

## Press Release

(embargoed until 4:30 p.m. on 15 August 2014)

### **Economic Situation in the Second Quarter of 2014 and Latest GDP and Price Forecasts for 2014**

The Government released today (Friday) the Half-yearly Economic Report 2014, together with the preliminary figures on Gross Domestic Product for the second quarter of 2014.

The Government Economist, Mrs Helen Chan, described the economic situation in the second quarter of 2014 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* The Hong Kong economy slowed down further to a mere 1.8% year-on-year growth in real terms in the second quarter of 2014, from 2.6% in the first quarter, marking the slowest growth since the third quarter of 2012. The weak performance was mainly weighed down by a fall-off in tourist spending and a concurrent slowdown in domestic demand. On a seasonally adjusted quarter-to-quarter comparison, real GDP dipped by 0.1% in the second quarter, after a 0.3% growth in the preceding quarter.
- \* Total exports of goods staged a modest pick-up in the second quarter, rising by 2.3% year-on-year in real terms, up from 0.5% in the preceding quarter, though the improvement over the period was brought about mainly by a notable rebound in June. Against this, however, exports of services slackened visibly to a 2.3% year-on-year decline in real terms, upon a double-digit plunge in exports of travel services, though other items showed some relative improvement. This marked the first decline since the second quarter of 2009.
- \* Domestic demand also saw some growth slowdown. Private consumption grew only slightly by 1.2% year-on-year in the second quarter, after two quarters of subdued economic growth. Investment expenditure relapsed to a 5.6% decline, upon a distinct fall in machinery and equipment acquisition, the latter partly affected by an exceptionally high base of comparison a year ago.
- \* The labour market held generally stable. The seasonally adjusted unemployment rate edged up to 3.2% in the second quarter, from 3.1% in the first quarter. Wages and earnings rose further, while average employment earnings for grassroots workers sustained real improvement. While overall employment and income conditions remained favourable in the second quarter, the slowdown in the tourism sector of late and its potential impact on the labour market going forward need to be closely monitored.
- \* The local stock market rallied in recent period, as sentiment improved upon a reviving Mainland economy and the Federal Reserve's reiteration of its accommodative monetary stance. The residential property market firmed up

again, with trading activity rebounding in the second quarter from the lows and prices bouncing back successively.

- \* Looking forward, the global economy is expected to remain on a moderate recovery path in the rest of 2014. This, together with an improving Mainland economy, should entail a somewhat brighter export outlook for Hong Kong in the period ahead, though the scope of rebound might continue to be held back by the rather fragile recovery of the advanced markets.
- \* On the local front, domestic demand is likely to maintain only a rather slow pace of expansion in the second half of the year. Local consumer sentiment may turn somewhat cautious following the economic growth slowdown in recent quarters. As for investment, the results of the latest Quarterly Business Tendency Survey showed that business sentiment weakened in the local consumption-related sectors, while cautiousness lingered in the trade-related sectors, reflecting the headwinds from the still uncertain external environment and the recent abrupt turn in tourism-related sectors.
- \* In cognizance of the worse-than-expected outturn in the first half of 2014, and even taking into account some possible relative stabilisation in economic performance in the latter part of the year, the Hong Kong economy is only poised to attain modest growth for this year as a whole. The GDP growth forecast for 2014 as a whole is thus revised downward from 3-4% in the May round of review to 2-3% in the current round.
- \* At the present juncture, both the local and external environments are beset with increasing downside risks. Externally, the pace of US monetary normalisation remains contingent on incoming economic data, which could shift market expectations about capital flows and interest rates. The recovery of the eurozone economy is still constrained by various structural issues, while in Japan, the economy contracted after the sales tax hike in April, and its development in the period ahead needs to be watched over. Also, geopolitical tensions in various parts of the world have intensified further of late, which would not only curtail economic sentiment, but might also result in abrupt reversals of cross-border fund flows to the detriment of global financial market stability. Locally, while retail business should hopefully turn more stable as the high base effects from last year progressively fade, the distinct slackening in tourist spending of late and the slowdown in domestic demand have emerged as new sources of uncertainty affecting the overall economic outlook.
- \* Underlying consumer price inflation eased further, to 3.5% in the second quarter of 2014 from 3.8% in the preceding quarter. With the modest rise in import prices and weaker economic growth momentum, upside risks to inflation have receded somewhat. Taking into account the actual outturn in the first half of the year, the forecast rates of headline and underlying consumer price inflation for 2014, at 4.6% and 3.7% respectively in the May round, are revised downward in the current round of review, to 4.4% and 3.5% respectively.

## DETAILS

### GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 1.8% in real terms in the second quarter of 2014 over a year earlier, slower than the 2.6% growth in the preceding quarter (revised from the earlier estimate of 2.5%). On a seasonally adjusted quarter-to-quarter comparison, real GDP dipped by 0.1% in the second quarter, after the 0.3% growth in the preceding quarter (revised from the earlier estimate of 0.2%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2014 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2014 are described below.

### External trade

3. *Total exports of goods* rose by 2.3% year-on-year in real terms in the second quarter, up from 0.5% in the preceding quarter. The improvement over the period was however brought about mainly by the visible pick-up in June, and also partially offset by the moderation in non-monetary gold exports during the quarter. Exports to the EU and the US expanded further in the second quarter, though only at a modest to moderate pace, reflecting the slow recovery of the advanced economies. While exports to the Mainland resumed growth in May and June, those to most other Asian markets also turned somewhat better, mirroring the relative improvement in the global economic environment during the quarter. On a seasonally adjusted basis, total exports of goods rose by 0.7% in real terms in the second quarter over the preceding quarter.

4. *Exports of services*, on the other hand, slackened abruptly, registering a 2.3% year-on-year decline in real terms in the second quarter, the first decrease since the second quarter of 2009. The setback in exports of travel services was the main drag, with the year-on-year decline magnified further by a distinctly high base of comparison a year ago caused by the spike in visitors' purchases of gold-related items. Indeed, the implied fall in per capita visitor spending was rather noticeable, given the near double-digit rise in the number of visitor arrivals in the quarter. As to other services exports, exports of trade-related services and transportation services improved somewhat, in tandem with the modest recovery of trade flows. Exports of financial and other business services also made modest growth alongside further expansion in cross-border financial activities. On a seasonally adjusted basis, exports of services also fell visibly, by 2.3% in real terms in the second quarter over the preceding quarter.

## **Domestic sector**

5. Domestic demand saw some growth slowdown. *Private consumption expenditure* weakened, following two quarters of economic slowdown, to a 1.2% year-on-year growth in real terms in the second quarter of 2014. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure declined by 0.9% in the second quarter. *Government consumption expenditure* maintained steady growth at 2.7% year-on-year in the second quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* relapsed to a 5.6% year-on-year decline in real terms in the second quarter, in contrast to the 3.5% growth in the preceding quarter. Within this, the growth in overall building and construction expenditure slowed, as the incremental growth in large-scale infrastructure works tapered after the exceptionally strong growth in preceding quarters, and as private sector building activity grew at a modest pace. At the same time, machinery and equipment acquisition, which was typically volatile, fell notably by 10.0% against an exceptionally high base of comparison in the same period last year, posing a drag on the overall investment spending performance.

## **The labour sector**

7. The labour market held generally stable in the second quarter of 2014. The *seasonally adjusted unemployment rate* edged up to 3.2% in the second quarter, from the 16-year low of 3.1% in the preceding quarter. Meanwhile, the *underemployment rate* rose to 1.5% in the second quarter from a low of 1.3% in the first quarter. Wages and earnings saw further increases in the first quarter. Average employment earnings of grassroot workers sustained real improvement in the second quarter, with those of full-time employees at the unskilled level rising by 2.1% in real terms after discounting inflation. While overall employment and income conditions remained favourable in the second quarter, the slowdown in the tourism sector of late and its potential impact on the labour market going forward need to be closely monitored.

## **The asset markets**

8. The *local stock market* rallied in the more recent period, as the Mainland economy maintained growth momentum and as the Federal Reserve reiterated its stance to maintain accommodative policy for a considerable time after ending its asset purchase programme. Growing optimism about the positive impacts of the forthcoming implementation of Shanghai-Hong Kong Connect scheme further lifted the stock market in July. The Hang Seng Index climbed up successively to 24 757 at end-July, 6% higher than the level at end-2013.

9. The *residential property market* showed some revival in the second quarter. Sentiment improved as market concerns over an imminent US interest rate hike lessened. This, coupled with the launch of several large primary projects by developers at a discount to comparable developments in the secondary market, has helped unleash the pent-up demand. Residential property prices rose by 3% during the second quarter, with overall flat prices in June exceeding the 1997 peak by 44%. Separately, flat rentals increased by 1% during the second quarter, while office rentals stayed flat and shop rentals went up by 3%.

## **Prices**

10. Consumer price inflation continued its easing trend in the second quarter of 2014. Locally, the residential rental pressures subsided further and continued to manifest itself through narrower increases in the private rental component of the consumer price indices. Other domestic costs also saw moderated gains, with year-on-year rises in commercial rentals decelerating further and labour costs keeping a moderate growth pace, helping alleviate pressures on business costs. On the external front, the rise in overall import prices stayed modest, thanks to the generally stable international food and commodity prices and tame inflation in major import sources, notwithstanding some temporary upward movements in global oil prices spurred by heightened geopolitical tensions in the Middle East and Eastern Europe during the quarter. *Headline consumer price inflation* slowed to 3.6% in the second quarter of 2014 from 4.2% in the preceding quarter. For the first half of 2014 as a whole, headline inflation averaged 3.9%, down from 4.3% in 2013. Netting out the effects of the Government's relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* also eased to 3.5% in the second quarter, from 3.8% in the first quarter. For the first half as a whole, underlying inflation averaged 3.7%, 0.3 percentage point down from that of 4.0% in 2013.

## **Latest GDP and price forecasts for 2014**

11. Looking forward, the global economy is expected to remain on a moderate recovery path in the rest of 2014. This, together with an improving Mainland economy, should entail a somewhat brighter export outlook for Hong Kong in the period ahead, though the scope of rebound might continue to be held back by the rather fragile recovery of the advanced markets.

12. On the local front, domestic demand is likely to maintain only a rather slow pace of expansion in the second half of the year. Local consumer sentiment may turn somewhat cautious following the economic growth slowdown in recent quarters. As for investment, the results of the latest Quarterly Business Tendency Survey showed that business sentiment weakened in the local consumption-related sectors, while cautiousness lingered in the trade-related sectors, reflecting the headwinds from the still uncertain external environment and the recent abrupt turn in tourism-related sectors.

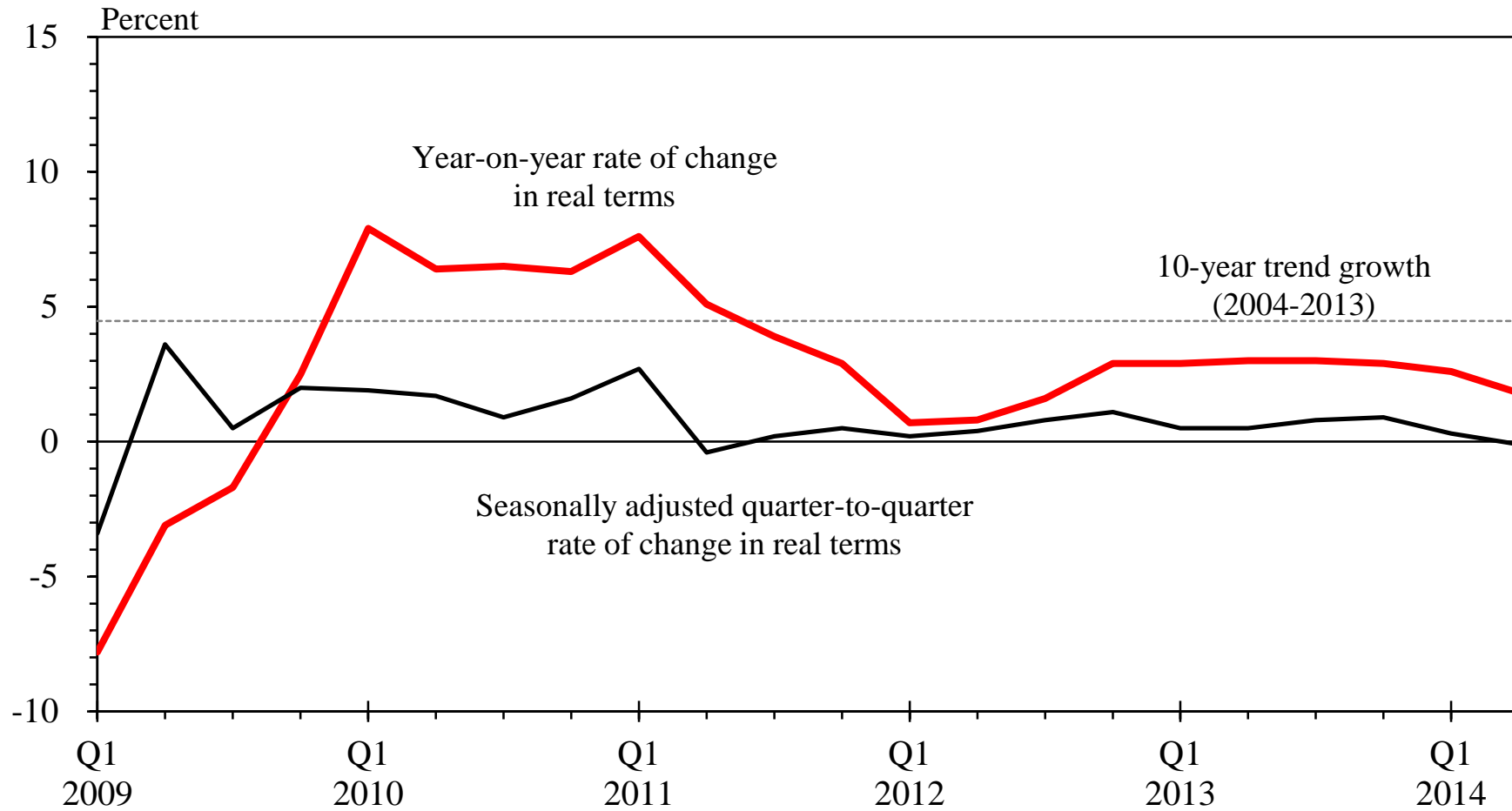
13. In cognizance of the worse-than-expected outturn in the first half of 2014, and even taking into account some possible relative stabilisation in economic performance in the latter part of the year, the Hong Kong economy is only poised to attain modest growth for this year as a whole. The GDP growth forecast for 2014 as a whole is thus revised downward from 3-4% in the May round of review to 2-3% in the current round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 2.5-3.6%, averaging around 3.1%.

14. At the present juncture, both the local and external environments are beset with increasing downside risks. Externally, the pace of US monetary normalisation remains contingent on incoming economic data, which could shift market expectations about capital flows and interest rates. The recovery of the eurozone economy is still constrained by various structural issues, while in Japan, the economy contracted after the sales tax hike in April, and its development in the period ahead needs to be watched over. Also, geopolitical tensions in various parts of the world have intensified further of late, which would not only curtail economic sentiment, but might also result in abrupt reversals of cross-border fund flows to the detriment of global financial market stability. Locally, while retail business should hopefully turn more stable as the high base effects from last year progressively fade, the distinct slackening in tourist spending of late and the slowdown in domestic demand have emerged as new sources of uncertainty affecting the overall economic outlook.

15. On inflation outlook, upside risks to inflation have receded somewhat in the light of the modest rise in import prices and weaker economic growth momentum. Taking into account the actual outturn in the first half of the year, the forecast rates of headline and underlying consumer price inflation for 2014, at 4.6% and 3.7% respectively in the May round, are revised downward in the current round of review, to 4.4% and 3.5% respectively (*Table 2*).

(The Half-yearly Economic Report 2014 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 \$222 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 2014, which contains the GDP figures up to the second quarter of 2014, 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 2014 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>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>				<u>2014</u>	
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	4.1	4.3	6.3 (2.9)	4.7 (-0.9)	2.7 (-0.2)	3.6 (1.8)	1.5 (0.6)	1.2 (-0.9)
Government consumption expenditure	3.6	2.3	1.9 (*)	3.1 (1.8)	2.3 (*)	2.0 (0.3)	2.6 (0.5)	2.7 (1.9)
Gross domestic fixed capital formation	6.8	3.3	-3.0	7.6	2.7	5.3	3.5	-5.6
<i>of which :</i>								
Building and construction	7.2	-0.9	-1.5	-0.7	3.1	-3.8	10.6	1.3
Machinery, equipment and intellectual property products	10.1	10.8	-4.4	19.8	7.6	17.5	1.9	-10.0
Total exports of goods	1.8	6.6	8.8 (1.5)	6.1 (-1.4)	6.1 (3.2)	5.7 (2.1)	0.5 (-3.4)	2.3 (0.7)
Imports of goods	3.0	7.4	9.5 (3.4)	7.6 (-1.7)	6.6 (1.7)	6.1 (2.3)	1.2 (-0.6)	1.1 (-2.2)
Exports of services	2.2	5.5	4.7 (1.8)	7.7 (3.3)	5.0 (-2.9)	4.7 (2.6)	3.3 (0.4)	-2.3 (-2.3)
Imports of services	1.9	2.0	0.3 (1.1)	-0.7 (-1.1)	2.6 (1.7)	5.5 (3.7)	-0.8 (-5.0)	5.0 (4.8)
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>2.9</b>	<b>2.9</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.8)</b>	<b>2.9</b> <b>(0.9)</b>	<b>2.6</b> <b>(0.3)</b>	<b>1.8</b> <b>(-0.1)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>3.7</b>	<b>1.4</b>	<b>1.8</b> <b>(-0.7)</b>	<b>0.6</b> <b>(*)</b>	<b>1.6</b> <b>(1.7)</b>	<b>1.5</b> <b>(0.5)</b>	<b>2.2</b> <b>(0.1)</b>	<b>3.5</b> <b>(1.4)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.1</b>	<b>4.3</b>	<b>3.7</b> <b>(1.1)</b>	<b>4.0</b> <b>(1.3)</b>	<b>5.3</b> <b>(-0.8)</b>	<b>4.3</b> <b>(2.7)</b>	<b>4.2</b> <b>(1.0)</b>	<b>3.6</b> <b>(0.7)</b>
<b>Underlying<sup>^</sup></b>	<b>4.7</b>	<b>4.0</b>	<b>3.8</b> <b>(1.1)</b>	<b>3.9</b> <b>(1.1)</b>	<b>4.3</b> <b>(0.8)</b>	<b>4.0</b> <b>(1.0)</b>	<b>3.8</b> <b>(0.9)</b>	<b>3.5</b> <b>(0.7)</b>
<b>Change in nominal GDP (%)</b>	<b>5.3</b>	<b>4.3</b>	<b>4.8</b>	<b>3.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.8</b>	<b>5.4</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

(\*) Change of less than 0.05%.



**Table 2****Economic forecasts for 2014  
(rate of change (%))**

	Forecasts for 2014 as released <u>on 16.5.2014</u> (%)	Latest forecasts for 2014 <u>on 15.8.2014</u> (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	3 to 4	<i>2 to 3</i>
<i>Nominal GDP</i>	4 to 5	<i>4 to 5</i>
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	4.6	<i>4.4</i>
<i>Underlying CCPI</i>	3.7	<i>3.5</i>



# Half-yearly Economic Report 2014

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2014***

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

*August 2014*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy slowed down further, to a mere 1.8% year-on-year growth in real terms in the second quarter of 2014, marking the slowest growth since the third quarter of 2012. The weak performance was mainly weighed down by a fall-off in tourist spending and moderated growth in domestic demand, though merchandise exports picked up somewhat in growth.*
- *Global trade flows revived somewhat in the second quarter, after a slow start in the year. Yet the recovery of the advanced markets remained weaker than expected, constraining the revival of Asian exports. Total exports of goods staged a modest pick-up in the second quarter, helped mainly by a notable rebound in June. Against this, however, exports of services, dragged by a double-digit plunge in exports of travel services, slackened visibly in the second quarter, posting the first decline since the second quarter of 2009.*
- *Domestic demand also saw some growth slowdown. Private consumption weakened after two quarters of subdued economic growth. Investment expenditure concurrently declined upon a notable fall in machinery and equipment acquisition, the latter partly affected by an exceptionally high base of comparison a year ago.*
- *The labour market held largely stable. The seasonally adjusted unemployment rate edged up from 3.1% in the first quarter to 3.2% in the second quarter. Wages and earnings rose further, and average monthly earnings for grassroots workers still sustained real improvement.*
- *The local stock market recovered ground during the second quarter, as sentiment improved upon signs of a reviving Mainland economy, an improving US economy, and the Federal Reserve reiterating its accommodative monetary stance. The residential property market activity in the second quarter rebounded from the lows, with prices and rentals going somewhat higher.*
- *Inflation continued its easing trend in the second quarter, thanks largely to the still-gentle imported inflation and abating rental cost pressures. The upside risks to inflation remain limited in the near term.*

## Overall situation

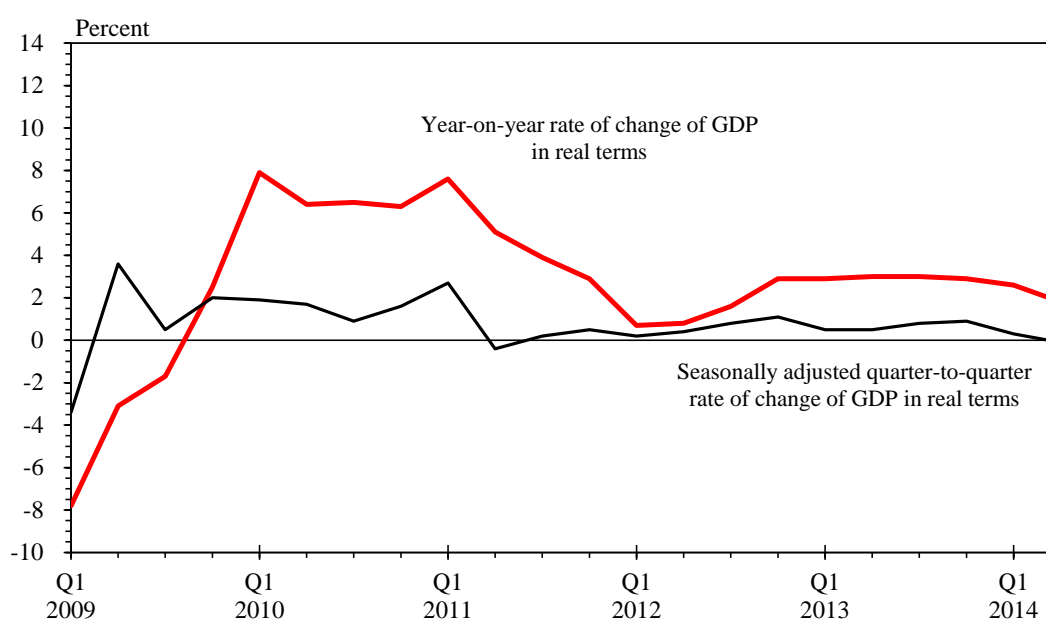
1.1 The Hong Kong economy lost further momentum in the second quarter of 2014, with the moderate improvement in goods exports outweighed by the fall in services exports and slower domestic demand expansion. On the external front, the US economy rebounded visibly in the second quarter after registering a notable contraction in the preceding quarter, but the year-on-year growth remained moderate. The eurozone's economic recovery was painfully slow, plagued by the deep-seated structural issues, and the Japanese economy also weakened after the sales tax hike in April. While the Mainland economy maintained steady growth, the slow progress in the advanced markets had limited somewhat the revival of Asian exports. Moreover, the uncertainties surrounding future US monetary policy normalisation and geopolitical tensions in various parts of the world lingered on.

1.2 Against such an external environment, Hong Kong's goods exports staged only a modest pick-up in the second quarter. At the same time, services exports slackened visibly, dragged by the fall-off in visitor spending on big-ticket items. Locally, domestic demand also saw weaker growth momentum, consequential to the economic slowdown. Yet up till now, the labour market held broadly stable. Underlying consumer price inflation eased further in the second quarter amid benign imported inflation and slower economic growth.

1.3 In the second quarter of 2014, *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 1.8% in real terms over a year earlier, slower than that of 2.6% in the preceding quarter (revised from the earlier estimate of 2.5%). On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP dropped marginally by 0.1% in the second quarter, after the 0.3% growth in the preceding quarter (revised from the earlier estimate of 0.2%).



**Diagram 1.1 : Economic growth slowed further in the second quarter of 2014**



## The external sector

1.4 *Total exports of goods* compiled under the GDP accounting framework rose by 2.3% year-on-year in real terms in the second quarter, up from 0.5% in the preceding quarter. The improvement over the period was brought about mainly by the visible pick-up in June, though partially offset by the decline in non-monetary gold exports during the quarter. Exports to the EU and the US expanded further in the second quarter, albeit only at a modest to moderate pace, reflecting the slow recovery of the advanced economies. While exports to the Mainland resumed growth in May and June, those to most other Asian markets also turned somewhat better, mirroring the relative improvement in the global economic environment during the quarter.

1.5 Yet, *exports of services* slackened abruptly, registering a 2.3% year-on-year decline in real terms in the second quarter, the first decrease since the second quarter of 2009. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell visibly, also by 2.3%. The setback in exports of travel services was the main drag, with the year-on-year decline magnified further by a distinct high base of comparison a year ago caused by the spike in visitors' purchases of gold-related items. Indeed, the implied fall in per capita visitor spending was rather noticeable, given the nearly double-digit rise in the number of visitor arrivals in the quarter. As to other services exports, exports of trade-related services and transportation services saw some improvement, in tandem with the modest recovery of trade flows. Exports of financial and other business services also registered modest growth alongside further expansion in cross-border financial activities.



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

	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>				<u>2014</u>	
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	4.1	4.3	6.3 (2.9)	4.7 (-0.9)	2.7 (-0.2)	3.6 (1.8)	1.5 (0.6)	1.2 (-0.9)
Government consumption expenditure	3.6	2.3	1.9 (*)	3.1 (1.8)	2.3 (*)	2.0 (0.3)	2.6 (0.5)	2.7 (1.9)
Gross domestic fixed capital formation	6.8	3.3	-3.0	7.6	2.7	5.3	3.5	-5.6
<i>of which :</i>								
Building and construction	7.2	-0.9	-1.5	-0.7	3.1	-3.8	10.6	1.3
Machinery, equipment and intellectual property products	10.1	10.8	-4.4	19.8	7.6	17.5	1.9	-10.0
Total exports of goods	1.8	6.6	8.8 (1.5)	6.1 (-1.4)	6.1 (3.2)	5.7 (2.1)	0.5 (-3.4)	2.3 (0.7)
Imports of goods	3.0	7.4	9.5 (3.4)	7.6 (-1.7)	6.6 (1.7)	6.1 (2.3)	1.2 (-0.6)	1.1 (-2.2)
Exports of services	2.2	5.5	4.7 (1.8)	7.7 (3.3)	5.0 (-2.9)	4.7 (2.6)	3.3 (0.4)	-2.3 (-2.3)
Imports of services	1.9	2.0	0.3 (1.1)	-0.7 (-1.1)	2.6 (1.7)	5.5 (3.7)	-0.8 (-5.0)	5.0 (4.8)
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>2.9</b>	<b>2.9</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.8)</b>	<b>2.9</b> <b>(0.9)</b>	<b>2.6</b> <b>(0.3)</b>	<b>1.8</b> <b>(-0.1)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>3.7</b>	<b>1.4</b>	<b>1.8</b> <b>(-0.7)</b>	<b>0.6</b> <b>(*)</b>	<b>1.6</b> <b>(1.7)</b>	<b>1.5</b> <b>(0.5)</b>	<b>2.2</b> <b>(0.1)</b>	<b>3.5</b> <b>(1.4)</b>
<b>Composite CPI</b>								
<b>Headline</b>	<b>4.1</b>	<b>4.3</b>	<b>3.7</b> <b>(1.1)</b>	<b>4.0</b> <b>(1.3)</b>	<b>5.3</b> <b>(-0.8)</b>	<b>4.3</b> <b>(2.7)</b>	<b>4.2</b> <b>(1.0)</b>	<b>3.6</b> <b>(0.7)</b>
<b>Underlying<sup>^</sup></b>	<b>4.7</b>	<b>4.0</b>	<b>3.8</b> <b>(1.1)</b>	<b>3.9</b> <b>(1.1)</b>	<b>4.3</b> <b>(0.8)</b>	<b>4.0</b> <b>(1.0)</b>	<b>3.8</b> <b>(0.9)</b>	<b>3.5</b> <b>(0.7)</b>
<b>Change in nominal GDP (%)</b>	<b>5.3</b>	<b>4.3</b>	<b>4.8</b>	<b>3.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.8</b>	<b>5.4</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

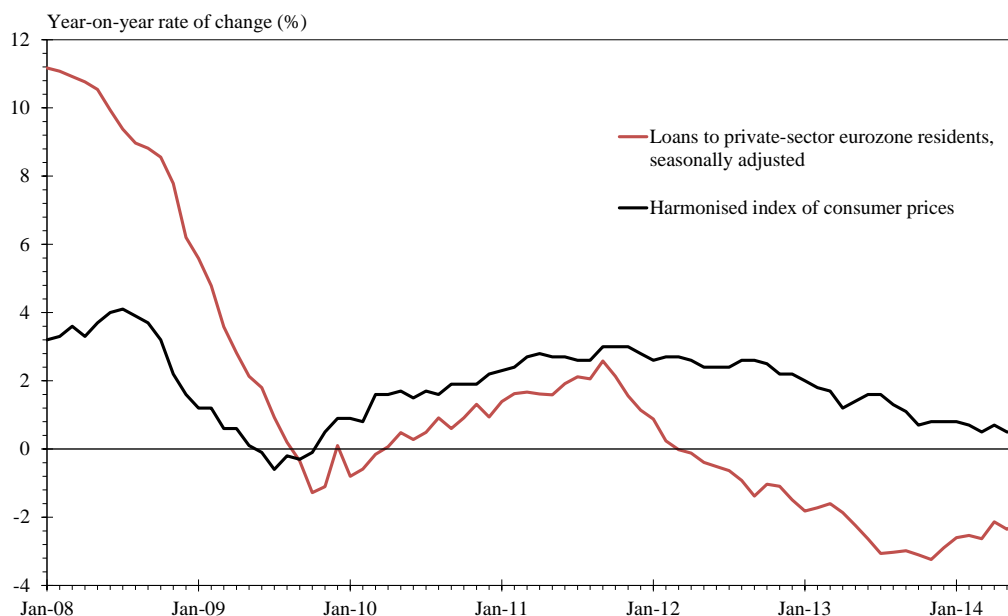
(\*) Change within  $\pm 0.05\%$ .

## Box 1.1

### Recent monetary easing in the eurozone

The eurozone, being still troubled by the deep-seated structural economic problems, has been a weak spot in the global economy. The economy expanded slowly at a quarterly rate of 0.2% in the first quarter, and recent economic indicators continued to signal a weak and unsteady recovery in the second quarter. Along with the lack of growth momentum, credit dynamics in the region have been weak and inflation has stayed uncomfortably low (*Chart 1*). Loans to the private sector have been on the decline, reflecting weak demand for credit amid deleveraging and the banking sector's impaired balance sheet. Deflation lingered in such eurozone members as Cyprus, Greece and Portugal. The disinflationary pressures may hurt investor sentiment and increase real debt burden, thereby adding headwinds to the structural adjustment efforts by the public and private sectors. Indeed, the risks of a prolonged period of low inflation were highlighted by the Eurosystem staff macroeconomic projections in June, which forecast that inflation in the eurozone would likely remain at low levels in the near term, before rising only gradually in 2015 and 2016.

**Chart 1 : Credit dynamics and inflation in the eurozone remained subdued**



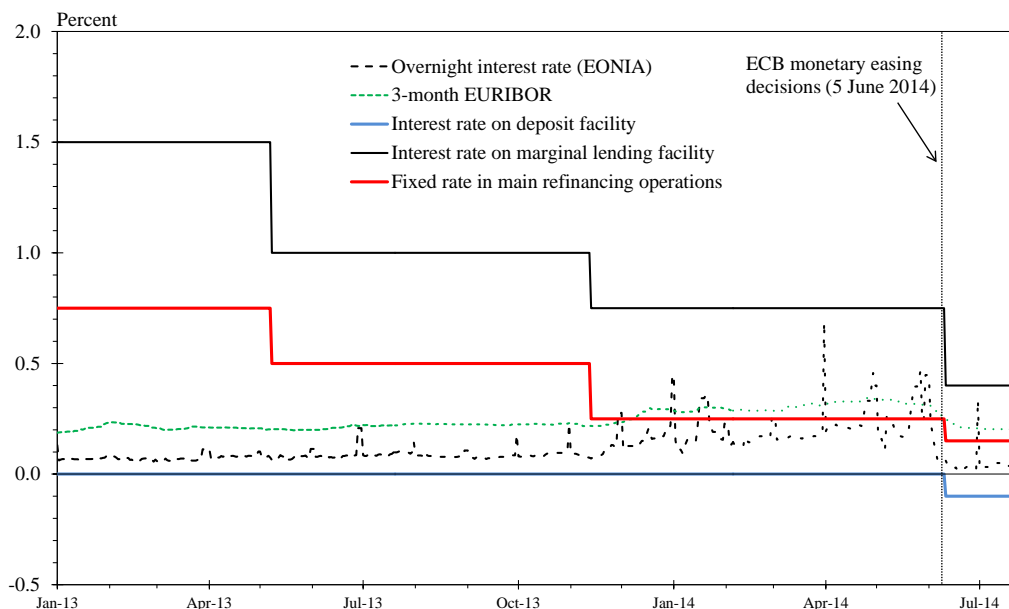
Against this background, the European Central Bank (ECB) announced on 5 June a combination of measures to provide additional monetary policy accommodation and to support lending to the real economy. Among them, the policy refinancing rate was reduced by 10 basis points to 0.15%, while the deposit facility rate was lowered to below zero (-0.1%). Starting from September 2014, a series of targeted longer-term refinancing operations (TLTROs) would be successively rolled out, with a view to support lending to households and non-financial corporations by providing banks with low-cost funding<sup>(1)</sup>. In addition, the ECB would intensify preparatory work related to outright purchases in the asset-backed securities (ABS) market, aimed at enhancing the functioning of the monetary policy transmission mechanism further.

(1) According to the ECB's President, the TLTRO has an initial allowance of about €400 billion, and the overall take-up by banks could reach a maximum of €1 trillion. For details, see the transcript for the press conference held after the ECB meeting on 3 July (<http://www.ecb.europa.eu/press/pressconf/2014/html/is140703.en.html>).

### Box 1.1 (Cont'd)

Following the ECB's latest round of monetary easing, short-term money market interest rates, including the overnight interest rate (Euro Overnight Index Average, or EONIA) and the three-month Euro Interbank Offered Rate (EURIBOR), moved lower (*Chart 2*). Benchmark government bond yields of higher-rated eurozone member states fell, while the euro also weakened somewhat in June and July on a nominal effective exchange rate basis.

Chart 2 : Money market and ECB interest rates



Looking ahead, the weak recovery of the eurozone, along with high unemployment rate and low inflation, will continue to pose a drag to the global economy. Furthermore, the recent default incidence related to the parent company of a major Portuguese bank was also a timely reminder of the weakness in some parts of the financial and monetary systems of the eurozone. In sum, the ECB is likely to adopt a highly accommodative policy stance for an extended period of time.

The ECB's latest monetary easing can potentially create spill-overs to the rest of the world, given the large size of Europe's financial system and its tight integration with the global economy. The provision of low-cost funding via TLTROs, in addition to the outright ABS purchase programme (if implemented), will result in substantial expansion of the ECB's balance sheet and huge liquidity in the European banking system. Coupled with lower eurozone bond yields, capital could be encouraged to flow to emerging markets in search of yield. As a result, and also considering the uncertainties over the US Fed's future pace of monetary policy normalisation, capital flows to emerging market economies may turn increasingly volatile, to the detriment of global financial stability. A possible weakening of the euro exchange rate vis-à-vis the US dollar and Asian currencies may also pose uncertainties to Hong Kong's external trade performance. The Government will closely monitor the latest developments on the external front, and stay alert to the risks arising from the highly accommodative global monetary environment.

## The domestic sector

1.6 Domestic demand saw some growth slowdown. *Private consumption expenditure* weakened, following two quarters of subdued economic growth, with the year-on-year growth at a meagre 1.2% in real terms in the second quarter of 2014. On a seasonally adjusted basis, private consumption expenditure declined by 0.9% over the preceding quarter. *Government consumption expenditure* maintained steady growth at 2.7% year-on-year in the second quarter.

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

		Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>				Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
			Food	Durables	Non- durables	Services			
2013 Annual		6.5	4.6	6.9	14.9	3.1	6.5	17.3	4.3
	H1	8.6	4.0	14.3	18.7	4.3	2.6	22.7	5.5
	H2	4.4	5.3	0.4	11.4	2.0	10.3	12.7	3.2
	Q1	8.5	4.2	27.9	11.4	4.0	5.1	17.9	6.3
	Q2	8.8	3.7	-0.2	26.1	4.6	0.2	27.6	4.7
	Q3	4.7	5.2	-0.7	12.6	2.3	6.6	15.0	2.7
	Q4	4.2	5.4	1.3	10.5	1.7	14.2	10.7	3.6
2014	H1	0.7	3.2	0.1	-2.7	1.9	3.8	-0.9	1.4
	Q1	3.4	3.1	4.0	6.3	2.1	-1.9	10.2	1.5
	Q2	-1.9	3.3	-5.1	-10.6	1.7	9.7	-11.5	1.2

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.

## Box 1.2

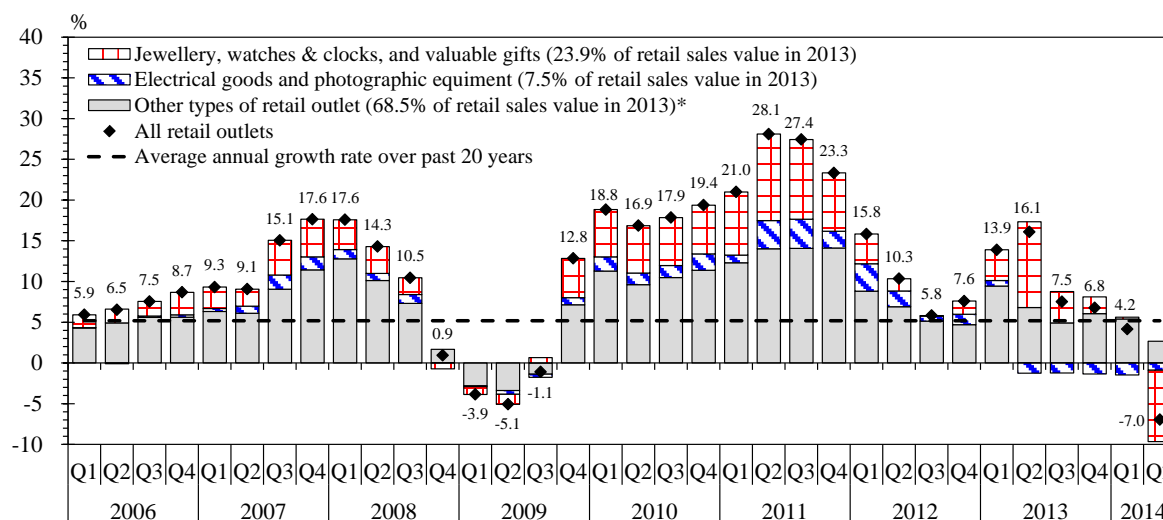
### The recent performance of Hong Kong's retail sales

After being dented by the global financial crisis in late 2008 and 2009, Hong Kong's retail sales staged a sharp rebound and then grew briskly further in the ensuing years. However, retail sales decelerated abruptly in early 2014 and registered year-on-year decline for five consecutive months since February 2014, raising concerns about the outlook for the sector. This box article takes a deeper look into the development in retail sales in the past few years and attempts to put the recent disappointing performance into perspective.

First of all, it should be noted that the jumps in retail sales after the global financial crisis had been exceptional. Buttressed by an increasingly tight labour market, improving incomes and thriving inbound tourism, retail sales value surged at an average annual rate of 15.8% during 2010 to 2013, far outpacing the average trend growth of about 5% over the past 20 years (*Chart 1*). While that was favourable for short term economic growth, such a phenomenal growth pace is difficult to sustain over a longer horizon.

Secondly, the recent deterioration in retail sales was mainly due to weakness in two types of retail outlets – those selling luxury items (namely “jewellery, watches and clocks, and valuable gifts”) and, to a lesser extent, those selling electrical goods and photographic equipment (*Chart 1*). Specifically, in the second quarter of 2013, amid a sharp correction in gold prices, the sales value of luxury items rose tremendously by nearly 50% year-on-year and significantly boosted the total retail sales value in that quarter. Against such an exceptionally high base, the sales value of luxury items saw a 31.5% year-on-year dive in the second quarter this year, pulling the overall retail sales into contraction. Another factor denting the retail sales performance was the notable deceleration in the sales of electrical goods and photographic equipment. After taking out the luxury items and electrical goods and photographic equipment, the sales value in other types of retail outlet had actually been expanding rather steadily in the past few years, though also with some moderation in the more recent quarters.

**Chart 1 : Contribution to change in retail sales value by selected types of retail outlet**



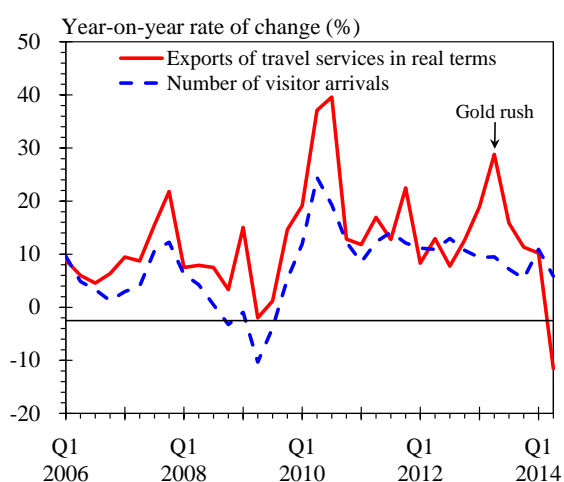
Notes : (\*) Other types of retail outlet include “food, alcoholic drinks and tobacco”, “supermarkets”, “fuels”, “clothing, footwear and allied products”, “department stores”, “other consumer goods” and consumer durable goods other than electrical goods and photographic equipment.  
% share in retail sales value may not add up to 100% due to rounding.

