



First Quarter Economic Report 2002

Government of the Hong Kong
Special Administrative Region

***FIRST QUARTER
ECONOMIC REPORT 2002***

ECONOMIC ANALYSIS DIVISION
FINANCIAL SERVICES BUREAU
GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION

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CHAPTER 1 : OVERALL VIEW

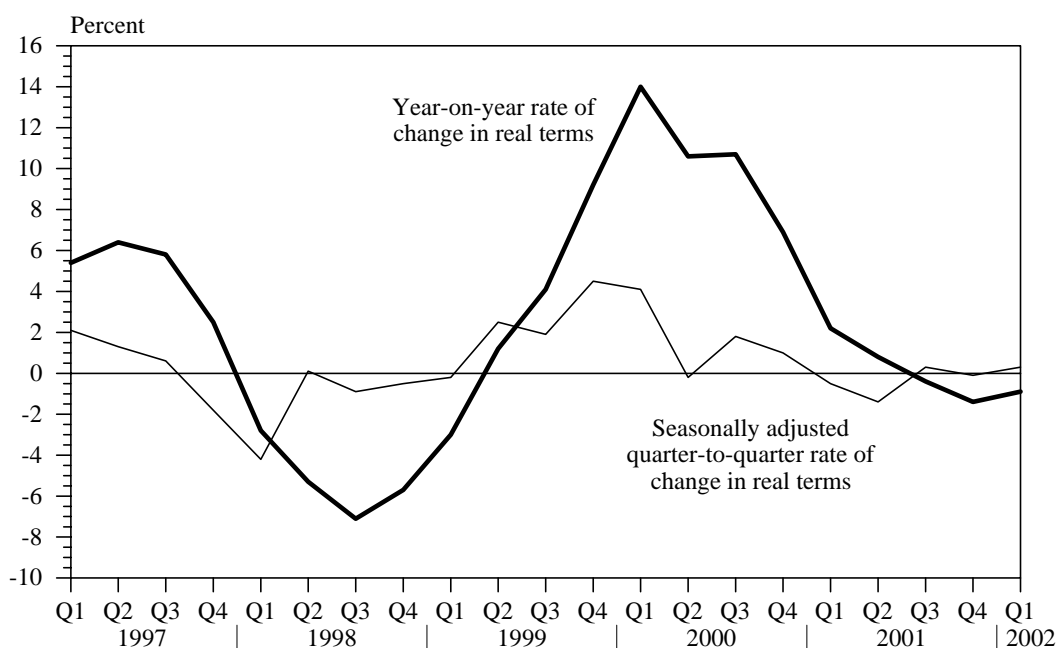
Overall situation

1.1 After the severe downturn in 2001, overall economic activity remained generally modest in the first quarter of 2002. Externally, total exports of goods were still slack in the early part of the year, yet picked up progressively in the most recent months as the global and regional economic conditions improved. Exports of services continued to fare better, with growth advancing on the back of a swift recovery in inbound tourism, a sustained rise in offshore trade, and a marked rebound in exports of transportation services. Locally, domestic demand however remained sluggish. While consumer demand moderated further along with rising unemployment and wage restraint, investment spending continued to plummet.

1.2 Overall, the *Gross Domestic Product (GDP)*⁽¹⁾ registered a 0.9% decline in real terms in the first quarter of 2002 over a year earlier. This was lesser than the 1.4% decline in the fourth quarter of 2001 (figure revised up from the earlier one for a 1.6% decline). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP rose by 0.3% in real terms in the first quarter of 2002, after a 0.1% dip in the fourth quarter of 2001 (figure revised up from the earlier one for a 0.2% decline).

Diagram 1.1

Gross Domestic Product



/Table 1.1

Table 1.1

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

	<u>2000</u> [#]	<u>2001</u> [#]	<u>Q1</u> [#]	<u>2001</u>			<u>2002</u>
				<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	5.4	2.0	3.0	3.5	1.2	0.3	-0.6
Government consumption expenditure	2.1	5.1	3.9	4.1	6.2	6.1	2.2
Gross domestic fixed capital formation	9.8	2.2	11.5	1.2	3.2	-6.1	-16.5
of which :							
Building and construction	-7.7	-2.5	-1.2	1.8	-7.8	-2.6	-6.4
Real estate developers' margin	-9.4	-1.3	-5.7	4.3	-6.3	2.9	5.1
Machinery and equipment	25.8	5.2	22.6	0.3	9.4	-8.5	-25.0
Total exports of goods	17.1	-3.0	4.2	-1.9	-4.0	-8.8	-2.1
Domestic exports	7.5	-11.0	-12.8	-8.5	-12.4	-10.4	-12.7
Re-exports	18.5	-2.0	6.5	-1.0	-3.0	-8.6	-0.9
Imports of goods ^(a)	18.1	-2.4	5.3	-0.7	-3.4	-9.1	-4.3
Exports of services	13.8	3.6	6.2	6.3	1.6	1.1	5.3
Imports of services	2.1	0.1	3.8	1.0	-2.0	-2.1	*
Gross Domestic Product	10.4	0.2	2.2	0.8	-0.4	-1.4	-0.9
<u>GDP at current market prices (\$ billion)</u>	1,266	1,262	303	308	324	326	299
<u>GDP at constant (1990) market prices (\$ billion)</u>	893	894	213	215	234	233	211
<u>Change in inventories at constant (1990) market prices (\$ billion)</u>	15	-2	1	1	-1	-3	-2
<i>Change in the main price indicators (%)</i>							
GDP deflator	-6.5	-0.5	-1.8	-0.6	-0.2	0.5	-0.6
Composite Consumer Price Index^(b)	-3.8	-1.6	-2.0	-1.3	-1.0	-2.1	-2.6
Consumer Price Index (A) ^(b)	-3.0	-1.7	-2.0	-1.1	-0.7	-2.8	-2.8

Notes : (#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

(a) Including an estimate of imports of gold for industrial use.

(b) Final figures.

/Table 1.2

Table 1.2

**Gross Domestic Product and its main expenditure components
and the main price indicators
(seasonally adjusted quarter-to-quarter rate of change (%))**

	<u>2001</u>				<u>2002</u>
	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>					
Private consumption expenditure	2.3	0.5	-1.0	-0.8	0.4
Government consumption expenditure	5.4	-1.7	2.0	0.4	1.3
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	-2.4	-2.8	1.5	-6.4	7.0
Domestic exports	-2.8	-1.5	-3.3	-4.1	-3.4
Re-exports	-2.4	-2.9	2.1	-6.7	8.2
Imports of goods ^(a)	-1.3	-3.7	2.4	-8.0	6.1
Exports of services	0.4	2.1	1.6	-1.4	3.0
Imports of services	0.3	*	-2.4	-0.3	2.8
Gross Domestic Product[^]	-0.5	-1.4	0.3	-0.1	0.3
<i>Change in the main price indicators (%)</i>					
GDP deflator	2.9	-2.1	-0.1	-0.1	1.9
Composite Consumer Price Index^(b)	-0.6	*	-0.4	-1.1	-1.1
Consumer Price Index (A) ^(b)	-0.8	0.3	-0.2	-2.2	-0.6

Notes : (#) Revised figures.

(+) Preliminary figures.

N.A. Not applicable, as no clear seasonal pattern is found in gross domestic fixed capital formation, due to the presence of considerable short-term fluctuations.

(^) As gross domestic fixed capital formation does not exhibit a clear seasonal pattern, the seasonally adjusted series of GDP is compiled separately at the overall level.

(*) Change of less than 0.05%.

(a) Including an estimate of imports of gold for industrial use.

(b) Final figures.

/1.3

1.3 With more extensive corporate downsizing and lay-offs in the wake of the economic downturn, *labour market* conditions slackened further. As total employment fell while total labour force grew steadily, the seasonally adjusted unemployment rate surged to a new high of 7.0% in the first quarter of 2002, from 6.1% in the fourth quarter of 2001. The underemployment rate also moved up, from 3.0% to 3.2% over the same period.

1.4 The *residential property market* remained generally slack in the first quarter of 2002. With an ample supply of new flats coming on stream, property developers continued to be circumspect in taking on new development projects. The primary market was lifted somewhat as developers offered flexible financing packages and attractive purchase terms on their new sales to lure flat buyers. But the secondary market then faced fewer flat buyers and remained subdued. In general, buying interest was still hampered by concern about job security and income uncertainty, notwithstanding the low mortgage rate prevailing. In the first quarter of 2002, flat prices went down further by 1% and flat rentals by 4% from the preceding quarter.

1.5 In the *financial market*, local interest rates firmed up slightly during the first quarter of 2002, conceivably upon market expectation that the interest rate down-cycle in the United States had ended. As Hong Kong dollar loans turned to a slight increase while Hong Kong dollar deposits declined, the Hong Kong dollar loan-to-deposit ratio rose back during the first quarter. In the local stock market, sentiment was generally weak, with the Hang Seng Index moving mostly in the 10 500 - 11 000 range in generally moderate trading during the first quarter. In early March, growing optimism for a sooner-than-expected US economic recovery pushed the Hang Seng Index to above the 11 000 level. The Hang Seng Index closed the first quarter of 2002 at 11 033, 3.2% lower than that of 11 397 at end-2001.

1.6 On *consumer prices*, the Composite Consumer Price Index fell by 2.6% in the first quarter of 2002 over a year earlier. The enlarged decline from the 2.1% decrease in the fourth quarter of 2001 was primarily due to the effect of the rates relief granted for 2002. In general, the downtrend in domestic costs and prices continued, while import prices came down further in the first quarter.

1.7 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the fourth quarter of 2001. Both factor income inflow and outflow registered further

/marked

marked declines in the fourth quarter of 2001 over a year earlier. But with factor income inflow falling less than factor income outflow, net factor income inflow surged in that quarter. GNP thus went up by 1.5% in real terms in the fourth quarter of 2001 over a year earlier, whereas GDP was down by 1.4% in the same quarter. Analysed by broad income flow component, net direct investment income outflow receded further in the fourth quarter of 2001 from a year earlier, as direct investment income outflow fell upon the setback in earnings of local enterprises, while direct investment income inflow was supported by sustained return from Hong Kong's investment in the mainland of China (the Mainland). Concurrently, net portfolio investment income inflow held largely stable. As to other investment income, net inflow declined along with the marked reduction in interest rates over the course of last year. For 2001 as a whole, GNP recorded a 1.3% growth in real terms, appreciably better than the mere 0.2% growth in GDP.

Table 1.3

Gross National Product and external factor income flows

	2000					2001				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
<i>Year-on-year rate of change in money terms (%)</i>										
Total external factor income flow ^(a)										
Inflow	14.2	28.8	18.2	14.1	-1.1	-10.2	-7.0	-3.3	-3.8	-27.5
Outflow	19.7	31.7	17.1	22.3	9.9	-14.4	-11.8	4.3	-12.0	-37.5
Net external factor income flow at current market prices (\$ billion)	22	8	10	4	*	36	12	2	12	10
GDP at current market prices (\$ billion) [#]	1,266 (3.2)	302 (5.8)	308 (2.3)	326 (3.7)	329 (1.2)	1,262 (-0.3)	303 (0.4)	308 (0.2)	324 (-0.6)	326 (-0.9)
GNP at current market prices (\$ billion) ^{#(b)}	1,288 (2.0)	310 (5.7)	318 (3.0)	330 (1.9)	330 (-1.9)	1,298 (0.8)	315 (1.7)	310 (-2.3)	336 (1.8)	336 (2.1)
<i>Year-on-year rate of change in real terms (%)</i>										
Gross National Product[#]	9.2	13.8	11.3	8.8	3.8	1.3	3.5	-1.7	1.9	1.5

Notes : (#) Revised figures.

(a) External factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.

(b) GNP is equal to GDP plus net external factor income flow.

() Figures in brackets represent the year-on-year rates of change in money terms in GDP and GNP respectively.

(*) Less than \$0.5 billion.

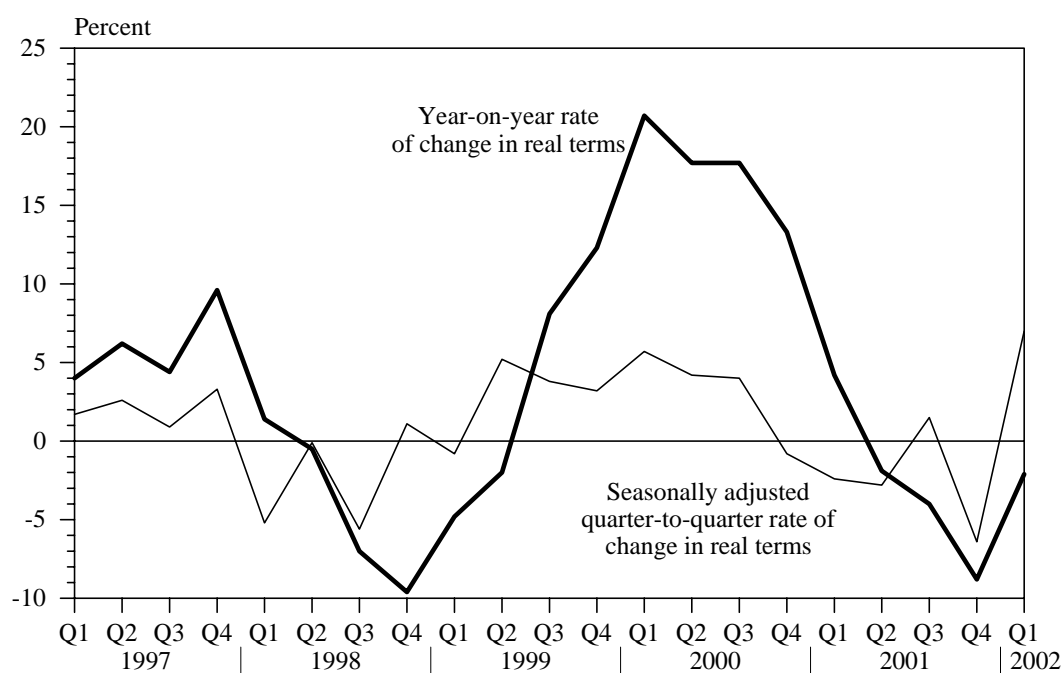
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The external sector

1.8 *Total exports of goods* (comprising re-exports and domestic exports) fell by 2.1% in real terms in the first quarter of 2002 over a year earlier, markedly smaller than the 8.8% fall in the fourth quarter of 2001. There was a further decrease in total exports of goods by 8.2% in real terms in January 2002 over a year earlier. But as the external economic environment steadily improved, total exports of goods fell distinctly less by 5.7% in February, and then picked up sharply to a 6.9% rise in March. This uptrend was also evident on a seasonally adjusted quarter-to-quarter comparison, with total exports of goods reverting to a 7.0% increase in real terms in the first quarter of 2002, after a 6.4% decline in the fourth quarter of 2001 (paragraph 2.4).

Diagram 1.2

Total exports of goods



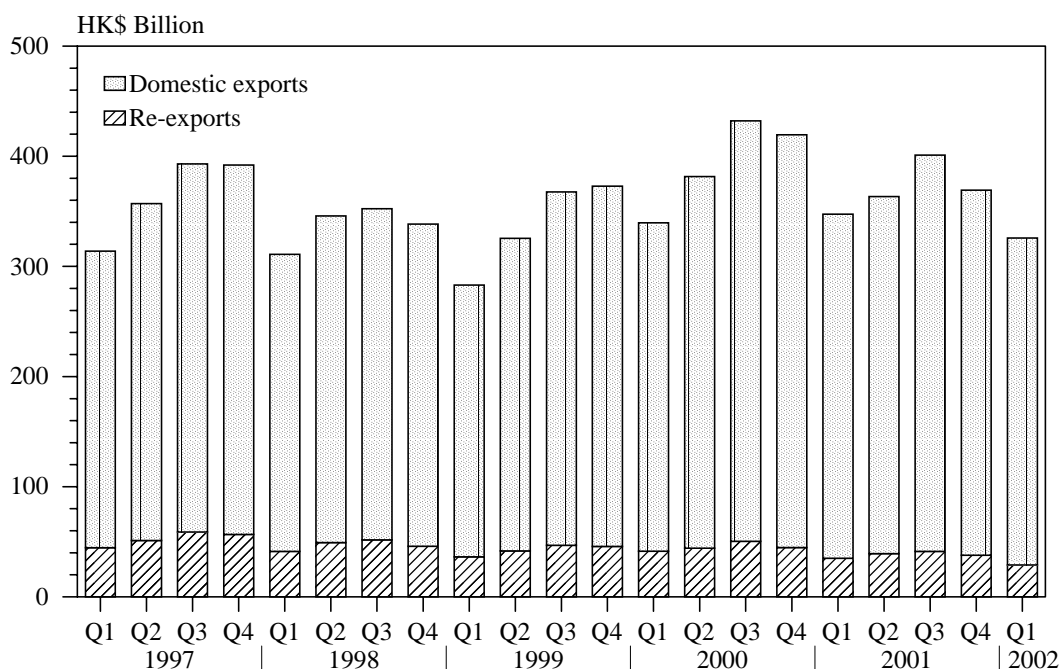
/1.9

1.9 Within total exports of goods, *re-exports* declined by 0.9% in real terms in the first quarter of 2002 over a year earlier, also much improved from the 8.6% fall in the fourth quarter of 2001. Re-exports likewise recorded a distinct decline in January 2002, by 7.4% in real terms over a year earlier, followed by a visibly smaller decline of 4.4% in February and then a sharp rebound to an 8.2% rise in March. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose back by 8.2% in real terms in the first quarter of 2002, following a 6.7% drop in the fourth quarter of 2001 (paragraph 2.5).

1.10 *Domestic exports* remained persistently weak amidst the on-going structural shift towards re-exports, plunging by 12.7% in real terms in the first quarter of 2002 over a year earlier. This came after an already marked contraction of 10.4% in the fourth quarter of 2001. Domestic exports still plummeted by 14.7% and 17.1% respectively in real terms in January and February 2002 over a year earlier, though followed by a distinctly lesser decline of 6.3% in March. On a seasonally adjusted quarter-to-quarter comparison, domestic exports dipped further by 3.4% in real terms in the first quarter of 2002, following a 4.1% decline in the fourth quarter of 2001 (paragraph 2.6).

Diagram 1.3

Composition of total exports of goods



/1.11

1.11 The pick-up in exports during the first quarter of this year occurred mostly in the East Asian markets, with total exports of goods to *East Asia* as a whole rebounding sharply to a 4.5% increase in real terms in the first quarter of 2002 over a year earlier, in contrast to a 5.1% fall in the fourth quarter of 2001. Performance however varied quite widely amongst the constituent markets, with exports to the Mainland, Singapore and the Republic of Korea gaining markedly during the first quarter, but with exports to Japan and Taiwan staying weak all through. Exports of goods to the *European Union* continued to be dragged down by the slack domestic demand there and the weak euro. There was a further double-digit decline of 11.4% in real terms in the first quarter of 2002 over a year earlier, similar to the 11.7% drop in the fourth quarter of 2001. As to exports of goods to the *United States*, they shrank sharply further upon the plunge in US import demand, by 13.3% in real terms in the first quarter of 2002 over a year earlier, following a 13.1% decrease in the fourth quarter of 2001 (paragraphs 2.13 to 2.15).

1.12 *Imports of goods* fell by 4.3% in real terms in the first quarter of 2002 over a year earlier, lesser than the 9.1% fall in the fourth quarter of 2001. Mirroring closely the rebound in re-exports during the first quarter, the setback in imports of goods was concentrated in January and February 2002, with decreases of 4.4% and 15.3% respectively in real terms over a year earlier, yet with reversal to a 5.8% increase in March. As to import intake for local use, *retained imports* remained on a significant decline, by 13.0% in real terms in the first quarter of 2002 over a year earlier, after a 10.5% fall in the fourth quarter of 2001. After a 6.1% increase in real terms in January 2002, retained imports fell by 37.7% and 0.4% respectively in February and March over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of goods reverted to an increase at 6.1% in real terms in the first quarter of 2002, following an 8.0% fall in the fourth quarter of 2001. Retained imports also rose back, by 0.2% in real terms in the first quarter of 2002, having plunged by 11.7% in the fourth quarter of 2001 (paragraph 2.7).

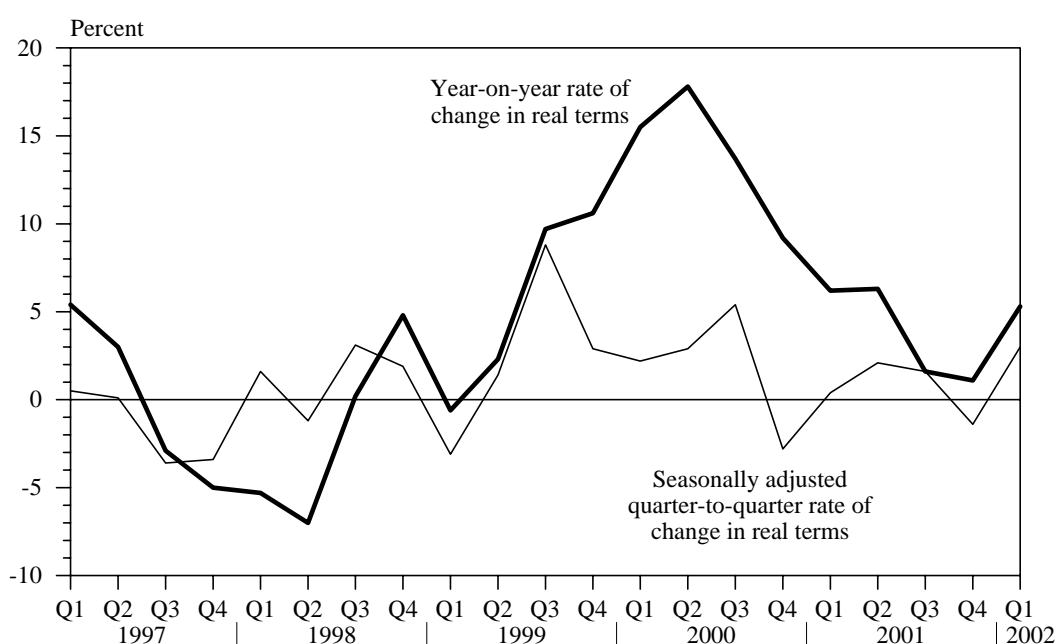
1.13 With a lesser decline in total exports of goods than in imports of goods in value, the *visible trade deficit* dwindled markedly, to \$16.5 billion or 4.8% of the value of imports of goods in the first quarter of 2002, from \$29.1 billion or 7.7% in the same quarter in 2001 (paragraph 2.8).

/1.14

1.14 On invisible trade, *exports of services* accentuated to a 5.3% growth in real terms in the first quarter of 2002 over a year earlier, significantly up from a meagre 1.1% rise in the fourth quarter of 2001. The improvement was rather broad-based, marked by a swift recovery in inbound tourism, a sustained rise in offshore trade, and a marked rebound in exports of transportation services. On a seasonally adjusted quarter-to-quarter comparison, exports of services resumed growth at 3.0% in real terms in the first quarter of 2002, having declined by 1.4% in the fourth quarter of 2001 (paragraphs 2.9, 2.40 and 2.41).

Diagram 1.4

Exports of services



1.15 *Imports of services* had virtually no change in real terms in the first quarter of 2002 over a year earlier, after a 2.1% decrease in the fourth quarter of 2001. Within the total, imports of travel services had a modest decline in the first quarter of 2002, largely affected by the higher base of comparison a year ago. Yet along with the pick-up in merchandise trade, imports of transportation services reverted to positive growth, while imports of trade-related services registered a lesser decline. Imports of professional, business and other services also rebounded to a modest increase. On a seasonally adjusted quarter-to-quarter comparison, imports of services went up by 2.8% in real terms in the first quarter of 2002, as against a 0.3% fall in the fourth quarter of 2001 (paragraphs 2.10 and 2.43).

/1.16

1.16 As exports of services picked up markedly while imports of services remained slack, the *invisible trade surplus* expanded further, to \$37.5 billion or 82.3% of the value of imports of services in the first quarter of 2002, from \$33.0 billion or 72.1% in the same quarter in 2001. Together with the much reduced visible trade deficit, the combined surplus (including an estimate of imports of gold for industrial use) rose to \$20.5 billion in the first quarter of 2002, equivalent to 5.3% of the total value of imports of goods and services. This was notably up from the respective figures of \$3.2 billion and 0.8% in the same quarter in 2001 (paragraph 2.11).

Domestic demand

1.17 Local consumer spending remained subdued, amidst rising unemployment and wage restraint. Wary about job security and income uncertainty, coupled with protracted weakness in the asset markets, tended to depress sentiment. Yet helped by a concurrent distinct pick-up in visitor spending, the year-on-year decline in volume of *retail sales* narrowed, from 3.0% in the fourth quarter of 2001 to 1.7% in the first quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales bounced up to a 4.6% increase in the first quarter of 2002, having fallen for two consecutive quarters with a 1.8% decrease in the fourth quarter of 2001.

1.18 *Private consumption expenditure (PCE)* slackened to a 0.6% decline in real terms in the first quarter of 2002 over a year earlier, after an already meagre growth of 0.3% in the fourth quarter of 2001. Yet on a seasonally adjusted quarter-to-quarter comparison, PCE rose back by 0.4% in real terms in the first quarter of 2002, after a 0.8% fall in the fourth quarter of 2001. Analysed by broad category of consumer spending, expenditure on consumer services maintained steady growth in the first quarter of 2002. Spending on food grew modestly. But spending on durable goods was flat, while spending on non-durable goods continued to fall. Against a higher base of comparison a year earlier, spending by Hong Kong residents travelling abroad also went into a decline.

/Table 1.4

Table 1.4

**Local consumer and visitor spending in the local market
(year-on-year rate of change in real terms (%))**

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>						<u>Visitor spending</u>
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2001	Annual	1.2	3	7	-1	2	2	2	5
	Q1	2.5 (3.5)	4	10	*	1	6	3	6
	Q2	4.8 (1.1)	3	14	2	3	1	4	11
	Q3	0.5 (-5.1)	3	7	-2	2	-1	1	3
	Q4	-3.0 (-1.8)	2	-1	-4	2	2	*	*
2002	Q1	-1.7 (4.6)	1	*	-3	2	-4	*	7

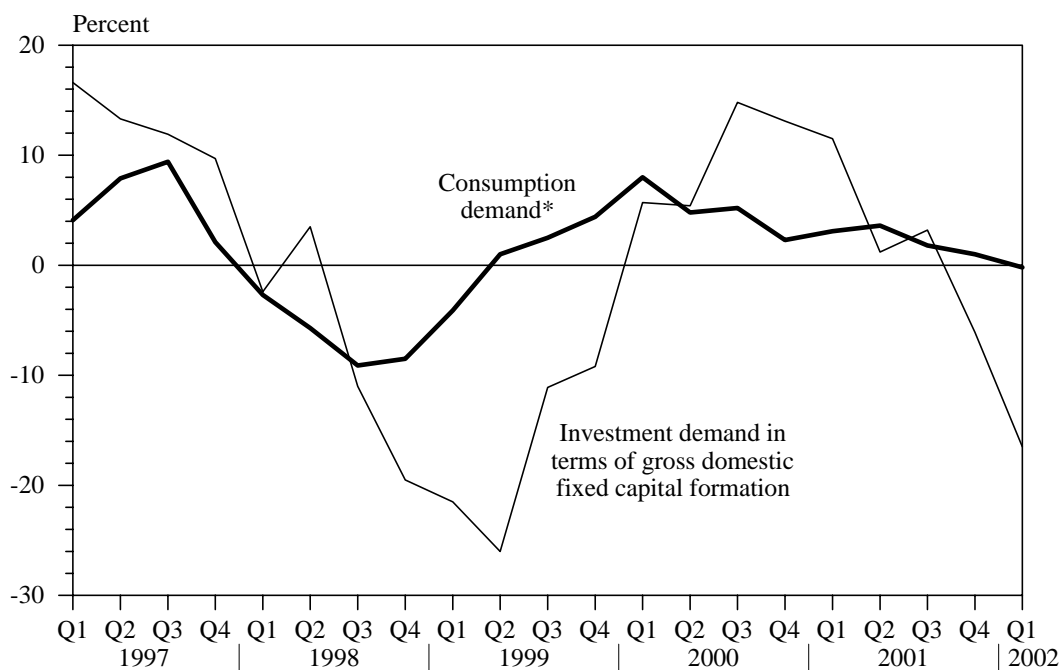
Notes : (a) Retail sales and consumer spending by major component include both local consumer and visitor spending, which are not separable from the survey data.

() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

(*) Change of less than 0.5%.

Diagram 1.5

**Domestic demand
(year-on-year rate of change in real terms)**



Note : (*) Comprising private consumption expenditure and government consumption expenditure.

/1.19

1.19 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ registered a further growth of 2.2% in real terms in the first quarter of 2002 over a year earlier, having risen by 6.1% in the fourth quarter of 2001. On a seasonally adjusted quarter-to-quarter comparison, GCE rose by 1.3% in real terms in the first quarter of 2002, further to a 0.4% increase in the fourth quarter of 2001.

1.20 Overall investment spending, as represented by *gross domestic fixed capital formation*, plummeted by 16.5% in real terms in the first quarter of 2002 over a year earlier, after a 6.1% fall in the fourth quarter of 2001. Analysed by major component, *expenditure on machinery and equipment* continued to be held back by an uncertain business outlook, weakened corporate profits, and adjustment to supply capacity, with a 25.0% plunge in real terms in the first quarter of 2002 over a year earlier. *Expenditure on building and construction*, being dampened by two of the Priority Railway Projects tapering and substantial cut-back in the Public Housing Programme, had a 6.4% decline in real terms in the first quarter of 2002 over a year earlier. Yet with private sector building activity resurrecting somewhat in recent months, *real estate developers' margin*⁽⁵⁾ yielded a 5.1% increase in real terms in the first quarter of 2002 over a year earlier.

1.21 Reflecting the still slack demand conditions in the domestic economy, there was a further run-down of *inventories* in the first quarter of 2002.

The property market

1.22 The sales market for *residential property*, having staged a rebound in trading activity towards the end of 2001, showed some consolidation in the first quarter of 2002. Transactions were still held up in January, but tapered somewhat in February and March. Sentiment was affected by renewed concern about demand being curbed by the worsened unemployment situation but with an ample supply of new flats coming on stream. Moreover, there was a large overhang of newly completed flats not yet occupied. Also relevant was the prospect for reversal of the earlier downtrend in interest rates later in the year. Meanwhile, property developers continued to offer distinct price discounts and attractive financing arrangements to boost sales. With flat buyers being swayed by such intensive promotion in the primary market, activity in the secondary market remained depressed during most of the first quarter. As to the rental

/market

market for residential property, performance continued to be generally lacklustre, as demand remained subdued while the supply of flats for lease increased (paragraph 3.7).

1.23 On a quarter-to-quarter comparison, flat prices on average fell slightly further by 1% in the first quarter of 2002, after a 6% dip in the fourth quarter of 2001. Flat rentals on average went down further by 4% in the first quarter of 2002, following a similar decline in the fourth quarter of 2001 (paragraph 3.8).

1.24 On *commercial property*, the rental market for *office space* slackened further in the first quarter of 2002, amidst more extensive consolidation and downsizing in the corporate sector, especially amongst the information technology and financial services operators. In a move to improve occupancy, rental reductions and other concessions were given to tenants particularly those on long leases, and more generous rent-free periods were offered for new take-ups. The sales market for office space was stagnant, as investors mostly stayed on the sideline amidst an uncertain business outlook. The rental market for *shopping space* was also slack in the first quarter of 2002, amidst further moderation in retail business particularly in the segment serving local consumers. Premises in less popular locations were being impinged more. In a move to improve occupancy, larger rental cuts and more flexible lease terms were granted to tenants. The sales market for shopping space was likewise sluggish, with prices easing further in thin trading. On *industrial property*, the rental market stayed quiet in the first quarter of 2002, as leasing demand dwindled further upon sustained contraction in local manufacturing activity. Also relevant was receded demand for modern multi-purpose industrial premises to be used as data centres and back-up service centres. The sales market for industrial property continued to be in the doldrums (paragraphs 3.9 to 3.11).

1.25 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, shrank by 54% in the first quarter of 2002 over a year earlier, much larger than the 14% decrease in the fourth quarter of 2001. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property, having increased by 22% in terms of units or by 5% in terms of total usable floor area in the fourth quarter of 2001, were curtailed

/by

by 72% and 69% respectively in the first quarter of 2002. In view of a still abundant supply of new flats in the pipeline, property developers appeared more circumspect in taking on new projects. Planned developments of property in the “others” category continued to plummet, by 66% in the first quarter of 2002, following a dip of 92% in the fourth quarter of 2001. On the other hand, planned developments of commercial property bounced up markedly, by 119% in the first quarter of 2002, after a plunge of 53% in the fourth quarter of 2001. Planned developments of industrial property leaped further by 66% in the first quarter of 2002, after a phenomenal rise of 91% in the fourth quarter of 2001. Yet the latest upsurge in planned developments of commercial and industrial properties was partly due to the lower base of comparison in the same period a year earlier (paragraph 3.15).

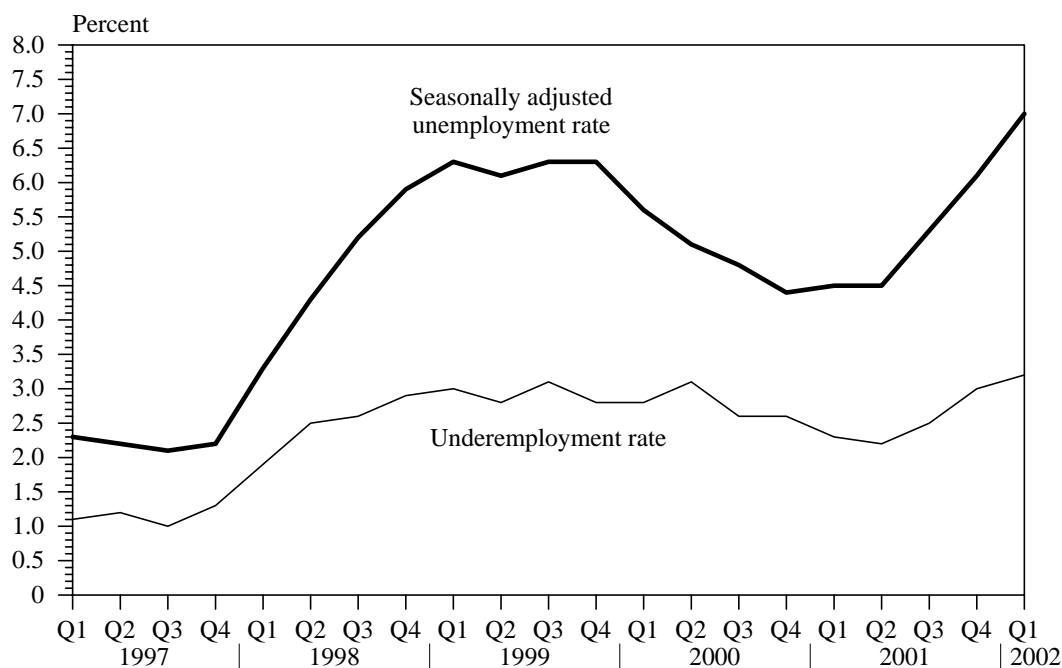
The labour market

1.26 The labour market, having eased visibly in the second half of 2001, slackened markedly further in the first quarter of 2002. This was due to the combined influence of a sustained growth in total labour force in line with the population increase, and a contraction in total employment amidst more extensive corporate downsizing and lay-offs, in tandem with the economic setback. The *seasonally adjusted unemployment rate* in the first quarter of 2002, at 7.0%, went substantially higher than that in the fourth quarter of 2001, at 6.1%. The median duration of unemployment lengthened from 82 days to 87 days, while the proportion of persons unemployed for six months or more rose from 24% to 27%. The *underemployment rate* also moved up, from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002. For the employed persons, the proportion working for 50 hours or more per week fell slightly, from 35% in the fourth quarter of 2001 to 34% in the first quarter of 2002. Concurrently, the median hours of work also shortened, from 48 hours per week to 45 hours per week. There tended to be increased employment of part-time and temporary workers relative to full-time and regular workers in the more recent period (paragraphs 5.1 to 5.4).

/Diagram 1.6

Diagram 1.6

Unemployment and underemployment rates*



Note : (*) The seasonally adjusted unemployment rate and underemployment rate are compiled on the basis of the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census.

The seasonally adjusted unemployment rate is now computed on the basis of the X-11 ARIMA method, which adjusts for the influences of all seasonal factors, as distinct from the former series which adjusts only for variations in the proportion of first-time job-seekers.

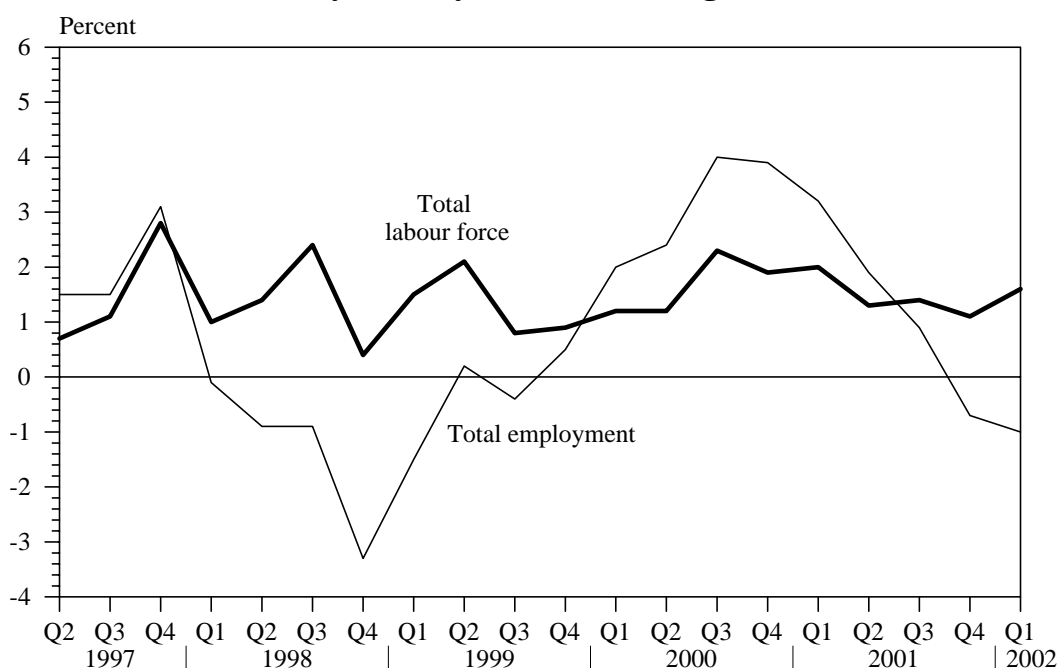
1.27 *Total employment* as enumerated from households contracted by 1.0% in the first quarter of 2002 over a year earlier, larger than the 0.7% fall in the fourth quarter of 2001. This was in line with the more extensive corporate downsizing and lay-offs. Under a difficult economic climate, employers were bound to be more stringent about their staffing. On the other hand, *total labour force* had a faster growth of 1.6% in the first quarter of 2002 over a year earlier, as compared to that of 1.1% in the fourth quarter of 2001. This was attributable in part to an accelerated increase in the population of working age, and in part to a rise in the labour force participation rate predominantly amongst females aged 30-59. A considerable proportion of these females were believed to be

/housewives

housewives pursuing jobs to supplement their family income. On a quarter-to-quarter comparison, total employment likewise shrank, by 0.3% in the first quarter of 2002, yet total labour force went up, by 0.6%. These differential growth rates pointed to a further loosening in the overall manpower resource balance, leading to a further upsurge in unemployment rate in the most recent quarter (paragraph 5.5).

Diagram 1.7

**Total labour force and total employment
(year-on-year rate of change)**



Note : Year-on-year rates of change from the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census, are available as from the second quarter of 1997.

1.28 With the labour market slackening further, labour income was on a renewed moderating trend. Overall *labour earnings*, having gone up modestly by 2% in money terms in the third quarter of 2001 over a year earlier, were virtually flat in the fourth quarter. Netting out the decline in consumer prices as reflected by the Composite CPI, labour earnings were higher by 2% in real terms in the fourth quarter of 2001 over a year earlier, slightly smaller than the 3% increase in the third quarter (paragraph 5.6).

/Prices

Prices

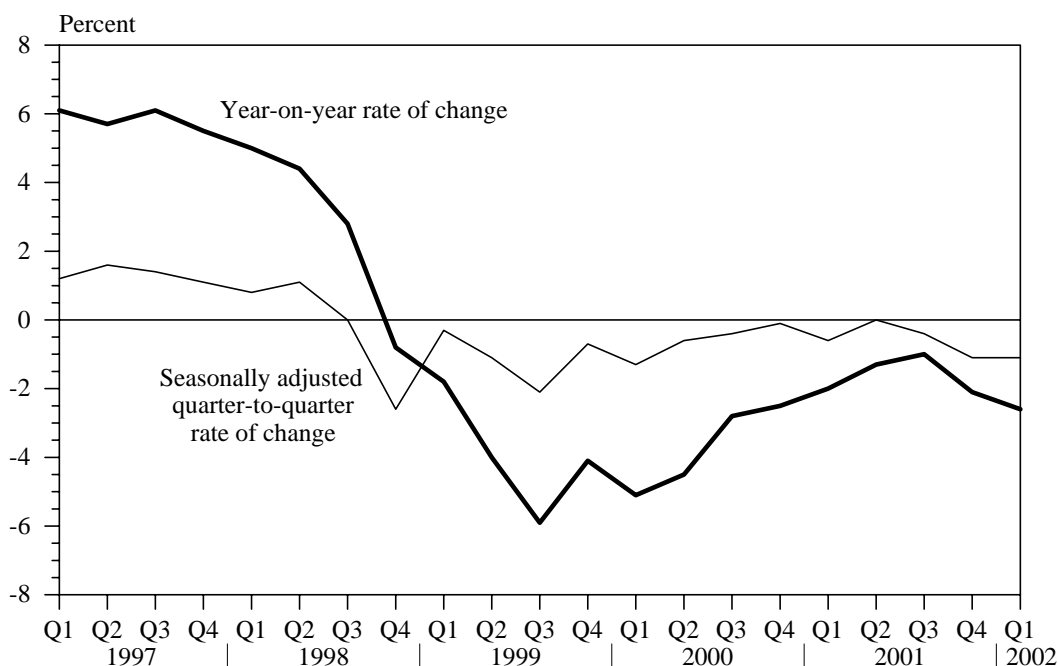
1.29 Overall consumer prices, having been on a continuous downtrend since late 1998, fell further in the first quarter of 2002. Domestically, costs and prices continued to drift lower, along with a further softening in property prices and rentals, and a renewed moderation in labour wages. Also, price discounts were prevalent at the retail outlets for boosting sales. Externally, import prices stayed soft, under the combined effect of the strength of the US dollar at that time and subdued inflation in the major supplier economies. Moreover, world commodity prices weakened further in overall terms, notwithstanding a visible rebound in international crude oil prices over the past few months. In addition, there were some specific local factors, including notably the Government's rates relief and to a lesser degree the concessions on certain public utility and transport charges, which constituted the main influence behind the larger year-on-year decline in overall consumer prices in the first quarter of this year than in the fourth quarter of last year (paragraph 6.1).

1.30 The *Composite Consumer Price Index* fell by 2.6% in the first quarter of 2002 over a year earlier, enlarged from the 2.1% decrease in the fourth quarter of 2001. Yet on a seasonally adjusted quarter-to-quarter comparison, the Composite CPI decreased by 1.1% in the first quarter of 2002, same as the decline in the fourth quarter of 2001 (paragraphs 6.2 and 6.4).

/Diagram 1.8

Diagram 1.8

Composite Consumer Price Index*



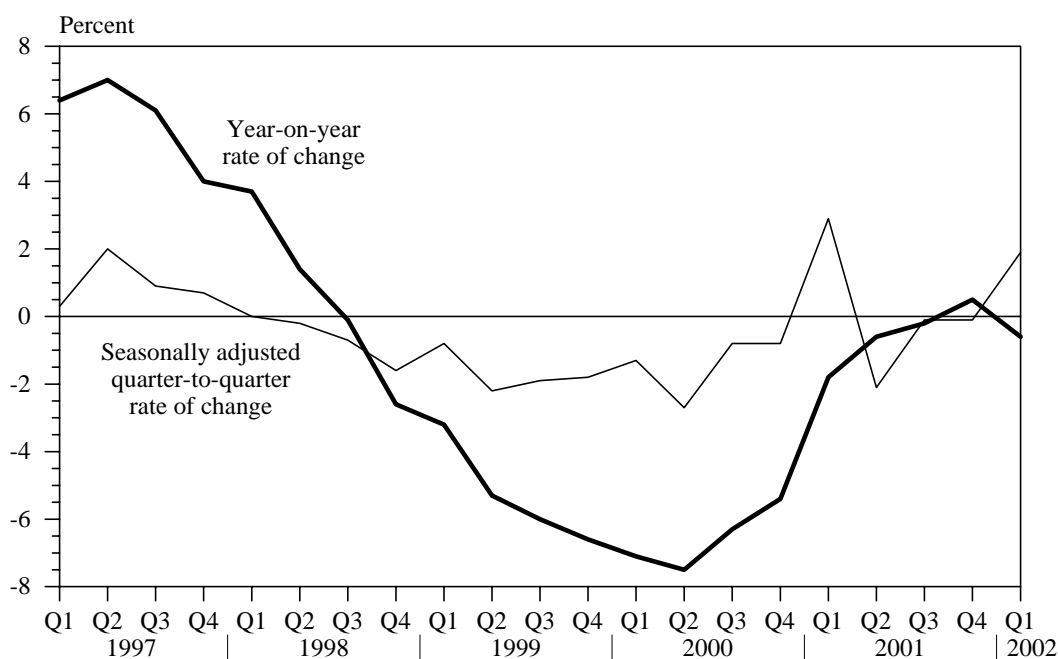
Note : (*) From the fourth quarter of 2000 onwards, the rates of change are computed from the 1999/2000-based Composite CPI series. Before then, the rates of change are computed from the 1994/95-based Composite CPI series. Splicing has been applied to the indices to maintain continuity.

1.31 The *GDP deflator*, as a broad measure of overall price change in the economy, reverted to a decrease at 0.6% in the first quarter of 2002 over a year earlier, from a brief increase at 0.5% in the fourth quarter of 2001. This was mainly attributable to an enlarged decline in the price deflator for exports of goods and a moderated rise in the price deflator for government consumption expenditure, which together more than offset a narrowed decrease in the price deflator for gross domestic fixed capital formation and a renewed rise in the price deflator for exports of services. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* came down further, by 2.5% and 0.5% respectively in the first quarter of 2002 over a year earlier, after decreases of 1.7% and 0.7% in the fourth quarter of 2001. Yet on a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went higher by 1.9% in the first quarter of 2002, following a marginal decline of 0.1% in the fourth quarter of 2001 and reversing the downtrend seen over the preceding three quarters (paragraph 6.13).

/Diagram 1.9

Diagram 1.9

GDP deflator



The financial sector

1.32 The Hong Kong dollar exchange and money markets held broadly stable in the first quarter of 2002, even in the wake of Argentina abolishing its currency board system. The spot *exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate during the first quarter of 2002, moving within a very narrow range of 7.796 to 7.800. The premium of the twelve-month forward rate of the Hong Kong dollar against the US dollar was generally stable during the quarter, except for a temporary increase to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. But it soon receded to 226 pips at end-March 2002, slightly smaller than that of 235 pips at end-2001 (paragraphs 4.1 and 4.2).

1.33 Under the linked exchange rate system, the Hong Kong dollar strengthened further along with the US dollar against the Japanese yen, the euro and pound sterling during the first quarter of 2002, by 3.0%, 1.9% and 1.2% respectively. Yet with these increases being partially offset by some strengthening in several East Asian currencies and in the Australian dollar during the quarter, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* rose only slightly, to 105.9 in March 2002, from 105.4 in December 2001 (paragraphs 4.3 to 4.5).

/1.34

1.34 Local inter-bank *interest rates* firmed up slightly during the first quarter of 2002, with the three-month HIBOR edging up from 1.9% at end-2001 to 2.2% at end-March 2002. The Base Rate under the Discount Window operated by the Hong Kong Monetary Authority remained unchanged at 3.25% during the first quarter of 2002, as the interest rate down-cycle and monetary easing in the United States came to an end. The best lending rate of the major commercial banks was kept at 5.13% during the quarter. The average savings deposit rate rose marginally, to 0.16% at end-March 2002, from 0.15% at end-2001. The average spread of the best lending rate over the three-month time deposit rate narrowed slightly, from 4.69 percentage points in the fourth quarter of 2001 to 4.59 percentage points in the first quarter of 2002, reflecting the increase in the deposit rate (paragraphs 4.6 and 4.7).

1.35 *Hong Kong dollar deposits* turned to a 1.2% decline during the first quarter of 2002, mainly attributable to the fall in time deposits. *Hong Kong dollar loans* reverted to a rise at 0.7% during the same quarter. The Hong Kong dollar loan-to-deposit ratio thus rose back to 90.8% at end-March 2002, from 89.0% at end-2001 (paragraphs 4.9, 4.10, 4.15 and 4.16).

1.36 The *local stock market* staged a brief rebound at the beginning of 2002, stimulated in part by a price surge in technology-related shares in the United States. The Hang Seng Index rose to a five-month high of 11 893 on 7 January. The market subsequently drifted lower, with the Hang Seng Index mostly hovering in the 10 500 - 11 000 range for the rest of January and in February in relatively quiet trading. Sentiment was weighed down by concern over rising unemployment and an uncertain business outlook. Then, as the major stock markets overseas rallied upon growing optimism for a sooner-than-expected recovery in the US economy, the local stock market was also activated, and the Hang Seng Index rebounded to above the 11 000 level in early March. Moreover, the 2002/03 Budget as announced on 6 March was well received. The market soon eased back again, upon wary that US interest rates might be raised earlier. The Hang Seng Index closed March 2002 at 11 033, 3.2% lower than at end-2001. Trading was generally moderate, with the average daily turnover in the first quarter of this year reduced from the fourth quarter of last year. (The local stock market turned active again after mid-April, amidst market expectation for no imminent rise in US interest rates. The Hang Seng Index moved up in May, to 11 627 on 24 May.) (paragraphs 4.29 and 4.30)

/Notes

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 the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The Gross National Product (GNP) is obtained by adding net external factor income flow, being the income inflow minus the corresponding income outflow, to GDP. External factor income inflow refers to income earned by residents from abroad, while external factor income outflow refers to income earned by non-residents from within the domestic territory. Hence GNP is an overall measure of income earned by the residents of an economy in a specified period, both domestically and from elsewhere. It distinguishes from GDP in that GDP is an overall measure of income earned by both residents and non-residents, from within the domestic territory in a specified period. Factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.
- (4) Government consumption expenditure reckoned on a national accounts basis covers the recurrent expenditures on goods and services incurred by government departments. It also covers the recurrent expenditures of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board (formerly Hong Kong Tourist Association), Consumer Council and Hospital Authority. On the other hand, it does not include the expenditures of those government departments and statutory entities engaged in the production of goods and services principally for sale to the public, such as the Housing Department and the Post Office, and such as the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong. Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditures are in the nature of transfer payments and not direct resource consumption.

/(5)

- (5) Real estate developers' margin measures the services rendered by developers through acquiring land, co-ordinating the work of architects, building contractors, engineers etc for project development, arranging finance for the project, and marketing the building units. It is not the same as developers' profits, which include not only the reward for the services rendered but also land value appreciation, if any, that is realised in their development projects.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The global economy, having gone through a distinct downturn during the course of 2001, seemed to be gradually bottoming out over the past few months. The improvement was most evident in the US economy, with the activity leading indicators such as the Purchasing Managers' Index for the manufacturing sector, the Non-Manufacturing Business Activity Index, the Consumer Confidence Index, and the Index of Leading Indicators rebounding sharply during the first quarter of 2002. Also, industrial production, after five consecutive months of distinct decline, reverted to positive growth by January, and continued to firm up more recently as the inventory adjustment process largely ended. In the EU economy, business confidence was likewise being regained.

2.2 At the same time, the export-dependent East Asian economies were gradually recovering from the distinct setback last year, benefiting primarily from the bottoming out in the global electronic product cycle and renewed export orders on the whole. The exception was Japan's economy, which stayed in the doldrums in the first quarter of this year despite a relative improvement in its export performance, as its domestic sector continued to be depressed by high unemployment and protracted structural problems. Meanwhile, the Mainland economy continued to do remarkably well in the first quarter of this year, with its domestic demand holding up strongly and its exports concurrently having a sharp surge, thereby giving an appreciably faster overall growth. As the regional economic environment turned better, the severe downtrend in import intake in the regional markets in the latter part of last year was broadly arrested in the first quarter of this year, with a more visible rebound seen particularly in the Mainland.

/Table 2.1

Table 2.1

**Gross Domestic Product of selected major economies
(year-on-year rate of change in real terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	1.2	1.6	7.3	-0.5	-1.9	-2.0	3.0
	H1	1.9	2.1	7.9	0.4	-0.7	2.2	3.3
	H2	0.5	1.1	6.7	-1.4	-3.0	-6.0	2.8
	Q1	2.5 (0.3)	2.5 (0.5)	8.1	1.2 (1.0)	0.9	5.0 (-3.0)	3.7 (1.2)
	Q2	1.2 (0.1)	1.7 (0.1)	7.8	-0.4 (-1.2)	-2.4	-0.5 (-2.2)	2.9 (0.3)
	Q3	0.5 (-0.3)	1.5 (0.2)	7.0	-0.5 (-0.5)	-4.2	-5.4 (-2.7)	1.9 (1.3)
	Q4	0.5 (0.4)	0.7 (-0.1)	6.5	-2.3 (-1.2)	-1.9	-6.6 (1.4)	3.7 (1.6)
2002	Q1	1.6 (1.4)	N.A.	7.6	N.A.	0.9	-1.7 (1.9)	5.7 (1.8)

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change. For the mainland of China and Taiwan, seasonally adjusted series are not available.

N.A. Not yet available.

Table 2.2

**Import demand in Hong Kong's major markets
(year-on-year rate of change in US dollar terms (%))**

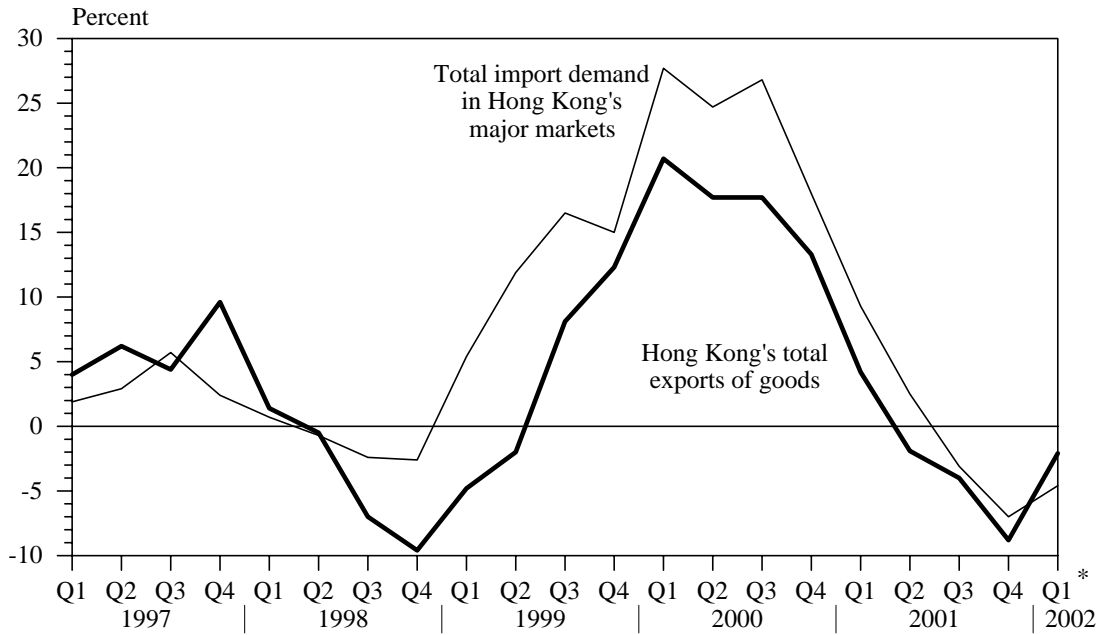
		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	-6.3	-2.2	8.2	-8.1	-23.4	-13.9	-12.1
	H1	0.5	1.0	14.1	0.2	-17.0	-3.8	-7.7
	H2	-12.6	-5.4	3.3	-15.5	-29.5	-22.4	-16.3
	Q1	4.6	3.7	17.3	4.8	-10.2	5.8	-1.8
	Q2	-3.3	-1.8	11.4	-4.3	-22.9	-12.4	-13.4
	Q3	-11.1	-3.7	6.5	-11.8	-34.1	-20.4	-15.5
	Q4	-14.1	-7.1	0.2	-18.9	-24.6	-24.4	-17.1
2002	Q1	-12.3	-13.0 ^(a)	5.2	-18.3	-15.2	-16.2	-11.6

Note : (a) Crude estimate only, as data on imports in the European Union are available only up to February 2002.

/Diagram 2.1

Diagram 2.1

**Hong Kong's total exports of goods
and total import demand in Hong Kong's major markets
(year-on-year rate of change)**



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

(*) Total import demand for the first quarter of 2002 is only a crude estimate, as data on imports in the European Union are available only up to February 2002.

/2.3

2.3 On exchange rate movements, the US dollar firmed up against the major currencies in the first quarter of 2002, amidst positive expectations for recovery in the US economy. Comparing the average level in the first quarter of 2002 with that in the fourth quarter of 2001, the US dollar was up by 7.0% against the Japanese yen, by 2.1% against the euro, and by 1.1% against the pound sterling. With the movement of the Hong Kong dollar tracking closely that of the US dollar, the local currency likewise strengthened against these currencies. Yet with local costs and prices drifted further lower, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar edged lower, by an average of 0.4% in the first quarter of 2002 over the preceding quarter.

Table 2.3

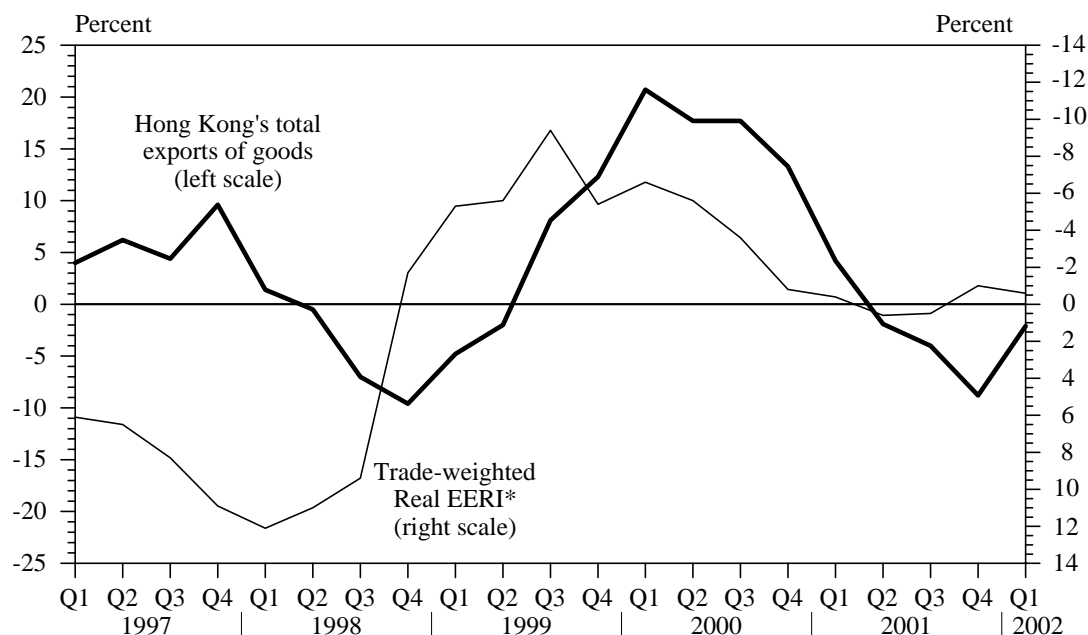
**Exchange rates of the major currencies
and of selected East Asian currencies against the US dollar**

		% change in terms of average in the quarter over the preceding quarter		Japanese		Pound	New	Singapore	Korean
				yen	Euro	sterling	Taiwan dollar	dollar	won
2001	Q1	-7.0	6.1	0.9	-0.3	-0.3	-8.3		
	Q2	-3.6	-5.4	-2.6	-2.7	-3.5	-2.6		
	Q3	0.8	2.0	1.1	-3.5	2.0	0.9		
	Q4	-1.7	0.5	0.4	0.2	-2.6	0.1		
2002	Q1	-6.6	-2.0	-1.1	-1.3	-0.4	-2.1		

/Diagram 2.2

Diagram 2.2

**Hong Kong's total exports of goods and exchange rate movements
(year-on-year rate of change in real terms)**



Note : (*) The Real Effective Exchange Rate Index of the Hong Kong dollar (Real EERI), as compiled by the Hong Kong Monetary Authority, is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of 14 major trading partners after adjusting for relative movements in the respective seasonally adjusted consumer price indices, with the weights adopted being the shares of these 14 trading partners in the overall value of Hong Kong's merchandise trade.

