



First Quarter Economic Report 2003

Government of the Hong Kong
Special Administrative Region

***FIRST QUARTER
ECONOMIC REPORT 2003***

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

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 After a distinct pick-up in 2002, the Hong Kong economy continued to display strong growth momentum at the beginning of 2003. Exports of goods recorded further double-digit growth throughout the first quarter, with marked increase seen in exports to most of the major markets. Exports of services were also robust, as offshore trade and cargo services continued to surge, and as visitor arrivals for inbound tourism rose markedly in most of the quarter. The domestic sector showed signs of improvement, with the volume of retail sales resuming a modest increase in the first two months of 2003, having gone through an almost continuous decline since mid-2001. Investment in machinery and equipment rebounded markedly in the first quarter, even though investment in building and construction was still slack.

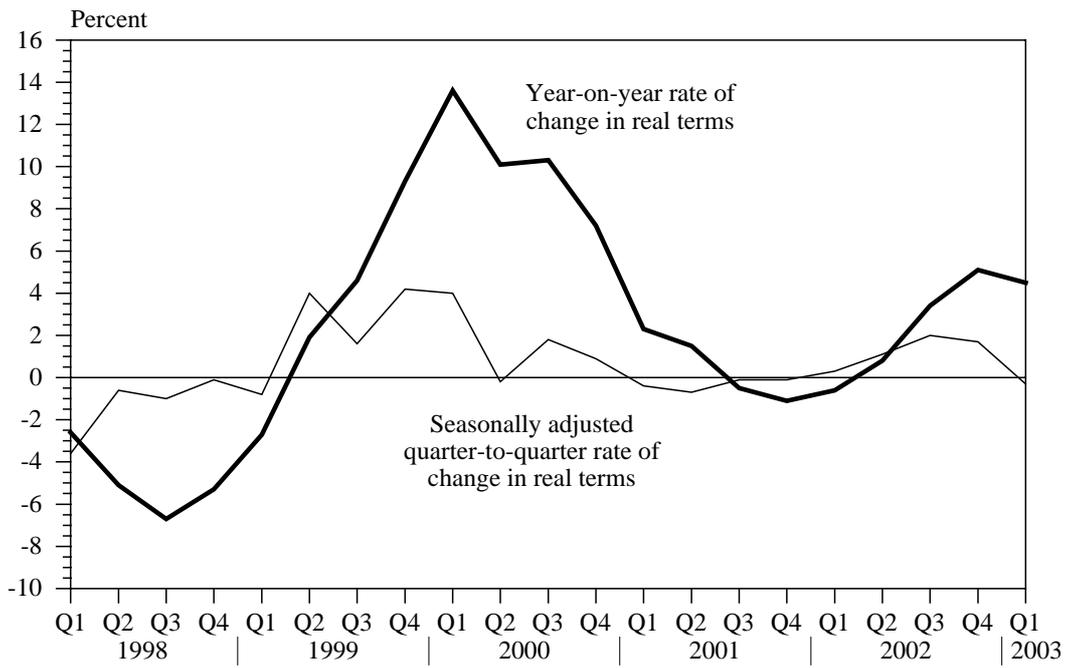
1.2 However, the economic situation worsened abruptly in March. While the outbreak of war on Iraq had affected sentiment only mildly, the spread of atypical pneumonia in Hong Kong since mid-March hurt sentiment much more severely. Inbound tourism was particularly hard hit, with visitor arrivals plunging sharply in the latter part of March. Outbound tourism was likewise significantly dampened. Domestically, consumers' inclination to spend was markedly curtailed upon the spread of atypical pneumonia, causing an abrupt fall-off in consumer spending on a wide range of goods and services. The businesses concerned faced a tough adjustment to this abrupt demand shrinkage, and investment spending was held back.

1.3 Yet for the first quarter of 2003 as a whole, *Gross Domestic Product (GDP)*⁽¹⁾ still attained solid growth at 4.5% in real terms over a year earlier, albeit somewhat slower than the 5.1% growth in the fourth quarter of 2002 (latter figure revised slightly up from the 5.0% growth put out earlier). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP declined by 0.3% in real terms in the first quarter of 2003, after a 1.7% increase in the fourth quarter of 2002 (latter figure unchanged from the estimate put out earlier).

/Diagram 1.1

Diagram 1.1

Gross Domestic Product



/Table 1.1

Table 1.1

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

	<u>2001[#]</u>	<u>2002[#]</u>	<u>Q1[#]</u>	<u>2002</u>			<u>2003</u>
				<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	1.6	-1.3	-0.1	-2.2	-1.2	-1.8	-2.1
Government consumption expenditure	6.1	2.4	2.3	3.0	3.5	0.8	1.1
Gross domestic fixed capital formation	2.7	-4.3	-11.8	-0.2	-4.3	-0.7	3.9
<i>of which :</i>							
Building and construction	-1.1	1.2	-3.2	7.6	8.2	-6.2	-2.7
Machinery, equipment and computer software	6.2	-9.1	-19.8	-6.7	-12.2	3.2	11.9
Total exports of goods	-3.3	8.7	-2.4	5.9	11.5	18.4	19.1
Re-exports	-2.4	11.0	-1.4	8.4	13.7	22.2	22.3
Domestic exports	-10.2	-11.2	-11.1	-13.6	-7.5	-12.9	-12.0
Imports of goods ^(a)	-1.9	7.9	-4.0	6.0	10.8	18.2	18.8
Exports of services	6.9	11.7	6.0	7.7	13.9	18.1	12.2
Imports of services	2.0	0.2	-0.7	-3.8	2.0	3.4	-4.0
Gross Domestic Product	0.5	2.3	-0.6	0.8	3.4	5.1	4.5
<i>Change in the main price indicators (%)</i>							
GDP deflator	-1.9	-3.0	-2.3	-2.2	-3.1	-4.1	-4.7
Composite Consumer Price Index^(b)	-1.6	-3.0	-2.6	-3.2	-3.5	-2.9	-2.0
Consumer Price Index (A) ^(b)	-1.7	-3.2	-2.8	-3.6	-4.1	-2.4	-1.8
<i>Change in nominal GDP (%)</i>	-1.4	-0.8	-3.0	-1.4	0.2	0.8	-0.4
GDP at current market prices (\$ billion)	1,270	1,260	298	306	325	331	297
GDP at constant (2000) market prices (\$ billion)	1,294	1,324	310	318	343	353	324
Changes in inventories at constant (2000) market prices (\$ billion)	-5	3	-3	1	1	3	3

Notes : (#) Revised figures.

(+) Preliminary figures.

(a) 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.

(b) Final figures.

/Table 1.2

Table 1.2

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

	<u>2002</u>				<u>2003</u>
	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>					
Private consumption expenditure	0.5	-0.7	-0.3	-0.9	-0.3
Government consumption expenditure	0.4	-0.2	2.3	-1.2	*
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	4.6	5.7	4.1	3.9	3.1
Re-exports	5.8	6.6	4.6	4.7	3.9
Domestic exports	-5.5	-2.0	-0.6	-4.3	-6.3
Imports of goods ^(a)	4.6	5.9	4.6	3.0	3.7
Exports of services	1.9	4.3	6.1	5.1	-3.7
Imports of services	0.4	-1.6	3.8	1.1	-7.0
Gross Domestic Product^(b)	0.3	1.1	2.0	1.7	-0.3
<i>Change in the main price indicators (%)</i>					
GDP deflator	-0.7	-0.8	-0.9	-1.6	-1.5
Composite Consumer Price Index^(c)	-1.1	-0.6	-0.7	-0.6	-0.1
Consumer Price Index (A) ^(c)	-0.6	-0.6	-0.7	-0.6	*

Notes : (#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

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

(a) 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.

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

(c) Final figures.

/1.4

1.4 The *labour market* slackened again in the first quarter of 2003, mainly dragged down by worsening employment conditions in the construction sector upon a slow-down in activity on both public and private sector projects. The seasonally adjusted unemployment rate rose to 7.5% in the first quarter of 2003, from 7.2% in the fourth quarter of 2002. On the other hand, the underemployment rate fell, to 2.9% from 3.1% over the same period. (In February - April 2003, both the seasonally adjusted unemployment rate and the underemployment rate went up distinctly, to 7.8% and 3.2% respectively, reflecting in most part the adverse impact on the labour market brought about by the spread of atypical pneumonia since mid-March.) Labour earnings and wages stayed soft, falling by 1.2% and 0.8% respectively in money terms in the fourth quarter of/December 2002 over a year earlier.

1.5 The *property market* remained weak. Activity slackened even more after mid-March, as acquisition interest was stalled by the spread of atypical pneumonia. In the residential property market, sales transactions, having gone up briefly in January, receded distinctly in February and March, in face of worsening labour market conditions. Trading activity slackened further since mid-March, amidst the spread of atypical pneumonia. Leasing deals were also subdued. Flat prices and rentals both fell in the first quarter of 2003, by 5% and 4% respectively over the preceding quarter. On commercial property, the rental and sales markets for office space were sluggish even before the spread of atypical pneumonia, as both investor and end-user demand were weak while supply remained abundant. The rental and sales markets for shopping space went even weaker more recently, as the spread of atypical pneumonia hit local consumer and tourist spending severely. The market for industrial property remained inactive.

1.6 In the *financial market*, the spot exchange rate of the Hong Kong dollar against the US dollar stayed very close to the linked rate during the first quarter of 2003. The spread of the twelve-month Hong Kong dollar/US dollar forward rate over the spot rate held steady up to early March, and then narrowed to 136 pips (each pip equivalent to HK\$0.0001) at end-March 2003, from 169 pips at end-2002. Local inter-bank interest rates eased slightly further in the first quarter of 2003, in line with their US dollar counterparts. Loan demand stayed weak. Yet with a larger decline in Hong Kong dollar deposits than in Hong Kong dollar loans, the Hong Kong dollar loan-to-deposit ratio edged up slightly during the first quarter. In the local stock market, share prices rebounded at the start of 2003, along with the opening rally in the US stock market, yet fell back in the latter

/part

part of January, as concern over an imminent outbreak of war on Iraq loomed high. Local share prices remained volatile in February, and then dipped distinctly further in March, amidst downbeat US economic data, concern over the war situation in Iraq, and the spread of atypical pneumonia. The Hang Seng Index tumbled to a 4½-year low of 8 634 at end-March 2003, 7.4% lower than the level at end-2002. Average daily turnover remained moderate in the first quarter of 2003, though somewhat improved from the fourth quarter of 2002.

1.7 On *consumer prices*, the Composite Consumer Price Index remained on a decline, with an average decrease of 2.0% in the first quarter of 2003 over a year earlier. The narrowing from the 2.9% decrease in the fourth quarter of 2002 was mainly due to dissipation of the rates concession granted last year. The prices of retained imports rebounded in the first quarter, as the effect of the earlier weakening in the US dollar and the pick-up in world commodity prices fed through. Yet domestic costs and prices continued to drift lower, more so upon the spread of atypical pneumonia since mid-March. (In April, the decline in the Composite CPI narrowed to 1.8% over a year earlier. Yet the moderated decline was due to the effect of a lower base of comparison, as the waiver of water and sewage charges and the additional rates concession available in April last year had already dissipated by April this year.)

1.8 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the fourth quarter of 2002. External factor income outflow turned up to a modest increase in the fourth quarter of 2002 over a year earlier, having declined for five consecutive quarters. Yet this reflected an improvement in investment return obtained domestically, along with the distinct pick-up in the Hong Kong economy. On the other hand, external factor income inflow fell in the fourth quarter of 2002 over a year earlier, for the sixth quarter in a row. This was mainly due to reduced interest income as global interest rates remained on a general decline. With a rise in external factor income outflow but a fall in external factor income inflow, net external factor income inflow was reduced significantly, to 0.7% of GDP in the fourth quarter of 2002. GNP thus grew at a slower rate of 3.6% in real terms than that of 5.1% in GDP in the fourth quarter of 2002. For 2002 as a whole, GNP grew by 1.2% in real terms, also lesser than the 2.3% growth in GDP.

/1.9

1.9 Within the net external factor income flow, net direct investment income outflow rose in the fourth quarter of 2002 over a year earlier, owing to increased investment earnings from the local economy by some prominent multinational enterprises. Net portfolio investment income inflow declined in the fourth quarter, amidst reduced interest income from holding of non-resident debt securities and increased dividend pay-outs by resident companies. Net income inflow from other investment likewise fell in the fourth quarter, attributable to reduced interest income from loans and deposits placed abroad by local banks, which more than offset the concurrent decline in interest income from placements in Hong Kong by foreign banks.

Table 1.3

Gross National Product and external factor income flows

	<u>2001</u>	<u>2002</u>	<u>2001</u>				<u>2002</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<i>Year-on-year rate of change in money terms (%)</i>										
Total external factor income flow ^(a)										
Inflow	-7.7	-15.7	-5.9	0.5	-3.3	-23.1	-17.0	-28.4	-9.5	-4.2
Outflow	-13.1	-13.6	-12.3	5.3	-14.6	-30.3	-21.1	-26.8	-3.0	2.2
Net external factor income flow at current market prices (\$ billion)	41	27	14	5	15	7	15	2	8	2
GDP at current market prices (\$ billion)	1,270 (-1.4)	1,260 (-0.8)	307 (-0.3)	311 (-0.7)	324 (-2.0)	328 (-2.5)	298 (-3.0)	306 (-1.4)	325 (0.2)	331 (0.8)
GNP at current market prices (\$ billion) ^(b)	1,311 (0.1)	1,287 (-1.8)	321 (1.5)	316 (-2.1)	339 (1.3)	335 (-0.4)	313 (-2.5)	308 (-2.4)	333 (-1.8)	333 (-0.7)
<i>Year-on-year rate of change in real terms (%)</i>										
Gross National Product	2.0	1.2	4.2	*	2.9	1.1	*	-0.2	1.3	3.6

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

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

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

(*) Change of less than 0.05%.

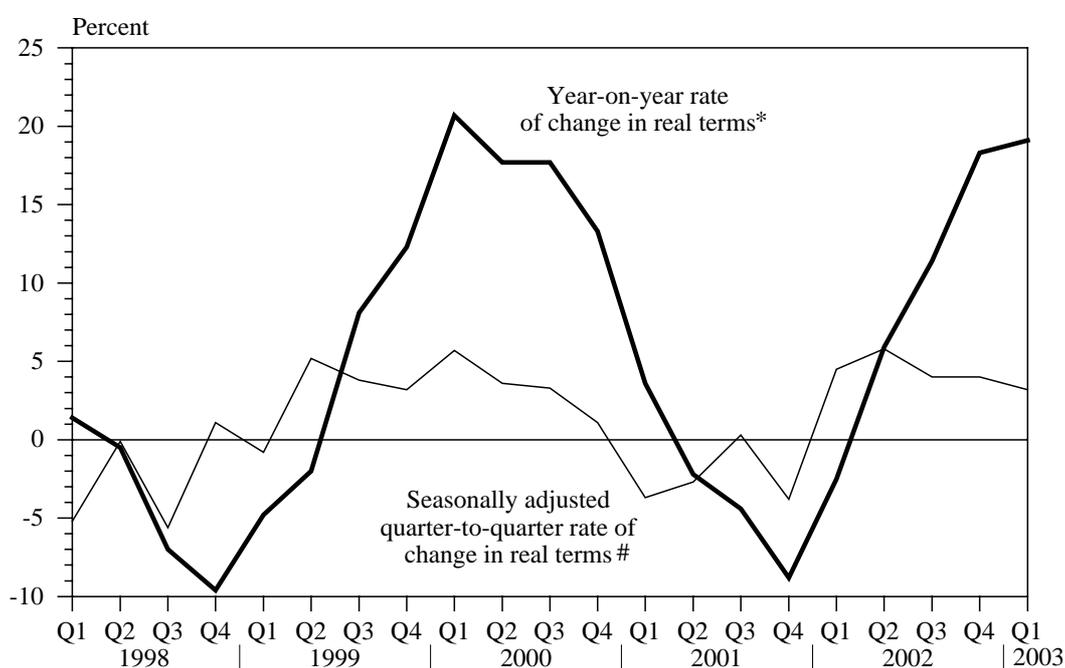
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The external sector

1.10 According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) continued to grow strongly, by 19.1% in real terms in the first quarter of 2003 over a year earlier, further to an already robust growth of 18.3% in the fourth quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods increased further by 3.2% in real terms in the first quarter of 2003, following a 4.0% rise in the fourth quarter of 2002 (paragraph 2.5).

Diagram 1.2

Total exports of goods



Notes : (*) 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.

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

/1.11

1.11 Within total exports of goods, *re-exports* surged by 22.3% in real terms in the first quarter of 2003 over a year earlier, similar to a significant rise of 22.1% in the fourth quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, re-exports also leaped further, by 4.0% in real terms in the first quarter of 2003, after a 4.7% increase in the fourth quarter of 2002. On the other hand, *domestic exports* had a further shrinkage of 12.0% in real terms in the first quarter of 2003 over a year earlier, following a 12.9% dip in the fourth quarter of 2002. This was in tandem with the on-going structural shift towards re-exports and offshore trade. The share of domestic exports in total exports of goods by value continued to fall, to only 6.8% in the first quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, domestic exports shrank further by 6.3% in real terms in the first quarter of 2003, after a 4.3% decline in the fourth quarter of 2002 (paragraphs 2.6 and 2.7).

1.12 The region continued to provide the key impetus to export growth in the first quarter of 2003, with total exports of goods to *East Asia* as a whole surging by 23.6% in real terms over a year earlier. This was similar to the robust growth of 23.9% in the fourth quarter of 2002. There was an almost across-the-board double-digit increase in exports to the East Asian markets. Exports to the mainland of China (the Mainland) and Taiwan rose by well in excess of 20% in real terms in the first quarter. Exports to Japan also picked up distinctly in growth in the first quarter. But exports to Singapore and the Republic of Korea showed some moderation recently, though with still notable increases for the first quarter as a whole. Total exports of goods to *North America* remained generally robust, as import intake in the United States and Canada continued to improve steadily. Enhanced price competitiveness of Hong Kong's exports on the back of a weaker US dollar should have also helped. Total exports of goods to this area leaped by 9.1% in real terms in the first quarter of 2003 over a year earlier, after a 12.3% rise in the fourth quarter of 2002. Total exports of goods to the *European Union* accentuated distinctly further in the early part of this year, supported by steadier import demand there and perhaps more by a stronger euro. Total exports of goods to this area had a 17.8% increase in real terms in the first quarter of 2003 over a year earlier, considerably up from the 9.7% increase in the fourth quarter of 2002 (paragraphs 2.14 to 2.16).

1.13 *Imports of goods* likewise soared, rising by 18.7% in real terms in the first quarter of 2003 over a year earlier, similar to an 18.1% increase in the fourth quarter of 2002. As to import intake for local use, *retained imports* continued on

/an

an uptrend, with an 11.5% increase in real terms in the first quarter of 2003 over a year earlier, having risen by 10.0% in the fourth quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose further by 3.6% in real terms in the first quarter of 2003, following a 2.9% rise in the fourth quarter of 2002. Retained imports turned up visibly, by 2.9% in real terms in the first quarter of 2003, after a 1.0% decline in the fourth quarter of 2002 (paragraph 2.8).