## Box 1.2 (Cont'd)

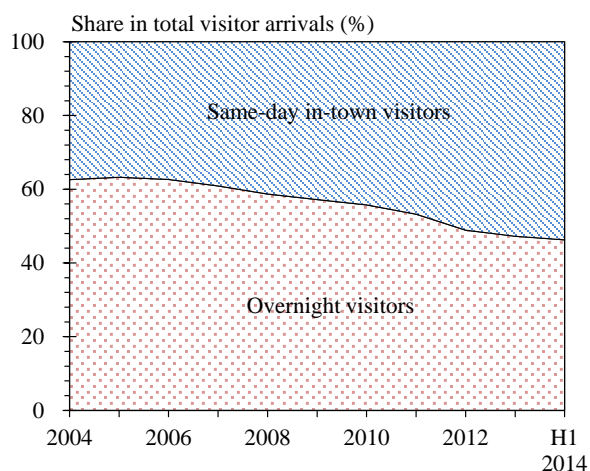
One possible reason for the volatile sales in luxury items and electrical goods and photographic equipment is the change in per capita visitor spending. During 2010 to 2013, the sales value of jewellery and valuables leaped by a cumulative 164% and that of electrical goods and photographic equipment by 78%. Such surges in sales could hardly be explained solely by local residents' demand. Detailed breakdowns about visitor shopping expenditure are available only at annual intervals through the surveys conducted by the Hong Kong Tourism Board, and therefore it is hard at present to ascertain how the pattern of visitor spending had changed in the first half of 2014. Nevertheless, as evidenced by the movements in exports of travel services (which cover tourists' spending on shopping, food and beverages, accommodation, entertainment, etc), the growth in total visitor spending had slowed sharply in recent quarters, notwithstanding the sustained rise in visitor arrivals.

From *chart 2a*, the implied per capita visitor spending, as proxied by the difference between change in exports of travel services and number of visitor arrivals, had grown solidly over the past few years before reverting to a noticeable decline in the first half of 2014, closely resembling the trend seen in the sales of luxury items and electrical goods and photographic equipment. While there were anecdotal evidences suggesting a change in tourists' shopping preferences, the rising share of same-day in-town visitors, with its per capita spending being only around 30% of that of overnight visitors, could also be one of the reasons dampening the growth in per capita visitor spending (*Chart 2b*).

**Chart 2a : Exports of travel services and number of visitor arrivals**



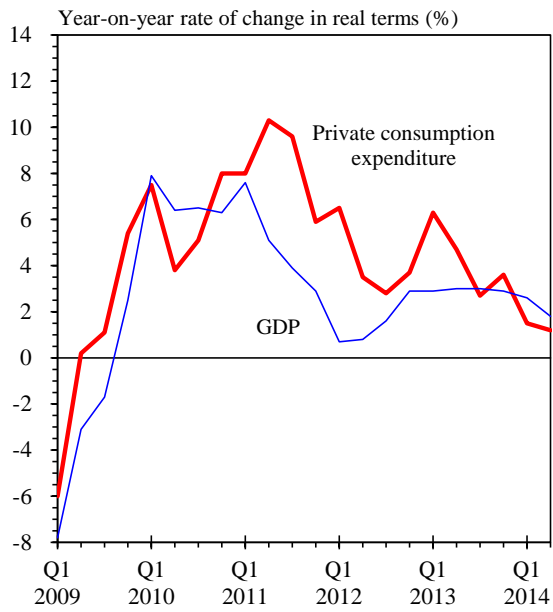
**Chart 2b : Compositional shift in visitor arrivals**



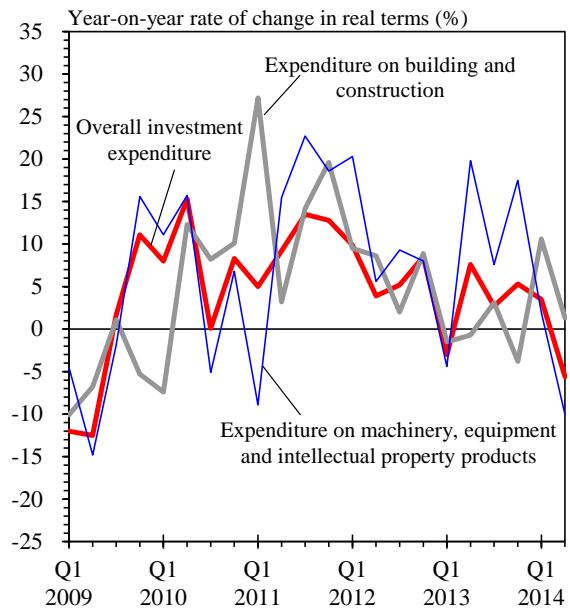
Considering the retail sales performance by type of retail outlet and the implied per capita visitor spending, it seems plausible that the sharp plunge in retail sales value in the second quarter was the combined result of a distinctly high base of comparison and a shift in tourists' spending away from big-ticket items. In fact, tourists' shopping expenditure accounted for nearly 40% of retail sales value in 2013, and hence its fluctuations could easily distort the retail sales figures and mask the underlying trend in local residents' consumption.

Looking ahead, as the unfavourable base effects gradually fade, Hong Kong's retail sales performance should hopefully turn more stable in the coming months. Nonetheless, given the size of the retail trade industry, which accounted for about 4% of GDP in 2012 and about 9% of total employment in 2013, the Government will closely monitor the repercussions of a slower growth in retail sales on local economic sentiment and labour market conditions.

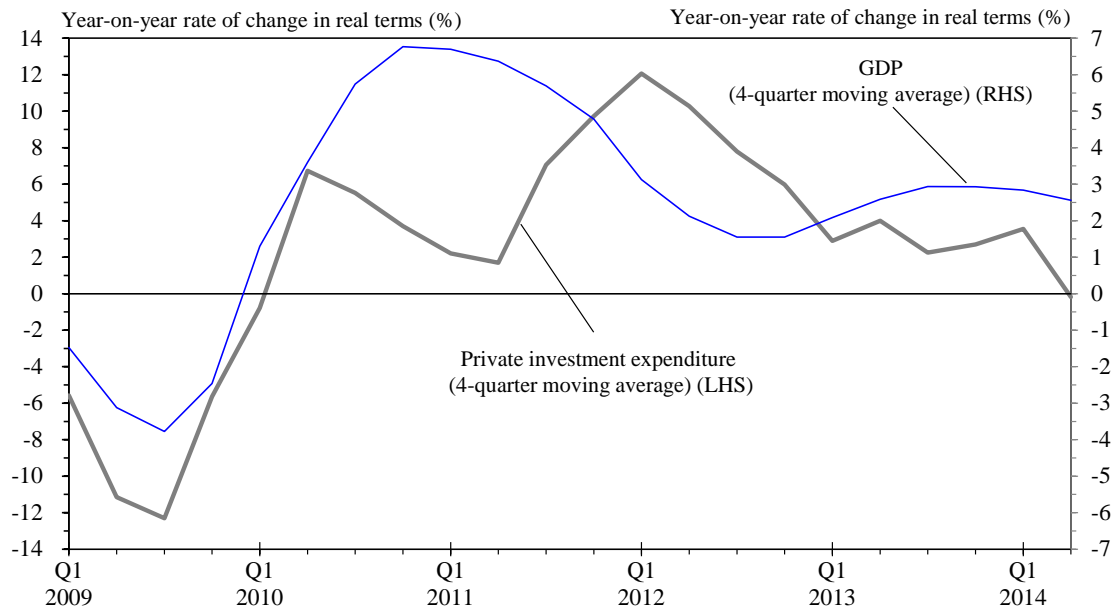
**Diagram 1.2 : Private consumption expenditure weakened along with economic slowdown**



**Diagram 1.3 : Investment spending relapsed to a decline**



**Diagram 1.4 : Private investment spending declined**



1.7 Overall investment spending in terms of gross domestic fixed capital formation relapsed to a 5.6% year-on-year decline in real terms in the second quarter, in contrast to the 3.5% growth in the preceding quarter. Within this, the growth in overall building and construction expenditure slowed, as the incremental growth in large-scale infrastructure works tapered after the exceptionally strong growth in preceding quarters, while private sector building and construction activity grew only modestly. At the same time, machinery and equipment acquisition, which was typically volatile, fell notably by 10.0% amid an exceptionally high base of comparison in the same period last year, posing a drag on the overall investment spending performance. The latest Quarterly Business Tendency Survey indicated that large enterprises in the consumption-related sectors turned more cautious, while those in the financing and insurance, information and communications remained sanguine. The sentiment among small and medium-sized enterprises (SMEs) showed a broadly similar picture (see **Box 1.3** for details of the consultation on SMEs).

### **The labour sector**

1.8 The labour market held generally stable. The *seasonally adjusted unemployment rate* edged up from 3.1% in the first quarter to 3.2% in the second quarter. Over the same period, the *underemployment rate* rose from 1.3% to 1.5%. Wages and earnings saw further increases in the first quarter. Average employment earnings for full-time employees, especially the grassroots workers, sustained improvement in real terms in the second quarter. Overall speaking, while the recent slowdown in retail sales had not yet affected the employment and income situation in a significant way, the developments going forward would need to be closely monitored.



## Box 1.3

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

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008. In the recent past, the exercise has been conducted on a sample panel of around 400 SMEs. This note provides a further update of the results reported in *Box 1.2* in the *First Quarter Economic Report 2014*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. The percentage of SMEs reporting tight access to credit is also reported. 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 remained lacklustre (*Table 1*). In July 2014, the diffusion indices for all selected sectors stayed below the boom-bust threshold of 50. Within this, the readings of the retail trade and wholesale trade sectors fell for three consecutive months, in line with the weak retail sales performance of late. Yet, the diffusion indices for the restaurant and business services sectors moved up moderately from lows. The reading for the real estate sector improved, conceivably reflecting the recent pick-up in property market activity. As regards the external segment, the diffusion index for the logistics sector remained weak, and that for the import/export trades stayed below the 50 mark, indicating the cautious sentiment among SMEs in these sectors had not shifted materially despite the recent improvement in external trade performance. As to the employment situation, the feedback from SMEs indicated broadly stable development in recent months (*Table 2*).

Specifically for SMEs in the import and export sector, their views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders still stood near the boom-bust threshold of 50 in July, possibly indicating the still-uncertain external environment, notwithstanding the visible pick-up in merchandise exports in June.

The proportion of SMEs reporting tight credit access eased to 0.8% in July, reflecting the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

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(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

**Box 1.3 (Cont'd)****Table 1 : Diffusion indices <sup>^</sup> on business receipts**

	<u>2013</u>					<u>2014</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	48.2	47.4	47.4	48.2	49.1	48.1	47.2	47.2	46.3	47.2	45.3	47.1
Real estate	35.3	35.3	41.2	36.8	44.1	42.4	42.4	54.5	48.5	48.5	43.9	47.0
Retail trade	50.0	49.0	47.5	48.0	49.0	47.4	49.1	47.4	48.2	47.7	46.9	46.1
Wholesale trade	44.1	47.1	50.0	44.1	47.1	44.7	44.7	50.0	50.0	44.7	39.5	36.8
Business services	43.9	45.5	50.0	48.5	53.0	47.0	51.6	51.6	53.1	50.0	46.9	48.4
<i>External segments</i>												
Import/export trade	47.6	48.5	49.0	49.5	49.0	47.9	48.3	48.7	49.6	48.4	49.2	48.8
Logistics	44.7	44.7	44.7	52.8	50.0	47.2	50.0	50.0	47.2	47.2	47.2	47.2
<b>All the above sectors*</b>	<b>46.8</b>	<b>47.3</b>	<b>48.1</b>	<b>48.0</b>	<b>49.0</b>	<b>47.0</b>	<b>48.2</b>	<b>49.2</b>	<b>49.3</b>	<b>48.0</b>	<b>47.0</b>	<b>47.0</b>

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

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

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

	<u>2013</u>					<u>2014</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	50.0	49.1	49.1	49.1	48.2	49.1	49.1	49.1	49.1	49.1	48.1	49.0
Real estate	45.6	48.5	47.1	47.1	47.1	50.0	50.0	50.0	48.5	47.0	48.5	50.0
Retail trade	50.0	49.5	50.0	50.0	50.0	49.6	50.4	49.1	50.5	49.6	49.6	49.6
Wholesale trade	47.1	50.0	50.0	50.0	47.1	50.0	50.0	50.0	52.6	47.4	47.4	47.4
Business services	51.5	48.5	50.0	51.5	50.0	50.0	50.0	51.6	50.0	48.4	50.0	50.0
<i>External segments</i>												
Import/export trade	49.5	49.5	50.0	51.0	50.0	50.4	50.4	49.6	50.4	48.4	50.4	49.2
Logistics	50.0	47.4	47.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0	52.8	50.0
<b>All the above sectors*</b>	<b>49.5</b>	<b>49.3</b>	<b>49.7</b>	<b>50.3</b>	<b>49.5</b>	<b>50.0</b>	<b>50.2</b>	<b>49.7</b>	<b>50.3</b>	<b>48.6</b>	<b>49.8</b>	<b>49.3</b>

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

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

	<u>2013</u>					<u>2014</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 trade	48.5	48.1	49.5	50.5	49.5	49.2	48.3	49.6	50.0	49.6	49.2	49.6

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

	<u>2013</u>					<u>2014</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*	0.7	0.7	0.7	0.4	0.6	1.5	1.8	0.9	0.9	1.1	1.1	0.8

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

## **The asset markets**

1.9 The *local stock market* recovered ground in the second quarter, as the US economy revived from the disappointing performance in the preceding quarter, the Mainland economy maintained growth momentum, and the Federal Reserve reiterated its stance to maintain accommodative policy for a considerable time after ending its asset purchase programme later this year. The Hang Seng Index climbed up successively to close the second quarter at 23 191, 4.7% higher than three months earlier and similar to the level at end-2013. Average daily turnover, however, fell back to \$57.5 billion in the second quarter, and total equity fund raised declined somewhat compared with the preceding quarter, but still markedly higher than the same period last year.

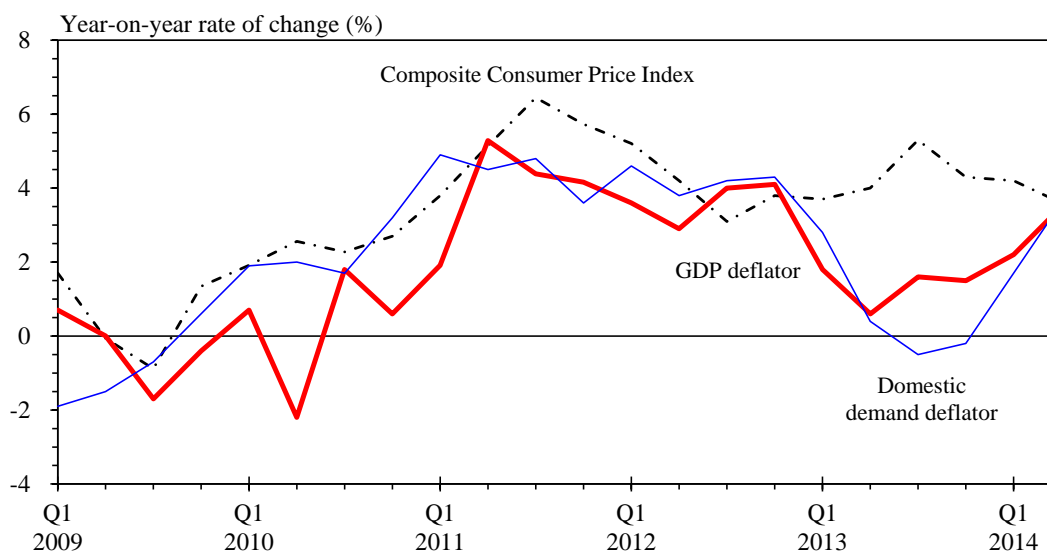
1.10 The *residential property market* showed some revival in the second quarter. Sentiment improved as market concerns over an imminent US interest rate hike lessened. This, coupled with the launch of several large primary projects by developers at a discount to comparable developments in the secondary market, has helped unleash the pent-up demand. Trading volume in the second quarter rebounded distinctly by 48% from the low level in the preceding quarter. Residential property prices rose by 3% during the second quarter, with overall flat prices in June exceeding the 1997 peak by 44%, and the housing affordability ratio staying elevated at around 54% in the second quarter. Separately, flat rentals increased by 1% during the second quarter, while office rentals stayed flat and shop rentals went up by 3%.

## Inflation

1.11 Consumer price inflation continued its easing trend. *Headline consumer price inflation* moved down to 3.6% in the second quarter of 2014, from 4.2% in the preceding quarter. For the first half of 2014 as a whole, headline inflation averaged 3.9%, down from 4.3% in 2013. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* eased to 3.5% in the second quarter, from that of 3.8% in the preceding quarter. For the first half as a whole, underlying inflation averaged 3.7%, 0.3 percentage point lower than that of 4.0% in 2013. Locally, the residential rental pressures subsided further and continued to manifest itself through narrower year-on-year increases in the private rental component of the consumer price indices. Other domestic costs also saw moderated gains, with year-on-year rises in commercial rentals decelerating further and labour costs keeping its moderate growth pace, both helping to alleviate pressures on business costs. On the external front, the rise in overall import prices stayed largely modest, thanks to the generally stable international food and commodity prices and tame inflation in major import sources, notwithstanding some temporary upward movements in global oil prices spurred by heightened geopolitical tensions in the Middle East and Eastern Europe during the quarter.

1.12 The *GDP deflator* rose by 3.5% in the second quarter of 2014, largely in line with the underlying consumer price inflation rate. Within this, domestic demand deflator recorded a faster increase, while the terms of trade deteriorated marginally.

**Diagram 1.5 : Consumer price inflation eased further in the second quarter**



## **GDP by major economic sector**

1.13 Net output of the services sector as a whole rose by 2.2% in real terms over a year earlier in the first quarter of 2014, slightly slower than the 2.8% increase in the fourth quarter of 2013 and broadly consistent with the more moderate economic growth during the period. Net output of import and export trade fell modestly amid the sluggish trading environment at the beginning of the year, weighing on the overall services sector performance. Other service sectors expanded further year-on-year by a varying degree. Financing and insurance, as well as professional and business services slowed to show moderate growth in the first quarter amid the uncertain external environment. Growth in retail and wholesale also slackened, reflecting the less rapid expansion in inbound tourism and changes in tourist spending patterns. Information and communications continued to grow steadily, while accommodation and food services and transportation, storage, postal and courier services rose at firmer rates. The net output of real estate, which mainly reflects activity of private sector developers and property agency, edged up in the first quarter from a year earlier after shedding 3.9% in the preceding year, as trading activity stabilised somewhat but was still well below long-term historical average. As for the secondary sector, manufacturing sector showed a mild increase in net output, while the notable pick-up in the expenditure on large-scale public infrastructure works and the moderate revival in private construction activity raised the net output growth of construction sector visibly higher.

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

	<u>2013</u>	<u>2013</u>				<u>2014</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	0.1	0.5	0.3	-0.9	0.5	2.1
Construction	1.1	-0.8	2.8	8.5	-4.3	12.8
Services <sup>(b)</sup>	2.9	2.8	3.8	2.5	2.8	2.2
Import/export, wholesale and retail trades	3.6	5.4	5.1	1.8	2.8	0.3
Import and export trade	2.3	3.7	3.1	0.8	1.9	-0.7
Wholesale and retail trades	9.2	12.2	12.9	6.4	6.4	4.1
Accommodation <sup>(c)</sup> and food services	3.7	4.3	4.2	3.4	2.9	4.3
Transportation, storage, postal and courier services	2.5	-0.5	2.9	2.4	5.4	7.0
Transportation and storage	2.0	-0.9	2.8	1.2	5.1	6.7
Postal and courier services	12.9	7.7	6.5	27.9	10.2	12.9
Information and communications	4.2	6.5	3.0	4.3	2.9	2.9
Financing and insurance	5.6	3.3	7.5	7.2	4.6	3.3
Real estate, professional and business services	0.1	-0.1	-0.8	-0.7	2.0	1.8
Real estate	-3.9	-2.4	-6.8	-5.2	-1.3	0.2
Professional and business services	4.2	2.3	5.3	3.7	5.3	3.4
Public administration, social and personal services	2.6	2.1	3.8	2.2	2.1	2.7

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.

## **Other economic developments**

1.14 The Government constantly strives to solidify its competitiveness and collaborates with the industry to study ways to further develop our economy. In this regard, the Financial Services Development Council released a new research report titled “Positioning Hong Kong as an International IPO Centre of Choice” in June, providing concrete recommendations on raising the appeal of Hong Kong’s initial public offering platform to Mainland and overseas companies. The Economic Development Commission also held its meeting in June, endorsing proposals and recommendations on a wide range of areas such as film production, the fashion industry and aerospace financing business.

1.15 To forge closer economic ties with trading partners, in July Hong Kong started its negotiation for a Free Trade Agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). An FTA with the ASEAN, if materialised, would facilitate and enhance Hong Kong’s trade and investment flows between the two places, which should strengthen Hong Kong’s role as an international trade and commercial hub. Hong Kong has also entered negotiation in July with some World Trade Organisation members on the Environmental Goods Agreement, which would promote our export trade in eco-friendly goods.

1.16 As for other overseas linkages, Hong Kong and Korea signed an agreement for the avoidance of double taxation and prevention of income tax evasion in July. This should reinforce the economic and trade connections between the two places and offer added incentives for companies in Korea to do business and invest in Hong Kong when the agreement comes into force. A Mutual Recognition Arrangement (MRA) on the Authorised Economic Operators between Singapore and Hong Kong Customs was also signed in June, and a similar MRA with the Mainland signed earlier became operational for road cargo in four cross-boundary control points in May. These arrangements provide clearance facilitation, which should help bring more business opportunities to the import, export and logistics industries.

1.17 On addressing the longer-term challenges on public finance in the face of an ageing population, the Working Group on Long-Term Fiscal Planning, following its release of fiscal sustainability appraisal report on Hong Kong’s public finance in March, re-convened in July to examine possible options for the Future Fund savings scheme and explore ways on enhancing the management of Government assets.

## 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 global economy, after a slow start this year, improved somewhat in the second quarter. In particular, the US economy rebounded following the notable contraction in the first quarter. The recovery of the eurozone economy continued at a modest pace, while activity indicators in Japan weakened after the sales tax hike in April. Overall, import demand in the advanced economies, despite some relative improvement of late, had yet to pick up in a significant way, thereby restraining the expansion of Asia's production and trading activities. Moreover, the uncertainties arising from US monetary policy normalisation as well as geopolitical tensions in some parts of the world added headwinds to the already-unsteady external environment.*
- *Against this backdrop, Hong Kong's merchandise exports rebounded moderately in real terms<sup>(1)</sup> in the second quarter over a year earlier, after a slight decline in the first quarter. Exports to the advanced markets as a whole improved somewhat, while those to most major Asian markets also picked up in growth.*
- *Exports of services, on the other hand, slackened visibly to a year-on-year decline in the second quarter, weighed mainly by the significant fall-off in exports of travel services. While an exceptionally high base of comparison was to blame, the decline in exports of travel services reflected the plunge in visitor spending on big-ticket items. As to other service exports, exports of trade-related services and transportation services generally improved, in tandem with the modest recovery of regional trade flows, while exports of financial and other business services maintained modest growth alongside further expansion in cross-border financial activities.*
- *Hong Kong constantly strives to foster closer economic ties with major trading partners. In July, the Government began negotiating a Free Trade Agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). The FTA, if materialised, should facilitate and enhance trade and investment flows between the two places. Separately, the implementation of the Mutual Recognition Arrangement (MRA) between the Hong Kong and the Mainland customs in May, and the conclusion of an MRA between Hong Kong and Singapore customs in June, should help facilitate trade flows and create new business opportunities.*

## Visible trade

### *Total exports of goods*

2.1 Global trade flows improved somewhat in the second quarter of 2014 from the weak start early this year. Along with this, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) rebounded to a 4.3% growth in real terms in the second quarter over a year earlier, reversing the 0.3% fall in the first quarter. On a seasonally adjusted quarter-to-quarter basis, merchandise exports rose back by 3.7% in real terms in the second quarter, in contrast to the 4.9% contraction in the preceding quarter.

2.2 The external trading environment was still unsteady despite some relative improvement. The US economy resumed growth in the second quarter, following a rather severe setback in the first quarter amid extreme weather conditions. In the eurozone, the economy stayed on a modest growth path, held back by the still-elevated unemployment rate and weak credit dynamics in the region. In Japan, economic indicators such as retail sales and business sentiment weakened in the second quarter after the sales tax hike in April. The slow growth of the advanced economies posed a drag on the recuperation of their import demand. While the Mainland economy sustained its growth momentum, the performance of other major emerging market economies was constrained by tight domestic capacity and fragile external positions. In addition, the uncertainties arising from the US monetary policy normalisation and geopolitical tensions in different parts of the world lingered on. All these limited the strength of Asia's trade growth in the second quarter. In light of the softer-than-expected growth outturns in many major economies thus far this year, the International Monetary Fund (IMF) cut its global economic growth forecast for 2014 further in July to 3.4% from that of 3.6% in April, which is only a touch higher than the 3.2% growth in 2013, representing limited improvement from previous year's performance.

2.3 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.3% of total exports by value, rose by 4.1% in real terms in the second quarter of 2014, in contrast to the 0.4% decline in the preceding quarter. *Domestic exports*, constituting the remaining 1.7% of total exports, posted a 11.8% year-on-year growth in real terms in the second quarter, further to the 3.7% increase in the preceding quarter.

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

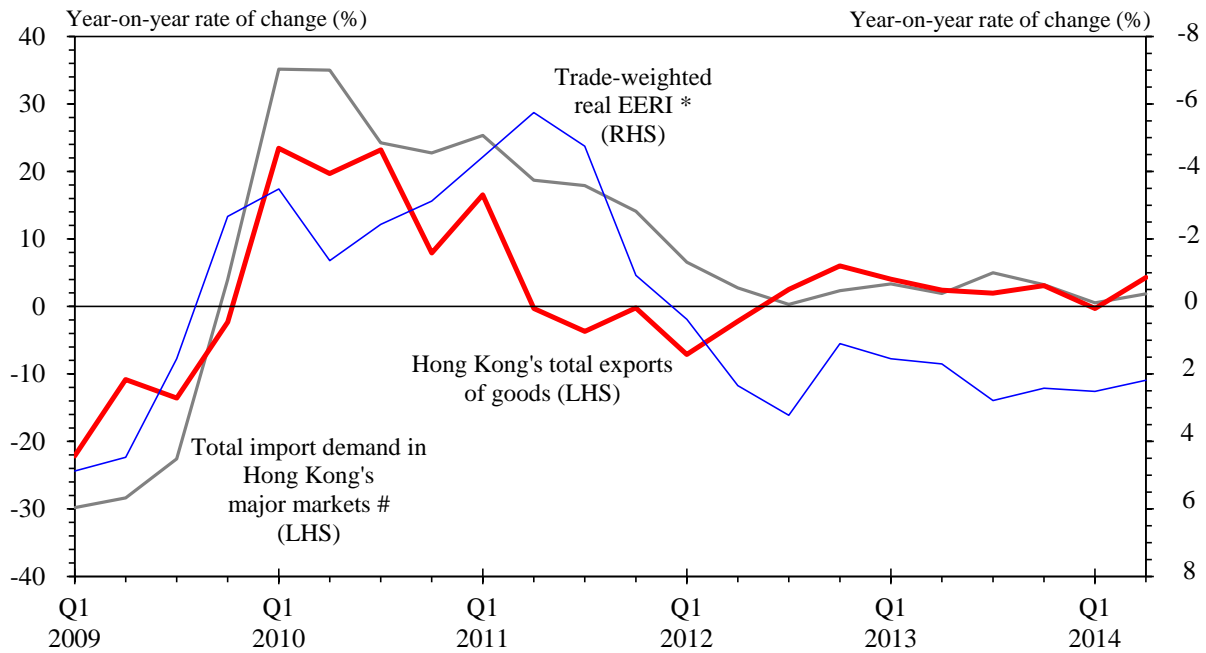
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>
2013 Annual	3.6	2.8	1.3	3.8	3.0	1.3	-7.6	-9.4	2.2
H1	3.2	3.2	0.5	3.3	3.4	0.4	-4.6	-7.5	3.2
H2	4.1	2.5	2.0	4.3	2.8	2.0	-10.3	-11.2	1.2
Q1	4.0	4.0 (-1.9)	0.6	4.0	4.2 (-1.9)	0.5	-0.9	-4.5 (-1.2)	4.2
Q2	2.4	2.4 (-1.2)	0.4	2.6	2.6 (-1.1)	0.4	-7.9	-10.1 (-5.2)	2.3
Q3	3.3	2.0 (2.2)	1.7	3.6	2.2 (2.3)	1.7	-11.9	-12.9 (-1.0)	1.8
Q4	4.8	3.1 (3.6)	2.4	5.0	3.3 (3.7)	2.4	-8.5	-9.4 (-1.7)	0.6
2014 H1	2.8	2.0	1.8	2.8	1.9	1.8	3.7	7.9	-0.5
Q1	0.7	-0.3 (-4.9)	1.7	0.7	-0.4 (-5.2)	1.7	-1.1	3.7 (12.4)	-1.2
Q2	4.8	4.3 (3.7)	1.8	4.8	4.1 (3.7)	1.9	8.3	11.8 (2.4)	*

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

(\*) Change of less than 0.05%.

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage and methodology.

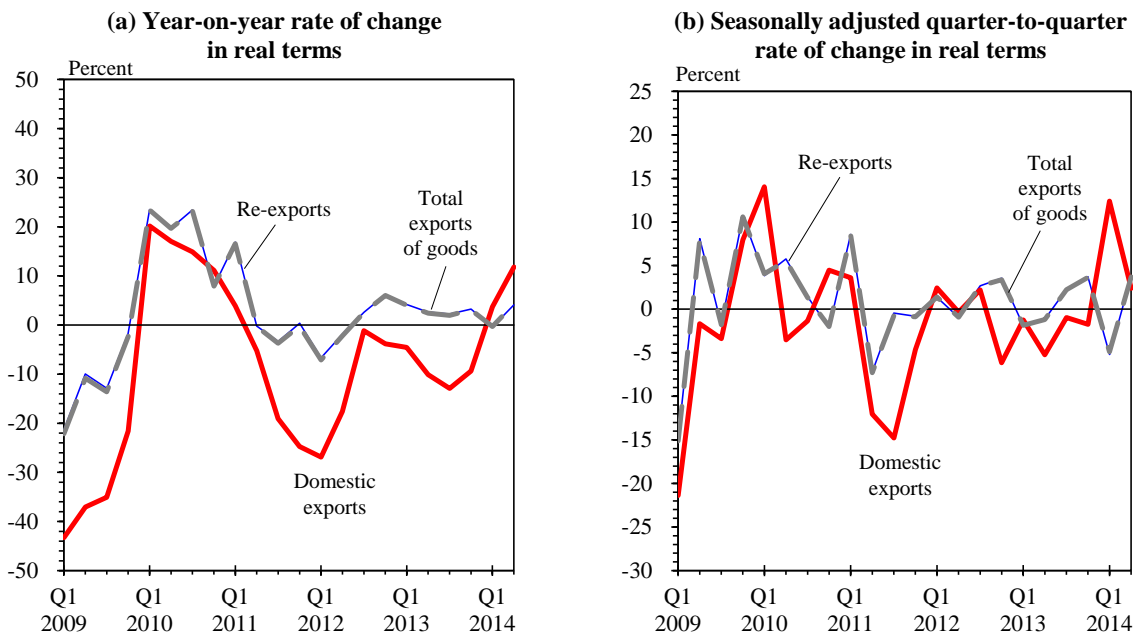
**Diagram 2.1 : Merchandise exports rebounded in the second quarter of 2014**



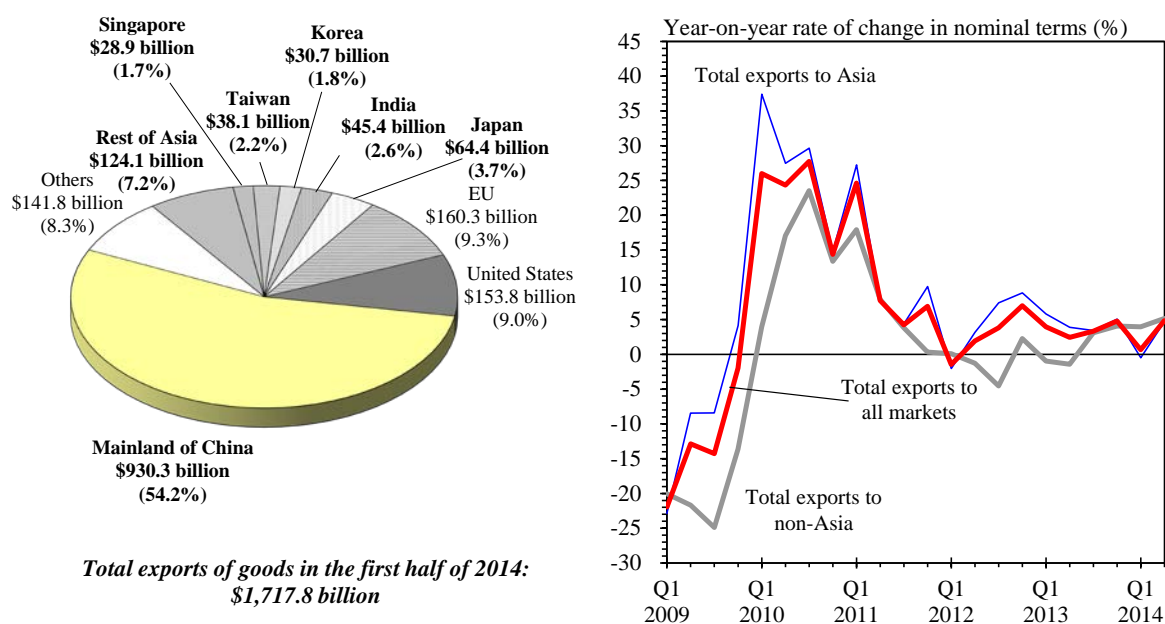
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European 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 2014 is based on statistics for April and May 2014.

**Diagram 2.2 : Re-exports rose back while domestic exports accelerated**



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



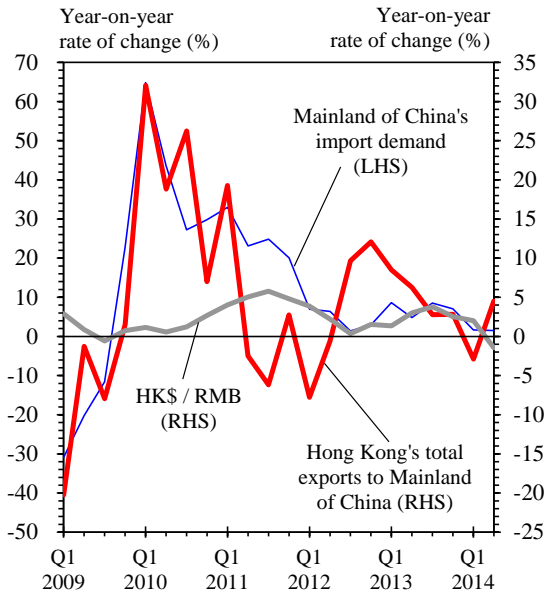
**Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))**

	Annual	2013				2014	
		Q1	Q2	Q3	Q4	Q1	Q2
Mainland of China	4.9	8.5	6.3	2.8	2.8	-2.9	4.5
United States	-4.3	-5.0	-8.0	-1.0	-3.6	3.9	3.1
European Union	-0.6	-5.4	-2.5	2.7	2.4	1.2	4.3
Japan	-6.3	-4.9	-5.5	-8.3	-6.2	-2.1	-1.5
India	7.7	0.3	8.0	6.7	16.8	7.6	17.4
Taiwan	-6.1	14.2	-12.1	-7.6	-13.9	-5.9	0.2
Korea	6.3	0.5	2.0	4.5	18.6	1.8	4.5
Singapore	2.5	5.2	0.2	-0.9	6.2	6.8	-0.6

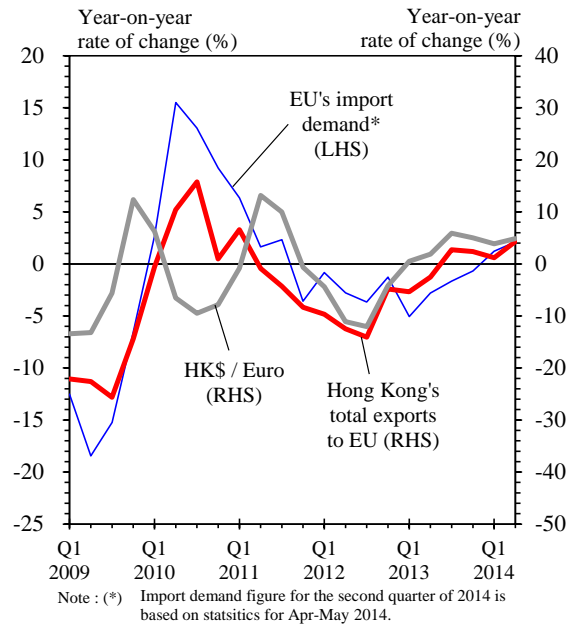
2.4 Analysed by major markets, merchandise exports to Asian economies showed different extents of improvement for the second quarter as a whole, although the pick-up was mainly concentrated in June. Exports to the Mainland bounced back to a 4.5% year-on-year growth in real terms in the second quarter after a contraction in the preceding quarter. Exports to many other Asian markets also turned somewhat better in the second quarter, with exports to India and Korea strengthening most visibly. The year-on-year decline in exports to Japan also narrowed slightly, possibly helped in part by the more stable yen exchange rate in the recent past, while those to Taiwan also stabilised. The key exception was exports to Singapore, which eased to register a mild year-on-year contraction, broadly consistent with the moderation in manufacturing activity there during the period.

2.5 Exports to major advanced economies saw modest to moderate growth in the second quarter of 2014. Exports to the US registered only modest growth in the second quarter despite a low base of comparison, as the positive consumer sentiment there had not yet translated into stronger import demand growth. Comparatively, exports to the EU fared better and posted moderate year-on-year growth in the second quarter, although the base effects also partly helped.

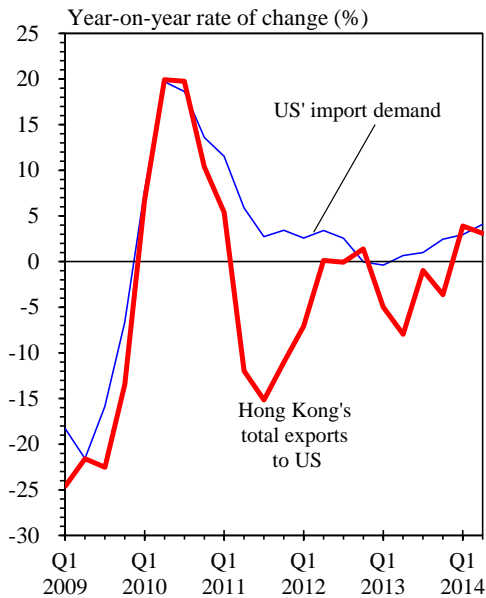
**Diagram 2.4 : Exports to the Mainland rebounded**



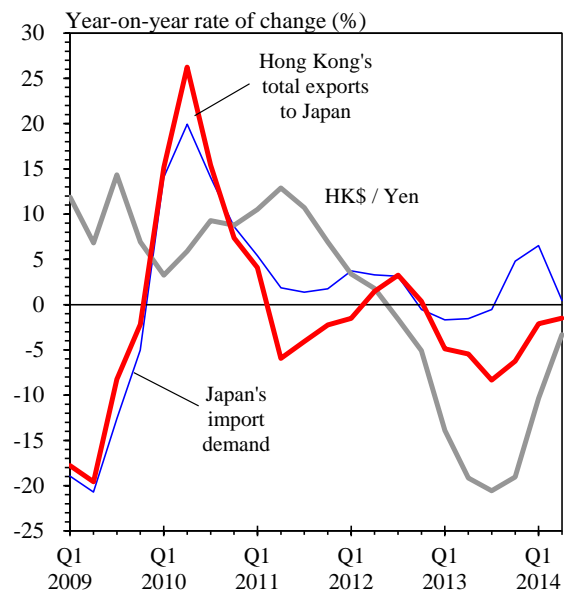
**Diagram 2.5 : Exports to the EU accelerated**



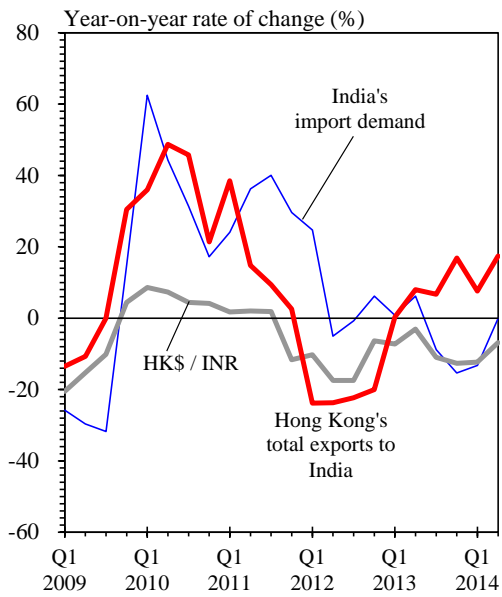
**Diagram 2.6 : Exports to the US only grew modestly**



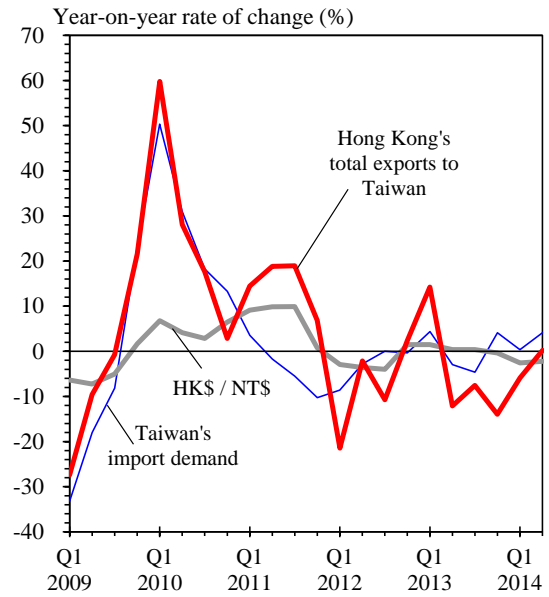
**Diagram 2.7 : Exports to Japan contracted at a slower pace**



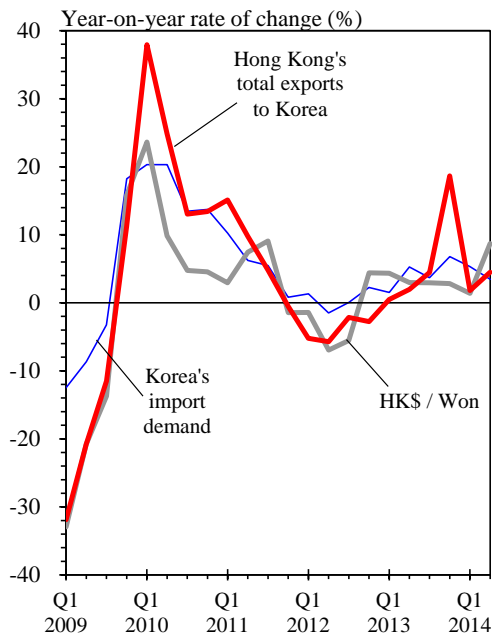
**Diagram 2.8 : Exports to India showed appreciable growth**



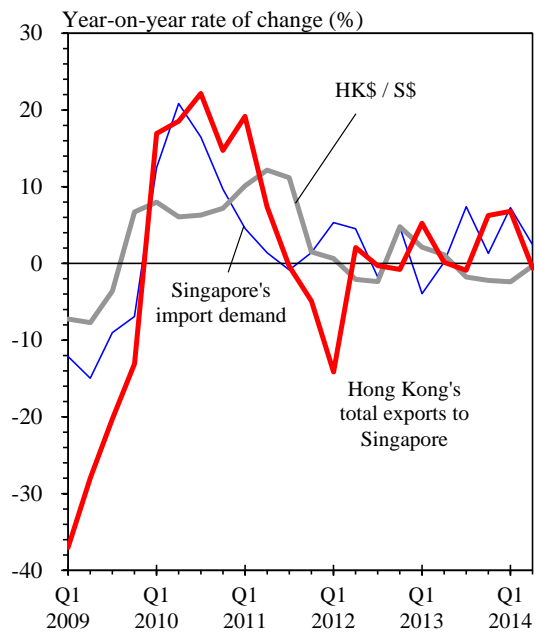
**Diagram 2.9 : Exports to Taiwan stabilised**



**Diagram 2.10 : Exports to Korea picked up**



**Diagram 2.11 : Exports to Singapore dipped**





## Box 2.1

### ASEAN's Economic Linkages with Hong Kong and Market Potentials

The Association of Southeast Asian Nations (ASEAN) is composed of ten economies in Southeast Asia, including Indonesia, Thailand, Malaysia, Philippines, Singapore, Brunei, Vietnam, Laos, Cambodia and Myanmar. The former six are older member states (ASEAN-6), representing around 90% of aggregate ASEAN GDP at current prices in 2012 (*see Chart 1a*), while the rest are newer ones. This box article sketches the economic linkages between ASEAN and Hong Kong, and examines its longer-term market potentials.

