



Half-yearly Economic Report 2002

Government of the Hong Kong
Special Administrative Region

***HALF-YEARLY
ECONOMIC REPORT 2002***

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

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 After receding in the past three quarters, the Hong Kong economy resumed positive growth in the second quarter of 2002, mainly propelled by a visible pick-up on the external front. While exports of goods to East Asia accelerated further in growth, exports of goods to the United States also rebounded to a distinct rise towards the middle of the year. Exports of services continued to put up a robust performance, with a significant leap in both inbound tourism and offshore trade. However, the domestic economy remained sluggish, as consumer spending slackened further upon the unemployment hike and wage restraint. Also, investment in capital equipment continued to shrink amidst a subdued business climate, offsetting the pick-up in building and construction output in overall terms.

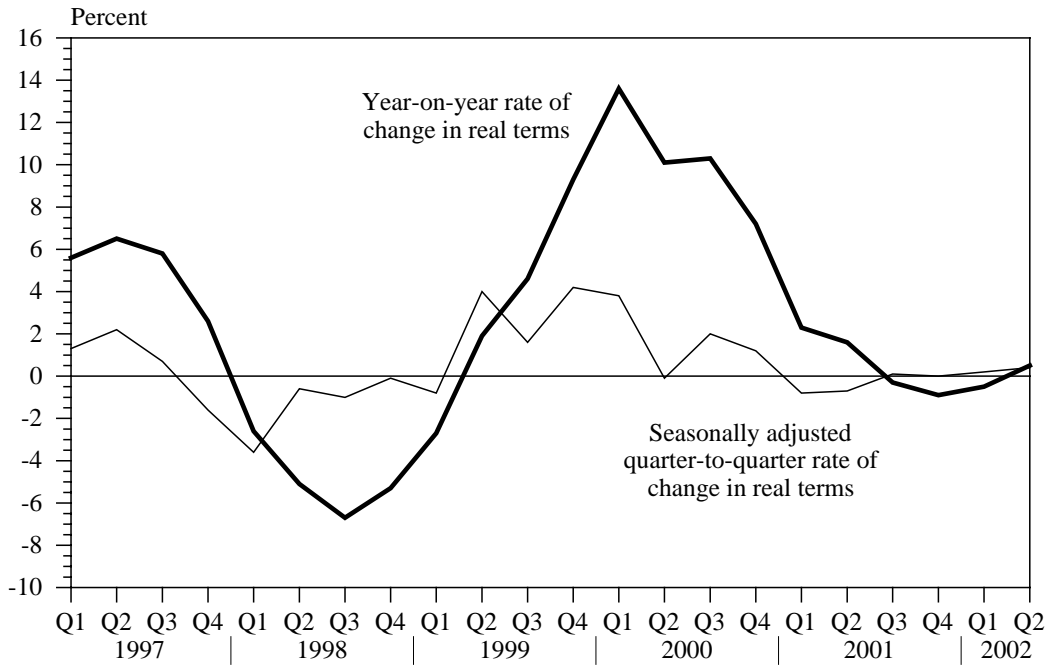
1.2 On a year-on-year comparison, the *Gross Domestic Product (GDP)*⁽¹⁾ increased by 0.5% in real terms in the second quarter of 2002, up from the 0.5% decrease in the first quarter (which is raised from a 0.9% decrease, mainly on account of a major revision to GDP as explained below). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP continued to rise, by 0.4% in real terms in the second quarter of 2002, having gone up by 0.2% in the first quarter (which is lowered from a 0.3% increase, mainly on account of the major revision to GDP).

1.3 In accordance with the established international practice to undertake a comprehensive review and update of the GDP series when it has run for some years, the Census and Statistics Department introduced a major revision to the GDP series in early August 2002⁽³⁾. It is mainly for benchmarking and rebasing so as to bring the compilation framework up-to-date, as well as for gearing in with the latest statistical standards in this area. Stemming from this 2002 round of major revision, the level of nominal GDP is revised upward, ranging from 1.3% to 1.8% in the past six years. As to the annual growth rate, GDP growth in nominal terms and in real terms is revised, either up or down, by a range of 0.1 to 0.4 of a percentage point in the past six years⁽⁴⁾. All GDP figures at the overall and the component levels in this report and likewise in the ensuing economic reports are based on the revised series. As the changes made to the figures are generally not much, the economic analyses carried out hitherto are by and large intact.

/Diagram 1.1

Diagram 1.1

Gross Domestic Product*



Note : (*) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

/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>2001</u>			<u>2002</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	5.9	1.4	2.8	2.8	1.3	-1.1	-0.3	-2.4
Government consumption expenditure	2.0	6.0	4.9	4.8	7.3	7.0	2.2	2.7
Gross domestic fixed capital formation	11.0	2.9	10.2	3.0	3.2	-4.2	-12.3	-1.7
<i>of which :</i>								
Buildings and construction	-6.8	-2.2	-1.4	1.8	-6.4	-2.5	-6.5	3.5
Real estate developers' margin	-9.7	-1.0	-5.8	3.9	-5.6	3.7	5.3	7.3
Machinery, equipment and computer software	27.0	7.3	24.5	3.2	10.7	-5.8	-20.1	-7.0
Total exports of goods	17.1	-3.3	3.6	-2.2	-4.4	-8.8	-2.4	5.9
Domestic exports	7.5	-10.2	-13.0	-7.4	-11.9	-8.3	-11.1	-13.6
Re-exports	18.5	-2.4	5.9	-1.6	-3.4	-8.9	-1.4	8.4
Imports of goods ^(a)	18.2	-1.9	5.7	-0.5	-2.8	-8.7	-4.0	6.0
Exports of services	12.9	5.9	7.4	7.6	3.7	5.3	7.7	8.6
Imports of services	4.2	-0.2	3.3	1.5	-2.4	-2.8	-1.3	-4.0
Gross Domestic Product	10.2	0.6	2.3	1.6	-0.3	-0.9	-0.5	0.5
GDP at current market prices (\$ billion)	1,288	1,279	310	312	326	331	301	307
GDP at constant (2000) market prices (\$ billion)	1,288	1,297	312	316	332	337	310	317
Changes in inventories at constant (2000) market prices (\$ billion)	14	-3	1	2	-3	-4	-3	2
<i>Change in the main price indicators (%)</i>								
GDP deflator	-6.2	-1.4	-2.0	-1.7	-1.2	-0.8	-2.1	-2.1
Composite Consumer Price Index^(b)	-3.8	-1.6	-2.0	-1.3	-1.0	-2.1	-2.6	-3.2
Consumer Price Index (A) ^(b)	-3.0	-1.7	-2.0	-1.1	-0.7	-2.8	-2.8	-3.6

Notes : (#) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(+) Preliminary figures.

(a) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.

(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>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>						
Private consumption expenditure	1.1	0.4	-0.9	-1.1	0.5	-1.0
Government consumption expenditure	5.4	-1.1	2.2	0.5	0.5	0.1
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	-2.8	-2.7	1.5	-6.4	6.7	5.2
Domestic exports	-2.5	-0.4	-3.1	-3.3	-3.7	-3.6
Re-exports	-2.8	-3.0	2.1	-6.7	8.0	6.2
Imports of goods ^(a)	-1.3	-3.8	3.0	-8.0	6.0	6.3
Exports of services	*	3.2	1.5	0.4	2.5	3.7
Imports of services	-1.0	1.2	-1.4	-1.5	0.6	-1.8
Gross Domestic Product[^]	-0.8	-0.7	0.1	*	0.2	0.4
<i>Change in the main price indicators (%)</i>						
GDP deflator	1.2	-1.5	-0.3	-0.2	-0.2	-1.4
Composite Consumer Price Index^(b)	-0.6	*	-0.4	-1.1	-1.1	-0.6
Consumer Price Index (A) ^(b)	-0.8	0.3	-0.2	-2.2	-0.6	-0.6

Notes : (#) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(+) 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) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.

(b) Final figures.

/1.4

1.4 The *labour market* slackened distinctly further, consequential to the earlier economic downturn. The seasonally adjusted unemployment rate leaped to 7.7% in the second quarter of 2002, from 7.0% in the first quarter. The underemployment rate nevertheless came down, from 3.2% to 2.9% between these two quarters. Total employment contracted yet total labour force continued to rise. Vacancies shrank considerably. Labour earnings and wages showed a renewed moderation.

1.5 The *residential property market* turned more active in respect of primary sales in the second quarter of 2002, bolstered in part by the attractive purchase terms offered by developers, and in part by clear pronouncement of the policy on reducing sales of subsidised flats by the Government. Secondary transactions were also lifted. Yet an ample supply of new flats coming on stream as well as concern about employment and income security continued to deter home purchase. Flat prices declined by an average of 3% in the second quarter from the preceding quarter. As the leasing market stayed subdued, flat rentals were also down, by an average of 3% between these two quarters.

1.6 In the *financial market*, both the foreign exchange and money market fronts held stable during the second quarter of 2002. The spread between the spot and forward rates of the Hong Kong dollar narrowed visibly, while local interest rates also eased back. Yet the local stock market was more volatile. The Hang Seng Index rose to a nine-month high of 11 975 on 17 May. It then fell back along with the slide in the US stock market, to a seven-month low of 10 356 on 26 June. It closed the second quarter at 10 599, 3.9% below the level at end-March and 7.0% below the level at the end of last year. (The Hang Seng Index went through considerable gyrations since, and stood at 10 246 on 23 August.)

1.7 On *consumer prices*, the year-on-year decline in the Composite Consumer Price Index enlarged to 3.2% in the second quarter of 2002, from 2.6% in the first quarter. Costs and prices generally eased further on both the domestic and external fronts. In particular, import prices drifted even lower. In addition, there was the downward effect of the relief measures announced in the 2002/03 Budget, including the additional rates concession and the waiver of water and sewage charges.

/1.8

1.8 Statistics on the *Gross National Product (GNP)*⁽⁵⁾ are available up to the first quarter of 2002. This has been adjusted for the major revision to GDP. Both external factor income inflow and outflow fell further in the first quarter of 2002 from a year earlier. Yet with the inflow falling less than the outflow, net external factor income inflow continued to rise in that quarter. Thus GNP grew by 0.6% in real terms in the first quarter of 2002 over a year earlier, even though GDP had a 0.5% decline in real terms. Amongst the various types of external factor income flows, net direct investment income outflow dwindled considerably in the first quarter of 2002 from a year earlier, as the setback in the local economy led to reduced direct investment income outflow, while investment gains from the mainland of China (the Mainland) rose markedly to lift the corresponding income inflow. Yet concurrently, net income inflow from both portfolio investment and other investment fell. Changes in the timing of dividend pay-outs by certain resident companies raised income outflow from portfolio investment in the first quarter. The marked reduction in interest rates over the course of last year dampened income inflow from other investment in that quarter.

/Table 1.3

Table 1.3

Gross National Product and external factor income flows

	<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>	
<i>Year-on-year rate of change in money terms (%)</i>								
Total external factor income flow ^(a)								
Inflow	14.2	-10.2	-7.0	-3.3	-3.8	-27.5	-16.0	
Outflow	19.7	-14.4	-11.8	4.3	-12.0	-37.5	-21.5	
Net external factor income flow at current market prices (\$ billion)	22	36	12	2	12	10	15	
GDP at current market prices (\$ billion) [#]	1,288 (3.4)	1,279 (-0.7)	310 (0.4)	312 (-0.1)	326 (-1.5)	331 (-1.6)	301 (-2.6)	
GNP at current market prices (\$ billion) ^{#(b)}	1,310 (2.3)	1,315 (0.4)	322 (1.7)	315 (-2.5)	338 (1.0)	341 (1.4)	316 (-1.6)	
<i>Year-on-year rate of change in real terms (%)</i>								
Gross National Product[#]	9.0	1.8	3.7	-0.9	2.2	2.2	0.6	

Notes : (#) Figures are revised, consequential to the major revision to GDP as announced on 1 August 2002.

(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.

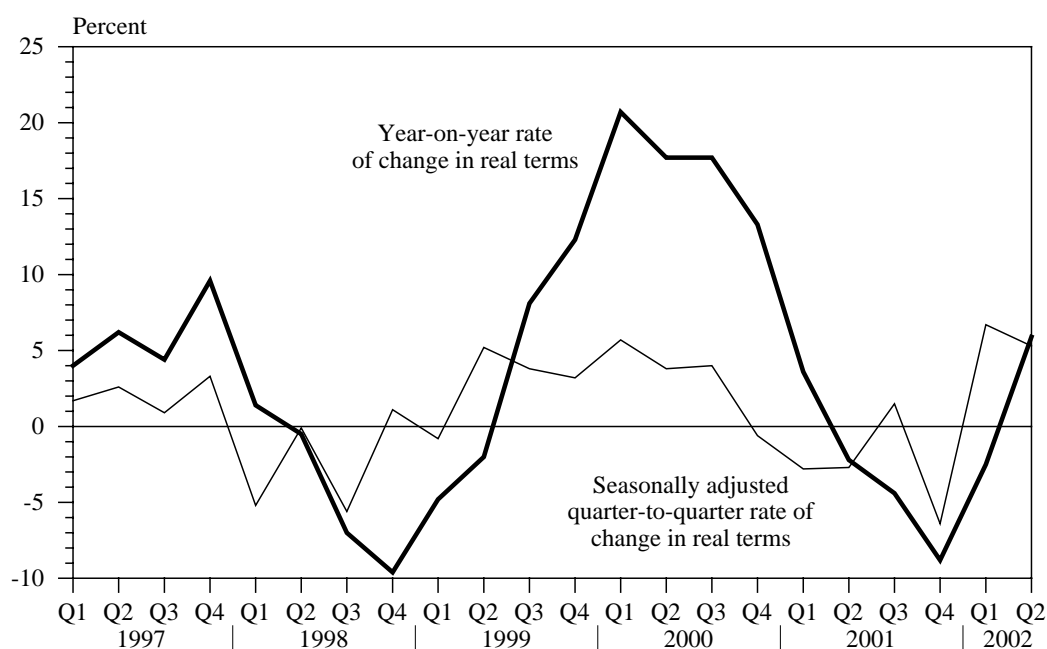
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The external sector

1.9 On visible trade, Hong Kong's merchandise exports performed better in the second quarter of 2002, on the back of firmer regional demand and more recently also improved external price competitiveness. *Total exports of goods*⁽⁶⁾ (comprising re-exports and domestic exports) reverted to an increase at 5.9% in real terms in the second quarter of 2002 over a year earlier, having declined for four consecutive quarters and by 2.5% in the first quarter. There was a 5.9% rise in real terms in April 2002 over a year earlier, followed by a modest 1.2% increase in May, and then a surge of 11.0% in June. For the first half of 2002 as a whole, total exports of goods were up by 1.8% in real terms over a year earlier, much improved from the 6.6% fall in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rose further, by 5.3% in real terms in the second quarter of 2002, following a 6.7% leap in the first quarter (paragraph 2.4).

Diagram 1.2

Total exports of goods*



Note : (*) From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

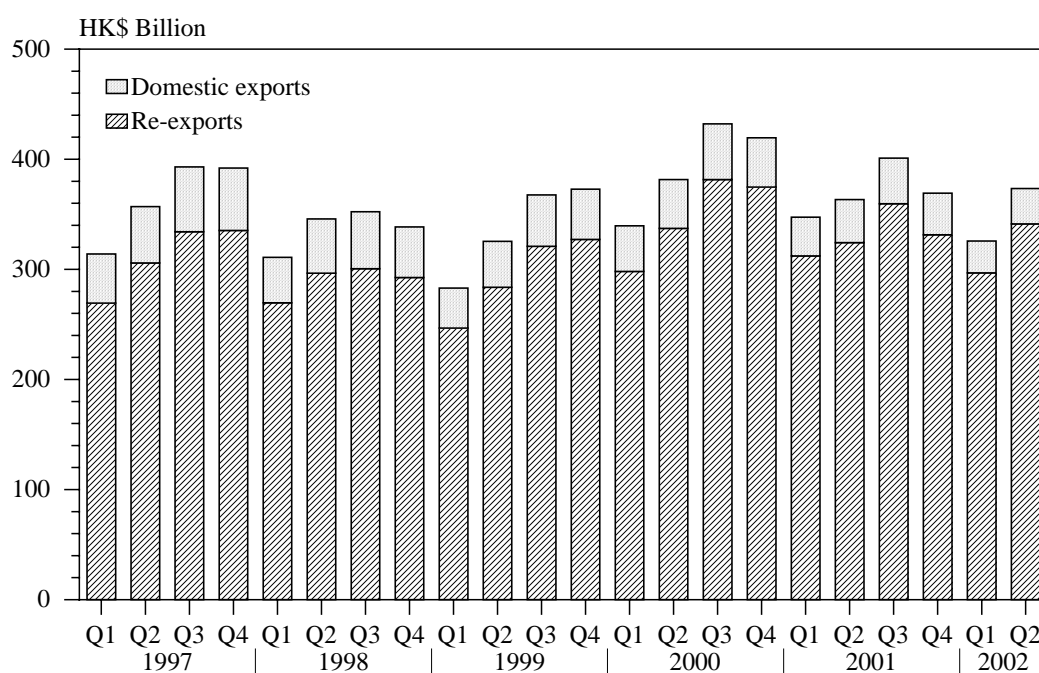
/1.10

1.10 Within total exports of goods, *re-exports* continued to out-pace domestic exports by a wide range, with an 8.3% increase in real terms in the second quarter of 2002 over a year earlier, reversing the decline at 1.5% in the first quarter. For the first half of 2002 as a whole, re-exports had a 3.5% rise in real terms over a year earlier, distinctly up from the 6.1% fall in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, re-exports also went up further, by 6.2% in real terms in the second quarter of 2002, having surged by 7.9% in the first quarter (paragraph 2.5).

1.11 *Domestic exports* remained on a distinct downtrend, under the continuing influence of structural shift towards re-exports and offshore trade. In the second quarter of 2002, domestic exports fell by 13.7% in real terms over a year earlier, further down from the already large decline at 11.2% in the first quarter. For the first half of 2002 as a whole, domestic exports shrank by 12.5% in real terms over a year earlier, having fallen by 10.2% in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further, by 3.6% in real terms in the second quarter of 2002, after a 3.8% drop in the first quarter (paragraph 2.6).

Diagram 1.3

Composition of total exports of goods



/1.12

1.12 The growth in Hong Kong's merchandise exports in the first half of 2002 was mainly driven by a distinct pick-up in exports to the region. Exports to the conventional markets remained on a decline in the early part of the year, yet also showing visible improvement in the more recent months. Total exports of goods to *East Asia* as a whole, having reverted to increase at 4.8% in real terms in the first quarter, picked up markedly further to a 9.3% rise in the second quarter of 2002 over a year earlier. Within this total, growth was particularly robust in exports to the Mainland, Singapore, the Republic of Korea, Thailand and the Philippines, offsetting the continued decline in exports to Japan and Taiwan. Total exports of goods to *North America* also picked up over the past few months, along with a relative strengthening in import demand in the United States and Canada, yielding a moderate growth of 3.5% in real terms in the second quarter of 2002 over a year earlier, in stark contrast to a 12.4% plunge in the first quarter. Total exports of goods to the *European Union* continued to be curbed by subdued demand in the EU economy and earlier weakness of the euro, with declines of 12.1% and 3.9% respectively in real terms in the first and second quarters of 2002 over a year earlier (paragraphs 2.13 to 2.15).

1.13 *Imports of goods* rose by 5.7% in real terms in the second quarter of 2002 over a year earlier, as against a 4.1% decline in the first quarter. It mirrored closely the pick-up in re-exports in the second quarter, but the relative improvement in retained imports also mattered. *Retained imports* rose slightly, by 0.8% in real terms in the second quarter of 2002 over a year earlier, yet coming after an 8.9% fall in the first quarter. For the first half of 2002 as a whole, imports of goods had a small increase of 0.9% in real terms over a year earlier, improved from a 5.8% fall in the second half of 2001. Retained imports still shrank by 3.9% in real terms in the first half of 2002 over a year earlier, after a 5.1% decrease in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods and retained imports rose by 6.2% and 6.3% respectively in real terms in the second quarter of 2002, after increases at 6.0% and 2.0% in the first quarter (paragraph 2.7).

1.14 With a faster increase in the value of total exports of goods than in the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis instead of on a merchandise trade basis dwindled distinctly further, to \$16.4 billion or 4.2% of the value of imports of goods in the second quarter of 2002, from \$23.9 billion or 6.2% in the same quarter in 2001. In the first half of

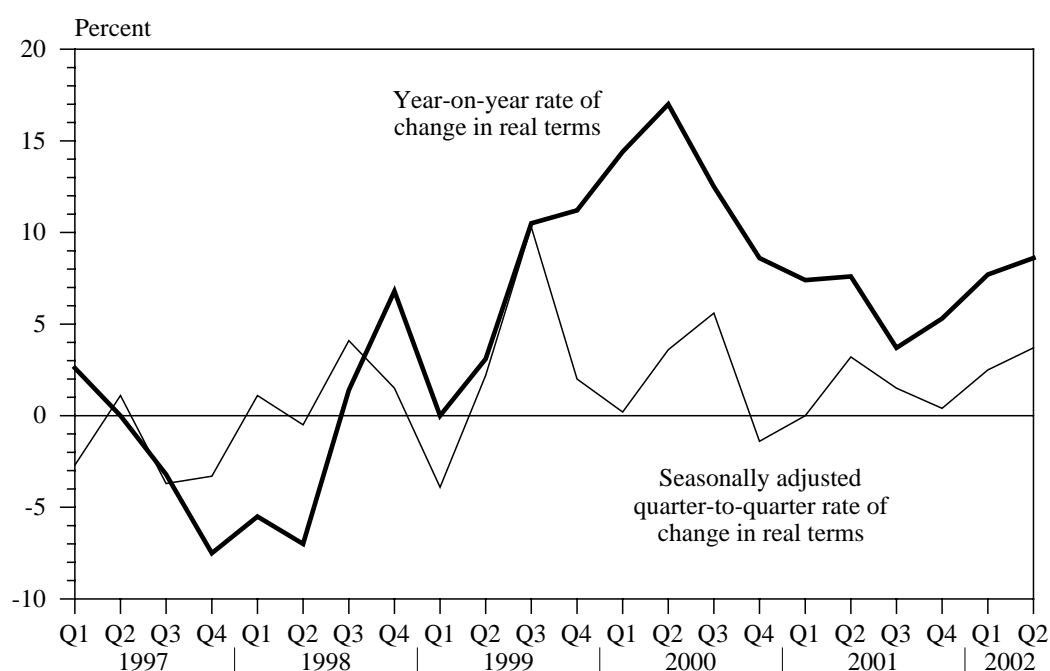
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2002, the visible trade deficit narrowed to \$28.8 billion or 4.0% of the value of imports of goods, from \$48.5 billion or 6.4% in the same period in 2001 (paragraph 2.8).

1.15 On invisible trade, Hong Kong's service exports were bolstered by a further pick-up in offshore trade and in inbound tourism, as well as a sustained notable growth in exports of transportation services. *Exports of services* accelerated to a marked increase of 8.6% in real terms in the second quarter of 2002 over a year earlier, following a 7.7% leap in the first quarter. For the first half of 2002 as a whole, exports of services went up by 8.2% in real terms over a year earlier, ascending from the 4.5% increase in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, exports of services picked up further, by 3.7% in real terms in the second quarter of 2002, after a 2.5% increase in the first quarter (paragraphs 2.9, 2.41 and 2.42).

Diagram 1.4

Exports of services*



Note : (*) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

/1.16

1.16 On the other hand, *imports of services* remained weak, falling by 4.0% in real terms in the second quarter of 2002 over a year earlier. Along with the pick-up in merchandise trade, imports of trade-related services had a moderated decline. But imports of transportation services and travel services showed enlarged declines. Imports of financial, business and other services also fell back. Taken together with a 1.3% fall in the first quarter, imports of services went down by 2.6% in real terms in the first half of 2002 over a year earlier, same as the decrease in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of services were down by 1.8% in real terms in the second quarter of 2002, having risen by 0.6% in the first quarter (paragraphs 2.10 and 2.44).

1.17 With exports of services rising while imports of services falling by value, the *invisible trade surplus* reckoned on a BoP basis rose markedly further, to \$37.2 billion or 82.8% of the value of imports of services in the second quarter of 2002, from \$31.7 billion or 67.7% in the same quarter in 2001. In the first half of 2002, the invisible trade surplus stood at \$69.1 billion or 75.6% of the value of imports of services, distinctly up from \$60.1 billion or 63.4% in the same period in 2001 (paragraph 2.11).

1.18 Taking the much enlarged invisible trade surplus together with the much narrowed visible trade deficit, the combined surplus reckoned on a BoP basis expanded to \$20.8 billion or 4.8% of the total value of imports of goods and services in the second quarter of 2002, from \$7.8 billion or 1.8% in the same quarter in 2001. In the first half of 2002, the combined surplus, at \$40.3 billion or 4.9% of the total value of imports of goods and services, was significantly up from that of \$11.6 billion or 1.4% in the same period in 2001 (paragraph 2.11).

Domestic demand

1.19 Local consumer spending slackened further in recent months, as income moderated along with the fall in employment, and as concern about job security also weakened the inclination to spend. Thus despite the support from vibrant inbound tourism, the volume of *retail sales* still fell by 4.5% in the second quarter of 2002 over a year earlier, further down from the 1.8% decline in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales fell back by 2.4% in the second quarter of 2002, having leaped by 4.6% in the first quarter.

/1.20

1.20 With spending on consumer services still growing steadily to partly offset the reduced spending on goods, *private consumption expenditure (PCE)* registered a somewhat lesser decline than retail sales, by 2.4% in real terms in the second quarter of 2002 over a year earlier, though this was also down from the 0.3% decrease in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, PCE fell by 1.0% in real terms in the second quarter of 2002, after a 0.5% rise in the first quarter. There was reduced local consumer spending on both durable goods and non-durable goods in the second quarter. Spending by Hong Kong residents travelling abroad likewise slackened further. But spending on consumer services and on food held up better than the others.

Table 1.4

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

		<u>Retail sales</u> ^(a)	<u>Consumer spending by major component</u> ^(a)					<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	4	-1	2	1	2	8
	Q1	2.5 (3.5)	3	8	*	3	3	3	5
	Q2	4.8 (1.1)	3	12	2	3	1	3	10
	Q3	0.5 (-5.1)	3	4	-2	2	*	1	4
	Q4	-3.0 (-1.8)	2	-5	-4	2	1	*	11
2002	Q1	-1.8 (4.6)	1	*	-3	2	-4	*	8
	Q2	-4.5 (-2.4)	*	-4	-8	3	-6	-1	14

Notes : (#) Local consumer and visitor spending in the local market has incorporated the results of the major revision to GDP as announced on 1 August 2002.

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

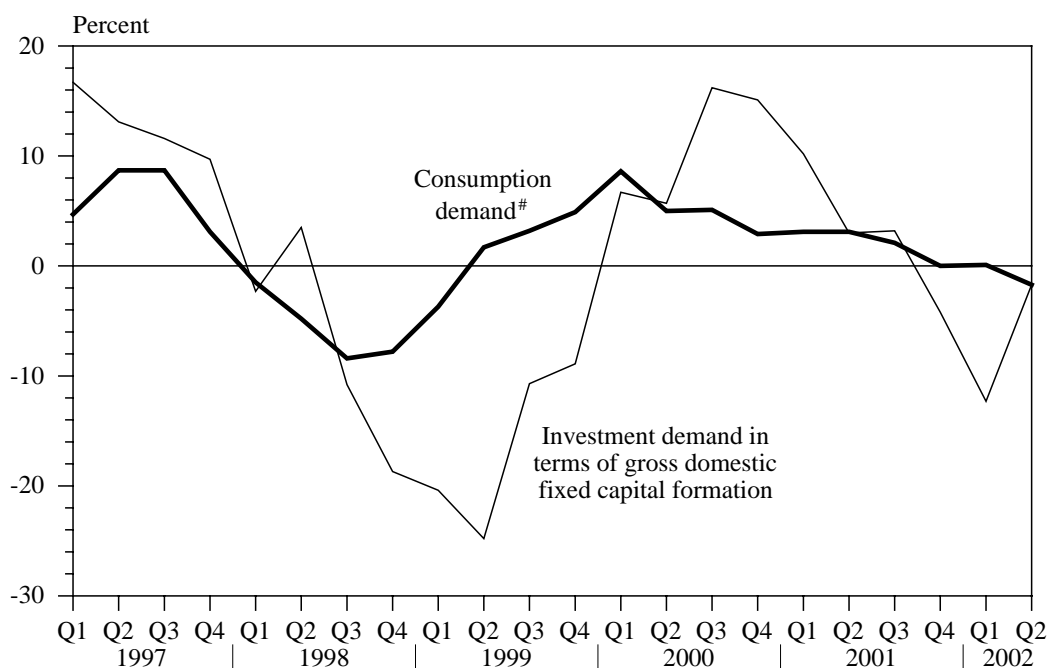
() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

(*) Change of less than 0.5%.

/Diagram 1.5

Diagram 1.5

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



Notes : (*) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

(#) Comprising private consumption expenditure and government consumption expenditure.

1.21 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁷⁾ went up further by 2.7% in real terms in the second quarter of 2002 over a year earlier, following a 2.2% rise in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE grew by 0.1% in real terms in the second quarter of 2002, after a 0.5% rise in the first quarter.

1.22 *Gross domestic fixed capital formation*, as representing overall investment spending, had a further decline of 1.7% in real terms in the second quarter of 2002 over a year earlier, yet distinctly narrowed from the 12.3% plunge in the first quarter. Analysed by major component, *expenditure on machinery, equipment and computer software* continued to be held back by the subdued business climate, with a further decline of 7.0% in real terms in the second quarter of 2002 over a year earlier, following a 20.1% dip in the first quarter.

/Against

Against this, *expenditure on buildings and construction* reverted to increase at 3.5% in real terms in the second quarter of 2002 over a year earlier, having fallen by 6.5% in the first quarter. This was mainly due to intensification of work on some major projects, including Hong Kong Disneyland and Science Park in the public sector, and Container Terminal No. 9 and International Financial Centre Phase II in the private sector. With a further increase in building output from the private sector, *real estate developers' margin*⁽⁸⁾ rose by 7.3% in real terms in the second quarter of 2002 over a year earlier, sustained from a 5.3% rise in the first quarter.

1.23 Having decreased for three consecutive quarters, there was a moderate replenishment of *inventories* in the second quarter of 2002.

The property market

1.24 The sales market for *residential property* turned more active in the first half of 2002, particularly in the second quarter. At the beginning of the first quarter, market transactions were fairly intensive. A gradual tapering ensued, when buying interest was dampened by the distinct setback in the economy, worsened employment situation, and an abundant supply of new flats coming on stream. By the second quarter, market sentiment improved again, upon the more upbeat results of the two land auctions held in April and June, as well as the Government's announcement to resume sale of subsidised sale flats yet in a cautious and orderly manner after expiry of the ten-month moratorium at end-June. There was a noticeable resurrection of buying interest in the primary market especially for some new sales projects, as further price discounts and other concessions were offered by developers. The secondary market was also activated, albeit to a lesser extent. As to the leasing market for residential property, activity stayed at a relatively low level for most of the first half of the year (paragraph 3.6).

1.25 On a quarter-to-quarter comparison, flat prices on average still fell by 3% in the second quarter of 2002, having been virtually static in the first quarter. Flat rentals followed a continued downtrend, falling on average by 4% in the first quarter of 2002 and further by 3% in the second quarter. For the first half of 2002 as a whole, flat prices on average were lower by 3% and flat rentals even more by 7%, reflecting a reduction in rental yield (paragraph 3.7).

/1.26

1.26 On *commercial property*, the rental market for *office space* turned more sluggish in the first half of 2002, as demand dwindled further amidst new moves of corporate downsizing and rationalisation within the entire business sector and particularly in the information technology and financial services fields. Demand for Grade A office space in prime locations was more distinctly hit, as more of the tenants moved out to premises in secondary business districts for cutting cost. In order to improve occupancy, landlords had become more lenient on the lease terms, especially for longer leases, by way of greater rental reductions and longer rent-free period. The sales market for office space was likewise weak, as the declining rental yield and the bleak business outlook kept investors on the sideline. The rental market for *shopping space* was slack in the first half of 2002, as retail business generally weakened further. Larger rental cuts and more flexible lease terms were commonly offered by landlords. The sales market for shopping space remained quiet. Acquisition interest was hampered by unattractive rental yield relative to the investment risk involved. On *industrial property*, the rental market stayed depressed in the first half of 2002. The weak performance of the local manufacturing sector and the further cost trimming measures taken by some of the information technology and business services firms continued to curb the demand for such premises. The sales market for industrial property was also quiet (paragraphs 3.8 to 3.10).

1.27 *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 24% in the first half of 2002 over a year earlier, further to a 44% decrease in the second half of 2001. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property fell significantly, by 38% in terms of unit or by 24% in terms of total usable floor area in the first half of 2002, having been slashed by 23% each in the second half of 2001. Developers generally continued to be cautious in initiating new housing projects, in view of an abundant supply of new flats yet to be absorbed by end-users. Planned developments of commercial property were also reduced, by 29% in the first half of 2002, following a 67% drop in the second half of 2001. Planned developments of property in the “others” category plunged by 49% in the first half of 2002, after a dip of 89% in the second half of 2001. On the other hand, planned developments of industrial property leaped by 189% in the first half of 2002 from a low base in the same period a year earlier, after coming down by 50% in the second half of 2001 (paragraph 3.15).

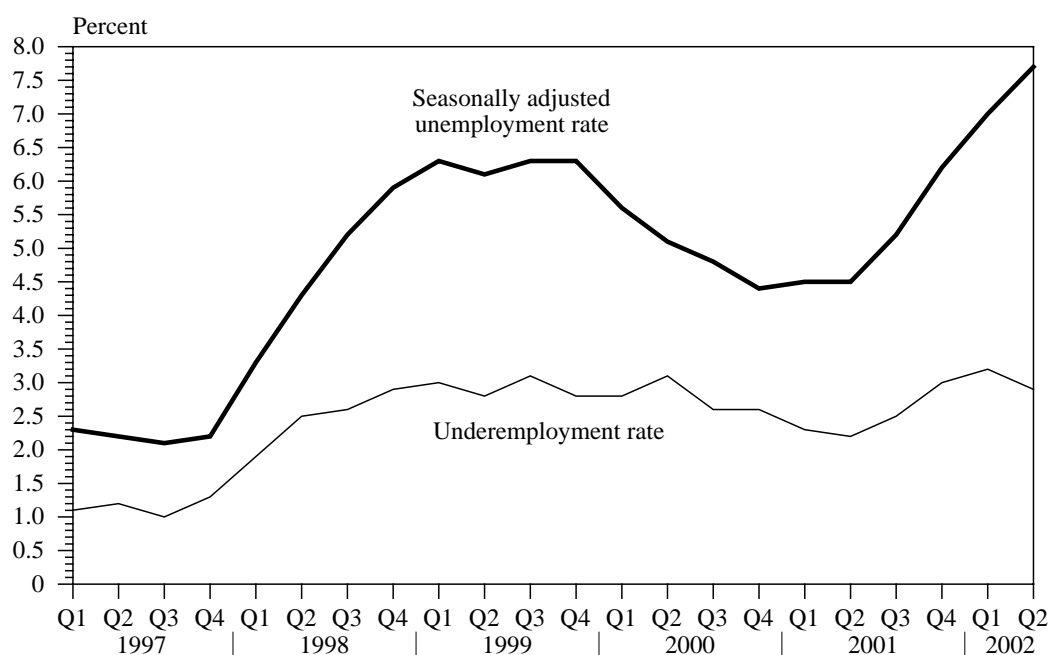
/The

The labour market

1.28 Labour market conditions slackened distinctly further in the second quarter of 2002, as reduced labour demand consequential to the economic setback, coupled with continued expansion in labour supply, led to a further marked loosening in the manpower resource balance. The *seasonally adjusted unemployment rate* rose to a new high of 7.7% in the second quarter of 2002, from 7.0% in the first quarter. The proportion of persons unemployed for six months or more went up from 27% in the first quarter of 2002 to 30% in the second quarter, while the median duration of unemployment lengthened from 87 days to 89 days. Hence as to be expected, the process of job search had also become more difficult than before. As to the *underemployment rate*, there was a decrease to 2.9% in the second quarter of 2002, from 3.2% in the first quarter, against the uptrend seen in the past three quarters. However, this might just be due to some of the underemployed persons becoming unemployed in the more recent months. For the employed persons, the median hours of work per week increased from 45 in the first quarter of 2002 to 48 in the second quarter. The proportion of employed persons working for 50 hours or more per week also went up, from 34% to 36%. This reflected greater work effort in general, as the staffing situation of businesses consolidated (paragraphs 5.1 to 5.3).

Diagram 1.6

Unemployment and underemployment rates



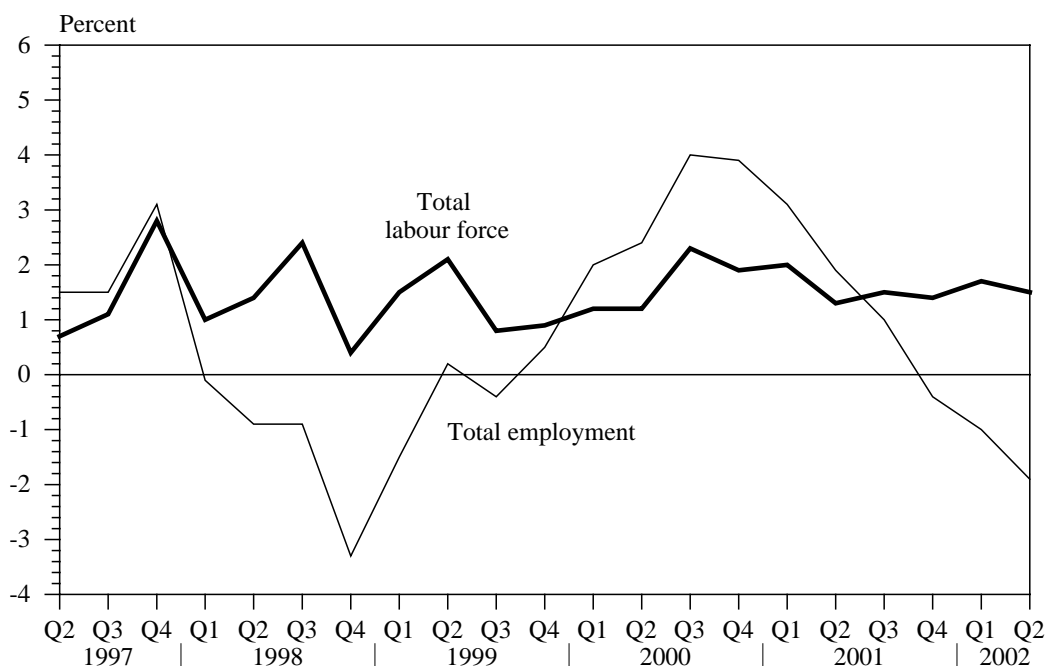
/1.29

1.29 On a year-on-year comparison, *total employment* as enumerated from households shrank by 1.9% in the second quarter of 2002, worsened from the 1.0% decrease in the first quarter of 2002 and even more from the 1.4% rise in 2001. There were more extensive corporate downsizing and lay-offs, and employers had adopted an even more cautious attitude towards staffing. Within the total, the number of employers and employees both fell, by 9.3% and 2.8% respectively in the second quarter of 2002, which more than offset the 19.3% increase in the number of self-employed persons such as hawkers and free-lance workers. On the other hand, *total labour force* continued to expand steadily, by 1.5% in the second quarter of 2002, following increases of 1.7% in the first quarter of 2002 and 1.6% in 2001. To a large extent, this was attributable to continued growth in the population of working age, amidst a sustained net people inflow. Also contributed was a rise in the labour force participation rate over the past year, especially that for middle-aged females. On a quarter-to-quarter comparison and bearing in mind the influence of seasonality, total employment decreased by 0.7% in the second quarter of 2002, following a 0.6% fall in the first quarter. Total labour force, having increased by 0.2% in the first quarter of 2002, showed virtually nil change in the second quarter. These differential growth rates loosened the manpower resource balance further, thereby pushing the unemployment rate even higher (paragraph 5.4).

/Diagram 1.7

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, are available as from the second quarter of 1997.

1.30 Labour income continued to moderate. In the first quarter of 2002, *labour earnings* were lower by 0.6% in money terms over a year earlier, after increases of 0.4% in the fourth quarter of 2001 and 1.8% for 2001 as a whole. Nevertheless, netting out the decline in consumer prices as reflected by the Composite CPI, labour earnings were still up by 2.1% in real terms in the first quarter of 2002 over a year earlier, though somewhat smaller than the 2.5% gain in the fourth quarter of 2001. *Labour wages* likewise fell, by 0.8% in money terms in March 2002 over a year earlier, following increases of 0.2% in December 2001 and 0.8% for 2001 as a whole. Netting out the decline in consumer prices as reflected by the CPI(A), labour wages moved up modestly, by 1.2% in real terms in March 2002 over a year earlier. This was much less than the 6.9% jump in December 2001, but the latter figure was distorted by an abrupt drop in the CPI(A) in December last year caused by the waiver of public housing rentals in that month (paragraph 5.5).

/Prices

Prices

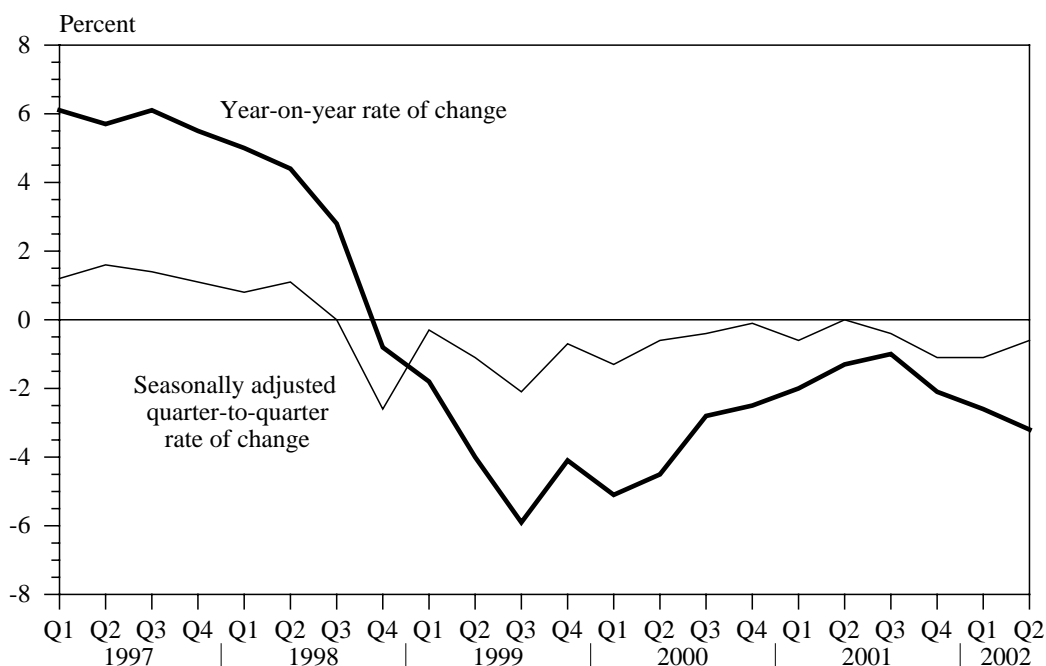
1.31 Overall consumer prices remained on a downtrend in the second quarter of 2002. On the external front, import prices continued to drift lower, upon a general softening in world commodity prices and subdued price pressure in the major supplier economies. The recent distinct weakening in the US dollar, though tending to lift import prices in due course, did not seem to have much of an impact so far. On the domestic front, costs and prices also moved lower, amidst a slack local demand prompting further moderation in labour wages and property rentals. Local retailers continued to offer large discounts on many items in order to boost sales. Moreover, there was downward effect from the relief measures as announced in the 2002-03 Budget, including the additional rates concession and the waiver of water and sewage charges (paragraph 6.1).

1.32 The *Composite Consumer Price Index*, having declined by 2.6% in the first quarter of 2002 over a year earlier, fell even more by 3.2% in the second quarter. This enlarged decrease was caused in part by the relief measures, including specifically the additional rates concession and the waiver of water and sewage charges implemented by the Government as from April 2002. For the first half of 2002 as a whole, the Composite CPI declined by 2.9% over a year earlier, as compared to a 1.6% fall in 2001. On a seasonally adjusted quarter-to-quarter comparison, the fall in the Composite CPI in the second quarter of 2002, at 0.6%, was nevertheless smaller than that in the first quarter, at 1.1% (paragraphs 6.2 and 6.4).

/Diagram 1.8

Diagram 1.8

Composite Consumer Price Index*



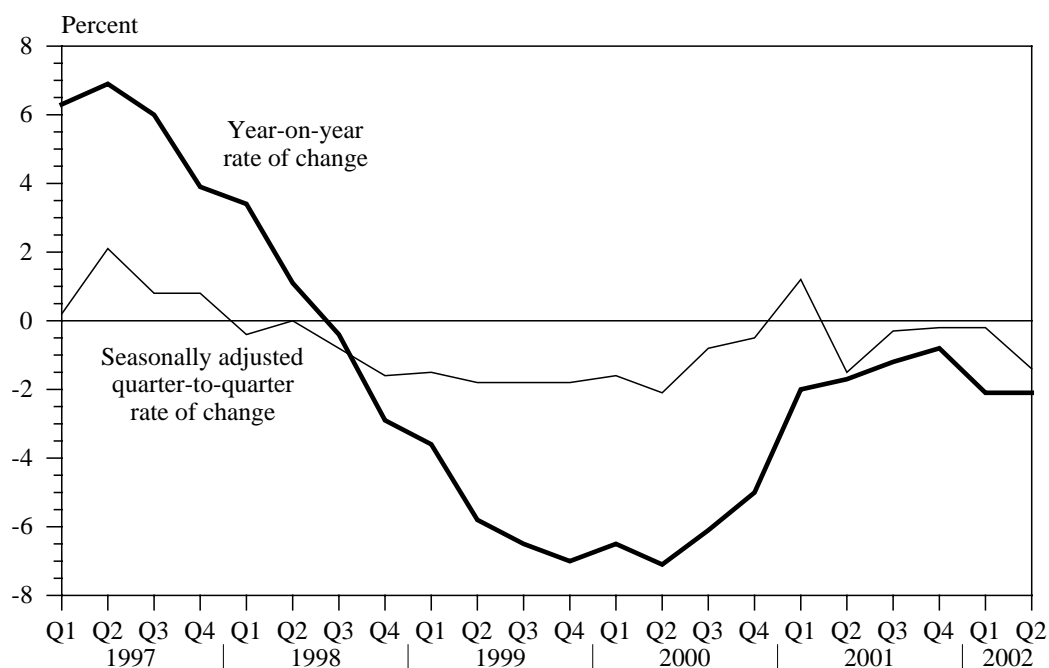
Note : (*) From the fourth quarter of 2000 onwards, the rates of change are computed from the 1999/2000-based Composite CPI series. Before then, the rates of change are computed from the 1994/95-based Composite CPI series. Splicing has been applied to the index series to maintain continuity.

1.33 The *GDP deflator*, as a broad measure of overall price change in the economy, fell by 2.1% in the second quarter of 2002 over a year earlier, same as the decrease in the first quarter. This refers to a revised series for the GDP deflator, in parallel with that for GDP consequential to the major revision to GDP as announced in early August. Within the GDP deflator, the *domestic demand deflator* had a larger year-on-year decline of 4.2% in the second quarter of 2002 than that of 3.1% in the first quarter. This was mainly attributable to an accelerated drop in the price deflators for private consumption expenditure and for gross domestic fixed capital formation, as well as a renewed fall in the price deflator for government consumption expenditure. The *total final demand deflator* nevertheless had a slightly smaller year-on-year decline in the second quarter of 2002 than in the first quarter, at 3.6% as against 3.7%, reflecting largely a narrowed decrease in the price deflators for exports of both goods and services. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator fell further by 1.4% in the second quarter of 2002, having fallen by 0.2% in the first quarter (paragraph 6.16).

/Diagram 1.9

Diagram 1.9

GDP deflator*



Note : (*) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

The financial sector

1.34 The Hong Kong dollar exchange and money markets held broadly stable in the first half of 2002. On *exchange rates*, the spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate during the first half of 2002, moving within a 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 period, except for a temporary rise to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. But it soon fell back and narrowed distinctly further to 23 pips at end-June 2002, as against 235 pips at end-2001 (paragraphs 4.1 and 4.2).

1.35 Tracking closely the movements in the US dollar under the linked exchange rate system, the Hong Kong dollar fell markedly against almost all the major currencies during the second quarter of 2002, offsetting the moderate gains during the first quarter. Comparing June 2002 with December 2001, the Hong Kong dollar on month-average was lower by 3.2% against the Japanese yen,

/6.4%

6.4% against the euro, and 2.9% against the pound sterling. Taking all the major currencies together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* on month-average fell to 103.5 in June 2002, from 105.4 in December 2001 (paragraphs 4.3 to 4.5).

1.36 Local inter-bank *interest rates* firmed up slightly during the first quarter of 2002, but declined during the second quarter, reflecting in part an increase in inter-bank liquidity. With no further monetary easing in the United States in the first half of 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) remained unchanged at 3.25% throughout the period. The best lending rate of the major commercial banks also stayed unchanged, at 5.13%. The average savings deposit rate rose marginally, from 0.15% at end-2001 to 0.16% at end-June 2002. The average spread of the best lending rate over the three-month time deposit rate narrowed slightly, from 4.64 percentage points in the second half of 2001 to 4.63 percentage points in the first half of 2002 (paragraphs 4.6 and 4.7).

1.37 *Hong Kong dollar deposits* increased by 1.0% during the second quarter of 2002, reversing a 1.3% fall during the first quarter. On the other hand, *Hong Kong dollar loans* went down by 0.7% during the second quarter of 2002, having risen by 0.7% during the first quarter. As a result, the Hong Kong dollar loan-to-deposit ratio eased back to 89.1% at end-June 2002, from 90.7% at end-March. Yet this was still slightly above the ratio of 88.8% at end-2001 (paragraphs 4.9, 4.16 and 4.17).

1.38 The local *stock market* was relatively more steady during the first quarter of 2002, but underwent significant ups and downs during the second quarter. Performance was generally overshadowed by weak sentiment amidst rising unemployment and an uncertain business outlook, apart from being much influenced by movements in the US stock market. The Hang Seng Index mostly hovered in the 10 000 – 11 000 range before mid-April. It picked up in the latter part of April, upon fund inflows and market expectation for no imminent rise in US interest rates. The Index rallied to a nine-month high of 11 975 on 17 May. But it fell back distinctly thereafter, as the downslide in the US stock market spilled over to affect major stock markets worldwide. Apart from greater concern about the pace of recovery in the US economy, wary about accounting irregularities in the corporate sector added to market anxiety. The Index receded to a seven-month low of 10 356 on 26 June, before bouncing back modestly to

/close

close the first half of 2002 at 10 599, 7.0% below the level at end-2001. (The local stock market underwent considerable gyrations since then, being affected much by the movements in the US stock market. The Hang Seng Index stood at 10 246 on 23 August.) (paragraph 4.30)

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 2002 round of major revision to GDP covers the following three major aspects :
 - (a) Enhancements are made to the GDP compilation system through benchmarking as well as adoption of enhanced estimation methods and new data sources (e.g. results of the 1999/2000 Household Expenditure Survey);
 - (b) The base year for the constant price GDP series is updated from 1990 to 2000. This is in line with the international practice of rebasing major statistical series once every five to ten years, so as to better reflect the changes in real terms; and
 - (c) Relevant parts of the latest international statistical standard on the System of National Accounts (SNA 1993) are brought into the conceptual and compilation framework of GDP, including notably capitalisation of business and government expenditure on computer software.

For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

/(4)

(4) Summary results of the 2002 round of major revision to GDP :

	<u>Nominal GDP (\$Bn)</u>				<u>GDP nominal growth rate (%)</u>			<u>GDP real growth rate (%)</u>		
	Previous	Revised	Difference	Extent of	Previous	Revised	Extent of	Previous	Revised	Extent of
	<u>(a)</u>	<u>(b)</u>	<u>(b)-(a)</u>	revision as % of (a)						
1996	1,191.9	1,210.9	+19.0	+1.6	10.7	10.5	-0.2	4.5	4.3	-0.2
1997	1,323.9	1,344.5	+20.7	+1.6	11.1	11.0	-0.1	5.0	5.1	+0.1
1998	1,259.3	1,279.9	+20.5	+1.6	-4.9	-4.8	+0.1	-5.3	-5.0	+0.3
1999	1,227.0	1,246.1	+19.2	+1.6	-2.6	-2.6	--	3.0	3.4	+0.4
2000	1,265.8	1,288.3	+22.6	+1.8	3.2	3.4	+0.2	10.4	10.2	-0.2
2001	1,262.2	1,279.0	+16.8	+1.3	-0.3	-0.7	-0.4	0.2	0.6	+0.4

Note: Figures for 2000 and 2001 are preliminary, being subject to revision when more data become available.

- (5) 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.
- (6) Rebasings of the trade indices from 1990 to 2000 may have led to minor differences in some of the rates of change for the change-over period from the first quarter of 2001 to the first quarter of 2002.
- (7) 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, Post Office and Water Supplies Department, 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 consumption of economic resources.

/(8)

- (8) 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 economic situation was mixed in the second quarter of 2002, and manifestly less sanguine than in the first quarter. In the US economy, although its industrial activity intensified further in the second quarter upon improved exports and inventories replenishment, consumer spending eased amidst higher unemployment and fall in US share prices, while business investment continued to be dampened in face of the looming corporate issues and modest business outlook. Thus the growth pace in the US economy was much milder more recently. In the EU economy, conditions remained slack, being dragged down by falling industrial activity and weakened business sentiment.

2.2 Yet within the region, the recovery in most of the East Asian economies so far seemed to have taken better hold. This should have much to do with the inventories replenishment in the United States, as well as the better global demand for IT products after the severe setback last year. In Japan's economy, industrial activity appeared to be bottoming out along with the recent distinct pick-up in exports, and business sentiment whilst still negative was gradually being diluted. In the Mainland economy, growth continued to be robust, with exports picking up visibly and with domestic demand also holding up well. Along with a generally improved regional demand situation supporting the intra-regional trade, import intake in most of the East Asian economies picked up in the second quarter, with a particularly sharp surge for the Mainland economy.

/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	0.3	1.5	7.3	-0.6	-2.2	-2.0	3.0
	H1	0.7	2.0	7.9	0.4	-1.3	2.2	3.3
	H2	-0.1	1.0	6.7	-1.5	-3.0	-6.0	2.8
	Q1	1.5 (-0.2)	2.4 (0.4)	8.1	1.2 (1.0)	0.6	5.0 (-3.0)	3.7 (1.2)
	Q2	-0.1 (-0.4)	1.6 (0.1)	7.8	-0.4 (-1.2)	-3.3	-0.5 (-2.2)	2.9 (0.3)
	Q3	-0.4 (-0.1)	1.4 (0.2)	7.0	-0.6 (-0.6)	-4.4	-5.4 (-2.7)	1.9 (1.3)
	Q4	0.1 (0.7)	0.6 (-0.2)	6.5	-2.4 (-1.2)	-1.6	-6.6 (1.4)	3.7 (1.6)
2002	H1	1.8	N.A.	7.8	N.A.	2.6	1.2	6.1
	Q1	1.4 (1.2)	0.4 (0.3)	7.6	-1.6 (1.4)	1.2	-1.5 (2.0)	5.8 (1.9)
	Q2	2.1 (0.3)	N.A.	8.0	N.A.	4.0	3.9 (3.2)	6.3 (1.4)

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 (%))**

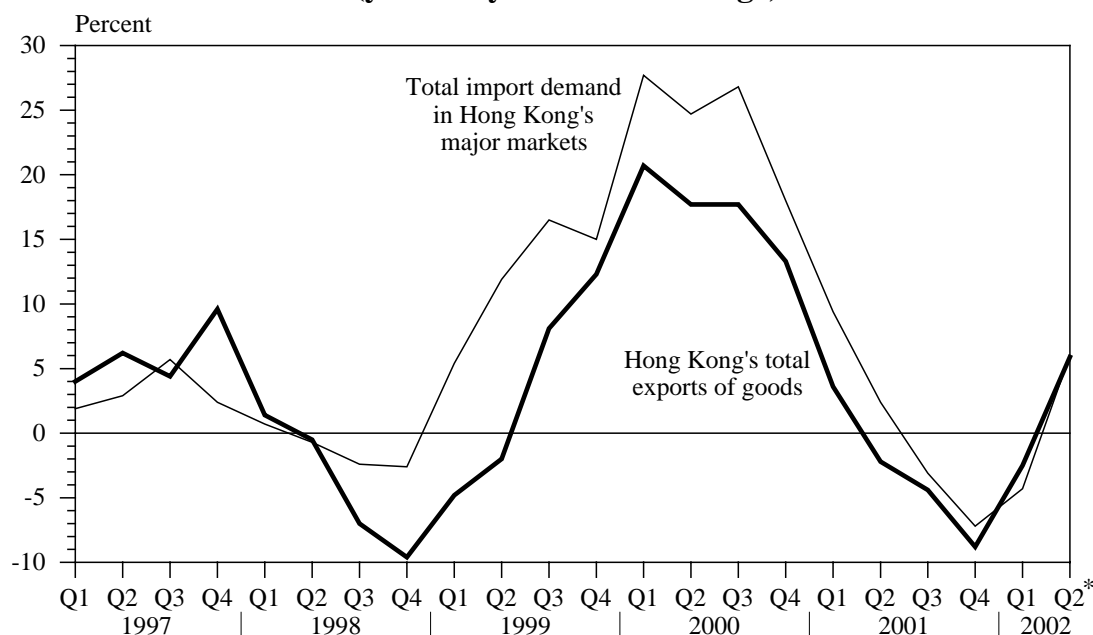
		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	-6.4	-2.1	8.2	-8.1	-23.4	-13.9	-12.1
	H1	0.5	1.0	14.1	0.2	-17.0	-3.8	-7.7
	H2	-12.8	-5.1	3.3	-15.5	-29.5	-22.4	-16.3
	Q1	5.0	3.7	17.3	4.8	-10.2	5.8	-1.8
	Q2	-3.7	-1.7	11.4	-4.3	-22.9	-12.4	-13.4
	Q3	-11.4	-3.4	6.5	-11.8	-34.1	-20.4	-15.5
	Q4	-14.1	-6.7	0.2	-18.9	-24.6	-24.4	-17.1
2002	H1	-5.9	-7.7 ^(a)	10.4	-13.1	-6.4	-6.7	-2.4
	Q1	-12.6	-10.8	5.2	-18.2	-15.2	-16.2	-11.6
	Q2	0.9	-2.9 ^(a)	15.0	-7.6	2.5	3.5	7.8

Note : (a) Crude estimate only, as data on imports in the European Union are available only up to May 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 second quarter of 2002 is only a crude estimate, as data on imports in the European Union are available only up to May 2002.

