



# 2003 Economic Prospects

Government of the Hong Kong  
Special Administrative Region

# ***2003 ECONOMIC PROSPECTS***

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

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## CHAPTER 1 : OVERVIEW OF THE 2003 ECONOMIC FORECAST

### Background

1.1 After a weak start in early 2002, the Hong Kong economy picked up steadily in the ensuing period. The Gross Domestic Product (GDP)<sup>(1)</sup> still fell in the first quarter, yet resumed growth in the second quarter, then ascended distinctly further in the third and fourth quarters. By the third quarter of 2002, overall economic activity had already surpassed the peak once reached in the fourth quarter of 2000, and along with the boom in exports, activity rose even more in the fourth quarter. For 2002 as a whole, GDP grew by 2.3% in real terms<sup>(2)</sup>, up from a meagre 0.6% growth in 2001. Thus once again, the Hong Kong economy was able to recover fairly swiftly from the setback inflicted by external circumstances, thanks to flexibility of the local cost/price structure and resilience of the economy.

1.2 As in the past, the economic rebound last year was export-led. Exports of goods bounced back in the second quarter, and gathered a strong pace in the third and fourth quarters with growth well in the double-digit range. This was driven by generally improved global demand and in particular resurgence in demand in the East Asian economies. Better external price competitiveness brought about by the weakening in the US dollar and the continuing local cost/price adjustments rendered an additional boost. Exports of services had an even more robust performance, with inbound tourism, offshore trade and transportation services all attaining double-digit growth.

1.3 The domestic sector however had not benefited much from the strong export growth. Consumer spending declined throughout 2002, as sentiment was hit by unemployment hike, moderated income and distinct fall-off in asset prices. Overall investment spending also faltered in 2002, as machinery and equipment intake went sharply down against the backdrop of excess capacity, even though building and construction activity still had a modest growth. Domestic demand in overall terms was on a distinct decline in the first half of 2002, stayed flat in the third quarter, and only recovered modestly in the fourth quarter.

1.4 Labour market conditions slackened significantly further in the early part of 2002, yet showed some relative improvement after the middle of the year upon the rebound in the economy. The seasonally adjusted unemployment

/rate .....

rate rose further to a record high of 7.8% in the three months ending July 2002, before coming down in the later period. In the three months ending January 2003, the seasonally adjusted unemployment rate stood at 7.2%. The underemployment rate was 3.1%. Meanwhile, labour earnings and wages continued to fall.

1.5 Consumer prices by now have gone through the fourth consecutive year of decline. While wage and rental costs drifted lower, the prices of goods and services in the domestic market were also restrained by slack demand and keen competition. Although the downtrend in local prices is part and parcel of the adjustment process to uphold Hong Kong's external competitiveness, there is concern that the process itself is sustaining the negative sentiment that holds back domestic demand.

### **Economic forecast for 2003**

1.6 The outlook for 2003 is for a further modest pick-up in GDP growth. Exports should still render the key impetus to growth this year. Domestic demand is also expected to firm up somewhat in 2003, as the income generation effects of the export growth gradually spread through to the domestic sector. Yet compared with the recovery in the past, the pick-up in domestic demand may be less forthcoming this time, amidst the influence of on-going economic restructuring and persistent price decline.

1.7 On the external front, the US economy, as the leading economy setting the tempo for the global economy, should benefit from the Federal Reserve's loose monetary stance, and in the course of time, also from the Bush Administration's economic stimulus package now underway. A better course for the US economy will help lift the European and East Asian economies, including the Hong Kong economy. As to the exchange rate factor, it is currently supportive, as a weaker US dollar should bode well for Hong Kong's export price competitiveness.

1.8 The mainland of China (the Mainland), by virtue of its ascending productivity and competitiveness, has now emerged as the leading production centre in the region. Indeed, it has been gaining market share in the global context in recent years, and generally more so in 2002 with its trade and investment boom after China's accession to the World Trade Organisation (WTO). Hong Kong, with its close proximity to and intimate business links

/with .....

with the Mainland, should have much to gain from this development. Hong Kong's exports of goods can thus be expected for a further notable growth in 2003, albeit probably not as strong as that attained in 2002 owing to a higher base in the more recent months.

1.9 Hong Kong's exports of services should also remain sound in 2003. There is likely to be a further surge in exports of trade-related services, bolstered by robust exports from the Mainland and an on-going structural shift to offshore trade. Inbound tourism looks set to stay vibrant, while exports of transportation services can likewise grow further, in tandem with the expanding volume of merchandise trade and external passenger movements. Exports of financial, business and other services may pick up somewhat, reflecting greater business demand from the Mainland and the other regional economies.

1.10 In the domestic sector, consumer spending in the early part of 2003 may still be curbed by reduced household income and worry over employment prospects. Also, the dip in asset values over the past year may carry over a negative wealth effect on consumption. But as the impetus from the export surge feeds through, consumer spending may set off to steadily improve in due course. As to the government consumption expenditure, growth in 2003 may still be modest, owing to fiscal restraint.

1.11 With the economy now back on the growth path, overall investment spending should hopefully stage some rebound in 2003. There will probably be renewed acquisition of machinery, equipment and computer software, for the sake of reinstating productive capacity. Intake of new aircraft will render an added boost. On the other hand, overall building and construction activity, after a brief pick-up last year, may fall back again, amidst a dearth of new projects, as well as further scale-back in public housing production and winding down of work on the KCR West Rail.

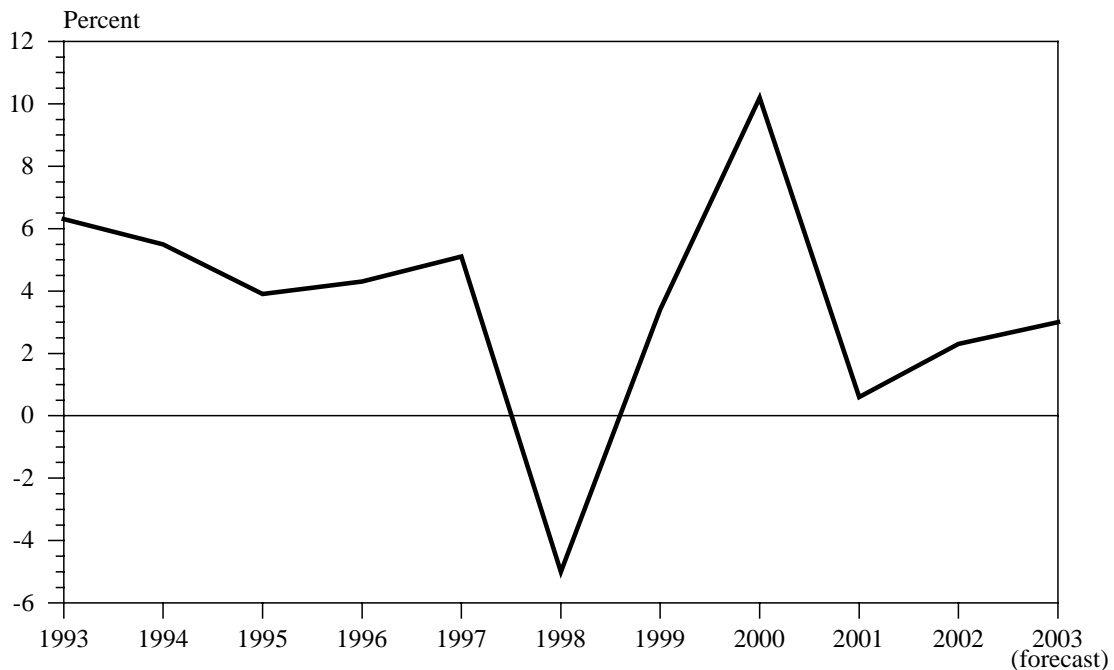
1.12 Overall, Hong Kong's GDP seems likely to maintain a rather solid growth in the early part of 2003, on the back of continued surge in exports of goods and services. GDP may then settle to a relatively milder growth pace in the latter part of the year, set against a higher base in the same period last year. For 2003 as a whole, GDP is forecast at a growth of 3% in real terms, up modestly further from the 2.3% growth in 2002.

**/Diagram 1.1 .....**



**Diagram 1.1**

**Gross Domestic Product\*  
(rate of change)**



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

1.13 A number of uncertainties are prevailing on both the external and domestic fronts. Externally, there is concern about slower growth pace in the US economy, with ensuing drag on the rest of the world. The Hong Kong economy, given its high dependence on trade, is bound to be hit if the global economy were to relapse again. At the same time, fluidity in the geo-political perspective, including the pressure of war on Iraq and alertness to risk of resurgence of terrorist attacks, is clearly disturbing. Domestically, there is concern that with the further shift from re-exports to offshore trade, it may take more time for an external boost to filter through to lift domestic demand and hence the overall economy. Also, the local labour market, particularly its lower segment, may face continued loosening, in turn restraining wages and domestic demand.

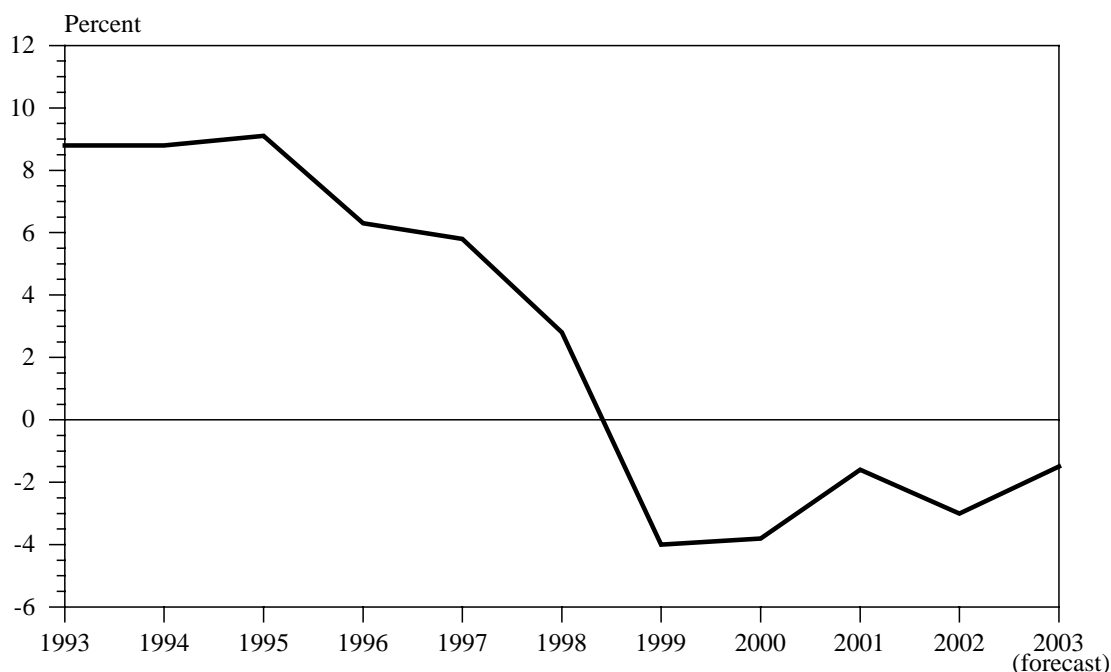
1.14 Local costs and prices seem likely to remain on a downtrend in 2003. The marked fall-off in property rentals over the course of last year is expected to show up more fully in the CPI during this year, while the easing in labour wages is expected to continue. Moreover, there is an on-going structural drag from the factor price equalisation process, upon closer inter-flows of economic

/activities .....

activities between Hong Kong and the Mainland. Externally, a weaker US dollar will entail some pick-up in import prices, but part of the lift may perhaps be absorbed by local retailers and distributors amidst keen competition in the domestic market. Also, on-going deflation in the Mainland and Japan, as Hong Kong's two leading suppliers of imports, may help reduce price pressure from the external source. The Composite Consumer Price Index is thus forecast to fall by an average of 1.5% in 2003, following a 3.0% decline in 2002. The lesser decline envisaged for 2003 is mostly due to dissipation of the Government's special relief measures for 2002.

**Diagram 1.2**

**Composite Consumer Price Index  
(rate of change)**



1.15 A summary of the performance of the economy in 2002 is given in Chapter 2. A more detailed analysis of the performance is provided in the **2002 Economic Background**. This is combined, through a process of appraisal and judgement, with the results of an econometric model application<sup>(3)</sup> and with the findings of two business outlook enquiries<sup>(4)</sup>, to produce a forecast of economic performance in 2003. The forecast itself is discussed in Chapter 3, and its implications for the economy are set out in Chapter 4. The *Statistical Appendix* to this report contains details of the forecast, along with a variety of economic indicators over the past ten years. Statistics on the GDP and its components are published in the **2002 Gross Domestic Product**, which includes a description of the sources and methods for the compilation.

/Notes .....

## Notes:

- (1) The Gross Domestic Product (GDP) is an overall measure of the value of net output produced within the 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) All percentage changes quoted in this report are in real terms unless indicated otherwise or unless they relate to changes in prices. They are all on a year-on-year comparison unless indicated otherwise.
- (3) An integrated econometric model is used to forecast the GDP and its major expenditure components, including the trade aggregates, as well as the main price indicators. The model consists of 48 structural equations and 13 identities.
- (4) Two business outlook enquiries were conducted in December 2002 and January 2003. First, there was a business tendency survey to gather views regarding short-term business outlook from about 450 firms in the major economic sectors, including manufacturing; construction; the wholesale, retail and import/export trades; restaurants and hotels; and banks, financing and insurance. Also, there was a consultation exercise with prominent firms and organisations knowledgeable in Hong Kong-Mainland trade to solicit views on the outlook for Hong Kong's exports to the Mainland in 2003.

## CHAPTER 2 : ECONOMIC DEVELOPMENTS IN 2002

### Overall situation

2.1 The Hong Kong economy, following a distinct slow-down in 2001, revived progressively under the impetus from the external sector over the course of 2002. Total exports of goods reverted from decline in the first quarter to positive growth in the second quarter, and then accentuated sharply in the third quarter and further in the fourth quarter. Within the total, exports to markets in East Asia, including notably the Mainland, were particularly robust, attaining double-digit growth across many markets for the year as a whole. Exports to both the United States and the European Union picked up visibly in the latter part of the year. Exports of services had an even stronger performance than exports of goods, and the growth rate likewise accelerated through the year. There was a broad-based surge in inbound tourism, offshore trade and transportation services.

2.2 In the domestic sector, consumer spending fell in 2002, for the first time since 1998. Consumers were generally less willing to spend, amidst much concern over the prevailing employment and income conditions and with the distinct fall-off in the asset markets inflicting a negative wealth effect. Declines in consumer spending occurred through the four quarters of last year. Overall investment spending also shrank in 2002, mainly depressed by a plunge in machinery and equipment intake amidst an uncertain business outlook. Yet with machinery and equipment intake rebounding to positive growth towards the year-end, and even with building and construction activity concurrently showing a relapse, overall investment spending turned up to a modest rise in the fourth quarter.

2.3 Overall, the *Gross Domestic Product (GDP)* had a 2.3% growth in 2002, up from a 0.6% growth in 2001. With a generally subdued economic performance carried over from the preceding months, GDP was down by 0.5% in the first quarter of 2002. Then, along with reviving external trade, GDP resumed positive growth at 0.8% in the second quarter, followed by distinctly faster growth at 3.3% in the third quarter and 5.0% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP went up through the four quarters of 2002, with increases of 0.3%, 1.0%, 1.9% and 1.7% respectively.

/Table 2.1 .....

**Table 2.1****Gross Domestic Product  
(year-on-year rate of change (%))**

2001	Annual <sup>#</sup>	0.6	
	Q1 <sup>#</sup>	2.3	(-0.4)
	Q2 <sup>#</sup>	1.6	(-0.6)
	Q3 <sup>#</sup>	-0.3	(*)
	Q4 <sup>#</sup>	-0.9	(*)
2002	Annual <sup>+</sup>	2.3	
	Q1 <sup>#</sup>	-0.5	(0.3)
	Q2 <sup>#</sup>	0.8	(1.0)
	Q3 <sup>#</sup>	3.3	(1.9)
	Q4 <sup>+</sup>	5.0	(1.7)

Notes : The GDP figures in this table are based on the revised series incorporating the results of a technical 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.

(#) Revised figures.

(+) Preliminary figures.

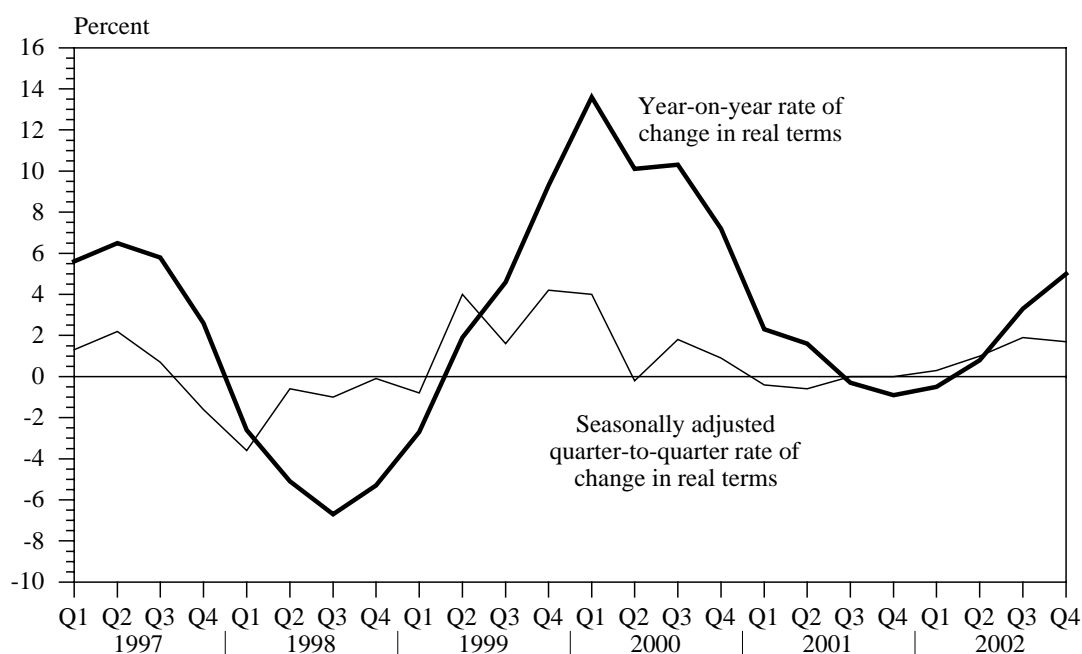
( ) Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change in GDP.

(\*) Change of less than 0.05%.

**/Diagram 2.1 .....**

Diagram 2.1

### Gross Domestic Product\*



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

2.4 The *labour market* slackened further in the first half of 2002, as corporate downsizing and rationalisation continued to take place, and this lifted the seasonally adjusted unemployment rate from 6.2% in the fourth quarter of 2001 to a record high of 7.8% in May - July 2002. Then, as total employment improved along with the turnaround in economic activity, the seasonally adjusted unemployment rate fell back somewhat in the second half of the year, to 7.2% in the fourth quarter. The underemployment rate hovered within the range of 2.8% to 3.2% during the past year. Even with some pick-up in the latter part of the year, total employment still fell by 0.6% for 2002 as a whole, as against a 1.8% growth in total labour force. Labour earnings drifted lower, by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier.

2.5 The *residential property market* slid further in 2002, as demand was curbed by high unemployment and moderated income, and as the abundant supply of new flats undermined buying interest. There was a brief pick-up in transactions in the second quarter, on the back of upbeat land auction results in April and June and the Government's announcement in early June to resume

/sale .....

sale of subsidised sale flats yet in a cautious and orderly manner upon expiry of the ten-month moratorium. Trading activities soon faltered, upon the unemployment hike and with growing uncertainties in the external environment also dampening sentiment. But with the Government's announcement in mid-November of the nine measures to stabilise the housing market, coupled with improved employment conditions, the market was re-activated somewhat towards the year-end. Amidst a generally weak sales market, flat prices drifted successively lower during the year, cumulating to a distinct further decline of on average 13% for 2002 as a whole. The rental market likewise weakened, with flat rentals falling on average also by 13% for the year.

2.6 The local *financial markets* showed a mixed performance in 2002. The spot exchange rate of the Hong Kong dollar against the US dollar continued to stay close to the linked rate during 2002. As to the twelve-month Hong Kong dollar/US dollar forward rate against the spot rate, the premium held broadly stable in the early part of 2002. It then narrowed down in the summer months, yet widened distinctly after mid-September amidst renewed market concern over the protracted fiscal deficit, before shrinking back appreciably towards the year-end. Local inter-bank interest rates remained generally soft in 2002, largely following their US dollar counterparts. Hong Kong dollar loans fell modestly and Hong Kong dollar deposits slightly less so during 2002, giving a slightly lower Hong Kong dollar loan-to-deposit ratio at end-2002 than a year earlier. The local stock market in 2002 was affected much by gyrations in the US stock market, where investor sentiment was undermined by the hesitant pace of US economic recovery and a spate of US corporate frauds. In the latter part of the year, there was additional downward impact from heightened war pressure on Iraq. The Hang Seng Index plummeted to a four-year low of 8 859 in mid-October, and then rose back somewhat to close the year at 9 321, 18% below the level at end-2001. Average daily turnover in the market also fell.

2.7 Overall *consumer prices* fell for 50 consecutive months by December 2002. The Composite Consumer Price Index was on average down by 3.0% in 2002, after a 1.6% decrease in 2001. Part of the price decline in the past year was nevertheless due to the special relief measures announced in the 2001 Policy Address and the 2002/03 Budget, including two rounds of rates concessions and the waiver of water and sewage charges, which had the combined effect of lowering the Composite CPI for the year by 1.1 percentage

/points .....

points. Apart from this discrete factor, local consumer prices were kept down by slack demand, keen competition in the retail market, and downward adjustments in labour wages and property rentals. Import prices were also soft, though with moderated decline towards the year-end along with a weaker US dollar and a pick-up in world commodity prices.

## **External trade<sup>(1)</sup>**

2.8 According to the merchandise trade statistics, Hong Kong's *total exports of goods* (comprising re-exports and domestic exports) registered notable growth at 8.6% in 2002, representing a significant turnaround from the 3.3% fall in 2001. Total exports of goods showed distinct improvement over the course of the year. After a 2.5% decline in the first quarter of 2002, they reverted to positive growth at 5.9% in the second quarter, and then picked up to double-digit growth at 11.4% and 18.3% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods recorded increase throughout the four quarters of 2002, by 4.5%, 5.8%, 4.0% and 4.0% respectively.

2.9 Within total exports of goods, *re-exports* remained the key driver of export performance, attaining double-digit growth at 10.9% in 2002, also representing a sharp turnaround from the 2.4% decrease in 2001. Having shown a mild contraction by 1.5% in the first quarter of 2002, re-exports rebounded to a distinct growth at 8.3% in the second quarter, followed by even more robust growth at 13.6% and 22.1% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports surged throughout the four quarters of 2002, by 5.7%, 6.6%, 4.5% and 4.7% respectively.

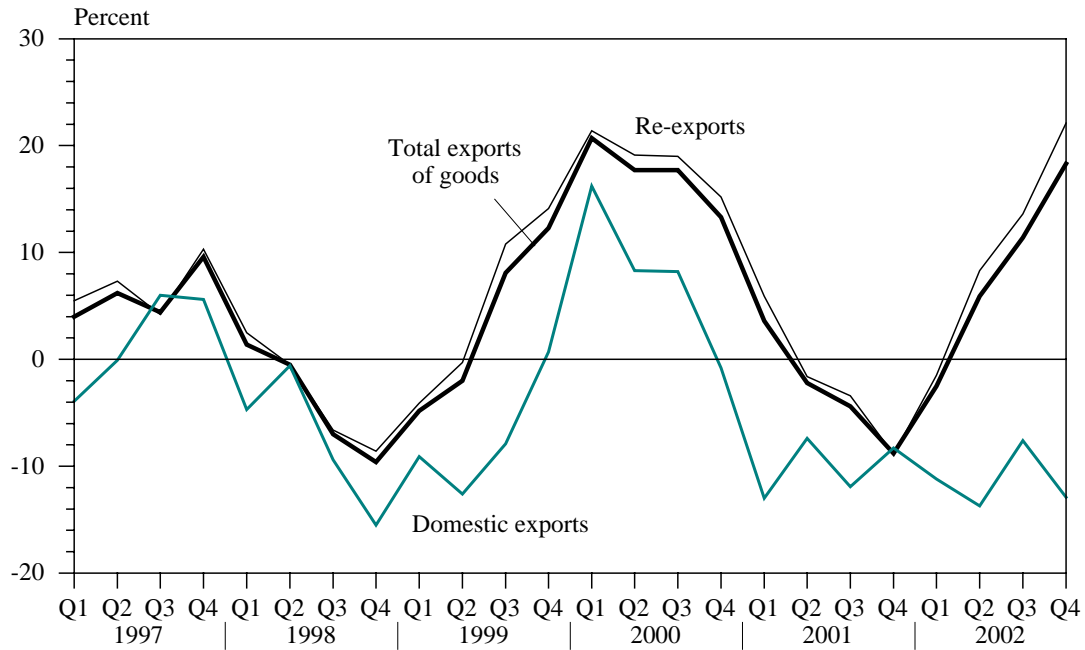
2.10 On the other hand, owing to the on-going structural shift towards re-exports and offshore trade, *domestic exports* shrank further, by 11.3% in 2002, slightly larger than the 10.2% dip in 2001. Domestic exports plummeted throughout the four quarters of 2002, with declines by 11.2%, 13.7%, 7.6% and 12.9% respectively. On a seasonally adjusted quarter-to-quarter comparison, domestic exports also fell in all four quarters, by 5.6%, 2.0%, 0.7% and 4.3% respectively.

**/Diagram 2.2 .....**



**Diagram 2.2**

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



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.