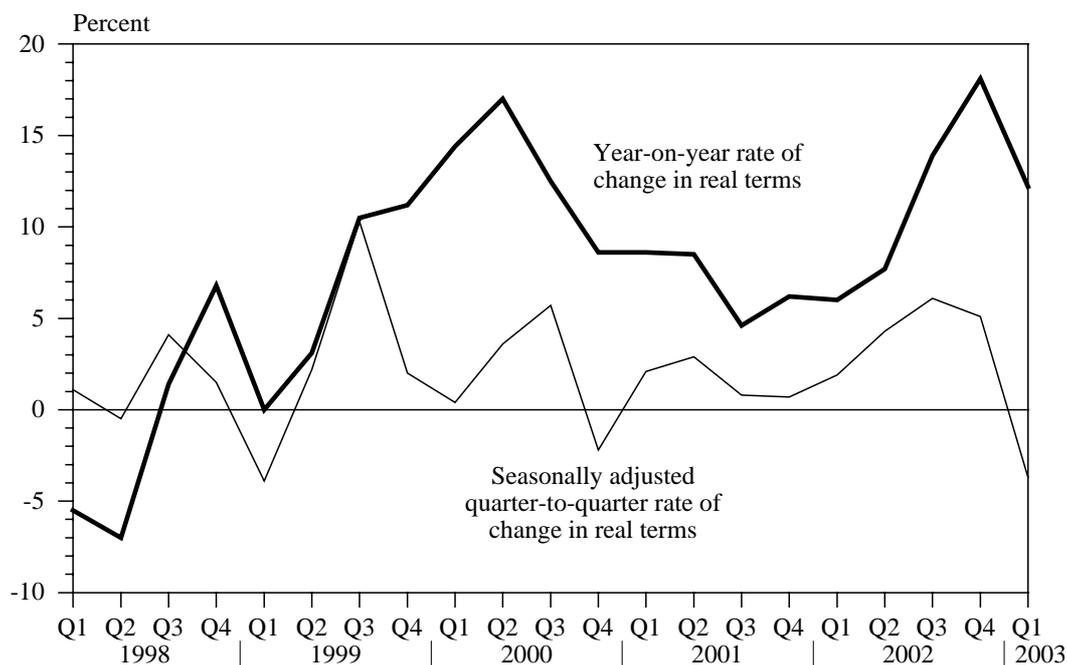
1.14 With a faster growth in imports of goods than in total exports of goods in value, the *visible trade deficit* reckoned on a GDP basis widened to \$16.0 billion or 4.0% of the value of imports of goods in the first quarter of 2003, from \$12.4 billion or 3.7% in the same quarter in 2002 (paragraph 2.9).

1.15 On invisible trade, *exports of services* attained a further marked growth of 12.2% in real terms in the first quarter of 2003 over a year earlier, following an 18.1% growth in the fourth quarter of 2002. Exports of services stayed robust in January, February and the first half of March, bolstered by continued surge in inbound tourism, exports of transportation services and offshore trade. However, inbound tourism fell off abruptly in the second half of March upon the spread of atypical pneumonia in Hong Kong, thus retarding somewhat the growth in exports of services for the first quarter as a whole. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell back noticeably, by 3.7% in real terms in the first quarter of 2003, having risen by 5.1% in the fourth quarter of 2002 (paragraph 2.10).

/Diagram 1.3

Diagram 1.3

Exports of services



1.16 *Imports of services* slackened again, falling by 4.0% in real terms in the first quarter of 2003 over a year earlier, in contrast to the 3.4% increase in the fourth quarter of 2002. The outbreak of atypical pneumonia in Hong Kong towards the end of the first quarter hit severely the already modest trend in residents' spending abroad. On a seasonally adjusted quarter-to-quarter comparison, imports of services fell back distinctly by 7.0% in real terms in the first quarter of 2003, after a 1.1% rise in the fourth quarter of 2002 (paragraph 2.11).

1.17 As exports of services increased markedly while imports of services edged down in value, the *invisible trade surplus* reckoned on a GDP basis expanded further, to \$40.1 billion or 85.7% of the value of imports of services in the first quarter of 2003, from \$31.2 billion or 66.2% in the same quarter in 2002. Notwithstanding the enlarged visible trade deficit, the combined visible and invisible trade surplus reckoned on a GDP basis surged to \$24.1 billion in the first quarter of 2003, equivalent to 5.4% of the total value of imports of goods and services. This was further up from the respective figures of \$18.7 billion and 4.9% in the same quarter in 2002 (paragraph 2.12).

/Domestic

Domestic demand

1.18 Local consumer spending showed signs of improvement at the beginning of 2003, but receded abruptly towards the end of the first quarter. The volume of *retail sales* resumed growth at 0.7% over a year earlier in January and February combined, on the back of a pick-up in the economy and a further sharp rise in visitor arrivals. Then, the spread of atypical pneumonia dealt a heavy blow to both local consumption and inbound tourism, causing the volume of retail sales to fall back by 3.7% in March over a year earlier. For the first quarter of 2003 as a whole, there was a slight decline of 0.8%, after a 1.1% decrease in the fourth quarter of 2002. Yet on a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales still rose by 1.0% in the first quarter of 2003, following a 0.1% increase in the fourth quarter of 2002.

1.19 *Private consumption expenditure (PCE)* likewise declined, by 2.1% in real terms in the first quarter of 2003 over a year earlier, having fallen by 1.8% in the fourth quarter of 2002. The shock impact of atypical pneumonia on local consumer spending was rather extensive. Spending on non-durable goods showed an enlarged decline in the first quarter. Spending on medical and hygiene products was an exception, these items being in hot demand amidst the spread of atypical pneumonia. Spending on consumer services likewise moderated visibly, as eating out at restaurants and going for entertainment were hard hit by the threat of atypical pneumonia. Spending by Hong Kong residents travelling abroad, which was already weak in the early part of the year, fell sharply in the latter part of March upon the spread of atypical pneumonia. Yet spending on durable goods still held up well in the first quarter, mainly reflecting purchases in the earlier months. Spending on food remained broadly stable. On a seasonally adjusted quarter-to-quarter comparison, PCE dipped by 0.3% in real terms in the first quarter of 2003, having decreased by 0.9% in the fourth quarter of 2002.

/Table 1.4

Table 1.4

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

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>						<u>Visitor spending^(b)</u>
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2002	Annual	-2.6	*	*	-5	3	-2	*	21
	Q1	-1.8 (2.1)	1	*	-2	2	-3	1	8
	Q2	-4.5 (-1.5)	*	-4	-8	3	-5	-1	14
	Q3	-3.0 (-1.4)	-1	*	-7	4	*	1	24
	Q4	-1.1 (0.1)	*	5	-4	3	-1	1	35
2003	Q1	-0.8 (1.0)	1	5	-5	1	-8	-1	18

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

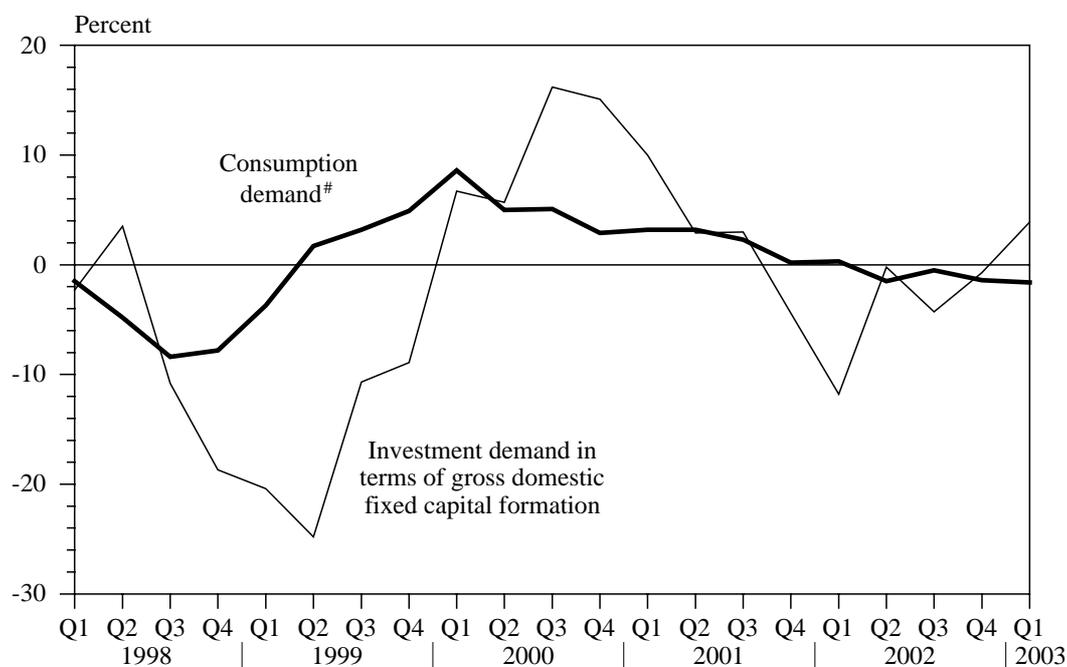
(b) This is a broad estimate of spending by non-residents in the domestic market, as a deduction item within private consumption expenditure amongst the expenditure components of GDP.

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

(*) Change of less than 0.5%.

Diagram 1.4

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



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

/1.20

1.20 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ continued to rise modestly, by 1.1% in real terms in the first quarter of 2003 over a year earlier, after a 0.8% increase in the fourth quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, GCE recorded virtually zero change in real terms in the first quarter of 2003, following a 1.2% decline in the fourth quarter of 2002.

1.21 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, had a modest growth of 3.9% in real terms in the first quarter of 2003 over a year earlier, after a 0.7% decline in the fourth quarter of 2002. *Expenditure on building and construction* shrank further, by 2.7% in real terms in the first quarter of 2003 over a year earlier, having fallen by 6.2% in the fourth quarter of 2002. Private sector expenditure on building and construction fell further in the first quarter, as output under the Home Ownership Scheme and Private Sector Participation Scheme (which is classified as private sector building output in the GDP estimates on the basis of ownership) plunged sharply further, as work on Container Terminal No.9 had passed its peak, and as there was a dearth of new building projects. Concurrently, public sector expenditure on building and construction fell back, amidst heavy cut in the Public Housing Programme and winding down of the major railway projects. On the other hand, *expenditure on machinery, equipment and computer software* picked up markedly further, to an 11.9% increase in real terms in the first quarter of 2003 over a year earlier, having risen by 3.2% in the fourth quarter of 2002. This was nevertheless partly helped by a low base of comparison in the first quarter of 2002, when such expenditure slumped by 19.8% in real terms.

1.22 *Inventories* went up further in the first quarter of 2003, representing the fourth consecutive quarter of accumulation. However, the inventory build-up in the first quarter was likely to be partly involuntary, as local consumption and inbound tourism unexpectedly fell off upon the spread of atypical pneumonia.

The Government account

1.23 In the final quarter of the financial year 2002/03 (January to March 2003), *government revenue*, at \$77.1 billion, was up by 23.9% in money terms from the outturn of \$62.2 billion in the same quarter of the financial year 2001/02. This pick-up was partly due to a rebound in revenue from general rates, as the effect of the rates concession granted in 2002 dissipated. Investment income also

/rose

rose sharply over the same period. On the other hand, revenue from the other major sources, including profits tax, salaries tax, stamp duties and land sales, all declined.

1.24 *Government spending* in the final quarter of the financial year 2002/03, at \$61.5 billion, was down by 5.0% in money terms over the outturn of \$64.8 billion in the same quarter of the financial year 2001/02. Within the total for the final quarter of the financial year 2002/03, recurrent expenditure fell by 1.2% to \$49.2 billion, while capital spending fell considerably more, by 17.7% to \$12.3 billion.

1.25 As government revenue rose yet total government spending fell in the final quarter of the financial year 2002/03, a surplus of \$15.6 billion was attained for the *fiscal balance* in that quarter. This contrasted with a deficit of \$2.5 billion incurred in the same quarter in the financial year 2001/02.

1.26 For the financial year 2002/03 as a whole, government revenue amounted to \$177.5 billion, while government spending stood at \$239.2 billion. Taken together, there was a fiscal deficit of \$61.7 billion in the financial year 2002/03, equivalent to 4.9% of GDP. This was smaller than the fiscal deficit of \$63.3 billion in the financial year 2001/02, equivalent to 5.0% of GDP.

The property market

1.27 The sales market for *residential property* remained generally slack in the first quarter of 2003. Following the Government's promulgation of nine policy measures to stabilise the housing market in late 2002, transactions went up briefly in January, but receded to a distinctly lower level in February and March, as worries over job security and income stability surfaced again to deter demand. Acquisition interest was curtailed further since mid-March, first in the light of the uncertainties stemming from the war on Iraq, and then upon the severe impact of the spread of atypical pneumonia in Hong Kong. Also, the ample supply of new flats in the mass market continued to pose a drag. Amidst the austere situation, developers either withheld sales or staged more intensive promotion, by offering larger price discounts and more sweeteners to prospective flat buyers. Meanwhile, the luxurious end of the market turned slightly more active, stimulated in part by the Government's new policy measure to attract investment

/immigrants

immigrants announced in February. As to the rental market for residential property, performance remained lacklustre in overall terms, given the still subdued user demand and increased supply of flats for lease (paragraph 3.10).

1.28 On a quarter-to-quarter comparison, flat prices fell further, on average by 5% in the first quarter of 2003, after a 6% drop in the fourth quarter of 2002. Flat rentals also declined further, on average by 4% in the first quarter of 2003, following a similar fall in the fourth quarter of 2002. Compared with the peak levels in the third quarter of 1997, flat prices and rentals in the first quarter of 2003 were down substantially by an average of 64% and 45% respectively (paragraph 3.11).

1.29 On *commercial property*, both the sales and rental markets for *office space* remained weak in the first quarter of 2003, upon further consolidation and downsizing in the corporate sector amidst an uncertain business outlook. The market for Grade A office space, especially in the central business district, continued to be pulled down by abundant supply with the completion of some new projects, as well as by reduced demand with the relocation of more companies to the secondary districts for saving costs. The sales and rental markets for *shopping space* likewise remained bleak in the first quarter of 2003, owing to the still subdued retail business, mostly in the segment serving local consumers. Since mid-March, the markets turned even dimmer, as both inbound tourism and local consumption were severely hit by the spread of atypical pneumonia in Hong Kong. Landlords of such premises were under a widespread plea to grant temporary rental concessions to help ease the financial difficulties facing the operators, particularly those in the restaurant and entertainment businesses which were being affected most. On *industrial property*, the rental and sales markets remained stagnant in overall terms in the first quarter of 2003, on the back of a continued downtrend in local manufacturing activity (paragraphs 3.12 to 3.14).

1.30 *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, surged by 112% in the first quarter of 2003 over a year earlier, mainly due to a low base of comparison for that quarter. This followed a 4% decline in the fourth quarter of 2002. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property

/soared

soared by 319% in terms of units or by 214% in terms of total usable floor area in the first quarter of 2003 from a low base a year earlier. This was in stark contrast to the respective decreases of 53% and 47% in the fourth quarter of 2002. On the other hand, planned developments of commercial property plummeted, by 67% in the first quarter of 2003, yet partly affected by a high base a year earlier. This came after a surge of 130% in the fourth quarter of 2002. There were no new planned developments of industrial property in the first quarter of 2003, following a sharp rise of 118% in the fourth quarter of 2002 against a low base. Planned developments of property in the “others” category continued to surge by 301% in the first quarter of 2003 over a year earlier, following a 705% leap in the fourth quarter of 2002 against a low base. Comparing the twelve months ending March 2003 with the preceding twelve-month period, planned developments of all types of property increased by 45%. Planned developments of private residential property rose by 39% in terms of units or by 46% in terms of total usable floor area. Planned developments of property in the “others” category, industrial property and commercial property also went up, by 261%, 83% and 4% respectively (paragraph 3.18).

The labour market

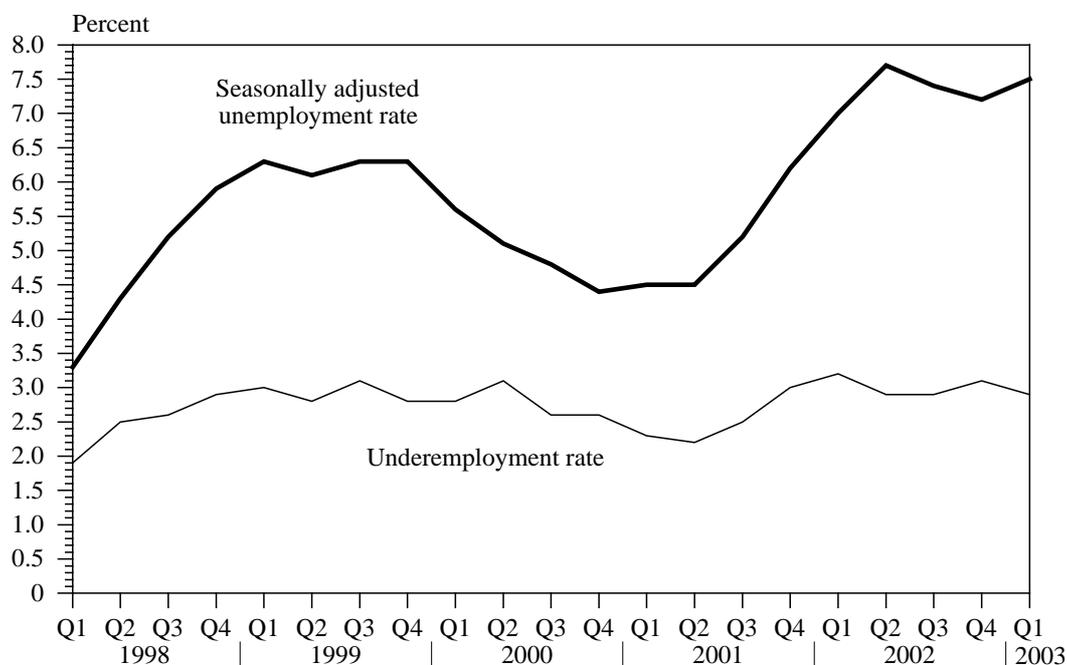
1.31 The labour market, having shown some improvement in the second half of 2002, slackened again in the first quarter of 2003. This was mainly due to a marked reduction in employment in the construction sector, which in turn led to a larger contraction in overall employment than in total labour force in that quarter. The *seasonally adjusted unemployment rate* went up to 7.5% in the first quarter of 2003, from 7.2% in the fourth quarter of 2002, as did the total numbers unemployed, to 259 800 from 252 600, although they were still below the respective peaks of 7.8% and 275 000 in mid-2002. The proportion of persons unemployed for less than three months rose to 54% in the first quarter of 2003, from 51% in the fourth quarter of 2002, yet the median duration of unemployment shortened to 82 days from 90 days. (The seasonally adjusted unemployment rate and the total numbers unemployed both moved up further, to 7.8% and 274 000 respectively in February - April 2003, mostly reflecting the adverse impact brought about by the spread of atypical pneumonia since mid-March. Restaurants, construction, the retail trade, hotels and business services were the sectors with more distinct increases in unemployment rate.) (paragraph 5.1)