Positive changes in the Real EERI denote appreciation of the Hong Kong dollar; and negative changes denote depreciation. For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented here upside down, so that positive changes appear at the lower part and negative changes at the upper part of the diagram.

/Overall

Overall visible and invisible trade situation

2.4 *Total exports of goods* (comprising re-exports and domestic exports) went down by 6.2% in value terms over a year earlier to \$325.8 billion in the first quarter of 2002. After netting out the decrease in prices, the decline in real terms⁽¹⁾ was 2.1%, markedly smaller than the 8.8% fall in the fourth quarter of 2001. There was a further decrease in total exports of goods by 8.2% in real terms in January 2002 over a year earlier. But as the external economic environment steadily improved, total exports of goods fell distinctly less by 5.7% in February, and then picked up sharply to a 6.9% rise in March. This uptrend was also evident on a seasonally adjusted quarter-to-quarter comparison, with total exports of goods reverting to a 7.0% increase in real terms in the first quarter of 2002, after a 6.4% decline in the fourth quarter of 2001.

2.5 Within total exports of goods, *re-exports*⁽²⁾ fell by 5.0% in value terms over a year earlier to \$296.8 billion in the first quarter of 2002. After netting out the decline in prices, the decrease in real terms was 0.9%, also much improved from the 8.6% fall in the fourth quarter of 2001. Re-exports likewise recorded a distinct decline in January 2002, by 7.4% in real terms over a year earlier, followed by a visibly smaller decline of 4.4% in February and then a sharp rebound to an 8.2% rise in March. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose back by 8.2% in real terms in the first quarter of 2002, following a 6.7% drop in the fourth quarter of 2001.

2.6 *Domestic exports* remained persistently weak amidst the on-going structural shift towards re-exports, plunging by 17.5% in value terms over a year earlier to \$29.0 billion in the first quarter of 2002. After netting out the fall in prices, there was a 12.7% shrinkage in real terms, after an already marked contraction of 10.4% in the fourth quarter of 2001. Domestic exports still plummeted by 14.7% and 17.1% respectively in real terms in January and February 2002 over a year earlier, though followed by a distinctly lesser decline of 6.3% in March. On a seasonally adjusted quarter-to-quarter comparison, domestic exports dipped further by 3.4% in real terms in the first quarter of 2002, following a 4.1% decline in the fourth quarter of 2001.

/Table 2.4

Table 2.4**Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2001	Annual	-5.8	-3.0	-2.6	-4.6	-2.0	-2.3	-15.2	-11.0	-4.5
	H1	-1.4	1.0	-2.0	0.2	2.5	-1.9	-13.3	-10.5	-3.1
	H2	-9.6	-6.4	-3.0	-8.6	-5.8	-2.7	-16.8	-11.5	-5.8
	Q1	2.3	4.2	-1.6	4.8	6.5	-1.5	-15.3	-12.8	-2.6
	Q2	-4.7	-1.9	-2.5	-3.9	-1.0	-2.3	-11.4	-8.5	-3.6
	Q3	-7.2	-4.0	-3.0	-5.8	-3.0	-2.7	-17.9	-12.4	-5.4
	Q4	-12.0	-8.8	-3.1	-11.6	-8.6	-2.7	-15.6	-10.4	-6.1
2002	Q1	-6.2	-2.1	-3.3	-5.0	-0.9	-3.2	-17.5	-12.7	-4.8
	Jan	-12.2	-8.2	-3.6	-11.4	-7.4	-3.4	-19.4	-14.7	-5.1
	Feb	-9.1	-5.7	-3.3	-7.6	-4.4	-3.2	-21.5	-17.1	-4.8
	Mar	2.2	6.9	-3.1	3.7	8.2	-2.9	-11.4	-6.3	-4.3

Table 2.5**Total exports of goods, re-exports and domestic exports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

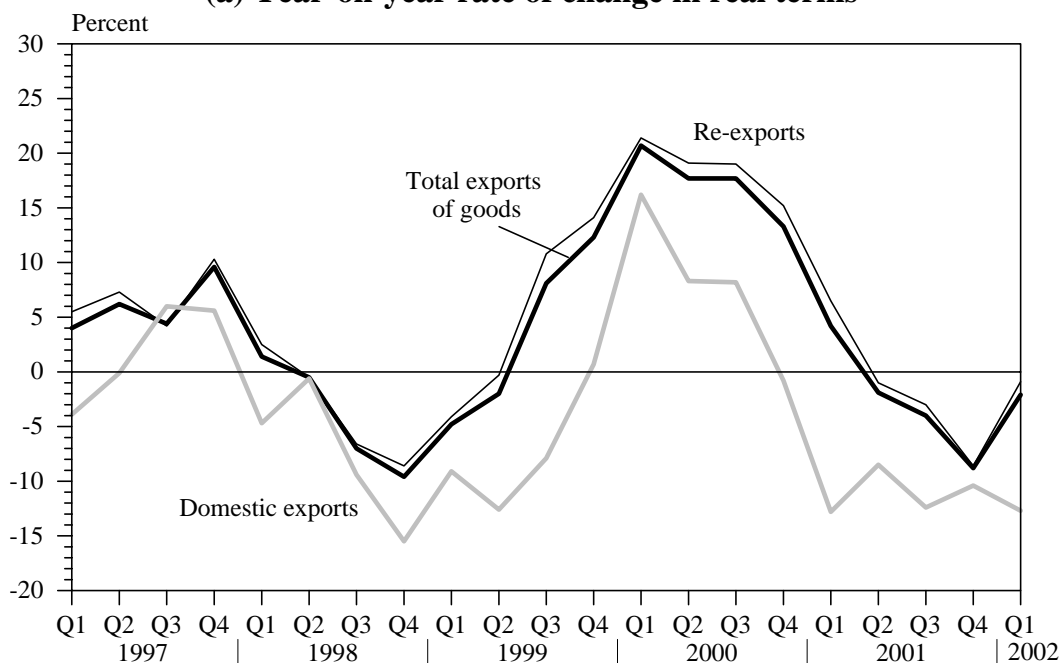
		<u>Total exports of goods</u>		<u>Re-exports</u>		<u>Domestic exports</u>	
2001	Q1		-2.4		-2.4		-2.8
	Q2		-2.8		-2.9		-1.5
	Q3		1.5		2.1		-3.3
	Q4		-6.4		-6.7		-4.1
2002	Q1		7.0		8.2		-3.4

/Diagram 2.3

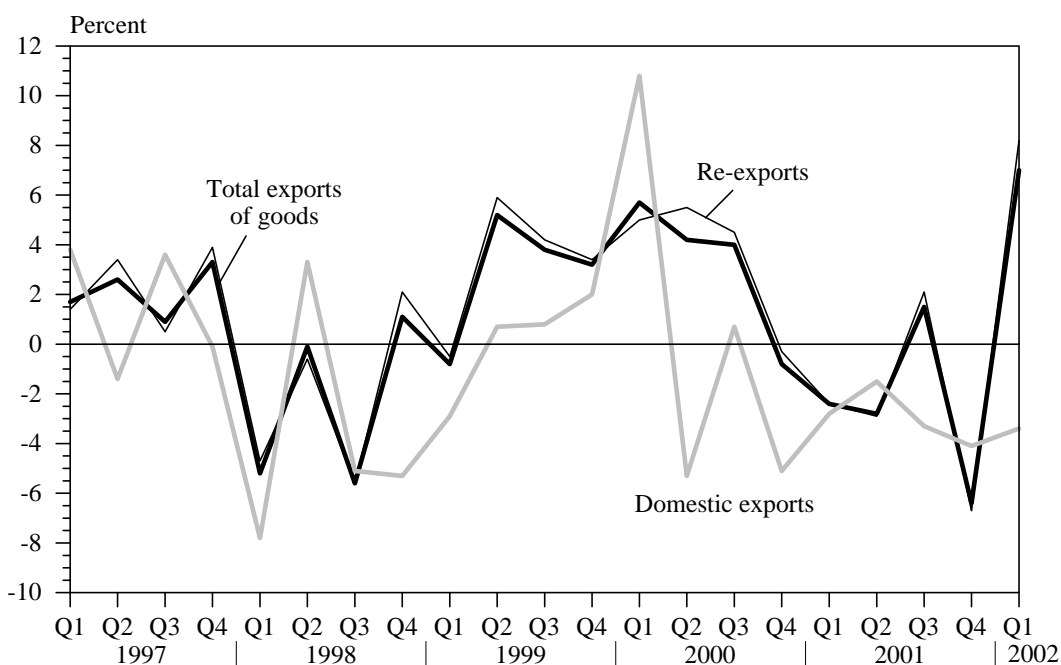
Diagram 2.3

Total exports of goods, re-exports and domestic exports

(a) Year-on-year rate of change in real terms



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



/2.7

2.7 *Imports of goods* fell by 9.1% in value terms over a year earlier to \$342.3 billion in the first quarter of 2002. After netting out the decline in prices, a 4.3% decrease in real terms was recorded, lesser than the 9.1% fall in the fourth quarter of 2001. Mirroring closely the rebound in re-exports during the first quarter, the setback in imports of goods was concentrated in January and February 2002, with decreases of 4.4% and 15.3% respectively in real terms over a year earlier, yet with reversal to a 5.8% increase in March. As to import intake for local use, *retained imports* remained on a significant decline, by 13.0% in real terms in the first quarter of 2002 over a year earlier, after a 10.5% fall in the fourth quarter of 2001. After a 6.1% increase in real terms in January 2002, retained imports fell by 37.7% and 0.4% respectively in February and March over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of goods reverted to an increase at 6.1% in real terms in the first quarter of 2002, following an 8.0% fall in the fourth quarter of 2001. Retained imports also rose back, by 0.2% in real terms in the first quarter of 2002, having plunged by 11.7% in the fourth quarter of 2001.

Table 2.6

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2001	Annual	-5.4	-2.3	-3.3	-7.0	-3.2	-5.3
	H1	-0.1	2.1	-2.1	-0.7	1.2	-2.3
	H2	-10.0	-6.2	-4.4	-12.8	-7.4	-8.1
	Q1	3.6	5.3	-1.7	1.4	2.3	-1.9
	Q2	-3.4	-0.7	-2.6	-2.5	0.1	-2.8
	Q3	-6.6	-3.4	-3.9	-8.3	-4.5	-6.5
	Q4	-13.5	-9.1	-5.0	-17.4	-10.5	-9.9
2002	Q1	-9.1	-4.3	-4.8	-16.9	-13.0	-8.2
	Jan	-8.6	-4.4	-5.2	-1.8	6.1	-8.8
	Feb	-19.8	-15.3	-4.9	-38.6	-37.7	-8.8
	Mar	0.2	5.8	-4.4	-6.1	-0.4	-7.3

Note : (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.

/Table 2.7

Table 2.7

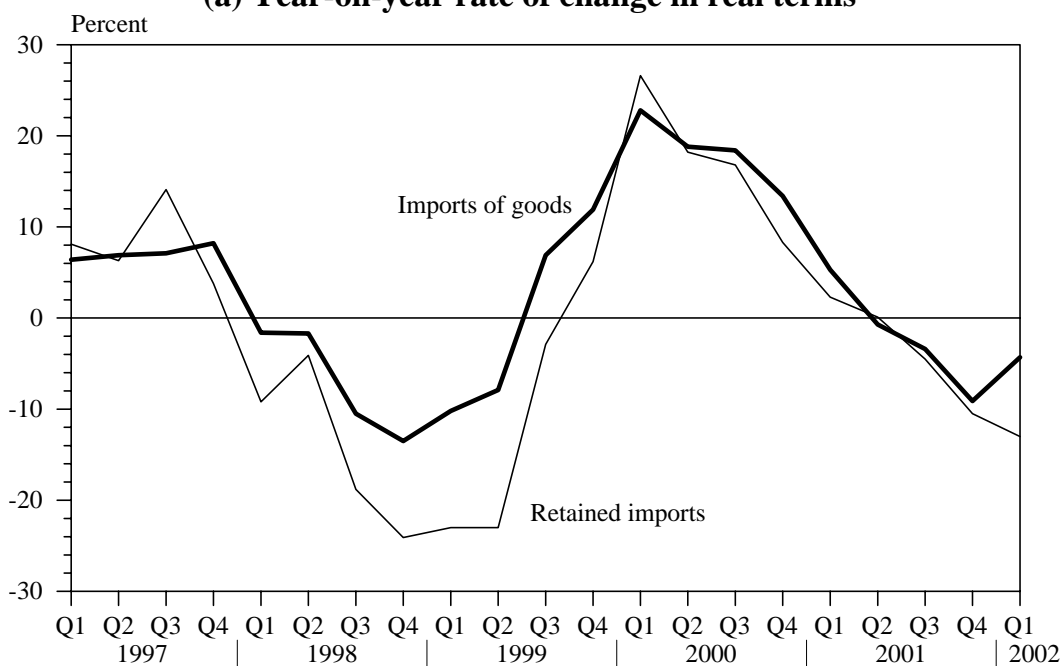
**Imports of goods and retained imports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2001	Q1	-1.2	1.9
	Q2	-3.7	-6.0
	Q3	2.5	3.6
	Q4	-8.0	-11.7
2002	Q1	6.1	0.2

Note : (a) See Note (a) to Table 2.6.

Diagram 2.4

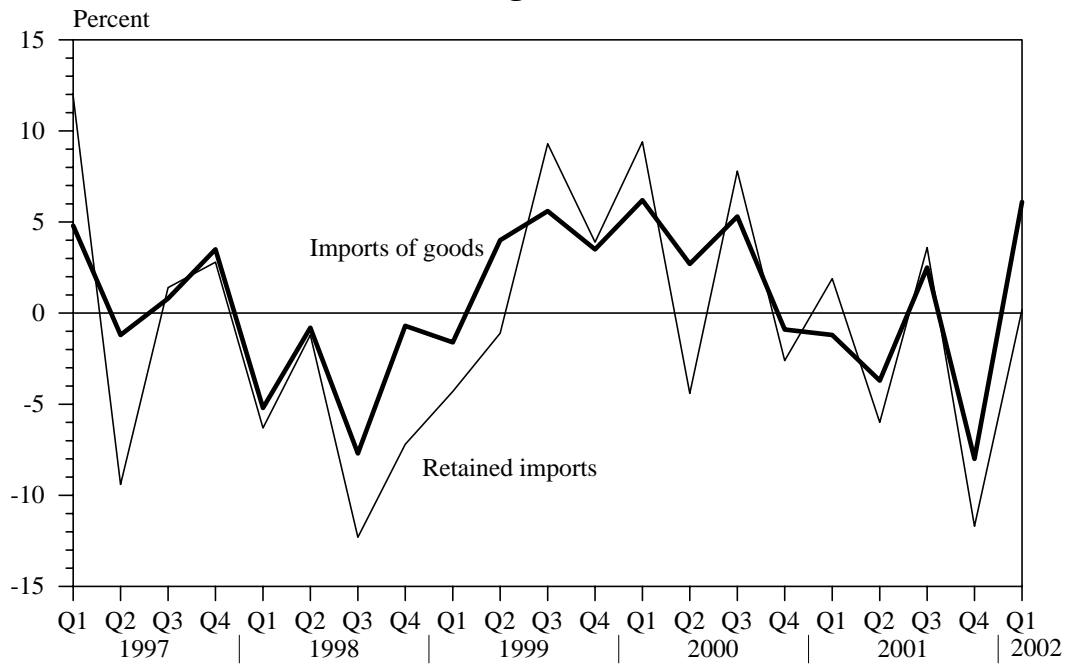
**Imports of goods and retained imports
(a) Year-on-year rate of change in real terms**



/Diagram 2.4 (cont'd)

Diagram 2.4 (cont'd)

(b) Seasonally adjusted quarter-to-quarter rate of change in real terms

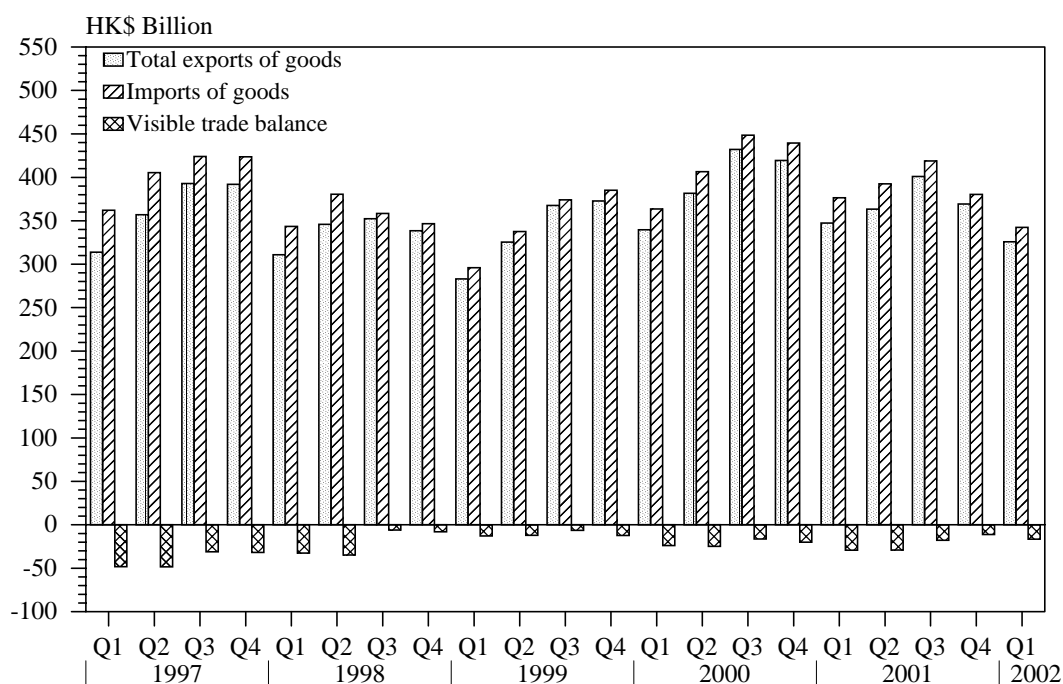


2.8 With a lesser decline in total exports of goods than in imports of goods in value, the *visible trade deficit* dwindled markedly, to \$16.5 billion or 4.8% of the value of imports of goods in the first quarter of 2002, from \$29.1 billion or 7.7% in the same quarter in 2001.

/Diagram 2.5

Diagram 2.5

Value of Hong Kong's visible trade and the visible trade balance



2.9 On invisible trade, *exports of services* accentuated to a 5.5% growth in value terms over a year earlier to \$83.2 billion in the first quarter of 2002. After netting out a marginal increase in prices, there was a 5.3% increase in real terms, significantly up from a meagre 1.1% rise in the fourth quarter of 2001. On a seasonally adjusted quarter-to-quarter comparison, exports of services resumed growth at 3.0% in real terms in the first quarter of 2002, having declined by 1.4% in the fourth quarter of 2001.

2.10 *Imports of services* fell by 0.4% in value terms over a year earlier to \$45.6 billion in the first quarter of 2002. After netting out a modest decline in prices, imports of services had virtually no change in real terms, after a 2.1% decrease in the fourth quarter of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of services went up by 2.8% in real terms in the first quarter of 2002, as against a 0.3% fall in the fourth quarter of 2001.

/Table 2.8

Table 2.8

**Exports and imports of services
(year-on-year rate of change (%))**

		<u>Exports of services</u>			<u>Imports of services</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2001	Annual	2.4	3.6	-1.2	-0.2	0.1	-0.3
	H1	5.8	6.3	-0.4	2.4	2.4	-0.1
	H2	-0.7	1.4	-2.0	-2.6	-2.1	-0.5
	Q1	6.3	6.2	0.1	3.6	3.8	-0.2
	Q2	5.4	6.3	-0.9	1.1	1.0	0.2
	Q3	-0.2	1.6	-1.8	-2.3	-2.0	-0.2
	Q4	-1.1	1.1	-2.1	-2.9	-2.1	-0.8
2002	Q1	5.5	5.3	0.2	-0.4	*	-0.4

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

Table 2.9

**Exports and imports of services
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Exports of services</u>	<u>Imports of services</u>
2001	Q1	0.4	0.3
	Q2	2.1	*
	Q3	1.6	-2.4
	Q4	-1.4	-0.3
2002	Q1	3.0	2.8

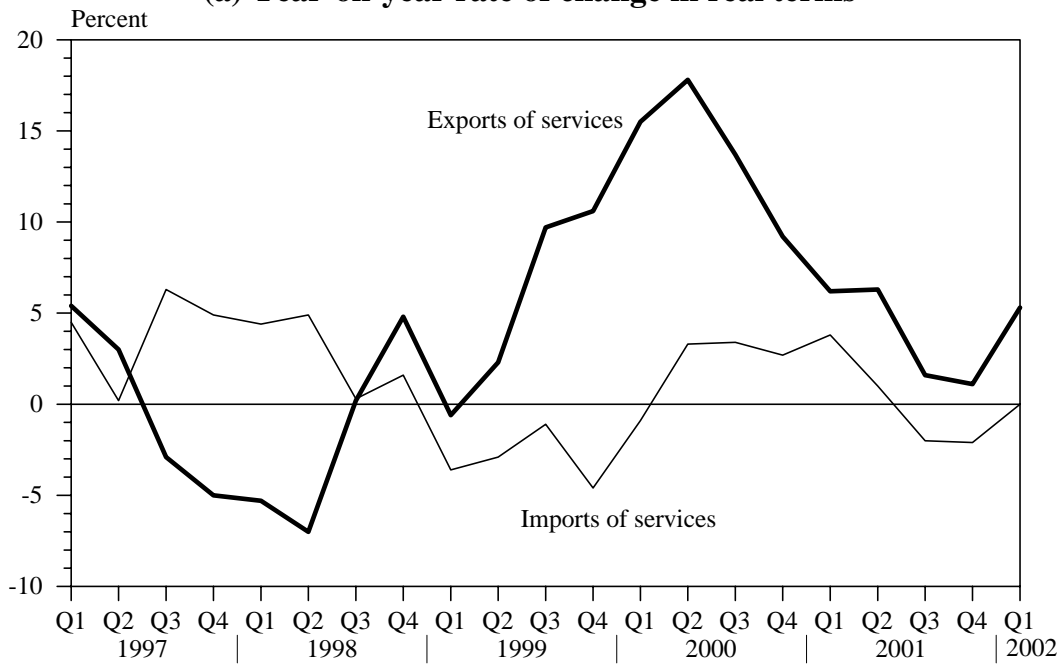
Note : (*) Change of less than 0.05%.

/Diagram 2.6

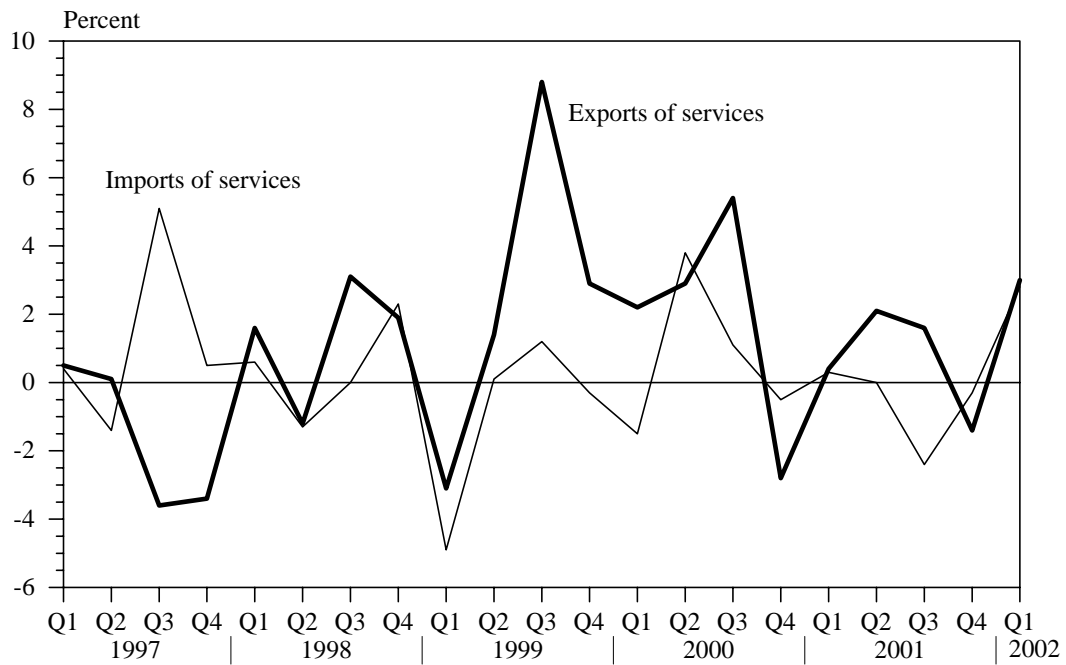
Diagram 2.6

Exports and imports of services

(a) Year-on-year rate of change in real terms



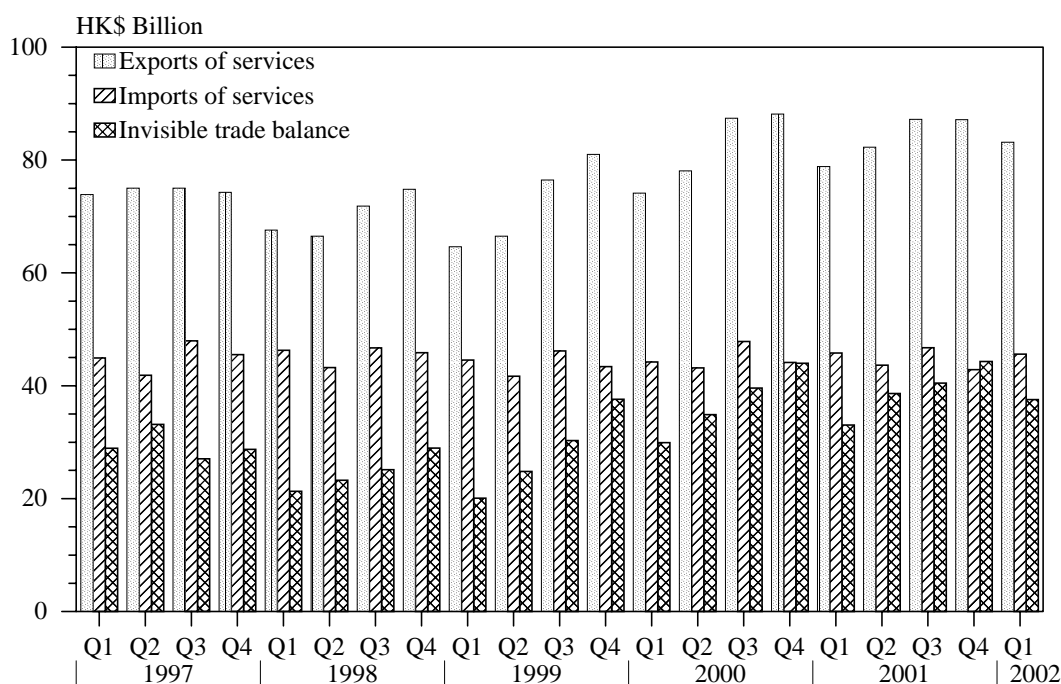
(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



/Diagram 2.7

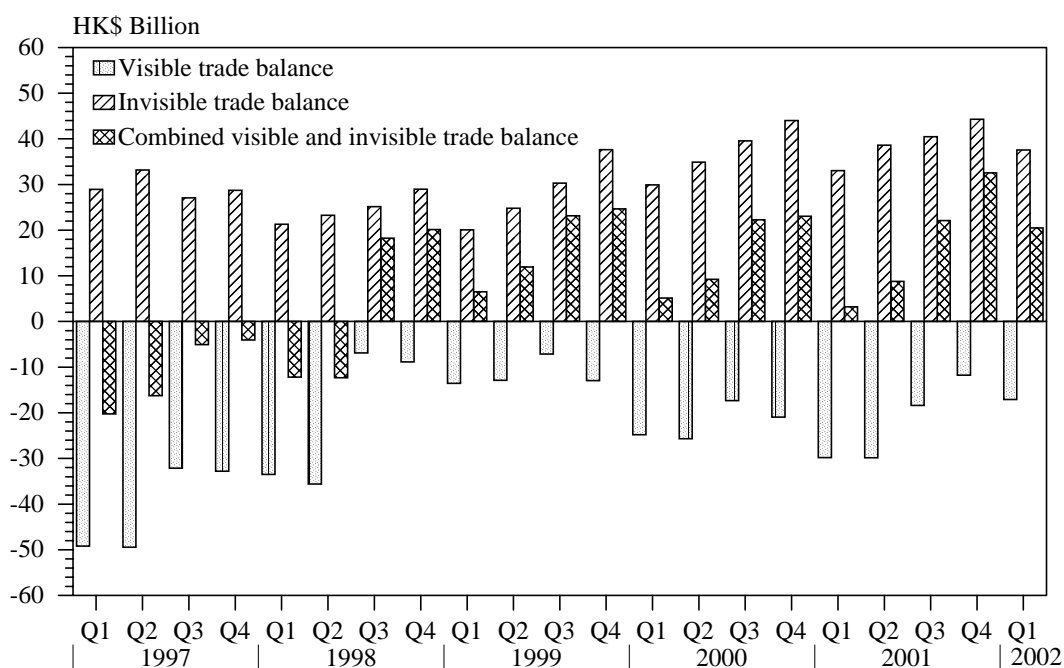
Diagram 2.7

Value of Hong Kong's invisible trade and the invisible trade balance



2.11 As exports of services picked up markedly while imports of services remained slack, the *invisible trade surplus*⁽³⁾ expanded further, to \$37.5 billion or 82.3% of the value of imports of services in the first quarter of 2002, from \$33.0 billion or 72.1% in the same quarter in 2001. Together with the much reduced visible trade deficit, the combined surplus (including an estimate of imports of gold for industrial use) rose to \$20.5 billion in the first quarter of 2002, equivalent to 5.3% of the total value of imports of goods and services. This was notably up from the respective figures of \$3.2 billion and 0.8% in the same quarter in 2001.

/Diagram 2.8

Diagram 2.8**Visible and invisible trade balance****Table 2.10****Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods^(a)</u>	<u>Services</u>	<u>Goods^(a)</u>	<u>Services</u>	<u>Combined</u>
2001	Annual	1,481.0	335.5	1,570.8	179.1	-89.8	156.4	66.6
	H1	710.8	161.1	770.5	89.4	-59.6	71.7	12.0
	H2	770.2	174.4	800.3	89.6	-30.1	84.8	54.6
	Q1	347.4	78.8	377.2	45.8	-29.8	33.0	3.2
	Q2	363.4	82.3	393.3	43.6	-29.8	38.6	8.8
	Q3	401.0	87.2	419.4	46.7	-18.4	40.5	22.1
	Q4	369.2	87.2	380.9	42.9	-11.8	44.3	32.5
2002	Q1	325.8	83.2	342.8	45.6	-17.1	37.5	20.5

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

(a) Adjusted to include an estimate of imports of gold for industrial use.

/Visible

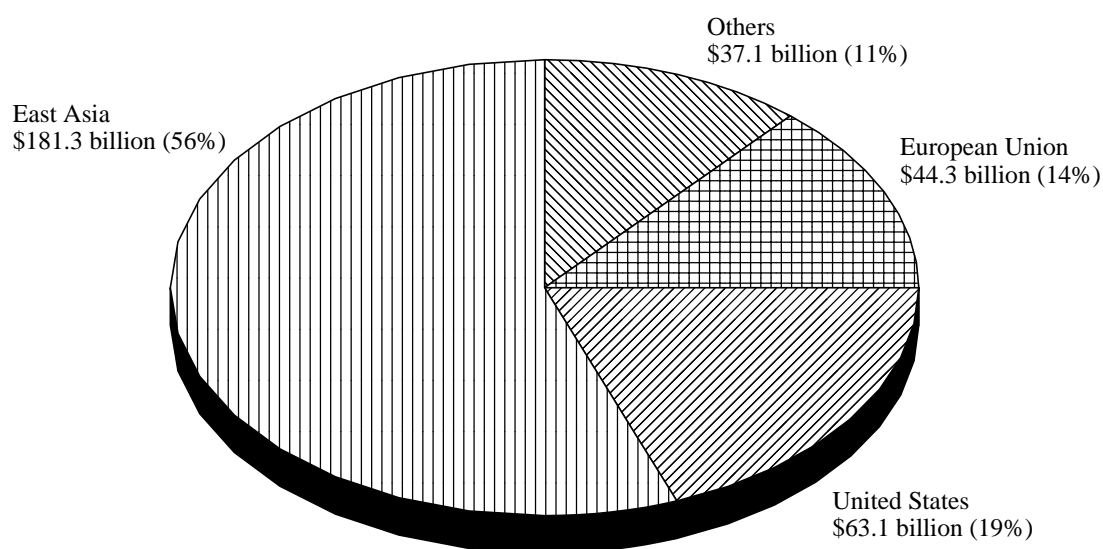
Visible trade

Total exports of goods

2.12 Reflecting the intimate trade relations between Hong Kong and the region, East Asia⁽⁴⁾ continued to take up the largest share of Hong Kong's total exports of goods, at 56% by value in the first quarter of 2002. The United States came next (with a share of 19%), followed by the European Union⁽⁵⁾ (14%).

Diagram 2.9

Total exports of goods by major region in the first quarter of 2002



Total exports of goods in the first quarter of 2002 : \$325.8 billion

2.13 The pick-up in exports during the first quarter of this year occurred mostly in the East Asian markets, with total exports of goods to *East Asia* as a whole rebounding sharply to a 4.5% increase in real terms in the first quarter of 2002 over a year earlier, in contrast to a 5.1% fall in the fourth quarter of 2001. Performance however varied quite widely amongst the constituent markets, with exports to the Mainland, Singapore and the Republic of Korea gaining markedly during the first quarter, but with exports to Japan and Taiwan staying weak all through.

/Table 2.11

Table 2.11

**Total exports of goods by major region
(year-on-year rate of change in real terms (%))**

		<u>East Asia</u> ^{(a)(c)}	<u>United States</u>	<u>European Union</u> ^{(b)(c)}
2001	Annual	1.7	-8.9	-8.2
	H1	5.5	-5.2	-4.4
	H2	-1.6	-11.9	-11.3
	Q1	8.2	-0.4	-1.0
	Q2	3.2	-9.3	-7.7
	Q3	1.9	-10.8	-11.0
	Q4	-5.1	-13.1	-11.7
2002	Q1	4.5	-13.3	-11.4

Notes : (a) For the coverage of East Asia, see Note (4).

(b) For the coverage of the European Union, see Note (5).

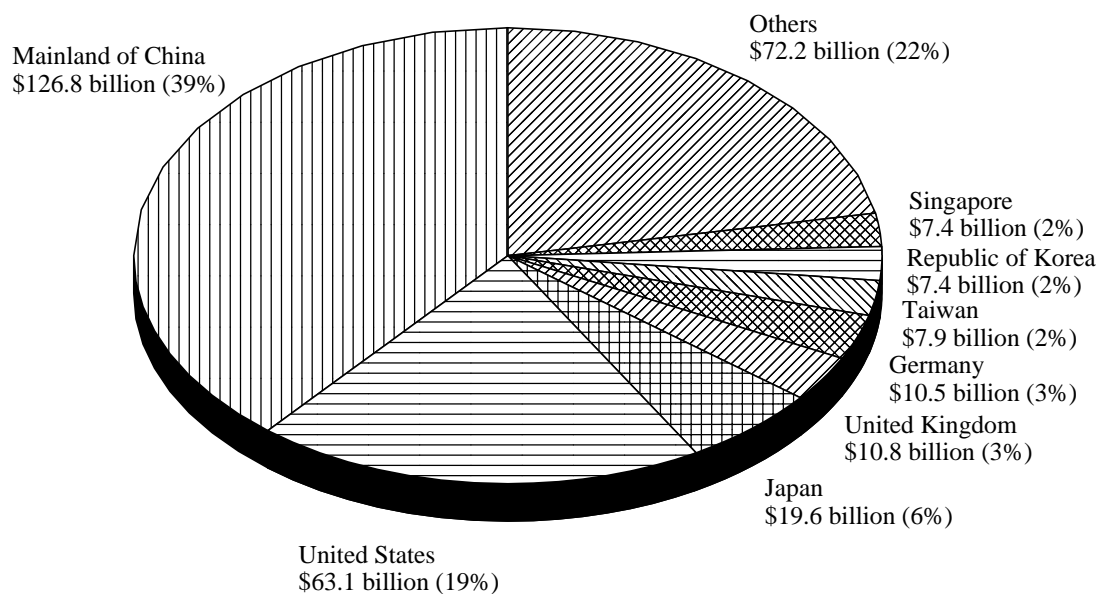
(c) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods in real terms are estimated from an overall implicit price deflator covering those export markets for which separate unit value indices are not available.

2.14 Exports of goods to the *European Union* continued to be dragged down by the slack domestic demand there and the weak euro. There was a further double-digit decline of 11.4% in real terms in the first quarter of 2002 over a year earlier, similar to the 11.7% drop in the fourth quarter of 2001.

2.15 As to exports of goods to the *United States*, they shrank sharply further upon the plunge in US import demand, by 13.3% in real terms in the first quarter of 2002 over a year earlier, following a 13.1% decrease in the fourth quarter of 2001.

2.16 The Mainland continued to be the largest single *market* for Hong Kong's exports of goods, accounting for 39% of the total value in the first quarter of 2002. This was followed by the United States (with a share of 19%), Japan (6%), the United Kingdom (3%), Germany (3%), Taiwan (2%), the Republic of Korea (2%), and Singapore (2%).

/Diagram 2.10

Diagram 2.10**Total exports of goods by major market in the first quarter of 2002**

Total exports of goods in the first quarter of 2002 : \$325.8 billion

Table 2.12**Value of total exports of goods by market**

	<u>2001</u>			<u>First quarter of 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,481.0	100	-5.8	325.8	100	-6.2
Mainland of China	546.1	37	0.6	126.8	39	2.7
United States	329.8	22	-9.8	63.1	19	-14.9
Japan	87.6	6	0.5	19.6	6	-13.7
United Kingdom	55.3	4	-12.2	10.8	3	-14.4
Germany	51.6	3	-13.9	10.5	3	-19.1
Taiwan	35.4	2	-11.1	7.9	2	-10.1
Republic of Korea	25.9	2	-9.4	7.4	2	12.2
Singapore	29.6	2	-19.5	7.4	2	-2.0
Rest of the world	319.7	22	-8.4	72.2	22	-8.0

/Table 2.13

Table 2.13

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

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan^(a)</u>	<u>Singapore</u>
2001	Annual	3.9	-8.9	3.0	-10.0	-12.1	-8.7	-14.5
	H1	6.9	-5.2	11.3	-7.6	-12.5	-4.1	-11.0
	H2	1.3	-11.9	-3.8	-12.0	-11.6	-12.8	-17.6
	Q1	9.3	-0.4	15.7	-4.2	-4.4	-1.5	-6.2
	Q2	4.8	-9.3	6.9	-10.6	-20.3	-6.4	-15.5
	Q3	6.9	-10.8	-1.2	-10.8	-15.2	-18.6	-20.3
	Q4	-4.1	-13.1	-6.3	-13.2	-8.2	-7.0	-14.7
2002	Q1	7.0	-13.3	-9.3	-7.3	-18.2	-6.4	3.7
	Jan	13.7	-24.6	-16.5	-25.6	-26.6	N.A.	-8.1
	Feb	-11.9	-7.6	-6.3	11.9	-8.1	N.A.	-5.3
	Mar	18.7	-4.9	-5.0	-1.1	-16.3	N.A.	25.3

Notes : (a) Quantum indices of total exports of goods to Taiwan are not directly available. The figures shown here are just crude estimates, and only by quarter and not by month.

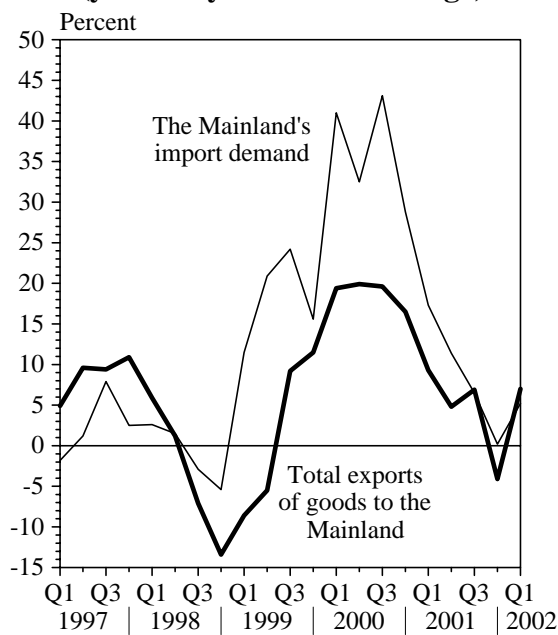
N.A. Not available.

/2.17

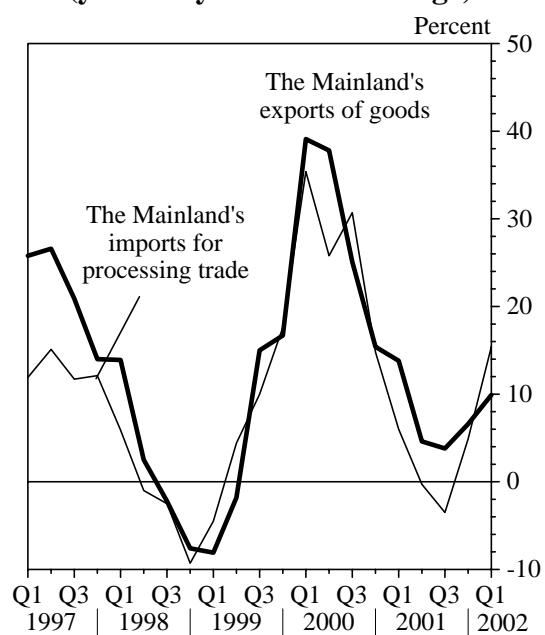
2.17 Total exports of goods to the *Mainland* picked up to a notable growth of 7.0% in real terms in the first quarter of 2002 over a year earlier, reversing a 4.1% decline in the fourth quarter of 2001. Exports of consumer goods to this market were underpinned by the robust consumer demand there. Exports of material inputs to this market also revived sharply, along with the pick-up in the Mainland's own export performance on the back of improving global demand.

Diagram 2.11

Total exports of goods to the mainland of China and the Mainland's import demand (year-on-year rate of change)



The Mainland's exports of goods and its imports for processing trade (year-on-year rate of change)



Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in US dollar terms.

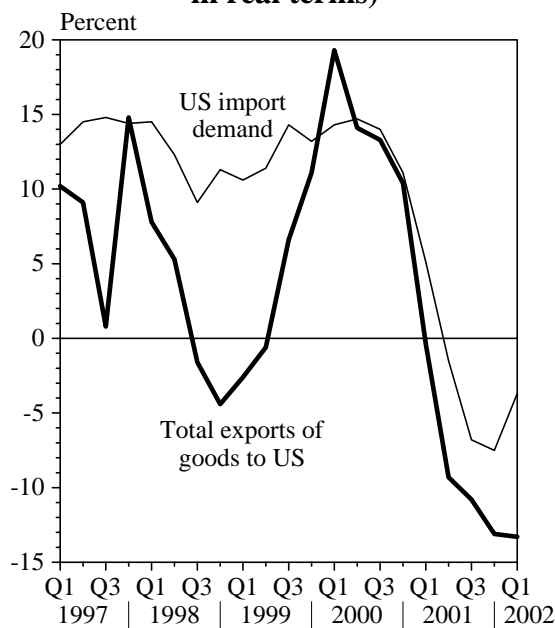
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.18

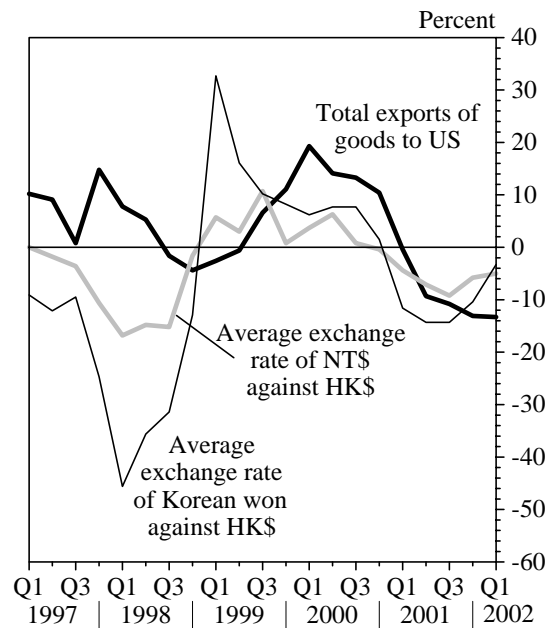
2.18 Total exports of goods to the *United States* remained distinctly weak, with a further double-digit decline of 13.3% in real terms in the first quarter of 2002 over a year earlier, after a 13.1% decline in the fourth quarter of 2001. The dip in the first quarter comprised a sharp plunge of 24.6% in real terms in January, yet followed by distinctly lesser falls of 7.6% and 4.9% respectively in February and March. The relative improvement after January reflected a trend towards revival in US import demand.

Diagram 2.12

Total exports of goods to US and US import demand (year-on-year rate of change in real terms)



Total exports of goods to US and relative price competitiveness (year-on-year rate of change)



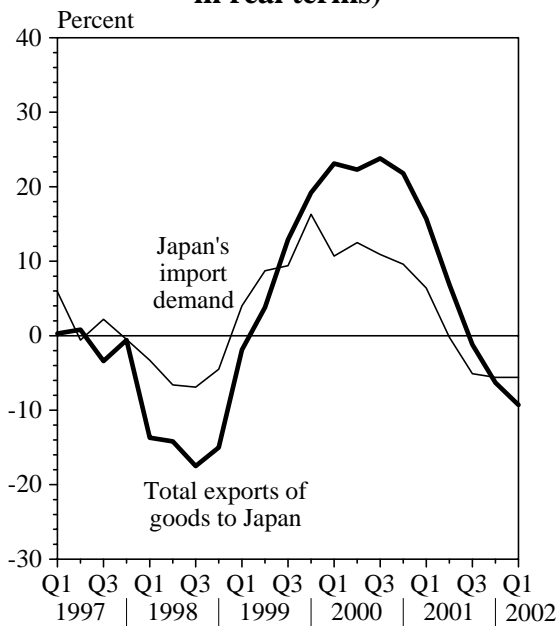
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.19

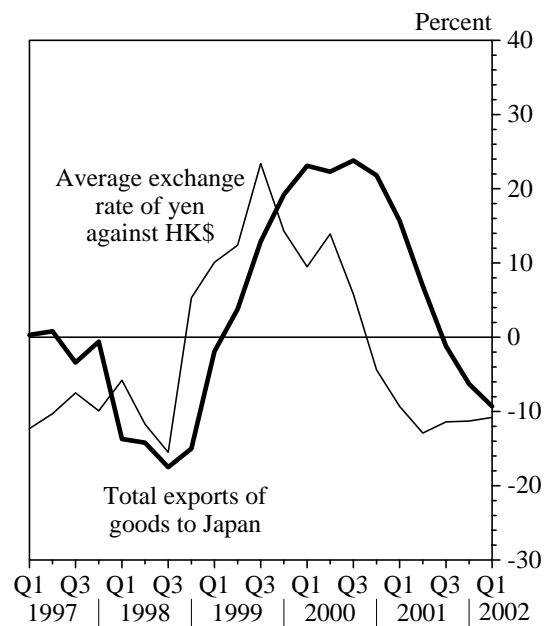
2.19 Total exports of goods to *Japan* slackened further, with a 9.3% fall in real terms in the first quarter of 2002 over a year earlier, following a 6.3% decline in the fourth quarter of 2001. This was attributable to the plunge in Japan's import intake, being affected by the bleak economic conditions there. The weak yen dampened their imports further.

Diagram 2.13

Total exports of goods to Japan and Japan's import demand (year-on-year rate of change in real terms)



Total exports of goods to Japan and the exchange rate factor (year-on-year rate of change)



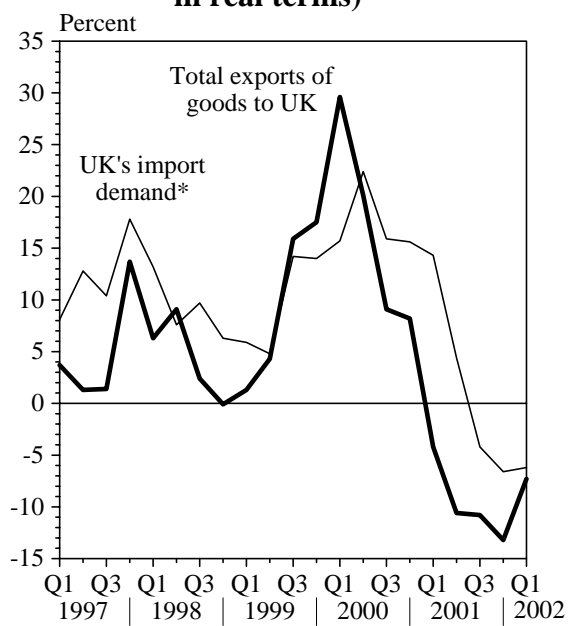
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.20

2.20 Total exports of goods to the *United Kingdom* recorded a 7.3% decline in real terms in the first quarter of 2002 over a year earlier, much narrowed from the 13.2% drop in the fourth quarter of 2001. The setback in exports to this market was mostly concentrated in January. There was a relative improvement in February and March, probably helped by the earlier strengthening in the pound sterling.

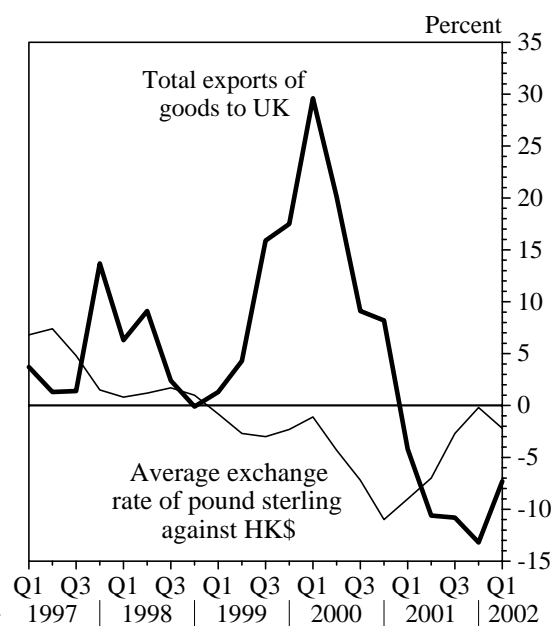
Diagram 2.14

Total exports of goods to UK and UK's import demand (year-on-year rate of change in real terms)



Note : (*) UK's import demand as depicted refers to its imports sourced from outside the European Union.

Total exports of goods to UK and the exchange rate factor (year-on-year rate of change)



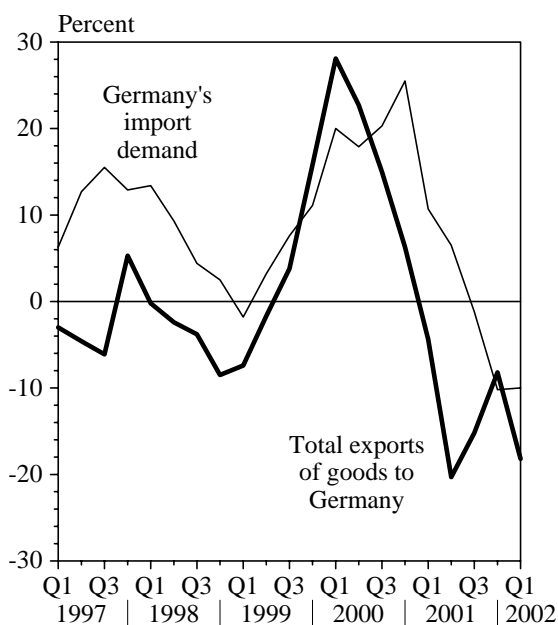
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.21

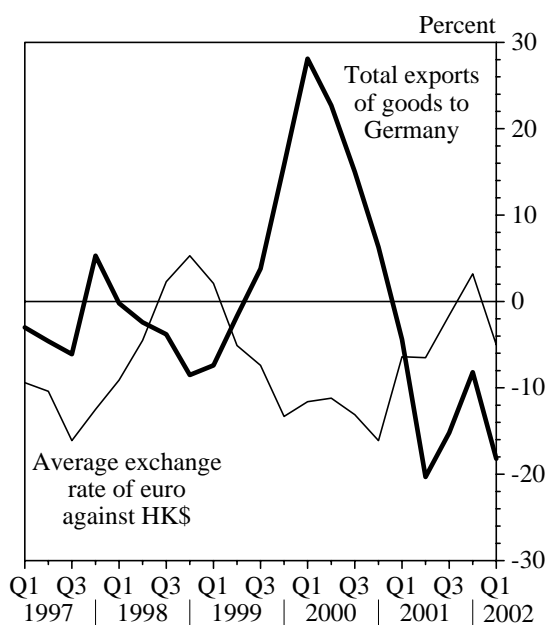
2.21 Yet total exports of goods to *Germany* plunged further, affected by subdued import demand there and notwithstanding the earlier strengthening in the euro. There was a large decline of 18.2% in real terms in the first quarter of 2002 over a year earlier, much further down from the 8.2% fall in the fourth quarter of 2001.

Diagram 2.15

Total exports of goods to Germany and Germany's import demand (year-on-year rate of change)



Total exports of goods to Germany and the exchange rate factor (year-on-year rate of change)



Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in value terms, i.e. in terms of its local currency.

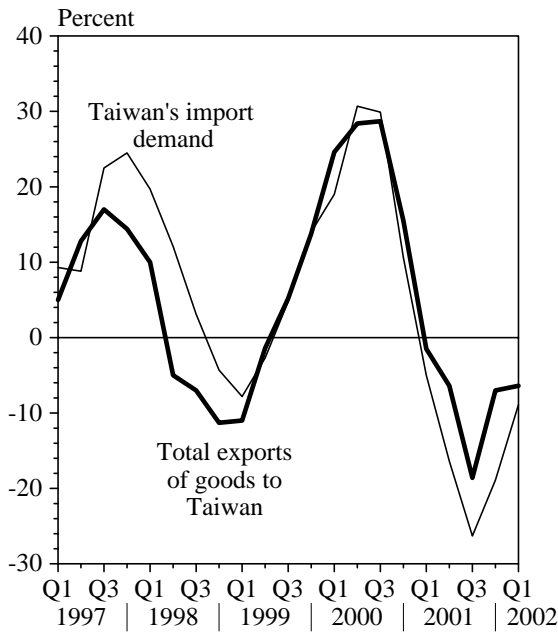
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.22

2.22 Total exports of goods to *Taiwan* fell further, by 6.4% in real terms in the first quarter of 2002 over a year earlier, following a 7.0% decline in the fourth quarter of 2001. This mirrored the continued fall-off in Taiwan's import intake in the past two quarters.

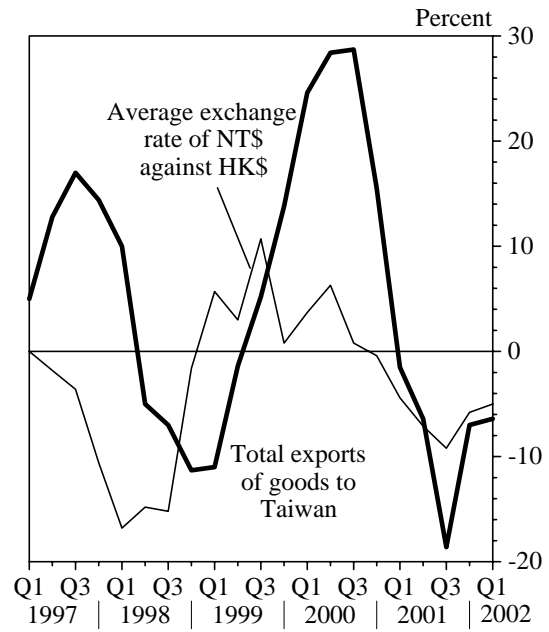
Diagram 2.16

Total exports of goods to Taiwan and Taiwan's import demand (year-on-year rate of change)



Note : See the footnote to Diagram 2.15.

Total exports of goods to Taiwan and the exchange rate factor (year-on-year rate of change)



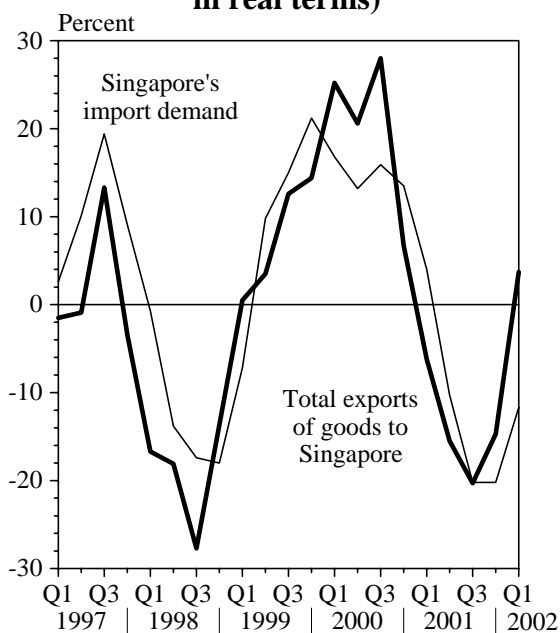
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.23

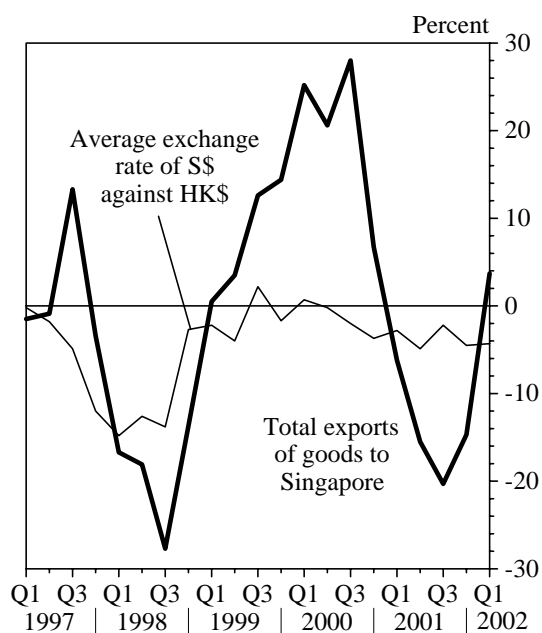
2.23 Total exports of goods to *Singapore*, having fallen for four consecutive quarters, resumed growth at 3.7% in real terms in the first quarter of 2002 over a year earlier. This distinct pick-up, from the 14.7% fall in the fourth quarter of 2001, was mainly underpinned by improving export performance and better economic conditions in Singapore more recently.

