Federation of Exchanges⁽¹¹⁾.

4.19 Trading activities turned quieter in the first half of 2012, especially in the second quarter when market sentiment was hit by deterioration in the eurozone debt crisis. *Average daily turnover* in the securities market contracted by 14.1% from the preceding half-year period or 22.9% from a year earlier to \$56.7 billion in the first half. Similarly, trading of *derivatives products* recorded marked decline. The average daily trading volume of futures and options fell by 17.7% from the second half of 2011 or by 7.6% from a year earlier⁽¹²⁾. Trading of stock options, HSI futures, HSI options and H-shares Index futures all fell, by 26.7%, 12.3%, 8.6% and 4.7% respectively from the preceding half-year period. As to securitised derivatives products, average daily trading value plunged by 22.5%, within which trading of callable bull/bear contracts and derivative warrants plummeted by 24.9% and 20.0% respectively.

Diagram 4.6 : The Hang Seng Index showed some fluctuations but still recorded a modest gain in the first half

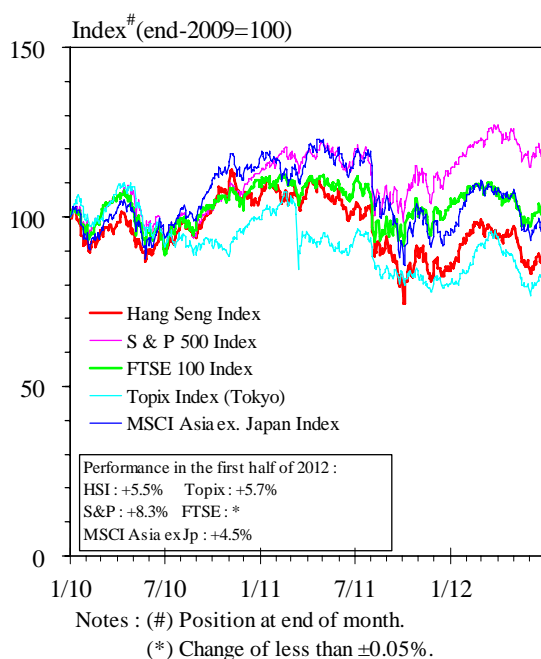


Diagram 4.7 : Market capitalisation expanded but trading activities turned quieter

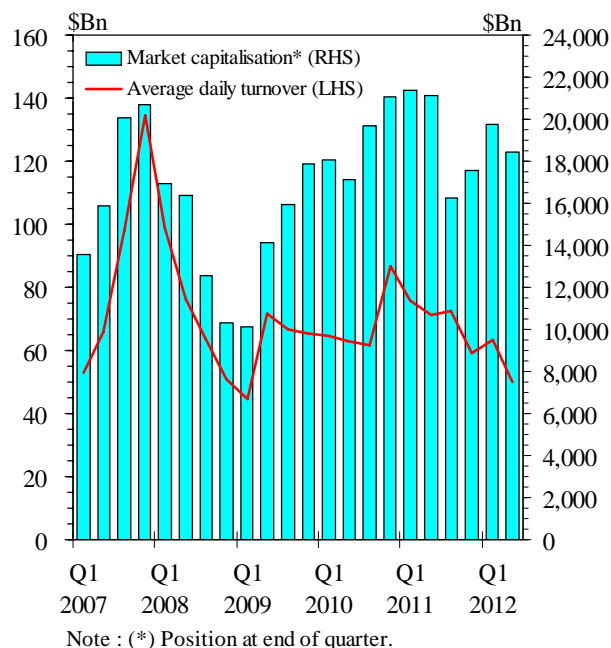


Table 4.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn) [^]
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
	Q2	88 614	43 634	65 131	225 266	501 374	6,274	6,317	12,590
% change in 2012 H1 over 2011 H1		-3.1	-9.4	17.5	-19.6	-7.6	-38.5	21.6	-19.2
% change in 2012 H1 over 2011 H2		-12.3	-8.6	-4.7	-26.7	-17.7	-20.0	-24.9	-22.5

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

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

4.20 Fund raising activities stayed subdued in the first half of 2012 amid the uncertain market outlook. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM), shrank by 31.1% from the preceding half-year period or a sharp 57.9% from a year earlier to \$128.2 billion⁽¹³⁾. Within the total, the amount of funds raised through IPOs plummeted by 63.8% from the second half of 2011 to \$30.8 billion, the lowest level since the first half of 2009 when market sentiment was hard hit by the global financial tsunami.

4.21 The role of Mainland enterprises in the local stock market remained dominant. At end-June, a total of 700 Mainland enterprises (including 169 H-share companies, 108 “Red Chips” companies and 423 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 65% of total equity fund raised in the Hong Kong stock exchange in the first half.

4.22 Co-operation between the Mainland and Hong Kong in the capital markets made notable breakthroughs in the first half. In late June the Hong Kong Exchanges and Clearing Limited, the Shanghai Stock Exchange and the Shenzhen Stock Exchange signed an agreement to establish a joint venture company in Hong Kong to develop index and equity derivative products and compile cross-market indices. This new platform of financial co-operation will help open up and develop the Mainland’s capital market, and also boost the competitiveness and internationalisation of the three exchanges. It is expected that a series of cross-boundary indices will be launched before end-2012, followed by futures and options on these indices in 2013, and exchange-traded funds (ETFs) and structured products afterwards.

4.23 In late June the China Securities Regulatory Commission announced the approval for two fund management companies to launch ETFs constituted by Hong Kong-listed stocks on the Mainland. Separately, the Securities and Futures Commission (SFC) authorised the first Renminbi Qualified Foreign Institutional Investor A-share ETF for listing on the Stock Exchange of Hong Kong. These would provide Hong Kong and Mainland investors with access to each other’s stock markets and further enhance interaction and links between the capital markets in the two places.

Fund management and investment funds

4.24 The fund management industry showed some improvement in the first half of 2012, though most of the gain was concentrated in the earlier months. Aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* rose by 7.9% over end-2011 to \$384 billion at end-June 2012⁽¹⁴⁾. Gross retail sales of *mutual funds* rose by 15.2% over a year earlier to US\$20.1 billion in the first five months of 2012, though there was some deceleration in growth in April and May⁽¹⁵⁾. On the other hand, the amount of net assets managed by *retail hedge funds* declined⁽¹⁶⁾.

Insurance sector

4.25 After a lacklustre performance in the latter part of last year, the *insurance sector* turned more active on entering 2012⁽¹⁷⁾. Gross premium income from long-term business in the first quarter grew by 12.9% over a year earlier. Within the total, premium income from non-investment linked plans leapt by 34.1% while that from investment-linked plans plunged by 29.5%. General business continued to grow at a steady pace, with gross and net premium income in this segment increasing by 6.4% and 8.6% respectively.

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

	General business			Premium for long-term business [^]					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
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
2012 Q1	10,924	7,608	853	15,056	3,961	16	79	19,112	30,036
% change in 2012Q1 over 2011Q1	6.4	8.6	77.0	34.1	-29.5	14.3	14.5	12.9	10.4

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 policy and market developments

4.26 In June the Central Government announced a package of measures to strengthen co-operation between the Mainland and Hong Kong in six board areas, namely trade, finance, education, science and technology, tourism and Hong Kong-Guangdong co-operation, within which 15 measures were related to financial services in Hong Kong. These measures covered RMB business, the banking industry, insurance services, securities market and accounting sector. Together with the Supplement IX to Closer Economic Partnership Arrangement (CEPA)⁽¹⁸⁾, these measures would further promote integration and sustainable co-operation between the Mainland and Hong Kong, and help enhance Hong Kong's status as an international financial centre.

4.27 The Financial Dispute Resolution Centre limited (FDRC) came into operation in June, denoting a big step forward in enhancing the financial dispute resolution framework and investor protection. The FRDC would offer an affordable channel for financial institutions and their individual clients to resolve monetary disputes through a financial dispute resolution mechanism that features independence, impartiality, accessibility, efficiency and transparency. Separately, the SFC will establish a cross-sectoral investor education centre later this year to conduct investor education from a holistic approach so as to empower the public making informed financial decisions.

4.28 In July the HKMA and SFC jointly published the consultation conclusions on the proposed regulatory regime for the over-the-counter derivatives market in Hong Kong. In view of the general support to the proposed regulatory regime, the HKMA and SFC subsequently issued a supplemental consultation paper on the proposed scope of the new regulated activities, and will conduct a further public consultation on the detailed requirements under the new regime in the fourth quarter of 2012. The HKMA and SFC will work on the draft amendments to primary legislation, with the aim of introducing the relevant bill into the Legislative Council in the fourth quarter.

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) On 21 September 2011, the Federal Open Market Committee (FOMC) announced that it would extend the average maturity of its holdings of securities. Specifically, the Committee intends to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative. This maturity extension program is also commonly called "Operation Twist". On 20 June 2012, FOMC announced that it would extend the maturity extension program from end-June 2012 to end-2012.
- (3) 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.
- (4) 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.

- (5) 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.

- (6) Authorized institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2012, there were 154 licensed banks, 20 restricted licence banks and 25 deposit-taking companies in Hong Kong. Altogether, 199 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (7) 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.
- (8) 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.
- (9) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (10) 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.
- (11) 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.
- (12) At end-June 2012, there were 63 classes of stock options contracts and 38 classes of stock futures contracts.
- (13) At end-June 2012, there were 1 342 and 177 companies listed on the Main Board and GEM respectively.
- (14) At end-June 2012, there were 19 approved trustees. On MPF products, 37 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 451 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 257 000 employers, 2.35 million employees and 228 000 self-employed persons have participated in MPF schemes.
- (15) 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-May 2012, the survey covered a total of 1 266 active authorized funds.
- (16) At end-June 2012, there were 5 SFC-authorized retail hedge funds with combined net asset size of US\$676 million. The amount of net assets under management represented a 3.9% decrease from the end-2011 level, yet still an increase of more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (17) At end-June 2012, there were 161 authorized insurers in Hong Kong. Within this total, 45 were engaged in long-term insurance business, 96 in general insurance

business, and 20 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

- (18) On financial co-operation under the Supplement IX to CEPA, the Mainland shall amend and improve the relevant requirements for overseas listing so as to support Mainland enterprises that satisfy Hong Kong's listing requirements in listing in Hong Kong, and create favourable conditions for Mainland enterprises, especially small and medium enterprises, to raise capital through direct listing in overseas markets. Besides, the supplement will actively explore ways and means to deepen co-operation between the commodity futures markets in the Mainland and in Hong Kong, and to promote the establishment of a futures market system in which both sides can complement each other's advantages, work in co-operation and develop mutually; and will actively explore the lowering of the eligibility requirements for Hong Kong's financial institutions to apply for Qualified Foreign Institutional Investor status in order to facilitate Hong Kong's long-term capital investing in the Mainland's capital markets. It also supports qualified Hong Kong financial institutions in setting up joint venture securities companies, fund management companies and futures companies in the Mainland.

CHAPTER 5 : THE LABOUR SECTOR

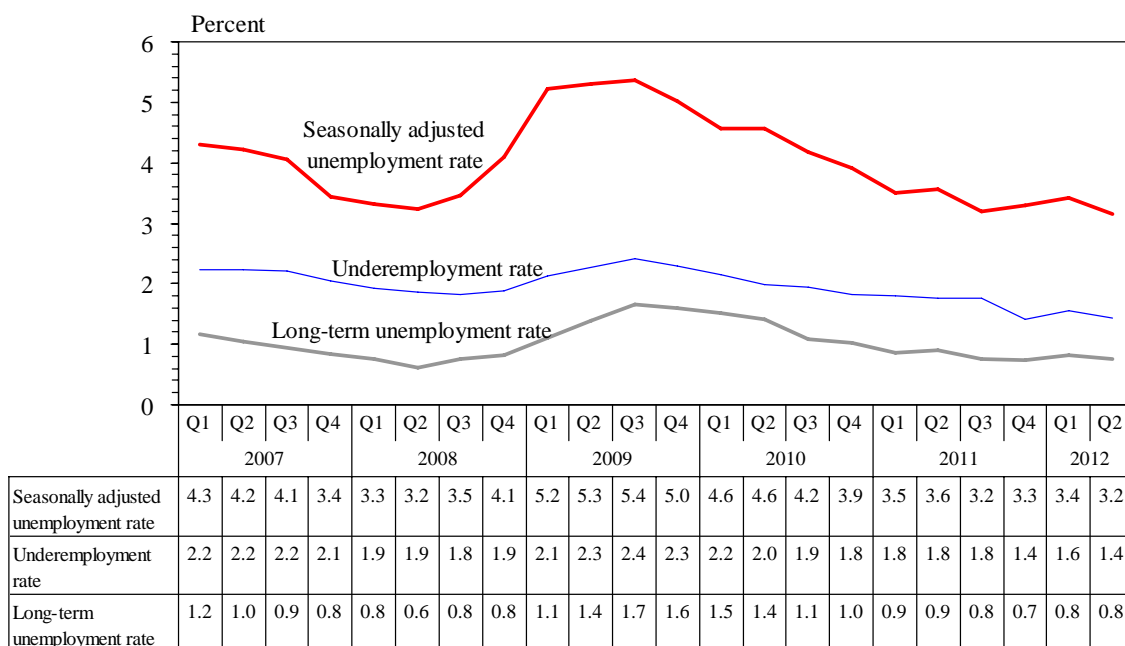
Summary

- *The labour market remained in a state of full employment in the second quarter. Hiring sentiment among employers stayed generally positive, matched by a sustained increase in labour supply.*
- *Total employment increased further to another record high of 3 671 400 in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, total employment continued to show notable growth, at 0.8%. Expectations of still generally favourable job and income prospects also further boosted labour supply, which grew by 0.5%.*
- *As job creation continued apace, the seasonally adjusted unemployment rate fell to 3.2% in the second quarter, the lowest level since early 1998.*
- *Wages and earnings saw broad-based, visible increases in the first quarter as compared to a year earlier, thanks to the buoyant labour market conditions and the additional boost from the implementation of statutory minimum wage (SMW).*

Overall labour market situation⁽¹⁾

5.1 The labour market continued to fare well and remained resilient in the second quarter, thanks to the buoyant domestic sector. Job creation continued apace, as hiring sentiment among employers remained generally positive. As a result, the seasonally adjusted *unemployment rate*⁽²⁾ fell to 3.2% in the second quarter, from 3.4% in the first quarter. The *underemployment rate*⁽³⁾ also fell by 0.2 percentage point as compared to the preceding quarter to 1.4%. Wages and earnings maintained notable increases in the first quarter, albeit with some signs of moderation towards the end of the second quarter.

Diagram 5.1 : Unemployment rate fell to 3.2% in the second quarter of 2012



Total employment and labour force

5.2 *Total employment*⁽⁴⁾ maintained notable growth at 3.0% in the second quarter over a year earlier, following a 3.3% growth in the previous quarter. The level of total employment also reached another record high of 3 671 400.

5.3 In comparison with the previous quarter, the number of total employment rose further by 21 700 in the second quarter. Analysed by economic sector, most notable gains were observed in transportation, storage, postal and courier services (up 13 300), accommodation and food services (up 10 100), as well as construction (up 8 800). The gains outweighed the employment losses in public administration, social and personal services (down 6 100), wholesale (down 4 300), financing and insurance (down 3 200), manufacturing (down 700), and information and communications (down 700). Analysis by occupation presented a diverse picture. While there were employment gains in general in the lower-skilled segment (up 32 300), there were employment losses in such higher-skilled segment as associate professionals (down 13 300), and managers and administrators (down 5 200). The losses mainly reflected the downsizing in the higher-skilled segment of the import/export trade and wholesale, real estate, and financing and insurance sectors. Persons aged 55 – 64 and 30 – 49 enjoyed most of the increase in total employment, while employment for those with upper secondary education saw the largest employment growth. On a seasonally adjusted basis, total employment increased further by 0.8% over the previous quarter.

5.4 On the supply side, *labour force*⁽⁵⁾ grew further by 2.6% year-on-year in the second quarter, following a 3.2% growth in the first quarter. In terms of headcount, labour force grew by a further 23 200 in the second quarter over the first quarter. The labour force participation rates for females aged 40 – 49 and 60 or above saw the most notable increases in the second quarter, conceivably induced by the better income prospects from SMW implementation and sustained tight demand-supply situation in the labour market. In particular, the labour force participation rates for females aged 40 – 49 and 60 or above reached 71.5% and 9.8%, respectively their record high and highest level in two decades. On a seasonally adjusted basis, labour force increased by 0.5% in the second quarter 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^(a)</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	3 725 800	(2.4)	3 599 900	(3.5)	125 900	65 300
	Q4	3 733 000	(2.3)	3 616 900	(2.9)	116 000	52 400
2012	Q1	3 773 700	(3.2)	3 649 600	(3.3)	124 100	58 600
<i>Three months ending</i>							
2012	Apr	3 774 100	(2.7)	3 649 300	(3.0)	124 700	57 500
	May	3 785 900	(2.5)	3 662 600	(3.0)	123 400	54 000
	Jun	3 796 900	(2.6)	3 671 400	(3.0)	125 500	54 600
			<0.5>		<0.8>		

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 second quarter of 2012.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Employment growth outstripped labour supply growth

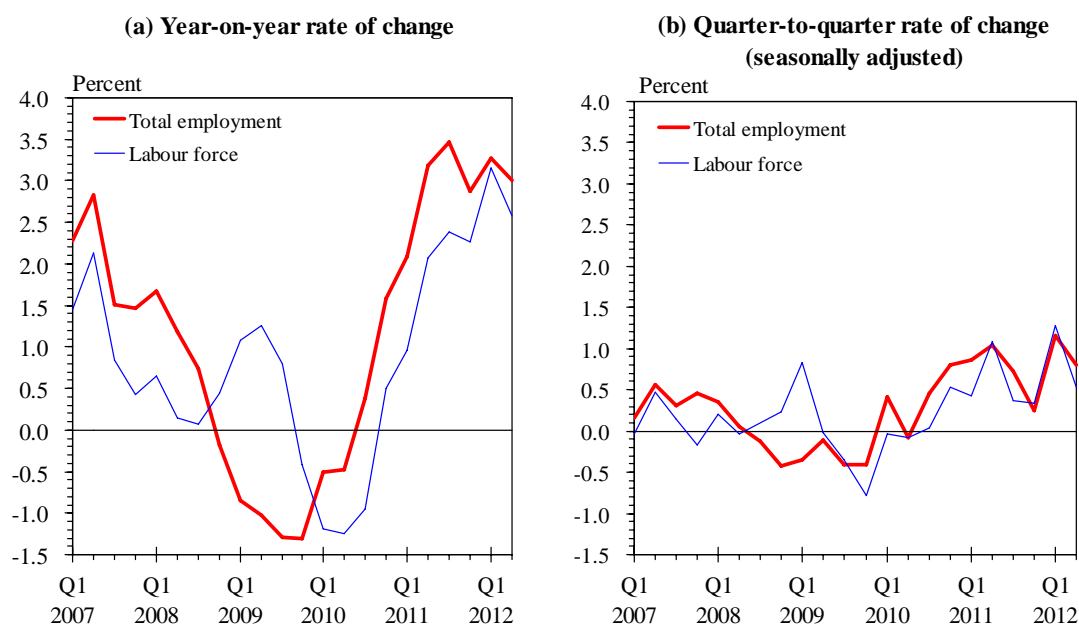


Table 5.2 : Labour force participation rates by gender (%)

		<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	68.2	53.4	60.2
2012	Q1	68.9	53.6	60.7
	Q2	68.8	54.1	60.8

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>2012 Q2</u>
<u>Male</u>							
15-19	14.7	13.0	12.5	10.2	9.9	10.1	9.9
20-24	67.6	65.5	64.1	60.6	61.1	61.3	61.1
25-29	94.8	94.2	94.7	94.0	93.9	94.4	93.7
30-39	97.1	96.6	96.4	96.5	96.5	97.0	96.9
40-49	95.5	95.2	95.1	95.0	95.1	95.4	95.6
50-59	83.1	83.9	84.3	84.4	84.9	85.8	84.9
≥ 60	19.5	19.9	21.3	22.0	23.4	25.1	25.4
Overall	70.4	69.7	69.4	68.5	68.4	68.9	68.8
<u>Female</u>							
15-19	13.5	12.4	11.3	9.2	9.1	7.6	9.5
20-24	71.6	69.3	66.0	61.4	62.1	61.1	60.9
25-29	87.3	87.4	87.0	86.6	87.5	88.0	86.6
30-39	76.4	77.0	77.3	75.6	76.8	77.9	78.5
40-49	66.6	66.6	68.8	68.2	69.9	70.3	71.5
50-59	46.6	48.6	48.9	49.0	51.6	54.6	54.1
≥ 60	5.1	5.6	6.6	6.8	8.1	8.7	9.8
Overall	53.1	53.1	53.2	51.9	53.0	53.6	54.1
<u>Both genders combined</u>							
15-19	14.1	12.7	11.9	9.7	9.5	8.9	9.7
20-24	69.7	67.5	65.1	61.0	61.6	61.2	61.0
25-29	90.6	90.4	90.3	89.8	90.2	90.7	89.6
30-39	85.2	85.2	85.3	84.3	84.9	85.7	86.0
40-49	80.1	79.8	80.8	80.2	81.0	81.2	82.0
50-59	64.8	66.1	66.5	66.5	68.0	69.9	69.2
≥ 60	12.1	12.5	13.7	14.1	15.5	16.6	17.3
Overall	61.2	60.9	60.8	59.6	60.1	60.7	60.8

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.5 Total unemployment increased marginally by 1 400 from the preceding quarter to 125 500 in the second quarter, but this was mainly due to seasonal factors, as manifested by an increase in the number of first-time job seekers around the mid-year. After seasonal adjustment, the unemployment rate actually fell to 3.2%, the lowest level since early 1998.