/1.32

1.32 The *underemployment rate* nevertheless edged lower, to 2.9% in the first quarter of 2003, from 3.1% in the fourth quarter of 2002. Conceivably, this was attributable to less temporary or part-time workers being employed, especially those engaged in construction. The total numbers underemployed were thus reduced, to 100 700 from 109 700. (The underemployment rate and the total numbers underemployed both climbed up again, to 3.2% and 113 000 respectively in February - April 2003, as some of the employees were temporarily suspended from work or asked to take no-pay leave upon the spread of atypical pneumonia since mid-March.) (paragraph 5.2)

Diagram 1.5

Unemployment and underemployment rates



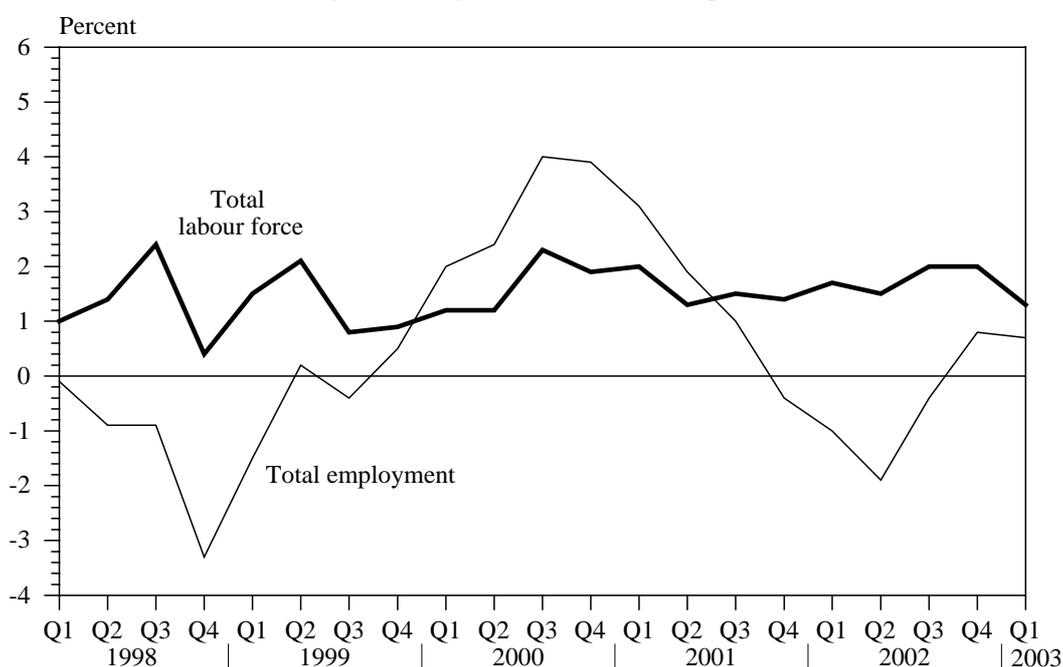
1.33 On a quarter-to-quarter comparison, *total employment* as enumerated from households shrank by 0.7% in the first quarter of 2003, exceeding the 0.4% fall in *total labour force*. These reversed the corresponding increases of 0.6% and 0.2% in the fourth quarter of 2002. The reduction in employment was more apparent amongst persons with upper secondary education and tertiary non-degree education, those engaged in construction, business services, financing, real estate and communications, as well as those serving as plant and machine operators and assemblers, craft and related workers, and managers and

/administrators

administrators. As to the contraction in labour force, it was due to a decline in the labour force participation rates for both sexes. With a larger decrease in employment than in labour force, there was a loosening in the overall manpower resource balance, resulting in a pick-up in unemployment rate in the more recent months. On a year-on-year comparison, total employment, whilst still up in the first quarter of 2003, rose to a lesser extent than total labour force, by 0.7% as against 1.3%. In the fourth quarter of 2002, the differential in the respective increases was wider, by 0.8% as against 2.0% (paragraph 5.4).

Diagram 1.6

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



1.34 Overall labour income remained on a moderating trend in money terms. Specifically, *labour earnings* fell by 1.2% in money terms in the fourth quarter of 2002 over a year earlier, further to a 1.5% decline in the third quarter. Yet netting out a fall in the Composite CPI, labour earnings were still higher by 1.8% in real terms in the fourth quarter of 2002 over a year earlier, following a 2.1% increase in the third quarter. *Labour wages* likewise went down, by 0.8% in money terms in December 2002 over a year earlier, after a 1.5% decrease in September. After adjusting for the effect of a rise in the CPI(A) caused by a low base of comparison a year earlier, labour wages also went lower, by 1.8% in real terms in December 2002 over a year earlier, reversing the 2.8% gain in September (paragraph 5.5).

/Prices

Prices

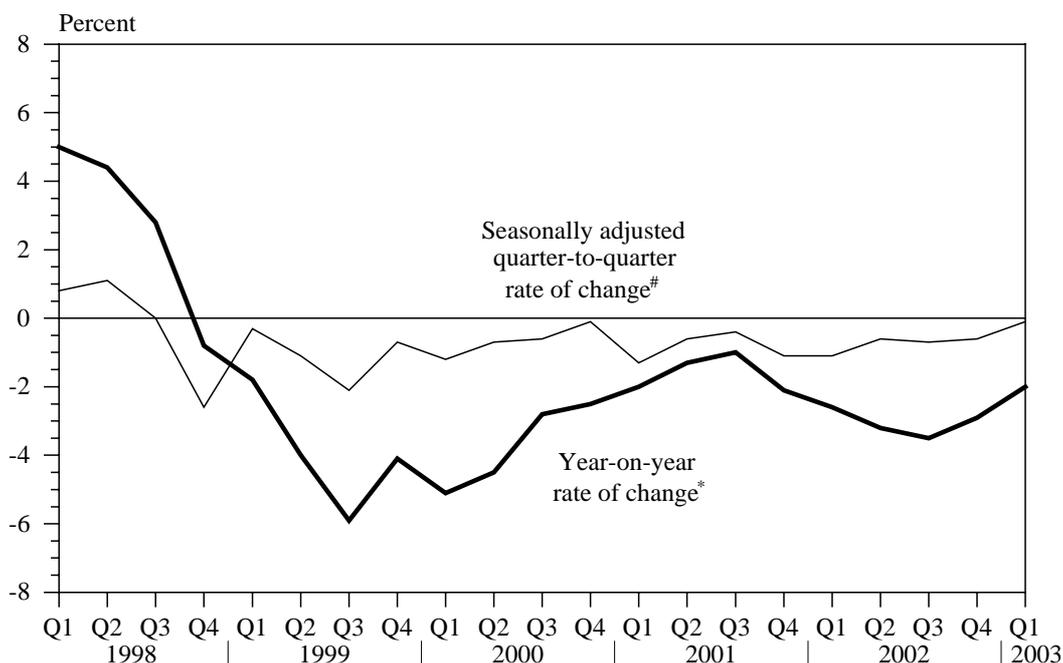
1.35 Overall consumer prices, though still on a continuous downtrend, had a smaller year-on-year decrease in the first quarter of 2003 than in the fourth quarter of 2002. This was mainly attributable to a lower base of comparison in 2002, caused by the rates concession granted by the Government in that year. Also relevant was a rebound in the prices of retained imports in the more recent months, upon a firming up in world commodity prices and the earlier weakening in the US dollar. These offset in part the effects of lower labour wages and property rentals, as well as further price discounts offered by many retailers in face of subdued local consumer demand. (The spread of atypical pneumonia since mid-March could have begun to exert dampening impact on local consumer prices in the affected trades in the latter part of that month. The impact tended to become more apparent in April, with enlarged decreases seen in the prices of such items as clothing and footwear as well as durable goods.) (paragraph 6.1)

1.36 Comparing the first quarter of 2003 with a year earlier, the *Composite Consumer Price Index* was lower by 2.0%, yet this was lesser than the 2.9% drop in the fourth quarter of 2002. On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI declined only marginally, by 0.1% in the first quarter of 2003, having dipped by 0.6% in the fourth quarter of 2002. The moderated decline was mainly attributable to dissipation of the downward effect of the rates concession granted by the Government upon its expiry at end-2002. This outweighed the downward effect of a one-off rebate of electricity charges granted by a power company in January and February 2003 (paragraphs 6.2 and 6.3).

/Diagram 1.7

Diagram 1.7

Composite Consumer Price Index



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

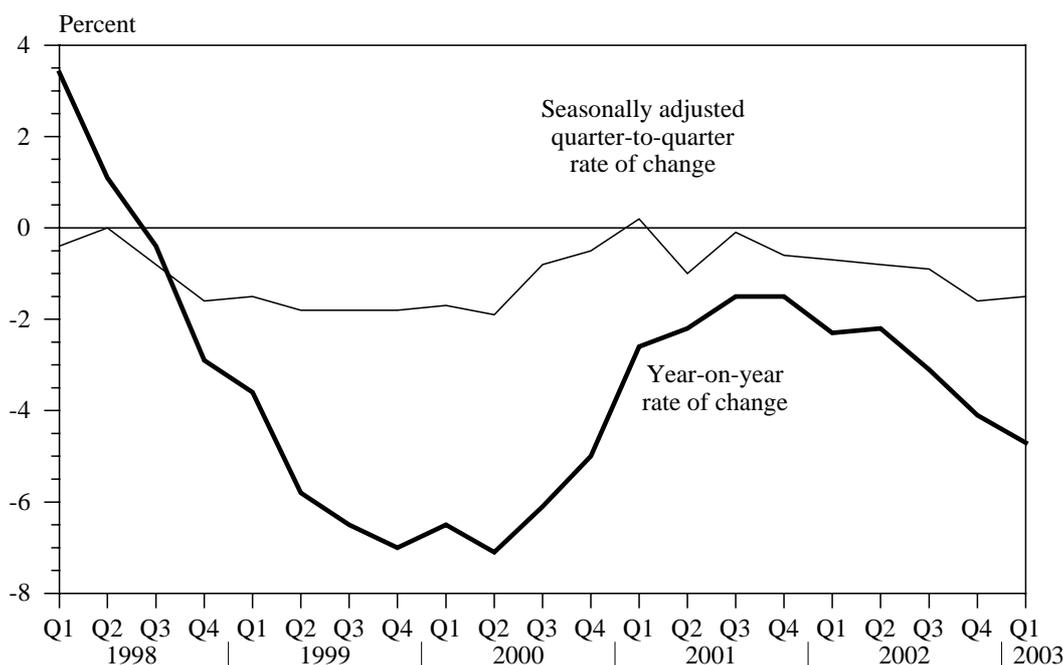
(#) From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Composite CPI are computed from the new 1999/2000-based series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based series. Splicing has been applied to the indices to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

1.37 The *GDP deflator*, as a broad measure of overall price change in the economy, declined by 4.7% in the first quarter of 2003 over a year earlier, enlarged from the 4.1% drop in the fourth quarter of 2002. This was mainly due to a renewed decline in the terms of trade in goods and services, more than offsetting lesser decreases in the price deflators for private consumption expenditure and for gross domestic fixed capital formation. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* nevertheless showed moderated declines, to 4.0% and 2.2% respectively in the first quarter of 2003 over a year earlier, from 5.1% and 3.1% respectively in the fourth quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went down by 1.5% in the first quarter of 2003, similar to the decrease of 1.6% in the fourth quarter of 2002 (paragraph 6.14).

/Diagram 1.8

Diagram 1.8

GDP deflator



The financial sector

1.38 The spot *exchange rate of the Hong Kong dollar* against the US dollar stayed within a very narrow range of 7.799 to 7.800 during the first quarter of 2003, which was virtually the same as the linked rate. The premium of the twelve-month forward rate over the spot rate held steady up to early March, and then narrowed to close the month at 136 pips (each pip equivalent to HK\$0.0001), down from 169 pips at end-2002 (paragraph 4.2).

1.39 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 respect of the US dollar. During the first quarter of 2003, the US dollar depreciated against quite a number of major currencies, triggered by concern over the US-led war on Iraq and its possible implications for the US economy. Specifically, the dollar - euro rate rose by 5.7% from a monthly average of 1.022 in December 2002 to that of 1.080 in March 2003, while the yen - dollar rate fell by 2.5% from a monthly average of 121.8 to that of 118.8. The dollar - pound sterling rate, at a monthly average of 1.583 in March 2003, was nevertheless little

/changed

changed from that of 1.589 in December 2002. Meanwhile, many of the East Asian currencies generally held stable against the US dollar. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* declined slightly, by 0.9% from a monthly average of 102.7 in December 2002 to that of 101.8 in March 2003. After adjusting for changes in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* had a larger decrease, by 1.2% from 93.3 to 92.1 over the same period (paragraphs 4.3 and 4.4).

1.40 In the money market, local short-term *interest rates* continued to edge lower during the first quarter of 2003. The three-month HIBOR stood at 1.3% at end-March 2003, marginally below that of 1.4% at end-2002. Over the same period, the premium of the three-month HIBOR over the corresponding Euro-dollar deposit rate narrowed slightly, from 9 basis points to 4 basis points. Since the cut in the US Fed Funds target rate in November 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) has been maintained at 2.75%. Throughout the first quarter of 2003, the best lending rate and savings deposit rates offered by the major commercial banks were kept at 5.00% and 0.03% respectively. As to the average spread of the best lending rate over the three-month time deposit rate, there was only a modest widening, from 4.80 percentage points in the fourth quarter of 2002 to 4.91 percentage points in the first quarter of 2003 (paragraphs 4.5 and 4.6).

1.41 *Hong Kong dollar deposits* fell back by 1.2% during the first quarter of 2003, having edged up by 0.2% during the fourth quarter of 2002. *Hong Kong dollar loans* edged down by 0.4% during the first quarter of 2003, after a 0.6% decline in the fourth quarter of 2002. As Hong Kong dollar loans fell to a lesser extent than Hong Kong dollar deposits during the first quarter of 2003, the Hong Kong dollar loan-to-deposit ratio moved up from 88.5% at end-2002 to 89.3% at end-March 2003 (paragraphs 4.8, 4.15 and 4.16).

1.42 Though with some occasional fluctuations, the local *stock market* was mostly on a downtrend during the first quarter of 2003. The Hang Seng Index started the year on a strong note, reaching an almost six-week high of 9 873 on 15 January. To a large extent, this mirrored the rally in the US stock market. Local share prices subsequently retreated, in tandem with the weakening in most of the other stock markets overseas. Increased concern over the US-led war on

/Iraq

Iraq and an uncertain US economic outlook were the major factors dampening market sentiment. The decline steepened in March, as the spate of sluggish US economic data and the spread of atypical pneumonia in Hong Kong undermined investor confidence further. The Hang Seng Index plummeted to a 4½-year low of 8 634 at end-March 2003, down by 7.4% from the level at end-2002. (The local stock market drifted lower in April, amidst intensified worries about the adverse economic impact of the spread of atypical pneumonia. Yet with improvement in the situation more recently, the Hang Seng Index rebounded from a further low of 8 409 on 25 April to 9 304 on 23 May.) Trading activity stayed moderate, with an average daily turnover of \$6.1 billion in the first quarter of 2003, though improved somewhat from that of \$5.6 billion in the fourth quarter of 2002 (paragraphs 4.29 and 4.30).

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The Gross National Product (GNP) is obtained by adding net external factor income flow, being the income inflow minus the corresponding income outflow, to GDP. External factor income inflow refers to income earned by residents from abroad, while external factor income outflow refers to income earned by non-residents from within the domestic territory. Hence GNP is an overall measure of income earned by the residents of an economy in a specified period, both domestically and from elsewhere. It distinguishes from GDP in that GDP is an overall measure of income earned by both residents and non-residents, from within the domestic territory in a specified period. Factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.

/(4)

- (4) Government consumption expenditure reckoned on a national accounts basis covers the recurrent expenditure on goods and services incurred by government departments. It also covers the recurrent expenditure of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board, Consumer Council and Hospital Authority. On the other hand, it does not include the expenditure of those government departments and statutory entities engaged in the production of goods and services principally for sale to the public, such as the Housing Department, Post Office and Water Supplies Department, and such as the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong. Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditure is in the nature of transfer payments and not direct consumption of economic resources.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The global economy, having gone through a rather uneven yet largely modest growth profile in 2002, continued to be clouded by uncertainties entering into the first quarter of 2003. On the geo-political front, the launch of the war on Iraq in March aroused concern about the extent to which the war itself, and its ramifications if protracted, would dampen the global economic recovery process. In addition, there was wariness over possible resurgence of terrorist activities in the world and the unresolved nuclear issue in North Korea. Lately, the spread of atypical pneumonia has severely hit sentiment across East Asia. This has emerged as a key risk dampening the regional economic performance in the shorter term, the more so if the health threat drags on.

2.2 More recent US economic indicators still portrayed a mixed and often downbeat picture about the economic conditions in the United States. Consumer and business sentiment continued to be dented, in part by the earlier worries over the Iraq war but more persistently also by the subdued corporate and employment situation. Concurrently, economic conditions in the European Union remained austere, as its domestic demand lacked strength and as its exports lost momentum again due to a stronger euro and the earlier war threat.

2.3 In East Asia, Japan's economy remained flat in overall terms amidst high unemployment and protracted deflation. Yet most of the other East Asian economies continued to be buoyed by strong export performance, and hence still exhibited notable economic growth in the first quarter of 2003. The Mainland economy was still the bright spot in the region, marked by a near double-digit economic growth in the first quarter of 2003, on the back of further surge in exports, robust domestic demand, and sustained hefty inflow of foreign direct investment. However, the spread of atypical pneumonia throughout East Asia as from the latter part of March has abruptly upset the otherwise more sanguine economic scene in the region, with further adverse repercussions yet to feed through in the coming months.

/Table 2.1

Table 2.1

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

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2002	Annual	2.4	1.0	8.0	0.2	3.5	2.2	6.3
	H1	1.8	0.8	7.8	-1.6	2.6	1.1	6.4
	H2	3.1	1.3	8.2	2.0	4.5	3.4	6.3
	Q1	1.4 (1.2)	0.6 (0.4)	7.6	-3.0 (*)	1.2	-1.5 (1.7)	6.2 (2.5)
	Q2	2.2 (0.3)	1.0 (0.4)	8.0	-0.3 (1.3)	4.0	3.8 (2.9)	6.6 (1.3)
	Q3	3.3 (1.0)	1.2 (0.4)	8.1	1.7 (0.8)	4.8	3.8 (-1.7)	5.8 (1.0)
	Q4	2.9 (0.3)	1.4 (0.1)	8.3	2.3 (0.5)	4.2	3.0 (0.1)	6.8 (2.0)
2003	Q1	2.1 (0.4)	1.0 (*)	9.9	2.7 (*)	3.2	1.6 (0.3)	3.7 (-0.4)

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

(*) Change of less than 0.05%.