Diagram 2.17

Total exports of goods to Singapore and Singapore's import demand (year-on-year rate of change in real terms)



Total exports of goods to Singapore and the exchange rate factor (year-on-year rate of change)



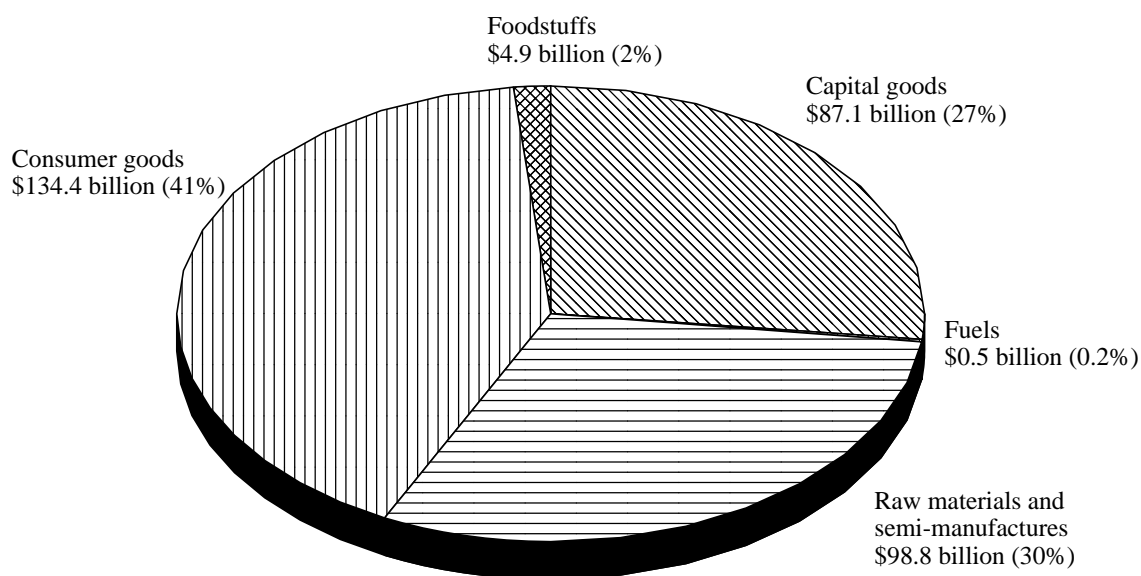
Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.24

2.24 Analysed by *end-use category*, consumer goods continued to account for the largest share by value of Hong Kong's total exports of goods, at 41% in the first quarter of 2002. This was followed by exports of raw materials and semi-manufactures and of capital goods, with respective shares of 30% and 27%. Total exports of goods to the Mainland and Taiwan were mainly raw materials and semi-manufactures for processing, while total exports of goods to most of the other major markets comprised mainly consumer goods. Exports of consumer goods, capital goods, and raw materials and semi-manufactures all registered lesser declines in value terms in the first quarter of 2002 over a year earlier, while exports of foodstuffs reverted to a modest increase.

Diagram 2.18

**Total exports of goods by end-use category
in the first quarter of 2002**



Total exports of goods in the first quarter of 2002 : \$325.8 billion

/Table 2.14

Table 2.14

**Total exports of goods by end-use category
(year-on-year rate of change in value terms^(a) (%))**

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2001	Annual	-6.7	-11.5	-0.5	-8.3	-14.8
	H1	-3.3	-7.6	5.3	-3.5	-7.3
	H2	-9.5	-15.1	-5.4	-12.7	-20.8
	Q1	-1.8	-3.4	13.9	-0.4	0.7
	Q2	-4.7	-11.7	-2.5	-6.1	-14.3
	Q3	-6.6	-13.4	-3.7	-10.5	-11.8
	Q4	-12.5	-16.9	-7.0	-14.9	-28.7
2002	Q1	-9.9	3.0	-3.5	-3.7	-17.0

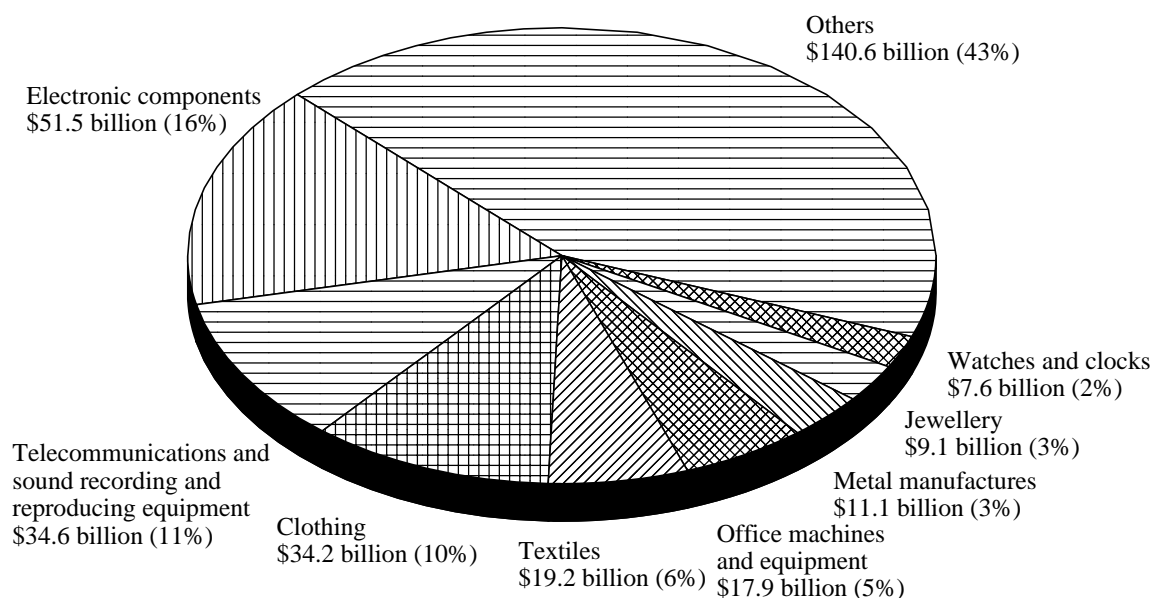
Note : (a) Quantum indices of total exports of goods by end-use category are currently not available. Yet given the lower export prices, the rates of change in real terms in the first quarter of 2002 should have been better than those in value terms.

2.25 Analysed by major *commodity group*, electronic components continued to take up the largest share of Hong Kong's total exports of goods, at 16% of the total value in the first quarter of 2002. This was followed by telecommunications and sound recording and reproducing equipment (with a share of 11%), clothing (10%), textiles (6%), and office machines and equipment (5%). Exports of office equipment surged strongly in the first quarter of 2002 over a year earlier, while exports of telecommunications and sound recording and reproducing equipment reverted to a modest increase in value terms. Exports of electronic components registered a lesser fall. But exports of clothing and textiles were still weak, both with double-digit declines.

/Diagram 2.19

Diagram 2.19

Total exports of goods by major commodity group in the first quarter of 2002



Total exports of goods in the first quarter of 2002 : \$325.8 billion

Table 2.15

Total exports of goods by major commodity group (year-on-year rate of change in value terms^(a) (%))

		<u>Electronic components</u>	<u>Telecom-munications and sound recording and reproducing equipment</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Office machines and equipment</u>
2001	Annual	-0.3	-4.6	-3.1	-9.1	13.1
	H1	9.2	1.4	1.4	-6.7	15.5
	H2	-8.3	-9.1	-6.4	-11.3	11.1
	Q1	11.8	10.2	-1.7	1.4	14.9
	Q2	6.7	-6.1	4.5	-12.5	16.0
	Q3	-7.0	-12.8	-6.6	-10.4	16.1
	Q4	-9.6	-5.5	-6.2	-12.2	6.6
2002	Q1	-3.0	3.5	-12.1	-10.6	34.8

Note : (a) Quantum indices of total exports of goods by commodity group are currently not available. Yet given the lower export prices, the rates of change in real terms in the first quarter of 2002 should have been better than those in value terms.

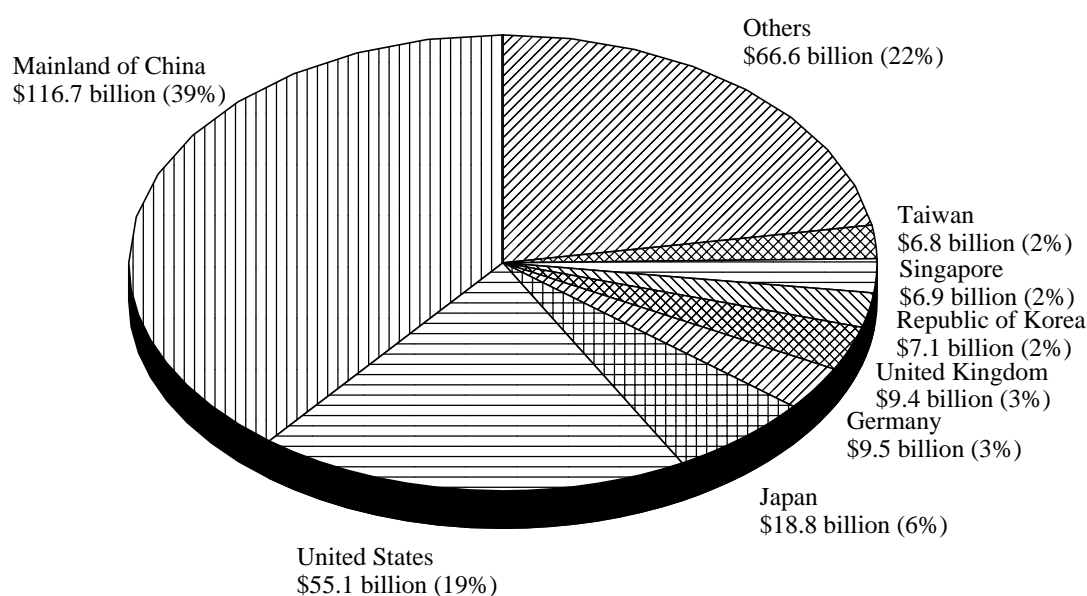
/Re-exports

Re-exports

2.26 Re-exports continued to take up a predominant share in total exports of goods, at 91% by value in the first quarter of 2002, up from 90% in the same quarter in 2001. Analysed by major *market*, the Mainland had the largest share in Hong Kong's re-exports, at 39% by value in the first quarter of 2002. This was followed by the United States (with a share of 19%), Japan (6%), Germany (3%), the United Kingdom (3%), the Republic of Korea (2%), Singapore (2%), and Taiwan (2%).

Diagram 2.20

Re-exports by major market in the first quarter of 2002



Total re-exports in the first quarter of 2002 : \$296.8 billion

/Table 2.16

Table 2.16**Value of re-exports by market**

	<u>2001</u>			<u>First quarter of 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,327.5	100	-4.6	296.8	100	-5.0
Mainland of China	496.6	37	1.6	116.7	39	3.4
United States	282.2	21	-9.3	55.1	19	-13.6
Japan	83.6	6	1.8	18.8	6	-13.6
Germany	45.8	3	-9.5	9.5	3	-16.8
United Kingdom	46.8	4	-10.7	9.4	3	-12.3
Republic of Korea	24.6	2	-8.7	7.1	2	15.0
Singapore	26.9	2	-15.9	6.9	2	2.1
Taiwan	30.0	2	-10.9	6.8	2	-10.0
Rest of the world	291.0	22	-7.4	66.6	22	-6.7

2.27 Re-export performance varied widely amongst the major markets in the first quarter of 2002. Re-exports to the Mainland and Singapore rebounded distinctly to notable growth in real terms in the first quarter of 2002 over a year earlier. Re-exports to the United Kingdom and Taiwan had moderated declines in real terms in the first quarter, signifying a relative improvement from the significant setback in the latter part of last year. But re-exports to the United States, Japan and Germany continued to display much sluggishness, with marked decreases in real terms in the first quarter.

/Table 2.17

Table 2.17

**Re-exports by major market
(year-on-year rate of change in real terms (%))**

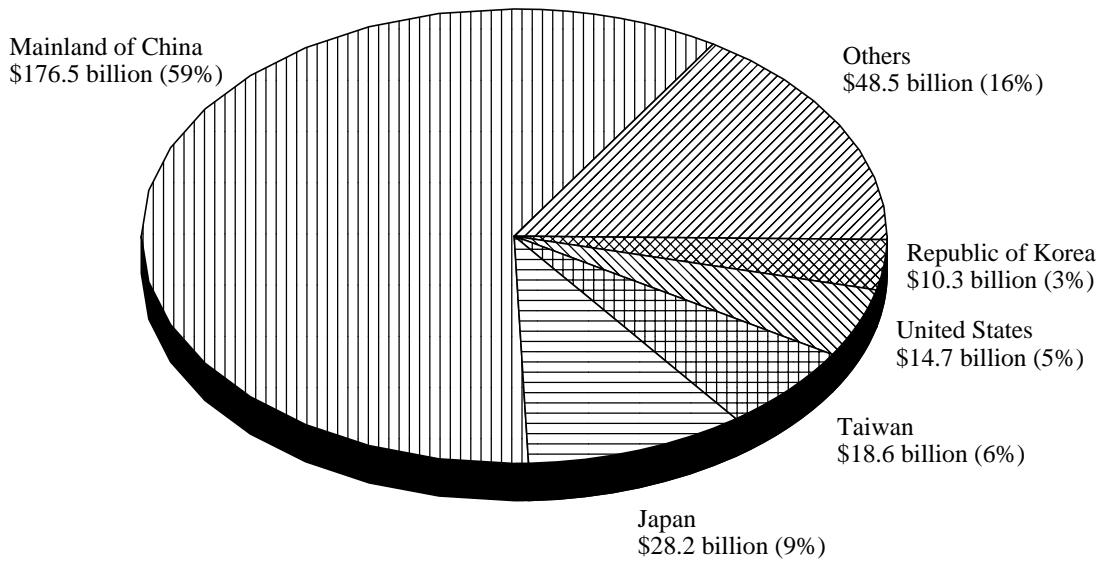
		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>
2001	Annual	4.4	-8.7	4.2	-8.9	-6.5	-8.4	-10.4
	H1	8.0	-4.6	13.0	-5.7	-7.2	-2.9	-7.0
	H2	1.3	-11.9	-3.0	-11.5	-6.0	-13.3	-13.2
	Q1	10.9	1.9	17.8	0.2	1.4	-1.6	-1.7
	Q2	5.5	-10.1	8.3	-10.9	-15.2	-4.1	-11.9
	Q3	7.3	-10.1	-0.2	-9.4	-9.4	-18.6	-16.3
	Q4	-4.6	-13.8	-5.6	-13.6	-2.6	-8.0	-10.1
2002	Q1	7.3	-12.3	-9.2	-4.3	-13.7	-6.3	8.0

2.28 The Mainland continued to be the largest *source* of Hong Kong's re-exports, supplying 59% by value of the goods re-exported through Hong Kong in the first quarter of 2002. Other major sources included Japan (with a share of 9%), Taiwan (6%), the United States (5%), and the Republic of Korea (3%). Re-exports from almost all the major sources continued to fall, by various magnitudes in value terms in the first quarter of 2002 over a year earlier. Yet re-exports from the Republic of Korea turned to a marked increase in value terms in the first quarter.

/Diagram 2.21

Diagram 2.21

Re-exports by major source in the first quarter of 2002



Total re-exports in the first quarter of 2002 : \$296.8 billion

Table 2.18

Value of re-exports by source

	<u>2001</u>			<u>First quarter of 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,327.5	100	-4.6	296.8	100	-5.0
Mainland of China	808.4	61	-4.8	176.5	59	-6.7
Japan	125.6	9	-8.5	28.2	9	-9.3
Taiwan	80.3	6	-8.7	18.6	6	-0.9
United States	65.2	5	-0.4	14.7	5	-3.7
Republic of Korea	39.8	3	-13.6	10.3	3	10.3
Rest of the world	208.2	16	1.3	48.5	16	-0.3

/Domestic

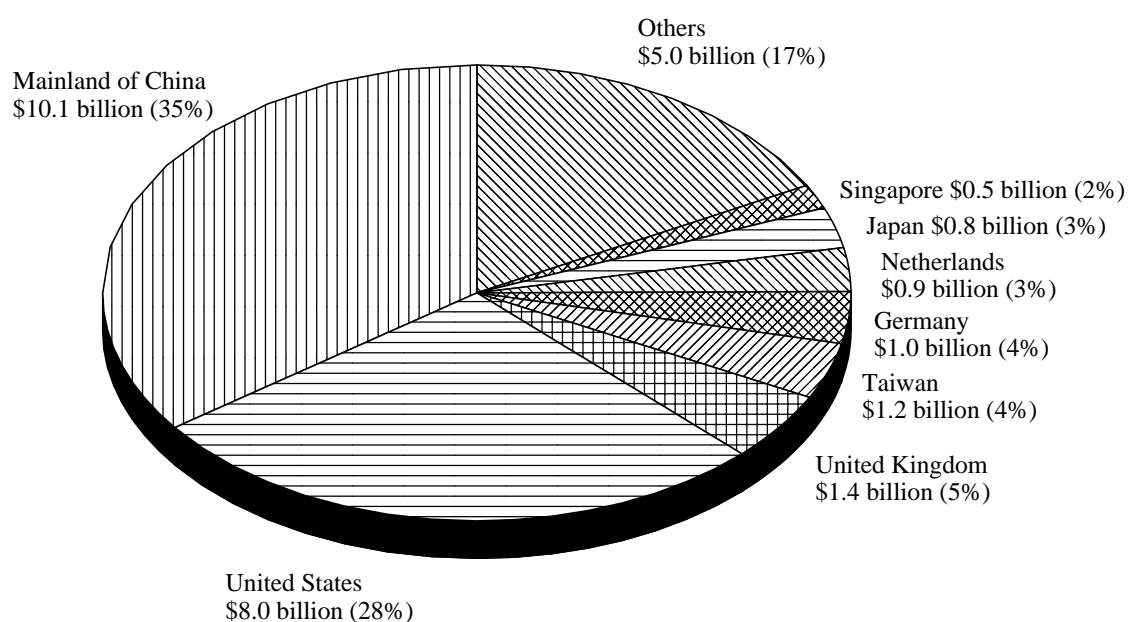
Domestic exports

2.29 The Mainland was also the largest *market* for Hong Kong's domestic exports, accounting for 35% of the total value in the first quarter of 2002. This was followed by the United States (with a share of 28%), the United Kingdom (5%), Taiwan (4%), Germany (4%), the Netherlands (3%), Japan (3%), and Singapore (2%).

2.30 The fall-off in domestic exports remained broadly based, with double-digit declines in real terms in most of the major markets in the first quarter of 2002 over a year earlier. The exception was the Mainland, which continued to render positive growth in real terms in the first quarter.

Diagram 2.22

Domestic exports by major market in the first quarter of 2002



Total domestic exports in the first quarter of 2002 : \$29.0 billion

/Table 2.19

Table 2.19**Value of domestic exports by market**

	<u>2001</u>			<u>First quarter of 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	153.5	100	-15.2	29.0	100	-17.5
Mainland of China	49.5	32	-8.5	10.1	35	-4.2
United States	47.6	31	-12.6	8.0	28	-23.1
United Kingdom	8.6	6	-19.7	1.4	5	-25.8
Taiwan	5.3	3	-12.4	1.2	4	-10.9
Germany	5.8	4	-37.4	1.0	4	-35.8
Netherlands	4.6	3	18.1	0.9	3	-13.1
Japan	4.1	3	-20.1	0.8	3	-16.8
Singapore	2.7	2	-43.8	0.5	2	-36.8
Rest of the world	25.3	16	-22.3	5.0	17	-22.8

Table 2.20**Domestic exports by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u> ^(a)	<u>Netherlands</u> ^(a)	<u>Japan</u>	<u>Singapore</u>
2001	Annual	-0.5	-10.5	-14.7	-35.8	-10.3	32.3	-18.9	-39.7
	H1	-2.8	-8.4	-15.0	-33.4	-11.0	41.1	-18.2	-33.7
	H2	1.7	-12.2	-14.4	-38.3	-9.6	23.8	-19.5	-45.7
	Q1	-4.5	-12.3	-20.8	-26.2	-1.3	6.4	-19.1	-30.5
	Q2	-1.3	-4.8	-9.2	-40.9	-18.8	81.2	-17.3	-36.9
	Q3	3.1	-14.8	-17.3	-41.0	-18.4	20.2	-18.9	-45.4
	Q4	0.2	-9.2	-11.1	-35.5	-1.1	27.6	-20.3	-45.9
2002	Q1	3.3	-19.6	-21.5	-41.0	-6.9	-7.4	-12.0	-28.6

Note : (a) Quantum indices of domestic exports to Taiwan and the Netherlands are currently not available. The figures shown here are just crude estimates.

/Outward

Outward processing trade

2.31 Outward processing trade⁽⁶⁾ remained a prominent feature in Hong Kong's merchandise trade. However, as export processing activities in the Mainland were badly hit by the plunge in global demand over the course of last year, the proportion of exports for outward processing in Hong Kong's total exports of goods to the Mainland fell to 48% in 2001, from 52% in 2000. The proportion of re-exports after outward processing in Hong Kong's overall re-exports from the Mainland likewise fell, to 82% in 2001, from 85% in 2000. The proportion of imports after outward processing in Hong Kong's imports of goods from the Mainland also fell marginally, to 78% in 2001, from 79% in 2000.

2.32 Total exports of goods to the Mainland for outward processing, having declined by 2.2% in value terms in the first three quarters of 2001 over a year earlier, weakened distinctly further to a 23.6% plunge in the fourth quarter. For 2001 as a whole, such exports were down by 8.0% in value terms to \$259.6 billion, sharply reversing the 19.8% surge in 2000. Yet against this, total exports of goods to the Mainland for meeting its own demand continued to be bolstered by the buoyant domestic demand in the Mainland, with a 9.5% increase in value terms in the fourth quarter of 2001 over a year earlier, after a 10.2% rise in the first three quarters of the year. For 2001 as a whole, such exports went up further by 10.0% in value terms to \$286.9 billion, following a robust growth of 22.8% in 2000.

/Diagram 2.23

Diagram 2.23
Exports to the mainland of China for outward processing
and for meeting its own demand
(year-on-year rate of change in value terms)

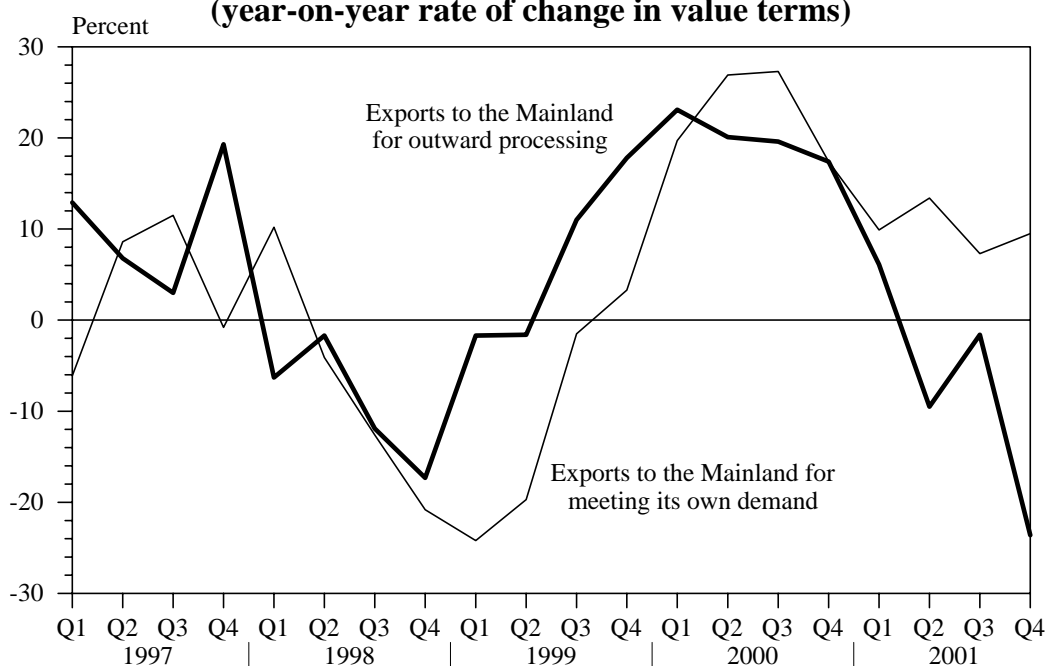


Table 2.21

Total exports of goods to the mainland of China
for outward processing and for meeting its own demand
(year-on-year rate of change in value terms (%))

of which :

		Total exports of goods to the Mainland	Total exports of goods to the Mainland for outward processing	Total exports of goods to the Mainland for meeting its own demand
2000	Annual	21.2	19.8	22.8
	H1	22.4	21.4	23.4
	H2	20.2	18.5	22.2
	Q1	21.4	23.1	19.7
	Q2	23.2	20.1	26.9
	Q3	23.2	19.6	27.3
	Q4	17.4	17.4	17.4
	2001	Annual	0.6	-8.0
H1		4.4	-2.5	11.8
H2		-2.7	-12.8	8.4
Q1		8.0	6.1	9.9
Q2		1.4	-9.5	13.4
Q3		2.7	-1.6	7.3
Q4		-8.0	-23.6	9.5

/2.33

2.33 Imports of goods from the Mainland after outward processing also slackened further, to a 10.6% decline in value terms in the fourth quarter of 2001 over a year earlier, after a 4.6% decrease in the first three quarters of the year. For 2001 as a whole, such imports registered a 6.2% fall to \$532.0 billion, contrasted with a 16.3% rise in 2000. Re-exports of Mainland origin after outward processing plummeted even more, by 20.8% in value terms in the fourth quarter of 2001 over a year earlier, following a 6.9% decline in the first three quarters of the year. For 2001 as a whole, such re-exports went down by 10.7% in value terms to \$578.3 billion, again markedly reversing the 13.5% increase in 2000.

Table 2.22

**Imports of goods from the mainland of China
and re-exports of Mainland origin
to overseas markets after outward processing
(year-on-year rate of change in value terms (%))**

		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2000	Annual	16.3	13.5
	H1	16.4	14.6
	H2	16.2	12.7
	Q1	15.1	13.1
	Q2	17.6	16.0
	Q3	23.1	13.9
	Q4	9.6	11.4
2001	Annual	-6.2	-10.7
	H1	-0.2	-4.3
	H2	-11.0	-16.0
	Q1	4.6	0.8
	Q2	-4.1	-8.6
	Q3	-11.4	-11.2
	Q4	-10.6	-20.8

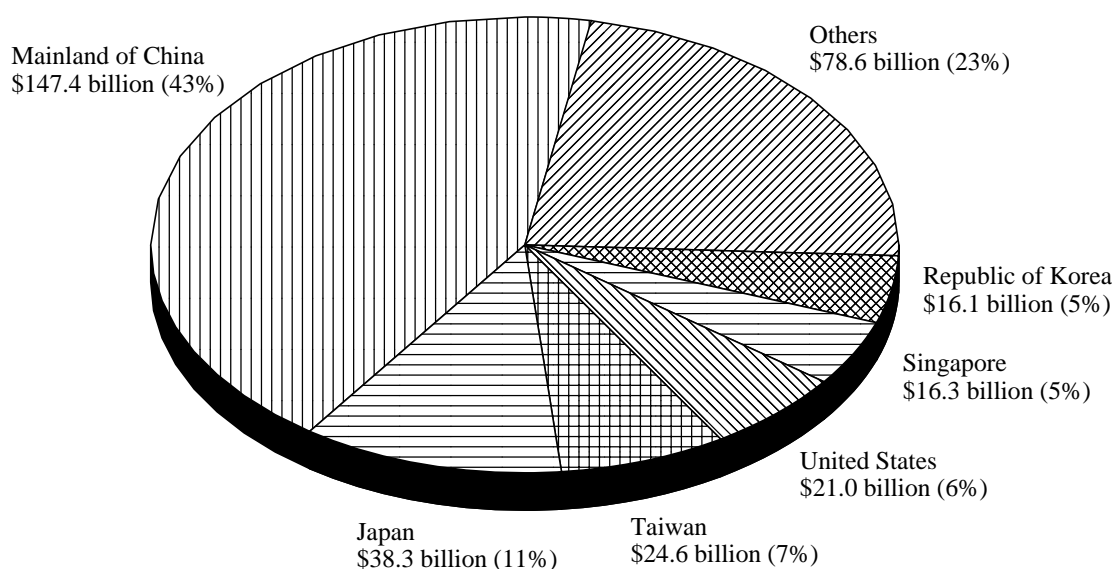
/Imports

Imports of goods

2.34 The Mainland remained the largest *source* of Hong Kong's imports of goods, accounting for 43% of the total value in the first quarter of 2002. Other major sources of imports included Japan (with a share of 11%), Taiwan (7%), and the United States (6%). Although imports of goods from all these major sources remained on a decline in real terms in the first quarter of 2002 over a year earlier, the pace of decline moderated distinctly, on the back of the pick-up in re-exports.

Diagram 2.24

Imports of goods by major source in the first quarter of 2002



Total imports of goods in the first quarter of 2002 : \$342.3 billion

/Table 2.23

Table 2.23**Value of imports of goods by source**

	<u>2001</u>			<u>First quarter of 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,568.2	100	-5.4	342.3	100	-9.1
Mainland of China	682.0	43	-4.6	147.4	43	-6.0
Japan	176.6	11	-11.2	38.3	11	-14.1
Taiwan	107.9	7	-13.1	24.6	7	-5.6
United States	104.9	7	-7.0	21.0	6	-20.4
Singapore	72.9	5	-2.8	16.3	5	-8.3
Republic of Korea	70.8	5	-12.2	16.1	5	-9.9
Rest of the world	353.1	23	0.5	78.6	23	-9.7

Table 2.24**Imports of goods by major source
(year-on-year rate of change in real terms (%))**

		<u>Mainland</u> <u>of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United</u> <u>States</u>
2001	Annual	-2.7	-7.8	-7.8	-4.8
	H1	0.9	-0.9	-2.4	3.1
	H2	-5.7	-14.1	-12.7	-11.7
	Q1	6.5	-0.3	-0.1	3.2
	Q2	-3.9	-1.4	-4.3	3.1
	Q3	-5.8	-10.0	-10.1	-3.5
	Q4	-5.5	-18.1	-15.4	-19.8
2002	Q1	-2.2	-6.9	-1.6	-15.7

/Retained

Retained imports

2.35 The Mainland also remained the largest *source* of Hong Kong's retained imports, accounting for about 15% of the total value in the first quarter of 2002. Other major suppliers of retained imports included Japan (with a share of about 14%), the Republic of Korea (8%), Singapore (8%), the United States (7%), and Taiwan (6%).

2.36 Analysed by *end-use category*, along with the slackening in consumer demand, retained imports of consumer goods fell by 1.9% in real terms in the first quarter of 2002 over a year earlier, sharply reversing the 17.7% surge in the fourth quarter of 2001. Yet retained imports of foodstuffs bounced up, by 11.3% in real terms in the first quarter of 2002 over a year earlier, after a 5.3% decline in the fourth quarter of 2001.

2.37 Retained imports of capital goods plummeted by 35.5% in real terms in the first quarter of 2002 over a year earlier, having already come down by 11.1% in the fourth quarter of 2001. Yet this large fall was partly affected by a distinctly high base of comparison in the first quarter of 2001, when a lot of capital goods ordered earlier, including several aircraft, were delivered. Of the various broad types, there was a particularly severe setback in intake of office equipment. Yet intake of industrial machinery continued to rise.

2.38 Amidst the continued plunge in domestic exports, retained imports of raw materials and semi-manufactures, having already dropped by 23.5% in real terms in the fourth quarter of 2001 over a year earlier, shrank further by 12.5% in the first quarter of 2002. Retained imports of fuels fell by 2.9% in real terms in the first quarter of 2002 over a year earlier, following a 10.7% increase in the fourth quarter of 2001.

/Table 2.25

Table 2.25

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2001	Annual	12.7	0.9	5.0	-15.9	3.7
	H1	8.9	-2.7	11.4	-7.2	3.3
	H2	17.2	4.6	-0.7	-24.1	4.1
	Q1	0.3	3.6	27.9	-10.5	4.9
	Q2	17.5	-8.6	-1.6	-4.0	1.8
	Q3	16.8	14.7	8.8	-24.6	-2.0
	Q4	17.7	-5.3	-11.1	-23.5	10.7
2002	Q1	-1.9	11.3	-35.5	-12.5	-2.9

Note : See Note (a) to Table 2.6.

Table 2.26

**Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))**

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Other capital goods</u>
2001	Annual	-2.5	39.0	-19.9	11.1
	H1	10.4	45.6	-18.5	17.9
	H2	-13.3	32.4	-21.2	5.2
	Q1	14.8	73.4	17.9	31.1
	Q2	7.3	27.9	-45.7	7.1
	Q3	-24.1	18.1	-15.1	21.5
	Q4	2.6	46.5	-30.2	-11.1
2002	Q1	5.2	-3.6	-46.2	-28.3

Note : See Note (a) to Table 2.6.

/Invisible

Invisible trade

Exports of services

2.39 Transportation services continued to take up the largest share in Hong Kong's exports of services, at 40% by value in the first quarter of 2002. This was followed by exports of trade-related services (comprising mainly offshore trading) (with a share of 27%), travel services (17%), and professional, business and other services (15%).

Diagram 2.25

Exports of services by broad type in the first quarter of 2002



Exports of services in the first quarter of 2002 : \$83.2 billion

2.40 Exports of services rose by 5.3% in real terms in the first quarter of 2002 over a year earlier, markedly up from the meagre increase of 1.1% in the fourth quarter of 2001. The improvement was quite broad-based. Upon the swift recovery in inbound tourism, exports of travel services accentuated to a growth of 7.2% in real terms in the first quarter of 2002 over a year earlier, as against only a 0.1% rise in the fourth quarter of 2001. This was mostly driven by a further surge in Mainland visitors, while visitors from long-haul sources like the United States and Europe had also turned to a marginal growth.

/2.41

2.41 Along with re-accelerated growth in the Mainland's merchandise trade, exports of trade-related services, comprising mainly offshore trading, picked up slightly further to a 5.3% growth in real terms in the first quarter of 2002 over a year earlier. This followed a 4.5% rise in the fourth quarter of 2001. Exports of transportation services rebounded to a 4.8% increase in real terms in the first quarter of 2002 over a year earlier, from a 1.1% decline in the fourth quarter of 2001. Exports of professional, business and other services likewise improved, rising by 4.1% in real terms in the first quarter of 2002 over a year earlier, after a meagre 0.5% increase in the fourth quarter of 2001.

Table 2.27

**Exports of services by broad category
(year-on-year rate of change in real terms (%))**

of which :

		<u>Exports of services</u>	<u>Transportation services</u>	<u>Trade-related services^(a)</u>	<u>Travel services^(b)</u>	<u>Professional, business and other services</u>
2001	Annual	3.6	2.2	5.8	4.9	1.8
	H1	6.3	5.7	8.2	8.4	2.3
	H2	1.4	-0.9	4.1	1.5	1.3
	Q1	6.2	7.5	11.2	5.5	-2.6
	Q2	6.3	4.1	5.4	10.8	7.8
	Q3	1.6	-0.7	3.6	3.3	2.0
	Q4	1.1	-1.1	4.5	0.1	0.5
2002	Q1	5.3	4.8	5.3	7.2	4.1

Notes : (a) Comprising mainly offshore trading.

(b) Comprising mainly inbound tourism receipts.

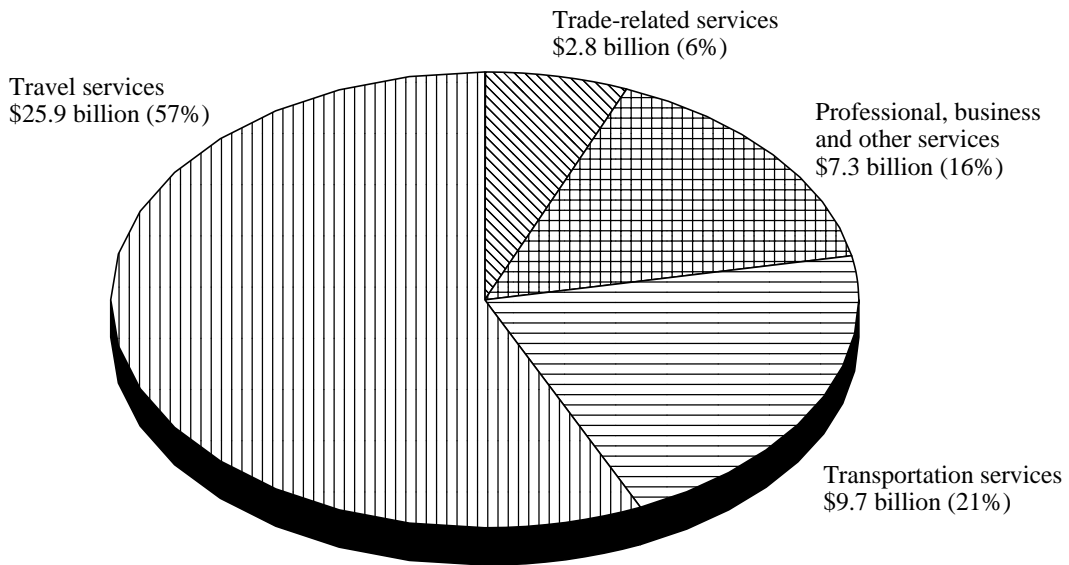
Imports of services

2.42 Travel services continued to account for the largest share in Hong Kong's imports of services, at 57% by value in the first quarter of 2002. This was followed by imports of transportation services (with a share of 21%), professional, business and other services (16%), and trade-related services (6%).

/Diagram 2.26

Diagram 2.26

Imports of services by broad type in the first quarter of 2002



Imports of services in the first quarter of 2002 : \$45.6 billion

2.43 Imports of services had virtually no change in real terms in the first quarter of 2002 over a year earlier, following a 2.1% decline in the fourth quarter of 2001. Within the total, against a higher base of comparison a year ago, imports of travel services fell by 1.7% in real terms in the first quarter of 2002 over a year earlier, after a mere 0.5% increase in the fourth quarter of 2001. Along with the pick-up in overall merchandise trade, imports of transportation services reverted to a 1.8% increase in real terms in the first quarter of 2002 over a year earlier, from a 6.0% fall in the fourth quarter of 2001. Imports of trade-related services registered a lesser decline, by 0.8% in real terms in the first quarter of 2002 over a year earlier, after a 4.1% decrease in the fourth quarter of 2001. Imports of professional, business and other services had a 2.4% increase in real terms in the first quarter of 2002 over a year earlier, up from a 1.9% fall in the fourth quarter of 2001.

/Table 2.28

Table 2.28

**Imports of services by broad category
(year-on-year rate of change in real terms (%))**

of which :

		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Professional, business and other services</u>
2001	Annual	0.1	0.8	-0.6	-2.9	1.1
	H1	2.4	2.4	3.1	-0.7	3.0
	H2	-2.1	-0.9	-4.0	-4.5	-0.8
	Q1	3.8	4.6	6.9	2.1	-0.6
	Q2	1.0	0.1	-0.2	-3.3	6.9
	Q3	-2.0	-2.2	-2.3	-4.9	0.4
	Q4	-2.1	0.5	-6.0	-4.1	-1.9
2002	Q1	*	-1.7	1.8	-0.8	2.4

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

Overall balance of payments⁽⁷⁾

2.44 In the fourth quarter of 2001, the current account registered a sizeable surplus of \$41.5 billion, equivalent to 12.7% of GDP in that quarter. This was larger than the corresponding surplus of \$32.1 billion in the third quarter, equivalent to 9.9% of GDP in that quarter. Underlying the good performance in the fourth quarter was a distinctly enlarged surplus in the combined visible and invisible trade account, as well as a continued surge in net external factor income inflow.

/2.45

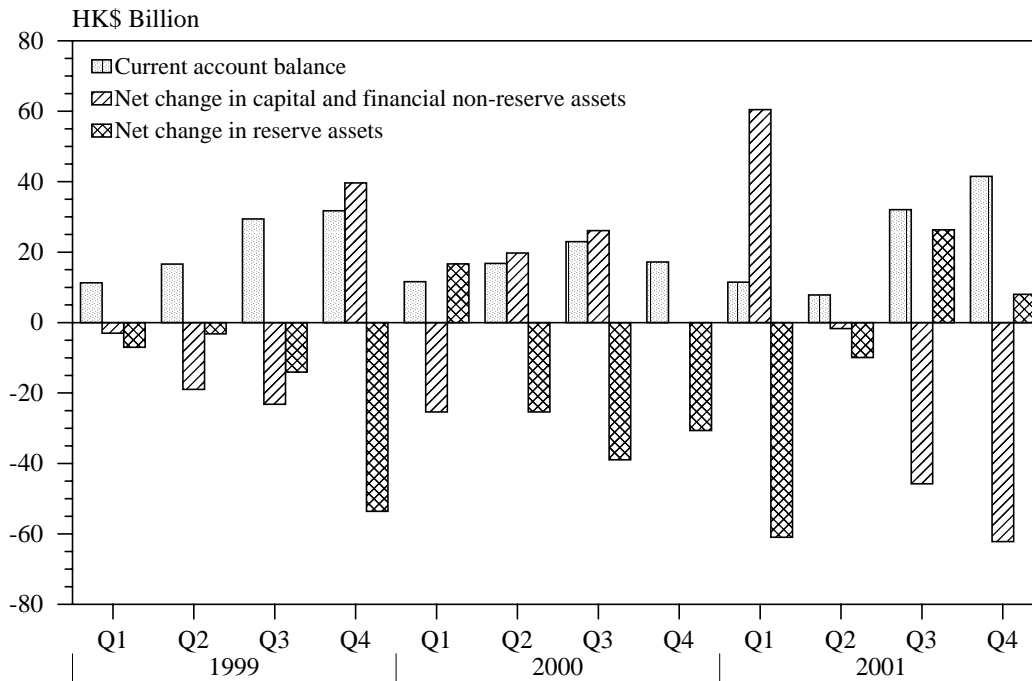
2.45 In the capital and financial account, despite the austere economic situation worldwide, there was still a sizeable injection of equity capital into the local economy in the fourth quarter of 2001, leading to a further net direct investment inflow of \$6.6 billion. There was also a net inflow of \$12.1 billion in cash settlement of financial derivatives. Yet against these, there was a substantial net outflow of \$77.6 billion in the portfolio investment account, amidst increased holdings of non-resident debt and equity securities by Hong Kong residents as investors sought higher return in a low interest rate environment. Also, the other investment account switched to a small net outflow of \$1.7 billion, as placements by non-resident banks to resident banks declined. Taken together, financial non-reserve assets registered a net outflow of \$60.6 billion in the fourth quarter of 2001, equivalent to 18.6% of GDP in that quarter. This was distinctly larger than the net outflow of \$42.9 billion in the third quarter, equivalent to 13.2% of GDP in that quarter.

2.46 Overall, a balance of payments deficit of \$8.0 billion, equivalent to 2.5% of GDP, was recorded in the fourth quarter of 2001, indicating a decrease in reserve assets by the same amount in that quarter. These were nevertheless smaller than the corresponding deficit figures of \$26.3 billion and 8.1% in the third quarter. Moreover, on the back of the significant surplus attained in the first half of the year, a further notable balance of payments surplus of \$36.5 billion, equivalent to 2.9% of GDP, was attained for 2001 as a whole.

/Diagram 2.27

Diagram 2.27

Major balances in Hong Kong's balance of payments



Note : A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

/Table 2.29

Table 2.29**Hong Kong's balance of payments account
(\$ billion at current market prices)**

	<u>2000</u> [#]	<u>2001</u> [#]	<u>2000</u>				<u>2001</u>			
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]
Current account^(a)	68.6	92.9	11.6	16.8	23.0	17.2	11.5	7.8	32.1	41.5
Trade in goods	-63.8	-65.0	-17.2	-18.5	-10.7	-17.4	-24.6	-23.9	-11.4	-5.0
Trade in services	123.7	134.9	24.5	28.6	32.7	37.9	27.9	32.7	34.8	39.5
External factor income flows	21.8	36.1	7.8	9.9	4.1	*	12.0	2.1	12.0	10.0
Current transfers	-13.0	-13.1	-3.4	-3.2	-3.2	-3.3	-3.7	-3.1	-3.4	-3.0
Capital and financial account	-57.9	-85.7	-8.7	-5.6	-12.9	-30.6	-0.5	-11.6	-19.5	-54.2
Net change in capital transfers	-12.0	-9.1	-2.1	-3.7	-3.7	-2.5	-1.4	-3.1	-2.9	-1.6
Net change in financial non-reserve assets	32.5	-40.1	-23.2	23.4	29.8	2.5	61.9	1.4	-42.9	-60.6
<i>of which :</i>										
Direct investment	19.8	108.0	9.0	58.1	23.7	-71.1	59.1	37.4	5.0	6.6
Portfolio investment	190.8	-309.3	61.4	6.6	8.3	114.5	-108.1	-52.3	-71.3	-77.6
Financial derivatives	1.9	39.1	-37.7	17.5	-1.1	23.2	-9.2	21.1	15.1	12.1
Other investment	-179.9	122.0	-55.9	-58.8	-1.1	-64.1	120.1	-4.8	8.5	-1.7
Net change in reserve assets ^(b)	-78.3	-36.5	16.7	-25.4	-39.0	-30.6	-61.0	-9.9	26.3	8.0
Net errors and omissions	-10.7	-7.2	-2.9	-11.2	-10.1	13.4	-11.0	3.8	-12.6	12.6
Overall balance of payments	78.3	36.5	-16.7	25.4	39.0	30.6	61.0	9.9	-26.3	-8.0

Notes : (#) Revised figures.

(a) According to the international statistical standard for compiling balance of payments (BoP) account, imports of goods are valued on free-on-board (f.o.b.) basis, which is different from the practice for merchandise trade statistics where imports are valued on cost, insurance and freight (c.i.f.) basis. In the BoP account, the insurance and freight costs related to merchandise imports are entered as imports of services.

(b) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

(*) Value of less than \$0.05 billion.

/Notes

Notes :

- (1) 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. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (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.
- (3) Exports of financial and banking services in the GDP account include commissions and fees for rendering financial and related ancillary services to non-residents. However, these do not include interest receipts from non-residents, which account for a major part of the external receipts of financial intermediaries in Hong Kong. Interest receipts from non-residents are correctly classified as investment income from abroad under GNP. The same situation applies, in an opposite direction, to interest payments to non-residents. Hence the trade in services component and the invisible trade surplus of Hong Kong would have been larger if such interest receipts and payments were classified to the services account.
- (4) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (5) There are currently 15 member countries in the European Union, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece and Portugal.
- (6) Outward processing arrangements are made between Hong Kong companies and manufacturing entities in the Mainland under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Mainland entities. Raw materials or semi-manufactures are normally exported to the Mainland for such processing. The Mainland entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment.

There is no restriction on outward processing activities in general. However, outward processing on goods which claim Hong Kong origin status is strictly governed by the Hong Kong origin rules. The Trade and Industry Department operates an effective administrative arrangement whereby goods manufactured in Hong Kong but having undergone outward processing activities can be conferred Hong Kong origin status subject to the Hong Kong origin rules being fully met.

/(7)

- (7) A balance of payments (BoP) account is a statistical framework that systematically summarises the external transactions of an economy with the rest of the world in a specific time period.

A complete BoP account comprises the current account and the capital and financial account. The current account records the flows of real resources, including exports and imports of goods and services, income received from and paid to abroad, and current transfers from and to abroad. The capital account records external capital transfers, and external acquisitions and disposals of non-produced and non-financial assets. The financial account records transactions in financial assets and liabilities between residents and non-residents, including direct investment, portfolio investment, financial derivatives, and other investment. Also included is net change in reserve assets.

Within the overall BoP account, the balance of the current account and the net change in capital and financial non-reserve assets taken together, which is deemed to represent the BoP position of the economy, exactly matches the net change in reserve assets, by virtue of the BoP accounting identity.

CHAPTER 3 : THE DOMESTIC ECONOMY

Local manufacturing output

3.1 The volume of local manufacturing output, as measured by the Index of Industrial Production⁽¹⁾, contracted by 9% in the fourth quarter of 2001 over a year earlier, enlarged from the 7% decline in the third quarter. This was in line with the distinct setback in domestic exports in these two quarters. Analysed by major constituent industry, output of the plastic products and the machinery and equipment industries plummeted by 26% and 25% respectively in the fourth quarter of 2001 over a year earlier. Output of the fabricated metal products, the paper products and printing, and the textiles industries also fell, albeit more moderately, by 9%, 4% and 2% respectively. On the other hand, output of the wearing apparel and the consumer electrical and electronic products industries rose, by 4% and 3% respectively. On a seasonally adjusted quarter-to-quarter comparison, the volume of local manufacturing output likewise shrank in both the third and fourth quarters of 2001, by 7% and 2% respectively.

3.2 For 2001 as a whole, the volume of local manufacturing output went down by 4%, exceeding the 1% fall in 2000. This was attributable entirely to an 8% drop in the second half of 2001 over a year earlier, following zero growth in the first half of the year. In 2001, the fall in output was most distinct in the plastic products, the fabricated metal products, and the machinery and equipment industries, by 15%, 10% and 9% respectively.

/Table 3.1

Table 3.1

**Index of Industrial Production for the major local manufacturing industries
(year-on-year rate of change in volume (%))**

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual[#]</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4[#]</u>
Wearing apparel	3	2	4	3	3	*	3	3	-10	4
Textiles	4	1	4	5	5	*	4	2	-3	-2
Plastic products	-11	-12	-12	-9	-11	-15	-12	-11	-12	-26
Consumer electrical and electronic products	-1	1	-1	-3	-1	*	*	-2	-1	3
Machinery and equipment	7	5	8	8	6	-9	6	4	-14	-25
Fabricated metal products	-19	-15	-22	-16	-20	-10	-7	-9	-14	-9
Paper products and printing	2	4	-1	5	*	-1	*	2	-3	-4
Overall manufacturing	-1	-1	-1	*	*	-4	*	*	-7	-9
		<3>	<*>	<-2>	<-1>		<1>	<*>	<-7>	<-2>

Notes : (#) Provisional figures.

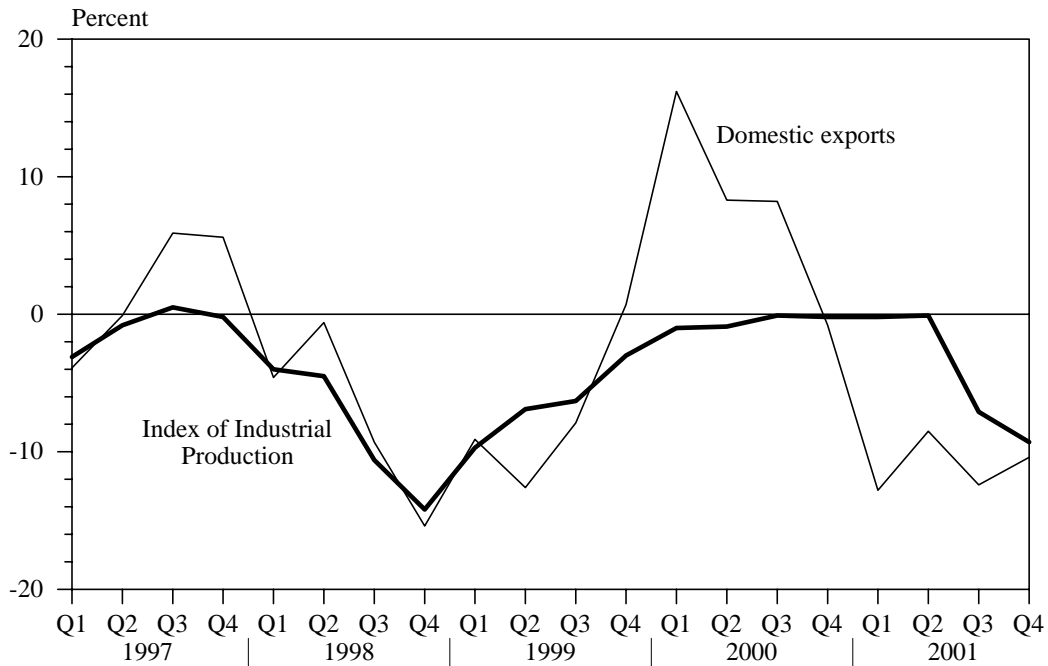
(*) Change of less than 0.5%.

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

/Diagram 3.1

Diagram 3.1

**Local manufacturing output and domestic exports
(year-on-year rate of change in real terms)**



3.3 In the first quarter of 2002, domestic exports continued on a distinct decline, as did orders-on-hand in the local manufacturing sector⁽²⁾. In addition, there was a further decrease in retained imports of raw materials and semi-manufactures. These pointed to a further reduction in local manufacturing output in the first quarter of this year.

/Diagram 3.2

Diagram 3.2

**Orders-on-hand and domestic exports
(year-on-year rate of change in value terms)**

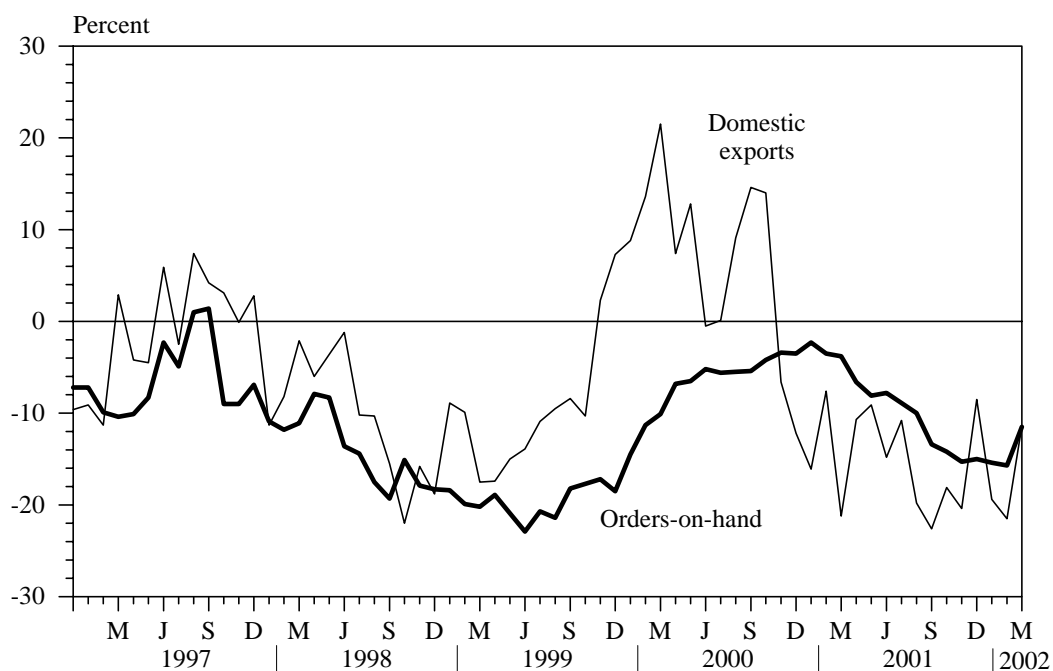


Table 3.2

Orders-on-hand in the local manufacturing sector

		<u>Value index of orders-on-hand</u> (1993=100)	<u>Year-on-year rate of change in value terms</u> (%)
2001	Mar	61.1	-4
	Jun	62.7	-8
	Sep	53.1	-13
	Dec	47.5	-15
2002	Mar [#]	54.1	-11

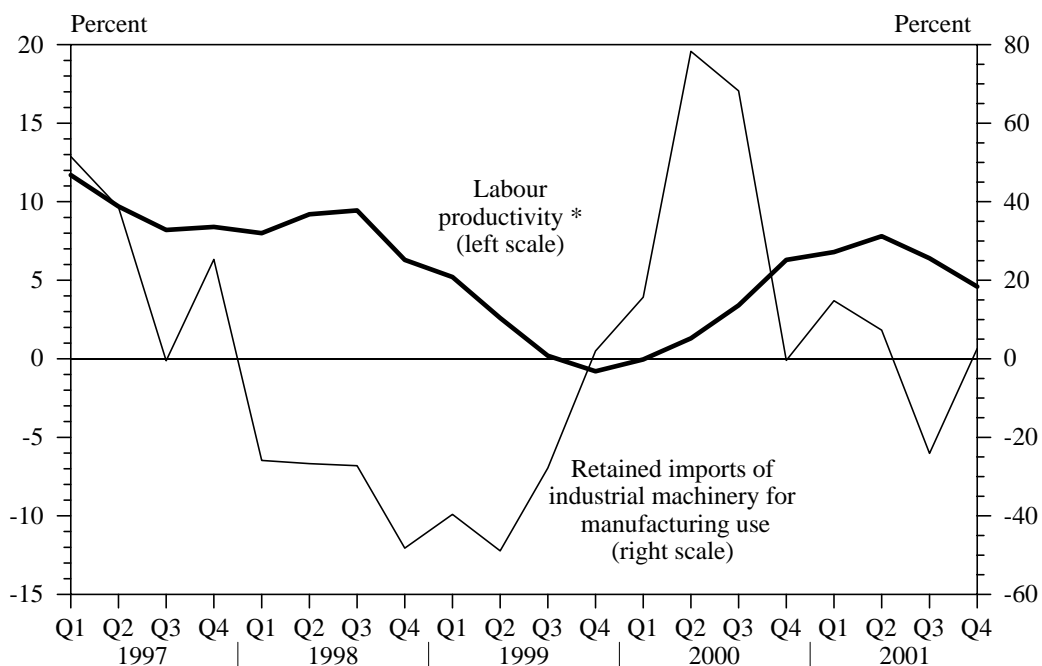
Note : (#) Provisional figures.

/3.4

3.4 Labour productivity in the local manufacturing sector nevertheless remained on an uptrend, amidst an on-going shift of the more labour-intensive production processes away from Hong Kong and concentration of the local set-up more in higher value-added activities. Indicative of this, the volume of local manufacturing output per person engaged on a moving average basis⁽³⁾ went higher by 5% in the fourth quarter of 2001 over a year earlier, following a 6% gain in the third quarter. For 2001 as a whole, the increase was broadly similar at 6%, better than the 3% rise in 2000.

Diagram 3.3

**Labour productivity in the local manufacturing sector
(year-on-year rate of change in real terms)**



Note : (*) Four-quarter moving average.

/Service

Service sector receipts

3.5 Business receipts fell markedly across most of the major service sectors in the fourth quarter of 2001, along with the further downturn in economic activity. Analysed by sector and in value terms, business receipts in storage and import/export trade plummeted by 22% and 20% respectively in the fourth quarter of 2001 over a year earlier, consequential to the setback in external trade. Business receipts in hotels, wholesale trade, retail trade and restaurants slid by 21%, 13%, 5% and 5% respectively, upon a concurrent slow-down in inbound tourism and local consumer spending. Business receipts in business services dropped by 17%, in line with a fall-off in general commercial activity. Business receipts in communications dipped by 14%, largely reflecting consolidation of the information technology sector. Business receipts in financing (except banking) also declined by 14%, on account of reduced turnover and fund-raising activities in the equities market. Business receipts in real estate were down by 4%, amidst a further softening in property prices in subdued trading. On the other hand, business receipts in film entertainment kept on growing visibly, by 18%, attributable to robust sales of video compact discs. Business receipts in insurance also surged, by 14%, underpinned by sustained strong expansion in life insurance. Business receipts in banking had only a modest increase, by 4%, primarily from larger non-interest income.

3.6 For 2001 as a whole, there was again a widespread decrease in business receipts amongst the major service sectors. By and large, those sectors closely linked to the asset markets and external trade, such as real estate, financing (except banking), import/export trade, storage, communications and business services, all suffered greater declines than the rest, by 10-17%.