2.3 As to exchange rate movements, the US dollar, having remained generally strong over the past two years or so, weakened distinctly against the other major currencies after mid-April 2002. The weakness was caused at least in part by fund outflows from the US stock market as the corporate accounting and governance issues loomed large. Comparing the average level in the second quarter of 2002 with that in the first quarter, the US dollar was down by 4.2% against the Japanese yen, by 4.5% against the euro, and by 2.4% against the pound sterling. The Hong Kong dollar likewise depreciated against these currencies. As a result, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell by an average of 1.0% in the second quarter of 2002 over the first quarter. This should be of help to Hong Kong's external price competitiveness.

/Table 2.3

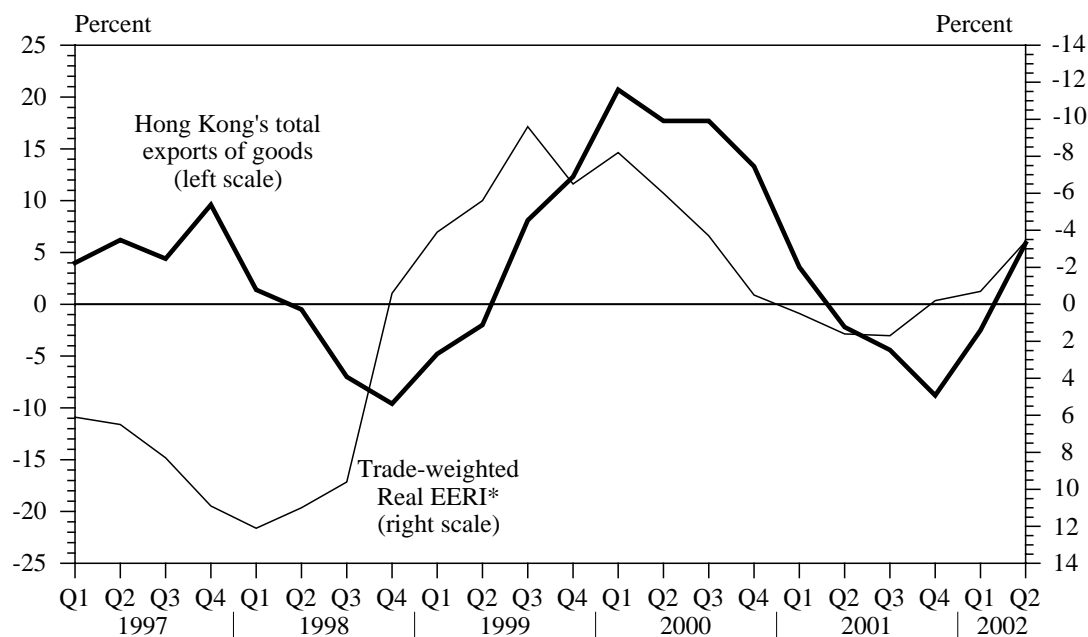
Table 2.3**Exchange rates of the major currencies
and of selected East Asian currencies against the US dollar**

% change in terms of average in the quarter over <u>the preceding quarter</u>		Japanese <u>yen</u>	<u>Euro</u>	Pound <u>sterling</u>	New Taiwan <u>dollar</u>	Singapore <u>dollar</u>	Korean <u>won</u>
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
	Q2	4.3	4.7	2.5	1.7	1.6	4.0

/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 visible and invisible trade situation

2.4 On visible trade, Hong Kong's merchandise exports performed better in the second quarter of 2002, on the back of firmer regional demand and more recently also improved external price competitiveness. *Total exports of goods* (comprising re-exports and domestic exports), having declined for four consecutive quarters, reverted to an increase at 2.8% in value terms over a

/year

year earlier to \$373.5 billion in the second quarter of 2002. After netting out the decrease in prices, total exports of goods rose by 5.9% in real terms⁽¹⁾ in the second quarter of 2002 over a year earlier, distinctly up from the 2.5% decline in the first quarter. There was a 5.9% rise in real terms in April 2002 over a year earlier, followed by a modest 1.2% increase in May, and then a surge of 11.0% in June. For the first half of 2002 as a whole, total exports of goods were up by 1.8% in real terms over a year earlier, much improved from the 6.6% fall in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rose further, by 5.3% in real terms in the second quarter of 2002, following a 6.7% leap in the first quarter.

2.5 Within total exports of goods, *re-exports*⁽²⁾ continued to out-pace domestic exports by a wide range, with a 5.3% increase in value terms over a year earlier to \$341.2 billion in the second quarter of 2002. After netting out the decrease in prices, re-exports rose by 8.3% in real terms in the second quarter of 2002 over a year earlier, reversing the decline at 1.5% in the first quarter. For the first half of 2002 as a whole, re-exports had a 3.5% rise in real terms over a year earlier, distinctly up from the 6.1% fall in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, re-exports also went up further, by 6.2% in real terms in the second quarter of 2002, having surged by 7.9% in the first quarter.

2.6 *Domestic exports* remained on a distinct downtrend, under the continuing influence of structural shift towards re-exports and offshore trade. In the second quarter of 2002, domestic exports plummeted by 17.8% in value terms over a year earlier to \$32.2 billion. After netting out the decrease in prices, there was a 13.7% fall in real terms in the second quarter of 2002 over a year earlier, further down from the already large decline at 11.2% in the first quarter. For the first half of 2002 as a whole, domestic exports shrank by 12.5% in real terms over a year earlier, having fallen by 10.2% in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further, by 3.6% in real terms in the second quarter of 2002, after a 3.8% drop in the first quarter.

/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	-3.3	-2.3	-4.6	-2.4	-2.0	-15.2	-10.2	-4.7
	H1	-1.4	0.5	-1.7	0.2	1.9	-1.5	-13.3	-10.1	-3.2
	H2	-9.6	-6.6	-2.8	-8.6	-6.1	-2.4	-16.8	-10.2	-6.1
	Q1	2.3	3.6	-1.1	4.8	5.9	-0.9	-15.3	-13.0	-2.5
	Q2	-4.7	-2.2	-2.3	-3.9	-1.6	-2.1	-11.4	-7.4	-3.8
	Q3	-7.2	-4.4	-2.6	-5.8	-3.4	-2.2	-17.9	-11.9	-5.8
	Q4	-12.0	-8.8	-3.0	-11.6	-8.9	-2.6	-15.6	-8.3	-6.5
2002	H1	-1.6	1.8	-3.1	0.2	3.5	-2.9	-17.7	-12.5	-4.4
	Q1	-6.2	-2.5	-3.4	-5.0	-1.5	-3.2	-17.5	-11.2	-5.4
	Q2	2.8	5.9	-2.7	5.3	8.3	-2.6	-17.8	-13.7	-3.6
	Apr	2.5	5.9	-2.8	4.7	8.1	-2.7	-17.4	-12.3	-3.8
	May	-1.8	1.2	-2.7	1.0	4.0	-2.6	-24.3	-20.2	-3.7
	Jun	8.0	11.0	-2.6	10.4	13.5	-2.5	-11.0	-7.7	-3.3

Note : New series of unit value indices and quantum indices using 2000 as the updated base are released as from June 2002 to replace the old 1990-based series. For the period prior to 2000, the unit value indices and quantum indices are obtained by re-scaling the previously released 1990-based series, using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000. There may be minor differences in some of the rates of change in the unit value indices and quantum indices for the period from the first quarter of 2001 to the first quarter of 2002.

/Table 2.5

Table 2.5

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

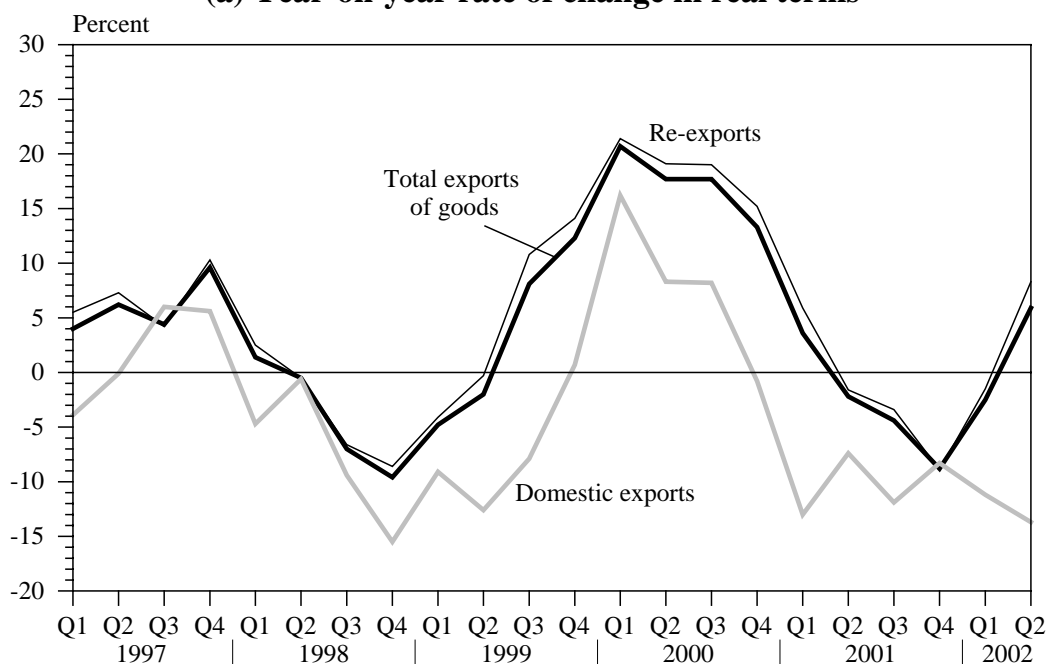
		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2001	Q1	-2.8	-2.8	-2.5
	Q2	-2.7	-3.0	-0.4
	Q3	1.5	2.1	-3.1
	Q4	-6.4	-6.7	-3.3
2002	Q1	6.7	7.9	-3.8
	Q2	5.3	6.2	-3.6

Note : See the footnote to Table 2.4.

Diagram 2.3

Total exports of goods, re-exports and domestic exports

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

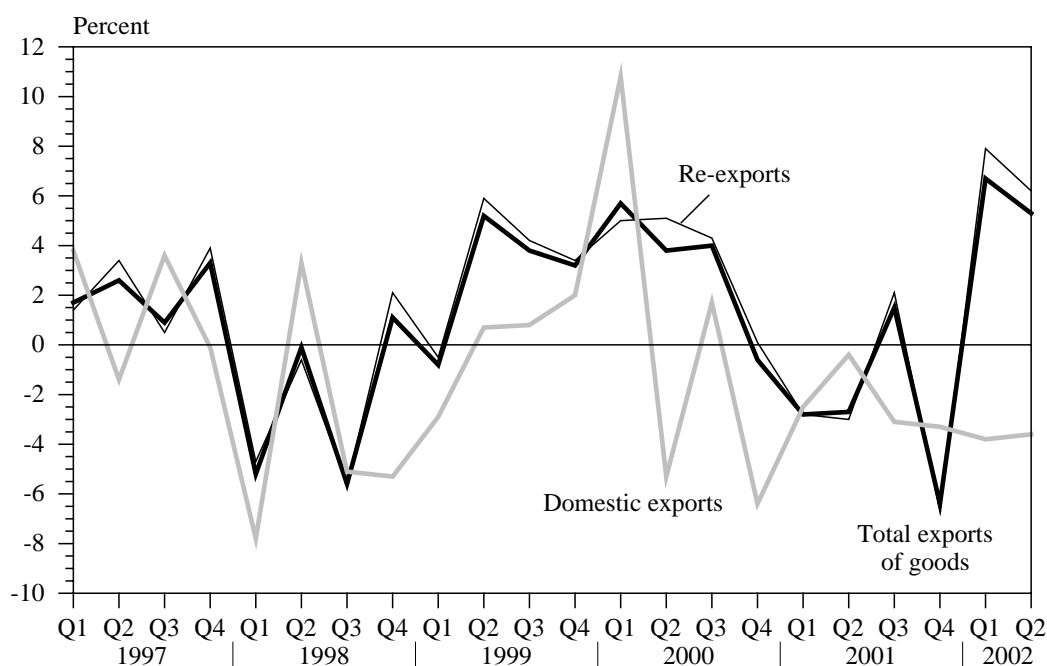


Note : From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

/Diagram 2.3 (cont'd)

Diagram 2.3 (cont'd)

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



Note : From the second quarter of 2000 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

2.7 *Imports of goods* rose marginally, by 0.4% in value terms over a year earlier to \$394.2 billion in the second quarter of 2002. After netting out the decrease in prices, there was nevertheless a 5.7% rise in real terms. This contrasted with a 4.1% decline in the first quarter. It mirrored closely the pick-up in re-exports in the second quarter, but the relative improvement in retained imports also mattered. *Retained imports* rose slightly, by 0.8% in real terms in the second quarter of 2002 over a year earlier, yet coming after an 8.9% fall in the first quarter. For the first half of 2002 as a whole, imports of goods had a small increase of 0.9% in real terms over a year earlier, improved from a 5.8% fall in the second half of 2001. Retained imports still shrank by 3.9% in real terms in the first half of 2002 over a year earlier, after a 5.1% decrease in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods and retained imports rose by 6.2% and 6.3% respectively in real terms in the second quarter of 2002, after increases at 6.0% and 2.0% in the first quarter.

/Table 2.6

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	-2.0	-3.1	-9.1	-1.1	-7.6
	H1	-0.1	2.4	-2.1	-2.8	3.2	-5.2
	H2	-10.0	-5.8	-4.1	-14.9	-5.1	-9.9
	Q1	3.6	5.6	-1.6	-0.8	5.0	-5.0
	Q2	-3.4	-0.5	-2.5	-4.6	1.5	-5.4
	Q3	-6.6	-2.9	-3.5	-10.5	-1.8	-8.4
	Q4	-13.5	-8.7	-4.8	-19.4	-8.4	-11.6
2002	H1	-4.2	0.9	-4.8	-12.9	-3.9	-8.9
	Q1	-9.1	-4.1	-4.9	-17.2	-8.9	-8.8
	Q2	0.4	5.7	-4.6	-8.9	0.8	-8.9
	Apr	-2.1	3.3	-4.8	-14.5	-5.0	-9.6
	May	-2.1	2.9	-4.6	-8.4	0.8	-8.7
	Jun	6.0	11.3	-4.3	-2.5	7.3	-8.4

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

Also see the footnote to Table 2.4.

/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	-1.3	1.9
	Q2	-3.7	-5.1
	Q3	2.9	4.3
	Q4	-8.1	-10.6
2002	Q1	6.0	2.0
	Q2	6.2	6.3

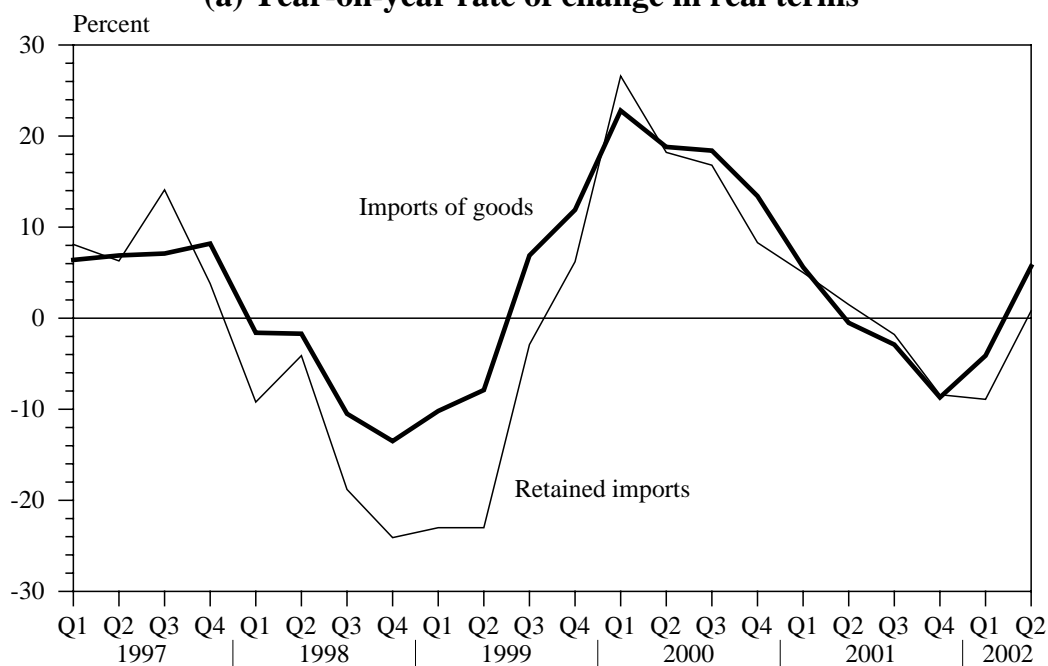
Notes : (a) See Note (a) to Table 2.6.

Also see the footnote to Table 2.4.

Diagram 2.4

Imports of goods and retained imports

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

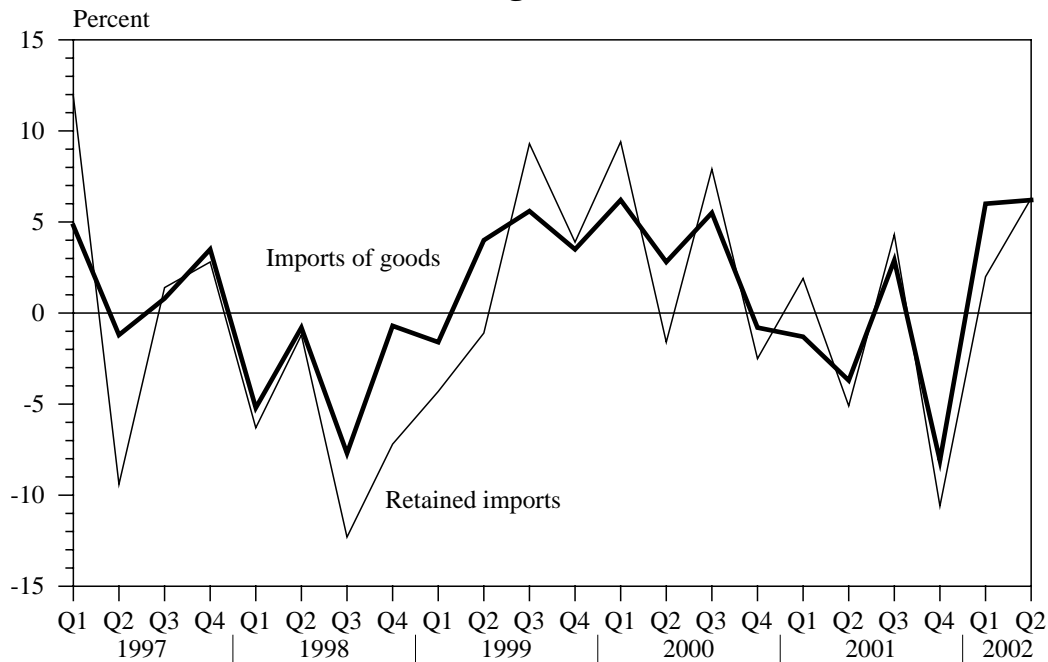


Note : See the footnote to Diagram 2.3 (a).

/Diagram 2.4 (cont'd)

Diagram 2.4 (cont'd)

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



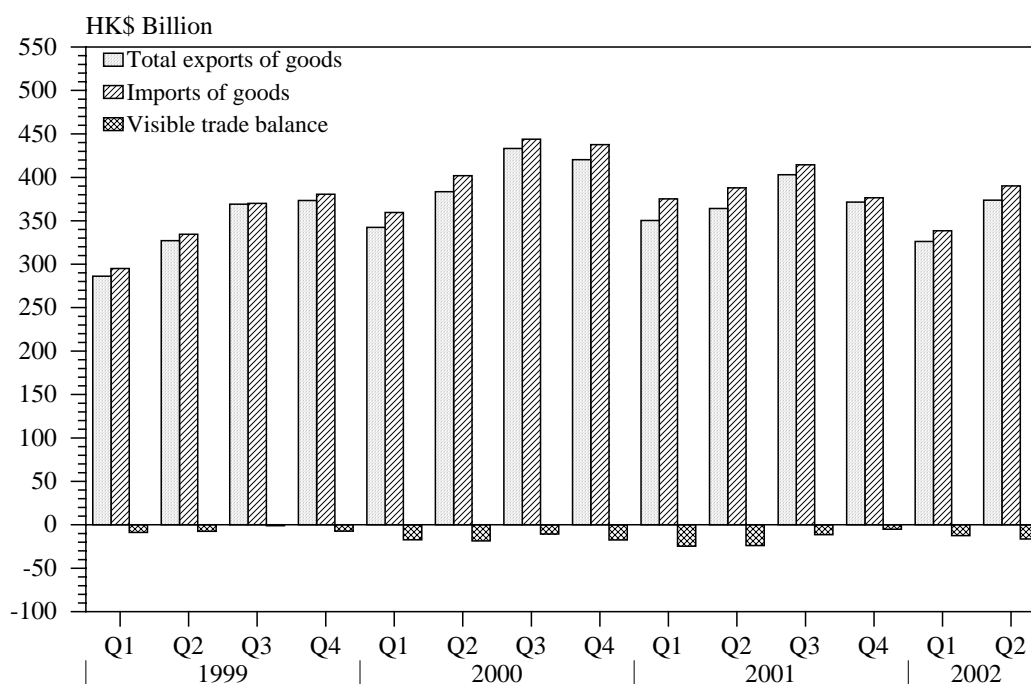
Note : See the footnote to Diagram 2.3 (b).

2.8 With a faster increase in the value of total exports of goods than in the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis instead of on a merchandise trade basis⁽³⁾ dwindled distinctly further, to \$16.4 billion or 4.2% of the value of imports of goods in the second quarter of 2002, from \$23.9 billion or 6.2% in the same quarter in 2001. In the first half of 2002, the visible trade deficit narrowed to \$28.8 billion or 4.0% of the value of imports of goods, from \$48.5 billion or 6.4% in the same period 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* recorded a further solid growth, by 4.6% in value terms over a year earlier to \$82.2 billion in the second quarter of 2002. After netting out the decline in prices, there was an 8.6% rise in real terms. This followed a 7.7% leap in the first quarter. For the first half of 2002 as a whole, exports of services went up by 8.2% in real terms over a year earlier, ascending from the 4.5% increase in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, exports of services picked up further, by 3.7% in real terms in the second quarter of 2002, after a 2.5% increase in the first quarter.

2.10 *Imports of services* declined further, by 4.0% in value terms over a year earlier to \$44.9 billion in the second quarter of 2002. With little change in prices, the decrease in real terms was also 4.0%. Taken together with a 1.3% fall in the first quarter, imports of services went down by 2.6% in real terms in the first half of 2002 over a year earlier, same as the decrease in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of services were down by 1.8% in real terms in the second quarter of 2002, having risen by 0.6% in the first quarter.

/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	1.7	5.9	-3.9	-1.0	-0.2	-0.8
	H1	5.2	7.5	-2.1	1.9	2.4	-0.5
	H2	-1.3	4.5	-5.6	-3.8	-2.6	-1.2
	Q1	6.4	7.4	-0.9	3.0	3.3	-0.3
	Q2	4.2	7.6	-3.1	0.8	1.5	-0.7
	Q3	-1.4	3.7	-4.8	-3.4	-2.4	-1.0
	Q4	-1.2	5.3	-6.3	-4.2	-2.8	-1.4
	2002	H1	3.6	8.2	-4.2	-3.6	-2.6
	Q1	2.5	7.7	-5.0	-3.3	-1.3	-2.0
	Q2	4.6	8.6	-3.7	-4.0	-4.0	-0.1

Note : Figures in this table are based on the revised GDP series, incorporating the results of the major revision to GDP in August 2002.

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	*	-1.0
	Q2	3.2	1.2
	Q3	1.5	-1.4
	Q4	0.4	-1.5
2002	Q1	2.5	0.6
	Q2	3.7	-1.8

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

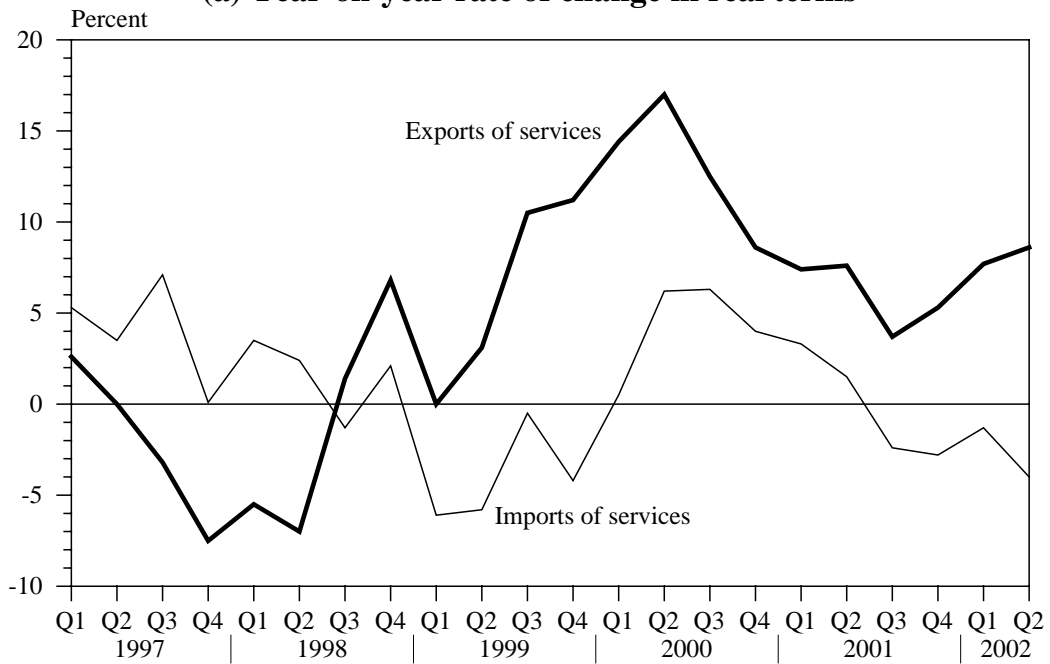
Also see the footnote to Table 2.8.

/Diagram 2.6

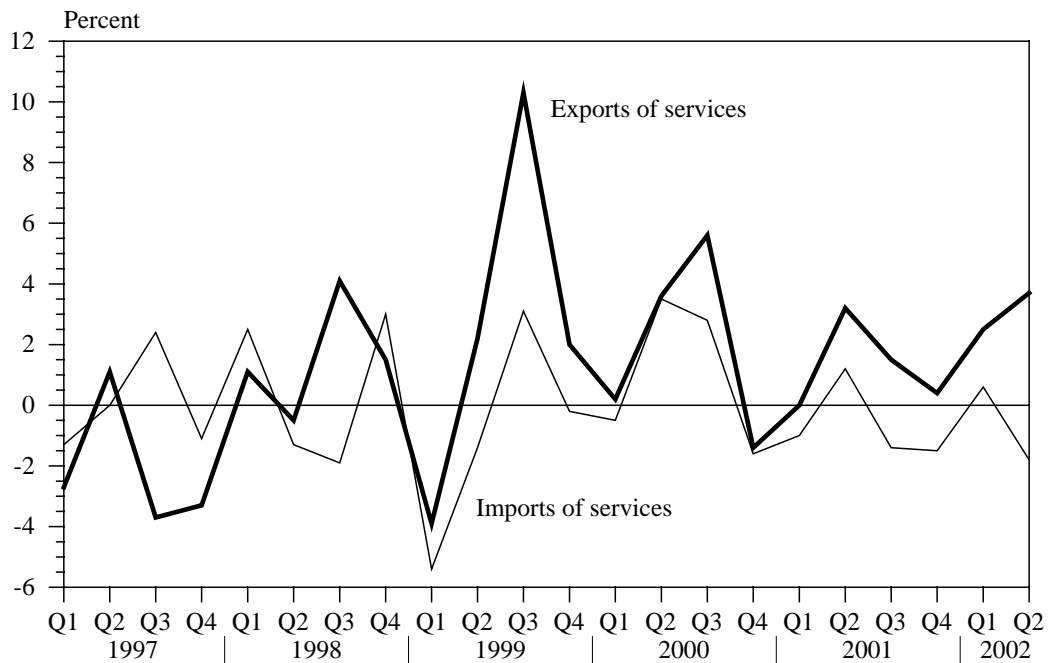
Diagram 2.6

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

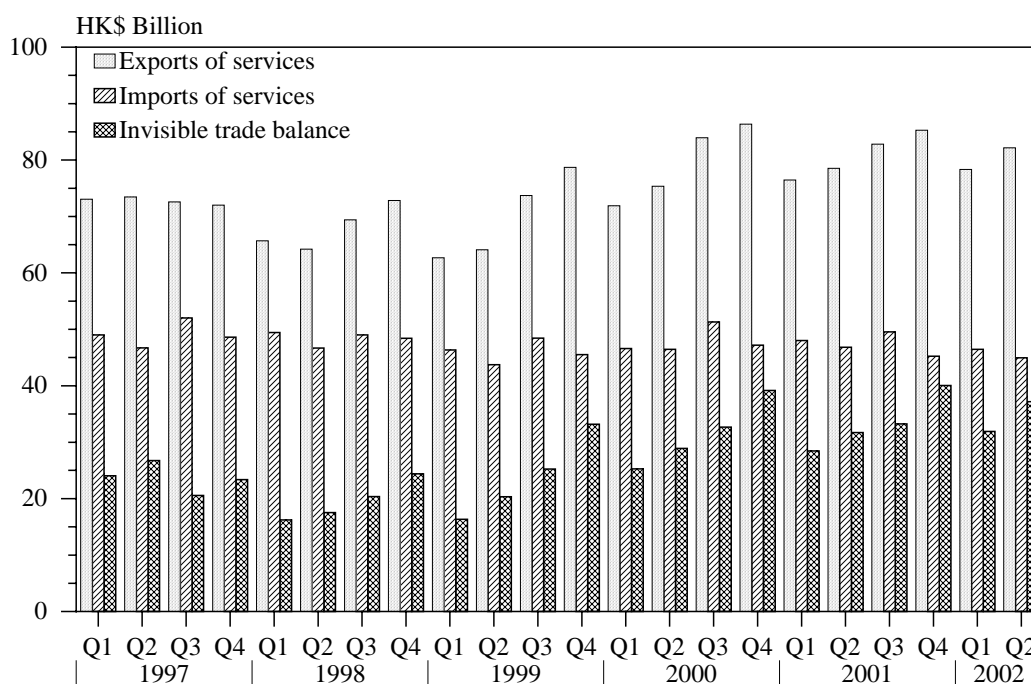


Note : See the footnote to Table 2.8.

/Diagram 2.7

Diagram 2.7

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



2.11 With exports of services rising while imports of services falling by value, the *invisible trade surplus*⁽⁴⁾ reckoned on a BoP basis rose markedly further, to \$37.2 billion or 82.8% of the value of imports of services in the second quarter of 2002, from \$31.7 billion or 67.7% in the same quarter in 2001. In the first half of 2002, the invisible trade surplus stood at \$69.1 billion or 75.6% of the value of imports of services, distinctly up from \$60.1 billion or 63.4% in the same period in 2001. Taking the much enlarged invisible trade surplus together with the much narrowed visible trade deficit, the combined surplus reckoned on a BoP basis expanded to \$20.8 billion or 4.8% of the total value of imports of goods and services in the second quarter of 2002, from \$7.8 billion or 1.8% in the same quarter in 2001. In the first half of 2002, the combined surplus, at \$40.3 billion or 4.9% of the total value of imports of goods and services, was significantly up from that of \$11.6 billion or 1.4% in the same period in 2001.

/Diagram 2.8

Table 2.10

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

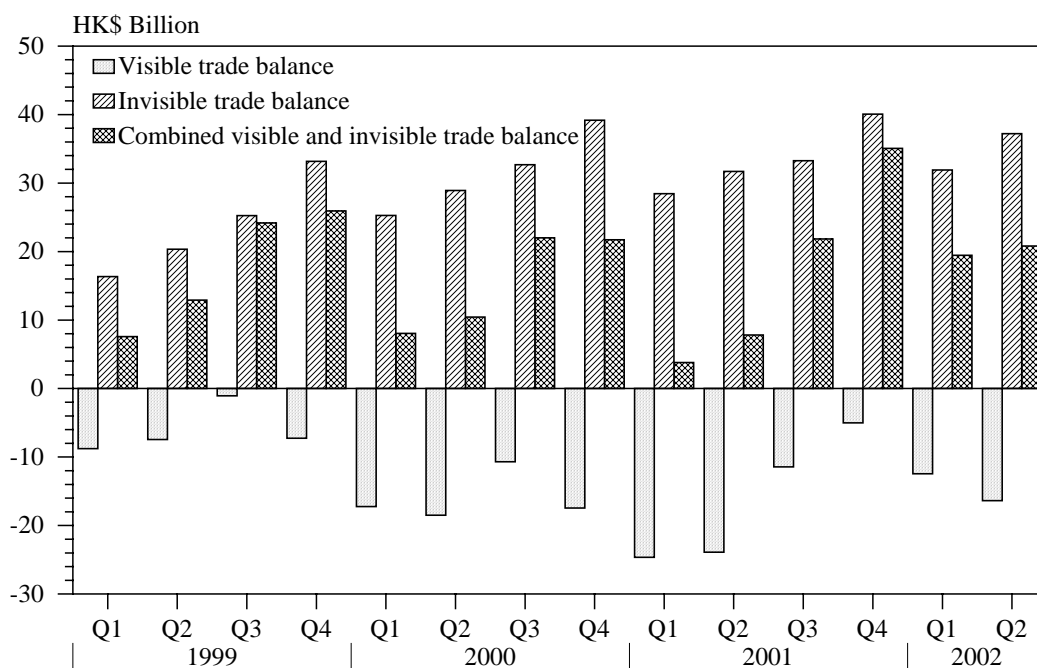
		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2001	Annual	1,489.0	323.1	1,554.0	189.6	-65.0	133.5	68.5
	H1	714.5	155.0	763.0	94.8	-48.5	60.1	11.6
	H2	774.5	168.1	790.9	94.8	-16.4	73.3	56.9
	Q1	350.4	76.5	375.1	48.0	-24.6	28.4	3.8
	Q2	364.1	78.5	388.0	46.8	-23.9	31.7	7.8
	Q3	403.0	82.8	414.4	49.6	-11.4	33.3	21.8
	Q4	371.5	85.3	376.5	45.2	-5.0	40.1	35.1
2002	H1	699.8	160.5	728.6	91.4	-28.8	69.1	40.3
	Q1	326.1	78.3	338.5	46.4	-12.4	31.9	19.5
	Q2	373.7	82.2	390.1	44.9	-16.4	37.2	20.8

Notes : Figures in this table are reckoned on a BoP basis. Specifically, imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.

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

Diagram 2.8

Visible and invisible trade balance



Note : See the first footnote to Table 2.10.

/Visible

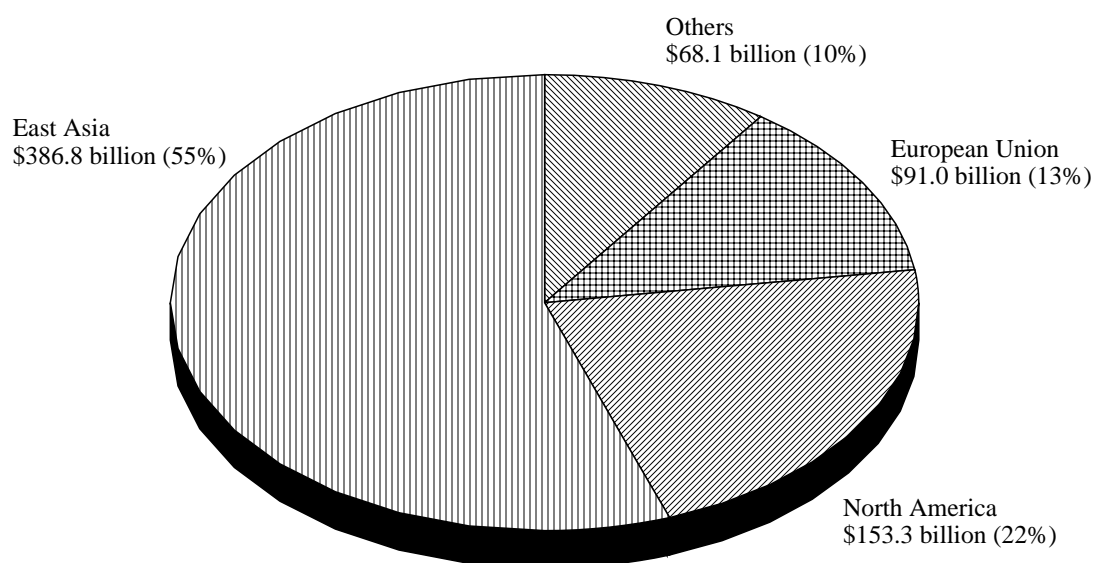
Visible trade

Total exports of goods

2.12 Reflecting the close trade links between Hong Kong and the region, East Asia⁽⁵⁾ continued to account for the largest share in Hong Kong's total exports of goods, at 55% by value in the first half of 2002. This was followed by North America⁽⁶⁾ (with a share of 22%), and the European Union⁽⁷⁾ (13%).

Diagram 2.9

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



Total exports of goods in the first half of 2002 : \$699.2 billion

2.13 The growth in merchandise exports in the first half of 2002 was mainly driven by a distinct pick-up in exports to the region. Exports to the conventional markets remained on a decline in the early part of the year, yet also showing visible improvement in the more recent months. Total exports of goods to *East Asia* as a whole, having reverted to increase at 4.8% in real terms in the first quarter, picked up markedly further to a 9.3% rise in the second quarter of 2002 over a year earlier. For the first half of 2002 as a whole, total exports of goods to East Asia went up by 7.1% in real terms over a year earlier, distinctly improved from a 1.3% decline in the second half of 2001. Within this total, growth was particularly robust in exports to the Mainland, Singapore, the Republic of Korea, Thailand and the Philippines, offsetting the continued decline in exports to Japan and Taiwan.

/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)(d)}	<u>North America</u> ^(b)	<u>European Union</u> ^(c)
2001	Annual	1.8	-8.8	-8.5
	H1	5.4	-5.1	-4.7
	H2	-1.3	-11.7	-11.7
	Q1	8.0	-1.0	-1.4
	Q2	3.1	-8.7	-7.9
	Q3	2.0	-10.5	-11.3
	Q4	-4.7	-12.9	-12.1
2002	H1	7.1	-4.1	-8.1
	Q1	4.8	-12.4	-12.1
	Q2	9.3	3.5	-3.9

Notes : (a) For the coverage of East Asia, see Note (5).

(b) For the coverage of North America, see Note (6).

(c) For the coverage of the European Union, see Note (7).

(d) 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 aggregate implicit price deflator covering all those export markets in the Asia-Pacific region for which separate unit value indices are not available.

Also see the footnote to Table 2.4.

2.14 Total exports of goods to *North America* also picked up over the past few months, along with a relative strengthening in import demand in the United States and Canada, yielding a moderate growth of 3.5% in real terms in the second quarter of 2002 over a year earlier, in stark contrast to a 12.4% plunge in the first quarter. For the first half of 2002 as a whole, total exports of goods to North America still fell by 4.1% in real terms over a year earlier, yet much less drastic than the 11.7% dip in the second half of 2001.

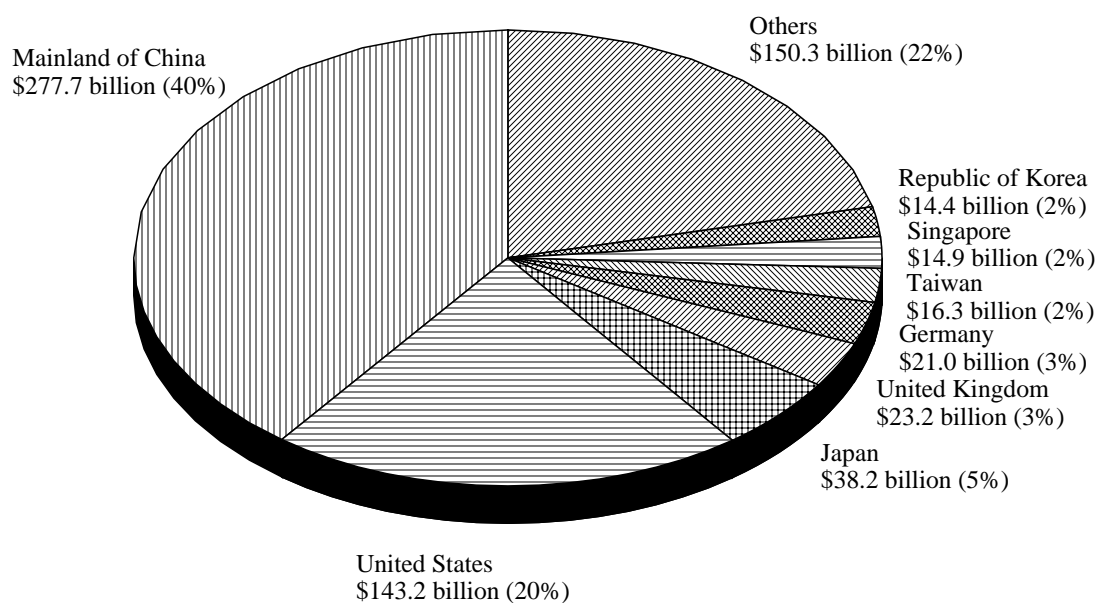
/2.15

2.15 Total exports of goods to the *European Union* continued to be curbed by subdued demand in the EU economy and earlier weakness of the euro, with declines of 12.1% and 3.9% respectively in real terms in the first and second quarters of 2002 over a year earlier, giving an 8.1% decrease for the first half of 2002 as a whole. This came after an 11.7% fall in the second half of 2001.

2.16 The Mainland remained the largest single *market* for Hong Kong's exports of goods, accounting for 40% of the total value in the first half of 2002. Other major markets included the United States (with a share of 20%), Japan (5%), the United Kingdom (3%), Germany (3%), Taiwan (2%), Singapore (2%), and the Republic of Korea (2%).

Diagram 2.10

Total exports of goods by major market in the first half of 2002



Total exports of goods in the first half of 2002 : \$699.2 billion

/Table 2.12

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

	<u>2001</u>			<u>First half 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	699.2	100	-1.6
Mainland of China	546.1	37	0.6	277.7	40	5.5
United States	329.8	22	-9.8	143.2	20	-6.6
Japan	87.6	6	0.5	38.2	5	-11.8
United Kingdom	55.3	4	-12.2	23.2	3	-9.0
Germany	51.6	3	-13.9	21.0	3	-13.7
Taiwan	35.4	2	-11.1	16.3	2	-8.4
Singapore	29.6	2	-19.5	14.9	2	3.3
Republic of Korea	25.9	2	-9.4	14.4	2	12.1
Rest of the world	319.7	22	-8.4	150.3	22	-3.7

Table 2.13**Total exports of goods 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>Japan</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>
2001	Annual	4.2	-9.1	2.4	-10.1	-11.9	-6.9	-16.1
	H1	7.0	-5.5	10.4	-7.4	-11.3	-3.3	-13.0
	H2	1.8	-12.0	-4.3	-12.3	-12.5	-10.1	-18.8
	Q1	9.3	-0.9	14.9	-3.8	-3.4	-1.3	-7.0
	Q2	5.1	-9.3	5.9	-10.6	-18.8	-5.2	-18.5
	Q3	7.1	-10.9	-1.4	-11.3	-15.4	-16.1	-22.0
	Q4	-3.6	-13.2	-7.0	-13.4	-9.6	-4.1	-15.2
2002	H1	9.5	-4.5	-8.4	-6.0	-11.2	-3.7	8.5
	Q1	7.5	-13.1	-10.4	-10.7	-16.2	-5.2	3.4
	Q2	11.4	3.6	-6.1	-1.4	-5.4	-2.2	14.0
	Apr	11.1	5.8	-6.8	-1.1	-7.0	-12.0	16.1
	May	6.6	-4.5	-7.6	-6.7	-7.2	-2.8	9.6
	Jun	17.0	10.1	-3.8	4.1	-1.8	11.9	16.7

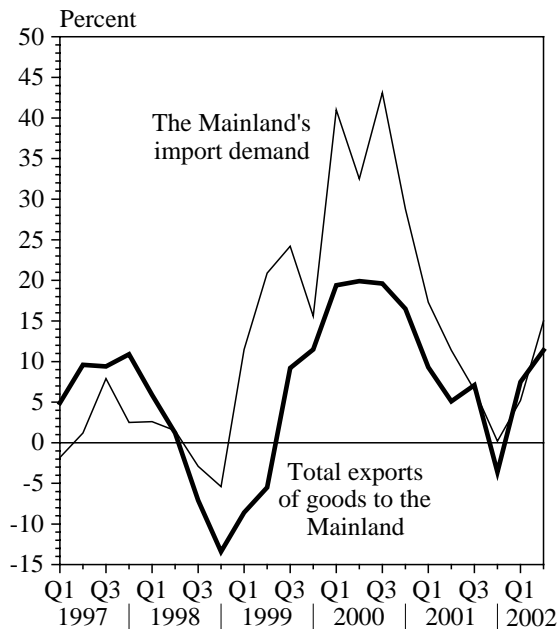
Note : See the footnote to Table 2.4.

/2.17

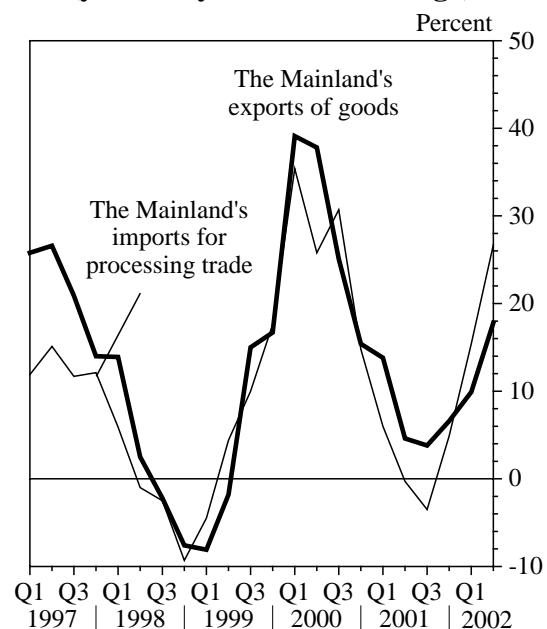
2.17 Total exports of goods to the *Mainland*, after resuming growth at a notable 7.5% in real terms in the first quarter of 2002 over a year earlier, picked up further to an 11.4% rise in the second quarter. For the first half of 2002 as a whole, total exports to the Mainland rose by 9.5% in real terms over a year earlier, distinctly up from the meagre 1.8% increase in the second half of 2001. The rebound was mainly driven by greater exports of material inputs to the Mainland, consistent with accelerated growth in the Mainland's own exports. At the same time, exports of capital goods to the Mainland continued to be buoyed by strong investment spending there.

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)



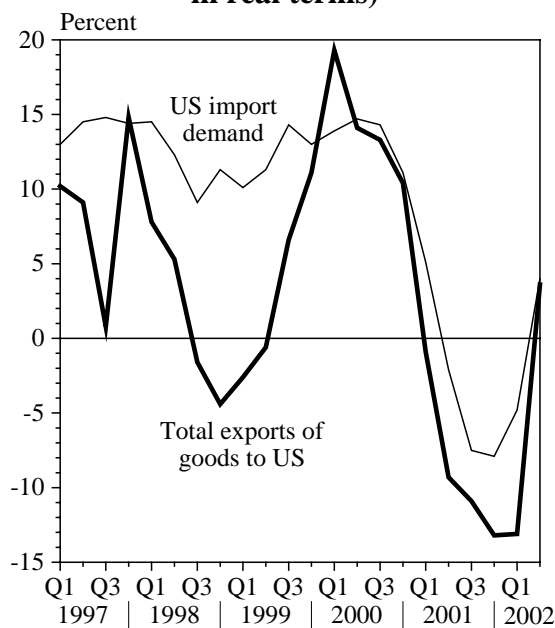
Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in US dollar terms.

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

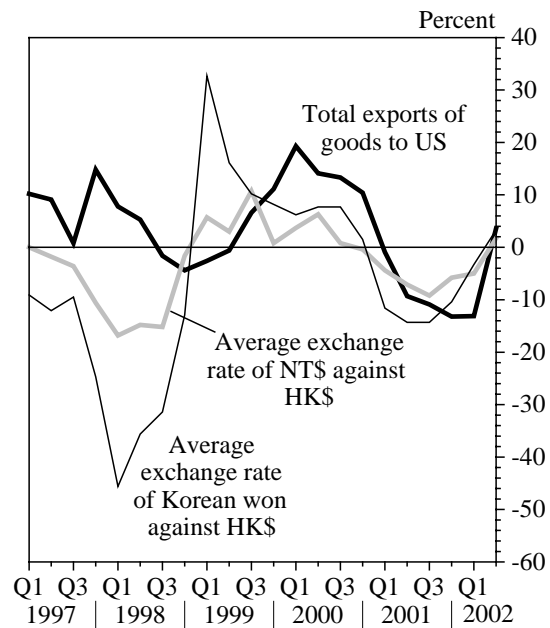
2.18 Total exports of goods to the *United States*, after plunging by 13.1% in the first quarter, turned up to a mild increase at 3.6% in real terms in the second quarter of 2002 over a year earlier. This gave a 4.5% fall in real terms for the first half of 2002 as a whole from a year earlier, after a 12.0% fall in the second half of 2001. The recent performance of exports to this market broadly mirrored the relative improvement in US import demand. Yet there was a concurrent shift in the exports towards offshore trade.

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)



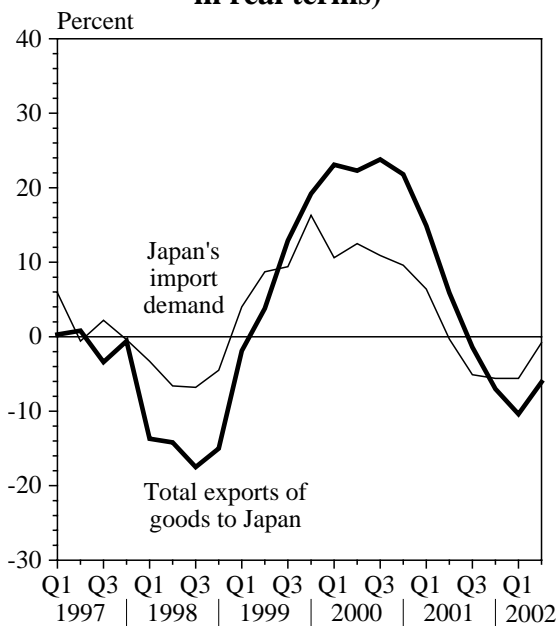
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.19

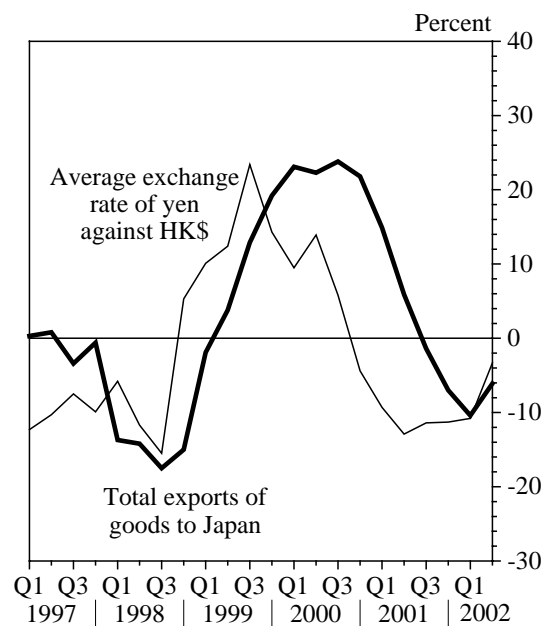
2.19 Affected by the bleak economic situation in Japan and earlier weakness of the yen, total exports of goods to *Japan* fell further by 6.1% in real terms in the second quarter of 2002 over a year earlier. Together with a 10.4% fall in the first quarter, total exports of goods to Japan went down by 8.4% in real terms in the first half of 2002 over a year earlier, having fallen by 4.3% in the second half of 2001.

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)



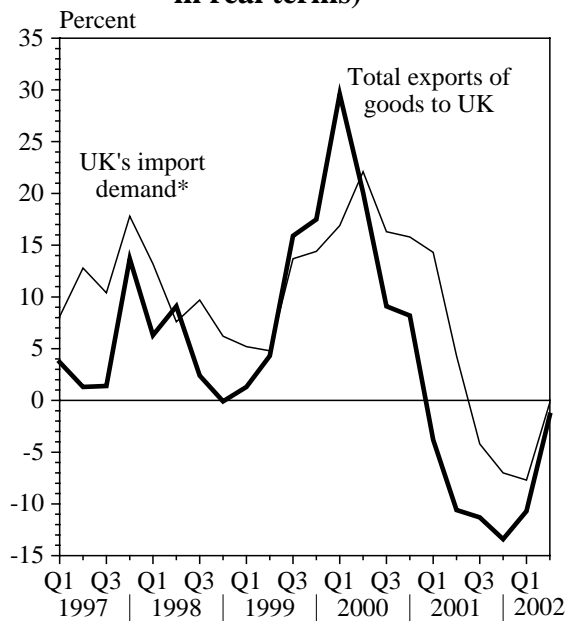
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.20

2.20 Total exports of goods to the *United Kingdom* still displayed much sluggishness in the early part of the year, yet appeared to be settling lately, as UK's import demand gradually revived after a distinct setback towards the end of last year. After a 10.7% plunge in the first quarter, total exports of goods to this market had a much milder decrease of 1.4% in real terms in the second quarter of 2002 over a year earlier. This gave a 6.0% fall in real terms for the first half of 2002 as a whole over a year earlier, appreciably lesser than the 12.3% dip in the second half of 2001.

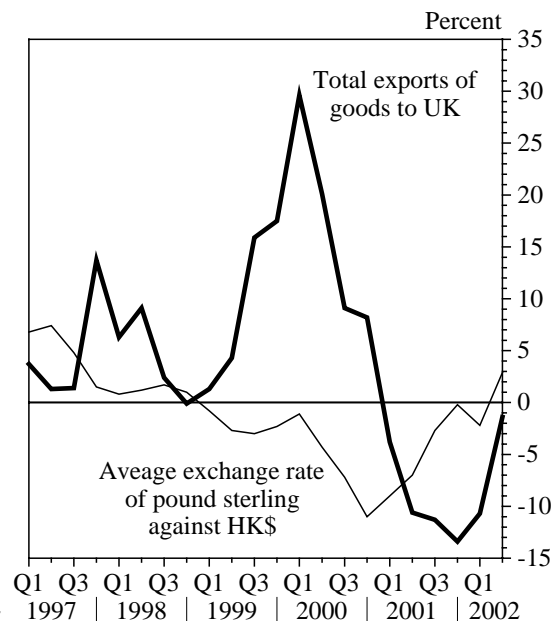
Diagram 2.14

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)



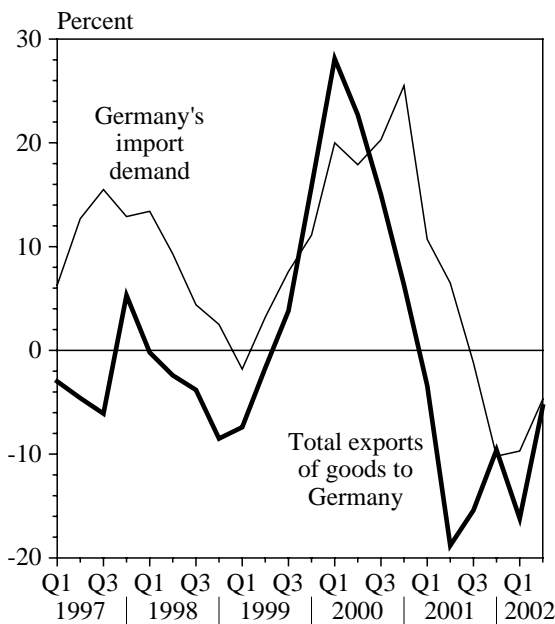
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.21

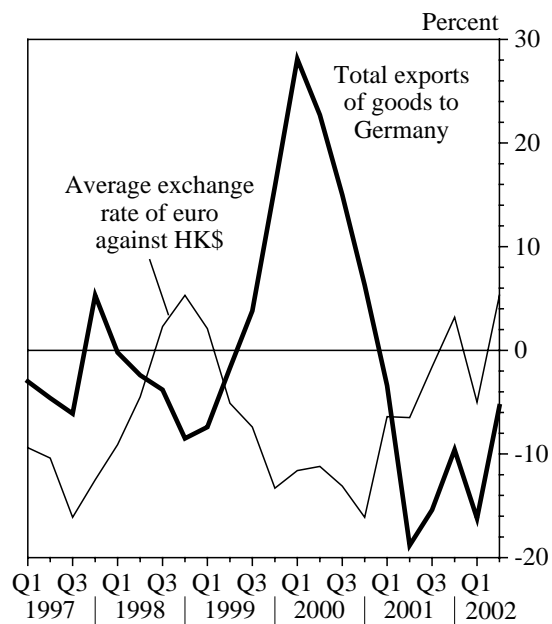
2.21 With earlier weakness of the euro and with the demand there yet to revive, total exports of goods to *Germany* had a further decline of 5.4% in real terms in the second quarter of 2002 over a year earlier. This was nevertheless milder than the 16.2% plunge in the first quarter. For the first half of 2002 as a whole, total exports of goods to Germany shrank by 11.2% in real terms over a year earlier, slightly lesser than the 12.5% fall in the second half 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.