Table 2.2

**Total exports of goods of selected major economies
(year-on-year rate of change in local currency terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u> *	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u> [#]	<u>Republic of Korea</u> *
2002	Annual	-5.1	1.2	22.3	6.4	8.9	1.9	8.0
	H1	-10.9	0.4	14.1	1.3	4.6	-7.9	-3.3
	H2	1.5	2.0	29.6	11.8	13.3	12.8	20.3
	Q1	-15.1	-1.4	10.0	-3.0	-1.0	-15.0	-11.1
	Q2	-6.6	2.1	17.8	5.7	10.1	-0.4	4.9
	Q3	1.1	2.7	28.7	7.4	16.0	16.1	15.9
	Q4	1.9	1.3	30.5	16.2	10.9	9.7	24.6
2003	Q1	4.4	0.7 ^(a)	33.5	5.1	10.3	20.6	21.1

Notes : (#) Non-oil domestic exports.

(a) Crude estimate only, as data on exports in the European Union are available only up to February 2003.

(*) Data on exports in the mainland of China and the Republic of Korea are in US dollar terms.

/Table 2.3

Table 2.3

**Imports of goods of selected major economies
(year-on-year rate of change in local currency terms (%))**

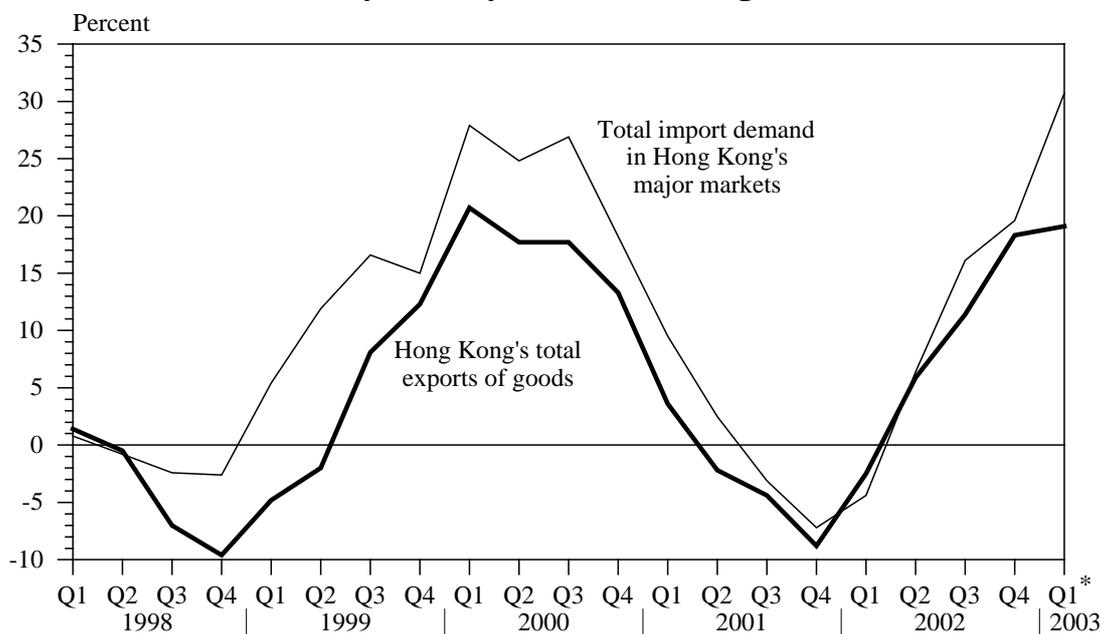
		<u>United States</u>	<u>European Union</u>	<u>Mainland of China*</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea*</u>
2002	Annual	1.8	-4.0	21.2	-0.4	7.6	0.3	7.8
	H1	-6.0	-6.9	10.4	-6.3	-1.0	-4.8	-2.2
	H2	10.1	-1.0	31.1	5.8	16.7	5.8	18.5
	Q1	-12.6	-9.3	5.1	-8.2	-8.9	-12.2	-11.4
	Q2	0.8	-4.4	15.0	-4.4	6.8	3.0	7.8
	Q3	7.7	-2.8	29.2	2.1	20.0	5.3	13.8
	Q4	12.6	0.8	33.0	9.4	13.5	6.3	23.1
2003	Q1	14.1	3.1 ^(a)	52.4	8.1	18.7	9.5	30.7

Notes : (a) Crude estimate only, as data on imports in the European Union are available only up to February 2003.

(*) Data on imports in the mainland of China and the Republic of Korea are in US dollar terms.

Diagram 2.1

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



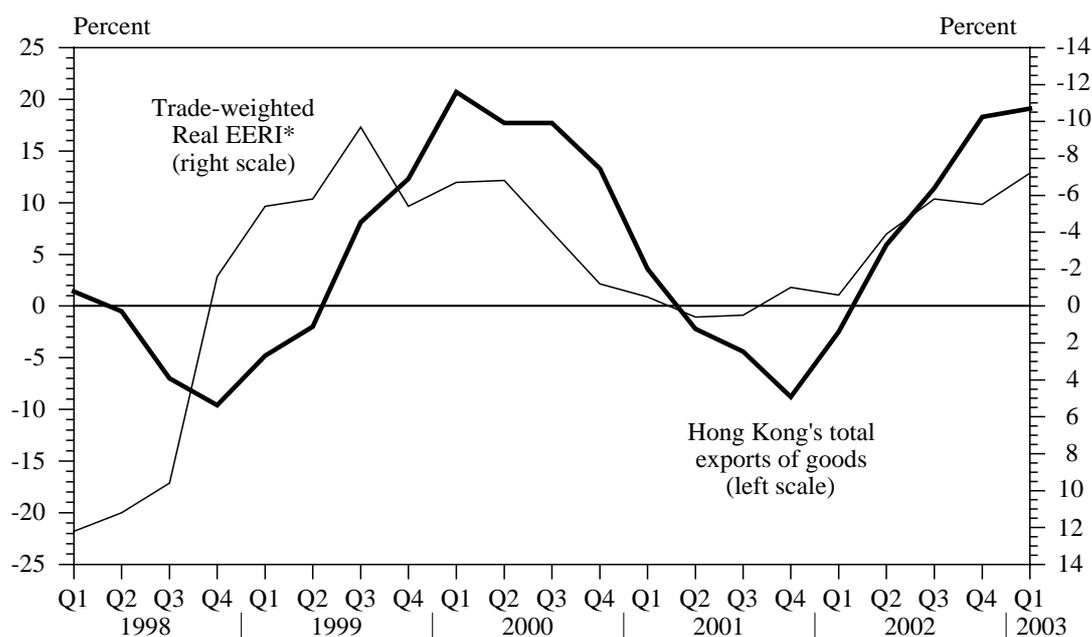
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

(*) Total import demand for the first quarter of 2003 is only a crude estimate, as data on imports in the European Union are available only up to February 2003.

2.4 On exchange rate movements, the US dollar remained on a weakening trend against the major currencies in the first quarter of 2003, amidst the earlier mounting war pressure on Iraq and also along with the plummeting US stock market. Despite some firming up in March from the earlier lows upon market expectation that the war on Iraq would be relatively short-lived, the exchange rate of the US dollar in the first quarter of 2003 was on average still down by 6.7% against the euro, by 2.8% against the Japanese yen, and by 1.9% against the pound sterling, than the level in the fourth quarter of 2002. With the movement of the Hong Kong dollar tracking closely that of the US dollar, and also with a larger price decline in Hong Kong than in its trading partners, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar had a larger decline, by an average of 2.1% in the first quarter of 2003 over the preceding quarter. This should signify a further improvement in Hong Kong's external price competitiveness beneficial to the export performance.

Diagram 2.2

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



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

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

/Table 2.4

Table 2.4

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

		% change in terms of average in the quarter over <u>the preceding quarter</u>					Korean <u>won</u>
		Japanese <u>yen</u>	Euro	Pound <u>sterling</u>	New Taiwan <u>dollar</u>	Singapore <u>dollar</u>	
2002	Q1	-6.6	-2.0	-1.1	-1.3	-0.4	-2.1
	Q2	4.3	4.7	2.5	1.7	1.6	4.0
	Q3	6.4	7.1	6.0	1.4	2.6	6.0
	Q4	-2.6	1.7	1.5	-2.5	-0.5	-1.9
2003	Q1	2.9	7.2	2.0	0.4	1.3	1.5

Overall visible and invisible trade situation

2.5 *Total exports of goods* (comprising re-exports and domestic exports) continued to grow strongly, by 17.6% in value terms over a year earlier to \$383.1 billion in the first quarter of 2003. After netting out the decrease in prices, there was a surge of 19.1% in real terms⁽¹⁾, further to an already robust growth of 18.3% in the fourth quarter of 2002. Total exports of goods leaped by 28.3% in real terms in January over a year earlier, followed by a 12.6% increase in February, with the growth profile in the first two months of the year being affected much by the difference in timing of the Lunar New Year Holidays between 2002 and 2003. Export growth then picked up again in March, to 16.1%. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods increased further by 3.2% in real terms in the first quarter of 2003, following a 4.0% rise in the fourth quarter of 2002.

2.6 Within total exports of goods, *re-exports*⁽²⁾ picked up at an even faster pace, surging by 20.3% in value terms over a year earlier to \$357.1 billion in the first quarter of 2003. After netting out the decrease in prices, the increase in real terms was 22.3%, similar to a significant rise of 22.1% in the fourth quarter of 2002. Re-exports likewise exhibited a more erratic growth profile during the first quarter, again being affected much by the timing of the Lunar New Year Holidays, with year-on-year growth at 32.4%, 15.8% and 18.7% respectively in real terms in January, February and March. On a seasonally adjusted quarter-to-quarter comparison, re-exports also leaped further, by 4.0% in real terms in the first quarter of 2003, after a 4.7% increase in the fourth quarter of 2002.

/2.7

2.7 On the other hand, *domestic exports* had a further shrinkage of 10.4% in value terms over a year earlier to \$26.0 billion in the first quarter of 2003, in tandem with the on-going structural shift towards re-exports and offshore trade⁽³⁾. After netting out the increase in prices, domestic exports plunged by 12.0% in real terms, following a 12.9% dip in the fourth quarter of 2002. The share of domestic exports in total exports of goods by value continued to fall, to only 6.8% in the first quarter of 2003. Domestic exports declined throughout the first three months of the year, with year-on-year decreases at 7.9%, 17.8% and 11.2% respectively in real terms. On a seasonally adjusted quarter-to-quarter comparison, domestic exports shrank further by 6.3% in real terms in the first quarter of 2003, after a 4.3% decline in the fourth quarter of 2002.

Table 2.5
Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2002	Annual	5.4	8.6	-2.7	7.7	10.9	-2.7	-14.7	-11.3	-3.3
	H1	-1.6	1.8	-3.1	0.2	3.5	-2.9	-17.7	-12.5	-4.4
	H2	11.8	14.7	-2.4	14.6	17.7	-2.4	-11.9	-10.2	-2.2
	Q1	-6.2	-2.5	-3.4	-5.0	-1.5	-3.2	-17.5	-11.2	-5.4
	Q2	2.8	5.9	-2.7	5.3	8.3	-2.6	-17.8	-13.7	-3.6
	Q3	8.5	11.4	-2.4	10.6	13.6	-2.3	-10.4	-7.6	-3.1
	Q4	15.5	18.3	-2.3	18.8	22.1	-2.4	-13.6	-12.9	-1.2
2003	Q1	17.6	19.1	-0.9	20.3	22.3	-1.1	-10.4	-12.0	0.8
	Jan	26.7	28.3	-1.2	30.3	32.4	-1.3	-6.8	-7.9	0.5
	Feb	10.4	12.6	-1.1	13.1	15.8	-1.3	-17.2	-17.8	0.3
	Mar	15.4	16.1	-0.4	17.5	18.7	-0.6	-8.4	-11.2	1.6

/Table 2.6

Table 2.6

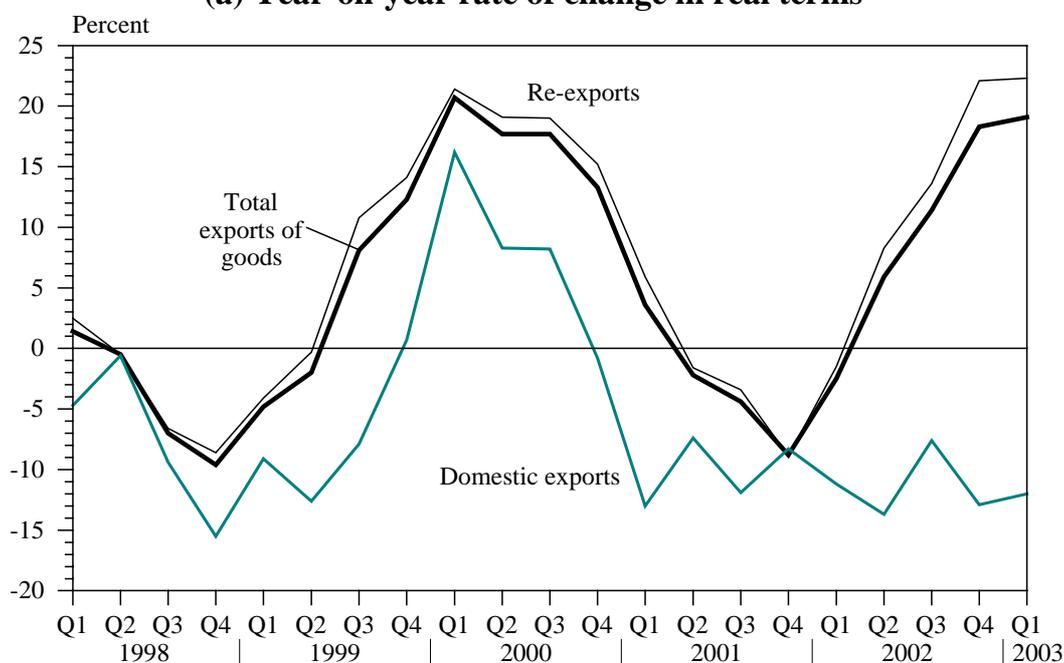
**Total exports of goods, re-exports and domestic exports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
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
2003	Q1	3.2	4.0	-6.3

Diagram 2.3

Total exports of goods, re-exports and domestic exports

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

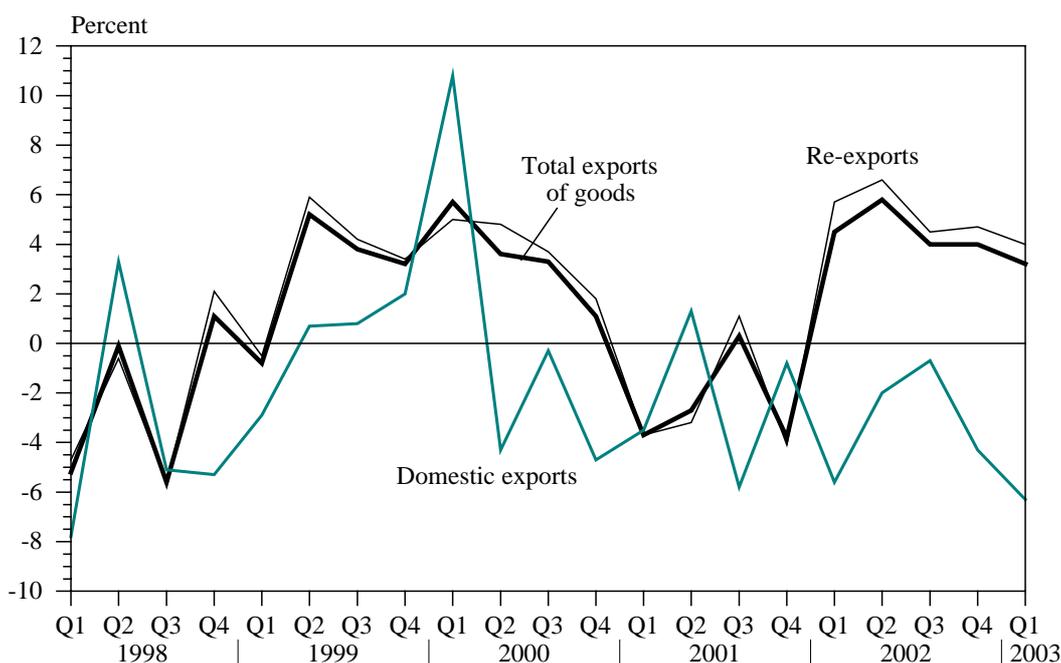


Note : From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their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

/Diagram 2.3 (cont'd)

Diagram 2.3 (cont'd)

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



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

2.8 *Imports of goods* likewise soared, rising by 17.8% in value terms over a year earlier to \$403.2 billion in the first quarter of 2003. After netting out the decline in prices, there was an 18.7% leap in real terms, similar to an 18.1% increase in the fourth quarter of 2002. As to the growth profile during the first quarter, imports of goods likewise had the fastest growth in January, at 22.6% in real terms over a year earlier, and then moderated somewhat to still appreciable increases in February and March at 19.0% and 15.3% respectively. As to import intake for local use, *retained imports* continued on an uptrend, with an 11.5% increase in real terms in the first quarter of 2003 over a year earlier, having risen by 10.0% in the fourth quarter of 2002. The growth profile during the first quarter was however highly volatile, with retained imports rising modestly by 2.1% in real terms in January over a year earlier, accentuating distinctly to a 25.6% surge in February, and then settling back to an 8.9% increase in March. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose further by 3.6% in real terms in the first quarter of 2003, following a 2.9% rise in the fourth quarter of 2002. Retained imports turned up visibly, by 2.9% in the first quarter of 2003, after a 1.0% decline in the fourth quarter of 2002.

/Table 2.7

Table 2.7

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2002	Annual	3.3	7.8	-3.9	-5.9	1.8	-6.6
	H1	-4.2	0.9	-4.8	-12.9	-3.9	-8.9
	H2	10.5	14.3	-3.0	1.4	7.5	-4.3
	Q1	-9.1	-4.1	-4.9	-17.2	-8.9	-8.8
	Q2	0.4	5.7	-4.6	-8.9	0.8	-8.9
	Q3	6.5	10.8	-3.6	-2.6	5.2	-6.4
	Q4	14.9	18.1	-2.3	6.0	10.0	-2.0
2003	Q1	17.8	18.7	-0.1	12.1	11.5	2.0
	Jan	21.4	22.6	-0.8	0.5	2.1	0.9
	Feb	18.3	19.0	*	30.6	25.6	2.9
	Mar	14.6	15.3	0.4	8.6	8.9	2.2

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.

(*) Change of less than 0.05%.

Table 2.8

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

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2002	Q1	4.5	2.3
	Q2	5.8	4.2
	Q3	4.8	5.4
	Q4	2.9	-1.0
2003	Q1	3.6	2.9

Note : (a) See Note (a) to Table 2.7.