ASEAN is an important trading and investment partner of Hong Kong. In terms of trade in goods, ASEAN was Hong Kong's second largest trading partner, accounting for about 10% of our total merchandise trade in 2013. As regards services trade, ASEAN was Hong Kong's fourth largest trading partner in 2012, representing 8% of Hong Kong's total trade in services. Besides, there are also extensive investment linkages between Hong Kong and ASEAN. As at the end of 2012, ASEAN was the fifth largest destination of foreign direct investment (FDI) from Hong Kong, cumulating \$207 billion. Reciprocally, the cumulated stock of FDI from ASEAN totalled \$234 billion, which ranked sixth as a source of FDI into Hong Kong. A total of 54 regional headquarters in Hong Kong, 127 regional offices and 319 local offices had been set up by companies from ASEAN as of June 2013.

Buttressed by ASEAN's economic vitality, mutually complementary relations with other Asian economies, and growing trade flows with the Mainland, there should be ample room to further advance Hong Kong-ASEAN economic collaboration. Firstly, the ASEAN economies attained solid growth after recuperating from the Asian financial crisis of 1997, with aggregate GDP at current prices rising to nearly US\$2.4 trillion in 2013, representing 3.3% of world GDP, up from 1.9% ten years ago. Total population in the region exceeded 600 million in 2013, around 9% of the world total. While most members are still developing economies, the share of middle-income class is ever rising amid expanding urbanisation and sustained income growth, implying growing consumer sophistication and rising demand for high-end goods and services.

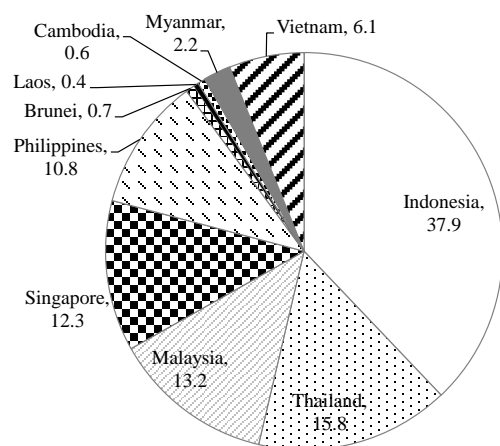
Secondly, the vast differences in endowments and wages provide a strong foundation for geographical division of labour between ASEAN and the rest of Asia and intra-regional trade to grow. In particular, many ASEAN economies are major suppliers of agricultural and mineral resources. Rice exported by Thailand and Vietnam, natural gas by Myanmar, petroleum and palm oil by Malaysia, thermal coal, nickel, copper and many other minerals by Indonesia are some primary examples. Their food and material supplies dovetail well with the economic developments in Hong Kong, the Mainland and the rest of Asia. ASEAN is also an integral part of Asia's supply chain. Indeed, around 70% of Hong Kong's exports to ASEAN in 2013 belonged to capital goods and raw materials, and the final demand for these outputs from these intermediate inputs should come mostly from the advanced markets.

Thirdly, the externally-oriented policies pursued by ASEAN leaders that reduce trade-related costs and liberalise markets also bring support to intra-regional trade growth and create investment opportunities. In particular, ASEAN envisioned the creation of ASEAN Economic Community by 2015 and has signed bilateral Free Trade Agreements (FTAs) with many major economies in Asia, with the ASEAN-China FTA (ACFTA) already in force.

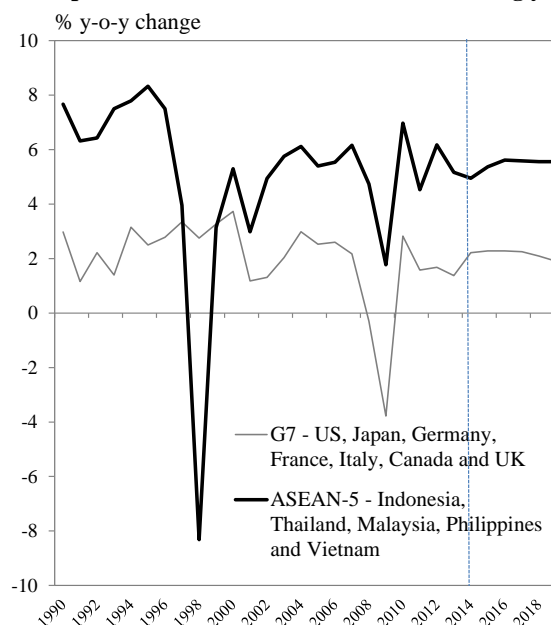
**Box 2.1 (Cont'd)**

**Chart 1 : ASEAN's composition and medium-term growth projection**

**(a) ASEAN-6 accounted for around 90% of aggregate ASEAN GDP at current price in 2012**



**(b) IMF forecast major ASEAN economies continue to outpace that of advanced economies in coming years**



In terms of economic size, the ACFTA is the world's third largest free trade zone, after North America Free Trade Area and the European Union. The tariff reduction under the FTA launched in 2005 and came fully in force for ASEAN-6 in 2010, bringing the tariffs for a substantial number of products traded between ASEAN-6 and the Mainland to zero. The remaining four newer ASEAN members will achieve similar goals by 2015. Reflecting the complementarity between the two places, and the support of the ACFTA in the more recent years, merchandise trade between the Mainland and ASEAN have grown rapidly, increasing more than fivefold in a decade to reach US\$443 billion in 2013. ASEAN taken as a group was Mainland's fourth largest export destination and the second largest import supplier in 2013, while the Mainland was ASEAN's largest export destination. The deepening economic ties between the two places should bring tremendous business opportunities to Hong Kong as an international trading hub and a gateway to the Mainland.

In the near term, the outlook for ASEAN economies is clouded by the sluggish recovery of the advanced markets and uncertainties surrounding the future path of US monetary policy normalisation. But looking beyond the short-term challenges, the longer-term growth potential remains promising. In fact, the International Monetary Fund (IMF) in April forecast the major ASEAN member economies on average to grow by 5.5% per year between 2015 and 2019, higher than those of the major advanced economies (*see Chart 1b*). Our exports to ASEAN have also grown visibly by 8.4% per year in the past decade, much faster than the growth rates of the US and European markets. To further strengthen the economic links between the two places, Hong Kong and ASEAN launched the formal negotiation for a FTA in July 2014. An FTA would facilitate trade and investment flows between ASEAN and Hong Kong to seize the business opportunities in the expanding ASEAN markets and diversify Hong Kong's market base.

## *Imports of goods*

2.6 *Imports of goods* grew by 3.7% year-on-year in real terms in the second quarter of 2014, picking up from the 1.1% growth in the preceding quarter in tandem with a rebound in re-exports. Within this, *retained imports*, which accounted for over one-quarter of total imports, grew by 2.6% in real terms in the second quarter over a year earlier, following a 4.8% growth in the preceding quarter. Analysed by end-use category, retained imports of foodstuffs accelerated notably while those of consumer goods also grew solidly further, reflecting continued expansion of local consumption. Retained imports of raw materials and semi-manufactures also registered moderate growth. Yet, against an exceptionally high base of comparison a year ago, retained imports of capital goods posted a visible year-on-year decline, while those of fuels also fell further.

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

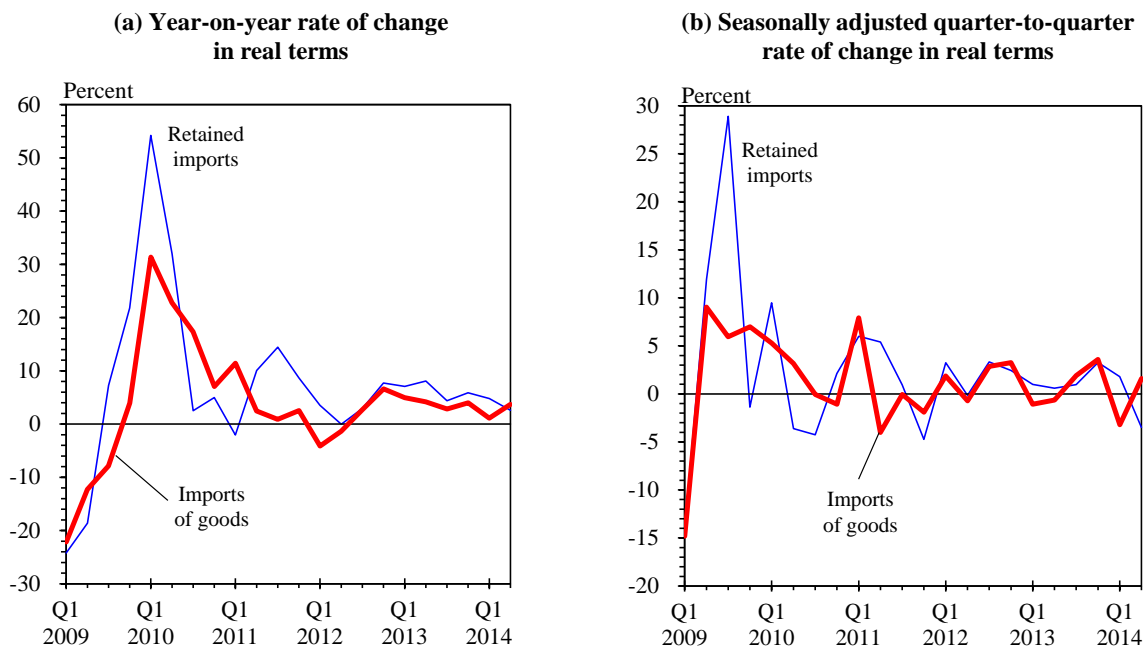
		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2013	Annual	3.8	3.9	0.9	4.5	6.3	0.6		
	H1	4.1	4.5	0.6	7.3	7.6	1.9		
	H2	3.5	3.4	1.1	2.1	5.2	-0.6		
	Q1	4.9	5.0	(-1.1)	1.1	8.1	7.1	(1.0)	3.7
	Q2	3.5	4.2	(-0.6)	0.2	6.6	8.1	(0.6)	0.4
	Q3	2.6	2.8	(1.9)	0.6	0.8	4.4	(1.0)	-1.2
	Q4	4.3	4.0	(3.6)	1.5	3.4	5.9	(3.3)	*
2014	H1	3.3	2.4	2.1	4.7	3.6	2.7		
	Q1	2.1	1.1	(-3.2)	2.1	5.8	4.8	(1.8)	3.1
	Q2	4.5	3.7	(1.6)	2.0	3.7	2.6	(-3.5)	2.4

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

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

(\*) Change of less than 0.05%.

**Diagram 2.12 : Imports grew moderately but retained imports decelerated**



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

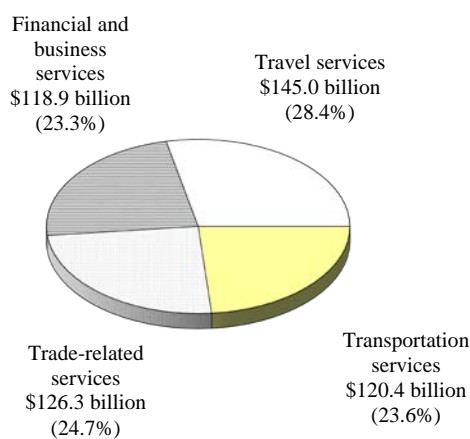
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2013	Annual	2.9	9.3	22.3	-3.3	0.2
	H1	2.9	6.6	18.7	5.0	0.9
	H2	2.8	11.8	25.1	-11.1	-0.4
	Q1	4.7	12.0	-3.1	12.3	7.6
	Q2	1.3	1.3	38.7	-0.8	-5.4
	Q3	9.5	12.1	16.8	-9.1	-5.9
	Q4	-3.0	11.6	32.7	-13.1	5.2
2014	H1	6.0	7.1	-4.6	8.0	-5.5
	Q1	4.0	1.9	6.1	9.7	-8.5
	Q2	7.9	12.8	-11.5	6.5	-2.3

## Invisible trade

### *Exports of services*

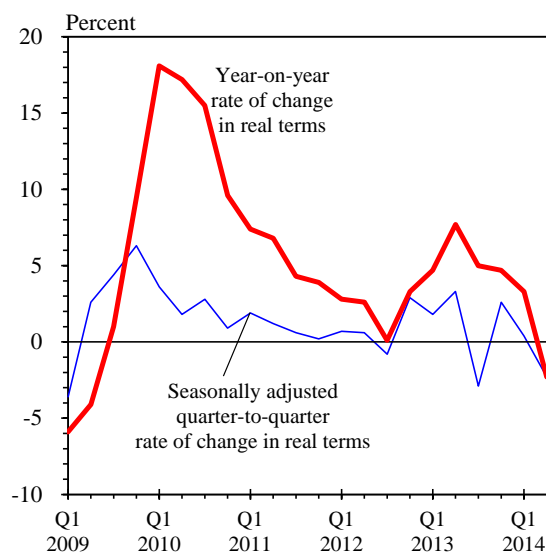
2.7 *Exports of services* slackened notably to a 2.3% year-on-year decline in real terms in the second quarter of 2014, compared with a 3.3% growth in the preceding quarter. Exports of travel services were the main drag, posting an 11.5% year-on-year contraction. Apart from a very high base of comparison in the same period a year earlier after brisk growth in tourist spending in the past year, the decline in exports of travel services also indicated the moderation in per capita spending by visitors as the number of visitor arrivals still grew at a nearly double-digit pace over the period. As to other service exports, exports of trade-related services and transportation services improved, in tandem with a gradual recovery in regional trade flows. Exports of financial and other business services also posted modest growth in the second quarter, amid further expansion in cross-border financial activities.

**Diagram 2.13 : Major service groups accounted for similar shares of Hong Kong's service exports, reflecting a diversified base**



*Exports of services in the first half of 2014:*  
\$510.6 billion

**Diagram 2.14 : Exports of services declined in the second quarter**



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

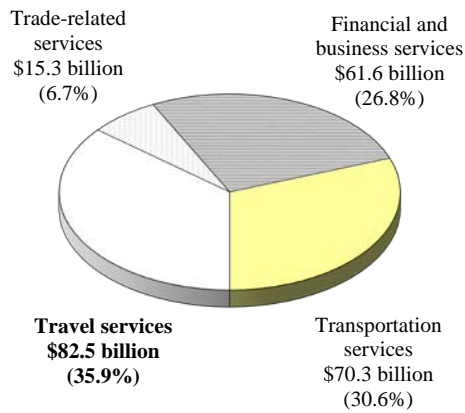
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>
2013	Annual	5.5	1.2	-1.1	18.2	3.5
	H1	6.2	2.3	-3.6	23.8	2.4
	H2	4.8	0.4	1.4	13.5	4.7
	Q1	4.7 (1.8)	2.8	-3.9	19.0	0.6
	Q2	7.7 (3.3)	1.8	-3.4	28.8	4.6
	Q3	5.0 (-2.9)	0.3	0.5	15.9	4.3
	Q4	4.7 (2.6)	0.5	2.4	11.3	5.0
2014	H1	0.5	0.6	1.8	-1.0	0.9
	Q1	3.3 (0.4)	-0.2	1.1	10.2	0.7
	Q2	-2.3 (-2.3)	1.5	2.4	-11.5	1.0

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

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

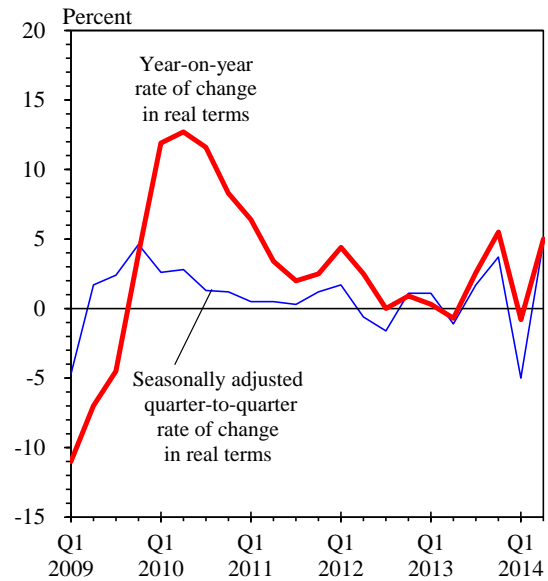
2.8 *Imports of services* rose moderately by 5.0% year-on-year in real terms in the second quarter of 2014, reversing the 0.8% decrease in the preceding quarter. Within this, imports of travel services rebounded visibly, due partly to a lower base of comparison as a result of the timing of Easter holidays, which fell in late March 2013 but in mid-April 2014. Meanwhile, imports of transportation services and trade-related services picked up modestly amid some improvement in international and regional trade flows, and imports of financial and other business services kept rising gradually.

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



*Imports of services in the first half of 2014:*  
\$229.8 billion

**Diagram 2.16 : Imports of services rose moderately**



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

*Of which :*

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2013	Annual	2.0	6.3	-1.7	-1.1	1.6
	H1	-0.2	3.5	-5.2	0.6	1.1
	H2	4.0	9.0	1.9	-2.3	2.0
	Q1	0.3 (1.1)	5.8	-6.0	2.3	0.2
	Q2	-0.7 (-1.1)	1.1	-4.4	-1.2	2.2
	Q3	2.6 (1.7)	5.5	0.4	-2.4	3.2
	Q4	5.5 (3.7)	12.6	3.6	-2.2	1.1
	2014	H1	2.0	4.1	0.4	1.6
	Q1	-0.8 (-5.0)	-2.8	-0.7	0.8	1.2
	Q2	5.0 (4.8)	11.2	1.4	2.5	1.3

Notes : (+) Comprising mainly outbound travel spending.

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

## Visible and invisible trade balance

2.9 While the visible trade account deficit in the second quarter of 2014 was smaller than that in the same quarter last year, the invisible trade account surplus fell on weaker exports of travel services. As such, the combined visible and invisible trade account in the second quarter of 2014 posted a deficit of \$32 billion, equivalent to 2.6% of the total value of imports of goods and services. This was slightly larger than the corresponding deficit of \$29 billion or 2.4% in the same quarter of 2013.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2013	Annual	3,816	1,063	4,395	467	-579	597	18	0.4
	H1	1,801	506	2,124	221	-323	285	-39	-1.7
	H2	2,015	558	2,271	246	-255	312	57	2.3
	Q1	872	256	1,024	114	-152	143	-10	-0.9
	Q2	929	249	1,100	107	-171	142	-29	-2.4
	Q3	1,000	271	1,117	118	-117	153	36	2.9
	Q4	1,015	286	1,153	127	-138	159	21	1.6
2014	H1	1,820	511	2,140	230	-320	281	-39	-1.6
	Q1	871	265	1,029	114	-158	151	-7	-0.6
	Q2	950	245	1,111	116	-162	130	-32	-2.6

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

## Other developments

2.10 Hong Kong always strives to foster closer economic relations with its major trading partners. In July, the Government commenced negotiations with the Association of Southeast Asian Nations (ASEAN) for a Free Trade Agreement (FTA). Given the significance of ASEAN to Hong Kong as a trading and investment partner (see *Box 2.1*), an FTA with ASEAN would facilitate trade between the two places and create new investment opportunities, solidifying Hong Kong's international trading and financial centre status. Hong Kong also entered into negotiations with some other World Trade Organisation members in July on the Environmental Goods Agreement, which would promote our export trade in eco-friendly goods. Separately, Hong Kong and Korea signed in July an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, which should



promote economic and trade connections between the two places.

2.11 Hong Kong also actively seeks ways to collaborate with other economies to provide trade facilitation measures for companies. In May, the Mutual Recognition Arrangement (MRA) between the Mainland and Hong Kong customs became operational for road cargoes. Under the MRA, local companies accredited by the Customs and Excise Department as Authorised Economic Operators (AEOs) can enjoy clearance facilitation for goods exported to the Mainland upon arrival, while Mainland companies similarly accredited by the Mainland customs will also have their exports of goods cleared expeditiously upon arrival in Hong Kong. In late June, another MRA was signed by the Hong Kong and Singapore customs, bringing the total number of MRAs concluded by Hong Kong with other customs to four.

2.12 Hong Kong continues to be a popular gateway for overseas enterprises to enter the Mainland market and a desirable springboard for the Mainland enterprises to go global. According to the United Nations Conference on Trade and Development's World Investment Report 2014, Hong Kong's foreign direct investment (FDI) inflows ranked the fourth among the world economies in 2013, and was the second biggest FDI recipient in Asia after the Mainland, signifying its significant role as an international commercial hub given its institutional strengths and favourable business environment.

**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. In addition, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (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*

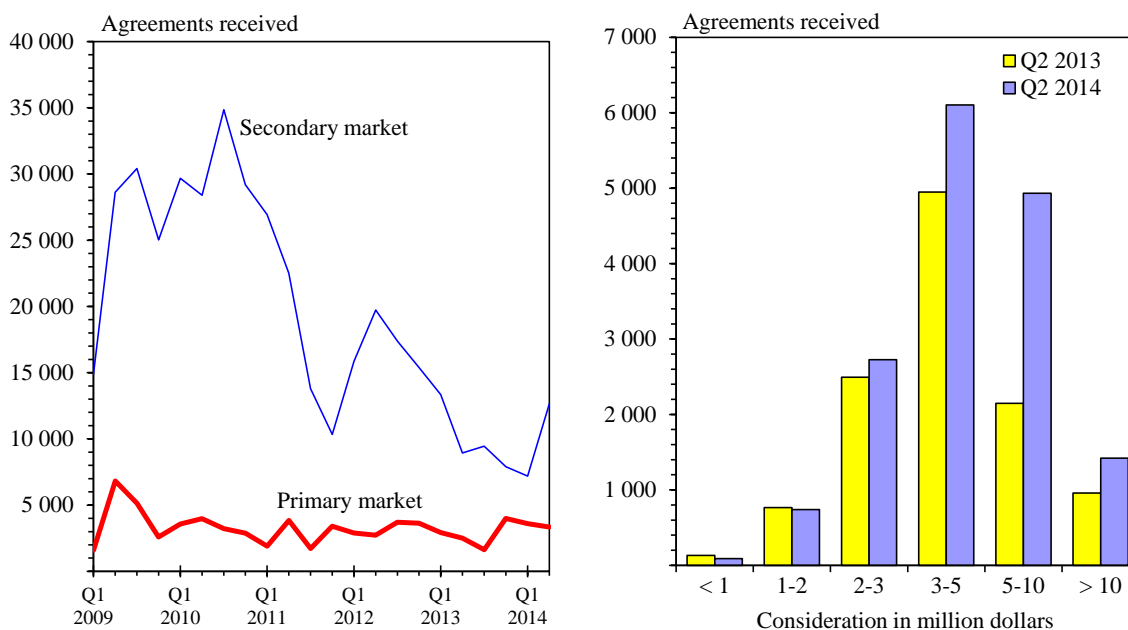
- *The residential property market showed some revival in the second quarter of 2014, having cooled off visibly in the past year or so. Sentiment improved as market concerns over an imminent US interest rate hike lessened. This, coupled with the launch of several large primary projects by developers at a discount to comparable developments in the secondary market, has helped unleash the pent-up demand. Trading activities picked up from the recent lows, while flat prices reverted to a modest increase of 3% during the quarter.*
- *Raising flat supply through increasing land supply is the Government's top policy priority in facilitating the healthy development of the property market. Reflecting the Government's sustained efforts, total flat supply in the coming three to four years increased further to a high of 73 000 units.*
- *The commercial and industrial property markets also firmed up somewhat in the second quarter. Trading activities rose back from very low levels, while prices and rentals generally recorded mild increases during the quarter.*
- *After the robust performance in the past few years, inbound tourism showed some slackening in the second quarter. Overall visitor arrivals moderated to a year-on-year growth of 9.6% to 13.8 million. Preliminary indicators suggested that visitor spending recorded a noticeable decline in the quarter.*
- *Supported by the gradual improvement in external trade performance, the logistics sector showed some pick-up. Total container throughput grew by a faster 6.1% in the second quarter over a year earlier, and the growth in air freight throughput likewise accelerated to 7.2%.*

## Property

3.1 Having cooled off visibly in the past year or so, the *residential property market* showed some revival in the second quarter of 2014. Sentiment improved as market concerns over an imminent US interest rate hike lessened. This, coupled with the launch of several large primary projects by developers at a discount to comparable developments in the secondary market, has helped unleash the pent-up demand. Trading activities picked up from the recent lows, while flat prices reverted to a modest increase.

3.2 Reflecting the pick-up in trading, the total number of sale and purchase agreements for residential property received by the Land Registry leapt by 48% over the preceding quarter or 40% over a year earlier to 16 011 in the second quarter, though still a low level by historical standards. The increase was driven by secondary market transactions, which surged by 76% over the preceding quarter, while primary market transactions fell by a modest 7%. In tandem, total consideration jumped by 38% to \$94.9 billion. Taking the first half of 2014 as a whole, the number of agreements increased by 17% over the second half of 2013 to 26 799 and total consideration by 14% to \$163.8 billion.

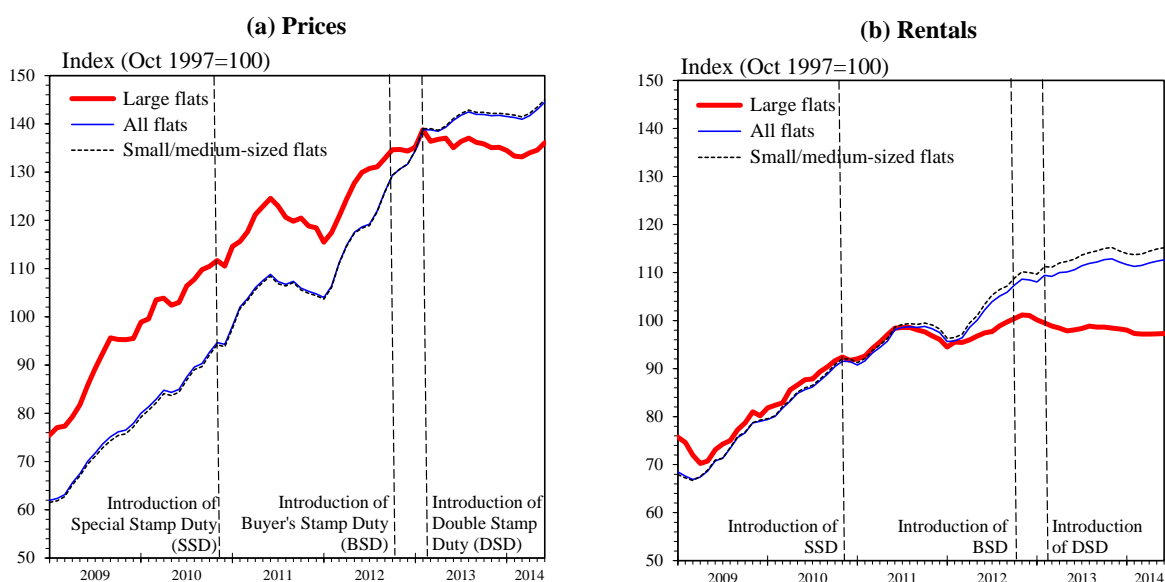
**Diagram 3.1 : Trading activities picked up in the second quarter**



3.3 In parallel to the increase in transactions, overall flat prices in the secondary market also rose, by 3% between March and June 2014. The increase was broad-based, with prices of small/medium-sized and large flats rising by 3% and 2% respectively. Compared with December 2013, overall flat prices in June 2014 rose by a cumulative 2%. In the primary market, developers continued to take a conservative pricing strategy in launching new projects, offering notable discounts and concessions to buyers.

3.4 The leasing market held stable. Overall flat rentals rose slightly by 1% between March and June, fully recouping the decline between December and March. Analysed by size, rentals of small/medium-sized flats rose by 1%, while those of large flats were little changed. Reflecting the relative movements of flat prices and rentals, the average rental yield for residential property edged down to 2.8% in June, from 2.9% in March.

**Diagram 3.2 : Both flat prices and rentals rose modestly during the second quarter**



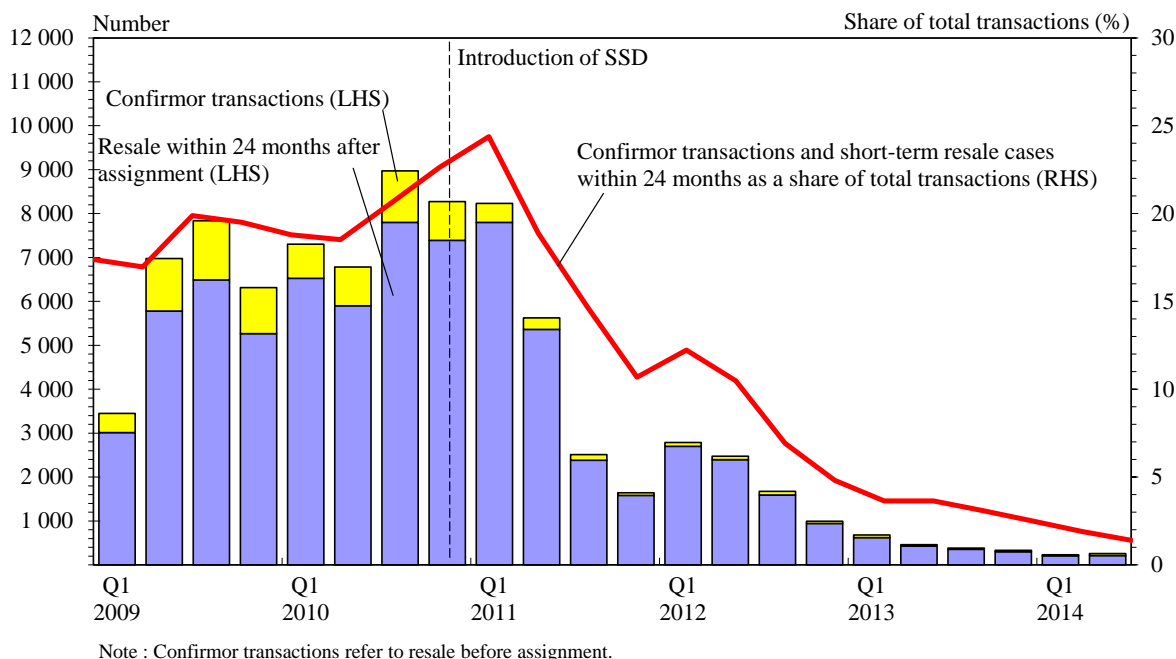
Note: Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m<sup>2</sup>, and small/medium-sized flats with a saleable area of less than 100 m<sup>2</sup>.

3.5 Raising flat supply through increasing land supply is the Government's top policy priority in facilitating the healthy development of the property market. In June 2014, the Government announced that a total of four residential sites, which are capable of providing about 2 100 flats, would be put up for sale by tender in the third quarter. Reflecting the Government's sustained efforts, completions of private domestic units jumped by 407% over a year earlier to 7 500 units in the first half of 2014. Over the medium term, *total supply of flats* in the coming few years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) increased further from

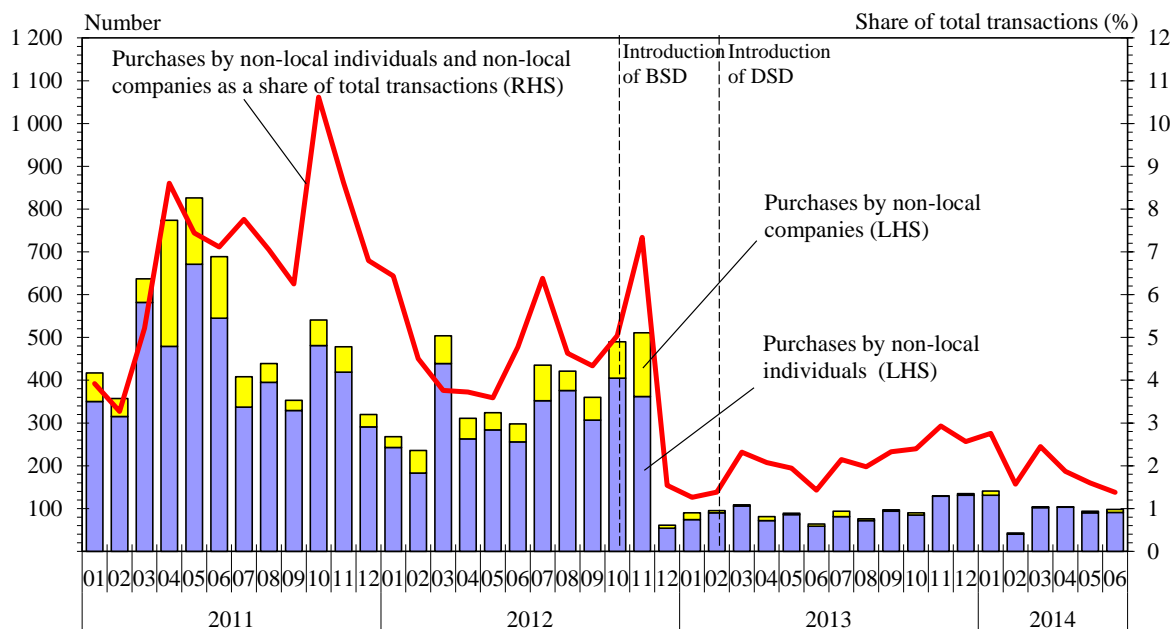
72 000 units as estimated at end-March to a high of 73 000 units as estimated at end-June. In addition, another 15 700 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites” and the completion of tendering of some sites in the months ahead.

3.6 As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market<sup>(1)</sup>. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) stayed low at 86 cases per month or 1.4% of total transactions in the second quarter of 2014, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer’s Stamp Duty, *purchases by non-local individuals and non-local companies*, at 99 cases per month or 1.6% of total transactions, were much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 56% in the quarter, also below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

**Diagram 3.3 : Speculative activities stayed subdued**

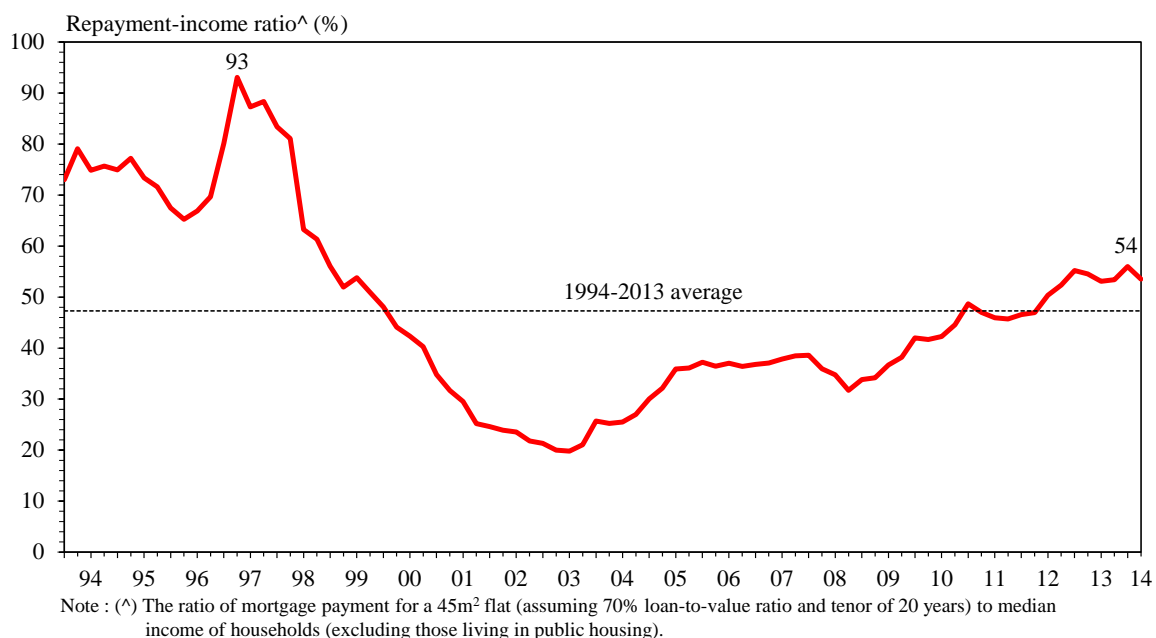


**Diagram 3.4 : Purchases by non-local buyers remained low**



3.7 However, following the almost uninterrupted rally in the past few years, overall flat prices in June 2014 have surpassed the 1997 peak by a rampant 44%. 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) remained elevated at around 54% in the second quarter, far surpassing the long-term average of 47.2% over 1994-2013. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 70%. This suggests that the various demand-side management measures are still needed to ensure the healthy and stable development of the property market. The recent passage of the relevant legislations for the Buyer’s Stamp Duty and the Double Stamp Duty should help achieve this end.

**Diagram 3.5 : The mortgage payment to income ratio stayed elevated**



3.8 The US Federal Reserve has started to reduce its asset purchases since January 2014. However, as there is still uncertainty over the pace of monetary normalisation in the US, interest rate expectations and international fund flows could show wide volatility in the months to come. Property prices may also experience fluctuations from time to time as sentiment shifts along with the latest developments in the US economy and the Federal Reserve's policy moves. The Government will continue to monitor the situation closely, and respond in a prompt and appropriate manner.

3.9 The *commercial* and *industrial property markets* also firmed up somewhat in the second quarter, after the consolidation in the past year or so. Trading activities rose back from very low levels, while prices and rentals generally recorded mild increases.

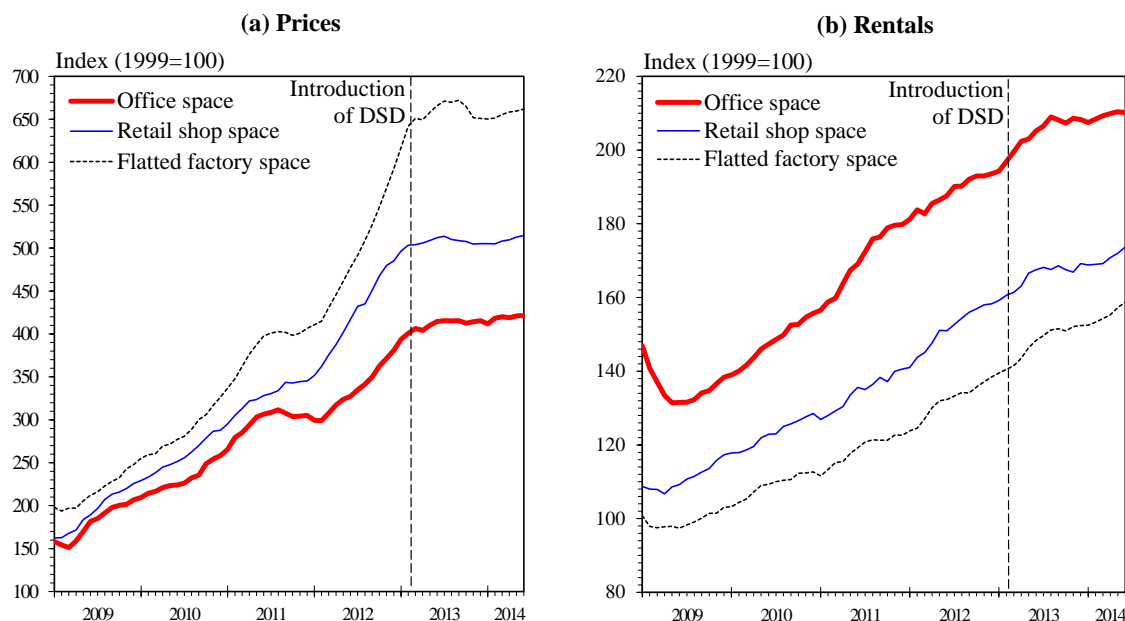
3.10 Transactions for *retail shop space* rebounded by a sharp 53% over the preceding quarter or 12% over a year earlier to 780 cases in the second quarter<sup>(2)</sup>, partly boosted by the breaking up of several shopping malls into smaller units for sale by the landlords. Sale prices and rentals of retail shop space picked up by 1% and 3% respectively comparing June with March. Comparing June with December, sale prices were modestly higher by 2% and rentals by 3%. The average rental yield for retail shop space stayed at a low of 2.4% in June, same as in March.