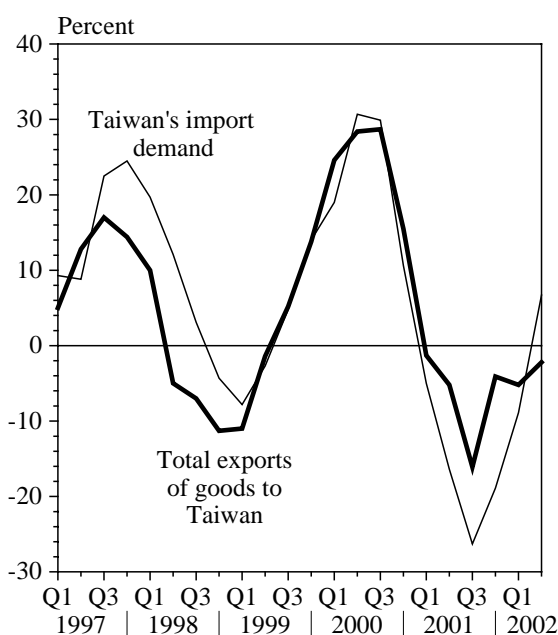
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.22

2.22 Total exports of goods to *Taiwan* still fell by 2.2% in real terms in the second quarter of 2002 over a year earlier. Together with a 5.2% decline in the first quarter, total exports of goods to Taiwan were down by 3.7% in real terms in the first half of 2002 from a year earlier. Yet this was much lesser than the 10.1% drop in the second half of 2001. As economic conditions in Taiwan gradually turned better, a distinct improvement in exports to this market was seen more recently.

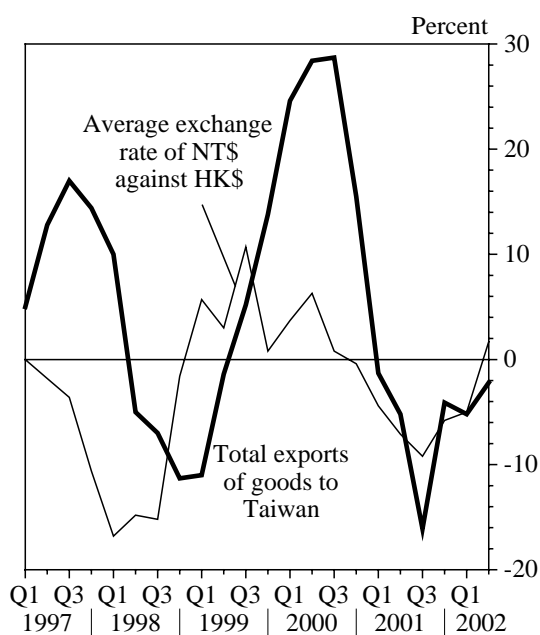
Diagram 2.16

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)



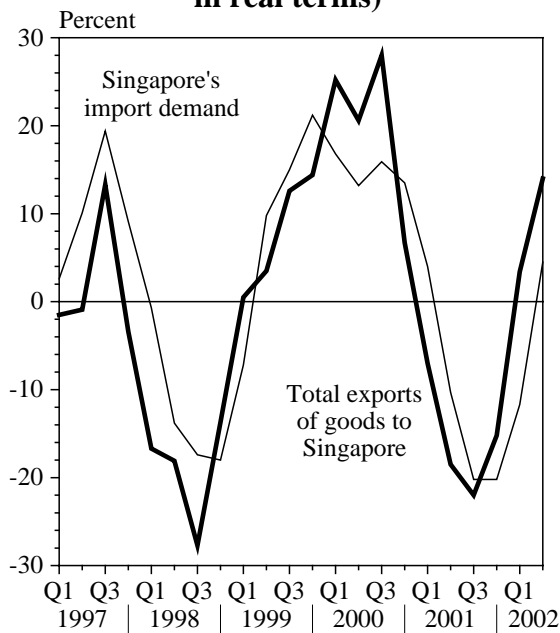
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.23

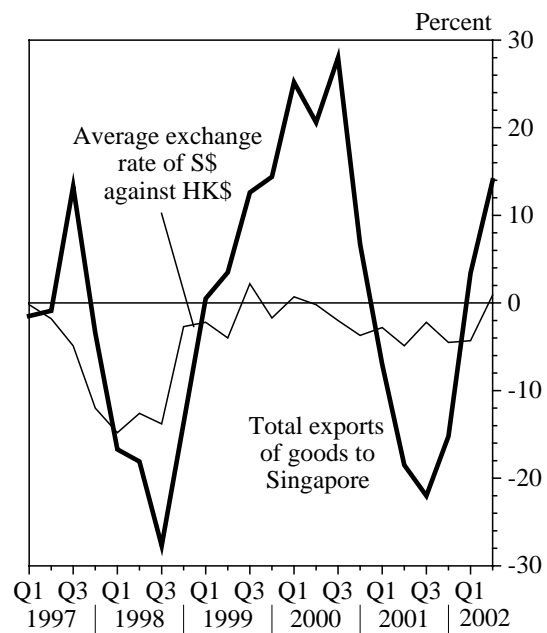
2.23 Total exports of goods to *Singapore* picked up sharply further, to a double-digit rise of 14.0% in real terms in the second quarter of 2002 over a year earlier, having already resumed increase at 3.4% in the first quarter. Taken together, total exports of goods to Singapore rose by 8.5% in real terms in the first half of 2002 over a year earlier, in stark contrast to the 18.8% plunge in the second half of 2001. Exports of material inputs and capital goods to Singapore staged a particularly sharp pick-up, in line with the marked improvement in Singapore's own exports.

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)



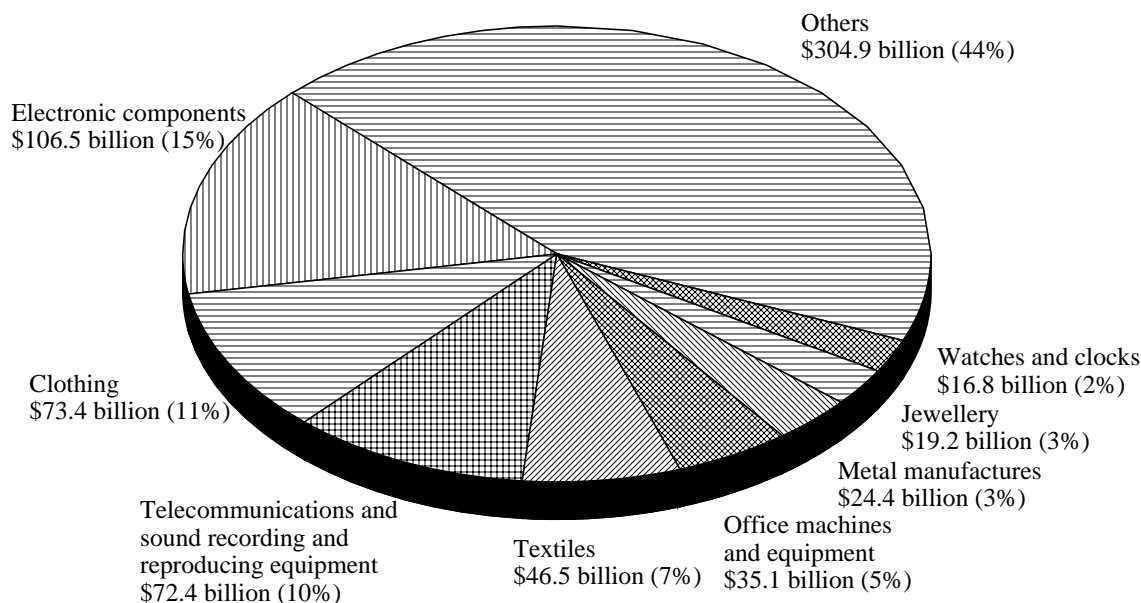
Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.24

2.24 Analysed by major *commodity group*, electronic components continued to account for the largest share in Hong Kong's total exports of goods, at 15% of the total value in the first half of 2002. Clothing came next (with a share of 11%), followed by telecommunications and sound recording and reproducing equipment (10%), textiles (7%), and office machines and equipment (5%). The improvement in exports was almost across-the-board amongst the major commodity groups. Specifically, exports of office equipment continued to surge in the first half of this year, while exports of electronic components, and telecommunications and sound recording and reproducing equipment also picked up to marked increases. Exports of textiles recovered strongly in the second quarter, yielding a modest growth for the first half of this year. Exports of clothing also had a relatively improved performance in the second quarter, though still showing a decline in the first half of this year.

Diagram 2.18

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



Total exports of goods in the first half of 2002 : \$699.2 billion

/Table 2.14

Table 2.14**Total exports of goods by major commodity group
(year-on-year rate of change in real terms (%))**

		<u>Electronic components</u>	<u>Clothing</u>	<u>Telecom -munications and sound recording and reproducing equipment</u>	<u>Textiles</u>	<u>Office machines and equipment</u>
2001	Annual	4.7	0.1	-2.3	-7.0	14.6
	H1	11.5	3.7	3.5	-5.2	18.0
	H2	-1.0	-2.6	-6.6	-8.7	11.8
	Q1	13.3	0.2	12.4	2.3	16.8
	Q2	9.8	7.2	-4.1	-10.6	19.2
	Q3	-0.3	-3.5	-11.1	-8.2	16.8
	Q4	-1.8	-1.6	-2.1	-9.2	7.2
2002	H1	9.4	-5.5	10.7	2.3	36.4
	Q1	5.1	-7.7	6.6	-7.3	37.8
	Q2	13.6	-3.6	14.7	10.3	35.0

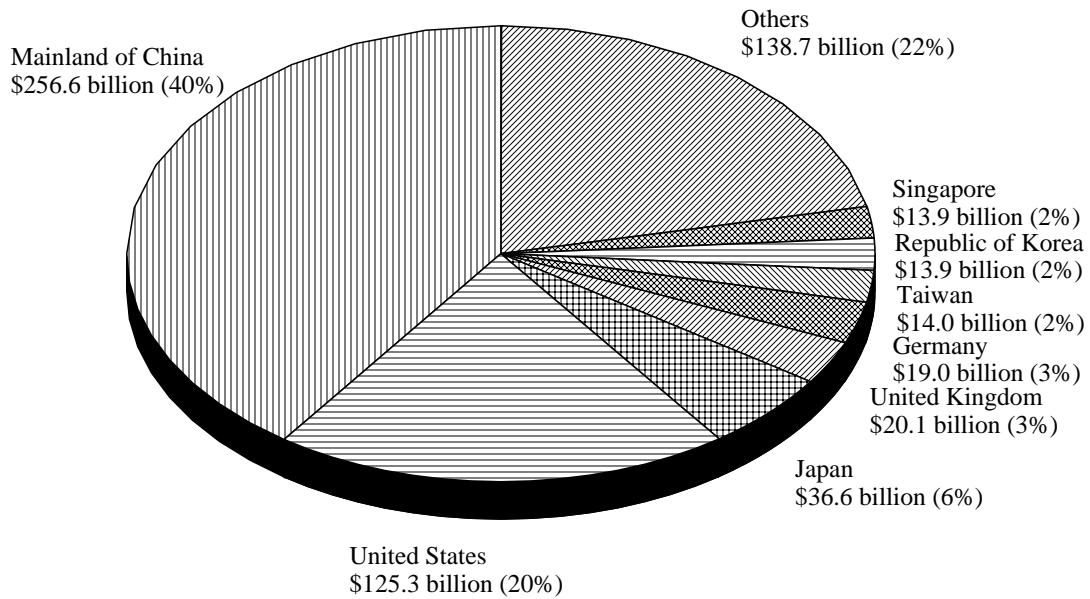
Re-exports

2.25 Along with the continued structural shift from domestic exports, the share of re-exports in total exports of goods ascended further in predominance, to 91% by value in the first half of 2002, from 90% in the same period in 2001. Analysed by major *market*, the Mainland took up the largest share in Hong Kong's re-exports, at 40% by value in the first half of 2002. This was followed by the United States (with a share of 20%), Japan (6%), the United Kingdom (3%), Germany (3%), Taiwan (2%), the Republic of Korea (2%), and Singapore (2%).

/Diagram 2.19

Diagram 2.19

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



Total re-exports in the first half of 2002 : \$638.0 billion

Table 2.15

Value of re-exports by market

	<u>2001</u>			<u>First half of 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Rate</u> of change (%)	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Year-on-year</u> rate of change (%)
All markets	1,327.5	100	-4.6	638.0	100	0.2
Mainland of China	496.6	37	1.6	256.6	40	7.1
United States	282.2	21	-9.3	125.3	20	-4.4
Japan	83.6	6	1.8	36.6	6	-11.3
United Kingdom	46.8	4	-10.7	20.1	3	-6.2
Germany	45.8	3	-9.5	19.0	3	-11.2
Taiwan	30.0	2	-10.9	14.0	2	-7.7
Republic of Korea	24.6	2	-8.7	13.9	2	14.1
Singapore	26.9	2	-15.9	13.9	2	7.2
Rest of the world	291.0	22	-7.4	138.7	22	-2.0

/2.26

2.26 The performance of re-exports was mixed amongst the various major markets. While re-exports to the Mainland and Singapore picked up strongly to marked increases in the first half of this year, re-exports to Japan, Taiwan and Germany were still slack, though less so in the second quarter than in the first quarter. Re-exports to the United States and the United Kingdom, having shown further marked declines in the first quarter, both rebounded to positive growth in the second quarter.

Table 2.16

**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	4.8	-8.9	3.7	-9.0	-8.1	-7.7	-12.6
	H1	8.3	-5.0	12.4	-5.5	-7.0	-3.3	-9.6
	H2	1.9	-12.1	-3.5	-11.7	-9.0	-11.6	-15.3
	Q1	11.1	1.3	17.4	0.6	1.7	-2.4	-3.1
	Q2	6.0	-10.2	7.5	-10.9	-15.2	-4.2	-15.6
	Q3	7.8	-10.2	-0.3	-9.8	-11.4	-17.0	-18.9
	Q4	-3.9	-14.2	-6.4	-13.6	-6.7	-6.1	-11.3
2002	H1	11.1	-2.6	-7.9	-2.7	-8.4	-3.8	12.0
	Q1	7.8	-12.2	-10.3	-8.4	-13.7	-6.0	7.1
	Q2	14.0	6.5	-5.3	2.9	-2.5	-1.7	17.2

Note : See the footnote to Table 2.4.

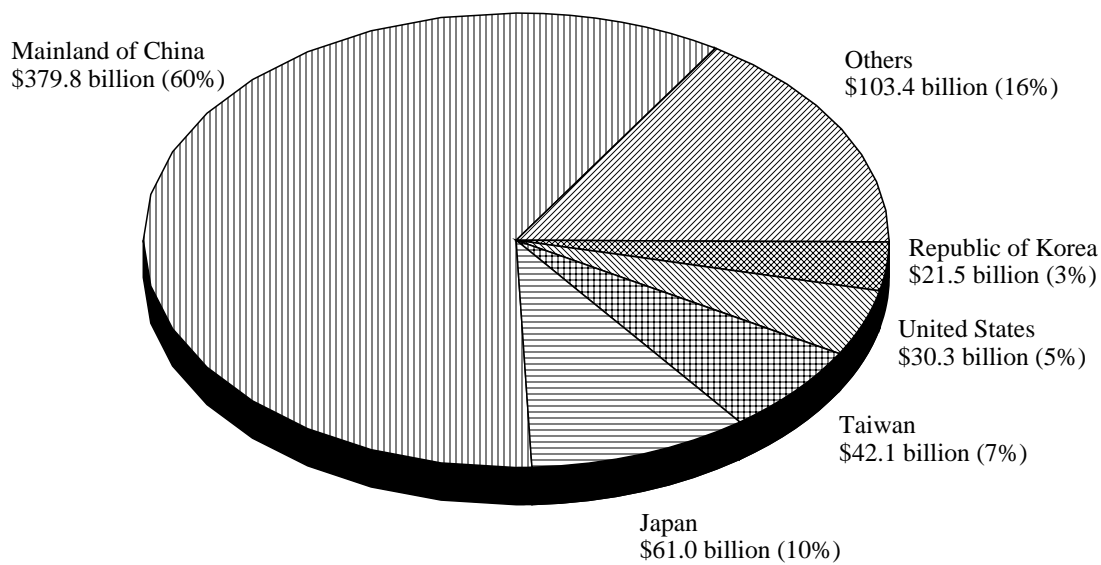
2.27 Reflecting the role of Hong Kong as a major entrepôt for the Mainland and also the significance of outward processing trade, the Mainland remained the largest *source* of Hong Kong's re-exports, supplying 60% by value of the goods re-exported through Hong Kong in the first half of 2002. This was followed by Japan (with a share of 10%), Taiwan (7%), the United States (5%), and the Republic of Korea (3%).

/2.28

2.28 Re-exports sourced from Taiwan and the Republic of Korea picked up distinctly to appreciable increases in the first half of this year. Re-exports sourced from the Mainland and Japan showed much lesser declines. But re-exports sourced from the United States fell further.

Diagram 2.20

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



Total re-exports in the first half of 2002 : \$638.0 billion

Table 2.17

Value of re-exports by source

	<u>2001</u>			<u>First half 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	638.0	100	0.2
Mainland of China	808.4	61	-4.8	379.8	60	-0.7
Japan	125.6	9	-8.5	61.0	10	-2.3
Taiwan	80.3	6	-8.7	42.1	7	8.3
United States	65.2	5	-0.4	30.3	5	-7.5
Republic of Korea	39.8	3	-13.6	21.5	3	9.2
Rest of the world	208.2	16	1.3	103.4	16	3.1

/Domestic

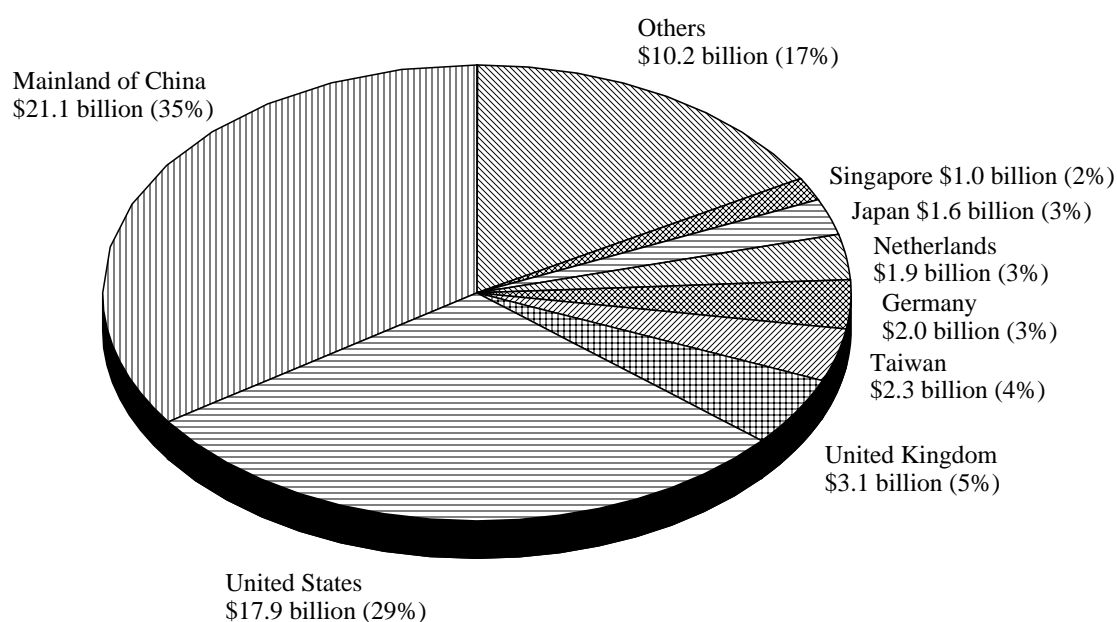
Domestic exports

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 half of 2002. Other major markets included the United States (with a share of 29%), the United Kingdom (5%), Taiwan (4%), Germany (3%), the Netherlands (3%), Japan (3%), and Singapore (2%).

2.30 A distinct setback in domestic exports continued to occur in most of the major markets in the first half of this year. Double-digit declines were recorded for domestic exports to the United States, the United Kingdom, Germany, Japan and Singapore.

Diagram 2.21

Domestic exports by major market in the first half of 2002



Total domestic exports in the first half of 2002 : \$61.2 billion

/Table 2.18

Table 2.18**Value of domestic exports by market**

	<u>2001</u>			<u>First half 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	61.2	100	-17.7
Mainland of China	49.5	32	-8.5	21.1	35	-11.1
United States	47.6	31	-12.6	17.9	29	-19.5
United Kingdom	8.6	6	-19.7	3.1	5	-24.1
Taiwan	5.3	3	-12.4	2.3	4	-12.6
Germany	5.8	4	-37.4	2.0	3	-31.3
Netherlands	4.6	3	18.1	1.9	3	-20.1
Japan	4.1	3	-20.1	1.6	3	-21.7
Singapore	2.7	2	-43.8	1.0	2	-30.3
Rest of the world	25.3	16	-22.3	10.2	17	-20.1

Table 2.19**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>	<u>Netherlands</u>	<u>Japan</u>	<u>Singapore</u>
2001	Annual	-1.6	-9.8	-15.7	-32.8	-2.4	36.3	-19.2	-39.3
	H1	-4.1	-8.2	-15.8	-32.3	-3.3	39.1	-19.6	-34.4
	H2	0.8	-11.1	-15.7	-33.3	-1.5	33.6	-19.0	-44.2
	Q1	-5.9	-12.8	-22.1	-27.8	5.4	3.4	-21.0	-30.9
	Q2	-2.5	-3.8	-9.2	-36.8	-10.3	79.6	-18.0	-37.9
	Q3	1.7	-14.8	-18.7	-38.1	-10.5	24.5	-18.6	-44.1
	Q4	-0.3	-6.8	-12.3	-27.9	7.0	43.4	-19.4	-44.3
2002	H1	-5.9	-15.2	-22.8	-29.7	-3.1	7.0	-17.1	-21.9
	Q1	3.5	-18.1	-22.8	-33.3	-0.8	14.0	-12.9	-28.3
	Q2	-13.3	-12.7	-22.7	-25.6	-5.3	2.4	-21.4	-14.6

Note : See the footnote to Table 2.4.

/Outward

Outward processing trade

2.31 Outward processing trade⁽⁸⁾ has been playing an important part in Hong Kong's overall merchandise trade. However, the proportion of the respective exports in Hong Kong's total exports of goods has been declining in the recent period, conceivably also reflecting the structural shift from re-exports towards offshore trade and direct shipment from the Mainland. In the first quarter of 2002, exports for outward processing accounted for 45% of Hong Kong's total exports of goods to the Mainland, distinctly down from the corresponding proportion of 50% in the same quarter in 2001. Imports after processing, at 73% of Hong Kong's imports of goods from the Mainland in the first quarter of 2002, likewise fell appreciably in proportion, from 76% in the same quarter in 2001. On the other hand, re-exports after outward processing in Hong Kong's overall re-exports of Mainland origin rose markedly in relative significance, to 87% in the first quarter of 2002, from 82% in the same quarter in 2001. This pick-up was however due to a larger fall in re-exports of Mainland origin which were not the outcome of outward processing.

2.32 Total exports of goods to the Mainland for outward processing fell by 8.2% in value terms over a year earlier to \$56.7 billion in the first quarter of 2002, after a 23.6% plunge in the fourth quarter of 2001. Yet total exports of goods to the Mainland for meeting its own demand remained robust, rising by 10.3% in value terms over a year earlier to \$68.1 billion in the first quarter of 2002, following a 9.5% rise in the fourth quarter of 2001.

/Diagram 2.22

Diagram 2.22
Exports to the mainland of China for outward processing and
for meeting its own demand
(year-on-year rate of change in value terms)

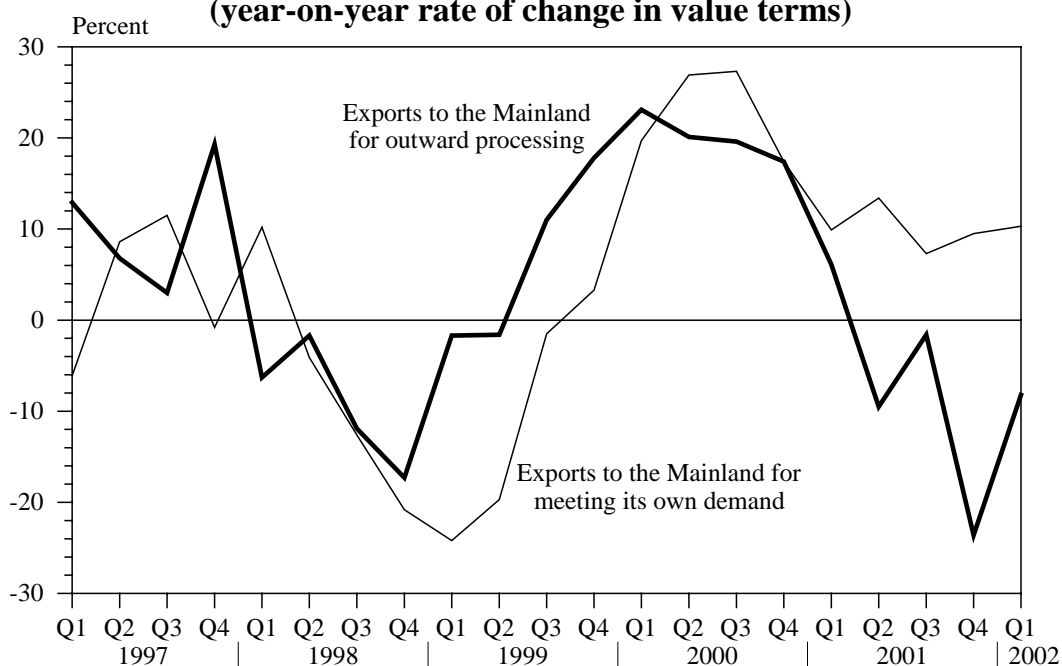


Table 2.20
Total exports of goods to the mainland of China
for outward processing and for meeting its own demand
(year-on-year rate of change in value terms (%))

		<i>of which :</i>		
		<u>Total exports of goods to the Mainland</u>	<u>Total exports of goods to the Mainland for outward processing</u>	<u>Total exports of goods to the Mainland for meeting its own demand</u>
2001	Annual	0.6	-8.0	10.0
	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
2002	Q1	1.1	-8.2	10.3

/2.33

2.33 Imports of goods from the Mainland after outward processing likewise shrank, with a 10.9% fall in value terms over a year earlier to \$106.5 billion in the first quarter of 2002, following a similar decline of 10.6% in the fourth quarter of 2001. Re-exports of Mainland origin after outward processing were down by 6.4% in value terms over a year earlier to \$128.8 billion in the first quarter of 2002, having already plummeted by 20.8% in the fourth quarter of 2001.

Table 2.21

**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 (%))**

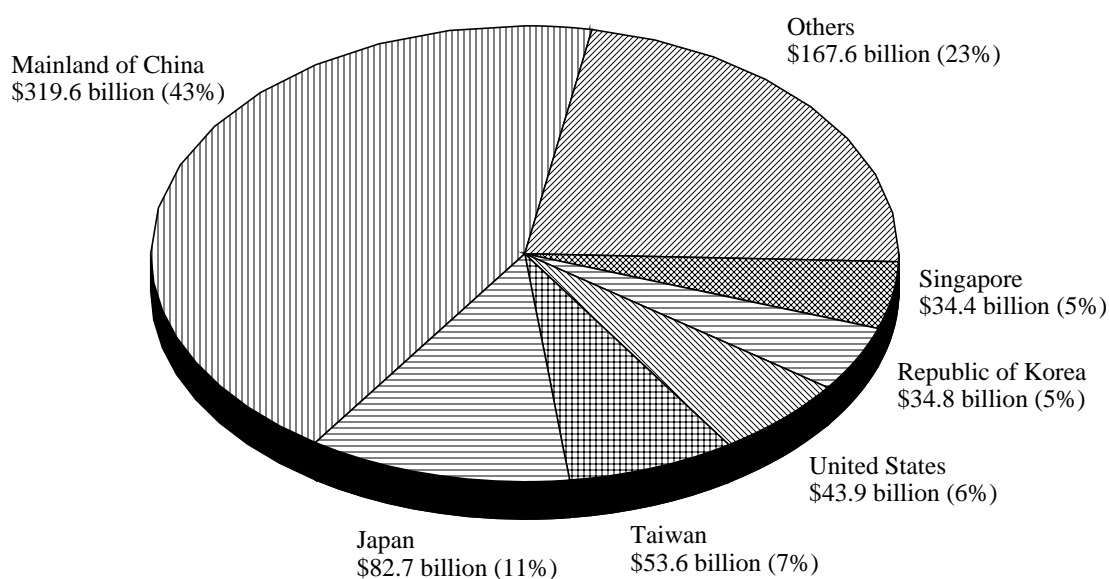
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2001	Annual	-6.2	-10.7
	H1	-0.2	-4.3
	H2	-11.0	-16.0
	Q1	4.6	0.8
	Q2	-4.1	-8.6
	Q3	-11.4	-11.2
	Q4	-10.6	-20.8
2002	Q1	-10.9	-6.4

Imports of goods

2.34 The Mainland continued to be the largest *source* of Hong Kong's imports of goods, accounting for 43% of the total value in the first half of 2002. This was followed by Japan (with a share of 11%), Taiwan (7%), and the United States (6%).

2.35 Along with the improvement in re-exports, imports from the Mainland and Taiwan turned up to modest increases in the first half of this year. Imports from Japan also registered a distinctly lesser decline. Yet imports from the United States continued on a double-digit fall.

/Diagram 2.23

Diagram 2.23**Imports of goods by major source in the first half of 2002**

Total imports of goods in the first half of 2002 : \$736.5 billion

Table 2.22**Value of imports of goods by source**

	<u>2001</u>			<u>First half 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	736.5	100	-4.2
Mainland of China	682.0	43	-4.6	319.6	43	-0.6
Japan	176.6	11	-11.2	82.7	11	-9.3
Taiwan	107.9	7	-13.1	53.6	7	-2.6
United States	104.9	7	-7.0	43.9	6	-18.9
Republic of Korea	70.8	5	-12.2	34.8	5	-5.4
Singapore	72.9	5	-2.8	34.4	5	-5.7
Rest of the world	353.1	23	0.5	167.6	23	-3.7

/Table 2.23

Table 2.23

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

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>
2001	Annual	-2.9	-7.1	-7.1	-4.5
	H1	0.7	-0.2	-0.8	3.6
	H2	-5.9	-13.2	-12.6	-11.7
	Q1	6.2	1.1	1.4	3.3
	Q2	-4.0	-1.4	-2.7	3.8
	Q3	-5.9	-8.7	-11.0	-2.9
	Q4	-5.9	-17.6	-14.3	-20.1
2002	H1	3.1	-3.0	3.3	-14.4
	Q1	-2.7	-7.4	1.0	-16.4
	Q2	8.6	1.2	5.4	-12.5

Note : See the footnote to Table 2.4.

Retained imports

2.36 In the first half of 2002, Japan was the largest *source* of Hong Kong's retained imports, accounting for about 14% of the total value over this period. Other major suppliers of retained imports included the Mainland (with a share of about 13%), the Republic of Korea (9%), Singapore (8%), the United States (7%), and Taiwan (6%).

2.37 Analysed by *end-use category*, retained imports of consumer goods rose back by 3.3% in real terms in the second quarter of 2002 over a year earlier, after a 2.3% decline in the first quarter. For the first half of 2002 as a whole, retained imports of consumer goods went up by only 0.7% in real terms over a year earlier, which was distinctly slower than the 10.2% rise in the second half of 2001. This was in line with the slackening local consumer demand in recent months. Retained imports of foodstuffs rose by 9.7% in real terms in the first half of 2002 over a year earlier, comprising increases of 14.2% in the first quarter and 5.0% in the second quarter. This followed a 5.9% rise in the second half of 2001.

/2.38

2.38 Amidst a subdued business climate, retained imports of capital goods fell further, by 10.1% in real terms in the second quarter of 2002 over a year earlier, having already shrunk by 23.0% in the first quarter. For the first half of 2002 as a whole, retained imports of capital goods dipped by 16.6% in real terms over a year earlier, as against a 2.6% rise in the second half of 2001. Analysed by broad type, intake of telecommunications equipment recorded a double-digit decline, while intake of industrial machinery also fell appreciably. On the other hand, intake of construction machinery increased substantially, while intake of office equipment rose back in the second quarter after declining sharply for two consecutive quarters.

2.39 After the sharp fall-off in 2001, retained imports of raw materials and semi-manufactures registered a further marked decrease at 9.2% in real terms in the first quarter of 2002 over a year earlier, but reverted to increase at 4.4% in the second quarter. For the first half of 2002 as a whole, there was still a 2.1% decline in real terms over a year earlier, yet much lesser than the 22.2% plunge in the second half of 2001. Intake of fuels also recovered somewhat in the second quarter of 2002, to also a 4.4% increase in real terms over a year earlier, reversing the decrease at 3.3% in the first quarter. This yielded a small increase of 0.7% in real terms in the first half of 2002 over a year earlier, as against a 2.3% fall in the second half of 2001.

Table 2.24

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

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2001	Annual	8.4	2.2	8.1	-14.5	0.2
	H1	6.6	-1.6	14.7	-6.2	3.0
	H2	10.2	5.9	2.6	-22.2	-2.3
	Q1	1.3	2.2	28.3	-7.6	4.7
	Q2	11.8	-5.3	3.5	-4.8	1.5
	Q3	12.3	16.3	12.3	-23.2	-8.2
	Q4	8.0	-3.9	-7.0	-21.2	4.1
	2002	H1	0.7	9.7	-16.6	-2.1
Q1		-2.3	14.2	-23.0	-9.2	-3.3
Q2		3.3	5.0	-10.1	4.4	4.4

Note : See the footnote to Table 2.4 and Note (a) to Table 2.6.

/Table 2.25

Table 2.25**Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))**

		Industrial machinery for <u>manufacturing use</u>	Construction <u>machinery</u>	Office <u>equipment</u>	Tele- communications <u>equipment</u>	Other capital <u>goods</u>
2001	Annual	-4.2	35.0	-10.0	27.7	31.1
	H1	3.7	23.9	-7.7	65.9	21.0
	H2	-11.1	47.9	-12.1	2.6	39.8
	Q1	6.8	36.1	17.3	77.8	30.2
	Q2	1.1	15.2	-26.0	55.3	12.7
	Q3	-15.2	40.6	3.1	23.3	52.3
	Q4	-6.2	55.2	-27.6	-12.0	26.1
2002	H1	-6.0	14.7	-22.9	-10.5	-30.9
	Q1	-7.5	2.2	-43.5	-4.3	-36.2
	Q2	-4.6	25.3	1.0	-16.7	-25.2

Note : See the footnote to Table 2.4 and Note (a) to Table 2.6.

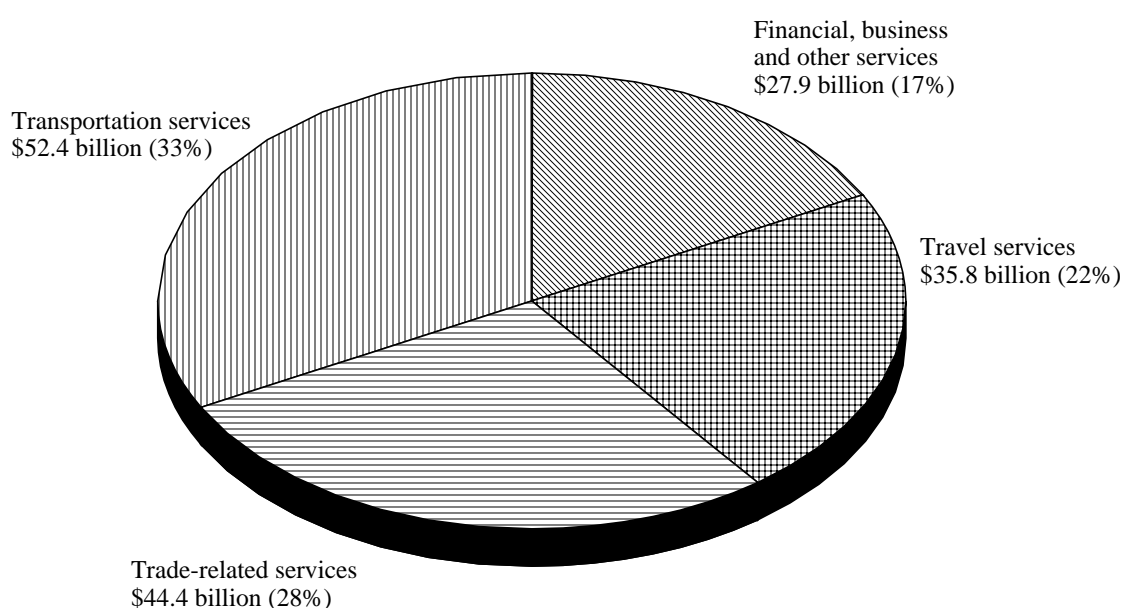
Invisible trade*Exports of services*

2.40 Transportation services continued to account for the largest share in Hong Kong's exports of services, at 33% by value in the first half of 2002. Exports of trade-related services (comprising mainly offshore trade) came next (with a share of 28%), followed by travel services (22%), and financial, business and other services (17%).

/Diagram 2.24

Diagram 2.24

Exports of services by major service group in the first half of 2002



Exports of services in the first half of 2002 : \$160.5 billion

2.41 Exports of services rose markedly further, by 8.6% in real terms in the second quarter of 2002 over a year earlier, having already risen by 7.7% in the first quarter. For the first half of 2002 as a whole, exports of services leaped by 8.2% in real terms over a year earlier, much faster than the 4.5% increase in the second half of 2001. The robust growth was broad-based by major service group, with exports of travel services surging by 14.4% in real terms in the second quarter of 2002 over a year earlier, after an 8.0% rise in the first quarter. Underlying this performance was a sharp rise in visitor arrivals from the Mainland, while visitor arrivals from long-haul sources also improved.

2.42 Benefited from the distinct rebound in the Mainland's merchandise trade and the continued structural shift from re-exports, exports of trade-related services, comprising mainly offshore trade, picked up to increases of 5.4% and 8.3% respectively in real terms in the first and second quarters of 2002 over a year earlier. Exports of transportation services continued to gain from the revival in intra-regional trade, with a 9.4% rise in real terms in the second quarter of 2002 over a year earlier, having already soared by 12.0% in the first quarter. Exports of financial, business and other services fared more modestly, with a 0.3% rise in real terms in the second quarter of 2002 over a year earlier, having risen by 3.7% in the first quarter.

/Table 2.26

Table 2.26

**Exports of services by major service group
(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>Financial, business and other services</u>
2001	Annual	5.9	7.2	5.8	7.5	2.1
	H1	7.5	9.2	8.3	7.5	3.4
	H2	4.5	5.4	4.0	7.5	0.9
	Q1	7.4	9.9	11.3	4.7	0.9
	Q2	7.6	8.6	5.3	10.0	6.2
	Q3	3.7	5.1	3.7	3.4	1.7
	Q4	5.3	5.8	4.4	11.3	*
2002	H1	8.2	10.7	6.8	11.5	2.1
	Q1	7.7	12.0	5.4	8.0	3.7
	Q2	8.6	9.4	8.3	14.4	0.3

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.05%.

Also see the footnote to Table 2.8.

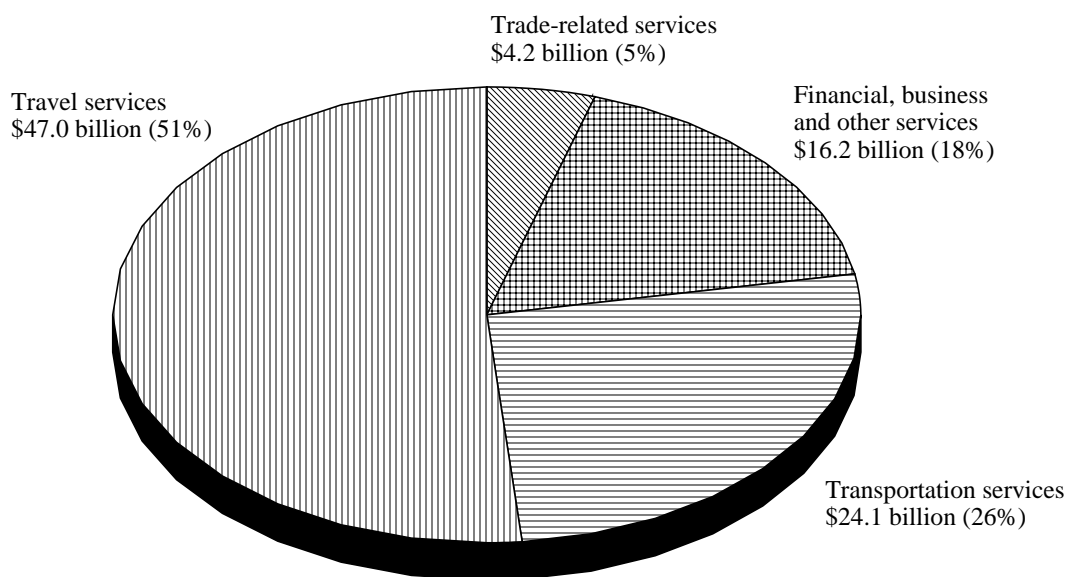
Imports of services

2.43 Travel services continued to take up the largest share in Hong Kong's imports of services, at 51% by value in the first half of 2002. This was followed by imports of transportation services (with a share of 26%), financial, business and other services (18%), and trade-related services (5%).

/Diagram 2.25

Diagram 2.25

Imports of services by major service group in the first half of 2002



Imports of services in the first half of 2002 : \$91.4 billion

2.44 Imports of services remained on a decline, falling by 4.0% in real terms in the second quarter of 2002 over a year earlier, having come down by 1.3% in the first quarter. For the first half of 2002 as a whole, imports of services fell by 2.6% in real terms over a year earlier, same as the decrease in the second half of 2001. Analysed by major service group, imports of travel services fell further, by 5.6% in real terms in the second quarter of 2002 over a year earlier, after a 2.0% fall in the first quarter. Imports of transportation services decreased by 3.6% in real terms in the second quarter of 2002 over a year earlier, after a 2.1% decline in the first quarter. Imports of financial, business and other services also went down, by 0.8% in real terms in the second quarter of 2002 over a year earlier, having risen by 2.6% in the first quarter. Yet imports of trade-related services showed a lesser decline of 0.6% in real terms in the second quarter of 2002 over a year earlier, after a 3.2% decrease in the first quarter.

/Table 2.27

Table 2.27**Imports of services by major service group
(year-on-year rate of change in real terms (%))***of which :*

		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial, business and other services</u>
2001	Annual	-0.2	0.9	-2.8	-2.9	1.3
	H1	2.4	2.3	2.6	-0.6	3.2
	H2	-2.6	-0.5	-7.9	-4.5	-0.4
	Q1	3.3	3.2	4.8	2.2	1.9
	Q2	1.5	1.3	0.8	-3.3	4.6
	Q3	-2.4	-0.9	-6.3	-4.8	-0.1
	Q4	-2.8	*	-9.6	-4.1	-0.6
2002	H1	-2.6	-3.7	-2.9	-1.9	0.9
	Q1	-1.3	-2.0	-2.1	-3.2	2.6
	Q2	-4.0	-5.6	-3.6	-0.6	-0.8

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

Also see the footnote to Table 2.8.

Overall balance of payments⁽⁹⁾

2.45 The current account recorded a further substantial surplus of \$30.8 billion in the first quarter of 2002, equivalent to 10.2% of GDP in that quarter. Yet this was not as large as the surplus of \$42.1 billion in the fourth quarter of 2001, equivalent to 12.7% of GDP in that quarter. There were a sustained surplus in the combined visible and invisible trade account, as well as a continued net inflow of external factor income upon considerable investment income from the Mainland.

/2.46

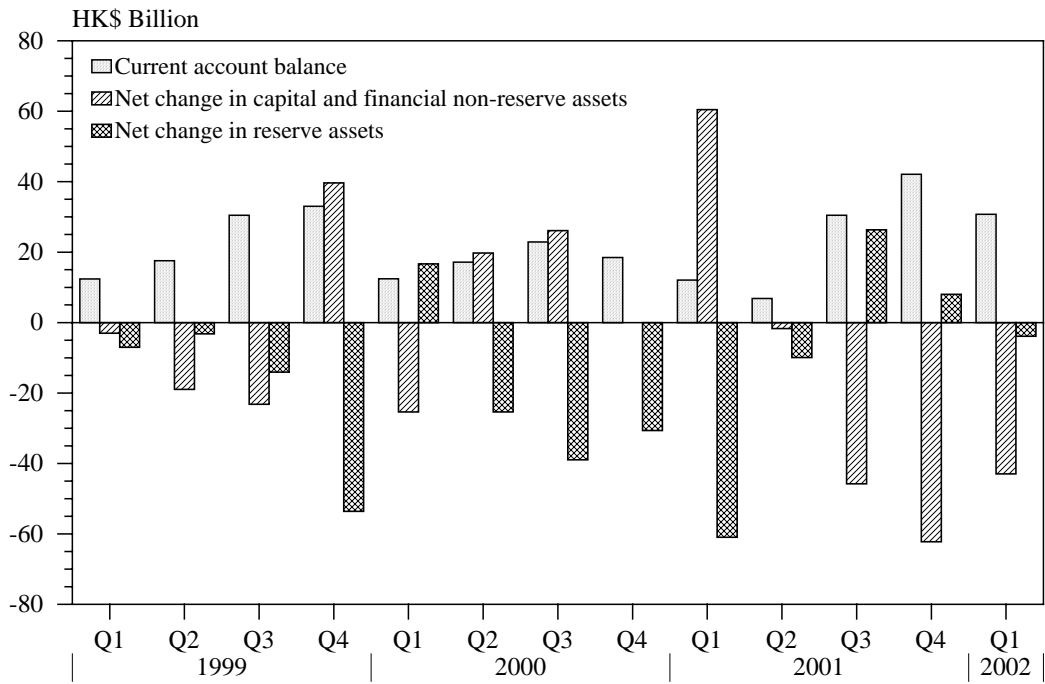
2.46 In the capital and financial account, the portfolio investment account turned to a small net inflow of \$7.1 billion in the first quarter of 2002, having recorded net outflow for four consecutive quarters. This was largely attributable to a substantial reduction in portfolio investment outflow upon decreased holdings of non-resident debt securities by Hong Kong residents, coupled with a further surge in portfolio investment inflow mainly for increased holdings of resident equity securities by non-residents. Yet the direct investment account turned to an appreciable net outflow of \$10.1 billion in the first quarter of 2002, as the significant inflow was more than offset by an even greater outflow. The other investment account had a larger net outflow of \$49.2 billion in the first quarter of 2002, owing to a fall in inter-bank placements by non-resident banks and also reduced offshore borrowing by resident banks. Taken together, financial non-reserve assets recorded a net outflow of \$40.0 billion in the first quarter of 2002, equivalent to 13.3% of GDP in that quarter. Nevertheless, this was distinctly smaller than the net outflow of \$60.6 billion in the fourth quarter of 2001, equivalent to 18.3% of GDP in that quarter.

2.47 Overall, the balance of payments account switched back to a surplus of \$3.9 billion, equivalent to 1.3% of GDP, in the first quarter of 2002, indicating an increase in reserve assets by the same amount in that quarter. This contrasted with the situation just before then, when a balance of payments deficit was recorded in both the third and fourth quarters of 2001. The deficit was \$8.0 billion, equivalent to 2.4% of GDP, in the fourth quarter of 2001.

/Diagram 2.26

Diagram 2.26

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 2.28

Table 2.28**Hong Kong's balance of payments account
(\$ billion at current market prices)**

	<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> [#]
Current account ^(a)	71.0	91.5	12.1	6.9	30.5	42.1	30.8
Trade in goods	-63.8	-65.0	-24.6	-23.9	-11.4	-5.0	-12.4
Trade in services	126.0	133.5	28.4	31.7	33.3	40.1	31.9
External factor income flows	21.8	36.1	12.0	2.1	12.0	10.0	14.8
Current transfers	-13.0	-13.1	-3.7	-3.1	-3.4	-3.0	-3.5
Capital and financial account	-57.9	-85.7	-0.5	-11.6	-19.5	-54.2	-46.8
Net change in capital transfers	-12.0	-9.1	-1.4	-3.1	-2.9	-1.6	-3.0
Net change in financial non-reserve assets	32.5	-40.1	61.9	1.4	-42.9	-60.6	-40.0
<i>of which :</i>							
Direct investment	20.0	108.1	59.1	37.5	5.1	6.4	-10.1
Portfolio investment	190.8	-309.3	-108.1	-52.3	-71.3	-77.6	7.1
Financial derivatives	1.7	39.1	-9.2	21.0	14.9	12.4	12.3
Other investment	-179.9	122.0	120.1	-4.8	8.5	-1.7	-49.2
Net change in reserve assets ^(b)	-78.3	-36.5	-61.0	-9.9	26.3	8.0	-3.9
Net errors and omissions	-13.1	-5.8	-11.6	4.7	-11.0	12.1	16.0
Overall balance of payments	78.3	36.5	61.0	9.9	-26.3	-8.0	3.9

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.

/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) Under the 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. The insurance and freight costs related to merchandise imports are entered as imports of services.
- (4) 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.
- (5) 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.
- (6) North America here comprises the United States and Canada.
- (7) 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.

/(8)

- (8) 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.

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

CHAPTER 3 : THE DOMESTIC ECONOMY

Net output or value added by economic activity

3.1 According to a new data series on quarterly GDP by economic activity at constant prices⁽¹⁾, the performance of net output or value-added continued to vary amongst the various major economic sectors in the early part of 2002. Taking all the *service sectors*⁽²⁾ together, net output showed virtually nil change in real terms in the first quarter of 2002 from a year earlier, after a marginal decline of 0.4% in the fourth quarter of 2001 but an increase of 1.3% for 2001 as a whole. Analysed by constituent sector and in real terms, net output in community, social and personal services rose slightly further, by 1.1% in the first quarter of 2002 over a year earlier, with most of the increase occurring in medical and social welfare services. Net output in transport, storage and communications edged up by 0.1%, with an increase observed in telecommunications being offset by a reduction seen in transport. On the other hand, net output in the wholesale, retail and import/export trades, restaurants and hotels shrank by 2.8%, along with slackening local consumer spending and external trade. Net output in financing, insurance, real estate and business services also fell, by 2.0%, largely due to reduced offshore lending by the banks and lower trading volume in the stock market.

3.2 In the local *manufacturing sector*, net output continued to plunge, by 11.3% in real terms in the first quarter of 2002 over a year earlier. This was similar to the decline of 11.0% in the fourth quarter of 2001, yet more than double the 5.1% drop for 2001 as a whole. The setback in domestic exports and on-going relocation of the more labour-intensive production processes outside Hong Kong mattered. As to the *construction sector*, net output contracted by 2.1% in real terms in the first quarter of 2002 over a year earlier, following a 3.1% increase in the fourth quarter of 2001 but a 2.8% decrease for 2001 as a whole. The decrease was concentrated in the public sector, mainly caused by a scale-back in the Public Housing Programme and less hectic work on the Priority Railway Projects.

/Table 3.1

Table 3.1

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

	<u>2001</u>					<u>2002</u>
	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>
Manufacturing	-5.1	-0.3	0.1	-7.9	-11.0	-11.3
Construction	-2.8	-5.3	-2.7	-6.7	3.1	-2.1
Services ^(b)	1.3	3.2	1.8	0.8	-0.4	*
<i>Of which :</i>						
Wholesale, retail and import/export trades, restaurants and hotels	*	5.6	0.7	-0.3	-4.7	-2.8
Transport, storage and communications	3.6	9.1	2.8	2.3	0.9	0.1
Financing, insurance, real estate and business services	-1.3	-4.1	2.5	-2.4	-1.0	-2.0
Community, social and personal services	3.1	5.9	1.5	3.5	1.8	1.1

Notes : (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. See note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity. Also, charges of financial intermediation services are deducted.

(#) Preliminary estimates.

(*) Change of less than 0.05%.

/Local

Local manufacturing output

3.3 Gross output of the local manufacturing sector, as measured by the Index of Industrial Production⁽³⁾, likewise fell markedly, by 11.6% in volume in the first quarter of 2002 over a year earlier, exceeding the decreases of 9.3% in the fourth quarter of 2001 and 4.4% for 2001 as a whole. Analysed by major constituent industry and in volume, gross output of the fabricated metal products and the machinery and equipment industries plummeted by 27.4% and 17.3% respectively in the first quarter of 2002 over a year earlier. Gross output of the wearing apparel and the plastic products industries dipped by 13.3% and 12.9% respectively, while gross output of the textiles and the paper products and printing industries shrank by 10.6% and 10.3% respectively. Yet gross output of the consumer electrical and electronic products industry decreased only slightly, by 0.9%. On a seasonally adjusted quarter-to-quarter comparison, gross output of the local manufacturing sector was reduced by 2.3% in volume in the first quarter of 2002, similar to the decrease of 2.4% in the fourth quarter of 2001.

Table 3.2

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

<u>Industry group</u>	<u>2001</u>					<u>2002</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1[#]</u>
Wearing apparel	-0.1	3.1	3.4	-9.8	3.8	-13.3
Textiles	-0.3	3.5	1.7	-2.6	-2.0	-10.6
Plastic products	-15.2	-12.4	-11.0	-12.0	-25.7	-12.9
Consumer electrical and electronic products	*	-0.3	-2.0	-0.5	2.8	-0.9
Machinery and equipment	-8.5	5.7	4.3	-13.7	-24.9	-17.3
Fabricated metal products	-10.2	-7.0	-9.3	-14.5	-9.4	-27.4
Paper products and printing	-1.2	0.2	2.0	-2.9	-4.2	-10.3
Overall manufacturing	-4.4	-0.2	-0.1	-7.1	-9.3	-11.6
		<1.4>	<-0.3>	<-7.3>	<-2.4>	<-2.3>

Notes : (#) Provisional figures.

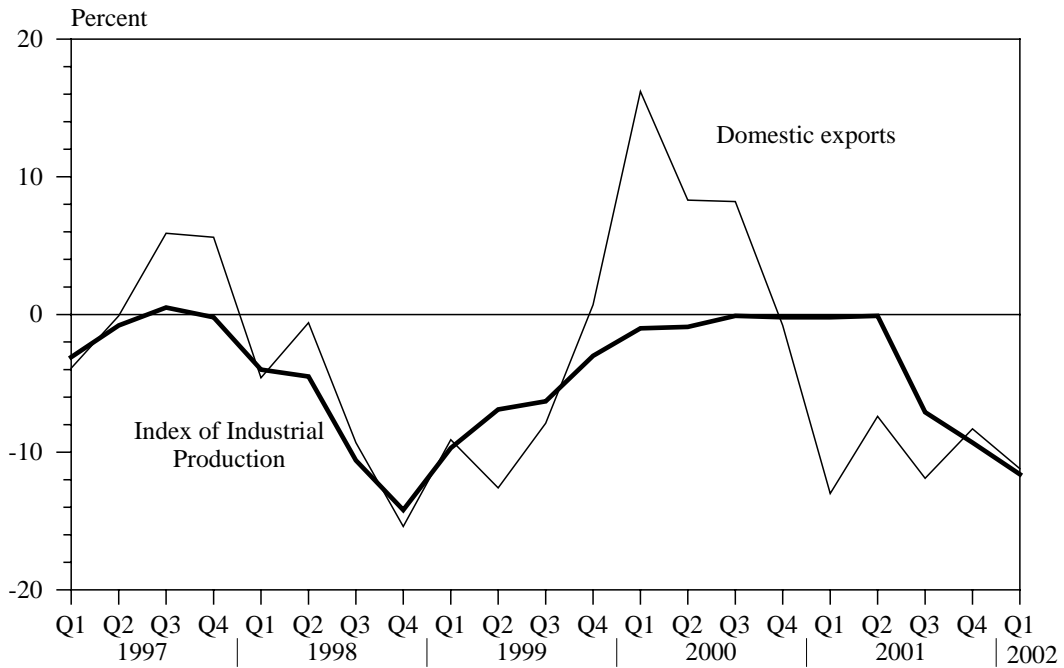
(*) Change of less than 0.05%.

< > 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)**



3.4 In the second quarter of 2002, domestic exports continued on a significant decline, while orders-on-hand in the local manufacturing sector kept falling off⁽⁴⁾. These pointed to a distinct further reduction in local manufacturing output in that quarter.

/Diagram 3.2

Diagram 3.2

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

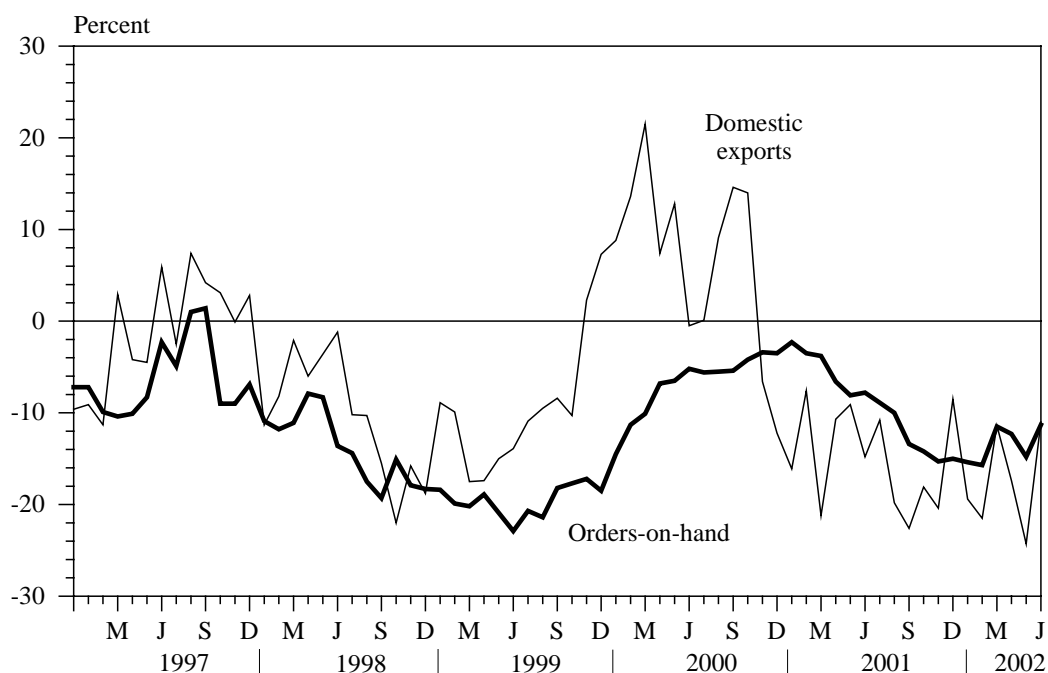


Table 3.3

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	-3.8
	Jun	62.7	-7.7
	Sep	53.1	-13.4
	Dec	47.5	-15.0
2002	Mar	54.1	-11.5
	Jun [#]	55.6	-11.3

Note : (#) Provisional figures.