/Diagram 2.4

Diagram 2.4

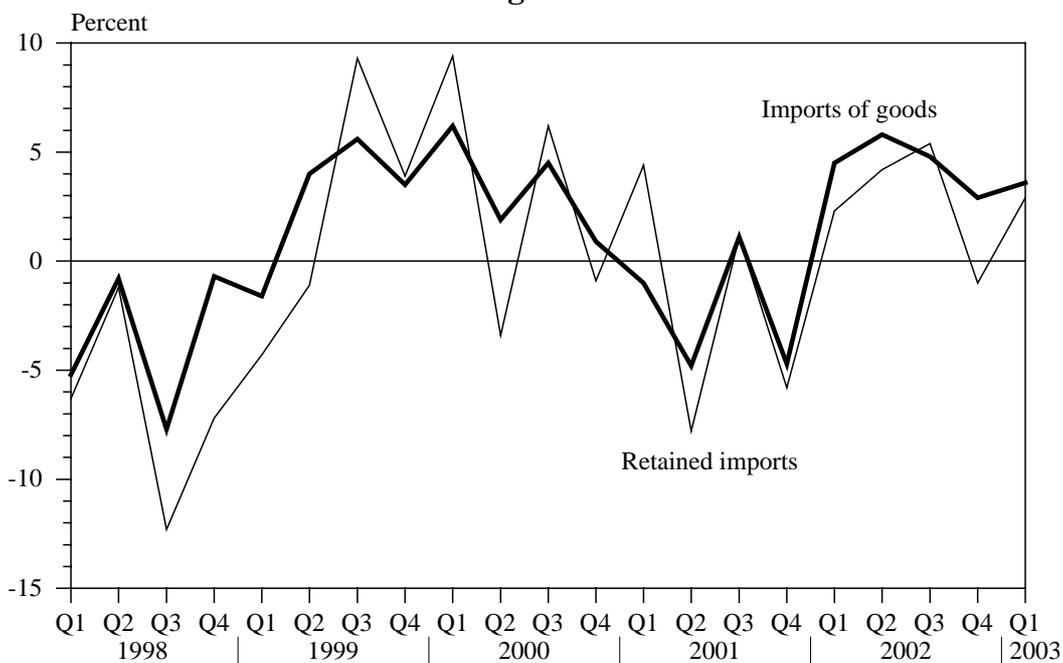
Imports of goods and retained imports

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



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

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

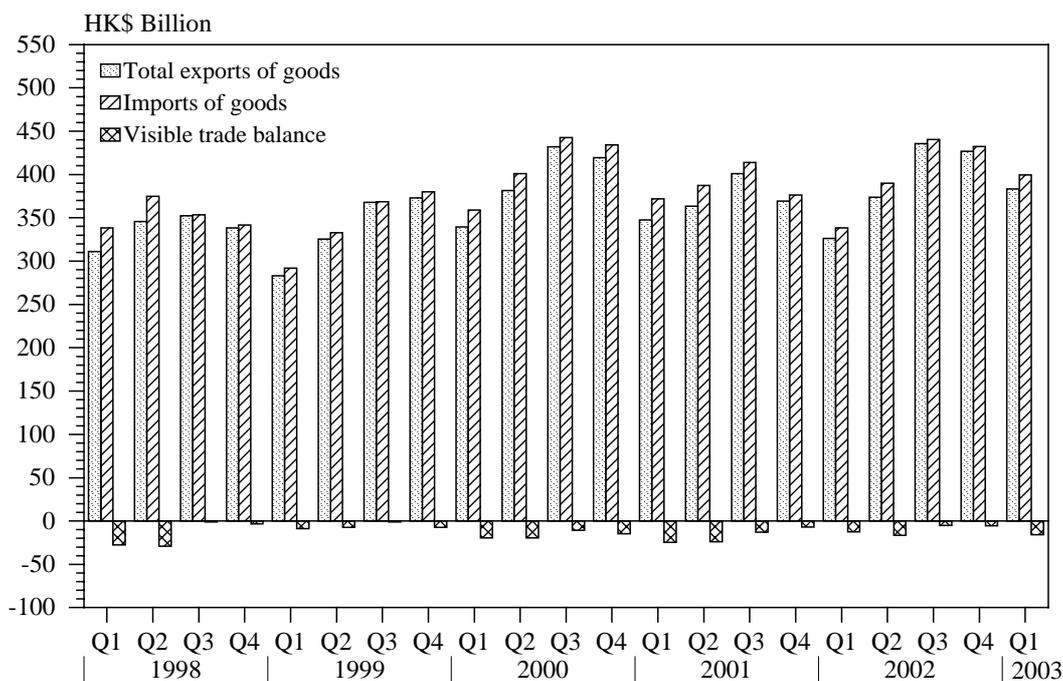


Note : See the footnote to Diagram 2.3 (b).

2.9 With a faster growth in imports of goods than in total exports of goods in value, the *visible trade deficit* reckoned on a GDP basis⁽⁴⁾ widened to \$16.0 billion or 4.0% of the value of imports of goods in the first quarter of 2003, from \$12.4 billion or 3.7% in the same quarter in 2002.

Diagram 2.5

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



2.10 On invisible trade, *exports of services* attained a further marked growth of 11.0% in value terms over a year earlier to \$86.8 billion in the first quarter of 2003. With a small decline in prices, there was a significant increase of 12.2% in real terms, following an 18.1% growth in the fourth quarter of 2002. Exports of services stayed robust in January, February and the first half of March, bolstered by continued surge in inbound tourism, exports of transportation services and offshore trade. However, inbound tourism fell off abruptly in the second half of March upon the spread of atypical pneumonia in Hong Kong, thus retarding somewhat the growth in exports of services for the first quarter as a whole. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell back noticeably, by 3.7% in real terms in the first quarter of 2003, having risen by 5.1% in the fourth quarter of 2002.

/2.11

2.11 *Imports of services* fell by 0.7% in value terms over a year earlier to \$46.8 billion in the first quarter of 2003. After netting out an appreciable increase in prices, imports of services fell more, by 4.0% in real terms, in contrast to the 3.4% increase in the fourth quarter of 2002. The outbreak of atypical pneumonia in Hong Kong towards the end of the first quarter hit severely the already modest trend in residents' spending abroad. On a seasonally adjusted quarter-to-quarter comparison, imports of services fell back distinctly by 7.0% in real terms in the first quarter of 2003, after a 1.1% increase in the fourth quarter of 2002.

Table 2.9

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

		<u>Exports of services</u>			<u>Imports of services</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2002	Annual	9.6	11.7	-1.9	0.5	0.2	0.2
	H1	3.3	6.8	-3.3	-3.5	-2.2	-1.3
	H2	15.4	16.1	-0.6	4.5	2.7	1.7
	Q1	1.4	6.0	-4.3	-3.2	-0.7	-2.4
	Q2	5.2	7.7	-2.4	-3.8	-3.8	*
	Q3	13.2	13.9	-0.6	3.5	2.0	1.4
	Q4	17.5	18.1	-0.5	5.5	3.4	2.0
2003	Q1	11.0	12.2	-1.2	-0.7	-4.0	3.4

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

Table 2.10

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

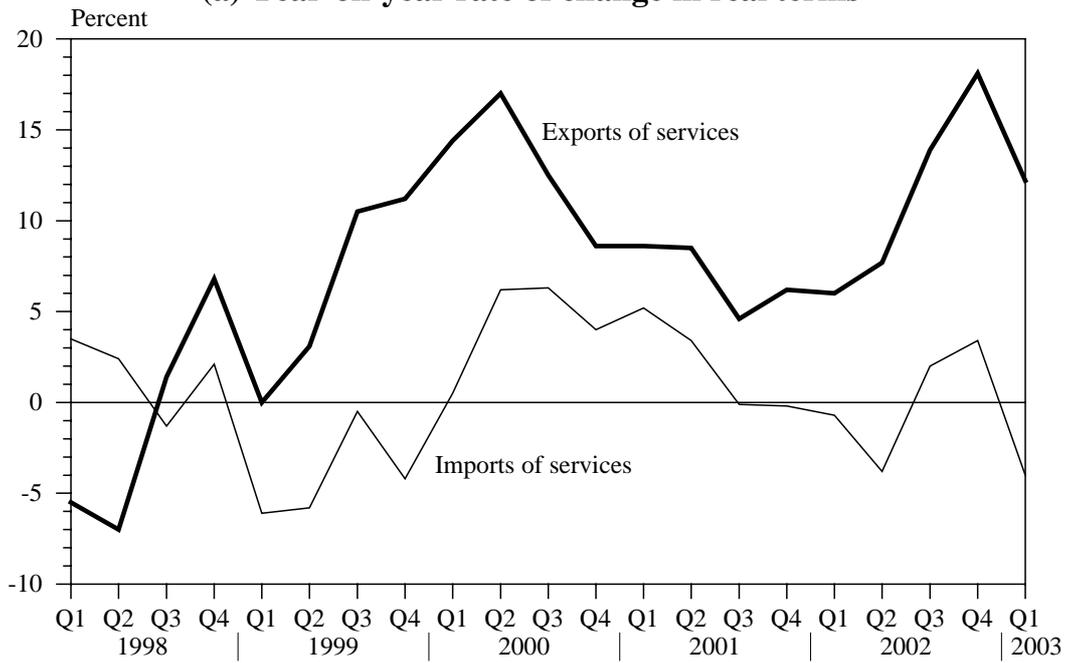
		<u>Exports of services</u>	<u>Imports of services</u>
2002	Q1	1.9	0.4
	Q2	4.3	-1.6
	Q3	6.1	3.8
	Q4	5.1	1.1
2003	Q1	-3.7	-7.0

/Diagram 2.6

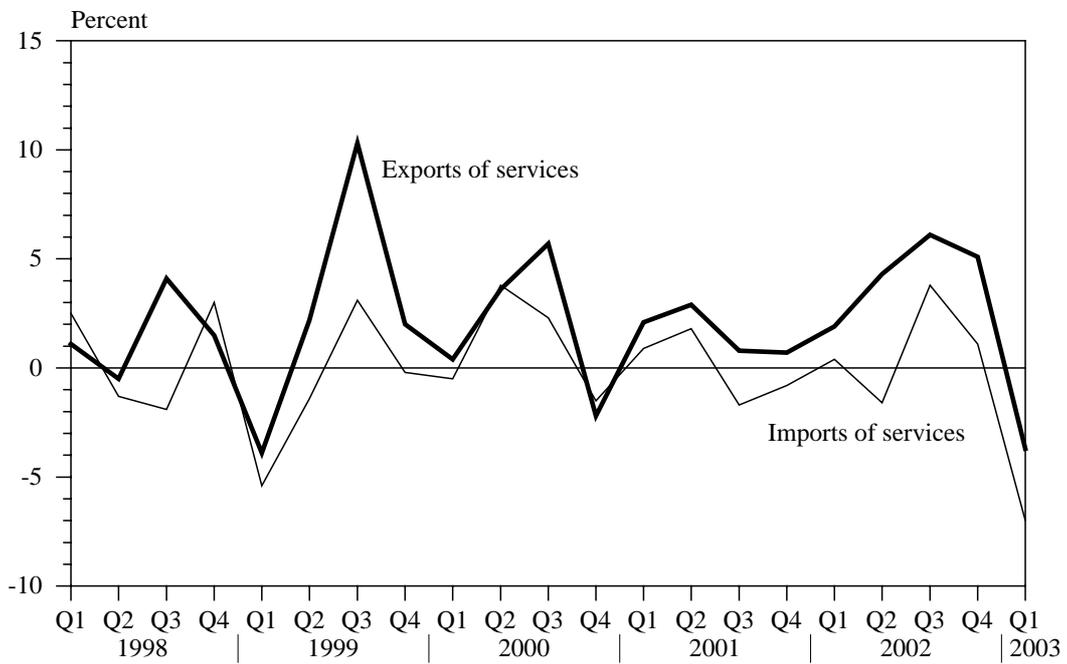
Diagram 2.6

Exports and imports of services

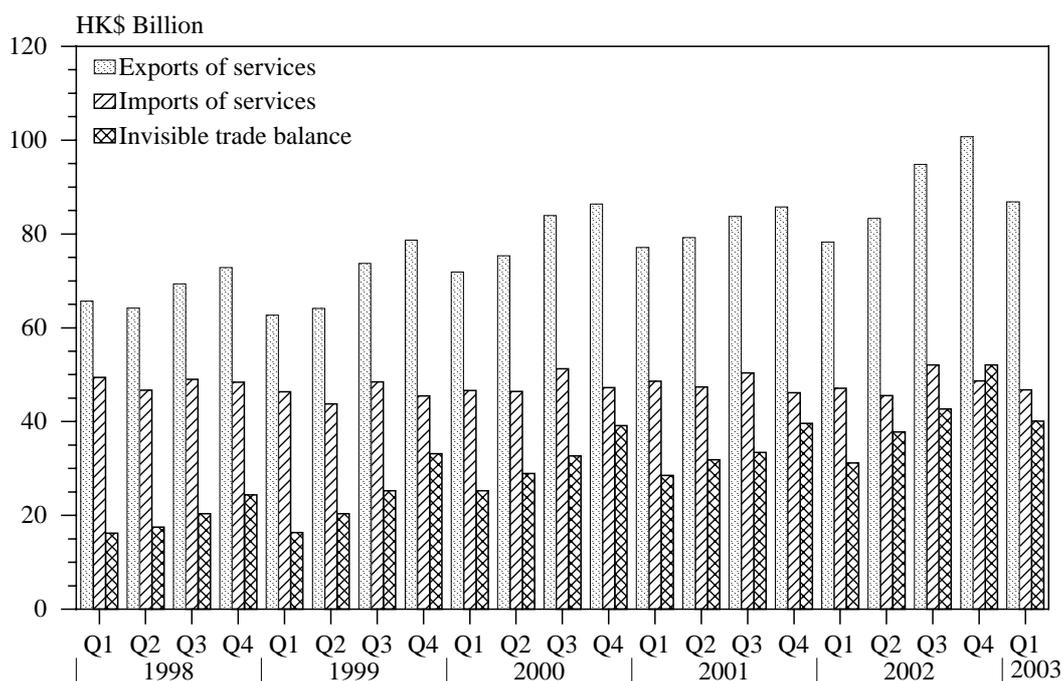
(a) Year-on-year rate of change in real terms



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



/Diagram 2.7

Diagram 2.7**Value of Hong Kong's invisible trade and the invisible trade balance**

2.12 As exports of services increased markedly while imports of services edged down in value, the *invisible trade surplus*⁽⁵⁾ reckoned on a GDP basis expanded further, to \$40.1 billion or 85.7% of the value of imports of services in the first quarter of 2003, from \$31.2 billion or 66.2% in the same quarter in 2002. Notwithstanding the enlarged visible trade deficit, the combined surplus reckoned on a GDP basis surged to \$24.1 billion in the first quarter of 2003, equivalent to 5.4% of the total value of imports of goods and services. This was further up from the respective figures of \$18.7 billion and 4.9% in the same quarter in 2002.

Table 2.11**Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2002	Annual	1,562.1	357.1	1,601.5	193.4	-39.4	163.7	124.3
	H1	699.8	161.6	728.6	92.6	-28.8	69.0	40.1
	H2	862.3	195.6	872.9	100.8	-10.6	94.8	84.2
	Q1	326.1	78.2	338.5	47.1	-12.4	31.2	18.7
	Q2	373.7	83.3	390.1	45.5	-16.4	37.8	21.4
	Q3	435.5	94.8	440.5	52.1	-5.0	42.7	37.7
	Q4	426.8	100.8	432.4	48.7	-5.6	52.1	46.5
2003	Q1	383.4	86.8	399.4	46.8	-16.0	40.1	24.1

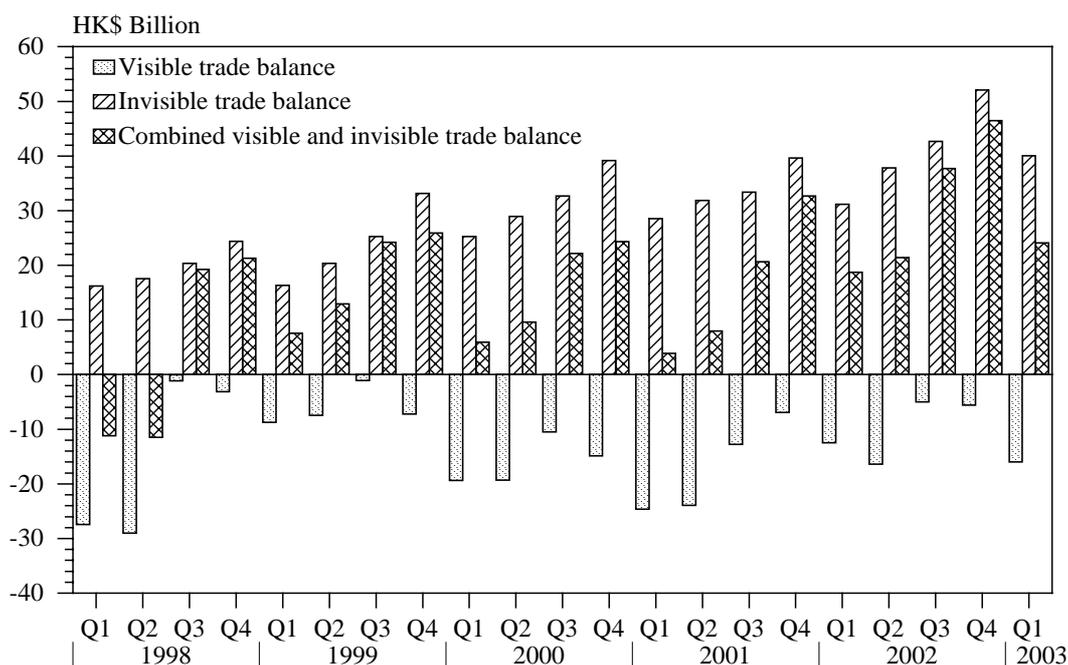
Notes : Figures in this table are reckoned on a GDP basis. Specifically, imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.

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

/Diagram 2.8

Diagram 2.8

Visible and invisible trade balance



Note : See the first footnote to Table 2.11.

Visible trade

Total exports of goods

2.13 Reflecting the close trade relations between Hong Kong and the region, East Asia⁽⁶⁾ continued to take up the largest share in Hong Kong's total exports of goods, at 58% by value in the first quarter of 2003. This was followed by North America⁽⁷⁾ (with a share of 19%), and the European Union⁽⁸⁾ (13%).

2.14 The region continued to provide the key impetus to export growth in the first quarter of 2003, with total exports of goods to *East Asia* as a whole surging by 23.6% in real terms over a year earlier. This was similar to the robust growth of 23.9% in the fourth quarter of 2002. There was an almost across-the-board double-digit increase in exports to the East Asian markets. Exports to the Mainland and Taiwan had growth well in excess of 20% in real terms in the first quarter. Exports to Japan also picked up distinctly in growth in the first quarter. But exports to Singapore and the Republic of Korea showed some moderation recently, though with still notable increases for the first quarter as a whole.

/2.15

2.15 Total exports of goods to *North America* remained generally robust, as import intake in the United States and Canada continued to improve steadily. Enhanced price competitiveness of Hong Kong's exports on the back of a weaker US dollar should have also helped. Total exports of goods to this area leaped by 9.1% in real terms in the first quarter of 2003 over a year earlier, after a 12.3% rise in the fourth quarter of 2002.

2.16 Total exports of goods to the *European Union* accentuated distinctly further in the early part of this year, supported by steadier import demand there and perhaps more by a stronger euro. Total exports of goods to this area had a 17.8% increase in real terms in the first quarter of 2003 over a year earlier, considerably up from the 9.7% increase in the fourth quarter of 2002.

Table 2.12

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

		<u>East Asia</u> ^{(a)(d)}	<u>North America</u> ^(b)	<u>European Union</u> ^(c)
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
2003	Q1	23.6	9.1	17.8

Notes : (a) For the coverage of East Asia, see Note (6).