**/Table 2.2 .....**

**Table 2.2****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>
2001	Annual	-3.3	-2.4	-10.2
	H1	0.5	1.9	-10.1
	H2	-6.6	-6.1	-10.2
	Q1	3.6	5.9	-13.0
	Q2	-2.2	-1.6	-7.4
	Q3	-4.4	-3.4	-11.9
	Q4	-8.8	-8.9	-8.3
2002	Annual	8.6	10.9	-11.3
	H1	1.8	3.5	-12.5
	H2	14.7	17.7	-10.2
	Q1	-2.5	-1.5	-11.2
	Q2	5.9	8.3	-13.7
	Q3	11.4	13.6	-7.6
	Q4	18.3	22.1	-12.9

Note : New series of 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 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 quantum indices for the period from the first quarter of 2001 to the first quarter of 2002.

**Table 2.3****Total exports of goods, re-exports and domestic exports  
(seasonally adjusted quarter-to-quarter rate of change (%))**

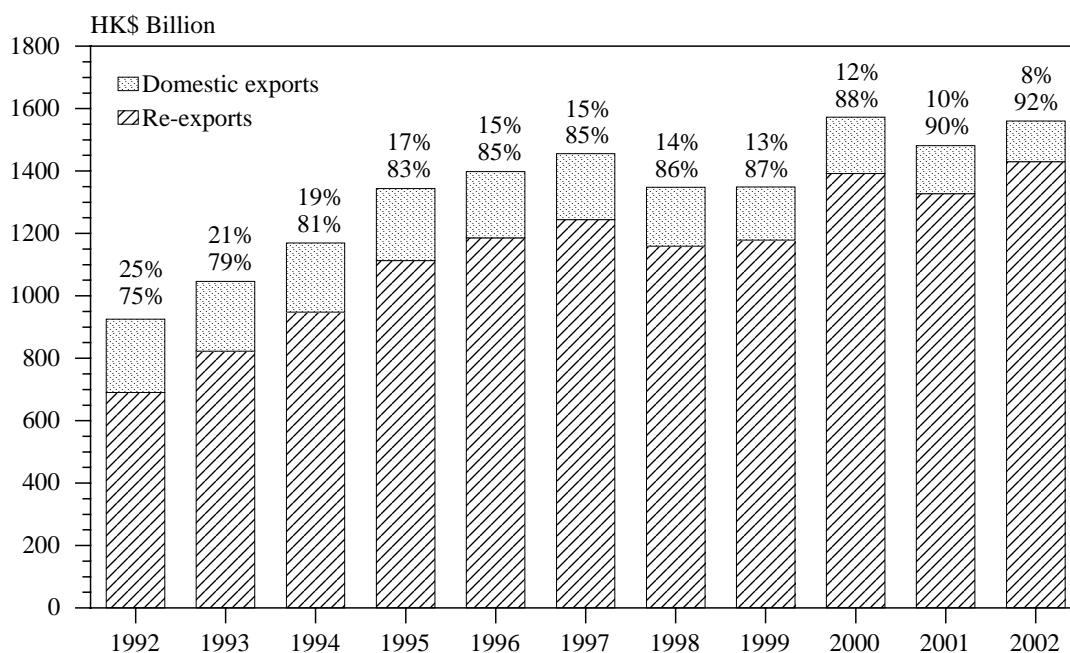
		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2001	Q1	-3.7	-3.7	-3.5
	Q2	-2.7	-3.2	1.3
	Q3	0.3	1.1	-5.8
	Q4	-3.8	-4.1	-0.8
2002	Q1	4.5	5.7	-5.6
	Q2	5.8	6.6	-2.0
	Q3	4.0	4.5	-0.7
	Q4	4.0	4.7	-4.3

Note : See the footnote to Table 2.2.

/Diagram 2.3 .....

**Diagram 2.3**

**Domestic exports and re-exports  
(share in the value of total exports of goods)**



2.11 Total exports of goods to *East Asia* as a whole staged a sharp rebound, along with economic recovery in the region. There was a 13.4% surge in 2002, significantly up from the 1.8% increase in 2001. Exports to the Mainland, the Republic of Korea and Thailand were strong all through the four quarters of the year. Exports to Singapore and Malaysia also picked up distinctly after the first quarter. Exports to Japan were still weak in the first half of the year, yet improved distinctly towards the year-end. Total exports of goods to *North America* likewise regained strength, along with greater import intake in the United States and Canada, and helped further by better price competitiveness of Hong Kong's exports upon weakening of the US dollar. There was a 3.9% rise in 2002, in contrast to an 8.8% decline in 2001. Total exports of goods to the *European Union* were still held back by sluggish demand in the euro area and a relatively weak euro earlier on, yet there was also a distinct pick-up more recently, along with improved import demand and a stronger euro. A marginal decline of 0.4% was recorded in 2002, much narrowed from the 8.5% decrease in 2001.

**/Table 2.4 .....**

**Table 2.4****Total exports of goods by major region  
(year-on-year rate of change (%))**

		<u>East Asia</u> <sup>(a)(d)</sup>	<u>North America</u> <sup>(b)</sup>	<u>European Union</u> <sup>(c)</sup>
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	Annual	13.4	3.9	-0.4
	H1	7.1	-4.1	-8.1
	H2	19.2	10.8	6.6
	Q1	4.8	-12.4	-12.1
	Q2	9.3	3.5	-3.9
	Q3	14.7	9.5	3.6
	Q4	23.9	12.3	9.7

Notes : (a) For the coverage of East Asia, see Note (2).

(b) For the coverage of North America, see Note (3).

(c) For the coverage of the European Union, see Note (4).

(d) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods 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 2.2.

/2.12 .....

2.12 *Imports of goods* likewise rebounded, rising by 7.8% in 2002, also distinctly improved from the 2.0% decline in 2001. Mirroring the profile of pick-up in re-exports over the course of the year, imports of goods, after falling by 4.1% in the first quarter of 2002, resumed positive growth at 5.7% in the second quarter, and then accelerated markedly to double-digit growth at 10.8% and 18.1% respectively in the third and fourth quarters. Imports retained for local use likewise revived during the year, though at a less robust pace than that of re-exports. Specifically, *retained imports* still had an 8.9% decline in the first quarter of 2002, yet reverted to increase by 0.8% in the second quarter, followed by considerably faster increases by 5.2% and 10.0% respectively in the third and fourth quarters. For 2002 as a whole, retained imports grew by only 1.8%, having declined by 1.1% in 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose by 4.5%, 5.8%, 4.8% and 2.9% respectively through the four quarters of 2002. Retained imports rose in the first three quarters of 2002, by 2.3%, 4.2% and 5.4% respectively, but fell back by 1.0% in the fourth quarter.

2.13 Analysed by *end-use category*, retained imports of consumer goods rose more moderately by 5.7% in 2002, after a faster growth of 8.4% in 2001. The growth was more notable in electrical appliances and jewellery, yet more modest in clothing. Retained imports of foodstuffs had further moderate growth at 5.3% in 2002, having risen by 2.2% in 2001. Retained imports of capital goods plummeted by 13.6% in 2002, in stark contrast to an 8.1% growth in 2001. There was nevertheless a relative improvement towards the end of the year, helped in part by a low base of comparison a year earlier. The setback in 2002 was mainly concentrated in intake of office equipment and of capital goods in the “others” category. Intake of construction machinery nevertheless held up rather well for much of the year. Intake of industrial machinery had a lesser decline. Intake of telecommunications equipment fell slightly. Retained imports of raw materials and semi-manufactures, having plunged by 14.5% in 2001, reverted to positive growth at 9.8% in 2002. There should have been some inventory replenishment following the draw-down in 2001. Retained imports of fuels picked up to a 4.8% rise in 2002, after a meagre increase of 0.2% in 2001.

**/Table 2.5 .....**

**Table 2.5****Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>	<u>Retained imports</u> <sup>(a)</sup>
2001	Annual	-2.0	-1.1
	H1	2.4	3.2
	H2	-5.8	-5.1
	Q1	5.6	5.0
	Q2	-0.5	1.5
	Q3	-2.9	-1.8
	Q4	-8.7	-8.4
2002	Annual	7.8	1.8
	H1	0.9	-3.9
	H2	14.3	7.5
	Q1	-4.1	-8.9
	Q2	5.7	0.8
	Q3	10.8	5.2
	Q4	18.1	10.0

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 2.2.

**/Table 2.6 .....**

**Table 2.6**

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

		<u>Imports of goods</u>	<u>Retained imports<sup>(a)</sup></u>
2001	Q1	-1.0	4.4
	Q2	-4.8	-7.8
	Q3	1.1	1.1
	Q4	-4.7	-5.8
2002	Q1	4.5	2.3
	Q2	5.8	4.2
	Q3	4.8	5.4
	Q4	2.9	-1.0

Notes : (a) See Note (a) to Table 2.5.

Also see the footnote to Table 2.2.

**Table 2.7**

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
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	Annual	5.7	5.3	-13.6	9.8
	H1	0.7	9.7	-16.6	-2.1	0.7
	H2	10.7	1.2	-10.9	23.1	8.8
	Q1	-2.3	14.2	-23.0	-9.2	-3.3
	Q2	3.3	5.0	-10.1	4.4	4.4
	Q3	11.9	-8.9	-18.0	27.1	7.8
	Q4	9.3	12.7	-2.3	19.1	9.7

Note : See the footnote to Table 2.2 and Note (a) to Table 2.5.

/2.14 .....

2.14 As the value of total exports of goods rose faster than the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis dwindled to \$40.0 billion or 2.5% of the value of imports of goods in 2002, from \$65.0 billion or 4.2% in 2001.

2.15 On invisible trade, *exports of services* continued to fare better than exports of goods, with double-digit growth at 12.1% in 2002, markedly better than the 5.9% growth in 2001. As with exports of goods, exports of services accelerated in growth over the course of the year. Growth was already rather robust at 7.7% and 8.6% respectively in the first and second quarters of 2002, yet followed by even stronger growth at 14.1% and 17.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, exports of services leaped throughout the four quarters of 2002, by 3.3%, 3.8%, 5.4% and 4.1% respectively.

2.16 Yet *imports of services* remained weak, with a decline of 0.8% in 2002, slightly worse than the 0.2% decrease in 2001. An improvement was nevertheless seen over the course of the year. Imports of services had decreases of 1.3% and 4.0% respectively in the first and second quarters of 2002, and then reverted to increase by 1.0% and 0.9% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services edged up by 0.6% in the first quarter of 2002, and then fell back by 1.2% in the second quarter, before bouncing up to increase by 2.5% in the third quarter, yet followed by a 0.7% decline in the fourth quarter.

**/Table 2.8 .....**



**Table 2.8**

**Visible and invisible trade balance  
(in \$ 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	Annual	1,561.5	352.2	1,601.5	188.8	-40.0	163.4	123.4
	H1	699.8	160.5	728.6	91.4	-28.8	69.1	40.3
	H2	861.7	191.7	872.9	97.4	-11.2	94.3	83.1
	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
	Q3	434.9	92.2	440.5	50.7	-5.6	41.4	35.8
	Q4	426.8	99.5	432.4	46.6	-5.6	52.9	47.3

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.

2.17 As exports of services leaped while imports of services fell marginally, the *invisible trade surplus* reckoned on a BoP basis expanded markedly, to \$163.4 billion or 86.6% of the value of imports of services in 2002, from \$133.5 billion or 70.4% in 2001. Together with a much reduced visible trade deficit, the combined surplus reckoned on a BoP basis surged to \$123.4 billion or 6.9% of the total value of imports of goods and services in 2002, from \$68.5 billion or 3.9% in 2001.

### **Domestic demand**

2.18 Local consumer spending remained subdued in most of 2002, as consumers' willingness to spend was held back by high unemployment, moderated income, and weakness in asset prices. Even with the support of a sharp upsurge in inbound tourism in the year, the volume of *retail sales* still

/declined .....

declined by 2.6% in 2002, after a 1.2% increase in 2001. A relative improvement in retail business nevertheless emerged in the latter part of the year, upon steadier employment conditions and an even stronger surge in incoming visitors. The volume of retail sales fell by 1.8% in the first quarter of 2002, and more so by 4.5% in the second quarter. The decline then narrowed back, to 3.0% in the third quarter, and further to 1.1% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales rose markedly by 4.6% in the first quarter of 2002, and then fell back by 2.4% and 3.1% respectively in the second and third quarters, yet reverted to increase by 0.2% in the fourth quarter.

2.19 *Private consumption expenditure (PCE)* likewise fell in 2002, though to a lesser extent than the decline in retail sales, as the continued growth in spending on consumer services cushioned the setback in spending on goods. PCE fell in all the four quarters of 2002, with declines by 0.3% in the first quarter, 2.4% in the second quarter, 1.5% in the third quarter, and 2.1% in the fourth quarter. For 2002 as a whole, PCE went down by 1.6%, having gone up by 1.4% in 2001. This was the first annual decline since 1998. Analysed by major category of consumer spending in 2002, spending on non-durable goods had a more distinct setback. Spending by Hong Kong residents travelling abroad likewise fell. Spending on durable goods resumed some increase in the latter part of the year, giving a marginal growth for the year as a whole. Spending on food was more stable. Spending on services sustained fairly solid growth. On a seasonally adjusted quarter-to-quarter comparison, PCE rose by 0.4% in the first quarter of 2002, and then fell back in the ensuing three quarters, by 0.9%, 0.3% and 0.9% respectively.

**/Table 2.9 .....**

**Table 2.9****Local consumer and visitor spending in the domestic market<sup>#</sup>  
(year-on-year rate of change (%))**

		<u>Retail sales<sup>(a)</sup></u>	<u>Consumer spending by major component<sup>(a)</sup></u>					<u>Visitor spending<sup>(b)</sup></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
	H1	3.6	3	10	1	3	2	3	8
	H2	-1.2	2	-1	-3	2	*	1	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	Annual	-2.6	*	*	-5	3	-4	*	21
	H1	-3.1	1	-2	-5	2	-5	*	11
	H2	-2.1	*	2	-5	3	-2	1	30
	Q1	-1.8 (4.6)	1	*	-3	2	-4	*	8
	Q2	-4.5 (-2.4)	*	-4	-8	3	-6	-1	14
	Q3	-3.0 (-3.1)	-1	*	-7	4	-3	1	24
	Q4	-1.1 (0.2)	*	5	-4	3	-2	1	35

Notes : (#) Local consumer and visitor spending in the domestic market has incorporated the results of a technical 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.

(b) This is a broad estimate of spending by non-residents in the domestic market, as a deduction item within private consumption expenditure amongst the expenditure components of GDP.

( ) Figures in brackets represent the seasonally adjusted quarter-to-quarter % change.

(\*) Change of less than 0.5%.

2.20 *Government consumption expenditure (GCE)* reckoned on a national accounts basis rose moderately throughout the four quarters of 2002, by 2.2%, 2.7%, 3.6% and 0.9% respectively. For 2002 as a whole, GCE went up by 2.4%, yet considerably slower than the 6.0% increase in 2001. On a seasonally adjusted quarter-to-quarter comparison, GCE had meagre growth at 0.1% in both the first and second quarters of 2002, accelerated to a 2.5% rise in the third quarter, and then eased back to a 1.4% decline in the fourth quarter.

/2.21 .....

2.21 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, remained weak in most of 2002. Continuing the setback towards the end of 2001, GDFCF plummeted by 12.3% in the first quarter of 2002. This was followed by lesser declines of 0.6% and 5.0% respectively in the second and third quarters. It then turned up to a modest increase of 0.5% in the fourth quarter. For 2002 as a whole, GDFCF fell by 4.4%, after a 2.9% rise in 2001.

2.22 The relapse in overall investment spending in 2002 was mainly due to a sharp fall-off in *expenditure on machinery, equipment and computer software*, amidst an uncertain business outlook and an overhang of excess capacity. Such expenditure plummeted by 9.6% for 2002 as a whole, reversing the 7.3% increase in 2001. There were marked declines by 20.1%, 7.0% and 12.9% respectively in the first three quarters of 2002, though followed by a rebound to a 2.4% increase in the fourth quarter as was helped in part by a low base a year earlier.

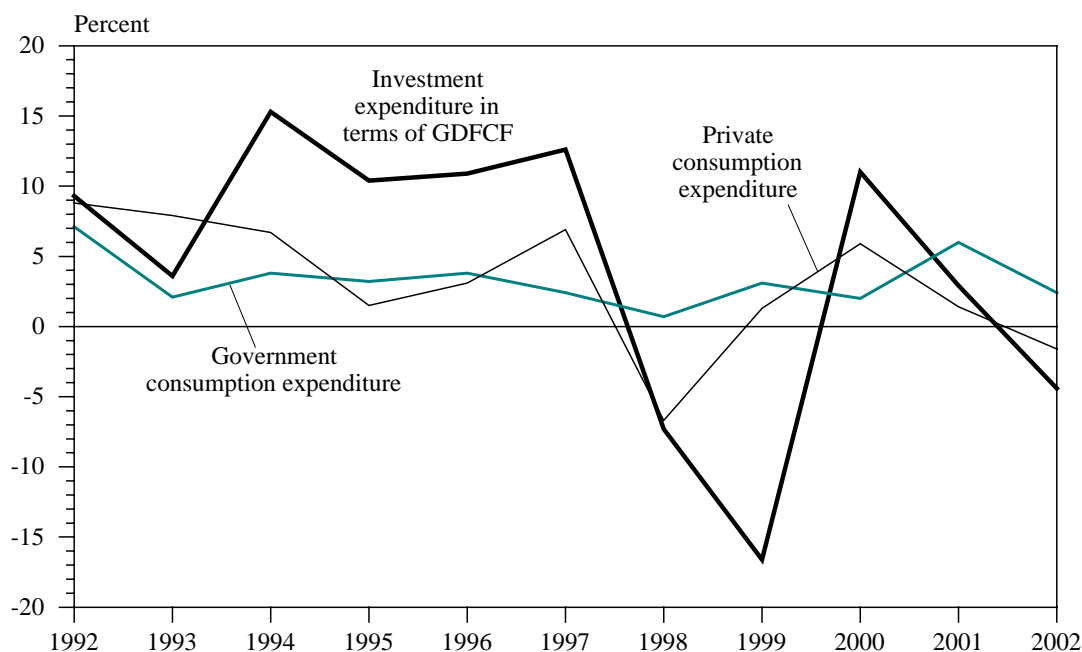
2.23 On the other hand, *expenditure on building and construction*<sup>(5)</sup> turned up to a modest increase of 1.8% in 2002, having declined for four consecutive years. After a 4.0% decrease in the first quarter of 2002, such expenditure turned up by 7.2% and 7.9% respectively in the ensuing two quarters, and then relapsed to a 2.7% fall in the fourth quarter. The pick-up in the second and third quarters was narrowly based, mainly driven by more intensive work on some major private sector projects. As work on these projects subsequently tapered, there was a fall-back in the fourth quarter. Public sector building and construction activity stayed weak in most of the past year, and was on a decline for three years in a row. The MTR Tseung Kwan O Extension was completed in August 2002, and work on the KCR West Rail had been tapering. Moreover, output under the Public Housing Programme continued to shrink. Yet work on Container Terminal No. 9 had been intensive.

2.24 In parallel with the pace of overall economic activity, *inventories* went down further in the first quarter of 2002, and then reverted to some build-up in the ensuing three quarters. This resulted in a modest increase in inventories equivalent to 0.3% of GDP for 2002 as a whole.

**/Diagram 2.4 .....**

**Diagram 2.4**

**Main components of domestic demand  
(rate of change)**



**Property market<sup>(6)</sup>**

2.25 The property market as a whole underwent further consolidation in 2002. Acquisition and lease demand generally fell short of absorbing the abundant supply, both existing and in the pipeline, and this led to a continued softening in property prices and rentals. Yet the markets for different types of property faced somewhat different circumstances and difficulties.

2.26 The sales market for *residential property* remained generally slack in 2002. While flat prices went down visibly further in 2002, there was a modest pick-up in transaction volume. The increase in trading activity was concentrated in the first half of the year, especially in the second quarter. Market sentiment was lifted by 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. But acquisition interest dwindled during most of the ensuing months, amidst renewed concern about job security and income instability, falling share prices, and in particular the continued ample supply of new flats. The brief rebound in trading volume seen in September was mainly stimulated by a fresh round of intensive sales promotion by

/developers .....

developers, through offering even larger price discounts and other more generous concessions to prospective purchasers. As a result, the primary market diverted the demand further and the secondary market was undermined even more. Towards the year-end, market activity again showed some pick-up, conceivably spurred by the Government's promulgation of nine policy measures to stabilise the housing market.

2.27 On a quarter-to-quarter comparison, flat prices went lower on average by 2%, 4% and 7% respectively in the second, third and fourth quarters of 2002, having shown nil change in the first quarter. For the year as a whole, flat prices on average fell by 13%. Against the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2002 plummeted by an average of 62%. Following the marked decline in flat prices and successive cuts in mortgage rate, and notwithstanding reduced household income, there was a substantial improvement in home purchase affordability over the past several years.

2.28 The rental market for private residential flats stayed subdued in 2002. Apart from lesser lease demand upon the impact of reduced salaries and housing allowances, there appeared to have been increased supply of flats for lease from those hitherto for sale. Flat rentals came under greater downward pressure in those areas with a lot of newly completed flats. On a quarter-to-quarter comparison, private housing rentals on average declined by 4%, 3%, 2% and 4% respectively in the four quarters of 2002. For the year as a whole, there was on average a drop of 13%. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2002, by an average of 43%. Mainly consequential to the distinct fall in flat rentals, lease affordability likewise improved over the past several years.

2.29 On *commercial property*, the rental market for *office space* weakened further in 2002, as demand continued to be dampened by on-going downsizing and rationalisation in the business sector. Grade A office space was additionally hit by an excess supply particularly in the central business district. Also relevant was the move by some companies to relocate their offices to secondary districts for saving costs. In order to uphold the occupancy rate, landlords generally offered larger rental cuts, longer rent-free period and other concessions to their tenants. The sales market for office space was stagnant in 2002. Reduced rental yield against the heavy capital investment

/up-front .....

up-front had led potential purchasers to stay on the sideline. The rental market for *shopping space* was moderate in 2002, as demand remained generally languid amidst continued setback in the retail trade. Space in well-managed shopping arcades and in the popular shopping districts was nevertheless better sought after. The sales market for shopping space stayed quiet in 2002, as investors continued to adopt a cautious attitude in face of the slack conditions in the retail trade and an uncertain near-term outlook. On *industrial property*, the rental market was inactive in 2002. Demand for conventional factory space was restrained by a further contraction in local manufacturing activity. Demand for modern industrial premises for use as data centres and back-up service centres was also on the wane, amidst further consolidation in the information technology sector. The sales market for industrial property was at a standstill in 2002, in the lack of buying interest.

2.30 *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, fell only slightly by 1% in 2002, after a 25% plunge in 2001. Analysed by main type of property, planned developments of private residential property were reduced by 35% in terms of units, distinctly enlarged from the 12% fall in 2001. In terms of total usable floor area, the decrease of 21% in 2002 also exceeded that of 12% in 2001. On the other hand, planned developments of non-residential property rose sharply in 2002, yet this was primarily due to the low base in 2001. Specifically, planned developments of commercial property, industrial property, and property in the “others” category leaped by 38%, 134% and 46% respectively in 2002, following the pronounced decreases of 21%, 65% and 69% in 2001.

### **Labour market<sup>(7)</sup>**

2.31 The labour market remained slack in overall terms in 2002. Yet some improvement was seen in the latter part of the year, mainly attributable to a pick-up in total employment upon an upturn in economic activity. For 2002 as a whole, the *unemployment rate* averaged at 7.3%, markedly up from 5.1% in 2001. The seasonally adjusted unemployment rate surged in the early part of the year, from 6.2% in the fourth quarter of 2001 to 7.0% and 7.7% respectively in the first two quarters of 2002, and further to a peak of 7.8% in May - July 2002, amidst more extensive downsizing and lay-offs in the corporate sector. It then fell back somewhat in the latter part of the year, to 7.4% in the third quarter and 7.2% in the fourth quarter. The total number of unemployed

/persons.....

persons (not seasonally adjusted) stood at 252 600 in the fourth quarter. On the median duration of unemployment, there was a distinct lengthening over the past year, from 82 days in the fourth quarter of 2001 to 90 days in the fourth quarter of 2002. As to the proportion of persons unemployed for six months or more, it likewise went up visibly, from 24% to 30%.

2.32 The *underemployment rate* also moved higher, averaging at 3.0% in 2002, as against 2.5% in 2001. It rose from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002, then declined to 2.9% in both the second and third quarters, but edged up again to 3.1% in the fourth quarter. The total numbers underemployed stood at 109 700 in the fourth quarter. For persons in employment, work intensity was high. The proportion of employed persons working for 50 hours or more per week rose visibly, from 35% in the fourth quarter of 2001 to 40% in the fourth quarter of 2002, as did the proportion of employed persons working for 60 hours or more per week, from 21% to 24%. Yet taking all the employed persons together, the median hours of work stayed at 48 hours per week for most of 2002.

**Table 2.10**

**Unemployment and underemployment rates**

		<u>Seasonally adjusted 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	Annual	7.3	3.0
	Q1	7.0	3.2
	Q2	7.7	2.9
	Q3	7.4	2.9
	Q4	7.2	3.1

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

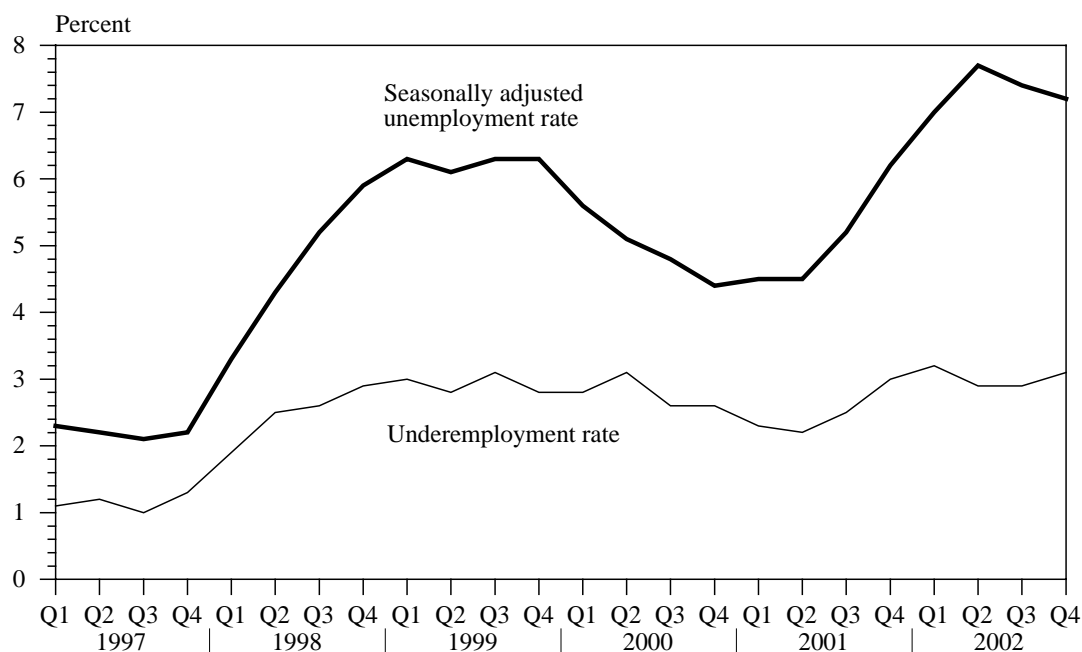
Source : General Household Survey, Census and Statistics Department.