/Service

Service sector receipts

3.5 Business receipts in most of the service sectors surveyed decreased further in the first quarter of 2002. Analysed by constituent sector and in value terms, business receipts in financing (except banking) plunged by 25.2% in the first quarter of 2002 over a year earlier, as share prices plummeted in markedly reduced trading and as fund-raising activities dwindled significantly. Business receipts in storage slid by 21.7%, reflecting predominantly lower rentals amidst much vacant storage space. Business receipts in the import/export trade and transport dropped by 15.4% and 8.2% respectively, consequential to the weak performance of external trade. Business receipts in hotels went down by 12.5%, on account of a general cut in hotel tariffs. Business receipts in the wholesale trade, business services and banking were lower by 14.7%, 10.4% and 7.2% respectively, in tandem with the general slow-down in commercial activities. Business receipts in communications fell by 5.2%, mainly attributable to a further reduction in charges for telecommunications services. Business receipts in restaurants and the retail trade declined by 5.4% and 3.7% respectively, against moderating consumer demand. On the other hand, business receipts in insurance and film entertainment went up, by 10.0% and 2.6% respectively, with the former being underpinned by an expansion in both general and life insurance business and with the latter being lifted by increased sales of video compact discs. Business receipts in real estate held broadly steady, with lower property prices being largely offset by improved transaction volume.

/Table 3.4

Table 3.4

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

	<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>Service sector</u>						
Import/export trade	-14.1	-2.1	-13.7	-18.5	-20.0	-15.4
Wholesale trade	-12.0	-8.3	-12.5	-13.5	-13.3	-14.7
Retail trade	-1.2	-0.1	2.3	-2.0	-5.3	-3.7
Restaurants	-2.5	0.1	-0.7	-4.5	-4.8	-5.4
Hotels	-7.6	3.3	1.9	-10.5	-21.3	-12.5
Banking	2.7	-1.7	4.5	3.6	4.5	-7.2
Financing (other than Banking)	-12.6	-14.5	1.5	-22.6	-13.5	-25.2
Insurance	14.2	4.2	24.9	13.9	13.9	10.0
Real estate	-16.9	-22.0	-21.4	-18.1	-3.8	-0.1
Business services	-9.6	-0.7	-6.9	-12.8	-16.5	-10.4
Transport	-2.4	11.3	-2.4	-8.2	-7.5	-8.2
Storage	-14.9	-7.7	-13.1	-16.8	-22.0	-21.7
Communications	-13.2	-11.0	-11.7	-16.0	-13.9	-5.2
Film entertainment	15.2	3.0	22.2	18.1	17.6	2.6

/Property

Property

3.6 The sales market for *residential property* turned more active in the first half of 2002, particularly in the second quarter. At the beginning of the first quarter, market transactions were fairly intensive. A gradual tapering ensued, when buying interest was dampened by the distinct setback in the economy, worsened employment situation, and an abundant supply of new flats coming on stream. By the second quarter, market sentiment improved again, upon the more upbeat results of the two land auctions held in April and June, as well as the Government's announcement to resume sale of subsidised sale flats yet in a cautious and orderly manner after expiry of the ten-month moratorium at end-June⁽⁵⁾. There was a noticeable resurrection of buying interest in the primary market especially for some new sales projects, as further price discounts and other concessions were offered by developers⁽⁶⁾. The secondary market was also activated, albeit to a lesser extent. As to the leasing market for residential property, activity stayed at a relatively low level for most of the first half of the year.

3.7 On a quarter-to-quarter comparison, flat prices on average still fell by 3% in the second quarter of 2002, having been virtually static in the first quarter. Flat rentals followed a continued downtrend, falling on average by 4% in the first quarter of 2002 and further by 3% in the second quarter. For the first half of 2002 as a whole, flat prices on average were lower by 3% and flat rentals even more by 7%, reflecting a reduction in rental yield. Against the respective peak levels in the third quarter of 1997, flat prices and rentals plummeted by an average of 58% and 39% in the second quarter of 2002.

3.8 On *commercial property*, the rental market for *office space* turned more sluggish in the first half of 2002, as demand dwindled further amidst new moves of corporate downsizing and rationalisation within the entire business sector and particularly in the information technology and financial services fields. Demand for Grade A office space in prime locations was more distinctly hit, as more of the tenants moved out to premises in secondary business districts for cutting cost. In order to improve occupancy, landlords had become more lenient on the lease terms, especially for longer leases, by way of greater rental reductions and longer rent-free period. On a quarter-to-quarter comparison, office rentals on average fell further by 4% in the second quarter of 2002, after a 5% decline in the first quarter. For the first

/half

half of 2002 as a whole, the decrease on average amounted to 9%. The sales market for office space was likewise weak, as the declining rental yield and the bleak business outlook kept investors on the sideline. On a quarter-to-quarter comparison, prices of office space on average eased by 4% in the second quarter of 2002, further to a 1% fall in the first quarter. For the first half of 2002 as a whole, there was on average a 4% decrease. Against their respective peak levels in 1997, prices and rentals of office space were both sharply down, by an average of 70% and 45% in the second quarter of 2002.

3.9 The rental market for *shopping space* was slack in the first half of 2002, as retail business generally weakened further. Larger rental cuts and more flexible lease terms were commonly offered by landlords. On a quarter-to-quarter comparison, shop rentals on average fell by 3% in the second quarter of 2002, after a 3% decrease in the first quarter. For the first half of 2002 as a whole, there was on average a 5% fall. The sales market for shopping space remained quiet. Acquisition interest was hampered by unattractive rental yield relative to the investment risk involved. On a quarter-to-quarter comparison, prices of shopping space on average declined by 2% in the second quarter of 2002, having stayed flat in the first quarter. For the first half of 2002 as a whole, there was on average a 1% decrease. Against their respective peak levels in the third quarter of 1997, prices and rentals of office space were both sharply down, by an average of 57% and 26% in the second quarter of 2002.

3.10 On *industrial property*, the rental market stayed depressed in the first half of 2002. The weak performance of the local manufacturing sector and the further cost trimming measures taken by some of the information technology and business services firms continued to curb the demand for such premises. On a quarter-to-quarter comparison, rentals of industrial space continued to fall on average by 2% in the second quarter, after a 1% decline in the first quarter. For the first half of 2002 as a whole, rentals of industrial space on average fell by 3%. The sales market for industrial property was also quiet. On a quarter-to-quarter comparison, prices of industrial space were generally static in the second quarter of 2002, after a 3% drop in the first quarter. For the first half of 2002 as a whole, prices of industrial space on average slid by 3%. Against their respective peak levels in 1994, prices and rentals of industrial space plunged by an average of 67% and 44% in the second quarter of 2002.

/Table 3.5

Table 3.5**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	73.8	(-6)	91.4	(-4)	71.2	(-6)	95.6	(-5)	84.0	(-3)	97.4	(-2)	77.7	(-6)	87.4	(-1)
2002 Q1 [^]	73.8	(*)	87.6	(-4)	70.6	(-1)	90.6	(-5)	84.2	(*)	94.6	(-3)	75.1	(-3)	86.2	(-1)
Q2 [^]	71.5	(-3)	85.4	(-3)	68.1	(-4)	87.3	(-4)	82.8	(-2)	92.1	(-3)	75.3	(*)	84.4	(-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.

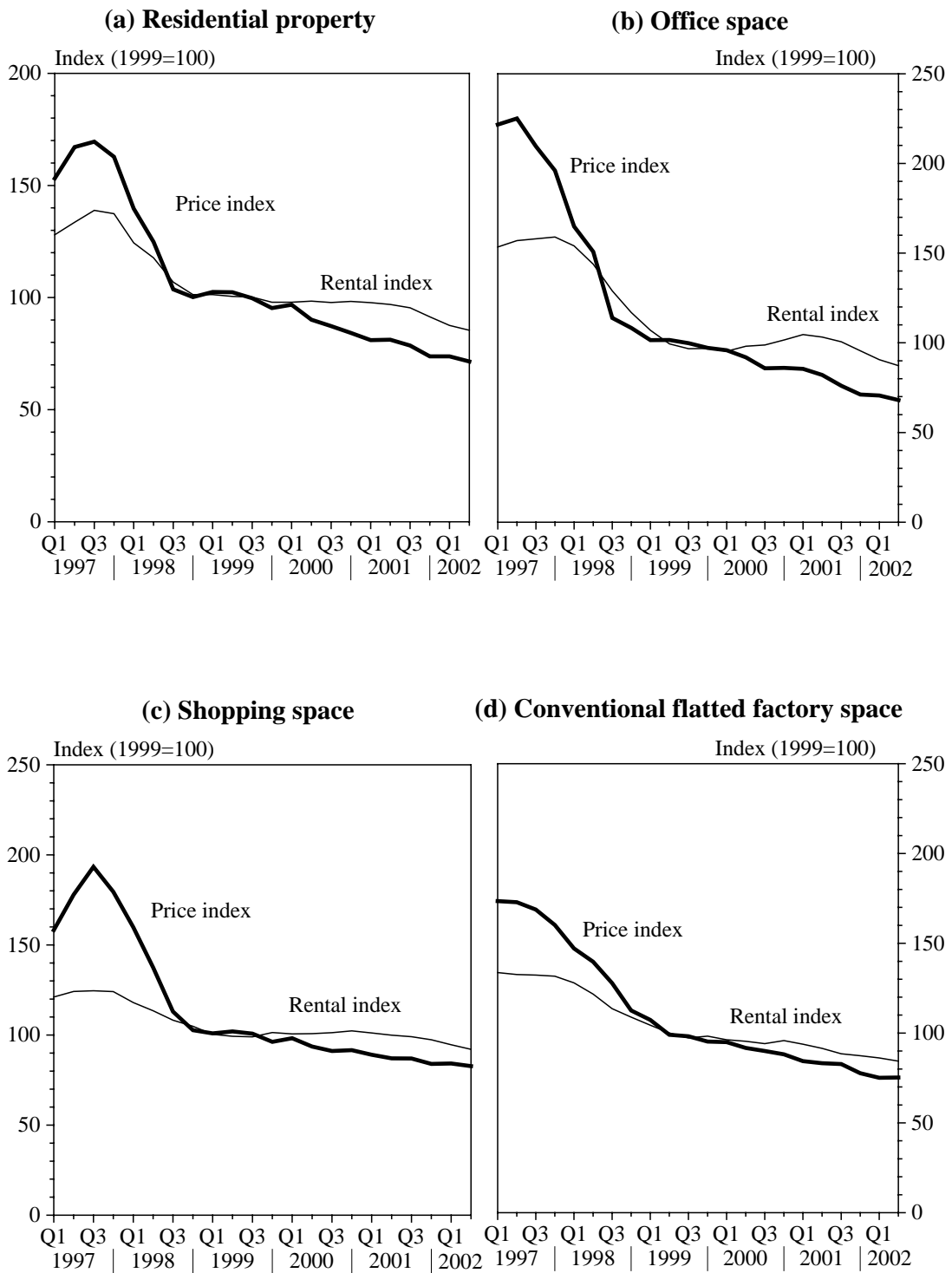
- (a) Prices for residential property in this table cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.
- (b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property in this table cover also lease renewals upon which rentals may be revised.
- () % change over the preceding quarter.
- ([^]) Provisional figures.
- (*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.3

Diagram 3.3

Property prices and rentals



Note : See the footnotes to Table 3.5.

/Table 3.6

Table 3.6**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
	Q2	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
	Apr	5.13	2.63	949	673	536
	May	5.13	2.63	949	673	536
	Jun	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.

/3.11

3.11 Property transactions staged a visible rebound in the first half of 2002, from the generally lower level prevalent in 2001. Agreements for sale and purchase of property registered with the Land Registry rose by 9% in number and 11% in total value in the first half of 2002 over a year earlier, distinctly up from the corresponding decreases of 1% and 15% in the second half of 2001. Analysed by main type of property and on a year-on-year comparison, transactions in residential property surged by 25% in number and 27% in total value in the first half of 2002, outweighing an equally marked decline in transactions in non-residential property, by 37% in number and 38% in total value. On a quarter-to-quarter comparison, overall property transactions also rose distinctly, by 12% in number and 19% in total value in the second quarter of 2002, as against nil change and a 2% decrease respectively in the first quarter. Within this total, transactions in residential property leaped by 15% in number and 16% in total value in the second quarter of 2002, after increases of 1% and 7% respectively in the first quarter. Transactions in non-residential property were down by 7% in number but up by 36% in total value in the second quarter of 2002, having decreased by 6% and 39% respectively in the first quarter. The marked increase in value in the second quarter was due in part to a low base of comparison in the first quarter.

3.12 Property transfer assignments, being a lagging indicator of property transactions, shrank by 19% in number and 20% in total value in the first half of 2002 over a year earlier, after decreasing by 3% and 8% respectively in the second half of 2001. On a quarter-to-quarter comparison, property transfer assignments fell by 5% in number while rising by 7% in total value in the second quarter of 2002, yet both having moderated from the increases of 15% and 18% respectively in the first quarter. As to mortgage arrangements, there was a 19% drop in number in the first half of 2002 over a year earlier, distinctly larger than the 9% decline in the second half of 2001. This was partly attributable to a lesser number of re-financing arrangements for existing property over the past year. On a quarter-to-quarter comparison, the number of mortgage arrangements went down by 9% in the second quarter of 2002, following a 9% increase in the first quarter.

/3.13

3.13 On government-subsidised flats, there was no new sale of flats under the Home Ownership Scheme/Private Sector Participation Scheme in the first half of 2002, just before expiry of the ten-month moratorium on sale of such flats at end-June. As regards the Tenants Purchase Scheme, a new batch of 25 728 public rental flats under Phase 5 were put up for sale in January 2002. By end-June, 38% of the sitting tenants had applied for purchase of such flats. In the first half of 2002, 9 465 flats of this type had been sold to the sitting tenants, representing an increase of 8% over a year earlier.

Table 3.7

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	H1	40 921	(25)	6 877	(-37)	47 798	(9)	89.9	(27)	14.4	(-38)	104.3	(11)
	Q1	18 992	(26)	3 569	(-40)	22 561	(7)	41.5	(21)	6.1	(-44)	47.7	(5)
	Q2	21 929	(24)	3 308	(-35)	25 237	(11)	48.3	(32)	8.3	(-32)	56.6	(16)
			<15>		<-7>		<12>		<16>		<36>		<19>
	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)
	Apr	7 409	(48)	1 047	(-63)	8 456	(8)	15.3	(40)	2.0	(-72)	17.3	(-4)
	May	7 325	(16)	1 145	(10)	8 470	(15)	16.9	(39)	3.4	(53)	20.3	(41)
	Jun	7 195	(14)	1 116	(-6)	8 311	(11)	16.1	(19)	2.9	(2)	19.0	(16)

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.

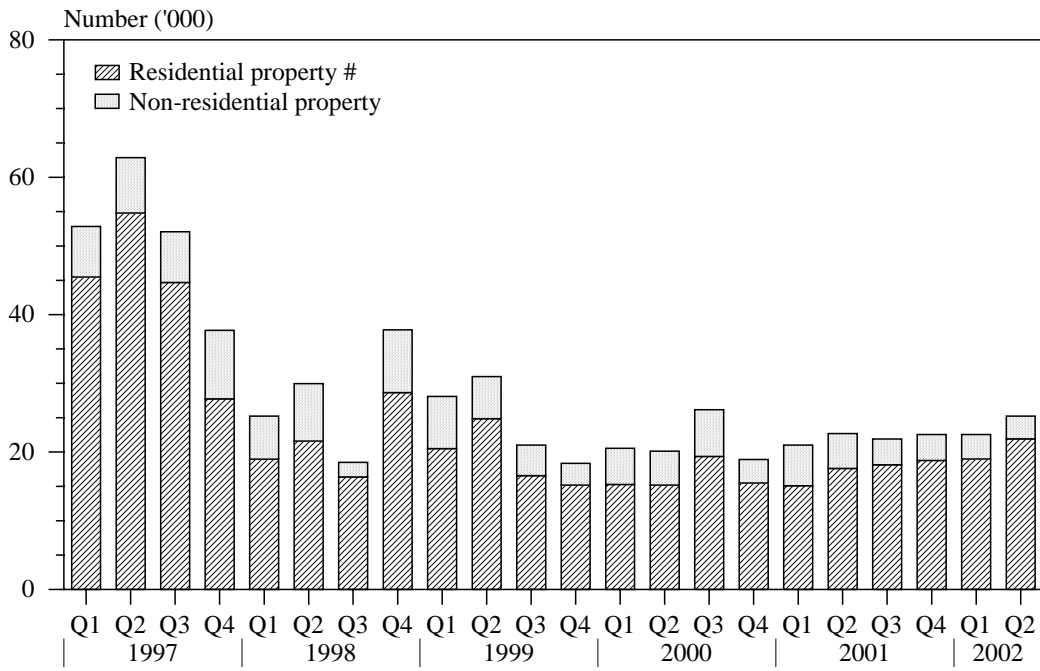
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.4

Diagram 3.4

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.7.

/Table 3.8

Table 3.8**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	H1	61 350	(-19)	100.5	(-20)	64 384
Q1		31 512	(-19)	48.5	(-24)	33 650	(-18)
Q2		29 838	(-19)	52.0	(-17)	30 734	(-21)
			<-5>		<7>		<-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)
Apr		9 190	(13)	16.9	(-6)	9 347	(6)
May		8 932	(-42)	14.0	(-45)	8 982	(-46)
Jun		11 716	(-10)	21.1	(13)	12 405	(-8)

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, the situation varied considerably amongst different types of property. On a year-on-year comparison, *completions* of private residential flats were reduced substantially, by 24% in the first half of 2002, having risen by 11% in the second half of 2001. On the other hand, completions of office space soared by 98% in the first half of 2002, following a 45% plunge in the second half of 2001. This represented a reversal of the distinct downtrend seen over the past three years. By contrast, completions of other commercial premises had a 46% drop in the first half of 2002, after a 25% leap in the second half of 2001. Completions of industrial property also plummeted, by 81% in the first half of 2002, much exceeding the 28% fall in the second half of 2001. Comparing the twelve months ending June 2002 with the preceding twelve-month period, completions of private residential flats, other commercial premises and industrial property all went down, by 7%, 17% and 41% respectively, whereas completions of office space surged, by 25%.

/Table 3.9

Table 3.9

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

<u>Usage</u>	<u>First half of 2001</u>	<u>First half of 2002[^]</u>	<u>Year-on-year rate of change (%)</u>	<u>Twelve months ending June 2001</u>	<u>Twelve months ending June 2002[^]</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a) (in number of units)	12 734	9 660	-24	24 881	23 188	-7
Commercial	120	135	12	218	222	2
<i>Of which:</i>						
Office space	49	96	98	99	124	25
Other commercial premises (mainly shopping space) ^(b)	71	39	-46	119	99	-17
Industrial ^(c)	14	3	-81	56	33	-41
<i>Of which:</i>						
Industrial-cum-office premises	14	0	-100	52	0	-100
Flatted factory space	0	3	--	4	33	819
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 flats, excluding flats completed by the Hong Kong Housing Authority and the 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.

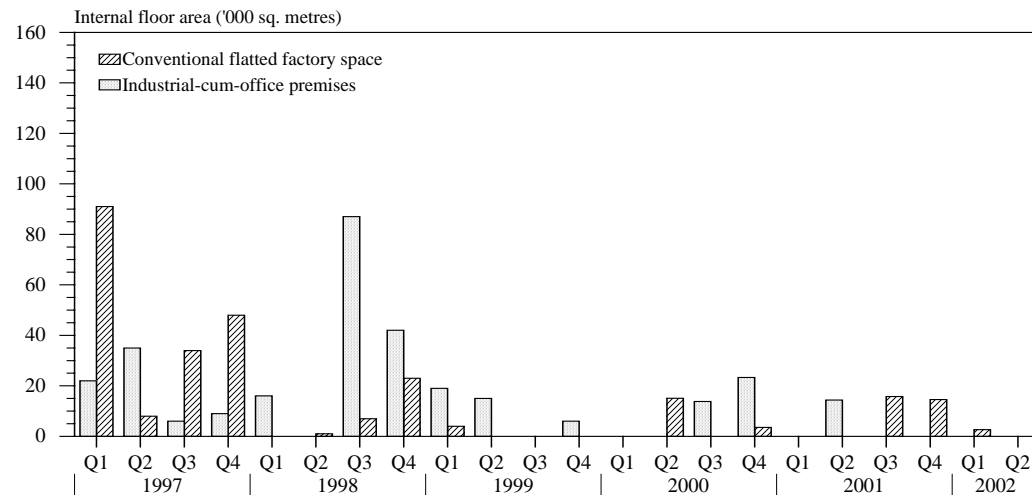
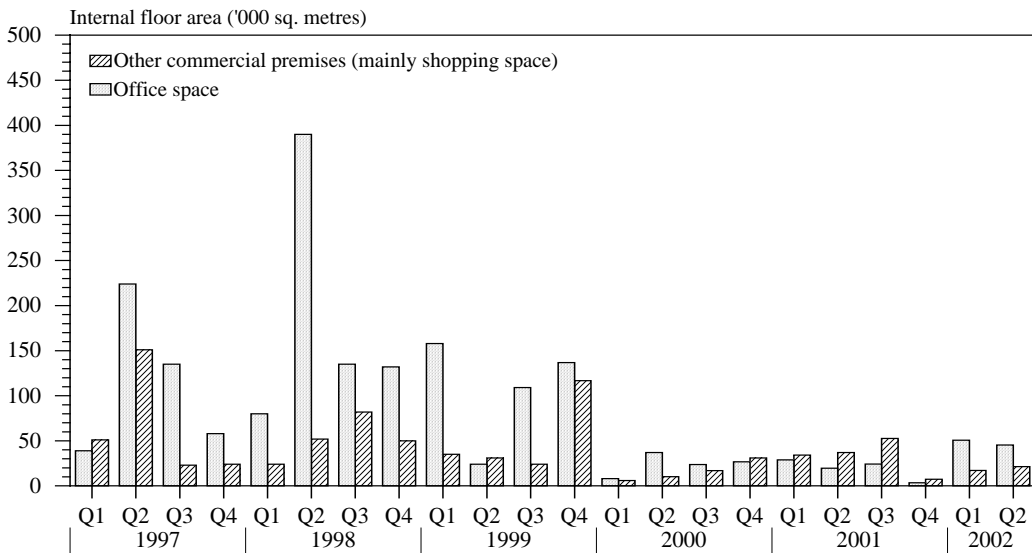
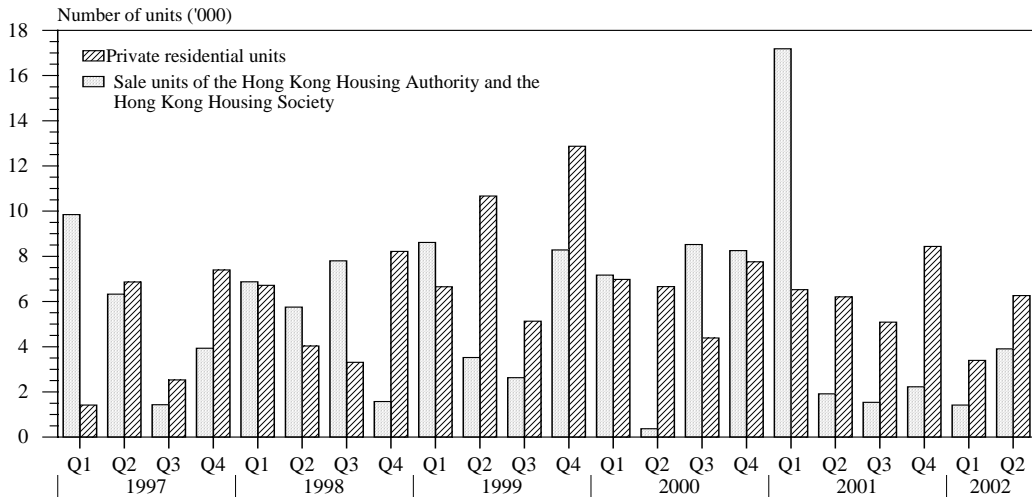
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.5

Diagram 3.5

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 24% in the first half of 2002 over a year earlier, further to a 44% decrease in the second half of 2001. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property fell significantly, by 38% in terms of unit or by 24% in terms of total usable floor area in the first half of 2002, having been slashed by 23% each in the second half of 2001. Developers generally continued to be cautious in initiating new housing projects, in view of an abundant supply of new flats yet to be absorbed by end-users. Planned developments of commercial property were also reduced, by 29% in the first half of 2002, following a 67% drop in the second half of 2001. Planned developments of property in the “others” category plunged by 49% in the first half of 2002, after a dip of 89% in the second half of 2001. On the other hand, planned developments of industrial property leaped by 189% in the first half of 2002 from a low base in the same period a year earlier, after coming down by 50% in the second half of 2001. Comparing the twelve months ending June 2002 with the preceding twelve-month period, planned developments of all types of property decreased by 34%. Within this total, planned developments of private residential property fell by 31% in terms of units or by 23% in terms of total usable floor area, while planned developments of property in the “others” category, of commercial property and of industrial property decreased by 74%, 50% and 17% respectively.

/Table 3.10

Table 3.10

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

<u>Usage</u>	<u>First half of 2001</u>	<u>First half of 2002</u>	<u>Year-on-year rate of change (%)</u>	<u>Twelve months ending June 2001</u>	<u>Twelve months ending June 2002</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a) (number of units in brackets)	592 (15 239)	453 (9 450)	-24 (-38)	1 128 (29 861)	863 (20 672)	-23 (-31)
Commercial	183	130	-29	429	213	-50
Industrial ^(b)	11	32	189	80	67	-17
Others	63	32	-49	169	44	-74
Total	849	647	-24	1 806	1 187	-34

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 Private Sector Participation Scheme of the Hong Kong Housing Authority.

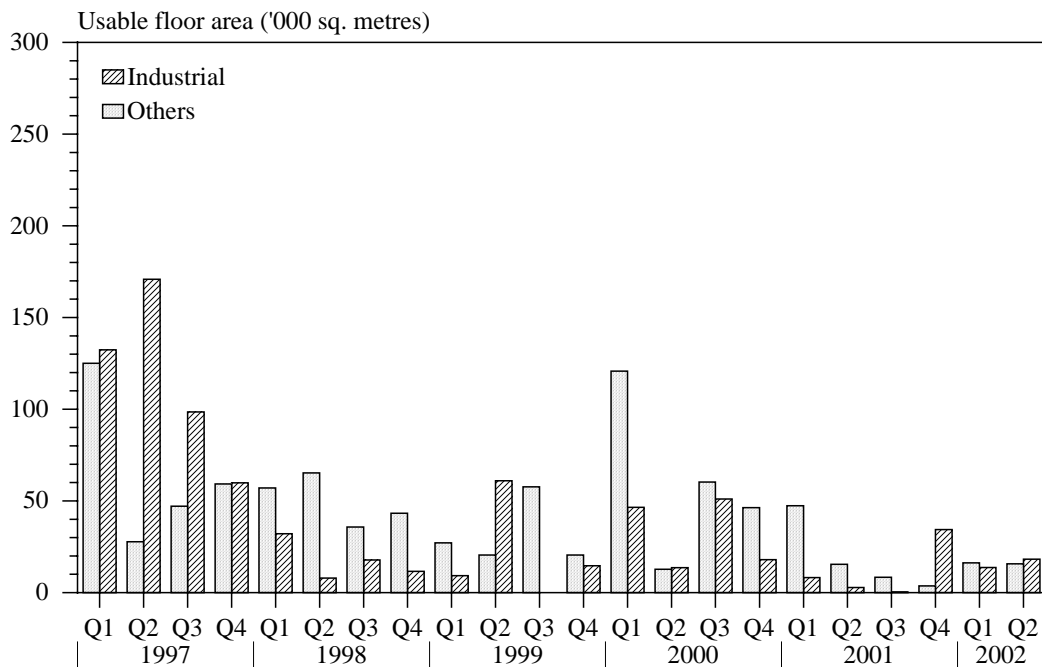
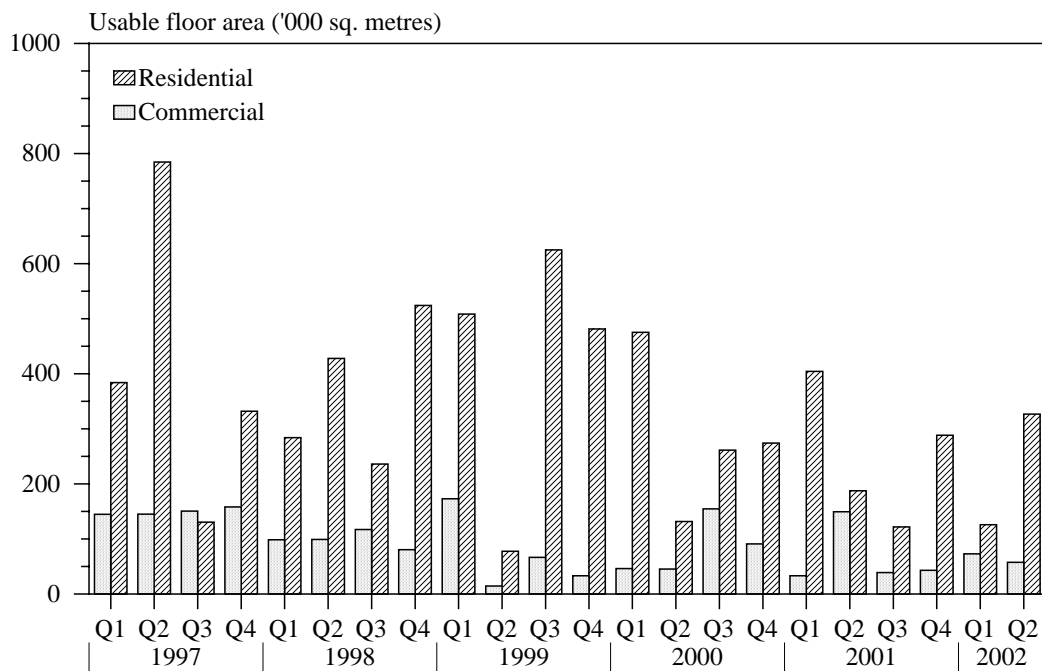
(b) Including multi-purpose industrial premises designed also for office use.

Source : Buildings Department.

/Diagram 3.6

Diagram 3.6

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



Building and construction

3.16 Building and construction activity in overall terms had a moderate rebound in the second quarter of 2002, following declines in the preceding three quarters. Overall expenditure on building and construction went up by 3% in real terms in the second quarter of 2002 over a year earlier, reversing a 7% decline in the first quarter. For the first half of 2002 as a whole, there was still a 2% decrease in real terms from a year earlier, albeit improved from the 4% fall in the second half of 2001.

3.17 Expenditure on building and construction in the public sector reverted to increase at 2% in real terms in the second quarter of 2002 over a year earlier, from an 18% drop in the first quarter. Intensification of work on several public sector projects, including the Science Park in Pak Shek Kok, site formation for the Hong Kong Disneyland in Penny's Bay, and some government building projects largely contributed. This more than offset the tapering of work on the KCR West Rail and the MTR Tseung Kwan O Extension, as well as a continued scale-back in the Public Housing Programme upon completion or winding down of the public housing projects in Tin Shui Wai, Tuen Mun, Tung Chung and Ma On Shan.

3.18 Expenditure on building and construction in the private sector continued to increase, by 5% in real terms in the second quarter of 2002 over a year earlier, similar to the 4% rise in the first quarter. This was mainly attributable to intensified work on some major residential and commercial development projects.

/Table 3.11

Table 3.11

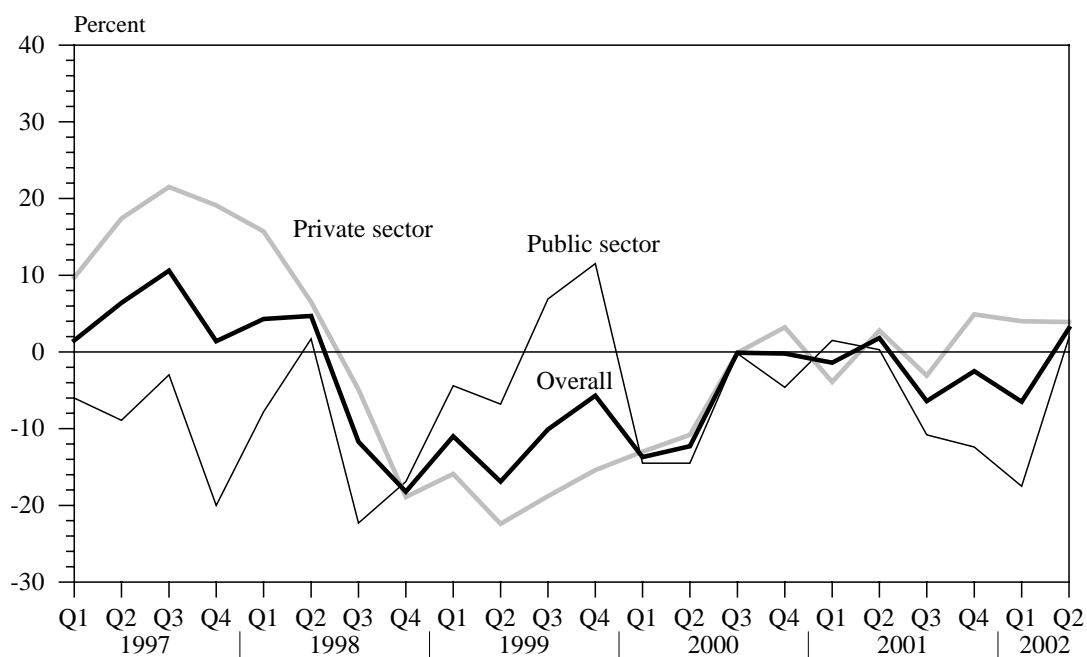
**Expenditure on building and construction
(year-on-year rate of change in real terms (%))**

	<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2001 Annual [#]	*	-5	-2
H1 [#]	-1	1	*
H2 [#]	1	-12	-4
Q1 [#]	-4	1	-1
Q2 [#]	3	*	2
Q3 [#]	-3	-11	-6
Q4 [#]	5	-12	-3
2002 H1 ⁺	4	-10	-2
Q1 [#]	4	-18	-7
Q2 ⁺	5	2	3

Notes : (#) Revised figures.
 (+) Preliminary figures.
 (*) Change of less than 0.5%.

Diagram 3.7

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



3.19 Retained imports of construction machinery surged by 25% in real terms in the second quarter of 2002 over a year earlier, much exceeding the 2% increase in the first quarter. Yet for the first half of 2002 as a whole, the increase averaging at 15% in real terms over a year earlier was still much below that of 48% in the second half of 2001. More distinct increases were observed for retained imports of mechanical shovels, shovel loaders and excavators for certain civil engineering projects.

3.20 Retained imports of construction materials, having contracted by 17% in real terms in the first quarter of 2002 over a year earlier, decreased further by 35% in the second quarter. For the first half of 2002 as a whole, retained imports of construction materials dipped by 28% in real terms, considerably larger than the 3% drop in the second half of 2001.

3.21 Labour cost in the building and construction sector, as measured by the Labour Cost Index, edged lower by 1% in the first quarter of 2002 over a year earlier. This followed a 2% decrease in the fourth quarter of 2001 and a 1% rise for 2001 as a whole. Building material cost, as measured by the Material Cost Index, likewise declined by 1% in the first quarter of 2002, after a similar decrease in the fourth quarter of 2001 and virtually nil change for 2001 as a whole. Taken together, the combined Labour and Material Cost Index went down also by 1% in the first quarter of 2002 over a year earlier, having fallen by 2% in the fourth quarter of 2001 and remained almost static for 2001 as a whole.

/Table 3.12

Table 3.12

**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>
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)
2002 Q1	3 570 (-1)	752 (-1)	1 749 (-1)

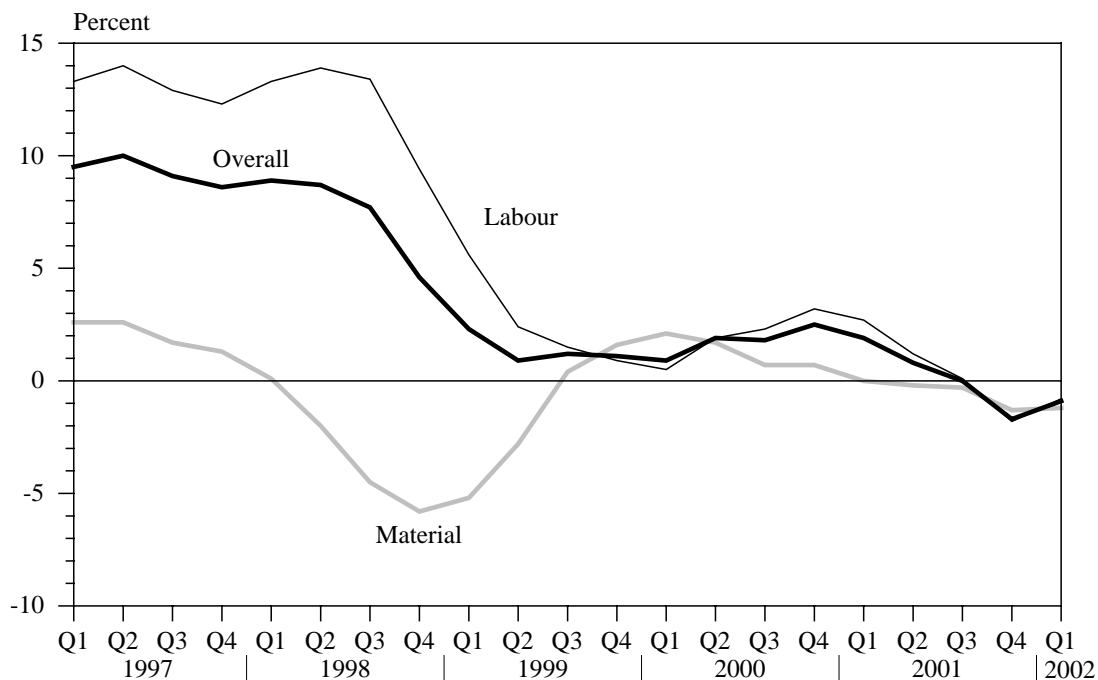
Notes : () % change over a year earlier.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

Diagram 3.8

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



3.22 Tender prices continued to ease, amidst lower building and construction costs and intense competition amongst contractors for a reduced volume of projects. In the first quarter of 2002, the Tender Price Index for public housing projects compiled by the Housing Department and that for public sector building projects compiled by the Architectural Services Department slid by 9% and 20% respectively over a year earlier. These followed the corresponding decreases of 12% and 15% in the fourth quarter of 2001, and 15% and 9% for 2001 as a whole.

Table 3.13

Tender Price Indices (TPI) for public sector projects

		<u>TPI for public housing projects</u> ^(a) (Jan 1970=100)	<u>TPI for public sector building projects</u> ^(b) (Jan 1970=100)
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)
2002	Q1	556 (-9)	687 (-20)

Notes : (a) Compiled by the Housing Department.

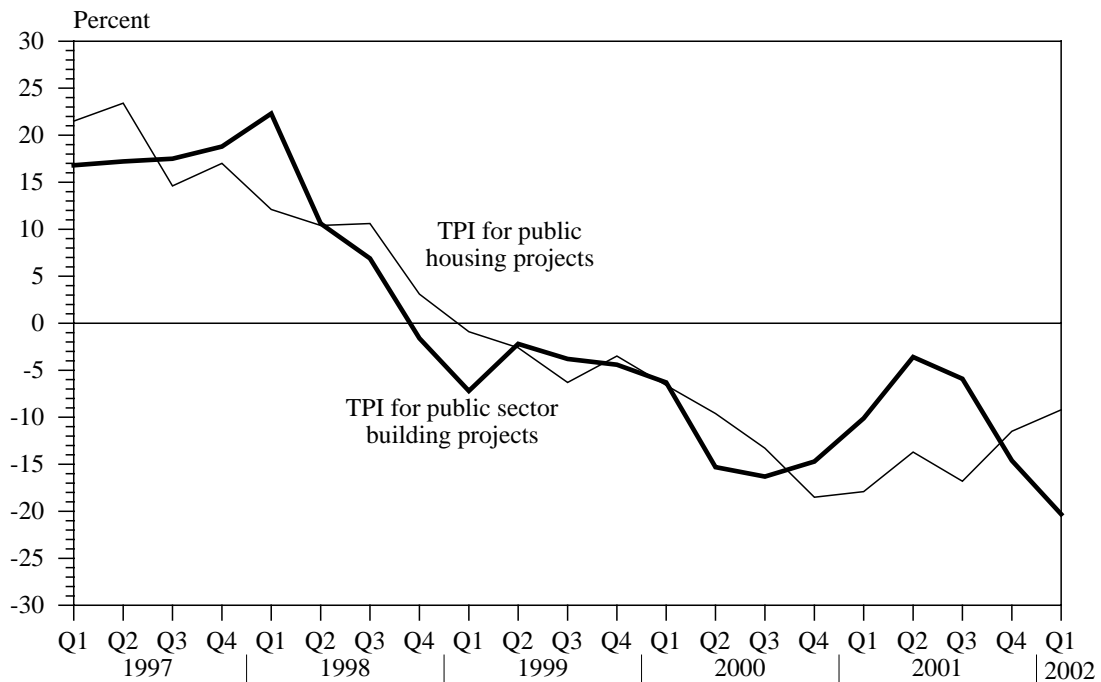
(b) Compiled by the Architectural Services Department.

() % change over a year earlier.

/Diagram 3.9

Diagram 3.9

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



Land

3.23 The Government held two land auctions in the second quarter of 2002, in April and June respectively, at which six residential sites totalling 5.1 hectares were sold. Two of them were released from the Government's Application List upon applications from developers⁽⁷⁾. Response to both land auctions was positive, with the prices fetched being in line with or slightly above market expectations. For the first half of 2002 as a whole, eight residential sites totalling 6.1 hectares were auctioned by the Government. There was no disposal of site through tender.

/Table 3.14

Table 3.14**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>2001</u>	<u>First half of 2002</u>
Residential	5.3	6.1
Commercial/residential	*	-
Commercial	3.0	-
Industrial	-	-
Others	0.4	-
Total	<u>8.8</u>	<u>6.1</u>

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

(*) Less than 0.05 hectare.

Source : Lands Department.

3.24 On modification of lease on existing developed and developable land in the private sector domain⁽⁸⁾, 29 applications were approved by the Government in the second quarter of 2002. Of this total, 11 applications were for residential development, six applications for residential-cum-commercial development and one application for commercial development. As to the remaining 11 applications, 10 were related to development of education and community facilities, and one was related to development of telecommunications station. For the first half of 2002 as a whole, 77 applications for modification of lease, mostly pertaining to the first quarter, were approved.

3.25 There was no new take-up or surrender of sites in the three industrial estates at Tai Po, Yuen Long and Tseung Kwan O in the first half of 2002. The respective take-up rates thus remained unchanged, at 99.0%, 95.8% and 48.6% at the end of June.

/3.26

3.26 Upon completion of Phase 1a of its development, the Science Park in Pak Shek Kok was officially opened on 27 June 2002. As at end-June, applications from 16 technology companies were approved for admission into the Science Park, including those in the fields of electronics, information technology and telecommunications, biotechnology and precision engineering. The remaining part of Phase 1 would be completed by early 2004. As to Phase 2, construction work would begin in 2003.

Electricity and gas

3.27 *Local electricity consumption* rose by 6% over a year earlier to 35 700 terajoules in the second quarter of 2002, distinctly up from the 1% decrease in the first quarter. This was related, at least in part, to the hotter weather in the summer of this year than that of last year. For the first half of 2002 as a whole, the increase over a year earlier averaged at 3%, slightly larger than that of 2% in the second half of 2001. Analysed by main user type and on a year-on-year comparison, domestic consumption and commercial consumption expanded by 10% and 7% respectively in the second quarter of 2002, more than offsetting the 1% reduction in industrial consumption. Electricity exports to the Mainland, which accounted for 7% of the total electricity generated in Hong Kong, continued to soar, by 58% in the second quarter of 2002 over a year earlier, following a 119% surge in the first quarter. Strong electricity demand backed by robust economic growth in the Pearl River Delta region contributed.

3.28 As to *towngas consumption*, there was a mild decrease by 1% over a year earlier to 7 000 terajoules in the second quarter of 2002, after an increase of 1% in the first quarter. For the first half of 2002 as a whole, towngas consumption remained unchanged from a year earlier, after rising by 1% in the second half of 2001. Analysed by main user type and on a year-on-year comparison, commercial consumption and industrial consumption contracted by 3% and 2% respectively in the second quarter of 2002 over a year earlier, more than offsetting a 2% rise in domestic consumption.

/Internal

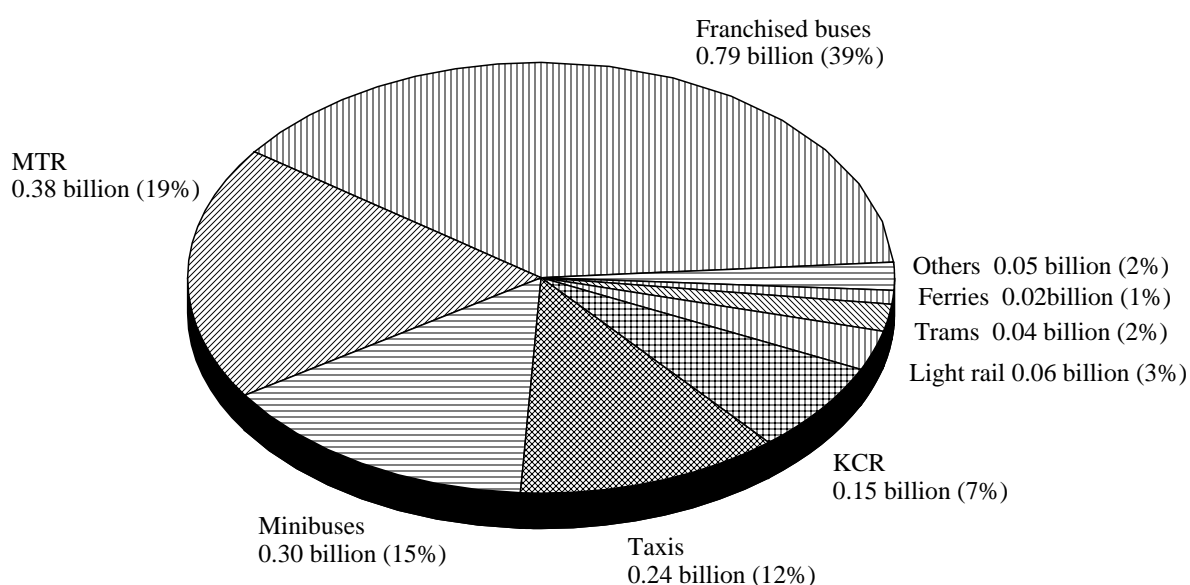
Internal transport

3.29 Total patronage on *public transport* followed a steady uptrend, increasing by 3% over a year earlier to 1.0 billion in the second quarter of 2002, after a rise of 2% in the first quarter. For the first half of 2002 as a whole, the increase over a year earlier averaged at 2%, slightly larger than that of 1% in the second half of 2001. Analysed by mode of transport and on a year-on-year comparison, franchised buses and ferries had larger gains in patronage, by 5% and 3% respectively in the second quarter of 2002, followed by the Kowloon-Canton Railway and mini-buses (by 2% each), and the Mass Transit Railway and trams (1% each). Patronage on the Light Rail and taxis held broadly stable.

3.30 On *private transport*, the total number of newly registered private cars fell by 11% over a year earlier to 8 000 in the second quarter of 2002, after a 13% drop in the first quarter. For the first half of 2002 as a whole, the decline in the total number of newly registered private cars, at 12% from a year earlier, was much widened from that of 3% in the second half of 2001. As to the total number of registered private cars and licensed private cars, they amounted to 383 700 and 340 800 respectively at end-June 2002, up only marginally by 1% each from a year earlier.

Diagram 3.10

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



Total passenger journeys in the first half of 2002 : 2.02 billion

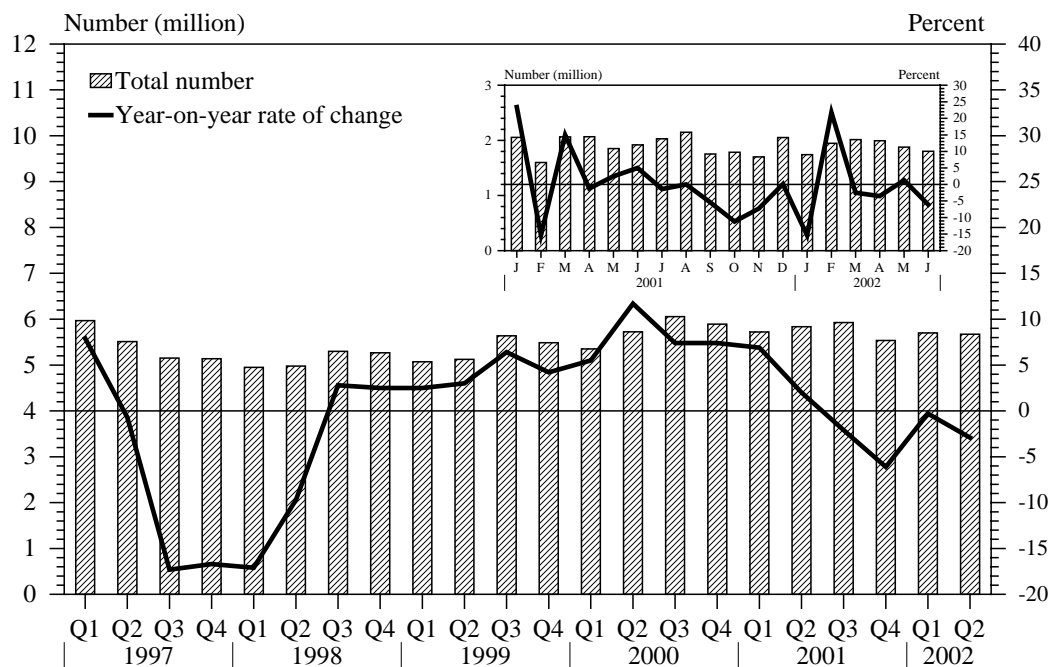
/External

External transport

3.31 On *air transport*, total *air passenger movements* shrank by 3% from a year earlier to 5.7 million in the second quarter of 2002, having been flat in the first quarter. Within the total for the second quarter, while air passenger arrivals fell marginally by 1% to 2.9 million, air passenger departures were down more, by 5% to 2.8 million. In particular, air passenger arrivals from the Mainland went up by 7%, while air passenger departures to the Mainland fell slightly by 1%. For the first half of 2002 as a whole, total air passenger movements were lower by 2% from a year earlier, with air passenger arrivals and departures declining by 1% and 2% respectively. This was relatively improved from the 4% decline in total air passenger movements in the second half of 2001. As to aircraft movements (including passenger and cargo flights), there was a small increase of 1% over a year earlier to 50 300 in the second quarter of 2002, following a 2% rise in the first quarter. For the first half of 2002 as a whole, aircraft movements were higher by 1% from a year earlier, albeit lesser than the 5% rise in the second half of 2001.

Diagram 3.11

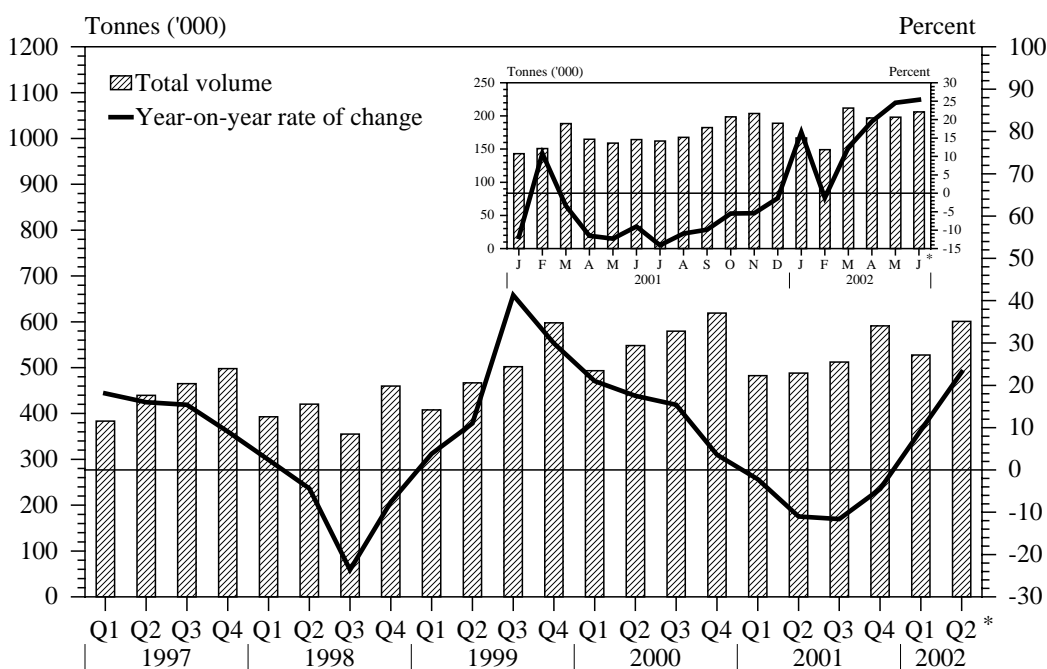
Number of air passenger movement



3.32 Yet total *air cargo movements* fared strongly, surging by 23% over a year earlier to 601 000 tonnes in the second quarter of 2002, much further up from the 9% rise in the first quarter. This was in line with the pick-up in the external trade sector in the more recent months. Also contributed was the meeting of relatively small and quick orders by local exporters, necessitating prompt delivery of the goods by air. Within the total for the second quarter, inward air cargo went up by 13% to 253 000 tonnes, and outward cargo even more by 31% to 348 000 tonnes. For the first half of 2002 as a whole, total air cargo movements leaped by 16% over a year earlier, comprising increases of 8% and 23% respectively for inward and outward cargo. These represented a significant turnaround from the corresponding declines of 8%, 10% and 7% in the second half of 2001.

Diagram 3.12

Cargo carried by air



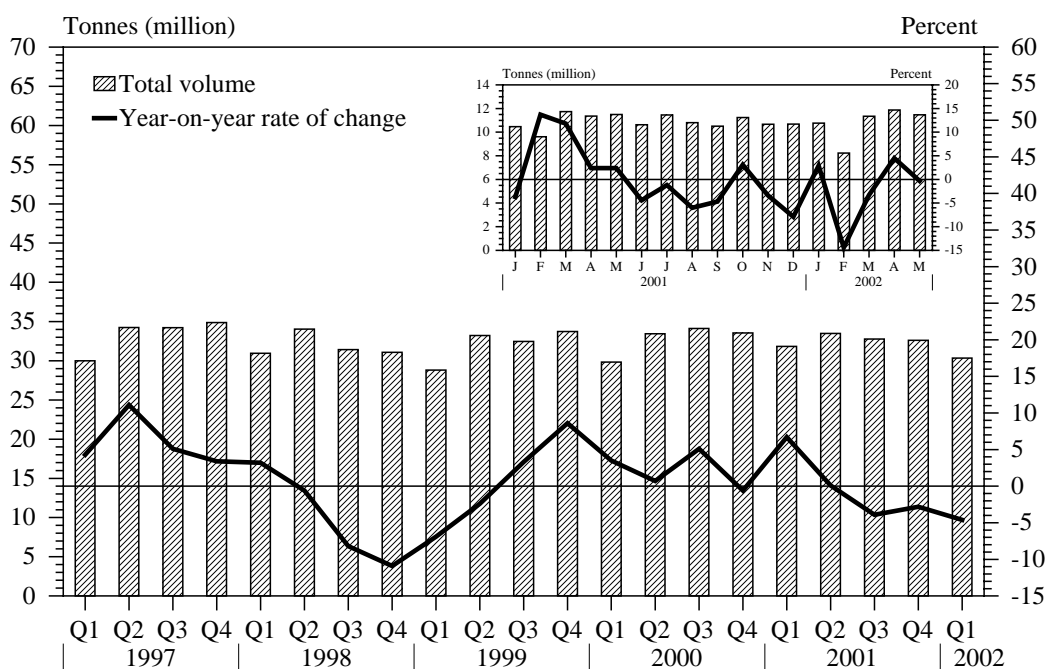
Note : (*) Provisional figures.

/3.33

3.33 On *ocean transport*, total *ocean cargo movements* increased by 2% over a year earlier to 23.3 million tonnes in April-May 2002, reversing the 5% fall in the first quarter. This was attributable to a sustained rise in transshipment cargo, more than offsetting a further reduction in direct shipment cargo. Within the total for April-May, inward ocean cargo rose by 3% to 16.2 million tonnes, while outward ocean cargo was virtually flat at 7.1 million tonnes. For the first five months of 2002 as a whole, these two particular streams of cargo movement were reduced by 1% and 3% respectively from a year earlier, giving a 2% decline for total ocean cargo movements. In the second half of 2001, the corresponding decreases were 3%, 5% and 3%.

Diagram 3.13

Cargo carried by sea

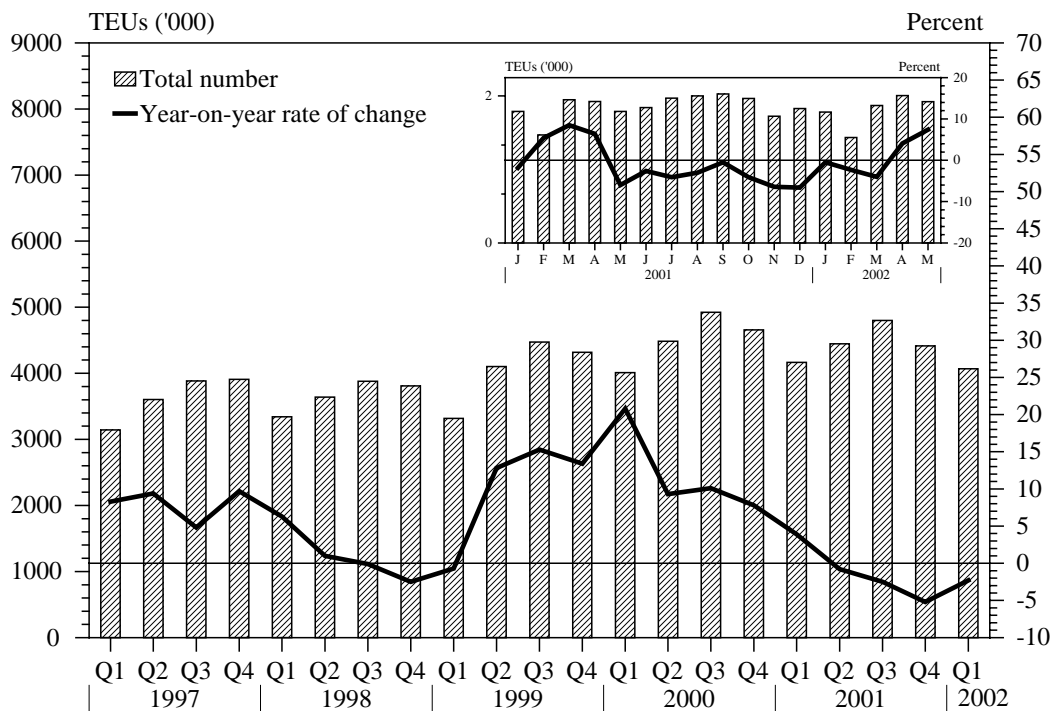


/3.34

3.34 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) increased by 6% over a year earlier to 3.1 million TEUs in April-May 2002, after a 2% decline in the first quarter. Within the total for April-May, inward and outward container throughput both rose by 6%, to 1.5 million TEUs and 1.6 million TEUs respectively. For the first five months of 2002 as a whole, total container throughput went up slightly, by 1% over a year earlier. The same increases were observed for both inward and outward container throughput. In the second half of 2001, they all decreased by 4%. Meanwhile, there was an on-going trend of manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port. Reflecting this, container throughput at the Yantian port leaped further, by 57% in the first half of 2002 over a year earlier, after a 32% surge in the second half of 2001.