3.11 By comparison, the market for *office space* remained generally quiet. Transactions in the second quarter rose by 11% over the preceding quarter but shrank by 19% from a year earlier to 230 cases. Overall office prices were virtually unchanged between March and June. Within the total, prices of Grade B and Grade C office space rose by 2% and 3% respectively, while prices of Grade A office space fell by 1%. Overall office rentals were likewise flat over the period, with rentals of Grade B and C office space edging up by 1% and those of Grade A office space holding steady. Between December and June, overall sale prices and rentals of office space both edged up by 1%. The average rental yields in June for Grade A and B office space, at 2.9% and 3.0% respectively, were unchanged from March, while that for Grade C office space fell slightly from 2.9% in March to 2.8% in June.

3.12 The market of *flatted factory space* fared slightly better in the second quarter. Transactions leapt by 19% over the first quarter to 640 cases, though still recording a decline of 7% from a year earlier. Sale prices of flatted factory space rose by 1% and rentals by 3% between March and June. Compared with December, sale prices and rentals in June rose moderately, by 2% and 4% respectively. Reflecting the slightly faster rise in rentals than in

prices, the average rental yield edged up from 2.8% in March to 2.9% in June.

**Diagram 3.6 : Prices and rentals of non-residential properties recorded mild increases**



## Land

3.13 Reflecting the Government’s efforts to increase land supply, eight residential sites and one commercial/office site, with a combined area of about 4.6 hectares, were disposed in the second quarter, fetching a land premium of about \$10.4 billion. The tender exercises for three residential sites in Sha Tin and Tuen Mun, one residential and commercial/hotel site in Tsuen Wan, and one commercial/office/hotel site in Tsim Sha Tsui also commenced in June.

3.14 There were two land exchanges approved in the second quarter. Meanwhile, ten sites were approved for lease modifications.

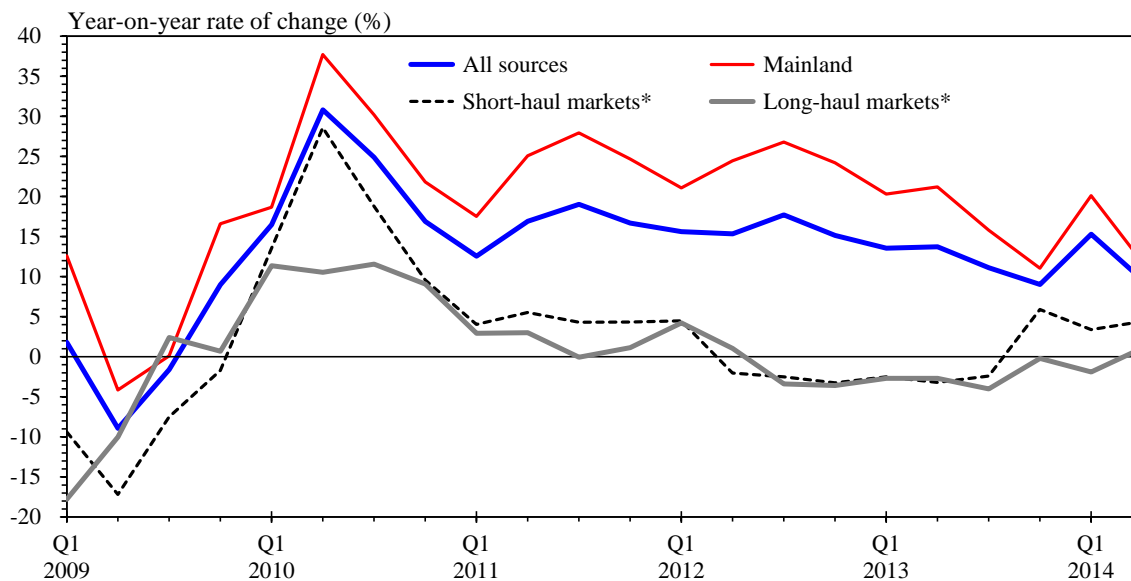
## Tourism

3.15 After the robust performance in the past few years, inbound tourism showed some slackening in the second quarter. Overall *visitor arrivals* moderated to a year-on-year growth of 9.6% to 13.8 million. Mainland visitors remained the growth driver, growing by a notable but decelerated 11.8% to reach 10.4 million. Visitors from the short-haul markets increased by 4.4%, while those from the long-haul markets reverted to an increase of 1.1% after seven quarters of decline<sup>(3)</sup>, conceivably reflecting the gradual recovery in the advanced economies. Taking the first six months as a whole, overall visitor arrivals rose by 12.5% over a year earlier to 28.5 million. Preliminary



indicators suggested that visitor spending recorded a noticeable decline in the second quarter, with exports of travel services falling by 11.5% from a year earlier.

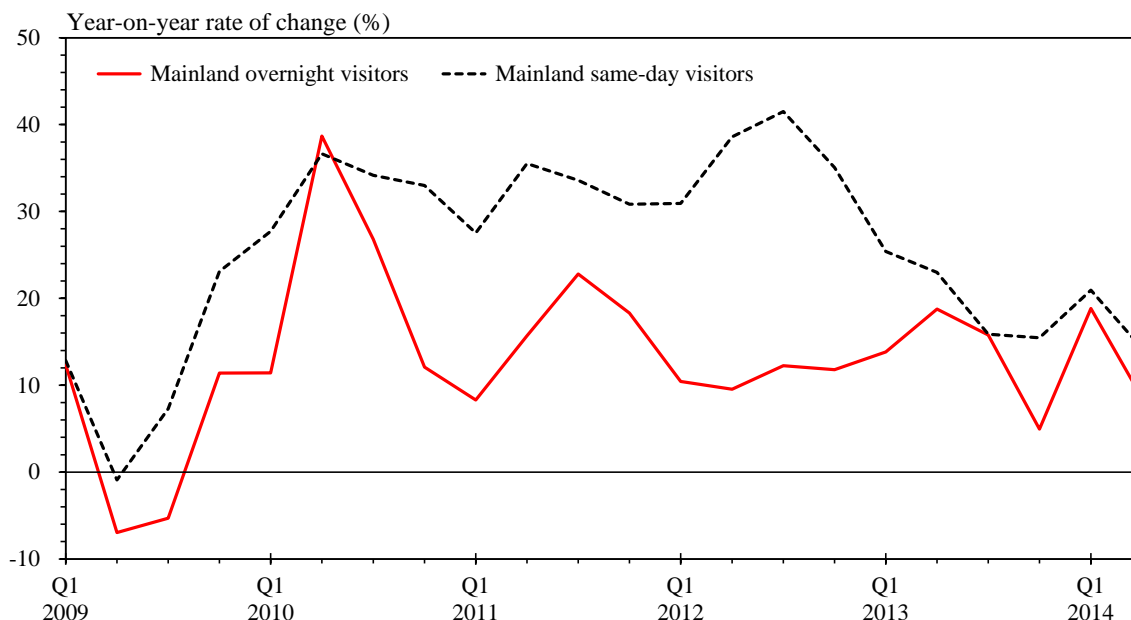
**Diagram 3.7 : Growth in visitor arrivals moderated in the second quarter**



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

3.16 Analysed by the length of stay, year-on-year growth in same-day and overnight visitor arrivals both moderated, to 11.4% and 7.5% respectively in the second quarter. The deceleration was more visible in Mainland overnight visitors. As growth in same-day visitors continued to outpace that of overnight visitors, the share of same-day visitors rose from 52.7% a year earlier to 53.6% in the second quarter, while that of overnight visitors declined from 47.3% to 46.4%.

**Diagram 3.8 : Mainland overnight visitors recorded more visible deceleration in growth**

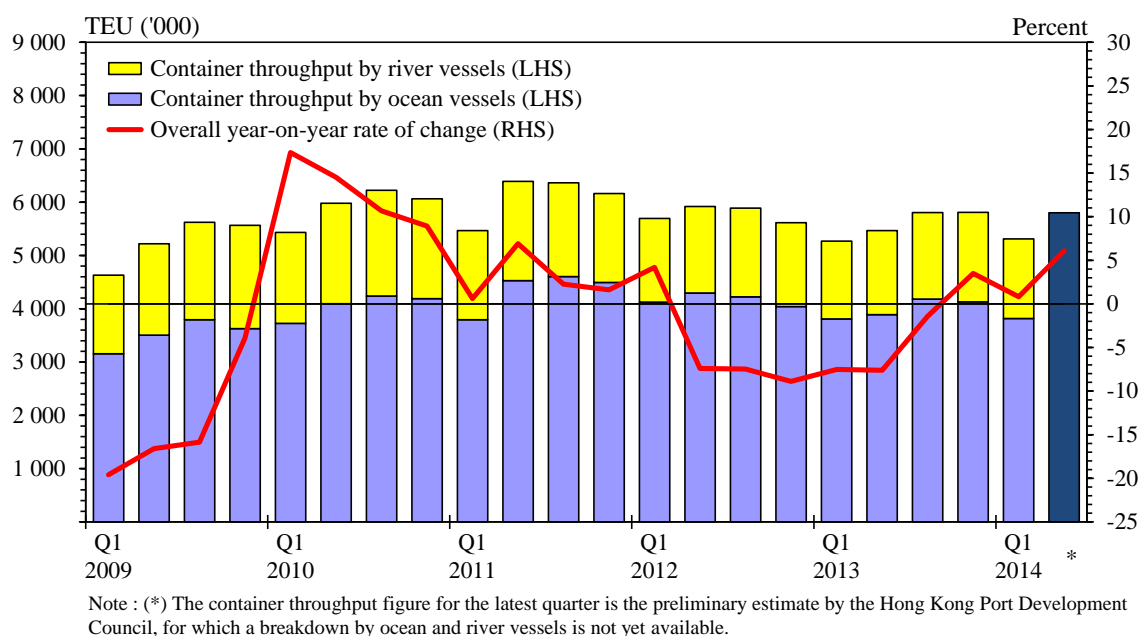


3.17 Along with the growth in visitor arrivals, the average hotel room occupancy rate remained high at 88% in the second quarter. The average achieved hotel room rate rose by 4.0% over a year earlier to \$1,431<sup>(4)</sup>.

## Logistics

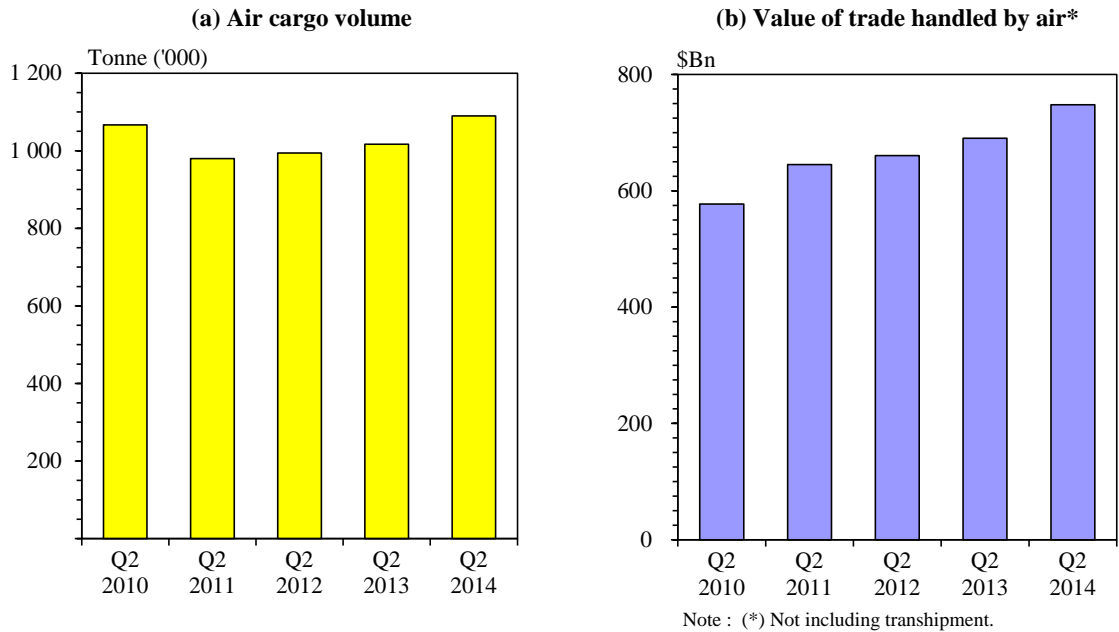
3.18 Supported by the gradual improvement in external trade performance, the logistics sector showed some pick-up in the second quarter. *Total container throughput* accelerated to a 6.1% growth over a year earlier to 5.8 million twenty-foot equivalent units (TEUs), though partly due to a low base of comparison. For the first half as a whole, container throughput grew by 3.5% over a year earlier to 11.1 million TEUs. While the value of trade handled at the Hong Kong port in the second quarter rose by 2.1% over a year earlier, its share in total trade fell from 23.2% to 22.6%.

**Diagram 3.9 : Container throughput showed some pick-up**



3.19 *Air freight throughput* continued to improve in the second quarter, rising by an accelerated 7.2% over a year earlier to 1.1 million tonnes. For the first half as a whole, air freight throughput increased by 6.3% to 2.1 million tonnes. In the second quarter, the total value of trade by air leapt by 8.4% over a year earlier, and its share in overall trade value rose from 37.2% to 38.6%.

**Diagram 3.10 : Air cargo throughput and value of trade handled by air rose further**



3.20 In April the report on the Consultancy Study on Enhancing Hong Kong's Position as an International Maritime Centre, commissioned by the Hong Kong Maritime Industry Council, was released. The study recognises that Hong Kong has the potential to bring together a diversity of high value-added maritime services and become the preferred base in Asia for international maritime business. It highlighted Hong Kong's advantages in developing high value-added maritime services, including ship registration, management, finance, marine insurance, law and maritime arbitration. It also explored ways to enhance Hong Kong's position as an international maritime centre (IMC) and proposed a strategic development blueprint for Hong Kong to reinforce and maintain its position as an IMC amid competition in the region.

## Transport

3.21 Traffic flows for most major modes of transport saw further growth in the second quarter. Amid the sustained rise in visitor arrivals, air passenger traffic increased by 7.3% over a year earlier to 15.7 million, and water-borne passenger trips by 3.0% to 6.9 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 4.1% to 576 400, while average daily vehicular movements fell by 2.3% to 41 800.

## **Creativity and Innovation**

3.22 The Copyright (Amendment) Bill 2014 was gazetted in June and subsequently introduced to the Legislative Council. The Bill is to update Hong Kong's copyright regime and ensure that it keeps pace with technology and overseas developments. Key proposals under the Bill include the introduction of a technology-neutral exclusive right for copyright owners to communicate their works through any mode of electronic submission, introduction of corresponding criminal sanctions against unauthorised communication of copyright works to the public, expansion of the scope of copyright exception under the existing law by exempting criminal and civil liabilities for the purposes of (i) parody, satire, caricature or pastiche; (ii) quotation; and (iii) commenting on current events, establishing a statutory "safe harbour" for online services provider, and introduction of additional factors for the court to consider in assessing damages in civil cases in which infringement has been established.

### **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. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South and 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 second quarter of 2014, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 75%, 16% and 9% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *The low interest rate environment in Hong Kong continued in the second quarter of 2014 amid the ongoing accommodative monetary policy in the United States.*
- *In the second quarter, the Hong Kong dollar spot exchange rate stayed close to the strong-side Convertibility Undertaking of 7.75 per US dollar, mainly reflecting mild portfolio inflows, and stronger short-term liquidity needs and commercial demand near the half-year end. Meanwhile, the trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index and Real Effective Exchange Rate Index both increased.*
- *The Hong Kong dollar monetary aggregates recorded accelerated growth in the second quarter. Total loans and advances continued to increase, mainly supported by the growth in loans for use in Hong Kong.*
- *The local stock market regained momentum in the second quarter, as market sentiment was underpinned by signs of a reviving Mainland economy, an improving US economy, and the Federal Reserve keeping an accommodative monetary stance. The Hang Seng Index rose by 4.7% over end-March to 23 191 at end-June, almost recouping all the loss suffered during the first quarter.*

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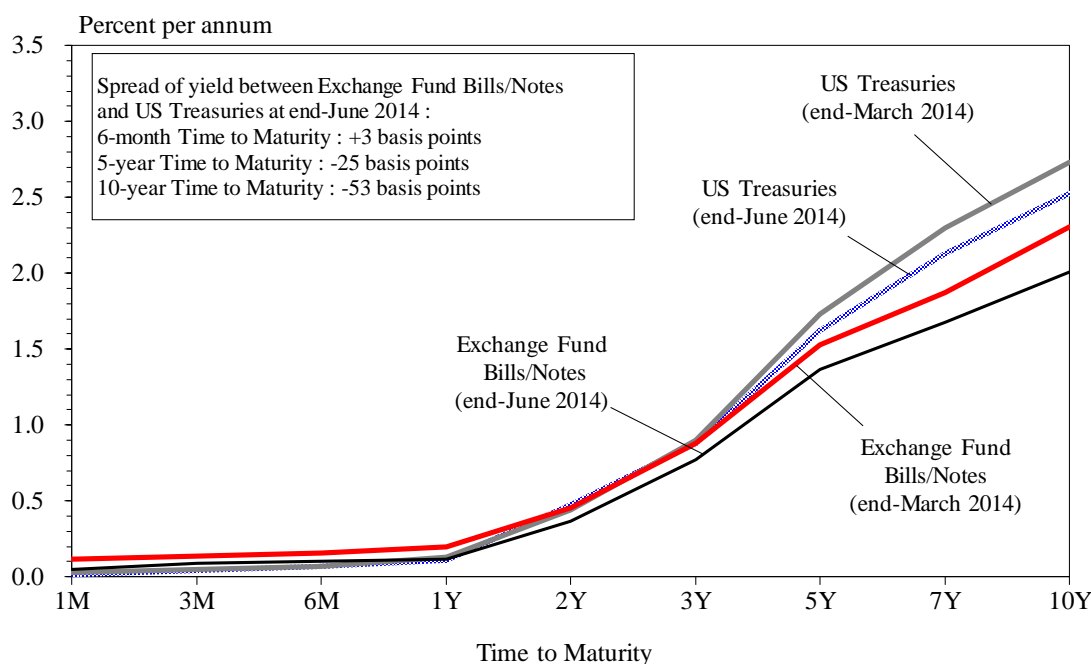
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the second quarter of 2014 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate staying at 0-0.25%, the Base Rate under the Discount Window operated by the HKMA held unchanged at 0.5%<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* (HIBOR) also hovered at low levels. The three-month HIBOR edged up by one basis point from end-March to 0.38% at end-June, while the overnight HIBOR picked up from 0.06% to 0.20%, due mainly to the temporary demand for liquidity near the half-year end.

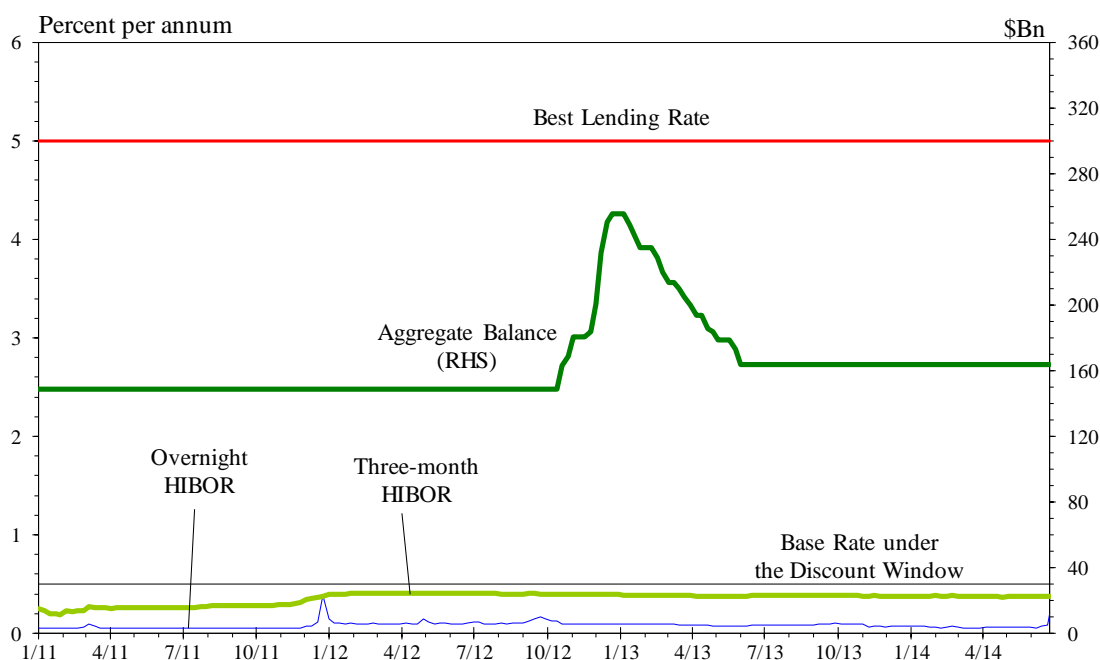
4.2 The *Hong Kong dollar* and *US dollar yield curves* both flattened in the second quarter. Reflecting the larger decline in the Hong Kong dollar yields, the positive yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed slightly from nine basis points at end-March to three basis points at end-June, while the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes widened from 43 basis points to 53 basis points.

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



4.3 Interest rates on the retail front remained low. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% through the second quarter. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 also remained unchanged at 0.01% and 0.16% respectively. The *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, edged up from 0.41% at end-March to 0.47% at end-June.

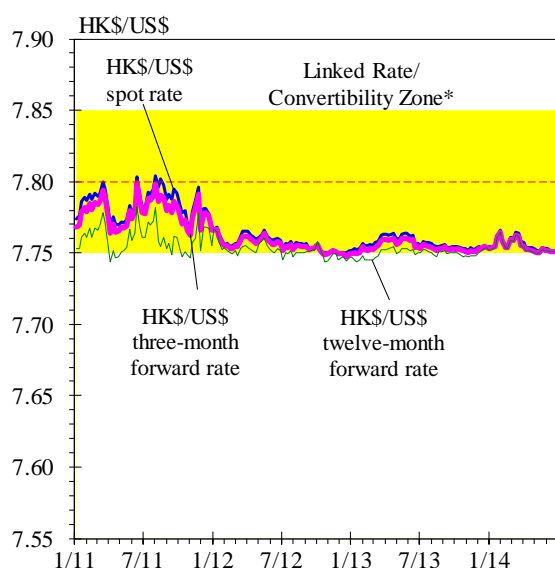
**Diagram 4.2 : Hong Kong dollar interest rates remained low  
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* stayed close to the strong-side Convertibility Undertaking of 7.75 per US dollar throughout the second quarter, mainly reflecting mild portfolio inflows, and stronger short-term liquidity needs and commercial demand near the half-year end. As a result, the Hong Kong dollar spot exchange rate strengthened from 7.757 at end-March to 7.751 at end-June. Meanwhile, the differential between the *3-month Hong Kong dollar forward rate* and spot rate turned from -26 pips (each pip equivalent to HK\$0.0001) to +7 pips, and that between the *12-month forward rate* and spot rate from -31 pips to +8 pips.

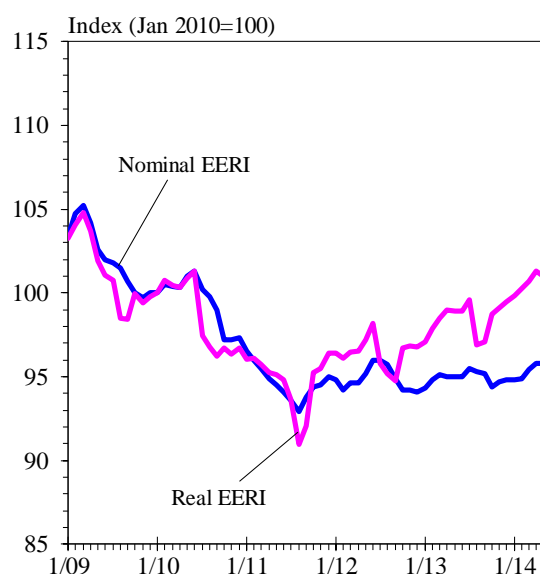
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. With the US dollar strengthening against the euro while weakening against pound sterling and Japanese yen, the *trade-weighted Hong Kong dollar Nominal Index* and *Real Effective Exchange Rate Index*<sup>(3)</sup> went up by 0.5% and 0.3% respectively between March and June.

**Diagram 4.3 : Hong Kong dollar strengthened 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 : The trade-weighted nominal and real EERIs both increased (average for the month)**

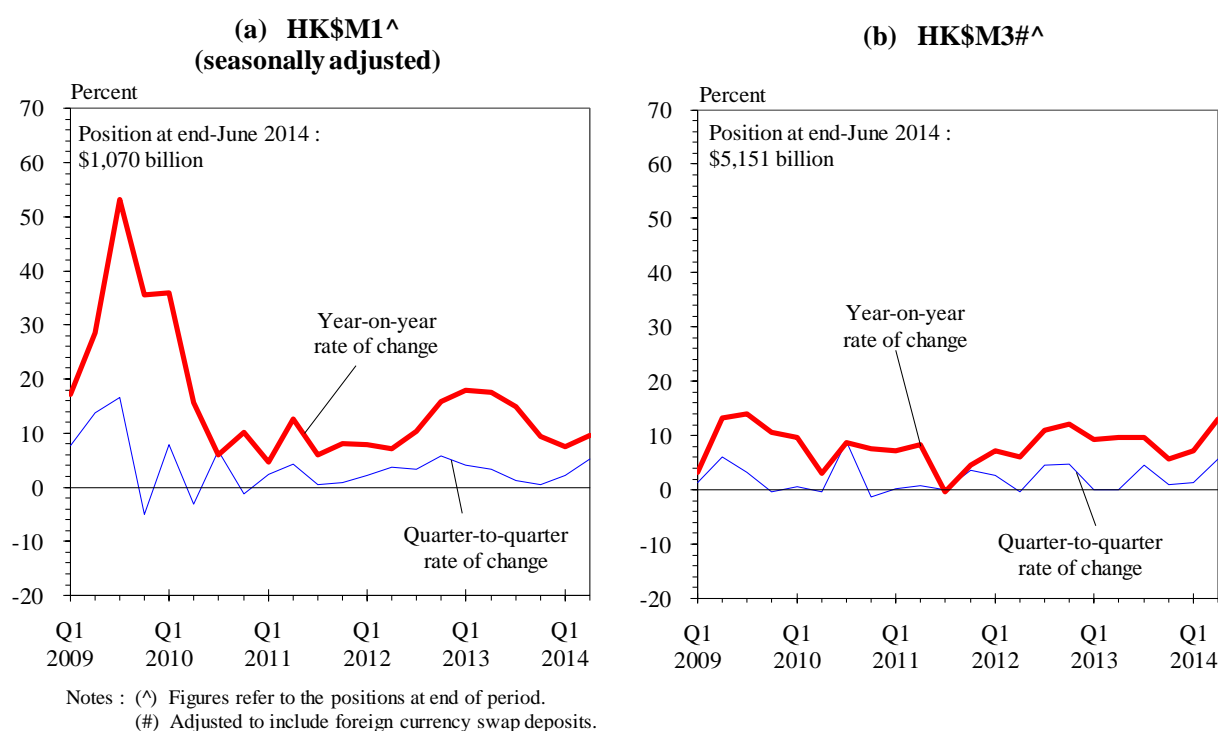


## Money supply and banking sector

4.6 The monetary aggregates recorded accelerated growth in the second quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by 5.3% over end-March to \$1,070 billion at end-June, and the broad money supply (HK\$M3) by 5.7% to \$5,151 billion<sup>(4)</sup>. Meanwhile, *total deposits* with authorized institutions (AIs)<sup>(5)</sup> expanded by 4.6% to \$9,612 billion, within which Hong Kong dollar deposits rose by 6.0% and foreign currency deposits by 3.3%.



**Diagram 4.5 : The monetary aggregates recorded accelerated growth**



**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\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2013	Q1	4.0	1.0	0.1	1.1	0.1	1.1
	Q2	3.3	2.7	0.0	1.9	0.1	1.9
	Q3	1.2	3.9	4.6	5.5	4.6	5.5
	Q4	0.6	1.8	0.9	3.4	0.9	3.4
2014	Q1	2.2	0.8	1.4	0.9	1.4	0.9
	Q2	5.3	6.9	5.7	4.5	5.7	4.5
Total amount at end-June 2014 (\$Bn)		1,070	1,628	5,140	10,599	5,151	10,632
% change over a year earlier		9.6	14.0	13.1	15.0	13.1	15.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Total loans and advances increased by 3.6% over end-March to \$7,074 billion at end-June. Within the total, Hong Kong dollar loans and foreign currency loans rose by 3.8% and 3.4% respectively. Reflecting the movements in deposits and loans, the loan-to-deposit ratio for Hong Kong

dollar declined from 84.3% at end-March to 82.5% at end-June, while that for foreign currency was little changed at 65.0%.

4.8 Loans for use in Hong Kong (including trade finance) expanded by 4.5% over end-March to \$5,041 billion at end-June, while loans for use outside Hong Kong increased by a milder 1.7% to \$2,033 billion. Within the former, loans to major economic sectors recorded increases of different extents. Loans to manufacturing and wholesale and retail trade rose notably, by 6.7% and 5.2% respectively. Trade financing recorded a decelerated 2.2% growth. As for property-related lending, loans to building, construction, property development and investment increased by 1.6%, while loans for purchase of residential property rose by an accelerated 2.1% alongside the revival of the property market.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
Loans to :									All loans and advances for use outside Hong Kong <sup>(c)</sup>		Total loans and advances
% change during the quarter		Trade finance	Manu- facturing	Wholesale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers	Total <sup>(b)</sup>		
2013	Q1	19.3	2.5	1.1	-0.7	1.7	5.1	26.3	3.1	2.9	3.0
	Q2	23.9	9.3	8.8	4.2	1.3	3.3	17.3	7.0	4.3	6.3
	Q3	7.9	4.4	6.7	4.3	0.5	3.5	125.5	3.6	8.5	5.0
	Q4	-9.8	0.8	1.6	-0.8	0.3	6.5	-53.2	-0.5	4.3	0.9
2014	Q1	12.4	7.4	5.5	2.7	1.0	11.6	38.2	6.5	3.7	5.7
	Q2	2.2	6.7	5.2	1.6	2.1	3.7	68.0	4.5	1.7	3.6
Total amount at end-June 2014 (\$Bn)		631	248	464	1,037	979	378	72	5,041	2,033	7,074
% change over a year earlier		11.7	20.5	20.4	8.0	3.9	27.6	145.2	14.8	19.3	16.0

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

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

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

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

4.9 The Hong Kong banking sector remained resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 15.9% at end-March 2014. So far no AIs have encountered difficulties in complying with the statutory minimum ratios required by the HKMA under Basel III<sup>(6)</sup>.

4.10 The first round of industry consultation on the proposals for establishing and implementing a local regulatory and supervising framework for systemically important AIs in Hong Kong, with reference to the Basel Committee's principles, was closed in May. Through the application of a range of prudential and supervisory requirements to these designated AIs, the proposals would help reduce the probability of failure and the extent or impact of failure of these AIs, thereby ensuring the resilience of the financial sector of Hong Kong. The HKMA would consider the comments received, and develop the regulatory and supervisory framework in due course.

4.11 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans edged down from 0.48% at end-2013 to 0.46% at end-March 2014. The delinquency ratio for credit card lending increased slightly from 0.20% to 0.22%, still a relatively low level. The delinquency ratio for residential mortgage loans continued to stay at a low level of 0.02% 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 (gross)</u>
2013	Q1	98.32	1.22	0.46
	Q2	98.42	1.11	0.47
	Q3	98.25	1.27	0.48
	Q4	98.33	1.20	0.48
2014	Q1	98.42	1.12	0.46

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

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

4.12 Renminbi (RMB) business maintained good growth momentum. *RMB trade settlement handled by banks in Hong Kong* amounted to RMB1,437 billion in the second quarter, 66.3% higher than a year earlier though 3.5% lower than the high base in the preceding quarter. Also, RMB bond issuance reached a new high of RMB70 billion in the second quarter. Taking the first half as a whole, the amount of RMB bonds issued reached RMB130 billion, already exceeding the annual total of RMB117 billion in 2013.

4.13 Meanwhile, the *outstanding amount of RMB loans* surged by 15.5% from end-March to about RMB139 billion at end-June. Yet *total RMB deposits* (including customer deposits and outstanding certificates of deposit) edged down from a high of RMB1,158 billion to RMB1,125 billion over the period.

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

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement<sup>(c)</sup></u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)		
2013	Q1	144,314	523,744	668,058	0.25	0.52	140	830,955
	Q2	127,512	570,447	697,959	0.25	0.53	140	864,366
	Q3	135,217	594,801	730,018	0.25	0.53	143	921,282
	Q4	151,055	709,417	860,472	0.25	0.53	146	1,224,349
2014	Q1	167,082	777,828	944,910	0.25	0.53	147	1,488,813
	Q2	150,696	775,218	925,914	0.25	0.53	148	1,437,291
% change over the preceding quarter		-9.8	-0.3	-2.0	N.A.	N.A.	N.A.	-3.5
% change over a year earlier		18.2	35.9	32.7	N.A.	N.A.	N.A.	66.3

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**

4.14 The Hong Kong dollar debt market showed steady performance in the second quarter. The total gross issuance edged up by 0.1% from the preceding quarter to \$593.8 billion. Within the total, private sector debt issuance<sup>(7)</sup> declined by 10.7%, with the plunges in new debts issued by AIs and local corporations more than offsetting the growth in new debts issued by non-MDBs overseas borrowers. By comparison, public sector debt issuance increased by 1.5%. At end-June, the total outstanding balance of Hong Kong dollar debt declined by 2.2% from end-March to \$1,396.7 billion. This was equivalent to 27.1% of HK\$M3 or 23.2% of Hong Kong dollar-denominated assets of the banking sector<sup>(8)</sup>.

4.15 As to the Government Bond (“GB”) Programme, two bond tenders were held in the second quarter of 2014, which included the new issuance of \$3 billion institutional GBs in April and the switch tender<sup>(9)</sup> of \$0.8 billion institutional GBs in May. As at end-June, the outstanding size of bonds issued amounted to \$97 billion, including 11 institutional issues for \$67 billion, and three inflation-linked bond (iBond) issues for \$30 billion. Separately, the fourth issuance of iBond, with a maximum issuance of \$10 billion, was made available for subscription on 23 July 2014.

**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	Als	Local corporations	Non-MDBs overseas borrowers <sup>^</sup>	Private sector total	MDBs <sup>^</sup>	Total
<b>New Issuance</b>										
2013 Annual	2,123.4	10.7	30.0	2,164.1	143.0	25.6	23.1	191.7	0.9	2,356.8
Q1	508.9	3.5	7.0	519.4	32.5	11.6	6.1	50.3	-	569.7
Q2	537.6	5.0	13.0	555.6	39.5	2.2	7.5	49.2	-	604.7
Q3	532.0	1.1	7.0	540.1	43.2	6.6	2.4	52.2	0.9	593.2
Q4	545.0	1.1	3.0	549.1	27.8	5.2	7.1	40.0	-	589.1
2014 Q1	525.4	2.5	7.5	535.4	33.3	9.8	13.3	56.4	1.3	593.1
Q2	539.5	0.2	3.8	543.5	23.2	6.5	20.6	50.3	0.0	593.8
% change in 2014 Q2 over 2013 Q2	0.4	-96.8	-70.8	-2.2	-41.3	199.2	175.8	2.3	-	-1.8
% change in 2014 Q2 over 2014 Q1	2.7	-93.5	-49.3	1.5	-30.3	-33.4	55.0	-10.7	-	0.1
<b>Outstanding (as at end of period)</b>										
2013 Q1	708.6	45.7	72.0	826.4	249.7	123.0	145.8	518.5	10.2	1,355.1
Q2	750.1	43.2	85.0	878.3	250.9	117.0	149.0	516.9	9.9	1,405.0
Q3	750.6	40.1	88.5	879.2	248.1	122.9	148.1	519.2	10.4	1,408.7
Q4	751.2	39.8	91.5	882.5	250.1	127.9	148.7	526.7	10.2	1,419.4
2014 Q1	751.5	40.1	95.5	887.1	249.0	130.4	150.9	530.3	11.1	1,428.4
Q2	752.0	37.1	99.3	888.4	228.9	124.4	148.1	501.5	6.9	1,396.7
% change over a year earlier	0.3	-14.0	16.8	1.2	-8.7	6.3	-0.6	-3.0	-30.5	-0.6
% change over the preceding quarter	0.1	-7.4	4.0	0.1	-8.1	-4.6	-1.9	-5.4	-38.0	-2.2

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

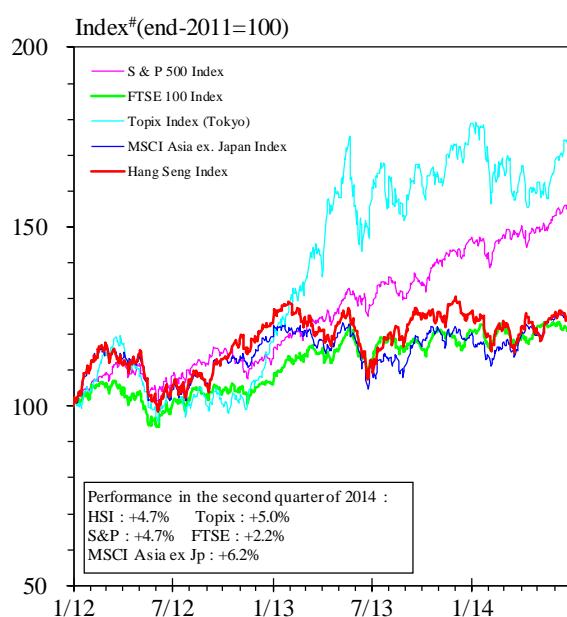
(<sup>^</sup>) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.16 The *local stock market* regained momentum in the second quarter of 2014, as market sentiment was underpinned by signs of a reviving Mainland economy, an improving US economy, and the Federal Reserve keeping an accommodative monetary stance. Alongside the uptrend in the major overseas stock markets, the Hang Seng Index (HSI) rose by 4.7% over end-March to 23 191 at end-June, almost recouping all the loss suffered during the first quarter. In tandem, the *market capitalisation* of the Hong Kong stock market rose by 3.8% to \$23.9 trillion. According to the World Federation of Exchanges, the local stock market was the sixth largest stock exchange in the world and second largest in Asia<sup>(10)</sup>.

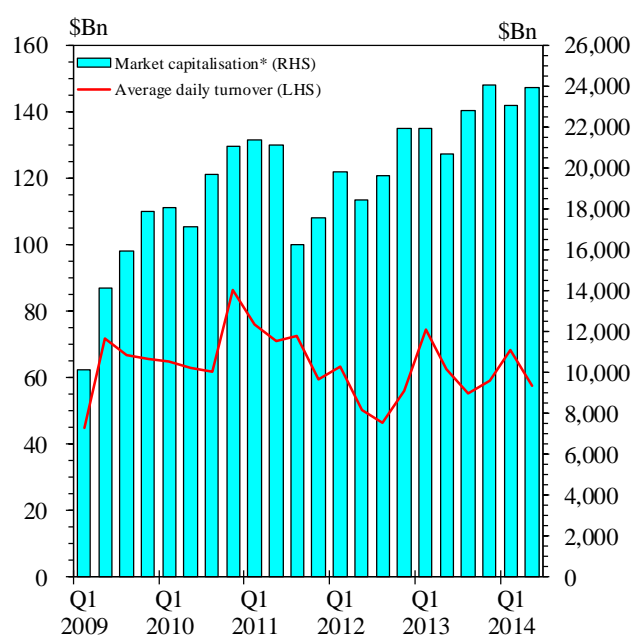
4.17 Yet trading activities quietened down. *Average daily turnover* in the securities market fell by 15.9% from the preceding quarter or 7.8% from a year earlier to \$57.5 billion in the second quarter. Trading of *derivatives products*<sup>(11)</sup> also contracted. The average daily trading volume of futures and options fell by 10.5% from the preceding quarter, with trading of HSI options, stock options, HSI futures and H-shares Index futures down by 0.1%, 8.5%, 9.4% and 16.2% respectively. The average daily trading value of securitised derivatives products went down by 13.9%, with trading of derivative warrants and callable bull/bear contracts dropping by 9.5% and 20.0% respectively.

**Diagram 4.6 : The Hang Seng Index re-gathered some momentum in the second quarter of 2014**



Notes : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation rose but trading activities quietened down**



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

**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) <sup>^</sup>
2013	Annual	80 247	35 252	85 538	249 295	532 905	7,309	5,202	12,510
	Q1	82 570	38 464	77 111	278 115	552 686	10,268	6,032	16,301
	Q2	91 137	43 304	87 653	256 162	563 658	7,150	5,433	12,583
	Q3	78 192	31 109	87 853	217 169	503 305	6,190	5,250	11,441
	Q4	69 587	28 614	89 157	247 867	514 398	5,783	4,138	9,920
2014	Q1	71 607	28 842	92 576	274 757	554 700	7,077	5,090	12,167
	Q2	64 897	28 810	77 613	251 375	496 449	6,404	4,074	10,478
% change in 2014 Q2 over 2013 Q2		-28.8	-33.5	-11.5	-1.9	-11.9	-10.4	-25.0	-16.7
% change in 2014 Q2 over 2014 Q1		-9.4	-0.1	-16.2	-8.5	-10.5	-9.5	-20.0	-13.9

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

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

4.18 Fund raising activities slowed down in the first half of 2014, though showing some signs of pick-up in June. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(12)</sup>, declined by 10.8% from the second half of 2013 to \$215.8 billion, though soaring by 57.5% over the low base a year earlier. Within the total, the amount of funds raised through initial public offerings dwindled by 37.2% from the second half of 2013 to \$81.1 billion.