5.6 Analysed by economic sector, more notable declines in unemployment rate (not seasonally adjusted) were found in construction, transportation, storage, postal and courier services, real estate, and retail, while some increases in unemployment rate were observed in the accommodation and food services, import/export trade and wholesale, and information and communications sectors. Nonetheless, the unemployment rate of the *low-paying sectors*⁽⁶⁾ as a whole held steady at 3.2%, on par with the level before the implementation of SMW in May 2011.

5.7 In terms of occupational category, the unemployment rate for higher-skilled workers edged up by 0.1 percentage point to 1.8% in the second quarter, while that for lower-skilled workers fell by 0.2 percentage point to 3.5%. Increases in unemployment rate were seen among managers and administrators, associate professionals, clerical support workers, and service and sales workers, while plant and machine operators and assemblers, craft and related workers, and professionals witnessed more visible improvement in the unemployment rate.

5.8 As for other socio-economic attributes, the unemployment situation showed mixed performance across educational attainments and age groups. In the second quarter, declines in the unemployment rate were seen among workers aged 60 or above and 50 – 59 (down 0.9 and 0.4 percentage point respectively to 1.8% and 2.8%), and those with primary or below and upper secondary education (both down 0.2 percentage point to 3.6% and 3.2% respectively). On the other hand, more pronounced rises in the unemployment rate were observed among younger workers aged 15 – 19, 20 – 24 and 25 – 29 (up 2.2, 1.3 and 0.5 percentage points respectively to 14.8%, 9.0% and 3.8%), and those with post-secondary education (up 0.4 percentage point to 2.9%).

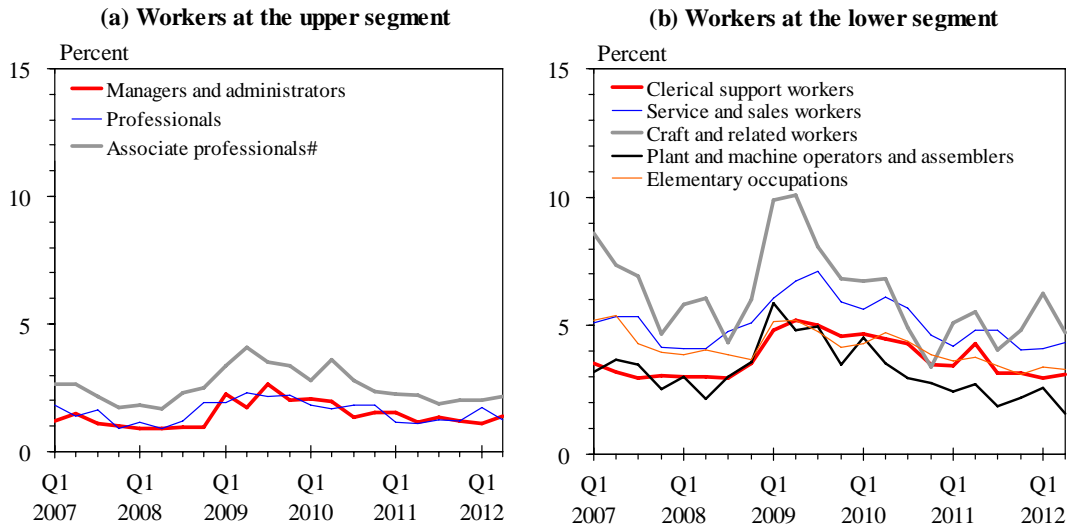
Table 5.4 : Unemployment rate by major economic sector

	<u>2011</u>				<u>2012</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	3.2	3.4	2.8	2.7	2.5	3.1
Retail	4.3	4.5	4.6	3.8	4.3	4.1
Accommodation and food services	4.6	6.1	5.1	4.4	4.5	5.4
Transportation, storage, postal and courier services	3.1	3.6	2.9	3.0	3.3	2.4
Information and communications	2.7	2.8	2.5	2.3	2.9	3.2
Financing and insurance	2.1	2.1	1.8	2.2	2.4	2.4
Real estate	2.9	3.1	2.8	2.4	2.5	1.9
Professional and business services	3.2	3.5	2.9	2.4	2.7	3.1
Public administration, social and personal services	1.3	1.6	1.3	1.4	1.4	1.2
Manufacturing	3.7	3.4	4.9	3.8	4.3	3.7
Construction	6.5	5.7	4.4	5.4	6.1	4.6
Overall	3.4 (3.5)	3.7 (3.6)	3.4 (3.2)	3.1 (3.3)	3.3 (3.4)	3.3 (3.2)

Note : () Seasonally adjusted unemployment figures.

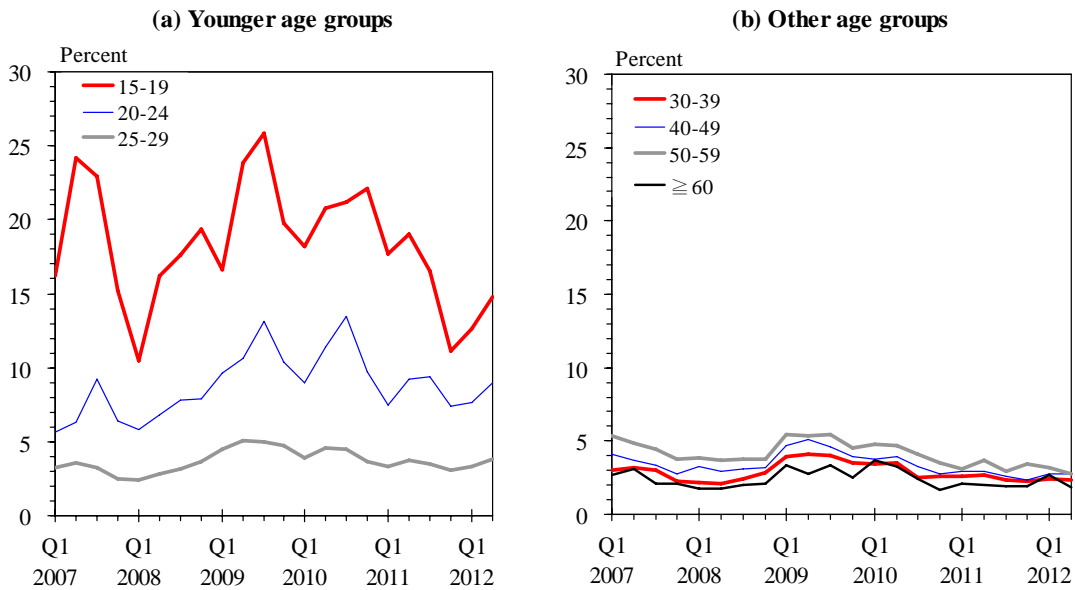
Source : General Household Survey, Census and Statistics Department.

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



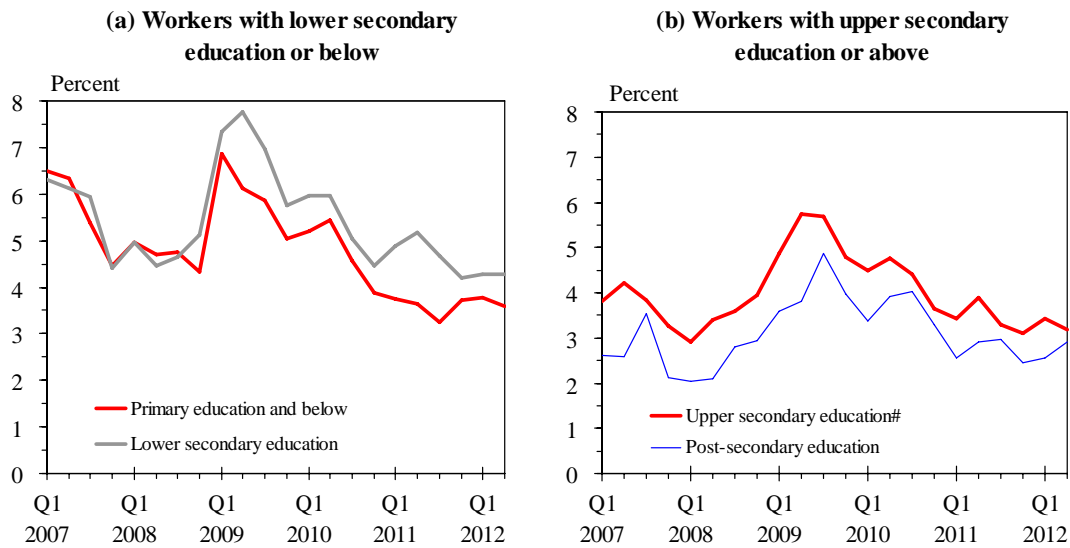
Notes : (^) Statistics since Q1 2011 are compiled based on International Standard Classification of Occupations (ISCO) 2008, while statistics prior to Q1 2011 are compiled based on ISCO 1988.
 (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.
 (#) Including technicians and supervisors.

Diagram 5.4 : Declines in unemployment rate* were found among the older age segment



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

Diagram 5.5 : More notable declines in unemployment rate* were observed among workers with primary or below and upper secondary education



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

5.9 Indicators measuring the intensity of unemployment suggested that the employment conditions held largely stable in the second quarter. Specifically, long-term unemployment (i.e. unemployed for six months or longer) stayed steady with the long-term unemployment rate holding at 0.8% and the number of long-term unemployed persons decreasing by 2 600 over the preceding quarter to 28 600 in the second quarter. Concurrently, the median duration of unemployment also remained largely stable, at 73 days compared with 69 days in the first quarter. As regards the reasons of unemployment, the proportion of dismissal or lay-offs among those unemployed declined to 50.0%, from 54.4% in the first quarter.

Profile of underemployment

5.10 In the second quarter, the underemployment rate fell back by 0.2 percentage point to 1.4%, the lowest level since late-1997, with the number of underemployed persons falling notably by 4 000. The decrease in underemployment was more visible among workers engaged in public administration, social and personal services (down 2 200), professional and business services (down 1 700), retail (down 800) and information and communications (down 400), reflecting a tighter manpower balance in the domestic-oriented sectors.

Profile of employment in establishments

5.11 Statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to March 2012. Attempts have been made where possible to bring the analysis more up-to-date by drawing reference to information from supplementary sources.

5.12 The statistics enumerated in March 2012 showed that total employment in private sector establishments expanded further by 2.1% as compared to a year earlier to another record high of 2 639 700. Most sectors saw gains in employment, with growth most notable in construction (up 20.1% year-on-year), spurred by the sustained high level of infrastructure works. Notable increases in employment were seen in sectors such as information and communications (up 6.6%), financing, insurance, real estate, professional and business services (up 4.6%). Many other sectors had further solid growth in employment, such as accommodation and food services (up 2.3%), transportation, storage, postal and courier services (up 2.2%), retail (up 2.2%), as well as social and personal services (up 1.9%). On the other hand, manufacturing continued its structural downtrend (down 6.2% year-on-year), and import/export trade and wholesale posted further employment loss (down 1.4%), in tandem with the setback in external trade. Analysed by establishment size, larger enterprises, which contributed nearly 60% of the total job creation, increased their headcounts by 2.3% over a year earlier, while employment in small and medium-sized enterprises (SMEs)⁽⁷⁾ grew by 1.9%. As for the civil service, employment sustained steady growth, at 1.5% as compared to a year earlier.

Table 5.5 : Employment by major economic sector

	<u>2011</u>					<u>2012</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Import/export trade and wholesale	562 400 (-0.2)	565 000 (0.1)	560 800 (-0.2)	564 300 (0.1)	559 600 (-0.9)	557 200 (-1.4)
Retail	252 800 (4.0)	251 300 (4.5)	252 000 (4.7)	252 900 (4.2)	255 000 (2.7)	256 800 (2.2)
Accommodation ^(a) and food services	265 400 (6.5)	263 000 (6.3)	266 100 (7.5)	266 300 (7.8)	266 300 (4.3)	269 000 (2.3)
Transportation, storage, postal and courier services	163 600 (2.0)	162 100 (1.6)	163 100 (1.7)	163 800 (2.4)	165 500 (2.4)	165 600 (2.2)
Information and communications	91 300 (3.4)	89 300 (2.1)	91 100 (3.0)	91 700 (3.6)	93 300 (4.9)	95 200 (6.6)
Financing, insurance, real estate, professional and business services	646 500 (6.1)	632 900 (6.1)	642 300 (6.2)	652 500 (6.6)	658 400 (5.6)	662 200 (4.6)
Social and personal services	439 300 (2.4)	436 200 (2.0)	438 700 (2.8)	440 600 (2.7)	441 700 (2.1)	444 600 (1.9)
Manufacturing	112 700 (-5.6)	115 100 (-6.1)	113 800 (-5.0)	111 500 (-5.2)	110 400 (-6.1)	108 000 (-6.2)
Construction sites (manual workers only)	62 600 (13.2)	58 800 (9.1)	58 600 (5.6)	63 700 (12.8)	69 400 (25.2)	70 600 (20.1)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 607 700 (3.1)</i>	<i>2 584 700 (3.0) <1.2></i>	<i>2 597 600 (3.2) <0.7></i>	<i>2 618 500 (3.6) <0.7></i>	<i>2 630 200 (2.8) <0.2></i>	<i>2 639 700 (2.1) <0.5></i>
<i>Civil service^(c)</i>	<i>157 600 (0.7)</i>	<i>156 900 (0.2)</i>	<i>157 300 (0.7)</i>	<i>157 700 (0.8)</i>	<i>158 500 (1.2)</i>	<i>159 200 (1.5)</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.

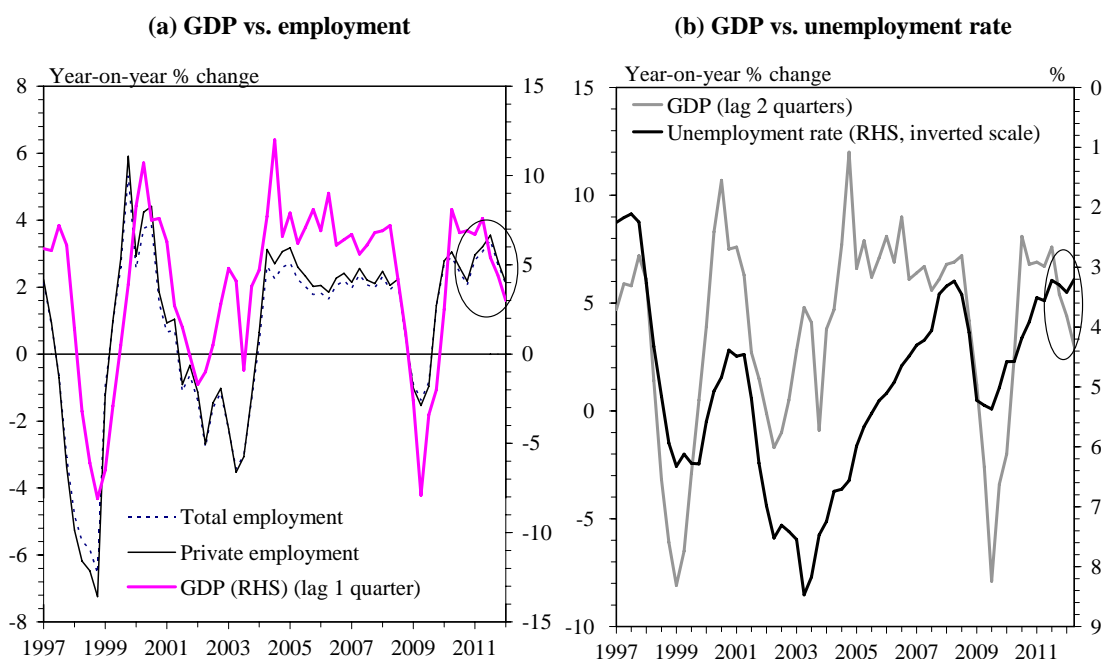
Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

Box 5.1

A look at sectoral employment growth in relation to macroeconomic variables

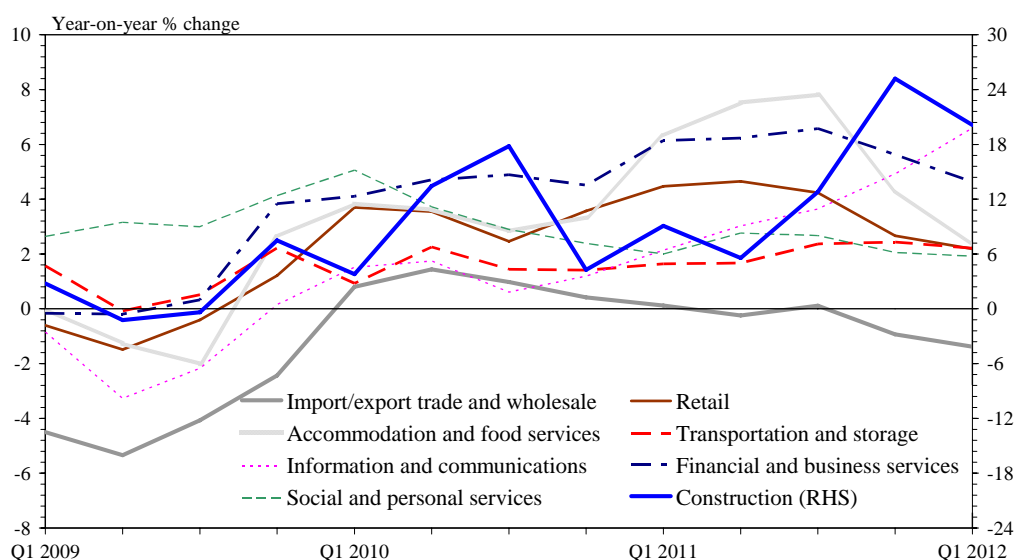
Employment is a lagging indicator which generally tends to lag behind economic growth by around one quarter in Hong Kong. But in the current episode it lagged even more, with sustained employment growth and persistently low unemployment rate despite the economic slowdown (*Chart 1*). The buoyant labour market conditions despite a slowing economy may warrant a closer look at the sectoral employment picture in relation to GDP components to discern any difference in performance of various sectors. This article looks at the sectoral employment situation in relation to some macroeconomic variables.

Chart 1: Labour market has held up extremely well despite the economic slowdown



Analysed by sector (*Chart 2*), employment growth during the current slowdown since the second quarter of 2011 is concentrated in the construction, accommodation and food services, financial and business services, retail, and information and communications sectors, while import/export trade and wholesale witnessed employment loss.