Diagram 3.14

Container throughput



/Tourism

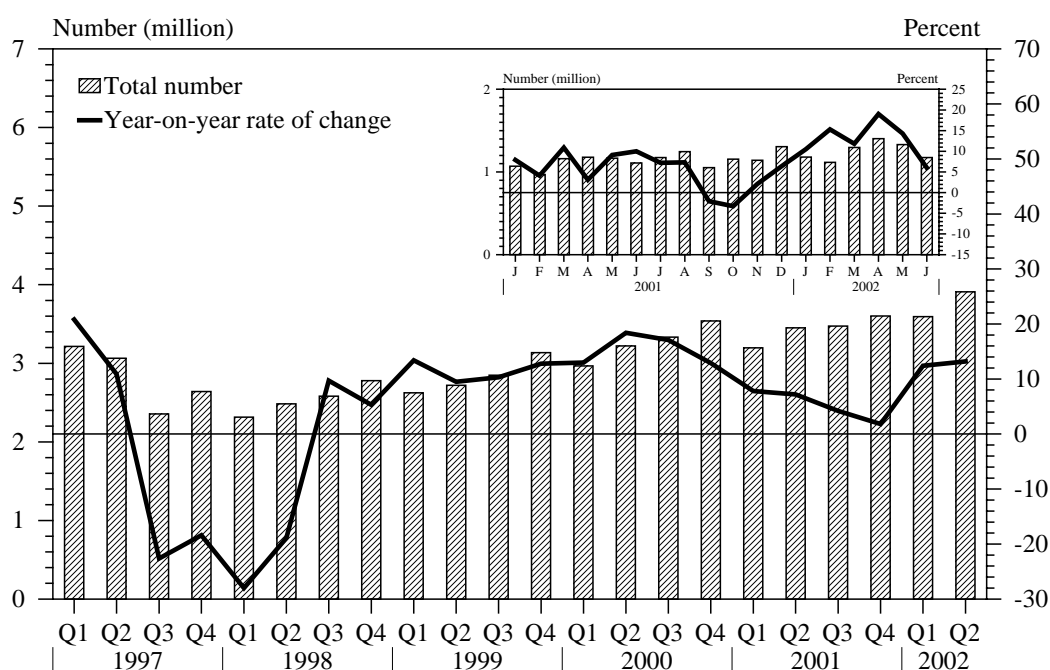
Tourism

3.35 Inbound tourism continued to thrive. At 3.9 million in the second quarter of 2002, the total number of *incoming visitors* surged by 13% over a year earlier, further up from the 12% rise in the first quarter. Predominantly, this was attributable to the hectic increase in visitors from the Mainland, following abolishment of the quota under the Hong Kong Group Tour Scheme in January 2002⁽⁹⁾. It also reflected dissipation of the adverse impact from the 9-11 incident. For the first half of 2002 as a whole, the total number of incoming visitors leaped by 13% over a year earlier, much exceeding the 3% rise in the second half of 2001.

3.36 Analysed by major source, visitors from the Mainland rose substantially, by 44% in the second quarter of 2002 over a year earlier, while visitors from South and Southeast Asia went up by 5%. Visitors from the United Kingdom held stable. Yet visitors from Taiwan, Japan and the United States were down, by 7%, 1% and 1% respectively.

Diagram 3.15

Number of incoming visitors



/Table 3.15

Table 3.15**Number of incoming visitors by place of residence
(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>H1</u>	<u>Q1</u>	<u>Q2</u>
All sources	5	8	7	4	2	13	12	13
Mainland of China	18	10	13	17	29	43	42	44
Taiwan	1	8	6	-2	-5	-4	-1	-7
South and Southeast Asia	*	3	2	-3	-2	2	-2	5
Japan	-3	8	7	-5	-21	-5	-8	-1
United States	-3	9	5	-2	-20	-1	*	-1
United Kingdom	-2	6	-4	-1	-7	1	2	*
Others	2	8	7	2	-6	4	4	3

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

(*) Change of less than 0.5%.

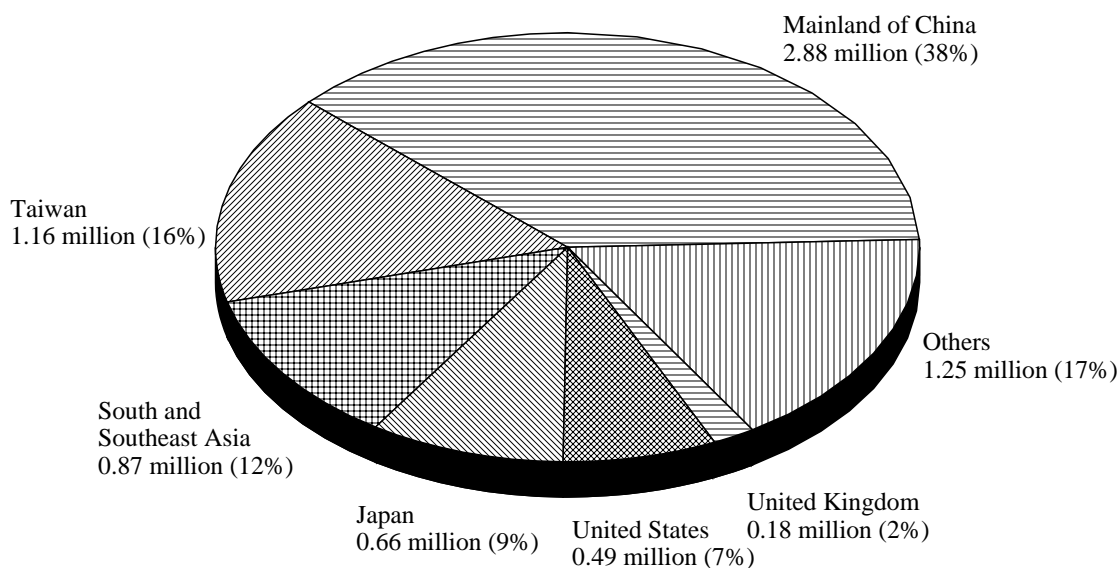
Source : Hong Kong Tourism Board.

3.37 Visitors from the Mainland, as the largest source group, rose further in significance, to 38% of the total in the first half of 2002. Visitors from Taiwan came next (with a share of 16%), followed by visitors from South and Southeast Asia (12%), Japan (9%), the United States (7%), and the United Kingdom (2%).

/Diagram 3.16

Diagram 3.16

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



Total number of incoming visitors in the first half of 2002 : 7.50 million

3.38 As at end-June 2002, the stock of *hotel rooms* in Hong Kong amounted to 42 700. Along with the surge in incoming visitors, the *average hotel room occupancy rate* went up visibly, to 83% in the second quarter of 2002, from 79% in the same quarter in 2001.

/Table 3.16

Table 3.16**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
	Q2	42 747	(--)	83

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.

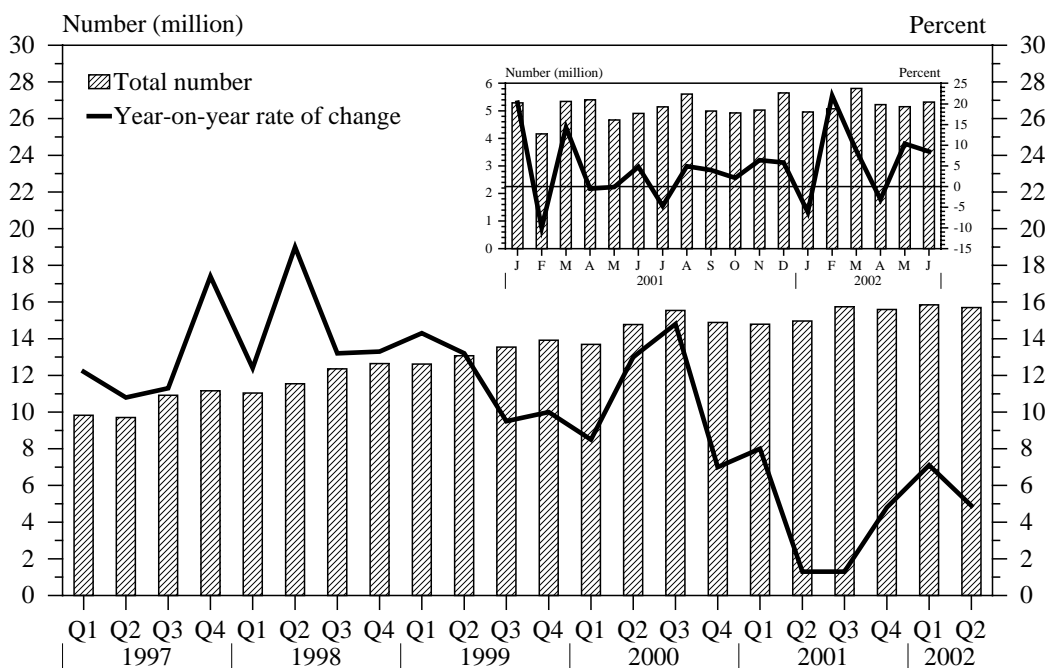
(--) Not applicable.

Source : Hong Kong Tourism Board.

/3.39

3.39 On *Hong Kong residents travelling abroad*, the total number of resident departures increased by 5% over a year earlier to 15.7 million in the second quarter of 2002, slower than the 7% rise in the first quarter. This was partly due to the different timing of the Easter Holidays, which fell in March this year but in April last year. Also possibly relevant was the weakening in the US dollar and hence the Hong Kong dollar against other major currencies in the more recent months. For the first half of 2002 as a whole, the total number of resident departures went up by 6% from a year earlier, faster than the 3% increase in the second half of 2001. Analysed by major destination, resident departures to the Mainland rose by 7% in the second quarter of 2002 over a year earlier, while resident departures to Europe were virtually unchanged. On the other hand, resident departures to South and Southeast Asia, Taiwan and North Asia fell by 11%, 10% and 7% respectively. Resident departures to Americas and to Australia and New Zealand were down even more, by 20% and 16% respectively.

Diagram 3.17
Number of Hong Kong resident departures



/Table 3.17

Table 3.17**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>H1</u>	<u>Q1</u>	<u>Q2</u>
All destinations	4	8	1	1	5	6	7	5
Mainland of China	4	8	*	2	6	8	9	7
Macau	2	7	8	-5	-1	-4	-3	-5
South and Southeast Asia	5	16	8	1	-5	-7	-2	-11
North Asia	3	13	-3	-3	6	-1	5	-7
Americas ^(a)	-6	7	5	-13	-21	-17	-14	-20
Taiwan	12	8	9	12	19	4	20	-10
Europe	*	4	3	-4	-2	4	10	*
Australia and New Zealand	3	4	3	6	-3	-11	-8	-16
Others	17	84	28	-3	-32	-33	-40	-24

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

(*) Change of less than 0.5%.

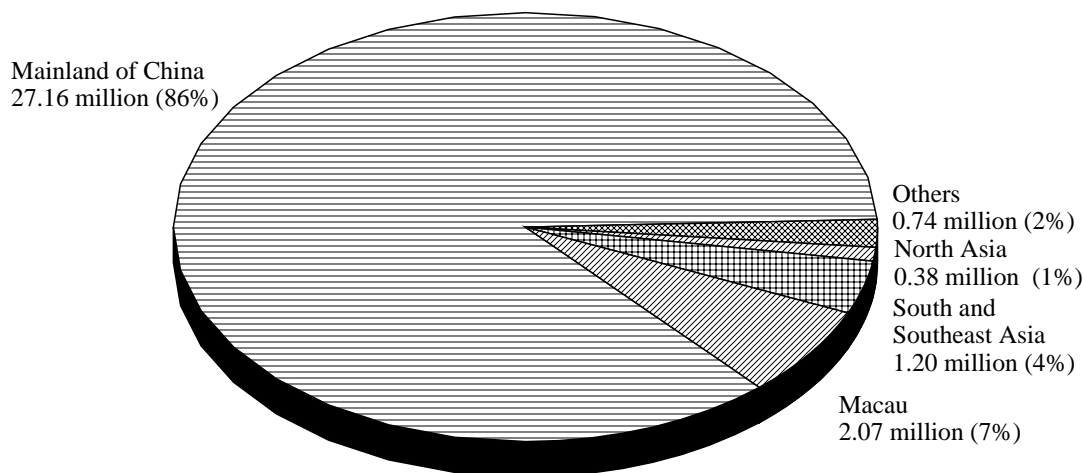
Source : Hong Kong Tourism Board.

3.40 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 half of 2002. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 7%), followed by South and Southeast Asia (4%), and North Asia (1%).

/Diagram 3.18

Diagram 3.18

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



Total number of resident departures in the first half of 2002 : 31.54 million

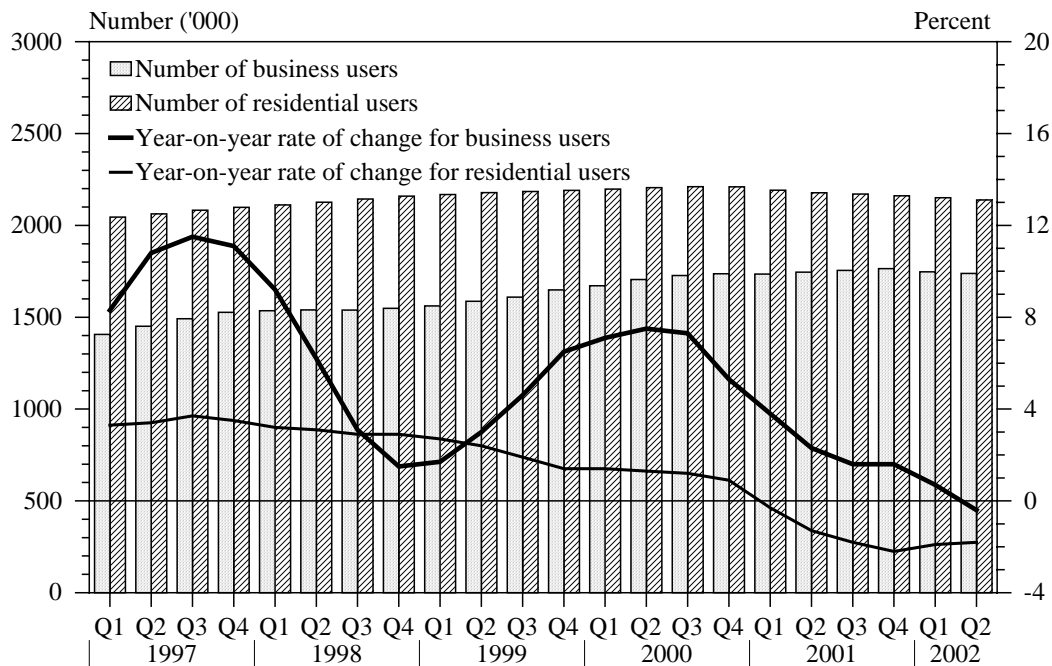
Telecommunications

3.41 On *wireline services*, the number of fixed telephone lines decreased slightly further, by 1% over a year earlier to 3.9 million at end-June 2002. Within this total, the number of lines for residential customers was lower by 2%, while the number of lines for business customers was little changed. These two groups of customers accounted for 55% and 45% respectively of all the telephone lines at end-June. At 57 telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was amongst the highest in Asia. As to facsimile lines, the number stood at 408 100 at end-June 2002, up by 1% over a year earlier. This gave 23 facsimile lines per 100 business telephone lines, which was again amongst the highest in Asia. On Internet usage, broadband services continued to be the lead performer, as manifested by the rapid expansion in traffic volume through broadband networks by 155% over a year earlier to 15 500 terabits in June 2002. This partly stemmed from the on-going diversion in Internet usage from the public switch telephone network, for which the traffic volume plummeted by 56% over a year earlier to 429 million minutes in June 2002.

/Diagram 3.19

Diagram 3.19

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



Note : (*) Including facsimile lines.

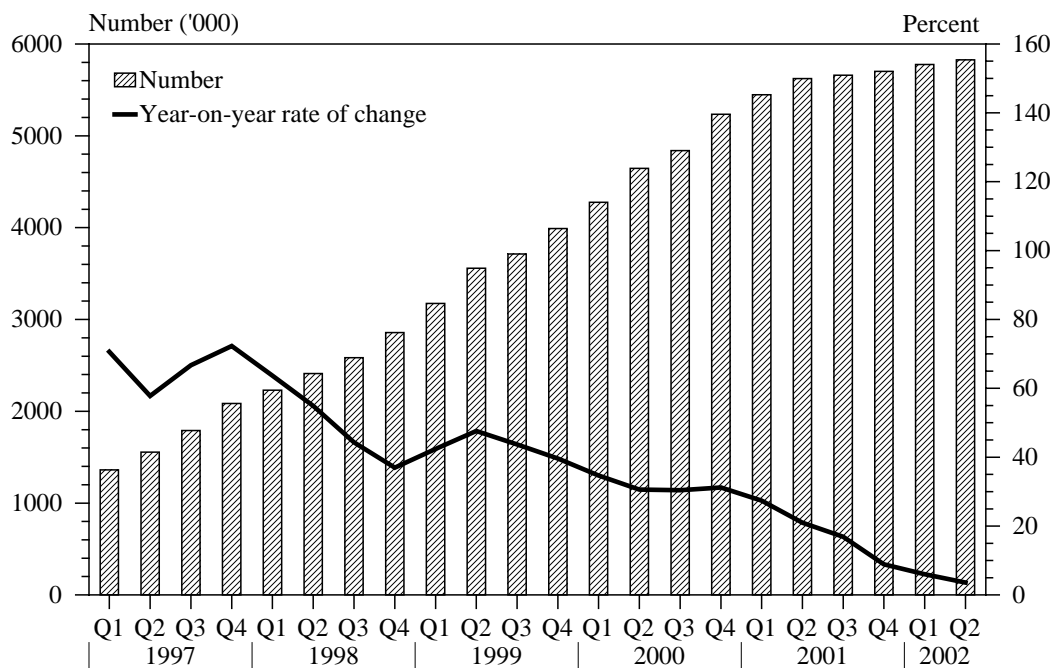
3.42 On *wireless services*, the mobile phone segment underwent some consolidation since the middle of last year, following the steep growth in the preceding years. At end-June 2002, the number of mobile phone customers rose by only 4% over a year earlier to 5.8 million⁽¹⁰⁾. This nevertheless corresponded to a mobile phone penetration rate of 86%, still one of the highest in the world. Meanwhile, the paging segment kept on shrinking, with the number of customers down further by 23% over a year earlier to 225 100 at end-June 2002.

3.43 On 14 June 2002, the Government issued a consultation paper inviting public views on a proposed mechanism for allocating and assigning special numbers to operators and customers of telecommunications services. This included such aspects as method of allocation, auction mechanism, use of sales proceeds, and private transaction in special numbers. The objective was to put in place a mechanism which was open, fair and transparent. The consultation period ended on 26 July. The views received were being considered by the Government before finalising the details.

/Diagram 3.20

Diagram 3.20

**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) On 1 August 2002, the Census and Statistics Department introduced a major revision to the existing GDP series, as compiled from the expenditure approach (for details, see note (3) to Chapter 1 of this report). At the same time, a new data series on quarterly GDP by economic activity at constant prices, backdated to the first quarter of 2000, was released. This new GDP series, as compiled from the production approach, serves to enhance the analysis of value-added contributions of the various economic sectors in real terms, in regard to their trend and relative significance.
- (2) The service sectors comprise 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. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. Charges of financial intermediation are however deducted.
- (3) The Index of Industrial Production is intended to reflect the recent of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the boundary is not included.
- (4) 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.
- (5) On 5 June 2002, the Chief Secretary for Administration announced that the ten-month moratorium on the sale of subsidised sale flats would cease to apply upon its expiry at end-June 2002, and that their sale would resume in a cautious and considered manner thereafter. Two tranches of new subsidised sale flats totalling about 4 900 units would be put up for sale in September 2002 and April 2003 respectively, in compliance with the pre-set annual ceiling of 9 000 units up to the financial year 2005/06. He also announced that from the financial year 2006/07 onwards, the Government would move towards a sales level of no more than 2 000 units a year as far as possible, with the cut-back in supply of flats being matched by additional number of home ownership loans to the eligible families.
- (6) Developers were offering 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.

/(7)

- (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) 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 the town planning and urban renewal objectives, modification of usage (including modifications by way of land exchange) 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 is abolished, so as to facilitate more Mainland visitors to come to Hong Kong. Also, the number of Mainland travel agencies licensed to organise group tours to Hong Kong has henceforth been increased substantially, from 4 to 67.
- (10) 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 The Hong Kong dollar exchange and money markets held broadly stable in the first half of 2002. The market exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate. After a temporary rise in mid-March, the premium in the forward rates of the Hong Kong dollar against the US dollar decreased significantly thereafter. Local inter-bank interest rates, having firmed up slightly during the first quarter, eased back during the second quarter, and fell below their US counterparts towards the middle of the year. Both narrow and broad money supply reverted from a decline during the first quarter to an appreciable increase during the second quarter. With Hong Kong dollar deposits picking up while Hong Kong dollar loans easing modestly, the Hong Kong dollar loan-to-deposit ratio fell back from the earlier rise. In the local stock market, share prices were relatively more steady during the first quarter, but went through significant ups and downs during the second quarter, mirroring movements in the US stock market. The Hang Seng Index reached a nine-month high of 11 975 on 17 May, but fell to a seven-month low of 10 356 on 26 June. It closed the first half of 2002 at 10 599, 7.0% below the level at end-2001.

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 half of 2002, moving within a 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 period, except for a temporary rise to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. But it soon fell back and narrowed distinctly further to 23 pips at end-June 2002, as against 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. The US dollar held strong against the other major currencies until mid-April 2002, and then weakened significantly thereafter, amidst greater concern about the pace of recovery in the US economy. Wary about profitability crunch and accounting irregularities in the US corporate sector added to the downward pressure on the US dollar. Funds appeared to be moving out of US dollar assets. The dollar-euro exchange rate on month-average rose by 7.4% from December 2001 to 0.957 in June 2002. The pound sterling likewise appreciated against the US dollar, by 3.0% over the same period.

4.4 The yen also gained against the US dollar, despite continued concern about the dented fundamentals of the Japanese economy and weakness in its banking sector. The yen-dollar exchange rate on month-average appreciated by 3.6% from December 2001 to 123.2 in June 2002. As to the other East Asian currencies, the Korean won and the New Taiwan dollar, while weakened against the US dollar during the first quarter, also strengthened during the second quarter. The Singapore dollar, Thai baht and Philippine peso firmed up generally throughout the first half of the year.

4.5 Taking these currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar on month-average fell to 103.5 in June 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 on month-average likewise fell to 97.3 in June 2002, from 99.0 in December 2001.

/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)	100.5	(-0.2)
Jun	105.6	(1.2)	102.1	(1.7)
Sep	104.3	(-1.2)	100.8	(-1.3)
Dec	105.4	(1.1)	99.0	(-1.8)
2002 Mar	105.9	(0.5)	100.0	(1.1)
Jun	103.5	(-2.3)	97.3	(-2.8)

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

() % change over three months earlier.

/Diagram 4.1

Diagram 4.1

Exchange rate of the Hong Kong dollar against the US dollar

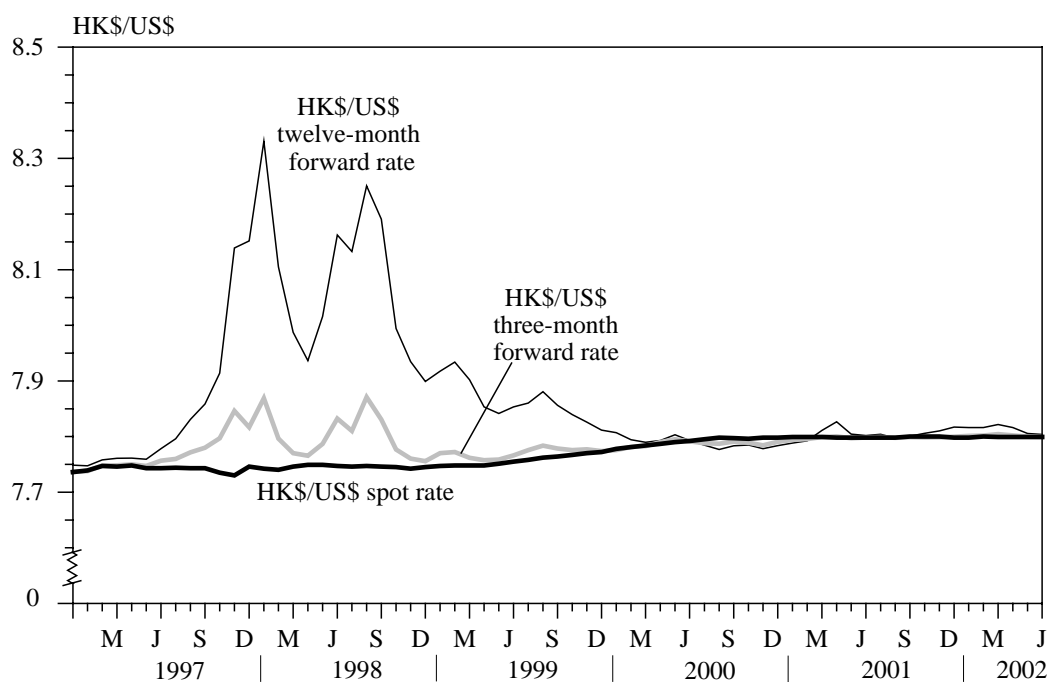
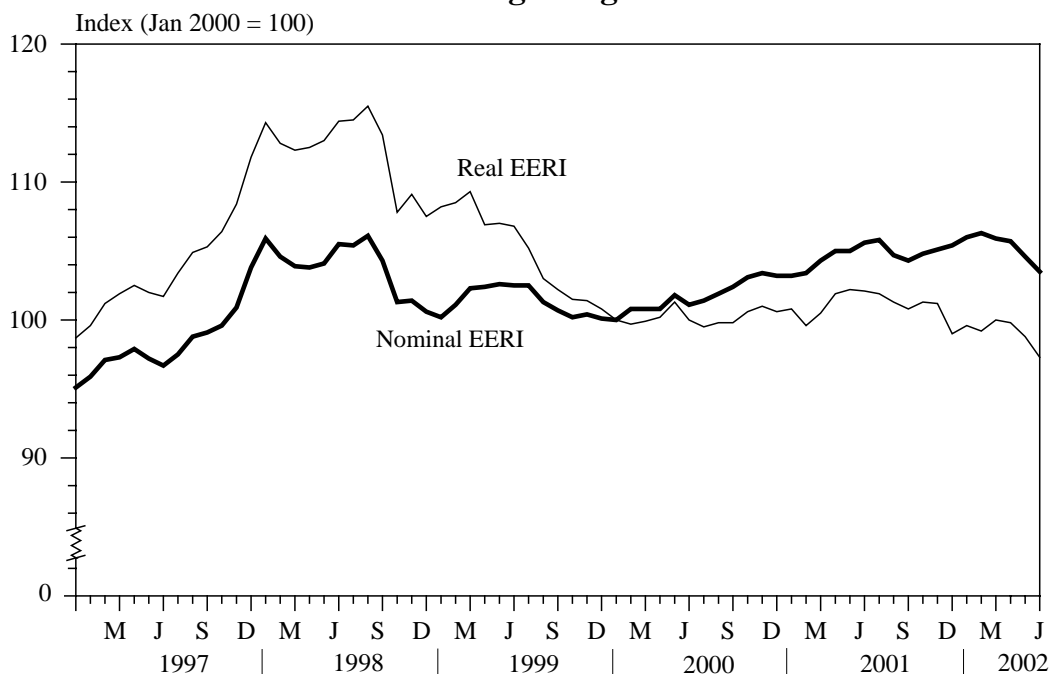


Diagram 4.2

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, but declined during the second quarter, reflecting in part an increase in inter-bank liquidity. The three-month HIBOR edged up from 1.88% at end-2001 to 2.19% at end-March 2002, but eased back to 1.75% at end-June. Hong Kong dollar interest rates fell below their US counterparts towards the middle of the year, with the spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate switching from a premium of 5 basis points at end-2001 to a discount of 8 basis points at end-June 2002.

4.7 With no further monetary easing in the United States in the first half of 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) remained unchanged at 3.25% throughout the period. The best lending rate of the major commercial banks also stayed unchanged, at 5.13%. The average savings deposit rate rose marginally, from 0.15% at end-2001 to 0.16% at end-June 2002. The average spread of the best lending rate over the three-month time deposit rate narrowed slightly, from 4.64 percentage points in the second half of 2001 to 4.63 percentage points in the first half of 2002.

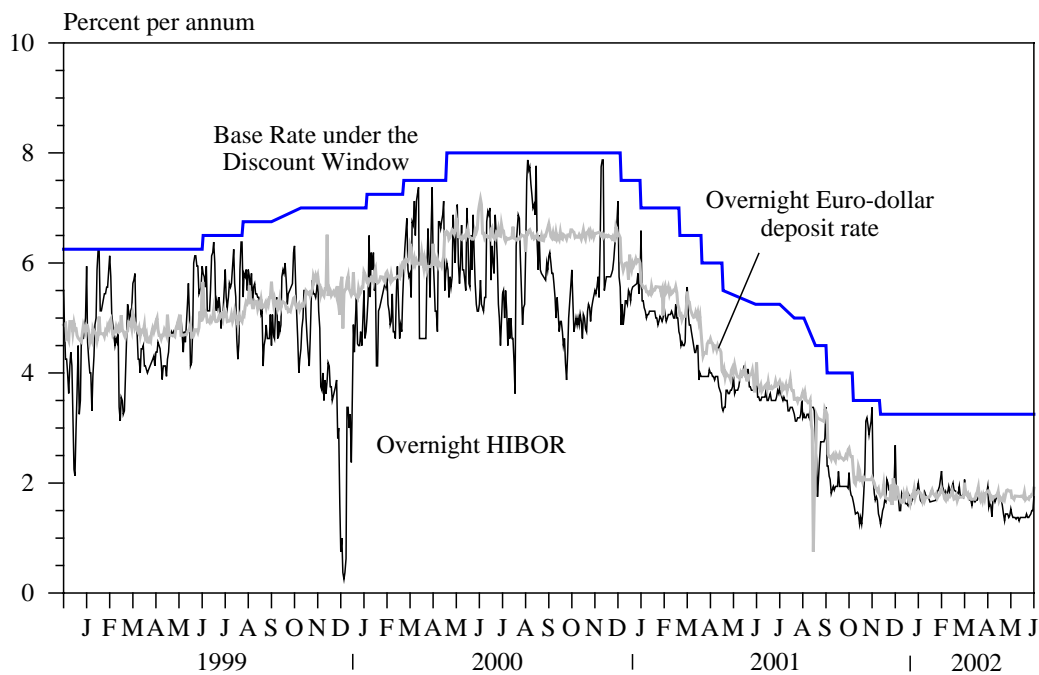
4.8 Competition amongst the banks for residential mortgage business remained intense. The proportion of new residential mortgage loans granted at more than 2 percentage points below the best lending rate (BLR) fell, from 87.2% at end-2001 to 84.6% at end-June. Yet the proportion granted at more than 2.5 percentage points below the BLR rose significantly, from 5.0% at end-2001 to 19.8% at end-June 2002⁽³⁾.

/Diagram 4.3

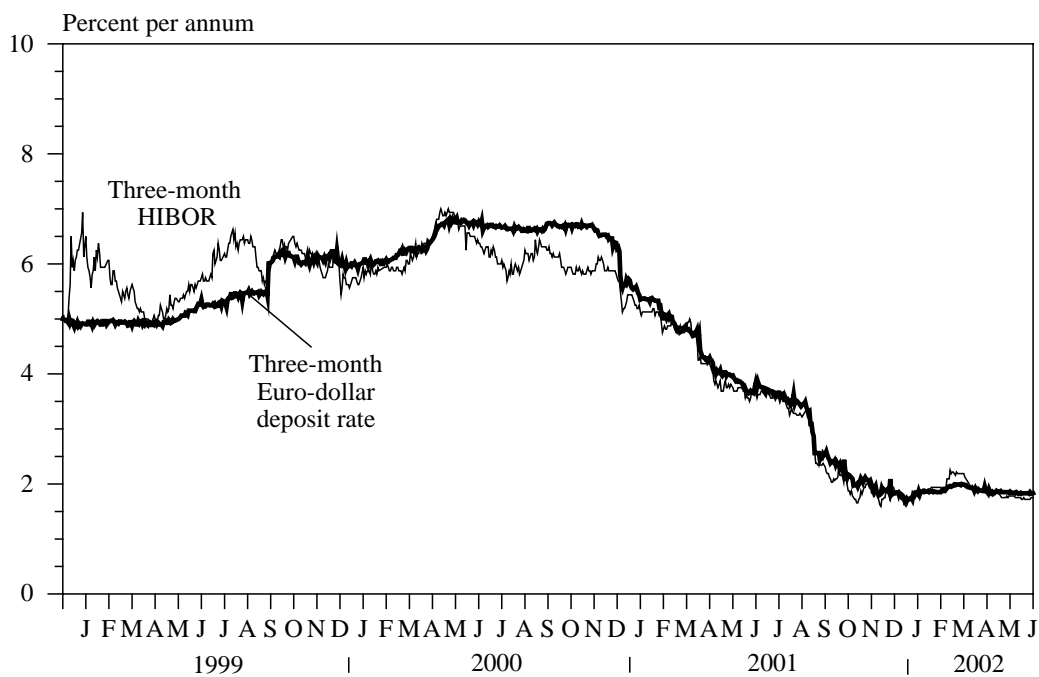
Diagram 4.3

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

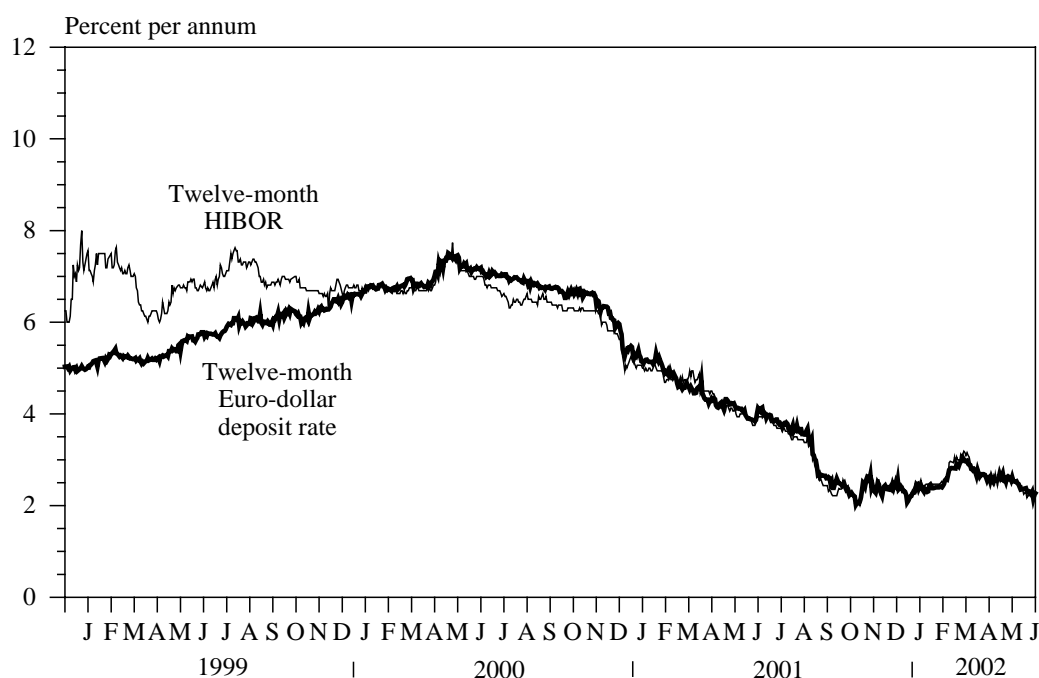


Table 4.2

**Hong Kong dollar inter-bank offer rates (HIBORs)
(% per annum)**

<u>Average for the month</u>		<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)
	Apr	1.73	(-4)	1.95	(5)	2.80	(8)
	May	1.60	(-17)	1.81	(-4)	2.54	(-5)
	Jun	1.41	(-35)	1.75	(-9)	2.34	(-4)

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 deposit and lending rates
 (% per annum, as average of the rates
 quoted by the major banks)

Time deposit rates for
deposits of less than HK\$100,000

<u>Average for the month</u>		<u>One- week</u>	<u>One- month</u>	<u>Three- month</u>	<u>Six- month</u>	<u>Twelve- month</u>	<u>Savings deposit rate</u>	<u>Best lending rate</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
	Apr	0.17	0.45	0.56	0.82	1.41	0.16	5.13
	May	0.17	0.34	0.43	0.58	1.02	0.16	5.13
	Jun	0.17	0.29	0.36	0.46	0.74	0.16	5.13

Deposits and money supply

4.9 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits⁽⁴⁾) increased by 1.0% during the second quarter of 2002 to \$1,848 billion at end-June, reversing a 1.3% fall during the first quarter. On a year-on-year comparison, Hong Kong dollar deposits were down by merely 0.1% at end-June 2002. The share of Hong Kong dollar deposits in total deposits increased to 55.5% at end-June 2002, from 54.4% at end-2001.

4.10 Within the Hong Kong dollar deposits, there was apparently a shift towards relatively greater liquidity over the past year, stemming from the earlier interest rate cuts. Specifically, demand deposits rose by 3.6% during the second quarter of 2002, after falling by 4.9% during the first quarter. Savings deposits increased during both the first and second quarters of 2002, by 0.5% and 3.9% respectively. Time deposits dropped further by 1.0% during the second quarter of 2002, having fallen for six consecutive quarters and by 1.9% during the first quarter of this year. On a year-on-year comparison, time deposits were 10.1% lower at end-June 2002, while savings deposits and demand deposits were 18.5% and 18.8% respectively higher.

/Table 4.4

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

% change during the quarter		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	Total Hong Kong dollar deposits ^(a)
2001	Q1	-6.1	1.4	-0.6	-0.4
	Q2	0.9	8.3	-2.9	0.3
	Q3	5.9	4.4	-2.4	0.1
	Q4	13.9	8.7	-5.2	0.2
2002	Q1	-4.9	0.5	-1.9	-1.3
	Q2	3.6	3.9	-1.0	1.0
Total amount at the end of June 2002 (HK\$Bn)		126	641	1,081	1,848
% change over a year earlier		18.8	18.5	-10.1	-0.1

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 Total foreign currency deposits (adjusted to exclude foreign currency swap deposits), at \$1,481 billion at end-June 2002, rose by 1.7% during the second quarter, having recorded a 6.2% decline during the first quarter. On a year-on-year comparison, total foreign currency deposits shrank by 9.2% at end-June 2002.

4.12 Within the foreign currency deposits, US dollar deposits resumed increase at 1.1% during the second quarter of 2002, after a 2.9% fall during the first quarter. Non-US dollar deposits also picked up, to a 3.2% growth during the second quarter of 2002, having plunged by 12.7% during the first quarter. On a year-on-year comparison, US dollar deposits were down by 5.6% at end-June 2002, while non-US dollar deposits fell much more markedly by 16.1%.

/Table 4.5

Table 4.5

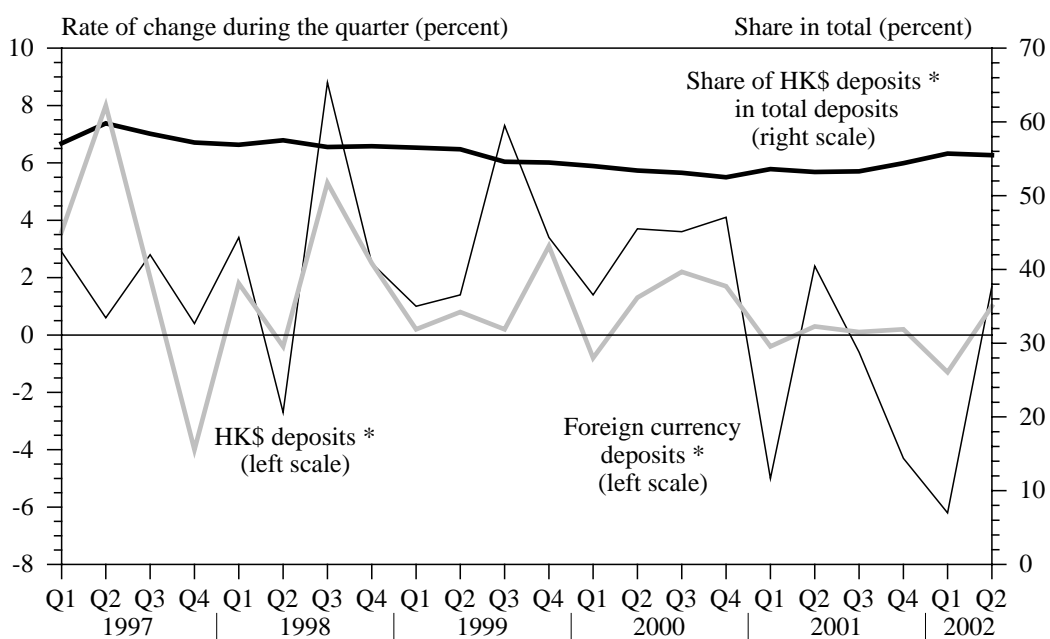
Foreign currency deposits with authorized institutions

% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2001	Q1	-3.9	-7.1	-5.0	-10.3
	Q2	2.1	2.8	2.4	-20.4
	Q3	-0.9	0.1	-0.6	-7.5
	Q4	-2.9	-6.9	-4.3	-7.8
2002	Q1	-2.9	-12.7	-6.2	-6.9
	Q2	1.1	3.2	1.7	-8.0
Total amount at the end of June 2002 (HK\$Bn)		1,013	468	1,481	2
% change over a year earlier		-5.6	-16.1	-9.2	-26.9

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.

4.13 Total deposits with all authorized institutions in Hong Kong rebounded slightly by 1.3% during the second quarter of 2002 to \$3,329 billion at end-June, having fallen by 3.5% during the first quarter. With licensed banks taking up 98.7% of the total deposits with all authorized institutions at end-June 2002, the rebound in total deposits during the second quarter mainly reflected the 1.2% rise in deposits with licensed banks, which came after a 3.5% fall during the first quarter. Deposits with restricted licence banks bounced back strongly, to a 10.6% rise during the second quarter, after falling by 3.0% during the first quarter. Yet deposits with deposit-taking companies declined during both the first and the second quarters, by 7.0% and 3.0% respectively.

Table 4.6

Total deposits by major type 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	-3.0	-2.7	4.7	5.5	-2.6
	Q2	0.6	7.3	-0.2	1.3	-3.2	-6.5	1.3
	Q3	6.7	4.3	-2.0	-0.3	7.0	16.0	-0.2
	Q4	10.2	8.5	-5.8	-1.9	-2.0	-1.9	-1.9
2002	Q1	-1.5	0.2	-5.0	-3.5	-3.0	-7.0	-3.5
	Q2	4.4	4.4	-0.2	1.2	10.6	-3.0	1.3
Total amount at the end of June 2002 (HK\$Bn)		161	890	2,237	3,288	36	6	3,329
% change over a year earlier		20.8	18.3	-12.5	-4.5	12.4	2.7	-4.3

4.14 Narrow money supply, HK\$M1⁽⁵⁾, reverted to increase at 1.7% during the second quarter of 2002, to \$234 billion at end-June, having fallen slightly by 0.1% during the first quarter. On a seasonally adjusted basis, HK\$M1 continued to rise, by 1.1% during the first quarter of 2002 and by 4.3% during

/during

the second quarter⁽⁶⁾. The broader definitions of money supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits), both contracted by 1.0% during the first quarter, but both rose back by 1.2% during the second quarter, to \$2,003 billion and \$2,020 billion respectively at end-June. On a year-on-year comparison, HK\$M1 surged by 16.4% at end-June 2002, while HK\$M2 and HK\$M3 rose much more modestly, by 0.8% and 0.9% respectively. The strong growth in narrow money supply reflected the low opportunity cost of holding cash as well as savings and demand deposits against time deposits upon the marked decrease in interest rates during the preceding year, and also an increased demand for cash associated with surging visitor inflow from the Mainland.

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	-2.6	-0.5	-2.5
	Q2	1.0	(1.8)	0.9	0.4	1.5	0.4	1.4
	Q3	5.1	(4.8)	5.7	0.4	*	0.5	0.1
	Q4	8.9	(5.4)	7.3	0.3	-1.6	0.3	-1.6
2002	Q1	-0.1	(1.1)	1.5	-1.0	-3.1	-1.0	-3.1
	Q2	1.7	(4.3)	2.4	1.2	1.7	1.2	1.7
Total amount at the end of June 2002 (HK\$Bn)		234	(237)	268	2,003	3,498	2,020	3,542
% change over a year earlier		16.4	(16.4)	17.8	0.8	-3.0	0.9	-3.0

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.

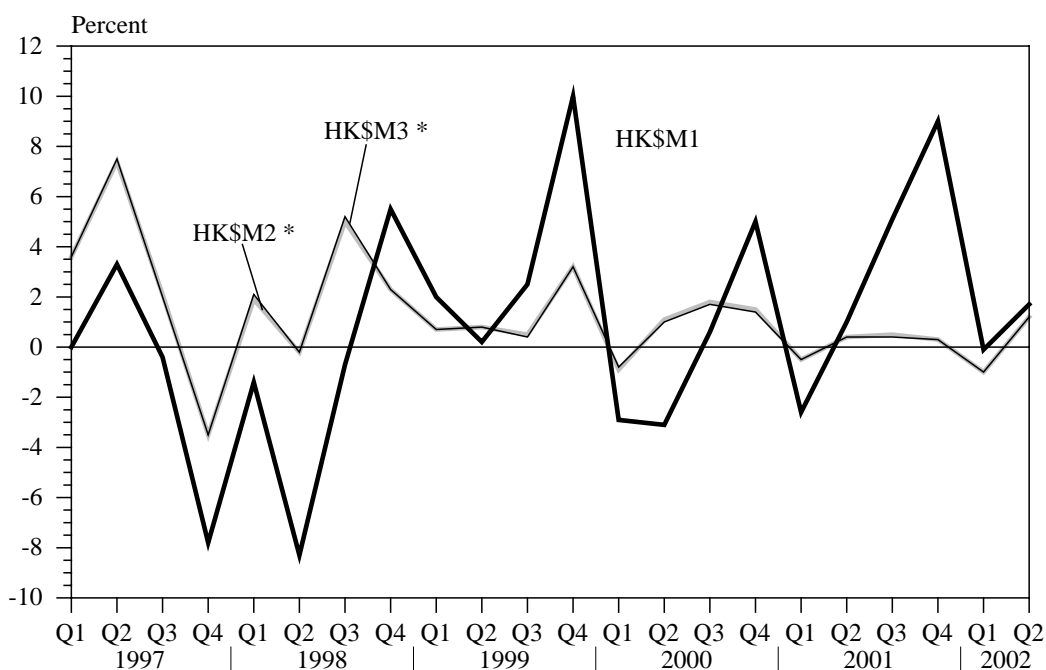
(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

/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

4.15 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 47.7% over a year earlier to \$71.8 billion at end-May 2002. Hong Kong dollar claims of Hong Kong's authorized institutions on banks in the Mainland held generally stable during the first five months of this year, which stood at \$18.8 billion at end-May 2002. Yet this was still 39.6% lower than a year earlier. Taken together, net Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell to \$53.0 billion at end-May 2002, from \$106.2 billion at end-May 2001 and \$77.4 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	42.5	(-0.3)	141.1	(-10.3)	98.6	
	Q2	19.0	(-55.4)	115.6	(-18.1)	96.6	
	Q3	18.8	(-1.1)	111.5	(-3.5)	92.7	
	Q4	18.5	(-1.2)	96.0	(-13.9)	77.4	
2002	Q1	19.1	(3.2)	68.4	(-28.7)	49.3	
	Apr	18.8	(-1.6)	68.1	(-0.5)	49.3	
	May	18.8	(-0.1)	71.8	(5.5)	53.0	
		<-39.6>		<-47.7>			

Notes : () % change during the period.

< > % change over a year earlier.

Loans and advances

4.16 Total loans and advances fell further, by 0.5% during the second quarter of 2002 to \$2,147 billion at end-June, following a 1.2% decrease during the first quarter. Within this total, Hong Kong dollar loans went down by 0.7% during the second quarter to \$1,647 billion at end-June, having risen by 0.7% during the first quarter. Yet foreign currency loans edged up by 0.2% during the second quarter to \$500 billion at end-June, having fallen by 7.2% during the first quarter and representing the first rebound since the second quarter of 1997. This was attributable in part to new loans made recently, and in part to valuation effects upon strengthening of the Japanese yen and the euro. With foreign currency loans still falling to a greater extent than Hong Kong dollar loans during the first half of 2002, the share of Hong Kong dollar loans in total loans and advances increased to 76.7% at end-June 2002, from 75.4% at end-2001. On a year-on-year comparison, foreign currency loans had a much larger decline, by 22.2% at end-June 2002, than Hong Kong dollar loans, by 1.6%, giving rise to an overall decline of 7.3% in total loans and advances.

/Table 4.9

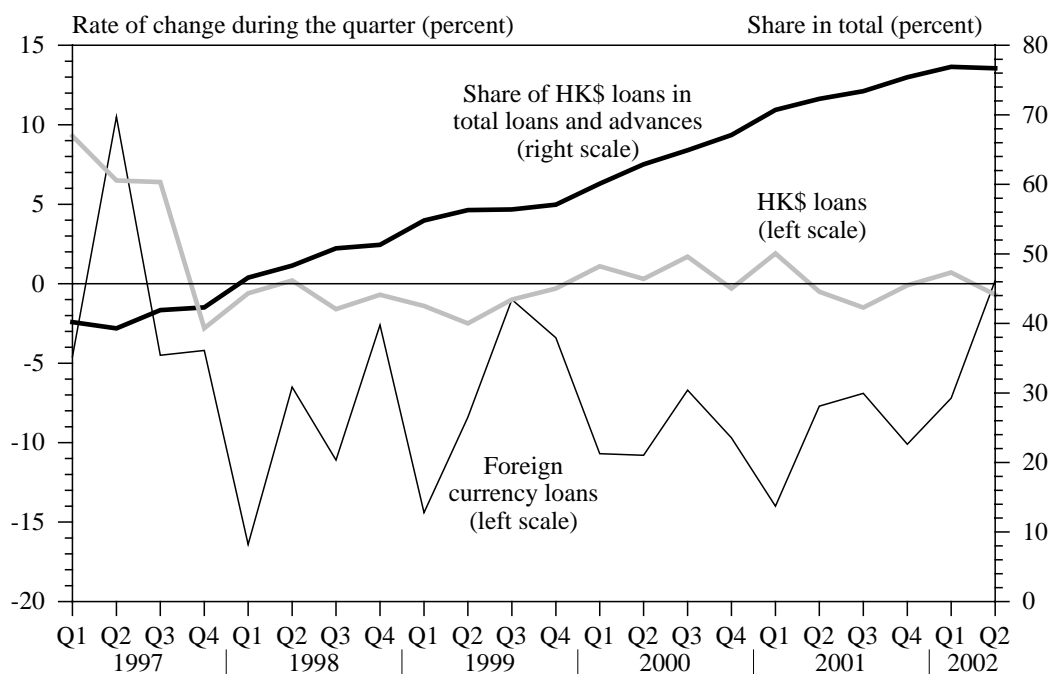
Table 4.9

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
	Q2	-0.7	0.2	-0.5
Total amount at the end of June 2002 (HK\$Bn)		1,647	500	2,147
% change over a year earlier		-1.6	-22.2	-7.3

Diagram 4.6

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



/4.17

4.17 As Hong Kong dollar loans had a marginal fall while Hong Kong dollar deposits picked up during the second quarter, the Hong Kong dollar loan-to-deposit ratio eased back to 89.1% at end-June 2002, from 90.7% at end-March. Yet this was still slightly above the ratio of 88.8% at end-2001.

Table 4.10

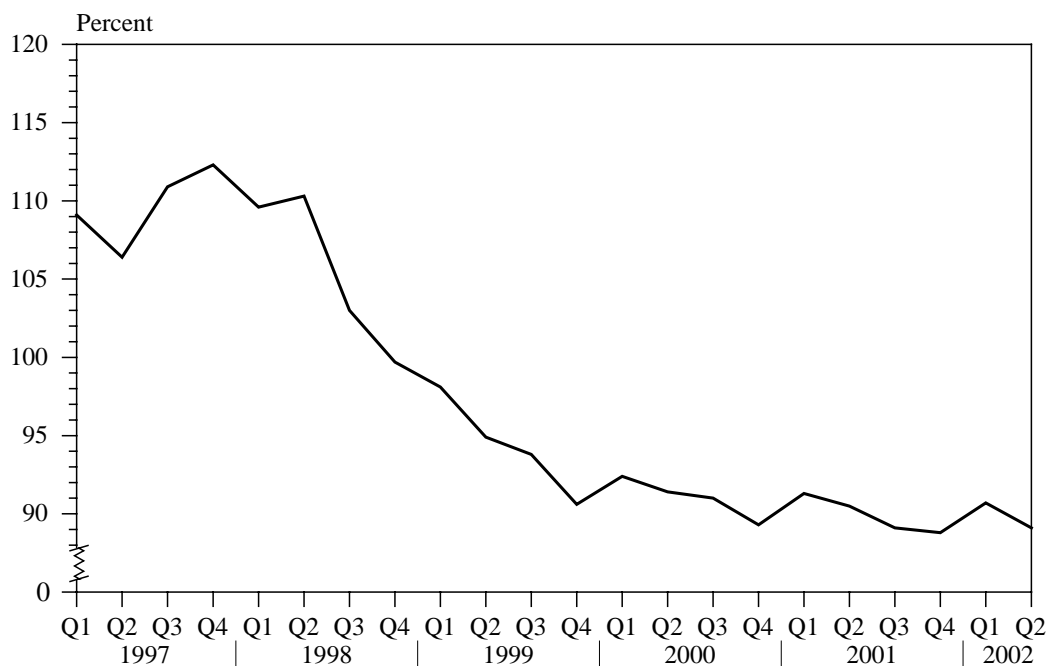
Hong Kong dollar loan-to-deposit ratio^(a)

<u>As at the end of</u>		<u>%</u>
2001	Q1	91.3
	Q2	90.5
	Q3	89.1
	Q4	88.8
2002	Q1	90.7
	Q2	89.1

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.

/4.18

4.18 Analysed by place of usage, loans for use in Hong Kong, at \$1,872 billion at end-June 2002, fell back by 0.5% during the second quarter, after a 0.1% rise during the first quarter. Yet loans for use outside Hong Kong, at \$275 billion at end-June 2002, had a markedly lesser decline, by 0.8% during the second quarter of 2002, as against a 9.6% dip during the first quarter, in part because the rate of decline in Euro-yen Impact Loans moderated significantly⁽⁷⁾. On a year-on-year comparison, loans for use outside Hong Kong continued to plummet, by 27.2% at end-June 2002, while loans for use in Hong Kong fell more moderately, by 3.5%.

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
	Q2	-0.5	-0.8
Total amount at the end of June 2002 (HK\$Bn)		1,872	275
% change over a year earlier		-3.5	-27.2

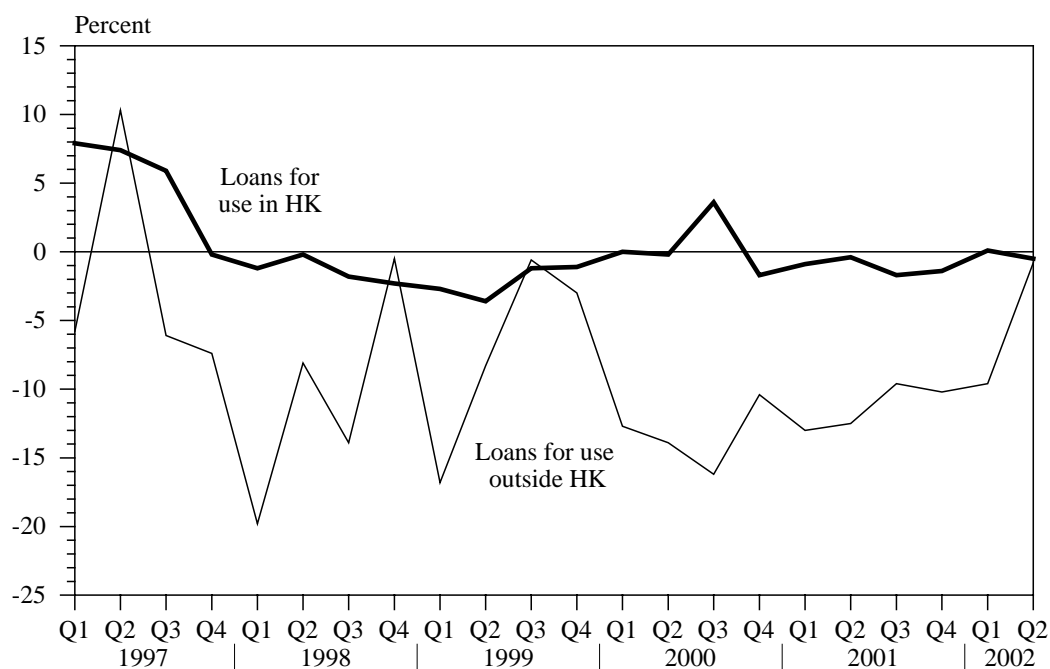
Notes : (a) Including trade financing loans.