**/Diagram 2.5 .....**



**Diagram 2.5**

**Unemployment and underemployment rate**

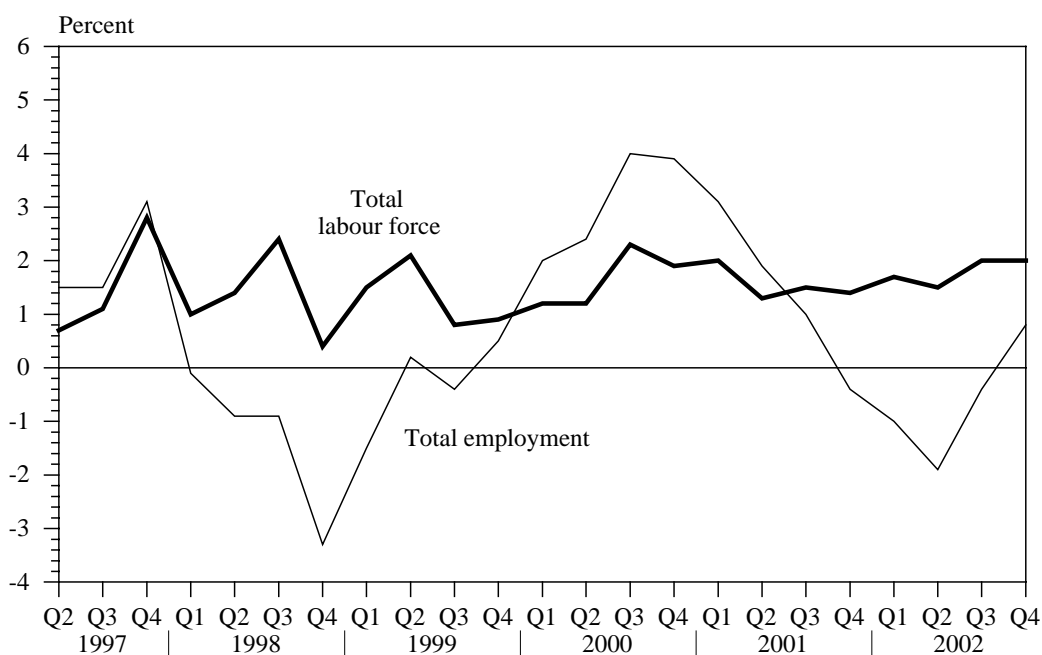


2.33 *Total employment* as enumerated from households staged an upturn towards the end of last year, to a year-on-year increase of 0.8% in the fourth quarter, having worsened from a 1.0% decrease in the first quarter. It stood at 3.27 million in the fourth quarter of 2002. *Total labour force* had a faster growth over the past year, with the year-on-year increase picking up to 2.0% in the fourth quarter of 2002, from 1.7% in the first quarter. It stood at 3.52 million in the fourth quarter of 2002. The swing in the growth rate differential between total labour force and total employment pointed to a relative narrowing in the overall manpower resource balance, leading to lower unemployment rate in the latter part of last year.

**/Diagram 2.6 .....**

**Diagram 2.6**

**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.

2.34 Overall labour income had been moderating over the past year, amidst more incidents of pay freeze or cuts. *Labour earnings* went down by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier, albeit still up by 2.1% in real terms. This compared with the respective increases of 1.8% and 3.5% in 2001. *Labour wages* likewise fell, by an average of 1.1% in money terms in the first nine months of 2002 over a year earlier, yet still higher by 2.4% in real terms. This compared with the respective increases of 0.8% and 3.4% in 2001.

**Prices<sup>(8)</sup>**

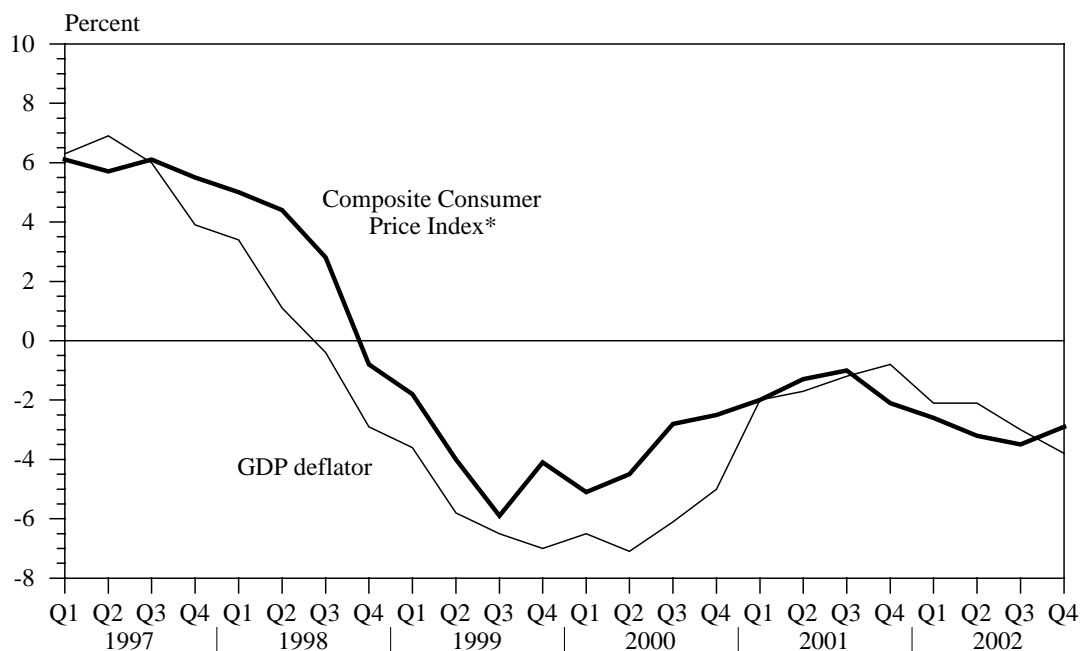
2.35 Overall consumer prices continued to decline in 2002. By December, overall consumer prices had fallen for 50 consecutive months. Though with some relative narrowing towards the year-end, the decrease for 2002 as a whole widened considerably from that in 2001. This reflected mostly the influence of domestic factors. In particular, there were the special relief measures of rates concession and waiver of water and sewage charges implemented by the Government during the year. Domestic cost pressure was lessened, by

/softening .....

softening in both labour wages and property rentals. Also, local retailers reduced the prices of their goods and services further, in face of sluggish consumer demand and keen competition in the retail market. On the external front, while import prices stayed soft in overall terms, the decline moderated over the past year, upon a weaker US dollar and a rebound in world commodity prices.

**Diagram 2.7**

**Main price indicators  
(year-on-year rate of change)**



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

2.36 For 2002 as a whole, the *Composite Consumer Price Index* went down by 3.0%, nearly double the 1.6% fall in 2001. There was an enlargement in the year-on-year decrease for most of the year, from 2.6% in the first quarter of 2002 to 3.2% in the second quarter and further to 3.5% in the third quarter. To a large extent, this was due to the two rounds of rates concession as well as the waiver of water and sewage charges granted as from the early part of 2002. (Netting out the effect of these special relief measures, the decline widened only modestly over the period.) Also relevant were further reductions in the

/prices .....

prices of basic foodstuffs and in the charges of such services items as mobile phone and other telecommunications services. The decrease then narrowed to 2.9% in the fourth quarter of 2002. Yet this was mostly attributable to a low base of comparison a year earlier, caused by a waiver of public housing rentals by the Housing Authority and Housing Society in December 2001. On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI went down by 1.1% in the first quarter of 2002, followed by more modest declines of 0.6-0.7% in the ensuing three quarters. The larger drop in the first quarter mainly reflected the dampening effects of the rates concession effected in January as well as the special one-off rebate of electricity charges granted by a power company in January and February.

**Table 2.11**

**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	Annual	-3.0	-3.2	-3.1	-2.8
	H1	-2.9	-3.2	-2.9	-2.7
	H2	-3.2	-3.3	-3.3	-2.9
	Q1*	-2.6	-2.8	-2.7	-2.5
	Q2 <sup>#</sup>	-3.2	-3.6	-3.1	-2.9
	Q3	-3.5	-4.1	-3.4	-2.8
	Q4	-2.9	-2.4	-3.2	-3.0

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 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.

/Table 2.12 .....

**Table 2.12**

**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 <sup>#</sup>	-1.1	-2.2	-0.8	-0.4
2002	Q1 <sup>+</sup>	-1.1	-0.6	-1.4	-1.3
	Q2 <sup>@</sup>	-0.6	-0.6	-0.6	-0.7
	Q3	-0.7	-0.7	-0.7	-0.5
	Q4	-0.6	-0.6	-0.6	-0.6

Notes : (#) The enlarged quarter-to-quarter decline in the seasonally adjusted Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2001 was 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 decline in the seasonally adjusted CPIs in the first quarter of 2002, notwithstanding dissipation of the effect of waiver of public housing rentals, was mainly due to the rates concession for 2002 as well as 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 decline in the seasonally adjusted CPIs mostly narrowed in the second quarter of 2002. There was little further dampening effect from the rates concession in the second quarter 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. These outweighed the new dampening effect from the waiver of water and sewage charges for one year as from April 2002.

(\*) Change of less than 0.05%.

2.37 The *GDP deflator*, as a broad measure of overall price change in the economy, decreased by 3.8% in the fourth quarter of 2002. This exceeded the declines of 2.1%, 2.1% and 3.0% respectively in the first three quarters. For 2002 as a whole, the GDP deflator went down by 2.7%, larger than the 1.4%

/fall .....

fall in 2001. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* both showed larger decreases in 2002 than in 2001, by 4.2% and 3.4% respectively as against 1.8% and 2.4%. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator declined further by 0.9% in the fourth quarter of 2002, having fallen by 0.6%, 1.0% and 1.1% respectively in the first three quarters.

### **Financial sector<sup>(9)</sup>**

2.38 The performance of the local financial markets was mixed in 2002. The spot *exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate throughout 2002, moving within a narrow range of 7.796 to 7.800. As to the spread of the twelve-month forward rate against the spot rate, the premium held generally stable in the early part of 2002, except for a brief pick-up to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. It then narrowed distinctly in the ensuing months, to an eight-month low of merely one pip on 26 June. It widened after mid-September amidst market concern over the protracted fiscal deficit in Hong Kong, moving mostly in the range of 250 to 350 pips between mid-October and late November. Yet it shrank again towards the year-end, and closed 2002 at 169 pips, considerably reduced from that of 235 pips at end-2001.

2.39 Under the linked exchange rate system, 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 remained strong at the beginning of 2002, but weakened against the major currencies since mid-April, due to uncertainties over the pace of US economic recovery and plausible military action on Iraq. The dollar - euro exchange rate, at an average of 0.946 in 2002, weakened by 5.6% from that of 0.896 in 2001. The dollar - pound sterling exchange rate also weakened, by 4.4% to an average of 1.504 in 2002, from that of 1.441 in 2001. The yen - dollar exchange rate, averaged at 125.2 in 2002, nevertheless went up by 3.0% from 121.5 in 2001, signifying relative strengthening in the US dollar. In 2002, most of the other major East Asian currencies appreciated to various extent against the US dollar. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell slightly by 0.7%, to an average of 104.0 in 2002, from 104.7 in 2001. After adjusting for relative movements in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* fell distinctly more by 3.9%, to an average of 96.1 in 2002, from 100.0 in 2001.

/2.40 .....

2.40 In the money market, local short-term *interest rates* largely tracked their US dollar counterparts. They remained low during most of 2002, and eased further in the last two months of the year. The three-month HIBOR went down to 1.4% at end-2002, from 1.9% at end-2001. The average spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate reversed from a discount of 6 basis points in December 2001 to a premium of 10 basis points in December 2002. Following the movement in the US Fed Funds target rate, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority was maintained at 3.25% until early November 2002, when it was reduced by 50 basis points to 2.75%. The best lending rate of the major commercial banks was lowered to 5.00% at end-2002, from 5.13% at end-2001. Savings deposit rates offered by the major banks were also trimmed, to an average of merely 0.03% at end-2002, from 0.15% at end-2001. The average spread of the best lending rate over the three-month time deposit rate widened slightly, to 4.71 percentage points in 2002, from 4.62 percentage points in 2001.

2.41 *Hong Kong dollar deposits* fell modestly, by 1.6% during 2002, having risen marginally by 0.2% during 2001. *Hong Kong dollar loans* also declined modestly, by 1.9% during 2002, further to a 0.3% decrease during 2001. As the decline in Hong Kong dollar loans was slightly more than that in Hong Kong dollar deposits during 2002, the Hong Kong dollar loan-to-deposit ratio fell slightly further, to a new low of 88.5% at end-2002, from that of 88.8% at end-2001.

2.42 The local *stock market* exhibited much volatility over the course of 2002. There was a brief rally at the beginning of the year, upon a price surge in technology-related shares in the United States. With greater optimism about a sooner-than-expected recovery in the US economy, local share prices continued to hold up well in February and March. Fund inflows and market expectation for no imminent rise in US interest rates then pushed the Hang Seng Index to a high of 11 975 on 17 May.

2.43 Local share prices soon drifted lower, with the Hang Seng Index falling to levels below 10 000 in late July. Apart from lacklustre corporate performance in the local economy, market sentiment was also weighed down by growing concern worldwide about the uncertain tempo of US economic recovery and the likely consequence of US corporate frauds. Then, looming war pressure on Iraq led to a further dip in share prices in September. The

/Hang .....

Hang Seng Index plunged to a four-year low of 8 859 on 10 October. Local share prices recovered some lost ground in November, upon the US interest rate cut and steadier employment conditions locally. But as war pressure on Iraq escalated and tension over nuclear control in North Korea broke out towards the year-end, local share prices were dampened again. The Hang Seng Index closed the year at 9 321, 18.2% lower than the level of 11 397 at end-2001. Share prices in the major stock markets overseas likewise plummeted during 2002, for some by even greater magnitudes than in the local market. Average daily turnover in the market fell distinctly, to \$6.7 billion in 2002, from \$8.2 billion in 2001.

**Notes :**

- (1) See Chapter 2, *2002 Economic Background* for more details.
- (2) 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.
- (3) North America here comprises the United States and Canada.
- (4) 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.
- (5) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. This amounts to bringing up the private sector investment in building and construction much closer to its overall output value, from its direct assessed physical construction cost. The change in presentation is in line with international statistical practice, and reflects the recognition that real estate developers' margin is an integral part of private sector investment in building and construction.
- (6) See Chapter 3, paragraphs 3.8 to 3.20, *2002 Economic Background* for more details.
- (7) See Chapter 5, *2002 Economic Background* for more details.
- (8) See Chapter 6, *2002 Economic Background* for more details.
- (9) See Chapter 4, *2002 Economic Background* for more details.



## CHAPTER 3 : FORECAST OF ECONOMIC PERFORMANCE IN 2003

### Major external influences

#### (A) *Global economic environment*

3.1 After the setback in 2001, the world economy embarked on a loose and unsteady recovery over the course of 2002. The rebound in activity early in the year, helped mainly by cessation of inventory depletion, was only short-lived, upon renewed slackening in the major economies as consumer and business confidence waned. The slump in stock markets worldwide, mounting tension in the Middle East, and ensuing oil price hike weakened economic sentiment further and retarded the recovery process in the latter part of the year. Thus the global economy improved only slightly in growth, to around 3% for 2002 as a whole, from 2% in 2001.

3.2 The lacklustre global economic climate prevailing in late 2002 is likely to persist in the early part of 2003. In the US economy, the short-term outlook continues to be clouded by slack labour market and subdued business climate, though with its accommodative monetary policy stance and expansionary fiscal policy measures possibly rendering some support. The recent outturn of US economic indicators is still mixed and largely downbeat. In the European economies, activity has remained weak so far, being dragged down by sluggishness in both consumption and investment demand, and the imminent business prospect is bleak. As to East Asia, the Japanese economy may again face meagre growth this year, with protracted deflation and difficult structural reforms in the banking and corporate sectors still holding recovery back. Yet for most of the other East Asian economies, the expectation is for continued solid growth in 2003. In particular, the Mainland economy looks set for another year of highly robust performance, along with its surging domestic demand, external trade and FDI inflows. This is envisaged to render a key driving force, as in 2002, for further trade and investment growth throughout East Asia in 2003.

**/Table 3.1 .....**

**Table 3.1**

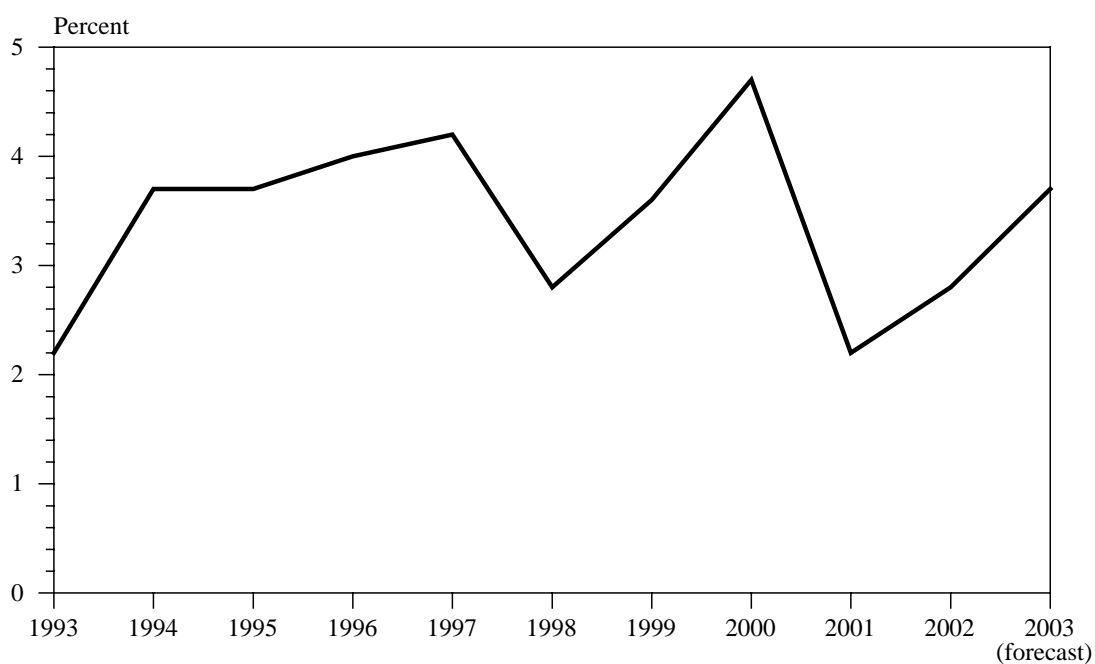
**Growth forecasts  
for the world economy in 2003**

		<u>GDP growth</u> (%)
IMF	(Sep 2002)	3.7
NIESR	(Jan 2003)	3.3
World Bank	(Dec 2002)	2.5
OECD <sup>(a)</sup>	(Nov 2002)	2.2

Note : (a) This forecast is in respect of the OECD region. Developing economies are all not included.

**Diagram 3.1**

**Global economic growth  
(rate of change)**



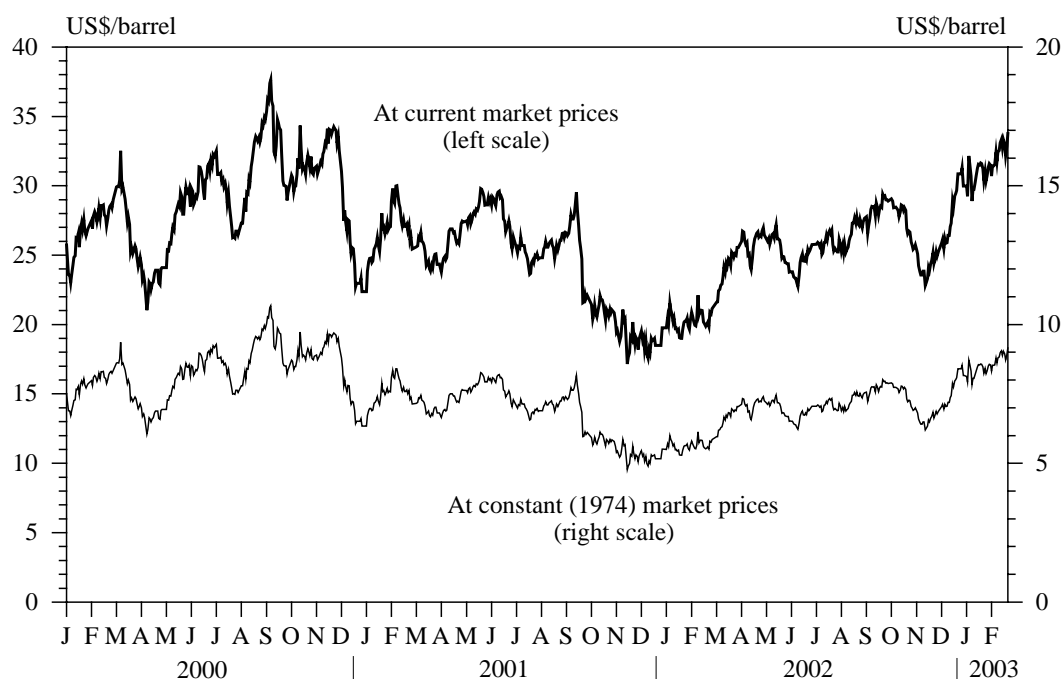
/(B) .....

**(B) Geo-political tensions and oil price hike**

3.3 During 2002, the global economy was much overshadowed by geo-political tensions, in face of US military action on Afghanistan, heightened conflict and violence in the Middle East, renewed war pressure on Iraq, terrorist attacks in Indonesia, the Philippines and Russia, and lately nuclear control issue in North Korea. Currently, the likelihood of military action on Iraq looms high. These geo-political risks tend to reinforce the sentiment down-drag on the global economy. The key concern is that the war on Iraq, if turned out to be protracted and entangled, would derail the global recovery at a time when the US economy is already losing impetus. The sooner the geo-political risks could recede, the more conducive it would be for the external economic environment to re-activate, to better support the Hong Kong economy.

**Diagram 3.2**

**Price of Brent**



/3.4 .....

3.4 Jitters in the international oil market caused the price of Brent crude oil to surge to a two-year high of US\$33 per barrel in mid-February this year, and the price has hovered around that level since then. Incorporation of a “war premium” has added to the cost of oil for oil importers and users, even though the underlying demand/supply situation for oil, aside from the geo-political or military factor, does not really support a continued price hike. Yet a more prolonged oil price hike, as might be brought about by outbreak of war on Iraq, would inevitably have negative effect on the global economy and hence on the Hong Kong economy.

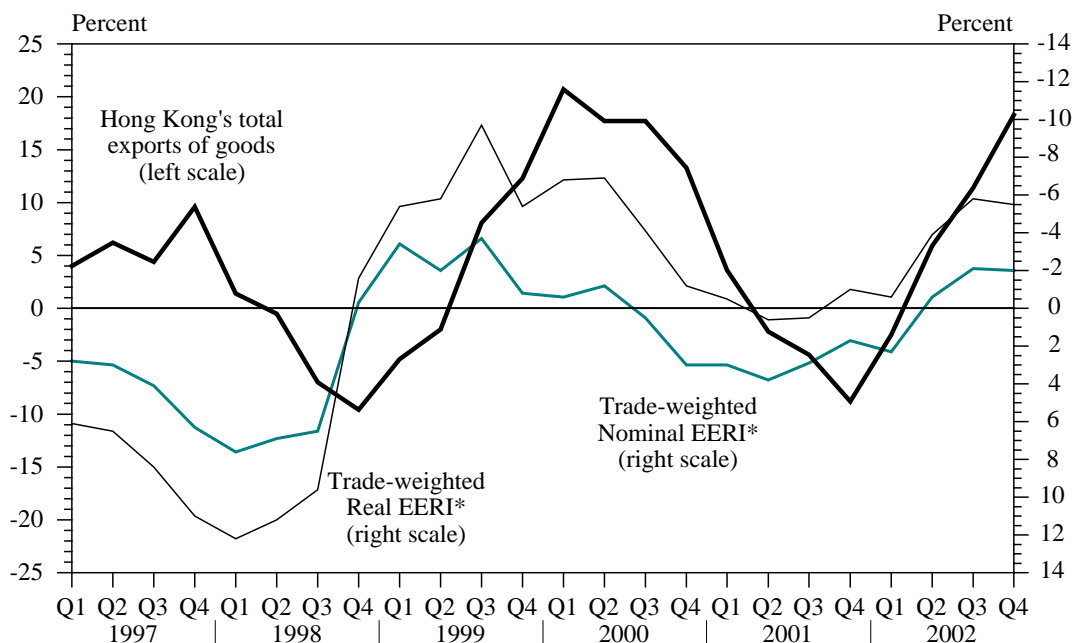
**(C) *Exchange rates and price competitiveness***

3.5 The price competitiveness of Hong Kong’s exports in the world market depends on both exchange rate movements and changes in their production and export costs. On the exchange rate front, the US dollar has weakened considerably against most of the major currencies since April last year, amidst growing concern over sustainability of the US economic recovery. On the export cost front, price pressure in the Mainland is generally subdued, while domestic costs in Hong Kong have been undergoing continued declines. Both factors should bode well for Hong Kong’s external price competitiveness this year. In fact, the downward adjustment in the real effective exchange rate of the Hong Kong dollar over the past year or so has been helpful to the strong rebound in Hong Kong’s exports, and this reinforcement seems likely to continue in the near term.