Chart 2: Recent employment growth mainly came from domestic-oriented sectors



Box 5.1 (Cont'd)

Intuitively, the former group tends to be more domestic-oriented while the latter is more trade-related, although there is no clear-cut demarcation as most service sectors cater to both local and external demand (e.g. retail trade is partly driven by tourist spending; transportation consists of both local transport and abroad). Here for the purpose of analysis, the cross correlation of different sectors' employment growth with GDP components (consumption expenditure in domestic market (CXDM), exports of goods (XG), and building and construction (B&C)) is separately compared to see if individual sector's employment is driven more by domestic or external demand (*Table 1*). The pattern of stronger correlation between sectoral employment and GDP components (shaded) largely conforms to common understanding.

Table 1: Cross correlation between sectoral employment growth and GDP components*

year-on-year % change

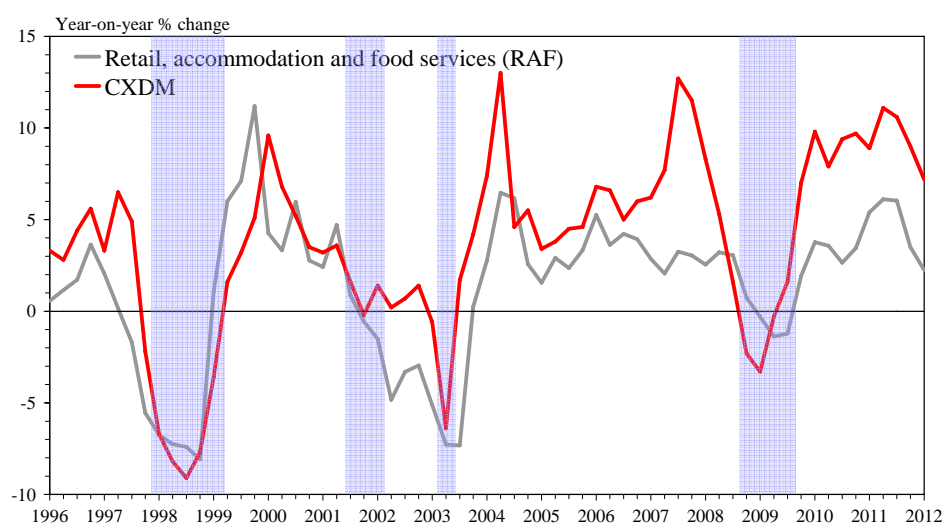
<u>Employment</u>	<u>GDP</u>	<u>CXDM</u>	<u>XG</u>	<u>B&C</u>
Construction	0.49			0.50
Import/export trade and wholesale (IEW)	0.71	0.52	0.62	
Transportation and storage	0.45	0.61	0.09	
Retail	0.56	0.65	0.29	
Accommodation and food services	0.47	0.60	0.19	
Information and communications (IC)	0.36	0.57	0.08	
Financing and business services (FB)	0.43	0.50	0.34	

Note: (*) Data from the Survey of Employment and Vacancies (SEV) are used. As for construction, data from the General Household Survey are used as SEV data cover only site construction.

The movements of selected sectors' employment growth and their more correlated GDP components are illustrated in *Chart 3* (shaded stripes denote recessions). Information and communications (IC) and financial and business services (FB) are more derived from other activities in the economy and hence plotted against the overall GDP.

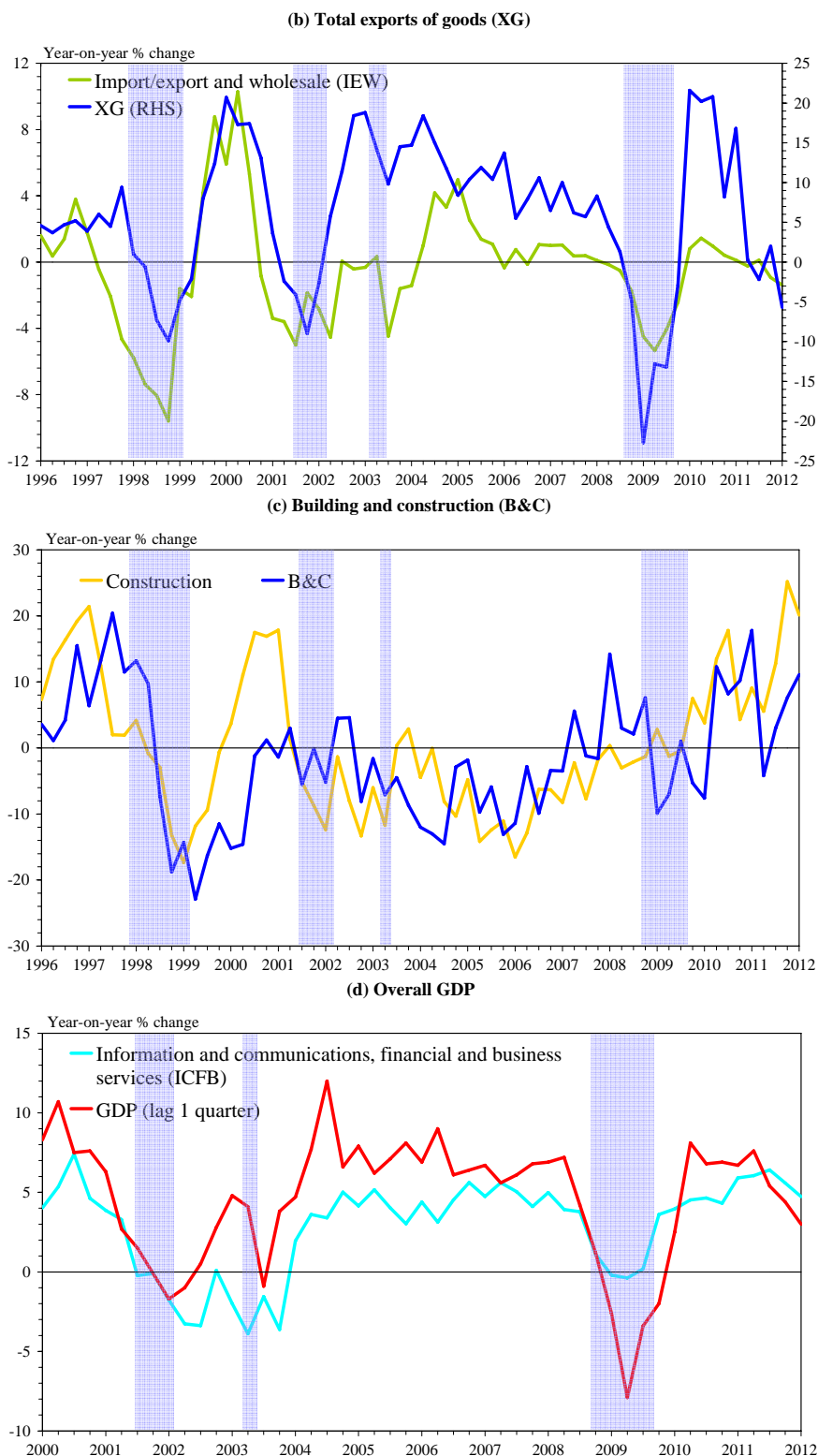
Chart 3: Movements of sectoral employment and GDP components[^]

(a) Domestic consumption (CXDM)



Note: ([^]) Due to adoption of the Hong Kong Standard Industrial Classification (HSIC) Version 2.0, the series from March 2000 onwards are not strictly comparable with those in earlier years, more so for the IC sector and hence the shorter backtracked series.

Box 5.1 (Cont'd)



From *Chart 3*, sectoral employment moves quite closely in tandem with the relevant output component, more so for the domestic-related sectors than the trade-related ones. So not surprisingly, the buoyant employment growth in the current episode which mainly came from domestic-oriented sectors ties in with the resilience of domestic demand, with an additional buffer from stable employment in the less cycle-prone social and personal services. The significant employment gains in domestic-oriented sectors actually more than offset job losses in the trade-related sectors, which in turn explains why the labour market has been able to hold up so well up till the recent period.

Vacancies

5.13 Job vacancies in private sector establishments witnessed a further upsurge across most economic sectors. The number of private sector vacancies surged by 22.3% over a year earlier to 70 000 in March 2012, the highest level since September 1994. On a seasonally adjusted basis, the number of vacancies also increased markedly by 10.1% in March 2012 over December 2011.

5.14 Most service sectors saw notable increases in job vacancies in March 2012, with more prominent gains in accommodation and food services (up 42.7% year-on-year), retail (up 35.7%), transportation, storage, postal and courier services (up 26.1%), social and personal services (up 23.1%), and financing, insurance, real estate, professional and business services (up 14.8%). In terms of skill level, vacancies for lower-skilled jobs surged impressively by 31.4% over a year earlier, while those for higher-skilled jobs only grew by 8.4%. Analysed by occupational category, job openings increased more notably among craft and related workers (up 58.2% year-on-year), service and sales workers (up 39.5%), and plant and machine operators and assemblers (up 34.6%). In terms of establishment size, while SMEs posted an appreciable year-on-year increase of 15.7% in job vacancies, large enterprises posted an even stronger growth of 28.8%. Within the civil service, the number of vacancies decreased modestly by 2.5% in March 2012 over a year earlier, having recorded year-on-year increases since early 2010.

5.15 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 56 in March 2012, markedly higher than that of 48 in December 2011. While the ratio for lower-skilled jobs rose from 45 to 52, that for higher-skilled jobs rose even more from 84 to 101, signifying an across-the-board tight demand for labour. Moreover, some sectors such as human health services, arts, entertainment and recreation, and residential care and social work services were apparently suffering from labour shortages, with the number of vacancy far exceeding the number of unemployed (i.e. the corresponding ratios far exceeding 100). When measured in terms of the percentage of job vacancies to total employment opportunities, the vacancy rate for private sector establishments rose back notably to 2.6% in March 2012 from 2.1% in December 2011, the highest since early 1997. More notable increases in vacancy rate were seen in the social and personal services, accommodation and food services, and retail sectors.

Table 5.6 : Vacancies by major economic sector

	Annual average	Number of vacancies				2012 Mar	Vacancy rate in Mar 2012 (%)
		2011 Mar	2011 Jun	2011 Sep	2011 Dec		
Import/export trade and wholesale	7 800 (20.0)	8 300 (26.5)	8 300 (35.7)	7 700 (10.4)	7 100 (8.9)	8 900 (7.8)	1.6
Retail	5 900 (19.6)	6 000 (23.9)	5 200 (18.2)	6 100 (10.3)	6 300 (27.2)	8 200 (35.7)	3.1
Accommodation ^(a) and food services	8 200 (17.8)	7 700 (26.0)	8 100 (22.4)	8 000 (9.7)	9 000 (15.1)	11 000 (42.7)	3.9
Transportation, storage, postal and courier services	2 600 (33.0)	2 500 (52.4)	3 000 (51.8)	2 400 (13.2)	2 500 (20.2)	3 200 (26.1)	1.9
Information and communications	2 300 (1.0)	2 700 (19.1)	2 200 (-4.8)	2 200 (-13.9)	2 200 (6.6)	2 500 (-7.4)	2.5
Financing, insurance, real estate, professional and business services	14 100 (13.5)	14 100 (19.5)	14 600 (19.6)	14 300 (10.8)	13 300 (4.7)	16 200 (14.8)	2.4
Social and personal services	13 100 (20.8)	13 200 (19.9)	12 700 (26.5)	13 900 (17.6)	12 400 (19.9)	16 300 (23.1)	3.5
Manufacturing	2 200 (42.7)	2 400 (52.7)	2 200 (49.8)	2 300 (44.9)	1 900 (24.2)	2 900 (21.1)	2.6
Construction sites (manual workers only)	300 (434.6)	100 (217.0)	300 (411.9)	500 (641.7)	300 (385.3)	700 (347.0)	0.9
<i>All establishments surveyed in the private sector^(b)</i>	<i>56 700 (19.0)</i>	<i>57 200 (24.4)</i> <3.2>	<i>56 600 (25.3)</i> <2.7>	<i>57 700 (12.9)</i> <-3.4>	<i>55 100 (14.6)</i> <11.9>	<i>70 000 (22.3)</i> <10.1>	2.6
<i>Civil service^(c)</i>	<i>6 300 (9.7)</i>	<i>6 000 (13.2)</i>	<i>6 200 (8.5)</i>	<i>6 600 (11.8)</i>	<i>6 200 (5.4)</i>	<i>5 900 (-2.5)</i>	3.6

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.

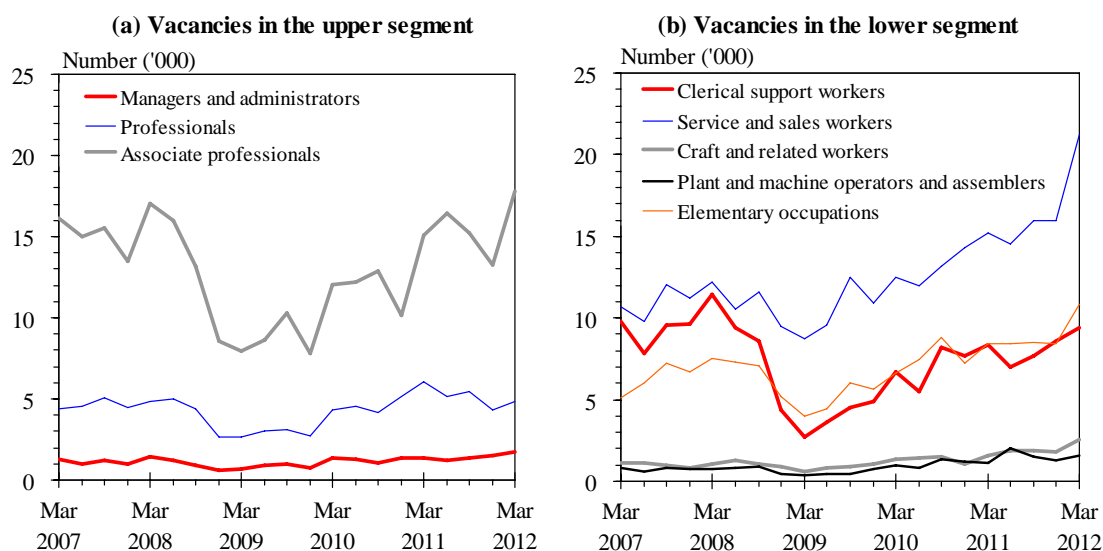
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

() % change over a year earlier.

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

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

Diagram 5.6 : Job vacancies[^] surged further across-the-board in March 2012



Note : (^) Statistics since March 2012 are compiled based on International Standard Classification of Occupations (ISCO) 2008, while statistics prior to March 2012 are compiled based on ISCO 1988.

5.16 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 June 2012, around 92 900 private sector job vacancies were posted by the LD, up 26.3% over a year earlier. Comparing the second quarter with the first quarter, the average number of vacancies also leaped by 14.9%.

Wages and earnings

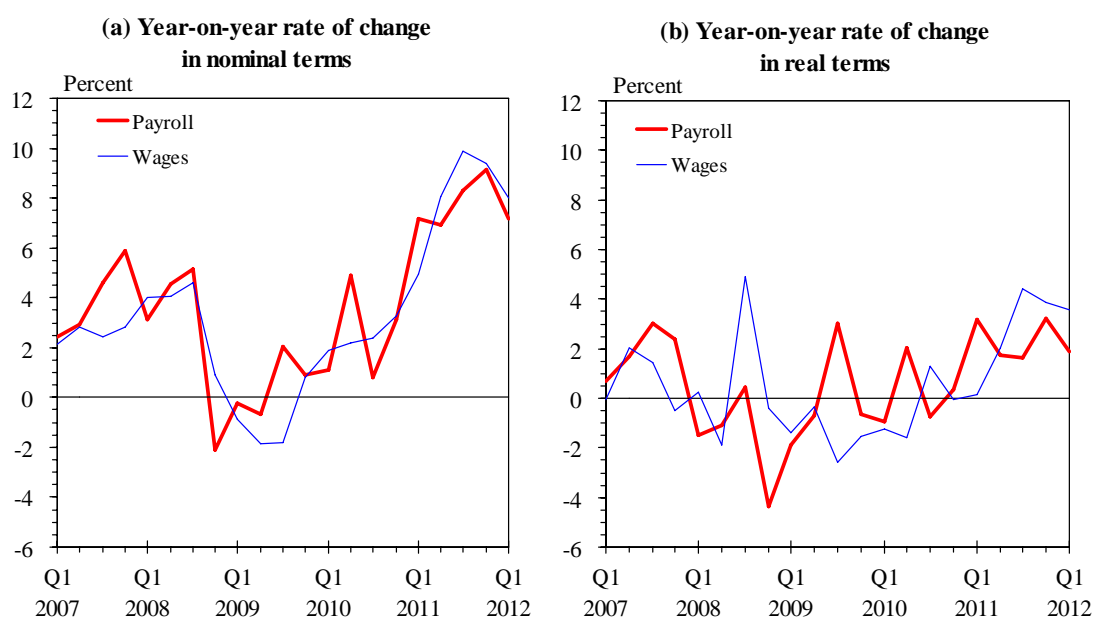
5.17 Wages and earnings continued to sustain notable and broad-based growth in early 2012, reflecting the buoyant labour market conditions at the time and the additional boost from the implementation of SMW. *Labour wages*, as a measure of regular employment income of employees at the supervisory level or below, surged by 8.0% year-on-year in March 2012, further to the 9.4% growth in December 2011. After adjusting for inflation⁽⁸⁾, labour wages still rose by an appreciable 3.6% in real terms over a year earlier.

5.18 In March 2012, nominal pay rises were observed across all economic sectors, with more prominent year-on-year increases in real estate leasing and maintenance management (up 13.5%), professional and business services (up 13.1%), and personal services (up 12.2%). In terms of occupational category, nominal wages likewise improved across the board. Thanks to the implementation of SMW, workers in the lower-skilled segment, in particular miscellaneous non-production workers (up 12.9%) and service workers (up 10.8%), enjoyed more notable pay rises.

5.19 *Labour earnings*⁽⁹⁾, as measured by payroll per person engaged in the private sector, leaped by 7.2% in the first quarter of 2012 over a year earlier, after the strong growth of 9.1% in the fourth quarter of 2011. After discounting the price effects, there was a real improvement of 1.9% in labour earnings.

5.20 Analysed by economic sector, nominal payroll picked up across most major sectors in the first quarter of 2012. In particular, workers engaged in retail trade (up 15.6% year-on-year), real estate activities (up 14.4%), manufacturing (up 14.0%), information and communications (up 9.4%), and social and personal services (up 8.3%) enjoyed more sizeable increases in earnings. On the other hand, reduction in payroll was observed in transportation, storage, postal and courier services, at 5.3%.

Diagram 5.7 : Labour earnings and wages sustained notable increases



5.21 More recent data from the General Household Survey, though not strictly comparable to those from the business establishment surveys, showed that average monthly employment earnings⁽¹⁰⁾ (excluding foreign domestic helpers) for full-time employees rose by 4.8% year-on-year in the second quarter of 2012, a slight deceleration from the 5.6% increase in the first quarter. As for grassroots workers specifically, those in the lowest decile group still had strong earnings growth of 10.4% in the second quarter this year. After adjusting for inflation, real earnings for all full-time employees saw a slight increase of 0.6% over a year earlier, while those for the lowest decile group continued to have a notable year-on-year increase, at 6.4%.