(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)**



4.19 Analysed by major usage, loans for trade financing bounced back strongly, to a 7.3% rise during the second quarter of 2002, having fallen by 2.6% during the first quarter, along with the rebound in exports in recent months. Loans to the manufacturing sector also rose, by 1.3% during the second quarter, following a 1.2% increase during the first quarter. Loans for residential mortgage went up by 0.6% during the second quarter, after staying virtually flat during the first quarter. Loans to stockbrokers surged by 23.9% during the second quarter, much faster than the 2.1% rise during the first quarter, partly reflecting increased turnover in the stock market. Yet loans for the wholesale and retail trades eased back slightly, by 0.1% during the second quarter, after a 1.0% increase during the first quarter, conceivably due to slackening retail business. Loans for building, construction, property development and property investment contracted further, by 1.9% during the second quarter, following a 0.5% decrease during the first quarter, as the still generally modest building and construction activity continued to dampen loan demand. Loans to financial concerns fell back markedly, by 8.2% during the second quarter, having risen briefly by 0.9% during the first quarter.

/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	-4.2	-5.7	-6.0	-2.2	0.8	-8.0	-2.0	-0.3
	Q4	-8.9	-0.4	-7.1	0.9	0.5	-0.8	-11.3	-3.4
2002	Q1	-2.6	1.2	1.0	-0.5	*	0.9	2.1	0.7
	Q2	7.3	1.3	-0.1	-1.9	0.6	-8.2	23.9	-0.6
Total amount at the end of June 2002 (HK\$Bn)		93	73	102	379	651	131	11	432
% change over a year earlier		-8.7	-3.6	-11.9	-3.8	1.9	-15.4	10.0	-3.6

Notes : (a) Figures 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%.

4.20 Asset quality of the banks in Hong Kong continued to improve in overall terms. The ratio of non-performing loans to total loans fell to 5.03% at end-March 2002, from 5.16% at end-2001. The ratio of classified loans to total loans also decreased, to 6.35% at end-March 2002, from 6.53% at end-2001. Yet the ratio of overdue and rescheduled loans to total loans went up, to 4.69% at end-March 2002, from 4.57% at end-2001⁽⁸⁾. Arrears for over three months in mortgage repayments fell further, to 1.10% at end-June 2002, from 1.18% at end-March 2002. However, arrears for over three months in credit card repayments rose distinctly further, to 1.90% at end-March 2002, from 1.28% at end-2001. Local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 16.6% at end-March 2002, well above the standard set by the Bank for International Settlements.

/4.21

4.21 In view of the rising trend in credit card receivables overdue, HKMA issued a circular to all authorized institutions in February 2002, recommending 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. This will be subject to a public consultation by the Privacy Commissioner later this year. With such additional customer information for the banks, consumers should also benefit from enhanced credit availability at a lower cost.

Banks and other deposit-taking institutions

4.22 During the first half of 2002, the number of licensed banks dropped by 14, to 133 at end-June. Nine out of the 14 were related to the merger of ten banks formerly under the Bank of China (Hong Kong) Group, upon re-organisation of the Group for public listing. As to the remainder, mergers of banks were also involved. The number of restricted licence banks fell by one to 48, and the number of deposit-taking companies decreased by six to 48. Altogether, 229 authorized institutions (excluding representative offices) from 31 countries and territories maintained a presence in Hong Kong at end-June 2002. Total assets of all the authorized institutions in Hong Kong declined by 1.1% during the first half of 2002, to \$6,089 billion at end-June.

4.23 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 then carried out during the course of last year. Having substantially completed the consideration on how the deposit insurance scheme should be structured, HKMA issued a second consultation paper in March 2002 setting out the detailed proposals for the scheme. Upon completion of this consultation exercise in May, HKMA was proceeding to finalise the detailed design features for the scheme and work up the requisite legislation.

/Insurance

Insurance

4.24 During the first half of 2002, the total number of insurance companies decreased by one, to 203 at end-June. Within this total, 48 were engaged wholly in long-term business, 137 wholly in general business, and 18 in composite business. Taken together, insurance companies from 27 countries and territories maintained a presence in Hong Kong at end-June 2002. Benefited mostly from the robust performance of life insurance business, the value of business receipts in the insurance industry registered a further notable growth of 10% in the first quarter of 2002 over a year earlier, following a 14% surge in the fourth quarter of 2001.

The debt market

4.25 In the first half of 2002, HKMA launched a total of 57 issues of Exchange Fund paper to replace the maturing issues⁽⁹⁾. The total market value of Exchange Fund paper outstanding rose by \$2.0 billion during the period, to \$115.7 billion at end-June. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 5.1 times. Trading in Exchange Fund paper went up, with the average daily turnover rising to \$22.5 billion in the first half of 2002, from \$21.3 billion in the second half of 2001. The yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries narrowed, from 92 basis points at end-2001 to 35 basis points at end-June 2002.

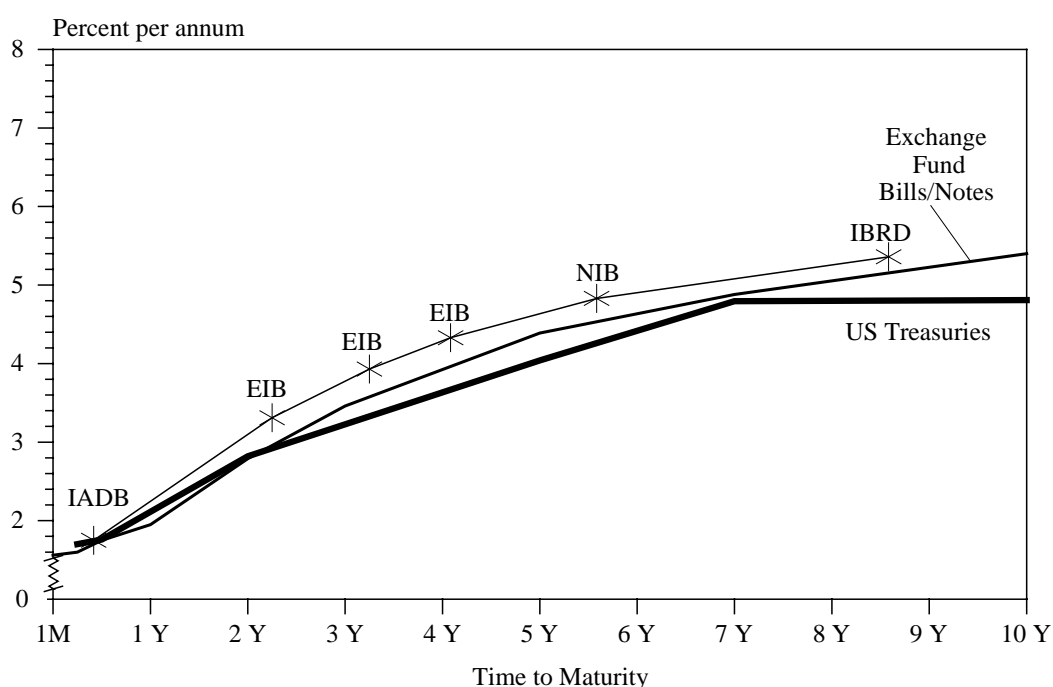
Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		<u>Amount outstanding as at the end of the quarter</u> (HK\$Bn)	<u>Average daily turnover in the quarter</u> (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	22.3
	Q2	115.7	22.7

/Diagram 4.9

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



Note : AAA Hong Kong dollar debt issuers

NIB	Nordic Investment Bank
EIB	European Investment Bank
IBRD	International Bank for Reconstruction and Development
IADB	Inter-American Development Bank

4.26 The Hong Kong Mortgage Corporation (HKMC) has become one of the major issuers of debt securities in Hong Kong. In the first half of 2002, \$9.3 billion worth of HKMC debt paper was launched, as compared to that of \$4.9 billion issued in the second half of 2001. At end-June 2002, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme stood at \$7.0 billion, down from \$10.5 billion at end-2001, while that under its Debt Issuance Programme stood at \$14.2 billion, up from \$8.9 billion at end-2001. There were also retail bonds issued by HKMC, with the outstanding value totalling \$4.4 billion at end-June 2002, considerably larger than that of \$0.7 billion at end-2001.

4.27 In the first half of 2002, \$57.0 billion worth of new negotiable certificates of deposit (NCDs) was launched, up from \$43.0 billion issued in the second half of 2001. Of the new issuance of NCDs in the first half of 2002, \$40.1 billion was denominated in Hong Kong dollars, higher than that of

/\$30.3 billion

\$30.3 billion in the second half of 2001. At end-June 2002, the total value of NCDs outstanding was \$192.3 billion, up from \$172.3 billion at end-2001. Within this total, \$142.0 billion was denominated in Hong Kong dollars, above that of \$134.9 billion at end-2001. The proportion of Hong Kong dollar denominated NCDs held by the local banking sector declined modestly, to 54.4% at end-June 2002, from 55.3% at end-2001.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

As at the <u>end of</u>		<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>
2001	Q1	146.7	172.8	90.4	102.9	56.2	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
	Q2	142.0	192.3	77.2	86.8	64.8	105.5

4.28 462 new issues of other Hong Kong dollar debt instruments, totalling \$69.9 billion, were launched by the private sector in the first half of 2002. This was more than the 447 new issues for \$42.4 billion in the second half of 2001. Partly reflecting risk aversion by the debt issuers against interest rate volatility, issuance of fixed rate bonds by the private sector, at \$45.6 billion in the first half of 2002, continued to exceed considerably that of floating rate notes, at \$24.4 billion. At end-June 2002, outstanding Hong Kong dollar fixed rate bonds and floating rate notes from the private sector amounted to \$199.3 billion and \$68.5 billion respectively, giving a total of \$267.8 billion⁽¹⁰⁾. These were higher than the corresponding figures of \$181.8 billion, \$53.3 billion and \$235.1 billion at end-2001. Meanwhile, there were four new issues of Hong Kong dollar debt paper by multilateral agencies, raising \$4.2 billion in the first half of 2002, as compared to one issue for \$0.1 billion in the second half of 2001.

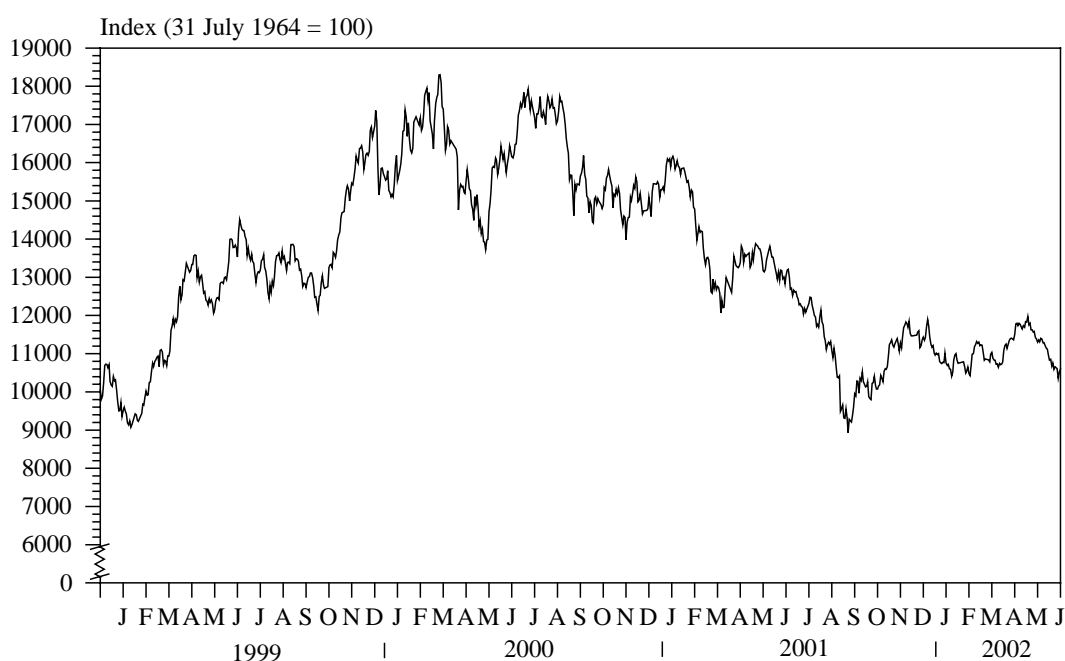
/4.29

4.29 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding amounted to \$530.8 billion at end-June 2002⁽¹¹⁾, higher than that of \$493.8 billion at end-2001. The size of the Hong Kong dollar debt market was equivalent to 26.3% of HK\$M3, or 19.1% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

4.30 The local stock market was relatively more steady during the first quarter of 2002, but underwent significant ups and downs during the second quarter. Performance was generally overshadowed by weak sentiment amidst rising unemployment and an uncertain business outlook, apart from being much influenced by movements in the US stock market. The Hang Seng Index mostly hovered in the 10 000 – 11 000 range before mid-April. It picked up in the latter part of April, upon fund inflows and market expectation for no imminent rise in US interest rates. The Index rallied to a nine-month high of 11 975 on 17 May. But it fell back distinctly thereafter, as the downslide in the US stock market spilled over to affect major stock markets worldwide. Apart from greater concern about the pace of recovery in the US economy, wary about accounting irregularities in the corporate sector added to market anxiety. The Index receded to a seven-month low of 10 356 on 26 June, before bouncing back modestly to close the first half of 2002 at 10 599, 7.0% below the level at end-2001. Share prices in most of the major stock markets overseas also fell visibly during the first half of 2002, with the fall occurring entirely during the second quarter. (The local stock market underwent considerable gyrations since then, being affected much by the movements in the US stock market. The Hang Seng Index stood at 10 246 on 23 August.)

/Diagram 4.10

Diagram 4.10**Hang Seng Index****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 Index	New York Dow Jones Industrial Average	Tokyo Nikkei Average	London Financial Times Index	Sydney All Ordinaries Index	Singapore Straits Times Index
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
	Q2	10 599	9 243	10 622	4 656	3 163	1 553
	% change during the first quarter of 2002	-3.2	3.8	4.6	1.0	0.1	11.1
	% change during the second quarter of 2002	-3.9	-11.2	-3.7	-11.7	-5.9	-13.9
	% change during the first half of 2002	-7.0	-7.8	0.8	-10.8	-5.9	-4.3
	% change at end-June 2002 over a year earlier	-18.7	-12.0	-18.1	-17.5	-7.6	-10.1

/4.31

4.31 The average daily turnover in the local stock market, including the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, rose to \$8.0 billion in the second quarter of 2002, from \$7.1 billion in the first quarter. The average daily turnover for the first half of 2002 as a whole, at \$7.6 billion, was 9% higher than in the second half of 2001. Yet along with the fall in share prices, total stock market capitalisation fell by 2% during the first half of the year to \$3,852 billion at end-June 2002.

Table 4.16

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

		<u>Average daily turnover in the quarter</u> (HK\$Bn)			<u>Total market capitalisation as at the end of the quarter</u> (HK\$Bn)		
		<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>	<u>Main Board</u>	<u>Growth Enterprise 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	6.9	0.2	7.1	3,885	61	3,946
2002	Q1	6.9	0.3	7.1	3,855	69	3,924
	Q2	7.8	0.2	8.0	3,792	61	3,852

4.32 In the first half of 2002, 62 new share flotations were launched on the Hong Kong Stock Exchange, raising a total equity capital of \$5.8 billion. Of these, 34 were listed on the Main Board and 28 on GEM. Amongst these new issues, five pertained to H shares and listed on GEM, raising a total equity capital of \$0.4 billion. In addition to the new flotations, around \$13.2 billion was raised through private placements by 89 companies, and around \$3.6 billion through rights issues by 32 companies.

4.33 As to trading in derivatives on the Hong Kong Exchanges and Clearing Ltd, the average daily turnover of Hang Seng Index futures contracts decreased by 3% over the second half of 2001 to 18 356 contracts in the first half of 2002, and the average daily turnover of Hang Seng Index options contracts fell by 1% over the second half of 2001 to 3 260 contracts in the first half of 2002. Meanwhile, the average daily turnover of MSCI China Free Index futures contracts⁽¹³⁾ was down by 35% over the second half of 2001 to 11 contracts in the first half of 2002.

/Table 4.17

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
Q2	18 739	3 185

4.34 At end-June 2002, there were 30 classes of stock options contracts. The average daily turnover of these stock options contracts increased by 8% over the second half of 2001 to 14 618 contracts in the first half of 2002. Meanwhile, the average daily turnover of stock futures contracts went up by 70% over the second half of 2001 to 85 contracts in the first half of 2002.

4.35 Comparing the first half of 2002 with the second half of 2001, the average daily turnover of three-month HIBOR futures contracts decreased by 24% to 1 976 contracts. Trading in three-year Exchange Fund Note futures contracts commenced in late 2001, with an average daily turnover of 27 contracts in the first half of 2002. On the other hand, trading in Rolling Forex Futures contracts was suspended in May 2002.

4.36 At end-June 2002, 457 issues of warrants were listed on the Main Board, comprising 71 issues of equity warrants and 386 issues of derivative warrants. The average daily turnover of equity warrants surged by 33% over the second half of 2001 to \$12 million in the first half of 2002. Concurrently, the average daily turnover of derivative warrants also rose substantially, by 31% to \$430 million. Trading in warrants remained negligible on GEM, with only five issues listed at end-June 2002.

4.37 In the gold market, gold prices were on a distinct uptrend during most of the first half of 2002. Weakness in the major stock markets had prompted international investors to shift to other vehicles of investment, including gold. The marked depreciation of the US dollar during the second quarter also stimulated the demand for gold, as it made the US dollar denominated gold

/prices

prices relatively less expensive in terms of other major currencies, including the euro and the Japanese yen. Moreover, with the blanket deposit insurance system for the banks in Japan coming to an end on 31 March 2002, gold purchase by Japanese investors increased significantly. Also, amidst the heightened tension in the Middle East and the threat of war between India and Pakistan, investors saw the gold market as a safe haven for their funds. The price of loco-London gold surged to an almost four-year high of US\$329.1 per troy ounce on 4 June. It eased back to US\$314.3 at end-June 2002, still 14% higher than the level of US\$276.6 at end-2001. Gold price at the Chinese Gold and Silver Exchange Society also rose distinctly during the first half of 2002, by 14% to \$2,924 per tael at end-June. Turnover on the Exchange increased to 1.8 million taels in the first half of 2002, from 1.8 million taels in the second half of 2001.

Unit trusts and mutual funds

4.38 At end-June 2002, the total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong increased marginally to 1 899, from 1 893 at end-2001. Gross sales of mutual funds totalled US\$6.7 billion in the first half of 2002, 30% more than in the second half of 2001. After deducting redemptions, net sales amounted to US\$2.9 billion in the first half of 2002, 21% more than in the second half of 2001. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 69% of the total value of funds at end-June 2002. This was followed by bond funds, asset allocation funds and money market funds, with shares of 17%, 8% and 6% respectively.

4.39 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-June 2002, the aggregate net asset value of the approved constituent funds of MPF schemes rose to \$47.0 billion, from \$36.0 billion at end-2001. The rise in the net asset value was mainly attributable to continuing contributions from the enrolled population. By end-June 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

Schemes Authority. About 212 000 employers, 1.70 million employees and 297 000 self-employed persons had enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons standing at 93%, 95% and 83% 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 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

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 28 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.

As from June 2002, short-term Exchange Fund placements of less than one month are included under time deposits as part of the monetary aggregates. The data series on time deposits and M2 are backdated to April 1997 using this revised definition.

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, and complements the Red-clip and H share markets in Hong Kong. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001.

Trading in Red-clip 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 between 18 and 65, 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 scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. As from February 2003, the minimum income level for MPF contribution purpose is expected to be raised from \$4,000 per month at present to \$5,000, yet the maximum income level will remain at \$20,000 per month. The accrued MPF benefits are fully vested in the scheme, and members 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 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. Following a recent legislative amendment, a constituent fund may also be invested in some other types of financial products, such as an index-tracking collective investment scheme, subject to MPFA's prior approval.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation⁽¹⁾

5.1 Labour market conditions slackened distinctly further in the second quarter of 2002, as reduced labour demand consequential to the economic setback, coupled with continued expansion in labour supply, led to a further marked loosening in the manpower resource balance. The *seasonally adjusted unemployment rate*⁽²⁾ rose to a new high of 7.7% in the second quarter of 2002, from 7.0% in the first quarter. The total numbers unemployed (not seasonally adjusted) leaped from 238 900 to 263 400. The proportion of persons unemployed for six months or more went up from 27% in the first quarter of 2002 to 30% in the second quarter, while the median duration of unemployment lengthened from 87 days to 89 days. Hence as to be expected, the process of job search had also become more difficult than before.

5.2 As to the *underemployment rate*⁽³⁾, there was a decrease to 2.9% in the second quarter of 2002, from 3.2% in the first quarter, against the uptrend seen in the past three quarters. However, this might just be due to some of the underemployed persons becoming unemployed in the more recent months. The total numbers underemployed fell from 109 300 to 100 500.

5.3 For the employed persons, the median hours of work per week increased from 45 in the first quarter of 2002 to 48 in the second quarter. The proportion of employed persons working for 50 hours or more per week also went up, from 34% to 36%. This reflected greater work effort in general, as the staffing situation of businesses consolidated.

/Table 5.1

Table 5.1

Unemployment and underemployment rates

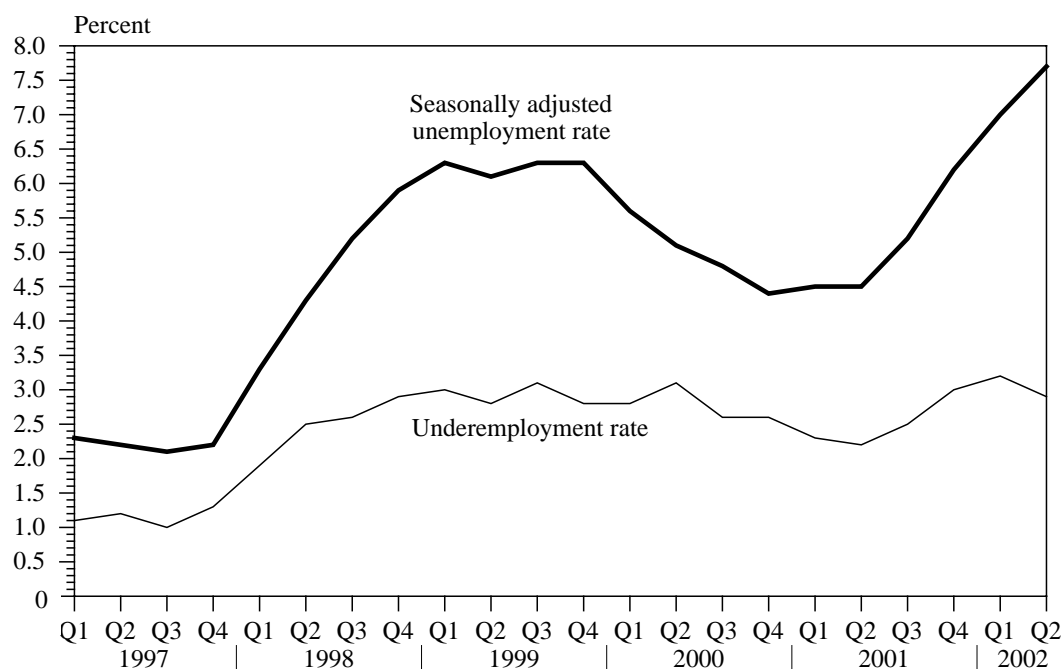
		Seasonally adjusted <u>unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
2001	Annual	5.1	2.5
	Q1	4.5	2.3
	Q2	4.5	2.2
	Q3	5.2	2.5
	Q4	6.2	3.0
2002	Q1	7.0	3.2
	Q2	7.7	2.9

Note : Labour force statistics for 2001 have been slightly revised upon finalisation of the end-2001 population estimates in August 2002.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.1

Unemployment and underemployment rates



/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	3 427 100 (1.6)		3 252 300 (1.4)		174 800	85 500
	Q1	3 403 400 (2.0)		3 253 700 (3.1)		149 600	77 700
	Q2	3 410 300 (1.3)		3 257 700 (1.9)		152 600	75 200
	Q3	3 443 400 (1.5)		3 257 300 (1.0)		186 100	84 500
	Q4	3 451 200 (1.4)		3 240 500 (-0.4)		210 700	104 500
2002	Q1	3 459 600 (1.7)		3 220 700 (-1.0)		238 900	109 300
	Q2	3 460 100 (1.5)		3 196 700 (-1.9)		263 400	100 500
		<*>		<-0.7>			

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.

(*) Change of less than 0.05%.

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	22
	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
	Q2	89	51	19	30

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
	Q2	48	15	21	36

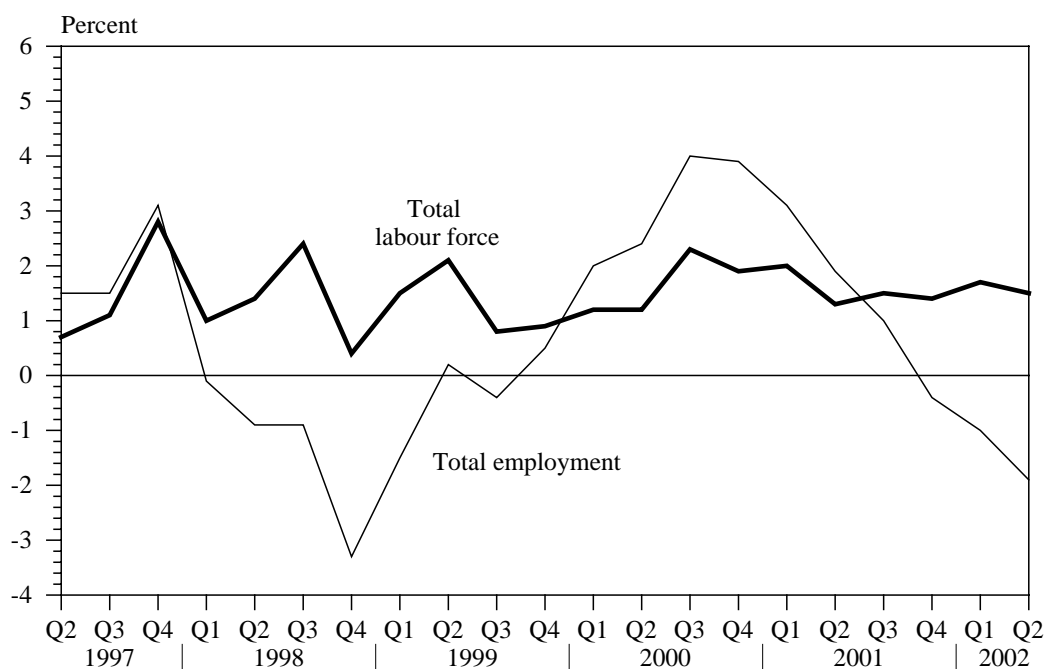
Note : Figures may not add up exactly to the total due to rounding.

Source : General Household Survey, Census and Statistics Department.

5.4 On a year-on-year comparison, *total employment*⁽⁴⁾ as enumerated from households shrank by 1.9% in the second quarter of 2002, worsened from the 1.0% decrease in the first quarter of 2002 and even more from the 1.4% rise in 2001. There were more extensive corporate downsizing and lay-offs, and employers had adopted an even more cautious attitude towards staffing. Within the total, the number of employers and employees both fell, by 9.3% and 2.8% respectively in the second quarter of 2002, which more than offset the 19.3% increase in the number of self-employed persons such as hawkers and free-lance workers. On the other hand, *total labour force*⁽⁵⁾ continued to expand steadily, by 1.5% in the second quarter of 2002, following increases of 1.7% in the first quarter of 2002 and 1.6% in 2001. To a large extent, this was attributable to continued growth in the population of working age, amidst a sustained net people inflow. Also contributed was a rise in the labour force participation rate⁽⁶⁾ over the past year, especially that for middle-aged females. On a quarter-to-quarter comparison and bearing in mind the influence of seasonality, total employment decreased by 0.7% in the second quarter of 2002, following a 0.6% fall in the first quarter. Total labour force, having increased by 0.2% in the first quarter of 2002, showed virtually nil change in the second quarter. These differential growth rates loosened the manpower resource balance further, thereby pushing the unemployment rate even higher.

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, are available as from the second quarter of 1997.

Table 5.5

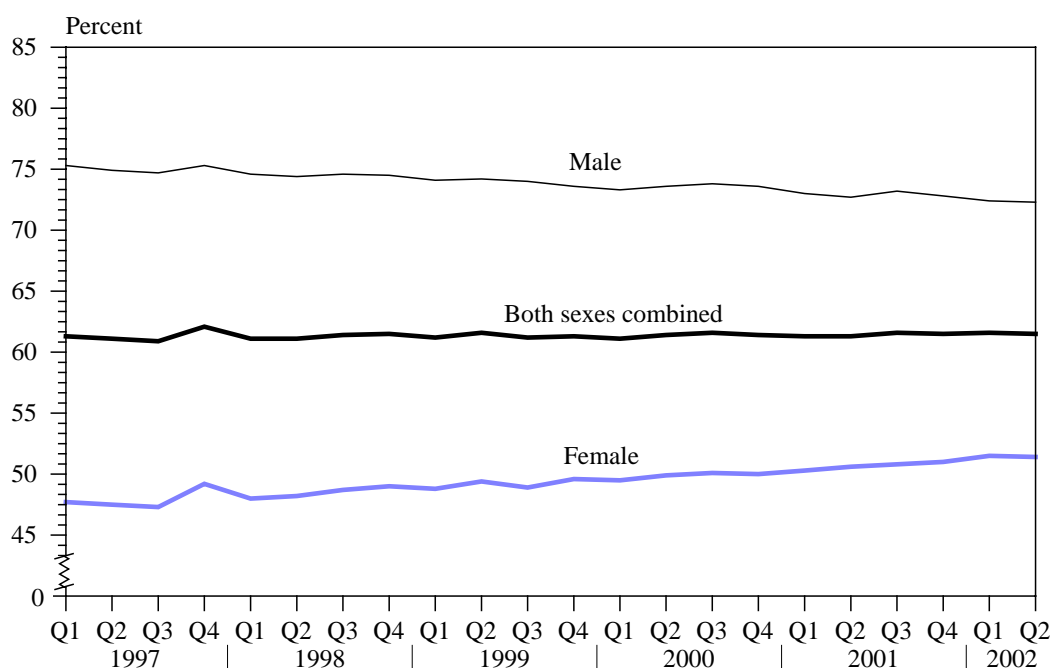
Labour force participation rates by sex (%)

		<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	72.7	50.6	61.3
	Q3	73.2	50.8	61.6
	Q4	72.8	51.0	61.5
2002	Q1	72.4	51.5	61.6
	Q2	72.3	51.4	61.5

Source : General Household Survey, Census and Statistics Department.

Diagram 5.3

Labour force participation rates by sex



5.5 Labour income continued to moderate. In the first quarter of 2002, *labour earnings*⁽⁷⁾ were lower by 0.6% in money terms over a year earlier, after increases of 0.4% in the fourth quarter of 2001 and 1.8% for 2001 as a whole. Nevertheless, netting out the decline in consumer prices as reflected by the Composite CPI, labour earnings were still up by 2.1% in real terms in the first quarter of 2002 over a year earlier, though somewhat smaller than the 2.5% gain in the fourth quarter of 2001. *Labour wages*⁽⁸⁾ likewise fell by 0.8% in money terms in March 2002 over a year earlier, following increases of 0.2% in December 2001 and 0.8% for 2001 as a whole. Netting out the decline in consumer prices as reflected by the CPI(A), labour wages moved up slightly, by 1.2% in real terms in March 2002 over a year earlier. This was much less than the 6.9% jump in December 2001, but the latter figure was distorted by an abrupt drop in the CPI(A) in December last year caused by the waiver of public housing rentals in that month.

/Profile

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, distinct increase in unemployment rate occurred across many of the major economic sectors between the first and second quarters of 2002. The rise in unemployment rate was particularly visible in construction and real estate, caused by a further slackening in the property market. The higher unemployment rates seen in the wholesale/retail trade, restaurants and personal services were attributable to subdued consumer spending. As to manufacturing and the import/export trade, the higher unemployment rates were due to the earlier decline in external trade. On the underemployment rate, decrease was observed in many of the economic sectors, more appreciably in restaurants, construction, personal services and business services.

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>	<u>Q2</u>
Wholesale, retail and import/export trades, restaurants and hotels	5.5	4.6	5.1	5.8	6.5	7.4	8.3
Transport, storage and communications	4.4	4.2	4.2	3.8	5.2	5.7	5.3
Financing, insurance, real estate and business services	3.0	2.7	2.5	3.1	3.9	4.9	4.5
Community, social and personal services	2.0	1.9	1.7	2.0	2.5	2.7	3.3
Manufacturing	5.3	4.0	4.9	5.6	6.8	7.2	8.2
Construction ^(b)	10.7	10.3	9.7	10.3	12.6	15.7	16.9

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>	<u>Q2</u>
Wholesale, retail and import/export trades, restaurants and hotels	1.3	1.1	1.1	1.3	1.5	1.8	1.6
Transport, storage and communications	2.7	2.4	2.6	2.6	3.1	3.1	3.0
Financing, insurance, real estate and business services	0.4	0.3	0.3	0.3	0.7	0.7	0.5
Community, social and personal services	1.4	1.3	1.2	1.3	1.7	2.3	1.8
Manufacturing	2.4	2.1	2.3	2.2	3.0	2.4	2.6
Construction ^(a)	12.5	11.7	10.7	12.3	15.2	14.2	13.7

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 second quarter of 2002**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	8.3	89 200	1.6	17 700
Wholesale/retail trade	9.1	32 900	2.1	7 500
Import/export trade	5.5	24 700	0.6	2 500
Restaurants and hotels	11.9	31 600	2.9	7 700
Transport, storage and communications	5.3	19 400	3.0	11 000
Transport	5.0	15 200	3.3	10 100
Storage	11.7	500	0	0
Communications	6.7	3 800	1.5	800
Financing, insurance, real estate and business services	4.5	21 800	0.5	2 400
Financing	3.0	4 000	0.2	300
Insurance	2.1	900	0.9	400
Real estate	5.9	6 500	0.5	600
Business services	5.2	10 400	0.6	1 100
Community, social and personal services	3.3	28 100	1.8	15 300
Public administration	1.0	1 300	0.1	200
Education, medical and other health and welfare services	2.5	7 700	1.4	4 200
Other services	4.8	19 100	2.7	10 900
Manufacturing	8.2	25 400	2.6	7 900
Food and beverages	7.4	1 600	4.3	900
Clothing and footwear	9.6	7 900	4.7	3 900
Paper and printing	6.2	3 500	1.5	900
Plastic products	4.9	1 000	1.4	300
Metal products	7.5	1 300	0.6	100
Electrical and electronic products	11.0	7 100	1.6	1 100
Other manufacturing industries	6.4	2 900	1.7	800
Construction	16.9	56 200	13.7	45 600
Foundation and superstructure	14.6	37 000	12.0	30 300
Decoration and maintenance	24.0	19 200	19.1	15 300

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.

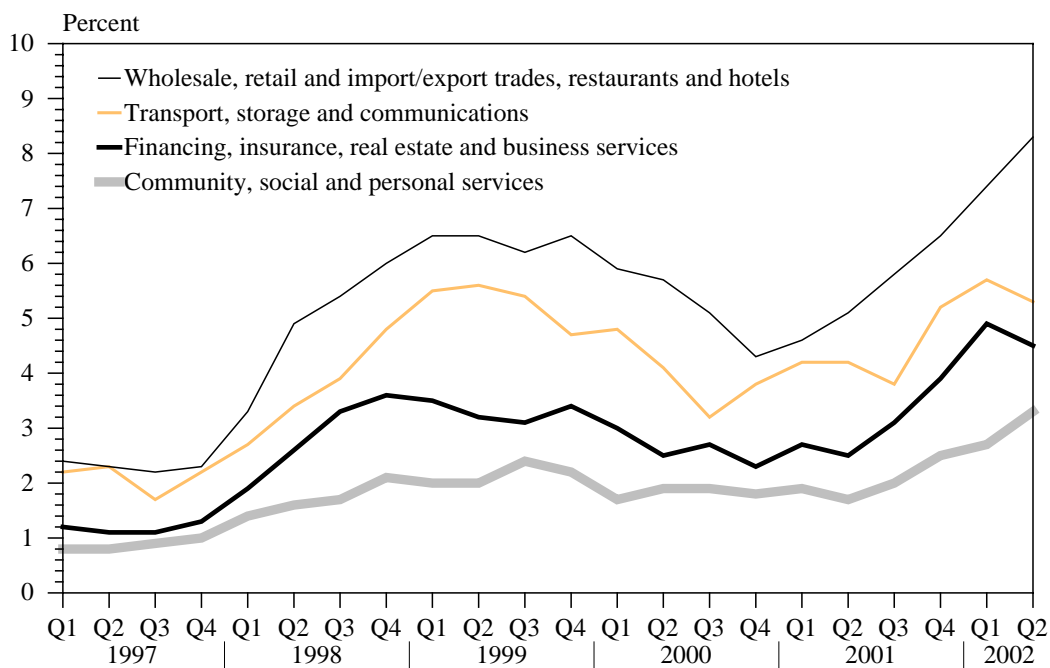
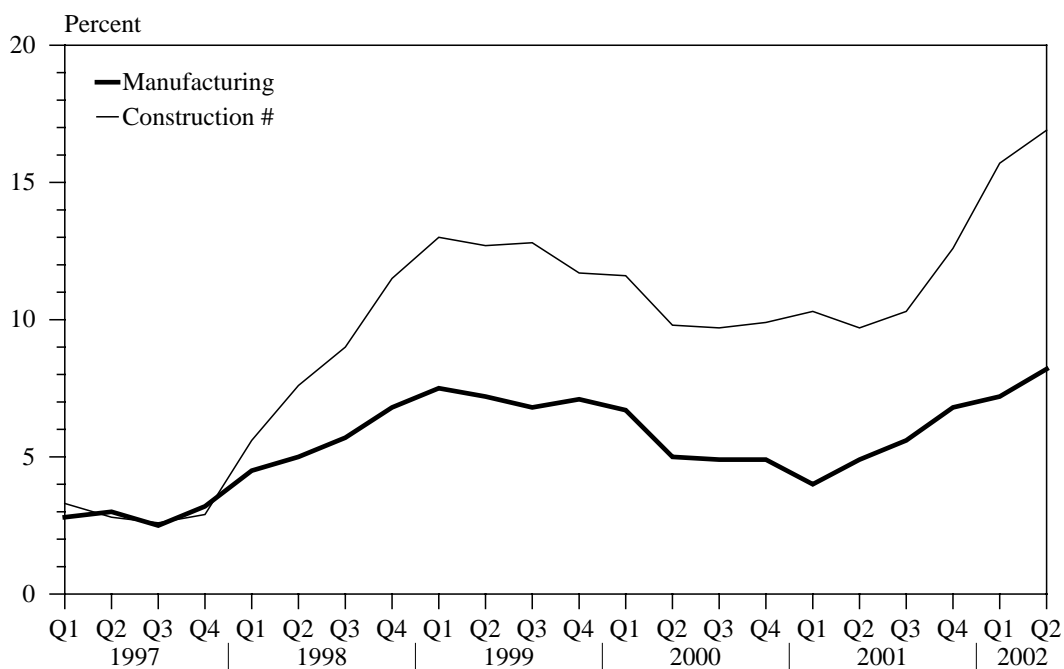
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



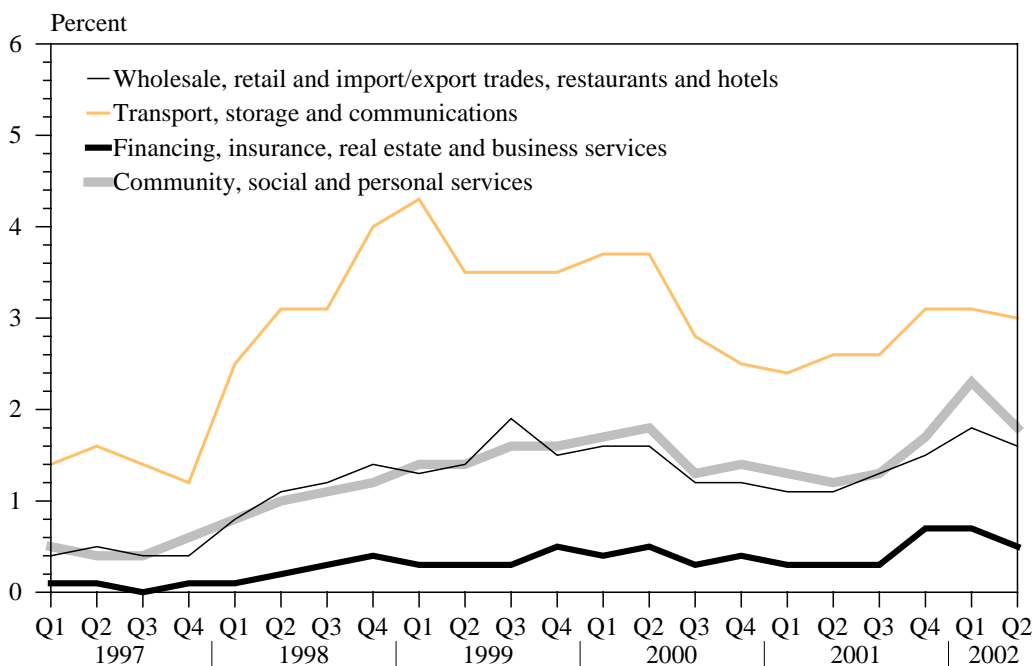
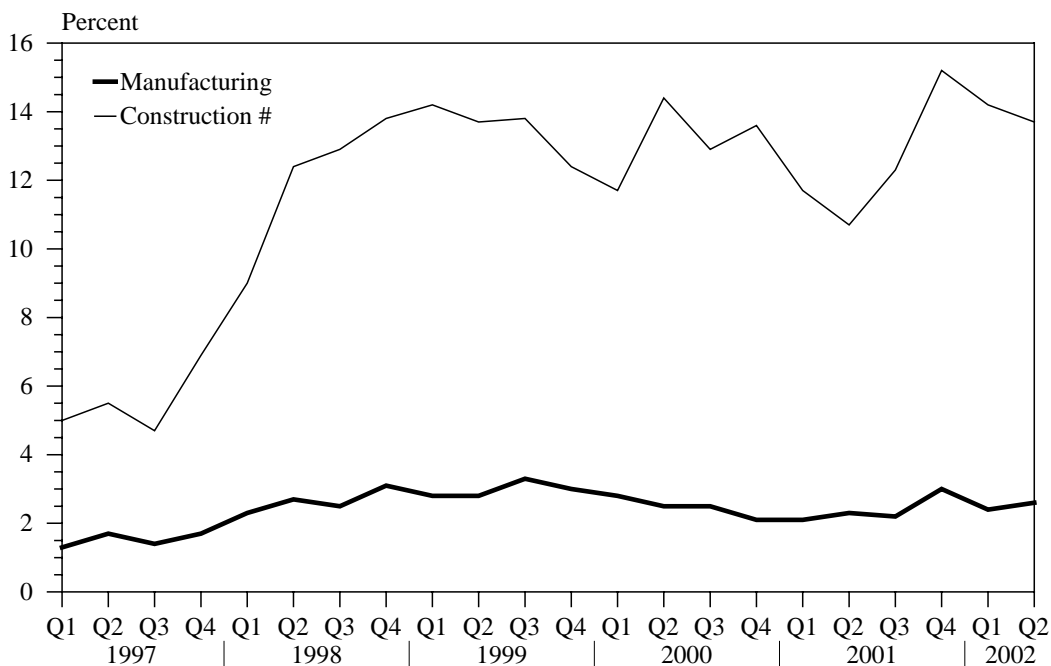
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(#) 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.

5.7 Analysed by *occupation category*, the increase in unemployment rate between the first and second quarters of 2002 took place predominantly amongst people at the middle to lower segments of the occupational hierarchy. In particular, the unemployment rates for craft and related workers and for service workers and shop sales workers went up visibly. As to people at the upper segment, the unemployment rates for managers and administrators and for professionals nevertheless fell. On the underemployment rate, decrease was observed mostly amongst workers in elementary occupations, amongst plant and machine operators and assemblers, and amongst service workers and shop sales 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>	<u>Q2</u>
Managers and administrators	1.9	1.4	1.6	2.0	2.4	3.5	3.1
Professionals	1.9	1.2	1.5	2.2	2.6	2.6	2.5
Associate professionals ^(b)	2.9	2.6	2.6	3.0	3.4	4.2	4.3
Clerks	3.7	3.1	3.2	3.7	4.9	5.2	5.5
Service workers and shop sales workers	6.5	5.6	6.1	6.9	7.5	8.5	9.6
Craft and related workers	9.3	8.9	8.1	9.3	10.7	12.6	15.7
Plant and machine operators and assemblers	4.6	4.0	3.9	4.8	5.9	6.4	6.6
Elementary occupations	5.2	4.8	5.0	4.8	6.2	7.4	7.7
Others	3.1	1.2	8.0	1.6	1.3	2.4	2.9

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>	<u>Q2</u>
Managers and administrators	0.1	0.1	*	0.1	0.1	*	0
Professionals	0.2	0.1	0.3	0.1	0.3	0.4	0.3
Associate professionals ^(a)	0.5	0.5	0.5	0.5	0.5	0.8	1.0
Clerks	0.7	0.6	0.6	0.8	0.9	1.1	0.9
Service workers and shop sales workers	1.7	1.5	1.7	1.7	2.1	2.6	2.3
Craft and related workers	9.3	9.1	8.0	8.8	11.5	11.2	11.0
Plant and machine operators and assemblers	3.4	2.8	3.4	3.2	4.2	4.3	3.8
Elementary occupations	4.3	3.8	3.7	4.5	5.2	5.2	4.5
Others	3.4	0	3.8	8.9	1.3	0.8	6.7

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.8

5.8 Analysed by *sex*, as the unemployment rate for females rose by a slightly larger magnitude than that for males in the second quarter of 2002 over the first quarter, the difference between the two unemployment rates narrowed marginally, from 2.8 percentage points to 2.7 percentage points.

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
Q2	8.8	6.1

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.

/5.9

5.9 Analysed by *age group*, the unemployment rate went up almost across-the-board between the first and second quarters of 2002. The increase in unemployment rate was particularly visible amongst younger persons aged 15-24, upon the entry of a new batch of fresh graduates and school leavers into the labour market. As to persons aged 40 and above, the unemployment rate also went up noticeably, with the lowly educated ones being affected more.

Table 5.12

Unemployment rates by age group (%)^(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>	<u>Q2</u>
15-19	23.4	21.0	21.2	25.1	26.1	27.2	30.1
20-24	8.7	7.1	6.5	11.4	9.7	9.8	11.3
25-29	4.4	3.9	4.0	4.5	5.4	6.2	6.5
30-39	3.5	3.1	3.2	3.4	4.5	5.6	5.5
40-49	4.6	3.8	4.1	4.8	5.8	6.3	7.2
50-59	5.4	5.1	5.1	5.2	6.0	7.3	8.5
60 and above	2.7	2.7	2.3	2.5	3.1	5.3	6.0

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 *educational attainment*, the unemployment rate likewise rose extensively between the first and second quarters of 2002. The unemployment rate for persons with primary to lower secondary education had the largest increase. Amongst these unemployed persons, many were craft and related workers engaged in construction as well as service workers and shop sales workers engaged in the distributive and catering trades. The unemployment rate for persons with upper secondary education to tertiary education also went higher, upon the entry of a new batch of fresh graduates and school leavers into the labour market.

Table 5.13

Unemployment rates by educational attainment (%)^(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>	<u>Q2</u>
No schooling/kindergarten	5.6	2.8	5.3	4.7	9.6	8.4	8.9
Primary	6.4	5.9	5.9	6.2	7.6	8.6	10.0
Lower secondary	7.5	7.1	6.7	7.6	8.7	10.4	11.5
Upper secondary ^(b)	4.7	4.1	4.1	5.1	5.7	6.6	7.3
Matriculation	3.6	2.6	3.0	4.7	4.1	5.2	5.4
Tertiary	3.2	2.3	2.7	3.9	4.0	3.9	4.2
<i>of which :</i>							
Non-degree	3.9	2.6	3.5	4.7	4.8	5.1	5.3
Degree	2.8	2.0	2.2	3.5	3.5	3.3	3.6

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

5.11 Employment as enumerated from business establishments was generally slack. Comparing March 2002 with a year earlier, total employment for all the private sector establishments surveyed taken together fell by 1.1%, having decreased by 0.3% in December 2001 and risen by 0.2% for 2001 as a whole. On a seasonally adjusted quarter-to-quarter comparison, total employment was reduced by 0.6% in March 2002, again larger than the 0.2% fall in December 2001.

5.12 Taking all the *service sectors* surveyed together⁽⁹⁾, employment rose slightly by 0.2% in March 2002 over a year earlier, smaller than the 1.2% increase in December 2001. Yet the employment situation amongst different constituent sectors varied considerably. Employment in storage and communications was slashed by 7.2% in March 2002 over a year earlier, amidst further consolidation in the telecommunications sector. Employment in restaurants and hotels and in the wholesale and import/export trades shrank by 3.2% and 2.6% respectively, along with the downturn in local consumer spending and external trade. Employment in financing, insurance, real estate and business services fell by 1.3%. On the other hand, employment in community, social and personal services rose markedly by 8.8% in March 2002 over a year earlier, as more manpower was absorbed into sanitary, welfare, medical and education services. Employment in water transport, air transport and services allied to transport expanded by 2.6%, with most of the increase occurring in water transport. Employment in the retail trade went up slightly, by 0.4%.

5.13 In the local *manufacturing sector*, employment showed a further contraction, by 9.0% in March 2002 over a year earlier, after a 10.3% fall in December 2001. The continued setback in domestic exports and on-going relocation of production processes outside Hong Kong were the major contributory factors.

/5.14

5.14 Employment of manual workers at *building and construction sites* was trimmed by 12.4% in March 2002 over a year earlier, following an 8.7% drop in December 2001. Employment at public sector sites plunged sharply, by 28.0% in March 2002 over a year earlier. This was due to completion or winding down of some major public housing projects over the past year. Also relevant was reduced work on certain major civil engineering projects, including the MTR Tseung Kwan O Extension and KCR West Rail. Employment at private sector sites, though still on an uptrend, had a moderated rise, by 3.7% in March 2002 over a year earlier, as construction work on some of the private sector projects tapered. Analysed by type of project, employment at civil engineering sites and at building sites both plummeted, by 13.2% and 12.1% respectively. Yet taking into account off-site workers and related professional and support staff, total employment in the entire building and construction sector⁽¹⁰⁾ was down more modestly, by 2.3% in the first quarter of 2002 over a year earlier, following a 7.1% decrease in the fourth quarter of 2001.

5.15 In line with the Government's effort to contain its staff size, employment in the *Civil Service* was reduced further, by 4.4% in March 2002 over a year earlier, after decreases of 4.4% in December 2001 and 3.5% for 2001 as a whole. Continued staffing stringency was sounded for the current financial year⁽¹¹⁾.

/Table 5.14

Table 5.14**Employment by major economic sector**

	Annual average	2001				2002
		Mar	Jun	Sep	Dec	Mar
Wholesale and import/export trades	577 200 (-3.5)	581 100 (-3.5)	581 500 (-3.6)	579 300 (-5.0)	566 800 (-1.8)	566 100 (-2.6)
Retail trade	219 700 (2.6)	215 400 (3.9)	228 300 (8.1)	225 000 (0.9)	210 200 (-2.2)	216 300 (0.4)
Restaurants and hotels	222 200 (1.2)	220 600 (0.9)	225 100 (1.4)	223 000 (1.1)	219 900 (1.3)	213 600 (-3.2)
Water transport, air transport and services allied to transport	99 900 (2.1)	98 200 (2.1)	100 500 (1.1)	101 600 (1.5)	99 100 (3.6)	100 800 (2.6)
Storage and communications	44 400 (2.8)	44 600 (8.2)	46 000 (6.2)	43 700 (-3.0)	43 400 (0.3)	41 300 (-7.2)
Financing, insurance, real estate and business services	435 600 (1.6)	428 900 (3.4)	442 500 (3.1)	437 300 (0.1)	433 900 (-0.1)	423 400 (-1.3)
Community, social and personal services	373 800 (7.2)	360 500 (4.5)	372 500 (7.6)	377 000 (8.1)	385 100 (8.6)	392 100 (8.8)
Manufacturing	212 000 (-8.6)	217 000 (-7.2)	218 700 (-8.4)	209 300 (-8.8)	203 000 (-10.3)	197 400 (-9.0)
Building and construction sites	80 300 (0.9)	87 800 (17.8)	80 300 (1.3)	76 500 (-5.2)	76 600 (-8.7)	76 900 (-12.4)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 312 600 (0.2)</i>	<i>2 301 600 (0.9)</i>	<i>2 343 200 (1.0)</i>	<i>2 319 900 (-0.9)</i>	<i>2 285 500 (-0.3)</i>	<i>2 275 500 (-1.1)</i>
		<0.2>	<0.9>	<-1.1>	<-0.2>	<-0.6>
<i>Civil Service^(b)</i>	<i>177 700 (-3.5)</i>	<i>181 000 (-2.6)</i>	<i>178 700 (-3.3)</i>	<i>176 700 (-3.7)</i>	<i>174 500 (-4.4)</i>	<i>173 000 (-4.4)</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.

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

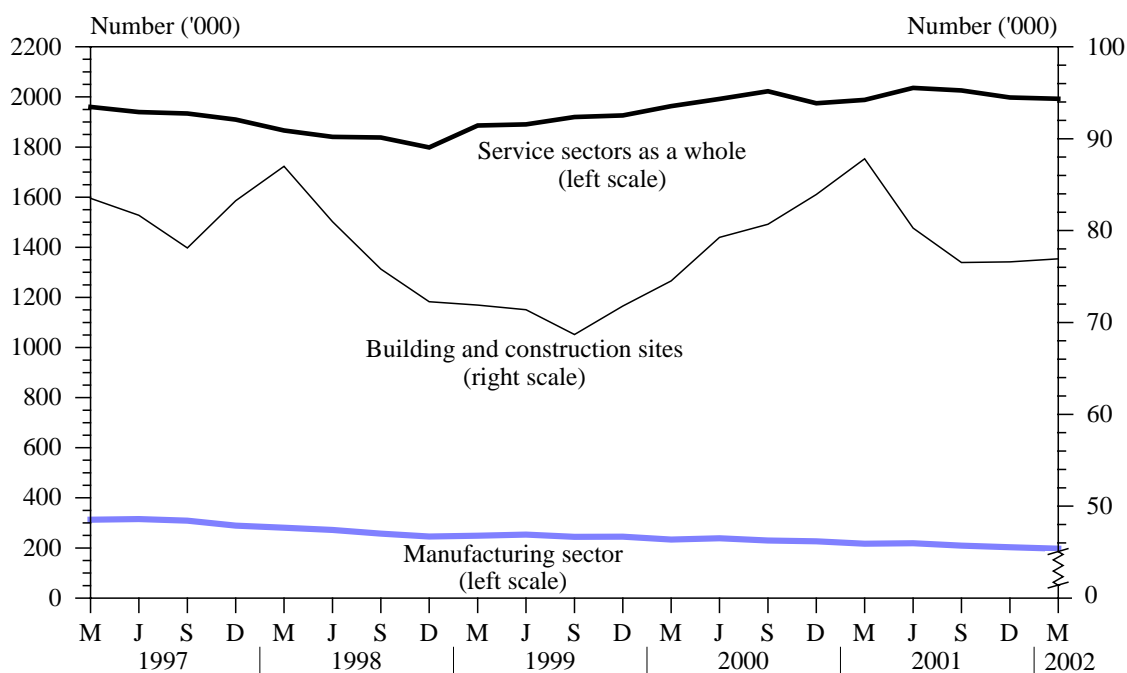
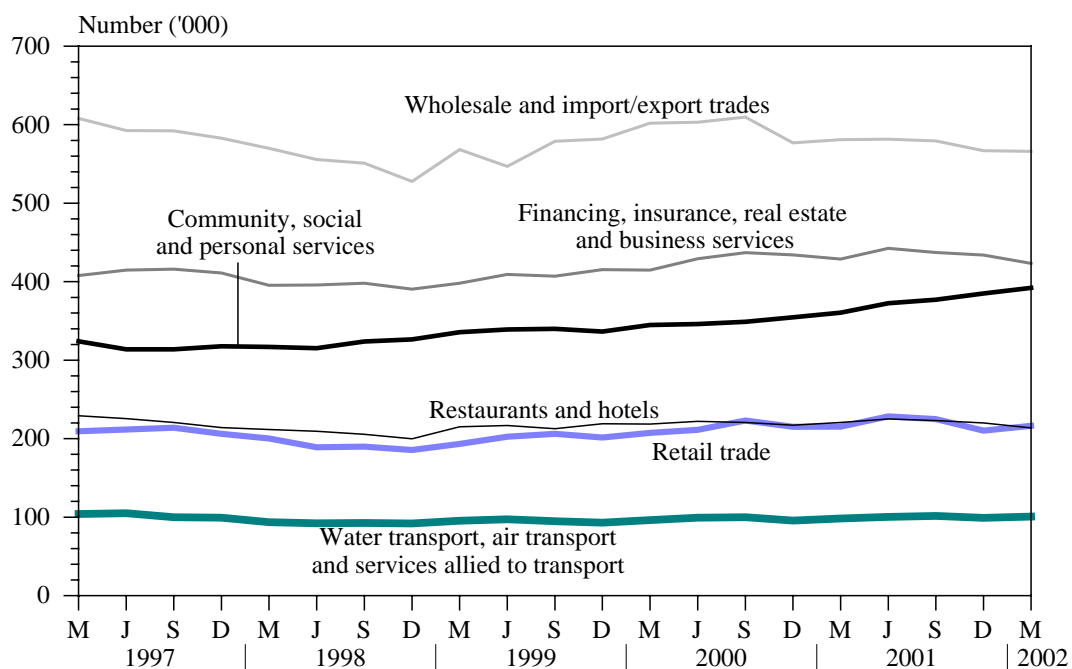


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.16 Vacancies continued to plummet across almost all the major economic sectors and occupation categories. For all the private sector establishments surveyed taken together, vacancies plunged by 30.8% in March 2002 over a year earlier, following decreases of 32.1% in December 2001 and 28.0% for 2001 as a whole. On a seasonally adjusted quarter-to-quarter comparison, vacancies in the private sector shrank further by 2.8% in March 2002, after a 7.4% drop in December 2001. The overall vacancy rate in the private sector, at 0.9% in March 2002, went up slightly from 0.7% in December 2001, but went down considerably from 1.3% in March 2001.