**/Diagram 3.3 .....**

**Diagram 3.3**

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



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/Nominal EERI denote real/nominal appreciation of the Hong Kong dollar, and negative changes denote real/nominal depreciation. For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real/Nominal 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.

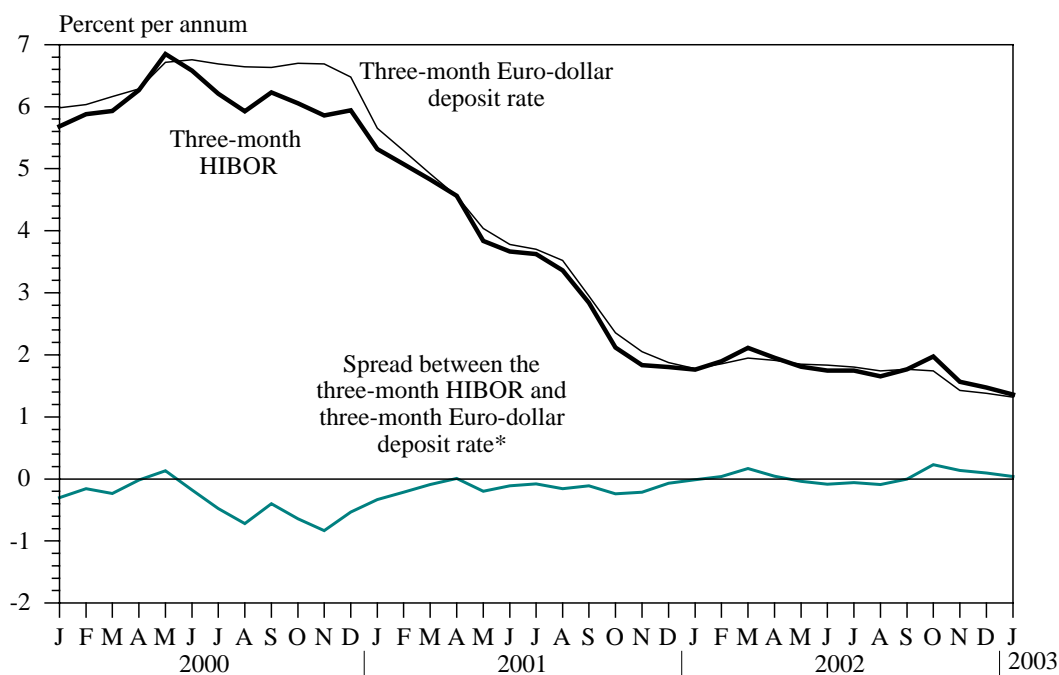
**(D) Interest rate movements**

3.6 During 2002, US interest rates were kept at very low levels. In November, the policy-controlled interest rates in the United States were slashed further by half of a percentage point. The best lending rate in Hong Kong was correspondingly reduced, yet by a lesser magnitude of 0.125 of a percentage point. After this cut, local interest rates are at their near 16-year trough. This low interest rate environment is likely to prevail for some time. Together with abundant liquidity in the local banking sector, it should render useful support to Hong Kong's business activities as the general economic outlook improves.

/Diagram 3.4 .....

**Diagram 3.4**

**Three-month HIBOR and Euro-dollar deposit rate**



Note : (\*) Positive value denotes a spread in favour of the Hong Kong dollar, and negative value denotes a spread in favour of the US dollar.

**(E) *China's accession to the World Trade Organisation***

3.7 China has gone through the first year of its WTO accession, with an even stronger economic performance and with virtually no disruption to the markets. In 2002, the government has opened up a number of economic sectors to foreign participation in accordance with its WTO commitment. These sectors span from the automobile and electronics industries in the manufacturing sector to telecommunications, banking, securities, fund management and domestic tourism in the services sector. On external trade, import tariff rates have been lowered from an average of 15.3% before the accession to 12.7%<sup>(1)</sup>. Also, 2 300 rules and regulations have been amended or discarded and administrative approvals for 789 items abolished, to be compatible with the WTO requirements.

3.8 While the five-year transition period is providing buffer, China has also been making advances and speeding up adjustments on broader fronts. In 2002, state-owned enterprises taken as a whole had reverted from loss to profit. The urban registered unemployment rate was contained. Also, external trade picked up strongly, attaining a huge trade surplus and with customs revenue recording new high.

3.9 Looking ahead, reduced trade barriers from the WTO members and further influx of foreign direct investment will continue to benefit China's exports. Also, progressive liberalisation and opening up of its domestic market will lift China's imports. Hong Kong, as the most important conduit for external trade and the largest source of foreign direct investment for the Mainland, is bound to gain from the substantial business opportunities thus unfolding.

### **Economic outlook for Hong Kong's major trading partners in 2003<sup>(2)</sup>**

#### **(A) *United States***

3.10 In the United States, cessation of inventory depletion in early 2002 led to a sharp rebound in the first quarter, but the economy soon ran out of steam as business sentiment faltered and industrial production slackened. Having surged distinctly to a 5.0% growth in the first quarter, GDP growth on an annualised basis slowed markedly to 1.3% in the second quarter, then picked up somewhat to 4.0% in the third quarter, yet moderated again to 0.7% in the fourth quarter. For 2002 as a whole, GDP grew by 2.4%. Though better than the meagre growth of 0.3% in 2001, this was much below the average growth at 3.2% over the past ten years. While consumer spending still held up quite well, investment spending was sluggish all through the year. In the labour market, job expansion was virtually stalled, causing the unemployment rate to rise to an eight-year high of 5.8%. The downslide in the stock market, as inflicted by the weak economy and the corporate accounting scandals, hit sentiment further.

/3.11 .....

3.11 Recent economic data still portray a mixed picture for the US economy, with industrial output still weak, and with consumer sentiment remaining fragile albeit with actual consumer spending staying relatively firm. The key concerns are the extent to which consumer spending can sustain amidst the current economic uncertainties, and for how long will investment spending remain sluggish. Yet the prevailing low interest rate environment should render continuing support to domestic demand. The latest package of fiscal stimulus measures may also render some boost.

3.12 Most forecasters, including IMF, believe that the US economy is unlikely to fall back into recession. Its recovery process is expected to continue, though at a more modest pace than earlier expected. The current forecasts are for another year of below-trend growth, at around 2.5-3% in 2003, not much faster than the 2.4% growth in 2002.

**Table 3.2**

**Economic growth forecasts  
for the United States in 2003**

		<u>GDP growth</u> (%)
US Federal Reserve	(Feb 2003)	3.0 - 3.75*
US Administration	(Feb 2003)	2.9
NIESR	(Jan 2003)	2.6
World Bank	(Dec 2002)	2.6
IMF	(Sep 2002)	2.6
OECD	(Nov 2002)	2.6
The Economist	(Feb 2003)	2.5
Various private sector forecasters	(Feb 2003)	2.0 - 3.2

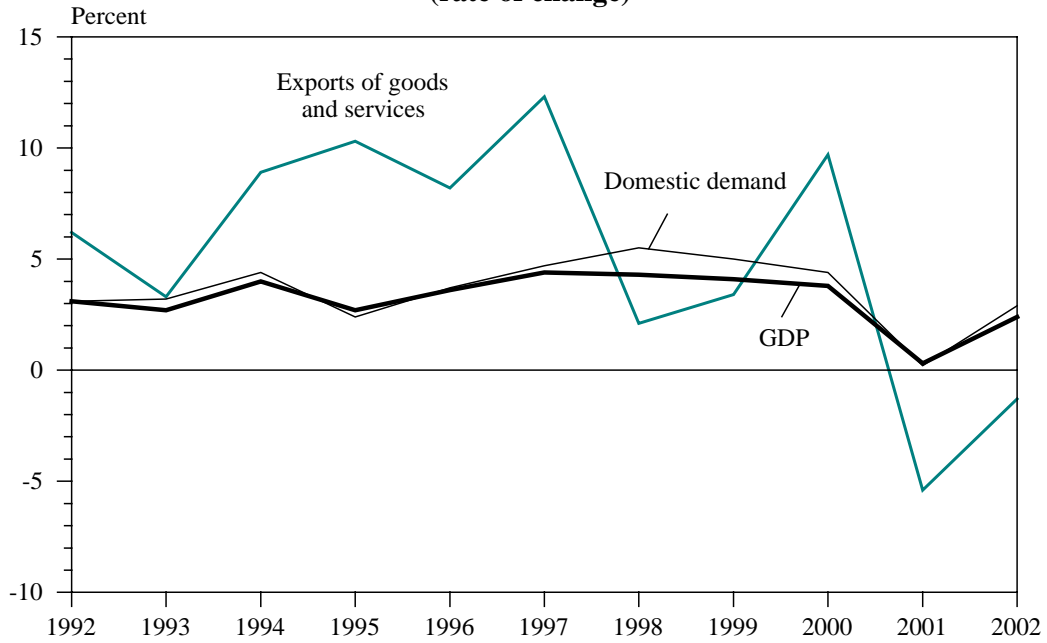
Note : (\*) Forecast GDP growth rate in the fourth quarter of 2003 over a year earlier.

**/Diagram 3.5 .....**

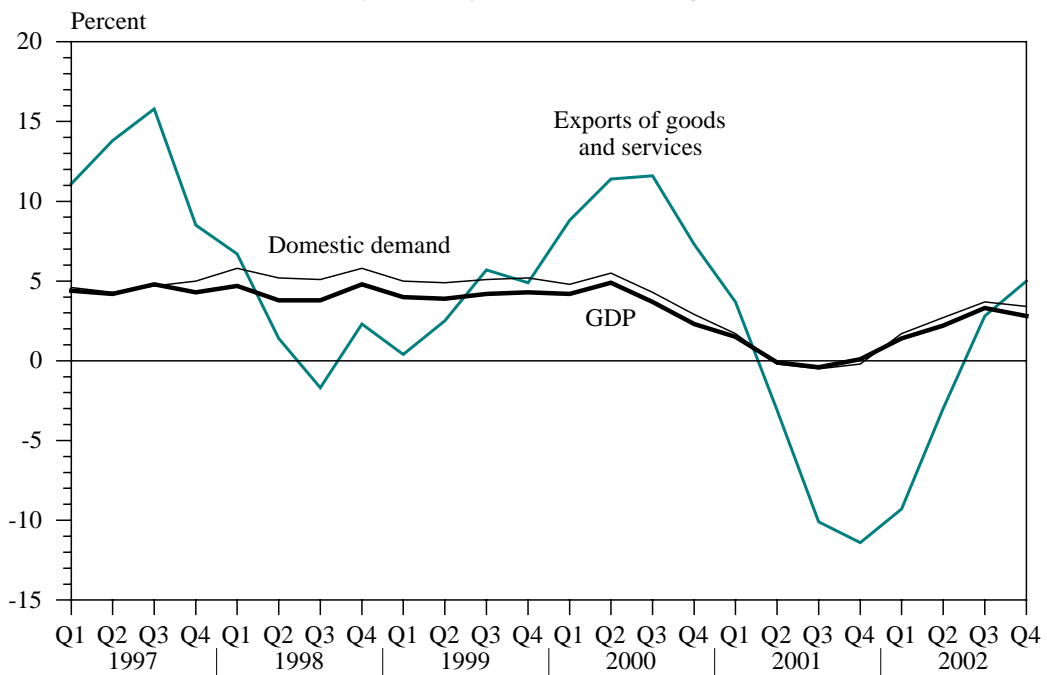


**Diagram 3.5**  
**GDP, domestic demand and exports in the United States**

**(a) Annual profile**  
**(rate of change)**



**(b) Quarterly profile**  
**(year-on-year rate of change)**



/(B) .....

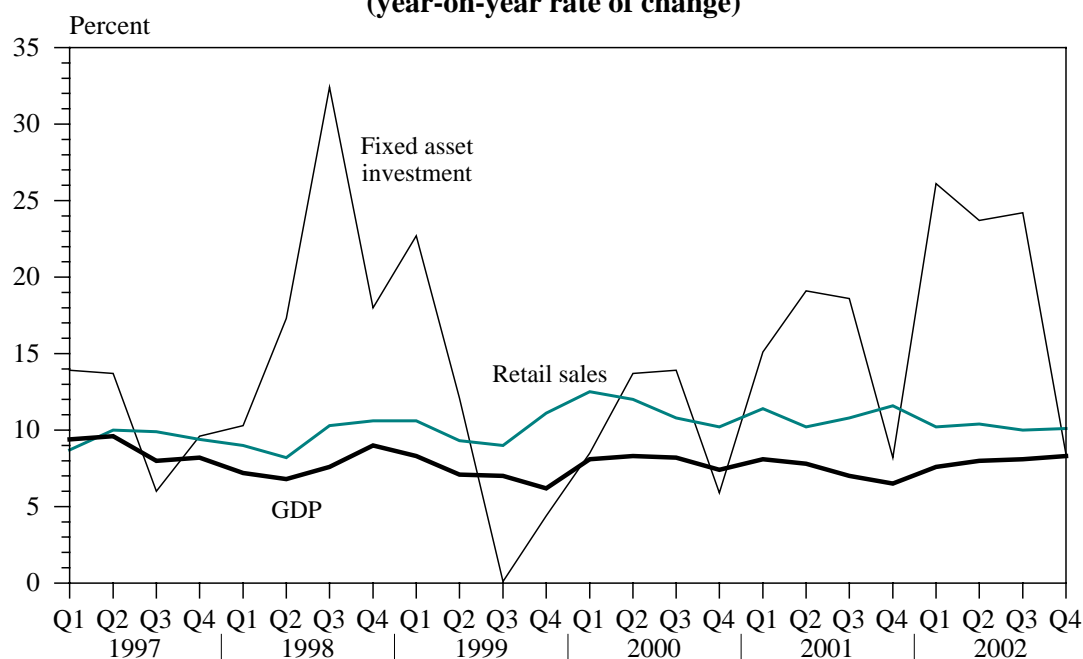
(B) *East Asia*

**Mainland of China**

3.13 The Mainland economy remained robust throughout 2002. GDP growth accelerated from 7.6% in the first quarter to 8.0% in the second quarter, and further to 8.1% and 8.3% in the third and fourth quarters, yielding an 8.0% growth for 2002 as a whole. This was notably faster than the 7.3% growth attained in 2001, and also out-performed the 7% official growth target set for 2002. The growth was broad-based, spurred by buoyant domestic demand and a distinct surge in exports. Consumer spending was strong, with retail sales sustaining double-digit growth. Investment spending also picked up markedly. With ascending competitiveness and higher quality of China's exports, the growth in exports accelerated to 30% in the second half of the year.

**Diagram 3.6** Key economic indicators for the mainland of China

(a) GDP, retail sales and fixed asset investment  
(year-on-year rate of change)

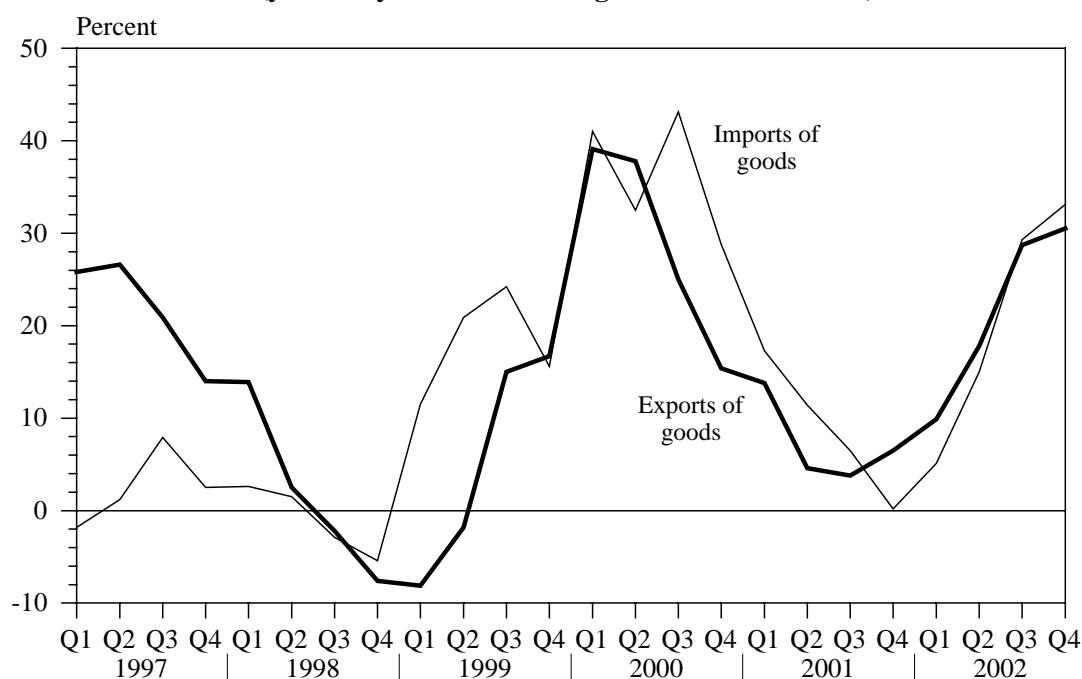


Note : GDP and retail sales as depicted refer to the year-on-year rates of change in real terms, while fixed asset investment refers to the year-on-year rate of change in nominal terms.

**/Diagram 3.6 (cont'd) .....**

Diagram 3.6 (cont'd)

(b) Exports and imports of goods  
(year-on-year rate of change in US dollar terms)



3.14 The strong growth momentum in the Mainland economy can be expected to sustain in 2003. Growth will continue to be broad-based. Consumer spending is likely to be underpinned by rapid growth in income of urban residents and improved social security. Investment spending may come less from real estate, but more from production ventures by non-state-owned enterprises, being facilitated by measures of the government to promote investment by the private sector. Moreover, foreign direct investment into the Mainland is set to leap further. While a relapse in global demand, if to come about, would likewise affect the Mainland economy, the impact might be less than for the others, considering the cushion of its export competitiveness in the world market. Overall, the Mainland economy is forecast officially and by major international agencies for growth at around 7-8% in 2003.

/Table 3.3 .....

**Table 3.3****Economic growth forecasts  
for the mainland of China in 2003**

		<u>GDP growth</u> (%)
CASS <sup>(a)</sup>	(Oct 2002)	7.9
OECD	(Nov 2002)	7.5
ADB	(Dec 2002)	7.2
IMF	(Sep 2002)	7.2
Various private sector forecasters	(Feb 2003)	7.2 - 8.0

Note : (a) Chinese Academy of Social Sciences.

**Japan**

3.15 Japan, after a distinct downturn in the latter part of 2001, climbed out of recession during 2002. On a seasonally adjusted quarter-to-quarter comparison, its GDP resumed positive growth at 0.1%, 1.3%, 0.7% and 0.5% respectively in the four quarters of 2002. For 2002 as a whole, there was a marginal growth of 0.3%, broadly similar to the 0.4% growth in 2001. The revival was primarily export-led, helped by better import demand in the United States and the regional economies. But consumer spending was sluggish all through, being dragged down by rising unemployment and moderated income. Also, investment spending was held back by the subdued business environment and the tumbling stock market.

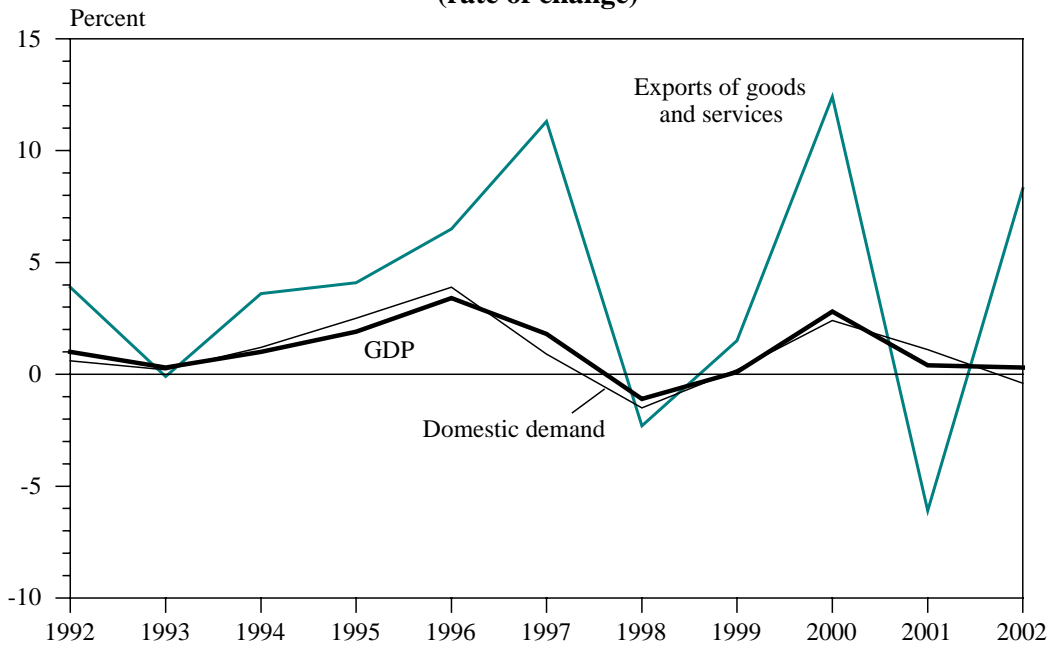
3.16 With the corporate and banking sectors still struggling through their balance sheet adjustments, and against the backdrop of persistent deflation, the near-term prospects for the Japanese economy depend mainly on its export performance. However, this could be dampened by the prevailing strength of the yen, as well as by any relapse in the US economy. Also, the measures to weed non-performing loans in the banking sector, if not carefully done in the light of impact on the corporate sector, would tend to aggravate the already dim economic sentiment. Yet in overall terms, the Japanese economy is still expected to have a further, albeit small, growth in 2003, currently forecast at around 0-1%.

**/Diagram 3.7 .....**

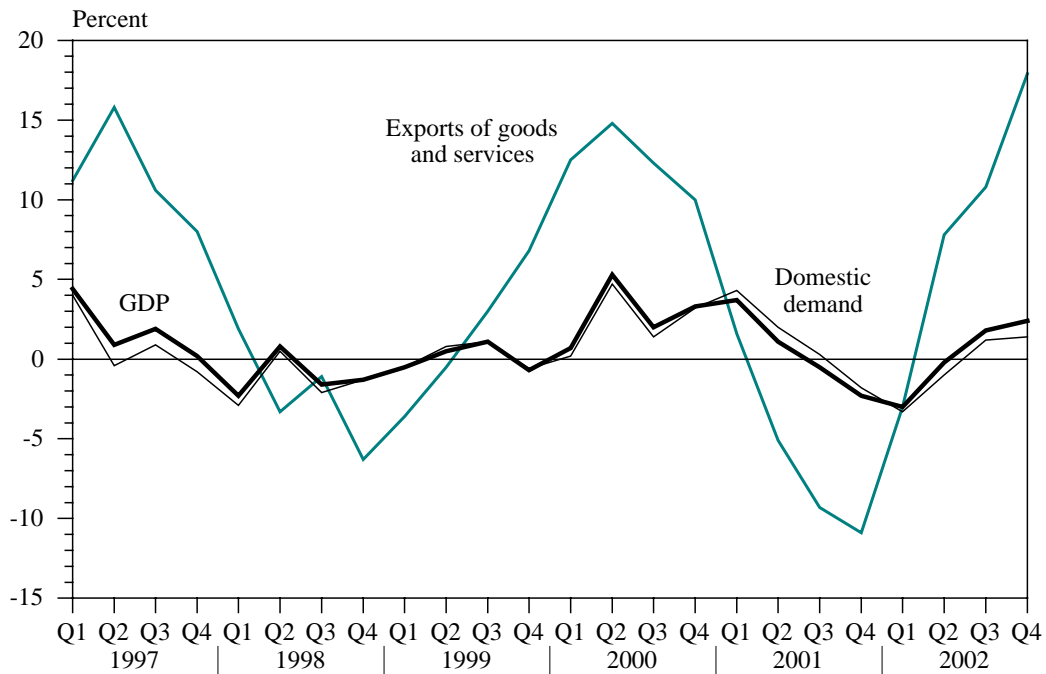
**Diagram 3.7**

**GDP, domestic demand and exports in Japan**

**(a) Annual profile  
(rate of change)**



**(b) Quarterly profile  
(year-on-year rate of change)**



/Table 3.4 .....

**Table 3.4**

**Economic growth forecasts  
for Japan in 2003**

		<u>GDP growth</u> (%)
Japan's Administration	(Jan 2003)	0.6 <sup>#</sup>
Bank of Japan	(Oct 2002)	0.4 - 1.0 <sup>#</sup>
NIESR	(Jan 2003)	0.7
The Economist	(Feb 2003)	0.2
OECD	(Nov 2002)	0.8
IMF	(Sep 2002)	1.1
Various private sector forecasters	(Feb 2003)	-0.5 - 1.2

Note : (#) Forecast GDP growth rate in respect of the fiscal year 2003/04.