(b) For the coverage of North America, see Note (7).

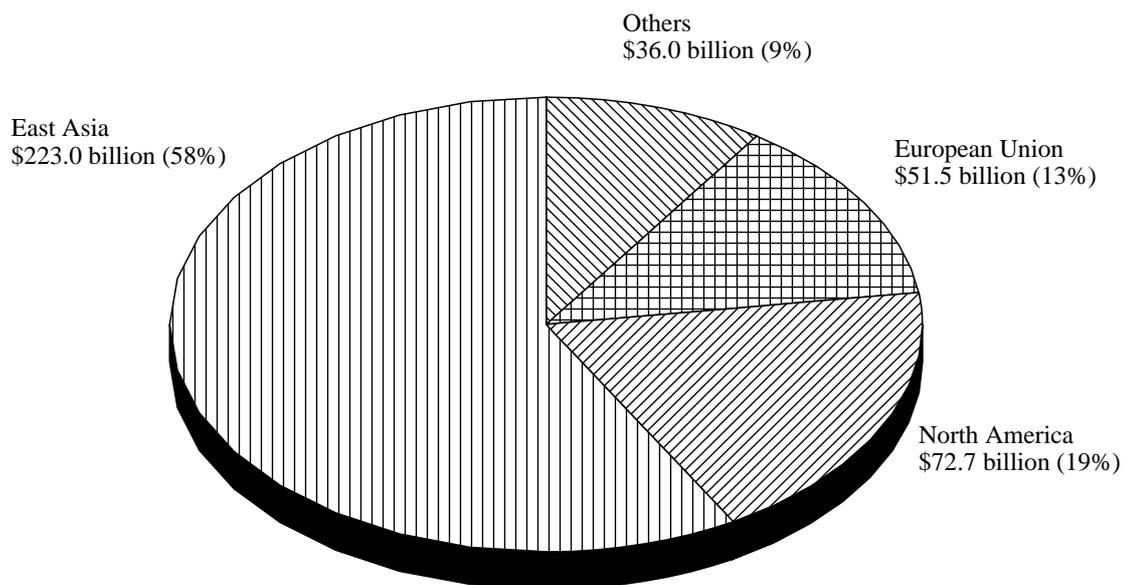
(c) For the coverage of the European Union, see Note (8).

(d) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods in real terms are estimated from an aggregate implicit price deflator covering all those export markets in the Asia-Pacific region for which separate unit value indices are not available.

/Diagram 2.9

Diagram 2.9

Total exports of goods by major region in the first quarter of 2003

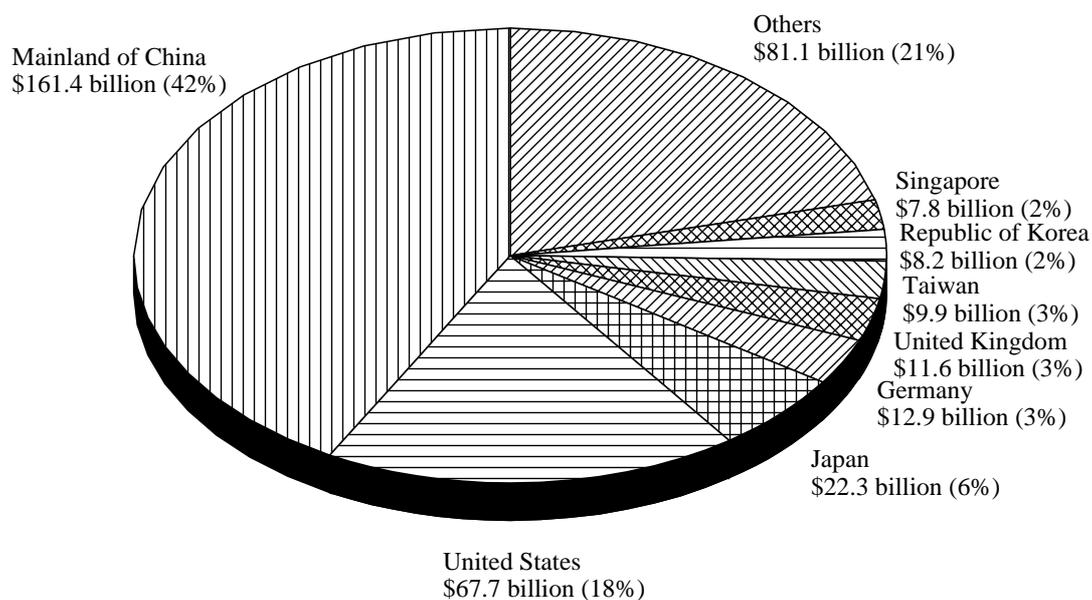


Total exports of goods in the first quarter of 2003 : \$383.1 billion

2.17 The Mainland continued to be the largest single *market* for Hong Kong's total exports of goods, taking up 42% of the total value in the first quarter of 2003. This was followed by the United States (with a share of 18%), Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (3%), the Republic of Korea (2%), and Singapore (2%).

Diagram 2.10

Total exports of goods by major market in the first quarter of 2003



Total exports of goods in the first quarter of 2003 : \$383.1 billion

/Table 2.13

Table 2.13**Value of total exports of goods by market**

	<u>2002</u>			<u>First quarter of 2003</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,560.5	100	5.4	383.1	100	17.6
Mainland of China	613.2	39	12.3	161.4	42	27.3
United States	333.0	21	1.0	67.7	18	7.4
Japan	83.7	5	-4.5	22.3	6	13.5
Germany	48.8	3	-5.3	12.9	3	23.2
United Kingdom	54.2	3	-2.0	11.6	3	7.6
Taiwan	34.6	2	-2.2	9.9	3	25.0
Republic of Korea	30.4	2	17.2	8.2	2	10.9
Singapore	31.6	2	6.8	7.8	2	6.2
Rest of the world	331.0	21	3.5	81.1	21	12.3

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

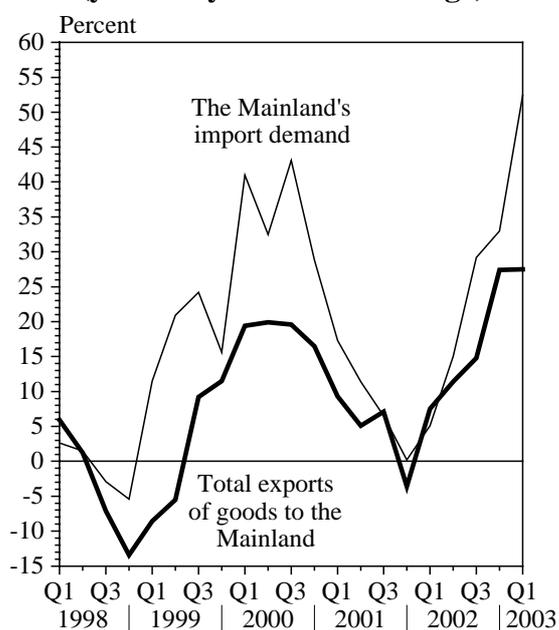
		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>Japan</u>	<u>Germany</u>	<u>United</u> <u>Kingdom</u>	<u>Taiwan</u>	<u>Republic</u> <u>of Korea</u>	<u>Singapore</u>
2002	Annual	15.5	3.7	-1.0	-2.4	0.7	2.1	20.8	11.7
	H1	9.5	-4.5	-8.4	-11.2	-6.0	-3.7	16.0	8.5
	H2	20.8	10.8	6.0	5.3	6.4	7.8	25.5	14.7
	Q1	7.5	-13.1	-10.4	-16.2	-10.7	-5.2	16.7	3.4
	Q2	11.4	3.6	-6.1	-5.4	-1.4	-2.2	15.3	14.0
	Q3	14.8	9.9	1.6	3.9	5.2	14.9	22.4	11.4
	Q4	27.4	12.0	10.5	6.7	7.7	1.6	28.3	18.0
2003	Q1	27.5	9.4	15.0	26.5	8.5	26.9	12.4	7.4
	Jan	34.5	21.2	26.2	28.7	23.7	37.8	23.2	17.1
	Feb	30.0	-5.4	7.5	10.7	-9.9	18.8	15.9	8.7
	Mar	20.4	10.3	11.7	38.7	11.7	22.7	1.6	-1.4

/2.18

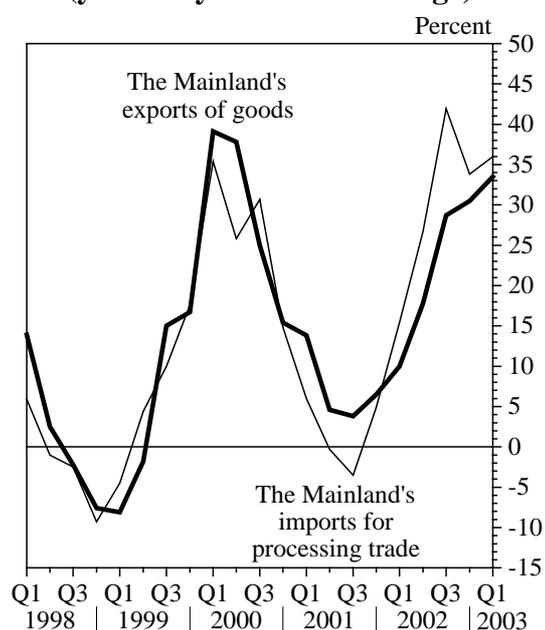
2.18 Total exports of goods to the *Mainland* remained highly robust, with a 27.5% surge in real terms in the first quarter of 2003 over a year earlier, similar to the 27.4% growth in the fourth quarter of 2002. Growth in real terms in exports to this market was above 20% throughout the first three months of this year. Such robust performance was attained upon an even sharper upsurge in the Mainland's own exports, and also amidst sustained buoyancy in its domestic demand.

Diagram 2.11

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



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



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

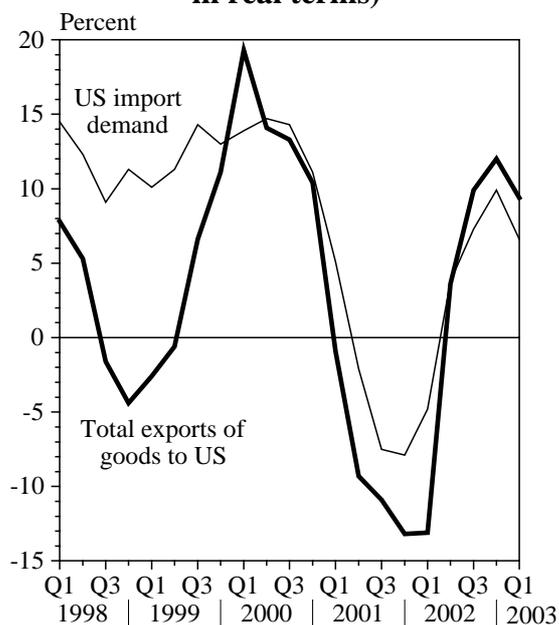
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.19

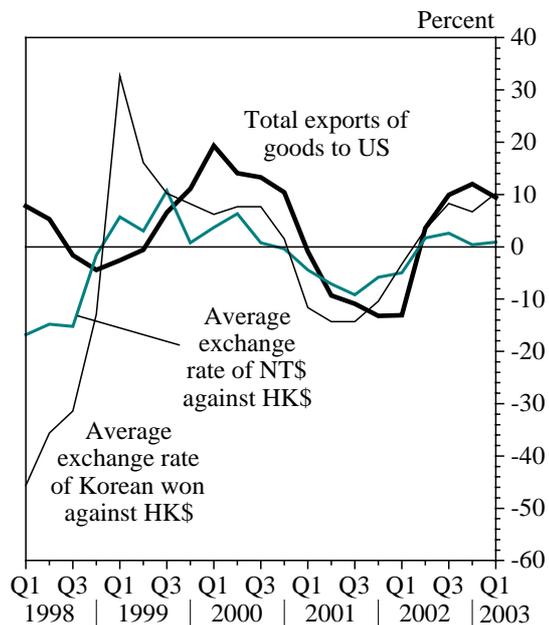
2.19 Total exports of goods to the *United States* remained strong. After a 12.0% growth in the fourth quarter of 2002, exports to this market leaped by 9.4% in real terms in the first quarter of 2003 over a year earlier. Buoyant US import demand and further improvement in the price competitiveness of Hong Kong's exports were the main factors contributing to the notable growth in exports to this market.

Diagram 2.12

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



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



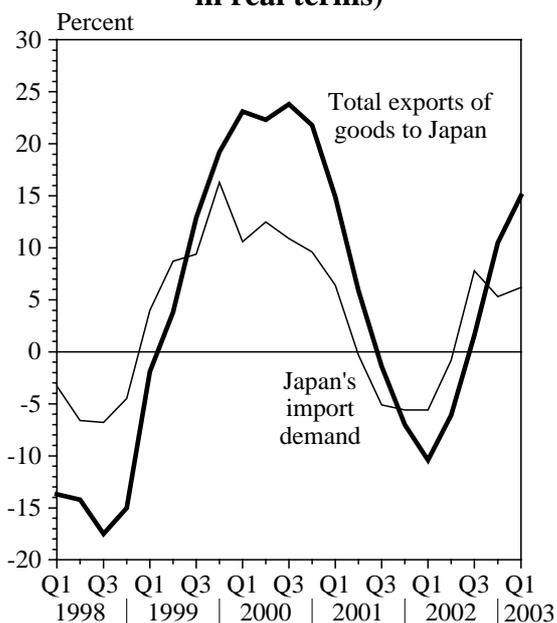
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.20

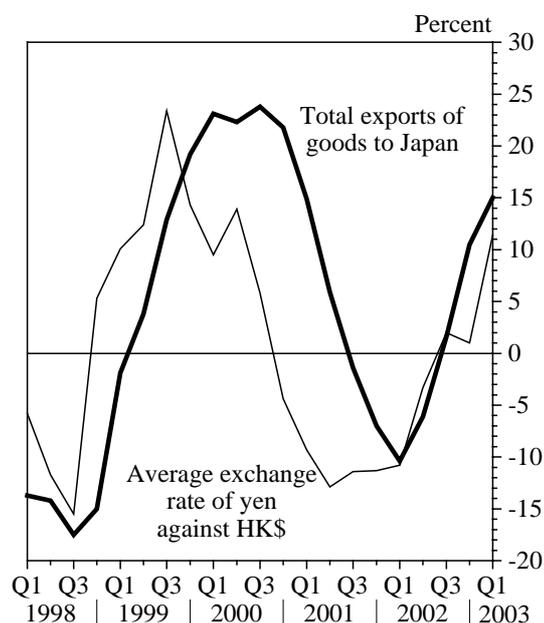
2.20 Total exports of goods to *Japan* strengthened up more distinctly in recent months. After attaining a 10.5% increase in the fourth quarter of 2002, exports to this market surged by 15.0% in real terms in the first quarter of 2003 over a year earlier. While the domestic conditions in Japan remained weak, its relatively resilient export performance, coupled with a stronger yen, should have helped underpin Hong Kong's exports to this market.

Diagram 2.13

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



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



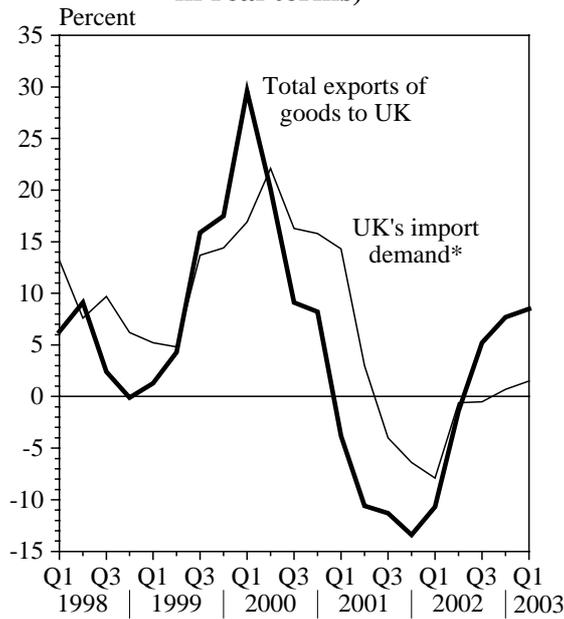
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.21

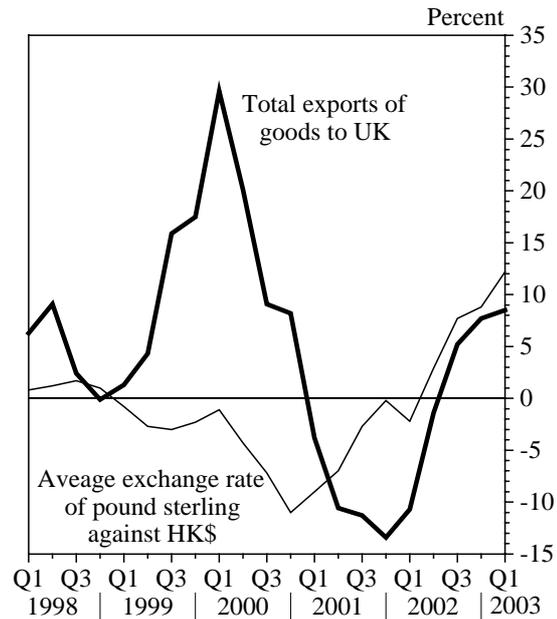
2.21 Total exports of goods to the *United Kingdom* went up by 8.5% in real terms in the first quarter of 2003 over a year earlier, following a 7.7% increase in the fourth quarter of 2002. Import demand in the UK economy continued to revive in the first quarter, while a stronger pound sterling should have also helped.

Diagram 2.14

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



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



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

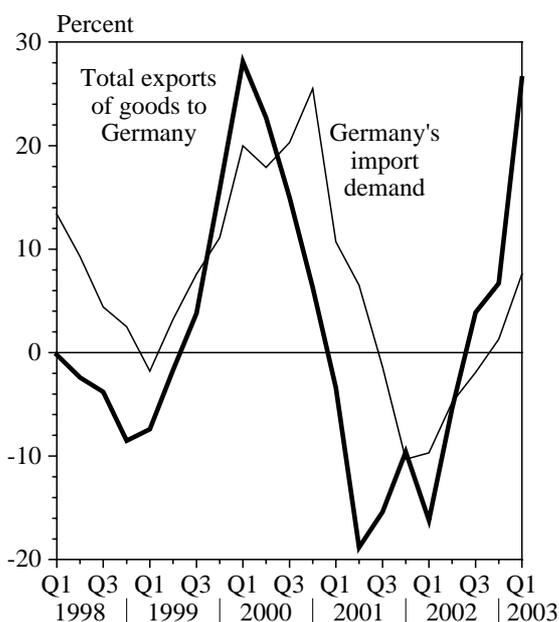
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.22

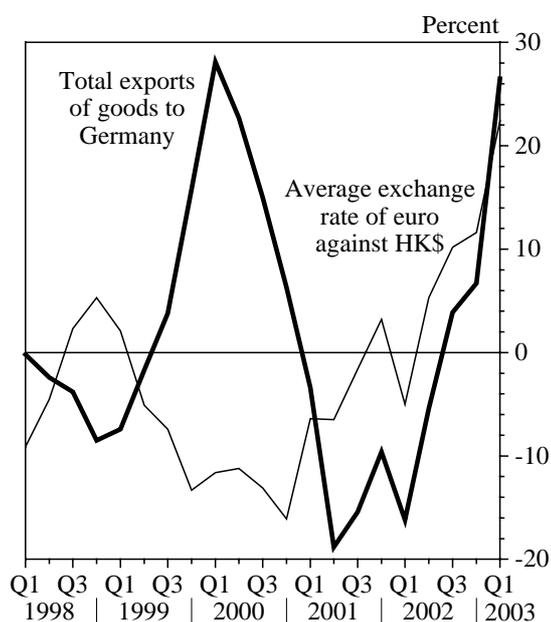
2.22 Total exports of goods to *Germany* picked up markedly to a 26.5% growth in real terms in the first quarter of 2003 over a year earlier, way above the 6.7% increase in the fourth quarter of 2002. Import demand in the German economy, having stayed weak in most of 2002, firmed up more visibly in the early part of this year. A stronger euro rendered an added boost to exports to this market.