5.17 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed taken together dipped by 31.1% in March 2002 over a year earlier, similar to the 31.6% decline in December 2001. For the various constituent sectors on a year-on-year comparison, vacancies in water transport, air transport and services allied to transport had the largest decrease, by 48.3% in March 2002. This was followed by financing, insurance, real estate and business services (with vacancies fallen by 34.6%), the wholesale and import/export trades (32.2%), the retail trade (31.4%), storage and communications (31.0%), restaurants and hotels (28.5%), and community, social and personal services (23.5%). As to the local *manufacturing sector*, vacancies likewise dipped, by 25.0% in March 2002 over a year earlier, though smaller than the 36.1% drop in December 2001. Vacancies for manual workers at *building and construction sites* contracted even more, by 42.7% in March 2002 over a year earlier, yet this was also smaller than the 57.6% decline in December 2001. As to vacancies in the *Civil Service*, there was a 9.0% increase in March 2002 over a year earlier, with larger increases occurring in the social welfare, fire services and educational services fields. This followed a 19.8% rise in December 2001.

/Table 5.15

Table 5.15**Vacancies by major economic sector**

	<u>No. of vacancies</u>						<u>Vacancy rate in Mar 2002 (%)</u>
	<u>Annual average</u>	<u>2001</u>				<u>2002</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Wholesale and import/export trades	4 700 (-45.0)	7 400 (-29.0)	4 600 (-50.2)	4 000 (-56.5)	3 000 (-46.8)	5 000 (-32.2)	0.9
Retail trade	2 100 (-20.5)	2 400 (-3.2)	2 100 (-20.3)	2 400 (-20.1)	1 500 (-38.7)	1 700 (-31.4)	0.8
Restaurants and hotels	1 600 (-21.0)	2 200 (7.0)	1 300 (-29.8)	1 500 (-35.9)	1 200 (-24.1)	1 600 (-28.5)	0.7
Water transport, air transport and services allied to transport	700 (-33.2)	900 (6.1)	800 (-24.4)	400 (-68.8)	500 (-30.1)	500 (-48.3)	0.5
Storage and communications	500 (-25.6)	600 (-29.2)	500 (-50.4)	500 (-23.2)	500 (38.0)	400 (-31.0)	1.1
Financing, insurance, real estate and business services	6 400 (-30.5)	8 200 (-12.9)	7 800 (-22.2)	5 300 (-48.8)	4 300 (-39.3)	5 400 (-34.6)	1.3
Community, social and personal services	5 600 (0.5)	5 700 (5.5)	6 500 (16.0)	5 500 (-11.1)	4 700 (-8.0)	4 400 (-23.5)	1.1
Manufacturing	1 600 (-35.2)	1 900 (-34.1)	1 900 (-34.0)	1 400 (-37.8)	1 100 (-36.1)	1 400 (-25.0)	0.7
Building and construction sites	100 (-55.3)	200 (3.3)	100 (-75.3)	100 (-72.4)	100 (-57.6)	100 (-42.7)	0.2
<i>All establishments surveyed in the private sector^(a)</i>	<i>23 500 (-28.0)</i>	<i>30 000 (-13.8)</i>	<i>25 700 (-26.4)</i>	<i>21 200 (-40.6)</i>	<i>17 200 (-32.1)</i>	<i>20 800 (-30.8)</i>	<i>0.9</i>
<i>Civil Service^(b)</i>	<i>1 700 (-12.3)</i>	<i>1 500 (-31.8)</i>	<i>1 700 (-19.7)</i>	<i>1 700 (-8.1)</i>	<i>1 900 (19.8)</i>	<i>1 700 (9.0)</i>	<i>1.0</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 Scheme, which will be filled subsequently by in-service appointment.

() % change over a year earlier.

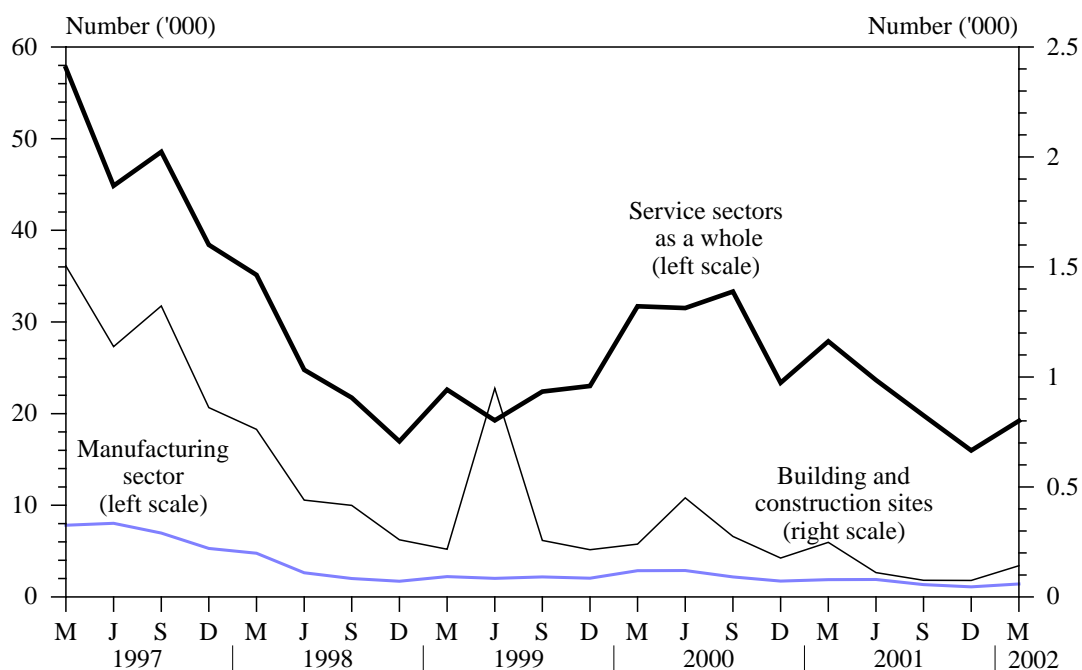
< > Seasonally adjusted quarter-to-quarter % change.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.18 Analysed by *occupation category*, the most pronounced decrease was seen amongst professionals, by 52.0% in March 2002 over a year earlier. This was followed by managers and administrators (with vacancies fallen by 48.7%), clerks (42.7%), craft and related workers (37.8%), workers in elementary occupations (32.4%), associate professionals (21.8%), and service workers and shop sales workers (20.1%). Plant and machine operators and assemblers were the only exception, with a 3.0% rise in vacancies.

/Table 5.16

Table 5.16**Vacancies by major occupation category**

	<u>No. of vacancies</u>					
	<u>Annual average</u>	<u>2001</u>				<u>2002</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Managers and administrators	600 (-3.2)	800 (35.1)	700 (4.6)	400 (-33.1)	400 (-20.5)	400 (-48.7)
Professionals	1 800 (-41.8)	2 600 (-17.8)	2 300 (-30.4)	1 200 (-64.6)	1 000 (-56.4)	1 300 (-52.0)
Associate professionals	7 300 (-37.5)	9 600 (-25.0)	7 700 (-40.6)	6 700 (-46.9)	5 400 (-37.7)	7 500 (-21.8)
Clerks	5 600 (-10.3)	7 100 (5.2)	6 700 (8.2)	4 700 (-26.0)	3 700 (-32.4)	4 100 (-42.7)
Service workers and shop sales workers	4 000 (-17.8)	4 900 (-1.7)	3 600 (-24.0)	4 000 (-30.2)	3 400 (-12.0)	3 900 (-20.1)
Craft and related workers	700 (-43.8)	900 (-26.0)	700 (-56.6)	700 (-43.3)	500 (-46.8)	600 (-37.8)
Plant and machine operators and assemblers	800 (-33.3)	800 (-41.1)	1 100 (-22.8)	700 (-41.4)	600 (-24.7)	900 (3.0)
Elementary occupations	2 800 (-26.3)	3 300 (-15.3)	2 900 (-27.3)	2 800 (-38.4)	2 100 (-20.5)	2 200 (-32.4)

Note : () % change over a year earlier.

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

/Earnings

Earnings and wages

5.19 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, declined by 0.6% in money terms in the first quarter of 2002 over a year earlier. This represented a moderation from a 0.4% increase in the fourth quarter of 2001, and more so from the 1.8% increase for 2001 as a whole. Amongst the business establishments surveyed in the first quarter of 2002, 45% reported a decrease in average labour earnings over a year earlier, while 11% reported no change. The remaining 44% reported some rise in average labour earnings, but this was partly attributable to an increase in the proportion of higher-skill and thus higher-paid workers in their workforce consequential to downsizing and lay-offs mostly at the lower level. Yet netting out the fall in consumer prices as reflected by the Composite CPI, overall labour earnings were still higher by 2.1% in real terms in the first quarter of 2002 over a year earlier. This compared with the respective increases of 2.5% and 3.5% in the fourth quarter of 2001 and for 2001 as a whole. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings edged down by 0.1% in money terms in the first quarter of 2002, following a 0.6% decline in the fourth quarter of 2001. In real terms, there were modest rises by 0.7% and 0.5% respectively in both quarters.

5.20 Analysed by *economic sector*, labour earnings showed a widespread decline across most of the major sectors. For all the *service sectors* surveyed taken together, earnings were down by 0.8% in money terms in the first quarter of 2002 over a year earlier, though still up by 1.9% in real terms. Within this broad group, earnings in restaurants and hotels had a more distinct decline, by 4.9% in money terms or 2.3% in real terms. Earnings in financing, insurance, real estate and business services and in transport, storage and communications decreased by 2.0% and 1.9% respectively in money terms, but rose by 0.6% and 0.7% in real terms. Earnings in the wholesale, retail and import/export trades were lower by 1.0% in money terms, yet were higher by 1.6% in real terms. Earnings in community, social and personal services had nil change in money terms, but with a 2.7% increase in real terms. As to the local *manufacturing sector*, there was a 0.8% reduction in earnings in money terms, yet still a 1.8% gain in real terms. On a seasonally adjusted quarter-to-quarter comparison, earnings in these sectors either held broadly stable or were slightly lower by 0.5-1.8% in money terms, corresponding to small changes ranging from 1.2% rise to 0.8% fall in real terms.

/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 <u>Q1 2002</u> (\$)
	<u>Annual</u>	<u>2001</u>				<u>2002</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	
Wholesale, retail and import/export trades	2.0 (3.7)	2.7 (4.8)	2.4 (3.7)	1.5 (2.6)	1.2 (3.3)	-1.0 (1.6)	14,400
						<-1.1> {-0.2}	
Restaurants and hotels	0.1 (1.7)	1.6 (3.7)	1.4 (2.7)	-0.8 (0.3)	-2.2 (-0.1)	-4.9 (-2.3)	9,500
						<-1.8> {-0.8}	
Transport, storage and communications	1.3 (3.0)	2.7 (4.8)	1.4 (2.8)	1.6 (2.7)	-0.5 (1.5)	-1.9 (0.7)	19,900
						<-0.2> {0.7}	
Financing, insurance, real estate and business services	0.4 (2.0)	2.5 (4.6)	1.7 (3.0)	-0.8 (0.3)	-2.0 (0.1)	-2.0 (0.6)	20,800
						<-0.1> {0.6}	
Community, social and personal services	0.7 (2.3)	0.8 (2.8)	-0.8 (0.5)	3.1 (4.2)	-0.5 (1.6)	* (2.7)	20,300
						<0.3> {1.2}	
Manufacturing	2.1 (3.8)	3.0 (5.1)	2.5 (3.8)	2.2 (3.3)	0.6 (2.7)	-0.8 (1.8)	13,100
						<-0.5> {-0.8}	
All sectors surveyed in the private sector	1.8 (3.5)	2.7 (4.8)	2.2 (3.5)	2.0 (3.1)	0.4 (2.5)	-0.6 (2.1)	16,700
		<0.9> {1.2}	<0.1> {0.3}	<*> {0.5}	<-0.6> {0.5}	<-0.1> {0.7}	

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.

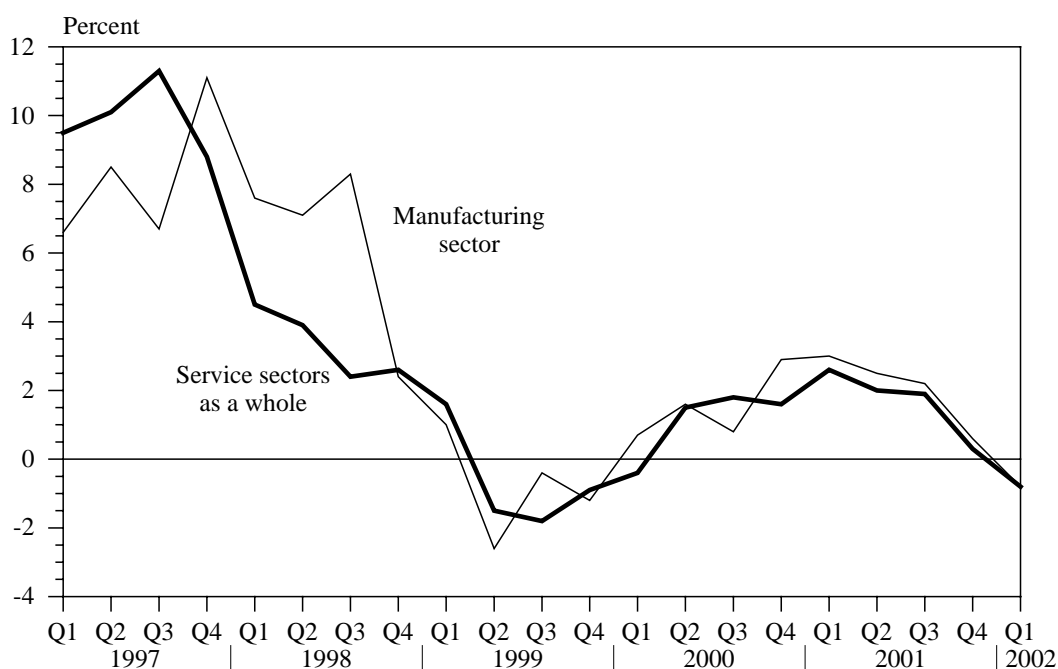
(*) Change of less than 0.05%.

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)**



5.21 Overall *labour wages* in the private sector also went down by 0.8% in money terms in March 2002 over a year earlier, following increases of 0.2% in December 2001 and 0.8% for 2001 as a whole. Amongst the business establishments surveyed in March 2002, 46% reported a decrease in average wage rate over a year earlier, largely attributable to a cut in guaranteed year-end bonuses in early 2002, while 10% reported no change. The remaining 44% reported an increase in average wage rate, which was partly due to a relative shift in composition of their employment towards higher-skill workers at higher pay consequential to downsizing and lay-offs mostly at the lower level. Netting out the decline in consumer prices as reflected by the CPI(A)⁽¹²⁾, overall labour wages were up by 1.2% in real terms in March 2002 over a year earlier. This was distinctly smaller than the 6.9% rise in December 2001, which was however distorted by an abrupt fall in the CPI(A) in December last year caused by a waiver of public housing rentals in that month.

5.22 Analysed by *economic sector*, wages in manufacturing fell by 2.1% in money terms and 0.2% in real terms in March 2002 over a year earlier. Wages in financing, insurance, real estate and business services, in restaurants and hotels and in personal services were reduced by 0.9-1.7% in money terms, but

/were

were up by 0.3-1.1% in real terms. Wages in the wholesale, retail and import/export trades, whilst flat in money terms, went up by 2.1% in real terms. As to transport services, wages gained by 1.1% in money terms or 3.1% in real terms, mainly attributable to pay rise in some public transport companies in mid-2001.

Table 5.18

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

	<u>By reference to the wage index</u>					
	<u>Annual</u>	<u>2001</u>				<u>2002</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Mar</u>
Wholesale, retail and import/export trades	1.4 (4.1)	1.8 (4.0)	1.7 (2.4)	1.2 (2.1)	1.1 (7.8)	* (2.1)
Restaurants and hotels	0.7 (3.3)	0.8 (3.0)	0.6 (1.4)	0.9 (1.9)	0.2 (6.9)	-1.4 (0.6)
Transport services	0.7 (3.4)	0.5 (2.7)	0.1 (0.9)	0.3 (1.3)	2.0 (8.7)	1.1 (3.1)
Financing, insurance, real estate and business services	-0.9 (1.7)	0.8 (3.0)	-0.1 (0.6)	-1.7 (-0.8)	-2.5 (4.0)	-1.7 (0.3)
Personal services	0.7 (3.3)	1.4 (3.5)	1.0 (1.7)	1.4 (2.3)	-0.9 (5.7)	-0.9 (1.1)
Manufacturing	2.2 (4.8)	3.0 (5.2)	1.6 (2.4)	2.7 (3.6)	1.4 (8.1)	-2.1 (-0.2)
All selected sectors surveyed in the private sector	0.8 (3.4)	1.4 (3.6)	0.9 (1.7)	0.7 (1.6)	0.2 (6.9)	-0.8 (1.2)

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 between the nominal and the real changes in wages in December 2001 over a year earlier was caused by an abrupt fall in the CPI(A) in December last year, owing to a 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 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

5.23 Analysed by *occupation category*, wages for service workers fell more distinctly, by 3.0% in money terms in March 2002 over a year earlier, although the decrease was smaller at 1.0% in real terms. Wages for operatives, for miscellaneous non-production workers and for craftsmen were down by 0.6-1.0% in money terms, but still up by 1.0-1.4% in real terms. Wages for supervisory and technical workers and for clerical and secretarial workers were lower by 0.2% in money terms, yet higher by 1.8% in real terms.

Table 5.19

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

	<u>By reference to the wage index</u>					
	<u>Annual</u>	<u>2001</u>				<u>2002</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Mar</u>
Supervisory and technical workers	0.9 (3.5)	1.8 (4.0)	1.1 (1.8)	0.4 (1.3)	0.1 (6.8)	-0.2 (1.8)
Clerical and secretarial workers	1.8 (4.4)	2.0 (4.1)	1.7 (2.4)	2.0 (3.0)	1.4 (8.2)	-0.2 (1.8)
Craftsmen	1.0 (3.6)	0.8 (3.0)	1.5 (2.2)	0.9 (1.8)	0.9 (7.6)	-0.6 (1.4)
Operatives	2.6 (5.2)	4.3 (6.5)	0.6 (1.3)	3.1 (4.0)	2.3 (9.1)	-1.0 (1.0)
Service workers	-1.8 (0.8)	-0.9 (1.2)	-1.2 (-0.5)	-1.4 (-0.5)	-3.5 (2.9)	-3.0 (-1.0)
Miscellaneous non-production workers	1.2 (3.9)	1.3 (3.5)	1.6 (2.3)	0.6 (1.5)	1.5 (8.2)	-0.9 (1.1)
All selected occupations surveyed in the private sector	0.8 (3.4)	1.4 (3.6)	0.9 (1.7)	0.7 (1.6)	0.2 (6.9)	-0.8 (1.2)

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

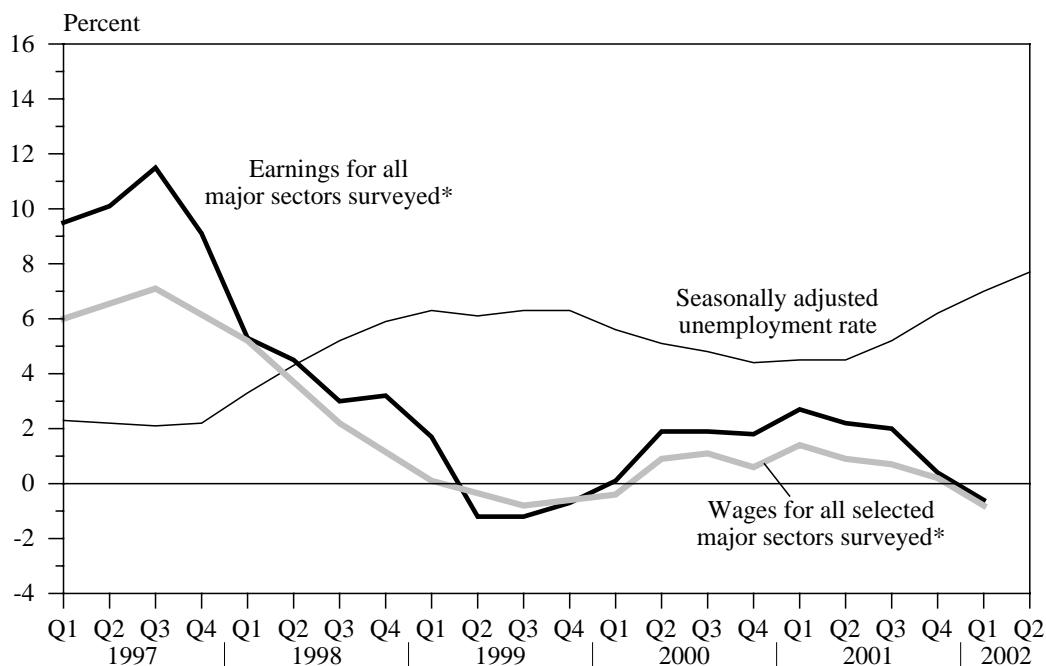
Also see Note (a) to Table 5.18.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



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

5.24 Overall wage rates in the *construction sector* fell by 0.2% in money terms in the first quarter of 2002 as compared to a year earlier, having declined by 1.0% in fourth quarter of 2001. The changes however varied amongst individual job categories. Wages for plumbers, plasterers, painters, and carpenters and joiners decreased by 1.5-3.8% in money terms in the first quarter of 2002 over a year earlier, while wages for concretors/bricklayers/drainlayers showed a marginal decline of 0.2% in money terms. On the other hand, wages for electricians (wiremen), plant operators, fitters, truck drivers, and steelbenders increased by 1.0-3.3% in money terms. Netting out the decline in consumer prices in terms of the CPI(A), overall construction wages went up by 2.6% in real terms in the first quarter of 2002 over a year earlier, following a 1.9% rise in the fourth quarter of 2001.

/Table 5.20

Table 5.20**Construction wage rates by selected job category
(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>
Concretors/bricklayers/ drainlayers	-1.1	3.3	-2.7	-2.0	-2.7	-0.2
Steelbenders	-1.6	0.6	-2.1	-2.8	-2.1	1.0
Carpenters and joiners	-4.3	-0.7	-6.8	-5.3	-4.2	-1.5
Plumbers	5.3	11.1	9.2	4.5	-2.8	-3.8
Fitters	2.8	1.4	4.0	2.3	3.2	2.6
Plasterers	3.7	10.8	9.2	1.1	-5.2	-3.6
Painters	4.9	3.8	7.2	6.0	2.8	-2.1
Electricians (wiremen)	0.8	-1.3	-0.4	2.9	1.8	3.3
Plant operators	2.3	2.6	2.2	2.0	2.5	3.3
Truck drivers	2.1	1.9	0.4	2.6	3.5	2.5
All job categories in the construction sector ^(a)	-0.1 (1.6)	1.5 (3.6)	-0.7 (0.4)	* (0.7)	-1.0 (1.9)	-0.2 (2.6)

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 this table.

(*) Change of less than 0.05%.

Source : Census and Statistics Department.

/5.25

5.25 In May 2002, the Government announced that Civil Service salaries at the directorate level and the upper pay band would be lowered by 4.42%, and those at the middle and the lower pay bands by 1.64% and 1.58% respectively, as from 1 October 2002. This decision was made after taking into consideration such relevant factors as the results of the latest Pay Trend Survey⁽¹³⁾, the change in the cost of living, the state of the economy and the Government's budgetary situation, and also with adjustment to the survey results by netting out salary increments on the pay scales. The legislation for formally effecting the pay reduction was enacted on 19 July.

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 relatively 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 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 that 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 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 some 91 private sector firms, as conducted for the period 2 April 2001 to 1 April 2002, were released in May 2002. These results 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 remained on a downtrend in the second quarter of 2002. On the external front, import prices continued to drift lower, upon a general softening in world commodity prices and subdued price pressure in the major supplier economies. The recent distinct weakening in the US dollar, though tending to lift import prices in due course, did not seem to have much of an impact so far. On the domestic front, costs and prices also moved lower, amidst a slack local demand prompting further moderation in labour wages and property rentals. Local retailers continued to offer large discounts on many items in order to boost sales. Moreover, there was downward effect from the relief measures as announced in the 2002-03 Budget.

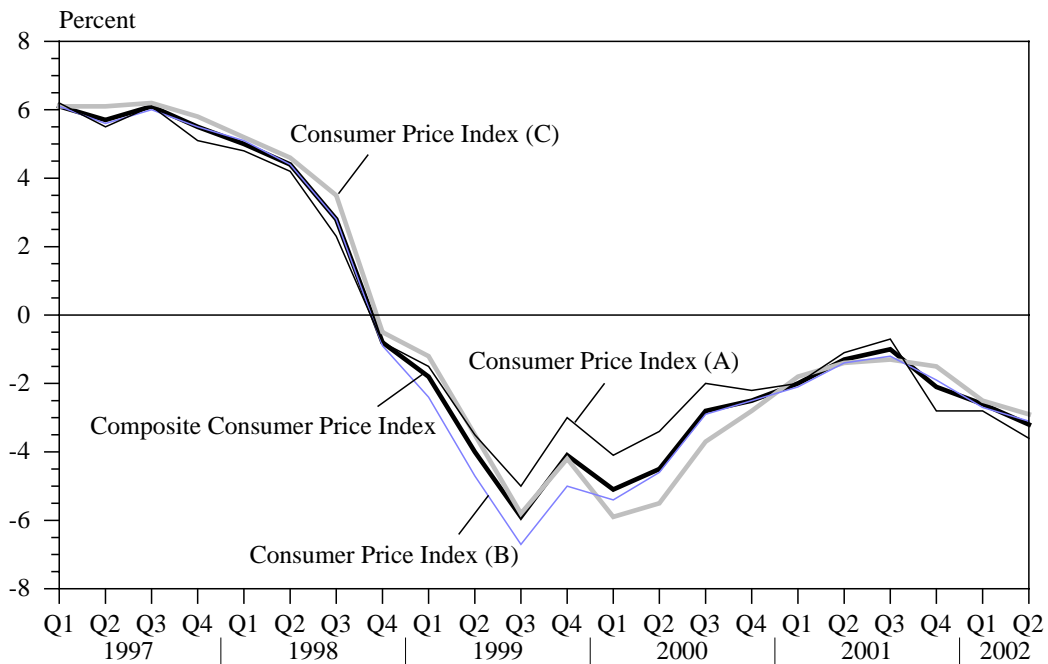
6.2 The *Composite Consumer Price Index*⁽¹⁾, having declined by 2.6% in the first quarter of 2002 over a year earlier, fell even more by 3.2% in the second quarter. This enlarged decrease was caused in part by the relief measures, including specifically the additional rates concession⁽²⁾ and the waiver of water and sewage charges⁽³⁾ implemented by the Government as from April 2002. Netting out these two special factors, as well as the one-off rebate of electricity charges granted by a power company in January and February 2002⁽⁴⁾, the year-on-year decrease in the Composite CPI showed only a modest widening between the two quarters. For the first half of 2002 as a whole, the Composite CPI declined by 2.9% over a year earlier, as compared to a 1.6% fall in 2001.

6.3 Analysed by sub-index and on a year-on-year comparison, the CPI(A), CPI(B) and CPI(C) all went down in the second quarter of 2002, by 3.6%, 3.1% and 2.9% respectively, again exceeding considerably the corresponding decreases of 2.8%, 2.7% and 2.5% in the first quarter. Yet netting out the special factors, the year-on-year decreases in all the three sub-indices likewise widened less between the two quarters. For the first half of 2002 as a whole, the CPI(A), CPI(B) and CPI(C) fell by 3.2%, 2.9% and 2.7% respectively over a year earlier, as against decreases of 1.7%, 1.6% and 1.5% in 2001.

/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
	Q1	-2.0	-2.0	-2.1	-1.8
	Q2	-1.3	-1.1	-1.4	-1.4
	Q3	-1.0	-0.7	-1.2	-1.3
	Q4	-2.1	-2.8	-1.9	-1.5
2002	H1	-2.9	-3.2	-2.9	-2.7
	Q1*	-2.6	-2.8	-2.7	-2.5
	Q2@	-3.2	-3.6	-3.1	-2.9
	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
	Apr	-3.1	-3.3	-3.0	-2.9
	May	-3.1	-3.5	-3.0	-2.9
	Jun	-3.3	-3.9	-3.2	-2.8

Notes : (*) The enlarged year-on-year decline observed for most of the CPIs in the first quarter of 2002 was primarily due to the rates concession granted by the Government as from January 2002. This measure had the effect of lowering the Composite CPI by 0.9 of a percentage point in that quarter. 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 one-off rebate of electricity charges granted by a power company in January and February 2002 had only minor downward effect on the year-on-year comparison, due to the offsetting influence of a similar rebate in February and March 2001.

(@) The further widening in year-on-year declines in the CPIs in the second quarter of 2002 was due in part to the waiver of water and sewage charges as well as the additional rates concession granted by the Government as from April 2002. These measures had the effect of lowering the Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.4, 0.5, 0.4 and 0.5 of a percentage point respectively.

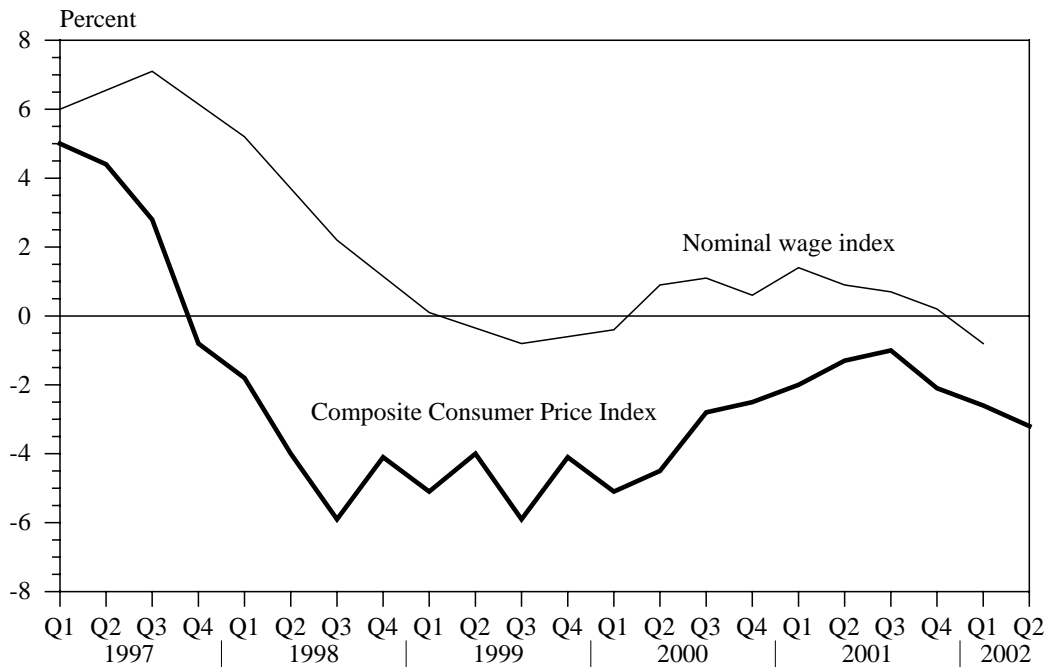
(+) The narrowed decline in the CPIs in February than in January 2002 was attributable in part to the difference in timing of the Lunar New Year Festival, which occurred in February this year but in January last year. As consumer prices tended to be boosted in the sales period near the Festival and eased 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

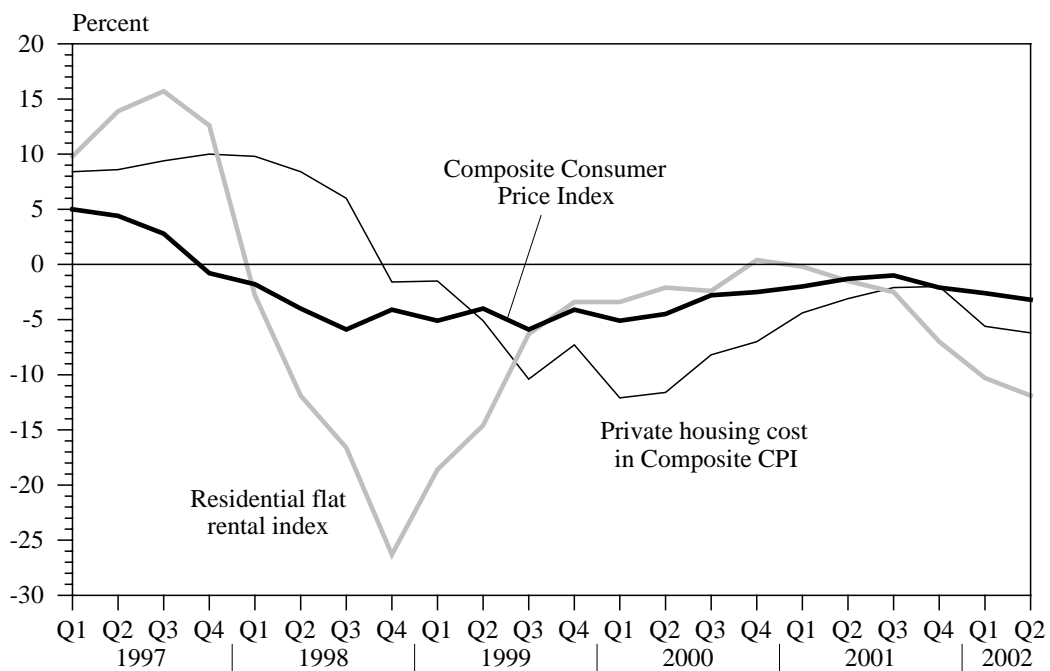
Diagram 6.2

**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



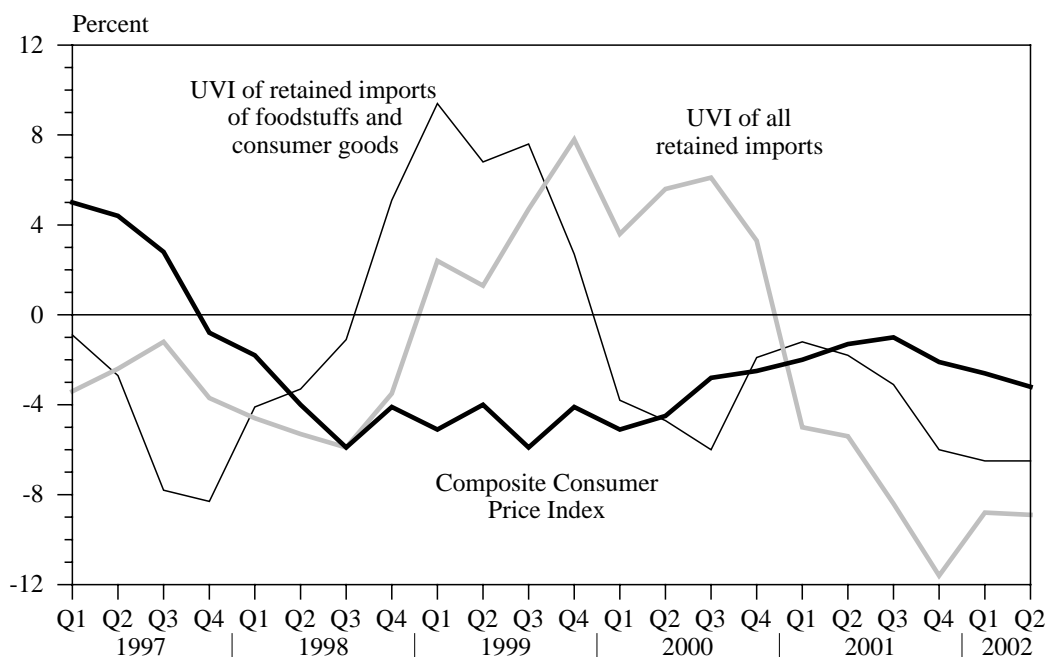
(b) Compared with residential flat rentals



/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 fall in the Composite CPI in the second quarter of 2002, at 0.6%, was nevertheless smaller than that in the first quarter, at 1.1%. There was little further dampening effect from the rates concession⁽⁵⁾. Also, the effect of the one-off rebate of electricity charges granted by a power company in January and February 2002 had dissipated⁽⁶⁾. Amongst the three sub-indices, the seasonally adjusted CPI(A) fell by 0.6% in both the first and second quarters of 2002, while the seasonally adjusted CPI(B) and CPI(C) had narrower decreases between the two quarters, from 1.4% and 1.3% to 0.6% and 0.7% respectively.

/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
	Q2 [@]	-0.6	-0.6	-0.6	-0.7

Notes : (#) The enlarged quarter-to-quarter declines in the seasonally adjusted 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 2001. 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.

(+) The further quarter-to-quarter declines in the seasonally adjusted CPIs in the first quarter of 2002 occurred notwithstanding dissipation of the effect of waiver of public housing rentals. This was mainly due to the rates concession for 2002, and the 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 of a percentage point, 1.2 percentage points, 0.9 of a percentage point 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 the same quarter.

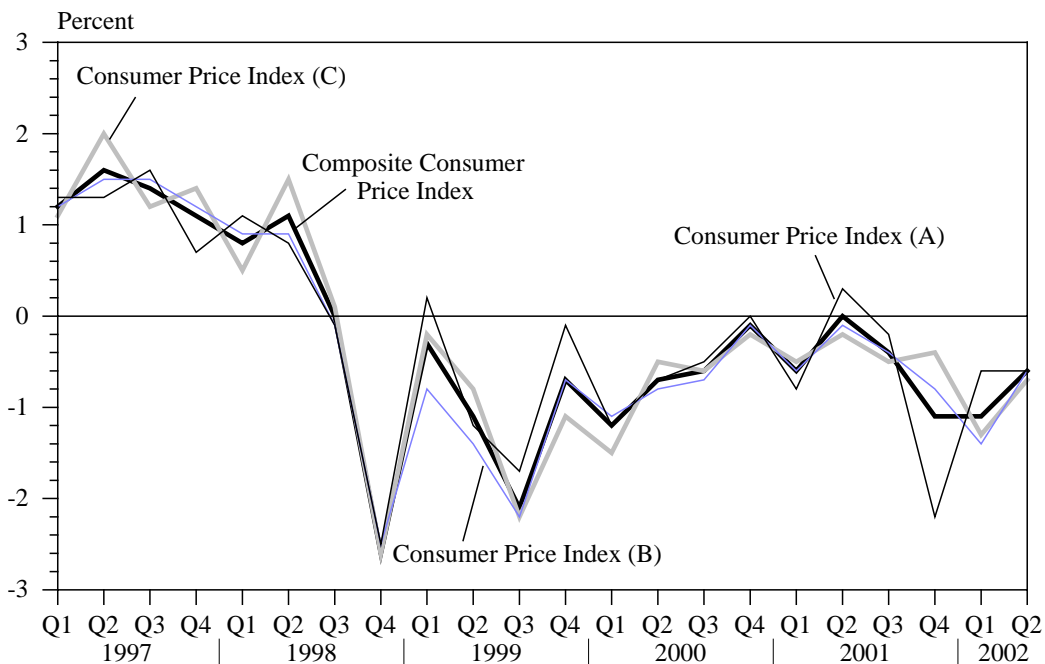
(@) The quarter-to-quarter declines in the seasonally adjusted CPIs narrowed in the second quarter of 2002, as there was little further dampening effect from the rates concession given that the base of comparison in the first quarter was already lowered by that measure. Also, the effect of the one-off rebate of electricity charges granted by a power company in the first two months of 2002 had dissipated.

(*) 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, charges for electricity, gas and water fell to a much larger extent between the first quarter of 2002, by 3.3%, and the second quarter, by 8.7%. This mainly reflected the effect of the waiver of water and sewage charges as from April 2002. Private housing cost was also trimmed more, from 5.6% to 6.2%. This was attributable in part to the additional rates concession, and in part to a sustained fall in private housing rentals⁽⁷⁾. Likewise, the prices of basic foodstuffs had an enlarged decrease, from 2.0% to 3.8%, as did charges for meals at restaurants, from 0.8% to 1.4%, along with an easing in import prices of foodstuffs particularly those from the Mainland. The prices of miscellaneous services showed an accentuated decline, from 1.3% to 2.2%, caused by lower charges for telecommunications services and package tours, and so did the cost of transport, albeit just marginally from 0.4% to 0.5%, due to reduced inbound and outbound transport fares. As to public housing cost and prices of durable goods, while the trends were still downwards, the respective decreases narrowed somewhat, from 10.7% to 10.4%, and from 7.3% to 6.2%. On the other hand, the prices of miscellaneous goods moved up faster between the first quarter of 2002, at 0.5%, and the second quarter, at 2.3%, on account of higher prices of jewellery and medical products. The prices of clothing and footwear also had an enlarged increase, from 0.2% to 2.4%, reflecting a rise in the prices of outerclothing. As to the prices of alcoholic drinks and tobacco, they were raised by 4.4% in the first quarter of 2002 and then by 2.0% in the second quarter. While the price level in the second quarter incorporated fully the boosting effect of higher duty rate for wine as from March 2002⁽⁸⁾, this was more than offset by a relatively high base of comparison a year earlier caused by higher duty rates for tobacco and for certain types of alcoholic drinks as from March 2001.

/6.6

6.6 For the first half of 2002 as a whole, private housing cost was down by 5.9% and public housing cost even more by 10.5% over a year earlier, mostly attributable to the two incremental rates concessions effected in the first two quarters. Charges for electricity, gas and water came down by 6.1%, due in part to the waiver of water and sewage charges as from April 2002, and in part to a reduction in fuel cost variation charge for Towngas in the first five months of 2002 over a year earlier. The prices of durable goods dropped by 6.7%, upon a further cut in the prices of computer products and telecommunications equipment. The prices of basic foodstuffs, prices of miscellaneous services, charges for meals at restaurants, and cost of transport all drifted lower, by 2.9%, 1.7%, 1.1% and 0.5% respectively. On the other hand, the prices of alcoholic drinks and tobacco, miscellaneous goods, and clothing and footwear went up, by 3.2%, 1.4% and 1.4% respectively.

/Table 6.3

Table 6.3**Consumer Price Indices by component
(year-on-year rate of change (%))****(a) In the first and second quarters of 2002**

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2002_Q1	2002_Q2	2002_Q1	2002_Q2	2002_Q1	2002_Q2	2002_Q1	2002_Q2
Food	-1.2	-2.3	-1.3	-2.4	-1.3	-2.3	-1.2	-2.4
<i>Meals bought away from home</i>	-0.8	-1.4	-1.0	-1.6	-1.2	-1.8	0.1	-0.5
<i>Other foodstuffs</i>	-2.0	-3.8	-1.6	-3.5	-1.6	-3.2	-3.4	-5.5
Housing [#]	-5.5	-6.1	-6.4	-6.7	-5.5	-6.0	-4.6	-5.6
<i>Private dwellings</i>	-5.6	-6.2	-5.9	-6.4	-5.8	-6.3	-5.0	-6.0
<i>Public dwellings</i>	-10.7	-10.4	-10.7	-10.4	-10.7	-10.4	-	-
Electricity, gas and water	-3.3	-8.7	-4.1	-10.0	-3.2	-8.3	-2.1	-6.5
Alcoholic drinks and tobacco	4.4	2.0	4.8	2.1	4.6	2.0	2.7	1.8
Clothing and footwear	0.2	2.4	3.3	4.4	2.0	3.7	-5.5	-1.1
Durable goods	-7.3	-6.2	-6.6	-6.0	-7.7	-6.7	-7.3	-5.8
Miscellaneous goods	0.5	2.3	0.7	1.5	0.3	1.9	0.4	3.6
Transport	-0.4	-0.5	-0.3	-0.6	-0.4	-0.4	-0.7	-0.8
Miscellaneous services	-1.3	-2.2	-1.9	-3.2	-1.3	-2.2	-0.7	-1.4
All items	-2.6	-3.2	-2.8	-3.6	-2.7	-3.1	-2.5	-2.9

(b) In the second half of 2001 and first half of 2002

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2001_H2	2002_H1	2001_H2	2002_H1	2001_H2	2002_H1	2001_H2	2002_H1
Food	-0.7	-1.8	-0.8	-1.9	-0.8	-1.8	-0.3	-1.8
<i>Meals bought away from home</i>	-0.3	-1.1	-0.5	-1.3	-0.7	-1.5	0.8	-0.2
<i>Other foodstuffs</i>	-1.4	-2.9	-1.1	-2.5	-1.1	-2.4	-2.2	-4.4
Housing [#]	-3.0	-5.8	-4.6	-6.6	-2.4	-5.7	-1.9	-5.1
<i>Private dwellings</i>	-2.0	-5.9	-2.2	-6.1	-2.0	-6.0	-2.0	-5.5
<i>Public dwellings</i>	-16.1	-10.5	-16.1	-10.5	-16.1	-10.5	-	-
Electricity, gas and water	-0.7	-6.1	-0.9	-7.2	-0.8	-5.8	-0.3	-4.4
Alcoholic drinks and tobacco	4.2	3.2	4.7	3.4	4.4	3.3	2.0	2.2
Clothing and footwear	-4.1	1.4	-3.1	3.9	-3.4	2.9	-6.1	-3.2
Durable goods	-7.4	-6.7	-7.1	-6.3	-8.0	-7.2	-6.7	-6.6
Miscellaneous goods	0.8	1.4	1.8	1.1	0.7	1.1	-0.1	2.0
Transport	*	-0.5	0.2	-0.4	-0.1	-0.4	-0.2	-0.7
Miscellaneous services	0.3	-1.7	0.5	-2.5	0.4	-1.7	*	-1.0
All items	-1.5	-2.9	-1.8	-3.2	-1.5	-2.9	-1.4	-2.7

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.

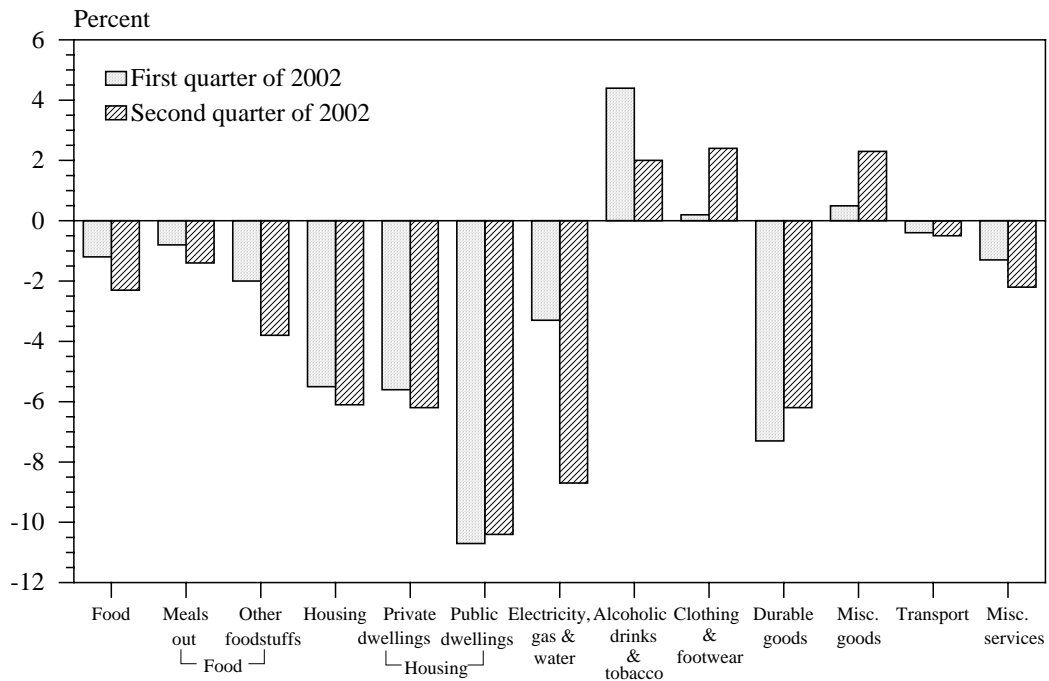
(*) Change of less than 0.05%.

/Diagram 6.4

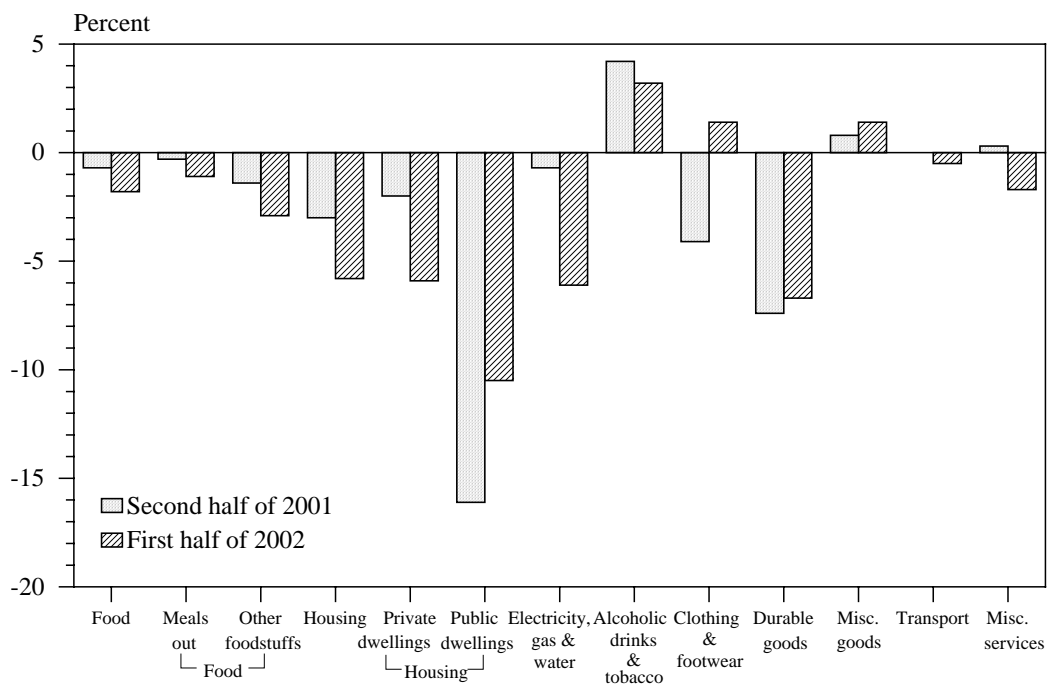
Diagram 6.4

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

(a) In the first and second quarters of 2002



(b) In the second half of 2001 and first half of 2002

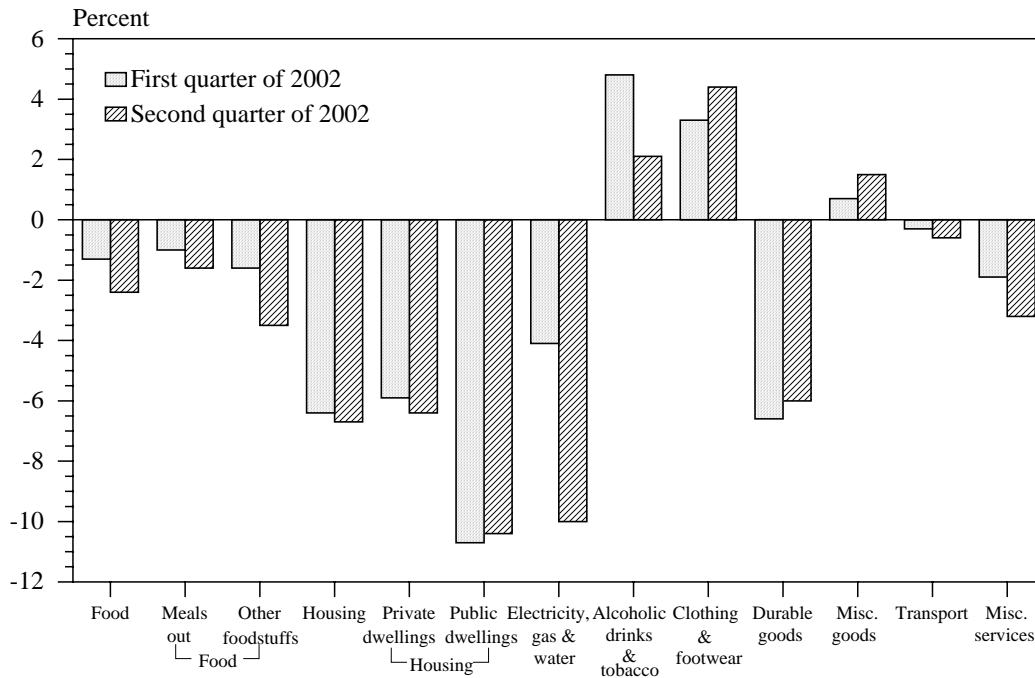


/Diagram 6.5

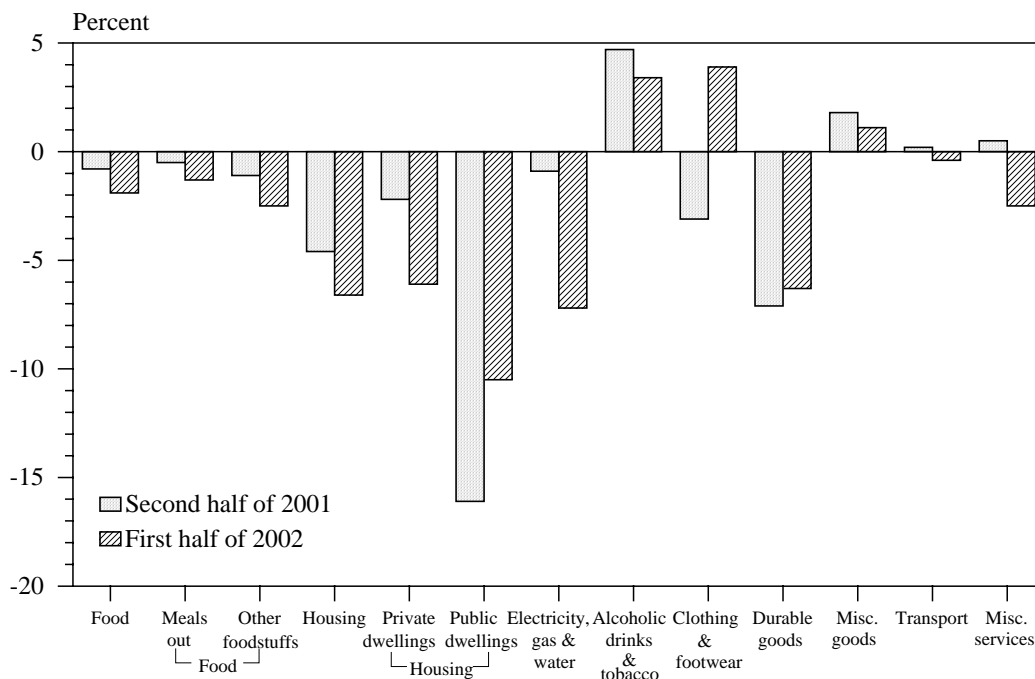
Diagram 6.5

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

(a) In the first and second quarters of 2002



(b) In the second half of 2001 and first half of 2002



/Import

Import prices

6.7 The *prices of imports of goods*, as measured by the unit value index of imports of goods⁽⁹⁾, continued to fall, by 4.9% and 4.6% respectively in the first and second quarters of 2002 over a year earlier. For the first half of 2002 as a whole, the decrease thus averaged at 4.8% from a year earlier, larger than that of 3.1% in 2001. The sustained softening in world commodity prices in overall terms and subdued price pressure in the major supplier economies were the main contributory factors. The recent distinct weakening in the US dollar, though tending to boost import prices in due course, did not seem to have much of an impact so far. The price of North Sea Brent, as representing international crude oil prices, moved within a range of US\$23-27 in the second quarter.

6.8 Analysed by major *source*, the decline in import prices was virtually across-the-board. The prices of imports from the United States and Japan had the largest decreases, by 5.6% and 5.4% respectively in the second quarter of 2002 over a year earlier, after falling by 5.1% and 7.0% in the first quarter. The prices of imports from the Taiwan and the Mainland also fell appreciably, by 4.4% and 3.5% respectively in the second quarter of 2002 over a year earlier, following decreases of 6.4% and 3.2% in the first quarter.

/Table 6.4

Table 6.4

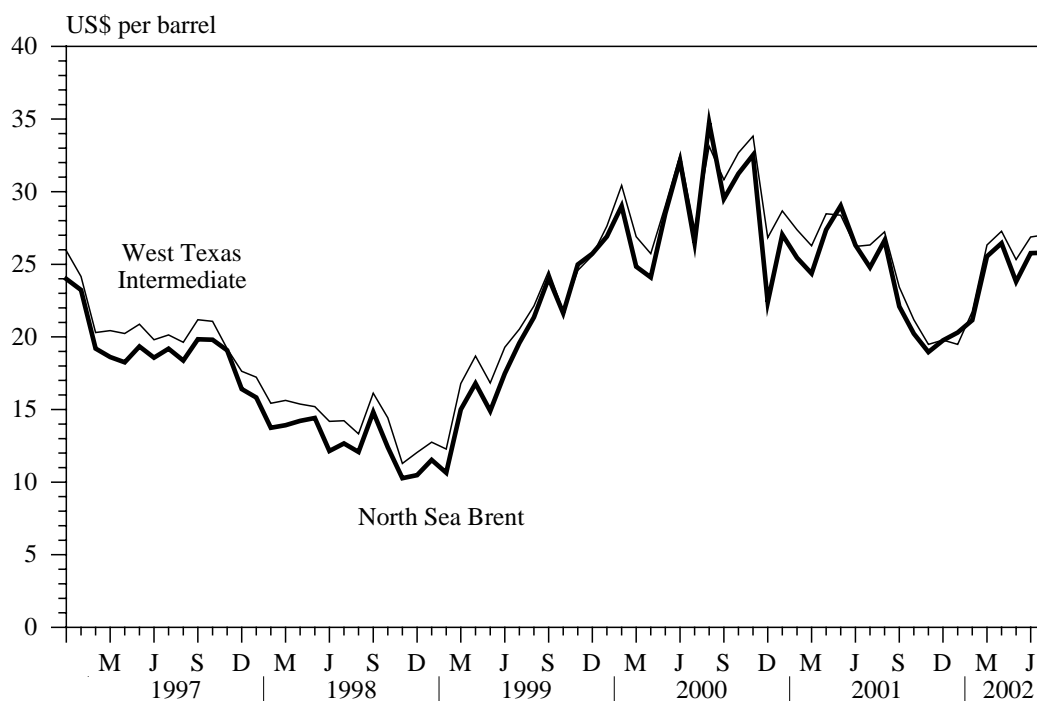
**World commodity prices
(year-on-year rate of change (%))**

		<u>Agricultural raw materials</u>	<u>Metals</u>	<u>All non-fuel commodities</u>	<u>Fuels</u>
2001	Annual	-6.9	-9.6	-5.4	-14.0
	H1	-6.2	-4.3	-4.7	-1.3
	H2	-7.7	-14.9	-6.1	-25.4
	Q1	-6.1	-5.0	-4.4	-2.4
	Q2	-6.3	-3.6	-4.8	-0.3
	Q3	-6.1	-14.8	-4.5	-15.9
	Q4	-9.3	-14.9	-7.8	-35.0
2002	H1	-8.7	-8.7	-4.2	-12.5
	Q1	-9.0	-10.8	-5.8	-19.6
	Q2	-8.4	-6.6	-2.6	-5.6

Source : IMF International Financial Statistics.