Box 5.2

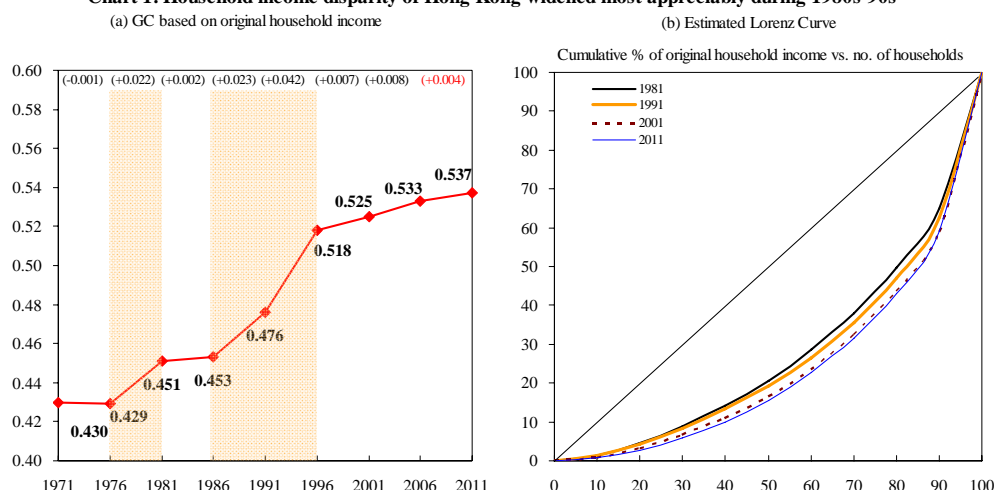
The Gini coefficient of Hong Kong: trends and interpretations

The latest Gini Coefficient¹ (GC) of Hong Kong, a common measure of income disparity published by the Census and Statistics Department (C&SD) based on household income statistics of the 2011-Census, has drawn much public attention. To better understand the issue, this box article briefly analyses the GC in the past 40 years and offers some explanations behind its movement based on various socio-economic developments over the period.

Past trend of GC (based on original household income)

The longest series of GC available (1971 – 2011) was compiled based on original household income, without taking into account the Government's various income redistributive measures. Nevertheless, it can still provide valuable information on how the situation has been evolving over the period. In the 1970s, the GC stood at around 0.430, and began to go up quite visibly since 1980s. Such rise further accelerated between 1986 and 1996, in which the GC increased from 0.453 to 0.518, sharply by 0.065. The increase of GC then showed considerable moderation, and its latest pick up in 2011 (up 0.004) was actually the smallest as compared to the previous 25 years. The movement of GC was also consistent with the outward shift of the Lorenz Curve (*Chart 1*).

Chart 1: Household income disparity of Hong Kong widened most appreciably during 1980s-90s



Note: Figures in brackets denote the absolute period-to-period change of GC. The Lorenz Curve is crudely estimated based on shares of household income to total by decile. Source: Census/By-Census 1971 - 2011, C&SD.

Impacts of economic and demographic transformations on income disparity

Two points are noteworthy from the above descriptive statistics, (i) the rising income disparity should not be viewed as a short-term phenomenon, but a continuous development over time; and (ii) while GC is a condensed single measure of income disparity, the coefficient itself cannot delineate the causes of the issue which can be affected by many socio-economic and demographic factors. It would hence be more meaningful to supplement the statistic with a structural analysis of the economy and labour market, identifying the parameters accountable for the widening of income gap:

- (a) **Inflow of immigrants:** the huge inflow of immigrants from the Mainland of China before 1980s had brought about an abrupt and sharp increase in total population. While this group of new arrivals was a fresh source of manpower supporting the fast economic growth of Hong Kong, this also inevitably increased the number of low-

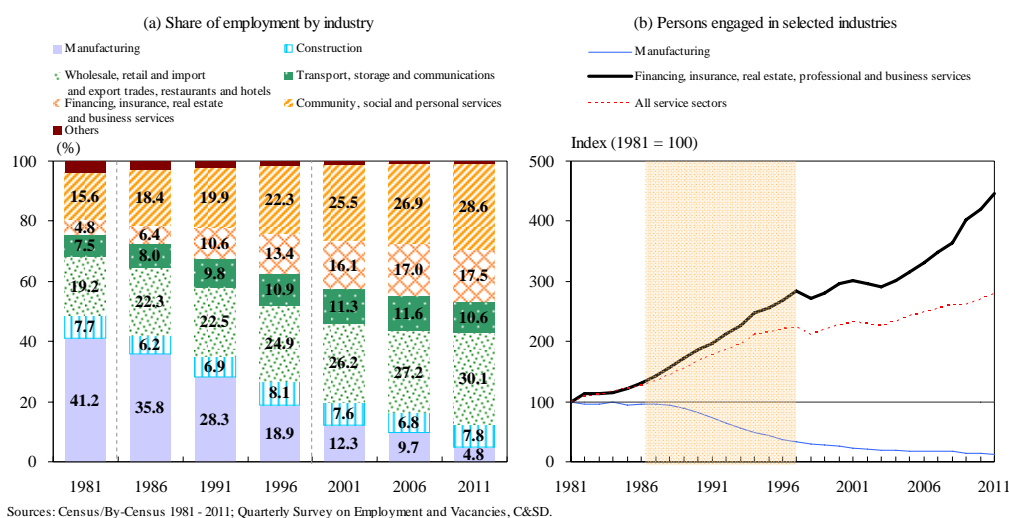
¹ GC is defined by referring to the Lorenz Curve (obtained by plotting the cumulative percentages of household income against the cumulative percentages of number of households). Its value ranges from 0 to 1, and is equal to (i) the areas between the Lorenz Curve and the line of equality divided by (ii) the total area under the line of equality. The higher the GC, the more the disparity it implies.

Box 5.2 (Cont'd)

income households, particularly at the lower tail of the income distribution, as most of them were often confined to low-paying jobs due to their relatively low educational attainment and skill levels. This plausibly explains the jump of GC between 1976 and 1981, as well as the accelerated increase during the 1980s and 1990s.

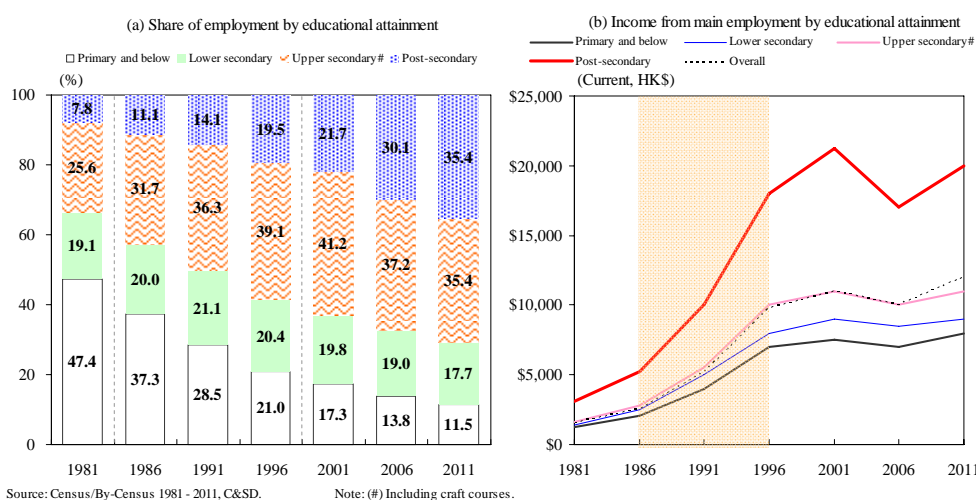
- (b) **Economic restructuring:** to seize the opportunities offered by the Mainland's open door policy since 1978, and also prompted by rising local costs, the local economy underwent rapid restructuring as manufacturers progressively reallocated their production base to the Pearl River Delta region starting from the mid-1980s. This propelled Hong Kong's steady shift towards a high value-added, knowledge-based economy, with a visible reduction in job positions in manufacturing and other related production industries, compensated by an even more remarkable increase in service employment. The process was found to be most intense between the 1980s and 1990s as shown in **Chart 2**, of which the share of employment in manufacturing shrank significantly from 41.2% to 18.9% while financing, insurance, real estate and business services increased noticeably from 4.8% to 13.4%.

Chart 2: Rapid economic restructuring led to a drastic shrinkage of the manufacturing sector during 1980s-90s



Before the economic restructuring, most of the workers were relatively homogenous in nature with a simple pay/rank hierarchy. Nevertheless, as the economic transformation went into full swing, a large number of higher-skilled jobs were created amid rapid developments of financial and other professional services, leading to a more diversified labour market. The quality of the workforce also improved successively with better education opportunities. Together with a vibrant economic growth and an increasingly keen demand for workers with better knowledge and skills, it is inevitable to see larger income increases for workers at the upper segment of the occupational hierarchy than those at the lower segment (**Chart 3**).

Chart 3: Increasing labour demand of talents with better educational attainment in tandem with economic restructuring and upgraded labour force further widened earnings disparity

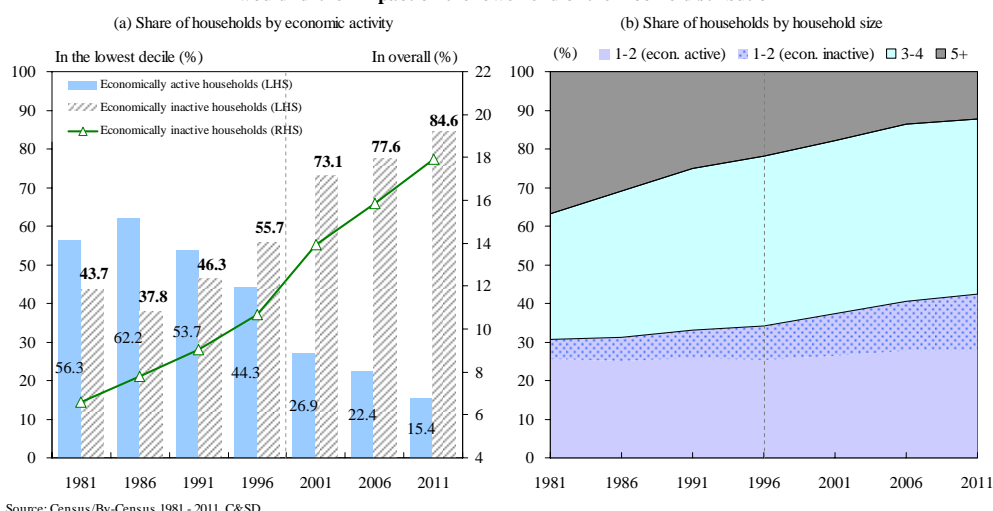


Box 5.2 (Cont'd)

Besides the continued widening in employment earnings disparity in tandem with structural transformations of the economy and the labour market, other emerging demographic factors, such as the accelerating growth of small and elderly households have also been increasingly affecting the household income disparity in the past 15 years (1996 – 2011):

- (c) **Population ageing:** Hong Kong is facing a serious ageing issue, resulting in a continuous growth of retiring elderly and economically inactive households with little or even no employment income, thereby widening the income disparity demographically. Analysed by decile, it is observed that 84.6% of the households in the lowest decile group were economically inactive in 2011, increased significantly from 55.7% in 1996. Nevertheless, 48.6% of them were found to be owner-occupiers without mortgages or loans, suggesting that these households might own various forms of assets (*Chart 4*).
- (d) **Smaller household size:** the ongoing change in family structure towards smaller and nuclear families has in turn led to a progressive decline in average household size, from 3.3 in 1996 to 2.9 in 2011. As household income depends partly on household size and in particular the number of working household members, a decline in average household size amid population ageing would tend to pose a drag on household income in general (*Chart 4*). Specifically, 56.2% of the households in the lowest decile were singleton households in 2011, significantly higher than 17.1% of the overall average.

Chart 4: The recent upsurge of economically inactive / elderly households amid population ageing would further impact on the lower-end of the income distribution



The importance of compiling other GCs in reflecting the underlying situation

As the level and movement of the GC are heavily affected by a wide range of economic and socio-demographic factors as described above which to a certain extent would mask the underlying income disparity situation, C&SD also compiled different sets of GCs with a view to facilitating a more comprehensive analysis at different angles (*Table 1*):

Table 1: Different sets of GC for understanding the underlying income disparity

GC	1981	1986	1991	1996	2001	2006	2011
All households							
(1) Original household income	0.451	0.453	0.476	0.518	0.525	0.533	0.537
(2) Post-tax post-social transfer	-	-	-	0.466	0.470	0.475	0.475
<i>Difference (1-2)</i>	-	-	-	0.052	0.055	0.058	0.062
(3) Per capita				0.427	0.421	0.427	0.431
Economically active households							
(4) Original household income	-	-	-	-	0.488	0.490	0.489
(5) Post-tax post-social transfer	-	-	-	-	0.436	0.436	0.430
<i>Difference (4-5)</i>	-	-	-	-	0.052	0.054	0.059
(6) Per capita					0.412	0.412	0.413

Source: Census/By-Census 1981 – 2011, C&SD.

Box 5.2 (Cont'd)

The GC based on post-tax post-social transfer household income in 2011 was 0.475, same as that in 2006. Comparing this GC with the original one provides a measure of the magnitude or effectiveness of Government's policy in mitigating Hong Kong's income disparity. The magnitude of reduction in GC was 0.062 in 2011, reflecting that income redistribution through taxation and the provision of social benefits indeed helped narrow income disparity. Comparing with 2001 (0.055) and 2006 (0.058), the greater redistributive impact for 2011 is also in line with the Government's increasing expenditure on welfare, education and healthcare over time.

The post-tax post-social GC for the economically active households, in removing the effect of population ageing, was 0.430, improved from 0.436 in 2006. This tallied with the widespread improvements of employment / household incomes in real terms across nearly all deciles over the period, benefitting from the robust economic growth and the implementation of statutory minimum wage in May 2011. Also taking into account the change of household size, the corresponding per capita GC for economically active households was smaller at 0.413, largely stable as compared to 0.412 in 2006.

Concluding remarks

The rising GC over the past four decades was attributable to different economic and demographic factors coming into play. For example, the significant widening of household income disparity in the 1980s and 1990s was mainly due to the inflow of immigrants and the rapid transformation of our local economy which brought about a drastic change in our labour market and earnings structure; while in recent years an ageing population with a persistent decrease of household size affected the income distribution of the lower end more visibly. In view of the complexity of the issue, it is deemed necessary to compile different sets of GCs in order to reveal the underlying situation for a more thorough and meaningful comparison.

Recent labour-related measures

5.22 LD held seven large-scale job fairs from January to June 2012. A total of 223 organisations conducted on-the-spot recruitment in the job fairs, offering over 18 400 vacancies. Ten training bodies also received applications in two of the job fairs. LD will continue to organise large-scale job fairs from time to time, canvassing vacancies from different industries for application by job seekers on-the-spot and hence save their time in job search. Three more large-scale job fairs were held in Tuen Mun Town Hall from 11 to 13 July, with over 4 900 vacancies offered by 60 employers, ranging from catering, retail, property management and other sectors. Apart from large-scale job fairs, mini job fairs are also organised at LD's Job Centres and the Employment in One-stop from time to time to assist job seekers in seeking employment. Moreover, recruitment activities are staged by employers at the two sector-specific recruitment centres for retail and catering regularly and job seekers are interviewed on the spot.

5.23 To help the two batches of senior secondary school graduates find work, LD has launched a special tailor-made service package, "JOBS GO-GO-GOAL", from May to August 2012. The Youth Employment Start (Y.E.S.) will launch various career advisory and employment support programmes. These include career assessment and career consultation, interactive dramas on appropriate interview skills and etiquette, celebrity experience-sharing sessions, as well as Self-Employment Experience Day and support services for graduates interested in running retail business. The integrated Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme (YPTP&YWETS) will maintain close liaison with school career masters, training bodies and the Education Bureau, and promote the enrolment of YPTP&YWETS in collaboration with Radio 2 of Radio Television Hong Kong. LD will solicit job vacancies suitable for senior secondary school graduates and organise various large scale and district-based job fairs during which on-the-spot job interviews are available for some vacancies. A dedicated webpage has been rolled out to provide information on the relevant events and the employment market while listing out job vacancies without experience requirement for senior secondary school graduates to apply.

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

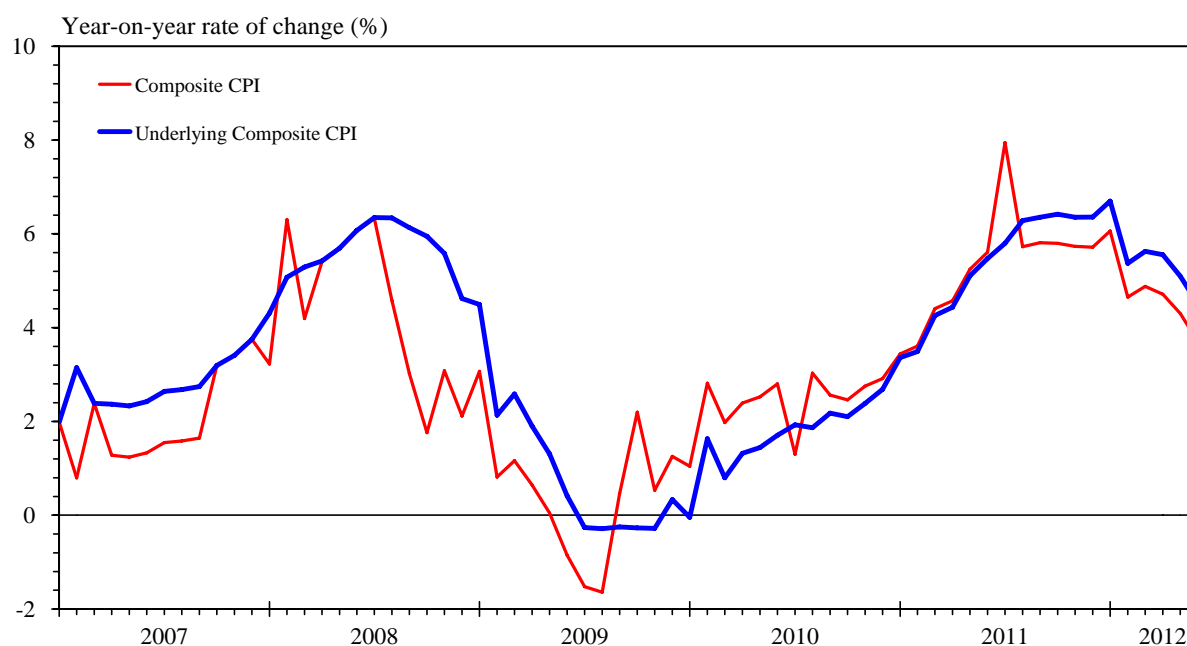
Summary

- *Inflation continued to recede in the second quarter of 2012 amid the easing in both external and domestic price pressures. The Composite Consumer Price Index (Composite CPI)⁽¹⁾ rose by 4.2% in the second quarter over a year earlier, down from 5.2% in the first 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 likewise eased from 5.9% to 5.1%.*
- *Domestically, wage costs continued to rise visibly, albeit at a somewhat slower pace, on the back of tight labour market conditions. Meanwhile, office rentals moderated on a year-on-year basis in the second quarter. Also, although the increases in retail rentals were still rather notable, the concurrent solid expansion of retail sales volume helped alleviate the cost pressure reckoned on a unit cost basis. Externally, imported inflation tapered further in the second quarter alongside the softening of global food and commodity prices as well as slower inflation in Hong Kong's major trading partners.*
- *Looking ahead, domestic cost pressures are likely to gradually recede amid the muted growth of the local economy. Barring any unexpected resurgences in global food and commodity prices, imported inflation should continue to ease going forward. Against this background, local inflation is poised to stay on an easing path in the months ahead.*

Consumer prices

6.1 Inflation came down progressively in the first half of 2012. Import prices rose at a more moderate pace in the past few months, thanks largely to softer global food and commodity prices and the receding inflation in the Mainland. Locally, the year-on-year increase in the private housing rentals component of the Composite CPI had slowed since early 2012, reflecting the gradual feed-through of the relative stabilisation in fresh-letting residential rentals in the latter part of 2011. Furthermore, domestic price pressures should tend to recede amid a slower expansion of the local economy. In view of the austere global economic environment, the easing trend of local inflation is expected to continue in the coming months, along with similar inflation developments in a number of Asian and emerging economies⁽²⁾.

Diagram 6.1 : Inflation receded further in the second quarter of 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 4.2% in the second quarter of 2012 from 5.2% in the first quarter. 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 5.9% to 5.1% over the same period. For the first half of 2012 as a whole, headline and underlying consumer price inflation rates were 4.7% and 5.5% respectively. The difference between these two rates was mainly attributable to the electricity charge subsidy and to the rise in ceiling of the Government's rates concession from \$1,500 per quarter for each rateable property to \$2,500 starting from April 2012.