4.19 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-June 2014, a total of 837 Mainland enterprises (including 194 H-share companies, 129 “Red Chips” companies and 514 private enterprises) were listed on the Main Board and GEM, accounting for 50% of the total number of listed companies and 57% of total market capitalisation. In the second quarter, Mainland-related stocks accounted for 69% of equity turnover and 63% of total equity fund raised in the Hong Kong stock exchange.



4.20 In early June the Hong Kong Exchanges and Clearing Limited announced to extend the closing time of its After-hours Futures Trading (AHFT) from 11:00 pm to 11:45 pm with effect from 3 November 2014. The arrangement will further increase AHFT's overlap with the business hours in key European and North American markets, including London and New York, thereby strengthening market participants' capability to hedge or adjust their position in response to latest news and overseas events.

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

4.21 Different segments of the fund management business showed a mixed performance in the second quarter. In parallel to the rebound in the equity market, the aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(13)</sup> rose by 5.1% over end-March 2014 to \$543 billion at end-June. Gross retail sales of *mutual funds* edged down by 0.2% from the preceding quarter to US\$20.6 billion in the second quarter, though increasing by 2.1% over a year earlier<sup>(14)</sup>. The amount of net assets managed by *retail hedge funds* showed a modest decline<sup>(15)</sup>.

4.22 In late June, the Government and the Mandatory Provident Fund Schemes Authority (MPFA) jointly launched a three-month public consultation on the proposal to introduce a "core fund", which would serve as the default fund of all MPF schemes. The "core fund" would adopt a life cycle or target date investment strategy that automatically reduces investment risks as scheme members approach retirement age, and would be subject to fee control at a level not exceeding 0.75% of the fund assets under management. The "core fund" would help manage the long-term risks associated with investment of retirement savings. It could also become a benchmark in MPF fees and performance, thereby enhancing competition and driving down management fees for other MPF funds. Depending on the outcome of the consultation, the Government and the MPFA will follow up on the legislative and implementation issues, with a view to launching the "core fund" in 2016.

4.23 Separately, the Mandatory Provident Fund (MPF) Schemes (Amendment) Bill 2014 was gazetted in June and was subsequently introduced into the Legislative Council in July. The Bill provides for, among others, phased withdrawal of accrued benefits as an additional option for scheme members upon retirement and early retirement. The accrued benefits withdrawn in phases, as is the case for lump-sum withdrawal, will be tax-exempted. The proposal would facilitate the management of MPF accrued benefits to meet their needs after retirement.

## Insurance sector

4.24 Business in the *insurance sector*<sup>(16)</sup> was generally good in the first quarter of 2014. Gross premium income from long-term business soared by 21.5% over a year earlier, though the different underlying business segments recorded a mixed performance. Premium income from non-investment linked plans jumped by 35.6% while that from investment-linked plans plunged by 31.1%. Meanwhile, gross premium for general business increased by a modest 1.6%, but the net premium declined by 1.0%.

4.25 The Insurance Companies (Amendment) Bill 2014, which provides for a legal framework for establishing an independent Insurance Authority (IA) and a statutory licensing regime for insurance intermediaries, was introduced to the Legislative Council in April. Through establishing an insurance regulator that is independent of the industry and the Government, the Bill marks a major step forward in modernising the regulatory infrastructure of the insurance industry, and will provide better protection for policyholders and facilitate the sustainable development of the industry. To ensure a smooth and seamless transition, the Government has set up a Working Group on Transition comprising members from the Hong Kong Federation of Insurers, the three self-regulatory organisations and insurance intermediaries to work out the detailed arrangements.

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

		General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2013	Annual	42,120	29,179	3,038	73,015	19,132	156	285	92,588	134,708
	Q1	12,359	8,759	657	17,527	4,919	36	53	22,535	34,894
	Q2	10,428	7,446	864	17,570	5,597	40	61	23,268	33,696
	Q3	10,512	7,314	671	18,910	3,831	40	50	22,831	33,343
	Q4	8,821	5,660	846	19,008	4,785	40	121	23,954	32,775
2014	Q1	12,551	8,668	902	23,770	3,387	39	180	27,376	39,927
% change in 2014 Q1 over 2013 Q1		1.6	-1.0	37.3	35.6	-31.1	8.3	239.6	21.5	14.4

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 The Securities and Futures (Levy) (Amendment) Order 2014, which provides for a 10% reduction of the levy payable for trading in securities and futures/options contracts, was gazetted on 6 June. The proposal could bring cost-savings to both the general investing public and the financial industry. The Order will take effect on 1 November 2014.

### Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2009 and 2010.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2014, there were 159 licensed banks, 20 restricted licence banks and 23 deposit-taking companies in Hong Kong. Altogether, 202 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) Basel III was introduced by the Basel Committee in December 2010 (and subsequently revised in June 2011) to strengthen the resilience of banks and banking systems in the light of lessons drawn from the global financial crisis. It 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% (with the total capital ratio remaining at 8%); 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% (or higher at national discretion) 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 (LCR) to promote short term liquidity resilience and the Net Stable Funding Ratio (NSFR) to encourage more stable funding structures. The LCR is scheduled to take effect from 1 January 2015, starting with a minimum required level of 60% which is to be stepped up by 10 percentage points annually until achieving 100% by 1 January 2019. The NSFR is under modification by the Basel Committee, while the timetable for this standard to take effect remains unchanged on 1 January 2018. The first phase of Basel III standards, which covers revised minimum capital requirements calculated based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong with the amendments to the Banking (Capital) Rules (by way of the Banking (Capital) (Amendment) Rules 2012) coming into operation since 1 January 2013. To implement the Basel Committee's disclosure requirements associated with these standards, amendments were introduced in the Banking (Disclosure) Rules (by way of the Banking (Disclosure) (Amendment) Rules 2013) which took effect from 30 June 2013.
- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (9) The HKMA implemented two liquidity enhancement measures in the first half of 2014 to promote liquidity of the institutional bond market. Following the introduction of bond swap facility in February, the first switch tender was held in May. Switch tender allows the Government to initiate a tender for Primary Dealers to bid for the permanent switching from a pre-announced off-the-run GB into another pre-announced benchmark GB under a competitive tender mechanism.

- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 60 securities exchanges, covering almost all globally recognised stock exchanges. The statistics on London Stock Exchange Group are as of December 2013.
- (11) At end-June 2014, there were 74 classes of stock options contracts and 41 classes of stock futures contracts.
- (12) At end-June 2014, there were 1 495 and 194 companies listed on the Main Board and GEM respectively.
- (13) At end-June 2014, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 477 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 269 000 employers, 2.49 million employees and 211 000 self-employed persons have participated in MPF schemes.
- (14) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-June 2014, the survey covered a total of 1 183 active authorised funds.
- (15) At end-June 2014, there were three SFC-authorised retail hedge funds with combined net asset size of US\$245 million. The amount of net assets under management dropped by 5.4% from the end-March level, and represented an increase of 1.5 times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-June 2014, there were 158 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 94 in general insurance business, and 20 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

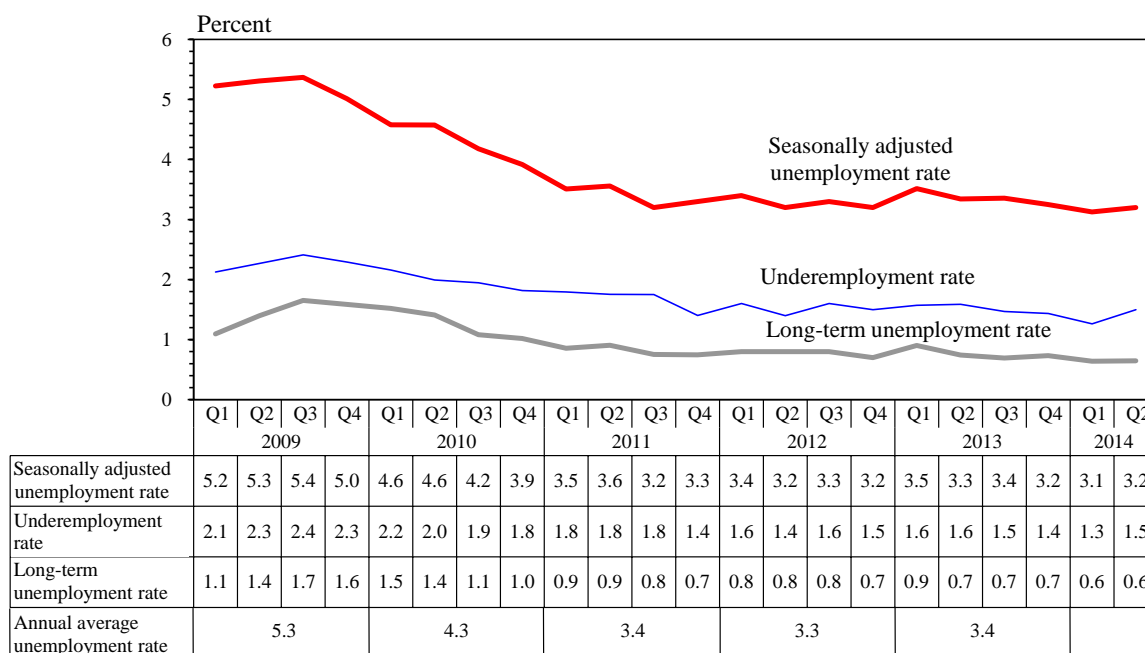
### *Summary*

- *The labour market held largely stable in the second quarter of 2014, with both unemployment and underemployment rates staying at low levels. Yet reflecting slower growth momentum upon entering 2014, job vacancies in the private sector retreated somewhat.*
- *The labour force resumed a marginal expansion in the second quarter of 2014 over a year earlier. Meanwhile, total employment sustained mild growth and stayed near its record high.*
- *The seasonally adjusted unemployment rate edged up by 0.1 percentage point over the preceding quarter to 3.2% in the second quarter of 2014, albeit still a relatively low level.*
- *Nominal wages and earnings stayed on the rise upon entering 2014. More recent data indicated that earnings of grassroots workers sustained real improvement, largely reflecting the generally tight manpower resource balance for lower-paid jobs.*

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

5.1 The labour market remained broadly stable in the second quarter of 2014, though showing some signs of easing towards the quarter-end amid the further economic slowdown. Total employment, though constrained by an almost stagnant labour force, posted a mild year-on-year increase and stayed close to its historical high. The seasonally adjusted *unemployment rate*<sup>(2)</sup> inched up by 0.1 percentage point from the 16-year low in the first quarter to 3.2% in the second quarter of 2014. Meanwhile, the *underemployment rate*<sup>(3)</sup> went up by 0.2 percentage point over the preceding quarter to 1.5%, still marginally lower than that a year earlier. Amid the weaker economic performance, though private sector vacancies decreased upon entering 2014, manpower shortage remained apparent in some sectors and occupations. Nominal wages and earnings went up further, with the lower-paid workers enjoying particularly notable pay rise.

**Diagram 5.1 : The labour market held largely stable in the second quarter of 2014**



## Labour force and total employment

5.2 The *labour force*<sup>(4)</sup> resumed a marginal expansion of 0.2% year-on-year in the second quarter of 2014, after the 0.1% contraction in the first quarter. Specifically, the labour force participation rate rose somewhat over the preceding quarter to 60.9% in the second quarter of 2014, while growth in the working-age population (i.e. land-based non-institutional population aged 15 and above) picked up slightly in tandem. On a seasonally adjusted quarter-to-quarter comparison, the labour force grew by 0.9% in the second quarter of 2014.

5.3 On the demand side, *total employment*<sup>(5)</sup> registered a slight year-on-year increase of 0.4% to 3 744 700 in the second quarter, a level close to the historical high. Apparently, overall employment growth remained constrained by the sluggish labour supply, as evidenced by the concurrent declines in both labour force and employment across many economic sectors.

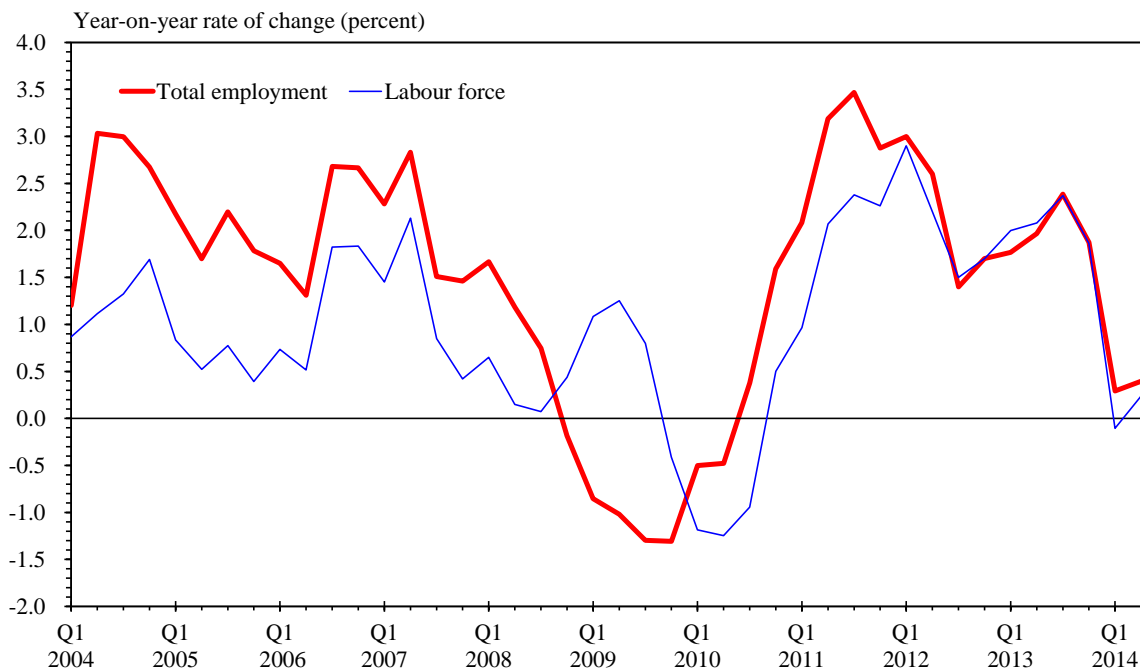
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2013	Annual	3 858 800 (1.9)	3 728 000 (1.8)	130 800	58 200
	Q1	3 838 000 (2.0)	3 704 000 (1.8)	134 000	60 300
	Q2	3 863 100 (2.1)	3 729 900 (2.0)	133 300	61 300
	Q3	3 871 500 (2.4)	3 737 200 (2.4)	134 300	56 800
	Q4	3 865 600 (1.9)	3 747 000 (1.9)	118 700	55 500
2014	Q1	3 833 900 (-0.1)	3 714 800 (0.3)	119 100	48 400
Three months ending					
2014	Apr	3 841 200 (0.1)	3 719 000 (0.5)	122 300	53 900
	May	3 861 500 (0.2)	3 739 000 (0.5)	122 400	60 500
	Jun	3 872 300 (0.2)	3 744 700 (0.4)	127 600	58 000
		<0.9>	<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 2014.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment sustained a mild year-on-year increase in the second quarter of 2014, despite an almost stagnant labour force**





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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 Q1</u>	<u>2014 Q2</u>
<u>Male</u>							
15-24	38.1	35.4	35.7	36.4	37.8	36.2	37.0
<i>of which:</i>							
15-19	12.5	10.2	9.9	10.5	11.0	9.9	10.6
20-24	64.1	60.6	61.1	61.1	62.5	60.3	60.8
25-29	94.7	94.0	93.9	94.5	93.8	91.6	93.6
30-39	96.4	96.5	96.5	96.8	96.9	96.5	96.2
40-49	95.1	95.0	95.1	95.3	95.5	94.4	94.6
50-59	84.3	84.4	84.9	85.1	86.8	85.6	86.8
≥ 60	21.3	22.0	23.4	25.6	26.9	27.0	27.3
Overall	69.4	68.5	68.4	68.7	69.1	68.1	68.6
<u>Female</u>							
15-24	40.3	36.7	37.0	37.5	40.0	37.6	37.4
<i>of which:</i>							
15-19	11.3	9.2	9.1	9.7	11.5	11.2	12.4
20-24	66.0	61.4	62.1	62.0	64.2	60.0	59.0
25-29	87.0	86.6	87.5	87.2	86.6	85.4	86.1
30-39	77.3	75.6	76.8	77.5	78.5	79.3	80.0
40-49	68.8	68.2	69.9	70.8	72.8	73.1	72.6
50-59	48.9	49.0	51.6	53.8	56.1	55.9	56.8
≥ 60	6.6	6.8	8.1	8.8	9.6	10.0	10.6
Overall	53.2	51.9	53.0	53.6	54.5	54.2	54.4
<u>Both genders combined</u>							
15-24	39.2	36.0	36.4	37.0	38.9	36.9	37.2
<i>of which:</i>							
15-19	11.9	9.7	9.5	10.1	11.2	10.5	11.5
20-24	65.1	61.0	61.6	61.6	63.4	60.2	59.9
25-29	90.3	89.8	90.2	90.3	89.7	88.1	89.4
30-39	85.3	84.3	84.9	85.4	85.9	86.3	86.5
40-49	80.8	80.2	81.0	81.4	82.5	82.2	82.0
50-59	66.5	66.5	68.0	69.2	71.0	70.2	71.2
≥ 60	13.7	14.1	15.5	16.9	17.9	18.1	18.6
Overall	60.8	59.6	60.1	60.5	61.2	60.5	60.9

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

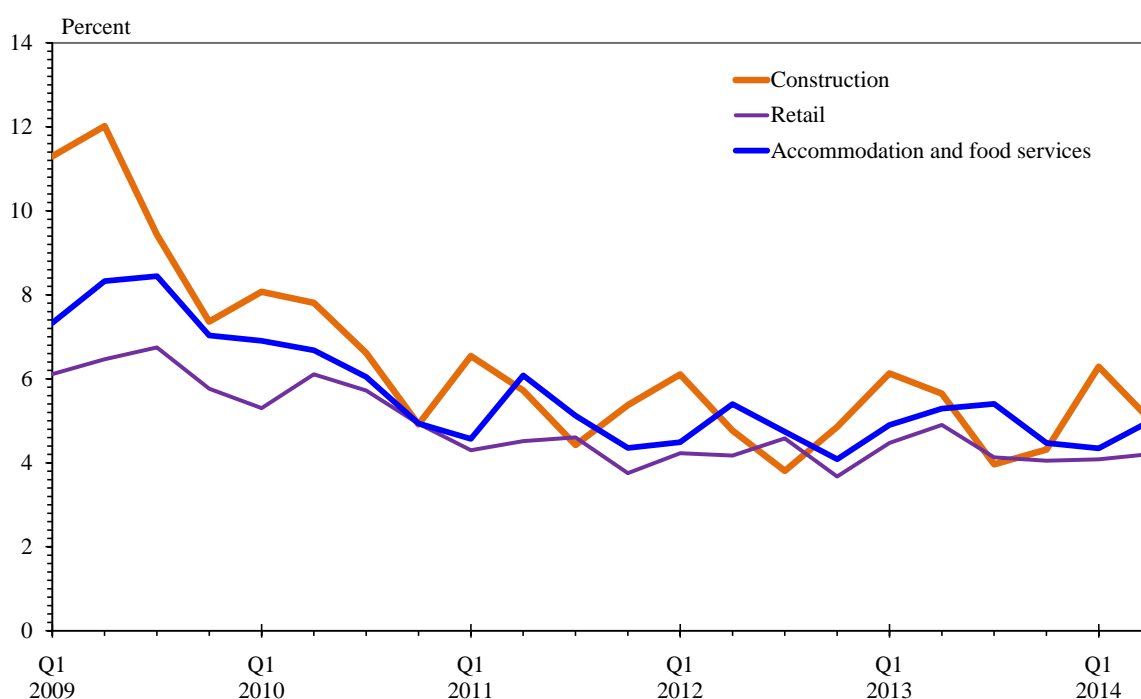
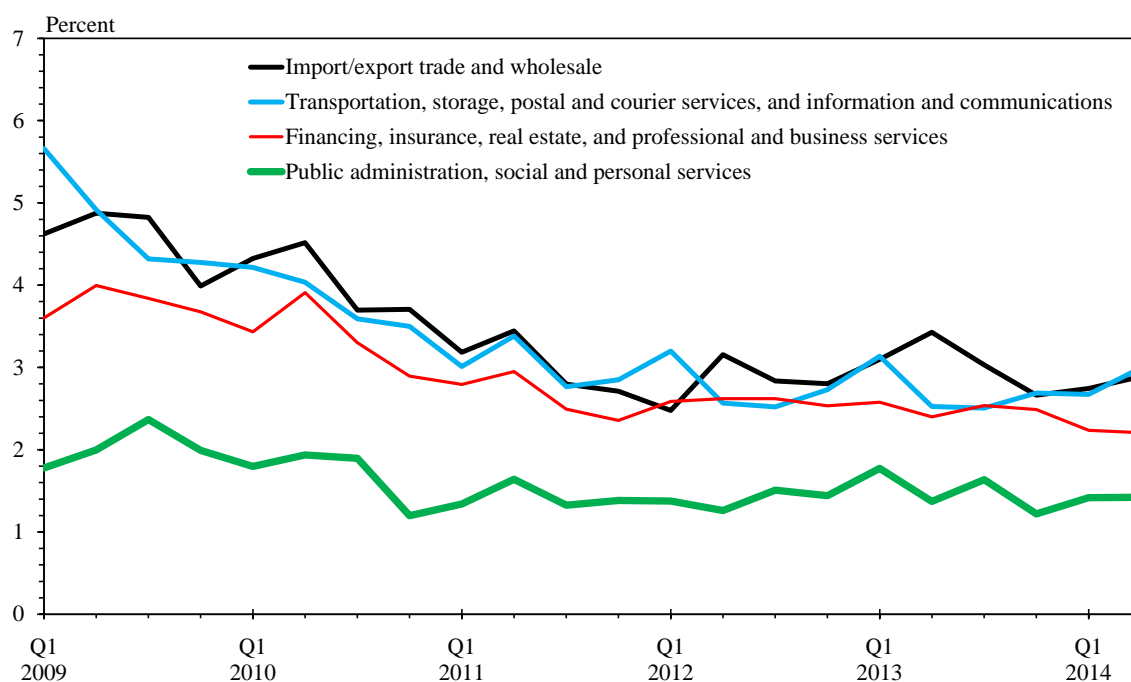
5.4 The number of unemployed persons (not seasonally adjusted) increased by 8 500 over the preceding quarter to 127 600 in the second quarter of 2014. After discounting for seasonal factors, the seasonally adjusted unemployment rate edged up by 0.1 percentage point from the 16-year low of 3.1% in the first quarter to a still low level of 3.2% in the second quarter, signifying that the labour market held largely steady.

5.5 The unemployment rates (not seasonally adjusted) of many major economic sectors continued to stay at relatively low levels in the second quarter of 2014, amid generally stable hiring sentiment in the corporate sector. Those of the import/export trade and wholesale, information and communications, financing and insurance, real estate, professional and business services, public administration, social and personal services sectors were at or below 3% in the second quarter. Among the other economic sectors, the unemployment rates for the retail, accommodation and food services, and construction sectors were all lower when compared against their year-ago levels. In particular, the unemployment rate of the construction sector declined by 1.3 percentage points from the preceding quarter, thanks mainly to the recovery in decoration, repair and maintenance for buildings activities after the Lunar New Year. For the *low paying sectors*<sup>(6)</sup> as a whole, although the unemployment rate edged up by 0.2 percentage point over the preceding quarter to 3.2%, it was still broadly on par with the level immediately before the implementation of Statutory Minimum Wage (SMW) in May 2011 as well as that prior to the upward adjustment of the SMW rate in May 2013.

5.6 Analysed by occupation, the unemployment rates of the lower-skilled and higher-skilled segments, at 3.6% and 1.6% respectively in the second quarter of 2014, both improved from a year earlier. As for quarter-to-quarter comparison, the unemployment rates for both higher-skilled and lower-skilled workers held stable. Nonetheless, a notable change was observed for craft and related workers, whose unemployment rate fell back from the seasonal high in the preceding quarter to a level broadly similar to that seen towards end-2013.

5.7 In terms of other socio-economic attributes, the unemployment situation for most age and educational attainment groups remained the same or improved somewhat in the second quarter of 2014 over a year earlier, with the exception of those aged 40 – 49, and 60 and above, and those with lower secondary education only. While the unemployment rates of the two aforementioned age groups still stayed below 3%, the unemployment rate of the latter educational attainment group edged up by 0.1 percentage point year-on-year.

**Diagram 5.3 : Unemployment rates of major economic sectors stayed generally low**



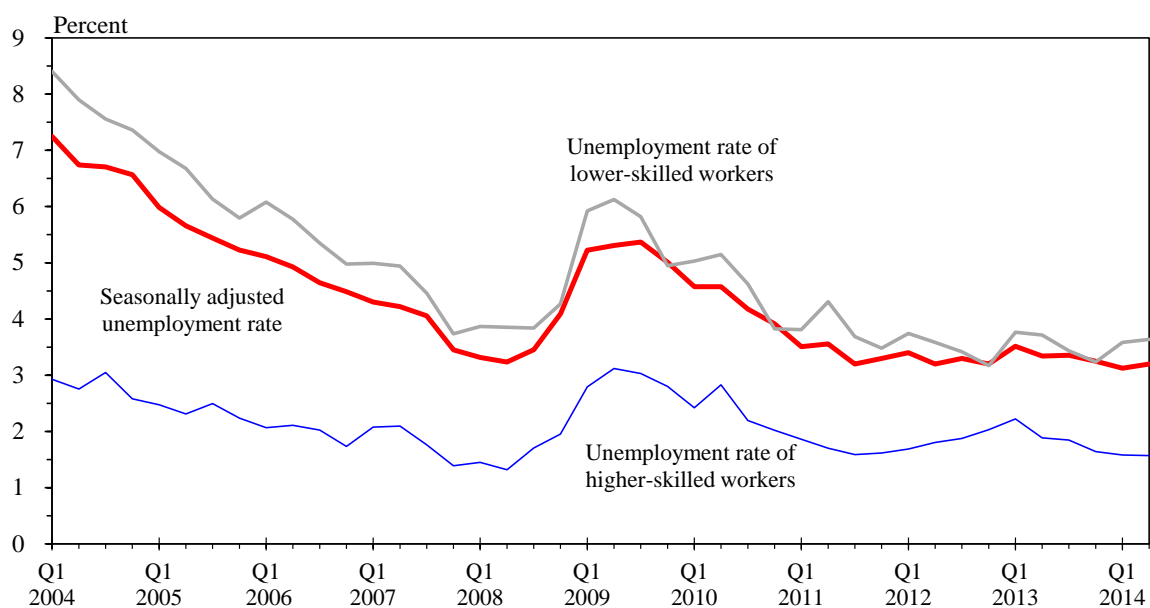
**Table 5.3 : Unemployment rate by major economic sector**

	<u>2013</u>				<u>2014</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	3.1	3.4	3.0	2.7	2.7	2.9
Retail	4.5	4.9	4.1	4.1	4.1	4.2
Accommodation and food services	4.9	5.3	5.4	4.5	4.3	5.0
Transportation, storage, postal and courier services	3.1	2.4	2.2	2.8	2.9	3.2
Information and communications	3.2	2.9	3.4	2.5	2.0	2.3
Financing and insurance	2.8	2.4	2.7	2.3	1.5	1.5
Real estate	2.4	1.8	2.4	2.5	2.8	3.0
Professional and business services	2.5	2.6	2.4	2.6	2.5	2.3
Public administration, social and personal services	1.8	1.4	1.6	1.2	1.4	1.4
Manufacturing	3.7	3.3	2.8	2.4	3.3	3.7
Construction	6.1	5.6	4.0	4.3	6.3	5.0
Overall	3.5 (3.5)	3.4 (3.3)	3.5 (3.4)	3.1 (3.2)	3.1 (3.1)	3.3 (3.2)

Note : ( ) Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : Both higher-skilled and lower-skilled workers saw lower unemployment rates in the second quarter of 2014 compared to a year earlier**



**Table 5.4 : Unemployment rates\* by skill segment**

	<u>2013</u>				<u>2014</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Higher-skilled segment</u>	2.2	1.9	1.8	1.6	1.6	1.6
Managers and administrators	1.9	1.7	1.3	1.5	1.5	0.8
Professionals	1.9	1.5	1.4	1.4	1.1	0.9
Associate professionals	2.5	2.2	2.3	1.8	1.8	2.2
<u>Lower-skilled segment^</u>	3.8	3.7	3.4	3.2	3.6	3.6
Clerical support workers	3.1	2.9	3.5	2.9	2.7	3.3
Service and sales workers	4.5	4.5	4.3	4.0	4.1	4.3
Craft and related workers	5.7	5.4	3.6	4.4	5.9	4.1
Plant and machine operators and assemblers	1.8	1.8	2.1	2.2	2.6	1.9
Elementary occupations	3.4	3.4	3.0	2.7	3.2	3.6

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

^ Including other occupations.

Source : General Household Survey, Census and Statistics Department.

**Table 5.5 : Unemployment rates\* by age and educational attainment**

	<u>2013</u>				<u>2014</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Age</u>						
15-24	8.2	9.8	11.3	8.8	7.5	9.1
<i>of which:</i>						
15-19	13.5	18.7	15.2	11.6	10.0	14.6
20-24	7.4	8.4	10.6	8.3	7.1	8.2
25-29	3.2	3.6	3.9	3.7	3.1	3.5
30-39	2.4	2.5	2.3	1.8	2.2	2.1
40-49	3.4	2.7	2.6	2.7	2.7	2.9
50-59	3.6	3.1	2.8	2.8	3.1	3.0
≥ 60	2.3	2.5	2.1	1.9	2.9	2.8
<u>Educational attainment</u>						
Primary education and below	4.2	4.2	3.2	3.3	3.7	3.6
Lower secondary education	5.2	4.7	3.6	3.9	4.2	4.8
Upper secondary education <sup>^</sup>	3.2	3.2	3.4	3.1	3.2	3.2
Post-secondary education	2.9	3.0	3.6	2.7	2.4	2.7

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.8 Other indicators measuring the intensity of unemployment suggested that labour market conditions remained largely favourable in the second quarter of 2014. The long-term unemployment rate (i.e. the number of persons unemployed for six months or longer as a percentage of the labour force) held unchanged at 0.6% in the second quarter. On the other hand, the median duration of unemployment at 58 days was lower than the 67 days recorded a year earlier. As regards the reasons of unemployment, the proportion of dismissal or lay-offs among those unemployed (excluding first-time job seekers and re-entrants into the labour force) declined markedly by 5.1 percentage points year-on-year to 46.1% in the second quarter.

## **Profile of underemployment**

5.9 After hitting a post-1997 quarterly low in the preceding quarter, the underemployment rate rose back by 0.2 percentage point to 1.5% in the second quarter of 2014. The number of underemployed persons increased by 9 600 to 58 000 over the period, mainly attributable to the worsening underemployment situation in the construction sector. When viewed in conjunction with the visible decline in unemployment in the construction sector over the same period, this suggested that some of the previously unemployed workers therein might have returned to jobs alongside the gradual recovery in construction activities from its seasonal low after the Lunar New Year, though these workers still had to involuntarily work shorter hours. Apart from the construction sector, more apparent rises in underemployment rate were seen in the cleaning and similar activities, transportation, warehousing and support activities for transportation, and arts, entertainment and recreation sectors. On the other hand, more visible decreases in underemployment rate were observed in the accommodation services, manufacturing, and food and beverage service activities sectors. Analysed by occupational category, the noticeable increase in underemployment rate among lower-skilled workers between the first and second quarters was mainly attributable to craft and related workers, and workers engaged in elementary occupations, chiefly echoing the underemployment situation in the construction sector.

## Box 5.1

### Female labour supply in Hong Kong: child care responsibilities and decision to work

Hong Kong, like many economies, saw a distinct rise in female labour force participation rate (LFPR) over the past two decades. Female LFPR went up from 44.3% in 1993 to 50.6% in 2013, representing a visible increase of 6.3 percentage points<sup>(1)(2)</sup>. However, it was still substantially lower than that of men, at 69.1% in 2013. Literature offers a wide array of factors to account for such gender difference. One of the most frequently discussed is women's traditional role in shouldering domestic duties, for example, taking care of their family members and other household chores, instead of working for pay. Conceivably, this picture has gradually changed over time, driven partly by the opportunity costs of not being in the workforce for better educated women, and changes in work arrangement and social perception of working mothers. In the case of Hong Kong, accessible assistance from foreign domestic helpers (FDH) also contributed in part.

Based on statistics from the General Household Survey (GHS) of the Census and Statistics Department (C&SD), there were 1 707 100 women in their prime working age (i.e. those aged 25 – 54) living in domestic households<sup>(3)</sup> in 2013. **Table 1** compares the LFPR of these women by marital status and household characteristics. A few salient observations follow. First, ever-married women<sup>(4)</sup>, comprising 72.7% of the respective population, had a LFPR of 63.9%, which was substantially lower than the 92.5% of their never-married counterparts. Besides, the LFPR of women with child care responsibilities, as proxied by whether they were living with children<sup>(5)</sup>, at 57.8%, was 20.9 percentage points lower than that of those not living with any children. Another noteworthy point is that, among women living with children, those with FDH in their households were more inclined to take part in the labour market than those without FDH in their households.

**Table 1 : Labour force participation rate of prime working age (aged 25 – 54) women, 2013**

Labour force participation rate (%)					
Living with children					
Marital status	Household with FDH	Household without FDH	Overall	Not living with children	Overall
Never married	95.5 (0.2)	87.3 (1.2)	88.5 (1.4)	92.8 (25.9)	92.5 (27.3)
Ever married	78.0 (8.4)	48.7 (23.5)	56.4 (32.0)	69.8 (40.7)	63.9 (72.7)
Overall	78.4 (8.6)	50.6 (24.7)	57.8 (33.4)	78.7 (66.6)	71.7 (100.0)

Note : Statistics in this table refer to persons living in domestic households only, which may differ from statistics compiled based on both domestic and non-domestic households. Figures in brackets refer to the respective shares in overall land-based non-institutional female population aged 25 – 54.

Source : GHS, C&SD.

- (1) LFPR refers to the proportion of labour force in land-based non-institutional population aged 15 and over.
- (2) All statistics in this article exclude foreign domestic helpers.
- (3) All statistics in this article pertaining to household refer to persons living in domestic households only, which may differ from statistics compiled based on both domestic and non-domestic households.
- (4) Including those married, widowed and divorced/separated.
- (5) Throughout this article, children refer to persons aged below 15.

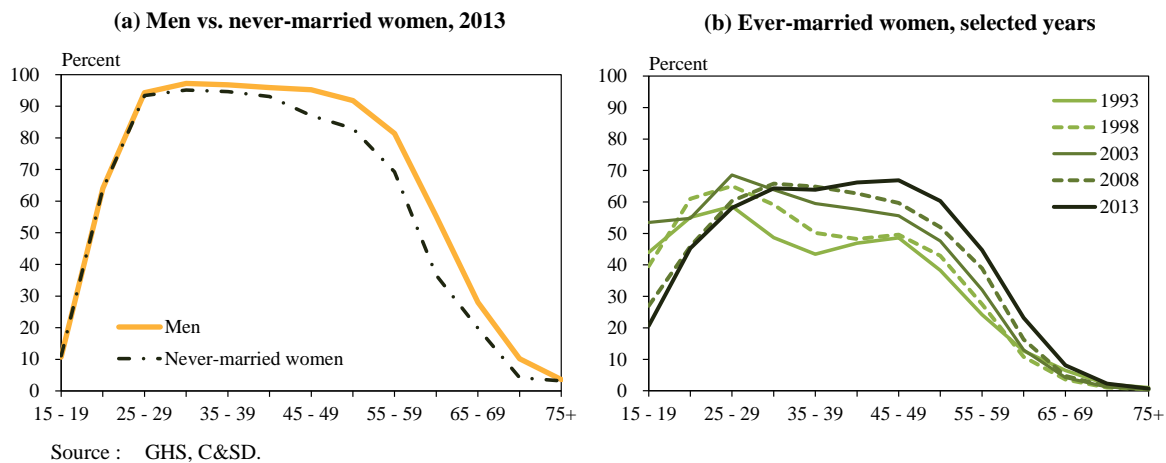


## Box 5.1 (Cont'd)

### Marriage and female labour supply

Detailed statistics showed that, while men in general have higher LFPR than women, the difference in LFPR between men and never-married women is much smaller than one may expect. Visually, the curve illustrating LFPRs across different age groups of never-married women resembles closely to that of men (*Chart 1(a)*). Insofar as those in prime working age are concerned, the LFPR of men, at 95.0% in 2013, was only 2.5 percentage points higher than that of never-married women. This observation suggests that the difference between LFPR of men and women is largely attributable to the relatively lower LFPR of ever-married women.

**Chart 1 : Labour force participation rates by gender and marital status**



### Ever-married women with child care responsibilities and FDH

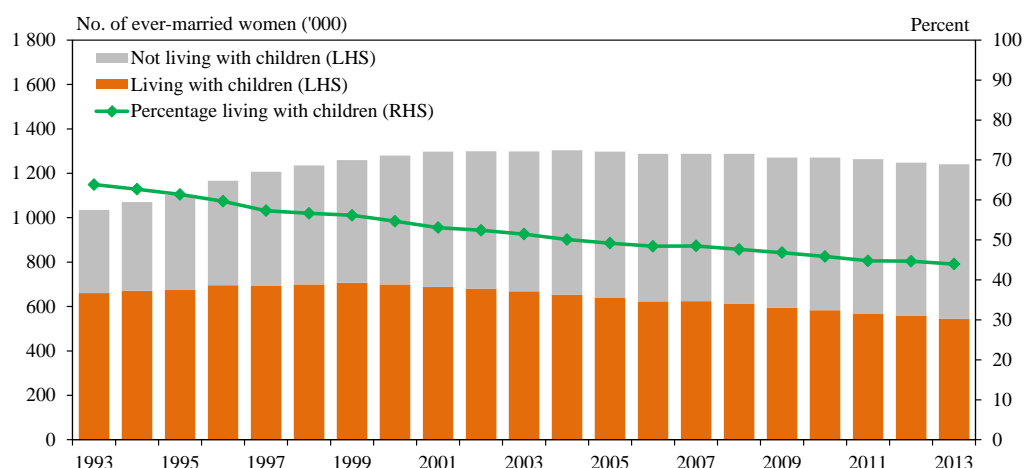
The visible gaps in LFPR between never-married and ever-married women, and those living with and not living with children appear to indicate that women with heavier household responsibilities have a lower propensity to seek jobs. Nonetheless, while the LFPR of ever-married women is still visibly lower than that of never-married women, the former has moved visibly higher over the past 20 years (*Chart 1(b)*). Specifically, the LFPR of ever-married prime working age women rose sharply from 47.3% in 1993 to 63.9% in 2013.

The above observation essentially echoed the relatively low fertility rate in Hong Kong. Between 1993 and 2013, although the number of ever-married prime working age women was on an uptrend, the percentage of those living with children actually dropped noticeably from 63.8% in 1993 to 44.0% in 2013 (*Chart 2*). This in turn suggests that both the number and proportion of ever-married women with child care responsibilities fell.

On the other hand, the increased availability of FDH to undertake household work also enabled more ever-married women to join the labour force. The number of FDH in Hong Kong went up steadily over time, from 120 600 in 1993 to 321 000 in 2013, representing a notable cumulative surge of 166%. Over the same period, the percentage of ever-married prime working age women with FDH in their households also rose visibly from only 7% to around 15%, indicating that more ever-married women tended to share domestic duties with FDH, thereby leaving them some room to decide whether to work for pay.

**Box 5.1 (Cont'd)**

**Chart 2 : Number of ever-married prime working age women living with children drifted lower over time**



Note : Figures in this chart refer to persons living in domestic households only, which may differ from statistics compiled based on both domestic and non-domestic households.

Source : GHS, C&SD.

For women not having FDH in their households, the age of the children with whom they live also has a significant bearing on their decision to work. *Chart 3* compares, among ever-married prime working age women, the employment status of those with FDH in their households (“with-FDH”) vis-a-vis those without FDH in their households (“without-FDH”) by the age of the youngest children they lived with in 2013. For the with-FDH group, the LFPR (i.e. the share of employed cum unemployed in total) was broadly the same across different youngest children’s age groups (around 80%) and generally higher than that of their without-FDH counterparts. Also, women of this group were more likely to engage in full-time jobs. In contrast, the propensity of the without-FDH group to join the labour force was influenced by the age of the children they lived with. Conceivably, as the children in a family grow up, the role of the mother in child rearing should gradually lessen. This should in turn provide some scope for the child carers to enter / re-enter the labour market,

**Chart 3 : Employment status of ever-married prime working age women living with children, 2013**



Note : Figures in this chart refer to persons living in domestic households only, which may differ from statistics compiled based on both domestic and non-domestic households. Full-time employed persons refer to those who worked 35 hours or longer and those who worked less than 35 hours due to vacation during the 7 days before enumeration. Part-time employed persons refer to those who worked less than 35 hours during the 7 days before enumeration, for reasons other than vacation.

Source : GHS, C&SD.

**Box 5.1 (Cont'd)**

albeit perhaps in the form of part-time employment for flexibility. In particular, only around 41% of ever-married prime working age women with their youngest children aged below 6 were in the labour force, while those with their youngest children already in primary school had a LFPR of about 9 percentage points more. The LFPR was around another 11 percentage points higher for those whose youngest children aged 12 – 14 and should have started lower secondary school, as a higher proportion of them became available to take up full-time employment.

**Concluding remarks**

All in all, although Hong Kong's female LFPR has risen over time, it is still significantly lower than that of men, particularly so for ever-married women. Initiatives that promote better child care services, more family-friendly working environment and flexible work arrangements could be conducive to boosting women's labour force participation. Indeed, the above analysis shows that, when women's child care responsibilities are to some extent relieved, they are more inclined to take up employment, be it part-time or full-time. Undeniably, in light of an ageing population and the ensuing secular decline in the labour force which is projected to begin in just a few years' time, dedicated efforts have to be devoted to create a supportive environment to encourage more people to work, including female homemakers, with a view to sustaining Hong Kong's long-term economic vitality and competitiveness.