Diagram 6.6

Spot prices of crude oil*



Note : (*) Month-end figures.

/Table 6.5

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	-1.6	-4.1	-6.0	-2.2	-3.1
	H1	-1.1	-2.3	-4.5	-0.8	-2.1
	H2	-2.1	-5.9	-7.4	-3.6	-4.1
	Q1	-1.0	-1.2	-3.1	-0.4	-1.6
	Q2	-1.2	-3.3	-5.7	-1.3	-2.5
	Q3	-1.5	-5.2	-6.9	-2.8	-3.5
	Q4	-2.6	-6.6	-8.0	-4.5	-4.8
2002	H1	-3.4	-6.1	-5.4	-5.3	-4.8
	Q1	-3.2	-7.0	-6.4	-5.1	-4.9
	Q2	-3.5	-5.4	-4.4	-5.6	-4.6

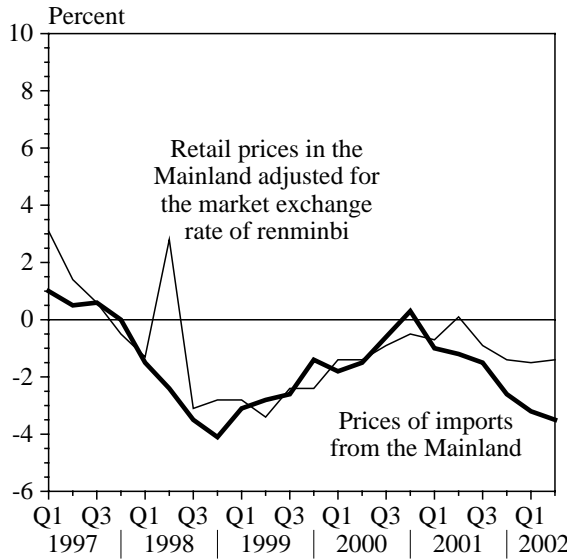
Note : From the first quarter of 2001 onwards, the year-on-year changes in import prices are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.7

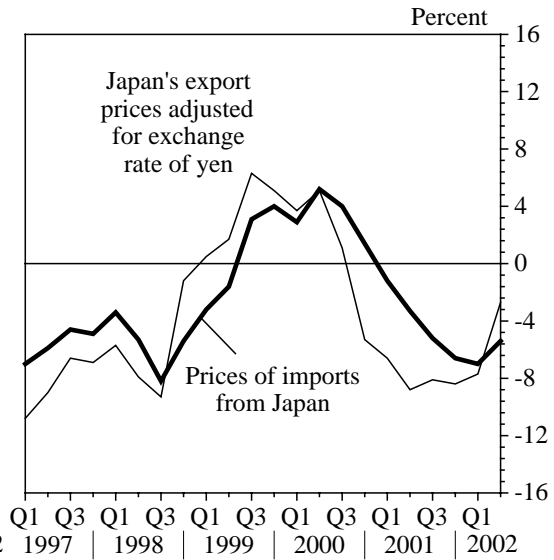
Diagram 6.7

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

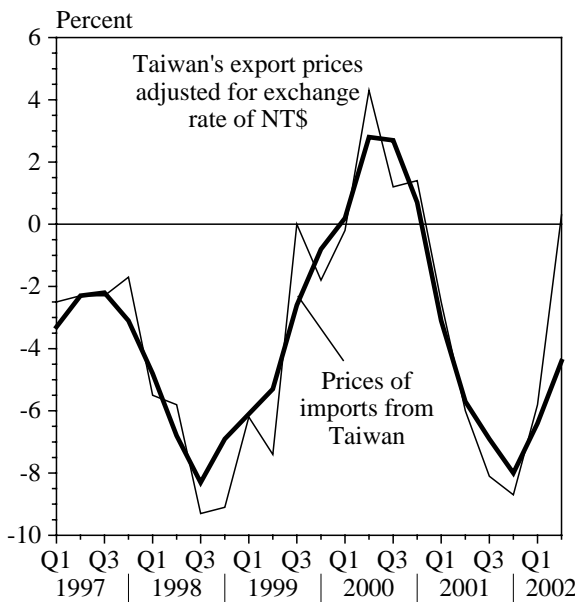
(a) For imports from the mainland of China



(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



Note : See the footnote to Table 6.5.

6.9 The *prices of retained imports*, as measured by the unit value index of retained imports, fell markedly, by 8.8% and 8.9% respectively in the first and second quarters of 2002 over a year earlier. For the first half of 2002 as a whole, the decrease from a year earlier was 8.9%, larger than that of 7.6% in 2001. Analysed by *end-use category* and on a year-on-year comparison, the prices of retained imports of raw materials and semi-manufactures dipped by 10.3% and 11.0% respectively in the first and second quarters of 2002, mainly due to lower import prices of materials for industrial use, especially those of chemicals, plastic resins and paper. The prices of retained imports of capital goods and of consumers goods went down by 7.5% and 6.7% respectively in the first quarter of 2002, and then by 9.4% and 6.6% respectively in the second quarter, mainly attributable to reduced import prices of office machinery, industrial equipment and telecommunications equipment, as well as of electrical appliances, clothing and cameras. The prices of retained imports of foodstuffs dropped by 6.5% and 6.2% respectively in the first and second quarters of 2002, in line with sustained easing in import prices of fresh foodstuffs from the Mainland. The prices of retained imports of fuels likewise moved lower, by 6.9% in the second quarter of 2002, yet this was much lesser than the 15.7% decrease in the first quarter, partly due to a rebound in international crude oil prices more recently as compared to the earlier months in the year.

/Table 6.6

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	-3.8	-3.1	-10.6	-8.8	-9.3	-7.6
	H1	-2.4	-1.6	1.8	-4.6	-10.7	-5.2
	H2	-5.0	-4.7	-20.6	-13.1	-8.1	-9.9
	Q1	-1.6	-1.3	*	-3.6	-11.6	-5.0
	Q2	-3.2	-1.6	3.5	-5.5	-9.9	-5.4
	Q3	-4.1	-3.1	-13.1	-10.8	-8.3	-8.4
	Q4	-6.1	-6.4	-27.9	-15.4	-8.2	-11.6
2002	H1	-6.3	-6.7	-10.7	-10.7	-8.4	-8.9
	Q1	-6.5	-6.7	-15.7	-10.3	-7.5	-8.8
	Q2	-6.2	-6.6	-6.9	-11.0	-9.4	-8.9

Notes : See the footnote to Table 6.5.

(*) Change of less than 0.05%.

Prices of key inputs

6.10 On *labour cost*, wages and earning edged down by 0.8% and 0.6% respectively in money terms in the first quarter of 2002 over a year earlier, amidst the slack labour market conditions. On *material cost*, the prices of retained imports of raw materials and semi-manufactures had a pronounced drop, by 10.7% in the first half of 2002 over a year earlier, as did the prices of retained imports of capital goods, by 8.4%. As to *property cost*, the prices of office space, conventional flatted factory space and shopping space all declined, by an average of 4.4%, 3.1% and 1.4% respectively in the second quarter of 2002 over the fourth quarter of 2001, while the corresponding rentals fell more, by an average of 8.7%, 3.4% and 5.4%. These trends pointed to a general easing in the cost of doing business in Hong Kong.

/Prices

Prices of local manufacturing output

6.11 Along with the reduction in business operating costs, the *prices of local manufacturing output*, as measured by the respective Producer Price Index⁽¹⁰⁾, went down by 3.3% in the first quarter of 2002 over a year earlier. This was larger than the decreases of 1.7% in the fourth quarter of 2001 and 1.6% for 2001 as a whole. Analysed by major *industry group*, output prices in the consumer electrical and electronic products and the machinery and equipment industries fell by 4.3% and 4.0% respectively in the first quarter of 2002 over a year earlier. This was followed by output prices in the wearing apparel industry (down by 3.5%), the fabricated metal products industry (3.3%), the paper products and printing industry (2.5%), the textiles industry (1.8%), and the plastic products industry (1.0%).

Table 6.7

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

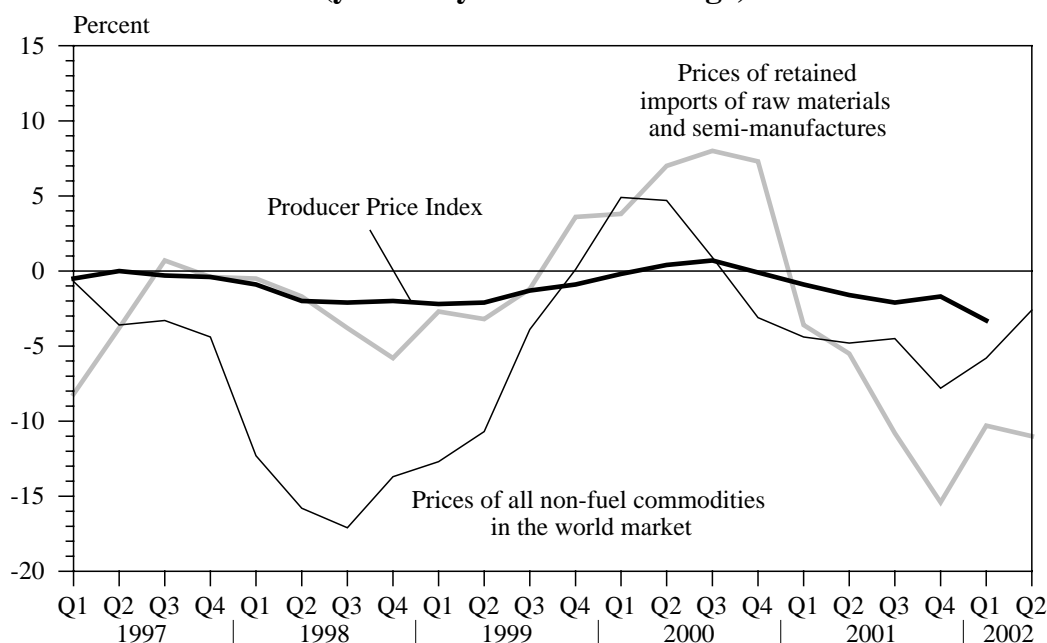
<u>Industry group</u>	<u>2001</u>					<u>2002</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wearing apparel	-0.2	0.4	0.1	-0.5	-1.0	-3.5
Textiles	-1.2	*	-1.1	-1.7	-2.1	-1.8
Plastic products	-0.3	-0.6	-2.3	0.3	1.6	-1.0
Consumer electrical and electronic products	-1.9	-2.1	-2.1	-1.6	-1.6	-4.3
Machinery and equipment	-2.8	-3.3	-2.2	-4.2	-1.4	-4.0
Fabricated metal products	-1.8	1.0	-0.4	-3.9	-3.8	-3.3
Paper products and printing	-0.3	-0.9	-0.3	-0.2	0.1	-2.5
Overall manufacturing	-1.6	-0.9	-1.6	-2.1	-1.7	-3.3

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

/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)



Prices of output in selected service sectors

6.12 According to a new data series on *prices of output in some selected service sectors*, as measured by the respective Producer Price Indices, such prices were mostly on a downtrend over the past year or so. Output prices in telecommunications plunged by 20.9% in the first quarter of 2002 over a year earlier, even exceeding the marked distinct decreases in the preceding two quarters. This was mainly attributable to continued cut in charges for international calls and Internet services, as well as lower prices of mobile phone sets and related items. Output prices in maritime transport also fell distinctly, by 8.7% in the first quarter of this year, mainly due to price reduction in sea cargo forwarding services. Output prices in hotels and boarding houses dropped by 5.7%, reflecting lower room tariff rates. Output prices in air transport and land transport went down by 5.5% and 1.4% respectively, along with lower charges for air cargo forwarding services and further fare concessions by local freight operators. On the other hand, output prices in miscellaneous communications services edged up by 0.4% in the first quarter of 2002, amidst a modest increase in charges for local and international courier services.

/Table 6.8

Table 6.8

Producer Price Indices for selected service sectors⁺
(year-on-year rate of change (%))

	<u>Annual</u>	<u>Q1</u>	<u>2001</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2002</u> <u>Q1</u>
<u>Selected service sector</u>						
Hotels and boarding houses	1.0	5.8	5.2	1.1	-7.1	-5.7
Land transport	-0.5	-1.0	-0.3	-0.2	-0.6	-1.4
Maritime transport	-5.6	-0.2	-3.3	-9.3	-9.5	-8.7
Air transport	-6.0	-2.3	-4.9	-8.8	-7.8	-5.5
Telecommunications	-8.4	-5.5	-1.3	-12.9	-14.5	-20.9
Miscellaneous communications services	1.3	2.8	1.2	0.7	0.5	0.4

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

Export prices

6.13 Export prices also moderated further, amidst a still mixed import demand situation and keen competition in the overseas markets. The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, were reduced by 2.7% in the second quarter of 2002 from a year earlier, following a decline of 3.4% in the first quarter. For the first half of 2002 as a whole, the decrease from a year earlier was 3.1%, exceeding the 2.3% fall in 2001. Within this total, the prices of domestic exports were slashed by 4.4%, while the prices of re-exports went down by 2.9%.

/6.14

6.14 Analysed by major *market*, the prices of total exports of goods to Singapore were lowered by 3.5% in the second quarter of 2002 over a year earlier, after a 4.8% decline in the first quarter. This was largely attributable to sustained softening in the prices of semi-conductors and other electronic parts and components in the world market. The prices of total exports of goods to Japan slid by 3.4% in the second quarter of 2002 over a year earlier, roughly similar to the decrease of 3.5% in the first quarter. This mainly reflected the weak economic conditions and sluggish import demand there. The prices of total exports of goods to the Mainland and Germany both fell by 2.8% in the second quarter of 2002 over a year earlier, following decreases of 4.2% and 4.0% respectively in the first quarter. The prices of total exports of goods to the United States and the United Kingdom, having fallen by 1.9% and 3.6% respectively in the first quarter of 2002 over a year earlier, were down further in the second quarter, by 2.4% and 2.3%.

Table 6.9

**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	-0.4	-3.3	-2.3	-2.1	-1.6	-4.0	-2.3
	H1	-0.1	-2.4	-1.9	-1.2	-1.2	-2.9	-1.7
	H2	-0.6	-4.2	-2.6	-2.9	-2.1	-5.1	-2.8
	Q1	0.1	-1.3	-1.9	-0.9	-0.8	-2.0	-1.1
	Q2	-0.3	-3.3	-2.0	-1.6	-1.5	-3.9	-2.3
	Q3	-0.4	-4.1	-2.6	-2.3	-1.4	-4.9	-2.6
	Q4	-0.9	-4.4	-2.6	-3.5	-2.7	-5.4	-3.0
2002	H1	-2.2	-3.5	-3.4	-3.0	-3.5	-4.2	-3.1
	Q1	-1.9	-4.2	-4.0	-3.6	-3.5	-4.8	-3.4
	Q2	-2.4	-2.8	-2.8	-2.3	-3.4	-3.5	-2.7

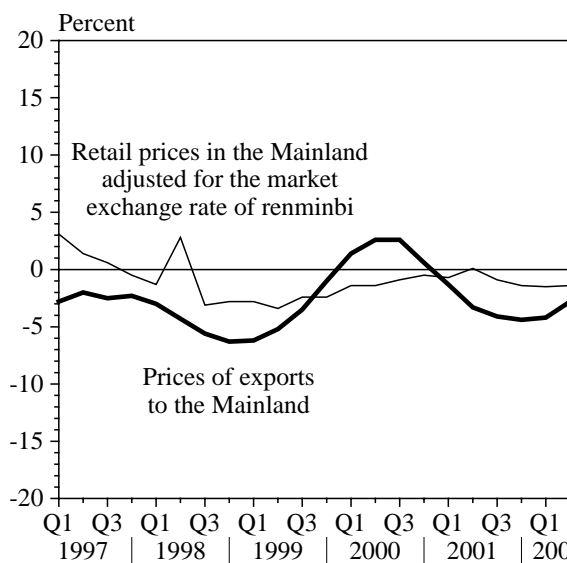
Note : From the first quarter of 2001 onwards, the year-on-year changes in export prices are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.9

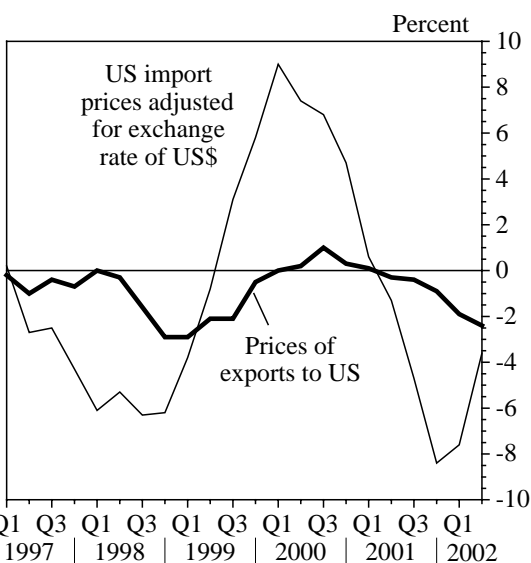
Diagram 6.9

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

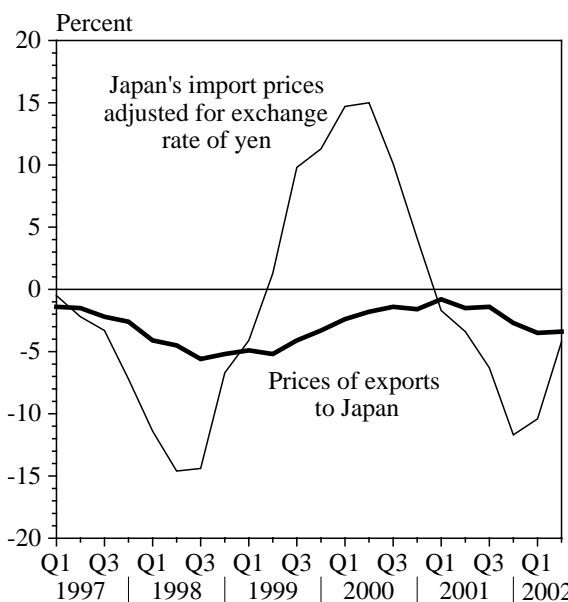
(a) For exports to the mainland of China



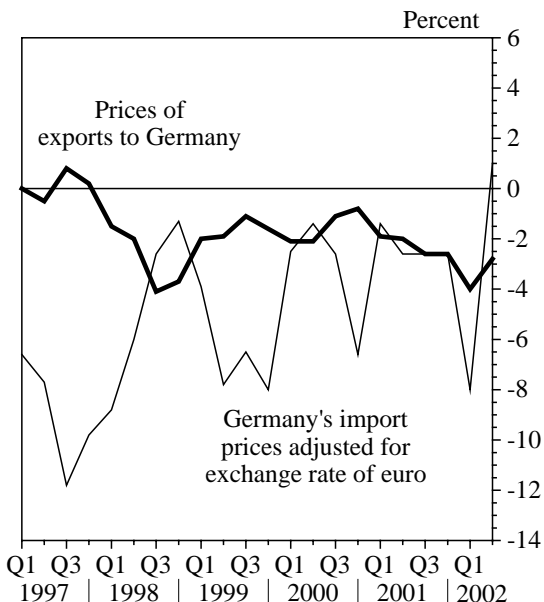
(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



Note : See the footnote to Table 6.9.

/Terms

Terms of trade

6.15 As the prices of imports of goods had a larger decrease than the prices of total exports of goods, the terms of trade in goods for Hong Kong rose by 2.0% in the second quarter of 2002 over a year earlier. This was up from the increases of 1.6% in the first quarter of 2002 and 0.9% for 2001 as a whole.

Table 6.10

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (2000 = 100)	<u>Year-on-year rate of change</u> (%)
2001	Annual	100.9	0.9
	H1	100.5	0.4
	H2	101.2	1.4
	Q1	100.6	0.5
	Q2	100.5	0.3
	Q3	100.8	0.9
	Q4	101.7	1.8
	2002	H1	102.3
Q1		102.2	1.6
Q2		102.5	2.0

Note : From the first quarter of 2001 onwards, the year-on-year changes in terms of trade in goods are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.10

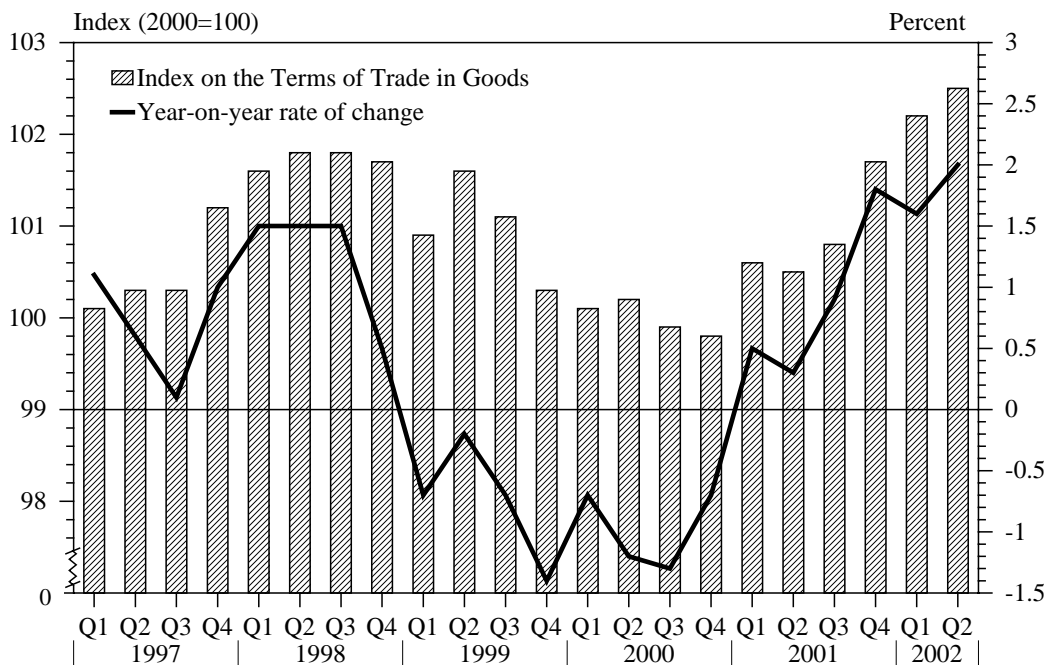
Diagram 6.10

**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



Note : From the first quarter of 2001 onwards, the year-on-year changes in import prices, export prices and terms of trade in goods are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/GDP

GDP deflator

6.16 The *GDP deflator*⁽¹¹⁾, as a broad measure of overall price change in the economy, fell by 2.1% in the second quarter of 2002 over a year earlier, same as the decrease in the first quarter. This refers to a revised series for the GDP deflator, in parallel with that for GDP consequential to the major revision to GDP as announced in early August⁽¹²⁾. Within the GDP deflator, the *domestic demand deflator* had a larger year-on-year decline of 4.2% in the second quarter of 2002, than that of 3.1% in the first quarter. This was mainly attributable to an accelerated drop in the price deflators for private consumption expenditure and for gross domestic fixed capital formation, as well as a renewed fall in the price deflator for government consumption expenditure. The *total final demand deflator* nevertheless had a slightly smaller year-on-year decline in the second quarter of 2002 than in the first quarter, at 3.6% as against 3.7%, reflecting largely a narrowed decrease in the price deflators for exports of both goods and services. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator fell further by 1.4% in the second quarter of 2002, having fallen by 0.2% in the first quarter.

/Table 6.11

Table 6.11**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> [#]	<u>Q2</u> ⁺
Private consumption expenditure	-5.1	-1.3	-1.6	-1.1	-0.8	-1.5	-3.0	-3.4
Government consumption expenditure	-1.9	1.2	-2.1	2.5	2.3	2.3	1.8	-0.1
Gross domestic fixed capital formation	-3.8	-4.3	-5.4	-4.6	-3.9	-3.8	-6.1	-7.7
Total exports of goods	-0.5	-2.6	-1.2	-2.6	-2.9	-3.4	-3.8	-3.0
Imports of goods	0.8	-3.5	-1.9	-3.0	-3.8	-5.2	-5.2	-4.9
Exports of services	0.8	-3.9	-0.9	-3.1	-4.8	-6.3	-5.0	-3.7
Imports of services	-0.2	-0.8	-0.3	-0.7	-1.0	-1.4	-2.0	-0.1
Gross Domestic Product	-6.2	-1.4	-2.0 <1.2>	-1.7 <-1.5>	-1.2 <-0.3>	-0.8 <-0.2>	-2.1 <-0.2>	-2.1 <-1.4>
Total final demand	-2.9	-2.4	-1.9	-2.3	-2.6	-3.1	-3.7	-3.6
Domestic demand	-5.4	-1.8	-2.8	-1.7	-1.5	-1.6	-3.1	-4.2

Notes : (*) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

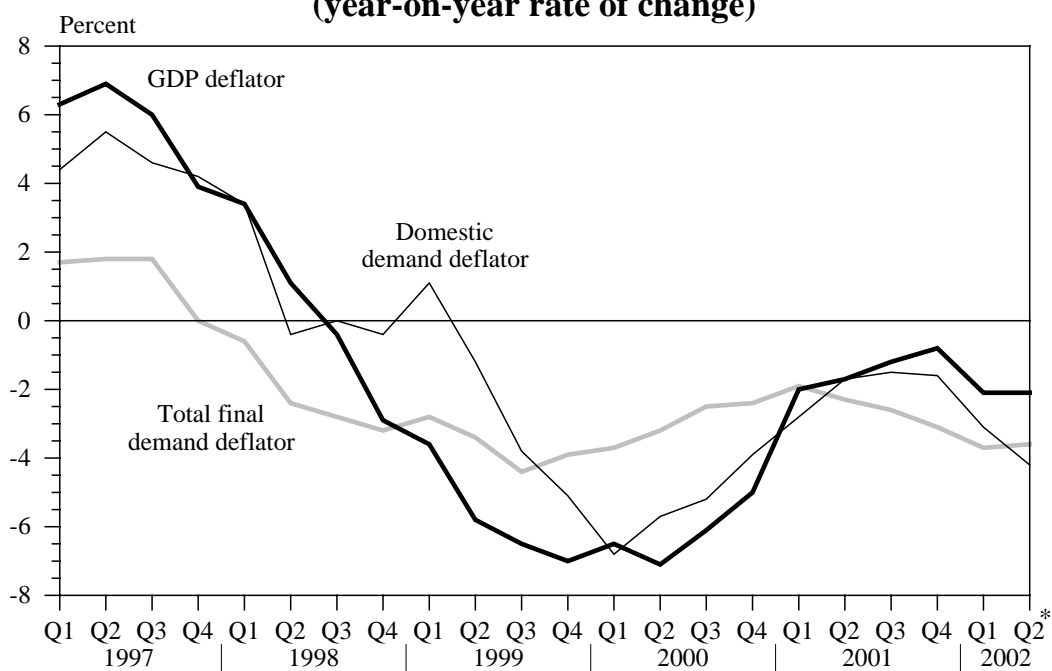
(#) Revised figures.

(+) 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)



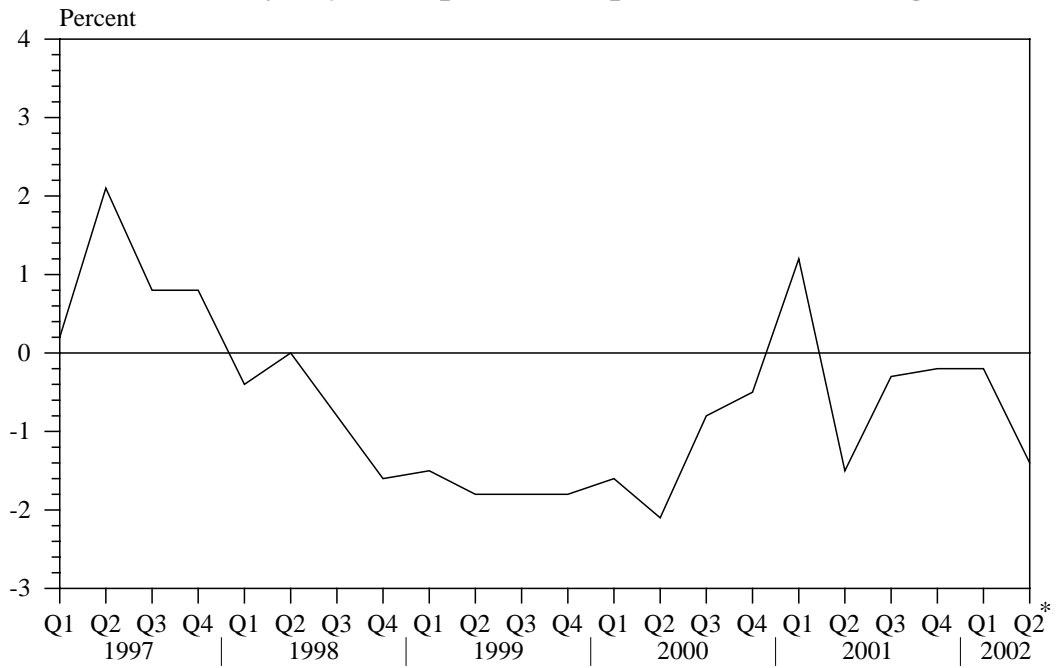
Notes : See the footnotes to Table 6.11.

(*) Preliminary figures.

/Diagram 6.13

Diagram 6.13

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



Notes : See the footnotes to Table 6.11.

(*) 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) In the 2002/03 Budget, the Financial Secretary announced that the maximum amount of reduction in rates payables for 2002 was to be raised to \$5,000, from that of \$2,000 as was announced by the Chief Executive in his 2001 Policy Address. This additional rates concession led to a lowering of the Composite CPI by 0.2 of a percentage point in the second quarter of 2002. Owing to different weightings attached to the rates payment and the relatively greater effect of this relief measure on the middle to higher income households, the dampening effects on the three sub-indices varied. The CPI(A) was lowered by 0.1 of a percentage point, the CPI(B) by 0.2 of a percentage point, and the CPI(C) by 0.4 of a percentage point.

/(3)

- (3) As announced by the Financial Secretary in the 2002/03 Budget, the water and sewage charges for domestic households were to be waived for one year, subject to maximum amounts of \$800 and \$200 respectively. This had the effect of lowering the Composite CPI by 0.2 of a percentage point in the second quarter of 2002. Reflecting relatively greater effect on the lower income households, the corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.4, 0.2 and 0.1 of a percentage point.
- (4) The one-off rebate of electricity charges, at \$220 per user account, was granted by a power company in January and February 2002. As a similar rebate amounting to \$200 was granted by the same company in February and March 2001, 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.
- (5) The rates concession for 2002 had the effect of lowering the seasonally adjusted Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.9 of a percentage point, 1.2 percentage points, 0.9 of a percentage point, and 0.7 of a percentage point respectively in the first quarter of 2002. Yet it should have had little further effect on the quarter-to-quarter changes in the seasonally adjusted CPIs in the second quarter of 2002, as the base of comparison in the first quarter was already lowered by that measure.
- (6) The 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 seasonally adjusted CPI(A), CPI(B) and CPI(C) were 0.5, 0.2 and 0.1 of a percentage point.
- (7) 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.
- (8) As announced in the 2002/03 Budget, the duty rate on wine was raised from 60% to 80%, as from 6 March 2002. 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%.
- (9) Rebasings of the trade indices from 1990 to 2000 may have led to minor differences in some of the rates of change during the change-over period from the first quarter of 2001 to the first quarter of 2002.
- (10) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.

/(11)

- (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.

- (12) In parallel with the 2002 round of major revision to GDP, there is also revision to the GDP deflator, and the results are summarised below:

	<u>Level of the GDP deflator</u>		<u>Rate of change in the GDP deflator (%)</u>		
	<u>Previous</u> (1990=100)	<u>Revised</u> (2000=100)	<u>Previous</u>	<u>Revised</u>	<u>Extent of revision in % point</u>
1996	150.9	106.9	5.9	5.8	-0.1
1997	159.7	113.0	5.8	5.7	-0.1
1998	160.4	113.2	0.4	0.2	-0.2
1999	151.7	106.6	-5.4	-5.8	-0.4
2000	141.8	100.0	-6.5	-6.2	0.3
2001	141.1	98.6	-0.5	-1.4	-0.9

Note: Figures for 2000 and 2001 are preliminary figures, being subject to revision when more data become available.

The extent of revision to the rate of change in the GDP deflator is generally not large for 1996 to 2000. The relatively larger revision for 2001 is due in part to downward adjustments in the rates of change in the price deflators for government consumption expenditure and for exports of services.

STATISTICAL APPENDIX

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Table 1 Gross Domestic Product (GDP) by expenditure component

Expenditure component	(HK\$ million)			
	At current market prices		At constant (2000) market prices	
	2000 [#]	2001 [#]	2000 [#]	2001 [#]
Private consumption expenditure	744,401 (0.5)	745,537 (0.2)	744,401 (5.9)	754,979 (1.4)
Government consumption expenditure	120,148 (0.1)	128,844 (7.2)	120,148 (2.0)	127,357 (6.0)
Gross domestic fixed capital formation	347,375 (6.8)	341,847 (-1.6)	347,375 (11.0)	357,305 (2.9)
<i>of which</i> : Buildings and construction	117,681 (-6.4)	111,824 (-5.0)	117,681 (-6.8)	115,073 (-2.2)
Machinery, equipment and computer software	180,204 (27.5)	186,693 (3.6)	180,204 (27.0)	193,332 (7.3)
Change in inventories	14,399	-2,466	14,399	-3,184
Total exports of goods	1,572,689 (16.6)	1,480,987 (-5.8)	1,572,689 (17.1)	1,520,244 (-3.3)
Domestic exports	180,967 (6.1)	153,520 (-15.2)	180,967 (7.5)	162,588 (-10.2)
Re-exports	1,391,722 (18.1)	1,327,467 (-4.6)	1,391,722 (18.5)	1,357,656 (-2.4)
<i>less</i> Imports of goods ^(a)	1,636,711 (19.2)	1,549,222 (-5.3)	1,636,711 (18.2)	1,605,267 (-1.9)
Exports of services	317,580 (13.8)	323,087 (1.7)	317,580 (12.9)	336,295 (5.9)
<i>less</i> Imports of services	191,543 (4.1)	189,619 (-1.0)	191,543 (4.2)	191,217 (-0.2)
Total expenditure on GDP	1,288,338 (3.4)	1,278,995 (-0.7)	1,288,338 (10.2)	1,296,512 (0.6)
Per capita GDP ^(b) (\$)	193,299 (2.5)	190,188 (-1.6)	193,299 (9.2)	192,793 (-0.3)
Implicit Price Deflator (2000=100)	Index for 2000	% change over 1999	Index for 2001	% change over 2000
GDP	100.0	-6.2	98.6	-1.4
Total final demand ^(c)	100.0	-2.9	97.6	-2.4
Domestic demand ^(d)	100.0	-5.4	98.2	-1.8

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

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

- (a) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.
- (b) Per capita GDP is equal to total expenditure on GDP divided by the total mid-year population.
- (c) 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.
- (d) Domestic demand is total final demand less exports of goods and services.
- (#) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

**Table 2 Gross Domestic Product (GDP) by economic activity
(at current prices)**

Economic activity	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
Industry	172,289	174,776	-4.3	1.4	14.6	14.2
Mining and quarrying	307	241	2.0	-21.5	*	*
Manufacturing	67,540	71,655	-7.0	6.1	5.7	5.8
Electricity, gas and water	37,211	38,853	3.1	4.4	3.2	3.2
Construction	67,232	64,026	-5.3	-4.8	5.7	5.2
Services	1,004,335	1,053,202	-1.9	4.9	85.3	85.7
Wholesale, retail and import/ export trades, restaurants and hotels	296,318	324,622	-1.8	9.6	25.2	26.4
Transport, storage and communications	112,667	125,724	1.1	11.6	9.6	10.2
Financing, insurance, real estate and business services	281,439	291,062	-5.0	3.4	23.9	23.7
Community, social and personal services	246,003	252,435	5.5	2.6	20.9	20.5
Ownership of premises	162,488	155,303	-4.8	-4.4	13.8	12.6
<i>less</i> Adjustment for financial intermediation services indirectly measured	94,580	95,945	5.7	1.4	8.0	7.8
GDP at factor cost	1,177,796	1,228,897	-2.3	4.3	100.0	100.0
Taxes on production and imports	53,474	57,908	-11.4	8.3		
Statistical discrepancy (%)	1.2	0.1	--	--		
GDP at current market prices	1,246,134	1,288,338	-2.6	3.4		

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

(#) Revised series incorporating the results of the major revision to GDP as announced on 1 August 2002.

(*) Share of less than 0.05%.

(--) Not applicable.

**Table 3 Gross Domestic Product (GDP) by economic activity
(at constant (2000) prices)**

(HK\$ million)						
Economic activity	2001 ⁺	2001				2002
		1st Qtr ⁺	2nd Qtr ⁺	3rd Qtr ⁺	4th Qtr ⁺	1st Qtr ⁺
Agriculture and fishing	896 (-2.6)	227 (-6.2)	230 (-2.1)	204 (-4.7)	235 (2.6)	235 (3.5)
Industry	170,492 (-2.5)	39,366 (-1.3)	41,403 (-0.2)	44,975 (-5.0)	44,748 (-2.9)	37,368 (-5.1)
Mining and quarrying	207 (-14.1)	52 (-34.2)	50 (-2.0)	55 (-5.2)	50 (-7.4)	40 (-23.1)
Manufacturing	67,983 (-5.1)	15,593 (-0.3)	17,473 (0.1)	17,948 (-7.9)	16,969 (-11.0)	13,824 (-11.3)
Electricity, gas and water	40,065 (3.1)	8,427 (5.5)	9,993 (3.2)	11,907 (2.2)	9,738 (2.2)	8,528 (1.2)
Construction	62,237 (-2.8)	15,294 (-5.3)	13,887 (-2.7)	15,065 (-6.7)	17,991 (3.1)	14,976 (-2.1)
Services	1,067,046 (1.3)	256,386 (3.2)	259,856 (1.8)	273,801 (0.8)	277,003 (-0.4)	256,362 (*)
Wholesale, retail and import/ export trades, restaurants and hotels	324,746 (*)	75,725 (5.6)	75,481 (0.7)	87,789 (-0.3)	85,752 (-4.7)	73,595 (-2.8)
Transport, storage and communications	130,283 (3.6)	31,479 (9.1)	31,288 (2.8)	33,897 (2.3)	33,619 (0.9)	31,526 (0.1)
Financing, insurance, real estate and business services	287,251 (-1.3)	71,048 (-4.1)	72,008 (2.5)	71,592 (-2.4)	72,602 (-1.0)	69,651 (-2.0)
Community, social and personal services	260,277 (3.1)	62,930 (5.9)	65,645 (1.5)	64,180 (3.5)	67,523 (1.8)	63,598 (1.1)
Ownership of premises	160,117 (3.1)	39,571 (3.3)	39,438 (2.1)	40,402 (3.3)	40,705 (3.7)	40,710 (2.9)
<i>less</i> Adjustment for financial intermediation services indirectly measured	95,628 (-0.3)	24,367 (1.8)	24,004 (1.5)	24,059 (-0.2)	23,198 (-4.4)	22,718 (-6.8)
Taxes on production and imports	56,854 (-1.8)	14,898 (-4.7)	15,083 (6.4)	12,515 (-6.8)	14,358 (-2.1)	14,863 (-0.2)
Statistical discrepancy (%)	0.1	0.3	-0.3	0.2	0.2	0.5
GDP at constant (2000) market prices	1,296,512 (0.6)	311,699 (2.3)	315,622 (1.6)	332,268 (-0.3)	336,922 (-0.9)	310,256 (-0.5)

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

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

(+) Preliminary figures.

(*) Change of less than 0.05%.

Table 4 Gross National Product (GNP) and external factor income flows (EFIF)

(HK\$ million)

Income component	2001		2001				2002
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
(At current market prices)							
Direct investment income							
Inflow total	157,301	(2.2)	36,376	46,600	44,284	30,041	39,744
Banking	7,512	(-10.4)	2,030	1,842	1,807	1,832	1,683
Others ^(a)	149,790	(3.0)	34,346	44,758	42,477	28,209	38,061
Outflow total	239,693	(-10.0)	62,320	69,577	63,896	43,900	52,818
Banking	62,873	(-14.0)	16,656	15,486	16,209	14,521	16,581
Others ^(a)	176,820	(-8.5)	45,663	54,091	47,687	29,379	36,237
Portfolio investment income							
Inflow total	95,727	(0.7)	26,348	23,982	24,611	20,787	25,160
Banking	26,937	(12.7)	7,267	7,030	6,778	5,862	5,769
Others ^(a)	68,790	(-3.4)	19,081	16,952	17,832	14,924	19,391
Outflow total	27,300	(1.5)	3,202	13,505	5,195	5,398	4,838
Banking	4,726	(24.4)	1,866	773	1,558	529	1,700
Others ^(a)	22,573	(-2.3)	1,336	12,732	3,636	4,869	3,138
Other investment income							
Inflow total	121,354	(-27.7)	35,428	34,304	29,910	21,712	17,502
Banking	103,206	(-30.2)	30,124	30,014	24,289	18,779	15,142
Others ^(a)	18,149	(-9.3)	5,304	4,290	5,621	2,933	2,360
Outflow total	71,253	(-30.0)	20,679	19,662	17,686	13,227	9,971
Banking	63,891	(-32.4)	18,903	17,480	15,811	11,697	8,748
Others ^(a)	7,362	(1.3)	1,776	2,181	1,875	1,530	1,223
Compensation of employees							
Inflow total	36	(-32.1)	10	11	9	6	6
Outflow total	36	(-32.1)	10	11	9	6	6
Total EFIF							
Inflow total	374,419	(-10.2)	98,162	104,897	98,814	72,546	82,412
Outflow total	338,282	(-14.4)	86,211	102,754	86,786	62,530	67,633
Net flow total	36,137		11,951	2,142	12,028	10,016	14,779
(At current market prices)							
GNP (\$ million) [#]	1,315,132	(0.4)	321,502	314,602	337,735	341,292	316,261
Per capita GNP (\$) [#]	195,562	(-0.5)	--	--	--	--	--
(At constant (2000) market prices)							
GNP (\$ million) [#]	1,333,561	(1.8)	323,891	317,803	344,602	347,264	325,793
Per capita GNP (\$) [#]	198,302	(0.9)	--	--	--	--	--

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 5 Balance of payments account

(HK\$ million)

Standard components	2001 [#]	2001				2002
		1st Qtr [#]	2nd Qtr [#]	3rd Qtr [#]	4th Qtr [#]	1st Qtr [#]
Current account ⁽¹⁾	91,525	12,066	6,864	30,497	42,097	30,768
Trade in goods	-64,970	-24,646	-23,888	-11,432	-5,004	-12,444
Exports	1,488,982	350,421	364,089	402,976	371,497	326,087
Imports	-1,553,952	-375,067	-387,977	-414,408	-376,501	-338,531
Trade in services	133,468	28,447	31,702	33,258	40,061	31,895
Exports	323,087	76,457	78,527	82,815	85,288	78,341
Imports	-189,619	-48,010	-46,825	-49,557	-45,227	-46,446
External factor income flows	36,137	11,951	2,142	12,028	10,016	14,779
Inflow	374,419	98,162	104,897	98,814	72,546	82,412
Outflow	-338,282	-86,211	-102,754	-86,786	-62,530	-67,633
Current transfers	-13,110	-3,686	-3,092	-3,357	-2,975	-3,461
Inflow	6,344	1,105	2,338	1,515	1,386	1,076
Outflow	-19,454	-4,791	-5,430	-4,872	-4,361	-4,537
Capital and financial account ⁽¹⁾	-85,717	-504	-11,597	-19,459	-54,157	-46,809
Capital transfers	-9,059	-1,438	-3,116	-2,927	-1,578	-2,998
Direct investment	108,068	59,080	37,494	5,098	6,396	-10,139
Abroad	-70,011	-7,489	-14,967	-38,257	-9,298	-40,923
In HK	178,079	66,568	52,461	43,355	15,694	30,784
Portfolio investment	-309,317	-108,070	-52,268	-71,339	-77,640	7,056
Assets	-305,178	-75,082	-77,803	-46,306	-105,988	-13,435
Liabilities	-4,139	-32,988	25,535	-25,033	28,348	20,491
Financial derivatives	39,108	-9,198	21,025	14,913	12,367	12,316
Assets	136,525	18,076	42,584	49,185	26,680	42,239
Liabilities	-97,417	-27,273	-21,559	-34,272	-14,313	-29,923
Other investment	122,013	120,080	-4,807	8,476	-1,735	-49,183
Assets	454,220	62,689	153,406	129,880	108,246	96,784
Liabilities	-332,208	57,391	-158,213	-121,405	-109,981	-145,967
Net change in reserve assets ⁽²⁾	-36,530	-60,958	-9,924	26,320	8,032	-3,861
Net errors and omissions	-5,808	-11,561	4,732	-11,038	12,059	16,040
Overall balance of payments	36,530 (in surplus)	60,958 (in surplus)	9,924 (in surplus)	-26,320 (in deficit)	-8,032 (in deficit)	3,861 (in surplus)

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 6 Major economic indicators in the external sector
for the second quarter of 2002**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	341,236	15.0	5.3
Domestic exports	\$Mn	32,238	11.2	-17.8
Total exports of goods	\$Mn	373,474	14.6	2.8
Imports of goods	\$Mn	394,249	15.2	0.4
Visible trade balance	\$Mn	-20,775	--	--
<u>Unit value indices (2000 = 100)</u>				
Re-exports		95.6	-0.4	-2.6
<i>to :</i> Mainland of China		95.0	0.1	-2.6
United States		97.3	-1.1	-2.3
Japan		95.1	-0.7	-3.3
Germany		95.9	-0.1	-2.8
United Kingdom		95.5	-0.4	-2.9
Domestic exports		91.7	*	-3.6
<i>to :</i> Mainland of China		89.4	0.5	-4.6
United States		93.6	-0.5	-3.2
Germany		89.2	0.5	-3.1
Japan		95.2	-1.3	-4.4
United Kingdom		94.6	0.7	0.7
Imports of goods		92.9	-0.6	-4.6
<i>from :</i> Mainland of China		94.8	-1.4	-3.5
Japan		91.6	0.5	-5.4
Taiwan		90.6	0.5	-4.4
United States		92.9	-1.0	-5.6
United Kingdom		88.2	-2.5	-7.9
<i>of :</i> Raw materials and semi-manufactures		90.7	*	-6.0
Consumer goods		95.2	-1.7	-3.3
Capital goods		93.0	-0.9	-4.1
Foodstuffs		92.4	-1.2	-5.5
Fuels		90.4	15.2	-6.6

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 external sector
for the second quarter of 2002 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (2000 = 100)	102.5	0.3	2.0
<u>Quantum indices</u> (2000 = 100)			
Re-exports	103.1	15.5	8.3
<i>to :</i> Mainland of China	121.2	20.1	14.0
United States	92.8	28.7	6.5
Japan	91.8	-4.3	-5.3
Germany	78.3	0.6	-2.5
United Kingdom	86.2	14.3	2.9
Domestic exports	79.4	11.1	-13.7
<i>to :</i> Mainland of China	90.0	6.1	-13.3
United States	79.2	24.4	-12.7
Germany	48.0	-2.2	-25.6
Japan	61.8	-9.7	-21.4
United Kingdom	65.1	12.6	-22.7
<i>of :</i> Textiles and clothing	87.7	26.5	-9.7
Products other than textiles and clothing	71.8	-2.2	-17.7
Imports of goods	103.1	16.1	5.7
<i>from :</i> Mainland of China	102.0	18.5	8.6
Japan	98.4	16.1	1.2
Taiwan	103.9	17.4	5.4
United States	87.9	11.3	-12.5
United Kingdom	89.3	0.2	-10.6
<i>of :</i> Raw materials and semi-manufactures	108.1	23.6	10.6
Consumer goods	97.0	16.4	1.7
Capital goods	105.5	11.1	4.6
Foodstuffs	95.6	-12.3	3.0
Fuels	103.4	15.4	3.8

Table 7 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Manufacturing sector</u> (1st Qtr 2002)				
Index of Industrial Production (1986 = 100)		79.4	-18.4	-11.6
<u>Property</u> (2nd Qtr 2002)				
Completions of new property				
<i>for</i> : Residential	no. of units	6 263	84.4	0.9
Commercial	'000 sq. m	67	-1.6	17.8
<i>of which</i> :				
Office space	'000 sq. m	45	-10.7	131.1
Other commercial premises	'000 sq. m	21	25.1	-42.2
Industrial	'000 sq. m	0	-100.0	-100.0
<i>of which</i> :				
Industrial-cum-office premises	'000 sq. m	0	--	-100.0
Flatted factory space	'000 sq. m	0	-100.0	--
Storage premises	'000 sq. m	0	--	--
Floor area of building consents				
<i>for</i> : Residential	'000 sq. m	327	159.3	74.3
Commercial	'000 sq. m	57	-21.2	-61.5
Industrial	'000 sq. m	18	32.7	549.8
Others	'000 sq. m	16	-3.2	1.9
Total	'000 sq. m	418	82.7	17.7
<u>Building and construction</u>				
Labour and Material Cost Index (Apr 2002) (mid-Feb 1970 = 100)		1 750	*	-0.5
Tender Price Indices (1st Qtr 2002) (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		687	-4.7	-20.3
Public housing projects		556	0.5	-9.2
<u>Electricity consumption</u> (2nd Qtr 2002)				
<i>for</i> : Industrial	Mn KWh	1 205	30.5	-0.8
Commercial	Mn KWh	6 393	31.0	6.6
Domestic	Mn KWh	2 302	56.1	9.7
<u>Gas consumption</u> (2nd Qtr 2002)				
<i>for</i> : Industrial	Terajoule	258	1.6	-1.5
Commercial	Terajoule	2 773	-3.9	-3.3
Domestic	Terajoule	4 007	-8.7	1.6

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

(--) Not applicable.

(*) Change of less than 0.05%.

Table 7 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 (2nd Qtr 2002)				
<i>by</i> : KMB	'000	285 644	1.0	4.8
NWFB	'000	49 478	1.8	5.1
City Bus	'000	54 580	1.4	2.5
New Lantau Bus	'000	2 126	0.4	51.5
Long Win Bus	'000	4 987	3.5	5.2
MTR	'000	186 074	-1.8	0.5
KCR	'000	72 020	-2.2	1.8
LRT	'000	29 049	1.7	0.1
Hong Kong Tramways	'000	21 714	-2.6	1.5
New World First Ferry	'000	3 702	-2.1	5.8
Star Ferry	'000	6 891	-2.6	0.9
Private cars licensed				
new registration (2nd Qtr 2002)	no.	7 950	5.5	-10.6
total licensed (end-Jun 2002)	no.	340 801	0.2	1.0
Air passenger movements (2nd Qtr 2002)	'000	5 671	-0.5	-2.9
Air cargo (2nd Qtr 2002)	'000 tonne	601	13.9	23.1
Ocean cargo (1st Qtr 2002)	'000 tonne	30 345	-6.9	-4.6
Container throughput (1st Qtr 2002)	'000 TEUs	4 068	-7.8	-2.3
Tourism				
Arrivals of incoming visitors (2nd Qtr 2002)	'000	3 909	8.8	13.2
Departures of Hong Kong residents (2nd Qtr 2002)	'000	15 699	-0.9	4.9
<i>to</i> : Mainland of China	'000	13 601	0.3	7.2
Macau	'000	1 011	-4.4	-5.3
Other countries	'000	1 087	-11.6	-10.6
Hotel rooms ^(a) (end-Jun 2002)	no.	42 747	2.2	--
Hotel room occupancy rate (2nd Qtr 2002)	%	83	2.9	5.5
Telecommunications (end-Jun 2002)				
Telephone lines	Mn	3.9	-0.5	-1.2
<i>for</i> : Residential users	Mn	2.1	-0.6	-1.8
Business users	Mn	1.7	-0.5	-0.4
Facsimile lines	'000	408	0.2	0.8
Public mobile radiotelephone services customers	'000	5 827	0.9	3.6

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.

(--) Not applicable.

**Table 8 Major economic indicators in the financial sector
as at end-June 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		102.6	-3.2	-3.1
import-weighted		103.1	-3.5	-3.0
export-weighted		102.0	-3.1	-3.2
HK\$/US\$ interbank T/T rate	HK\$	7.798	*	*
<u>Interest rate</u>				
3-month HIBOR	%	1.75	--	--
Savings rate	%	0.16	--	--
Best lending rate	%	5.13	--	--
<u>Monetary statistics</u>				
Money supply : M1	\$Mn	268,128	2.4	17.8
M2	\$Mn	3,497,945	1.7	-3.0
M3	\$Mn	3,542,091	1.7	-3.0
Deposits with :				
licensed banks	\$Mn	3,287,630	1.2	-4.5
restricted licence banks	\$Mn	35,828	10.6	12.4
deposit-taking companies	\$Mn	5,834	-3.0	2.7
all authorized institutions	\$Mn	3,329,293	1.3	-4.3
Deposits by type :				
demand	\$Mn	160,845	4.4	20.8
savings	\$Mn	890,122	4.4	18.3
time	\$Mn	2,278,326	-0.1	-12.2
total	\$Mn	3,329,293	1.3	-4.3

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

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 8 Major economic indicators in the financial sector
as at end-June 2002 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	1,996,679	-0.4	-7.4
restricted licence banks	\$Mn	119,552	-2.3	-4.4
deposit-taking companies	\$Mn	30,485	-2.1	-15.7
all authorized institutions	\$Mn	2,146,717	-0.5	-7.3
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	83,784	7.1	-9.2
to finance merchandising trade not touching Hong Kong	\$Mn	8,856	9.1	-4.2
other loans for use in Hong Kong	\$Mn	1,779,329	-0.8	-3.2
other loans for use outside Hong Kong	\$Mn	265,291	-0.5	-27.6
other loans where the place of use is not known	\$Mn	9,456	-8.1	-14.9
<u>Stock market</u>				
Hang Seng Index (Jul 1964 = 100)		10 599	-3.9	-18.7
Stock market capitalisation				
Main Board	\$Mn	3,791,697	-1.6	-14.8
Growth Enterprise Market	\$Mn	60,521	-12.4	-13.5
Total	\$Mn	3,852,218	-1.8	-14.8
Stock market turnover (2nd Qtr 2002)				
Main Board	\$Mn	476,313	17.7	-16.8
Growth Enterprise Market	\$Mn	13,196	-11.8	-21.3
Total	\$Mn	489,509	16.7	-16.9

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

Table 9 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> (2nd Qtr 2002)				
Labour force	'000	3 460	*	1.5
Unemployed	'000	263	10.2	72.6
Underemployed	'000	101	-8.1	33.7
Employed	'000	3 197	-0.7	-1.9
Labour force participation rate	%	61.5	--	--
Seasonally adjusted unemployment rate	%	7.7	--	--
Underemployment rate	%	2.9	--	--
<u>Employment</u> (Mar 2002)				
Manufacturing	'000	197	-2.8	-9.0
Services	'000	1 993	-0.2	0.2
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	782	0.7	-1.8
Restaurants and hotels	'000	214	-2.9	-3.2
Transport, storage and communications	'000	181	-0.2	-0.3
Financing, insurance, real estate and business services	'000	423	-2.4	-1.3
Community, social and personal services	'000	392	1.8	8.8
Building and construction sites	'000	77	0.4	-12.4
Civil service	'000	173	-0.9	-4.4
<u>Vacancies</u> (Mar 2002)				
Manufacturing	'000	1	28.9	-25.0
Services	'000	19	20.3	-31.1
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	7	46.6	-32.0
Restaurants and hotels	'000	2	27.9	-28.5
Transport, storage and communications	'000	1	0.9	-37.1
Financing, insurance, real estate and business services	'000	5	25.4	-34.6
Community, social and personal services	'000	4	-6.8	-23.5
Building and construction sites	'000	#	89.3	-42.7
Civil Service	'000	2	-12.7	9.0

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

(--) Not applicable.

(*) Change of less than 0.05%.

(#) Less than 500.

Table 9 Major economic indicators in the labour sector (cont'd)

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Earnings</u> (1st Qtr 2002)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	102.2	7.4 (9.0)	-0.6 (2.1)
<i>for</i> : Manufacturing	102.8	11.3 (12.9)	-0.8 (1.8)
Services	101.4	7.2 (8.7)	-0.8 (1.9)
<i>of which</i> :			
Wholesale, retail and import/export trades	102.8	13.6 (15.2)	-1.0 (1.6)
Restaurants and hotels	91.1	9.6 (11.1)	-4.9 (-2.3)
Transport, storage and communications	99.4	* (1.4)	-1.9 (0.7)
Financing, insurance, real estate and business services	100.4	4.7 (6.2)	-2.0 (0.6)
Community, social and personal services	99.9	2.3 (3.8)	* (2.7)
<u>Wages</u> (Mar 2002)			
Nominal wage index (Sep 1992 = 100)	150.3	-0.2 (-3.3)	-0.8 (1.2)
<i>for</i> : Manufacturing	147.0	-1.1 (-4.2)	-2.1 (-0.2)
Services			
<i>of which</i> :			
Wholesale, retail and import/export trades	160.0	* (-3.2)	* (2.1)
Restaurants and hotels	136.0	-1.2 (-4.3)	-1.4 (0.6)
Transport services	151.2	0.9 (-2.3)	1.1 (3.1)
Financing, insurance, real estate and business services	154.2	-0.3 (-3.4)	-1.7 (0.3)
Personal services	155.5	2.8 (-0.4)	-0.9 (1.1)
Nominal index of construction wage rate (Jan 1970 = 100) (May 2002)	3 614.7	0.9 (1.2)	1.7 (4.9)

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

(*) Change of less than 0.05%.

Table 10 Various price indices for the second 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	95.1	-0.6 [#]	-3.2
CPI(A)	94.9	-0.6 [#]	-3.6
CPI(B)	95.0	-0.6 [#]	-3.1
CPI(C)	95.4	-0.7 [#]	-2.9
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	71.5	-3.1	-11.9
Office space	68.1	-3.5	-17.1
Shopping space	82.8	-1.7	-4.9
Conventional flatted factory space	75.3	0.3	-9.5
<u>GDP deflator</u> (2000 = 100)	96.9	-1.4 [#]	-2.1

Note : (#) Seasonally adjusted series.