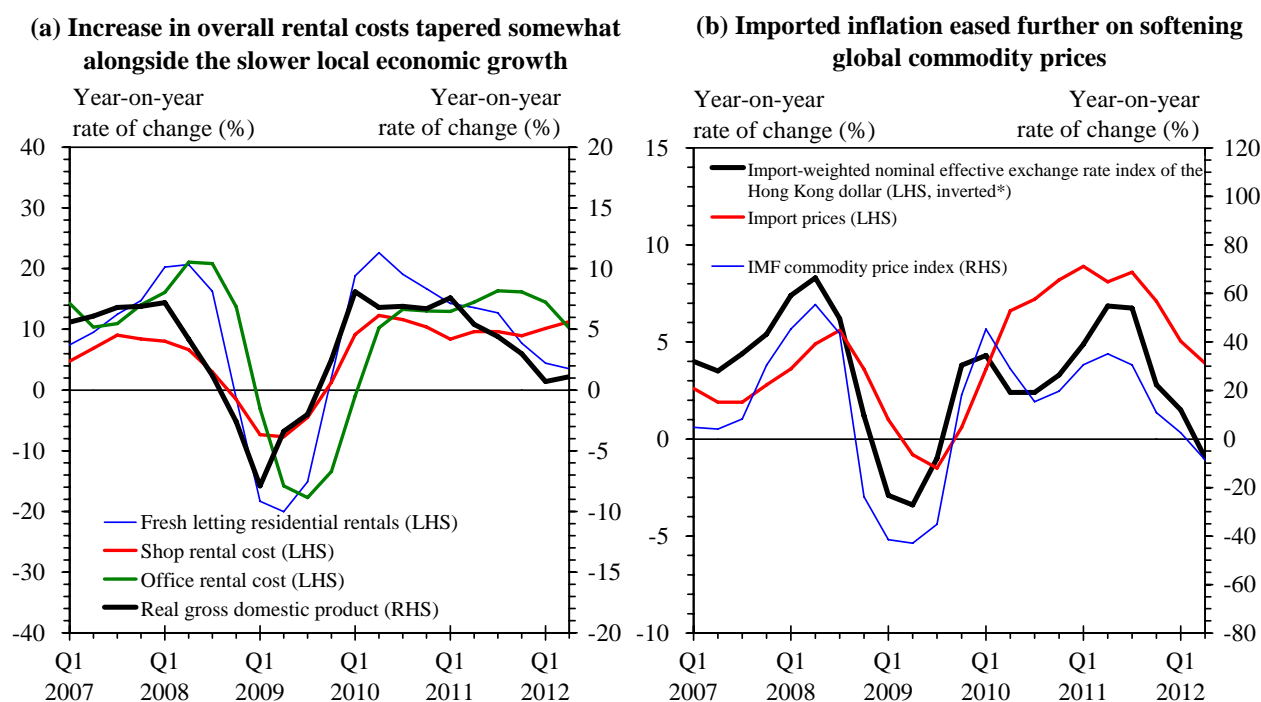
Table 6.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
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	H1	5.5	4.7	4.2	5.0	4.9
	Q1	5.9	5.2	4.6	5.5	5.4
	Q2	5.1	4.2	3.7	4.5	4.4
(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
	Q2	1.0	0.9	0.9	0.9	0.8

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 Most of the major components in the underlying Composite CPI, foodstuffs and housing in particular, saw slower year-on-year price increases in the second quarter of 2012, reflecting a broad-based easing of price pressures. Thanks to the peak-out of global food prices and easing inflation in the Mainland and other major trading partners, local food inflation (including costs of dining out) displayed an easing trend in the past two quarters. The year-on-year price increase in the food component came down progressively from the peak of 8.2% in the fourth quarter of 2011 to 7.4% in the first quarter of 2012, and further to 6.6% in the second quarter of 2012. Meanwhile, the rate of increase in private housing rentals also moderated visibly, from 9.1% in the first quarter of 2012 to 7.7% in the second quarter, reflecting the gradual feed-through of the relative stabilisation in fresh-letting residential rentals since the latter part of 2011. Prices of other CPI components with larger import content, such as clothing and footwear, also saw narrower increases in the second quarter of 2012, broadly in line with the slower increases in import prices in recent months. Separately, prices of durable goods continued their secular downtrend.

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



Note : (*) An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The nominal EERI series in this graph is inverted for easier comprehension.

Diagram 6.3 (a) : Most components in the underlying Composite CPI showed narrower price increases in the second quarter of 2012

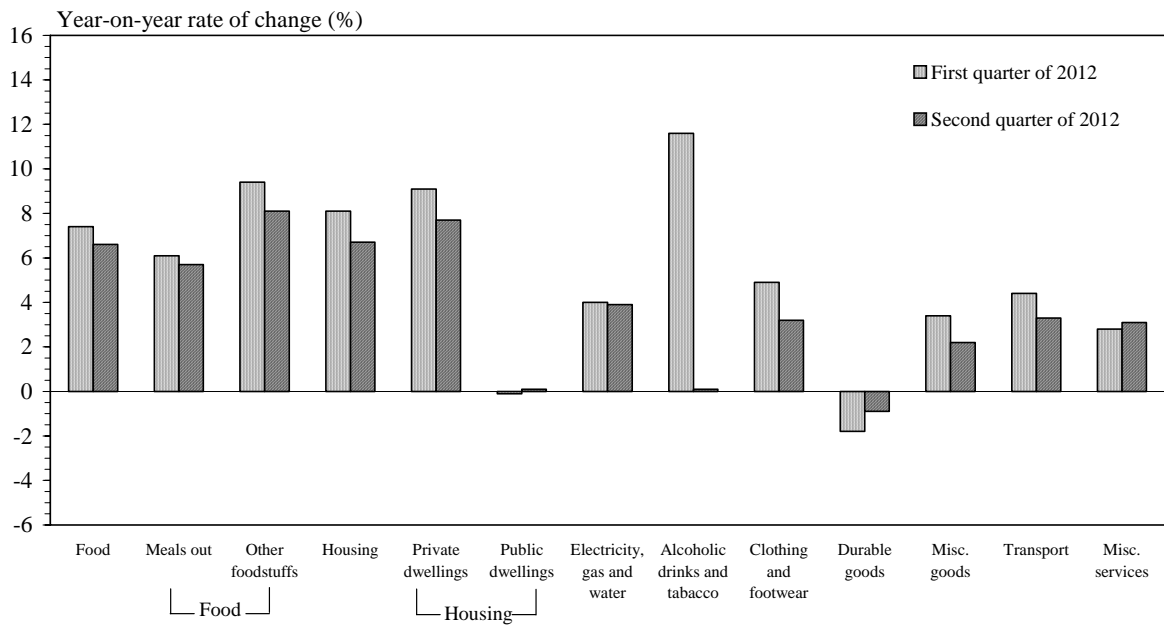
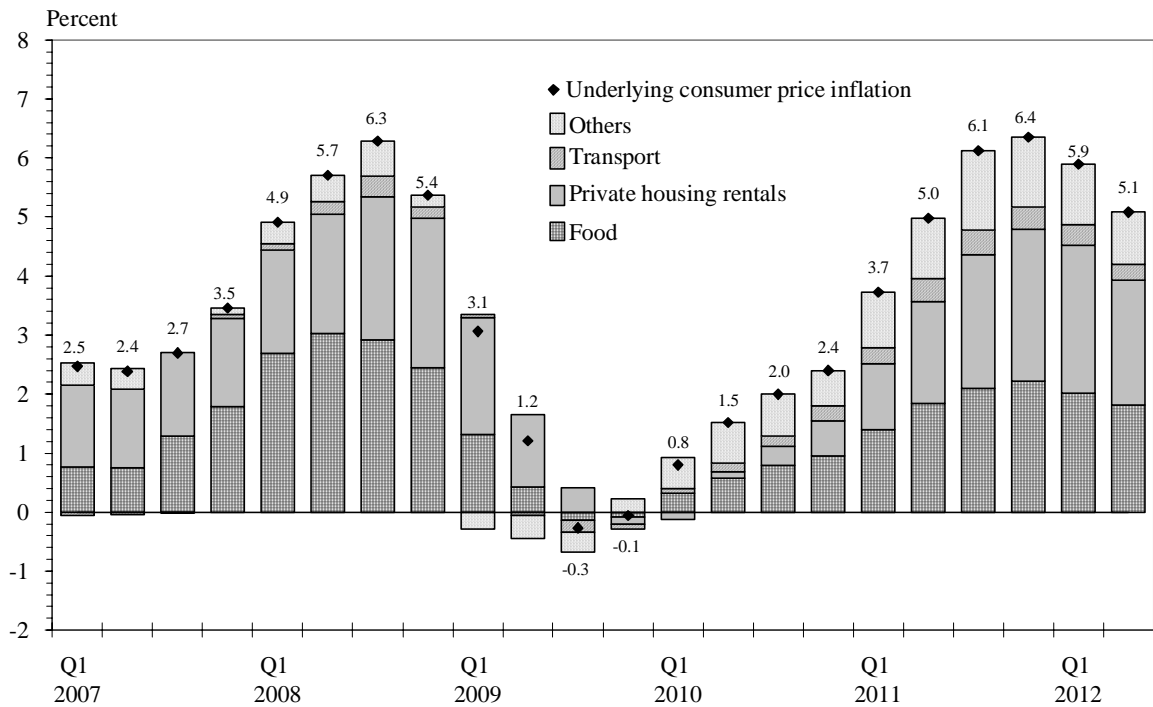


Diagram 6.3 (b) : Contribution to underlying consumer price inflation by major component



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>2011</u>	<u>2011</u>				<u>2012</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	27.45	7.0	5.2	6.9	7.8	8.2	7.4	6.6
<i>Meals bought away from home</i>	17.07	5.2	4.1	5.1	5.7	6.1	6.1	5.7
<i>Other foodstuffs</i>	10.38	9.9	7.0	9.8	11.3	11.5	9.4	8.1
Housing ^(a)	31.66	7.2 (6.4)	3.8 (3.9)	5.9 (5.9)	11.0 (7.6)	8.4 (8.4)	8.1 (8.1)	6.4 (6.7)
<i>Private dwellings</i>	27.14	7.2 (7.1)	4.1 (4.1)	6.5 (6.4)	8.4 (8.3)	9.6 (9.5)	9.2 (9.1)	7.3 (7.7)
<i>Public dwellings</i>	2.05	11.9 (2.5)	4.0 (3.8)	2.7 (3.9)	676.7 (2.5)	-1.5 (-0.1)	-1.5 (-0.1)	-1.1 (0.1)
Electricity, gas and water	3.10	-4.2 (3.8)	7.3 (3.8)	8.0 (3.6)	-16.1 (3.8)	-16.1 (3.9)	-17.2 (4.0)	-18.3 (3.9)
Alcoholic drinks and tobacco	0.59	17.1	8.1	19.9	20.3	20.0	11.6	0.1
Clothing and footwear	3.45	6.8	5.6	6.3	7.8	7.3	4.9	3.2
Durable goods	5.27	-3.8	-4.4	-4.3	-3.1	-3.1	-1.8	-0.9
Miscellaneous goods	4.17	3.8	3.1	4.2	4.5	3.3	3.4	2.2
Transport	8.44	4.4	3.3	4.7	5.0	4.5	4.4	3.3
Miscellaneous services	15.87	3.5 (3.5)	3.3 (3.4)	2.9 (2.9)	4.0 (4.0)	3.8 (3.8)	2.8 (2.8)	3.1 (3.1)
All items	100.00	5.3 (5.3)	3.8 (3.7)	5.2 (5.0)	6.4 (6.1)	5.7 (6.4)	5.2 (5.9)	4.2 (5.1)

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

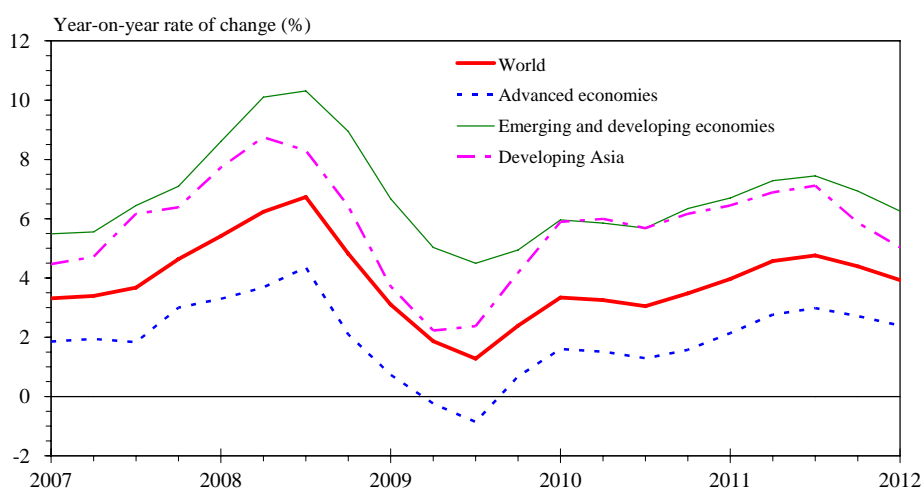
(b) Figures in bracket represent the underlying rates of change after netting out the effect of Government's one-off relief measures.

Box 6.1

Recent global inflation situation

World inflation, having eased visibly in 2009 in the aftermath of the global financial tsunami, rebounded during 2010 and most of 2011, mainly on the back of the renewed surge in international commodity prices amid a highly accommodative global monetary environment and a number of adverse supply shocks. Yet the advanced economies, due to their continued slack, experienced a more modest increase in inflation compared with emerging economies where growth had been vibrant in 2010 and 2011. According to the IMF, world inflation went up from 2.2% in 2009 to 3.3% and 4.4% in 2010 and 2011 respectively. Within this, average inflation in the advanced economies rose from 0.1% in 2009 to 1.5% in 2010 and 2.7% in 2011, while the corresponding figures in developing Asia were notably higher, at 3.1%, 5.9% and 6.6% respectively.

Movements in global inflation

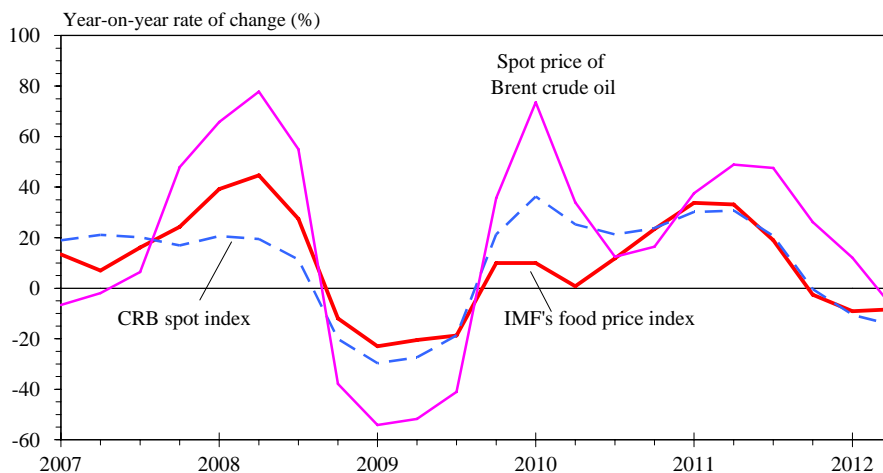


Nevertheless, inflationary pressures have been gradually receding in many parts of the world over the past year or so. This is particularly evident in some major emerging economies. In the Mainland, for instance, the year-on-year increase in overall consumer prices eased visibly from the peak of 6.5% in July 2011 to a 29-month low of 2.2% in June 2012. Inflation in the advanced economies also receded, albeit less visibly so.

Several major developments have contributed to the recent easing in world inflation. Firstly, the sub-par growth in many advanced economies has resulted in generally tame supply-side cost pressures there, while emerging markets also saw some growth moderation as a result of sluggish final demand from the advanced economies. Secondly, a dimmer global economic outlook amid the euro debt crisis, coupled with some relative stabilisation in the geopolitical situation of the Middle East, led to receding international oil prices over the past few months. Thirdly, global food prices, while staying elevated, have progressively retreated from their peak in early 2011, thanks partly to some easing in the demand-supply balance.

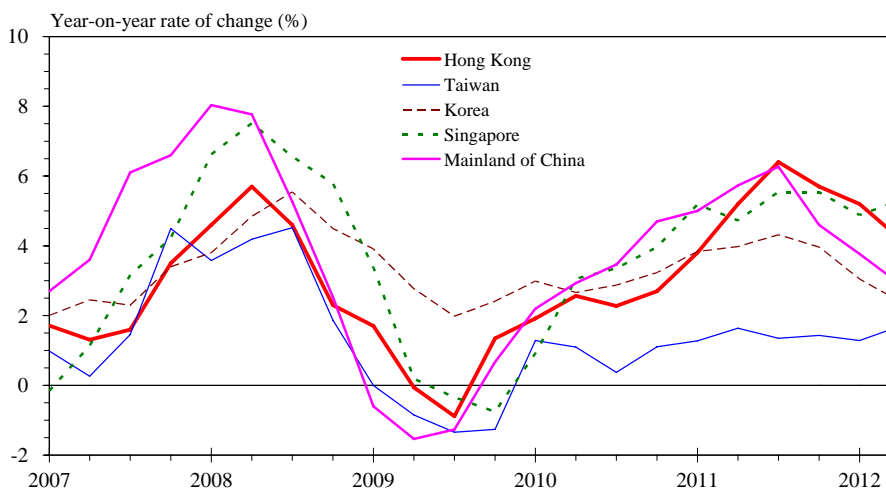
Box 6.1 (Cont'd)

Food, oil and other commodity prices



Hong Kong's inflation trend in the past few years broadly mirrored the developments in the rest of the world, especially other Asian economies. Local inflation accelerated almost uninterruptedly between the latter part of 2010 and the latter part of 2011, driven by surging global food and commodity prices as well as the notable increase in domestic cost pressures after a sustained period of above-trend economic growth. Yet in tandem with the receding global inflation and slower expansion of the local economy, consumer price inflation in Hong Kong eased back upon entering 2012 and is expected to come down further in the months ahead. It is also worth noting that, despite the differences in exchange rate regimes and some short-term variations, the movements of inflation in Hong Kong have been largely similar to those in Singapore, Korea and many other Asian economies.

Inflation in Asia

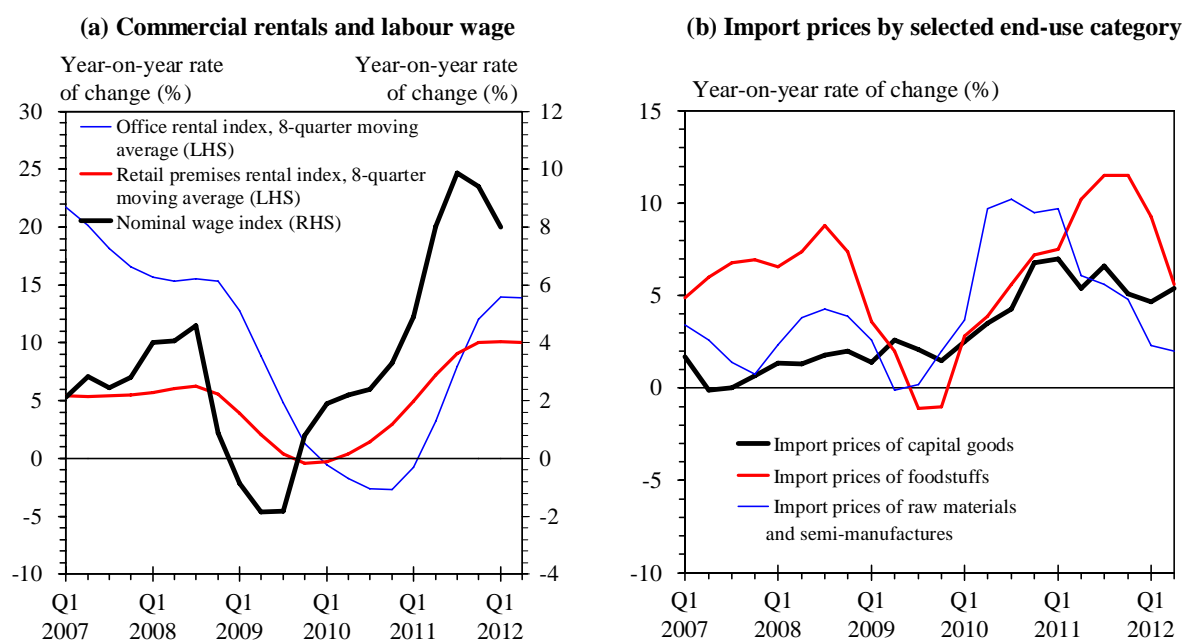


Notwithstanding the recent easing trend, upside risks to inflation continue to linger, given the exceptionally accommodative global monetary environment and the volatile nature of global food and commodity prices. As such, the Government will continue to closely monitor the inflation situation, particularly its impact on the lower-income people.