## **Profile of employment in establishments**

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to March 2014. To bring the analysis more up-to-date, attempts have been made where possible by drawing reference to information from supplementary sources.

5.11 Total employment in private sector establishments posted further appreciable growth at 1.9% in March 2014 over a year earlier, reaching an all-time high of 2 740 700. Thanks to the largely stable domestic segment in early 2014, job gains were seen across most industries, particularly in such services industries as arts, entertainment, and recreation (up 11.7% year-on-year), accommodation services (up 5.9%), human health services (up 4.9%), information and communications (up 4.6%), and professional and business services (up 3.5%). On the other hand, apart from the secular downtrend in manufacturing employment (down 0.5%), the number of persons engaged in import/export trade and wholesale (down 0.9%) also declined, conceivably affected by the still challenging external trading environment. Analysed by establishment size, job growth remained vibrant among both small and medium-sized enterprises (SMEs)<sup>(7)</sup> and large enterprises, at 2.0% and 1.8% year-on-year respectively in March 2014. As a result, each of them made broadly the same contribution to the total employment growth. As regards the civil service, employment sustained steady growth at 1.4% over a year earlier.

### **Vacancies**

5.12 Job vacancies in private sector establishments, after surging for 17 consecutive quarters, retreated by 3.0% year-on-year in March 2014. In terms of level, there were still 77 790 job vacancies in March 2014, broadly on par with the annual level in 2013.

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

	<u>2013</u>					<u>2014</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	554 200 (-0.4)	558 000 (0.1)	554 400 (-0.7)	551 600 (-0.7)	552 800 (-0.3)	552 900 (-0.9)
Retail	265 000 (2.3)	262 700 (2.3)	264 800 (2.1)	264 800 (1.9)	267 700 (2.9)	270 000 (2.8)
Accommodation <sup>(a)</sup> and food services	276 400 (1.5)	275 600 (2.4)	276 200 (1.4)	275 900 (0.8)	277 800 (1.3)	281 200 (2.0)
Transportation, storage, postal and courier services	170 000 (2.0)	168 100 (1.5)	169 300 (1.6)	171 000 (2.5)	171 600 (2.6)	171 700 (2.1)
Information and communications	101 300 (5.1)	98 400 (3.3)	101 100 (5.4)	102 600 (5.2)	103 200 (6.2)	102 900 (4.6)
Financing, insurance, real estate, professional and business services	683 400 (2.5)	676 100 (2.1)	678 300 (2.1)	685 200 (2.6)	693 800 (3.4)	693 300 (2.5)
Social and personal services	462 400 (2.7)	458 600 (3.2)	461 000 (2.3)	463 800 (2.9)	466 100 (2.6)	475 600 (3.7)
Manufacturing	103 700 (-3.0)	104 000 (-3.7)	103 400 (-4.0)	103 900 (-2.7)	103 700 (-1.5)	103 500 (-0.5)
Construction sites (manual workers only)	79 300 (11.2)	77 800 (10.1)	82 500 (15.1)	76 800 (6.3)	80 100 (13.4)	78 600 (1.0)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>2 706 400 (1.9)</i>	<i>2 689 700 (1.9) &lt;0.9&gt;</i>	<i>2 701 600 (1.7) &lt;0.5&gt;</i>	<i>2 706 500 (1.7) &lt;0.3&gt;</i>	<i>2 727 900 (2.4) &lt;0.6&gt;</i>	<i>2 740 700 (1.9) &lt;0.5&gt;</i>
<i>Civil service<sup>(c)</sup></i>	<i>161 400 (1.3)</i>	<i>160 700 (0.9)</i>	<i>160 900 (1.1)</i>	<i>161 500 (1.5)</i>	<i>162 400 (1.7)</i>	<i>162 800 (1.4)</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.

5.13 Analysed by economic sector, more visible year-on-year declines in job vacancies were found in social and personal services (down 32.9% year-on-year), and import/export trade and wholesale (down 11.8%) in March 2014. While the latter was dragged in part by the sluggish external trade performance, the former was conceivably attributable to the substantial fill-up of job vacancies in the arts, entertainment and recreation, and human health services sectors over the period, as indicated by the notable growth in the number of persons engaged therein. On the other hand, visible increases in vacancies were seen in construction sites (covering manual workers only) (up 75.1%), transportation, storage, postal and courier services (up 15.7%), and accommodation and food services (up 13.2%) in March 2014, on the back of intensive public infrastructure works and further growth in domestic demand. Analysed by occupational category, the lower-skilled segment continued to fare better, with vacancies therein up by 5.3% year-on-year in March 2014 even after the respectable growth in 2013, as against a sharp decline of 22.1% in the higher-skilled segment. In terms of establishment size, although job vacancies at large enterprises grew further by 4.2% year-on-year in March 2014, the number of job openings offered by SMEs fell by 10.8%, the first decline since September 2009. As for the civil service, vacancies increased by 2.0% in March 2014 over a year earlier.

5.14 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 65 in March 2014, up from 61 in December 2013 and 60 recorded a year earlier. The vacancy-to-unemployed ratios for the higher-skilled and lower-skilled segments were 84 and 68 respectively, both up from their respective year-ago levels, with the latter increase driven mainly by the persistently sturdy demand for service and sales workers. Analysed by economic sector, the ratios went up in most major sectors over a year earlier. Manpower resource balance was particularly tight in accommodation and food services, and finance, insurance, real estate, professional and business services, with the corresponding ratios far exceeding 100. Meanwhile, manpower shortage eased somewhat in social and personal services, with its ratio down to 85 in March 2014 from over 100 a year ago, due in part to the noticeable decreases in unfilled vacancies in arts, entertainment and recreation, and human health services.

**Table 5.7 : Vacancies by major economic sector**

	Annual average	<u>Number of vacancies</u> 2013					2014	Vacancy rate in Mar 2014 (%)
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>		
Import/export trade and wholesale	9 810 (15.3)	10 440 (16.7)	10 120 (10.7)	10 140 (23.1)	8 540 (10.9)	9 210 (-11.8)	1.6	
Retail	8 760 (10.9)	9 400 (15.0)	8 120 (17.8)	9 190 (2.6)	8 310 (9.9)	9 680 (2.9)	3.5	
Accommodation <sup>(a)</sup> and food services	14 460 (20.2)	15 550 (40.9)	12 970 (5.7)	14 360 (11.0)	14 960 (26.1)	17 600 (13.2)	5.9	
Transportation, storage, postal and courier services	3 750 (13.9)	3 620 (13.1)	4 100 (20.3)	3 640 (2.8)	3 630 (20.4)	4 180 (15.7)	2.4	
Information and communications	2 690 (13.3)	2 680 (8.2)	3 050 (28.3)	3 020 (40.2)	2 000 (-19.6)	2 570 (-4.2)	2.4	
Financing, insurance, real estate, professional and business services	17 710 (10.0)	17 510 (8.2)	17 950 (8.1)	18 450 (16.6)	16 910 (7.3)	17 820 (1.8)	2.5	
Social and personal services	16 190 (6.7)	17 330 (6.2)	17 690 (7.3)	15 620 (5.4)	14 130 (8.2)	11 620 (-32.9)	2.4	
Manufacturing	2 590 (-5.5)	2 600 (-9.1)	2 680 (-9.8)	2 700 (14.1)	2 390 (-13.9)	3 200 (23.2)	3.0	
Construction sites (manual workers only)	1 050 (63.1)	930 (39.6)	1 030 (74.3)	890 (73.2)	1 350 (67.9)	1 630 (75.1)	2.0	
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>77 180 (12.1)</i>	<i>80 170 (14.6)</i>	<i>77 860 (9.9)</i>	<i>78 300 (12.7)</i>	<i>72 380 (11.2)</i>	<i>77 790 (-3.0)</i>	2.8	
<i>Civil service<sup>(c)</sup></i>	<i>6 520 (2.7)</i>	<i>6 220 (5.8)</i>	<i>6 980 (10.0)</i>	<i>6 670 (1.1)</i>	<i>6 190 (-5.5)</i>	<i>6 350 (2.0)</i>	3.8	

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.

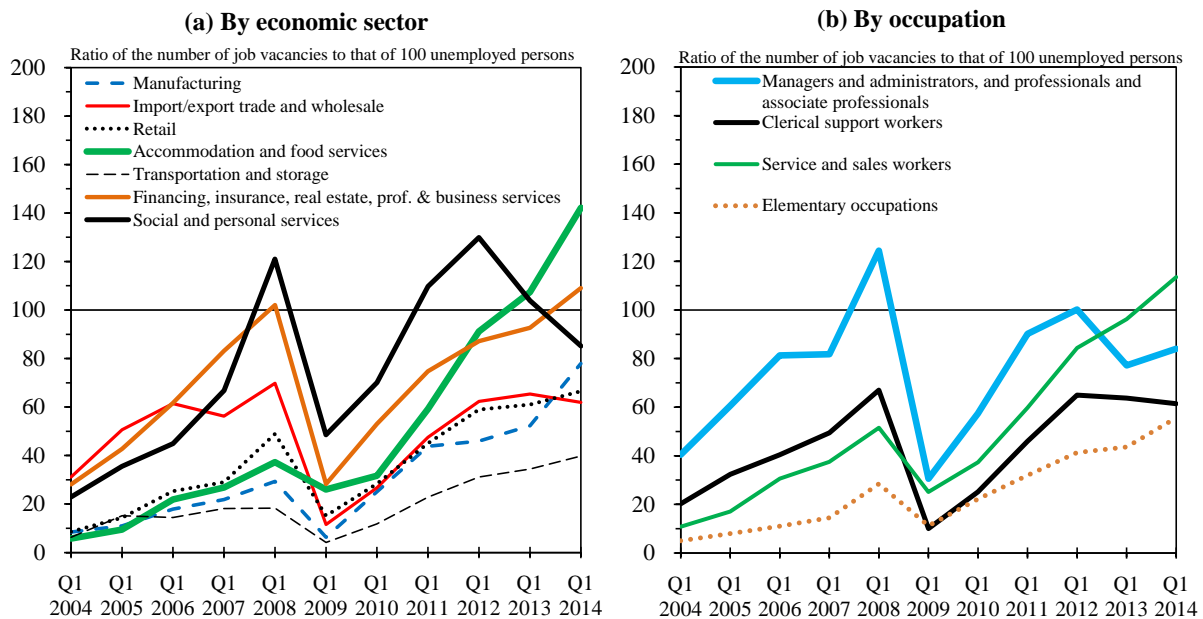
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % 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 5.5 : Manpower resource balance remained tight in some sectors and occupations**



5.15 The vacancy rate for private sector establishments, expressed as the percentage of job vacancies to total employment opportunities, inched down by 0.1 percentage point from a year ago to 2.8% in March 2014. More noticeable year-on-year declines in vacancy rate were seen in arts, entertainment and recreation, human health services, and wholesale.

5.16 The vacancy figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may offer some hints on the latest developments in the labour market. In the second quarter of 2014, the average number of private sector vacancies posted by the LD went down moderately by 3.5% year-on-year. More visible declines were observed in the finance, insurance, and retail sectors, though conceivably reflecting the fill-up of previous job vacancies as evident from the concurrent decline in the numbers unemployed therein.



## Wages and earnings

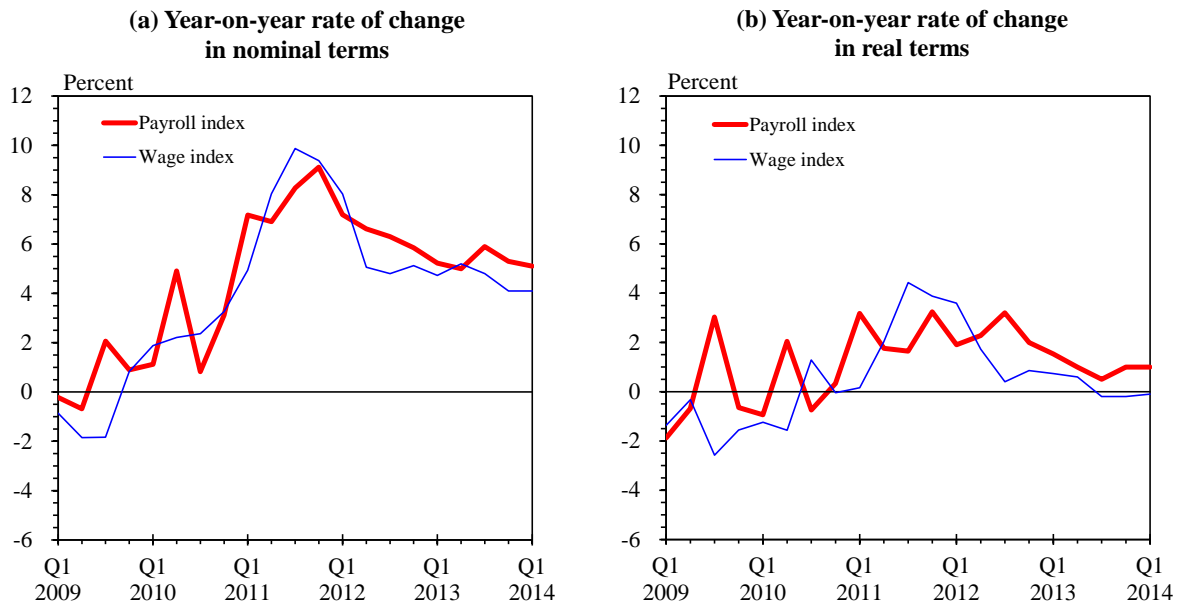
5.17 Wages and earnings both posted further growth upon entering 2014 amid a persistently tight labour market. *Nominal Wage Index*, which measures the regular payment to employees at the supervisory level or below, went up by 4.1% year-on-year in March 2014, the same pace as in December 2013.

5.18 Nominal wage growth was observed for all economic sectors and occupations in March 2014. More visible increases were seen in real estate leasing and maintenance management (up 9.7% year-on-year), professional and business services (up 9.1%), and personal services (up 7.8%). Meanwhile, bolstered in part by the upward adjustment of the SMW rate in May 2013, lower-paid workers engaged as miscellaneous non-production workers and service workers continued to enjoy more notable wage rises at 8.2% and 6.8% respectively.

5.19 *Labour earnings*<sup>(8)</sup>, as measured by payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, stayed on a faster growth track than wages in the first quarter of 2014. The nominal payroll posted a further solid increase of 5.1% over a year earlier, translating into a real growth<sup>(9)</sup> of 1.0%, same as that recorded in the preceding quarter.

5.20 Rises in nominal payroll were observed for all major sectors in the first quarter of 2014, with more prominent growth in finance and insurance activities (up 8.7% year-on-year), professional and business services (up 7.9%), and retail trade (up 6.8%), conceivably benefiting from their vibrant business activities in 2013.

**Diagram 5.6 : Nominal wages and earnings stayed on the rise upon entering 2014**



5.21 More recent data from the General Household Survey, while not strictly comparable to those from the business establishment surveys, showed that in the second quarter of 2014, the average monthly employment earnings<sup>(10)</sup> of full-time employees engaged in elementary occupations (excluding foreign domestic helpers) sustained an appreciable nominal year-on-year increase of 5.9%, largely attributable to the generally tight manpower resource balance for lower-paid jobs. After adjusting for inflation, there was a real improvement of 2.1%.

## **Highlights of recent labour-related measures and policy developments**

5.22 LD regularly organises large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. During January to July 2014, LD organised nine large-scale job fairs. 320 participating organisations offered 26 800 vacancies from the retail, catering, property management and other industries. There were also 14 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot. Moreover, to strengthen employment services to residents living in remote areas, LD will set up a job centre in Tung Chung later this year to facilitate job-seekers in the region in obtaining employment services and save their travelling expenses.

5.23 LD has enhanced its collaboration with employers and various organisations to launch pilot projects under the Youth Employment and Training Programme to provide young people with appropriate pre-employment training, workplace attachment, on-the-job training and employment support services. Targeted at different groups of young people, four pilot projects have been launched in 2014 making available about 600 training places. In addition, LD has launched a special programme, "Career GPS", lasting from May to August 2014 to help secondary school graduates find suitable work through a series of tailor-made activities, including training courses and career consultation services organised at the Youth Employment Start.

5.24 The Standard Working Hours Committee (SWHC) was appointed in April 2013 for a term of three years to foster informed and in-depth discussions in the community with a view to building consensus and identifying the way forward for a working hours policy. Up to end-July 2014, SWHC has held eight meetings. The two working groups (WGs) on "Working Hours Consultation" and "Working Hours Study" have also been carrying out their work in full swing. Specifically, a large-scale public consultation launched by SWHC since late January 2014 ended on 31 July 2014, while a dedicated working hours survey is being conducted with the main fieldwork expected to be completed by end-August. The two WGs strive to submit their reports to SWHC by end-2014 for deliberation and formulation of its further work.

## 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 of the three-month periods of November 2012 – January 2013 to October – December 2013 have been revised to take into account the final end-2013 population estimates and those of November 2013 – January 2014 to April – June 2014 have been revised to incorporate the latest information.

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) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) 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).
- (6) The low paying sectors as identified by the 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) 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.
- (9) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (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*

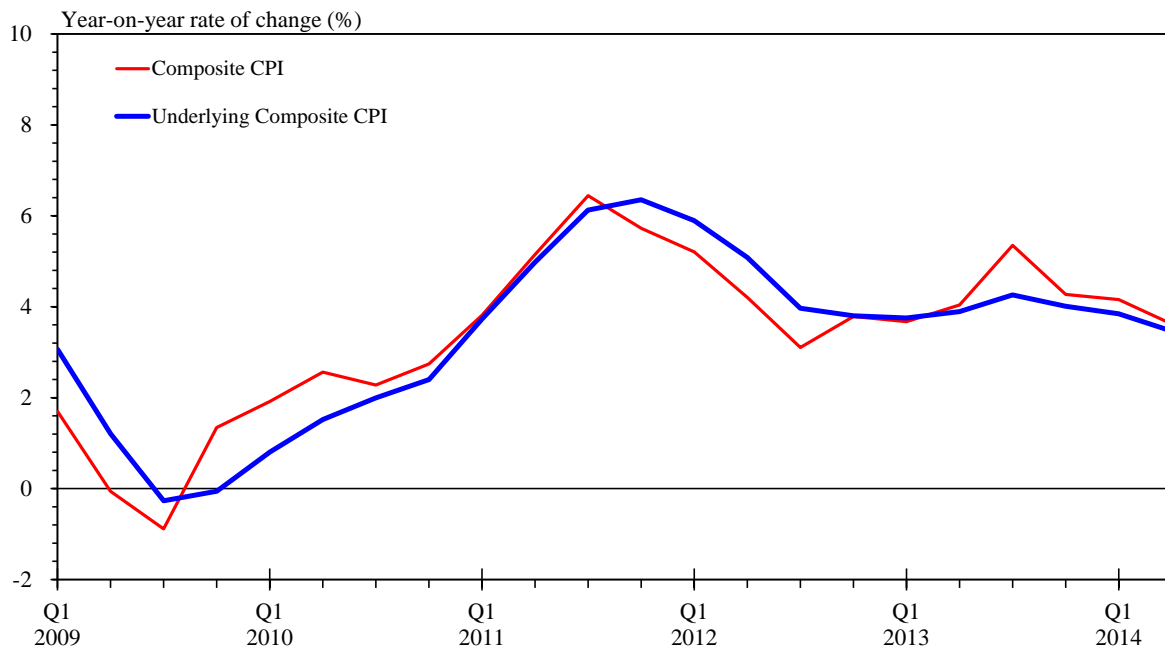
- *Inflation followed an easing trend in the first half of 2014 on the back of mild imported inflation and abating domestic cost pressures. The Composite Consumer Price Index (Composite CPI)<sup>(1)</sup> rose by 3.6% in the second quarter of 2014 over a year earlier, further down from the 4.2% increase in the preceding quarter. After 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 underlying Composite CPI likewise eased, from 3.8% to 3.5% over the same period.*
- *Domestically, rental cost pressures retreated on a broad front in the second quarter. Fresh-letting residential rentals registered further decelerated rises, with their stabilising effect progressively fed into the Composite CPI. Shop rentals and office rentals also rose only modestly year-on-year, after posting notable surges over the past few years. Meanwhile, labour costs maintained a moderate growth.*
- *Externally, apart from some jitters in international oil prices, international food and commodity prices were broadly stable in overall terms during the second quarter of 2014. This, together with the benign inflation in Hong Kong's major supply sources, helped keep Hong Kong's imported inflation in check over the period.*
- *Looking ahead, given the modest rise in import prices, easing rental pressures and steady wage growth, upside risks to inflation remain limited in the near term.*

### **Consumer prices**

6.1 Inflationary pressures tapered gradually during the first half of 2014, reflecting easing domestic cost pressures and low imported inflation. The most significant development was the broad-based moderation in residential and commercial rentals, which helped ease inflation pressure through narrowing the rental increase in the private housing component of the CPI and relieving the local business costs. The year-on-year increase in labour costs also remained moderate. Meanwhile, local food inflation edged down further in the second quarter of 2014 alongside the broadly steady increase in import prices of foodstuffs. In fact, as evidenced by the slow rise in overall import

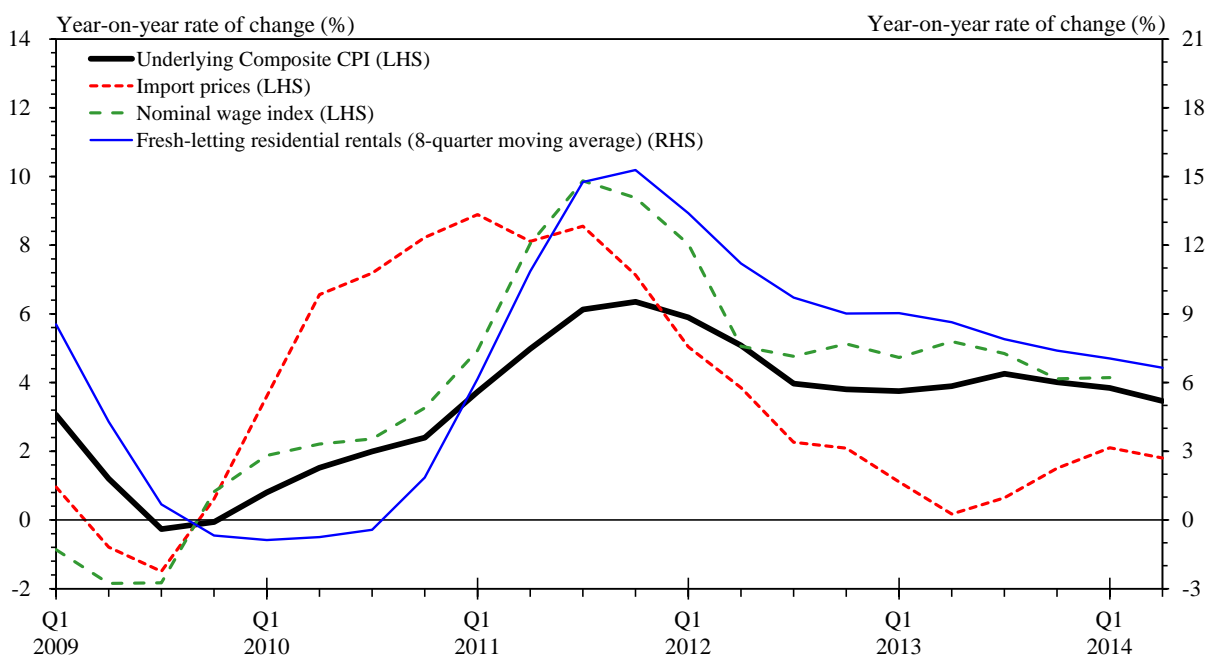
prices, Hong Kong's imported inflation had been tame so far this year, thanks to the relatively stable international commodity prices and mild inflation in many of Hong Kong's major import sources<sup>(2)</sup>.

**Diagram 6.1 : Underlying inflation moderated gradually in the first half of 2014**



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.

**Diagram 6.2 : Domestic cost pressures receded steadily, while imported inflation stayed modest**



6.2 Underlying consumer price inflation, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, eased to 3.5% in the second quarter of 2014, down from 3.8% in the first quarter. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, likewise receded, from 4.2% to 3.6% over the same period. For the first half of 2014 as a whole, the underlying and headline consumer price inflation averaged 3.7% and 3.9% respectively, both down from those of 4.1% and 4.8% in the second half of 2013.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2013	Annual	4.0	4.3	5.1	4.1	3.8
	H1	3.8	3.9	4.4	3.6	3.5
	H2	4.1	4.8	5.8	4.5	4.1
	Q1	3.8	3.7	4.2	3.5	3.3
	Q2	3.9	4.0	4.6	3.8	3.6
	Q3	4.3	5.3	7.3	4.6	4.2
	Q4	4.0	4.3	4.4	4.4	4.1
2014	H1	3.7	3.9	4.0	4.0	3.7
	Q1	3.8	4.2	4.3	4.3	3.9
	Q2	3.5	3.6	3.8	3.8	3.5

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

2013	Q1	1.1	1.1	1.2	1.1	1.0
	Q2	1.1	1.3	1.3	1.2	1.2
	Q3	0.8	-0.8	-3.4	0.3	0.8
	Q4	1.0	2.7	5.5	1.7	1.0
2014	Q1	0.9	1.0	1.1	1.0	0.8
	Q2	0.7	0.7	0.8	0.6	0.7

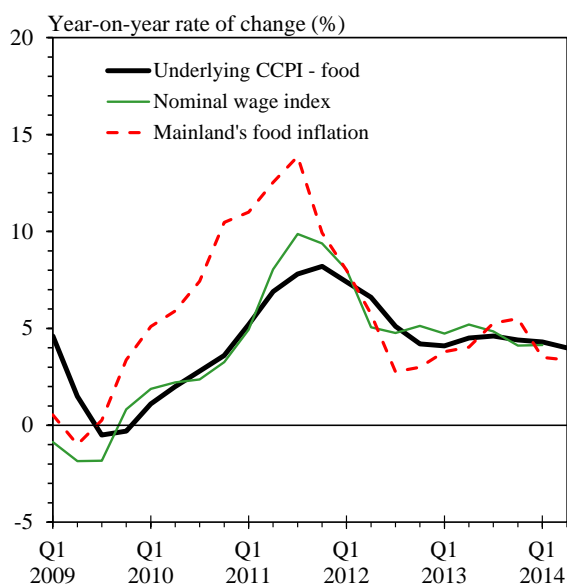
Note : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining Levy,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



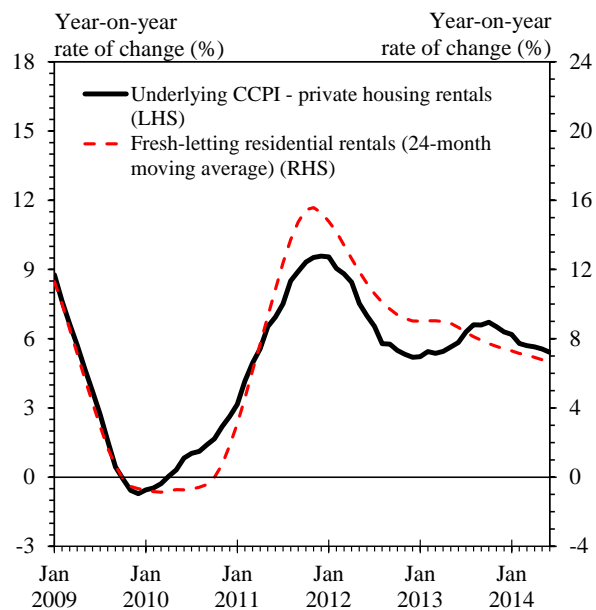
6.3 Analysed by major component of the underlying composite CPI, food and private housing rentals, the two largest components by weight, both saw narrower year-on-year price increases in the first half of 2014. Local food inflation (including costs of dining out) tapered slightly further to 4.0% in the second quarter of 2014 from 4.3% in the preceding quarter. The price increase in the private housing rental component also stayed on its easing track, decelerating from 5.9% to 5.5% over the period, thanks to the milder increases in fresh-letting residential rentals since 2013. The price increases of many other components were moderate throughout the first half of 2014, while that of durable goods remained on their secular downtrend. Yet the year-on-year rise in prices of alcoholic drinks and tobacco widened in the second quarter, featuring the full effect of the tobacco duty hike announced in the Budget in February.

**Diagram 6.3 : Food and private housing rental components of the underlying CCPI**

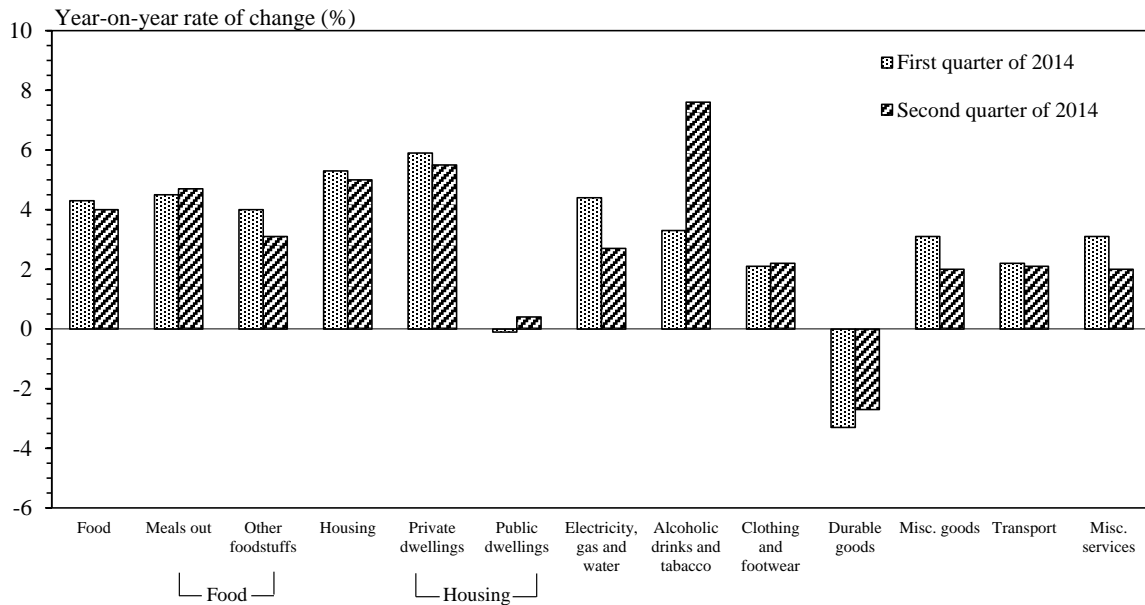
**(a) Food inflation receded slightly in the second quarter of 2014**



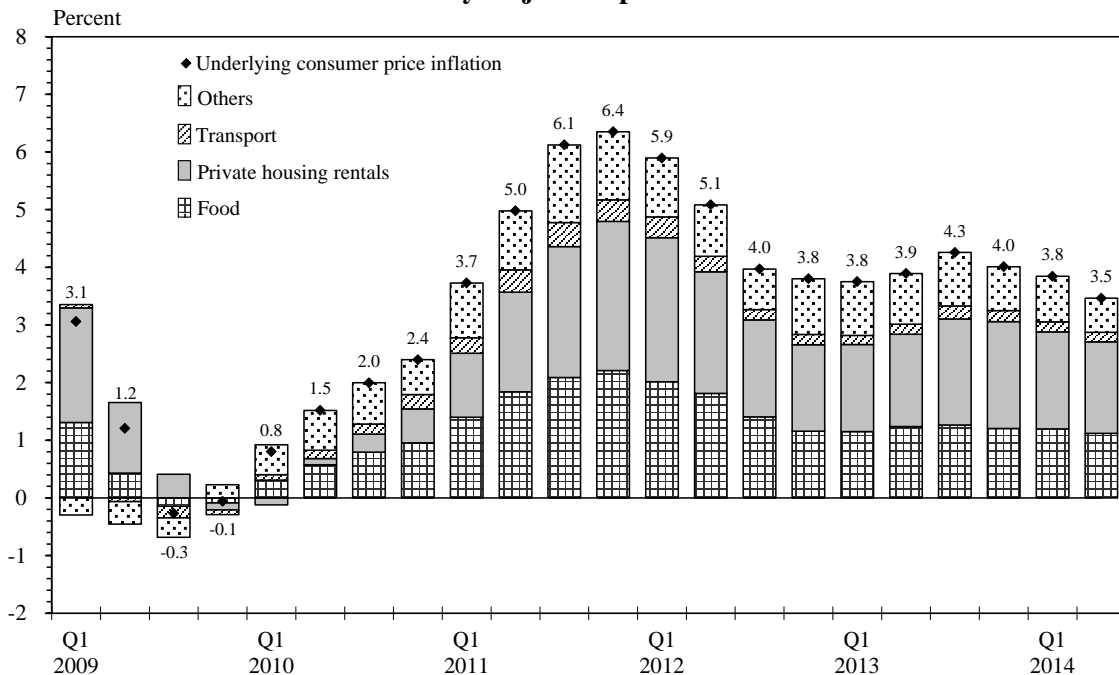
**(b) The milder increases in fresh-letting rentals continued to feed through**



**Diagram 6.4 (a) : The price increases in many major components in the underlying Composite CPI remained moderate**



**Diagram 6.4 (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>2013</u>	<u>2013</u>				<u>2014</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	27.45	4.4	4.1	4.5	4.6	4.4	4.3	4.0
<i>Meals bought away from home</i>	17.07	4.4	4.4	4.3	4.3	4.5	4.5	4.7
<i>Other foodstuffs</i>	10.38	4.4	3.6	4.8	4.9	4.1	4.0	3.1
Housing <sup>(a)</sup>	31.66	6.7 (5.8)	5.2 (5.5)	6.1 (5.8)	9.4 (6.3)	6.1 (5.8)	5.6 (5.3)	5.0 (5.0)
<i>Private dwellings</i>	27.14	6.3 (6.0)	5.0 (5.4)	6.1 (5.7)	7.0 (6.5)	7.0 (6.5)	6.4 (5.9)	5.6 (5.5)
<i>Public dwellings</i>	2.05	16.0 (6.0)	9.7 (9.5)	8.9 (9.2)	777.6 (5.9)	-1.8 (-0.1)	-1.8 (-0.1)	-0.9 (0.4)
Electricity, gas and water	3.10	6.9 (5.1)	4.9 (3.6)	5.9 (4.4)	9.6 (7.2)	7.1 (5.3)	5.5 (4.4)	3.4 (2.7)
Alcoholic drinks and tobacco	0.59	1.5	1.6	1.9	1.4	1.1	3.3	7.6
Clothing and footwear	3.45	1.7	1.5	1.0	1.7	2.5	2.1	2.2
Durable goods	5.27	-4.3	-3.5	-5.0	-4.7	-4.0	-3.3	-2.7
Miscellaneous goods	4.17	2.2	1.4	2.2	2.5	2.7	3.1	2.0
Transport	8.44	2.3	2.0	2.2	2.8	2.4	2.2	2.1
Miscellaneous services	15.87	3.7 (3.2)	3.5 (3.5)	3.1 (3.1)	3.9 (3.1)	4.3 (3.1)	4.4 (3.1)	3.2 (2.0)
All items	100.00	4.3 (4.0)	3.7 (3.8)	4.0 (3.9)	5.3 (4.3)	4.3 (4.0)	4.2 (3.8)	3.6 (3.5)

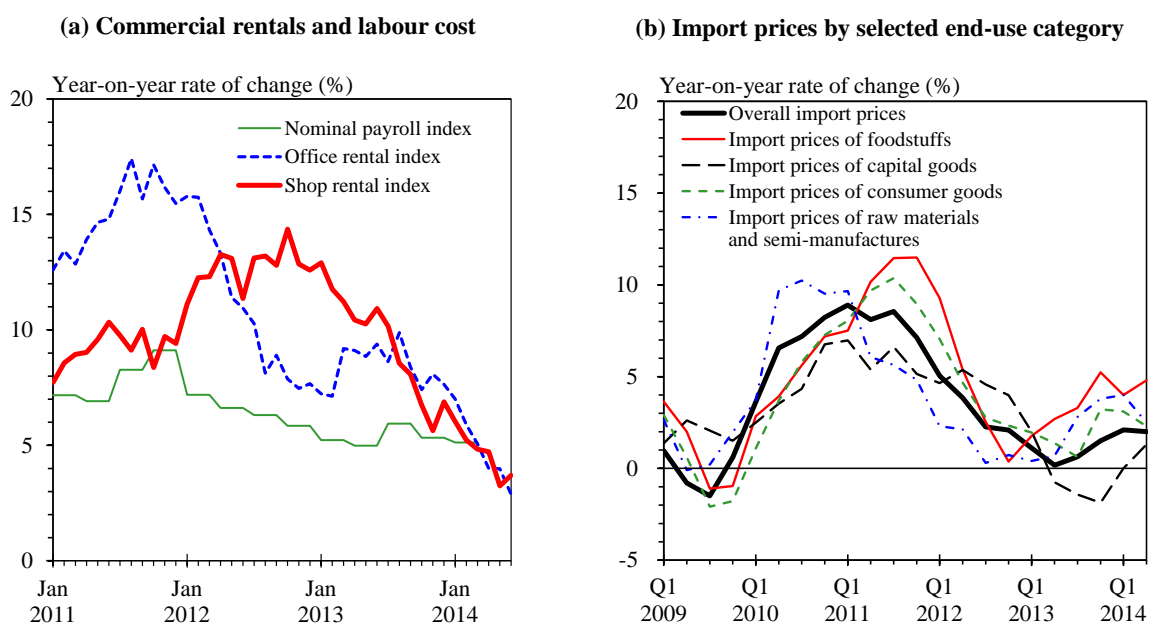
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

## Costs of factor inputs and import prices

6.4 Domestic cost pressures abated noticeably in the first half of 2014, particularly those stemming from rentals. Commercial rentals softened on a broad front, with the year-on-year rises in shop and office rentals decelerating to low single-digits in the second quarter of 2014. Labour costs likewise recorded slightly slower increases in recent quarters.

**Diagram 6.5 : Domestic cost pressures, especially rentals, receded further while imported price pressures held stable**



6.5 Price pressures from the external front held modest in the first half of 2014, thanks mainly to the relatively stable international food and commodity prices, the benign inflation in major import sources and, to a lesser extent, the weaker Asian currencies. Overall import prices increased by only 2.0% over a year earlier in the second quarter of 2014, easing from 2.1% in the first quarter, and showed an average increase of 2.1% for the first half of 2014 as a whole. Imported price pressures were generally benign across end-use categories. The year-on-year increase in import prices of foodstuffs held broadly steady at 4.8% in the second quarter of 2014, while those of consumer goods and raw materials and semi-manufactures softened slightly to 2.3% and 2.5% respectively. At the same time, import prices of capital goods rose modestly over a year earlier, but those of fuels declined despite a temporary jump in international oil prices amid heightened geopolitical tensions in the Middle East in June.

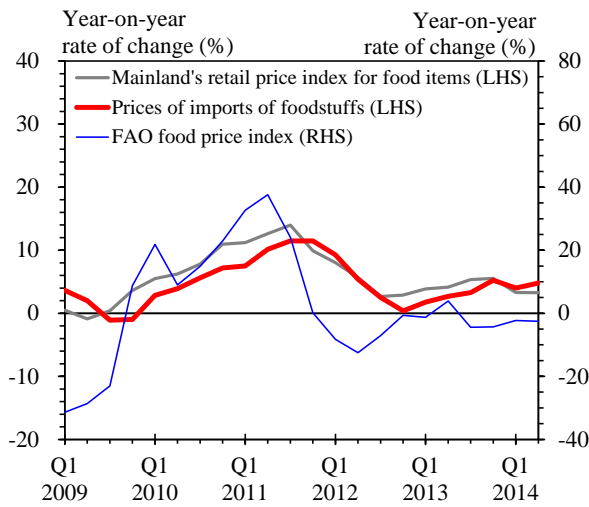
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2013	Annual	3.3	1.8	2.0	-3.6	-0.6	0.9
	H1	2.2	1.7	0.5	-5.4	0.6	0.6
	H2	4.4	1.9	3.3	-1.8	-1.6	1.1
	Q1	1.8	2.0	0.4	-5.5	2.0	1.1
	Q2	2.7	1.4	0.7	-5.4	-0.8	0.2
	Q3	3.3	0.6	2.8	-1.9	-1.4	0.6
	Q4	5.2	3.2	3.8	-1.8	-1.9	1.5
2014	H1	4.4	2.7	3.2	-2.2	0.7	2.1
	Q1	4.0	3.1	4.0	-3.1	*	2.1
	Q2	4.8	2.3	2.5	-1.2	1.3	2.0

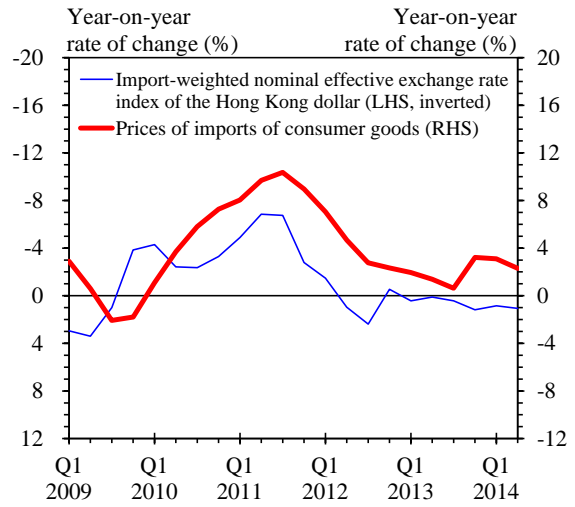
Note : (\*) Change within  $\pm 0.05\%$ .