**Other East Asian economies**

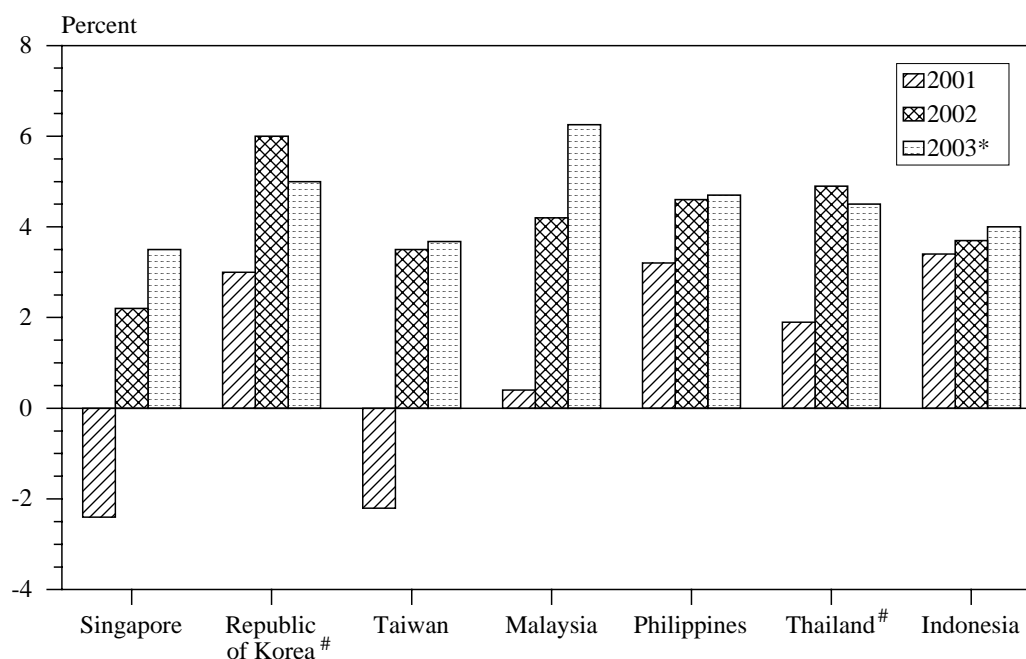
3.17 In the other East Asian economies, the recovery in 2002 was more prompt and solid, with most of them coming out of setback by the second quarter. Likewise, the recovery was largely export-led, benefiting from a turnaround in global demand for electronic products and also from inventory replenishment in the United States. Consumption in these economies generally held up, but fixed asset investment showed more diverse trends. Amongst the various East Asian economies, the Republic of Korea's economy out-performed all others, except the Mainland economy. It attained a 6.0% growth in the first three quarters of 2002, up further from the 3.0% growth in 2001. Singapore's economy picked up to a 2.2% growth in 2002, having gone through a 2.4% contraction in 2001. Taiwan's economy also turned up, to a 3.5% growth in 2002, after a 2.2% fall in 2001.

3.18 The strong growth in external trade in these economies should be able to extend into the early part of this year. Granting no relapse in the global economic environment, and with continued demand for electronic products, they can be expected to have still solid and possibly more broad-based growth for the rest of the year. Their official growth forecasts for 2003 are mostly in the range of 3-6%.

/Diagram 3.8 .....

**Diagram 3.8**

**GDP in selected East Asian economies  
(rate of change)**



Notes : (\*) Official forecasts.

(#) Figures for 2002 refer to the year-on-year growth rates for the first three quarters of 2002 taken together, as the annual growth rates are not yet available.

**Table 3.5**

**Economic growth forecasts for  
selected East Asian economies in 2003**

	<u>GDP growth*</u> (%)
Republic of Korea	5.0
Indonesia	4.0
Malaysia	6.0 - 6.5
Thailand	4.0 - 5.0
Taiwan	3.68
Singapore	2.0 - 5.0
Philippines	4.2 - 5.2

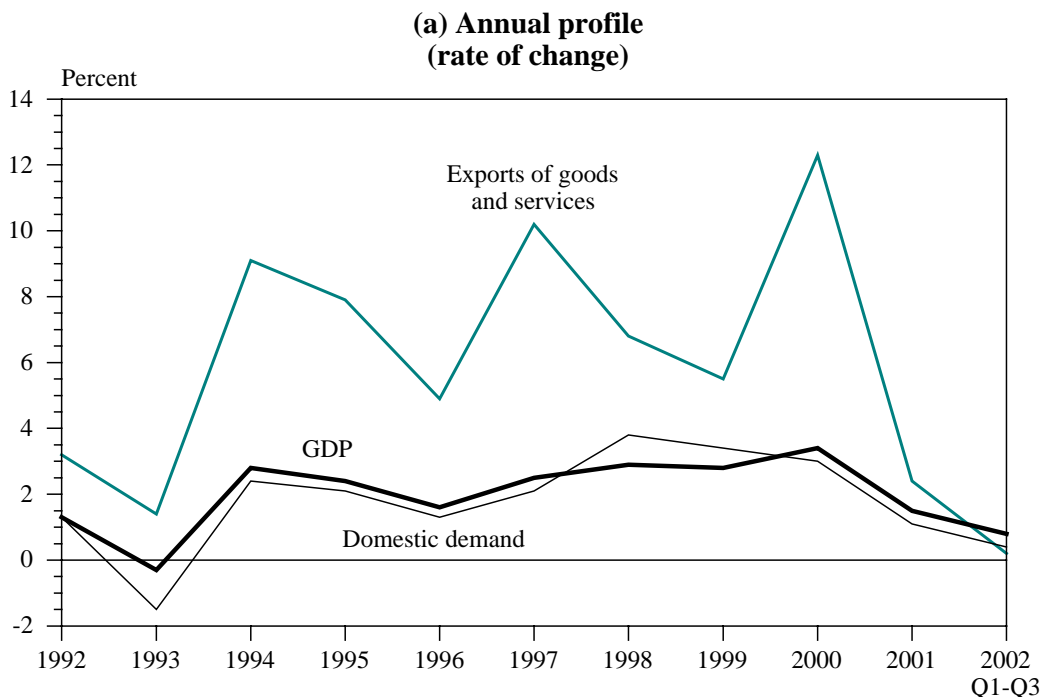
Note : (\*) Official forecasts.

**(C) European Union (EU)**

3.19 The EU economy was gradually bottoming out over the past few quarters, after retarding to a 1.5% growth in 2001. The turnaround was also export-led, along with the pick-up in global demand. But domestic demand slackened further. While consumer spending was held back by high unemployment and tumbling share prices, investment spending had yet to recover from the earlier fall-off. GDP in EU dipped by 0.1% in the first quarter of 2002, and then turned up to modest rise at 0.9% in the second quarter and 1.1% in the third quarter. For the first three quarters of 2002 taken together, there was only meagre growth at 0.6%.

3.20 Recent economic data in EU are still downbeat, with industrial output and retail sales still sluggish, and with exports falling back again. Apart from the continued down-drag in the domestic sector, its relatively more restrictive fiscal and monetary policies may also matter. Moreover, the persistent strength of the euro could impede the performance of exports. Most of the major forecasters envisage only a modest pick-up in the EU economy, to around 1.5-2% growth in 2003.

**Diagram 3.9**  
**GDP, domestic demand and exports in the European Union**

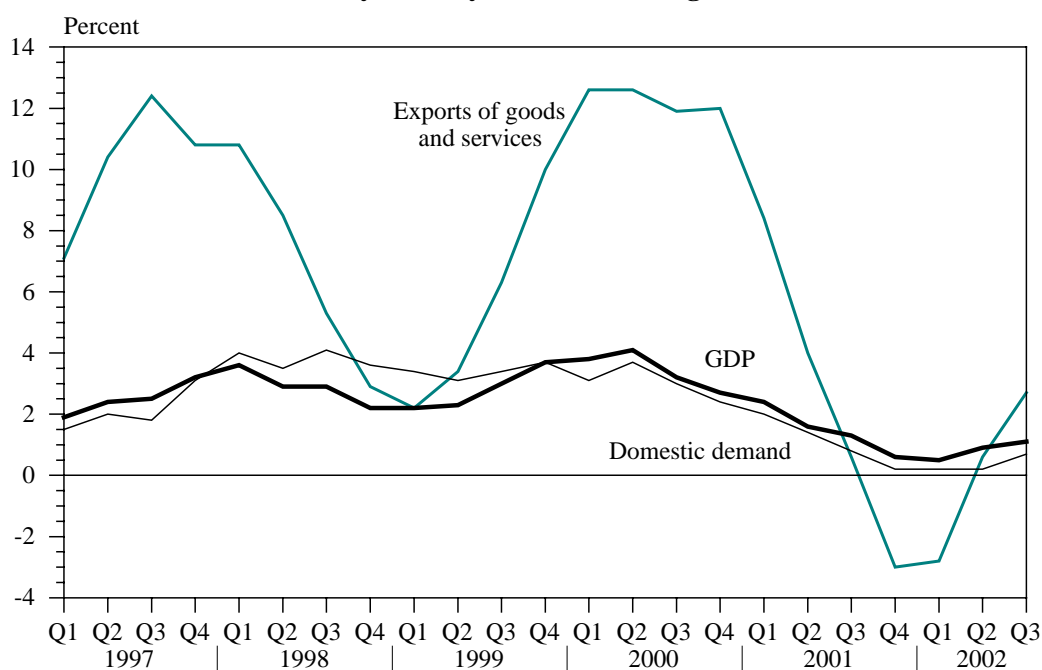


**/Diagram 3.9 (cont'd) .....**



**Diagram 3.9 (cont'd)**

**(b) Quarterly profile  
(year-on-year rate of change)**



**Table 3.6**

**Economic growth forecasts  
for the European Union in 2003**

		<u>GDP growth</u> (%)
ECB	(Dec 2002)	1.1 - 2.1*
NIESR	(Jan 2003)	1.4*
OECD	(Nov 2002)	1.9
IMF	(Sep 2002)	2.3
The Economist	(Feb 2003)	1.3*

Note : (\*) Forecast GDP growth rate for the euro area.

**/Outlook .....**

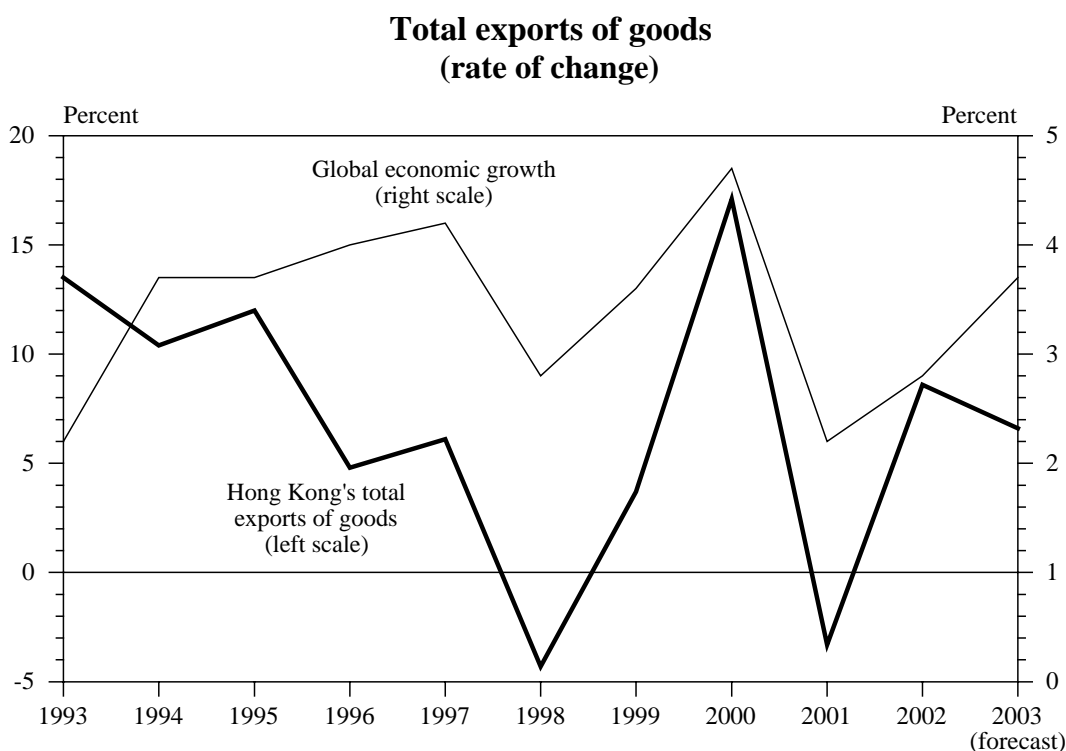
## Outlook for the Hong Kong economy in 2003

### (A) *External sector*

#### Exports of goods and services

3.21 In 2003, Hong Kong's merchandise exports should continue to benefit from the vibrant demand in the Mainland and the advances in intra-regional trade. The boost to Hong Kong's export price competitiveness brought about by a weaker US dollar should also help. But as growth in the global economy will probably still be below trend, and as the base of comparison progressively shifts higher in the second half of last year, the growth momentum in exports may tend to taper later in the year. For 2003 as a whole, Hong Kong's *total exports of goods* are forecast for still robust growth at 6.6%, albeit not as strong as the 8.6% growth attained in 2002. Within the total, the lead will continue to come from re-exports, even though there is concurrently a structural shift from re-exports to offshore trade. As to domestic exports, there is likely to be a further distinct decline, given the still on-going relocation of production processes outside the territory. Thus, *re-exports* are forecast for further notable growth at 8% in 2003, after an 11.0% surge in 2002, while *domestic exports* are forecast to decline by 8% in 2003, having fallen by 11.2% in 2002.

Diagram 3.10



/3.22 .....

3.22 Analysed by major region, exports of goods to the *United States* are expected for a further notable rise in the early part of 2003, extending from the momentum of its recent import intake. The recent further strengthening in the East Asian currencies against the US dollar also makes Hong Kong's exports more attractive in price terms. The outlook for the latter part of the year will hinge on how the US import demand fares and on how the US dollar moves. Yet against a higher base in the latter months, the growth rate may tend to ease. For 2003 as a whole, the forecast of exports to this market is for a further moderate growth. There could be upside potential if the recovery process in the US economy can regain more strength. As to exports of goods to the *European Union*, there may well be further appreciable increase in the near term, on the back of the much strengthened euro and the improved import intake. However, the generally sluggish economic situation there implies that exports to this market for 2003 as a whole seem unlikely to show a distinct growth.

3.23 Exports of goods to the markets in *East Asia* should attain a further solid growth in 2003. The *Mainland* on its robust economic growth and progressive trade liberalisation will still be the brightest spot this year. Hong Kong's exports to the Mainland both for outward processing and for meeting its own demand are likely to remain on a strong uptrend. Moreover, surging foreign direct investment inflow and better external market access brought by China's accession to the WTO should continue to boost Hong Kong's trade involving the Mainland. The major firms and organisations engaged in China trade<sup>(3)</sup> are in general highly upbeat about the growth prospect for Hong Kong's exports of goods to the Mainland for 2003 as a whole.

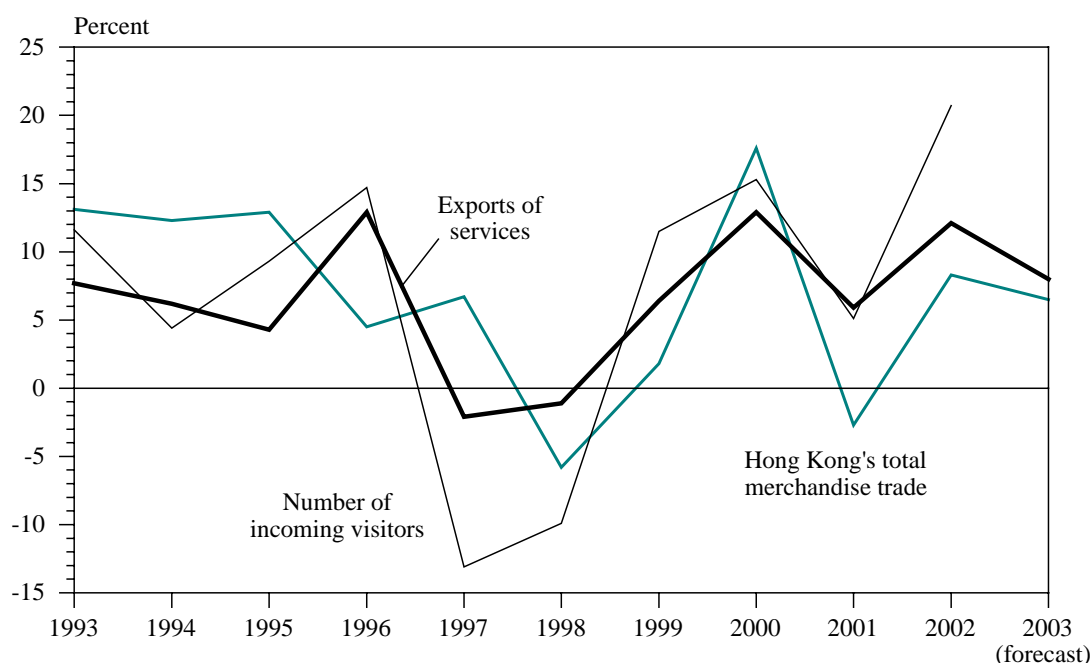
3.24 Exports of goods to *Japan* may hold up fairly well in 2003, on the back of a stronger yen and with the regional recovery rendering some support to its own economic growth. Also, the increasing trend of outsourcing by Japanese corporations from the other East Asian economies should continue to benefit Hong Kong's exports to this market, given Hong Kong's role as a prominent conduit for intra-regional trade. As to exports of goods to the *other East Asian economies*, the outlook for 2003 may continue to be good, upon further recovery in these economies underpinning their own import intake, as well as sustained surge in intra-regional trade.

/3.25 .....

3.25 *Exports of services* have again out-performed exports of goods in 2002. For 2003, there should be a further surge in offshore trade, along with the robust export growth in the Mainland and a rising tendency for goods to be directly shipped out from South China after export processing. Inbound tourism is likely to remain vibrant, bolstered by the strong uptrend in visitors from the Mainland, and to a considerable extent also upon further rise in visitors from the rest of the region. Exports of transportation services should likewise grow further, in tandem with the expanding volume of merchandise trade and external passenger movements. Exports of financial, business and other services may pick up somewhat, reflecting greater business demand from the Mainland and the other regional economies. Overall, exports of services are forecast for further visible growth at 8% in 2003, having already leaped by 12.1% in 2002.

**Diagram 3.11**

**Exports of services  
(rate of change)**



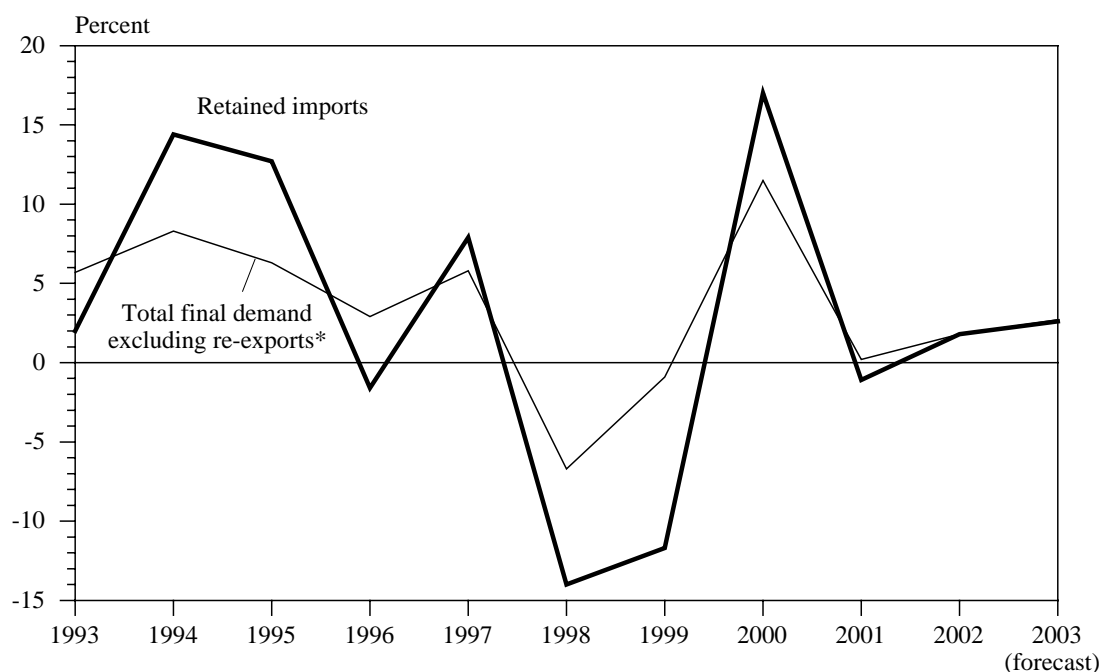
**/Imports .....**

## Imports of goods and services

3.26 *Retained imports* are forecast to rise further, by 2.6% in 2003, after a 1.7% increase in 2002. This mainly reflects a continuing inventory build-up, as well as an envisaged improvement in domestic demand. Analysed by end-use category, retained imports of capital goods are expected to rebound in 2003, along with an envisaged upturn in machinery and equipment investment. Retained imports of consumer goods will probably pick up further. Retained imports of material inputs may however ease back after the upsurge in the latter part of last year, in view of the likely further shrinkage in domestic exports this year. Together with the forecast for re-exports, *total imports of goods*<sup>(4)</sup> are forecast to rise by 6.3% in 2003, following a 7.9% increase in 2002.

**Diagram 3.12**

### Retained imports and total final demand excluding re-exports (rate of change)



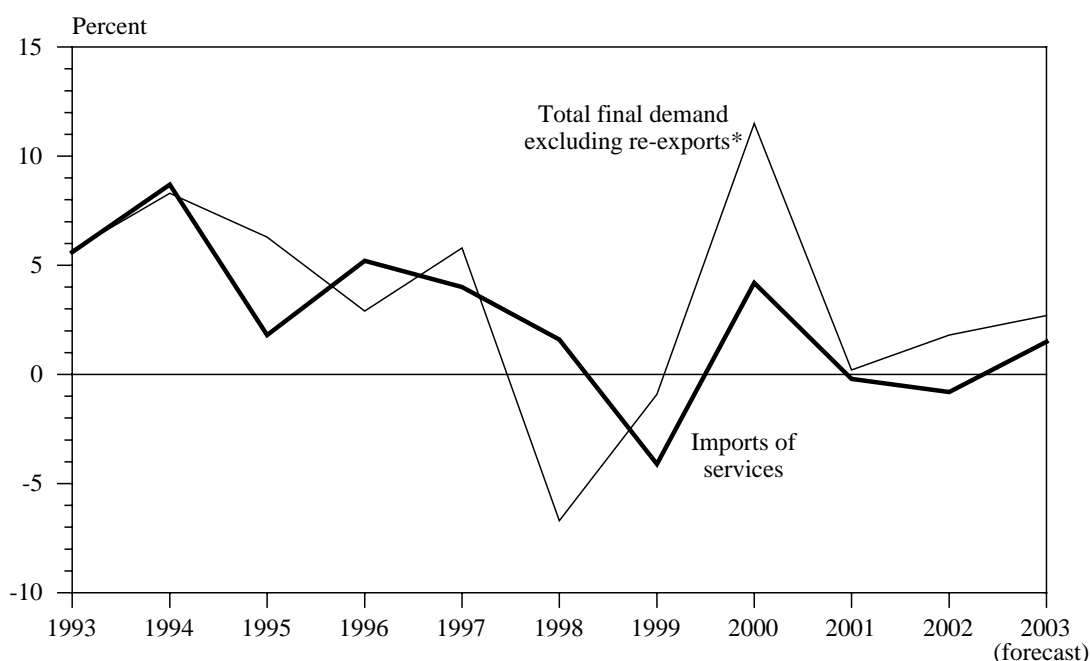
Note : (\*) Re-export margin is nevertheless retained in the total final demand.

/3.27 .....

3.27 *Imports of services*, after two years of decline, seem likely to turn up in 2003 as domestic demand climbs back. But with the travel pattern of Hong Kong residents shifting more towards short-duration trips, their travel spending may only show a moderate rebound. Imports of trade-related services and transportation services should pick up more, along with the envisaged further growth in merchandise trade. Overall, imports of services are forecast to rise by 1.5% in 2003, in contrast to a 0.8% decline in 2002.

**Diagram 3.13**

**Imports of services  
(rate of change)**



Note : (\*) Re-export margin is nevertheless retained in the total final demand.

/(B) .....

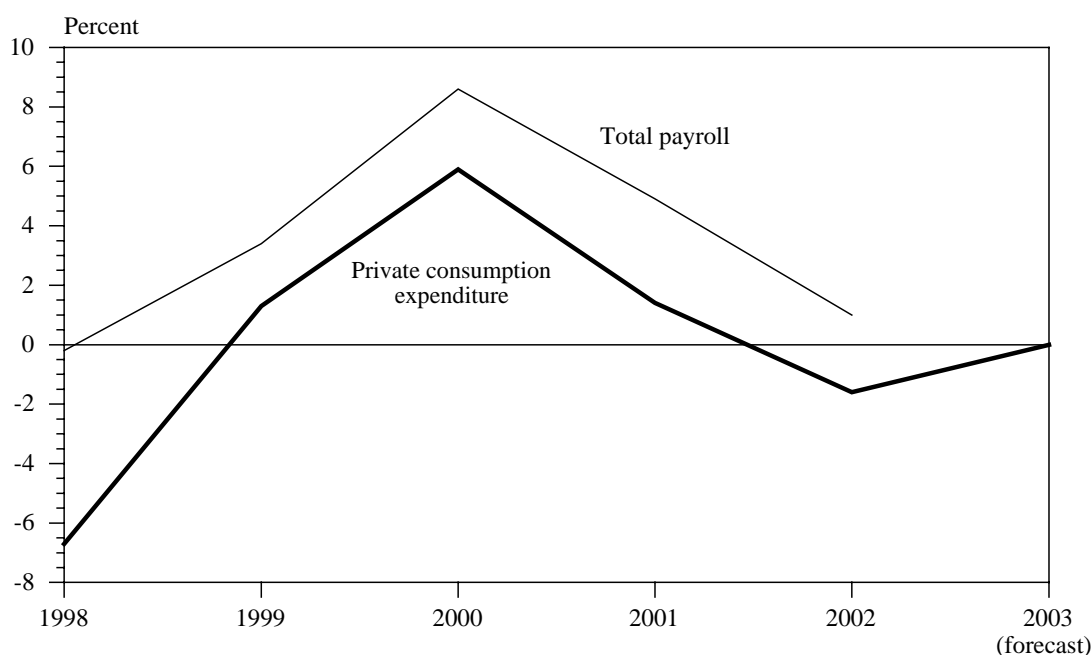
**(B) Domestic sector**

**Private consumption expenditure**

3.28 The outlook for local consumer spending in the near term will still be clouded by concern over job security and possible pay freeze/cut. Also, there is still some negative wealth effect on consumption carried over from the marked fall-off in property prices and in share prices last year. But as the impetus from the continued surge in exports feeds through to activate the domestic sector, consumer spending may set off to improve steadily. The prevailing low interest rate environment should be of help, and there should be better support if the local asset markets could stabilise more. Yet with spending propensity likely to remain subdued in the imminent months, and even with some incremental climb-back in the months ensued, *private consumption expenditure* is forecast to be only flat in 2003, though improved from the 1.6% decline in 2002.