/Table 3.3

Table 3.3

**Index of Business Receipts for the major service sectors
(year-on-year rate of change in value terms (%))**

	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Import/export trade	12	12	11	16	9	-14	-2	-14	-18	-20
Wholesale trade	4	*	9	5	1	-12	-8	-13	-14	-13
Retail trade	4	8	5	2	1	-1	*	2	-2	-5
Hotels	17	13	16	19	18	-8	3	2	-10	-21
Restaurants	2	5	2	1	*	-2	*	-1	-4	-5
Banking	1	12	-3	5	-9	3	-2	4	4	4
Financing (other than banking)	41	108	33	39	6	-13	-15	2	-23	-14
Business services	2	-1	1	5	4	-10	-1	-7	-13	-17
Insurance	13	4	10	11	27	14	4	25	14	14
Transport	21	17	27	24	16	-2	11	-2	-8	-7
Storage	2	-4	3	7	1	-15	-8	-13	-17	-22
Communications	9	11	14	7	3	-13	-11	-12	-16	-14
Real estate	*	8	*	10	-17	-17	-22	-21	-18	-4
Film entertainment	14	26	10	15	7	15	3	22	18	18

Note : (*) Change of less than 0.5%.

/Property

Property

3.7 The sales market for *residential property*, having staged a rebound in trading activity towards the end of 2001, showed some consolidation in the first quarter of 2002. Transactions were still held up in January, but tapered somewhat in February and March. Sentiment was affected by renewed concern about demand being curbed by the worsened unemployment situation but with an ample supply of new flats coming on stream. Moreover, there was a large overhang of newly completed flats not yet occupied. Also relevant was the prospect for reversal of the earlier downtrend in interest rates later in the year. Meanwhile, property developers continued to offer distinct price discounts and attractive financing arrangements to boost sales⁽⁴⁾. With flat buyers being swayed by such intensive promotion in the primary market, activity in the secondary market remained depressed during most of the first quarter. As to the rental market for residential property, performance continued to be generally lacklustre, as demand remained subdued while the supply of flats for lease increased.

3.8 On a quarter-to-quarter comparison, flat prices on average fell slightly further by 1% in the first quarter of 2002, after a 6% dip in the fourth quarter of 2001. Flat rentals on average went down further by 4% in the first quarter of 2002, following a similar decline in the fourth quarter of 2001. Against the respective peak levels in the third quarter of 1997, flat prices and rentals both fell substantially, by an average of 57% and 37% in the first quarter of 2002.

3.9 On *commercial property*, the rental market for *office space* slackened further in the first quarter of 2002, amidst more extensive consolidation and downsizing in the corporate sector, especially amongst the information technology and financial services operators. In a move to improve occupancy, rental reductions and other concessions were given to tenants particularly those on long leases, and more generous rent-free periods were offered for new take-ups. On a quarter-to-quarter comparison, office rentals on average were down by 5% in the first quarter of 2002, following a similar cut in the fourth quarter of 2001. The sales market for office space was stagnant, as investors mostly stayed on the sideline amidst an uncertain business outlook. On a quarter-to-quarter comparison, prices of office space on average declined by 4% in the first quarter of 2002, after a 7% fall in the fourth quarter of 2001. Against their respective peak levels in 1997, prices and rentals of office space both plunged, by an average of 70% and 43% in the first quarter of 2002.

/3.10

3.10 The rental market for *shopping space* was also slack in the first quarter of 2002, amidst further moderation in retail business particularly in the segment serving local consumers. Premises in less popular locations were being impinged more. In a move to improve occupancy, larger rental cuts and more flexible lease terms were granted to tenants. On a quarter-to-quarter comparison, shop rentals on average came down by 4% in the first quarter of 2002, enlarged from the 1% decrease in the fourth quarter of 2001. The sales market for shopping space was likewise sluggish, with prices easing further in thin trading. Buying interest was again depressed by an uncertain business outlook. On a quarter-to-quarter comparison, prices of shopping space on average were lower by 3% in the first quarter of 2002, after a 4% decrease in the fourth quarter of 2001. Against their respective peak levels in the third quarter of 1997, prices and rentals of shopping space plummeted by an average of 58% and 25% in the first quarter of 2002.

3.11 On *industrial property*, the rental market stayed quiet in the first quarter of 2002, as leasing demand dwindled further upon sustained contraction in local manufacturing activity. Also relevant was receded demand for modern multi-purpose industrial premises to be used as data centres and back-up service centres. On a quarter-to-quarter comparison, rentals of industrial space on average edged lower by 2% in the first quarter of 2002, after a similar decline in the fourth quarter of 2001. The sales market for industrial property continued to be in the doldrums. On a quarter-to-quarter comparison, prices of industrial space on average slid by 4% in the first quarter of 2002, further to a 7% drop in the fourth quarter of 2001. Against their respective peak levels in 1994, prices and rentals of industrial space were sharply down, by an average of 68% and 44% in the first quarter of 2002.

/Table 3.4

Table 3.4**Indices of Property Prices and Rentals**

	<u>Residential flats</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index^(a)</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999 =100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)	
2001 Q1	81.0	(-4)	97.7	(-1)	85.5	(-1)	104.6	(3)	89.1	(-3)	101.2	(-1)	84.4	(-4)	93.8	(-2)
Q2	81.2	(*)	96.9	(-1)	82.1	(-4)	103.2	(-1)	87.1	(-2)	99.9	(-1)	83.2	(-1)	91.5	(-2)
Q3	78.6	(-3)	95.4	(-2)	76.1	(-7)	100.6	(-3)	87.0	(*)	99.1	(-1)	82.8	(*)	88.5	(-3)
Q4 [^]	73.6	(-6)	91.2	(-4)	70.8	(-7)	95.4	(-5)	83.9	(-4)	97.9	(-1)	77.1	(-7)	87.1	(-2)
2002 Q1 [^]	73.0	(-1)	87.4	(-4)	67.8 [#]	(-4)	91.1	(-5)	81.5	(-3)	93.5	(-4)	73.8	(-4)	85.3	(-2)

Notes : All rental indices shown in this table have been adjusted for changes in concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known.

(a) Prices for residential property in this table cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.

(b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property cover also lease renewals upon which rentals may be revised.

() % change over the preceding quarter.

([^]) Provisional figures.

([#]) This figure covers only the first two months of 2002.

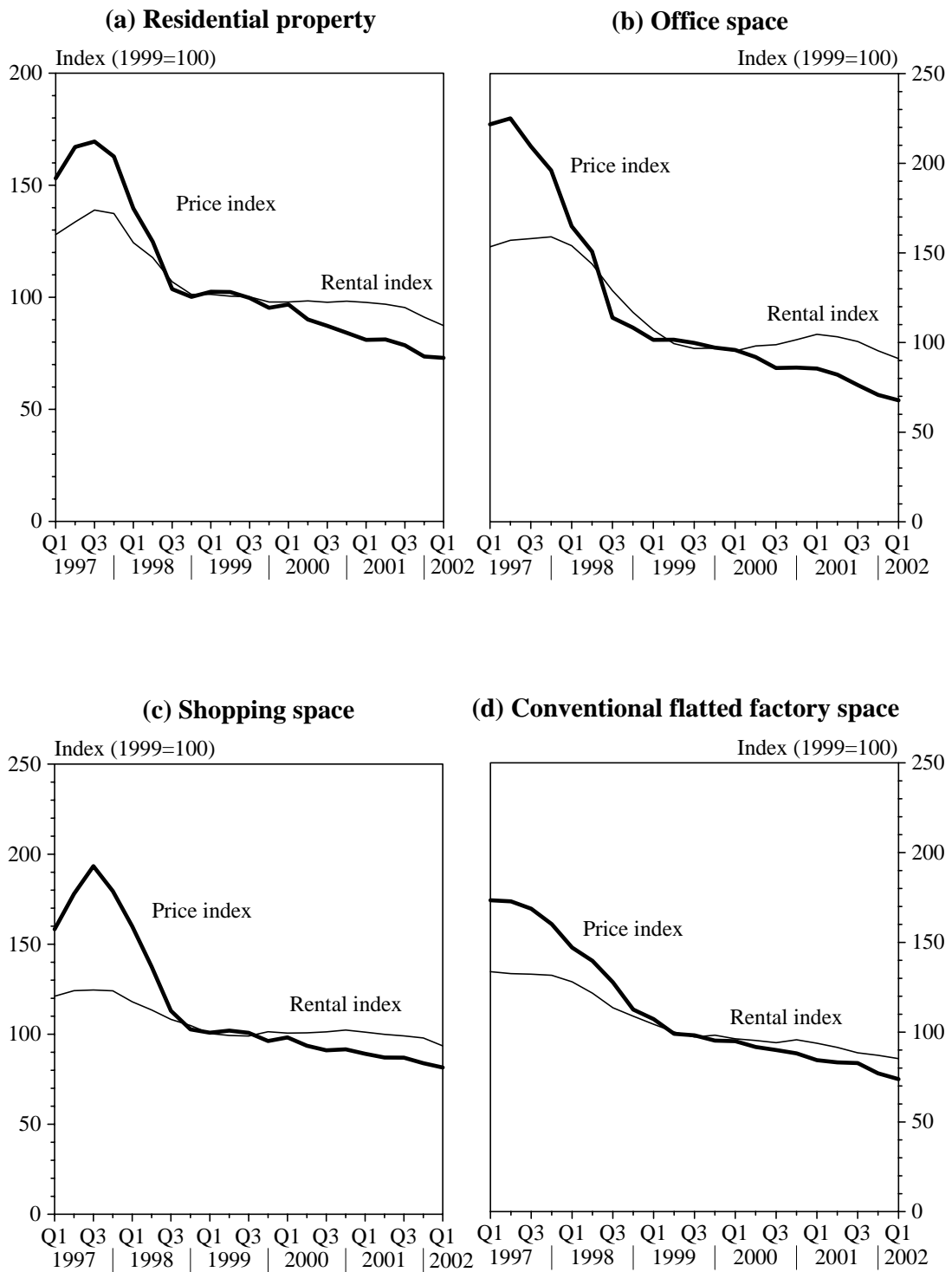
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.4

Diagram 3.4

Property prices and rentals



Note : See the footnotes to Table 3.4.

/Table 3.5

Table 3.5**Relationship between mortgage rate
and monthly instalment payment**

		Average of the best lending rates quoted by the principal banks <u>in Hong Kong</u> (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks <u>in Hong Kong</u> ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b) (\$)		
				<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
2001	Q1	8.70	6.44	1,133	868	742
	Q2	7.40	5.15	1,068	798	668
	Q3	6.59	4.34	1,029	757	624
	Q4	5.34	2.93	962	687	551
2002	Q1	5.13	2.63	949	673	536
	Jan	5.13	2.63	949	673	536
	Feb	5.13	2.63	949	673	536
	Mar	5.13	2.63	949	673	536

Notes : (a) Here the effective mortgage rate refers to the modal value, representing the rate most commonly charged to customers amongst the banks.

(b) These figures are based on equal monthly repayments throughout the mortgage period.

/3.12

3.12 Property transactions, as measured by agreements for sale and purchase of property registered with the Land Registry, were virtually unchanged in number between the fourth quarter of 2001 and the first quarter of 2002. In total value, they shrank by 2%. While transactions in residential property increased both in number and in total value, by 1% and 7% respectively, transactions in non-residential property had corresponding decreases of 6% and 39%. On a year-on-year comparison, overall property transactions were higher in the first quarter of 2002, by 7% in number and 5% in total value. This was attributable entirely to a surge in transactions in residential property, by 26% and 21% respectively, against a lower base of comparison a year earlier. Transactions in non-residential property plummeted, by 40% and 44%. Property transfer assignments, being a lagging indicator of property transactions, went up by 15% in number and 18% in total value in the first quarter of 2002 over the fourth quarter of 2001. Yet compared with a year earlier, they fell by 19% and 24% respectively. As to mortgage arrangements, while an increase of 9% in number was seen in the first quarter of 2002 over the preceding quarter, a fall of 18% was observed over a year earlier.

3.13 On government-subsidised flats, there were no new sales of flats under the Home Ownership Scheme/Private Sector Participation Scheme (HOS/PSPS) in the first quarter of 2002, as the ten-month moratorium on sales of such flats up to mid-2002 was still in force⁽⁵⁾. At end-February 2002, the Housing Authority announced that the income and asset ceilings for HOS applicants would generally be adjusted downward as from 1 April, so as to ensure a more rational allocation of housing resources in accordance with the established review mechanism⁽⁶⁾. As regards the Tenants Purchase Scheme (TPS), a new batch of 25 728 public rental flats under Phase 5 was put up for sale in January 2002. By end-March, 17% of the sitting tenants had applied for purchase of these flats. For the first quarter of 2002 as a whole, 3 774 TPS flats were sold to the sitting tenants, representing a 3% decrease from a year earlier.

/Table 3.6

Table 3.6**Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		Residential property ^(a)		Non-residential property		Total		Residential property ^(a)		Non-residential property		Total	
2001	Annual	69 667	(7)	18 523	(-9)	88 190	(3)	150.9	(-10)	41.9	(-23)	192.8	(-13)
	H1	32 730	(7)	10 995	(8)	43 725	(7)	71.0	(-9)	23.2	(-18)	94.1	(-11)
	H2	36 937	(6)	7 528	(-26)	44 465	(-1)	79.9	(-12)	18.7	(-28)	98.7	(-15)
	Q1	15 105	(-1)	5 913	(13)	21 018	(2)	34.3	(-16)	11.0	(-22)	45.2	(-18)
	Q2	17 625	(16)	5 082	(3)	22 707	(13)	36.7	(*)	12.2	(-13)	48.9	(-4)
	Q3	18 164	(-6)	3 733	(-45)	21 897	(-16)	41.2	(-11)	8.7	(-48)	49.9	(-21)
	Q4	18 773	(21)	3 795	(11)	22 568	(19)	38.8	(-13)	10.0	(8)	48.7	(-9)
2002	Q1	18 992	(26)	3 569	(-40)	22 561	(7)	41.5	(21)	6.1	(-44)	47.7	(5)
			<1>		<-6>		<*>		<7>		<-39>		<-2>
	Jan	7 847	103	1 381	76	9 228	(99)	18.2	(91)	2.5	(-21)	20.7	(63)
	Feb	5 695	42	1 135	20	6 830	(38)	12.4	(39)	1.6	(-30)	14.0	(25)
	Mar	5 450	-25	1 053	-75	6 503	(-43)	11.0	(-31)	2.0	(-64)	13.0	(-39)

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

(a) It should be noted that primary sales of units under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) are not covered in this table, as sale and purchase agreements are commonly not required for these transactions. Also, sale and purchase agreements for primary sales of units under the Private Sector Participation Scheme (PSPS) are not included in the column on residential property, yet they are included in the column on non-residential property, and thus also in the total column.

() % change over a year earlier.

< > % change over the preceding quarter.

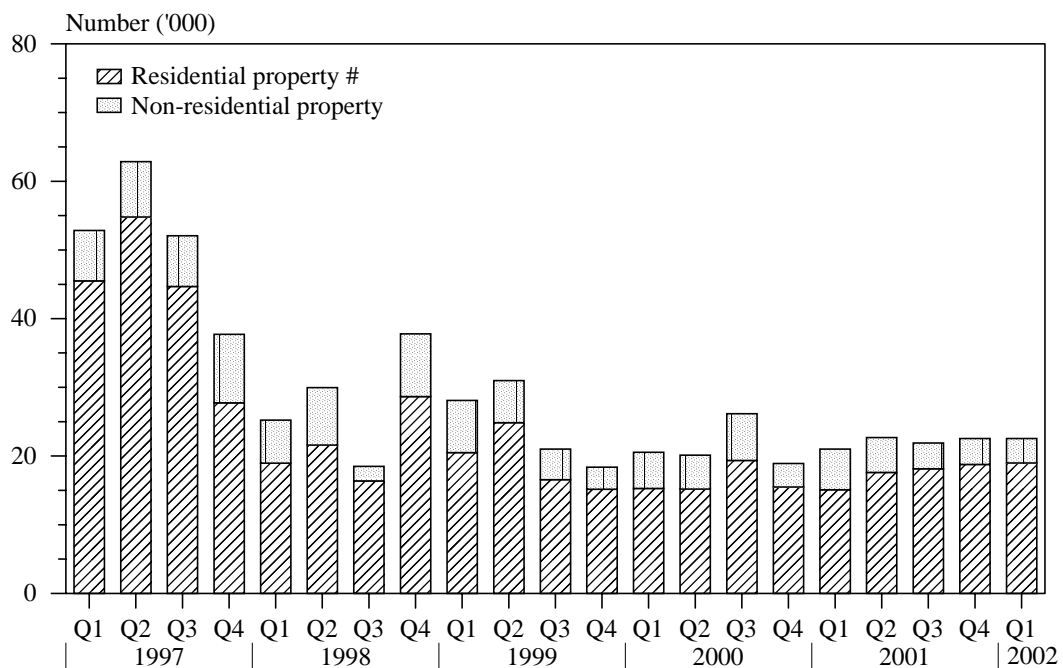
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.5

Diagram 3.5

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.6.

/Table 3.7

Table 3.7**Property transfer assignments and mortgage arrangements**

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
2001	Annual	144 037	(-5)	243.5	(-11)	157 064	(-14)
	H1	75 756	(-8)	125.7	(-13)	79 953	(-19)
	H2	68 281	(-3)	117.8	(-8)	77 111	(-9)
	Q1	39 135	(1)	63.5	(-12)	41 132	(-17)
	Q2	36 621	(-15)	62.2	(-14)	38 821	(-21)
	Q3	40 968	(8)	76.7	(11)	46 181	(-5)
	Q4	27 313	(-15)	41.1	(-31)	30 930	(-14)
2002	Q1	31 512	(-19)	48.5	(-24)	33 650	(-18)
			<15>		<18>		<9>
	Jan	12 048	(-8)	21.7	(-8)	13 332	(-3)
	Feb	8 346	(-40)	12.6	(-41)	9 282	(-36)
	Mar	11 118	(-9)	14.2	(-23)	11 036	(-15)

Notes : (a) Figures on property transfer assignments do not necessarily tally with those on agreements for sale and purchase of property, for various reasons. These include possibly long time lag between the two documents, cancellation of transaction before its completion, and waiver of the agreement for sale and purchase of property subject to consent by the parties concerned.

(b) Most of these mortgages are related to the purchase of residential flats or of other premises. Building mortgages, on the other hand, are related to the financing of building projects under construction.

Figures on the total value of mortgage arrangements are not shown, as they are likely to be incomplete. This is because in many of the mortgage arrangements lodged for registration, the value of the mortgage loan is not stated in the mortgage deed but instead is separately notified by the bank to the mortgagor.

() % change over a year earlier.

< > % change over the preceding quarter.

Source : Land Registry.

/3.14

3.14 On supply of new property, conditions varied amongst different types of property. *Completions* of private residential flats plummeted by 52% in the first quarter of 2002 over a year earlier, markedly down from a 9% increase in the fourth quarter of 2001. Completions of other commercial premises were also substantially reduced, by 50% in the first quarter of 2002 over a year earlier, though lesser than the 76% plunge in the fourth quarter of 2001. On the other hand, completions of office space bounced up strongly, by 65% in the first quarter of 2002 over a year earlier, following a sharp fall of 87% in the fourth quarter of 2001. As to industrial property, while completions were limited at 3 000 m² in the first quarter of 2002, this was still up from zero completions a year earlier. In the fourth quarter of 2001, there was a decrease of 46% in completions. Comparing the twelve months ending March 2002 with the preceding twelve-month period, completions of private residential flats, office space and industrial property all went down, by 10%, 18% and 16% respectively, yet completions of other commercial premises rose, by 24%.

/Table 3.8

Table 3.8**Completions of new property by the private sector
('000m² of internal floor area)**

<u>Usage</u>	<u>First quarter of 2001</u>	<u>First quarter of 2002[^]</u>	<u>Year- on-year rate of change (%)</u>	<u>Twelve months ending March 2001</u>	<u>Twelve months ending March 2002[^]</u>	<u>Year- on-year rate of change (%)</u>
Residential ^(a)	6 528	3 157	-52	25 338	22 891	-10
Commercial	63	65	3	209	210	*
<i>Of which:</i>						
Office space	29	48	65	116	95	-18
Other commercial premises (mainly shopping space) ^(b)	34	17	-50	93	114	24
Industrial ^(c)	0	3	--	57	48	-16
<i>Of which:</i>						
Industrial-cum-office premises	0	0	--	37	14	-61
Flatted factory space	0	3	--	19	34	79
Storage premises ^(d)	0	0	--	1	0	-100

Notes : (a) These include all newly 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 will 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.

The figures shown are in respect of private residential units, excluding units completed by the Hong Kong Housing Authority and Hong Kong Housing Society.

(b) These include shopping arcades in residential and commercial developments, as well as premises designed or adapted for commercial use other than offices, in the nature of non-domestic space on the podium floors of tenement apartment/commercial buildings. Car-parking space is excluded.

(c) Including industrial-cum-office premises but excluding specialised factory buildings, which are developed mainly for own use.

(d) Including storage premises at the container terminals and the airport.

([^]) Provisional figures.

(*) Change of less than 0.5%.

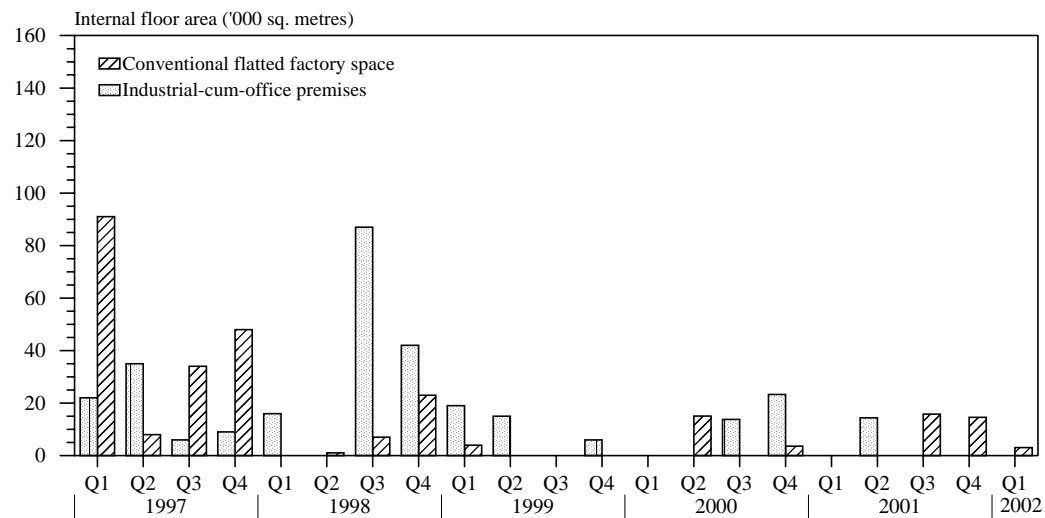
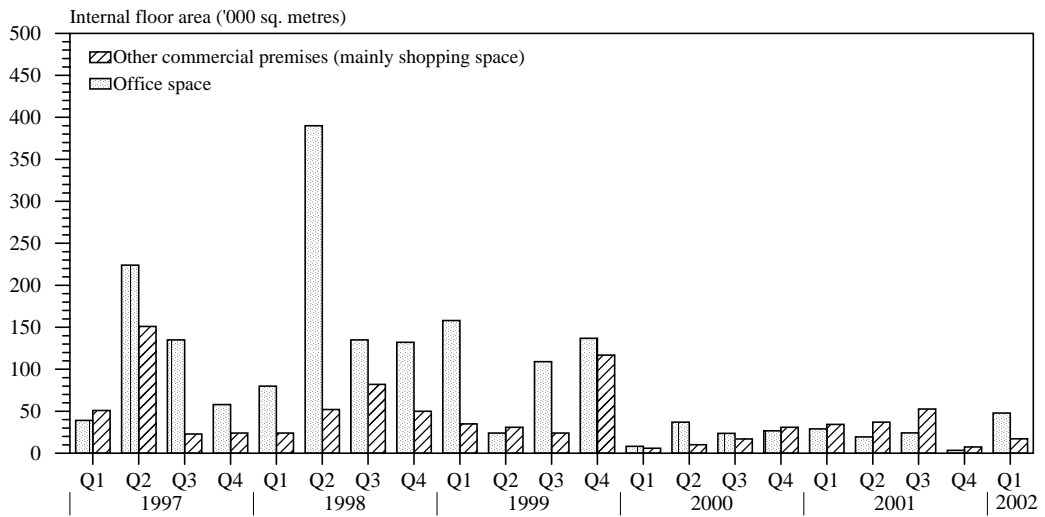
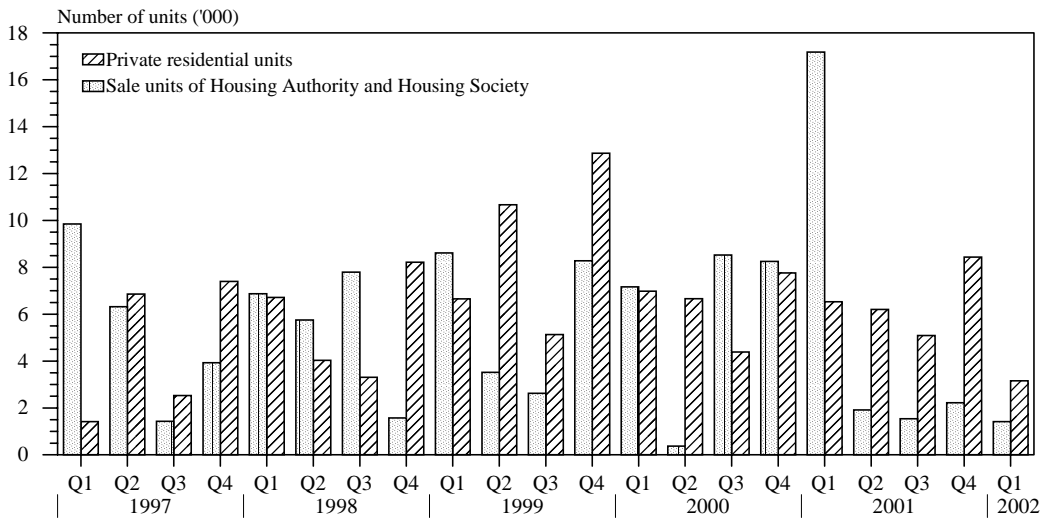
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.6

Diagram 3.6

Completions of new property by major category



3.15 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, shrank by 54% in the first quarter of 2002 over a year earlier, much larger than the 14% decrease in the fourth quarter of 2001. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property, having increased by 22% in terms of units or by 5% in terms of total usable floor area in the fourth quarter of 2001, were curtailed by 72% and 69% respectively in the first quarter of 2002. In view of a still abundant supply of new flats in the pipeline, property developers appeared more circumspect in taking on new projects. Planned developments of property in the “others” category continued to plummet, by 66% in the first quarter of 2002, following a dip of 92% in the fourth quarter of 2001. On the other hand, planned developments of commercial property bounced up markedly, by 119% in the first quarter of 2002, after a plunge of 53% in the fourth quarter of 2001. Planned developments of industrial property leaped further by 66% in the first quarter of 2002, after a phenomenal rise of 91% in the fourth quarter of 2001. Yet the latest upsurge in planned developments of commercial and industrial properties was partly due to the lower base of comparison in the same period a year earlier. Comparing the twelve months ending March 2002 with the preceding twelve-month period, planned developments of all types of property were trimmed by 32%, enlarged from the 25% slash in 2001. The decline occurred across-the-board. Planned developments of private residential property decreased by 30% in terms of units or by 32% in terms of total usable floor area, while planned developments of property in the “others” category, industrial property and commercial property were reduced by 74%, 44% and 6% respectively.

/Table 3.9

Table 3.9

**Building plans with consent to
commence work in the private sector
(^{'000}m² of usable floor area)**

<u>Usage</u>	<u>First quarter of 2001</u>	<u>First quarter of 2002</u>	<u>Year-on-year rate of change (%)</u>	<u>Twelve months ending March 2001</u>	<u>Twelve months ending March 2002</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a)	404 (10 226)	126 (2 889)	-69 (-72)	1 072 (27 329)	724 (19 124)	-32 (-30)
Commercial	33	73	119	325	305	-6
Industrial ^(b)	8	14	66	91	51	-44
Others	47	16	-66	167	44	-74
Total	493	229	-54	1 654	1 124	-32

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

(a) Here the classification of residential property includes developments under the Urban Improvement Scheme of the Hong Kong Housing Society, but excludes developments under the Home Ownership Scheme and the Private Sector Participation Scheme of the Hong Kong Housing Authority.

(b) Including multi-purpose industrial premises designed also for office use.

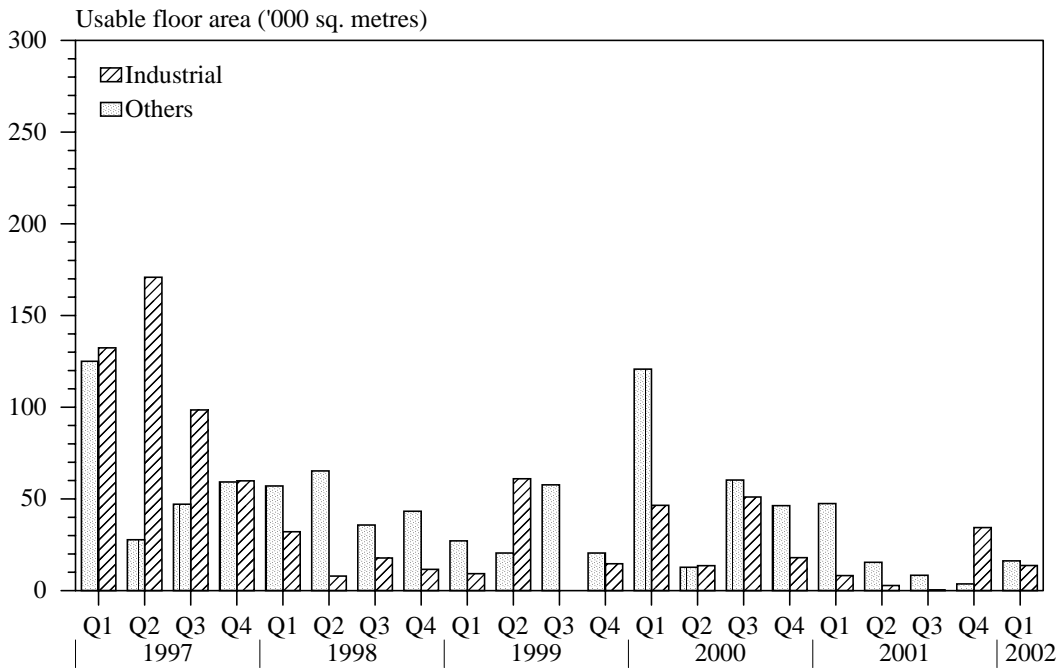
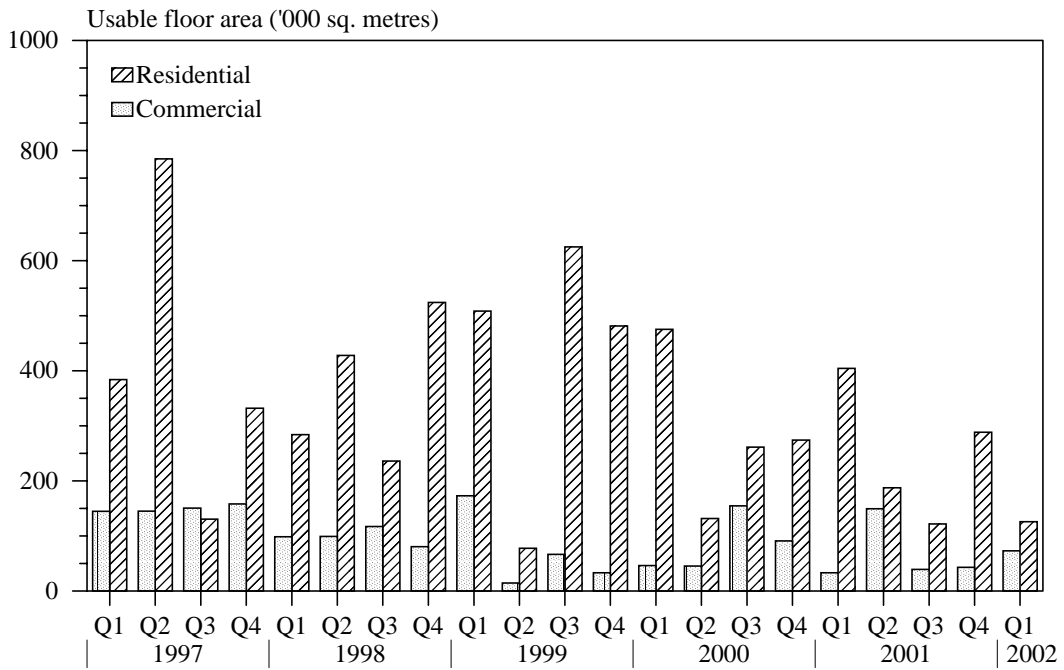
() Number of units.

Source : Buildings Department.

/Diagram 3.7

Diagram 3.7

**Building plans with consent to commence work
in the private sector by major category**



Building and construction

3.16 Building and construction activity continued on a decline in the first quarter of 2002. Reflecting this, overall expenditure on building and construction contracted by 6% in real terms in the first quarter of 2002 over a year earlier, following a decline of 3% in the fourth quarter of 2001 and also for 2001 as a whole.

3.17 Expenditure on building and construction in the public sector fell by 18% in real terms in the first quarter of 2002 over a year earlier, after decreasing by 12% in the fourth quarter of 2001 and 5% for the entire year. A tapering in civil engineering work on the KCR West Rail and MTR Tseung Kwan O Extension was the major contributory factor. Also, there was a sustained scale-back in the Public Housing Programme, as well as completion or winding down of several public housing projects in Tin Shui Wai, Tseung Kwan O, Ma On Shan and Cheung Sha Wan.

3.18 Expenditure on building and construction in the private sector nevertheless went up, by 4% in real terms in the first quarter of 2002 over a year earlier. This came after a similar rise in the fourth quarter of 2001, yet a 1% fall for the entire year. A stepping up of work on some of the building and infrastructural projects was the major underlying factor.

/Table 3.10

Table 3.10

**Expenditure on building and construction
(year-on-year rate of change in real terms (%))**

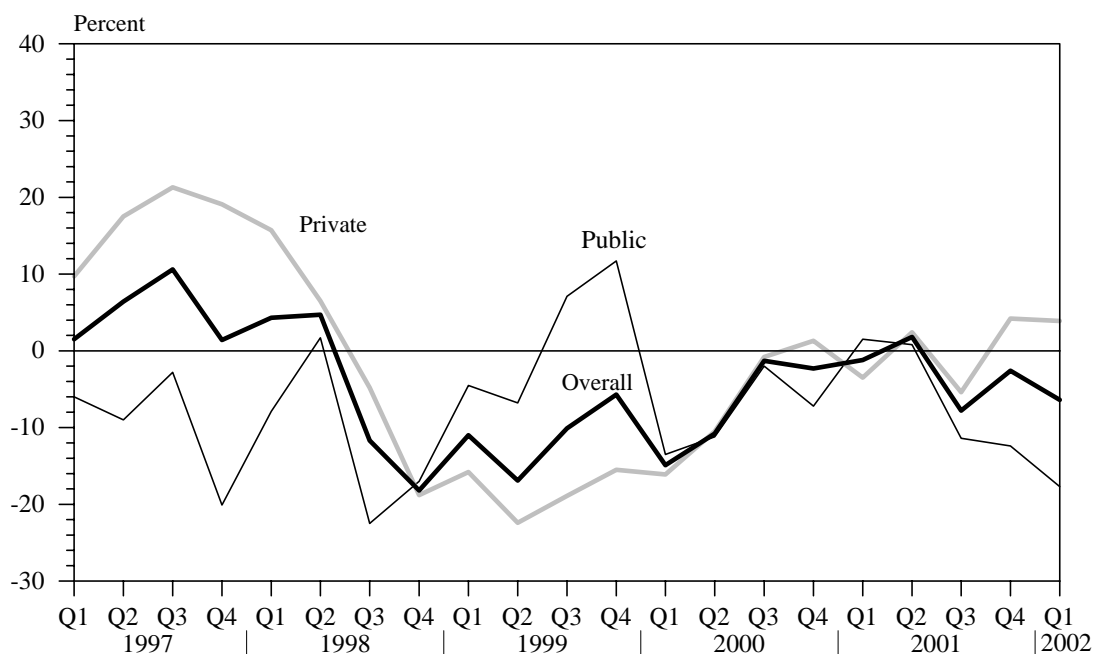
		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2001	Annual [#]	-1	-5	-3
	Q1 [#]	-3	1	-1
	Q2 [#]	2	1	2
	Q3 [#]	-5	-11	-8
	Q4 [#]	4	-12	-3
2002	Q1 ⁺	4	-18	-6

Notes : (#) Revised figures.

(+) Preliminary figures.

Diagram 3.8

**Expenditure on building and construction
(year-on-year rate of change in real terms)**



/3.19

3.19 Retained imports of construction machinery fell back by 4% in real terms in the first quarter of 2002 over a year earlier, after showing sharp increases of 47% in the fourth quarter of 2001 and 39% for 2001 as a whole. This was related to tapering activity on some of the civil engineering projects in recent months.

3.20 Labour cost in the building and construction sector, as measured by the Labour Cost Index, edged lower by 2% in the fourth quarter of 2001 over a year earlier, having been generally static in the third quarter. Yet for 2001 as a whole, there was still a marginal increase of 1%, following a 2% rise in 2000. Building material cost, as measured by the Material Cost Index, also moved down slightly, by 1% in the fourth quarter of 2001 over a year earlier, after remaining steady in the third quarter. For 2001 as a whole, there was virtually nil change, as against a 1% increase in 2000. Taken together, the combined Labour and Material Cost Index fell by 2% in the fourth quarter of 2001 over a year earlier, and was almost flat for 2001 as a whole. This came after a 2% rise in 2000.

Table 3.11

**Labour and Material Cost Index for
the building and construction sector
(Feb 1970=100)**

		<u>Labour Index</u>	<u>Material Index</u>	<u>Combined Index</u>
2000	Annual	3 562 (2)	761 (1)	1 752 (2)
	Q1	3 504 (*)	762 (2)	1 732 (1)
	Q2	3 538 (2)	761 (2)	1 743 (2)
	Q3	3 576 (2)	759 (1)	1 755 (2)
	Q4	3 629 (3)	764 (1)	1 777 (3)
2001	Annual	3 581 (1)	758 (*)	1 756 (*)
	Q1	3 600 (3)	762 (*)	1 765 (2)
	Q2	3 581 (1)	759 (*)	1 757 (1)
	Q3	3 579 (*)	757 (*)	1 755 (*)
	Q4	3 564 (-2)	754 (-1)	1 748 (-2)

Notes : () % change over a year earlier.

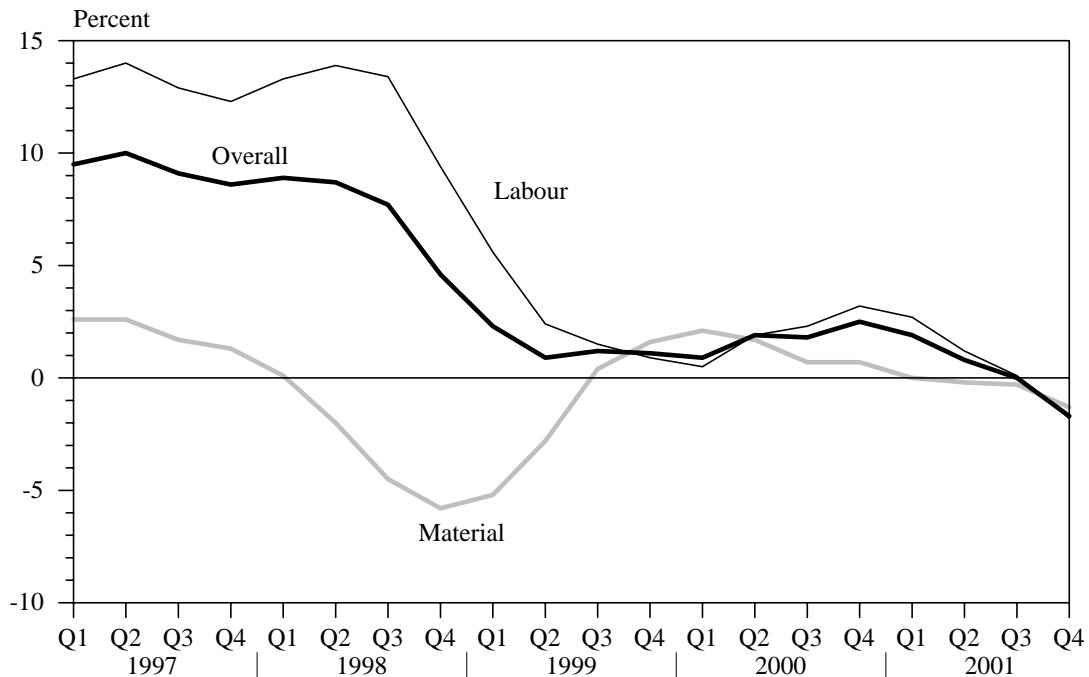
(*) Change of less than 0.5%.

Source : Architectural Services Department.

/Diagram 3.9

Diagram 3.9

**Labour and Material Cost Index
(year-on-year rate of change)**



3.21 Tender prices continued to soften distinctly, amidst lower building and construction costs and intensified competition amongst contractors for a reduced volume of projects. In the fourth quarter of 2001, the Tender Price Index (TPI) for public housing projects compiled by the Housing Department and the TPI for public sector building projects compiled by the Architectural Services Department both went significantly lower, by 12% and 15% respectively over a year earlier. These followed corresponding decreases of 17% and 6% in the third quarter. For 2001 as a whole, the TPIs for public housing projects and public sector building projects were down further by 15% and 9% respectively, after declining by 12% and 13% in 2000.

/Table 3.12

Table 3.12

Tender Price Indices (TPI) for public sector projects

	TPI for public housing projects ^(a) (Jan 1970=100)	TPI for public sector building projects ^(b) (Jan 1970=100)
2000 Annual	687 (-12)	884 (-13)
Q1	745 (-7)	959 (-6)
Q2	708 (-10)	873 (-15)
Q3	671 (-13)	858 (-16)
Q4	625 (-19)	844 (-15)
2001 Annual	584 (-15)	808 (-9)
Q1	612 (-18)	862 (-10)
Q2	611 (-14)	842 (-4)
Q3	558 (-17)	807 (-6)
Q4	553 (-12)	721 (-15)

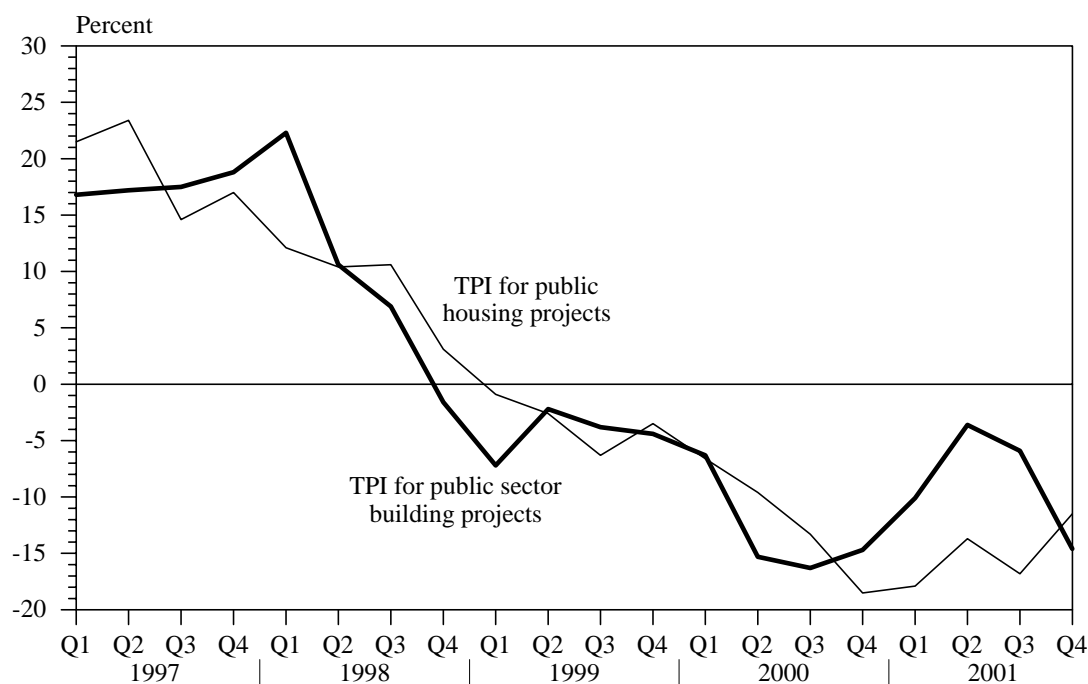
Notes : (a) Compiled by the Housing Department.

(b) Compiled by the Architectural Services Department.

() % change over a year earlier.

Diagram 3.10

**Tender Price Indices
(year-on-year rate of change)**



Land

3.22 In the first quarter of 2002, two small residential sites with a total area of one hectare were auctioned by the Government, and there was no disposal of site through tender. Response to the land auction was moderate, yet with the prices fetched largely in line with market expectations. Nevertheless, applications were received from some developers for two residential sites on the Government's Application List⁽⁷⁾ to be auctioned in April. (These two sites were henceforth sold on 15 April, at prices exceeding market expectations.)

Table 3.13

**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>2001</u>	<u>First quarter of 2002</u>
Residential	5.3	1.0
Commercial/residential	*	-
Commercial	3.0	-
Industrial	-	-
Others	0.4	-
Total	<hr/> 8.8	<hr/> 1.0

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

(*) Less than 0.05 hectare.

Source : Lands Department.

/3.23

3.23 On modification of lease on existing developed and developable land already in the private sector domain⁽⁸⁾, 22 applications were approved by the Government in the first quarter of 2002. Within this total, eight applications were related to residential development, and two applications each were related to residential-cum-commercial development and industrial development. One application was related to commercial development. As to the remaining nine applications, six were for development of social and community facilities, one for construction of an electricity sub-station, and two for unrestricted usage.

3.24 In the first quarter of 2002, there was no new take-up or surrender of sites in the three industrial estates at Tai Po, Yuen Long and Tseung Kwan O. The respective take-up rates thus stayed at 99.0%, 95.8% and 48.6% at end-March 2002.

Electricity and gas

3.25 At 26 300 terajoules, *local electricity consumption* in the first quarter of 2002 was 1% lower than a year earlier. This represented a slow-down from the 3% increase both in the fourth quarter of 2001 and for the year as a whole. While domestic consumption expanded by 1% in the first quarter of 2002 over a year earlier, commercial consumption remained virtually unchanged. On the other hand, industrial consumption shrank by 11%. As to electricity exports to the Mainland, there continued to be a sharp increase, by 119% in the first quarter of 2002 over a year earlier. This was mainly due to surging demand in the Pearl River Delta region along with the robust economic growth there. In that quarter, electricity exports to the Mainland accounted for 6% of the total electricity generated in Hong Kong,

3.26 *Towngas consumption* stood at 7 500 terajoules in the first quarter of 2002, up by 1% over a year earlier. This compared with a 1% decline in the fourth quarter of 2001 and a 2% rise for the year as a whole. Analysed by main user type, domestic consumption went up by 3% in the first quarter of 2002 over a year earlier, but this was offset by a decrease in commercial consumption by 2%. Meanwhile, industrial consumption showed virtually nil change.

/Internal

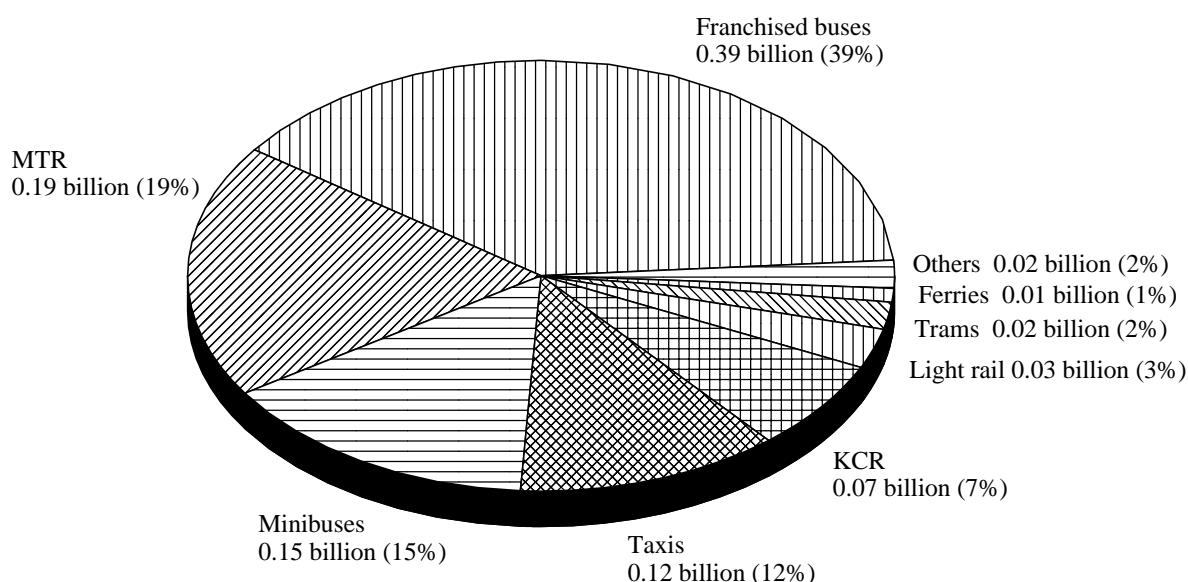
Internal transport

3.27 Total patronage on *public transport* went up by 2% over a year earlier to 1.0 billion in the first quarter of 2002, after a similar rise in the fourth quarter of 2001 and an increase of 1% for the whole year. Analysed by mode of transport, patronage on ferries, franchised buses and the Kowloon-Canton Railway moved up by 4%, 3% and 2% respectively in the first quarter of 2002 over a year earlier. Patronage on mini-buses and trams rose by 1% each, while patronage on the Mass Transit Railway, the Light Rail and taxis held steady.

3.28 On *private transport*, the total number of newly registered private cars fell markedly by 13% over a year earlier to 7 500 in the first quarter of 2002, in line with the moderation in local consumer spending especially on durable goods. This was considerably down from the 1% increase in 2001, though relatively improved from the 17% drop in the fourth quarter of that year. As to the total number of registered private cars and licensed private cars, they stood at 382 200 and 340 000 respectively at end-March 2002, both up by 2% over a year earlier.

Diagram 3.11

Passenger journeys by mode of public transport in the first quarter of 2002



Total passenger journeys in the first quarter of 2002 : 1.01 billion

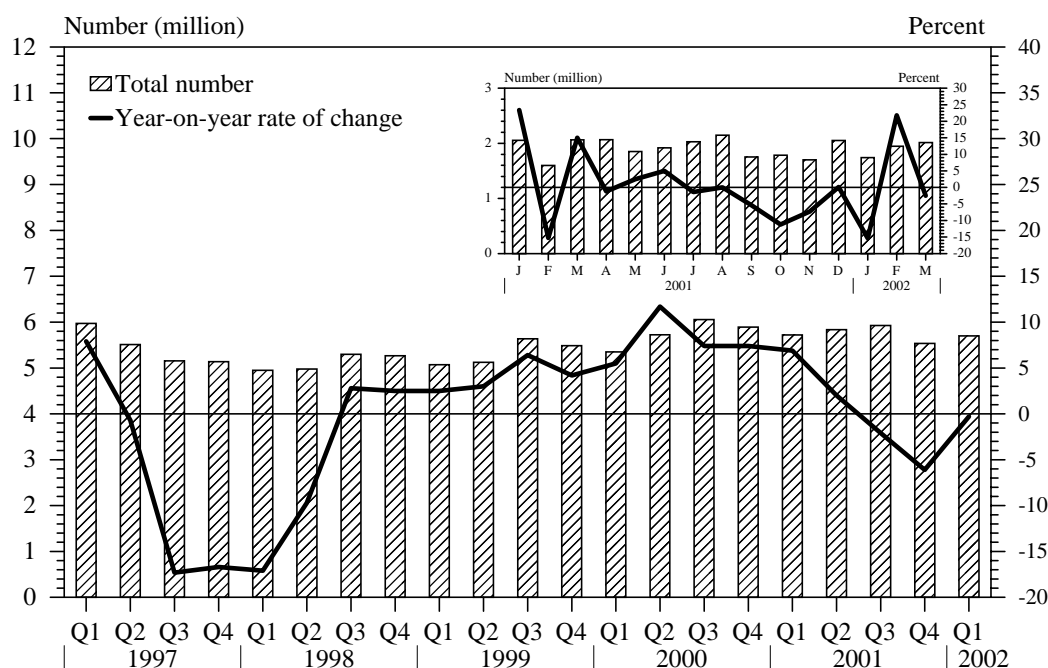
/External

External transport

3.29 On *air transport*, total *air passenger movements* at 5.7 million in the first quarter of 2002 were virtually static as compared to a year earlier. This followed a 6% decrease in the fourth quarter of 2001 and nil change for the year as a whole. While air passenger arrivals declined by 2% over a year earlier to 2.8 million in the first quarter of 2002, air passenger departures edged up by 1% to 2.9 million. Amongst the inbound and outbound trips, those from and to the Mainland continued to fare better, registering increases of 2% and 8% respectively. As to aircraft movements (including passenger and cargo flights), there was a 2% rise over a year earlier to 48 000 in the first quarter of 2002. This followed increases of 1% in the fourth quarter of 2001 and 8% for the year as a whole.

Diagram 3.12

Number of air passenger movement

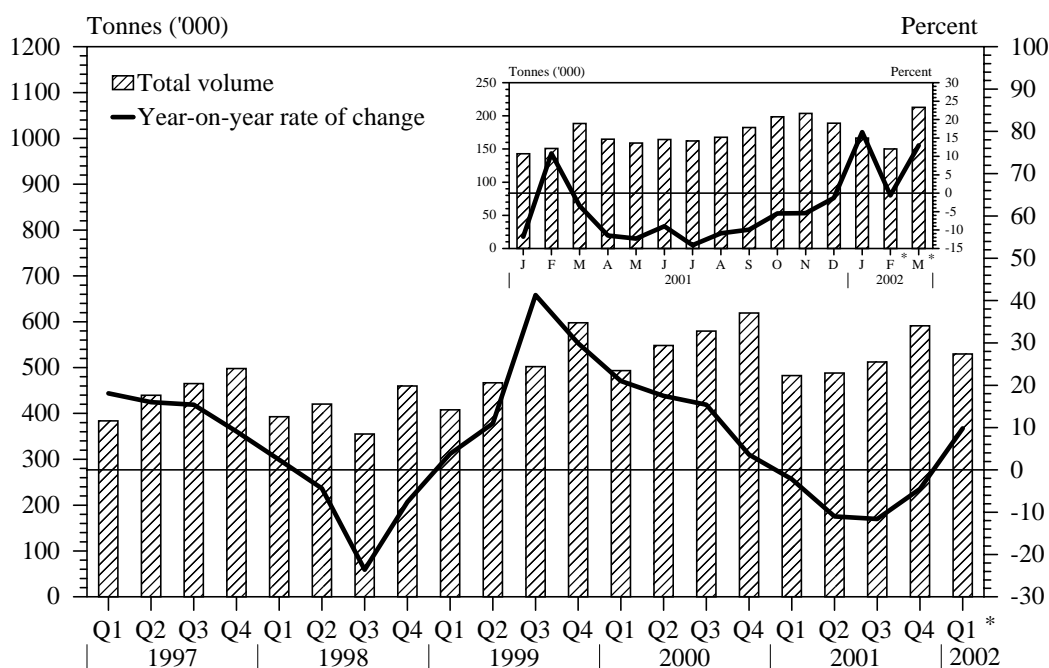


/3.30

3.30 Total *air cargo movements* rose by 10% over a year earlier to 530 000 tonnes in the first quarter of 2002. This represented a strong rebound from the declines of 5% in the fourth quarter of 2001 and 7% for the entire year. Within this total, inward air cargo increased by 4% over a year earlier to 226 000 tonnes in the first quarter of 2002, while outward air cargo surged by 15% to 303 000 tonnes.

Diagram 3.13

Cargo carried by air



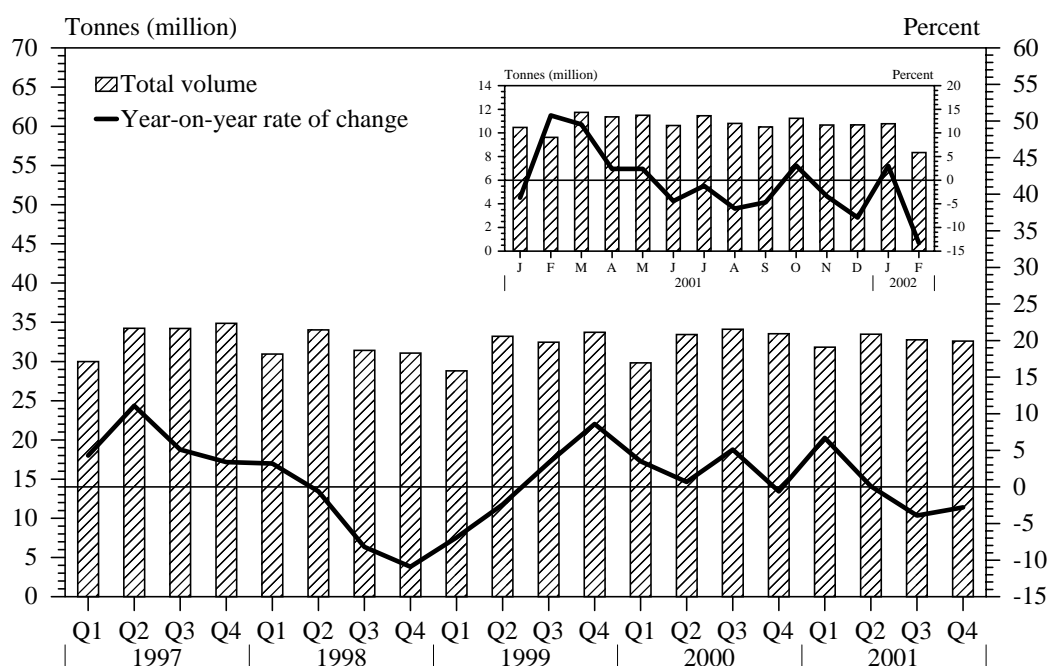
Note : (*) Provisional figures.

3.31 On *ocean transport*, total *ocean cargo movements* stood at 19.1 million tonnes in the first two months of 2002, down by 5% from a year earlier. This followed a 3% decrease in the fourth quarter of 2001 and zero growth for 2001 as a whole. Continuing the trend in the earlier periods, there was a rise in transshipment cargo but a fall in direct shipment cargo in the first two months of 2002 over a year earlier. Analysed by direction of cargo movement, inward ocean cargo went down by 6% to 13.0 million tonnes, and outward ocean cargo by 2% to 6.1 million tonnes.