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

**(a) Imported food inflation held largely steady**

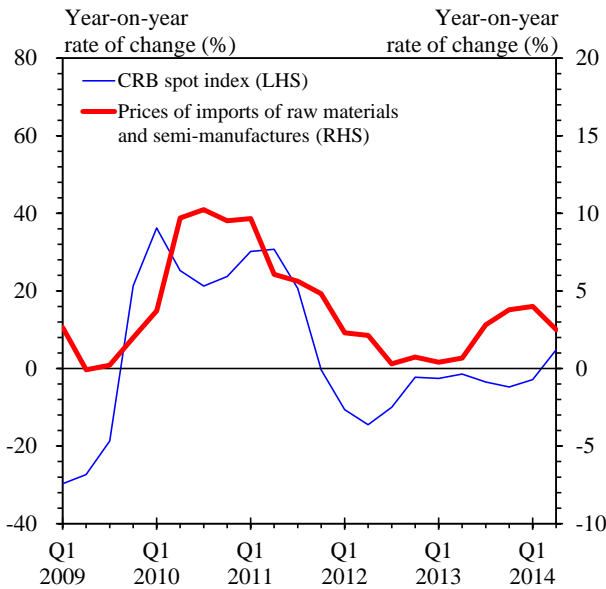


**(b) Import prices of consumer goods decelerated somewhat**

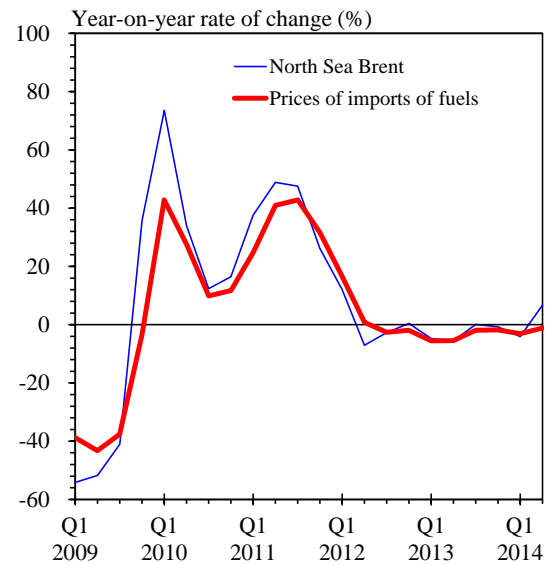


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**(c) Import prices of raw materials also recorded a moderated rise**



**(d) Import prices of fuels softened**



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, exhibited diverse trends across sectors in the first quarter of 2014. Output prices for the manufacturing sector dropped visibly further. The declines were more notable for industries producing metal, computer, electronic and optical products, as well as machinery and equipment. Among the services sectors, output prices for accommodation services increased modestly further in the first quarter, supported by the sustained increase in the number of visitor arrivals. Amid the still subdued trade flows in the quarter, output prices for land transport increased only modestly while those for water and air transport registered year-on-year declines. The increase in output prices for courier services was also mild. Separately, output prices for telecommunications services stayed on a downtrend amid the continued adoption of cost-saving technologies and intense competition.

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

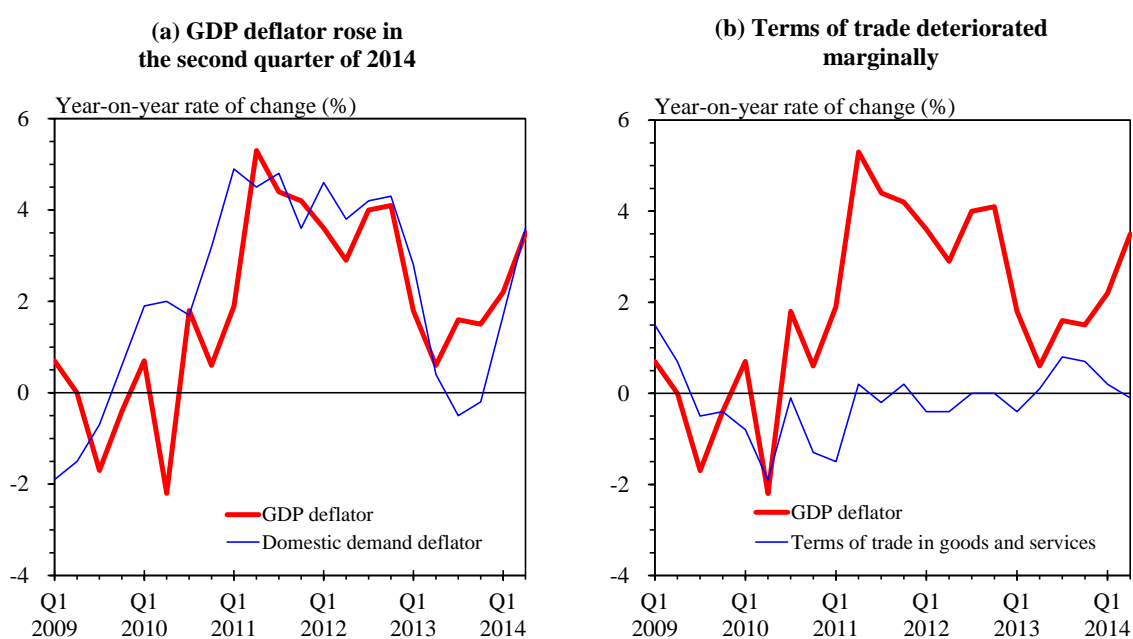
<u>Industry group</u>	<u>Annual</u>	<u>2013</u>				<u>2014</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-3.1	0.6	-2.4	-5.2	-5.5	-6.2
Selected services sectors <sup>(a)</sup>						
Accommodation services	2.4	2.5	2.8	1.7	2.6	2.2
Land transport	1.7	0.6	1.0	2.4	2.7	2.5
Water transport	-2.5	7.3	-14.8	1.8	-1.9	-2.9
Air transport	1.0	4.0	-2.4	0.1	2.5	-0.6
Telecommunications	-1.9	-1.6	-1.8	-1.7	-2.6	-2.9
Courier services	2.7	2.7	3.1	3.3	1.8	1.9

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

## GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 3.5% in the second quarter of 2014 over a year earlier, faster than the 2.2% increase in the first quarter. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> saw a marginal deterioration in the second quarter. Taking out the external components, the domestic demand deflator rose by 3.6% year-on-year in the second quarter, after a 1.7% increase in the preceding quarter.

Diagram 6.7 : GDP deflator





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

	2012		2013				2014	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>+</sup>
Private consumption expenditure	3.2	2.4	2.1	2.1	3.0	2.4	2.2	2.9
Government consumption expenditure	6.2	4.4	6.1	4.1	3.7	3.7	4.0	5.1
Gross domestic fixed capital formation	6.4	-5.1	3.1	-4.7	-9.4	-7.7	-1.6	3.3
Total exports of goods	3.1	-0.3	-0.5	-0.4	-0.3	-0.1	-0.6	-0.1
Imports of goods	3.8	-0.6	0.2	-0.5	-1.1	-0.8	-0.8	-0.1
Exports of services	4.3	0.5	1.2	-0.2	0.7	0.3	0.2	0.7
Imports of services	1.9	0.5	0.9	0.4	0.2	0.4	1.1	2.8
<b>Gross Domestic Product</b>	<b>3.7</b>	<b>1.4</b>	<b>1.8</b>	<b>0.6</b>	<b>1.6</b>	<b>1.5</b>	<b>2.2</b>	<b>3.5</b>
			<-0.7>	<*>	<1.7>	<0.5>	<0.1>	<1.4>
Total final demand	3.6	0.1	0.8	-0.1	-0.2	*	0.3	1.1
Domestic demand	4.2	0.6	2.8	0.4	-0.5	-0.2	1.7	3.6
Terms of trade in goods and services	-0.2	0.3	-0.4	0.1	0.8	0.7	0.2	-0.1

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

(#) Revised figures.

(+) Preliminary figures.

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

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

## Notes :

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

The expenditure ranges of the households covered in the 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>2012</u>		<u>2013</u>				<u>2014</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	2.1	1.5	1.7	1.4	1.6	1.2	1.4	2.1
Canada	1.5	0.9	0.9	0.8	1.1	0.9	1.4	2.2
EU	2.6	1.5	2.0	1.6	1.5	1.0	0.8	0.7
Japan	*	0.4	-0.6	-0.3	0.9	1.4	1.5	3.6
Major emerging economies								
Mainland China	2.6	2.6	2.4	2.4	2.8	2.9	2.3	2.2
Russia	5.1	6.8	7.1	7.2	6.4	6.4	6.4	7.6
India	9.7	10.1	10.7	9.5	9.7	10.4	8.4	8.1
Brazil	5.4	6.2	6.4	6.6	6.1	5.8	5.8	6.4
Selected Asian economies								
Hong Kong	4.1	4.3	3.7	4.0	5.3	4.3	4.2	3.6
Singapore	4.6	2.4	4.0	1.6	1.8	2.0	1.0	2.4
Taiwan	1.9	0.8	1.8	0.8	*	0.6	0.8	1.6
Korea	2.2	1.3	1.6	1.2	1.4	1.1	1.1	1.6
Malaysia	1.7	2.1	1.5	1.8	2.2	3.0	3.5	3.3
Thailand	3.0	2.2	3.1	2.3	1.7	1.7	2.0	2.5
Indonesia	4.0	6.4	4.5	5.1	8.0	8.0	7.8	7.1
Philippines	3.2	3.0	3.2	2.6	2.4	3.5	4.1	4.4
Vietnam	9.2	6.6	6.9	6.6	7.0	5.9	4.8	4.7
Macao	6.1	5.5	5.4	5.1	5.6	5.9	6.1	6.2

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

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

## Statistical Appendix

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(\$Mn)					
Private consumption expenditure	771,443	811,654	868,691	982,368	1,026,482	1,013,615
Government consumption expenditure	136,354	130,566	131,837	138,967	148,017	152,512
Gross domestic fixed capital formation	287,360	302,152	337,153	340,356	350,796	339,552
<i>of which:</i>						
Building and construction	107,692	105,993	106,268	111,776	127,312	123,746
Machinery, equipment and intellectual property products	162,871	176,269	214,093	204,083	198,633	191,568
Changes in inventories	7,076	-4,761	-2,129	12,841	8,480	22,941
Total exports of goods <sup>&amp;</sup>	2,027,031	2,251,744	2,467,357	2,698,850	2,843,998	2,500,143
Imports of goods <sup>&amp;</sup>	2,099,545	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966
Exports of services <sup>&amp;</sup>	431,090	496,985	566,416	664,100	720,837	672,794
Imports of services <sup>&amp;</sup>	243,860	265,124	289,634	334,204	367,034	339,346
<b>GDP</b>	<b>1,316,949</b>	<b>1,412,125</b>	<b>1,503,351</b>	<b>1,650,756</b>	<b>1,707,487</b>	<b>1,659,245</b>
<i>Per capita GDP (\$)</i>	<i>194,140</i>	<i>207,263</i>	<i>219,240</i>	<i>238,676</i>	<i>245,406</i>	<i>237,960</i>
<b>GNI</b>	<b>1,344,927</b>	<b>1,419,589</b>	<b>1,538,864</b>	<b>1,703,567</b>	<b>1,807,994</b>	<b>1,709,007</b>
<i>Per capita GNI (\$)</i>	<i>198,264</i>	<i>208,359</i>	<i>224,419</i>	<i>246,312</i>	<i>259,851</i>	<i>245,096</i>
Total final demand	3,660,354	3,988,340	4,369,325	4,837,482	5,098,610	4,701,557
Total final demand excluding re-exports <sup>(a)</sup>	2,088,521	2,243,119	2,436,589	2,697,292	2,836,222	2,687,437
Domestic demand	1,202,233	1,239,611	1,335,552	1,474,532	1,533,775	1,528,620
Private	1,012,565	1,062,587	1,163,262	1,297,607	1,342,889	1,327,688
Public	189,668	177,024	172,290	176,925	190,886	200,932
External demand	2,458,121	2,748,729	3,033,773	3,362,950	3,564,835	3,172,937

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>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>		<u>2014</u>	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Private consumption expenditure	1,090,234	1,224,402	1,314,996	1,404,527	338,025	369,017	356,942	368,452
Government consumption expenditure	157,371	168,517	185,310	197,951	49,595	50,104	54,269	51,133
Gross domestic fixed capital formation	386,852	455,294	517,389	507,106	125,637	138,522	117,989	123,857
<i>of which:</i>								
Building and construction	139,249	179,341	204,858	218,449	54,765	58,003	63,067	54,900
Machinery, equipment and intellectual property products	209,568	239,854	278,457	259,178	64,393	73,685	48,826	61,760
Changes in inventories	37,522	11,742	-3,662	-2,296	-1,652	1,721	8,566	5,955
Total exports of goods <sup>&amp;</sup>	3,068,444	3,420,076	3,591,776	3,816,390	1,000,343	1,015,104	870,681	949,553
Imports of goods <sup>&amp;</sup>	3,395,057	3,848,200	4,116,410	4,394,928	1,117,381	1,153,163	1,028,681	1,111,191
Exports of services <sup>&amp;</sup>	829,044	941,178	1,003,047	1,063,231	271,465	286,109	265,395	245,227
Imports of services <sup>&amp;</sup>	398,078	438,576	455,382	466,628	118,351	127,284	114,245	115,583
<b>GDP</b>	<b>1,776,332</b>	<b>1,934,433</b>	<b>2,037,064</b>	<b>2,125,353</b>	<b>547,681</b>	<b>580,130</b>	<b>530,916</b>	<b>517,403</b>
<i>Per capita GDP (\$)</i>	<i>252,887</i>	<i>273,550</i>	<i>284,721</i>	<i>295,701</i>	--	--	--	--
<b>GNI</b>	<b>1,813,928</b>	<b>1,987,259</b>	<b>2,066,519</b>	<b>2,167,523</b>	<b>548,049</b>	<b>581,127</b>	<b>538,206</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>258,240</i>	<i>281,020</i>	<i>288,838</i>	<i>301,568</i>	--	--	--	--
Total final demand	5,569,467	6,221,209	6,608,856	6,986,909	1,783,413	1,860,577	1,673,842	1,744,177
Total final demand excluding re-exports <sup>(a)</sup>	3,058,027	3,433,562	3,655,330	3,836,430	956,424	1,021,600	953,703	961,209
Domestic demand	1,671,979	1,859,955	2,014,033	2,107,288	511,605	559,364	537,766	549,397
Private	1,449,592	1,614,013	1,737,299	1,809,995	438,276	482,413	449,340	476,515
Public	222,387	245,942	276,734	297,293	73,329	76,951	88,426	72,882
External demand	3,897,488	4,361,254	4,594,823	4,879,621	1,271,808	1,301,213	1,136,076	1,194,780

- 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.  
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.  
 (--) 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Private consumption expenditure	7.1	3.5	6.1	8.6	1.9	0.2
Government consumption expenditure	1.4	-2.6	0.9	3.2	2.0	2.3
Gross domestic fixed capital formation	3.4	4.0	7.1	3.2	1.4	-3.5
<i>of which:</i>						
Building and construction	-10.7	-7.6	-7.1	-0.3	6.8	-5.5
Machinery, equipment and intellectual property products	11.4	12.1	18.2	2.5	*	-2.2
Total exports of goods <sup>&amp;</sup>	14.9	10.4	9.3	7.0	1.9	-12.5
Imports of goods <sup>&amp;</sup>	13.7	8.0	9.2	8.8	1.8	-9.5
Exports of services <sup>&amp;</sup>	17.9	11.6	10.0	14.3	5.0	0.4
Imports of services <sup>&amp;</sup>	14.6	7.6	8.4	12.1	5.8	-5.0
<b>GDP</b>	<b>8.7</b>	<b>7.4</b>	<b>7.0</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>
<i>Per capita GDP</i>	<i>7.9</i>	<i>6.9</i>	<i>6.3</i>	<i>5.6</i>	<i>1.5</i>	<i>-2.7</i>
<b>RGNI</b>	<b>4.1</b>	<b>4.3</b>	<b>6.7</b>	<b>8.2</b>	<b>3.3</b>	<b>-4.6</b>
<i>Per capita RGNI</i>	<i>3.3</i>	<i>3.9</i>	<i>6.0</i>	<i>7.3</i>	<i>2.7</i>	<i>-4.8</i>
Total final demand	11.9	7.8	8.4	8.2	2.2	-6.8
Total final demand excluding re-exports <sup>(a)</sup>	9.1	5.6	7.4	7.9	1.7	-2.6
Domestic demand	5.3	2.0	6.1	7.8	1.4	0.5
Private	6.5	3.4	7.6	8.9	1.2	-0.1
Public	-0.4	-5.7	-2.8	0.6	3.2	4.5
External demand	15.4	10.6	9.4	8.4	2.5	-9.9

- 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.  
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.  
 (--) Not applicable.  
 (\*) Change within  $\pm 0.05\%$ .  
 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>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>		<u>2014</u>		Average annual rate of change:	
					Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 2003 to 2013 <sup>#</sup>	5 years 2008 to 2013 <sup>#</sup>
Private consumption expenditure	6.1	8.4	4.1	4.3	2.7	3.6	1.5	1.2	5.0	4.6
Government consumption expenditure	3.4	2.5	3.6	2.3	2.3	2.0	2.6	2.7	1.9	2.8
Gross domestic fixed capital formation	7.7	10.2	6.8	3.3	2.7	5.3	3.5	-5.6	4.3	4.8
<i>of which:</i>										
Building and construction	5.7	15.7	7.2	-0.9	3.1	-3.8	10.6	1.3	*	4.2
Machinery, equipment and intellectual property products	6.5	12.3	10.1	10.8	7.6	17.5	1.9	-10.0	8.0	7.4
Total exports of goods <sup>&amp;</sup>	17.3	3.4	1.8	6.6	6.1	5.7	0.5	2.3	5.7	2.9
Imports of goods <sup>&amp;</sup>	18.1	4.7	3.0	7.4	6.6	6.1	1.2	1.1	6.3	4.4
Exports of services <sup>&amp;</sup>	14.7	5.5	2.2	5.5	5.0	4.7	3.3	-2.3	8.6	5.5
Imports of services <sup>&amp;</sup>	11.1	3.5	1.9	2.0	2.6	5.5	-0.8	5.0	6.0	2.6
<b>GDP</b>	<b>6.8</b>	<b>4.8</b>	<b>1.5</b>	<b>2.9</b>	<b>3.0</b>	<b>2.9</b>	<b>2.6</b>	<b>1.8</b>	<b>4.5</b>	<b>2.7</b>
<i>Per capita GDP</i>	<b>6.0</b>	<b>4.1</b>	<b>0.4</b>	<b>2.5</b>	--	--	--	--	<b>3.8</b>	<b>2.0</b>
<b>RGNI</b>	<b>3.6</b>	<b>4.8</b>	<b>-0.2</b>	<b>4.3</b>	<b>5.0</b>	<b>4.6</b>	<b>1.9</b>	<b>N.A.</b>	<b>3.4</b>	<b>1.5</b>
<i>Per capita RGNI</i>	<b>2.9</b>	<b>4.1</b>	<b>-1.3</b>	<b>3.8</b>	--	--	--	--	<b>2.7</b>	<b>0.9</b>
Total final demand	13.6	4.7	2.5	5.6	5.2	5.0	1.5	1.6	5.7	3.7
Total final demand excluding re-exports <sup>(a)</sup>	10.4	5.6	3.2	4.7	4.0	4.4	1.7	1.3	5.2	4.2
Domestic demand	7.1	6.5	3.9	4.0	3.8	4.1	2.4	2.0	4.4	4.4
Private	6.6	6.7	3.6	4.1	3.2	4.8	1.4	2.1	4.8	4.1
Public	10.2	5.5	5.8	3.5	8.1	-0.2	7.8	1.9	2.3	5.9
External demand	16.8	3.9	1.9	6.4	5.8	5.5	1.1	1.4	6.3	3.4



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

	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	925	0.1	1,090	0.1	948	0.1	944	*	1,114	0.1
Manufacturing	31,506	1.9	28,714	1.8	30,410	1.8	30,578	1.6	30,600	1.5
Electricity, gas and water supply, and waste management	39,651	2.4	35,032	2.2	34,486	2.0	33,877	1.8	35,382	1.8
Construction	48,403	3.0	50,264	3.2	56,531	3.3	65,484	3.4	73,445	3.6
Services	1,499,529	92.6	1,466,724	92.7	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0
<i>Import/export, wholesale and retail trades</i>	399,200	24.6	370,226	23.4	413,308	23.8	492,900	25.9	511,537	25.4
<i>Accommodation<sup>(a)</sup> and food services</i>	53,600	3.3	48,789	3.1	56,418	3.2	66,421	3.5	72,044	3.6
<i>Transportation, storage, postal and courier services</i>	98,390	6.1	99,208	6.3	137,941	7.9	120,034	6.3	120,609	6.0
<i>Information and communications</i>	49,127	3.0	47,893	3.0	55,024	3.2	62,952	3.3	70,866	3.5
<i>Financing and insurance</i>	277,112	17.1	255,900	16.2	283,752	16.3	305,282	16.1	319,312	15.9
<i>Real estate, professional and business services</i>	166,086	10.3	173,903	11.0	188,476	10.8	213,987	11.3	232,416	11.5
<i>Public administration, social and personal services</i>	278,100	17.2	288,109	18.2	295,257	17.0	313,585	16.5	337,678	16.8
<i>Ownership of premises</i>	177,915	11.0	182,696	11.5	184,745	10.6	195,005	10.3	208,036	10.3
<b>GDP at basic prices</b>	<b>1,620,013</b>	<b>100.0</b>	<b>1,581,824</b>	<b>100.0</b>	<b>1,737,298</b>	<b>100.0</b>	<b>1,901,049</b>	<b>100.0</b>	<b>2,013,038</b>	<b>100.0</b>
Taxes on products	58,233	--	54,689	--	68,707	--	69,401	--	63,575	--
Statistical discrepancy (%)	1.7	--	1.4	--	-1.7	--	-1.9	--	-1.9	--
<b>GDP at current market prices</b>	<b>1,707,487</b>	<b>--</b>	<b>1,659,245</b>	<b>--</b>	<b>1,776,332</b>	<b>--</b>	<b>1,934,433</b>	<b>--</b>	<b>2,037,064</b>	<b>--</b>

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

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

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

(--) Not applicable.

(\*) Less than 0.05%.

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

	(%)									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>			<u>2014</u>
							Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-17.0	-4.6	3.9	0.8	-3.2	1.3	4.6	-2.0	0.9	-5.8
Manufacturing	-7.0	-8.2	3.3	0.7	-0.8	0.1	0.3	-0.9	0.5	2.1
Electricity, gas and water supply, and waste management	0.7	1.5	-0.2	0.6	1.4	-0.7	-2.4	-0.2	1.3	1.9
Construction	8.9	-7.5	15.6	18.3	8.3	1.1	2.8	8.5	-4.3	12.8
Services	2.4	-1.7	6.9	5.2	1.8	2.9	3.8	2.5	2.8	2.2
<i>Import/export, wholesale and retail trades</i>	6.8	-9.5	16.7	9.1	1.9	3.6	5.1	1.8	2.8	0.3
<i>Accommodation<sup>(a)</sup> and food services</i>	1.7	-11.3	9.5	8.3	1.8	3.7	4.2	3.4	2.9	4.3
<i>Transportation, storage, postal and courier services</i>	2.5	-5.5	6.0	7.2	0.9	2.5	2.9	2.4	5.4	7.0
<i>Information and communications</i>	-1.2	1.3	1.5	2.8	2.8	4.2	3.0	4.3	2.9	2.9
<i>Financing and insurance</i>	-0.5	4.1	6.3	6.5	0.8	5.6	7.5	7.2	4.6	3.3
<i>Real estate, professional and business services</i>	1.4	1.6	2.5	2.6	3.1	0.1	-0.8	-0.7	2.0	1.8
<i>Public administration, social and personal services</i>	1.4	3.0	2.2	1.8	2.1	2.6	3.8	2.2	2.1	2.7
<i>Ownership of premises</i>	2.0	0.3	0.8	0.7	1.1	0.4	0.2	0.5	0.7	1.0
Taxes on products	-1.7	-4.8	6.3	-6.8	-10.4	-9.0	-13.4	-10.3	-10.4	-3.4
<b>GDP in chained (2012) dollars</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.5</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.6</b>

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

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

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

	(\$Mn)								
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>		<u>2014</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Current account <sup>(a)</sup>	164,001	124,369	107,513	32,151	39,517	-6,187	31,121	16,439	-4,429
Goods	103,008	25,564	-58,203	-146,729	-203,302	-90,627	-17,777	-27,296	-74,590
Services	27,617	78,789	132,681	169,760	221,367	61,584	53,853	48,062	67,740
Primary income	49,762	37,596	52,826	29,455	42,170	28,228	368	997	7,290
Secondary income	-16,386	-17,580	-19,791	-20,336	-20,718	-5,372	-5,323	-5,324	-4,869
Capital and financial account <sup>(a)</sup>	-144,532	-88,838	-113,242	-67,664	-40,452	25,953	-8,589	-45,288	29,922
Capital account	-3,021	-4,436	-2,021	-1,433	-1,594	-123	-1,280	-67	-67
Financial account	-141,511	-84,402	-111,220	-66,231	-38,858	26,076	-7,309	-45,221	29,989
Financial non-reserve assets	470,987	-25,257	-24,437	122,658	19,032	51,508	-36,030	-446	62,173
<i>Direct investment</i>	-28,421	-122,026	1,868	-102,623	-115,542	-81,059	11,563	45,716	-82,302
<i>Portfolio investment</i>	-310,083	-442,460	-10,979	-31,592	-333,625	-31,658	-123,286	-212,416	-11,476
<i>Financial derivatives</i>	24,560	18,677	20,884	15,208	8,066	-7,487	10,598	1,041	18,052
<i>Other investment</i>	784,930	520,552	-36,210	241,665	460,132	171,712	65,095	165,214	137,899
Reserve assets	-612,498	-59,145	-86,783	-188,889	-57,890	-25,432	28,722	-44,775	-32,185
Net errors and omissions	-19,470	-35,530	5,729	35,513	935	-19,766	-22,531	28,849	-25,493
<b>Overall Balance of Payments</b>	<b>612,498</b>	<b>59,145</b>	<b>86,783</b>	<b>188,889</b>	<b>57,890</b>	<b>25,432</b>	<b>-28,722</b>	<b>44,775</b>	<b>32,185</b>

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

(a) In accordance with the accounting rules adopted in compiling Balance of Payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while 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 reserve assets represents a net increase while 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>		<u>2014</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Total exports of goods	2,500,143	3,068,444	3,420,076	3,591,776	3,816,390	1,000,343	1,015,104	870,681	949,553
Imports of goods	2,702,966	3,395,057	3,848,200	4,116,410	4,394,928	1,117,381	1,153,163	1,028,681	1,111,191
<b>Visible trade balance</b>	<b>-202,823</b>	<b>-326,613</b>	<b>-428,124</b>	<b>-524,634</b>	<b>-578,538</b>	<b>-117,038</b>	<b>-138,059</b>	<b>-158,000</b>	<b>-161,638</b>
	<b>(-7.5)</b>	<b>(-9.6)</b>	<b>(-11.1)</b>	<b>(-12.7)</b>	<b>(-13.2)</b>	<b>(-10.5)</b>	<b>(-12.0)</b>	<b>(-15.4)</b>	<b>(-14.5)</b>
Exports of services	672,794	829,044	941,178	1,003,047	1,063,231	271,465	286,109	265,395	245,227
Imports of services	339,346	398,078	438,576	455,382	466,628	118,351	127,284	114,245	115,583
<b>Invisible trade balance</b>	<b>333,448</b>	<b>430,966</b>	<b>502,602</b>	<b>547,665</b>	<b>596,603</b>	<b>153,114</b>	<b>158,825</b>	<b>151,150</b>	<b>129,644</b>
	<b>(98.3)</b>	<b>(108.3)</b>	<b>(114.6)</b>	<b>(120.3)</b>	<b>(127.9)</b>	<b>(129.4)</b>	<b>(124.8)</b>	<b>(132.3)</b>	<b>(112.2)</b>
Exports of goods and services	3,172,937	3,897,488	4,361,254	4,594,823	4,879,621	1,271,808	1,301,213	1,136,076	1,194,780
Imports of goods and services	3,042,312	3,793,135	4,286,776	4,571,792	4,861,556	1,235,732	1,280,447	1,142,926	1,226,774
<b>Visible and invisible trade balance</b>	<b>130,625</b>	<b>104,353</b>	<b>74,478</b>	<b>23,031</b>	<b>18,065</b>	<b>36,076</b>	<b>20,766</b>	<b>-6,850</b>	<b>-31,994</b>
	<b>&lt;4.3&gt;</b>	<b>&lt;2.8&gt;</b>	<b>&lt;1.7&gt;</b>	<b>&lt;0.5&gt;</b>	<b>&lt;0.4&gt;</b>	<b>&lt;2.9&gt;</b>	<b>&lt;1.6&gt;</b>	<b>&lt;-0.6&gt;</b>	<b>&lt;-2.6&gt;</b>

Notes: Figures in this table are reckoned on GDP basis and based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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

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

**Table 6a : Visible and invisible trade based on the change of ownership principle**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>		<u>2014</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	2,454,394	3,021,492	3,406,765	3,632,957	3,945,256	1,043,344	1,068,467	905,735	979,614
Imports of goods	2,351,386	2,995,928	3,464,968	3,779,686	4,148,558	1,061,121	1,095,763	980,325	1,060,258
<b>Visible trade balance</b>	<b>103,008</b> (4.4)	<b>25,564</b> (0.9)	<b>-58,203</b> (-1.7)	<b>-146,729</b> (-3.9)	<b>-203,302</b> (-4.9)	<b>-17,777</b> (-1.7)	<b>-27,296</b> (-2.5)	<b>-74,590</b> (-7.6)	<b>-80,644</b> (-7.6)
Exports of services	501,303	625,719	710,716	764,026	817,948	205,498	211,684	210,552	192,691
Imports of services	473,686	546,930	578,035	594,266	596,581	151,645	163,622	142,812	144,041
<b>Invisible trade balance</b>	<b>27,617</b> (5.8)	<b>78,789</b> (14.4)	<b>132,681</b> (23.0)	<b>169,760</b> (28.6)	<b>221,367</b> (37.1)	<b>53,853</b> (35.5)	<b>48,062</b> (29.4)	<b>67,740</b> (47.4)	<b>48,650</b> (33.8)
Exports of goods and services	2,955,697	3,647,211	4,117,481	4,396,983	4,763,204	1,248,842	1,280,151	1,116,287	1,172,305
Imports of goods and services	2,825,072	3,542,858	4,043,003	4,373,952	4,745,139	1,212,766	1,259,385	1,123,137	1,204,299
<b>Visible and invisible trade balance</b>	<b>130,625</b> <4.6>	<b>104,353</b> <2.9>	<b>74,478</b> <1.8>	<b>23,031</b> <0.5>	<b>18,065</b> <0.4>	<b>36,076</b> <3.0>	<b>20,766</b> <1.6>	<b>-6,850</b> <-0.6>	<b>-31,994</b> <-2.7>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	-11.2	18.0	4.6	3.2	8.8	8.7	8.6	2.6	4.0
Imports of goods	-7.0	19.9	6.7	4.6	10.3	10.2	9.7	3.4	2.8
Exports of services	1.7	15.3	5.7	2.7	6.8	6.6	6.3	4.1	-3.3
Imports of services	-12.9	10.0	-0.2	2.2	0.6	0.4	3.0	-1.6	3.4

Notes: Figures in this table are reckoned on GDP basis and based on the System of National Accounts 2008.

Statistics on visible and invisible trade presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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

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

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>	
	(% change)				(% change)		Q3	Q4	Q1	Q2
					(\$Mn)		(% change over a year earlier)			
<b>All markets</b>	<b>-12.6</b>	<b>22.8</b>	<b>10.1</b>	<b>2.9</b>	<b>3.6</b>	<b>3,559,686</b>	<b>3.3</b>	<b>4.8</b>	<b>0.7</b>	<b>4.8</b>
Mainland of China	-7.8	26.5	9.3	6.3	4.9	1,949,247	3.7	4.8	-1.7	5.2
United States	-20.6	16.4	-0.4	2.3	-2.1	331,303	0.2	-2.6	2.2	1.4
Japan	-10.0	17.2	5.9	6.5	-6.1	135,229	-8.8	-4.7	-0.7	1.8
India	0.2	42.4	25.6	-17.5	7.9	83,301	7.6	13.9	5.2	8.5
Taiwan	-0.4	25.4	24.3	-5.2	-4.3	77,359	-2.1	-14.1	-5.6	0.2
Germany	-15.5	1.6	10.7	-12.8	-5.1	73,827	-0.5	-7.8	-1.4	4.3
Republic of Korea	-13.0	24.4	14.2	-4.0	9.0	64,128	7.9	19.5	0.3	1.6
Vietnam	16.6	33.9	37.3	9.9	15.5	58,580	25.3	21.4	9.9	11.6
Singapore	-23.6	20.7	10.3	-0.5	4.7	58,580	1.3	6.7	4.2	-2.2
United Kingdom	-20.8	1.9	-3.4	-6.0	-2.0	54,045	5.3	3.9	-4.2	8.6
Rest of the world	-20.2	20.9	15.1	0.6	5.7	674,087	5.4	11.5	6.6	6.4

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>	
		(% change)			(% change)		(\$Mn)	Q3	Q4	Q1
							(% change over a year earlier)			
<b>All sources</b>	<b>-11.0</b>	<b>25.0</b>	<b>11.9</b>	<b>3.9</b>	<b>3.8</b>	<b>4,060,717</b>	<b>2.6</b>	<b>4.3</b>	<b>2.1</b>	<b>4.5</b>
Mainland of China	-11.4	22.4	10.9	8.5	5.5	1,942,131	4.0	3.2	-2.4	2.9
Japan	-20.6	30.4	3.4	-2.2	-8.1	286,343	-7.3	-2.3	2.3	6.2
Taiwan	-8.5	28.0	7.2	1.6	6.9	261,895	1.2	8.2	11.3	14.7
Singapore	-10.4	35.9	7.2	-3.2	*	246,441	-5.0	0.8	0.2	11.5
United States	-5.7	26.0	18.0	-3.3	7.4	219,678	5.5	23.2	4.2	2.3
Republic of Korea	-12.7	29.8	12.2	2.4	3.4	158,709	0.9	-1.3	7.8	11.3
Malaysia	2.8	24.5	5.1	-6.0	4.7	87,601	16.8	21.9	25.7	30.6
India	-9.3	36.5	20.6	-5.5	6.7	87,321	13.4	3.6	1.0	1.8
Thailand	-9.7	32.5	0.3	-4.8	6.4	77,544	3.3	7.7	19.2	10.8
Switzerland	-11.5	26.3	51.7	-0.7	-1.7	77,195	6.4	2.0	2.6	2.6
Rest of the world	-8.2	19.2	20.2	5.8	3.8	615,861	2.9	4.0	5.4	-3.3

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

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

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>	
		(% change)			(% change)		(\$Mn)	Q3	Q4	Q1
							(% change over a year earlier)			
<b>Overall</b>	<b>-10.8</b>	<b>27.3</b>	<b>17.3</b>	<b>3.0</b>	<b>4.5</b>	<b>1,104,539</b>	<b>0.8</b>	<b>3.4</b>	<b>5.8</b>	<b>3.7</b>
Foodstuffs	9.9	17.0	18.8	5.1	14.7	131,774	16.9	20.8	5.0	15.6
Consumer goods	-14.0	33.8	36.0	5.9	1.0	267,900	4.0	-0.8	4.3	5.0
Raw materials and semi-manufactures	-6.4	32.3	0.2	-6.5	11.4	341,297	6.5	-1.3	20.9	8.4
Fuels	-18.4	33.8	21.9	-4.2	-2.7	132,065	-6.3	5.4	-10.0	-2.1
Capital goods	-18.7	12.9	27.3	19.0	-1.5	231,038	-12.2	3.4	-6.6	-9.3

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>		<u>2014</u>	
	(% change)				(% change)	(\$Mn)	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
	(% change over a year earlier)									
<b>Exports of services</b>	<b>-6.7</b>	<b>23.2</b>	<b>13.5</b>	<b>6.6</b>	<b>6.0</b>	<b>1,063,231</b>	<b>5.7</b>	<b>5.0</b>	<b>3.5</b>	<b>-1.6</b>
Transportation	-18.6	26.3	7.8	-0.6	-2.2	242,995	0.9	2.1	*	1.2
Travel	6.7	35.6	28.4	15.8	17.7	301,969	15.5	9.4	9.2	-10.0
Trade-related	-4.3	18.0	11.0	3.9	2.6	288,559	2.0	2.9	1.5	3.3
Other services	-3.1	16.4	10.1	9.0	5.9	229,708	5.1	5.1	2.3	1.4
<b>Imports of services</b>	<b>-7.5</b>	<b>17.3</b>	<b>10.2</b>	<b>3.8</b>	<b>2.5</b>	<b>466,628</b>	<b>2.8</b>	<b>5.9</b>	<b>0.3</b>	<b>7.9</b>
Transportation	-21.6	20.7	14.3	2.3	-0.4	142,068	1.5	4.6	-0.3	4.8
Travel	-3.8	11.9	9.8	5.2	5.7	164,545	4.2	11.6	-2.7	13.3
Trade-related	0.5	21.6	1.1	1.7	-0.2	33,679	-1.8	-0.7	2.9	4.5
Other services	5.7	19.5	8.7	4.6	2.4	126,336	3.8	2.7	3.9	5.0
<b>Net exports of services</b>	<b>-5.8</b>	<b>29.2</b>	<b>16.6</b>	<b>9.0</b>	<b>8.9</b>	<b>596,603</b>	<b>8.1</b>	<b>4.3</b>	<b>6.0</b>	<b>-8.8</b>

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

Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 10a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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



**Table 10a : Exports and imports of services based on the change of ownership principle by component (at current market prices)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>		<u>2014</u>	
	(% change)				(% change)	(\$Mn)	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
	(% change over a year earlier)									
<b>Exports of services</b>	<b>-7.9</b>	<b>24.8</b>	<b>13.6</b>	<b>7.5</b>	<b>7.1</b>	<b>817,948</b>	<b>7.0</b>	<b>5.7</b>	<b>4.0</b>	<b>-2.9</b>
Transportation	-18.6	26.3	7.8	-0.6	-2.2	242,995	0.9	2.1	*	1.2
Travel	6.7	35.6	28.4	15.8	17.7	301,969	15.5	9.4	9.2	-10.0
Other services	-4.6	16.2	8.1	8.3	5.4	272,984	4.5	4.7	2.2	1.6
<b>Imports of services</b>	<b>-16.2</b>	<b>15.5</b>	<b>5.7</b>	<b>2.8</b>	<b>0.4</b>	<b>596,581</b>	<b>0.1</b>	<b>2.9</b>	<b>-1.2</b>	<b>5.3</b>
Transportation	-21.6	20.7	14.3	2.3	-0.4	142,068	1.5	4.6	-0.3	4.8
Travel	-3.8	11.9	9.8	5.2	5.7	164,545	4.2	11.6	-2.7	13.3
Other services	-19.0	15.1	0.1	1.9	-2.0	289,968	-2.8	-1.8	-0.8	0.6

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

Statistics on exports and imports of services presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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

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

**Table 11 : Incoming visitors by source**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>		<u>2014</u>	
						Q3	Q4	Q1	Q2
<u>('000)</u>									
<b>All sources</b>	<b>29 590.7</b>	<b>36 030.3</b>	<b>41 921.3</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>14 498.9</b>	<b>14 434.0</b>	<b>14 698.0</b>	<b>13 831.2</b>
Mainland of China	17 956.7	22 684.4	28 100.1	34 911.4	40 745.3	11 286.0	10 644.1	11 406.7	10 416.1
South and Southeast Asia	2 885.2	3 500.9	3 751.1	3 651.8	3 718.0	810.7	1 116.4	846.6	973.6
Taiwan	2 009.6	2 164.8	2 148.7	2 088.7	2 100.1	566.5	529.8	491.1	500.7
Europe	1 610.5	1 757.8	1 801.3	1 867.7	1 893.7	406.0	543.6	481.5	454.1
United States	1 070.1	1 171.4	1 212.3	1 184.8	1 109.8	245.8	308.8	264.4	296.6
Japan	1 204.5	1 316.6	1 283.7	1 254.6	1 057.0	271.1	281.5	274.4	254.0
Others	2 854.0	3 434.5	3 623.9	3 656.1	3 674.9	912.9	1 009.9	933.4	936.1
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>0.3</b>	<b>21.8</b>	<b>16.4</b>	<b>16.0</b>	<b>11.7</b>	<b>11.1</b>	<b>9.0</b>	<b>15.3</b>	<b>9.6</b>
Mainland of China	6.5	26.3	23.9	24.2	16.7	15.8	11.1	20.1	11.8
South and Southeast Asia	-1.7	21.3	7.1	-2.6	1.8	0.8	6.7	3.4	0.1
Taiwan	-10.3	7.7	-0.7	-2.8	0.5	-0.6	0.9	-4.7	2.4
Europe	-5.9	9.1	2.5	3.7	1.4	-0.2	1.7	-0.3	-1.5
United States	-6.7	9.5	3.5	-2.3	-6.3	-9.1	-1.9	-2.2	4.1
Japan	-9.1	9.3	-2.5	-2.3	-15.7	-21.8	8.6	2.6	7.1
Others	-13.1	20.3	5.5	0.9	0.5	0.1	3.7	5.2	8.2

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

**Table 12 : Property market**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	26 036	17 321	16 579	10 471	8 776	7 157	13 405
Commercial property	371	145	291	368	390	235	189
<i>of which :</i>							
Office space	279	34	108	320	341	151	124
Other commercial premises <sup>(b)</sup>	91	111	183	48	49	84	65
Industrial property <sup>(c)</sup>	1	17	27	16	78	3	21
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	4	0	0
Conventional flatted factory space	1	0	0	16	70	3	21
Storage premises <sup>(d)</sup>	0	13	27	0	4	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	20 614	24 691	4 430	4 795	22 759	19 021	6 385
Subsidised sales flats <sup>(e)</sup>	0	0	0	2 010	2 200	370	1 110
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	530.0	550.7	706.7	900.0	530.0	546.8	570.5
Commercial property	161.3	481.9	468.4	327.5	147.7	178.3	158.4
Industrial property <sup>(f)</sup>	16.4	35.1	23.9	103.5	106.6	97.1	34.3
Other properties	407.1	408.0	199.2	207.7	212.8	253.2	459.2
Total	1 114.8	1 475.8	1 398.2	1 538.6	997.1	1 075.4	1 222.4
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	100 630	103 362	82 472	123 575	95 931	115 092	135 778
Primary market	25 694	15 994	13 986	20 123	11 046	16 161	13 646
Secondary market	74 936	87 368	68 486	103 452	84 885	98 931	122 132
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 213	3 431	2 874	4 129	2 845	2 521	3 591
Other commercial premises	7 833	7 143	4 402	5 490	4 149	5 359	7 639
Flatted factory space	5 889	6 560	7 409	9 072	5 741	5 554	8 206

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>		<u>2014</u>	
				Q3	Q4	Q1	Q2
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	9 449	10 149	8 254	2 951	3 818	2 879	4 653
Commercial property	197	226	161	66	62	75	11
<i>of which :</i>							
Office space	155	136	123	56	47	57	0
Other commercial premises <sup>(b)</sup>	42	90	39	11	16	18	11
Industrial property <sup>(c)</sup>	105	170	85	81	4	16	9
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	32	46	85	81	4	16	9
Storage premises <sup>(d)</sup>	73	123	0	0	0	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	17 787	9 778	20 898	7 942	2 549	3 566	N.A.
Subsidised sales flats <sup>(e)</sup>	0	0	0	0	0	0	N.A.
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	580.6	796.4	816.0	154.1	297.7	77.7	N.A.
Commercial property	133.6	210.2	309.5	90.5	114.0	43.3	N.A.
Industrial property <sup>(f)</sup>	109.3	70.7	138.1	17.6	25.0	0.0	N.A.
Other properties	232.7	428.9	136.4	7.2	105.7	68.7	N.A.
Total	1 056.2	1 506.1	1 400.1	269.4	542.3	189.7	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	84 462	81 333	50 676	11 079	11 883	10 788	16 011
Primary market	10 880	12 968	11 046	1 628	3 986	3 595	3 352
Secondary market	73 582	68 365	39 630	9 451	7 897	7 193	12 659
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 071	3 269	1 685	273	263	205	227
Other commercial premises	5 980	7 282	4 305	596	808	508	779
Flatted factory space	7 619	9 731	4 271	697	619	539	643

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.