**Diagram 3.14**

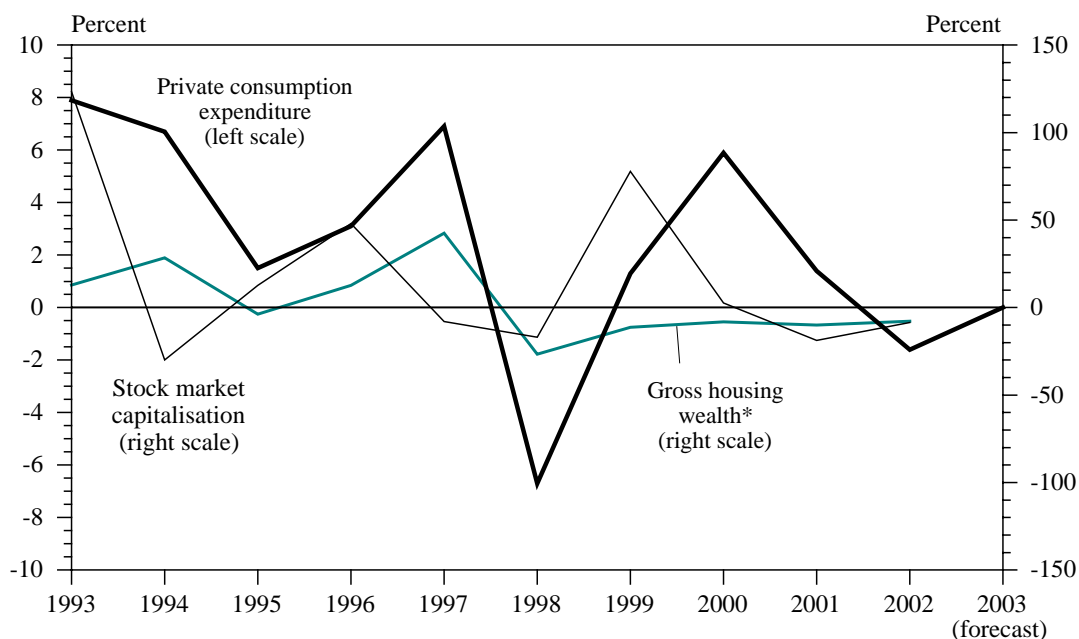
**(a) Private consumption expenditure and total payroll  
(rate of change)**



**/Diagram 3.14 (cont'd) .....**

**Diagram 3.14 (cont'd)**

**(b) Private consumption expenditure and the wealth effect  
(rate of change)**



Note : (\*) As proxied by the stock of private residential units combined with private residential property prices.

**Government consumption expenditure**

3.29 On the basis of information contained in the Government's revised estimates of expenditure for the financial year 2002/03 and the draft estimates of expenditure for the financial year 2003/04, *government consumption expenditure* in national accounts terms is forecast at 2.5% growth in 2003, following a 2.4% increase in 2002.

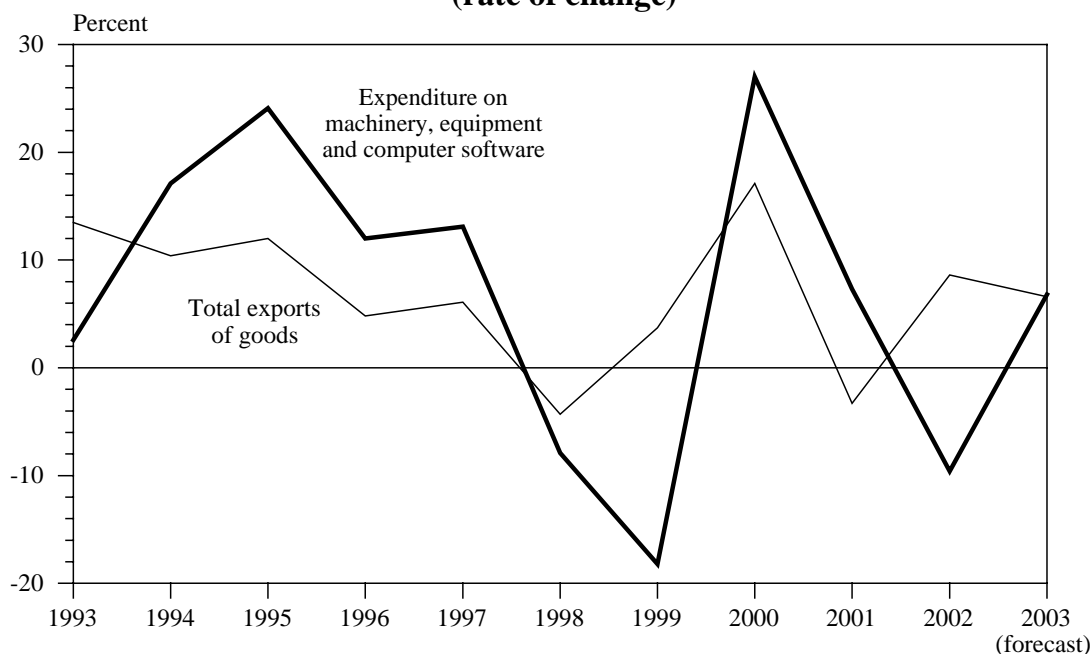
/Gross .....



## Gross domestic fixed capital formation

3.30 Expenditure on machinery, equipment and computer software by the private sector, having gone through four quarters of fall-off since the fourth quarter of 2001, bounced back to increase in the fourth quarter of 2002. Some resurrection is to be expected for 2003, given the need to reinstate productive capacity as the recovery process spreads. Renewed aircraft intake will render an additional boost. On the other hand, expenditure on machinery, equipment and computer software by the public sector is likely to shrink markedly in 2003, as the rolling stock and other equipment for the Priority Railway Projects have by and large been delivered. As the private sector expenditure predominates, *total expenditure on machinery, equipment and computer software* is forecast for appreciable growth at 6.8% in 2003, distinctly up from the 9.6% decline in 2002.

**Diagram 3.15**  
**Expenditure on machinery, equipment and computer software**  
**and total exports of goods**  
**(rate of change)**



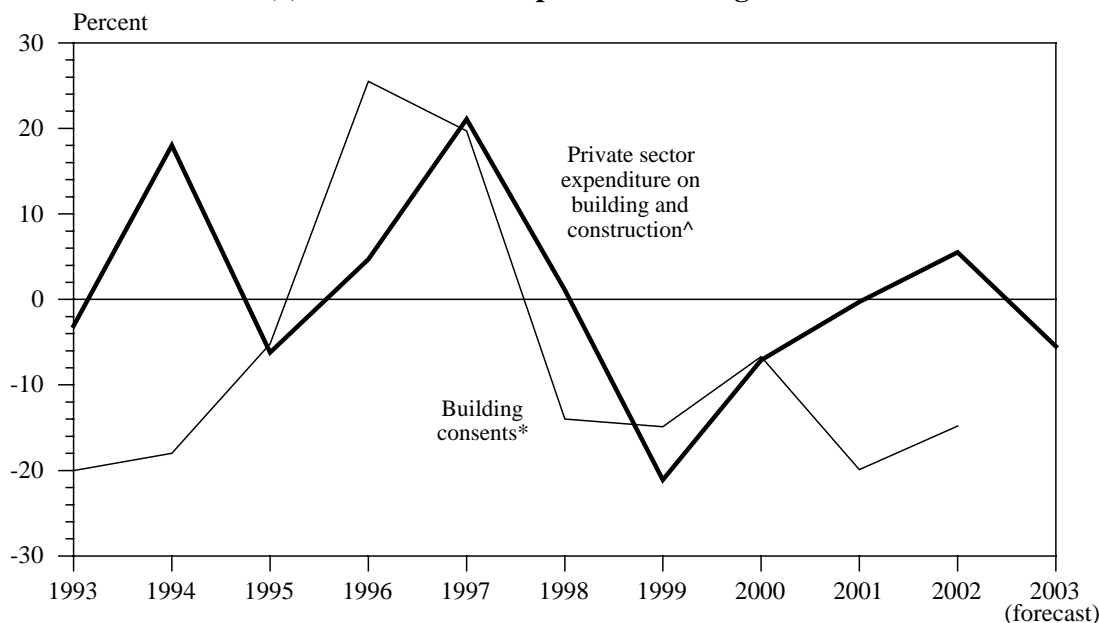
/3.31 .....

3.31 Private sector building activity rebounded in 2002, as work on some major residential and commercial development projects intensified. But as most of these projects have already passed the peak, and as new projects have become fewer and are yet to be stepped up, the rebound seen in 2002 may not be able to sustain in 2003. Cessation of the Home Ownership Scheme, the output of which is classified as private sector building output in the GDP estimates on the basis of ownership<sup>(5)</sup>, will also dampen the activity. Suspension of the Land Sales Programme until end-2003 will lead to a dearth of new projects in the near term. As to civil engineering projects, work on Container Terminal No. 9 should have also passed its peak. Overall, private sector building and construction output<sup>(6)</sup> is likely to fall back quite visibly in 2003.

**Diagram 3.16**

**Expenditure on building and construction and building consents  
(rate of change)**

**(a) Private sector output and building consents**



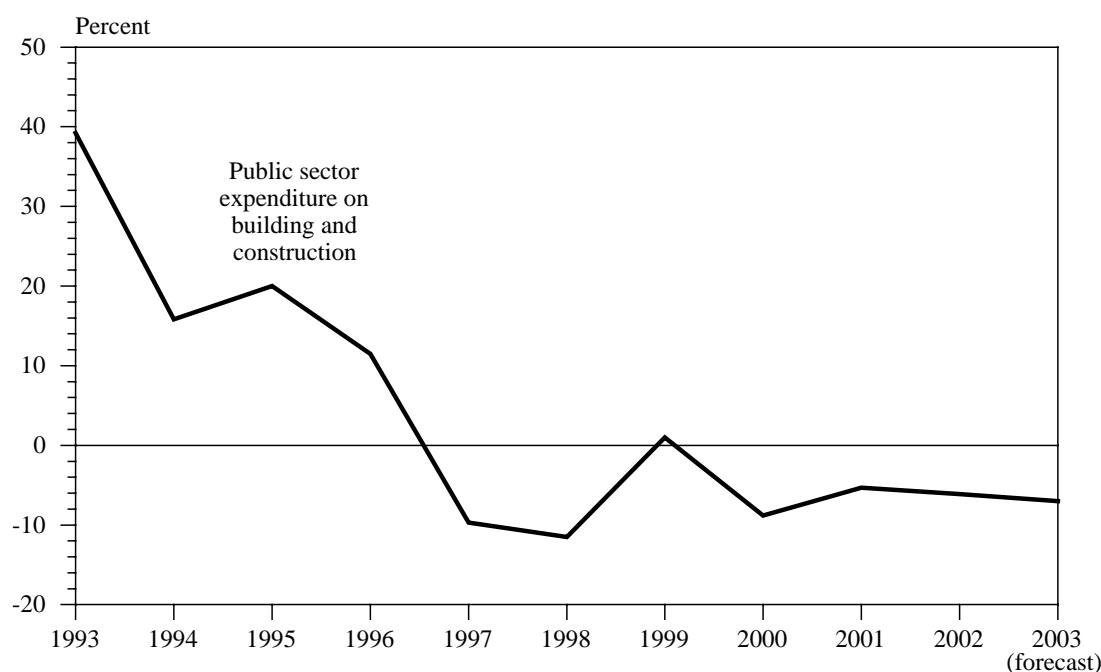
Notes : (\*) Two-year moving average.

(<sup>^</sup>) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. For details, see Note (6).

**/Diagram 3.16 (cont'd) .....**

Diagram 3.16 (cont'd)

(b) Public sector output



3.32 As to public sector building and construction output, in the light of further scale-back in the Public Housing Programme, completion of the MTR Tsueng Kwan O Extension in August last year, and expected winding down of the KCR West Rail this year, it is also likely to decline distinctly in 2003. Taking the private and the public sectors together, *overall expenditure on building and construction* is forecast to shrink by 5.9% in 2003, after a small increase of 1.8% in 2002.

3.33 Combining the forecasts for the individual components of investment expenditure, *gross domestic fixed capital formation* is forecast to rise modestly by 0.9% in 2003, representing a turnaround from the 4.4% decline in 2002.

### Change in inventories

3.34 There should be a further build-up in *inventories* in 2003, along with the envisaged improvement in domestic demand and solid growth in external trade.

/(C) .....

**(C) GDP at constant prices**

3.35 Taking all the expenditure components together, *GDP* is forecast at a 3% growth in real terms in 2003, further up from the 2.3% increase in 2002.

3.36 There are however caveats on both the external and domestic fronts. *First*, the global economic recovery is fickle, being subject to the tempo in the US economy and also vulnerable to adverse developments in the geo-political perspective. *Secondly*, while a weaker US dollar should bode well for Hong Kong's external price competitiveness, a further distinct downslide in the US dollar, if triggered by a massive shift in investor sentiment against US dollar assets, might jeopardise the US financial markets, with negative repercussions on markets in the rest of the world. *Thirdly*, there is much local concern that the recovery in domestic demand may not come about as fast and as strong as in the previous upturns, under the drag of on-going economic restructuring and persistent price declines. Amidst these uncertainties, the prevailing forecasts of Hong Kong's *GDP* growth for 2003 by the private sector are quite diverse, ranging from 1.6% to 4.0%, averaging at 2.8%.

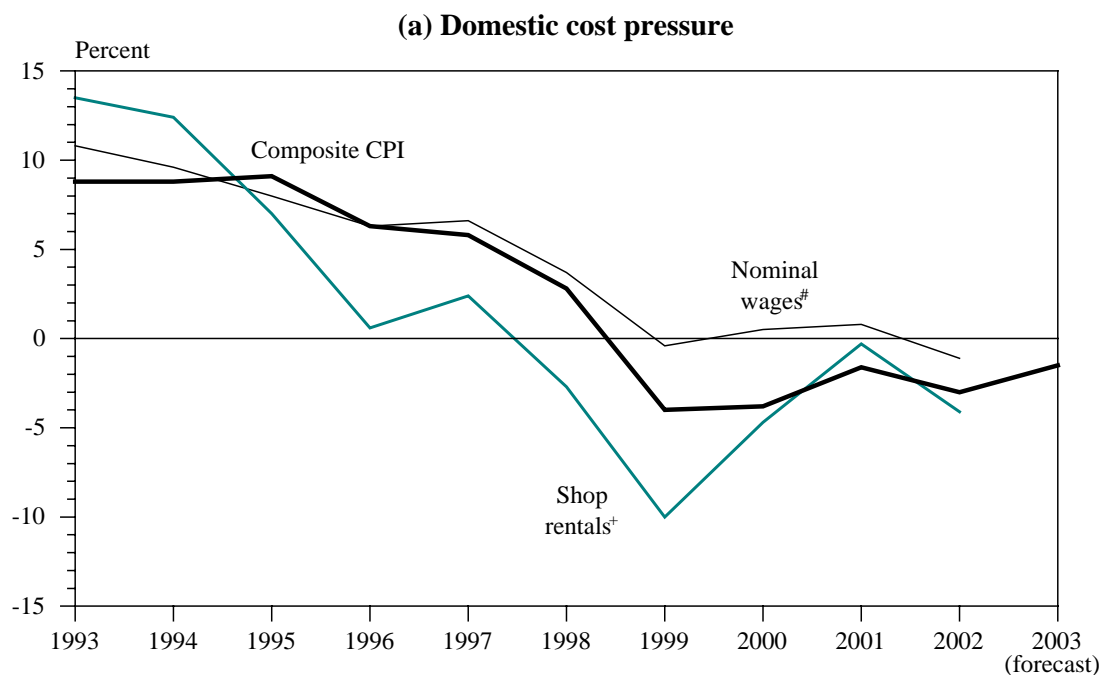
**(D) Prices**

3.37 The decline in local consumer prices enlarged again in 2002, essentially reflecting the continued cost and price adjustments brought about by the economic downturn in 2001. The special relief measures from the 2001 Policy Address and the 2002/03 Budget also dragged down the CPI. Looking ahead, local costs and prices are likely to remain on a downtrend in 2003. The marked fall-off in property rentals over the course of last year is expected to show up more fully in the CPI during this year, while the easing in labour wages is expected to continue. Moreover, there is an on-going structural drag from the factor price equalisation process, upon closer inter-flows of economic activities between Hong Kong and the Mainland.

/3.38 .....

3.38 Externally, the more recent upsurge in international crude oil price is expected to have only a marginal lifting effect on local costs, as Hong Kong is not a very oil-dependent economy. A weaker US dollar will entail some pick-up in import prices, but part of the lift may perhaps be absorbed by local retailers and distributors amidst keen competition in the domestic market. Also, on-going deflation in the Mainland and Japan, as Hong Kong's two leading suppliers of imports, may help reduce price pressure from the external source. The *Composite Consumer Price Index* is thus forecast to fall by an average of 1.5% in 2003, following a 3.0% decline in 2002. The lesser decline envisaged for 2003 is mostly due to dissipation of the Government's special relief measures for 2002.

**Diagram 3.17**  
**Factors affecting the trend in local consumer prices**  
**(rate of change)**



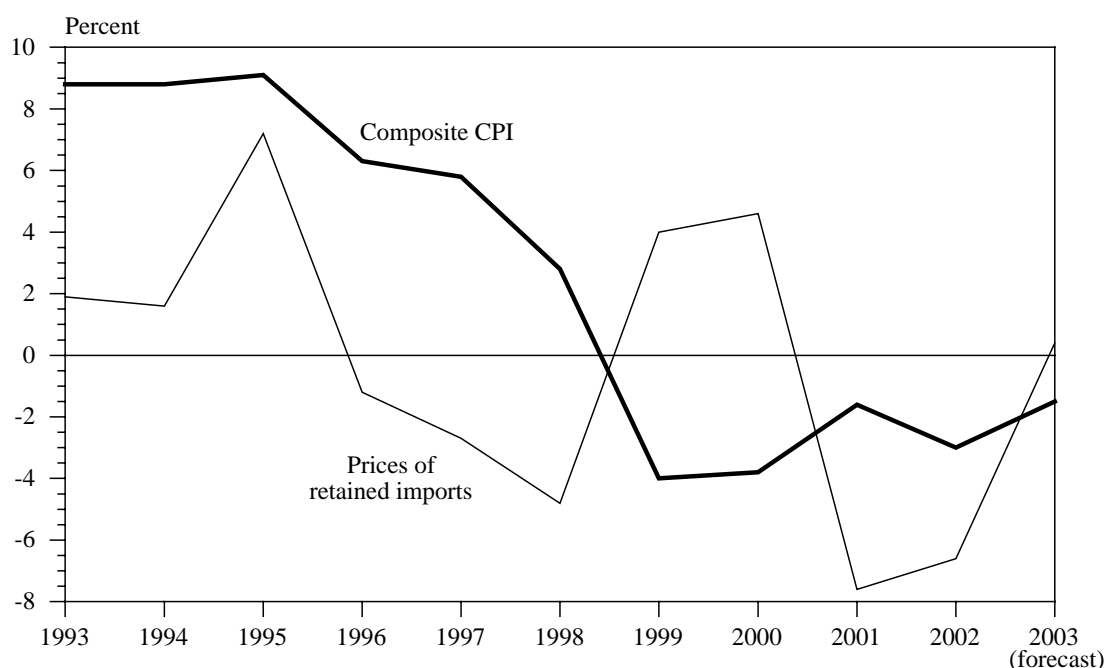
Notes : (#) The rate of change in nominal wages in 2002 refers to the year-on-year change for the first three quarters of the year combined.

(+) Two-year moving average.

/Diagram 3.17 (cont'd) .....

Diagram 3.17 (cont'd)

(b) External price pressure



3.39 The movement in the *GDP deflator* depends on those in the price deflators for the individual GDP components. Domestically, the private consumption expenditure deflator is forecast for a 2% decline in 2003, also smaller than the 3.3% decrease in 2002, in tandem with the envisaged trend in consumer prices. The government consumption expenditure deflator is forecast for a 2.5% decline in 2003, after a 0.4% decrease in 2002, reflecting the further effect of the 2002/03 Civil Service pay cut implemented since October 2002, as well as the general price reduction in government purchases. As to the investment components, the deflator for expenditure on building and construction is forecast to fall further, by 5.5% in 2003, following a 6.3% decline in 2002, upon the continued fall-off in tender prices. Yet the deflator for expenditure on machinery, equipment and computer software is forecast to rise back, by 1.5% in 2003, after a 7.3% decline in 2002, largely on account of a weaker US dollar against the Japanese yen and the euro.

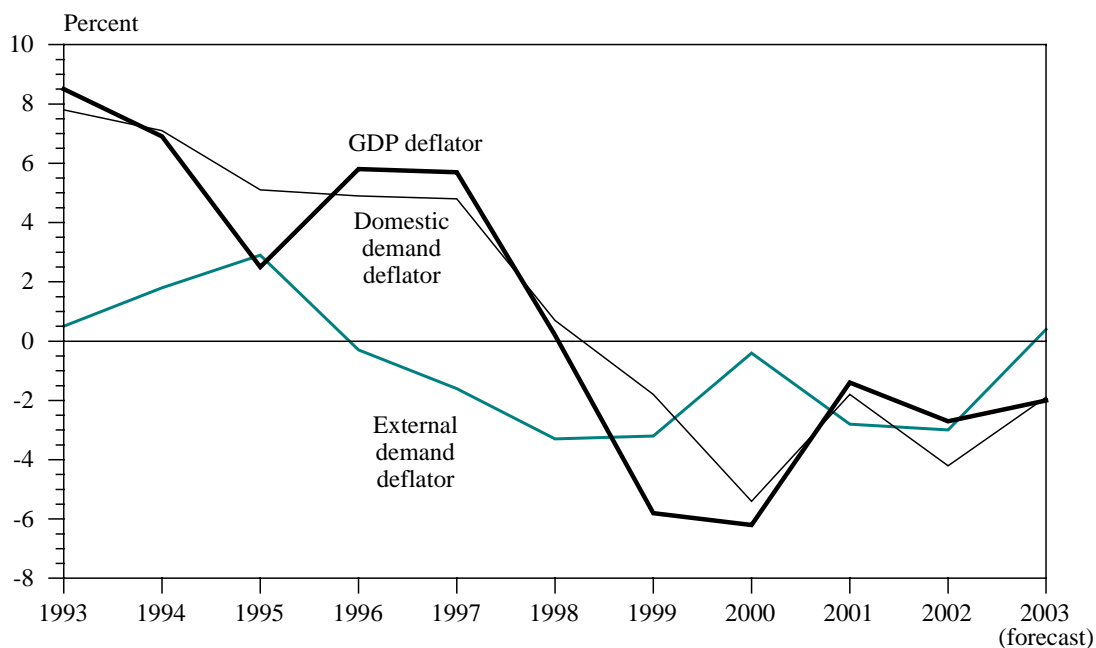
/3.40 .....

3.40 Externally, on account of the lift in import cost due to a weaker US dollar, the prices of exports of goods are forecast to bounce back, by 0.5% in 2003, after a 2.9% fall in 2002. The prices of exports of services are forecast to be flat in 2003, having come down by 2.8% in 2002. Meanwhile, in face of again a weaker US dollar, the prices of imports of goods are forecast to rebound, to a rise of 0.6% in 2003, having decreased by 4.2% in 2002. Likewise, the prices of imports of services are forecast to go up, by 1.5% in 2003, following a 0.4% increase in 2002.

3.41 Taking the forecasts for these price deflators together, the GDP deflator is forecast for a decline of 2% in 2003, after a 2.7% fall in 2002. The *domestic demand deflator* is forecast to fall by 1.9% in 2003, after a 4.2% fall in 2002.

**Diagram 3.18**

**GDP deflator, domestic demand deflator  
and external demand deflator  
(rate of change)**



/(E) .....

**(E) GDP at current market prices**

3.42 Putting the forecasts for real GDP and the GDP deflator together, *nominal GDP* is forecast to rise by 1% in 2003, having fallen by 0.6% in 2002. Taking into account the projected overall population growth, *per capita GDP* is forecast to fall by 0.2% in money terms in 2003, after a 1.5% decline in 2002. GDP at current market prices in 2003 is forecast at \$1,283 billion, and the corresponding per capita GDP at \$186,900 or US\$24,000.

**(F) Summary of forecast**

3.43 The forecasts are given in greater detail in Table (11) of the *Statistical Appendix* and are summarised in the table below:

**/Table 3.7 .....**



**Table 3.7**

**Rates of change in the Gross Domestic Product  
and its expenditure components and  
in the main price indicators**

	Preliminary figures <u>for 2002</u> (%)	Forecast <u>for 2003</u> (%)
<i>Rate of change in real terms :</i>		
Private Consumption Expenditure	-1.6	0
Government Consumption Expenditure	2.4	2.5
Gross Domestic Fixed Capital Formation	-4.4	0.9
<i>of which:</i>		
Building and construction <sup>(a)</sup>	1.8	-5.9
Machinery, equipment and computer software	-9.6	6.8
Total Exports of Goods	8.6	6.6
Imports of Goods	7.9	6.3
Exports of Services	12.1	8
Imports of Services	-0.8	1.5
<b>Gross Domestic Product (GDP)</b>	<b>2.3</b>	<b>3</b>
Per Capita GDP	1.3	1.8
<i>Rate of change in money terms :</i>		
GDP	-0.6	1
Per Capita GDP	-1.5	-0.2
<i>Rate of change in :</i>		
GDP Deflator	-2.7	-2
Domestic Demand Deflator	-4.2	-1.9
<b>Composite Consumer Price Index</b>	<b>-3.0<sup>(b)</sup></b>	<b>-1.5</b>

Notes : (a) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. For details, see Note (6).