Costs of factor inputs and import prices

6.4 With the labour market conditions staying tight and wage cost being further lifted by the implementation of statutory minimum wage last year, labour costs extended their uptrend in the first half of 2012. Yet, as the one-off boosting effect from statutory minimum wage gradually wanes and given the slow expansion of the local economy, pressures on wage costs may be gradually alleviated going forward. As regards commercial rental costs, while the year-on-year increase in office rentals began to taper recently, retail rentals continued to rise visibly further, conceivably supported by the prevailing strength of inbound tourism. Nonetheless, for the retail sector, the rental cost pressure reckoned on a unit cost basis was probably less severe when viewed in conjunction with the concurrent notable growth of retail sales volume.

Diagram 6.4 : Domestic cost pressures showed signs of levelling off, while import prices rose at a moderated pace



6.5 On the external front, the upward pressures on import prices continued to moderate. Overall import prices rose by about 3.9% in the second quarter of 2012 over a year earlier, down further from the 5.0% increase in the preceding quarter. Analyzed by major end-use category, import prices of foodstuffs posted the largest increase in the second quarter, though they had been easing amid lower international food prices. The increase in import prices of fuels likewise decelerated visibly, mirroring the retreat in crude oil prices. Meanwhile, import prices of raw materials and consumer goods showed slower increases in the second quarter, but those of capital goods rose somewhat faster compared with the preceding quarter.

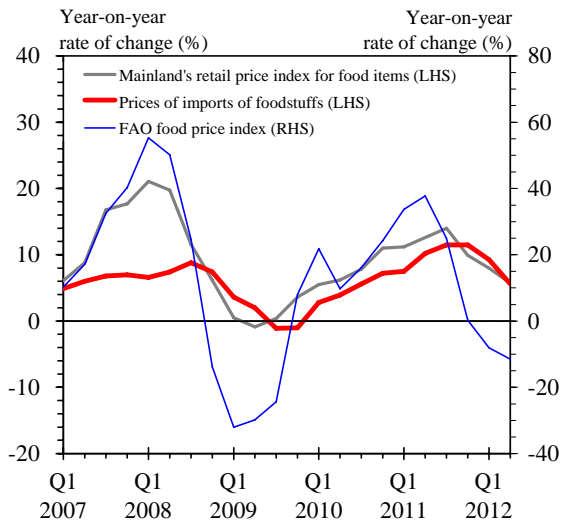
**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</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	H1 [#]	7.4	5.6	2.2	10.0	5.0	4.5
	Q1	9.3	7.1	2.3	16.5	4.6	5.0
	Q2 [#]	5.6	4.4	2.0	4.4	5.4	3.9

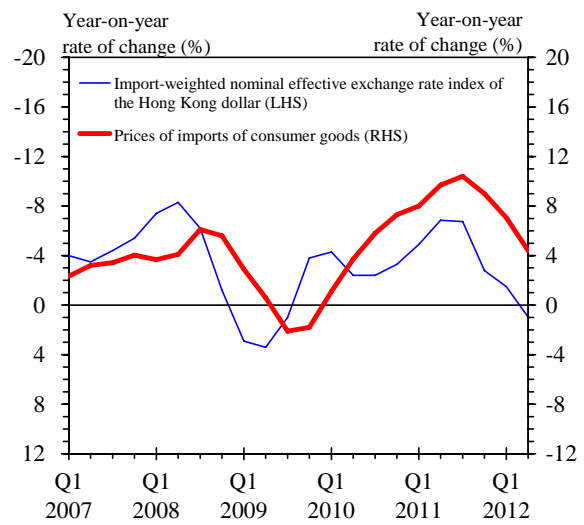
Note : (#) Figures for the second quarter and the first half of 2012 are estimates based on actual unit value indices up to May 2012. They are subject to revision when data for June 2012 become available.

Diagram 6.5 : Import prices by end-use category

(a) Lower global food prices helped alleviate imported food inflation

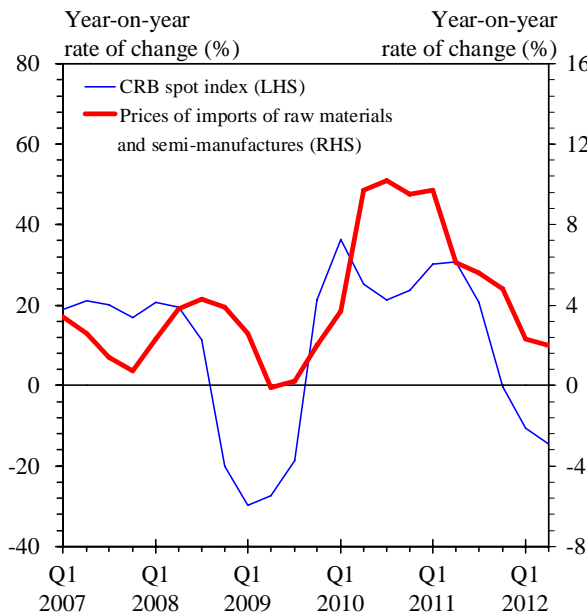


(b) Import prices of consumer goods saw a more moderate increase

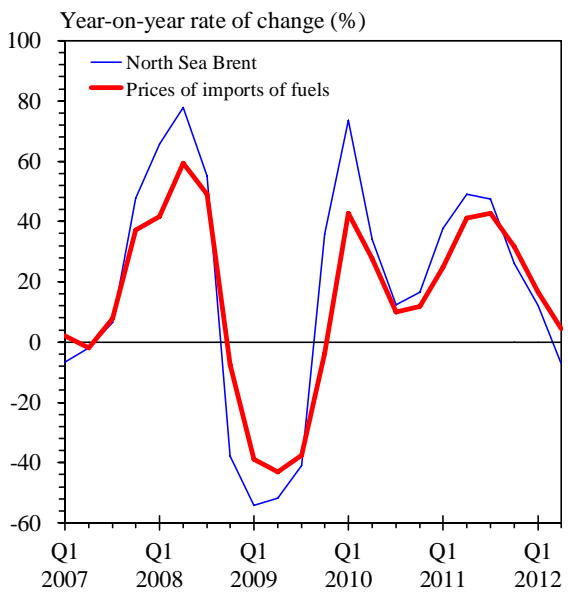


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials rose only modestly due to the retreat in world commodity prices



(d) Imports prices of fuels eased further in tandem with the dip in crude oil prices



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, exhibited diverse trends across different sectors in the first quarter of 2012. Output prices for the manufacturing sector posted a moderated year-on-year increase in the first quarter alongside the retreat in import prices of raw materials. Among the service sectors, output prices for accommodation services continued to increase apace on the back of buoyant inbound tourism, while the increases in output prices for courier services and land transport were relatively modest. In stark contrast, output prices for water and air transport continued to post year-on-year declines in the first quarter of 2012, though narrowing markedly from those in the preceding quarter, conceivably attributable to the lull in global trade flows. Output prices for telecommunications services also drifted further lower amid technological breakthroughs 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>Annual</u>	<u>2011</u>				<u>2012</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	8.3	8.2	9.0	9.5	6.6	3.6
Selected services sector ^(a)						
Accommodation services	13.2	12.7	13.3	12.8	13.7	12.1
Land transport	2.1	1.6	2.0	2.2	2.5	2.1
Water transport	-11.6	-2.3	-12.6	-21.1	-8.9	-4.3
Air transport	0.7	8.8	5.5	-2.1	-8.2	-3.3
Telecommunications	-2.5	-0.6	-2.9	-2.6	-3.9	-4.4
Courier services	3.0	2.2	2.6	3.4	3.8	3.1

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*⁽⁴⁾ rose by 2.5% year-on-year in the second quarter of 2012, easing further from 3.5% in the preceding quarter. Within the GDP deflator, the *terms of trade*⁽⁵⁾ saw a mild deterioration in the second quarter of 2012 from a year earlier. Taking out the external components, the domestic demand deflator went up by 3.9% in the second quarter of 2012, slower than the 4.7% rise in the first quarter. These developments reflect the general easing trend in overall inflationary pressures so far this year.

Diagram 6.6 : GDP deflator

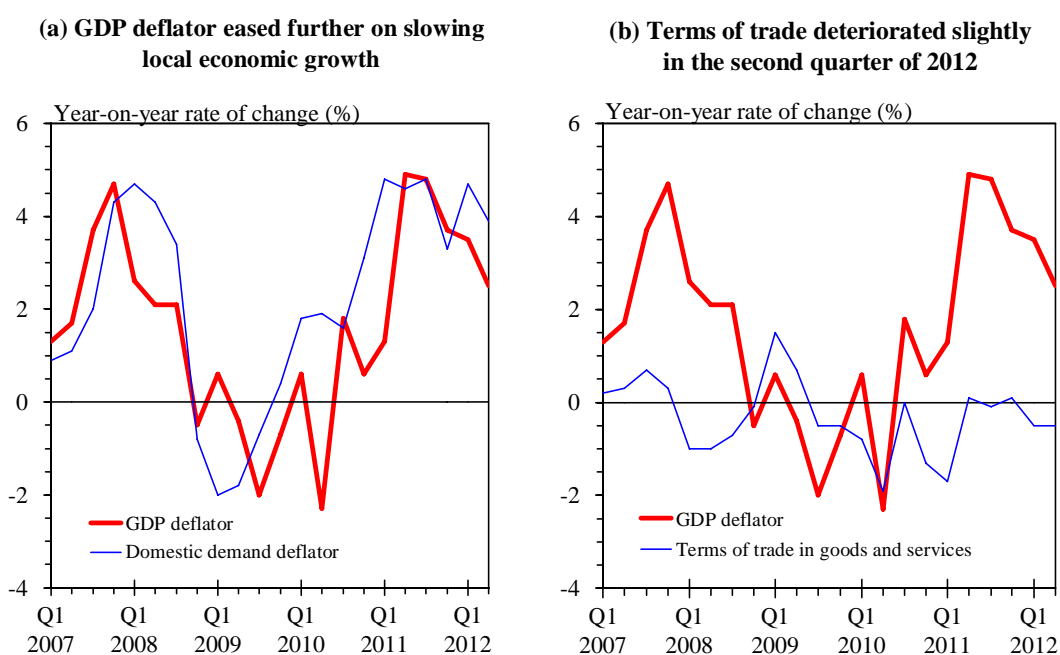


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	2010		2011				2012	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
Private consumption expenditure	1.0	4.1	3.2	4.7	4.9	3.4	3.6	2.5
Government consumption expenditure	0.3	5.0	1.8	5.7	6.1	6.4	6.2	6.1
Gross domestic fixed capital formation	6.6	4.7	9.7	4.1	3.7	1.9	5.7	7.3
Total exports of goods	4.6	7.5	6.4	7.6	8.7	7.6	6.9	5.3
Imports of goods	6.3	8.0	8.5	7.5	8.8	7.8	7.8	6.3
Exports of services	7.4	7.5	6.9	8.1	7.9	7.2	5.4	4.5
Imports of services	5.3	6.4	6.8	8.5	7.0	3.9	2.4	-0.1
Gross Domestic Product	0.2	3.7	1.3	4.9	4.8	3.7	3.5	2.5
			<1.3>	<1.4>	<2.0>	<-1.1>	<1.0>	<0.7>
Total final demand	4.3	6.6	6.0	6.7	7.4	6.2	6.0	4.7
Domestic demand	2.1	4.4	4.8	4.6	4.8	3.3	4.7	3.9
Terms of trade in goods and services	-0.9	-0.3	-1.7	0.1	-0.1	0.1	-0.5	-0.5

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 households covered</u>	<u>Average monthly expenditure range during Oct 2009 to Sep 2010</u>
	(%)	(\$)
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 component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
	(%)	(%)	(%)	(%)
Food	27.45	33.68	27.16	20.87
<i>Meals bought away from 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 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 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>2010</u>		<u>2011</u>				<u>2012</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Selected developed economies								
US	1.6	3.2	2.1	3.4	3.8	3.3	2.8	1.9
Canada	1.8	2.9	2.6	3.4	3.0	2.7	2.3	1.6
EU	2.1	3.1	2.9	3.2	3.1	3.2	2.9	2.6
Japan	-0.7	-0.3	-0.5	-0.4	0.1	-0.3	0.3	0.2
Major emerging economies								
Mainland China	3.3	5.4	5.0	5.7	6.3	4.6	3.8	2.9
Russia	6.9	8.4	9.5	9.5	8.1	6.7	3.9	3.8
India	12.0	8.9	9.0	8.9	9.2	8.4	7.2	10.1
Brazil	5.0	6.6	6.1	6.6	7.1	6.7	5.8	5.0
Selected Asian economies								
Hong Kong	2.4	5.3	3.8	5.2	6.4	5.7	5.2	4.2
Singapore	2.8	5.2	5.2	4.7	5.5	5.5	4.9	5.3
Taiwan	1.0	1.4	1.3	1.6	1.3	1.4	1.3	1.7
South Korea	2.9	4.0	3.8	4.0	4.3	4.0	3.0	2.4
Malaysia	1.7	3.2	2.8	3.3	3.4	3.2	2.3	1.7
Thailand	3.3	3.8	3.0	4.1	4.1	4.0	3.4	2.5
Indonesia	5.1	5.4	6.8	5.9	4.7	4.1	3.7	4.5
Philippines	3.8	4.7	4.5	5.0	4.8	4.7	3.1	2.9
Vietnam	9.2	18.7	12.8	19.4	22.5	19.8	15.9	8.6
Macao	2.8	5.8	5.0	5.2	6.2	6.7	6.3	6.6

- (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)		110-111
2. Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)		112-113
3. Gross Domestic Product by economic activity (at current prices)		114
4. Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)		115
5. Balance of payments account by major component (at current prices)		116
6. Visible and invisible trade (at current market prices)		117
7. Total exports of goods by market (in value terms)		118
8. Imports of goods by source (in value terms)		119
9. Retained imports of goods by end-use category (in value terms)		119
10. Exports and imports of services by component (at current market prices)		120
11. Incoming visitors by source		121
12. Property market		122-123
13. Property prices and rentals		124-125
14. Monetary aggregates		126-127
15. Rates of change in business receipts indices for service industries/domains		128
16. Labour force characteristics		129
17. Employment in selected major industries		130
18. Number of workers engaged at building and construction sites		131
19. Rates of change in indices of payroll per person engaged by selected industry section		132
20. Rates of change in wage indices by selected industry section		133
21. Rates of change in prices		134-135
22. Rates of change in Composite Consumer Price Index		136-137
23. Rates of change in implicit price deflators of GDP and its main expenditure components		138-139

**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
GDP	1,277,314	1,234,761	1,291,923	1,382,590	1,475,357	1,615,574
<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>
GNP	1,282,966	1,263,252	1,315,333	1,384,238	1,502,705	1,660,011
<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 ^(a)	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[#]</u>	<u>2011[#]</u>	<u>2011</u>		<u>2012</u>	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Private consumption expenditure	1,022,862	1,012,774	1,091,524	1,232,205	306,904	328,611	315,328	330,674
Government consumption expenditure	139,262	142,924	147,388	157,423	39,527	40,213	43,897	40,902
Gross domestic fixed capital formation	334,352	322,869	370,453	417,204	109,458	110,808	109,319	119,482
<i>of which:</i>								
Building and construction	127,312	123,752	139,212	161,471	40,970	42,518	47,725	47,667
Machinery, equipment and computer software	182,189	174,879	193,206	219,613	60,434	61,690	54,924	62,803
Changes in inventories	8,480	22,941	37,522	16,045	-1,932	1,373	2,263	858
Total exports of goods	2,843,998	2,494,746	3,061,252	3,409,192	891,033	887,629	802,021	875,039
Imports of goods	3,024,089	2,702,966	3,395,057	3,845,943	990,906	1,005,090	933,411	1,028,172
Exports of services	718,630	669,829	824,751	945,519	250,227	259,073	240,510	229,000
Imports of services	366,484	340,601	396,269	434,950	113,123	115,939	109,405	104,086
GDP	1,677,011	1,622,516	1,741,564	1,896,695	491,188	506,678	470,522	463,697
<i>Per capita GDP (\$)</i>	<i>241,026</i>	<i>232,692</i>	<i>247,938</i>	<i>268,213</i>	--	--	--	--
GNP	1,760,317	1,665,382	1,769,863	1,953,528	497,273	512,978	476,515	N.A.
<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	1,595,217	1,627,707	1,513,338	1,595,955
Total final demand excluding re-exports ^(a)	2,805,196	2,656,449	3,027,499	3,396,816	868,377	903,352	857,246	885,293
Domestic demand	1,504,956	1,501,508	1,646,887	1,822,877	453,957	481,005	470,807	491,916
Private	1,329,853	1,317,682	1,442,237	1,596,073	398,808	421,506	402,197	434,125
Public	175,103	183,826	204,650	226,804	55,149	59,499	68,610	57,791
External demand	3,562,628	3,164,575	3,886,003	4,354,711	1,141,260	1,146,702	1,042,531	1,104,039

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
GDP	1.8	3.0	8.5	7.1	7.0	6.4
<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>
GNP	0.1	4.9	7.9	5.3	8.8	7.4
<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 ^(a)	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[#]</u>	<u>2011[#]</u>	<u>2011</u>		<u>2012</u>		Average annual rate of change:	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2001 to 2011 [#]	5 years 2006 to 2011 [#]
Private consumption expenditure	2.4	0.7	6.7	8.5	9.5	6.6	6.5	3.7	4.0	5.3
Government consumption expenditure	1.8	2.4	2.8	1.8	1.3	2.2	2.3	3.5	1.4	2.3
Gross domestic fixed capital formation	1.0	-3.9	7.7	7.6	11.7	9.8	12.9	5.7	2.5	3.1
<i>of which:</i>										
Building and construction	6.8	-5.5	5.6	5.7	3.0	7.6	12.6	12.4	-2.2	2.3
Machinery, equipment and computer software	-0.7	-2.9	6.4	13.7	26.7	20.5	23.3	5.7	5.8	3.7
Total exports of goods	1.9	-12.7	17.3	3.6	-2.2	2.0	-5.7	-0.4	7.1	3.0
Imports of goods	1.8	-9.5	18.1	4.8	1.4	3.9	-2.7	0.7	7.4	4.4
Exports of services	5.2	0.3	14.6	6.7	5.3	5.3	2.9	2.1	9.8	8.0
Imports of services	6.3	-4.9	10.4	3.1	1.4	2.8	3.5	1.5	5.8	5.2
GDP	2.3	-2.6	7.1	5.0	4.4	3.0	0.7	1.1	4.5	3.6
<i>Per capita GDP</i>	<i>1.7</i>	<i>-2.9</i>	<i>6.3</i>	<i>4.3</i>	--	--	--	--	4.0	2.9
GNP	4.5	-4.8	6.0	6.4	5.3	3.5	-2.3	N.A.	4.6	3.8
<i>Per capita GNP</i>	<i>3.8</i>	<i>-5.0</i>	<i>5.2</i>	<i>5.7</i>	--	--	--	--	4.0	3.2
Total final demand	2.3	-6.9	13.7	4.8	2.4	3.5	-1.1	0.9	6.1	4.2
Total final demand excluding re-exports ^(a)	1.8	-2.6	10.6	5.5	6.3	4.5	2.5	1.9	4.9	4.6
Domestic demand	1.6	0.8	7.5	6.0	10.2	5.3	5.3	2.7	3.5	4.7
Private	1.5	0.3	7.1	6.1	11.4	5.4	5.3	2.3	3.8	4.7
Public	2.6	4.3	10.2	5.6	2.0	4.8	5.5	5.7	1.3	4.5
External demand	2.6	-10.1	16.7	4.2	-0.6	2.7	-3.9	0.1	7.6	4.0