/Diagram 3.14

Diagram 3.14

Cargo carried by sea

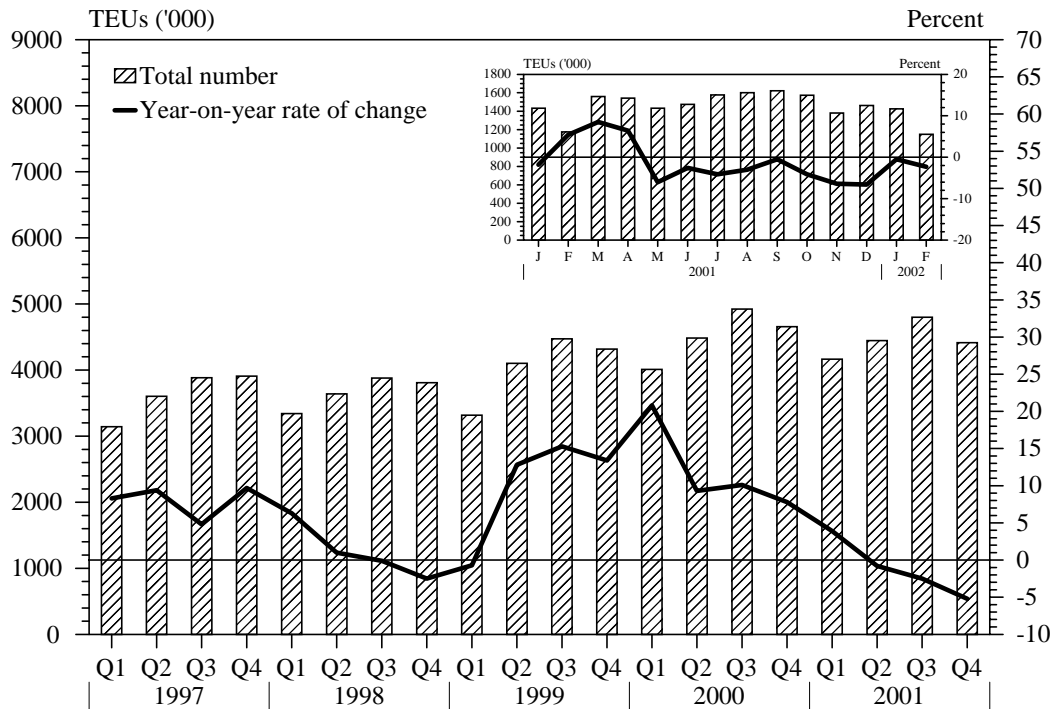


3.32 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) contracted by 1% over a year earlier to 2.6 million TEUs in the first two months of 2002. This was smaller than the 6% drop in the fourth quarter of 2001, though the same as the 1% decline for 2001 as a whole. Within this total, outward container throughput decreased by 2% over a year earlier to 1.3 million TEUs in the first two months of 2002, while inward container throughput held stable at 1.3 million TEUs. Apart from the modest performance of external trade, the reduction in container throughput was also related to the on-going trend of manufactured products being shipped out directly from the Mainland ports nearby rather than indirectly through the Hong Kong port. Reflecting this, container throughput at the Yantian port surged sharply further, by 48% in the first two months of 2002 over a year earlier, following leaps of 39% in the fourth quarter of 2001 and 28% for 2001 as a whole.

/Diagram 3.15

Diagram 3.15

Container throughput



Tourism

3.33 Inbound tourism gathered strength in the first quarter of 2002, receiving much impetus from a rapid increase in visitors from the Mainland upon abolishment of quota under the Hong Kong Group Tour Scheme as from 1 January 2002⁽⁹⁾. Concurrently, there tended to be a bottoming out in the decline in visitors from many of the major sources as impacted by the 911 incident. Comparing the first quarter of 2002 with a year earlier, the total number of *incoming visitors* surged by 12% to 3.6 million, much exceeding the increases of 2% in the fourth quarter of 2001 and 5% for 2001 as a whole.

3.34 Analysed by major source, visitors from the Mainland leaped even faster, by 42% in the first quarter of 2002 over a year earlier, following increases of 29% in the fourth quarter of 2001 and 18% for 2001 as a whole. Visitors from the United Kingdom rebounded, to a 2% rise in the first quarter of 2002 over a year earlier. Visitors from the United States had virtually nil change. Visitors from Japan and Taiwan, though still down, had distinctly smaller decreases of 8% and 1% respectively. As to visitors from South and Southeast Asia, there was a further moderate decline of 2%.

/Diagram 3.16

Diagram 3.16

Number of incoming visitors

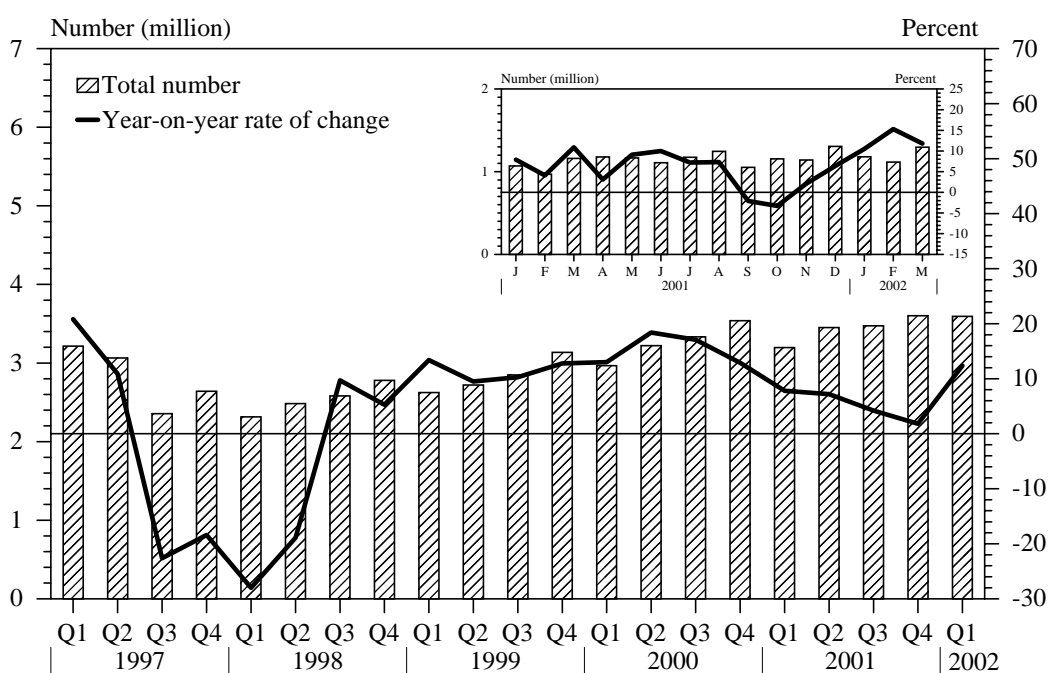


Table 3.14

**Number of incoming visitors by place of residence
(year-on-year rate of change (%))**

	<u>Annual</u>	<u>2001</u>				<u>2002</u>			
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
All sources	5	8	7	4	2	12	10	15	12
Mainland of China	18	10	13	17	29	42	23	70	41
Taiwan	1	8	6	-2	-5	-1	-4	7	-5
South and Southeast Asia	*	3	2	-3	-2	-2	1	-7	*
Japan	-3	8	7	-5	-21	-8	4	-24	-2
United States	-3	9	5	-2	-20	*	13	-15	2
United Kingdom	-2	6	-4	-1	-7	2	9	-7	5
Others	2	8	7	2	-6	4	10	-5	5

Notes : Figures shown in this table include also non-Macau residents coming to Hong Kong via Macau.

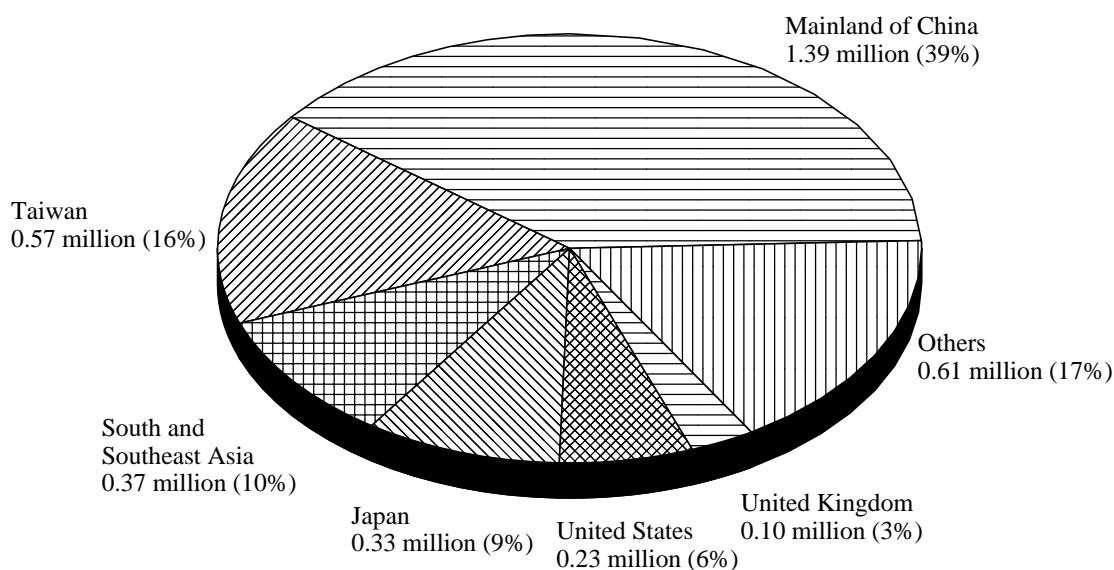
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.35 In the first quarter of 2002, the Mainland remained the largest source of visitors to Hong Kong, accounting for 39% of the total visitor arrivals. Taiwan stayed in the second place, with a share of 16%. Other major sources included South and Southeast Asia (10%), Japan (9%), the United States (6%), and the United Kingdom (3%).

Diagram 3.17

**Number of incoming visitors by source
in the first quarter of 2002**



Total number of incoming visitors in the first quarter of 2002 : 3.59 million

3.36 As at end-March 2002, the stock of *hotel rooms* in Hong Kong amounted to 41 829. Partly due to an accelerated growth in the number of incoming visitors, the *average hotel room occupancy rate* showed an appreciable rise, from 78% in the first quarter of 2001 to 81% in the first quarter of 2002.

/Table 3.15

Table 3.15**Stock of hotel rooms and occupancy rate**

		Number of hotel rooms as at end of period*		Average hotel room occupancy rate during the period (%)
2001	Annual	35 999	(2)	79
	Q1	36 712	(4)	78
	Q2	36 971	(4)	79
	Q3	36 591	(4)	78
	Q4	35 999	(2)	80
2002	Q1	41 829	(--)	81

Notes : (*) For 2001, this covers only high-tariff hotels, medium-tariff hotels, hostels and guest houses which were members of the Hong Kong Tourist Association (which is renamed as Hong Kong Tourism Board as from April 2001). As from the first quarter of 2002, this has a wider coverage, including all hotels and tourist guest houses on the record of the Office of the Licensing Authority, Home Affairs Department. As such, the data for the first quarter of 2002 and thereafter are not directly comparable to those in the earlier periods.

() % change over a year earlier.

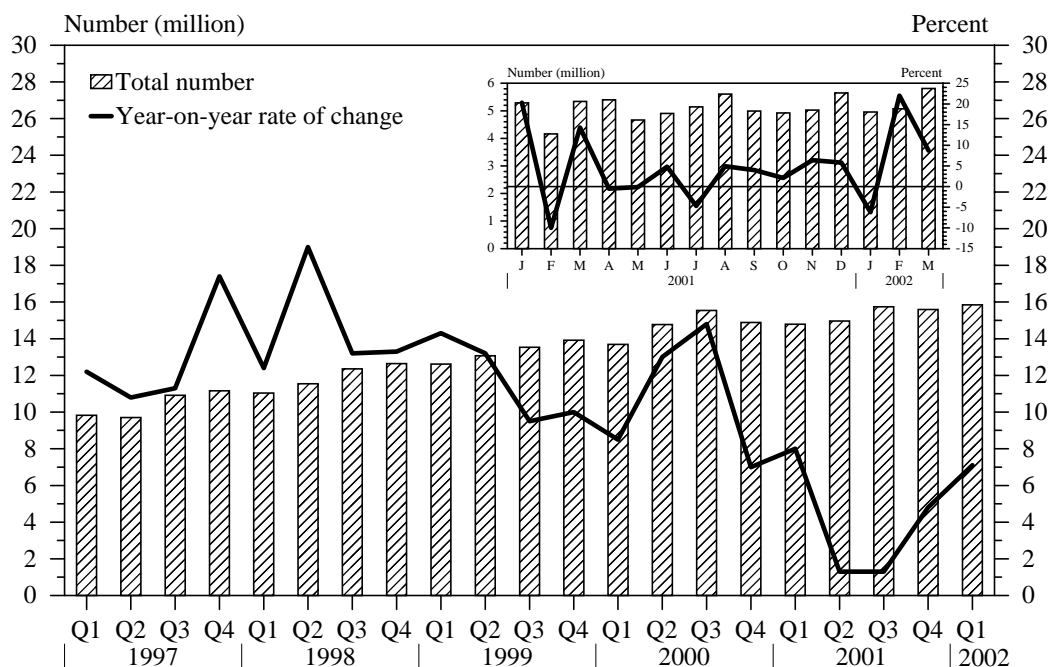
(--) Not applicable.

Source : Hong Kong Tourism Board.

/3.37

3.37 On *Hong Kong residents travelling abroad*, the total number of resident departures went up by 7% over a year earlier to 15.8 million in the first quarter of 2002. This was larger than the increases of 5% in the fourth quarter of 2001 and 4% for 2001 as a whole. The relative strength of the US dollar and hence the Hong Kong dollar at that time might have supported the rise. Also relevant was the different timing of the Easter holidays, which fell in March this year but in April last year. Analysed by destination and on a year-on-year comparison, resident departures to Taiwan had the largest increase, by 20% in the first quarter of 2002 over a year earlier. This was boosted by the simplification of entry procedures for Hong Kong residents visiting Taiwan⁽¹⁰⁾. Resident departures to North Asia picked up by 5%, aided by the depreciation of the Japanese yen and the Korean won against the Hong Kong dollar. Resident departures to Europe and the Mainland also rose, by 10% and 9% respectively. On the other hand, resident departures to the Americas continued to fall visibly, by 14%, while resident departures to Macau, and South and Southeast Asia were lower by 3% and 2% respectively.

Diagram 3.18
Number of Hong Kong resident departures



/Table 3.16

Table 3.16**Number of Hong Kong resident departures by destination
(year-on-year rate of change (%))**

	<u>2001</u>					<u>2002</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
All destinations	4	8	1	1	5	7	-6	22	9
Mainland of China	4	8	*	2	6	9	-1	19	10
Macau	2	7	8	-5	-1	-3	-26	21	2
South and Southeast Asia	5	16	8	1	-5	-2	-33	48	-6
North Asia	3	13	-3	-3	6	5	-39	99	-3
Americas ^(a)	-6	7	5	-13	-21	-14	-33	46	-22
Taiwan	12	8	9	12	19	20	-12	61	20
Europe	*	4	3	-4	-2	10	-14	47	12
Australia and New Zealand	3	4	3	6	-3	-8	-39	32	-1
Others	17	84	28	-3	-32	-40	-82	95	*

Notes : (a) This includes the United States, Canada, Central America and South America.

(*) Change of less than 0.5%.

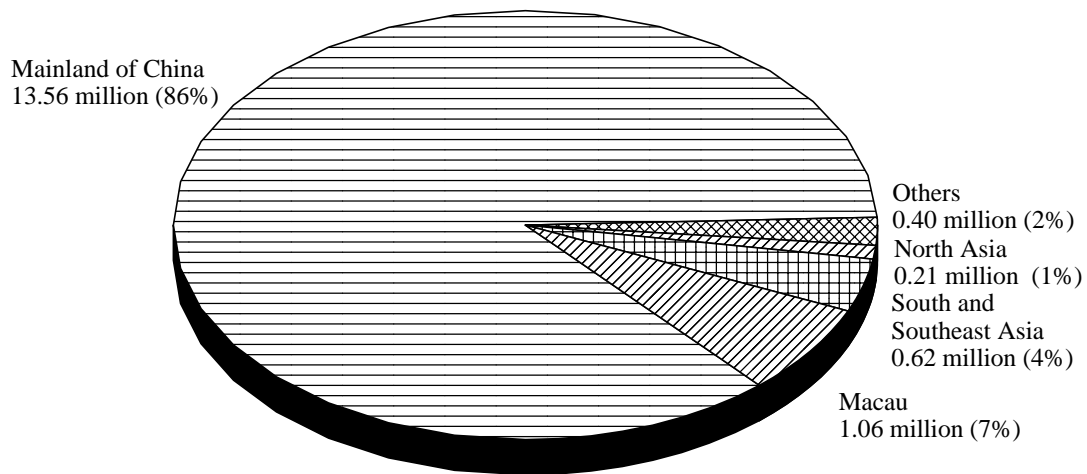
Source : Hong Kong Tourism Board.

3.38 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 86% of the total outbound trips in the first quarter of 2002. Most of these trips were destined for Guangdong Province. Macau came second (with a share of 7%), followed by South and Southeast Asia (4%), and North Asia (1%).

/Diagram 3.19

Diagram 3.19

**Number of Hong Kong resident departures by destination
in the first quarter of 2002**



Total number of resident departures in the first quarter of 2002 : 15.84 million

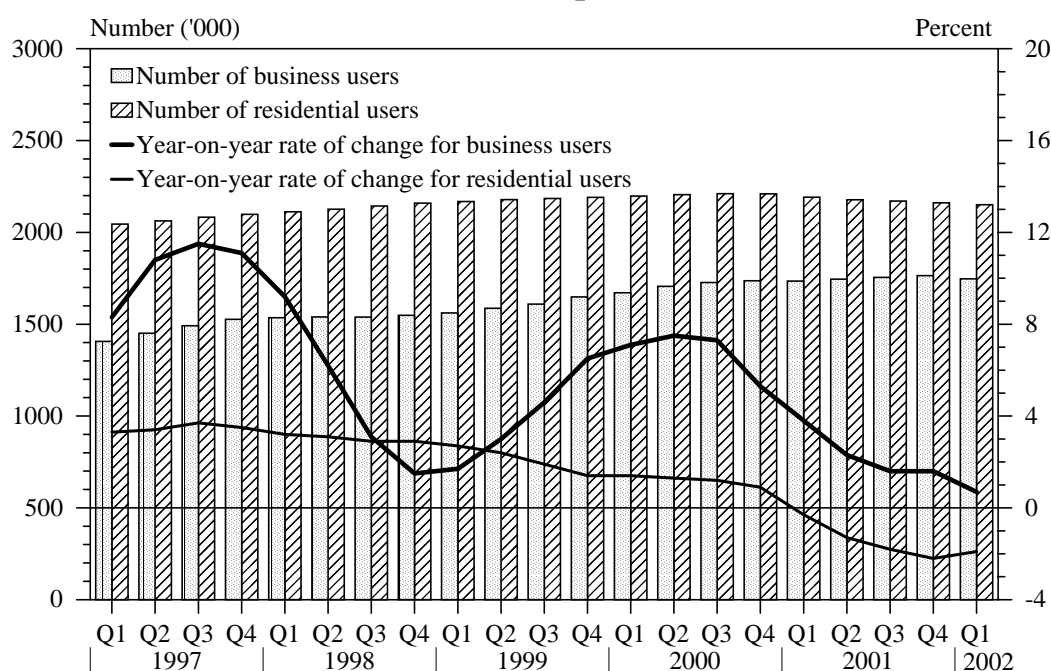
Telecommunications

3.39 On *wireline services*, the number of fixed telephone lines declined slightly, by 1% over a year earlier to 3.9 million at end-March 2002. Within this total, the number of lines for business customers edged up by 1%, while the number of lines for residential customers went down modestly by 2%. These two groups of customers accounted for 45% and 55% respectively of all the telephone lines at end-March 2002. Per capita tele-density in Hong Kong, at 58 telephone lines per 100 inhabitants, was amongst the highest in Asia. As to facsimile lines, the number stood at 407 000 at end-March 2002, virtually unchanged from a year earlier. This was equivalent to 23 facsimile lines per 100 business telephone lines, again amongst the highest in Asia. On Internet usage, broadband services continued to grow rapidly. Compared with a year earlier, the volume of traffic through broadband networks more than tripled to 12 700 terabits in March 2002.

/Diagram 3.20

Diagram 3.20

**Number of direct exchange lines* by main user category
(as at end of quarter)**



Note : (*) Including facsimile lines.

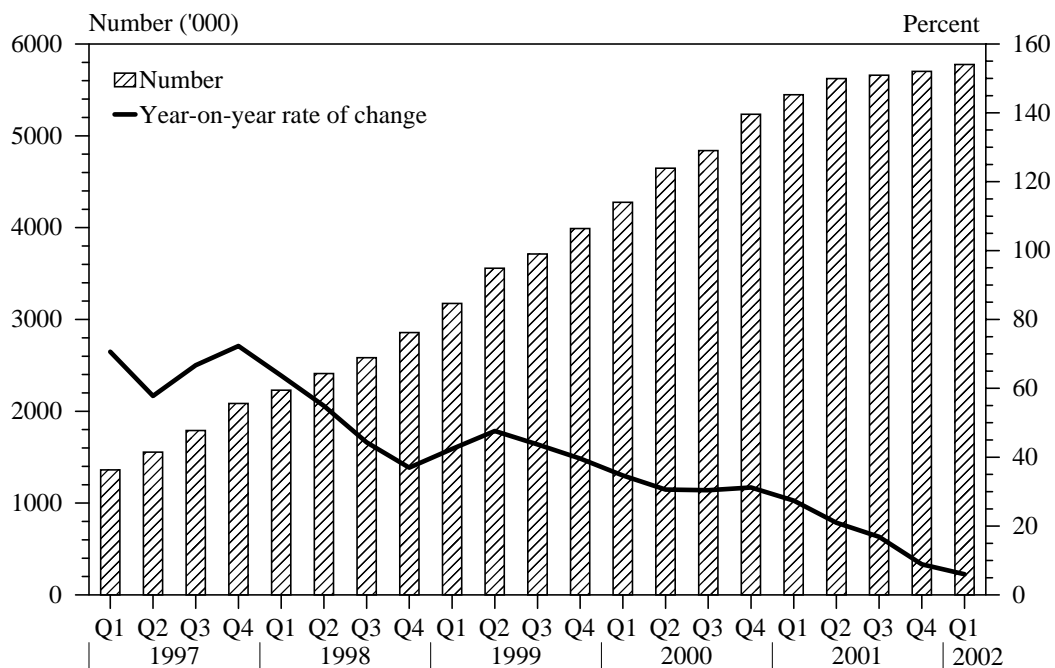
3.40 On *wireless services*, the mobile phone segment, having expanded markedly over the past several years, showed slower growth more recently. Comparing end-March 2002 with a year earlier, the number of mobile phone customers was higher by 6% to 5.8 million⁽¹¹⁾. This gave a mobile phone penetration rate of 85%, amongst the highest in the world. On the other hand, the paging segment kept on shrinking, as borne out by a further drop in the number of customers by 25% over a year earlier to 234 000 at end-March 2002.

3.41 On 8 March 2002, the Government announced that the annual mobile licence fees per mobile station would be lowered by 20% as from May 2002. This was the third reduction in such fees since 1999, giving a cumulative cut of 68%. Moreover, the basis for calculating the number of mobile stations was revised to include activated pre-paid Subscribed Identity Module (SIM) cards, in addition to post-paid subscription accounts. This would provide a fairer basis for determining licence fees payable by different mobile and paging service operators.

/Diagram 3.21

Diagram 3.21

**Number of public mobile radiotelephone service customers*
(as at end of quarter)**



Note : (*) Including all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

/Notes

Notes :

- (1) The Index of Industrial Production is intended to reflect the recent trend of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the boundary is not included.
- (2) The Monthly Survey of Orders-on-hand covers manufacturing firms engaging 50 or more workers. Its main purpose is to provide a broad indicator of the orders position in value terms in the local manufacturing sector at monthly intervals. Orders for outward processing operations across the boundary are not included.
- (3) Abstracting from short-term fluctuations caused by factors unrelated to productivity changes, output per person engaged may be taken as a broad indicator of average labour productivity. To smooth out short-term fluctuations, a four-quarter moving average is used in computing output per person engaged. Besides the increase in the workers' own efficiency, average labour productivity also reflects the increased output brought about by investment in machinery and equipment, thereby resulting in a greater capital intensity per worker. An upward shift in the occupational mix also raises average labour productivity.
- (4) Developers offered a variety of inducements including flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers might opt for different combinations of these privileges, or else might seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years for the flat buyers could be reduced considerably.
- (5) On 3 September 2001, the Chief Secretary for Administration announced that a moratorium would be imposed immediately on all sales of HOS/PSPS flats until end-June 2002, and that additional home ownership loans equal in number to the sale flats put on hold would be made available to eligible families. He also announced that the supply of new HOS/PSPS flats after the moratorium would not exceed 9 000 units a year up to the financial year 2005/06.
- (6) On 28 February 2002, the Housing Authority announced that the income and asset ceilings for applicants to the Home Ownership Scheme would generally be adjusted downward as from 1 April 2002. More specifically, the monthly income ceiling would be lowered from \$25,000 to \$21,000 for family applicants with two to seven members, and from \$12,500 to \$10,500 for singleton applicants. Concurrently, the asset ceiling would be lowered from \$600,000 to \$480,000 for family applicants with two to five members, and from \$300,000 to \$240,000 for singleton applicants. Yet for some large families, which should be in the minority, the monthly income ceiling and asset ceiling might be unchanged or lifted somewhat.
- (7) The Government operates an Application System under the Land Sale Programme as from April 1999, whereby additional sites are set aside on an Application List for open application by property developers. Provided that the minimum price offered by the applicant is acceptable to the Government, the site involved can be released from the Application List for open auction or tender. This helps ensure a flexible supply of Government land in response to market demand.

/(8)

- (8) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with town planning, modification of usage may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the difference in land value between the old and the new usage, is normally required for granting of the modification.
- (9) As from 1 January 2002, the quota of 1 500 a day set under the Hong Kong Group Tour Scheme up to end-2001 is abolished, so as to facilitate more Mainland visitors to come to Hong Kong. Also, the number of Mainland travel agencies licensed to organise tours to Hong Kong is henceforth increased substantially, from 4 to 67.
- (10) As from 8 August 2001, the Taiwanese authorities adopt a new measure to simplify the entry procedures for Hong Kong and Macau residents visiting Taiwan. Under the new measure, those Hong Kong and Macau residents who have previously visited Taiwan may only need to apply for a temporary entry permit lasting for 14 days upon arrival in Taiwan.
- (11) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4 : THE FINANCIAL SECTOR*

Overall financial market situation

4.1 In the first quarter of 2002, the Hong Kong dollar exchange and money markets held broadly stable, even in the wake of Argentina abolishing its currency board system. The market exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate during the quarter. The premium in the forward rates of the Hong Kong dollar against the US dollar, after a brief leap, fell slightly towards the end of the quarter. Local inter-bank interest rates began to edge up, upon the end of the interest rate down-cycle in the United States. Narrow money supply continued to increase, albeit at a moderated rate, while broad money supply contracted further. As Hong Kong dollar loans reverted to a slight increase while Hong Kong dollar deposits declined, the Hong Kong dollar loan-to-deposit ratio rose during the first quarter. The local stock market also stayed generally stable during the first quarter, in moderate trading and with the Hang Seng Index down slightly mainly upon the loss earlier in the quarter.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate during the first quarter of 2002, moving within a very narrow range of 7.796 to 7.800. The premium of the twelve-month forward rate of the Hong Kong dollar against the US dollar was generally stable during the quarter, except for a temporary increase to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. But it soon receded to 226 pips at end-March 2002, slightly smaller than that of 235 pips at end-2001.

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

4.3 Under the linked exchange rate system⁽¹⁾, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. During the first quarter of 2002, the US dollar strengthened further against other major currencies, amidst signs of a sooner-than-expected recovery in the US economy. The euro-dollar exchange rate was down by 1.6% from December 2001 to 0.877 in March 2002. The pound sterling also fell against the US dollar, by 1.3% from December 2001 to 1.424 in March 2002.

4.4 The Japanese yen remained weak against the US dollar during the first quarter of 2002, being weighed down by the weak economy and continuing difficulties in the banking sector. It was held up briefly in mid-March upon increased capital inflow into the Tokyo stock market, before falling back somewhat in the latter part of March. The yen-dollar exchange rate, at 131.1 in March 2002, still represented a 2.7% loss from December 2001. Of the other East Asian currencies, the Korean won and the New Taiwan dollar likewise weakened against the US dollar during the quarter, while the Singapore dollar, Thai baht and Philippine peso firmed up somewhat.

4.5 Taking these currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar edged up slightly, to 105.9 in March 2002, from 105.4 in December 2001. After adjusting for relative movements in the consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar rose to a more appreciable extent, to 99.3 in March 2002, from 98.0 in December 2001. Yet this was mainly due to a rise in Hong Kong's consumer prices between December 2001 and March 2002, upon a particularly low base in December 2001 caused by the waiver of public housing rentals in that month. Comparing the average in the first quarter of 2002 with that in the fourth quarter of 2001, the Real Effective Exchange Rate Index fell slightly (paragraph 2.3).

/Table 4.1

Table 4.1

**Trade-weighted Effective Exchange Rate Index
of the Hong Kong dollar**

<u>Average for the month</u>	<u>Trade-weighted Nominal EERI^(a) (Jan 2000 = 100)</u>		<u>Trade-weighted Real EERI^(b) (Jan 2000 = 100)</u>	
2001 Mar	104.3	(1.0)	100.0	(-0.1)
Jun	105.6	(1.2)	101.6	(1.6)
Sep	104.3	(-1.2)	99.7	(-1.9)
Dec	105.4	(1.1)	98.0	(-1.7)
2002 Mar	105.9	(0.5)	99.3	(1.3)

Notes : (a) The nominal Effective Exchange Rate Index of the Hong Kong dollar is a weighted average of the exchange rates of the Hong Kong dollar against the 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.

As from 2 January 2002, a new series of nominal EERI replaces the old series, with the weights updated to reflect the average pattern of merchandise trade during 1999 and 2000, and with the base period brought up to January 2000.

The currency basket of the new series has also been updated to include the euro and the Philippine peso, and to exclude the five currencies pertaining to the participating countries of the euro.

(b) The Real Effective Exchange Rate Index is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

() % change over three months ago.

/Diagram 4.1

Diagram 4.1

Exchange rate of the Hong Kong dollar against the US dollar

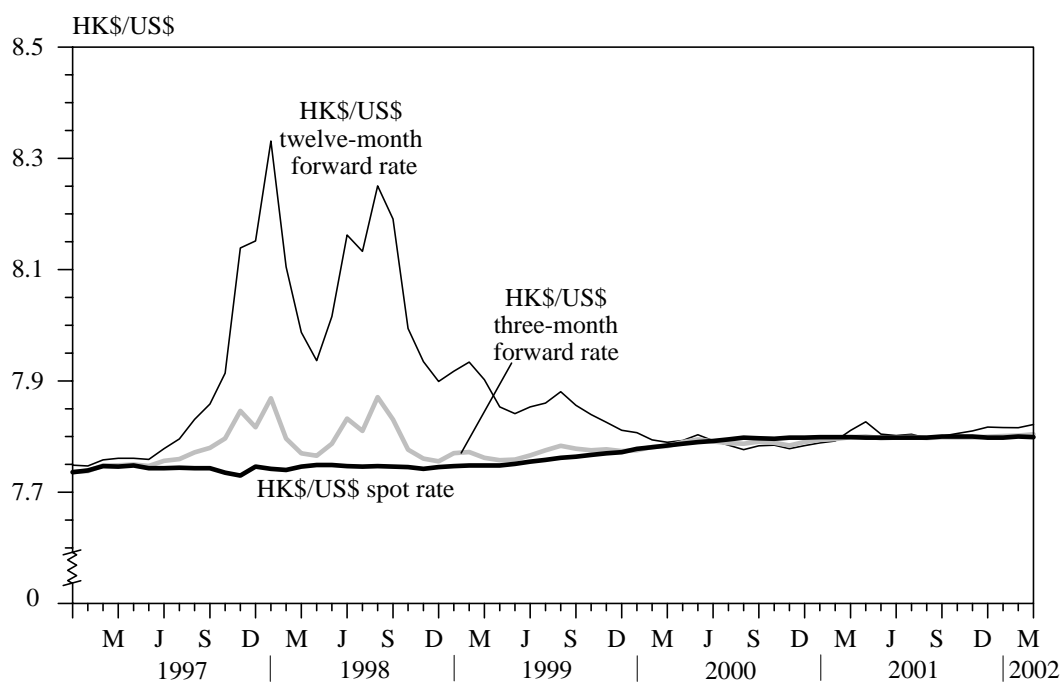
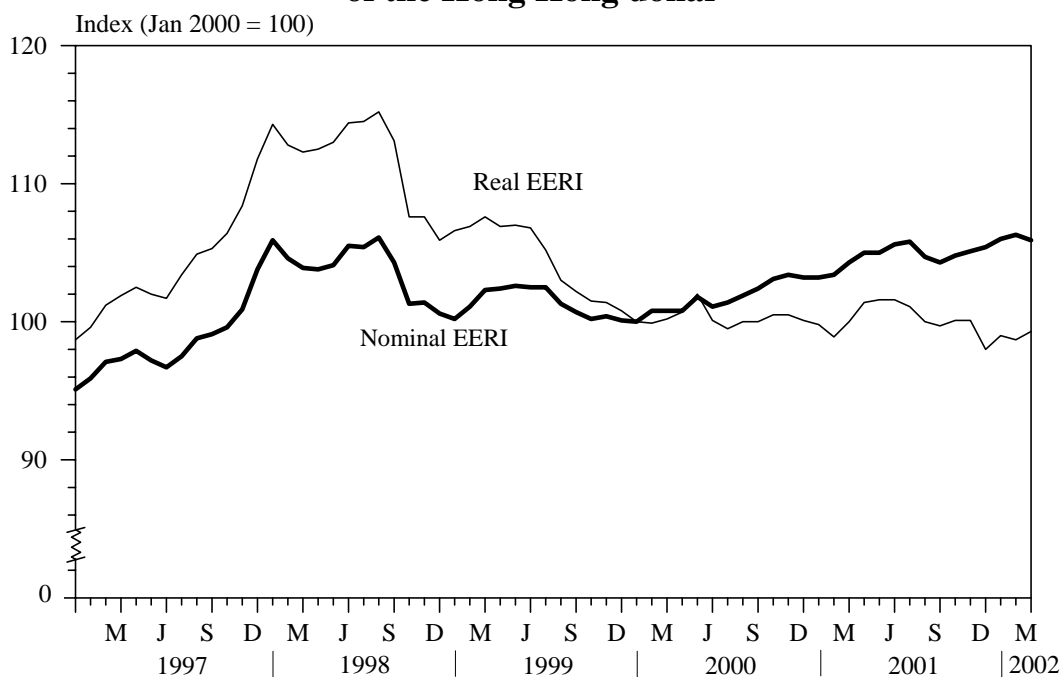


Diagram 4.2

Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar



Note : See Notes (a) and (b) to Table 4.1.

/Interest

Interest rates

4.6 Local inter-bank interest rates firmed up slightly during the first quarter of 2002, in part reflecting market expectations for future movements in US interest rates. The three-month HIBOR edged up from 1.9% at end-2001 to 2.2% at end-March 2002. During the quarter, Hong Kong dollar interest rates of all maturities generally maintained a modest spread above their US dollar counterparts, with the spread of the three-month HIBOR over the corresponding Euro-dollar deposit rate rising from 5 basis points at end-2001 to 20 basis points at end-March 2002.

4.7 As the interest rate down-cycle and monetary easing in the United States came to an end, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) remained unchanged at 3.25% during the first quarter of 2002. The best lending rate of the major commercial banks was kept at 5.13%. The average savings deposit rate rose marginally, to 0.16% at end-March 2002, from 0.15% at end-2001. The average spread of the best lending rate over the three-month time deposit rate narrowed slightly, from 4.69 percentage points in the fourth quarter of 2001 to 4.59 percentage points in the first quarter of 2002, reflecting the increase in the deposit rate.

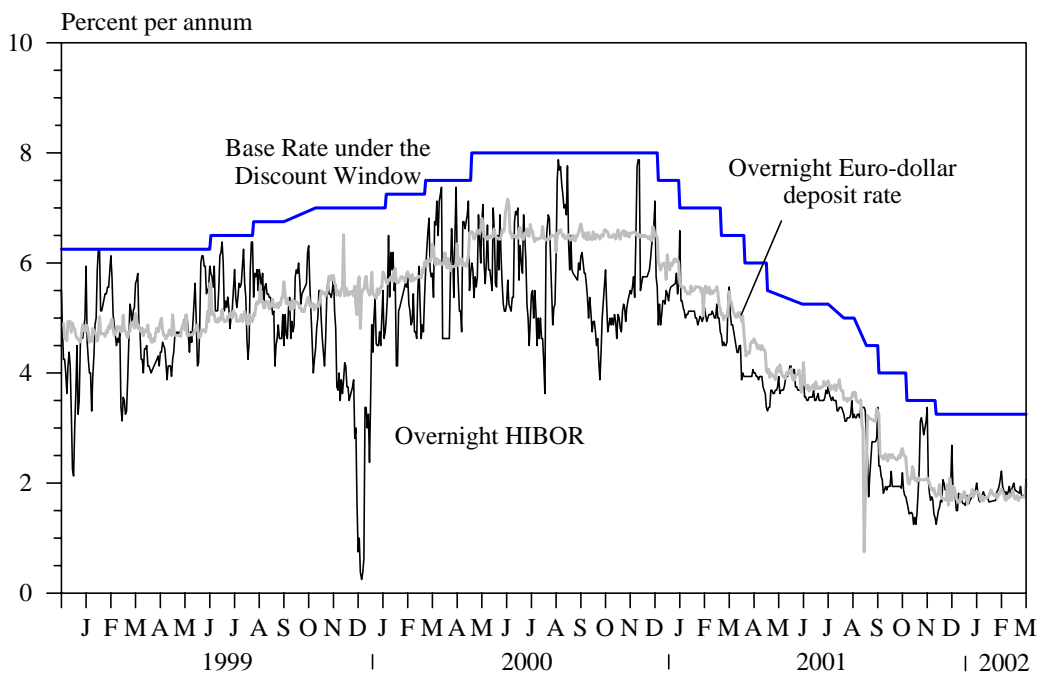
4.8 Competition amongst the banks for residential mortgage business remained intense. The proportion of new residential mortgage loans granted at more than two percentage points below the best lending rate rose slightly further, to 88.0% at end-March 2002, from 87.2% at end-2001⁽³⁾.

/Diagram 4.3

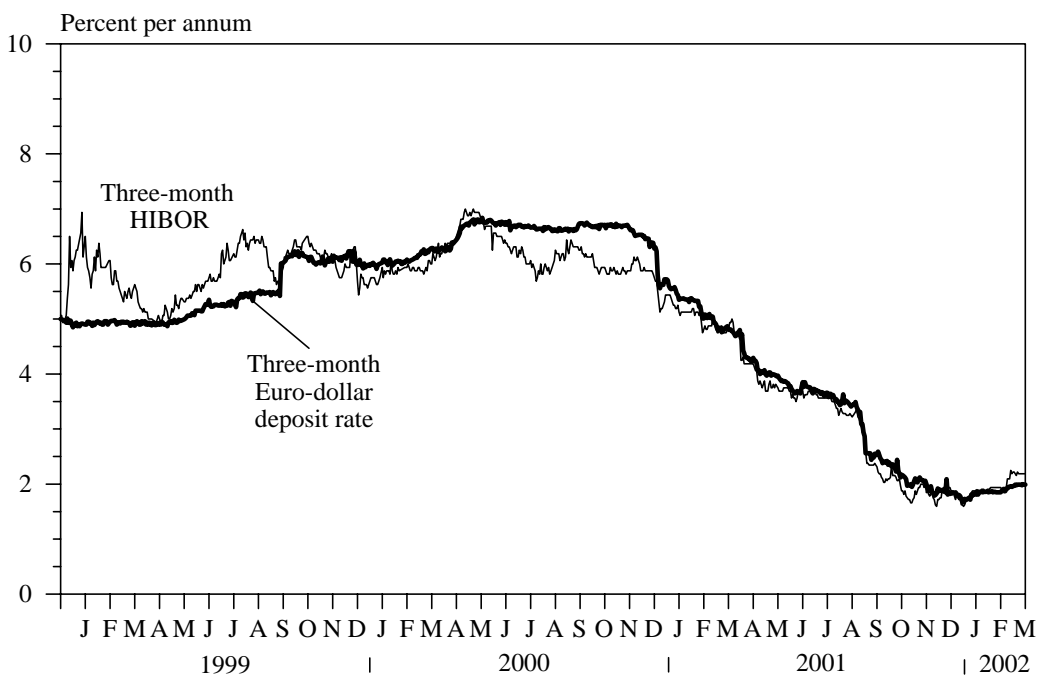
Diagram 4.3

Interest rates

(a) Base Rate under the Discount Window, and overnight HIBOR and Euro-dollar deposit rate



(b) Three-month HIBOR and Euro-dollar deposit rate



/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

(c) Twelve-month HIBOR and Euro-dollar deposit rate

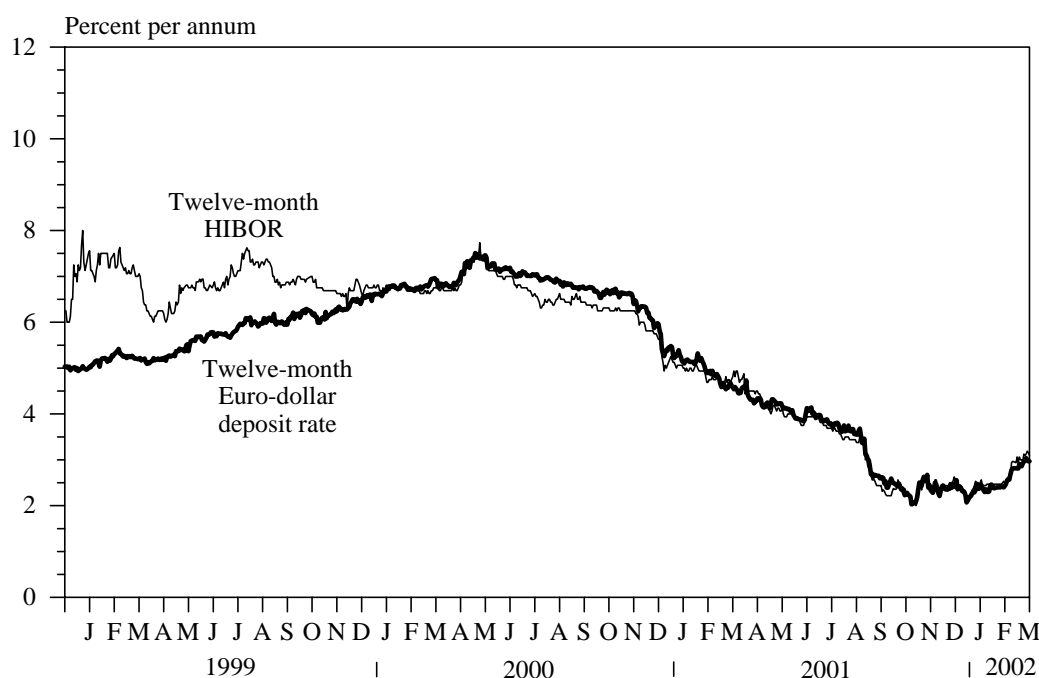


Table 4.2

**Hong Kong dollar inter-bank offer rates (HIBORs)
(% per annum, as monthly average)**

		<u>Overnight HIBOR</u>		<u>Three-month HIBOR</u>		<u>Twelve-month HIBOR</u>	
2001	Mar	4.94	(-39)	4.83	(-9)	4.74	(1)
	Jun	3.85	(-11)	3.67	(-12)	3.92	(-9)
	Sep	2.96	(-15)	2.84	(-11)	2.93	(-11)
	Dec	1.75	(-9)	1.81	(-6)	2.44	(6)
2002	Jan	1.74	(-3)	1.76	(-1)	2.36	(5)
	Feb	1.81	(3)	1.90	(4)	2.47	(9)
	Mar	1.86	(9)	2.12	(17)	2.93	(11)

Note : () Figures in brackets represent the spread between the HIBOR and the corresponding Euro-dollar deposit rate in basis points. A positive value denotes a differential in favour of the Hong Kong dollar, while a negative value denotes a differential in favour of the US dollar.

/Table 4.3

Table 4.3

Hong Kong dollar interest rates
 (% per annum, as monthly average of the rates
 quoted by the major banks)

		<u>Time deposit rates for deposits of less than HK\$100,000</u>					<u>Savings deposit rate</u>	<u>Best lending rate</u>
		<u>One- week</u>	<u>One- month</u>	<u>Three- month</u>	<u>Six- month</u>	<u>Twelve- month</u>		
2001	Mar	3.53	3.74	3.73	3.71	3.71	3.65	8.40
	Jun	2.22	2.41	2.46	2.52	2.73	2.25	7.00
	Sep	1.36	1.59	1.58	1.63	1.73	1.33	6.30
	Dec	0.22	0.51	0.51	0.63	1.04	0.20	5.17
2002	Jan	0.17	0.41	0.46	0.57	0.92	0.16	5.13
	Feb	0.18	0.48	0.55	0.71	1.08	0.16	5.13
	Mar	0.21	0.55	0.62	0.84	1.39	0.16	5.13

Deposits and money supply

4.9 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits⁽⁴⁾) turned to a 1.2% decline during the first quarter of 2002 to \$1,828 billion at end-March. This followed a 0.1% rise during the fourth quarter of 2001. Compared with a year earlier, Hong Kong dollar deposits were also down, by 0.7%. But with a larger fall in foreign currency deposits, the share of Hong Kong dollar deposits in total deposits increased to 56.3% at end-March 2002, from 55.1% at end-2001.

4.10 Within Hong Kong dollar deposits, time deposits decreased further by 1.8%. After increasing for three consecutive quarters, demand deposits fell by 5.0% in the first quarter of 2002. Savings deposits continued to rise, albeit only slightly, by 0.5%. Compared with a year earlier, time deposits were 11.8% lower at end-March 2002, while savings deposits and demand deposits were 23.5% and 15.7% respectively higher. Over the past twelve months, there was apparently a shift in the deposits portfolio towards relatively greater liquidity, as induced by the successive cuts in local interest rates during 2001.

/Table 4.4

Table 4.4**Hong Kong dollar deposits with authorized institutions**

<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total Hong Kong dollar deposits</u> ^(a)
2001	Q1	-6.1	1.4	-0.6	-0.4
	Q2	0.9	8.3	-3.2	0.2
	Q3	5.9	4.4	-2.0	0.3
	Q4	14.0	8.7	-5.4	0.1
2002	Q1	-5.0	0.5	-1.8	-1.2
Total amount at the end of March 2002 (HK\$Bn)		122	617	1,089	1,828
% change over a year earlier		15.7	23.5	-11.8	-0.7

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

(b) Time deposits with licensed banks plus deposits with restricted licence banks and deposit-taking companies.

4.11 With US dollar and non-US dollar deposits both declining, total foreign currency deposits (adjusted to exclude foreign currency swap deposits) continued to fall, by 5.9% during the first quarter of 2002 to \$1,418 billion at end-March, after a 5.0% fall during the fourth quarter of 2001. The contraction in non-US dollar deposits, at 12.8% during the first quarter of 2002, was considerably larger than that in US dollar deposits, at 2.2%. Compared with a year earlier, total foreign currency deposits fell by 8.4% at end-March 2002, comprising a 16.3% decline in non-US dollar deposits and a 4.2% decline in US dollar deposits.

/Table 4.5

Table 4.5

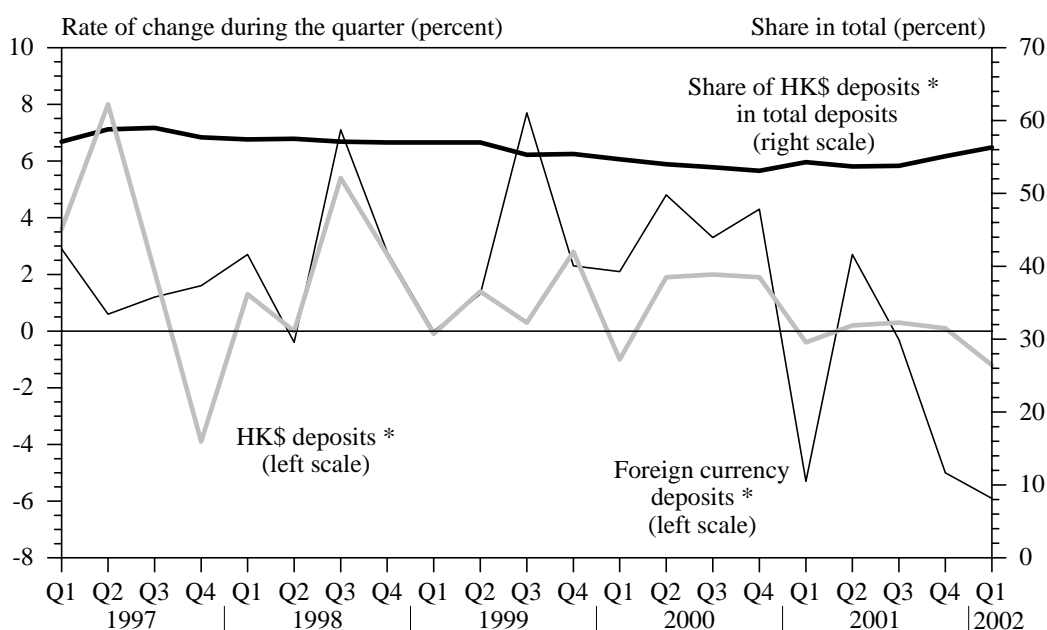
Foreign currency deposits with authorized institutions

% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2001	Q1	-4.3	-7.0	-5.3	-10.3
	Q2	2.7	2.7	2.7	-20.4
	Q3	-0.6	0.3	-0.3	-7.4
	Q4	-4.0	-6.9	-5.0	-7.8
2002	Q1	-2.2	-12.8	-5.9	-6.9
	Total amount at the end of March 2002 (HK\$Bn)	965	453	1,418	2
% change over a year earlier		-4.2	-16.3	-8.4	-36.8

Note : (a) Adjusted to exclude foreign currency swap deposits.

Diagram 4.4

Deposits with authorized institutions by currency denomination and share of Hong Kong dollar deposits in total deposits



Note : (*) Adjusted for foreign currency swap deposits.

/4.12

4.12 Total deposits with all authorized institutions in Hong Kong fell by 3.3% during the first quarter of 2002 to \$3,246 billion at end-March, following a 2.3% contraction in the fourth quarter of 2001. Amongst deposits with different types of authorized institutions, deposits with licensed banks and restricted licence banks declined by 3.3% and 3.0% respectively during the first quarter of 2002. Deposits with deposit taking companies had a larger decline, by 7.0%. Licensed banks took up 98.8% of the total deposits with all authorized institutions at end-March 2002.

Table 4.6

Total deposits by major types of authorized institution

		<u>With licensed banks</u>				<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>	
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	<u>Total</u>
2001	Q1	-13.0	0.8	-3.1	-2.8	4.7	5.5	-2.7
	Q2	0.6	7.3	-0.2	1.4	-3.2	-6.5	1.3
	Q3	6.7	4.3	-1.7	*	7.0	16.0	*
	Q4	10.3	8.5	-6.4	-2.3	-2.0	-1.9	-2.3
2002	Q1	-1.6	0.2	-4.7	-3.3	-3.0	-7.0	-3.3
Total amount at the end of March 2002 (HK\$Bn)		154	853	2,201	3,208	32	6	3,246
% change over a year earlier		16.4	21.6	-12.5	-4.2	-1.5	-1.0	-4.2

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

/4.13

4.13 Narrow money supply, HK\$M1⁽⁵⁾, fell slightly by 0.1% during the first quarter of 2002 to \$230 billion at end-March, after a 9.0% increase during the fourth quarter of 2001. This was attributable to the low opportunity cost of holding currency and demand deposits after the substantial decline in local interest rates over the course of 2001. On a seasonally adjusted basis, HK\$M1 increased by 1.1% during the first quarter of 2002, after a 5.4% rise during the fourth quarter of 2001⁽⁶⁾. The broader definitions of money supply, HK\$M2 and HK\$M3 (adjusted to include currency swap deposits) contracted, both by 0.9% during the first quarter of 2002 to \$1,977 billion and \$1,994 billion respectively at end-March. Compared with a year earlier, HK\$M1 increased by 15.6% while HK\$M2 and HK\$M3 rose only marginally, by 0.1% and 0.2% respectively at end-March 2002.

Table 4.7

Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>		
		<u>HK\$</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	
2001	Q1	-2.6	(0.1)	-7.5	-0.5	-2.7	-0.5	-2.6
	Q2	1.0	(1.8)	0.9	0.2	1.5	0.3	1.5
	Q3	5.1	(4.8)	5.7	0.6	0.2	0.7	0.3
	Q4	9.0	(5.4)	7.4	0.2	-1.9	0.2	-1.9
2002	Q1	-0.1	(1.1)	1.4	-0.9	-2.9	-0.9	-2.9
Total amount at the end of March 2002 (HK\$Bn)		230	(227)	262	1,977	3,400	1,994	3,442
% change over a year earlier		15.6	(13.6)	16.1	0.1	-3.0	0.2	-3.1

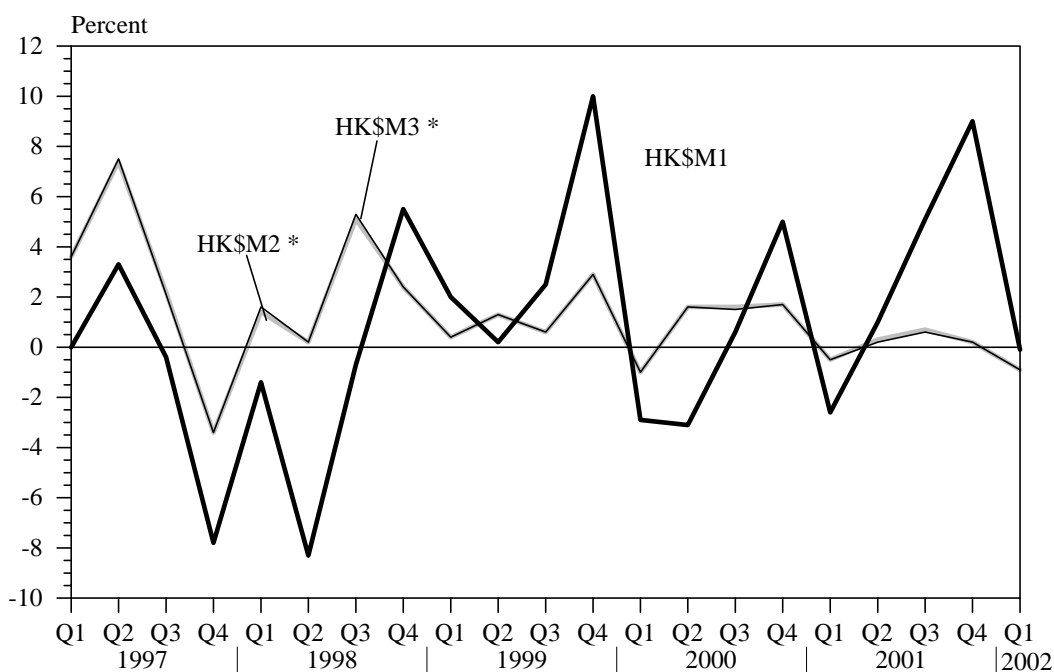
Notes : () Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK\$M1. Seasonality is not apparent for the other monetary aggregates.

(a) Adjusted to include foreign currency swap deposits.

/Diagram 4.5

Diagram 4.5

**Hong Kong dollar money supply
(rate of change during the quarter)**



Note : (*) Adjusted to include foreign currency swap deposits.

Authorized institutions' Hong Kong dollar claims and liabilities against banks in the Mainland

4.14 The close economic relations between the Mainland and Hong Kong have led to the accumulation of a substantial amount of Hong Kong dollar funds from trading activities and inward investment in the Mainland. These funds are then placed with banks in the Mainland and subsequently channelled back to Hong Kong through the inter-bank market. As deposits from banks in the Mainland declined, Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland continued to fall, by 46.0% over a year earlier to \$82 billion at end-February 2002. Hong Kong dollar claims of Hong Kong's authorized institutions on banks in the Mainland reverted to a slight increase during the first two months of 2002, to \$19 billion at end-February 2002. Yet this was still 56.2% lower than a year earlier. Taken together, net Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell further, to \$63 billion at end-February 2002, from \$77 billion at end-2001.

/Table 4.8

Table 4.8

**Hong Kong dollar external claims and liabilities
involving banks in the mainland of China held by
Hong Kong's authorized institutions**

<u>As at the end of</u>		<u>Claims on banks in the Mainland</u> (HK\$Bn)	<u>Liabilities to banks in the Mainland</u> (HK\$Bn)	<u>Net liabilities to banks in the Mainland</u> (HK\$Bn)
2001	Q1	43 (-0.3)	141 (-10.3)	99
	Q2	19 (-55.4)	116 (-18.1)	97
	Q3	19 (-1.1)	111 (-3.5)	93
	Q4	19 (-1.2)	96 (-13.9)	77
2002	Jan	19 (0.2)	89 (-7.1)	71
	Feb	19 (1.0)	82 (-8.0)	63
		<-56.2>	<-46.0>	

Notes : () % change during the period.

< > % change over a year earlier.

Loans and advances

4.15 Total loans and advances continued to decline, by 1.2% during the first quarter of 2002 to \$2,158 billion at end-March, after a 2.8% fall during the fourth quarter of 2001. This was mainly dragged down by a 7.2% plunge in foreign currency loans during the first quarter of 2002, to \$498 billion at end-March, after an already sharp contraction during 2001. Hong Kong dollar loans reverted to increase at 0.7% during the first quarter of 2002, to \$1,659 billion at end-March. Compared with a year earlier, foreign currency loans had a much larger decline, at 28.4% at end-March 2002, than Hong Kong dollar loans, at 1.4%, giving an overall decline of 9.3% in total loans and advances.

/Table 4.9

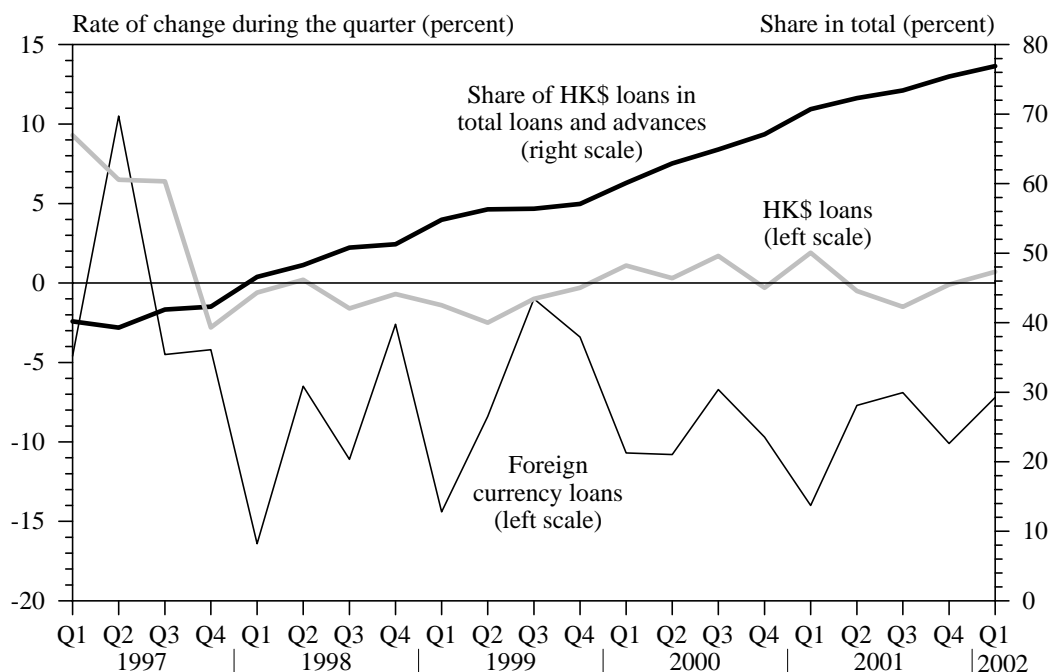
Table 4.9

Loans and advances by currency denomination

% change during the quarter		Hong Kong dollar loans	Foreign currency loans	Total loans and advances
2001	Q1	1.9	-14.0	-3.4
	Q2	-0.5	-7.7	-2.6
	Q3	-1.5	-6.9	-3.0
	Q4	-0.1	-10.1	-2.8
2002	Q1	0.7	-7.2	-1.2
Total amount at the end of March 2002 (HK\$Bn)		1,659	498	2,158
% change over a year earlier		-1.4	-28.4	-9.3

Diagram 4.6

Loans and advances by currency denomination and share of Hong Kong dollar loans in total loans and advances



/4.16

4.16 As Hong Kong dollar loans reverted to a modest increase while Hong Kong dollar deposits declined, the Hong Kong dollar loan-to-deposit ratio rose back to 90.8% at end-March 2002, from 89.0% at end-2001.