(b) Final figure.

/Notes .....

## Notes :

- (1) In accordance with China's commitment to WTO, it will ultimately reduce its industrial tariffs to an average of 8.9%, with the majority of the tariff cuts to be implemented in around 2005-06. Its agricultural tariffs will also be reduced to an average of 15%, with the majority of the tariff cuts to be implemented in around 2004-06.
- (2) The economic forecasts for Hong Kong's major markets cited in this report are mainly for the purpose of illustration and are not purported to be exhaustive. Economic forecasts from a variety of sources, including the central banks and government departments in the respective economies and certain private sector forecasting agencies, have been taken into account in deriving the forecasts for Hong Kong's exports.
- (3) In view of the profound importance of the Mainland as a destination for Hong Kong's exports, a consultation exercise covering a number of major firms and organisations knowledgeable in China trade was carried out by the Economic Analysis Division during December 2002 and January 2003. Views were obtained generally on growth in the Mainland economy and developments in Hong Kong-Mainland trade, and more specifically on the outlook for Hong Kong's domestic exports and re-exports to the Mainland in 2003.
- (4) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.
- (5) Expenditure on building and construction relates to the value of construction work put in place in respect of residential buildings, non-residential buildings and other construction works as well as the real estate developers' margin. The estimates are classified into the public and private sectors. Building expenditure under the Home Ownership Scheme is classified to the private sector. This is because the flats concerned have generally been sold to households in advance of completion, meaning that ownership of the flats is effectively transferred in stages to the private purchasers as the work proceeds.
- (6) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP. This amounts to bringing up the private sector investment in building and construction much closer to its overall output value, from its direct assessed physical construction cost. The change in presentation is in line with international statistical practice, and reflects the recognition that real estate developers' margin is an integral part of private sector investment in building and construction.

## CHAPTER 4 : IMPLICATIONS OF THE FORECAST FOR THE ECONOMY

4.1 A number of implications can be drawn from a more detailed examination of the GDP forecast. *First*, aggregate demand in terms of total final demand<sup>(1)</sup> is forecast to grow by 4.7% in 2003, modestly slower than the 5.0% increase in 2002. Yet after excluding re-exports but with re-exports margin retained, total final demand is forecast for somewhat faster growth at 2.7% in 2003, as against a 1.8% increase in 2002. The growth in aggregate demand in this year is expected to be matched by a larger expansion in local output, as well as by a modest further increase in retained imports of goods and a resurrected rise in imports of services.

**Table 4.1**  
**Growth rates of aggregate demand and supply**

	<u>2002<sup>^</sup></u> (%)	<u>2003</u> (forecast) (%)
Aggregate demand		
Total final demand	5.0	4.7
Total final demand excluding re-exports <sup>(a)</sup>	1.8	2.7
Aggregate supply		
Local output in terms of GDP	2.3	3
Imports of goods <sup>(b)</sup>	7.9	6.3
Retained imports of goods <sup>(b)</sup>	1.7	2.6
Imports of services	-0.8	1.5

Notes : The GDP figures in this table are based on the revised series incorporating the results of a technical 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.

(<sup>^</sup>) Preliminary figures.

(a) Re-export margin is nevertheless retained in the total final demand.

(b) 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.

/4.2 .....

4.2 *Secondly*, within the total final demand, the primary growth impetus for this year is expected to continue to come from external demand. Having already attained a strong growth at 9.3% in 2002, external demand is forecast for a further robust increase by 6.9% in 2003. This momentum should in turn filter through into the domestic economy to spur a more broad-based recovery. Thus domestic demand<sup>(2)</sup> is also expected to improve in the course of this year. It is forecast for a 1.0% rise for 2003 as a whole, reversing the 1.4% fall in 2002.

**Table 4.2**  
**Growth rates of total final demand by component**

	<u>2002<sup>^</sup></u> (%)	<u>2003</u> <u>(forecast)</u> (%)
Domestic demand	-1.4	1.0
<i>of which :</i>		
Consumption demand	-1.0	0.4
Investment demand in terms of GDFCF	-4.4	0.9
Domestic demand excluding changes in inventories	-2.0	0.5
External demand	9.3	6.9
<i>of which :</i>		
Exports of goods	8.6	6.6
Domestic exports	-11.2	-8
Re-exports	11.0	8
Exports of services	12.1	8.0

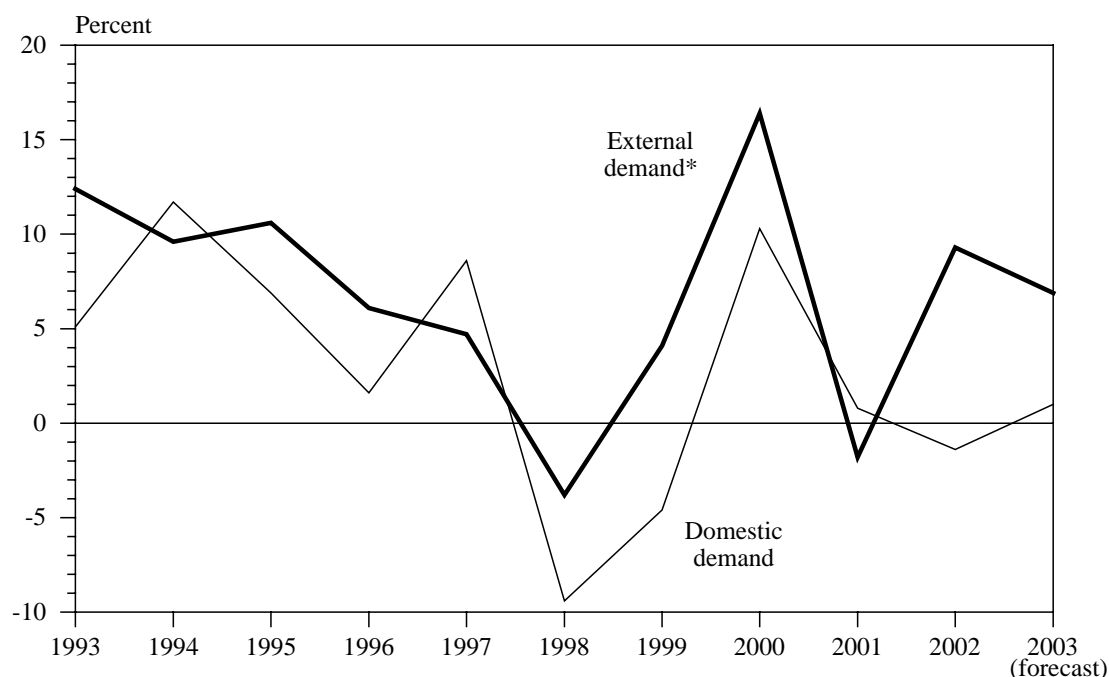
Notes : See the first footnote to Table 4.1.

(<sup>^</sup>) Preliminary figures.

**/Diagram 4.1 .....**

**Diagram 4.1**

**External and domestic demand within total final demand  
(rate of change)**



Note : (\*) Comprising exports of goods and services.

4.3 *Thirdly*, within external demand, exports of both goods and services are expected to attain further distinct growth this year, on the back of sustained robust demand in the Mainland economy, rising intra-regional trade and service flows, and the lift to external price competitiveness brought about by a weaker US dollar. Exports of goods are forecast to expand by a further 6.6% in 2003, after an 8.6% leap in 2002. Exports of services may continue to out-perform exports of goods, with growth forecast at 8% in 2003, after a 12.1% surge in 2002.

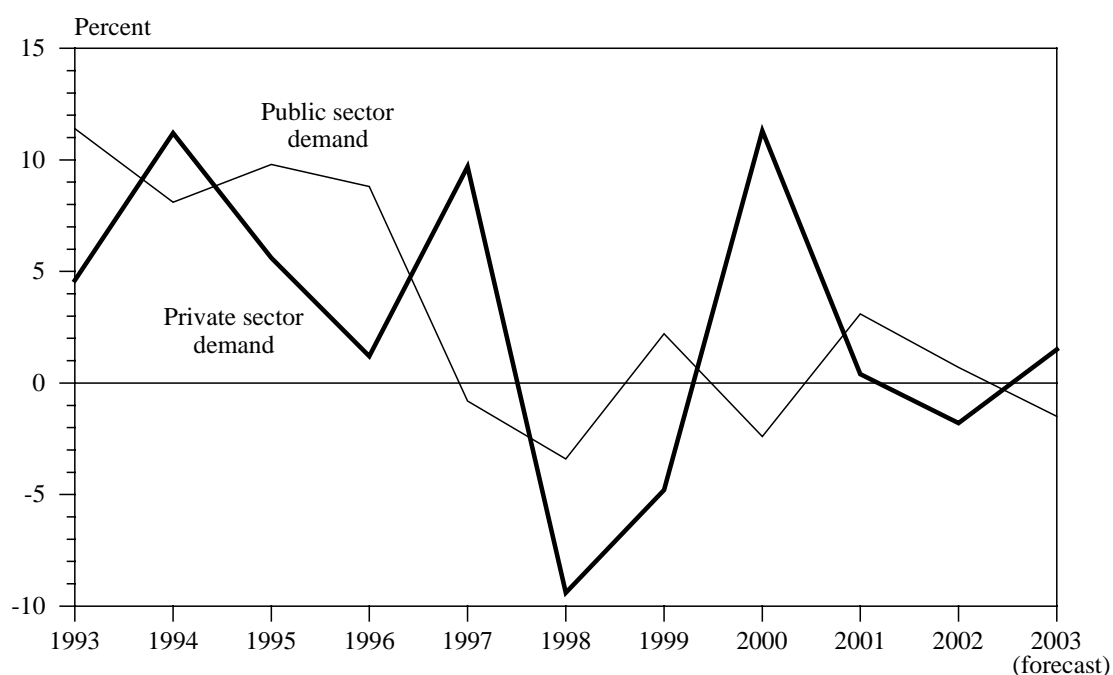
4.4 *Fourthly*, the turnaround in domestic demand envisaged for this year is likely to be led by private sector demand, which is forecast to increase by 1.5% in 2003, following a 1.8% decline in 2002. Specifically, private sector investment spending is expected to strengthen up visibly, along with renewed machinery and equipment intake. Consumer spending is also expected to resume growth during the year. But with a still subdued consumer demand in the early part of this year, there would only be zero growth for 2003 as a whole, though representing a relative improvement from the 1.6% decline in 2002.

/4.5 .....

4.5 On the other hand, public sector demand<sup>(3)</sup> is forecast to shrink by 1.5% in 2003, after a meagre growth at 0.7% in 2002. Within this total, government consumption expenditure is forecast to grow modestly, by 2.5% in 2003, similar to the 2.4% rise in 2002, amidst the on-going process of fiscal consolidation. As to public sector investment spending, building and construction output as well as machinery and equipment intake are both forecast for a marked decline this year.

**Diagram 4.2**

**Private sector and public sector demand within domestic demand  
(rate of change)**



**/Table 4.3 .....**

**Table 4.3****Growth rates of domestic demand by institutional sector**

	<u>2002<sup>^</sup></u> (%)	<u>2003</u> (forecast) (%)
Private sector domestic demand	-1.8	1.5
<i>of which :</i>		
Consumption	-1.6	0.0
Investment	-4.7	3.2
Public sector domestic demand	0.7	-1.5
<i>of which :</i>		
Consumption	2.4	2.5
Investment	-2.8	-10.7
Public sector demand as a % of GDP <sup>(a)</sup>	14.6	13.9

Notes : See the first footnote to Table 4.1.

(<sup>^</sup>) Preliminary figures.

(a) Calculated at current market prices.

4.6 *Fifthly*, both the Composite CPI and the GDP deflator are likely to remain on a decline in 2003, as the earlier cost adjustments are still feeding through to dampen local prices, and as labour wages and property rentals continue to fall. Import prices are expected to remain soft in the near term, but the pace of decline may gradually taper over the course of this year, on the back of firmer world commodity prices and a weaker US dollar. With a larger swing to increase envisaged for import prices than for export prices, the terms of trade is expected to fall back in 2003, having risen for two consecutive years.

**/Table 4.4 .....**

**Table 4.4****Rates of change in selected price indicators**

	<u>2002<sup>^</sup></u> (%)	<u>2003</u> <u>(forecast)</u> (%)
Domestic demand deflator	-4.2	-1.9
Price deflator for exports of goods and services	-3.0	0.4
Price deflator for imports of goods and services <sup>(a)</sup>	-3.8	0.8
GDP deflator	-2.7	-2.0
Composite CPI	-3.0 <sup>#</sup>	-1.5

Notes : See the first footnote to Table 4.1.

(<sup>^</sup>) 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.

(<sup>#</sup>) Final figure.

4.7 *Finally*, the expected fall-back in the terms of trade should nevertheless be seen against the envisaged faster growth in exports of goods and services than in imports of goods and services. Accordingly, the visible trade deficit, here reckoned on a GDP basis instead of on a merchandise trade basis<sup>(4)</sup>, is forecast at \$40 billion in 2003, equivalent to 2% of the forecast total value of imports of goods. These are broadly similar to the corresponding deficit figures of \$40.0 billion and 2.5% in 2002. The invisible trade surplus is forecast to enlarge more, to \$186 billion in 2003, from \$163.4 billion in 2002. Taken together, the combined visible and invisible trade surplus is forecast to expand further, to \$146 billion in 2003, representing 8% of the forecast total value of imports of goods and services, from the corresponding surplus figures of \$123.4 billion and 6.9% in 2002.

**/Notes .....**



## Notes :

- (1) Total final demand comprises domestic demand and external demand. It is equal to the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services. Alternatively, it is equal to the sum of GDP, which represents overall output in the economy, and imports of goods and services, as these are the two broad sources of supply to meet the final demand.
- (2) Domestic demand covers private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation and changes in inventories.
- (3) In the context of GDP estimation and forecasting, the size of the public sector is measured in national accounts terms rather than in consolidated account terms. Here the public sector is defined to include the Government, the quasi-government institutions, and the public corporations. Of the quasi-government bodies, the Hospital Authority, Consumer Council, Hong Kong Tourism Board, Hong Kong Trade Development Council, Hong Kong Productivity Council, Vocational Training Council, Employees Retraining Board and Hong Kong Monetary Authority are included in regard to their consumption as well as investment expenditures. Of the public corporations, the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong are included only to the extent of their investment expenditure. Their consumption expenditure, which in effect is the cost involved in the production of services principally for sale to the public, with such sales being substantively reckoned into private consumption expenditure, is not treated as part of government consumption expenditure.
- (4) Under the GDP 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.

## STATISTICAL APPENDIX

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**Table 1****Gross Domestic Product (GDP) by expenditure component  
at current market prices 1992 to 2002<sup>#</sup> (\$Mn)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Private Consumption Expenditure	459,494	524,979	606,608	668,393	725,870
Government Consumption Expenditure	63,785	72,271	83,135	93,608	103,532
Gross Domestic Fixed Capital Formation	217,637	249,443	305,757	334,363	378,486
<i>of which:</i>					
Building and construction <sup>(a)</sup>	107,666	130,034	164,916	158,898	185,648
Machinery, equipment and computer software	92,054	99,536	119,521	161,562	170,652
Change in Inventories	8,187	2,299	21,263	45,656	9,762
Total Exports of Goods	924,953	1,046,250	1,170,013	1,344,127	1,397,917
Domestic exports	234,123	223,027	222,092	231,657	212,160
Re-exports	690,829	823,224	947,921	1,112,470	1,185,758
Imports of Goods <sup>(b)</sup>	937,349	1,052,962	1,229,041	1,466,759	1,511,365
Exports of Services	184,042	209,030	232,606	255,553	294,509
Imports of Services	129,430	138,501	160,568	178,678	187,786
GDP	791,319	912,809	1,029,773	1,096,263	1,210,925
<i>Per Capita GDP (\$)</i>	<i>136,423</i>	<i>154,687</i>	<i>170,622</i>	<i>178,078</i>	<i>188,163</i>
Total Final Demand	1,858,098	2,104,272	2,419,382	2,741,700	2,910,076
Total Final Demand Excluding Re-exports <sup>(c)</sup>	1,286,092	1,431,698	1,629,764	1,812,788	1,929,454
Domestic Demand	749,103	848,992	1,016,763	1,142,020	1,217,650
Private	662,540	743,158	892,841	994,781	1,049,023
Public	86,563	105,834	123,922	147,239	168,627
External Demand	1,108,995	1,255,280	1,402,619	1,599,680	1,692,426

**Definitions of Terms:**

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + change in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + change in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

Table 1 (cont'd)

**Gross Domestic Product (GDP) by expenditure component  
at current market prices 1992 to 2002<sup>#</sup> (\$Mn)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002<sup>+</sup></u>
Private Consumption Expenditure	806,790	772,347	740,819	744,401	745,537	708,579
Government Consumption Expenditure	112,741	116,539	119,984	120,148	128,844	131,363
Gross Domestic Fixed Capital Formation	451,891	388,731	325,328	347,375	341,847	303,951
<i>of which:</i>						
Building and construction <sup>(a)</sup>	223,264	208,235	171,930	155,441	144,780	138,080
Machinery, equipment and computer software	190,760	165,177	141,349	180,204	186,693	156,435
Change in Inventories	12,313	-15,651	-10,612	14,399	-2,466	3,789
Total Exports of Goods	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987	1,561,499
Domestic exports	211,410	188,454	170,600	180,967	153,520	131,016
Re-exports	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467	1,430,482
Imports of Goods <sup>(b)</sup>	1,589,876	1,408,317	1,373,500	1,636,711	1,549,222	1,601,518
Exports of Services	291,100	272,112	279,167	317,580	323,087	352,187
Imports of Services	196,362	193,560	184,052	191,543	189,619	188,768
GDP	1,344,546	1,279,850	1,246,134	1,288,338	1,278,995	1,271,082
<i>Per Capita GDP (\$)</i>	<i>207,194</i>	<i>195,585</i>	<i>188,622</i>	<i>193,299</i>	<i>190,188</i>	<i>187,282</i>
Total Final Demand	3,130,784	2,881,727	2,803,686	3,116,592	3,017,836	3,061,368
Total Final Demand Excluding Re-exports <sup>(c)</sup>	2,107,773	1,939,301	1,864,501	2,018,523	1,958,517	1,919,843
Domestic Demand	1,383,735	1,261,966	1,175,519	1,226,323	1,213,762	1,147,682
Private	1,206,768	1,084,215	989,884	1,045,775	1,026,844	962,606
Public	176,967	177,751	185,635	180,548	186,918	185,076
External Demand	1,747,049	1,619,761	1,628,167	1,890,269	1,804,074	1,913,686

Notes: (a) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP.

(b) 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.

(c) Re-export margin is nevertheless retained in the total final demand.

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

(+) Preliminary figures.

**Table 2**

**Rates of change in real terms in the Gross Domestic Product (GDP) by  
expenditure component 1992 to 2002<sup>#</sup> (%)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Private Consumption Expenditure	8.8 <sup>^</sup>	7.9	6.7	1.5	3.1	6.9
Government Consumption Expenditure	7.1 <sup>^</sup>	2.1	3.8	3.2	3.8	2.4
Gross Domestic Fixed Capital Formation	9.3	3.6	15.3	10.4	10.9	12.6
<i>of which:</i>						
Building and construction <sup>(a)</sup>	-1.4	6.0	17.4	1.1	7.0	10.5
Machinery, equipment and computer software	21.3	2.6	17.1	24.1	12.0	13.1
Total Exports of Goods	19.8	13.5	10.4	12.0	4.8	6.1
Domestic exports	0.2	-4.5	-2.3	2.0	-8.4	2.1
Re-exports	28.3	19.6	13.8	14.3	7.5	6.8
Imports of Goods <sup>(b)</sup>	22.2	12.9	14.2	13.9	4.3	7.3
Exports of Services	10.7	7.7	6.2	4.3	12.9	-2.1
Imports of Services	11.1	5.6	8.7	1.8	5.2	4.0
GDP	6.6	6.3	5.5	3.9	4.3	5.1
<i>Per Capita GDP</i>	5.7	4.5	3.1	1.8	-0.2	4.2
Total Final Demand	14.8	9.8	10.5	9.5	4.3	6.2
Total Final Demand Excluding Re-exports <sup>(c)</sup>	9.0	4.8	8.5	6.5	2.3	5.8
Domestic Demand	9.5	5.1	11.7	6.9	1.6	8.6
Private	9.3	4.2	12.1	6.5	0.5	10.1
Public	11.0	12.4	8.5	10.3	9.2	-1.0
External Demand	18.3	12.6	9.8	10.9	5.9	5.0

Definitions of Terms:

See Table 1.

Table 2 (cont'd)

**Rates of change in real terms in the Gross Domestic Product (GDP) by  
expenditure component 1992 to 2002<sup>#</sup> (%)**

	1998	1999	2000	2001	2002 <sup>+</sup>	Average annual rates of change :	
						10 years 1992 to 2002 <sup>+</sup>	5 years 1997 to 2002 <sup>+</sup>
Private Consumption Expenditure	-6.7	1.3	5.9	1.4	-1.6	2.5	*
Government Consumption Expenditure	0.7	3.1	2.0	6.0	2.4	2.9	2.8
Gross Domestic Fixed Capital Formation	-7.3	-16.6	11.0	2.9	-4.4	3.3	-3.3
<i>of which:</i>							
Building and construction <sup>(a)</sup>	-2.4	-15.5	-7.6	-1.9	1.8	1.2	-5.3
Machinery, equipment and computer software	-7.9	-18.2	27.0	7.3	-9.6	5.7	-1.5
Total Exports of Goods	-4.3	3.7	17.1	-3.3	8.6	6.7	4.1
Domestic exports	-7.9	-7.2	7.5	-10.2	-11.2	-4.2	-6.0
Re-exports	-3.7	5.4	18.5	-2.4	11.0	8.8	5.4
Imports of Goods <sup>(b)</sup>	-7.3	*	18.2	-1.9	7.9	6.7	3.0
Exports of Services	-1.1	6.4	12.9	5.9	12.1	6.4	7.1
Imports of Services	1.6	-4.1	4.2	-0.2	-0.8	2.5	0.1
GDP	-5.0	3.4	10.2	0.6	2.3	3.6	2.2
<i>Per Capita GDP</i>	-5.8	2.4	9.2	-0.3	1.3	2.0	1.3
Total Final Demand	-5.8	1.1	14.5	-0.8	5.0	5.3	2.6
Total Final Demand Excluding Re-exports <sup>(c)</sup>	-7.3	-2.1	11.5	0.2	1.8	3.1	0.6
Domestic Demand	-9.4	-4.6	10.3	0.8	-1.4	2.8	-1.1
Private	-10.1	-5.6	12.4	0.4	-1.8	2.6	-1.2
Public	-3.8	2.1	-2.8	3.1	0.7	3.7	-0.2
External Demand	-3.9	4.0	16.5	-1.8	9.3	6.7	4.6

Notes: (a) See Note (a) to Table 1.

(b) See Note (b) to Table 1.

(c) See Note (c) to Table 1.

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

(+) Preliminary figures.

(^) Figures have been adjusted to reflect a reclassification of expenditure pertaining to the Hospital Authority, which for GDP estimation purpose is included in government consumption expenditure.

(\*) Change of less than 0.05%.

**Table 3**

**Gross National Product (GNP) and  
external factor income flows (EFIF) by income component and  
by type of transactor at current market prices 1996 to 2001<sup>#</sup> (\$Mn)**

<u>Type of Income Component</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Direct Investment Income</b>						
Inflow	125,557	193,093	124,999	136,454	153,848	168,497
Banking	9,082	9,556	13,352	6,983	8,381	8,152
Others	116,474	183,537	111,647	129,471	145,466	160,345
Outflow	201,267	244,884	136,350	197,094	266,324	244,838
Banking	59,530	52,689	51,934	64,881	73,111	63,156
Others	141,737	192,195	84,416	132,213	193,214	181,681
<b>Portfolio Investment Income</b>						
Inflow	84,583	96,494	74,444	86,291	95,086	96,338
Banking	23,828	26,567	17,926	16,652	23,910	27,077
Others	60,755	69,927	56,518	69,639	71,176	69,261
Outflow	28,333	40,646	24,696	25,410	26,900	26,835
Banking	5,961	10,643	4,988	4,082	3,800	4,569
Others	22,372	30,003	19,708	21,328	23,100	22,266
<b>Other Investment Income</b>						
Inflow	182,032	178,790	162,913	142,008	167,787	119,730
Banking	172,104	164,467	153,528	129,509	147,781	102,384
Others	9,928	14,323	9,385	12,499	20,006	17,347
Outflow	162,385	172,373	172,548	107,472	101,729	71,718
Banking	150,885	160,055	158,525	100,039	94,458	63,934
Others	11,500	12,318	14,023	7,433	7,271	7,784
<b>Compensation of Employees</b>						
Inflow	549	657	363	110	53	30
Outflow	549	657	363	110	53	30
<b>Total EFIF</b>						
Inflow	392,721	469,034	362,719	364,863	416,774	384,595
Outflow	392,534	458,560	333,957	330,086	395,006	343,420
Net flow	188	10,475	28,762	34,777	21,768	41,174
GDP	1,210,925	1,344,546	1,279,850	1,246,134	1,288,338	1,278,995
<i>Per Capita GDP (\$)</i>	<i>188,163</i>	<i>207,194</i>	<i>195,585</i>	<i>188,622</i>	<i>193,299</i>	<i>190,188</i>
GNP	1,211,113	1,355,021	1,308,612	1,280,911	1,310,106	1,320,169
<i>Per Capita GNP (\$)</i>	<i>188,193</i>	<i>208,809</i>	<i>199,980</i>	<i>193,886</i>	<i>196,565</i>	<i>196,311</i>

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

(#) Revised figures.