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

	2006		2007		2008		2009		2010 [#]	
	\$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^(a) 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>
GDP at basic prices	1,452,803	100.0	1,580,148	100.0	1,592,897	100.0	1,550,851	100.0	1,702,966	100.0
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	--
GDP at current market prices	1,475,357	--	1,615,574	--	1,677,011	--	1,622,516	--	1,741,564	--

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[#]</u>	<u>2011[#]</u>	<u>2011</u>		<u>2012</u>	
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Agriculture, fishing, mining and quarrying	-3.3	-4.3	-17.0	-4.6	3.9	-7.6	-3.9	-3.6	-9.6	0.3
Manufacturing	2.2	-1.4	-6.7	-8.3	3.5	0.7	2.0	0.2	-2.2	-1.6
Electricity, gas and water supply, and waste management	0.8	1.3	0.7	1.5	-0.2	1.2	3.2	1.3	2.8	4.4
Construction	-9.4	-1.0	8.9	-7.6	15.4	7.5	-0.3	2.1	6.4	11.6
Services	7.0	6.9	2.5	-1.6	7.0	4.8	5.2	3.9	2.9	1.9
<i>Import/export, wholesale and retail trades</i>	8.6	6.1	6.8	-9.4	16.7	8.0	7.1	4.9	6.3	0.1
<i>Accommodation^(a) and food services</i>	9.7	10.7	1.7	-11.3	9.5	1.1	0.9	2.3	0.5	-0.6
<i>Transportation, storage, postal and courier services</i>	6.5	5.2	2.5	-5.5	6.1	6.5	4.5	6.0	6.3	5.5
<i>Information and communications</i>	8.0	6.5	-1.5	0.9	1.5	1.6	1.5	0.8	2.0	0.2
<i>Financing and insurance</i>	19.6	17.7	-0.8	4.3	7.3	7.8	12.9	8.5	-0.7	4.2
<i>Real estate, professional and business services</i>	2.3	6.5	1.7	1.7	2.3	1.4	1.3	0.9	1.0	2.8
<i>Public administration, social and personal services</i>	0.6	1.5	2.2	2.8	1.8	2.5	2.4	2.5	2.5	2.1
<i>Ownership of premises</i>	2.6	2.8	1.8	1.3	0.7	0.9	0.9	1.1	1.1	0.2
Taxes on products	7.7	24.9	-1.7	-4.6	6.1	-5.2	-3.6	-5.3	-17.2	-14.3
GDP in chained (2009) dollars	7.0	6.4	2.3	-2.6	7.1	5.0	5.4	4.4	3.0	0.7

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[#]</u>	<u>2011</u>			<u>2012</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account ^(a)	199,279	229,506	139,249	96,224	100,479	3,801	34,902	24,334	57
Goods	-153,672	-180,091	-208,220	-333,805	-436,751	-125,606	-99,873	-117,461	-131,390
Services	328,607	352,146	329,228	428,482	510,569	111,956	137,104	143,134	131,105
Income	44,437	83,306	42,866	28,299	56,833	24,310	6,085	6,300	5,993
Current transfers	-20,093	-25,855	-24,625	-26,752	-30,172	-6,860	-8,415	-7,640	-5,651
Capital and financial account ^(a)	-259,247	-231,162	-155,371	-152,502	-139,527	-20,897	-56,473	-40,903	18,861
Capital and financial non-reserve assets (net change)	-144,749	32,707	393,891	-81,416	-27,921	-1,293	-32,917	8,850	67,023
Capital transfers	10,338	16,393	36,210	40,898	57,701	12,392	21,619	10,723	14,333
Financial non-reserve assets (net change)	-155,086	16,314	357,680	-122,314	-85,621	-13,685	-54,537	-1,873	52,690
<i>Direct investment</i>	-52,577	70,393	-89,900	-188,998	12,054	-2,171	6,825	-51,367	-27,092
<i>Portfolio investment</i>	-21,452	-295,148	-332,417	-467,379	-27,806	-62,784	-94,475	111,856	186,476
<i>Financial derivatives</i>	43,534	63,338	24,560	18,677	22,937	-4,059	2,323	19,474	1,697
<i>Other investment</i>	-124,592	177,732	755,438	515,386	-92,807	55,329	30,790	-81,835	-108,391
Reserve assets (net change)	-114,498	-263,869	-549,262	-71,086	-111,606	-19,604	-23,556	-49,753	-48,162
Net errors and omissions	59,968	1,656	16,122	56,278	39,048	17,097	21,571	16,569	-18,919
Overall balance of payments	114,498	263,869	549,262	71,086	111,606	19,604	23,556	49,753	48,162

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[#]</u>	<u>2011[#]</u>	<u>2011</u>		<u>2012</u>		
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	3,409,192	891,033	887,629	802,021	875,039	
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	3,845,943	990,906	1,005,090	933,411	1,028,172	
Visible trade balance	-153,672	-180,091	-208,220	-333,805	-436,751	-99,873	-117,461	-131,390	-153,133	
	(-5.4)	(-6.0)	(-7.7)	(-9.8)	(-11.4)	(-10.1)	(-11.7)	(-14.1)	(-14.9)	
Exports of services	660,847	718,630	669,829	824,751	945,519	250,227	259,073	240,510	229,000	
Imports of services	332,240	366,484	340,601	396,269	434,950	113,123	115,939	109,405	104,086	
Invisible trade balance	328,607	352,146	329,228	428,482	510,569	137,104	143,134	131,105	124,914	
	(98.9)	(96.1)	(96.7)	(108.1)	(117.4)	(121.2)	(123.5)	(119.8)	(120.0)	
Exports of goods and services	3,359,697	3,562,628	3,164,575	3,886,003	4,354,711	1,141,260	1,146,702	1,042,531	1,104,039	
Imports of goods and services	3,184,762	3,390,573	3,043,567	3,791,326	4,280,893	1,104,029	1,121,029	1,042,816	1,132,258	
Visible and invisible trade balance	174,935	172,055	121,008	94,677	73,818	37,231	25,673	-285	-28,219	
	<5.5>	<5.1>	<4.0>	<2.5>	<1.7>	<3.4>	<2.3>	<*>	<-2.5>	

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.

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

**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)	Q3	Q4	Q1	Q2
							(% change over a year earlier)			
All markets	9.2	5.1	-12.6	22.8	10.1	3,337,253	4.2	6.9	-1.5	1.9
Mainland of China	13.2	4.7	-7.8	26.5	9.3	1,747,355	0.2	9.3	-2.1	3.8
United States	-0.8	-2.4	-20.6	16.4	-0.4	330,771	-5.7	-2.1	-0.1	4.4
Japan	-0.7	1.2	-10.0	17.2	5.9	135,155	5.6	5.2	6.2	8.4
India	51.2	50.0	0.2	42.4	25.6	93,518	20.8	10.4	-16.4	-16.8
Germany	7.2	15.8	-15.5	1.6	10.7	89,264	7.1	2.2	-11.9	-19.4
Taiwan	1.6	3.8	-0.4	25.4	24.3	85,270	29.9	17.4	-18.5	4.5
Republic of Korea	2.0	-6.4	-13.0	24.4	14.2	61,274	13.1	3.4	-3.6	-5.9
United Kingdom	1.7	0.7	-20.8	1.9	-3.4	58,688	3.9	-14.1	1.7	-7.9
Singapore	3.8	9.6	-23.6	20.7	10.3	56,244	5.6	1.0	-9.4	4.6
Netherlands	8.2	2.0	-17.8	18.4	-4.1	42,302	1.2	-5.5	6.0	-1.5
Rest of the world	11.8	9.4	-19.0	21.8	18.1	637,412	16.3	9.3	4.8	1.4

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)	Q3	Q4	Q1	Q2
							(% change over a year earlier)			
All sources	10.3	5.5	-11.0	25.0	11.9	3,764,596	8.9	9.3	0.7	2.1
Mainland of China	11.5	6.1	-11.4	22.4	10.9	1,696,807	7.4	7.0	3.0	4.1
Japan	7.2	3.6	-20.6	30.4	3.4	318,601	3.4	2.1	-6.6	3.6
Singapore	18.2	0.1	-10.4	35.9	7.2	254,556	-4.2	12.9	-7.4	-3.1
Taiwan	5.2	-6.4	-8.5	28.0	7.2	240,916	4.3	14.9	-9.9	5.7
United States	12.3	8.6	-5.7	26.0	18.0	211,368	11.7	21.8	5.1	-6.7
Republic of Korea	-0.2	-1.1	-12.7	29.8	12.2	149,969	5.1	11.3	-11.6	-1.1
Malaysia	4.1	5.3	2.8	24.5	5.1	89,015	-3.3	0.8	-9.5	-1.5
India	29.7	21.5	-9.3	36.5	20.6	86,603	20.4	6.0	3.3	-7.6
Thailand	8.1	11.1	-9.7	32.5	0.3	76,537	11.8	-25.1	-24.2	-2.5
Germany	8.1	11.2	-6.2	15.1	13.9	65,688	16.9	-0.8	-12.3	-12.6
Rest of the world	10.5	11.4	-8.8	20.5	24.5	574,536	26.1	20.4	15.6	4.7

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)	Q3	Q4	Q1	Q2
							(% change over a year earlier)			
Overall	9.4	5.3	-10.8	27.3	17.3	1,026,078	24.2	15.6	5.4	1.5
Foodstuffs	12.9	19.7	9.9	17.0	18.8	109,291	35.2	17.4	14.2	7.5
Consumer goods	11.4	9.0	-14.0	33.8	36.0	250,466	54.9	14.7	21.8	0.6
Raw materials and semi-manufactures	17.7	-4.5	-6.4	32.3	0.2	327,620	-0.1	-4.5	-24.7	-5.7
Fuels	20.1	26.6	-18.4	33.8	21.9	141,639	24.6	24.3	9.0	-3.6
Capital goods	-8.3	2.5	-18.7	12.9	27.3	196,972	36.5	49.5	42.0	14.8

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

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2011[#]</u>		<u>2011</u>		<u>2012</u>	
	(% change)				(% change)		(\$Mn)	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	17.0	8.7	-6.8	23.1	14.6	945,519	13.6	12.9	8.5	6.7
Transportation	14.6	12.7	-18.4	26.5	9.5	254,166	8.5	7.5	5.5	3.0
Travel	18.7	11.1	6.7	35.6	25.0	215,507	23.0	32.1	18.7	15.3
Trade-related	11.6	8.5	-4.3	18.0	12.6	274,613	11.2	9.3	4.5	5.1
Other services	26.8	2.3	-4.0	15.7	14.2	201,233	15.1	5.6	7.1	5.1
Imports of services	15.4	10.3	-7.1	16.3	9.8	434,950	8.6	6.8	6.0	1.4
Transportation	20.4	13.5	-23.0	19.7	7.7	122,341	7.2	6.1	6.3	*
Travel	7.6	6.8	-3.1	12.0	9.6	148,974	9.1	6.9	8.6	3.8
Trade-related	15.9	10.6	0.5	21.6	12.3	36,868	9.0	6.7	5.0	2.5
Other services	21.2	11.0	6.8	17.1	11.3	126,767	9.2	7.4	3.2	-0.6
Net exports of services	18.6	7.2	-6.5	30.1	19.2	510,569	18.2	18.3	10.8	11.6

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.

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

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>	
						Q3	Q4	Q1	Q2
<u>('000)</u>									
All sources	28 169.3	29 506.6	29 590.7	36 030.3	41 921.3	11 092.2	11 497.9	11 222.7	11 100.0
Mainland of China	15 485.8	16 862.0	17 956.7	22 684.4	28 100.1	7 686.6	7 716.2	7 895.5	7 687.3
South and Southeast Asia	2 888.1	2 936.2	2 885.2	3 500.9	3 751.1	887.3	1 076.2	816.0	984.9
Taiwan	2 238.7	2 240.5	2 009.6	2 164.8	2 148.7	585.9	509.1	495.7	497.8
Europe	1 772.2	1 711.4	1 610.5	1 757.8	1 801.3	412.6	521.7	483.4	443.1
Japan	1 324.3	1 324.8	1 204.5	1 316.6	1 283.7	331.2	353.6	344.1	304.8
United States	1 230.9	1 146.4	1 070.1	1 171.4	1 212.3	279.8	341.8	284.2	315.3
Others	3 229.2	3 285.3	2 854.0	3 434.5	3 623.9	909.0	979.3	903.8	866.7
<u>(% change over a year earlier)</u>									
All sources	11.6	4.7	0.3	21.8	16.4	19.0	16.7	15.6	15.3
Mainland of China	13.9	8.9	6.5	26.3	23.9	27.9	24.7	21.1	24.5
South and Southeast Asia	8.6	1.7	-1.7	21.3	7.1	8.1	6.5	5.1	-2.6
Taiwan	2.8	0.1	-10.3	7.7	-0.7	0.5	-3.2	-2.3	-8.9
Europe	14.5	-3.4	-5.9	9.1	2.5	3.4	1.9	9.4	4.2
Japan	1.0	*	-9.1	9.3	-2.5	-2.5	5.9	5.3	12.0
United States	6.2	-6.9	-6.7	9.5	3.5	-0.2	5.0	1.7	1.2
Others	15.1	1.7	-13.1	20.3	5.5	2.2	2.3	5.6	-1.5

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>
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (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	279	34	108	320	341
Other commercial premises ^(b)	138	118	91	111	183	48	49
Industrial property ^(c)	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 ^(d)	27	0	0	13	27	0	4
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	20 154	13 705	20 614	24 691	4 430	4 795	22 759
Subsidized sales flats ^(e)	1 072	320	0	0	0	2 010	2 200
Building plans with consent to commence work in the private sector							
<i>('000 m² 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 ^(f)	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
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	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 ^(h)							
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>	
				Q3	Q4	Q1	Q2
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	7 157	13 405	9 449	2 189	2 774	632	1 647
Commercial property	235	189	197	8	16	62	25
<i>of which :</i>							
Office space	151	124	155	0	10	39	13
Other commercial premises ^(b)	84	65	42	8	7	23	12
Industrial property ^(c)	3	21	105	24	2	120	40
<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	37
Storage premises ^(d)	0	0	73	24	2	120	3
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	19 021	6 385	17 787	2 002	2 113	7 071	2 707
Subsidized sales flats ^(e)	370	1 110	0	0	0	0	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	546.8	560.3	580.6	248.1	102.8	369.2	152.6
Commercial property	178.3	156.3	133.6	39.8	34.5	125.8	21.7
Industrial property ^(f)	97.1	34.3	109.3	4.9	72.5	12.4	0.2
Other properties	253.2	459.2	232.7	23.6	55.3	43.6	67.0
Total	1 075.4	1 210.0	1 056.2	316.5	265.1	551.0	241.5
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	115 092	135 778	84 462	15 516	13 739	18 749	22 452
Primary market	16 161	13 646	10 880	1 723	3 407	2 895	2 723
Secondary market	98 931	122 132	73 582	13 793	10 332	15 854	19 729
Selected types of non-residential properties ^(h)							
Office space	2 521	3 591	3 071	604	403	514	925
Other commercial premises	5 359	7 639	5 980	1 283	778	1 128	2 145
Flatted factory space	5 554	8 206	7 619	1 519	1 083	1 481	2 309

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 ^(a)	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 ^(b) :							
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 ^(a)	-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 ^(b) :							
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</u>	<u>2011</u>		<u>2012</u>	
				Q3	Q4	Q1 [#]	Q2 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	121.3	150.9	182.1	185.2	182.1	185.3	199.4
Office space	179.8	230.4	297.9	309.4	304.4	301.3	316.6
Shopping space	193.1	257.2	327.4	336.1	344.2	356.7	393.2
Flatted factory space	216.3	284.4	385.0	401.8	401.9	416.0	456.4
Property rental indices ^(b) :							
Residential flats	100.4	119.7	134.0	137.4	136.8	133.6	138.5
Office space	135.7	147.6	169.9	174.9	179.4	181.3	183.8
Shopping space	110.9	122.9	134.3	136.6	139.3	141.0	148.2
Flatted factory space	99.4	108.9	118.6	121.2	122.2	123.6	130.4
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	0.7	24.4	20.7	20.2	12.2	5.8	7.3
Office space	-9.6	28.1	29.3	33.7	19.9	8.9	5.1
Shopping space	0.5	33.2	27.3	27.9	21.0	17.1	21.1
Flatted factory space	-8.3	31.5	35.4	38.6	27.0	19.2	17.9
Property rental indices ^(b) :							
Residential flats	-13.2	19.2	11.9	12.7	7.7	4.4	3.5
Office space	-12.7	8.8	15.1	16.4	16.3	14.5	10.3
Shopping space	-4.6	10.8	9.3	9.6	9.2	10.2	11.3
Flatted factory space	-9.1	9.6	8.9	9.9	8.6	9.0	11.0

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 ^(a)	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857
M3 ^(a)	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							
(Jan 2010 =100) ^(b)							
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 ^(a)	-0.7	6.2	4.8	5.5	19.2	18.1	-1.3
M3 ^(a)	-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 ^(b)							
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)

	2009	2010	2011	2011		2012	
				Q3	Q4	Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	671,241	730,093	794,726	781,835	794,726	803,741	809,505
M2 ^(a)	3,587,717	3,866,788	4,046,216	3,906,427	4,046,216	4,157,766	4,144,344
M3 ^(a)	3,604,843	3,878,193	4,055,404	3,915,089	4,055,404	4,164,459	4,150,797
Total money supply (\$Mn)							
M1	901,819	1,017,227	1,127,320	1,119,185	1,127,320	1,179,311	1,216,981
M2	6,602,310	7,136,271	8,057,530	7,769,534	8,057,530	8,261,020	8,318,792
M3	6,626,843	7,156,260	8,081,079	7,788,982	8,081,079	8,279,034	8,335,390
Deposit (\$Mn)							
HK\$	3,373,595	3,617,183	3,740,240	3,608,323	3,740,240	3,822,955	3,812,213
Foreign currency	3,007,445	3,245,081	3,851,020	3,715,297	3,851,020	3,845,838	3,893,703
Total	6,381,040	6,862,265	7,591,260	7,323,620	7,591,260	7,668,793	7,705,915
Loans and advances (\$Mn)							
HK\$	2,401,323	2,824,445	3,160,002	3,126,171	3,160,002	3,154,068	3,203,921
Foreign currency	887,160	1,403,281	1,920,510	1,903,745	1,920,510	2,041,688	2,113,492
Total	3,288,483	4,227,726	5,080,512	5,029,915	5,080,512	5,195,757	5,317,413
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	101.9	99.5	94.6	93.4	94.6	94.5	95.3
Import-weighted	102.2	99.2	93.9	92.6	94.0	93.9	94.7
Export-weighted	101.6	99.8	95.4	94.4	95.3	95.2	96.0
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	36.7	8.8	8.9	-6.0	8.9	7.8	7.2
M2 ^(a)	10.7	7.8	4.6	-0.3	4.6	7.5	6.2
M3 ^(a)	10.5	7.6	4.6	-0.4	4.6	7.3	6.1
Total money supply :							
M1	39.6	12.8	10.8	4.0	10.8	12.6	11.3
M2	5.3	8.1	12.9	11.2	12.9	12.0	9.1
M3	5.2	8.0	12.9	11.1	12.9	11.9	9.0
Deposit							
HK\$	11.2	7.2	3.4	-2.0	3.4	6.0	5.4
Foreign currency	-0.5	7.9	18.7	21.6	18.7	10.8	7.6
Total	5.3	7.5	10.6	8.7	10.6	8.4	6.5
Loans and advances							
HK\$	2.0	17.6	11.9	9.4	11.9	7.1	5.2
Foreign currency	-4.7	58.2	36.9	49.9	36.9	28.0	19.2
Total	0.1	28.6	20.2	21.9	20.2	14.4	10.4
Nominal Effective Exchange Rate Indices ^(b)							
Trade-weighted	1.2	-2.4	-4.9	-6.3	-2.8	-1.6	0.8
Import-weighted	0.9	-2.9	-5.3	-6.7	-2.8	-1.5	1.0
Export-weighted	1.5	-1.8	-4.4	-5.7	-2.7	-1.6	0.8

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>		<u>2012</u>
					Q2	Q3	Q4	Q1
Service Industry								
Import and export trade	7.4	-13.7	19.7	8.9	7.6	3.4	4.9	-4.7
Wholesale	6.3	-12.6	25.0	12.7	8.9	9.1	12.7	4.2
Retail	10.6	0.6	18.3	24.9	28.1	27.4	23.3	15.8
Transportation <i>within which :</i>	4.4	-19.9	24.5	4.4	4.3	2.4	-0.7	*
Land transport	2.2	-2.6	6.0	7.0	5.8	4.2	7.8	8.3
Water transport	6.1	-24.1	20.5	0.6	2.7	-2.1	-5.7	-7.3
Air transport	3.5	-21.0	33.7	6.7	5.3	5.5	0.7	2.9
Warehousing and storage	6.6	1.4	9.5	9.4	10.4	10.3	6.6	31.5
Courier	2.1	-6.1	28.3	17.3	25.9	11.2	8.8	11.4
Accommodation services ^(a)	3.8	-17.4	25.3	19.6	20.8	22.4	13.9	8.3
Food services	13.1	0.6	5.1	6.4	6.0	6.2	7.3	6.1
Information and communications <i>within which :</i>	6.0	-3.2	4.9	8.8	10.1	7.8	8.1	9.9
Telecommunications	9.8	1.4	3.0	8.1	10.2	7.9	6.5	14.8
Film entertainment	-0.7	-12.6	-6.4	-5.6	6.9	-10.3	1.4	-6.1
Banking	-16.9	1.5	8.8	10.8	17.6	7.1	-1.5	9.5
Financing (except banking) <i>within which :</i>	-19.4	-10.3	16.7	-2.4	21.9	-11.8	-22.8	-0.1
Financial markets and asset management	-20.0	-11.7	15.3	-3.2	25.2	-13.6	-25.9	-0.8
<i>within which : Asset management</i>	-5.2	-12.1	28.4	10.6	27.6	15.7	-15.2	-6.4
Insurance	*	0.7	8.3	9.4	12.7	10.3	6.7	14.8
Real estate	-3.7	9.7	11.4	-0.9	12.2	-15.4	-9.7	6.7
Professional, scientific and technical services	6.8	-0.5	13.9	7.3	5.4	9.3	4.3	*
Administrative and support services	9.4	-12.4	12.3	10.2	10.7	8.6	7.7	5.9
Service Domain								
Tourism, convention and exhibition services	10.1	3.2	30.6	20.6	20.8	18.8	26.5	19.1 ⁺
Computer and information technology services	5.3	-15.0	32.5	10.4	3.8	0.8	13.6	15.7

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.