N.A. Not yet available.

**Table 13 : Property prices and rentals**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	78.0	92.0	92.7	103.5	120.5	121.3	150.9
Office space	99.3	133.0	139.3	165.5	199.0	179.8	230.4
Shopping space	119.3	149.3	153.5	172.5	192.2	193.1	257.2
Flatted factory space	88.6	125.0	158.5	199.5	235.9	216.3	284.4
Property rental indices <sup>(b)</sup> :							
Residential flats	77.7	86.5	91.6	101.8	115.7	100.4	119.7
Office space	78.1	96.4	117.4	131.9	155.5	135.7	147.6
Shopping space	92.8	100.5	104.3	111.8	116.2	110.9	122.9
Flatted factory space	77.3	82.6	91.0	100.5	109.3	99.4	108.9
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	26.6	17.9	0.8	11.7	16.4	0.7	24.4
Office space	58.9	33.9	4.7	18.8	20.2	-9.6	28.1
Shopping space	39.5	25.1	2.8	12.4	11.4	0.5	33.2
Flatted factory space	23.6	41.1	26.8	25.9	18.2	-8.3	31.5
Property rental indices <sup>(b)</sup> :							
Residential flats	5.6	11.3	5.9	11.1	13.7	-13.2	19.2
Office space	4.7	23.4	21.8	12.4	17.9	-12.7	8.8
Shopping space	7.4	8.3	3.8	7.2	3.9	-4.6	10.8
Flatted factory space	3.2	6.9	10.2	10.4	8.8	-9.1	9.6

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.

(#) Figures for non-residential property are provisional.

(+) Provisional figures.

**Table 13 : Property prices and rentals (Cont'd)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>		<u>2014</u>	
				Q3	Q4	Q1 <sup>#</sup>	Q2 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	182.1	206.2	242.4	245.6	245.2	244.2	247.3
Office space	297.9	334.7	409.8	415.4	414.1	416.7	420.5
Shopping space	327.4	420.5	506.8	510.8	505.9	506.2	512.4
Flatted factory space	385.0	489.8	655.4	671.0	655.9	652.4	660.0
Property rental indices <sup>(b)</sup> :							
Residential flats	134.0	142.6	154.5	155.8	156.8	155.3	156.5
Office space	169.9	188.3	204.1	207.9	208.1	208.4	210.2
Shopping space	134.3	151.3	165.5	168.1	167.9	169.0	172.2
Flatted factory space	118.6	131.9	147.3	150.8	151.8	153.4	157.1
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	20.7	13.2	17.6	16.1	8.6	2.8	2.5
Office space	29.3	12.4	22.4	21.5	11.4	4.1	2.7
Shopping space	27.3	28.4	20.5	16.3	6.0	1.0	0.7
Flatted factory space	35.4	27.2	33.8	31.8	15.1	2.5	0.3
Property rental indices <sup>(b)</sup> :							
Residential flats	11.9	6.4	8.3	6.6	4.0	2.4	2.0
Office space	15.1	10.8	8.4	9.0	7.7	5.8	3.3
Shopping space	9.3	12.7	9.4	8.9	6.5	5.4	3.9
Flatted factory space	8.9	11.2	11.7	12.6	10.7	9.2	7.5

**Table 14 : Monetary aggregates**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	412,629	348,248	387,909	454,342	491,115	671,241	730,093
M2 <sup>(a)</sup>	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857	3,587,717	3,866,788
M3 <sup>(a)</sup>	2,219,557	2,345,838	2,795,545	3,300,500	3,261,306	3,604,843	3,878,193
Total money supply (\$Mn)							
M1	484,494	434,684	491,648	616,709	645,833	901,819	1,017,227
M2	4,166,706	4,379,057	5,054,332	6,106,348	6,268,058	6,602,310	7,136,271
M3	4,189,544	4,407,188	5,089,741	6,139,758	6,300,751	6,626,843	7,156,260
Deposit (\$Mn)							
HK\$	2,017,911	2,131,579	2,568,283	3,075,042	3,033,980	3,373,595	3,617,183
Foreign currency	1,848,145	1,936,322	2,188,993	2,793,856	3,024,004	3,007,445	3,245,081
Total	3,866,056	4,067,901	4,757,275	5,868,898	6,057,984	6,381,040	6,862,265
Loans and advances (\$Mn)							
HK\$	1,666,740	1,797,350	1,917,437	2,184,705	2,354,755	2,401,323	2,824,445
Foreign currency	488,964	514,637	550,392	776,971	930,883	887,160	1,403,281
Total	2,155,704	2,311,987	2,467,828	2,961,676	3,285,638	3,288,483	4,227,726
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	113.6	112.6	111.1	106.3	100.7	101.9	99.5
Import-weighted	115.4	114.1	112.6	107.6	101.3	102.2	99.2
Export-weighted	111.7	110.9	109.6	104.8	100.1	101.6	99.8
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	16.3	-15.6	11.4	17.1	8.1	36.7	8.8
M2 <sup>(a)</sup>	4.8	5.5	19.2	18.1	-1.3	10.7	7.8
M3 <sup>(a)</sup>	4.6	5.7	19.2	18.1	-1.2	10.5	7.6
Total money supply							
M1	17.2	-10.3	13.1	25.4	4.7	39.6	12.8
M2	9.3	5.1	15.4	20.8	2.6	5.3	8.1
M3	8.6	5.2	15.5	20.6	2.6	5.2	8.0
Deposit							
HK\$	4.5	5.6	20.5	19.7	-1.3	11.2	7.2
Foreign currency	13.0	4.8	13.0	27.6	8.2	-0.5	7.9
Total	8.4	5.2	16.9	23.4	3.2	5.3	7.5
Loans and advances							
HK\$	6.0	7.8	6.7	13.9	7.8	2.0	17.6
Foreign currency	5.8	5.3	6.9	41.2	19.8	-4.7	58.2
Total	5.9	7.2	6.7	20.0	10.9	0.1	28.6
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	-2.4	-0.9	-1.3	-4.3	-5.3	1.2	-2.4
Import-weighted	-2.4	-1.1	-1.3	-4.4	-5.9	0.9	-2.9
Export-weighted	-2.4	-0.7	-1.2	-4.4	-4.5	1.5	-1.8

**Definition of Terms :**

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

**Total Money Supply:**

- M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

**Table 14 : Monetary aggregates (Cont'd)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
				Q3	Q4	Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	794,726	920,920	1,000,344	987,295	1,000,344	1,014,042	1,081,475
M2 <sup>(a)</sup>	4,046,216	4,537,384	4,795,130	4,751,371	4,795,130	4,861,544	5,140,282
M3 <sup>(a)</sup>	4,055,404	4,545,590	4,806,012	4,761,232	4,806,012	4,873,038	5,151,120
Total money supply (\$Mn)							
M1	1,127,320	1,377,359	1,510,895	1,483,998	1,510,895	1,522,509	1,628,109
M2	8,057,530	8,950,005	10,056,437	9,726,413	10,056,437	10,145,621	10,599,032
M3	8,081,079	8,970,396	10,085,243	9,750,025	10,085,243	10,177,899	10,632,049
Deposit (\$Mn)							
HK\$	3,740,240	4,176,200	4,390,953	4,354,568	4,390,953	4,445,310	4,712,873
Foreign currency	3,851,020	4,120,234	4,789,109	4,551,307	4,789,109	4,743,682	4,899,232
Total	7,591,260	8,296,434	9,180,062	8,905,875	9,180,062	9,188,992	9,612,105
Loans and advances (\$Mn)							
HK\$	3,160,002	3,333,059	3,606,018	3,595,502	3,606,018	3,746,501	3,889,193
Foreign currency	1,920,659	2,233,751	2,850,795	2,803,966	2,850,795	3,078,485	3,184,486
Total	5,080,661	5,566,810	6,456,813	6,399,468	6,456,813	6,824,986	7,073,679
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	94.6	94.9	94.9	95.3	94.6	95.1	95.8
Import-weighted	93.9	94.2	94.7	95.2	94.6	95.1	95.8
Export-weighted	95.4	95.6	95.1	95.4	94.7	95.0	95.9
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.9	15.9	8.6	14.5	8.6	7.3	13.1
M2 <sup>(a)</sup>	4.6	12.1	5.7	9.6	5.7	7.1	13.1
M3 <sup>(a)</sup>	4.6	12.1	5.7	9.6	5.7	7.1	13.1
Total money supply							
M1	10.8	22.2	9.7	14.6	9.7	9.5	14.0
M2	12.9	11.1	12.4	13.3	12.4	12.1	15.0
M3	12.9	11.0	12.4	13.4	12.4	12.2	15.0
Deposit							
HK\$	3.4	11.7	5.1	9.3	5.1	6.7	13.1
Foreign currency	18.7	7.0	16.2	15.1	16.2	13.3	13.6
Total	10.6	9.3	10.7	12.2	10.7	10.0	13.3
Loans and advances							
HK\$	11.9	5.5	8.2	10.9	8.2	11.5	11.4
Foreign currency	36.9	16.3	27.6	28.9	27.6	29.5	22.2
Total	20.2	9.6	16.0	18.1	16.0	19.0	16.0
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	-4.9	0.3	0.0	-0.2	0.4	0.4	0.8
Import-weighted	-5.3	0.3	0.5	0.4	1.2	0.8	1.1
Export-weighted	-4.4	0.2	-0.5	-1.0	-0.2	-0.2	0.7

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

(b) Period average.



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

	(%)							
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
					Q2	Q3	Q4	Q1
<b>Services Industry</b>								
Import and export trade	19.7	8.9	-1.3	-0.3	*	0.2	-1.8	0.9
Wholesale	25.0	12.7	3.2	4.3	2.3	3.4	5.1	3.1
Retail	18.3	24.9	9.8	11.0	16.1	7.5	6.8	4.2
Transportation	24.5	4.4	0.9	1.4	0.1	-0.3	4.3	5.9
<i>within which :</i>								
Land transport	6.0	7.0	11.9	8.0	6.3	6.6	11.4	8.5
Water transport	20.5	0.6	-2.4	-2.9	-3.9	-7.1	-2.0	4.9
Air transport	33.7	6.7	0.3	2.4	1.2	2.7	6.5	5.5
Warehousing and storage	9.5	9.4	25.2	8.2	0.9	14.4	16.6	10.8
Courier	28.3	17.3	16.1	26.1	14.7	53.0	19.8	24.7
Accommodation services <sup>(a)</sup>	25.3	19.6	13.8	5.6	6.8	2.6	2.9	10.0
Food services	5.1	6.4	5.0	3.5	4.6	3.8	2.0	3.6
Information and communications	4.9	8.8	9.3	6.0	8.2	6.7	2.4	-0.1
<i>within which :</i>								
Telecommunications	3.0	8.1	14.7	8.0	8.3	11.1	3.8	1.0
Film entertainment	-6.4	-5.6	1.9	-4.3	4.2	-5.2	-7.9	-2.5
Banking	8.8	10.8	9.4	16.8	14.2	16.8	18.6	5.5
Financing (except banking)	16.7	-2.4	1.6	2.6	7.1	10.5	-5.4	-5.8
<i>within which :</i>								
Financial markets and asset management	15.3	-3.2	1.7	1.0	6.7	9.9	-8.2	-4.7
<i>within which : Asset management</i>	28.4	10.6	-5.4	14.9	20.1	13.1	19.5	4.8
Insurance	8.3	9.4	13.6	15.1	12.1	16.0	18.6	23.1
Real estate	11.4	-0.9	11.8	0.1	-2.3	-10.6	8.4	2.3
Professional, scientific and technical services	13.9	7.3	-0.5	7.2	10.8	6.7	7.3	6.9
Administrative and support services	12.3	10.2	8.2	9.5	11.2	10.8	8.6	11.6
<b>Services Domain</b>								
Tourism, convention and exhibition services	30.6	23.8	15.1	17.8 <sup>+</sup>	28.4 <sup>+</sup>	15.3 <sup>+</sup>	9.7 <sup>+</sup>	6.9 <sup>+</sup>
Computer and information technology services	32.5	10.4	15.1	2.1	2.7	0.4	0.8	-7.8

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.

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

(+) Provisional figures.

**Table 16 : Labour force characteristics**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>		<u>2014</u>	
						Q3	Q4	Q1	Q2
<u>(%)</u>									
Labour force participation rate	60.8	59.6	60.1	60.5	61.2	61.3	61.1	60.5	60.9
Seasonally adjusted unemployment rate	5.3	4.3	3.4	3.3	3.4	3.4	3.2	3.1	3.2
Underemployment rate	2.3	2.0	1.7	1.5	1.5	1.5	1.4	1.3	1.5
<u>('000)</u>									
Population of working age	6 022.9	6 093.8	6 164.4	6 253.4	6 304.6	6 312.1	6 331.2	6 335.3	6 359.0
Labour force	3 660.3	3 631.3	3 703.1	3 785.2	3 858.8	3 871.5	3 865.6	3 833.9	3 872.3
Persons employed	3 467.6	3 474.1	3 576.4	3 660.7	3 728.0	3 737.2	3 747.0	3 714.8	3 744.7
Persons unemployed	192.6	157.2	126.7	124.5	130.8	134.3	118.7	119.1	127.6
Persons underemployed	83.8	72.5	63.3	57.6	58.2	56.8	55.5	48.4	58.0
<u>(% change over a year earlier)</u>									
Population of working age	0.8	1.2	1.2	1.4	0.8	0.8	0.8	0.6	0.9
Labour force	0.6	-0.8	2.0	2.2	1.9	2.4	1.9	-0.1	0.2
Persons employed	-1.2	0.2	2.9	2.4	1.8	2.4	1.9	0.3	0.4
Persons unemployed	50.4	-18.4	-19.4	-1.8	5.1	1.9	1.6	-11.1	-4.2
Persons underemployed	23.4	-13.5	-12.7	-9.0	1.1	-4.1	-0.7	-19.8	-5.4

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

Selected major industries	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>			<u>2014</u>	(No.)
	(% change)					Jun	Sep	Dec	Mar	
						(% change over a year earlier)				
Manufacturing	-5.7	-4.5	-5.6	-5.1	-3.0	-4.0	-2.7	-1.5	-0.5	103 498
Construction sites (manual workers only)	2.2	9.6	13.2	13.8	11.2	15.1	6.3	13.4	1.0	78 570
Import and export trade	-4.4	0.9	-0.3	-1.1	-0.2	-0.4	-0.4	-0.2	-0.9	490 809
Wholesale	-2.0	1.2	*	-0.6	-2.0	-2.8	-2.5	-1.3	-1.0	62 109
Retail	-0.3	3.3	4.0	2.5	2.3	2.1	1.9	2.9	2.8	269 997
Food and beverage services	*	3.7	6.6	1.6	0.9	1.0	0.2	0.5	1.4	240 863
Accommodation services <sup>(a)</sup>	-1.0	1.5	5.8	9.2	5.0	4.5	4.4	6.3	5.9	40 367
Transportation, storage, postal and courier services	1.1	1.5	2.0	1.8	2.0	1.6	2.5	2.6	2.1	171 721
Information and communications	-1.6	1.3	3.4	5.6	5.1	5.4	5.2	6.2	4.6	102 865
Financing and insurance	-0.5	4.8	6.3	1.9	1.0	0.2	2.1	2.8	2.5	212 790
Real estate	0.5	4.1	8.0	4.2	1.6	1.7	0.3	0.5	*	126 951
Professional and business services (excluding cleaning and similar services)	0.9	2.2	4.2	3.4	4.5	4.0	4.6	5.9	4.4	274 587
Cleaning and similar services	6.7	13.7	9.5	3.3	1.6	1.2	0.7	1.6	0.7	78 959
Education	5.3	3.4	1.5	2.4	2.8	2.7	3.0	2.4	3.3	181 796
Human health services	3.8	3.0	4.1	4.9	5.2	5.4	5.4	4.9	4.9	109 754
Residential care and social work services	1.5	1.8	1.3	2.0	0.5	0.4	*	-0.5	-0.9	58 761
Arts, entertainment, recreation and other services	0.8	5.0	2.8	0.6	1.6	0.1	1.9	2.5	5.6	125 254
Civil Service <sup>(b)</sup>	1.1	0.5	0.7	1.1	1.3	1.1	1.5	1.7	1.4	162 835
Others <sup>(c)</sup>	-1.0	3.1	-0.6	-5.1	3.5	2.5	5.3	6.6	6.6	11 091

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 cover 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 manual workers engaged at building and construction sites**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
						Jun	Sep	Dec	Mar
<u>(Number)</u>									
Building sites									
Private sector	28 776	28 620	31 780	37 687	41 308	43 217	39 450	42 719	43 676
Public sector <sup>(a)</sup>	10 277	11 463	12 335	10 578	9 860	10 701	8 508	8 487	8 785
Sub-total	39 053	40 083	44 115	48 265	51 168	53 918	47 958	51 206	52 461
Civil engineering sites									
Private sector	1 618	1 544	1 250	1 410	1 322	1 149	1 504	1 578	1 507
Public sector <sup>(a)</sup>	9 831	13 714	17 270	21 621	26 813	27 475	27 342	27 277	24 602
Sub-total	11 449	15 258	18 520	23 030	28 135	28 624	28 846	28 855	26 109
<b>Total</b>	<b>50 501</b>	<b>55 341</b>	<b>62 635</b>	<b>71 295</b>	<b>79 303</b>	<b>82 542</b>	<b>76 804</b>	<b>80 061</b>	<b>78 570</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.4	-0.5	11.0	18.6	9.6	10.1	5.6	17.2	9.6
Public sector <sup>(a)</sup>	26.3	11.5	7.6	-14.2	-6.8	11.3	-24.8	-19.8	-25.2
Sub-total	5.5	2.6	10.1	9.4	6.0	10.3	-1.5	8.9	1.7
Civil engineering sites									
Private sector	-4.0	-4.6	-19.0	12.8	-6.2	-19.9	2.1	16.1	42.8
Public sector <sup>(a)</sup>	-8.1	39.5	25.9	25.2	24.0	28.3	23.8	23.0	-2.2
Sub-total	-7.6	33.3	21.4	24.4	22.2	25.3	22.5	22.6	-0.4
<b>Total</b>	<b>2.2</b>	<b>9.6</b>	<b>13.2</b>	<b>13.8</b>	<b>11.2</b>	<b>15.1</b>	<b>6.3</b>	<b>13.4</b>	<b>1.0</b>

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

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

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

	(%)								
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>			<u>2014</u>
Selected industry section						Q2	Q3	Q4	Q1
<b>(in nominal terms)</b>									
Manufacturing	-3.5	2.3	7.7	8.2	3.3	3.1	3.1	2.8	4.1
Import/export and wholesale trade	-1.8	2.0	12.8	4.6	3.3	0.4	5.8	3.1	1.7
Retail trade	-1.4	3.9	12.0	10.1	6.7	8.0	6.9	6.8	6.8
Transportation, storage, postal and courier services	-0.7	4.0	4.1	1.2	5.4	5.7	4.9	5.0	4.1
Accommodation <sup>(a)</sup> and food service activities	-0.9	3.4	9.5	6.2	6.7	7.6	7.7	6.9	5.9
Information and communications	0.2	2.5	7.5	8.2	5.4	5.0	5.6	6.3	6.6
Financial and insurance activities	-3.5	6.5	12.4	4.7	4.6	3.4	3.0	3.8	8.7
Real estate activities	-2.1	1.8	10.8	7.7	5.9	6.4	7.5	4.8	4.4
Professional and business services	0.7	2.2	2.1	4.7	7.1	7.4	8.0	7.6	7.9
Social and personal services	1.7	-2.4	3.2	7.6	3.6	4.1	2.0	3.7	3.3
<b>All selected industry sections surveyed</b>	<b>0.7</b>	<b>2.1</b>	<b>7.8</b>	<b>6.5</b>	<b>5.4</b>	<b>5.0</b>	<b>5.9</b>	<b>5.3</b>	<b>5.1</b>
<b>(in real terms)</b>									
Manufacturing	-4.1	0.1	2.1	3.9	-0.8	-0.8	-2.1	-1.4	*
Import/export and wholesale trade	-2.5	-0.3	7.2	0.4	-1.0	-3.5	0.4	-1.1	-2.3
Retail trade	-2.1	1.5	6.3	5.7	2.3	3.8	1.5	2.4	2.6
Transportation, storage, postal and courier services	-1.3	1.6	-1.2	-2.7	1.0	1.7	-0.5	0.7	*
Accommodation <sup>(a)</sup> and food service activities	-1.6	1.0	4.1	2.0	2.3	3.5	2.2	2.5	1.7
Information and communications	-0.4	0.1	2.2	4.0	1.0	1.0	0.2	1.9	2.3
Financial and insurance activities	-4.2	4.1	7.0	0.5	0.4	-0.6	-2.3	-0.4	4.4
Real estate activities	-2.6	-0.4	5.2	3.6	1.4	2.4	2.0	0.5	0.3
Professional and business services	0.1	*	-3.1	0.7	2.6	3.3	2.4	3.2	3.6
Social and personal services	1.2	-4.6	-2.1	3.6	-0.8	0.1	-3.2	-0.5	-0.8
<b>All selected industry sections surveyed</b>	<b>*</b>	<b>-0.2</b>	<b>2.4</b>	<b>2.3</b>	<b>1.1</b>	<b>1.0</b>	<b>0.5</b>	<b>1.0</b>	<b>1.0</b>

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2009/10-based Composite CPI.

In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, payroll also covers 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 industrial and occupational coverage, the movements in payroll per person engaged, do not necessarily match closely with those in wage rates.

(a) Accommodation services cover 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
Selected industry section						Jun	Sep	Dec	Mar
<b>(in nominal terms)</b>									
Manufacturing	-1.0	-1.0	6.7	4.3	4.7	6.5	5.1	4.7	4.8
Import/export, wholesale and retail trades	-1.1	2.7	7.7	4.5	2.9	3.0	3.4	1.9	0.9
Transportation	*	1.1	4.1	3.3	3.9	3.7	3.9	4.1	4.3
Accommodation <sup>(a)</sup> and food service activities	-2.2	2.5	9.4	7.9	5.7	7.2	5.5	3.7	5.0
Financial and insurance activities <sup>(b)</sup>	-0.4	2.9	6.7	4.2	4.4	5.1	4.0	2.8	2.7
Real estate leasing and maintenance management	-0.3	2.6	8.7	7.6	9.3	9.2	9.4	9.7	9.7
Professional and business services	0.8	3.4	12.9	6.5	5.9	5.8	6.1	8.1	9.1
Personal services	-0.5	3.6	10.0	9.2	6.2	6.9	5.4	5.4	7.8
<b>All industries surveyed</b>	<b>-0.9</b>	<b>2.5</b>	<b>8.1</b>	<b>5.6</b>	<b>4.7</b>	<b>5.2</b>	<b>4.8</b>	<b>4.1</b>	<b>4.1</b>
<b>(in real terms)</b>									
Manufacturing	-1.4	-3.6	0.9	0.6	-0.2	1.8	*	0.4	0.5
Import/export, wholesale and retail trades	-1.5	-0.2	2.4	0.6	-1.7	-1.6	-1.6	-2.3	-3.2
Transportation	-0.6	-1.6	-1.2	-0.7	-0.6	-0.8	-1.2	-0.2	0.0
Accommodation <sup>(a)</sup> and food service activities	-2.6	-0.4	3.9	3.8	1.1	2.5	0.4	-0.5	0.7
Financial and insurance activities <sup>(b)</sup>	-0.9	0.3	1.4	0.1	*	0.5	-1.0	-1.4	-1.5
Real estate leasing and maintenance management	-0.7	-0.4	3.5	3.4	4.5	4.4	4.1	5.2	5.2
Professional and business services	0.5	0.6	7.0	2.2	1.4	1.1	1.0	3.6	4.6
Personal services	-0.8	0.7	4.2	5.3	1.5	2.2	0.3	1.1	3.4
<b>All industries surveyed</b>	<b>-1.3</b>	<b>-0.4</b>	<b>2.7</b>	<b>1.6</b>	<b>0.1</b>	<b>0.6</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.1</b>

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2009/10-based CPI(A).

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

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

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

**Table 21 : Monthly wage level and distribution analysed  
by industry section : all business undertakings**

(HK\$)

Industry Section	May – Jun 2012			May – Jun 2013		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	9,500	12,500	18,000	10,800	13,300	20,000
Electricity and gas supply; sewerage, waste management and remediation activities	15,000	23,000	36,800	16,200	23,500	37,000
Construction	12,100	16,100	21,000	13,800	17,600	22,300
Import and export trade	10,400	15,000	22,000	11,200	15,500	24,000
Wholesale	9,000	11,600	15,500	10,000	12,200	17,300
Retail trade	7,800	10,300	14,100	8,100	10,900	14,900
<i>within which:</i>						
Supermarkets and convenience stores	5,600	9,100	11,500	5,600	9,500	11,900
Other retail stores	8,000	10,600	14,800	8,400	11,100	15,500
Land transport	11,000	14,000	22,000	11,700	15,000	22,500
Other transportation, storage, postal and courier services <sup>(b)</sup>	10,000	13,500	19,400	11,400	14,800	20,700
Restaurants	7,500	9,400	12,700	7,800	10,000	13,100
<i>within which:</i>						
Hong Kong style tea cafes	7,500	9,100	12,200	8,400	9,800	13,000
Chinese restaurants	8,400	10,600	14,800	9,100	11,100	15,100
Restaurants, other than Chinese	8,100	9,800	12,500	8,700	10,400	13,600
Fast food cafes <sup>(c)</sup>	3,500	7,500	9,800	3,800	7,800	9,900
Accommodation <sup>(d)</sup> and other food service activities	10,000	12,500	16,200	10,400	13,000	16,700
Information and communications	12,600	17,000	27,000	13,000	18,200	29,000
Financing and insurance	14,900	22,000	39,000	15,000	22,600	39,600
Real estate activities <sup>(e)</sup>	11,700	17,500	25,400	12,000	18,000	27,000
Estate management, security and cleaning services	7,300	9,100	10,800	7,700	9,700	11,800
<i>within which:</i>						
Real estate maintenance management	8,800	10,000	12,000	9,400	10,800	13,700
Security services <sup>(f)</sup>	8,400	9,500	10,500	8,700	10,000	11,600
Cleaning services	6,000	7,300	7,800	6,200	7,400	8,400
Membership organisations <sup>(g)</sup>	7,000	9,300	15,000	7,100	10,100	16,100
Professional, scientific and technical services	11,500	18,500	28,100	12,000	19,200	29,700
Administrative and support services activities	9,200	12,800	19,500	10,200	14,000	22,000
Travel agency, reservation service and related activities	9,000	11,400	16,000	10,000	12,000	17,000
Education and public administration (excluding the Government)	11,400	23,500	42,000	12,000	24,200	42,300
Human health activities; and beauty and body prettifying treatment	10,700	15,500	40,000	11,400	15,800	40,000
Miscellaneous activities	7,700	9,200	12,400	8,300	9,800	13,000
<i>within which:</i>						
Elderly homes	8,700	9,800	11,700	9,400	10,600	13,100
Laundry and dry cleaning services	6,200	8,100	10,400	6,900	8,900	11,300
Hairdressing and other personal services	7,600	8,600	12,500	8,600	9,400	12,600
Local courier services	6,900	7,500	9,700	7,000	8,100	11,000
Food processing and production	7,600	9,300	13,700	7,900	10,200	14,400
Other activities not classified above	9,000	12,500	17,700	9,400	12,700	20,000
<b>All industry sections above</b>	<b>9,500</b>	<b>13,400</b>	<b>20,900</b>	<b>10,000</b>	<b>14,100</b>	<b>22,000</b>

Notes: Monthly wages are rounded to the nearest hundred of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

**Table 22 : Hourly wage level and distribution analysed  
by industry section : all business undertakings**

(HK\$)

Industry Section	May – Jun 2012			May – Jun 2013		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	39.0	52.2	76.1	42.7	54.9	84.4
Electricity and gas supply; sewerage, waste management and remediation activities	57.4	85.2	129.6	63.5	89.2	130.0
Construction	49.9	66.7	87.5	58.1	72.5	92.4
Import and export trade	45.0	63.7	92.6	46.4	64.5	101.3
Wholesale	37.3	46.6	66.2	41.1	51.2	69.0
Retail trade	32.0	38.5	53.8	34.7	40.9	54.4
<i>within which:</i>						
Supermarkets and convenience stores	30.0	32.3	38.5	32.5	35.4	41.6
Other retail stores	32.6	40.3	56.9	35.0	42.1	58.0
Land transport	44.0	62.9	88.4	46.0	65.0	103.1
Other transportation, storage, postal and courier services <sup>(b)</sup>	38.4	51.7	71.9	43.4	56.8	81.7
Restaurants	30.5	35.2	45.8	33.1	37.2	48.2
<i>within which:</i>						
Hong Kong style tea cafes	31.1	35.0	43.3	34.0	37.6	46.9
Chinese restaurants	31.8	38.6	50.9	34.0	40.2	53.0
Restaurants, other than Chinese	32.2	37.3	49.0	35.2	40.0	50.0
Fast food cafes <sup>(c)</sup>	29.3	31.0	36.1	31.0	33.2	37.8
Accommodation <sup>(d)</sup> and other food service activities	37.0	46.2	61.7	37.9	46.8	62.0
Information and communications	49.7	68.5	114.8	51.7	74.1	115.0
Financing and insurance	58.8	87.1	157.3	60.5	89.8	166.7
Real estate activities <sup>(e)</sup>	48.8	69.8	110.0	52.3	72.6	116.4
Estate management, security and cleaning services	28.9	31.1	40.4	30.5	33.3	44.2
<i>within which:</i>						
Real estate maintenance management	28.8	31.5	44.4	31.0	33.9	50.2
Security services <sup>(f)</sup>	28.7	31.3	35.0	30.0	32.9	40.3
Cleaning services	28.9	30.2	34.9	30.0	32.4	38.4
Membership organisations <sup>(g)</sup>	30.5	40.7	74.5	30.6	41.7	74.7
Professional, scientific and technical services	48.4	71.7	116.5	50.3	72.9	122.2
Administrative and support services activities	37.0	52.0	75.5	42.0	56.9	88.6
Travel agency, reservation service and related activities	37.8	50.4	71.7	39.1	51.9	72.6
Education and public administration (excluding the Government)	60.0	108.9	180.6	60.0	114.0	189.4
Human health activities; and beauty and body prettifying treatment	46.7	68.9	166.7	50.5	71.6	170.9
Miscellaneous activities	31.7	37.5	50.9	34.1	40.0	55.0
<i>within which:</i>						
Elderly homes	29.2	36.4	49.4	32.0	38.6	53.2
Laundry and dry cleaning services	30.0	34.2	41.3	32.3	37.5	47.0
Hairdressing and other personal services	32.0	38.5	51.9	35.8	40.3	55.3
Local courier services	32.0	36.8	44.4	32.5	40.4	48.2
Food processing and production	32.1	37.5	50.9	34.0	39.3	56.5
Other activities not classified above	37.3	50.4	75.0	40.8	53.5	83.5
<b>All industry sections above</b>	<b>37.7</b>	<b>54.8</b>	<b>86.9</b>	<b>40.0</b>	<b>57.5</b>	<b>91.9</b>

Notes: Hourly wages are rounded to the nearest ten cents of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.



**Table 23 : Rates of change in prices**

(%)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
GDP deflator	-3.6	-0.2	-0.5	3.1	1.3	-0.4	0.3	3.9
Domestic demand deflator	-0.1	1.1	1.6	2.4	2.6	-0.8	2.2	4.5
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-0.4	1.0	2.0	2.0	4.3	0.5	2.4	5.3
CPI(A)	*	1.1	1.7	1.3	3.6	0.4	2.7	5.6
CPI(B)	-0.5	1.0	2.1	2.2	4.6	0.5	2.3	5.2
CPI(C)	-0.9	0.8	2.2	2.7	4.7	0.6	2.1	5.1
Unit Value Indices :								
Domestic exports	1.5	2.2	-2.1	0.8	5.1	-0.2	5.5	6.4
Re-exports	1.1	1.2	1.1	2.4	3.8	1.2	4.6	8.0
Total exports of goods	1.2	1.3	1.0	2.3	3.8	1.1	4.7	8.0
Imports of goods	2.9	2.7	2.1	2.3	4.4	-0.1	6.4	8.1
Terms of Trade Index	-1.7	-1.4	-1.1	0.1	-0.5	1.3	-1.7	-0.1
Producer Price Index for all manufacturing industries <sup>(b)</sup>	2.2	0.8	2.2	3.0	5.6	-1.7	6.0	8.3
Tender Price Indices :								
Public sector								
building projects	-1.5	1.4	5.0	20.1	41.9	-15.9	12.5	11.6
Public housing projects	3.5	7.7	11.2	19.7	30.8	-6.8	6.7	10.1

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  $\pm 0.05\%$ .

(--) Not applicable.

N.A. Not yet available.

**Table 23 : Rates of change in prices (Cont'd)**

(%)

	<u>2012</u>	<u>2013</u>	<u>2013</u>		<u>2014</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years	5 years
							2003 to 2013	2008 to 2013
GDP deflator <sup>#</sup>	3.7	1.4	1.6	1.5	2.2	3.5	0.9	1.8
Domestic demand deflator <sup>#</sup>	4.2	0.6	-0.5	-0.2	1.7	3.6	1.8	2.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.1	4.3	5.3	4.3	4.2	3.6	2.5	3.3
CPI(A)	3.6	5.1	7.3	4.4	4.3	3.8	2.5	3.5
CPI(B)	4.3	4.1	4.6	4.4	4.3	3.8	2.6	3.3
CPI(C)	4.1	3.8	4.2	4.1	3.9	3.5	2.5	3.1
Unit Value Indices :								
Domestic exports	2.5	2.2	1.8	0.6	-1.2	*	2.4	3.3
Re-exports	3.4	1.3	1.7	2.4	1.7	1.9	2.8	3.7
Total exports of goods	3.4	1.3	1.7	2.4	1.7	1.8	2.8	3.7
Imports of goods	3.3	0.9	0.6	1.5	2.1	2.0	3.3	3.7
Terms of Trade Index	0.1	0.4	1.0	0.8	-0.4	-0.2	-0.5	*
Producer Price Index for all manufacturing industries <sup>(b)</sup>	0.1	-3.1	-5.2	-5.5	-6.2	N.A.	--	1.8
Tender Price Indices :								
Public sector								
building projects	8.3	6.6	6.3	6.3	6.9	N.A.	8.1	4.0
Public housing projects	6.4	9.3	10.1	8.7	8.4	N.A.	9.5	4.9

**Table 24 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>All items</b>	<b>100.0</b>	<b>-0.4</b> <b>(--)</b>	<b>1.0</b> <b>(--)</b>	<b>2.0</b> <b>(--)</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>
Food	27.45	1.0	1.8	1.7	4.3	10.1	1.3	2.4
<i>Meals bought away from home</i>	17.07	0.2	0.9	1.3	2.5	5.9	1.6	1.7
<i>Food, excluding meals bought away from home</i>	10.38	2.5	3.2	2.5	7.1	16.8	0.9	3.5
Housing <sup>(a)</sup>	31.66	-5.2	0.1	4.7	2.0	4.1	3.7	0.4
<i>Private housing rent</i>	27.14	-6.6	-0.1	5.6	4.0	6.8	3.6	0.9
<i>Public housing rent</i>	2.05	2.5	0.2	0.1	-17.7	-27.2	9.5	-7.8
Electricity, gas and water	3.10	11.4	4.1	2.1	-0.7	-6.5	-25.3	43.3
Alcoholic drinks and tobacco	0.59	*	0.4	-3.7	-1.2	0.1	18.7	3.4
Clothing and footwear	3.45	6.4	2.0	1.0	4.1	0.8	2.7	1.8
Durable goods	5.27	-2.2	-3.2	-6.4	-4.7	-2.0	-3.0	-2.7
Miscellaneous goods	4.17	3.6	1.5	1.7	2.5	5.0	2.3	2.4
Transport	8.44	0.4	1.4	0.7	-0.1	2.5	-0.9	2.0
Miscellaneous services	15.87	-0.2	1.0	1.9	1.7	0.8	-2.1	2.0

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

(%)										
	Weight	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>		<u>2014</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 2003 to 2013	5 years 2008 to 2013
<b>All items</b>	<b>100.0</b>	<b>5.3</b> <b>(5.3)</b>	<b>4.1</b> <b>(4.7)</b>	<b>4.3</b> <b>(4.0)</b>	<b>5.3</b> <b>(4.3)</b>	<b>4.3</b> <b>(4.0)</b>	<b>4.2</b> <b>(3.8)</b>	<b>3.6</b> <b>(3.5)</b>	<b>2.5</b> <b>(--)</b>	<b>3.3</b> <b>(3.4)</b>
Food	27.45	7.0	5.8	4.4	4.6	4.4	4.3	4.0	3.9	4.2
<i>Meals bought away from home</i>	17.07	5.2	5.4	4.4	4.3	4.5	4.5	4.7	2.9	3.6
<i>Food, excluding meals bought away from home</i>	10.38	9.9	6.5	4.4	4.9	4.1	4.0	3.1	5.6	5.0
Housing <sup>(a)</sup>	31.66	7.2	5.6	6.7	9.4	6.1	5.6	5.0	2.9	4.7
<i>Private housing rent</i>	27.14	7.2	6.8	6.3	7.0	7.0	6.4	5.6	3.4	4.9
<i>Public housing rent</i>	2.05	11.9	-7.1	16.0	777.6	-1.8	-1.8	-0.9	-2.8	4.0
Electricity, gas and water	3.10	-4.2	-8.2	6.9	9.6	7.1	5.5	3.4	1.0	0.1
Alcoholic drinks and tobacco	0.59	17.1	3.0	1.5	1.4	1.1	3.3	7.6	3.7	8.5
Clothing and footwear	3.45	6.8	3.1	1.7	1.7	2.5	2.1	2.2	3.0	3.2
Durable goods	5.27	-3.8	-1.4	-4.3	-4.7	-4.0	-3.3	-2.7	-3.4	-3.0
Miscellaneous goods	4.17	3.8	2.2	2.2	2.5	2.7	3.1	2.0	2.7	2.6
Transport	8.44	4.4	3.0	2.3	2.8	2.4	2.2	2.1	1.6	2.2
Miscellaneous services	15.87	3.5	2.8	3.7	3.9	4.3	4.4	3.2	1.5	2.0

**Table 25 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

(%)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Private consumption expenditure	-0.4	1.6	0.9	4.1	2.5	-1.4	1.4
Government consumption expenditure	-2.6	-1.7	0.1	2.2	4.4	0.7	-0.2
Gross domestic fixed capital formation	2.2	1.1	4.2	-2.1	1.7	0.3	5.8
Total exports of goods	0.9	0.6	0.3	2.2	3.4	0.5	4.6
Imports of goods	2.9	1.9	2.1	1.7	4.1	-1.3	6.3
Exports of services	0.5	3.3	3.6	2.5	3.4	-7.0	7.4
Imports of services	4.1	1.0	0.8	3.0	3.8	-2.7	5.6
<b>Gross Domestic Product</b>	<b>-3.6</b>	<b>-0.2</b>	<b>-0.5</b>	<b>3.1</b>	<b>1.3</b>	<b>-0.4</b>	<b>0.3</b>
Total final demand	0.5	1.1	1.1	2.3	3.1	-1.1	4.3
Domestic demand	-0.1	1.1	1.6	2.4	2.6	-0.8	2.2

Notes: (#) Figures are subject to revision later on as more data become available.  
(\* ) Change within  $\pm 0.05\%$ .

**Table 25 : Rates of change in implicit price deflators of GDP  
and its main expenditure components (Cont'd)**

(%)

	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>		<u>2014</u>		Average annual rate of change:	
				Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 2003 to 2013 <sup>#</sup>	5 years 2008 to 2013 <sup>#</sup>
Private consumption expenditure	3.6	3.2	2.4	3.0	2.4	2.2	2.9	1.8	1.8
Government consumption expenditure	4.5	6.2	4.4	3.7	3.7	4.0	5.1	1.8	3.1
Gross domestic fixed capital formation	6.8	6.4	-5.1	-9.4	-7.7	-1.6	3.3	2.0	2.7
Total exports of goods	7.7	3.1	-0.3	-0.3	-0.1	-0.6	-0.1	2.3	3.1
Imports of goods	8.2	3.8	-0.6	-1.1	-0.8	-0.8	-0.1	2.9	3.2
Exports of services	7.6	4.3	0.5	0.7	0.3	0.2	0.7	2.5	2.4
Imports of services	6.4	1.9	0.5	0.2	0.4	1.1	2.8	2.4	2.3
<b>Gross Domestic Product</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>1.6</b>	<b>1.5</b>	<b>2.2</b>	<b>3.5</b>	<b>0.9</b>	<b>1.8</b>
Total final demand	6.7	3.6	0.1	-0.2	*	0.3	1.1	2.2	2.7
Domestic demand	4.5	4.2	0.6	-0.5	-0.2	1.7	3.6	1.8	2.1