Table 4

**Rates of change in value terms in the Gross National Product (GNP) and external factor income flows (EFIF) by income component and by type of transactor 1996 to 2001<sup>#</sup> (%)**

<u>Type of Income Component</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Average annual rate of change : 5 years <u>1996 to 2001</u>
<b>Direct Investment Income</b>							
Inflow	11.3	53.8	-35.3	9.2	12.7	9.5	6.1
Banking	20.2	5.2	39.7	-47.7	20.0	-2.7	-2.1
Others	10.7	57.6	-39.2	16.0	12.4	10.2	6.6
Outflow	13.1	21.7	-44.3	44.5	35.1	-8.1	4.0
Banking	-3.4	-11.5	-1.4	24.9	12.7	-13.6	1.2
Others	21.9	35.6	-56.1	56.6	46.1	-6.0	5.1
<b>Portfolio Investment Income</b>							
Inflow	7.6	14.1	-22.9	15.9	10.2	1.3	2.6
Banking	-1.9	11.5	-32.5	-7.1	43.6	13.2	2.6
Others	11.9	15.1	-19.2	23.2	2.2	-2.7	2.7
Outflow	17.6	43.5	-39.2	2.9	5.9	-0.2	-1.1
Banking	42.9	78.5	-53.1	-18.2	-6.9	20.2	-5.2
Others	12.3	34.1	-34.3	8.2	8.3	-3.6	-0.1
<b>Other Investment Income</b>							
Inflow	-9.7	-1.8	-8.9	-12.8	18.2	-28.6	-8.0
Banking	-10.7	-4.4	-6.7	-15.6	14.1	-30.7	-9.9
Others	11.4	44.3	-34.5	33.2	60.1	-13.3	11.8
Outflow	-4.7	6.2	0.1	-37.7	-5.3	-29.5	-15.1
Banking	-7.0	6.1	-1.0	-36.9	-5.6	-32.3	-15.8
Others	41.0	7.1	13.8	-47.0	-2.2	7.1	-7.5
<b>Compensation of Employees</b>							
Inflow	103.3	19.7	-44.7	-69.7	-51.8	-43.4	-44.1
Outflow	103.3	19.7	-44.7	-69.7	-51.8	-43.4	-44.1
<b>Total EFIF</b>							
Inflow	-0.1	19.4	-22.7	0.6	14.2	-7.7	-0.4
Outflow	5.3	16.8	-27.2	-1.2	19.7	-13.1	-2.6
<b>GDP</b>							
<i>Per Capita GDP</i>	5.7	10.1	-5.6	-3.6	2.5	-1.6	0.2
<b>GNP</b>							
<i>Per Capita GNP</i>	3.7	11.0	-4.2	-3.0	1.4	-0.1	0.8

Note: (#) Revised figures.



**Table 5****Visible and invisible trade account 1998 to 2002<sup>#</sup> (\$Mn)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002<sup>+</sup></u>
<u>Visible Trade</u>					
Total Exports of Goods	1,361,885	1,355,529	1,579,367	1,488,982	1,561,499
Imports of Goods <sup>(a)</sup>	1,422,552	1,380,030	1,643,199	1,553,952	1,601,518
Visible Trade Balance:					
Amount	-60,667	-24,501	-63,832	-64,970	-40,019
% against imports of goods	-4.3	-1.8	-3.9	-4.2	-2.5
<u>Invisible Trade</u>					
Exports of Services	272,112	279,167	317,580	323,087	352,187
Imports of Services	193,560	184,052	191,543	189,619	188,768
Invisible Trade Balance	78,552	95,115	126,037	133,468	163,419
<u>Visible and Invisible Trade</u>					
Exports of Goods and Services	1,633,997	1,634,696	1,896,947	1,812,069	1,913,686
Imports of Goods and Services	1,616,112	1,564,082	1,834,742	1,743,571	1,790,286
Visible and Invisible Trade Balance:					
Amount	17,885	70,614	62,205	68,498	123,400
% against imports of goods and services	1.1	4.5	3.4	3.9	6.9

Notes: (a) 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.

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. Figures in this table are reckoned on a BoP basis.

(+) Preliminary figures.

**Table 6****Balance of payments account by major component 1998 to 2001<sup>#</sup> (\$Mn)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Current Account <sup>(a)</sup>	34,283	93,447	70,960	95,795
Goods	-60,667	-24,501	-63,832	-64,970
Services	78,552	95,115	126,037	133,468
Factor income	28,762	34,777	21,768	41,174
Current transfers	-12,364	-11,943	-13,013	-13,878
Capital and Financial Account <sup>(a)</sup>	-31,514	-83,374	-57,863	-97,359
Capital transfers	-18,445	-13,812	-12,044	-9,155
Direct investment	-17,192	40,511	19,976	96,948
Portfolio investment	171,052	256,812	190,782	-322,045
Financial derivatives	25,550	79,225	1,661	39,640
Other investment	-245,059	-368,243	-179,917	133,783
Reserve assets (net change) <sup>(b)</sup>	52,581	-77,867	-78,321	-36,530
Net Errors and Omissions	-2,770	-10,074	-13,097	1,565
Overall Balance of Payments	-52,581	77,867	78,321	36,530

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

- (a) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. 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.
- (b) 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 7

## Property market 1992 to 2002

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
<u>Completions of new property by the private sector</u>					
('000 m <sup>2</sup> of internal floor area)					
Residential property <sup>(a)</sup> (in units)	26 222	27 673	34 173	22 621	19 875
Commercial property	729	686	742	562	390
<i>of which :</i>					
Office space	564	413	502	355	269
Other commercial premises <sup>(b)</sup>	165	273	240	207	121
Industrial property <sup>(c)</sup>	1 030	414	493	375	440
<i>of which :</i>					
Industrial-cum-office premises	0	0	24	77	115
Conventional flatted factory space	556	311	266	249	242
Storage premises <sup>(d)</sup>	474	103	203	49	83
<u>Completion of public housing</u>					
(in units)					
Public rental	11 039	31 533	17 098	17 349	18 358
HOS/PSPS	5 740	33 109	4 440	14 472	10 325
Sandwich Class Housing	0	0	0	1 024	0
<u>Building plans with consent to commence work in the private sector</u>					
('000 m <sup>2</sup> of usable floor area)					
Residential property <sup>(e)</sup>	1 623.8	804.7	599.3	688.2	1 058.2
Commercial property	710.2	712.3	415.6	674.0	1 005.7
Industrial property <sup>(f)</sup>	449.6	425.0	751.5	457.4	530.5
Other property	183.4	318.9	258.6	159.0	375.8
Total	2 967.1	2 260.9	2 025.0	1 978.6	2 970.2
<u>Agreements for sale and purchase of property</u>					
Number :					
Residential property <sup>(g)</sup>	N.A.	98 951	93 360	76 633	129 484
Non-residential property	N.A.	34 109	21 532	21 016	17 939
Total	135 261	133 060	114 892	97 649	147 423
Total value (\$Bn) :					
Residential property <sup>(g)</sup>	N.A.	N.A.	N.A.	200.3	381.7
Non-residential property	N.A.	N.A.	N.A.	65.5	92.9
Total	322.5	349.0	423.9	265.8	474.7

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

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

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

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

Table 7 (cont'd)

## Property market 1992 to 2002

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Completions of new property by the private sector</u>						
('000 m <sup>2</sup> of internal floor area)						
Residential property <sup>(a)</sup> (in units)	18 202	22 278	35 322	25 790	26 262	34 035
Commercial property	705	945	632	160	208	304
<i>of which :</i>						
Office space	456	737	427	96	76	166
Other commercial premises <sup>(b)</sup>	249	208	205	64	132	138
Industrial property <sup>(c)</sup>	343	300	191	62	45	29
<i>of which :</i>						
Industrial-cum-office premises	72	145	40	37	14	0
Conventional flatted factory space	181	31	4	19	30	3
Storage premises <sup>(d)</sup>	90	124	147	6	0	27
<u>Completion of public housing</u>						
(in units)						
Public rental	16 046	14 123	29 382	35 820	49 386	14 948
HOS/PSPS	18 257	18 015	16 891	21 172	22 390	11 658
Sandwich Class Housing	0	2 294	5 602	0	0	0
<u>Building plans with consent to commence work in the private sector</u>						
('000 m <sup>2</sup> of usable floor area)						
Residential property <sup>(e)</sup>	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5	790.0
Commercial property	599.0	395.7	287.5	337.5	265.0	365.3
Industrial property <sup>(f)</sup>	461.6	69.5	84.9	129.2	45.7	107.1
Other property	259.2	201.5	125.8	240.2	75.0	109.3
Total	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8
<u>Agreements for sale and purchase of property</u>						
Number :						
Residential property <sup>(g)</sup>	172 711	85 616	77 087	65 340	69 667	72 974
Non-residential property	32 750	25 873	21 379	20 404	18 523	12 947
Total	205 461	111 489	98 466	85 744	88 190	85 921
Total value (\$Bn) :						
Residential property <sup>(g)</sup>	690.3	278.5	212.0	168.4	150.9	154.3
Non-residential property	177.7	62.4	44.6	54.1	41.9	31.1
Total	868.0	340.9	256.6	222.5	192.8	185.4

Notes (cont'd):

- (e) As from 1995, the classification of residential property has been revised to include developments under the Urban Improvement Scheme of the Hong Kong Housing Society, but to exclude developments under the Private Sector Participation Scheme of the Hong Kong Housing Authority.
- (f) Including multi-purpose industrial premises designed also for office use.
- (g) 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 row on residential property, yet they are included in the row on non-residential property, and thus also in the row for the total.

N.A. Not available.

**Table 8****Monetary aggregates 1992 to 2002**

<u>As at End of Year</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
<b>Hong Kong Dollar Money Supply (\$Mn):</b>					
M1	139,479	168,440	167,922	171,642	198,311
M2 <sup>(a)</sup>	726,992	922,417	1,094,715	1,260,427	1,503,603
M3 <sup>(a)</sup>	750,276	939,491	1,112,146	1,278,288	1,520,461
<b>Total Money Supply (\$Mn):</b>					
M1	155,557	187,608	185,334	190,471	217,460
M2	1,518,777	1,764,416	1,992,351	2,282,849	2,532,236
M3	1,574,265	1,823,108	2,070,831	2,363,963	2,611,636
Loans and Advances for use in Hong Kong (\$Mn)	1,011,059	1,190,239	1,403,931	1,571,808	1,822,194
<b>Nominal Effective Exchange Rate Indices (Jan 2000 = 100)<sup>(b)(c)</sup>:</b>					
Trade-weighted	83.5	85.2	95.4	91.6	94.0
Import-weighted	84.2	85.0	93.6	89.6	93.0
Export-weighted	82.8	85.3	97.2	93.7	95.1
<b><u>Rates of Change (%)</u></b>					
<b>Hong Kong Dollar Money Supply:</b>					
M1	24.8	20.8	-0.3	2.2	15.5
M2 <sup>(a)</sup>	14.3	26.9	18.7	15.1	19.3
M3 <sup>(a)</sup>	13.7	25.2	18.4	14.9	18.9
<b>Total Money Supply:</b>					
M1	21.1	20.6	-1.2	2.8	14.2
M2	10.8	16.2	12.9	14.6	10.9
M3	9.6	15.8	13.6	14.2	10.5
Loans and Advances for use in Hong Kong	10.9	17.7	18.0	12.0	15.9
<b>Nominal Effective Exchange Rate Indices<sup>(c)</sup>:</b>					
Trade-weighted	-0.4	2.0	12.0	-4.0	2.6
Import-weighted	-1.1	1.0	10.1	-4.3	3.8
Export-weighted	0.4	3.0	14.0	-3.6	1.5

**Definitions of Terms:**

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placement of less than one month in the monetary aggregates. As such, figures after 1997 cannot be compared with those in the previous period.

**Total Money Supply:**

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

Table 8 (cont'd)

## Monetary aggregates 1992 to 2002

<u>As at End of Year</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Hong Kong Dollar Money Supply (\$Mn):						
M1	188,135	178,260	205,339	203,966	229,841	259,411
M2 <sup>(a)</sup>	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049
M3 <sup>(a)</sup>	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225
Total Money Supply (\$Mn):						
M1	208,093	197,666	225,156	243,847	258,056	295,650
M2	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060	3,518,584
M3	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130	3,562,111
Loans and Advances for use in Hong Kong (\$Mn)	2,230,228	2,109,589	1,933,391	1,965,289	1,878,679	1,833,953
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(b)(c)</sup> :						
Trade-weighted	98.0	103.4	100.9	101.7	104.7	104.0
Import-weighted	97.9	105.5	101.4	101.5	105.1	104.7
Export-weighted	98.1	101.3	100.4	101.9	104.3	103.3
<u>Rates of Change (%)</u>						
Hong Kong Dollar Money Supply:						
M1	-5.1	-5.2	15.2	-0.7	12.7	12.9
M2 <sup>(a)</sup>	N.A.	9.7	5.2	3.4	0.5	-0.7
M3 <sup>(a)</sup>	N.A.	9.3	5.1	3.5	0.7	-0.6
Total Money Supply:						
M1	-4.3	-5.0	13.9	8.3	5.8	14.6
M2	N.A.	11.6	8.8	7.8	-2.7	-0.9
M3	N.A.	10.3	8.4	7.5	-2.7	-0.9
Loans and Advances for use in Hong Kong	22.4	-5.4	-8.4	1.6	-4.4	-2.4
Nominal Effective Exchange Rate Indices <sup>(c)</sup> :						
Trade-weighted	4.3	5.5	-2.4	0.8	2.9	-0.7
Import-weighted	5.3	7.8	-3.9	0.1	3.5	-0.4
Export-weighted	3.2	3.3	-0.9	1.5	2.4	-1.0

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

(b) Average of the year.

(c) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.

N.A. Not available.

Table 9

## Labour force, employment, wages and earnings 1996 to 2002

	Mar 1996	Sep 1996	Mar 1997	Sep 1997	Mar 1998	Sep 1998	Mar 1999
Labour Force <sup>(a)(b)</sup> ('000)	3 065	3 179	3 216	3 213	3 247	3 290	3 297
Employed <sup>(a)(b)</sup> ('000)	2 974	3 096	3 145	3 144	3 141	3 114	3 093
Unemployed <sup>(a)(b)</sup> ('000)	92	83	71	70	106	176	204
Unemployment Rate, Seasonally Adjusted <sup>(a)(b)(c)</sup> (%)	2.9	2.6	2.3	2.1	3.3	5.2	6.3
Underemployment Rate <sup>(a)(b)</sup> (%)	2.0	1.3	1.1	1.0	1.9	2.6	3.0
Labour Force Participation Rate <sup>(a)(b)</sup> (%)	62.0	61.3	61.3	60.9	61.1	61.4	61.2
Employment ('000) in:							
Wholesale and import/export trades	601	616	608	592	570	551	568
Retail trade	202	207	209	214	200	190	193
Restaurants and hotels	224	224	229	221	212	206	215
Water transport, air transport and services allied to transport	99	103	104	100	94	93	95
Storage and communications	44	44	44	42	42	39	41
Financing, insurance, real estates and business services	379	391	408	416	395	398	398
Community, social and personal services	303	315	324	314	317	324	336
Manufacturing	351	327	313	309	281	257	249
Building and construction sites	69	77	84	78	87	76	72
Index of Payroll per Person Engaged <sup>(d)</sup> (Q1 1999 = 100):							
Nominal	85	76	93	85	98	88	100
Real <sup>(e)</sup>	93	81	96	85	97	85	100
Wage Index (Sep 1992 = 100):							
Nominal	134	138	142	147	150	151	150
Real <sup>(f)</sup>	104	103	104	104	104	104	107
Index of Construction Wage Rates (Jan 1970 = 100)	2 573	2 709	2 921	3 089	3 378	3 438	3 488

Definitions of Terms:

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 seven days before enumeration, or would otherwise have been engaged in productive work but were unemployed.

The labour force participation rate is defined as the proportion of labour force (i.e. those working or unemployed) in the population aged 15 or above.

For a person aged 15 or above to be classified as unemployed, he or she should : (i) 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 (ii) be available for work during the reference period; and (iii) be seeking work during the 30 days before enumeration.

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

The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working for 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.

Table 9 (cont'd)

## Labour force, employment, wages and earnings 1996 to 2002

	Sep <u>1999</u>	Mar <u>2000</u>	Sep <u>2000</u>	Mar <u>2001</u>	Sep <u>2001</u>	Mar <u>2002</u>	Sep <u>2002</u>
Labour Force <sup>(a)(b)</sup> ('000)	3 316	3 337	3 392	3 403	3 443	3 460	3 513
Employed <sup>(a)(b)</sup> ('000)	3 101	3 154	3 224	3 254	3 257	3 221	3 246
Unemployed <sup>(a)(b)</sup> ('000)	214	183	167	150	186	239	267
Unemployment Rate, Seasonally Adjusted <sup>(a)(b)(c)</sup> (%)	6.3	5.6	4.8	4.5	5.2	7.0	7.4
Underemployment Rate <sup>(a)(b)</sup> (%)	3.1	2.8	2.6	2.3	2.5	3.2	2.9
Labour Force Participation Rate <sup>(a)(b)</sup> (%)	61.2	61.1	61.6	61.3	61.6	61.6	62.3
Employment ('000) in:							
Wholesale and import/export trades	579	602	610	581	579	566	580
Retail trade	206	207	223	215	225	216	221
Restaurants and hotels	213	219	221	221	223	214	212
Water transport, air transport and services allied to transport	95	96	100	98	102	101	101
Storage and communications	42	41	45	45	44	41	40
Financing, insurance, real estates and business services	407	415	437	429	437	423	424
Community, social and personal services	340	345	349	360	377	392	398
Manufacturing	245	234	229	217	209	197	190
Building and construction sites	69	75	81	88	77	77	70
Index of Payroll per Person Engaged <sup>(d)</sup> (Q1 1999 = 100):							
Nominal	87	100	88	103	90	102	88
Real <sup>(e)</sup>	89	105	94	110	97	113	99
Wage Index (Sep 1992 = 100):							
Nominal	149	149	151	151	152	150	150
Real <sup>(f)</sup>	109	111	113	115	115	116	118
Index of Construction Wage Rates (Jan 1970 = 100)	3 505	3 517	3 612	3 547	3 613	3 551	3 567

Definitions of Terms (cont'd)

Unemployment and underemployment rates: the proportions of unemployed and underemployed persons in the labour force.

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

- (a) Quarterly average.
- (b) As from the second quarter of 1996 onwards, the labour force statistics are compiled on the basis of the "resident population" definition and with the results of the 2001 Population Census incorporated.
- (c) The seasonal adjustment is done on the basis of the X-11 ARIMA method, which adjusts for the influences of all seasonal factors.
- (d) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, payroll also covers overtime pay and other non-guaranteed or irregular bonuses and allowances. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in payroll per person engaged do not necessarily match closely with those in wage rates.
- (e) The real index is obtained by deflating the nominal index with the Composite Consumer Price Index.
- (f) The real index is obtained by deflating the nominal index with the Consumer Price Index (A).



**Table 10****Rates of change in prices 1992 to 2002 (%)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
GDP Deflator <sup>(a)</sup>	9.5	8.5	6.9	2.5	5.8
Domestic Demand Deflator <sup>(a)</sup>	8.2	7.8	7.2	5.0	5.0
Consumer Price Indices <sup>(b)</sup> :					
Composite CPI	9.6	8.8	8.8	9.1	6.3
CPI(A)	9.4	8.5	8.1	8.7	6.0
CPI(B)	9.6	8.7	8.6	9.2	6.4
CPI(C)	9.8	9.5	10.0	9.6	6.6
Unit Value Indices:					
Domestic exports	1.0	0.3	1.5	2.4	0.3
Re-exports	0.8	-0.6	1.5	3.5	-0.5
Total exports of goods	0.8	-0.3	1.5	3.3	-0.3
Imports of goods	0.2	-0.5	2.7	5.0	-1.3
Terms of Trade Index	0.7	0.2	-1.2	-1.6	1.0
Producer Price Index for all manufacturing industries	1.9	0.7	2.1	2.8	-0.1
Construction Labour and Material Cost Index	7.6	12.3	6.5	5.2	6.8
Tender Price Indices:					
Public sector building projects	-7.5	2.0	14.0	17.8	14.4
Public housing projects	-3.8	2.6	7.3	18.3	11.4
Property Price Indices:					
Residential flats <sup>(c)</sup>	39.4	9.2	23.5	-6.6	8.9
Office space	36.7	20.1	39.9	-15.5	-3.2
Shopping space	40.3	21.4	17.8	-2.8	3.3
Flatted factory space	28.5	19.3	6.6	-11.2	-13.7
Property Rental Indices <sup>(d)</sup> :					
Residential flats	9.7	7.7	21.3	2.2	-1.4
Office space	5.6	9.6	21.3	-1.8	-14.7
Shopping space	16.5	10.9	13.8	1.1	*
Flatted factory space	7.8	10.2	3.3	-1.7	-9.9

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

(b) As from October 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. For the earlier periods, they are computed from the CPIs with old base period.

(c) Figures refer to changes in the prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(d) For residential property, their changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, their changes in rentals cover also lease renewals upon which rentals may be revised.

**Table 10 (cont'd)**

**Rates of change in prices 1992 to 2002 (%)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
GDP Deflator <sup>(a)</sup>	5.7	0.2	-5.8	-6.2 <sup>#</sup>	-1.4 <sup>#</sup>	-2.7 <sup>+</sup>
Domestic Demand Deflator <sup>(a)</sup>	4.6	0.6	-2.3	-5.4 <sup>#</sup>	-1.8 <sup>#</sup>	-4.2 <sup>+</sup>
Consumer Price Indices <sup>(b)</sup> :						
Composite CPI	5.8	2.8	-4.0	-3.8	-1.6	-3.0
CPI(A)	5.7	2.6	-3.3	-3.0	-1.7	-3.2
CPI(B)	5.8	2.8	-4.7	-3.9	-1.6	-3.1
CPI(C)	6.1	3.2	-3.7	-4.5	-1.5	-2.8
Unit Value Indices:						
Domestic exports	-2.4	-2.8	-2.4	-1.0	-4.7	-3.3
Re-exports	-1.5	-3.9	-2.8	-0.1	-2.0	-2.7
Total exports of goods	-1.6	-3.8	-2.7	-0.2	-2.3	-2.7
Imports of goods	-2.3	-4.9	-2.0	0.8	-3.1	-3.9
Terms of Trade Index	0.7	1.2	-0.7	-1.0	0.9	1.2
Producer Price Index for all manufacturing industries	-0.3	-1.8	-1.7	0.2	-1.6	-2.9 <sup>~</sup>
Construction Labour and Material Cost Index	9.3	7.5	1.4	1.8	0.3	-0.3 <sup>^</sup>
Tender Price Indices:						
Public sector building projects	17.6	9.1	-4.4	-13.1	-8.5	-15.5 <sup>~</sup>
Public housing projects	18.9	9.0	-3.3	-11.9	-15.1	-9.4 <sup>~</sup>
Property Price Indices:						
Residential flats <sup>(c)</sup>	39.5	-28.2	-14.6	-10.4	-12.2	-11.3 <sup>+</sup>
Office space	13.1	-36.9	-25.7	-10.1	-12.5	-13.6 <sup>+</sup>
Shopping space	32.3	-27.6	-22.1	-6.4	-7.3	2.3 <sup>+</sup>
Flatted factory space	-1.5	-22.0	-24.1	-8.8	-10.1	-9.0 <sup>+</sup>
Property Rental Indices <sup>(d)</sup> :						
Residential flats	13.0	-16.3	-11.2	-1.9	-2.8	-12.4 <sup>+</sup>
Office space	3.0	-13.3	-26.4	-1.5	2.5	-15.4 <sup>+</sup>
Shopping space	4.8	-10.0	-10.1	1.3	-1.9	-6.4 <sup>+</sup>
Flatted factory space	0.1	-10.9	-15.3	-4.6	-5.3	-8.2 <sup>+</sup>

Notes (cont'd): (#) Revised figures.  
 (+) Preliminary figures.  
 (~) Q1-Q3 2002.  
 (^) January to November 2002.  
 (\*) Change of less than 0.05%.

Table 11

## Forecast of expenditure on the Gross Domestic Product (GDP) in 2003

	<u>At Current Market Prices</u>		Forecast rates of change in real terms for 2003
	<u>Preliminary figures for 2002</u> (\$Mn)	<u>Forecast for 2003</u> (\$Mn)	(%)
Private Consumption Expenditure	708,579	694,851	0
Government Consumption Expenditure	131,363	131,325	2.5
Gross Domestic Fixed Capital Formation	303,951	301,688	0.9
<i>of which:</i>			
Building and construction <sup>(a)</sup>	138,080	122,848	-5.9
Machinery, equipment and computer software	156,435	169,513	6.8
Change in Inventories	3,789	9,363	--
Total Exports of Goods	1,561,499	1,673,571	6.6
Domestic exports	131,016	120,016	-8
Re-exports	1,430,482	1,553,554	8
Imports of Goods <sup>(b)</sup>	1,601,518	1,713,321	6.3
Exports of Services	352,187	380,476	8
Imports of Services	188,768	194,720	1.5
<b>GDP</b>	<b>1,271,082</b>	<b>1,283,233</b>	<b>3</b>
<i>Per Capita GDP (\$)</i>	<i>187,282</i>	<i>186,934</i>	<i>1.8</i>
Total Final Demand	3,061,368	3,191,274	4.7
Total Final Demand Excluding Re-exports <sup>(c)</sup>	1,919,843	1,951,538	2.7
Domestic Demand	1,147,682	1,137,227	1
Private	962,606	959,423	1.5
Public	185,076	177,805	-1.5
External Demand	1,913,686	2,054,047	6.9
<u>Rates of Change (%)</u>			
<b>GDP Deflator</b>	<b>-2.7</b>	<b>-2</b>	
Domestic Demand Deflator	-4.2	-1.9	
<b>Composite CPI</b>	<b>-3.0</b>	<b>-1.5</b>	
<u>Growth rate in nominal GDP (%)</u>	-0.6	1	

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

- (a) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP.
- (b) 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.
- (c) Re-export margin is nevertheless retained in the total final demand.
- (--) Not applicable.