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

(+) Provisional figure.

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

Table 16 : Labour force characteristics

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
						Q3	Q4	Q1 ⁺	Q2 ⁺
<u>(%)</u>									
Labour force participation rate	61.2	60.9	60.8	59.6	60.1	60.3	60.2	60.7	60.8
Seasonally adjusted unemployment rate	4.0	3.5	5.3	4.3	3.4	3.2	3.3	3.4	3.2
Underemployment rate	2.2	1.9	2.3	2.0	1.7	1.8	1.4	1.6	1.4
<u>('000)</u>									
Population of working age	5 916.0	5 977.1	6 022.9	6 093.8	6 164.4	6 180.9	6 201.0	6 221.8	6 244.7
Labour force	3 622.3	3 637.2	3 660.3	3 631.3	3 703.1	3 725.8	3 733.0	3 773.7	3 796.9
Persons employed	3 476.9	3 509.1	3 467.6	3 474.1	3 576.4	3 599.9	3 616.9	3 649.6	3 671.4
Persons unemployed	145.3	128.1	192.6	157.2	126.7	125.9	116.1	124.1	125.5
Persons underemployed	79.4	67.9	83.8	72.5	63.3	65.3	52.4	58.6	54.6
<u>(% change over a year earlier)</u>									
Population of working age	1.4	1.0	0.8	1.2	1.2	1.2	1.2	1.3	1.5
Labour force	1.4	0.4	0.6	-0.8	2.0	2.4	2.3	3.2	2.6
Persons employed	2.2	0.9	-1.2	0.2	2.9	3.5	2.9	3.3	3.0
Persons unemployed	-15.0	-11.9	50.4	-18.4	-19.4	-21.3	-13.8	0.1	-8.8
Persons underemployed	-8.0	-14.5	23.4	-13.5	-12.7	-7.8	-21.0	-10.7	-15.9

Note : (+) Provisional figures.

Table 17 : Employment in selected major industries

Selected major industries	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>			<u>2012</u>	No.
	(% change)					Jun	Sep	Dec	Mar	
Manufacturing	-2.9	-3.5	-5.7	-4.5	-5.6	-5.0	-5.2	-6.1	-6.2	107 971
Construction sites (manual workers only)	-5.1	-1.5	2.2	9.6	13.2	5.6	12.8	25.2	20.1	70 642
Import and export trade	0.8	-0.3	-4.4	0.9	-0.3	-0.3	0.1	-1.0	-1.4	493 419
Wholesale	-0.3	-2.7	-2.0	1.2	*	0.3	0.5	-0.5	-1.0	63 734
Retail	2.1	2.8	-0.3	3.3	4.0	4.7	4.2	2.7	2.2	256 844
Food and beverage services	3.3	1.8	*	3.7	6.6	7.7	7.9	4.3	1.2	232 599
Accommodation services ^(a)	5.4	3.1	-1.0	1.5	5.8	6.1	7.1	4.8	10.3	36 449
Transportation, storage, postal and courier services	2.5	3.5	1.1	1.5	2.0	1.7	2.4	2.4	2.2	165 637
Information and communications	2.2	3.6	-1.6	1.3	3.4	3.0	3.6	4.9	6.6	95 188
Financing and insurance	7.3	5.6	-0.5	4.8	6.3	6.3	7.0	5.6	5.7	209 951
Real estate	4.4	2.7	0.5	4.1	8.0	7.9	8.8	8.6	4.5	122 055
Professional and business services (excluding cleaning and similar services)	4.8	3.4	0.9	2.2	4.2	4.0	5.0	4.5	4.5	253 973
Cleaning and similar services	0.6	-1.7	6.7	13.7	9.5	11.3	7.2	5.0	2.4	76 209
Education	3.3	4.8	5.3	3.4	1.5	0.7	1.9	2.3	2.0	170 770
Human health services	5.5	5.1	3.8	3.0	4.1	4.6	4.1	4.5	4.8	99 596
Residential care and social work services	1.4	1.3	1.5	1.8	1.3	2.6	1.4	-0.5	1.4	58 136
Arts, entertainment, recreation and other services	1.5	1.9	0.8	5.0	2.8	4.3	3.3	1.0	-0.3	116 125
Civil Service ^(b)	-0.4	0.1	1.1	0.5	0.7	0.7	0.8	1.2	1.5	159 195
Others ^(c)	0.9	7.0	-1.0	3.1	-0.6	2.2	-2.1	-4.2	-4.8	10 440

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

(b) 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.

(c) 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>	Jun	<u>2011</u> Sep	Dec	<u>2012</u> Mar
<u>(number)</u>									
Building sites									
Private sector	29 240	28 899	28 776	28 620	31 780	28 704	34 248	37 391	37 650
Public sector ^(a)	7 767	8 136	10 277	11 463	12 335	13 139	10 947	11 177	10 810
Sub-total	37 007	37 034	39 053	40 083	44 115	41 843	45 195	48 568	48 460
Civil engineering sites									
Private sector	1 674	1 686	1 618	1 544	1 250	1 220	1 254	1 457	1 372
Public sector ^(a)	11 504	10 703	9 831	13 714	17 270	15 546	17 279	19 370	20 810
Sub-total	13 178	12 388	11 449	15 258	18 520	16 766	18 533	20 827	22 182
Total	50 185	49 422	50 501	55 341	62 635	58 609	63 728	69 395	70 642
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-5.7	-1.2	-0.4	-0.5	11.0	-4.8	15.8	42.0	40.6
Public sector ^(a)	1.6	4.7	26.3	11.5	7.6	27.3	*	-14.4	-23.2
Sub-total	-4.2	0.1	5.5	2.6	10.1	3.4	11.6	23.3	18.6
Civil engineering sites									
Private sector	6.7	0.7	-4.0	-4.6	-19.0	-26.7	-33.0	45.4	28.5
Public sector ^(a)	-9.1	-7.0	-8.1	39.5	25.9	16.2	22.4	28.8	23.2
Sub-total	-7.4	-6.0	-7.6	33.3	21.4	11.4	15.9	29.8	23.6
Total	-5.1	-1.5	2.2	9.6	13.2	5.6	12.8	25.2	20.1

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	<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
(in nominal terms)									
Manufacturing	2.5	0.9	-3.5	2.6	7.2	6.2	4.9	8.0	14.0
Sewerage, waste management and remediation activities	17.0	-8.6	2.1	-0.1	5.6	3.7	1.7	12.4	6.4
Import/export and wholesale trade	1.8	6.3	-1.6	2.6	12.9	16.4	12.8	12.7	3.2
Retail trade	2.6	8.1	-1.5	3.9	12.3	15.9	15.3	13.6	15.6
Transportation, storage, postal and courier services	3.9	-0.6	-0.2	3.4	4.0	8.1	-3.1	3.1	-5.3
Accommodation ^(a) and food service activities	3.9	2.6	-0.6	3.3	9.7	12.1	7.3	9.9	6.8
Information and communications	-2.9	6.6	0.2	2.6	7.4	7.3	7.8	10.8	9.4
Financial and insurance activities	9.8	9.0	-3.3	7.2	11.5	14.1	7.9	7.0	5.8
Real estate activities	-0.4	8.0	-2.4	1.3	11.4	10.4	12.8	18.2	14.4
Professional and business services	4.8	3.5	0.6	2.4	2.0	0.2	7.2	5.6	6.3
Social and personal services	1.5	3.1	1.7	-2.4	3.1	-0.2	9.0	5.9	8.3
All industries surveyed	4.0	2.6	0.5	2.4	7.9	6.9	8.3	9.1	7.2
(in real terms)									
Manufacturing	0.5	-3.3	-4.1	0.3	1.9	1.1	-1.5	2.2	8.4
Sewerage, waste management and remediation activities	14.8	-12.3	1.5	-2.3	0.3	-1.3	-4.5	6.3	1.1
Import/export and wholesale trade	-0.2	1.9	-2.3	0.2	7.2	10.8	5.9	6.6	-1.9
Retail trade	0.6	3.6	-2.1	1.6	6.7	10.3	8.2	7.5	9.9
Transportation, storage, postal and courier services	1.9	-4.7	-0.8	1.1	-1.2	2.9	-9.0	-2.5	-10.0
Accommodation ^(a) and food service activities	1.8	-1.7	-1.2	1.0	4.2	6.7	0.7	4.0	1.6
Information and communications	-4.7	2.2	-0.4	0.3	2.0	2.1	1.2	4.8	4.0
Financial and insurance activities	7.7	4.6	-3.9	4.8	6.0	8.6	1.3	1.3	0.6
Real estate activities	-2.3	3.5	-3.0	-1.0	5.8	5.1	5.9	11.8	8.7
Professional and business services	2.8	-0.7	*	0.1	-3.1	-4.6	0.6	-0.1	1.1
Social and personal services	-0.5	-1.2	1.1	-4.6	-2.1	-5.0	2.3	0.2	2.9
All industries surveyed	1.9	-1.7	-0.1	0.1	2.5	1.8	1.6	3.2	1.9

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.

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

(*) 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>		<u>2012</u>
Selected industry section						Jun	Sep	Dec	Mar
(in nominal terms)									
Manufacturing	4.3	2.6	-1.2	-1.0	6.7	5.7	7.3	10.6	7.9
Import/export, wholesale and retail trades ^(a) <i>within which :</i>	2.3	3.6	-1.1	2.6	7.8	7.1	9.7	8.4	7.3
Import/export and wholesale trades:	2.8	3.1	-1.2	2.7	8.3	--	10.3	--	7.6
Retail trade	-1.7	4.9	-0.2	1.1	-0.3	--	-1.1	--	3.6
Transportation	1.5	1.8	*	1.1	4.0	3.7	5.2	5.1	4.2
Accommodation ^(b) and food service activities	1.4	3.1	-2.3	2.5	9.3	9.2	10.5	10.9	8.1
Financial and insurance activities ^(c)	2.4	2.8	-0.5	3.0	6.7	7.3	7.5	7.0	4.3
Real estate leasing and maintenance management	1.4	2.7	-0.4	2.6	8.6	10.3	10.6	11.6	13.5
Professional and business services	4.8	4.9	0.8	3.4	12.6	14.1	15.6	14.7	13.1
Personal services	8.5	0.5	-0.7	3.4	9.6	8.6	12.8	13.1	12.2
All industries surveyed	2.6	3.4	-0.9	2.4	8.1	8.0	9.9	9.4	8.0
(in real terms)									
Manufacturing	2.4	-0.1	-1.8	-3.7	1.3	-0.1	2.0	5.1	3.4
Import/export, wholesale and retail trades ^(a) <i>within which :</i>	0.4	0.9	-1.7	-0.2	2.4	1.1	4.3	3.0	2.9
Import/export and wholesale trades:	1.0	0.4	-1.7	-0.1	2.8	--	4.8	--	3.2
Retail trade	-3.5	2.2	-0.7	-1.6	-5.3	--	-6.0	--	-0.7
Transportation	-0.4	-0.8	-0.5	-1.7	-1.2	-2.1	*	-0.1	*
Accommodation ^(b) and food service activities	-0.4	0.4	-2.8	-0.3	3.8	3.2	5.0	5.3	3.7
Financial and insurance activities ^(c)	0.6	0.2	-1.0	0.2	1.3	1.3	2.2	1.6	*
Real estate leasing and maintenance management	-0.4	0.1	-1.0	-0.2	3.1	4.2	5.2	6.0	8.8
Professional and business services	2.9	2.2	0.3	0.6	6.9	7.7	9.9	8.9	8.5
Personal services	6.5	-2.1	-1.2	0.6	4.1	2.6	7.2	7.4	7.6
All industries surveyed	0.7	0.7	-1.5	-0.4	2.7	2.0	4.4	3.9	3.6

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

(c) 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 ^(a) :								
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 for all manufacturing industries ^(b)	-2.7	-0.3	2.2	0.8	2.2	3.0	5.6	-1.7
Tender Price Indices :								
Public sector 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 second quarter of 2012 are estimates based on actual indices up to May 2012. They are subject to revision when data for June 2012 become available.

N.A. Not yet available.

(--) Not applicable.

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

	(%)							
	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years 2001 to 2011	5 years 2006 to 2011
GDP deflator	0.2 #	3.7 #	4.8 #	3.7 #	3.5 #	2.5 #	-0.6 #	1.5 #
Domestic demand deflator	2.1 #	4.4 #	4.8 #	3.3 #	4.7 #	3.9 #	0.4 #	2.1 #
Consumer Price Indices ^(a) :								
Composite CPI	2.4	5.3	6.4	5.7	5.2	4.2	1.1	2.9
CPI(A)	2.7	5.6	7.7	5.3	4.6	3.7	1.1	2.7
CPI(B)	2.3	5.2	6.0	6.0	5.5	4.5	1.1	3.0
CPI(C)	2.1	5.1	5.9	6.0	5.4	4.4	1.1	3.0
Unit Value Indices :								
Domestic exports	5.5	6.4	7.6	5.8	3.0	3.1 +	1.6	3.5
Re-exports	4.6	8.0	8.6	7.7	6.2	4.0 +	1.9	4.0
Total exports of goods	4.7	8.0	8.6	7.6	6.2	4.0 +	1.9	4.0
Imports of goods	6.4	8.1	8.6	7.1	5.0	3.9 +	2.4	4.2
Terms of Trade Index	-1.7	-0.1	*	0.5	1.1	0.1 +	-0.5	-0.2
Producer Price Index for all manufacturing industries ^(b)	6.0	8.3	9.5	6.6	3.6	N.A.	--	4.2
Tender Price Indices :								
Public sector building projects	12.5	11.6	9.6	11.2	11.1	N.A.	5.2	12.5
Public housing projects	6.7	10.1	9.6	9.1	6.9	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>
All items	100.0	-3.0 (--)	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)	2.0 (2.8)	4.3 (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 ^(a)	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	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>		Average annual <u>rate of change:</u>	
					Q3	Q4	Q1	Q2	10 years 2001 to 2011	5 years 2006 to 2011
All items	100.0	0.5 (1.0)	2.4 (1.7)	5.3 (5.3)	6.4 (6.1)	5.7 (6.4)	5.2 (5.9)	4.2 (5.1)	1.1 (-)	2.9 (-)
Food	27.45	1.3	2.4	7.0	7.8	8.2	7.4	6.6	2.5	5.0
<i>Meals bought away from home</i>	17.07	1.6	1.7	5.2	5.7	6.1	6.1	5.7	1.6	3.4
<i>Food, excluding meals bought away from home</i>	10.38	0.9	3.5	9.9	11.3	11.5	9.4	8.1	4.0	7.5
Housing ^(a)	31.66	3.7	0.4	7.2	11.0	8.4	8.1	6.4	0.5	3.5
<i>Private housing rent</i>	27.14	3.6	0.9	7.2	8.4	9.6	9.2	7.3	0.7	4.5
<i>Public housing rent</i>	2.05	9.5	-7.8	11.9	676.7	-1.5	-1.5	-1.1	-3.0	-7.5
Electricity, gas and water	3.10	-25.3	43.3	-4.2	-16.1	-16.1	-17.2	-18.3	0.6	-1.0
Alcoholic drinks and tobacco	0.59	18.7	3.4	17.1	20.3	20.0	11.6	0.1	3.5	7.3
Clothing and footwear	3.45	2.7	1.8	6.8	7.8	7.3	4.9	3.2	2.3	3.2
Durable goods	5.27	-3.0	-2.7	-3.8	-3.1	-3.1	-1.8	-0.9	-4.1	-3.2
Miscellaneous goods	4.17	2.3	2.4	3.8	4.5	3.3	3.4	2.2	2.7	3.2
Transport	8.44	-0.9	2.0	4.4	5.0	4.5	4.4	3.3	0.9	1.6
Miscellaneous services	15.87	-2.1	2.0	3.5	4.0	3.8	2.8	3.1	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
Gross Domestic Product	-3.5	-6.2	-3.5	-0.1	-0.3	2.9	1.5
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[#]</u>	<u>2011[#]</u>	<u>2011</u>		<u>2012</u>		Average annual <u>rate of change:</u>	
				Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2001 to 2011 [#]	5 years 2006 to 2011 [#]
Private consumption expenditure	-1.6	1.0	4.1	4.9	3.4	3.6	2.5	0.6	2.0
Government consumption expenditure	0.2	0.3	5.0	6.1	6.4	6.2	6.1	0.7	2.6
Gross domestic fixed capital formation	0.5	6.6	4.7	3.7	1.9	5.7	7.3	-0.2	2.1
Total exports of goods	0.5	4.6	7.5	8.7	7.6	6.9	5.3	1.5	3.6
Imports of goods	-1.3	6.3	8.0	8.8	7.8	7.8	6.3	2.0	3.7
Exports of services	-7.0	7.4	7.5	7.9	7.2	5.4	4.5	1.5	2.6
Imports of services	-2.3	5.3	6.4	7.0	3.9	2.4	-0.1	2.5	3.2
Gross Domestic Product	-0.6	0.2	3.7	4.8	3.7	3.5	2.5	-0.6	1.5
Total final demand	-1.1	4.3	6.6	7.4	6.2	6.0	4.7	1.1	3.0
Domestic demand	-1.0	2.1	4.4	4.8	3.3	4.7	3.9	0.4	2.1