Diagram 2.15

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



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



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

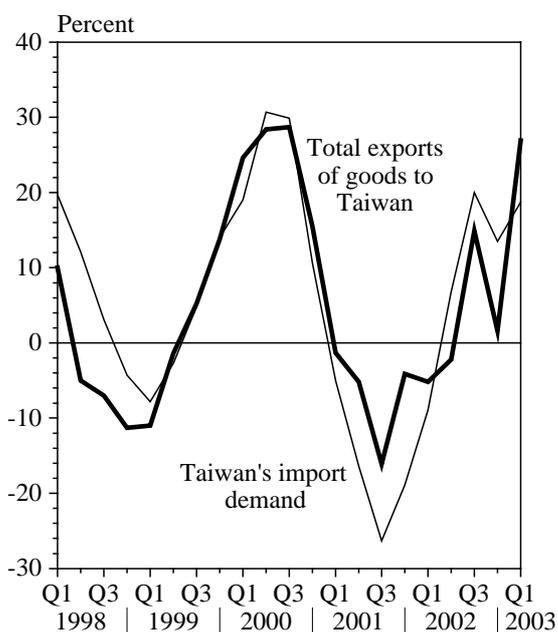
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.23

2.23 Total exports of goods to *Taiwan* gathered pace again in recent months, after a brief relapse towards the end of last year. There was a distinct surge of 26.9% in real terms in Hong Kong's exports to this market in the first quarter of 2003 over a year earlier, as against a meagre growth of 1.6% in the fourth quarter of 2002. This pick-up was in line with Taiwan's robust export performance in the first quarter.

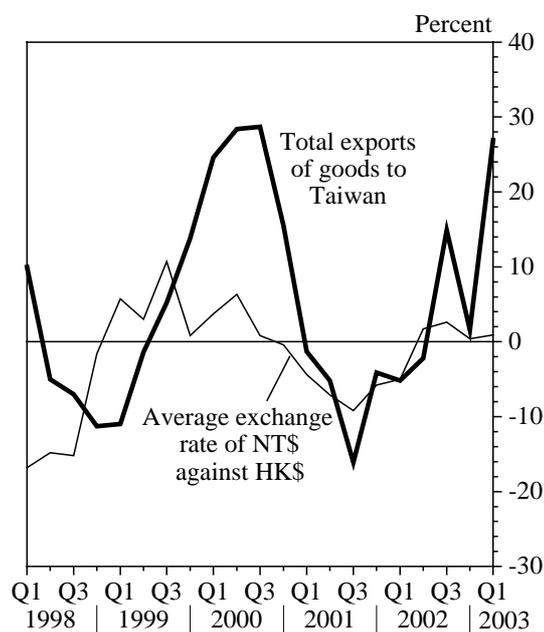
Diagram 2.16

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



Note : See the footnote to Diagram 2.15.

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



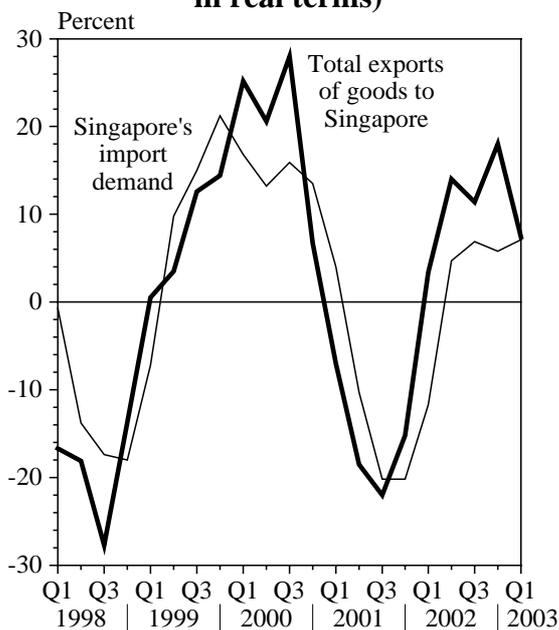
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.24

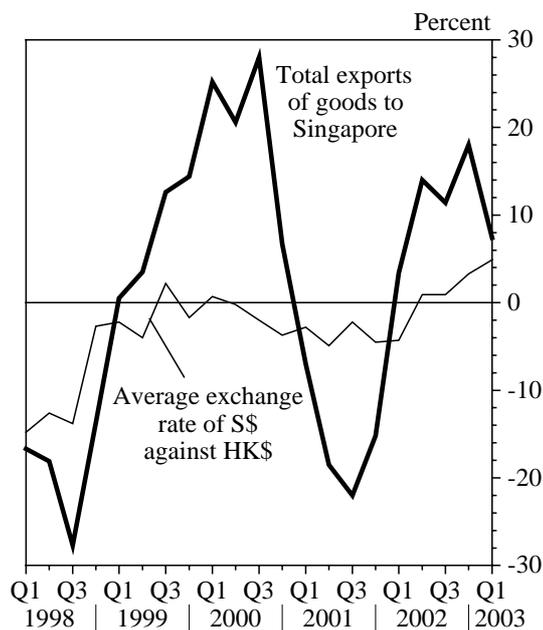
2.24 Total exports of goods to *Singapore* grew by 7.4% in real terms in the first quarter of 2003 over a year earlier, moderated from the 18.0% growth in the fourth quarter of 2002. The slow-down was mainly concentrated in exports of raw materials and semi-manufactures. Yet in the latter part of the first quarter, exports of capital goods also moderated distinctly in growth. Nevertheless, exports of consumer goods still held up well.

Diagram 2.17

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



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

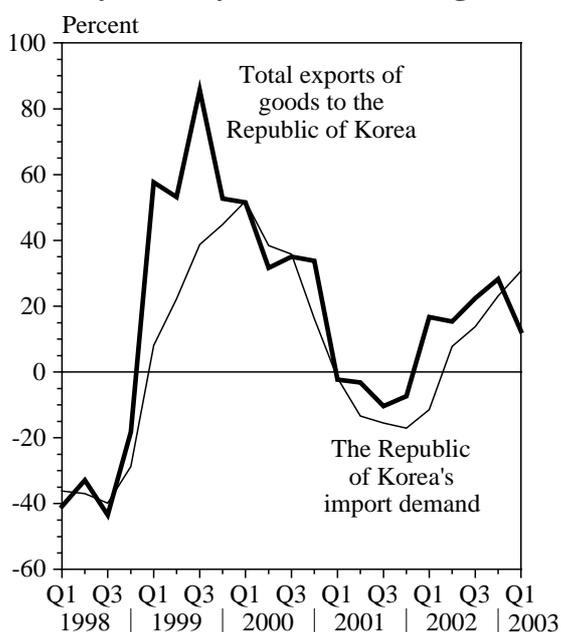


Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.25

2.25 Total exports of goods to the *Republic of Korea* also moderated somewhat in growth in March. Even though there was still a 12.4% leap in real terms over a year earlier for the first quarter of 2003 as a whole, it was considerably slower than the 28.3% surge in the fourth quarter of 2002. The slow-down was across-the-board, and was particularly sharp in intake of raw materials and semi-manufactures.

Diagram 2.18
Total exports of goods to the Republic of Korea and the Republic of Korea's import demand (year-on-year rate of change)



Note : See the footnote to Diagram 2.11.

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



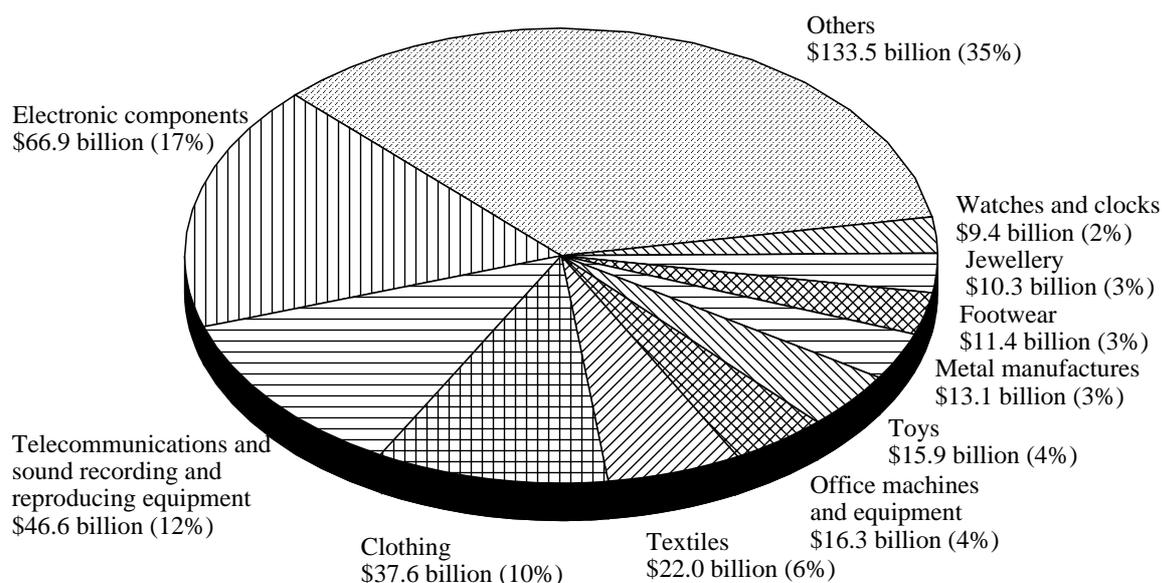
Note : (+) represents appreciation and (-) represents depreciation of the Korean won against HK\$.

/2.26

2.26 Analysed by major *commodity group*, electronic components continued to take up the largest share by value of Hong Kong's total exports of goods, at 17% in the first quarter of 2003. This was followed by telecommunications and sound recording and reproducing equipment (with a share of 12%), clothing (10%), textiles (6%), office machines and equipment (4%), and toys (4%). Exports of electronic components and of telecommunications products remained buoyant, registering highly considerable growth in the first quarter of 2003 over a year earlier. Exports of textiles and toys likewise maintained notable growth. Exports of clothing rebounded sharply. But exports of office machines and equipment fell back in the first quarter of 2003 from a year earlier, after attaining distinct growth throughout the four quarters of 2002.

Diagram 2.19

Total exports of goods by major commodity group in the first quarter of 2003



Total exports of goods in the first quarter of 2003 : \$383.1 billion

/Table 2.15

Table 2.15**Total exports of goods by major commodity group
(year-on-year rate of change in real terms (%))**

		<u>Electronic components</u>	<u>Telecom -munications and sound recording and reproducing equipment</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Office machines and equipment</u>	<u>Toys</u>
2002	Annual	20.4	24.6	-1.1	5.5	31.1	1.4
	H1	9.4	10.7	-5.5	2.3	36.4	-5.2
	H2	30.9	36.3	2.4	8.6	26.4	6.0
	Q1	5.1	6.6	-7.7	-7.3	37.8	-12.6
	Q2	13.6	14.7	-3.6	10.3	35.0	1.5
	Q3	22.8	40.1	5.4	5.5	18.7	-1.8
	Q4	39.0	32.7	-0.9	11.9	33.9	17.5
2003	Q1	37.2	37.2	9.6	16.2	-5.9	10.0

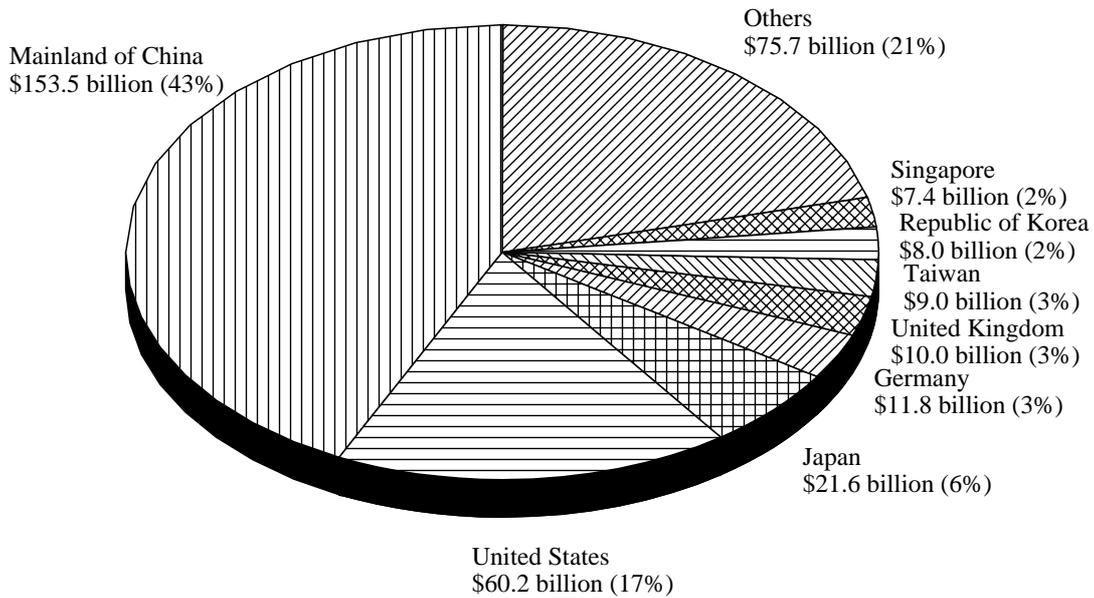
Re-exports

2.27 Re-exports continued to account for a predominant portion of total exports of goods, at 93% by value in the first quarter of 2003, up from 91% in the same quarter in 2002. Analysed by major *market*, the Mainland took up the largest share in Hong Kong's re-exports, at 43% by value in the first quarter of 2003. This was followed by the United States (with a share of 17%), Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (3%), the Republic of Korea (2%), and Singapore (2%).

/Diagram 2.20

Diagram 2.20

Re-exports by major market in the first quarter of 2003



Total re-exports in the first quarter of 2003 : \$357.1 billion

Table 2.16

Value of re-exports by market

	<u>2002</u>			<u>First quarter of 2003</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,429.6	100	7.7	357.1	100	20.3
Mainland of China	571.9	40	15.2	153.5	43	31.5
United States	291.0	20	3.1	60.2	17	9.2
Japan	80.7	6	-3.4	21.6	6	14.8
Germany	44.6	3	-2.6	11.8	3	24.8
United Kingdom	46.6	3	-0.3	10.0	3	7.2
Taiwan	30.2	2	0.6	9.0	3	33.5
Republic of Korea	29.3	2	18.8	8.0	2	11.9
Singapore	29.4	2	9.3	7.4	2	7.4
Rest of the world	305.8	21	5.1	75.7	21	13.7

2.28 Re-exports to almost all the major markets attained double-digit growth in real terms in the first quarter of 2003 over a year earlier. Re-exports to the Mainland, Taiwan and Germany showed particularly sharp surge. Re-exports to Japan staged a further pick-up. Re-exports to the United Kingdom maintained notable growth. Yet re-exports to the United States, Singapore and the Republic of Korea, whilst still robust, eased back somewhat in growth.

Table 2.17

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

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Taiwan</u>	<u>Republic of Korea</u>	<u>Singapore</u>
2002	Annual	18.5	6.0	*	0.7	2.8	4.7	22.5	13.8
	H1	11.1	-2.6	-7.9	-8.4	-2.7	-3.8	18.2	12.0
	H2	25.1	13.5	7.6	8.6	7.4	13.2	26.7	15.4
	Q1	7.8	-12.2	-10.3	-13.7	-8.4	-6.0	19.5	7.1
	Q2	14.0	6.5	-5.3	-2.5	2.9	-1.7	16.8	17.2
	Q3	18.4	11.2	3.1	6.6	6.2	18.8	23.6	12.5
	Q4	32.5	16.1	12.1	10.4	8.7	8.2	29.7	18.1
2003	Q1	32.3	12.2	16.0	28.4	8.2	37.3	13.4	8.2

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

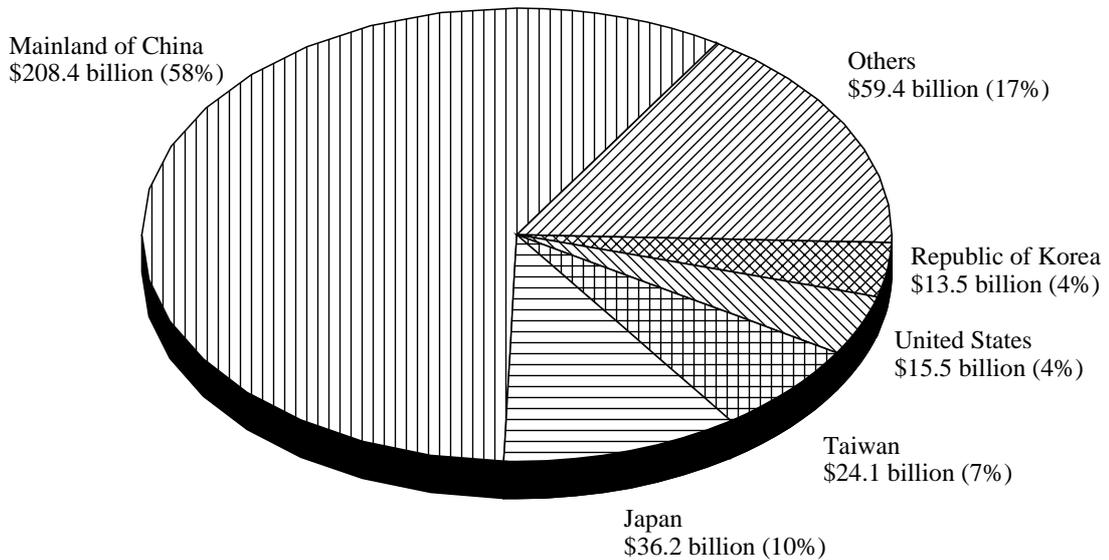
2.29 The Mainland continued to be the largest *source* of Hong Kong's re-exports, supplying 58% by value of the goods re-exported through Hong Kong in the first quarter of 2003. Other major sources included Japan (with a share of 10%), Taiwan (7%), the United States (4%), and the Republic of Korea (4%).