Table 4.10

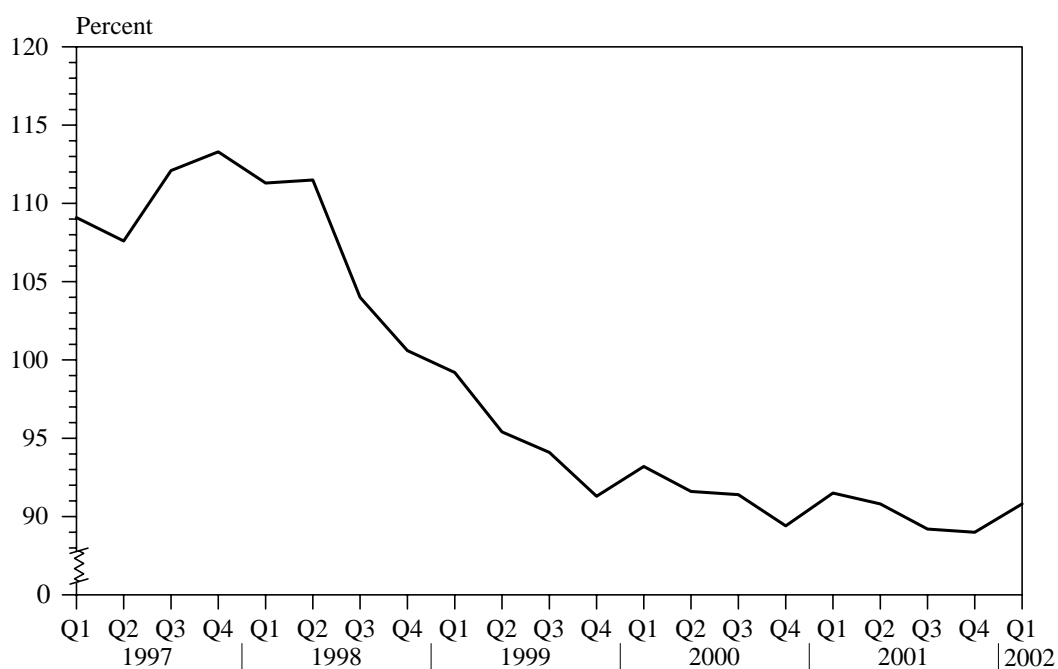
Hong Kong dollar loan-to-deposit ratio^(a)

<u>As at the end of</u>	<u>%</u>
2001 Q1	91.5
Q2	90.8
Q3	89.2
Q4	89.0
2002 Q1	90.8

Note : (a) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



Note : (*) See the footnote to Table 4.10.

/4.17

4.17 Analysed by place of usage, loans for use in Hong Kong rose slightly by 0.1% during the first quarter of 2002 to \$1,881 billion at end-March, while loans for use outside Hong Kong continued to shrink sharply, by 9.6% to \$277 billion. The latter decline reflected in part the sustained cut-back in Euro-yen Impact Loans⁽⁷⁾, and in part the slack business activity in the region. Compared with a year earlier, loans for use in Hong Kong fell moderately by 3.4% at end-March 2002, while loans for use outside Hong Kong plummeted by 35.8%.

Table 4.11

Loans and advances by place of usage

<u>% change during the quarter</u>		<u>Loans for use in Hong Kong</u> ^(a)	<u>Loans for use outside Hong Kong</u> ^(b)
2001	Q1	-0.9	-13.0
	Q2	-0.4	-12.5
	Q3	-1.7	-9.6
	Q4	-1.4	-10.2
2002	Q1	0.1	-9.6
Total amount at the end of March 2002 (HK\$Bn)		1,881	277
% change over a year earlier		-3.4	-35.8

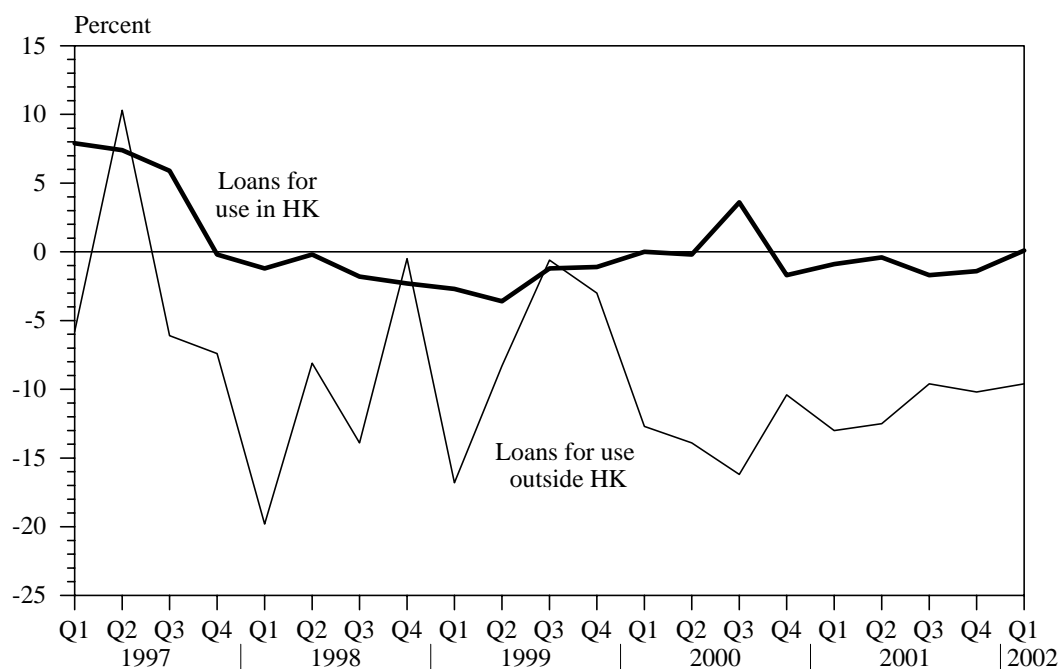
Notes : (a) Including trade financing loans.

(b) Including loans where the place of usage is unknown.

/Diagram 4.8

Diagram 4.8

**Loans and advances by place of usage
(rate of change during the quarter)**



4.18 Analysing domestic loans by major usage, loans for some of the usages resumed positive growth during the first quarter of 2002. Loans to the manufacturing sector rose by 2.2% during the quarter, despite the sluggishness in domestic exports. Loans to the wholesale and retail trades turned up to a 1.0% rise, generally in line with seasonally higher retail sales in the first quarter of the year (paragraph 1.17). Loans to stockbrokers picked up to a 2.1% increase, conceivably induced by a somewhat more active stock market in the early part of March. However, loans for trade financing continued to fall, by 2.4%, affected by the still slack performance of merchandise exports. Loans for building, construction, property development and property investment fell by 0.5%, amidst the generally subdued building and construction activity. Loans for financial concerns were down by 3.2%. Loans for residential mortgages showed virtually no change.

/Table 4.12

Table 4.12**Loans and advances for use in Hong Kong by major usage^(a)**

		Loans to :							
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trades	Building, construction, property develop- ment and property investment	Purchase resi- dential property ^(b)	Financial concerns	Stock- brokers	Others
2001	Q1	-4.1	0.8	-2.5	2.0	0.7	-1.8	-12.0	-4.3
	Q2	2.0	2.9	-0.9	-3.2	1.0	-5.7	27.2	0.7
	Q3	-4.3	-5.7	-6.0	-2.2	0.8	-8.0	-2.0	-0.3
	Q4	-8.9	-0.4	-7.1	0.8	0.5	-0.7	-11.3	-3.4
2002	Q1	-2.4	2.2	1.0	-0.5	*	-3.2	2.1	1.9
Total amount at the end of March 2002 (HK\$Bn)		86	73	103	387	647	137	9	440
% change over a year earlier		-13.2	-1.2	-12.6	-5.0	2.3	-16.6	12.9	-1.1

Notes : (a) Statistics in this table are revised on a regular basis to incorporate subsequent amendments and loan re-classifications made by the authorized institutions concerned. The rates of change for the earlier quarters have been adjusted for the revisions known up to the latest reference quarter.

(b) Including loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme, and Tenants Purchase Scheme.

(*) Change of less than 0.05%.

4.19 Asset quality of the banks in Hong Kong continued to improve in overall terms, notwithstanding the subdued conditions in the economy. Overdue and rescheduled loans accounted for 4.57% of the overall loan portfolio of the banks at end-2001, down from 4.96% at end-September 2001. The ratio of non-performing loans to total loans fell to 4.74% at end-2001, from 5.11% at end-September 2001. Yet the ratio of classified loans to total loans went up marginally, to 6.37% at end-2001, from 6.36% at end-September 2001⁽⁸⁾. Arrears for over three months in mortgage repayments fell further, to 1.18% at end-March 2002, from 1.22% at end-2001. However, arrears for over

/three

three months in credit card repayments rose further, to 1.28% at end-2001, from 1.13% at end-September 2001. Local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 16.8% at end-2001, well above the standard set by the Bank for International Settlements.

4.20 In view of the rising trend in credit card receivables overdue, in February 2002 HKMA issued a circular to all authorized institutions giving recommendations on the best practices for management of credit card operations, and also setting out the measures for preventing abuse of the bankruptcy provisions. To enhance the capability of the banks in their credit assessment, the Hong Kong Association of Banks and the Privacy Commissioner had reached broad agreement on the scope of positive consumer credit data to be shared amongst the banks. Yet this was subject to a public consultation by the Privacy Commissioner later this year. With such additional customer information for the banks, consumers themselves would also be able to benefit, in terms of enhanced credit availability at a lower cost.

Banks and other deposit-taking institutions

4.21 During the first quarter of 2002, the number of licensed banks was reduced by five to 142 at end-March. The number of restricted licence banks fell by one to 48, and the number of deposit-taking companies decreased by five to 49. Altogether, 239 authorized institutions (excluding representative offices) from 31 countries and territories maintained a presence in Hong Kong at end-March 2002. Total assets of all the authorized institutions in Hong Kong declined by 2.0% during the first quarter of 2002, to \$6,032 billion at end-March.

4.22 On enhancing deposit protection in Hong Kong, opinions obtained from a public consultation exercise in the latter part of 2000 indicated broad support for the introduction of such a scheme in Hong Kong. In April 2001, the Administration approved in principle the proposal to introduce a deposit insurance scheme in Hong Kong, and requested HKMA to undertake more detailed work with a view to producing a set of final recommendations on how the scheme should be structured. Two focused consultations, one on funding arrangements for the scheme and the other on netting arrangements, were subsequently conducted and completed during the course of last year. Having

/substantially

substantially completed the consideration on how the deposit insurance scheme should be structured, in March 2002 HKMA issued a second consultation paper setting out the detailed proposals. Upon completion of this consultation, HKMA would proceed to work up the relevant legislation.

Insurance

4.23 During the first quarter of 2002, the total number of insurance companies decreased by two to 202. Within this total, 45 were engaged wholly in long-term business, 139 wholly in general business, and 18 in composite business. Taken together, insurance companies from 26 countries and territories maintained a presence in Hong Kong at end-March 2002. Benefited mostly from the robust performance of life insurance business, the value of business receipts in the insurance industry increased significantly further, by 14% in the fourth quarter of 2001 over a year earlier, with also a 14% rise for 2001 as a whole.

The debt market

4.24 In the first quarter of 2002, HKMA launched a total of 27 issues of Exchange Fund paper to replace the maturing issues⁽⁹⁾. The total market value of Exchange Fund paper outstanding rose by \$0.9 billion during the quarter, to \$114.7 billion at end-March. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 4.5 times. Trading in Exchange Fund paper fell slightly, with the average daily turnover edging down from \$22.9 billion in the fourth quarter of 2001 to \$22.4 billion in the first quarter of 2002. The yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries narrowed, from 92 basis points at end-2001 to 61 basis points at end-March 2002.

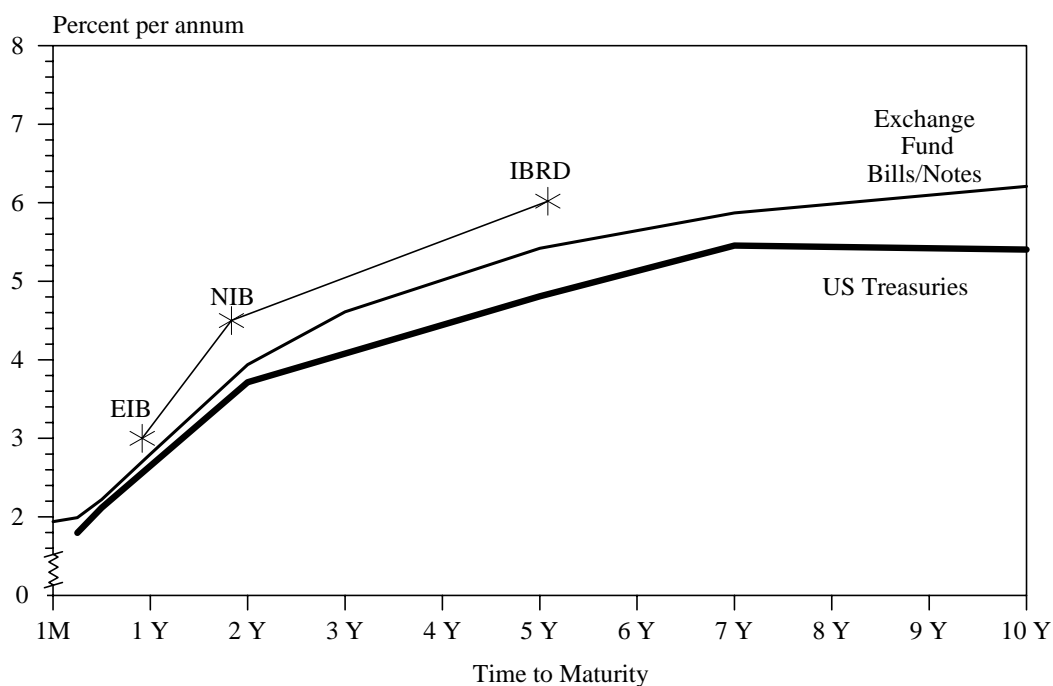
/Table 4.13

Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		Amount outstanding as at the end of the quarter (HK\$Bn)	Average daily turnover in the quarter (HK\$Bn)
2001	Q1	110.1	21.5
	Q2	111.5	20.7
	Q3	112.7	19.7
	Q4	113.8	22.9
2002	Q1	114.7	22.4

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of March 2002)



Note : AAA Hong Kong dollar debt issuers

EIB European Investment Bank
 IBRD International Bank for Reconstruction and Development
 NIB Nordic Investment Bank

/4.25

4.25 The Hong Kong Mortgage Corporation (HKMC) has become one of the major issuers of debt securities in Hong Kong. In the first quarter of 2002, \$6.7 billion worth of HKMC notes was launched. At end-March 2002, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme stood at \$8.0 billion, down from \$10.5 billion at end-2001, while that of Debt Issuance Programme was \$14.0 billion, up from \$8.9 billion at end-2001.

4.26 In the first quarter of 2002, \$18.6 billion worth of new negotiable certificates of deposit (NCDs) was launched, slightly less than that of \$18.8 billion issued in the fourth quarter of 2001. Of the new issuance of NCDs in the first quarter of 2002, \$13.6 billion was denominated in Hong Kong dollars, up from \$11.3 billion in the fourth quarter of 2001. At end-March 2002, the total value of NCDs outstanding was \$173.3 billion, marginally up from that of \$172.3 billion at end-2001. Within this total, \$132.1 billion was denominated in Hong Kong dollars, slightly below that of \$134.9 billion at end-2001. The proportion of Hong Kong dollar denominated NCDs held by the local banking sector rose to 55.6% at end-March 2002, from 55.3% at end-2001.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

		<u>Issued and outstanding</u> (HK\$Bn)		<u>Held by authorized institutions</u> (HK\$Bn)		<u>Held outside the local banking sector</u> (HK\$Bn)	
		<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>
<u>As at the end of</u>							
2001	Q1	146.7	172.8	90.4	102.9	56.4	69.9
	Q2	148.6	180.1	91.5	104.8	57.1	75.2
	Q3	147.4	179.7	86.0	98.6	61.4	81.1
	Q4	134.9	172.3	74.6	86.3	60.4	86.0
2002	Q1	132.1	173.3	73.5	85.0	58.6	88.2

/4.27

4.27 243 new issues of other Hong Kong dollar debt instruments, totalling \$40.0 billion, were launched by the private sector in the first quarter of 2002. This was more than the 235 new issues for \$21.3 billion in the fourth quarter of 2001. Partly reflecting risk aversion by the debt issuers against interest rate volatility, issuance of fixed rate bonds by the private sector, at \$23.6 billion in the first quarter of 2002, continued to exceed considerably that of floating rate notes, at \$16.4 billion. At end-March 2002, outstanding Hong Kong dollar fixed rate bonds and floating rate notes from the private sector amounted to \$190.5 billion and \$64.7 billion respectively, giving a total of \$255.2 billion⁽¹⁰⁾. These were higher than the corresponding figures of \$181.6 billion, \$53.3 billion and \$234.9 billion at end-2001. Meanwhile, there were three new issues of Hong Kong dollar debt paper by multilateral agencies raising \$4.0 billion in the first quarter of 2002, as compared to one issue for \$0.1 billion in the fourth quarter of 2001.

4.28 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding amounted to \$507.8 billion at end-March 2002⁽¹¹⁾, slightly higher than that of \$493.8 billion at end-2001. The size of the Hong Kong dollar debt market was equivalent to 25.5% of HK\$M3, or 18.4% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

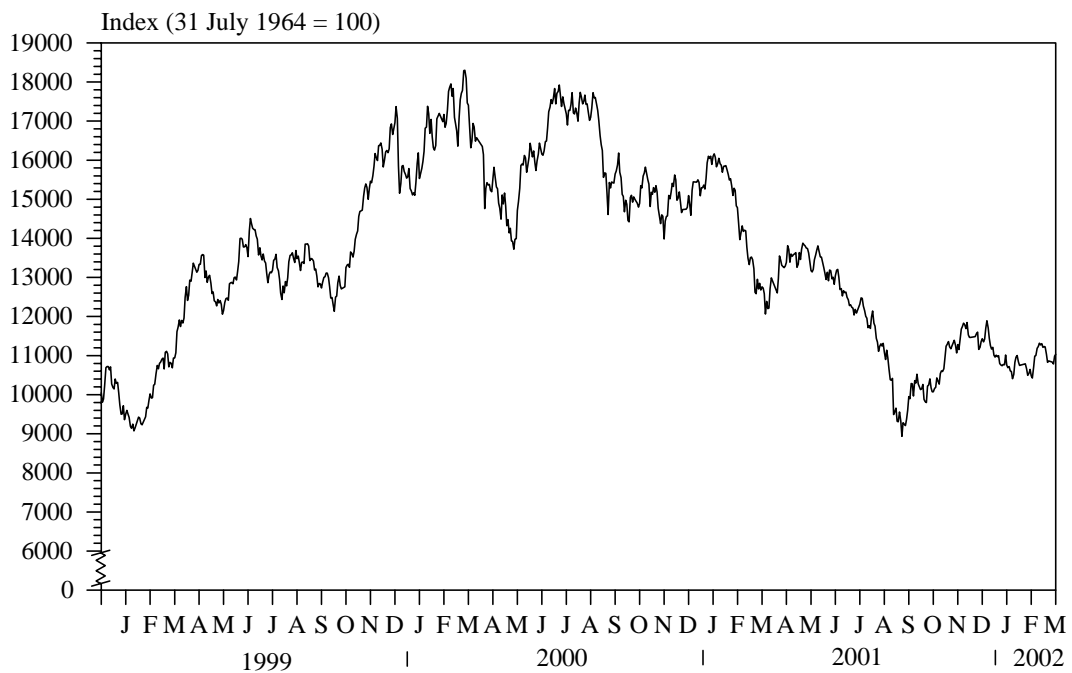
4.29 The local stock market staged a brief rebound at the beginning of 2002, stimulated in part by a price surge in technology-related shares in the United States. The Hang Seng Index rose to a five-month high of 11 893 on 7 January. The market subsequently drifted lower, with the Hang Seng Index mostly hovering in the 10 500 - 11 000 range for the rest of January and in February in relatively quiet trading. Sentiment was weighed down by concern over rising unemployment and an uncertain business outlook. Thus, as the major stock markets overseas rallied upon growing optimism for a sooner-than-expected recovery in the US economy, the local stock market was also activated, and the Hang Seng Index rebounded to above the 11 000 level in early March. Moreover, the 2002/03 Budget as announced on 6 March was well received. The market soon eased back again, upon wary that US interest rates might be raised earlier. The Hang Seng Index closed March 2002 at

11 033

11 033, 3.2% lower than at end-2001. Most of the major stock markets overseas put up a better performance than the Hong Kong stock market during the first quarter of 2002, with generally more notable gains for stock markets in the region. (The local stock market turned active again after mid-April, amidst market expectation for no imminent rise in the US interest rates. The Hang Seng Index moved up in May, to 11 627 on 24 May.)

Diagram 4.10

Hang Seng Index



/Table 4.15

Table 4.15

**Movements in the Hang Seng Index and
in the share price indices in selected stock markets overseas
(index as at the last trading day of the quarter)**

		Hang Seng <u>Index</u>	New York Dow Jones Industrial <u>Average</u>	Tokyo Nikkei <u>Average</u>	London Financial Times <u>Index</u>	Sydney All Ordinaries <u>Index</u>	Singapore Straits Times <u>Index</u>
2001	Q1	12 761	9 879	13 000	5 634	3 097	1 674
	Q2	13 043	10 502	12 969	5 643	3 425	1 727
	Q3	9 951	8 848	9 775	4 903	2 988	1 320
	Q4	11 397	10 022	10 543	5 217	3 360	1 624
2002	Q1	11 033	10 404	11 025	5 272	3 363	1 803
	% change during the first quarter of 2002	-3.2	3.8	4.6	1.0	0.1	11.1
	% change over a year earlier	-13.5	5.3	-15.2	-6.4	8.6	7.7

4.30 The average daily turnover in the local stock market, including the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, fell slightly to \$7.1 billion in the first quarter of 2002, from \$7.2 billion in the fourth quarter of 2001. Along with the fall in local share prices, total stock market capitalisation edged down during the first quarter of 2002, by 0.6% to \$3,924 billion at end-March.

Table 4.16

**Average daily turnover and total market capitalisation
of the Hong Kong stock market**

		Average daily turnover <u>in the quarter</u> (HK\$Bn)			Total market capitalisation <u>as at the end of quarter</u> (HK\$Bn)		
		Main <u>Board</u>	Growth Enterprise <u>Market</u>	<u>Total</u>	Main <u>Board</u>	Growth Enterprise <u>Market</u>	<u>Total</u>
2001	Q1	8.9	0.1	9.0	4,179	61	4,240
	Q2	9.7	0.3	10.0	4,450	70	4,520
	Q3	6.6	0.1	6.7	3,373	46	3,420
	Q4	7.0	0.2	7.2	3,885	61	3,946
2002	Q1	6.9	0.3	7.1	3,855	69	3,924

/4.31

4.31 In the first quarter of 2002, 35 new share flotations were launched on the Hong Kong Stock Exchange, raising a total equity capital of \$3.0 billion. Of these, 18 were listed on the Main Board and 17 on GEM. Amongst these new issues, one pertained to H shares on GEM, raising a total equity capital of \$54 million. In addition to these new flotations, around \$2.2 billion was raised through private placements by 35 companies, and around \$1.7 billion through rights issues by 14 companies.

4.32 As to trading in derivatives on the Hong Kong Exchanges and Clearing Ltd, the average daily turnover of Hang Seng Index futures contracts declined by 7% over the fourth quarter of 2001 to 17 956 contracts in the first quarter of 2002. The average daily turnover of Hang Seng Index options contracts also decreased, by 8% over the fourth quarter of 2001 to 3 338 contracts in the first quarter of 2002. Over the same period, the average daily turnover of MSCI China Free Index futures contracts⁽¹³⁾ was down by 5% to 19 contracts.

Table 4.17

Average daily turnover of Hang Seng Index futures and options contracts in the Hong Kong futures market

<u>During the quarter</u>	<u>Hang Seng Index futures contracts</u> (no. of contracts)	<u>Hang Seng Index options contracts</u> (no. of contracts)
2001 Q1	17 443	2 763
Q2	17 447	2 480
Q3	18 758	2 992
Q4	19 206	3 619
2002 Q1	17 956	3 338

4.33 At end-March 2002, there were 30 classes of stock options contracts. The average daily turnover of these stock options contracts increased by 5% over the fourth quarter of 2001 to 13 588 contracts in the first quarter of 2002. Meanwhile, the average daily turnover of stock futures contracts surged by 33% to 97 contracts in the first quarter of 2002.

/4.34

4.34 Comparing the first quarter of 2002 with the fourth quarter of 2001, the average daily turnover of three-month HIBOR futures contracts was up by less than 1% to 2 121 contracts, while the average daily turnover of Rolling Forex (currency futures) contracts surged by 146% to 32 contracts.

4.35 In the gold market, several developments led to a rise in gold prices during the first quarter of 2002. Concern about accounting irregularities with the major business corporations following the collapse of a US energy giant had prompted international investors to shift away from the stock market to other venues of investment, including the gold market. Also, there was increased gold purchase by Japanese investors, with the blanket deposit insurance system for the banks in Japan coming to an end on 31 March 2002. Moreover, the ending of the three-year gold reserves slashing programme by the Bank of England in early March 2002 rendered added support. The price of loco-London gold, having risen to a two-year high of US\$305.7 per troy ounce on 8 February, settled to US\$303.3 at end-March 2002, 10% above the level of US\$276.6 at end-2001. Gold price at the Chinese Gold and Silver Exchange Society also rose noticeably during the first quarter of 2002, by 9% to \$2,813 per tael at end-March. Turnover on the Exchange increased to 1.0 million taels in the first quarter of 2002, from 0.8 million taels in the fourth quarter of 2001.

Unit trusts and mutual funds

4.36 At end-March 2002, the total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong decreased marginally to 1 890, from 1 893 at end-2001. Gross sales of mutual funds totalled US\$2.9 billion in the first quarter of 2002, 15% above that in the fourth quarter of 2001. After deducting redemptions, net sales amounted to US\$1.2 billion in the first quarter of 2002, 6% more than that in the fourth quarter of 2001. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 68% of the total value of funds at end-March 2002. This was followed by bond funds, asset allocation funds and money market funds, with shares of 17%, 9% and 6% respectively.

4.37 The Mandatory Provident Fund (MPF) System⁽¹⁴⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should add impetus to further development of the local financial market. At end-March 2002, the aggregate net asset value of the approved constituent funds of MPF schemes rose to \$42.1 billion, higher than that of \$36.0 billion at

/end-2001

end-2001. The rise in net asset value was mainly attributable to continuing contributions from the enrolled population. By end-March 2002, there were 20 approved corporate trustees. On MPF products, 47 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 311 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 210 000 employers, 1.73 million employees and 300 000 self-employed persons had enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons standing at 85%, 96% and 92% respectively.

Notes :

- (1) Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay US dollars to the Hong Kong Monetary Authority (HKMA) for the account of the Exchange Fund at the fixed rate of HK\$7.8 to US\$1.0 in return for non-interest-bearing Certificates of Indebtedness (CIs), as backing for the issue of their Hong Kong dollar banknotes. As from 7 September 1998, HKMA also provides an explicit undertaking to convert the Hong Kong dollar balances held in the clearing accounts maintained by the banks with HKMA at the Convertibility Undertaking Rate. This was set at the then market exchange rate of 7.750 when the convertibility undertaking was introduced. From 1 April 1999, the Convertibility Undertaking Rate for the Aggregate Balance was raised from 7.750 by 1 pip per calendar day, reaching 7.800 on 12 August 2000, where it has stayed.
- (2) 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. These currencies are selected on account of their importance in Hong Kong's trade, and the weights reflect their relative importance in Hong Kong's merchandise trade.

As from 2 January 2002, a new series of nominal Effective Exchange Rate Index replaces the old series. The weights adopted for the new EERI series are based on the average pattern of Hong Kong's merchandise trade during 1999 and 2000, as against that during 1991 to 1993 for the old series. The currency basket for the new series has also been updated to include the euro and the Philipino peso, and to exclude the five currencies pertaining to the participating countries of the euro. Thus the currency basket for the new series contains 14 currencies, instead of 17 currencies for the old series. The base period is changed from October 1983 to January 2000.

/The

The corresponding Real EERI, which takes into account the relative movements in the seasonally adjusted consumer price indices of the respective economies, is revised accordingly, in line with the updated weights and the new base period of the nominal EERI.

It is important to note that the EERIs thus compiled adopt constant weights on the respective currencies, while the pattern of merchandise trade changes over time. In particular, Hong Kong's trade with the Mainland has shifted more towards re-exports, from domestic exports and retained imports. Also, with the Mainland being the largest source of Hong Kong's re-exports, movements in the exchange rate of the renminbi could have somewhat different implications for Hong Kong's export competitiveness, as against movements in the other currencies.

- (3) In the light of the changing market shares of individual authorized institutions (Ais) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by HKMA has been expanded as from May 2001, in order to increase the proportion of business covered by the survey. Altogether 38 Ais were so included immediately after the coverage expansion. The number of Ais has since fallen to 29 due to banking sector consolidation. The Ais currently covered together account for around 96% of the total business, as compared to 92% for the 32 Ais formerly covered. The outstanding amount of mortgage loans covered by the survey is hence lifted, by 8.8%.
- (4) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.
- (5) The various definitions of the money supply are as follows:
 - M1 : notes and coins with the public, plus customers' demand deposits with licensed banks.
 - M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.
 - 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.
- (6) Amongst the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series back-dated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.

/(7)

- (7) Euro-yen Impact Loans (EYIL) are loans made to customers in Japan by a domestic branch of a Japanese bank but booked in an overseas branch of the bank. Loans booked in this way generally have tax and funding cost advantages for customers. Reflecting a more cautious lending stance by the Japanese banks and the need to reduce the size of their balance sheets, EYIL has declined substantially since the second half of 1997.
- (8) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Non-performing loans are those on which interest has been placed in suspense or on which interest accrual has ceased. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to certain extent with overdue and rescheduled loans.
- (9) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (10) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (11) Due to different sources for NCD data, the total value of Hong Kong dollar debt paper outstanding may not equal the sum of the outstanding values of Exchange Fund paper, HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector.
- (12) The Growth Enterprise Market was launched by the then Stock Exchange of Hong Kong Ltd in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Although it is open to companies in all industries and of all sizes, it is expected to provide an efficient venue for fund raising by small and medium-sized enterprises, particularly those engaged in technology-related businesses.
- (13) The MSCI China Free Index is a market-capitalisation-weighted stocks index, covering Red-chip shares and H shares listed in Hong Kong, B shares listed in Shanghai and Shenzhen, and N shares listed in New York. The Index thus represents the universe of Chinese stocks open to investors outside the mainland of China. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001. It complements the Red chip and H share markets, and strengthens Hong Kong's position as the most effective channel for Chinese enterprises to raise equity capital internationally.

Trading in Red-clips options contracts and in Red-chip futures contracts have been suspended as from 31 July 2001 and 31 August 2001 respectively.

/(14)

- (14) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged 18 or above, subject to certain exceptions. It provides for joint contributions by the employer and the employee, each at 5% of the employee's relevant income, to a registered MPF trust scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. The accrued benefits are fully vested in the scheme members and can be transferred from scheme to scheme when there is a change in employment. The Mandatory Provident Fund Schemes Authority (MPFA) is the statutory body tasked with the responsibility for prudential regulation and supervision of the MPF System and for ensuring compliance with the Mandatory Provident Fund Schemes Ordinance.

An MPF scheme may consist of one or more constituent funds each with its own investment policy. A constituent fund may maintain a portfolio of direct investment in equities, bonds or other debt instruments, or may invest in approved pooled investment funds which may be in the form of unit trusts authorized by the Securities and Futures Commission or insurance policies issued by authorized insurers. Both constituent funds and pooled investment funds have to be approved by MPFA, and be subject to investment standards applicable to MPF investment funds.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation⁽¹⁾

5.1 The labour market, having eased visibly in the second half of 2001, slackened markedly further in the first quarter of 2002. This was due to the combined influence of a sustained growth in total labour force in line with the population increase, and a contraction in total employment amidst more extensive corporate downsizing and lay-offs, in tandem with the economic setback.

5.2 The *seasonally adjusted unemployment rate*⁽²⁾ in the first quarter of 2002, at 7.0%, went substantially higher than that in the fourth quarter of 2001, at 6.1%. The total numbers unemployed (not seasonally adjusted) likewise leaped, from 209 800 to 238 900 over the two quarters. These unemployment figures were the highest ever recorded since 1982, when the respective data series began to be compiled. Furthermore, the median duration of unemployment lengthened from 82 days to 87 days, while the proportion of persons unemployed for six months or more rose from 24% to 27%.

5.3 The *underemployment rate*⁽³⁾ also moved up, from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002, as did the total numbers underemployed, from 104 300 to 109 300.

5.4 For the employed persons, the proportion working for 50 hours or more per week fell slightly, from 35% in the fourth quarter of 2001 to 34% in the first quarter of 2002. Concurrently, the median hours of work also shortened, from 48 hours per week to 45 hours per week. There tended to be increased employment of part-time and temporary workers relative to full-time and regular workers in the more recent period.

/Table 5.1

Table 5.1

Unemployment and underemployment rates

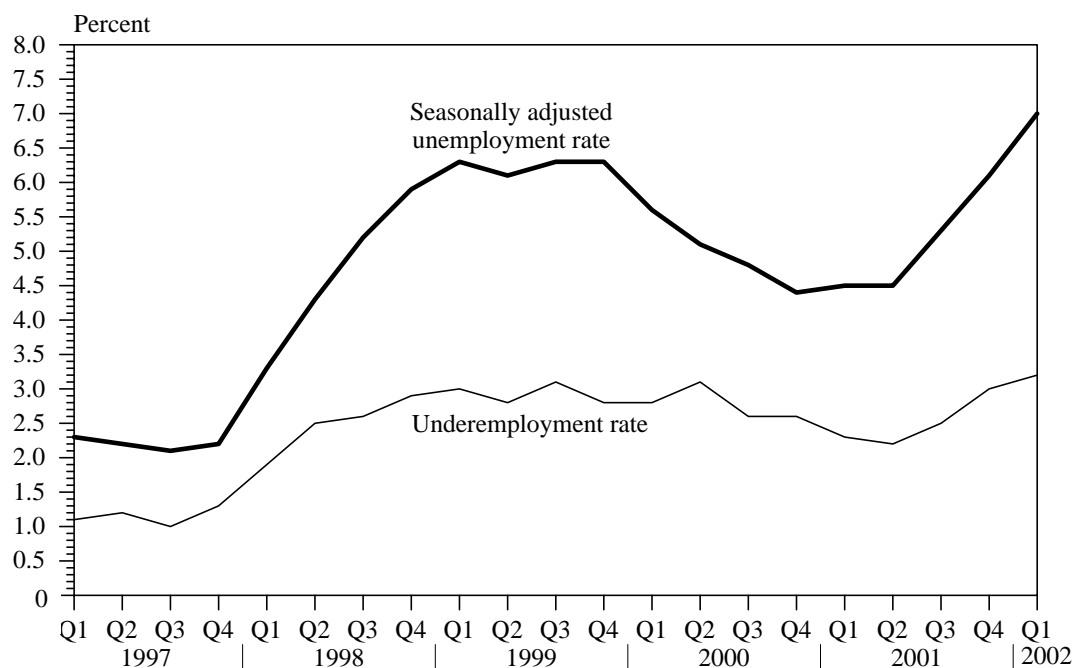
		Seasonally adjusted unemployment rate ^(a) (%)	Underemployment rate (%)
2001	Annual	5.1	2.5
	Q1	4.5	2.3
	Q2	4.5	2.2
	Q3	5.3	2.5
	Q4	6.1	3.0
2002	Q1	7.0	3.2

Note : (a) The new series of seasonally adjusted unemployment rate as presented in Table 5.1 and in Diagrams 5.1 and 5.10 uses the X-11 ARIMA method for seasonal adjustment, and also has adopted the “resident population” definition and incorporated the results of the 2001 Population Census.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.1

Unemployment and underemployment rates



Notes : Diagrams 5.1-5.5 and 5.10 are compiled on the basis of the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census.

Also see the footnote to Table 5.1.

/Table 5.2

Table 5.2

**The labour force, and persons employed,
unemployed and underemployed**

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2001	Annual	3 423 500	(1.5)	3 249 100	(1.3)	174 400	85 400
	Q1	3 404 100	(2.0)	3 254 400	(3.2)	149 700	77 700
	Q2	3 410 100	(1.3)	3 257 500	(1.9)	152 600	75 100
	Q3	3 440 200	(1.4)	3 254 500	(0.9)	185 600	84 400
	Q4	3 439 900	(1.1)	3 230 100	(-0.7)	209 800	104 300
2002	Q1	3 459 600	(1.6) <0.6>	3 220 700	-1.0 <-0.3>	238 900	109 300

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

() % change over a year earlier.

< > % change over the preceding quarter.

Source : General Household Survey, Census and Statistics Department.

Table 5.3

**Median duration of unemployment and
proportion of the unemployed population
by duration of unemployment**

		<u>Median duration of unemployment (Days)</u>	<u>Proportion unemployed for :</u>		
			<u>Less than 3 months (%)</u>	<u>3 months to less than 6 months (%)</u>	<u>6 months or more (%)</u>
2001	Annual	75	59	19	23
	Q1	75	58	20	22
	Q2	68	62	18	21
	Q3	72	61	16	23
	Q4	82	55	21	24
2002	Q1	87	53	20	27

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.4

Table 5.4

**Median hours of work per week and
proportion of the employed population
working for 50 hours or more per week**

		Median hours of work per week for all employed persons (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>50-59 hours per week (%)</u>	<u>60 hours or more per week (%)</u>	<u>50 hours or more per week (%)</u>
2001	Annual	48	14	20	34
	Q1	48	14	19	33
	Q2	45	14	18	32
	Q3	48	15	20	36
	Q4	48	14	21	35
2002	Q1	45	14	20	34

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

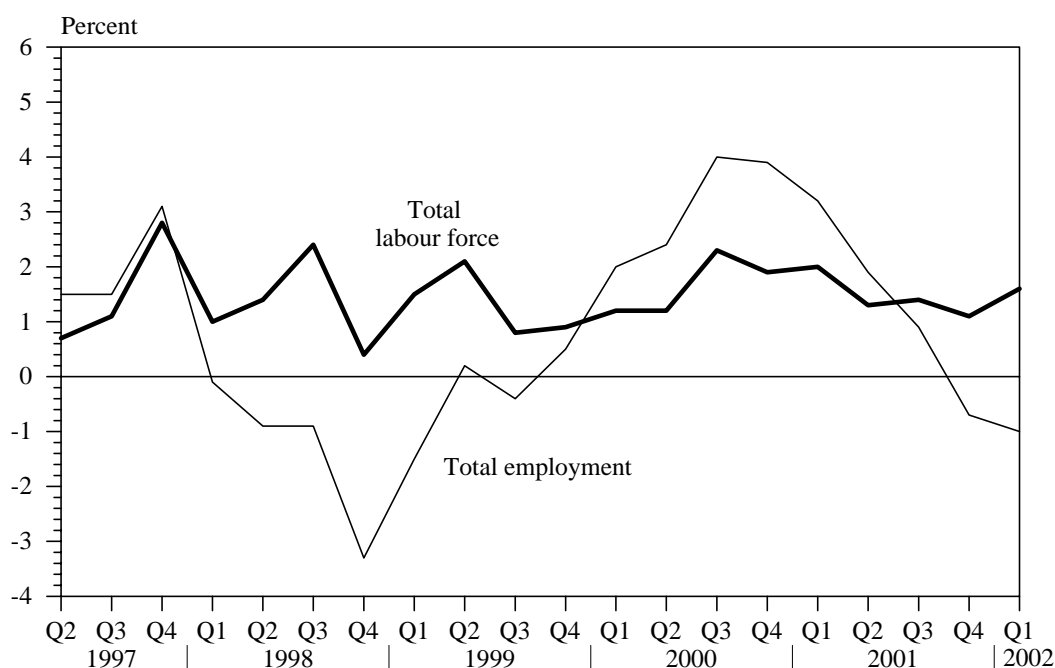
Source : General Household Survey, Census and Statistics Department.

5.5 *Total employment*⁽⁴⁾ as enumerated from households contracted by 1.0% in the first quarter of 2002 over a year earlier, larger than the 0.7% fall in the fourth quarter of 2001. This was in line with the more extensive corporate downsizing and lay-offs. Under a difficult economic climate, employers were bound to be more stringent about their staffing. On the other hand, *total labour force*⁽⁵⁾ had a faster growth of 1.6% in the first quarter of 2002 over a year earlier, as compared to that of 1.1% in the fourth quarter of 2001. This was attributable in part to an accelerated increase in the population of working age, and in part to a rise in the labour force participation rate⁽⁶⁾ predominantly amongst females aged 30-59. A considerable proportion of these females were believed to be housewives pursuing jobs to supplement their family income. On a quarter-to-quarter comparison, total employment likewise shrank, by 0.3% in the first quarter of 2002, yet total labour force went up, by 0.6%. These differential growth rates pointed to a further loosening in the overall manpower resource balance, leading to a further upsurge in unemployment rate in the most recent quarter.

/Diagram 5.2

Diagram 5.2

**Total labour force and total employment
(year-on-year rate of change)**



Note : Year-on-year rates of change from the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census, are available as from the second quarter of 1997.

Table 5.5

Labour force participation rates by sex (%)

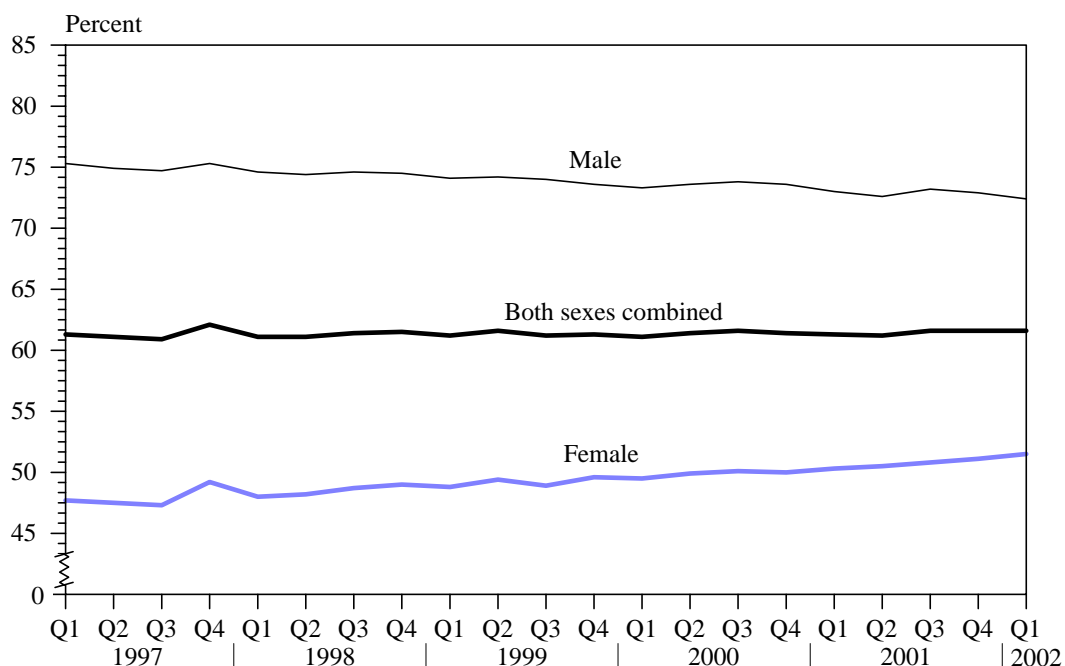
	<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2001 Annual	72.9	50.7	61.4
Q1	73.0	50.3	61.3
Q2	72.6	50.5	61.2
Q3	73.2	50.8	61.6
Q4	72.9	51.1	61.6
2002 Q1	72.4	51.5	61.6

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.3

Diagram 5.3

Labour force participation rates by sex



5.6 With the labour market slackening further, labour income was on a renewed moderating trend. Overall *labour earnings*⁽⁷⁾, having gone up modestly by 2% in money terms in the third quarter of 2001 over a year earlier, were virtually flat in the fourth quarter. Netting out the decline in consumer prices as reflected by the Composite CPI, labour earnings were higher by 2% in real terms in the fourth quarter of 2001 over a year earlier, slightly smaller than the 3% increase in the third quarter. *Labour wages*⁽⁸⁾ likewise registered a modest gain by 1% in money terms in September 2001 over a year earlier, yet nil change in December. Netting out the decline in consumer prices as reflected by the CPI(A), labour wages went up distinctly by 7% in real terms in December 2001 over a year earlier, after a 2% rise in September. But this enlarged increase in real wages was attributable entirely to the pronounced drop in the CPI(A), by much more than in the Composite CPI, that was brought about by the waiver of public housing rentals in December last year (paragraph 6.3).

/Profile

Profile of unemployment and underemployment

5.7 Analysed by *economic sector*, the rise in unemployment rate between the fourth quarter of 2001 and the first quarter of 2002 was widespread and mostly steep. The increase in unemployment rate was most significant in construction and real estate, due to a general fall-off in building and construction work and subdued activity in the property market. Also facing pronounced increase in unemployment rate were the wholesale/retail trade, restaurants, the import/export trade, manufacturing, communications and business services, largely attributable to moderation in both consumer spending and external trade. As to the underemployment rate, increases were observed mainly in restaurants, in the wholesale/retail trade and in community, social and personal services, more than offsetting the decreases seen in construction and in manufacturing.

Table 5.6

Unemployment rates by major economic sector (%)^(a)

	<u>2001</u>					<u>2002</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	5.5	4.6	5.1	5.8	6.4	7.4
Transport, storage and communications	4.4	4.2	4.2	3.8	5.2	5.7
Financing, insurance, real estate and business services	3.0	2.7	2.5	3.1	3.9	4.9
Community, social and personal services	2.0	1.9	1.7	2.0	2.5	2.7
Manufacturing	5.3	4.0	4.9	5.6	6.8	7.2
Construction ^(b)	10.7	10.3	9.8	10.3	12.5	15.7

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

(b) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

Table 5.7**Underemployment rates by major economic sector (%)**

	<u>2001</u>					<u>2002</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	1.3	1.1	1.1	1.3	1.5	1.8
Transport, storage and communications	2.7	2.4	2.6	2.6	3.1	3.1
Financing, insurance, real estate and business services	0.4	0.3	0.3	0.3	0.7	0.7
Community, social and personal services	1.4	1.3	1.2	1.3	1.7	2.3
Manufacturing	2.4	2.1	2.3	2.2	3.0	2.4
Construction ^(a)	12.5	11.7	10.7	12.3	15.2	14.2

Note : (a) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

/Table 5.8

Table 5.8

**Unemployment and underemployment rates
by detailed economic sub-sector in the first quarter of 2002**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	7.4	79 400	1.8	19 600
Wholesale/retail trade	8.5	30 800	2.3	8 200
Import/export trade	5.2	23 100	0.4	2 000
Restaurants and hotels	9.4	25 600	3.5	9 400
Transport, storage and communications	5.7	20 600	3.1	11 200
Transport	5.4	16 300	3.4	10 400
Storage	14.7	600	0	0
Communications	6.5	3 700	1.4	800
Financing, insurance, real estate and business services	4.9	24 200	0.7	3 300
Financing	3.5	4 800	0.4	500
Insurance	3.6	1 600	0	0
Real estate	5.6	6 400	0.5	600
Business services	5.7	11 400	1.1	2 200
Community, social and personal services	2.7	22 300	2.3	19 100
Public administration	0.5	700	0.4	500
Education, medical and other health and welfare services	1.9	5 700	1.4	4 300
Other services	4.0	15 900	3.6	14 300
Manufacturing	7.2	23 300	2.4	7 800
Food and beverages	5.3	1 200	1.3	300
Clothing and footwear	8.3	7 600	4.5	4 100
Paper and printing	7.7	4 400	1.3	800
Plastic products	5.1	1 000	1.0	200
Metal products	6.8	1 200	1.0	200
Electrical and electronic products	6.5	4 700	1.8	1 300
Other manufacturing industries	8.0	3 100	2.2	900
Construction	15.7	53 300	14.2	48 100
Foundation and superstructure	14.5	37 400	12.6	32 400
Decoration and maintenance	19.6	15 900	19.3	15 700

Notes : As the above figures are based on a sample survey, they are subject to sampling errors, more so for the finer breakdowns.

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

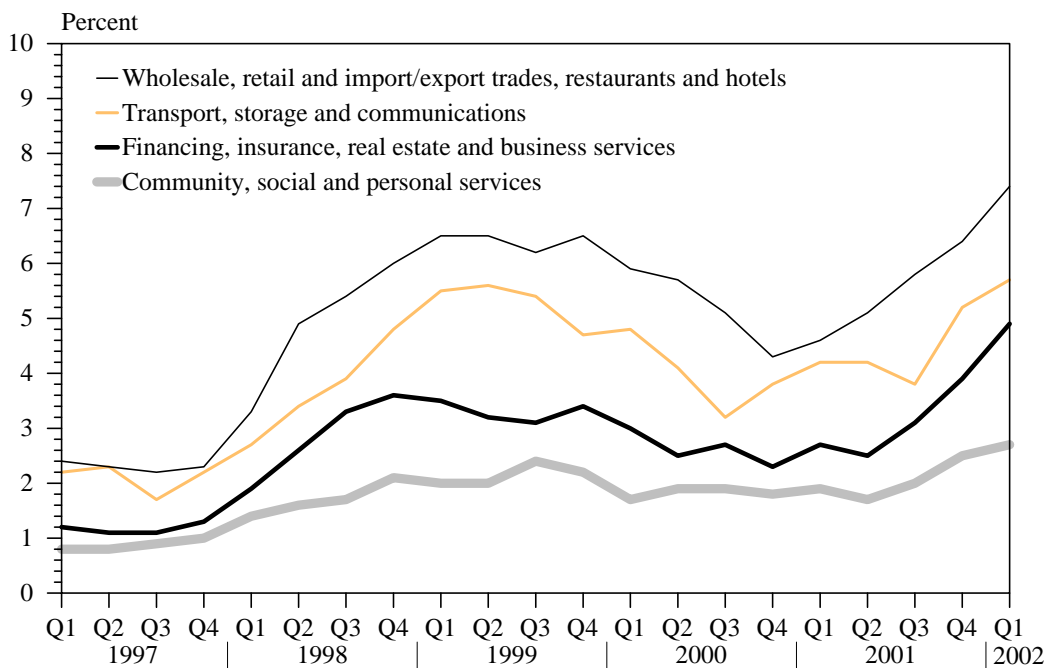
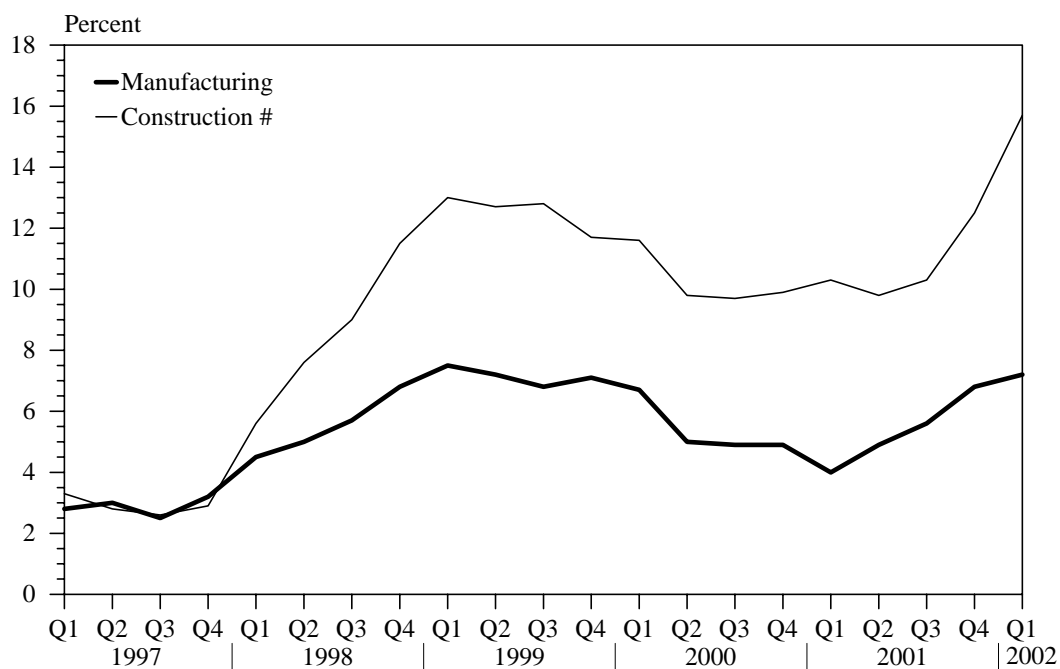
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



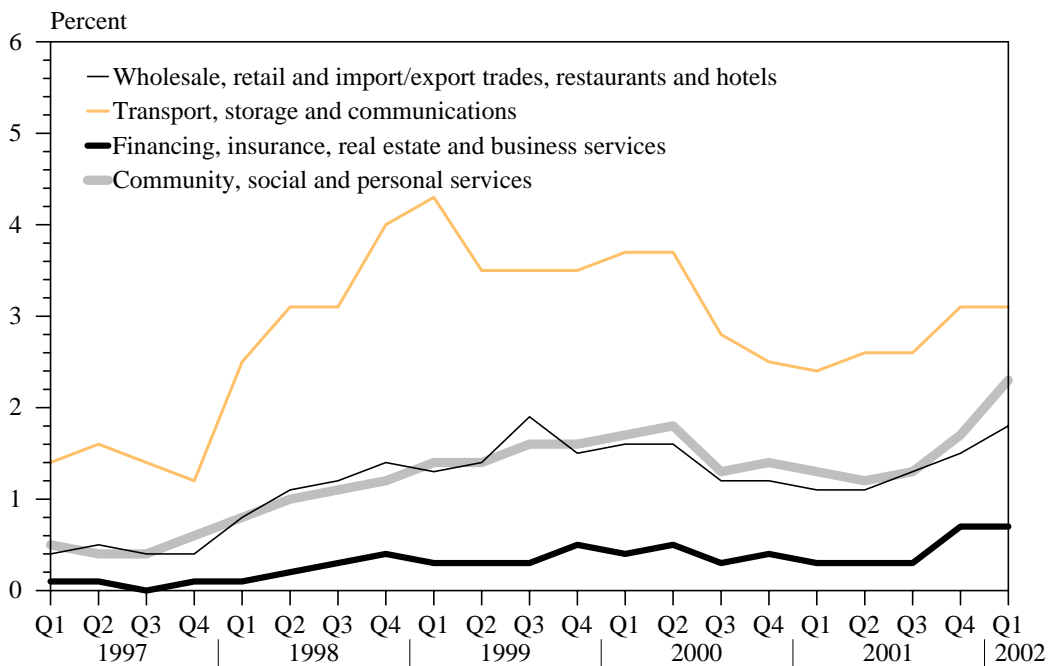
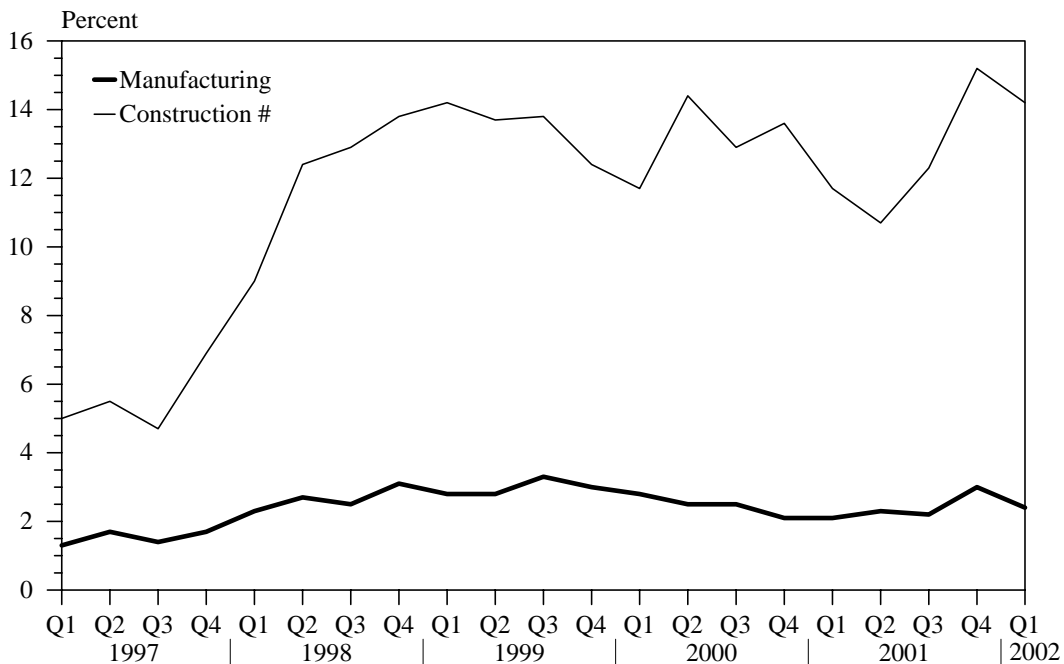
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(#) Including both site and non-site workers.

/Diagram 5.5

Diagram 5.5

Underemployment rates by major economic sector



Note : (#) Including both site and non-site workers.

5.8 Analysed by *occupation category*, there was likewise an extensive and mostly substantial increase in unemployment rate in the first quarter of 2002 over the fourth quarter of 2001. Those occupation categories facing more distinct increase in unemployment rate included managers and administrators, associate professionals, craft and related workers, workers in elementary occupations, and service workers and shop sales workers. As to the underemployment rate, the increase took place mostly amongst service workers and shop sales workers, associate professionals and clerks, outweighing the decrease observed amongst craft and related workers.

Table 5.9

Unemployment rates by major occupation category (%)^(a)

	<u>2001</u>					<u>2002</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	1.9	1.4	1.6	2.0	2.4	3.5
Professionals	1.9	1.2	1.5	2.2	2.6	2.6
Associate professionals ^(b)	2.9	2.6	2.6	3.0	3.4	4.2
Clerks	3.7	3.1	3.2	3.7	4.9	5.2
Service workers and shop sales workers	6.5	5.6	6.1	6.9	7.4	8.5
Craft and related workers	9.3	8.9	8.1	9.3	10.7	12.6
Plant and machine operators and assemblers	4.6	4.0	3.9	4.8	5.9	6.4
Elementary occupations	5.2	4.8	5.0	4.8	6.2	7.4
Others	3.1	1.2	8.0	1.6	1.3	2.4

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

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.10

Table 5.10**Underemployment rates by major occupation category (%)**

	<u>Annual</u>	<u>2001</u>				<u>2002</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	0.1	0.1	*	0.1	0.1	*
Professionals	0.2	0.2	0.3	0.1	0.3	0.4
Associate professionals ^(a)	0.5	0.5	0.5	0.5	0.5	0.8
Clerks	0.7	0.6	0.6	0.8	0.9	1.1
Service workers and shop sales workers	1.7	1.5	1.7	1.7	2.1	2.6
Craft and related workers	9.3	9.1	8.0	8.8	11.5	11.2
Plant and machine operators and assemblers	3.4	2.8	3.4	3.2	4.2	4.3
Elementary occupations	4.3	3.8	3.7	4.5	5.2	5.2
Others	3.3	0	3.8	8.9	1.3	0.8

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.9

5.9 Analysed by *sex*, the unemployment rate for males rose by a larger magnitude than that for females in the first quarter of 2002 over the fourth quarter of 2001. In consequence, the difference between the two unemployment rates widened appreciably further, from 2.3 percentage points to 2.8 percentage points between these two quarters.

Table 5.11

Unemployment rates by sex (%)^(a)

	<u>Male</u>	<u>Female</u>
2001 Annual	6.0	3.9
Q1	5.3	3.1
Q2	5.3	3.4
Q3	6.3	4.1
Q4	7.1	4.8
2002 Q1	8.1	5.3

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

Source : General Household Survey, Census and Statistics Department.

/5.10

5.10 Analysed by *age group*, the unemployment rate went up distinctly almost across-the-board between the fourth quarter of 2001 and the first quarter of 2002. More pronounced increase in unemployment rate occurred amongst persons aged 30-39 and 50 and above, especially those with lower educational attainment. Visible rise in unemployment rate also took place amongst persons aged 15-19, primarily due to relative lack of practical experience and skills.

Table 5.12

Unemployment rates by age group (%)^(a)

	<u>Annual</u>	<u>2001</u>				<u>2002</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
15-19	23.4	21.0	21.2	25.1	26.1	27.2
20-24	8.7	7.1	6.5	11.4	9.7	9.8
25-29	4.4	3.9	4.0	4.5	5.4	6.2
30-39	3.5	3.1	3.2	3.4	4.5	5.6
40-49	4.6	3.8	4.1	4.8	5.8	6.3
50-59	5.4	5.1	5.1	5.2	6.1	7.3
60 and above	2.7	2.7	2.3	2.5	3.1	5.3

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

Source : General Household Survey, Census and Statistics Department.

/5.11

5.11 Analysed by *educational attainment*, the change in unemployment rate varied considerably. For persons with no schooling/kindergarten education, the unemployment rate came down between the fourth quarter of 2001 and the first quarter of 2002, offsetting part of the sharp increase seen over the course of 2001. For persons with primary to matriculation education, the unemployment rates rose markedly, continuing the general uptrend over the past year. As to persons with tertiary education, the unemployment rate was more stable, with the decrease seen amongst persons with degree education being offset by the increase seen amongst those with non-degree education.

Table 5.13

Unemployment rates by educational attainment (%)^(a)

	<u>2001</u>					<u>2002</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
No schooling/kindergarten	5.6	2.8	5.3	4.7	9.6	8.4
Primary	6.4	5.9	5.9	6.2	7.6	8.6
Lower secondary	7.5	7.1	6.7	7.5	8.7	10.4
Upper secondary ^(b)	4.7	4.1	4.1	5.1	5.7	6.6
Matriculation	3.6	2.6	2.9	4.7	4.0	5.2
Tertiary	3.2	2.3	2.7	3.9	4.0	3.9
<i>of which :</i>						
Non-degree	3.9	2.6	3.5	4.7	4.8	5.1
Degree	2.8	2.0	2.2	3.5	3.5	3.3

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

(b) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

/Profile

Profile of employment

5.12 Employment as enumerated from business establishments was static in overall terms. Comparing December 2001 with a year earlier, total employment in all the private sector establishments surveyed taken together showed virtually nil change, after a 1% fall in September. On a seasonally adjusted quarter-to-quarter comparison, total employment was likewise flat in December 2001, having contracted by 1% in September.

5.13 Employment for all the *service sectors* surveyed as a whole⁽⁹⁾ nevertheless went up slightly, by 1% in December 2001 over a year earlier, following zero growth in September. Analysed by major constituent sector, employment in community, social and personal services rose markedly, by 9% in December 2001 over a year earlier, on the back of sustained expansion in welfare, medical and education services. Employment in water transport, air transport and services allied to transport grew by 4%, aided by a rebound in air transport services. Employment in restaurants and hotels had a small gain, by 1%. On the other hand, employment in the retail trade and in the wholesale and import/export trades fell by 2% each, along with moderation in both local consumer spending and external trade. Employment in storage and communications and in financing, insurance, real estate and business services held broadly stable.

5.14 In the local *manufacturing sector*, employment continued to shrink significantly, by 10% in December 2001 over a year earlier, similar to the 9% drop in September. This was associated with the setback in domestic exports, as well as the on-going relocation of production processes outside Hong Kong.

/5.15

5.15 Employment of manual workers at *building and construction sites* contracted by 9% in December 2001 over a year earlier, enlarged from the 5% decline in September. This was attributable entirely to the substantial decrease of 24% in employment at public sector sites, upon the completion or winding down of some major public housing projects and continued scale-back in the Public Housing Programme, much outweighing the 8% increase in employment at private sector sites, along with a brief rebound in private sector building activity. Analysed by type of project, employment at civil engineering sites held steady, as increased workload on the Disneyland project was offset by winding down of activity on the MTR Tseung Kwan O Extension. Yet employment at building sites was slashed by 12%, with the decrease occurring mostly in public sector projects. Taking into account off-site workers and related professional and support staff, total employment in the entire building and construction sector⁽¹⁰⁾ went down by 7% in the fourth quarter of 2001 over a year earlier, following a 3% fall in the third quarter. Reduced decoration and maintenance work was an added factor.

5.16 Employment in the *Civil Service* fell further, by 4% in December 2001 over a year earlier, with the Government's continued effort to contain the size of the Civil Service. In September 2001, there was also a decrease of 4%. About 6 000 posts had been deleted from the Civil Service establishment for the financial year 2001/02 as a whole, following deletion of 8 000 posts in the financial year 2000/01⁽¹¹⁾.

/Table 5.14

Table 5.14**Employment by major economic sector**

	Annual <u>average</u>	<u>2001</u>			
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Wholesale and import/export trades	577 200 (-3)	581 100 (-3)	581 500 (-4)	579 300 (-5)	566 800 (-2)
Retail trade	219 700 (3)	215 400 (4)	228 300 (8)	225 000 (1)	210 200 (-2)
Restaurants and hotels	222 200 (1)	220 600 (1)	225 100 (1)	223 000 (1)	219 900 (1)
Water transport, air transport and services allied to transport	99 900 (2)	98 200 (2)	100 500 (1)	101 600 (2)	99 100 (4)
Storage and communications	44 400 (3)	44 600 (8)	46 000 (6)	43 700 (-3)	43 400 (*)
Financing, insurance, real estate and business services	435 600 (2)	428 900 (3)	442 500 (3)	437 300 (*)	433 900 (*)
Community, social and personal services	373 800 (7)	360 500 (4)	372 500 (8)	377 000 (8)	385 100 (9)
Manufacturing	212 000 (-9)	217 000 (-7)	218 700 (-8)	209 300 (-9)	203 000 (-10)
Building and construction sites	80 300 (1)	87 800 (18)	80 300 (1)	76 500 (-5)	76 600 (-9)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 312 600 (*)</i>	<i>2 301 600 (1) <*></i>	<i>2 343 200 (1) <1></i>	<i>2 319 900 (-1) <-1></i>	<i>2 285 500 (*) <*></i>
<i>Civil Service^(b)</i>	<i>177 700 (-3)</i>	<i>181 000 (-3)</i>	<i>178 700 (-3)</i>	<i>176 700 (-4)</i>	<i>174 500 (-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 coverage: the former survey covers employers, full-time employees and part-time employees in selected major sectors; the latter survey has a wider coverage, incorporating also the self-employed, and canvassing all sectors in the economy.

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

(b) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, ICAC officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

() % change over a year earlier.

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

(*) Change of less than 0.5%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

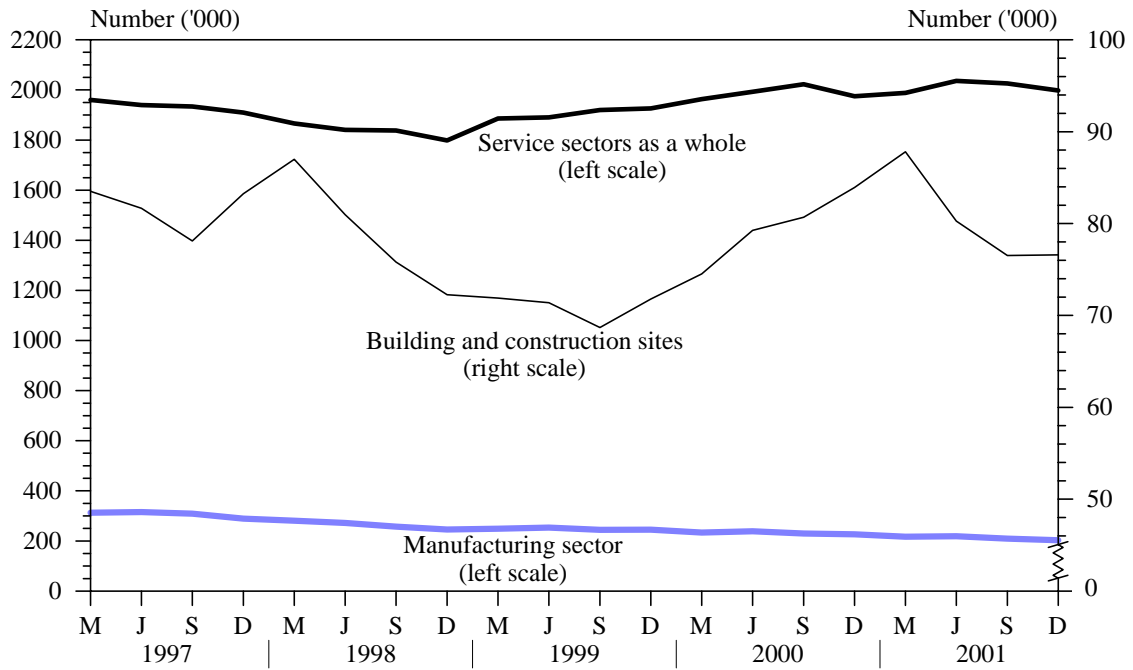
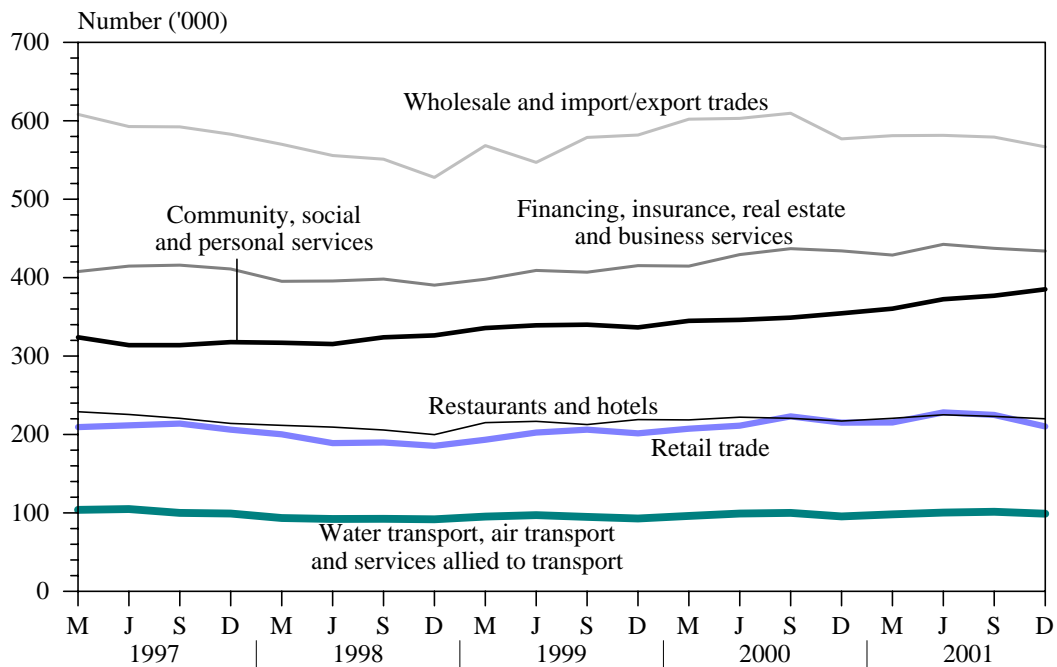


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.17 Also indicative of slackening labour market conditions, vacancies followed a significant downtrend over the course of 2001. Taking all the business establishments surveyed together, total vacancies in the private sector plummeted by 32% in December 2001 over a year earlier, after a 41% fall in September. On a seasonally adjusted quarter-to-quarter comparison, total vacancies in the private sector contracted by 6% in December 2001, having shrunk by 20% in September. In consequence, the overall vacancy rate in the private sector showed a further decline, from 0.9% to 0.7% over the period.

5.18 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed as a whole were markedly reduced by 32% in December 2001 over a year earlier, even though this represented a lesser decrease than that of 41% in September. Analysed by constituent sector, vacancies in the wholesale and import/export trades had the largest fall, by 47% in December 2001 over a year earlier. This was followed by the retail trade, and financing, insurance, real estate and business services (with a drop of 39% each), water transport, air transport and services allied to transport (30%), restaurants and hotels (24%), and community, social and personal services (8%). Vacancies in storage and communications went up by 38%, but this was due to a low base of comparison a year earlier. As to the local *manufacturing sector*, vacancies were slashed by 36% in December 2001 over a year earlier, broadly similar to the 38% cut in September. Vacancies for manual workers at *building and construction sites* fell even more, by 58% and 72% respectively in these two periods. Vacancies in the *Civil Service* nevertheless rose, by 20% in December 2001 over a year earlier, due to expansion in services in the areas of social welfare, education, and law and order. This came after an 8% fall in September.

/Table 5.15

Table 5.15**Vacancies by major economic sector**

	<u>No. of vacancies</u>					<u>Vacancy rate in Dec 2001</u> (%)
	<u>Annual average</u>	<u>2001</u>				
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	
Wholesale and import/export trades	4 700 (-45)	7 400 (-29)	4 600 (-50)	4 000 (-57)	3 000 (-47)	0.5
Retail trade	2 100 (-21)	2 400 (-3)	2 100 (-20)	2 400 (-20)	1 500 (-39)	0.7
Restaurants and hotels	1 600 (-21)	2 200 (7)	1 300 (-30)	1 500 (-36)	1 200 (-24)	0.5
Water transport, air transport and services allied to transport	700 (-33)	900 (6)	800 (-24)	400 (-69)	500 (-30)	0.5
Storage and communications	500 (-26)	600 (-29)	500 (-50)	500 (-23)	500 (38)	1.2
Financing, insurance, real estate and business services	6 400 (-31)	8 200 (-13)	7 800 (-22)	5 300 (-49)	4 300 (-39)	1.0
Community, social and personal services	5 600 (*)	5 700 (5)	6 500 (16)	5 500 (-11)	4 700 (-8)	1.2
Manufacturing	1 600 (-35)	1 900 (-34)	1 900 (-34)	1 400 (-38)	1 100 (-36)	0.5
Building and construction sites	100 (-55)	200 (3)	100 (-75)	100 (-72)	100 (-58)	0.1
<i>All establishments surveyed in the private sector^(a)</i>	<i>23 500 (-28)</i>	<i>30 000 (-14) <-6></i>	<i>25 700 (-26) <-4></i>	<i>21 200 (-41) <-20></i>	<i>17 200 (-32) <-6></i>	<i>0.7</i>
<i>Civil Service^(b)</i>	<i>1 700 (-12)</i>	<i>1 500 (-32)</i>	<i>1 700 (-20)</i>	<i>1 700 (-8)</i>	<i>1 900 (20)</i>	<i>1.1</i>

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

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

(b) These figures cover only vacancies for those staff to be employed on Civil Service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Exercise, which will be filled subsequently by in-service appointment.

() % change over a year earlier.

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

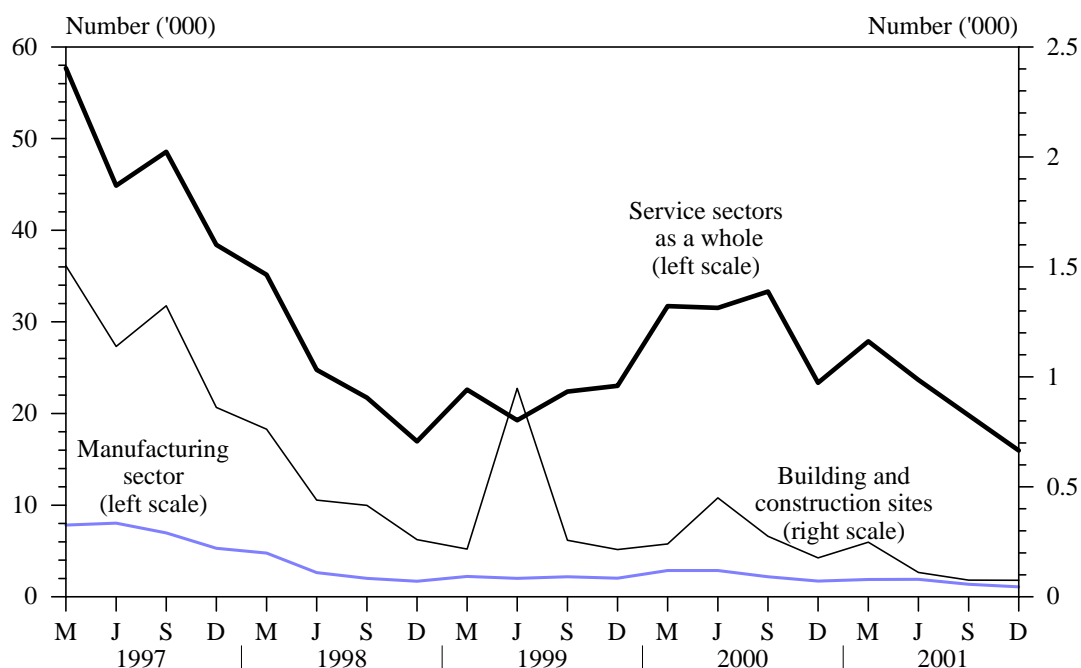
(*) Change of less than 0.5%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.19 Analysed by *occupation category*, vacancies fell markedly across-the-board. While vacancies for managers and administrators, associate professionals and professionals at the upper segment of the occupational hierarchy were reduced by 21-56% in December 2001 over a year earlier, vacancies at the middle and lower segments also faced noticeable decreases, ranging from 12% for service workers and shop sales workers to 47% for craft and related workers.

/Table 5.16

Table 5.16**Vacancies by major occupation category**

	<u>No. of vacancies</u>				
	<u>2001</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Managers and administrators	600 (-3)	800 (35)	700 (5)	400 (-33)	400 (-21)
Professionals	1 800 (-42)	2 600 (-18)	2 300 (-30)	1200 (-65)	1 000 (-56)
Associate professionals	7 300 (-38)	9 600 (-25)	7 700 (-41)	6 700 (-47)	5 400 (-38)
Clerks	5 600 (-10)	7 100 (5)	6 700 (8)	4 700 (-26)	3 700 (-32)
Service workers and shop sales workers	4 000 (-18)	4 900 (-2)	3 600 (-24)	4 000 (-30)	3 400 (-12)
Craft and related workers	700 (-44)	900 (-26)	700 (-57)	700 (-43)	500 (-47)
Plant and machine operators and assemblers	800 (-33)	800 (-41)	1 100 (-23)	700 (-41)	600 (-25)
Elementary occupations	2 800 (-26)	3 300 (-15)	2 900 (-27)	2 800 (-38)	2 100 (-21)

Note : () % change over a year earlier.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Earnings

Earnings and wages

5.20 Labour income moderated in the latter part of 2001. Overall *labour earnings* in the private sector, as measured by payroll per person engaged, were virtually unchanged in money terms in the fourth quarter of 2001 over a year earlier, after a 2% rise in the third quarter. A cut in year-end bonus by some of the employers, offsetting the earlier pay rise, might have mattered. Amongst the business establishments surveyed in the fourth quarter of 2001, 44% reported a decrease in average labour earnings over a year earlier, while 14% reported no change. The other 42% with a reported increase in average labour earnings mostly had their pay rise granted earlier in the year. Netting out the decline in consumer prices as reflected by the Composite CPI, overall labour earnings were still up by 2% in real terms in the fourth quarter of 2001 over a year earlier. This followed a 3% increase in the third quarter. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings showed no change in money terms in both the third and fourth quarters of 2001. In real terms, they were slightly higher, by 1% in these two quarters.

5.21 Analysed by *economic sector*, labour earnings exhibited somewhat different movements. Taking all the *service sectors* surveyed together, earnings were static in money terms, yet up by 2% in real terms, in the fourth quarter of 2001 over a year earlier. Within this broad group, earnings in the wholesale, retail and import/export trades rose modestly, by 1% in money terms or 3% in real terms, with the increase occurring mainly in the import/export trade. Earnings in community, social and personal services held steady in money terms, but were higher by 2% in real terms. Earnings in transport, storage and communications, though lower by 1% in money terms, had a 2% gain in real terms. Earnings in restaurants and hotels and in financing, insurance, real estate and business services were down by 2% each in money terms, yet were broadly stable in real terms. As to the local *manufacturing sector*, earnings went up modestly, by 1% in money terms or 3% in real terms. On a seasonally adjusted quarter-to-quarter comparison, earnings in all these sectors were generally flat or slightly lower by 1% in money terms. In real terms, they either held steady or edged up by 1%.

/Table 5.17

Table 5.17

**Labour earnings by major economic sector
(year-on-year rate of change (%))**

	<u>Payroll per person engaged</u>					Average amount in Q4 2001 (\$)
	<u>Annual</u>	<u>2001</u>				
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
Wholesale, retail and import/export trades	2 (4)	3 (5)	2 (4)	2 (3)	1 (3)	12,700
					<*> {1}	
Restaurants and hotels	* (2)	2 (4)	1 (3)	-1 (*)	-2 (*)	8,600
					<-1> {*}	
Transport, storage and communications	1 (3)	3 (5)	1 (3)	2 (3)	-1 (2)	19,900
					<-1> {*}	
Financing, insurance, real estate and business services	* (2)	2 (5)	2 (3)	-1 (*)	-2 (*)	19,900
					<*> {1}	
Community, social and personal services	1 (2)	1 (3)	-1 (1)	3 (4)	* (2)	19,900
					<-1> {*}	
Manufacturing	2 (4)	3 (5)	2 (4)	2 (3)	1 (3)	11,800
					<*> {1}	
All sectors surveyed in the private sector	2 (3)	3 (5)	2 (4)	2 (3)	* (2)	15,600
		<1> {1}	<*> {*}	<*> {1}	<*> {1}	

Notes : Figures not in brackets represent percentage changes in money terms, while those in round brackets represent percentage changes in real terms.

< > Seasonally adjusted quarter-to-quarter % change in money terms.

{ } Seasonally adjusted quarter-to-quarter % change in real terms.

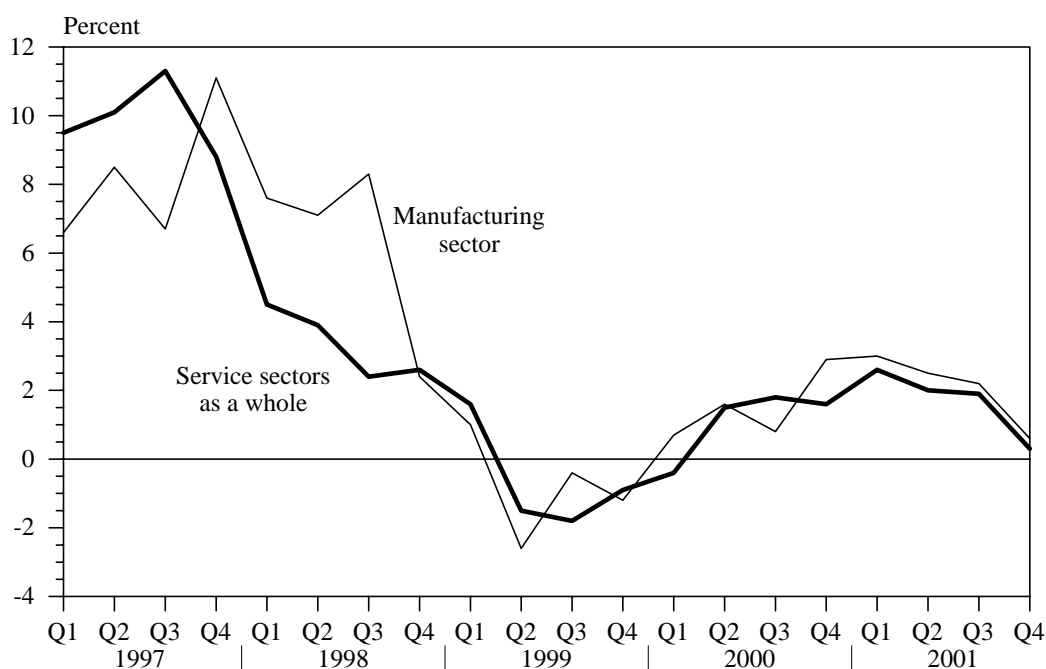
(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

Diagram 5.9

**Earnings by broad economic sector
(year-on-year rate of change in money terms)**



5.22 Overall *labour wages* in the private sector likewise moderated, with a nil year-on-year change in money terms in December 2001 coming after an increase of 1% in September. This was partly attributable to a reduction in guaranteed bonus, offsetting the earlier pay rise. Amongst the business establishments surveyed in December 2001, 40% reported a decrease in average wage rate over a year earlier, while another 8% reported no change. The remaining 52% with a reported increase in average wage rate mainly referred to the pay rise granted earlier in the year. Netting out the decline in consumer prices as reflected by the CPI(A)⁽¹²⁾, with its abrupt fall caused by the waiver of public housing rentals in the month of December last year, overall labour wages went up distinctly, by 7% in real terms in December 2001 over a year earlier, as against a 2% rise in September. On a quarter-to-quarter comparison, labour wages fell by 1% in money terms in December 2001, having held steady in September. Yet in real terms, labour wages rose by 5% in December 2001, following virtually nil change in September.

/5.23

5.23 Analysed by *economic sector*, wages in the wholesale, retail and import/export trades, in manufacturing and in transport services were all higher, by 1-2% in money terms or 8-9% in real terms in December 2001 over a year earlier. Wages in restaurants and hotels were generally flat in money terms, but up by 7% in real terms. Wages in personal services and in financing, insurance, real estate and business services, though fallen by 1% and 3% respectively in money terms, still had increases of 6% and 4% in real terms.

Table 5.18

**Wages by selected major economic sector^(a)
(year-on-year rate of change (%))**

	<u>By reference to the wage index</u>				
	<u>2001</u>				
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Wholesale, retail and import/export trades	1 (4)	2 (4)	2 (2)	1 (2)	1 (8)
Restaurants and hotels	1 (3)	1 (3)	1 (1)	1 (2)	* (7)
Transport services	1 (3)	1 (3)	* (1)	* (1)	2 (9)
Financing, insurance, real estate and business services	-1 (2)	1 (3)	* (1)	-2 (-1)	-3 (4)
Personal services	1 (3)	1 (4)	1 (2)	1 (2)	-1 (6)
Manufacturing	2 (5)	3 (5)	2 (2)	3 (4)	1 (8)
All selected sectors surveyed in the private sector	1 (3)	1 (4)	1 (2)	1 (2)	* (7)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

(a) The large difference in the two corresponding percentage changes for December 2001 over a year earlier was caused by an abrupt decline in the CPI(A) for the month of December last year, owing to the waiver of public housing rentals in that month. The CPI(A) instead of the Composite CPI is taken as the price deflator here, on account of its closer relevance to the occupation coverage of the wage series.

(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

5.24 Analysed by *occupation category*, wages for clerical and secretarial workers, for craftsmen, for miscellaneous non-production workers and for operatives gained by 1-2% in money terms or 8-9% in real terms in December 2001 over a year earlier. Wages for supervisory and technical workers were static in money terms, yet higher by 7% in real terms. As to service workers, wages continued to move lower, by 4% in money terms. In real terms, there was nevertheless a 3% rise.

Table 5.19
Wages by selected major occupation category
(year-on-year rate of change (%))

	<u>By reference to the wage index</u>				
	<u>2001</u>				
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Supervisory and technical workers	1 (3)	2 (4)	1 (2)	* (1)	* (7)
Clerical and secretarial workers	2 (4)	2 (4)	2 (2)	2 (3)	1 (8)
Craftsmen	1 (4)	1 (3)	1 (2)	1 (2)	1 (8)
Operatives	3 (5)	4 (7)	1 (1)	3 (4)	2 (9)
Service workers	-2 (1)	-1 (1)	-1 (*)	-1 (-1)	-4 (3)
Miscellaneous non-production workers	1 (4)	1 (3)	2 (2)	1 (1)	2 (8)
All selected occupations surveyed in the private sector	1 (3)	1 (4)	1 (2)	1 (2)	* (7)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

Also see Note (a) to Table 5.18.

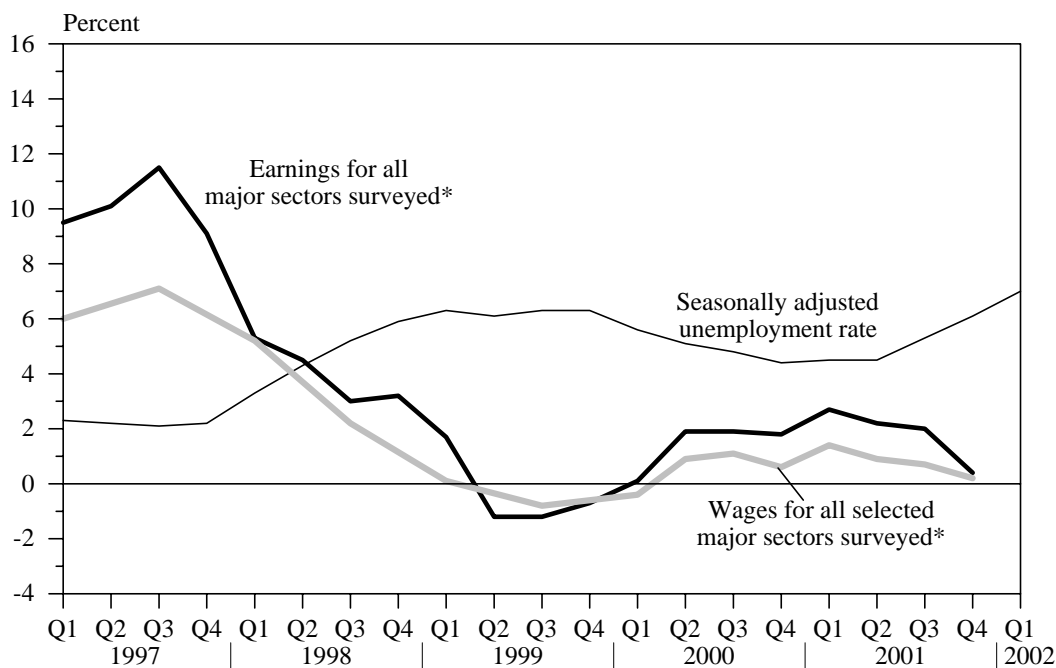
(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



Notes : (*) Depicted as year-on-year rates of change in money terms.

Also see the footnote to Table 5.1.

5.25 Overall wage rates in the *construction sector* edged down by 1% in money terms in the fourth quarter of 2001 over a year earlier, after registering nil change in the third quarter. Analysed by major job category, wages for steelbenders, concretors/bricklayers/drainlayers, plumbers, carpenters and joiners, and plasterers were all lower, by 2-5% in money terms in the fourth quarter of 2001 over a year earlier. On the other hand, wages for electricians (wiremen), fitters, painters, plant operators and truck drivers went up by 2-4% in money terms. Netting out the decline in consumer prices in terms of the CPI(A), overall construction wages went up by 2% in real terms in the fourth quarter of 2001 over a year earlier, slightly larger than the 1% rise in the third quarter.

/Table 5.20

Table 5.20**Construction wage rates by selected job category
(year-on-year rate of change (%))**

	<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Concretors/bricklayers/ drainlayers	-1	3	-3	-2	-3
Steelbenders	-2	1	-2	-3	-2
Carpenters and joiners	-4	-1	-7	-5	-4
Plumbers	5	11	9	5	-3
Fitters	3	1	4	2	3
Plasterers	4	11	9	1	-5
Painters	5	4	7	6	3
Electricians (wiremen)	1	-1	*	3	2
Plant operators	2	3	2	2	3
Truck drivers	2	2	*	3	4
All job categories in the construction sector ^(a)	* (2)	2 (4)	-1 (*)	* (1)	-1 (2)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

(a) Apart from the above selected job categories, this also covers such other job categories as masons, blacksmiths, terrazzo and granolithic workers, glaziers, heavy load coolies, pneumatic drillers, bamboo workers and scaffolders, structural steel erectors, divers and diver's linesmen. Yet as the employment involved in such job categories is much smaller, their respective wages are of lesser significance and are therefore not separately shown in the table.

(*) Change of less than 0.5%.

Source : Census and Statistics Department.

/5.26

5.26 Salaries in the Civil Service, having been frozen for two consecutive years, were adjusted upward in the financial year 2001/02, by reference to the results of the pay trend survey conducted on private sector firms for their pay adjustments in 2000/01. Comparing December 2001 with a year earlier, salaries for the directorate level and the upper pay band were raised by 4.99% in money terms, and salaries for the middle and lower pay bands by 2.38%. Netting out the decline in consumer prices in terms of the Composite CPI, the respective increases were about 9% and 6% in real terms. In his Budget Speech delivered on 6 March 2002, the Financial Secretary announced that, for financial planning purpose, the Civil Service pay was assumed to decrease by 4.75% as from 1 October 2002. Yet the actual magnitude of change would still be determined by the existing pay adjustment mechanism, having regard to the results of the pay trend survey⁽¹³⁾, the state of the economy, the Government's budgetary considerations, the change in the cost of living, the staff sides' pay claims and Civil Service morale.

Notes :

- (1) On 17 September 2001, the Census and Statistics Department released a revised series of labour force statistics backdated to the second quarter of 1996, which are based on the "resident population" definition, with the results of the 2001 Population Census incorporated. While the resultant revisions to the total labour force, total employment, total numbers unemployed and total numbers underemployed are very small in magnitude, the revisions to their respective rates of change are generally larger. For the unemployment and underemployment rates, which are ratios of these primary labour force statistics, the revisions are generally marginal.

/(2)

- (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 as 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.

In April 2001, the Census and Statistics Department put out a revised series of seasonally adjusted unemployment rate compiled by reference to the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment (i.e. the changes due to holiday effects, seasonally ups and downs in economic activity, seasonal variations in first-time job-seekers, etc). This replaces the former series which adjusts only for seasonal variations in the proportion of first-time job-seekers in the labour force. For more details, see Note (3) at the end of Chapter 5 of the Half-yearly Economic Report 2001.

- (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.
- (4) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (5) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (6) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.

/(8)

- (8) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.
- (9) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.
- (10) Employment for the building and construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in the building and construction sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (11) In his 2002/03 Budget, the Financial Secretary announced that the Government would stringently contain the growth of the Civil Service in all ranks, and should be able to attain the target of reducing the Civil Service establishment to around 181 000 by March 2003. Also, it would review the demand for services and its priorities for the deployment of resources, and strive to meet additional service needs with the resources released through streamlining procedures, simplifying structures and economising on manpower.
- (12) 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 labour earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for labour wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (13) The results of the pay trend survey covering private sector firms, as conducted for the period 2 April 2001 to 1 April 2002, were released in May 2002. These indicated that salaries for the upper, middle and lower pay bands fell by 3.39%, 0.60% and 0.79% respectively in money terms over that period.

CHAPTER 6 : PRICES

Consumer prices

6.1 Overall consumer prices, having been on a continuous downtrend since late 1998, fell further in the first quarter of 2002. Domestically, costs and prices continued to drift lower, along with a further softening in property prices and rentals, and a renewed moderation in labour wages. Also, price discounts were prevalent at the retail outlets for boosting sales. Externally, import prices stayed soft, under the combined effect of the strength of the US dollar at that time and subdued inflation in the major supplier economies. Moreover, world commodity prices weakened further in overall terms, notwithstanding a visible rebound in international crude oil prices over the past few months. In addition, there were some specific local factors, including notably the Government's rates relief and to a lesser degree the concessions on certain public utility and transport charges, which constituted the main influence behind the larger year-on-year decline in overall consumer prices in the first quarter of this year than in the fourth quarter of last year.

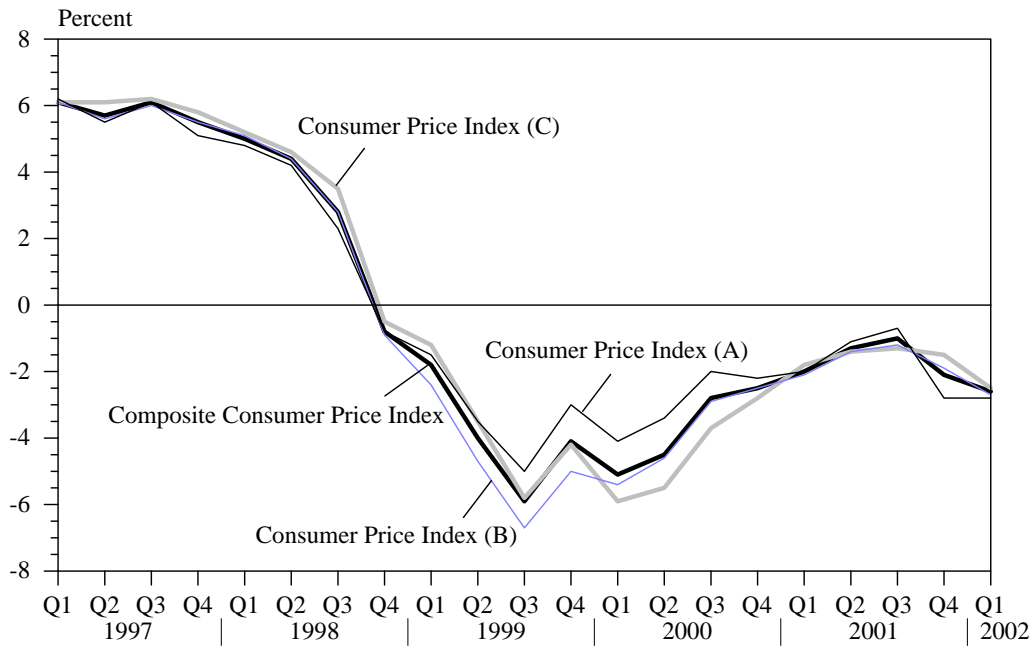
6.2 The *Composite Consumer Price Index*⁽¹⁾ fell by 2.6% in the first quarter of 2002 over a year earlier, enlarged from the 2.1% decrease in the fourth quarter of 2001. This mainly reflected the effect of the rates relief for 2002 as announced by the Government in October last year⁽²⁾. While the special one-off rebate of electricity charges granted by a power company in the first two months of 2002 was also relevant, the dampening effect on a year-on-year comparison was mostly neutralised by a similar rebate granted in the early part of 2001⁽³⁾.

6.3 Analysed by sub-index and on a year-on-year comparison, the CPI(A) declined by 2.8% in the first quarter of 2002, same as the decrease in the fourth quarter of 2001. The dampening effect on this sub-index arising from the rates relief in the most recent quarter was not much different from the waiver of public housing rentals in the preceding quarter⁽⁴⁾. Yet for the CPI(B) and CPI(C), the decreases widened distinctly between the two quarters, from 1.9% and 1.5% respectively to 2.7% and 2.5%, as the waiver of public housing rentals had little impact on the CPI(B) and nil impact on the CPI(C). Netting out these special factors, the decreases in the three sub-indices all showed only a modest widening over these two quarters.

/Diagram 6.1

Diagram 6.1

**Consumer Price Indices
(year-on-year rate of change)**



Note : From the fourth quarter of 2000 onwards, the year-on-year changes in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the year-on-year changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

/Table 6.1

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>
2001	Annual	-1.6	-1.7	-1.6	-1.5
	H1	-1.7	-1.6	-1.7	-1.6
	H2	-1.5	-1.8	-1.5	-1.4
	O1 [#]	-2.0	-2.0	-2.1	-1.8
	O2	-1.3	-1.1	-1.4	-1.4
	O3	-1.0	-0.7	-1.2	-1.3
	O4 [^]	-2.1	-2.8	-1.9	-1.5
2002	O1 [*]	-2.6	-2.8	-2.7	-2.5
	Jan	-3.5	-3.9	-3.4	-3.2
	Feb ⁺	-2.3	-2.4	-2.3	-2.0
	Mar	-2.2	-2.0	-2.3	-2.5

Notes : (#) The larger declines in the CPIs in the first quarter of 2001 were due in part to a special one-off rebate of electricity charges by a power company in February and March 2001.

([^]) The distinctly larger declines in the CPIs in the fourth quarter of 2001, especially in the Composite CPI, CPI(A) and CPI(B), were mainly due to the waiver of public housing rentals in December 2001. This had the effect of lowering the Composite CPI by 0.6 of a percentage point in the fourth quarter of 2001. The corresponding dampening effects were 1.6 percentage points for the CPI(A), 0.3 of a percentage point for the CPI(B), and nil for the CPI(C), the variations being the result of different weightings of the public housing component in the respective sub-indices.

(*) The enlarged declines in the Composite CPI, CPI(B) and CPI(C) in the first quarter of 2002, notwithstanding dissipation of the effect of the waiver of public housing rentals, were primarily due to the rates relief granted by the Government for 2002. This had the effect of lowering the Composite CPI by 0.9 of a percentage point in the first quarter of 2002. The corresponding dampening effects were 1.2 percentage points for the CPI(A), 1.0 percentage point for the CPI(B), and 0.7 of a percentage point for the CPI(C).

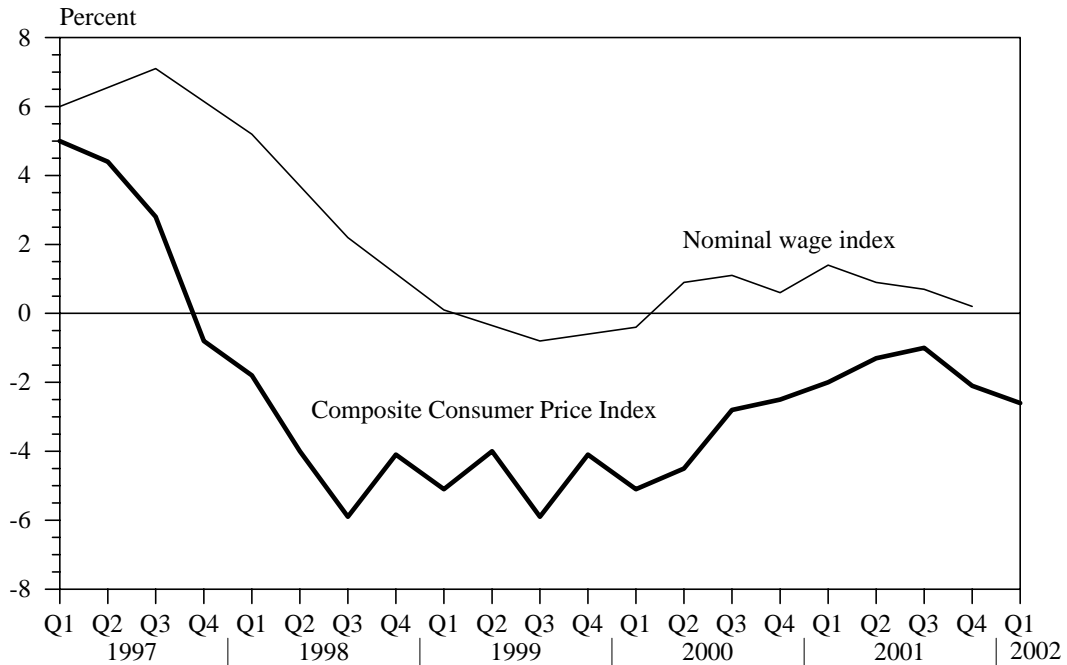
(+) The narrowed declines in the CPIs in February than in January 2002 were attributable to difference in timing of the Lunar New Year Festival, which occurred in February this year but in January last year. As consumer prices tended to be boosted in the sales period near the Festival and eased shortly afterwards, this difference in timing had led to a larger year-on-year decline in consumer prices in January 2002, but a smaller year-on-year decline in February 2002.

/Diagram 6.2

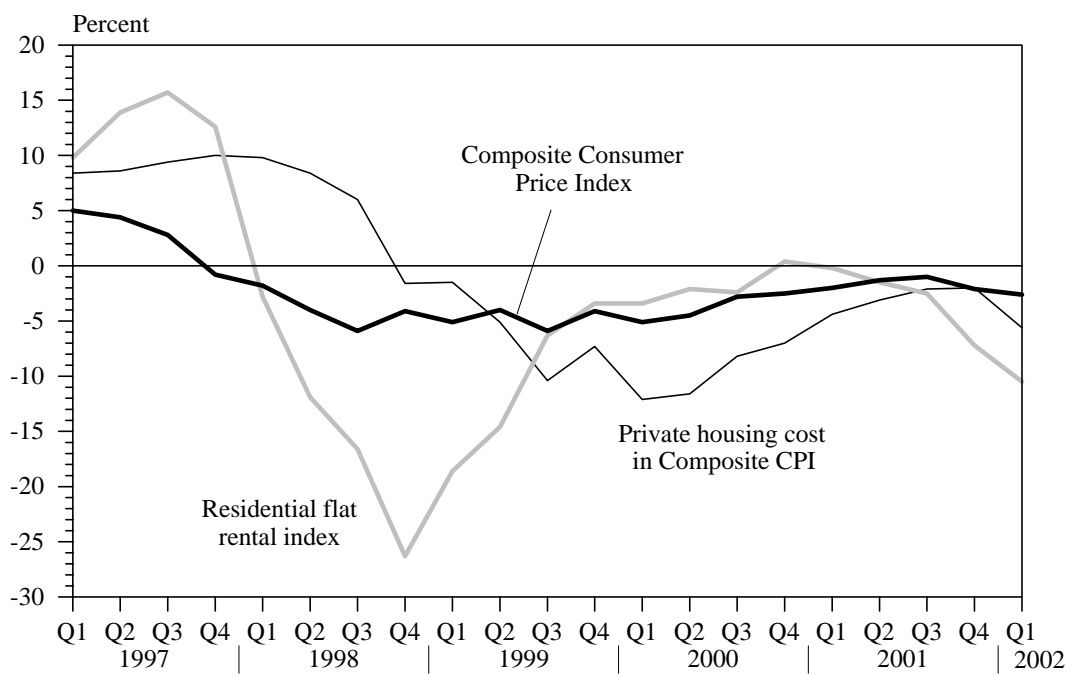
Diagram 6.2

**Composite Consumer Price Index vis-à-vis labour wages,
residential flat rentals, and prices of retained imports
(year-on-year rate of change)**

(a) Compared with labour wages



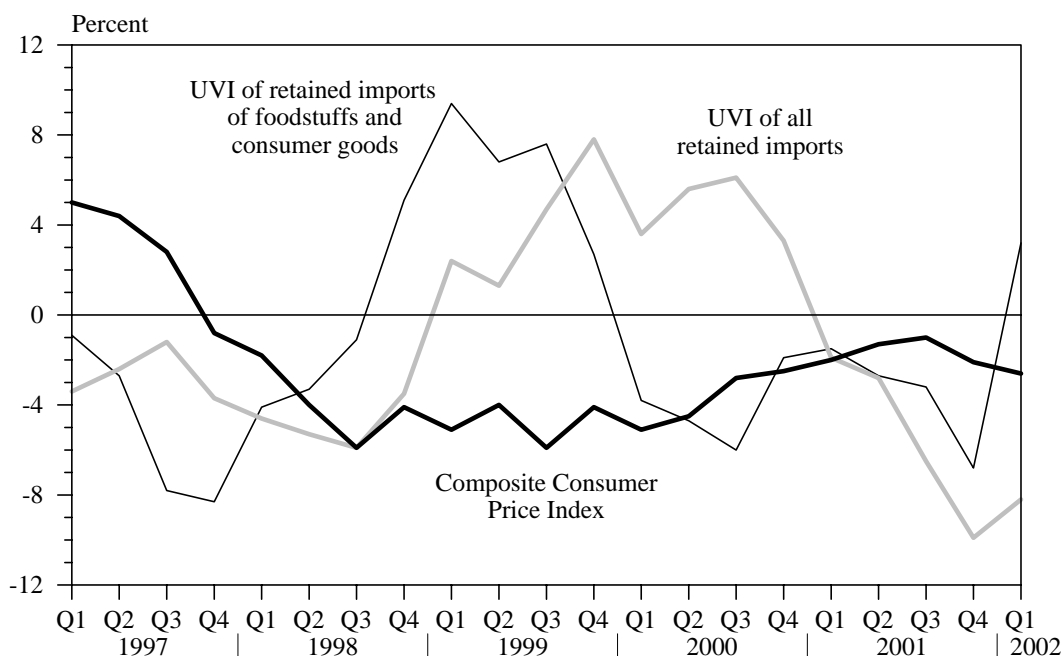
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with the unit value index of retained imports



Note : See the footnote to Diagram 6.1.

6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI decreased by 1.1% in the first quarter of 2002. A major factor contributing to this fall was again the rates relief granted for 2002⁽⁵⁾. Also relevant was the special one-off rebate of electricity charges granted by a power company in the first two months of 2002⁽⁶⁾. In the fourth quarter of 2001, the decline was also 1.1%. Yet this mainly reflected the dampening effect of the waiver of public housing rentals in December 2001⁽⁷⁾. The three sub-indices exhibited different patterns of movement. The CPI(A) had a much smaller decline in the first quarter of 2002 than in the fourth quarter of 2001, at 0.6% as against 2.2%, owing to a low base of comparison in December last year caused by the waiver of public housing rentals. While this factor had little impact on the CPI(B) and nil impact on the CPI(C), they were dampened rather more by the rates relief and the rebate of electricity charges effected in the early part of this year. Their respective decreases thus enlarged, to 1.4% and 1.3% in the first quarter of 2002, from 0.8% and 0.4% in the fourth quarter of 2001.

/Table 6.2

Table 6.2

**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change (%))**

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2001	Q1	-0.6	-0.8	-0.6	-0.5
	Q2	*	0.3	-0.1	-0.2
	Q3	-0.4	-0.2	-0.4	-0.5
	Q4 [#]	-1.1	-2.2	-0.8	-0.4
2002	Q1 ⁺	-1.1	-0.6	-1.4	-1.3

Notes : (#) The enlarged declines in the Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2001 were mainly due to the waiver of public housing rentals in December. This had the effect of lowering the seasonally adjusted Composite CPI, CPI(A) and CPI(B) by 0.7 of a percentage point, 1.7 percentage points, and 0.3 of a percentage point respectively in the fourth quarter of 2001. Yet the seasonally adjusted CPI(C) was unaffected by such a measure.

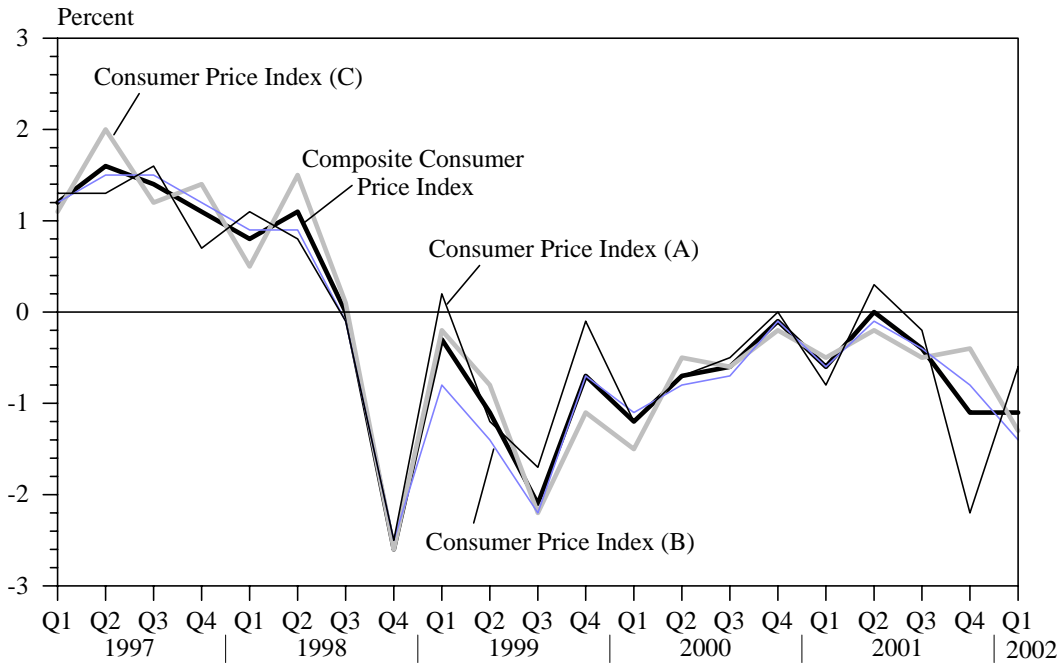
(+) Notwithstanding dissipation of the waiver of public housing rentals, the seasonally adjusted CPIs registered further quarter-to-quarter declines in the first quarter of 2002. This was mainly due the rates relief for 2002 and the special one-off rebate of electricity charges granted by a power company in January and February 2002. The former factor had the effect of lowering the seasonally adjusted Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.9, 1.2, 0.9 and 0.7 of a percentage point respectively in the first quarter of 2002. For the latter factor, the corresponding dampening effects were 0.3, 0.5, 0.2 and 0.1 of a percentage point in that quarter.

(*) Change of less than 0.05%.

/Diagram 6.3

Diagram 6.3

**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change)**



Note : From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

/6.5

6.5 Analysed by major *commodity group* in the Composite CPI and on a year-on-year comparison, public housing cost went down markedly, by 10.7% in the first quarter of 2002, largely attributable to the rates relief as announced by the Government in October last year. Private housing cost fell less, by 5.6%. While part of this decrease was caused by the rates relief, the further decline in rentals for private housing in the more recent months also contributed⁽⁸⁾. The prices of durable goods slid by 7.3%, along with downward adjustments in the prices of computer products and telecommunications equipment. The charges for electricity, gas and water were lower by 3.3%, on account of the reduced fuel cost variation charge for Towngas and the special one-off rebate of electricity charges granted by a power company early this year. The prices of basic foodstuffs and the charges for meals at restaurants also declined, by 2.0% and 0.8% respectively, in line with continued softening in import prices of foodstuffs particularly those from the Mainland. The prices of miscellaneous services sank by 1.3%, reflecting reduced charges for telecommunications services. The cost of transport edged down by 0.4%, consequential to lower retail prices of motor vehicles and fare concessions by some of the public transport operators. On the other hand, the prices of alcoholic drinks and tobacco rose further, by 4.4%. This was mainly due to higher duty rates for tobacco and certain types of alcoholic drinks effected as from March 2001. The increase in duty rate for wine as from March 2002 gave an added lift⁽⁹⁾. The prices of miscellaneous goods edged up by 0.5%, partly boosted by higher prices of jewellery and textbooks. The prices of clothing and footwear also went slightly higher, by 0.2%, reversing the downtrend prevalent since late 1998. This reflected some firming up in the prices of outer-clothing in the more recent months.

/Table 6.3

Table 6.3

**Consumer Price Indices
by component in the first quarter of 2002
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
Food	-1.2	-1.3	-1.3	-1.2
<i>Meals bought away from home</i>	-0.8	-1.0	-1.2	0.1
<i>Other foodstuffs</i>	-2.0	-1.6	-1.6	-3.4
Housing [#]	-5.5	-6.4	-5.5	-4.6
<i>Private dwellings</i>	-5.6	-5.9	-5.8	-5.0
<i>Public dwellings</i>	-10.7	-10.7	-10.7	--
Electricity, gas and water	-3.3	-4.1	-3.2	-2.1
Alcoholic drinks and tobacco	4.4	4.8	4.6	2.7
Clothing and footwear	0.2	3.3	2.0	-5.5
Durable goods	-7.3	-6.6	-7.7	-7.3
Miscellaneous goods	0.5	0.7	0.3	0.4
Transport	-0.4	-0.3	-0.4	-0.7
Miscellaneous services	-1.3	-1.9	-1.3	-0.7
All items	-2.6	-2.8	-2.7	-2.5

Notes : (#) 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.

(--) Not applicable.

/Diagram 6.4

Diagram 6.4

**Composite Consumer Price Index by component
(year-on-year rate of change)**

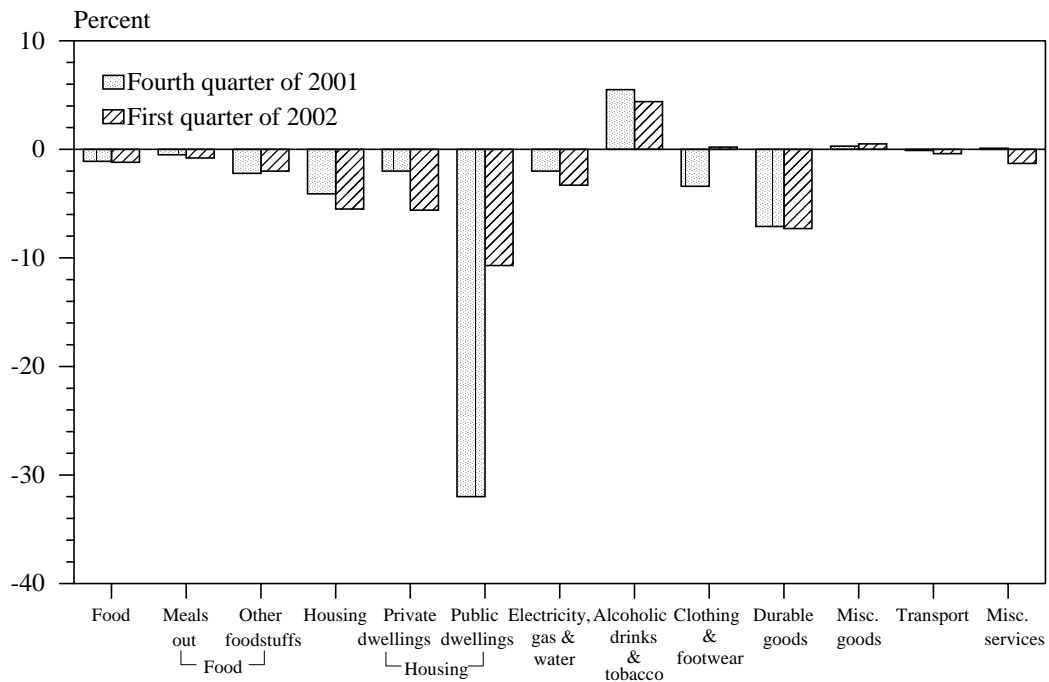
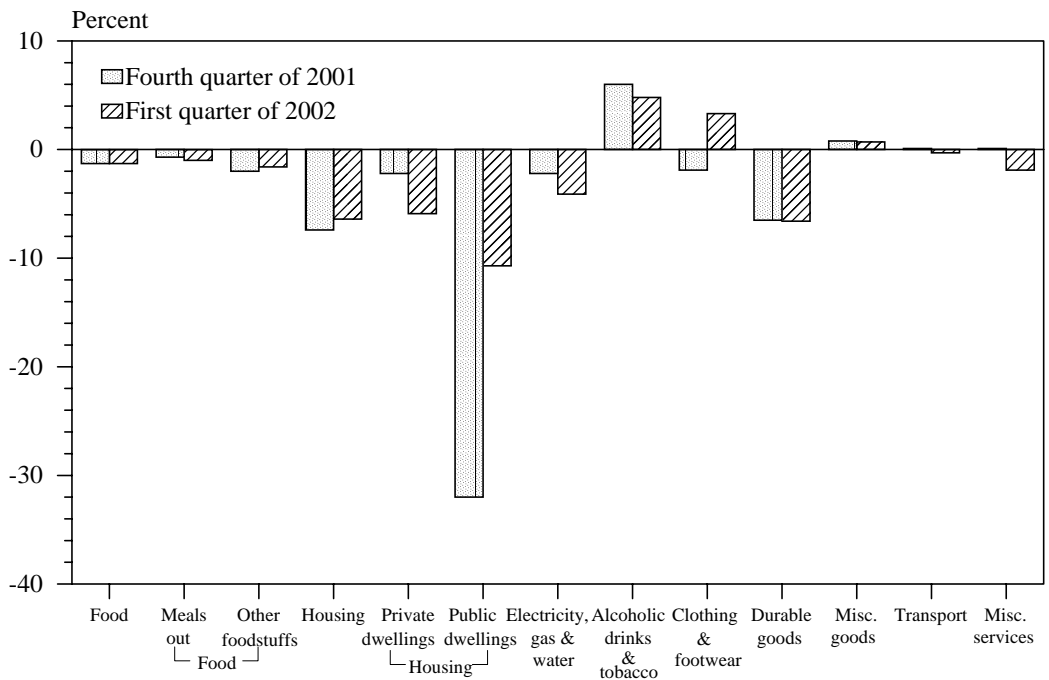


Diagram 6.5

**Consumer Price Index (A) by component
(year-on-year rate of change)**



/Import

Import prices

6.6 The *prices of imports of goods*, as measured by the unit value index of imports of goods, fell by 5% in the first quarter of 2002 over a year earlier, same as the decrease in the fourth quarter of 2001. The strength of the US dollar at that time and subdued price pressure in the major supplier economies were the main contributory factors. Also relevant was a further easing in world commodity prices in overall terms, notwithstanding a visible rebound in international crude oil prices since the beginning of this year.

6.7 Analysed by major *source*, the decline in import prices occurred across almost all the major supplier economies. Amongst them, the prices of imports from Taiwan and Japan had the largest fall, both by 7% in the first quarter of 2002 over a year earlier, upon a distinct depreciation of the New Taiwan dollar and the Japanese yen. The prices of imports from the United States decreased by 5%, partly reflecting lower prices of capital equipment and material inputs from that country. The prices of imports from the Mainland also went down, yet more moderately, by 3%.

Table 6.4

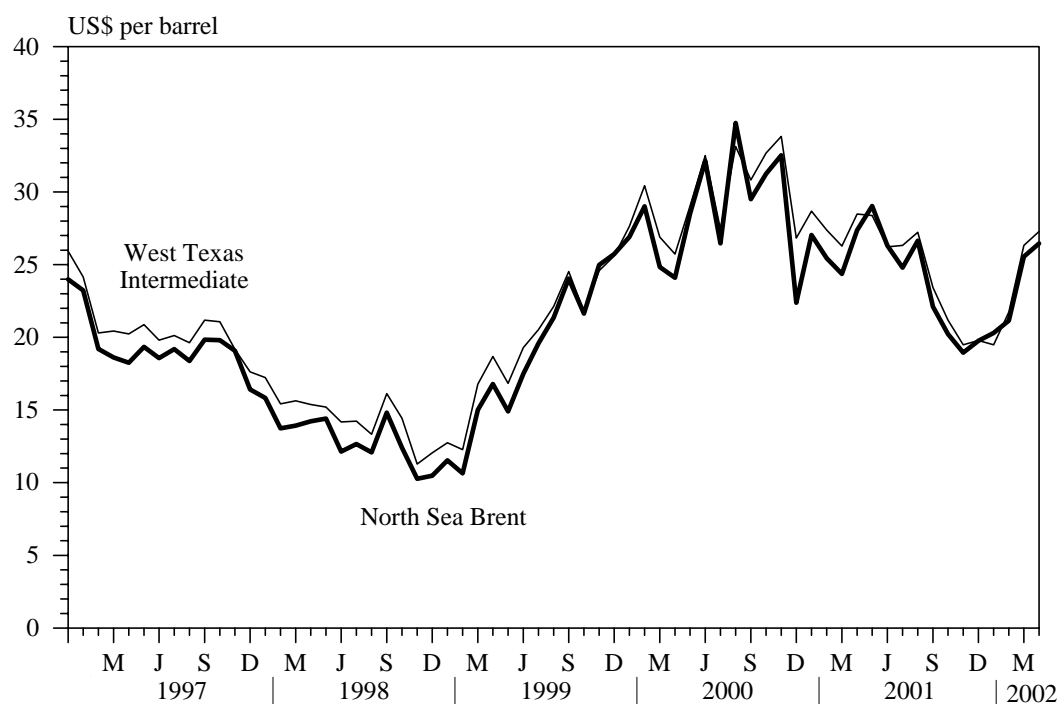
**World commodity prices
(year-on-year rate of change (%))**

		<u>Agricultural raw materials</u>	<u>Metals</u>	<u>All non-fuel commodities</u>	<u>Fuels</u>
2001	Annual	-7	-10	-5	-14
	H1	-6	-4	-5	-1
	H2	-8	-15	-6	-25
	Q1	-6	-5	-4	-2
	Q2	-6	-4	-5	*
	Q3	-6	-15	-4	-16
	Q4	-9	-15	-8	-35
2002	Q1	-4	-11	-4	-20

Note : (*) Change of less than 0.5%.

Source : IMF International Financial Statistics.

/Diagram 6.6

Diagram 6.6**Spot prices of crude oil***

Note : (*) Month-end figures.

Table 6.5

**Unit value indices of imports of goods by major source
(year-on-year rate of change (%))**

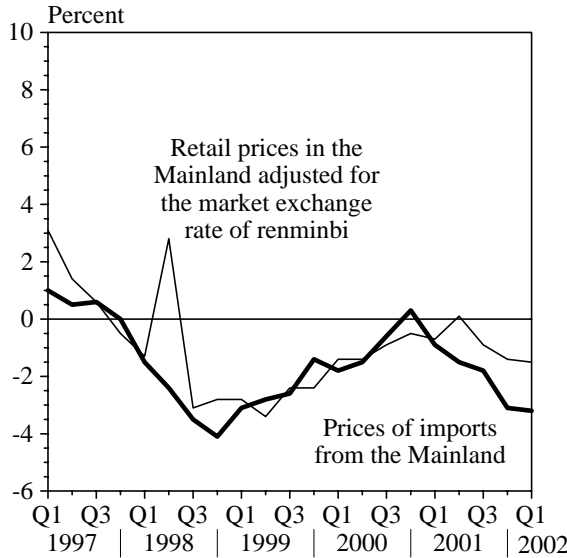
		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2001	Annual	-2	-4	-6	-2	-3
	H1	-1	-2	-4	-1	-2
	H2	-2	-6	-8	-4	-4
	Q1	-1	-1	-3	-1	-2
	Q2	-1	-3	-6	-2	-3
	Q3	-2	-5	-7	-3	-4
	Q4	-3	-7	-8	-5	-5
2002	Q1	-3	-7	-7	-5	-5

/Diagram 6.7

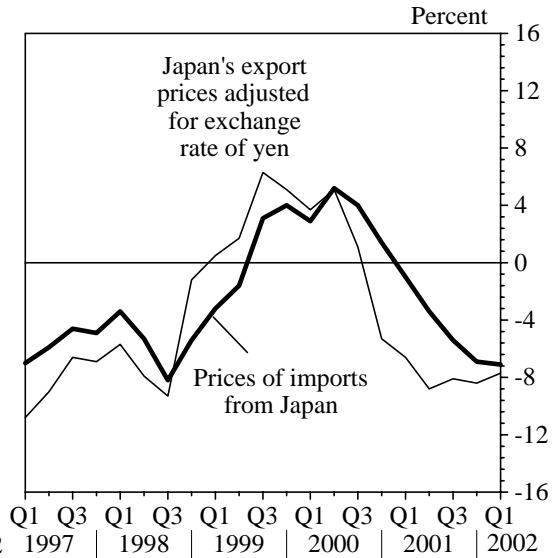
Diagram 6.7

**Prices of imports of goods by major source
(year-on-year rate of change)**

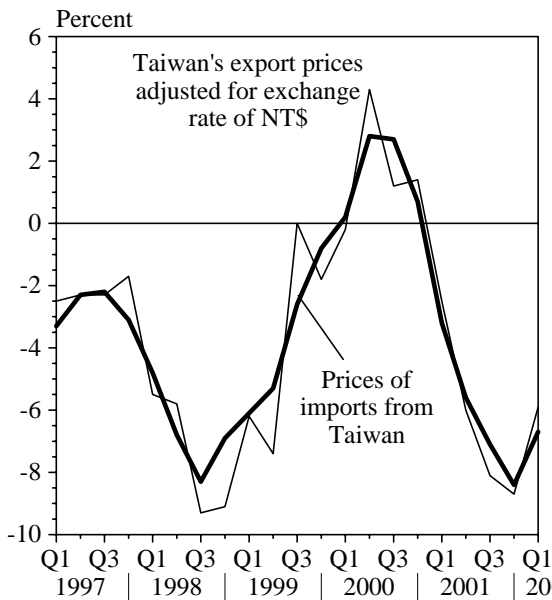
(a) For imports from the mainland of China



(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



6.8 The *prices of retained imports*, as measured by the unit value index of retained imports, were 8% lower in the first quarter of 2002 than a year earlier, following a 10% fall in the fourth quarter of 2001. Analysed by *end-use category*, the prices of retained imports of fuels continued to drop, by 19% in the first quarter of 2002 over a year earlier. Yet this was smaller than the 32% dip in the fourth quarter of 2001. The rebound in international crude oil prices in the more recent months was a relevant factor. The prices of retained imports of raw materials and semi-manufactures fell by 9%, mainly attributable to lower import prices of materials for industrial use, especially those of chemicals, plastic resins and paper. The prices of retained imports of consumer goods and of foodstuffs were down by 7% and 6% respectively, with more distinct decreases in import prices of electrical appliances, motor vehicles and cameras from Japan, as well as in import prices of certain fresh food items like fish, live poultry and vegetables from the Mainland. The prices of retained imports of capital goods eased by 6%, on account of reduced import prices of office machinery and industrial equipment.

Table 6.6

**Unit value indices of retained imports by end-use category
(year-on-year rate of change (%))**

		<u>Food- stuffs</u>	<u>Consumer goods</u>	<u>Fuels</u>	<u>Raw materials and semi- manufactures</u>	<u>Capital goods</u>	<u>All categories</u>
2001	Annual	-4	-3	-14	-7	-2	-5
	H1	-3	-2	1	-4	-3	-2
	H2	-5	-5	-25	-11	-2	-8
	Q1	-3	-1	-1	-3	-3	-2
	Q2	-4	-2	2	-5	-2	-3
	Q3	-5	-3	-18	-8	-2	-6
	Q4	-6	-7	-32	-13	-1	-10
2002	Q1	-6	-7	-19	-9	-6	-8

/Prices

Prices of local manufacturing output

6.9 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽¹⁰⁾, went down by 2% in the fourth quarter of 2001 over a year earlier, same as the decrease in the third quarter. Reduced operating costs, as manifested by lower prices of retained imports of raw materials and semi-manufactures, lesser property rentals, and moderated labour wages, contributed. Analysed by major industry group, output prices in the fabricated metal products and the textiles industries declined by 3% and 2% respectively in the fourth quarter of 2001 over a year earlier. Output prices in the wearing apparel and the machinery and equipment industries fell less, by 1% each. Output prices in the consumer electrical and electronic products and the paper products and printing industries held stable. Output prices in the plastic products industry rose modestly, by 2%. For 2001 as a whole, the prices of local manufacturing output were 2% lower, having shown nil change in 2000.

Table 6.7

Producer Price Index for the local manufacturing sector (year-on-year rate of change (%))

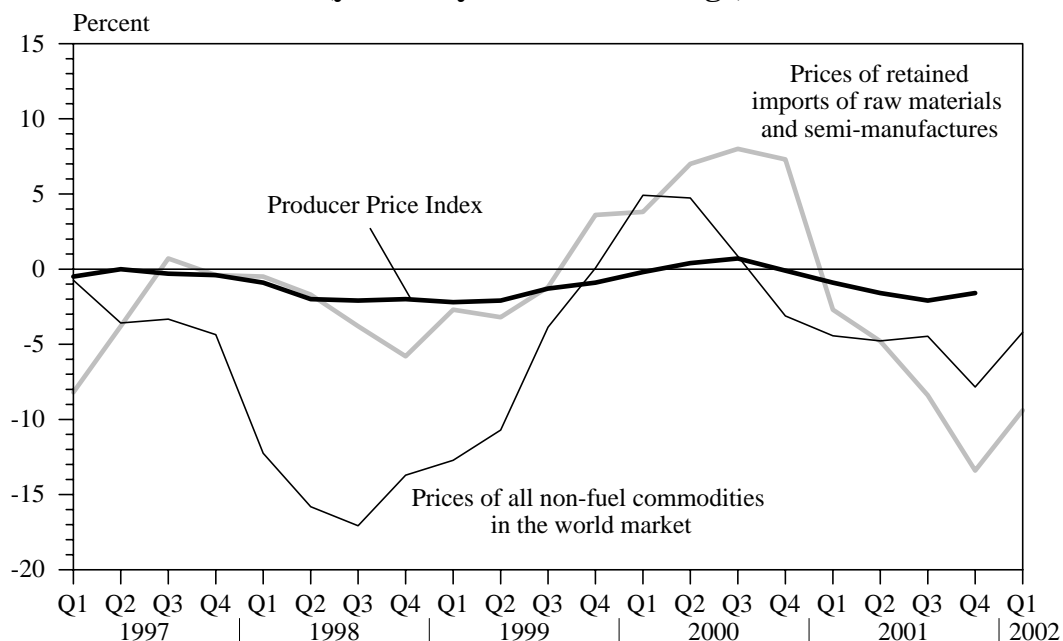
<u>Industry</u>	<u>2000</u>					<u>2001</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Wearing apparel	*	*	*	*	*	*	*	*	*	-1
Textiles	-1	-1	-1	*	*	-1	*	-1	-2	-2
Plastic products	-1	*	*	-2	-2	*	-1	-2	*	2
Consumer electrical and electronic products	-6	-8	-7	-4	-7	-1	-2	-2	-2	*
Machinery and equipment	2	2	2	2	2	-3	-3	-2	-4	-1
Fabricated metal products	1	-2	*	4	3	-2	1	*	-4	-3
Paper products and printing	*	2	2	-1	-1	*	-1	*	*	*
Overall manufacturing	*	*	*	1	*	-2	-1	-2	-2	-2

Note : (*) Change of less than 0.5%.

/Diagram 6.8

Diagram 6.8

**Producer Price Index, world commodity prices, and prices of retained imports of raw materials and semi-manufactures
(year-on-year rate of change)**



Export prices

6.10 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, declined by 3% in the first quarter of 2002 over a year earlier, following a similar fall in the fourth quarter of 2001. Within this total, the prices of re-exports had about the same decrease, by 3% over a year earlier in these two quarters, while the prices of domestic exports had a moderated decline, from 6% to 5%. In face of slack demand and keen price competition in the major overseas markets, export prices continued to face down-drift.

/6.11

6.11 Analysed by major *market*, the prices of total exports of goods to Singapore fell the most, by 5% in the first quarter of 2002 over a year earlier. This was mainly attributable to subdued prices of semi-conductors and other electronic parts and components in the global market. The prices of total exports of goods to Japan slid by 4%, amidst the dismal economic performance and sluggish import demand there. The prices of total exports of goods to the Mainland and the United Kingdom also went down by 4% each, while the prices of total exports of goods to Germany and the United States were lower by 3% and 2% respectively.

Table 6.8

**Unit value indices of total exports of goods by major market
(year-on-year rate of change (%))**

		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2001	Annual	-1	-3	-2	-3	-2	-5	-3
	H1	-1	-2	-1	-2	-1	-4	-2
	H2	-2	-4	-3	-3	-2	-6	-3
	Q1	*	-1	-1	-1	-1	-3	-2
	Q2	-1	-3	-2	-2	-2	-4	-2
	Q3	-2	-4	-3	-3	-1	-6	-3
	Q4	-2	-4	-3	-4	-3	-6	-3
2002	Q1	-2	-4	-3	-4	-4	-5	-3

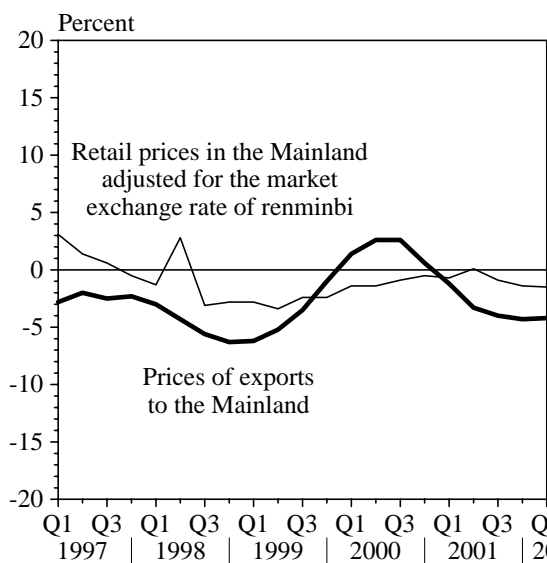
Note : (*) Change of less than 0.5%.

/Diagram 6.9

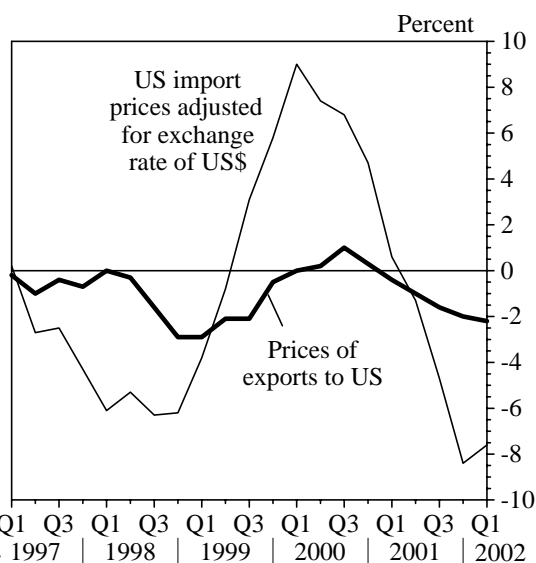
Diagram 6.9

**Prices of total exports of goods by major market
(year-on-year rate of change)**

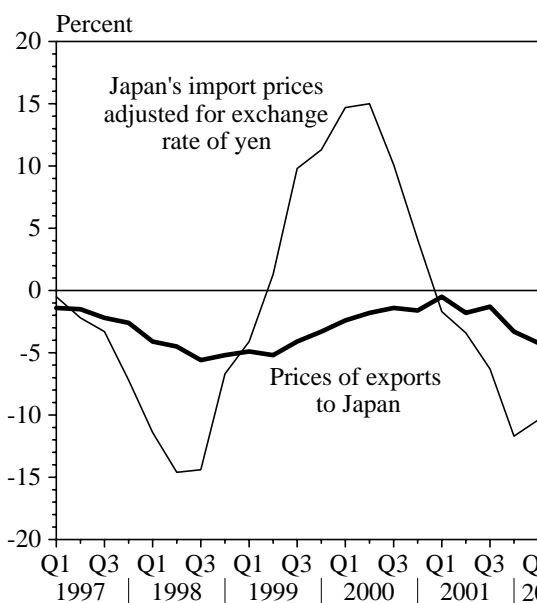
**(a) For exports to the
mainland of China**



(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



/Terms

Terms of trade

6.12 As the prices of imports of goods continued to decline faster than the prices of total exports of goods, the terms of trade in goods for Hong Kong went up further, by 2% in the first quarter of 2002 over a year earlier. This was similar to the increase in the fourth quarter of 2001.

Table 6.9

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (1990 = 100)	<u>Year-on-year rate of change</u> (%)
2001	Annual	100.6	1
	H1	100.3	*
	H2	101.0	1
	Q1	100.2	*
	Q2	100.4	*
	Q3	100.6	1
	Q4	101.4	2
2002	Q1	101.8	2

Note : (*) Change of less than 0.5%.

/Diagram 6.10

Diagram 6.10

**Unit value indices of total exports of goods and imports of goods
(year-on-year rate of change)**

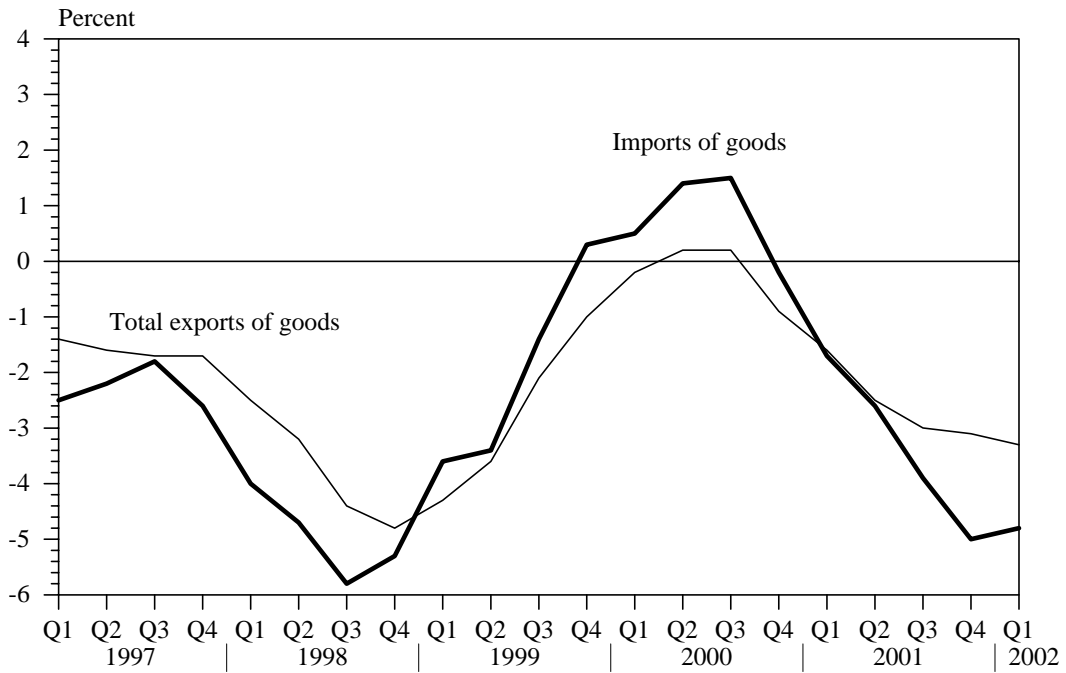
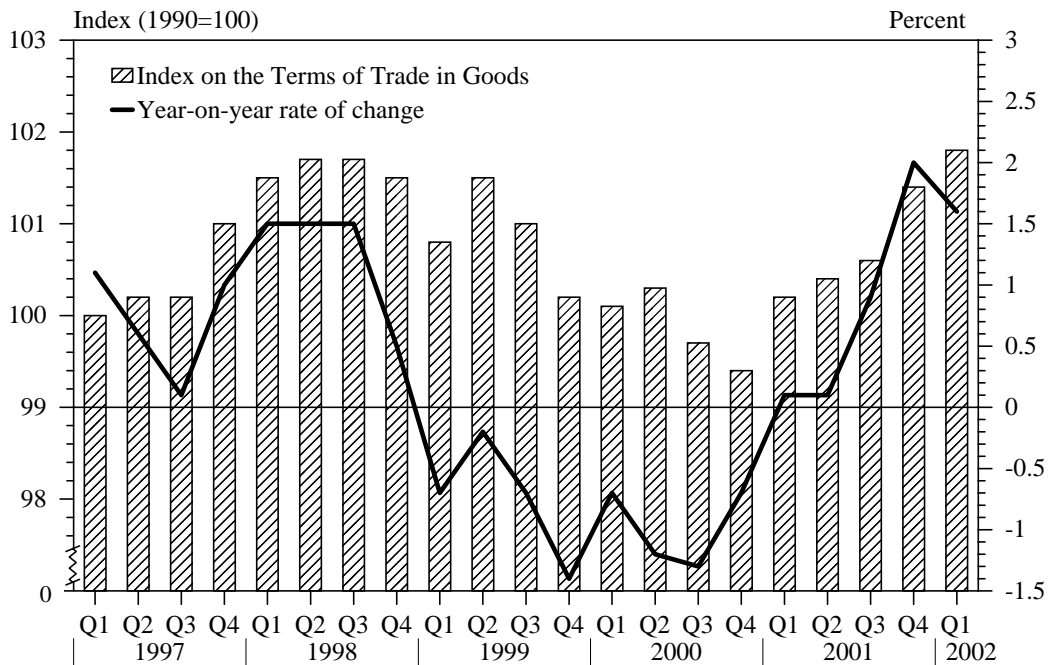


Diagram 6.11

Terms of trade in goods



GDP deflator

6.13 The *GDP deflator*⁽¹¹⁾, as a broad measure of overall price change in the economy, reverted to a decrease at 0.6% in the first quarter of 2002 over a year earlier, from a brief increase at 0.5% in the fourth quarter of 2001. This was mainly attributable to an enlarged decline in the price deflator for total exports of goods and a moderated rise in the price deflator for government consumption expenditure, which together more than offset a narrowed decrease in the price deflator for gross domestic fixed capital formation and a renewed rise in the price deflator for exports of services. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* came down further, by 2.5% and 0.5% respectively in the first quarter of 2002 over a year earlier, after decreases of 1.7% and 0.7% in the fourth quarter of 2001. Yet on a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went higher by 1.9% in the first quarter of 2002, following a marginal decline of 0.1% in the fourth quarter of 2001 and reversing the downtrend seen over the preceding three quarters.

/Table 6.10

Table 6.10**GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>2000[#]</u>	<u>2001[#]</u>	<u>2001</u>				<u>2002</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
Private consumption expenditure	-4.8	-1.4	-1.3	-1.3	-1.0	-2.0	-2.1
Government consumption expenditure	-1.8	2.1	-0.9	2.9	3.4	3.3	2.8
Gross domestic fixed capital formation	-4.3	-4.2	-6.4	-3.2	-4.2	-3.0	-2.8
Total exports of goods	-0.5	-2.9	-1.8	-2.9	-3.3	-3.5	-4.2
Imports of goods	0.8	-3.2	-1.7	-2.7	-3.4	-4.9	-5.0
Exports of services	-0.2	-1.2	0.1	-0.9	-1.8	-2.1	0.2
Imports of services	-0.1	-0.3	-0.2	0.2	-0.2	-0.8	-0.4
Gross Domestic Product	-6.5	-0.5	-1.8 <2.9>	-0.6 <-2.1>	-0.2 <-0.1>	0.5 <-0.1>	-0.6 <1.9>
Total final demand	-3.1	-1.7	-1.9	-1.6	-1.7	-1.7	-2.5
Domestic demand	-5.6	-1.1	-2.4	-1.0	-0.4	-0.7	-0.5

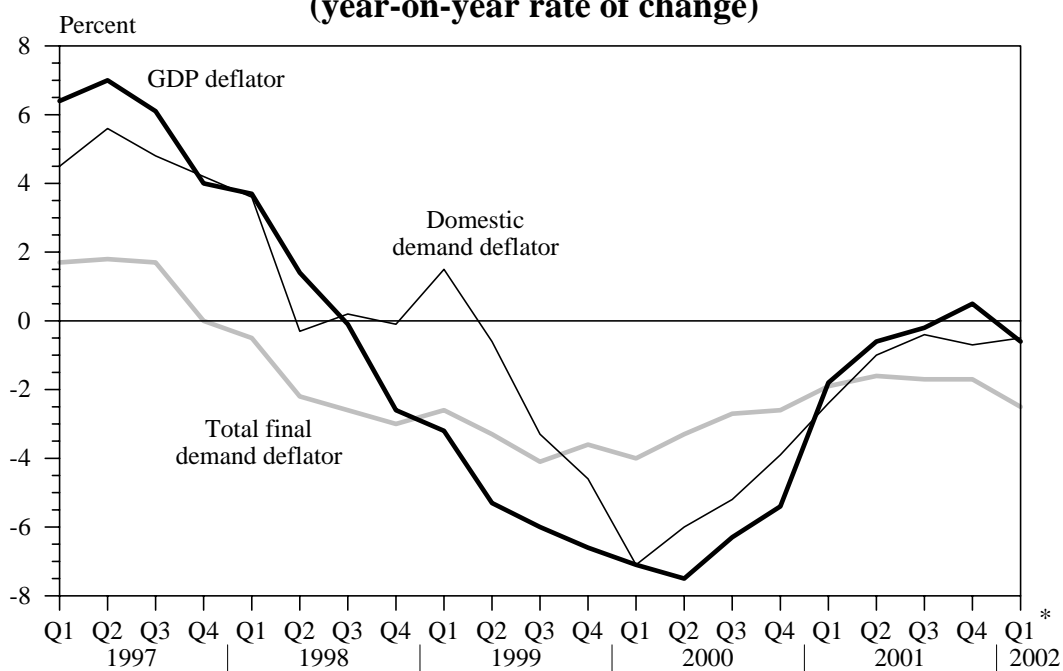
Notes : (#) Revised figures.

(+) Preliminary figures.

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

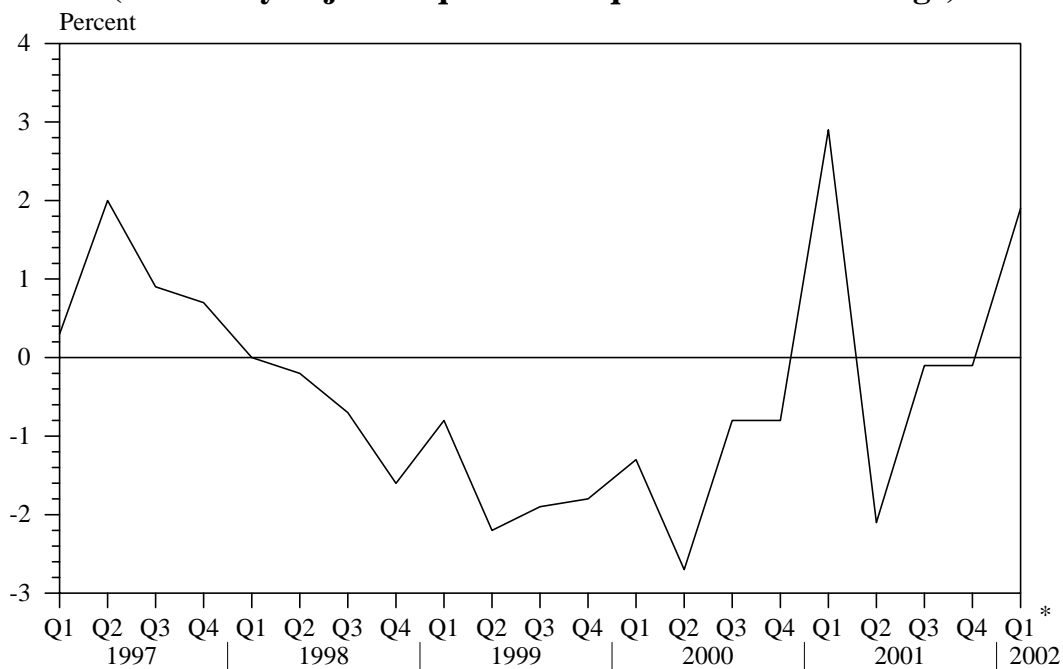
/Diagram 6.12

Diagram 6.12
GDP deflator, total final demand deflator
and domestic demand deflator
(year-on-year rate of change)



Note : (*) Preliminary figures.

Diagram 6.13
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



Note : (*) Preliminary figure.

/Notes

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 enumerated from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by these three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 1999/2000-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Monthly expenditure range (at 1999/2000 prices)</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 1999/2000-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	26.67	31.88	25.94	21.38
<i>Meals bought away from home</i>	16.39	17.94	17.20	13.28
<i>Other foodstuffs</i>	10.28	13.94	8.74	8.10
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	24.59	21.76	25.48	26.67
<i>Public dwellings</i>	2.07	5.08	1.03	--
<i>Maintenance costs and other housing charges</i>	3.25	2.29	3.17	4.55
Electricity, gas and water	2.98	3.99	2.81	2.02
Alcoholic drinks and tobacco	0.94	1.50	0.86	0.39
Clothing and footwear	4.13	3.36	4.47	4.55
Durable goods	6.24	4.96	6.93	6.73
Miscellaneous goods	5.70	5.25	5.58	6.43
Transport	9.01	8.23	9.05	9.94
Miscellaneous services	14.42	11.70	14.68	17.34
All items	100.00	100.00	100.00	100.00

- (2) As announced by the Chief Executive in his 2001 Policy Address, the rates payments by all rates payers would be exempted by a maximum of \$2,000 in 2002. This ceiling was subsequently lifted to \$5,000, pursuant to the announcement made in the 2002/03 Budget. The rates relief led to a lowering of the Composite CPI by 0.9 of a percentage point in the first quarter of 2002. Owing to different weightings attached to the rates payment, the dampening effects on the three sub-indices varied. The CPI(A) was lowered by 1.2 percentage points, the CPI(B) by 1.0 percentage point, and the CPI(C) by 0.7 of a percentage point.

/ (3)

- (3) The special one-off rebate of electricity charges, at \$220 per user account, was granted by a power company in January and February 2002. In 2001, a similar rebate amounting to \$200 was granted by the same company in February and March. Thus the latest rebate should have had little effect on the year-on-year change in the respective CPI component and also in the overall CPIs in the first quarter of 2002. Yet it had effect on the corresponding seasonally adjusted quarter-to-quarter change in that quarter.
- (4) The waiver of public housing rentals in December 2001 affected most of the public housing tenants, except those paying additional rent. It had the effect of lowering the Composite CPI by 0.6 of a percentage point in the fourth quarter of 2001. Due to the larger weighting of public housing cost in the CPI(A) than in the CPI(B), the former sub-index were dampened to a much greater extent than the latter sub-index, at 1.6 percentage points as against 0.3 of a percentage point. As to the CPI(C), there was nil effect, as public housing cost carried zero weight in this sub-index.
- (5) The rates relief for 2002 had the effect of lowering the seasonally adjusted Composite CPI by 0.9 of a percentage point in the first quarter of 2002. The corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 1.2 percentage points, 0.9 of a percentage point, and 0.7 of a percentage point.
- (6) The special one-off rebate of electricity charges for January and February 2002 had the effect of lowering the seasonally adjusted Composite CPI by 0.3 of a percentage point in the first quarter of 2002. The corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.5, 0.2 and 0.1 of a percentage point.
- (7) The waiver of public housing rentals in December 2001 had the effect of lowering the seasonally adjusted Composite CPI by 0.7 of a percentage point in the fourth quarter of 2001. The corresponding dampening effects on the CPI(A) and CPI(B) were 1.7 percentage points and 0.3 of a percentage point. The CPI(C) was unaffected by such a measure.
- (8) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost, as indicated in the various CPIs, thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the Rating and Valuation Department's rental index for private residential flats.
- (9) In accordance with the 2002/03 Budget announced on 6 March 2002, the duty rate on wine was raised from 60% to 80%, with immediate effect. In the 2001/02 Budget, there were upward adjustments in tobacco duty overall by 5%, and in the duty rate on liquors with an alcoholic content of 30% and below from 30% to 40%.

/(10)

- (10) The Producer Price Index is designed to reflect changes in the prices of local manufacturing output. Producer prices refer to the actual prices plus any surcharges received by the manufacturers, but net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (11) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit price deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

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, as total final demand in the economy is equated to GDP plus imports, 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 imports. Likewise, as domestic demand in the economy is equated to GDP less exports, 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 exports.

STATISTICAL APPENDIX

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Table 1 Expenditure-based Gross Domestic Product (GDP)

(HK\$ million)

Expenditure component	At current market prices		At constant (1990) market prices	
	2000 [#]	2001 [#]	2000 [#]	2001 [#]
Private consumption expenditure	735,072 (0.3)	739,031 (0.5)	492,018 (5.4)	501,824 (2.0)
Government consumption expenditure	121,834 (0.2)	130,659 (7.2)	65,529 (2.1)	68,840 (5.1)
Gross domestic fixed capital formation	333,003 (5.1)	326,160 (-2.1)	255,260 (9.8)	260,844 (2.2)
<i>of which</i> : Building and construction	115,946 (-7.8)	110,060 (-5.1)	69,906 (-7.7)	68,144 (-2.5)
Machinery and equipment	168,472 (26.7)	173,424 (2.9)	150,938 (25.8)	158,829 (5.2)
Change in inventories	16,194	-316	14,791	-1,904
Total exports of goods	1,572,689 (16.6)	1,480,987 (-5.8)	1,631,144 (17.1)	1,581,985 (-3.0)
Domestic exports	180,967 (6.1)	153,520 (-15.2)	185,927 (7.5)	165,442 (-11.0)
Re-exports	1,391,722 (18.1)	1,327,467 (-4.6)	1,445,217 (18.5)	1,416,543 (-2.0)
<i>less</i> Imports of goods	1,661,404 (19.1)	1,570,754 (-5.5)	1,683,831 (18.1)	1,644,220 (-2.4)
Exports of services	327,755 (13.6)	335,471 (2.4)	257,377 (13.8)	266,724 (3.6)
<i>less</i> Imports of services	179,360 (2.0)	179,055 (-0.2)	139,731 (2.1)	139,879 (0.1)
Total expenditure on GDP	1,265,783 (3.2)	1,262,183 (-0.3)	892,557 (10.4)	894,214 (0.2)
Per capita GDP ^(a) (\$)	189,915 (2.3)	187,688 (-1.2)	133,917 (9.4)	132,971 (-0.7)
Implicit Price Deflator (1990=100)	Index for 2000	% change over 1999	Index for 2001	% change over 2000
GDP	141.8	-6.5	141.1	-0.5
Total final demand ^(b)	114.4	-3.1	112.5	-1.7
Domestic demand ^(c)	145.7	-5.6	144.1	-1.1

Notes : Figures in brackets represent percentage changes over a year earlier.

Figures may not add up exactly to the totals due to rounding.

(a) Per capita GDP is equal to total expenditure on GDP divided by the total mid-year population.

(b) Total final demand is defined as the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, change in inventories, and exports of goods and services.

(c) Domestic demand is total final demand less exports of goods and services.

(#) Revised figures.

Table 2 Production-based Gross Domestic Product (GDP)

Economic sector	At current prices (HK\$ million)		Year-on-year % change		% share in GDP	
	1999	2000 [#]	1999	2000 [#]	1999	2000 [#]
Agriculture and fishing	1,171	920	-23.5	-21.4	0.1	0.1
Mining and quarrying	307	241	2.0	-21.5	*	*
Manufacturing	65,767	69,753	-7.2	6.1	5.8	5.9
Electricity, gas and water	34,358	35,852	2.4	4.3	3.0	3.0
Construction	66,111	63,164	-5.5	-4.5	5.8	5.3
Wholesale, retail and import/ export trades, restaurants and hotels	282,194	308,410	-2.0	9.3	24.8	26.0
Transport, storage and communications	108,957	121,104	0.9	11.1	9.6	10.2
Financing, insurance, real estate and business services	267,017	273,897	-5.5	2.6	23.4	23.1
Community, social and personal services	245,722	252,007	5.5	2.6	21.6	21.3
Ownership of premises	162,488	155,695	-4.8	-4.2	14.3	13.1
Adjustment for financial intermediation services indirectly measured	-94,580	-95,945	-5.7	-1.4	-8.3	-8.1
GDP at factor cost (production-based)	1,139,511	1,185,099	-2.5	4.0	100.0	100.0
Taxes on production and imports	55,846	60,510	-10.7	8.4		
GDP at market prices (production-based)	1,195,357	1,245,609	-2.9	4.2		
GDP at market prices (expenditure-based)	1,226,983	1,265,783	-2.6	3.2		
Statistical discrepancy (%)	-2.6	-1.6	--	--		

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

(#) Revised figures.

(*) Share of less than 0.05%.

(--) Not applicable.

Table 3 Gross National Product (GNP) and external factor income flows (EFIF)

	(HK\$ million)							
	<u>2000[#]</u>		<u>2001</u>		<u>2001</u>			
Income component					1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
(At current market prices)								
Direct investment income								
Inflow total	153,848	(12.7)	157,301	(2.2)	36,376	46,600	44,284	30,041
Banking	8,381	(20.0)	7,512	(-10.4)	2,030	1,842	1,807	1,832
Others ^(a)	145,466	(12.4)	149,790	(3.0)	34,346	44,758	42,477	28,209
Outflow total	266,324	(35.1)	239,693	(-10.0)	62,320	69,577	63,896	43,900
Banking	73,111	(12.7)	62,873	(-14.0)	16,656	15,486	16,209	14,521
Others ^(a)	193,214	(46.1)	176,820	(-8.5)	45,663	54,091	47,687	29,379
Portfolio investment income								
Inflow total	95,086	(10.2)	95,727	(0.7)	26,348	23,982	24,611	20,787
Banking	23,910	(43.6)	26,937	(12.7)	7,267	7,030	6,778	5,862
Others ^(a)	71,176	(2.2)	68,790	(-3.4)	19,081	16,952	17,832	14,924
Outflow total	26,900	(5.9)	27,300	(1.5)	3,202	13,505	5,195	5,398
Banking	3,800	(-6.9)	4,726	(24.4)	1,866	773	1,558	529
Others ^(a)	23,100	(8.3)	22,573	(-2.3)	1,336	12,732	3,636	4,869
Other investment income								
Inflow total	167,787	(18.2)	121,354	(-27.7)	35,428	34,304	29,910	21,712
Banking	147,781	(14.1)	103,206	(-30.2)	30,124	30,014	24,289	18,779
Others ^(a)	20,006	(60.1)	18,149	(-9.3)	5,304	4,290	5,621	2,933
Outflow total	101,729	(-5.3)	71,253	(-30.0)	20,679	19,662	17,686	13,227
Banking	94,458	(-5.6)	63,891	(-32.4)	18,903	17,480	15,811	11,697
Others ^(a)	7,271	(-2.2)	7,362	(1.3)	1,776	2,181	1,875	1,530
Compensation of employees								
Inflow total	53	(-51.8)	36	(-32.1)	10	11	9	6
Outflow total	53	(-51.8)	36	(-32.1)	10	11	9	6
Total EFIF								
Inflow total	416,774	(14.2)	374,419	(-10.2)	98,162	104,897	98,814	72,546
Outflow total	395,006	(19.7)	338,282	(-14.4)	86,211	102,754	86,786	62,530
Net flow total	21,768		36,137		11,951	2,142	12,028	10,016
(At current market prices)								
GNP (\$ million) [#]	1,287,551	(2.0)	1,298,320	(0.8)	315,308	310,392	336,208	336,412
Per capita GNP (\$) [#]	193,181	(1.1)	193,062	(-0.1)	--	--	--	--
(At constant (1990) market prices)								
GNP (\$ million) [#]	907,443	(9.2)	919,369	(1.3)	221,642	216,070	241,988	239,669
Per capita GNP (\$) [#]	136,150	(8.2)	136,711	(0.4)	--	--	--	--

Notes : Figures in brackets represent percentage changes over a year earlier.

Figures may not add up exactly to the totals due to rounding.

(a) Including households, government units, non-profit institutions, and companies other than those in the banking business.

(#) Revised figures.

(--) Not applicable.

Table 4 Balance of payments account

(HK\$ million)

Standard components	2000 [#]	2001 [#]	2001 [#]			
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Current account ⁽¹⁾	68,601	92,931	11,481	7,843	32,088	41,519
Trade in goods	-63,832	-64,970	-24,646	-23,888	-11,432	-5,004
Exports	1,579,367	1,488,982	350,421	364,089	402,976	371,497
Imports	-1,643,199	-1,553,952	-375,067	-387,977	-414,408	-376,501
Trade in services	123,678	134,875	27,862	32,681	34,849	39,482
Exports	322,854	330,583	77,643	81,041	85,954	85,945
Imports	-199,176	-195,708	-49,781	-48,360	-51,105	-46,463
External factor income flows	21,768	36,137	11,951	2,142	12,028	10,016
Inflow	416,774	374,419	98,162	104,897	98,814	72,546
Outflow	-395,006	-338,282	-86,211	-102,754	-86,786	-62,530
Current transfers	-13,013	-13,110	-3,686	-3,092	-3,357	-2,975
Inflow	4,193	6,344	1,105	2,338	1,515	1,386
Outflow	-17,205	-19,454	-4,791	-5,430	-4,872	-4,361
Capital and financial account ⁽¹⁾	-57,863	-85,717	-504	-11,597	-19,459	-54,157
Capital transfers	-12,044	-9,059	-1,438	-3,116	-2,927	-1,578
Direct investment	19,767	108,036	59,090	37,372	4,958	6,616
Abroad	-462,483	-70,036	-7,485	-14,966	-38,384	-9,201
In HK	482,250	178,071	66,575	52,337	43,342	15,817
Portfolio investment	190,782	-309,317	-108,070	-52,268	-71,339	-77,640
Assets	-171,627	-305,178	-75,082	-77,803	-46,306	-105,988
Liabilities	362,409	-4,139	-32,988	25,535	-25,033	28,348
Financial derivatives	1,871	39,141	-9,209	21,147	15,054	12,148
Assets	65,567	136,543	18,072	42,583	49,313	26,576
Liabilities	-63,696	-97,403	-27,280	-21,435	-34,259	-14,428
Other investment	-179,917	122,013	120,080	-4,807	8,476	-1,735
Assets	142,354	454,220	62,689	153,406	129,880	108,246
Liabilities	-322,271	-332,208	57,391	-158,213	-121,405	-109,981
Net change in reserve assets ⁽²⁾	-78,321	-36,530	-60,958	-9,924	26,320	8,032
Net errors and omissions	-10,739	-7,214	-10,976	3,754	-12,629	12,638
Overall balance of payments	78,321 (in surplus)	36,530 (in surplus)	60,958 (in surplus)	9,924 (in surplus)	-26,320 (in deficit)	-8,032 (in deficit)

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

(1) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value for the balance figure indicates a net inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.

(2) The estimates on net change in reserve assets under the balance of payments framework are transaction figures. Effects from valuation changes (including price changes and exchange rate changes) and reclassifications are excluded.

(#) Revised figures.

**Table 5 Major economic indicators in the external sector
for the first quarter of 2002**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	296,777	-10.4	-5.0
Domestic exports	\$Mn	28,981	-23.3	-17.5
Total exports of goods	\$Mn	325,758	-11.8	-6.2
Imports of goods	\$Mn	342,301	-10.0	-9.1
Visible trade balance	\$Mn	-16,543	--	--
<u>Unit value indices (1990 = 100)</u>				
Re-exports		94.0	-1.5	-3.2
<i>to :</i> Mainland of China		91.2	-1.2	-3.9
United States		107.1	-1.1	-1.8
Japan		90.2	-0.6	-4.2
Germany		100.3	-1.9	-3.1
United Kingdom		100.8	-1.5	-4.0
Domestic exports		91.3	-1.5	-4.8
<i>to :</i> Mainland of China		83.7	-1.7	-7.0
United States		102.8	-2.5	-4.6
Germany		84.5	-2.8	-5.9
Japan		101.4	-1.6	-4.1
United Kingdom		85.3	-1.2	-3.7
Imports of goods		92.6	-1.8	-4.8
<i>from :</i> Mainland of China		99.4	-2.1	-3.2
Japan		91.6	-2.5	-7.1
Taiwan		87.6	-1.7	-6.7
United States		93.3	-2.0	-5.4
United Kingdom		83.7	-5.2	-5.4
<i>of :</i> Raw materials and semi-manufactures		82.5	-2.0	-6.9
Consumer goods		102.8	-1.3	-3.1
Capital goods		93.3	-2.2	-3.4
Foodstuffs		89.5	-2.0	-4.2
Fuels		72.8	-2.1	-18.6

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

(--) Not applicable.

**Table 5 Major economic indicators in the external sector
for the first quarter of 2002 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (1990 = 100)	101.8	0.4	1.6
<u>Quantum indices</u> (1990 = 100)			
Re-exports	315.4	-8.8	-0.9
<i>to :</i> Mainland of China	479.6	-3.3	7.3
United States	242.3	-20.9	-12.3
Japan	360.9	-11.3	-9.2
Germany	169.2	-25.7	-13.7
United Kingdom	330.0	-18.3	-4.3
Domestic exports	58.2	-20.3	-12.7
<i>to :</i> Mainland of China	104.6	-14.3	3.3
United States	47.9	-31.2	-19.6
Germany	29.3	-26.8	-41.0
Japan	28.5	-10.4	-12.0
United Kingdom	50.9	-32.5	-21.5
<i>of :</i> Textiles and clothing	66.8	-32.7	-9.4
Products other than textiles and clothing	52.7	-6.1	-15.2
Imports of goods	231.7	-8.0	-4.3
<i>from :</i> Mainland of China	256.1	-13.0	-2.2
Japan	168.5	-3.9	-6.9
Taiwan	177.9	-1.3	-1.6
United States	177.8	-8.1	-15.7
United Kingdom	217.0	-9.7	-3.9
<i>of :</i> Raw materials and semi-manufactures	217.6	-3.7	-1.1
Consumer goods	183.3	-12.9	-6.3
Capital goods	414.6	-10.8	-7.9
Foodstuffs	183.7	14.1	8.7
Fuels	196.6	-13.4	-4.2

Table 6 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Manufacturing sector (4th Qtr 2001)</u>				
Index of Industrial Production (1986 = 100)		97.3	-4.5	-9.3
<u>Property (1st Qtr 2002)</u>				
Completions of new property				
<i>for</i> : Residential	no. of units	3 157	-62.6	-51.6
Commercial	'000 sq. m	65	490.9	2.8
<i>of which</i> :				
Office space	'000 sq. m	48	1265.7	65.4
Other commercial premises	'000 sq. m	17	129.3	-49.9
Industrial	'000 sq. m	3	-78.8	--
<i>of which</i> :				
Industrial-cum-office premises	'000 sq. m	0	--	--
Flatted factory space	'000 sq. m	3	-78.8	--
Storage premises	'000 sq. m	0	--	--
Floor area of building consents				
<i>for</i> : Residential	'000 sq. m	126	-56.4	-68.9
Commercial	'000 sq. m	73	69.4	119.3
Industrial	'000 sq. m	14	-60.1	66.5
Others	'000 sq. m	16	341.1	-65.8
Total	'000 sq. m	229	-38.1	-53.6
<u>Building and construction</u>				
Labour and Material Cost Index (Jan 2002) (mid-Feb 1970 = 100)		1 747	*	-0.8
Tender Price Indices (4th Qtr 2001) (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		721	-10.7	-14.6
Public housing projects		553	-0.9	-11.5
<u>Electricity consumption (1st Qtr 2002)</u>				
<i>for</i> : Industrial	Mn KWh	923	-18.0	-11.0
Commercial	Mn KWh	4 881	-15.4	0.3
Domestic	Mn KWh	1 475	-29.6	1.1
<u>Gas consumption (1st Qtr 2002)</u>				
<i>for</i> : Industrial	Terajoule	254	2.0	0.4
Commercial	Terajoule	2 885	8.4	-1.6
Domestic	Terajoule	4 387	35.0	2.8

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

(--) Not applicable.

(*) Change of less than 0.05%.

Table 6 Major economic indicators in the domestic economy (cont'd)

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Transport				
Passenger journeys (1st Qtr 2002)				
<i>by</i> : KMB	'000	282 954	-3.0	3.2
NWFB	'000	48 621	-4.8	2.4
City Bus	'000	53 817	-2.8	0.9
New Lantau Bus	'000	2 118	-0.5	54.1
Long Win Bus	'000	4 817	*	10.8
MTR	'000	189 418	-4.0	0.2
KCR	'000	73 619	-3.4	1.8
LRT	'000	28 570	-5.2	*
Hong Kong Tramways	'000	22 291	-2.8	1.4
New World First Ferry	'000	3 781	-2.8	10.8
Star Ferry	'000	7 073	-8.5	0.6
Private cars licensed				
new registration (1st Qtr 2002)	no.	7 537	0.7	-13.5
total licensed (end-Mar 2002)	no.	339 968	-0.2	1.6
Air passenger movements (1st Qtr 2002)	'000	5 701	3.0	-0.3
Air cargo (1st Qtr 2002)	'000 tonne	530	-10.4	9.8
Ocean cargo (4th Qtr 2001)	'000 tonne	32 595	-0.5	-2.8
Container throughput (4th Qtr 2001)	'000 TEUs	4 414	-8.0	-5.7
Tourism				
Arrivals of incoming visitors (1st Qtr 2002)	'000	3 594	-0.2	12.4
Departures of Hong Kong residents (1st Qtr 2002)	'000	15 844	1.6	7.1
<i>to</i> : Mainland of China	'000	13 556	*	8.8
Macau	'000	1 057	5.9	-3.2
Other countries	'000	1 230	17.6	-0.4
Hotel rooms ^(a) (end-Mar 2002)	no.	41 829	--	--
Hotel room occupancy rate (1st Qtr 2002)	%	81	1.3	3.8
Telecommunications (end-Mar 2002)				
Telephone lines	Mn	3.9	-0.7	-0.7
<i>for</i> : Residential users	Mn	2.2	-0.5	-1.9
Business users	Mn	1.7	-1.0	0.7
Facsimile lines	'000	407	-0.9	0.3
Public mobile radiotelephone services customers	'000	5 776	1.3	6.0

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

(a) As from the first quarter of 2002, the coverage of hotel rooms is widened to include all hotels and tourist guest houses on the record of the Home Affairs Department. Thus, the data for the first quarter of 2002 and thereafter are not directly comparable to those in the earlier periods.

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 7 Major economic indicators in the financial sector
as at end-March 2002**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Exchange rate</u>				
Effective Exchange Rate Indices of the Hong Kong dollar (Jan 2000 = 100)				
trade-weighted		106.0	0.1	0.6
import-weighted		106.8	0.1	0.8
export-weighted		105.3	0.2	0.4
HK\$/US\$ interbank T/T rate	HK\$	7.799	*	*
<u>Interest rate</u>				
3-month HIBOR	%	2.19	--	--
Savings rate	%	0.16	--	--
Best lending rate	%	5.13	--	--
<u>Monetary statistics</u>				
Money supply : M1	\$Mn	261,826	1.4	16.1
M2	\$Mn	3,400,469	-2.9	-3.0
M3	\$Mn	3,422,111	-2.9	-3.1
Deposits with :				
licensed banks	\$Mn	3,207,635	-3.3	-4.2
restricted licence banks	\$Mn	32,403	-3.0	-1.5
deposit-taking companies	\$Mn	6,014	-7.0	-1.0
all authorized institutions	\$Mn	3,246,052	-3.3	-4.2
Deposits by type :				
demand	\$Mn	154,015	-1.6	16.4
savings	\$Mn	852,787	0.2	21.6
time	\$Mn	2,239,250	-4.7	-12.4
total	\$Mn	3,246,052	-3.3	-4.2

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

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 7 Major economic indicators in the financial sector
as at end-March 2002 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	2,004,389	-1.2	-9.4
restricted licence banks	\$Mn	122,325	-0.1	-2.4
deposit-taking companies	\$Mn	31,127	-10.1	-26.2
all authorized institutions	\$Mn	2,157,841	-1.2	-9.3
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	78,207	-3.0	-13.3
to finance merchandising trade not touching Hong Kong	\$Mn	8,121	2.1	-12.9
other loans for use in Hong Kong	\$Mn	1,794,538	0.2	-2.9
other loans for use outside Hong Kong	\$Mn	266,687	-10.1	-35.4
other loans where the place of use is not known	\$Mn	10,287	6.0	-44.9
<u>Stock market</u>				
Hang Seng Index (Jul 1964 = 100)		11 033	-3.2	-13.5
Stock market capitalisation				
Main Board	\$Mn	3,855,291	-0.8	-7.7
Growth Enterprise Market	\$Mn	69,082	13.3	13.4
Total	\$Mn	3,924,373	-0.6	-7.4
Stock market turnover (1st Qtr 2002)				
Main Board	\$Mn	404,666	-3.9	-25.7
Growth Enterprise Market	\$Mn	14,954	58.8	101.6
Total	\$Mn	419,619	-2.6	-24.0

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

Table 8 Major economic indicators in the labour sector

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Labour force characteristics</u> (1st Qtr 2002)				
Labour force	'000	3 460	0.6	1.6
Unemployed	'000	239	13.9	59.7
Underemployed	'000	109	4.8	40.7
Employed	'000	3 221	-0.3	-1.0
Labour force participation rate	%	61.6	--	--
Seasonally adjusted unemployment rate	%	7.0	--	--
Underemployment rate	%	3.2	--	--
<u>Employment</u> (Dec 2001)				
Manufacturing	'000	203	-3.0	-10.3
Services	'000	1 998	-1.4	1.2
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	777	-3.4	-1.9
Restaurants and hotels	'000	220	-1.4	1.3
Transport, storage and communications	'000	182	-1.3	2.7
Financing, insurance, real estate and business services	'000	434	-0.8	-0.1
Community, social and personal services	'000	385	2.1	8.6
Building and construction sites	'000	77	0.1	-8.7
Civil service	'000	175	-1.2	-4.4
<u>Vacancies</u> (Dec 2001)				
Manufacturing	'000	1	-19.0	-36.1
Services	'000	16	-19.3	-31.6
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	5	-29.3	-44.3
Restaurants and hotels	'000	1	-19.9	-24.1
Transport, storage and communications	'000	1	8.9	-13.6
Financing, insurance, real estate and business services	'000	4	-18.5	-39.3
Community, social and personal services	'000	5	-14.0	-8.0
Building and construction sites	'000	*	-1.3	-57.6
Civil Service	'000	2	12.3	19.8

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

(--) Not applicable.

(*) Less than 500.

Table 8 Major economic indicators in the labour sector (cont'd)

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Earnings</u> (4th Qtr 2001)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	95.2	5.9 (7.1)	0.4 (2.5)
<i>for</i> : Manufacturing	92.4	4.6 (5.7)	0.6 (2.7)
Services	94.6	5.8 (7.0)	0.3 (2.4)
<i>of which</i> :			
Wholesale, retail and import/export trades	90.5	7.6 (8.8)	1.2 (3.3)
Restaurants and hotels	83.1	0.8 (1.9)	-2.2 (-0.1)
Transport, storage and communications	99.4	11.9 (13.1)	-0.5 (1.5)
Financing, insurance, real estate and business services	95.9	13.5 (14.8)	-2.0 (0.1)
Community, social and personal services	97.6	-3.7 (-2.7)	-0.5 (1.6)
<u>Wages</u> (Dec 2001)			
Nominal wage index (Sep 1992 = 100)	150.6	-1.0 (4.9)	0.2 (6.9)
<i>for</i> : Manufacturing	148.6	-0.7 (5.3)	1.4 (8.1)
Services			
<i>of which</i> :			
Wholesale, retail and import/export trades	160.1	-0.8 (5.2)	1.1 (7.8)
Restaurants and hotels	137.6	-0.5 (5.4)	0.2 (6.9)
Transport services	149.9	0.3 (6.3)	2.0 (8.7)
Financing, insurance, real estate and business services	154.7	-1.9 (3.9)	-2.5 (4.0)
Personal services	151.2	-3.6 (2.2)	-0.9 (5.7)
Nominal index of construction wage rate (Jan 1970 = 100) (Feb 2002)	3 544.8	0.1 (-0.2)	-0.3 (2.0)

Note : Figures in brackets represent percentage changes in real terms.

Table 9 Various price indices for the first quarter of 2002

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Consumer Price Indices</u> (Oct 1999 - Sep 2000 = 100)			
Composite CPI	95.5	-1.1 [^]	-2.6
CPI(A)	95.4	-0.6 [^]	-2.8
CPI(B)	95.4	-1.4 [^]	-2.7
CPI(C)	95.6	-1.3 [^]	-2.5
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	73.0	-0.8	-9.9
Office space	67.8 ⁺	-4.2	-20.7
Shopping space	81.5	-2.9	-8.5
Conventional flatted factory space	73.8	-4.3	-12.6
<u>GDP deflator</u> (1990 = 100)	141.4	1.9 [^]	-0.6

Notes : (^) Seasonally adjusted series.

(+) This covers only the first two months of 2002.