2.30 Re-exports from almost all the major sources attained further notable growth in the first quarter of 2003. While re-exports sourced from within East Asia continued to register strong growth in tandem with the surge in intra-regional trade, re-exports sourced from the United Kingdom and Germany also picked up distinctly.

/Diagram 2.21

Diagram 2.21

Re-exports by major source in the first quarter of 2003



Total re-exports in the first quarter of 2003 : \$357.1 billion

Table 2.18

Value of re-exports by source

	<u>2002</u>			<u>First quarter of 2003</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,429.6	100	7.7	357.1	100	20.3
Mainland of China	864.0	60	6.9	208.4	58	18.1
Japan	135.8	9	8.1	36.2	10	28.5
Taiwan	94.3	7	17.4	24.1	7	29.3
United States	62.9	4	-3.5	15.5	4	5.5
Republic of Korea	47.2	3	18.7	13.5	4	30.9
Rest of the world	225.4	16	8.3	59.4	17	22.6

/Domestic

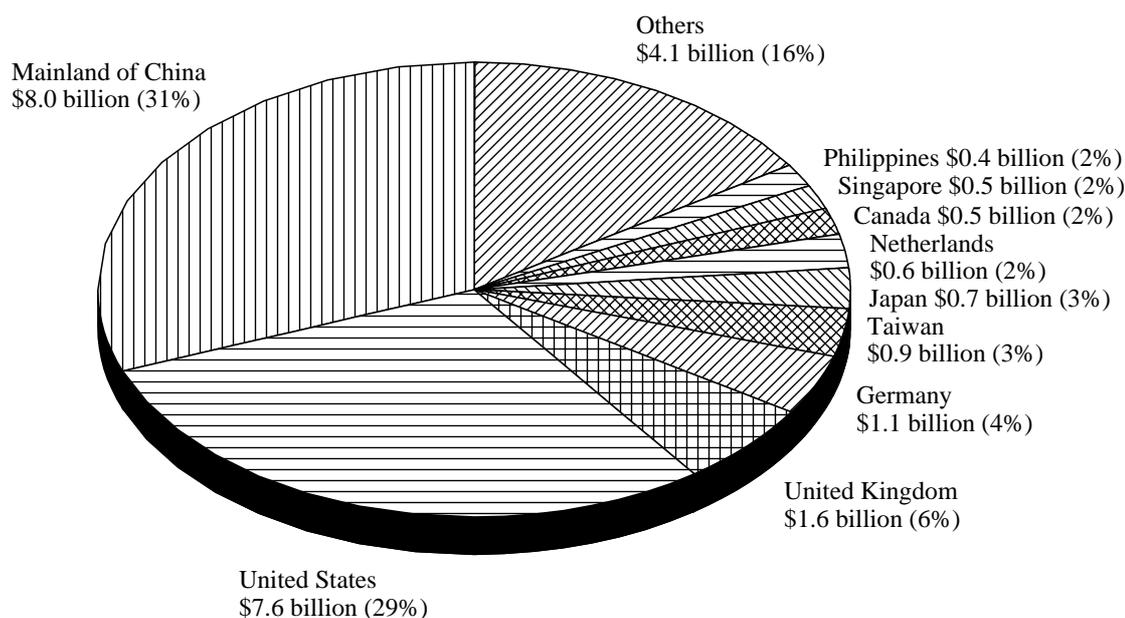
Domestic exports

2.31 The Mainland was the largest *market* for Hong Kong's domestic exports, accounting for 31% of the total value in the first quarter of 2003. This was followed by the United States (with a share of 29%), the United Kingdom (6%), Germany (4%), Taiwan (3%), Japan (3%), the Netherlands (2%), Canada (2%), Singapore (2%), and the Philippines (2%).

2.32 Domestic exports to most of the major markets fell further in the first quarter of 2003, amidst the on-going structural shift to re-exports and offshore trade. The exceptions were the United Kingdom and Germany, but the increase was mainly due to a distinctly low base of comparison in the first quarter of 2002.

Diagram 2.22

Domestic exports by major market in the first quarter of 2003



Total domestic exports in the first quarter of 2003 : \$26.0 billion

/Table 2.19

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

	<u>2002</u>			<u>First quarter of 2003</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	130.9	100	-14.7	26.0	100	-10.4
Mainland of China	41.4	32	-16.5	8.0	31	-21.4
United States	41.9	32	-11.9	7.6	29	-5.1
United Kingdom	7.6	6	-11.5	1.6	6	10.4
Germany	4.3	3	-26.6	1.1	4	9.0
Taiwan	4.4	3	-17.9	0.9	3	-24.8
Japan	3.0	2	-26.9	0.7	3	-14.7
Netherlands	3.5	3	-24.9	0.6	2	-30.2
Canada	2.4	2	-22.0	0.5	2	0.9
Singapore	2.2	2	-18.4	0.5	2	-10.5
Philippines	1.7	1	-7.0	0.4	2	7.0
Rest of the world	18.7	14	-8.4	4.1	16	0.1

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

		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Japan</u>	<u>Netherlands</u>	<u>Canada</u>
2002	Annual	-13.5	-9.5	-10.2	-25.7	-11.4	-22.0	-4.5	-19.9
	H1	-5.9	-15.2	-22.8	-29.7	-3.1	-17.1	7.0	-28.9
	H2	-20.3	-4.5	1.0	-21.4	-19.1	-26.5	-16.2	-12.1
	Q1	3.5	-18.1	-22.8	-33.3	-0.8	-12.9	14.0	-24.7
	Q2	-13.3	-12.7	-22.7	-25.6	-5.3	-21.4	2.4	-32.4
	Q3	-19.1	1.5	-0.5	-17.6	-5.8	-27.2	-0.3	-22.5
	Q4	-21.7	-10.9	2.5	-25.0	-29.6	-25.7	-30.9	3.8
2003	Q1	-23.2	-9.1	10.4	10.2	-27.7	-6.4	-34.2	6.3

Outward processing trade

2.33 While outward processing trade⁽⁹⁾ remained an integral part of Hong Kong's total trade in goods, its prominence was reduced somewhat in 2002, owing to the on-going structural shift from re-exports towards offshore trade and direct shipment from the Mainland. The proportion of exports for outward
/processing

processing in Hong Kong's total exports of goods to the Mainland fell to 45% in 2002, from 48% in 2001. The proportion of re-exports after outward processing in Hong Kong's re-exports of Mainland origin remained stable, at 82% in both 2001 and 2002. The proportion of imports after outward processing in Hong Kong's imports of goods from the Mainland fell further, to 74% in 2002, from 78% in 2001.

2.34 After registering on average virtually no change in value terms in the first three quarters of 2002 over a year earlier, total exports of goods to the Mainland for outward processing picked up markedly to a 24.7% growth in the fourth quarter. This distinct upturn mirrored closely the even more robust growth in the Mainland's exports in the latter part of 2002. For 2002 as a whole, such exports rose by 5.7% in value terms to \$274.3 billion, in contrast to an 8.0% decline in 2001. Total exports of goods to the Mainland for meeting its own demand continued to prosper amidst the vibrant domestic demand there, with a 25.6% surge in value terms in the fourth quarter of 2002 over a year earlier, much faster than the average growth at 13.3% in the first three quarters of the year. For 2002 as a whole, such exports leaped further by 16.6% in value terms to \$334.3 billion, after a 10.0% increase in 2001.

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



/Table 2.21

Table 2.21

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

		<i>Of which :</i>		
		<u>Total exports of goods to the Mainland</u>	<u>Total exports of goods to the Mainland for outward processing</u>	<u>Total exports of goods to the Mainland for meeting its own demand</u>
2001	Annual	0.6	-8.0	10.0
	H1	4.4	-2.5	11.8
	H2	-2.7	-12.8	8.4
	Q1	8.0	6.1	9.9
	Q2	1.4	-9.5	13.4
	Q3	2.7	-1.6	7.3
	Q4	-8.0	-23.6	9.5
	2002	Annual	11.4	5.7
H1		3.6	-2.7	9.5
H2		18.7	13.8	23.0
Q1		1.1	-8.2	10.3
Q2		5.8	2.4	8.8
Q3		12.8	5.1	20.3
Q4		25.2	24.7	25.6

2.35 Imports of goods from the Mainland after outward processing, having declined by an average of 10.4% in value terms in the first half of 2002 over a year earlier and then resumed positive growth at 6.3% in the third quarter, picked up further to growth at 7.8% in the fourth quarter. Yet for 2002 as a whole, such imports still fell by 1.2% in value terms to \$525.3 billion, after a 6.2% fall in 2001. Re-exports of Mainland origin after outward processing bounced up more, with a 17.2% rise in value terms in the fourth quarter of 2002 over a year earlier, after a 2.6% decrease in the first three quarters of the year. For 2002 as a whole, such re-exports had a mild growth of 2.2% in value terms to \$590.8 billion, representing a visible turnaround from the 10.7% decline in 2001.

/Table 2.22

Table 2.22

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

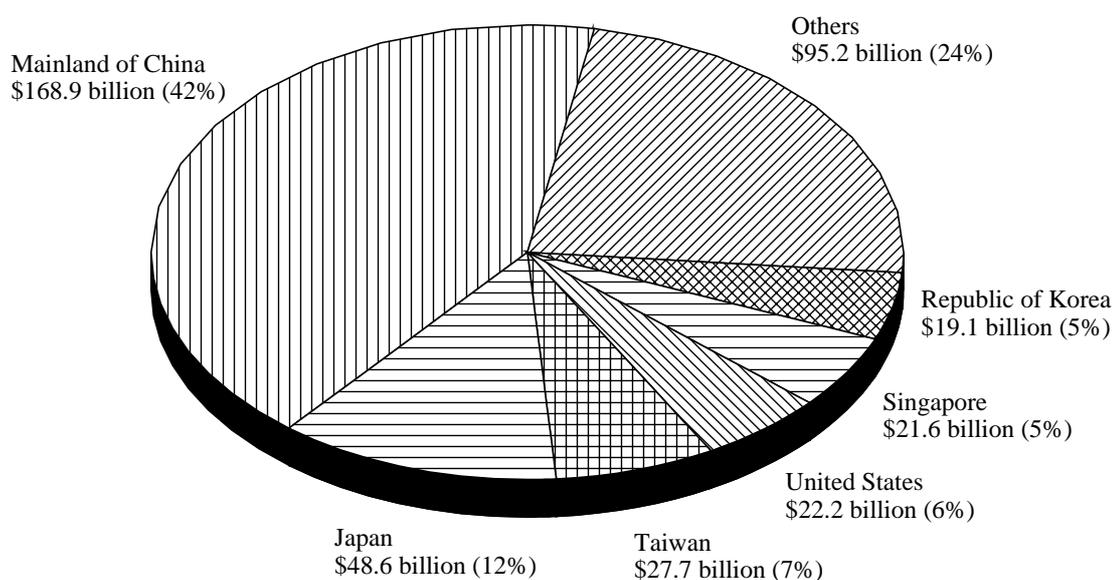
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2001	Annual	-6.2	-10.7
	H1	-0.2	-4.3
	H2	-11.0	-16.0
	Q1	4.6	0.8
	Q2	-4.1	-8.6
	Q3	-11.4	-11.2
	Q4	-10.6	-20.8
2002	Annual	-1.2	2.2
	H1	-10.4	-6.5
	H2	7.0	10.4
	Q1	-10.9	-6.4
	Q2	-9.9	-6.7
	Q3	6.3	4.3
	Q4	7.8	17.2

Imports of goods

2.36 The Mainland remained the largest *source* of Hong Kong's imports of goods, accounting for 42% of the total value in the first quarter of 2003. Other major sources of imports included Japan (with a share of 12%), Taiwan (7%), the United States (6%), Singapore (5%), and the Republic of Korea (5%).

2.37 Largely reflecting the strong re-export performance, imports from all the East Asian economies continued to surge in the first quarter of 2003 over a year earlier. Imports from the United States also accelerated in growth.

/Diagram 2.24

Diagram 2.24**Imports of goods by major source in the first quarter of 2003**

Total imports of goods in the first quarter of 2003 : \$403.2 billion

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

	<u>2002</u>			<u>First quarter of 2003</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,619.4	100	3.3	403.2	100	17.8
Mainland of China	717.1	44	5.1	168.9	42	14.5
Japan	182.6	11	3.4	48.6	12	26.9
Taiwan	115.9	7	7.4	27.7	7	12.5
United States	91.5	6	-12.8	22.2	6	6.0
Singapore	75.7	5	3.9	21.6	5	32.3
Republic of Korea	76.0	5	7.3	19.1	5	18.9
Rest of the world	360.7	22	2.2	95.2	24	21.1

/Table 2.24

Table 2.24

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

		Mainland of China	Japan	Taiwan	United States	Singapore	Republic of Korea
2002	Annual	9.0	7.7	12.0	-7.9	10.0	12.5
	H1	3.1	-3.0	3.3	-14.4	1.3	1.1
	H2	14.2	18.8	20.8	-1.2	18.5	24.3
	Q1	-2.7	-7.4	1.0	-16.4	-1.0	-3.1
	Q2	8.6	1.2	5.4	-12.5	3.4	5.2
	Q3	11.9	12.7	16.9	-8.0	9.8	24.6
	Q4	16.7	25.2	25.0	6.7	27.9	24.1
2003	Q1	15.9	23.1	11.7	10.7	31.0	18.7

Retained imports

2.38 Japan remained the largest *source* of Hong Kong's retained imports, accounting for about 16% of the total value in the first quarter of 2003. Other major suppliers of retained imports included the Mainland (with a share of 10%), Singapore (9%), the Republic of Korea (8%), the United States (6%), and Taiwan (5%).

2.39 Analysed by *end-use category*, retained imports of consumer goods grew further, by 7.7% in real terms in the first quarter of 2003 over a year earlier, following a 9.3% rise in the fourth quarter of 2002. This was in line with the upsurge in incoming visitors in the first two months of the year, as well as the signs of pick-up in retail sales just before the spread of atypical pneumonia in the local economy. Retained imports of foodstuffs however fell back, by 4.6% in real terms in the first quarter of 2003 over a year earlier, having leaped by 12.7% in the fourth quarter of 2002.

2.40 Retained imports of capital goods, after going through five consecutive quarters of decline and a 2.3% decrease in the fourth quarter of 2002, rebounded visibly to a 10.6% growth in real terms in the first quarter of 2003 over a year earlier. Intake of office equipment had the most distinct improvement, though helped in part by a low base of comparison a year earlier. Intake of capital goods in the "others" category also sharply reversed the earlier downtrend. Intake of industrial machinery continued to rise, albeit only modestly. Intake of construction machinery and telecommunications equipment however remained subdued.

/2.41

2.41 Retained imports of raw materials and semi-manufactures remained strong, with growth at 18.0% in real terms in the first quarter of 2003 over a year earlier, after a 19.1% surge in the fourth quarter of 2002. Retained imports of fuels rose further by 9.1% in real terms in the first quarter of 2003 over a year earlier, following a 9.7% increase in the fourth quarter of 2002. There was apparently some build-up in oil inventories, in face of the war on Iraq.

Table 2.25

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2002	Annual	5.7	5.3	-13.6	9.8	4.8
	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
2003	Q1	7.7	-4.6	10.6	18.0	9.1

Note : See Note (a) to Table 2.7.

Table 2.26

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

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Tele-communications equipment</u>	<u>Other capital goods</u>
2002	Annual	-1.5	11.1	-12.3	-2.5	-38.9
	H1	-6.0	14.7	-22.9	-10.5	-30.9
	H2	3.0	7.7	-2.4	6.1	-44.9
	Q1	-7.5	2.2	-43.5	-4.3	-36.2
	Q2	-4.6	25.3	1.0	-16.7	-25.2
	Q3	-5.3	19.8	-18.5	12.7	-50.0
	Q4	12.1	-3.3	21.0	-0.5	-38.2
2003	Q1	3.9	-9.4	52.9	-12.9	16.0

Note : See Note (a) to Table 2.7.

/Invisible

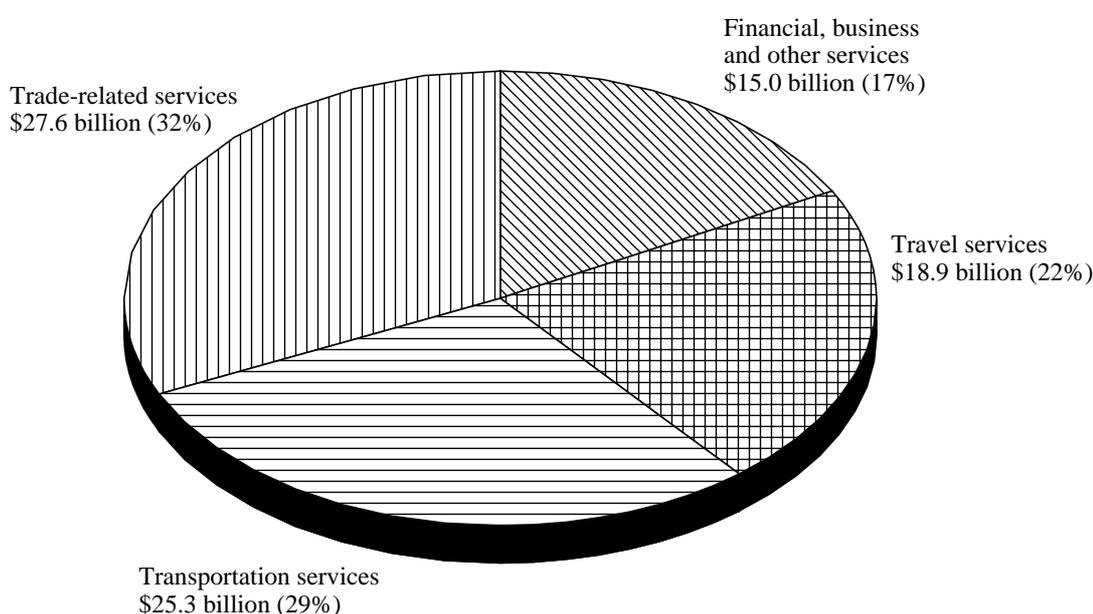
Invisible trade

Exports of services

2.42 Trade-related services (comprising mainly offshore trade) took over transportation services as the largest component in Hong Kong's exports of services, accounting for 32% by value in the first quarter of 2003. This was followed by exports of transportation services (with a share of 29%), travel services (22%), and financial, business and other services (17%).

Diagram 2.25

Exports of services by major service group in the first quarter of 2003



Exports of services in the first quarter of 2003 : \$86.8 billion

2.43 Exports of services attained a further significant growth in the first quarter of 2003, at 12.2% in real terms over a year earlier. This came after an 18.1% surge in the fourth quarter of 2002, and was the third consecutive quarter of double-digit growth.

2.44 Much of the overall growth was driven by exports of trade-related services comprising mainly offshore trade, which leaped by 18.3% in real terms in the first quarter of 2003 over a year earlier, in tandem with buoyancy in the Mainland's external trade. This came after an 18.8% rise in the fourth quarter of 2002.

/2.45

2.45 On exports of travel services, for most of the first quarter the number of incoming visitors continued to surge, with a particularly sharp increase in visitors from the Mainland. However, the uptrend began to taper in the first half of March, as travel was cut back ahead of outbreak of the war on Iraq. Then, with the spread of atypical pneumonia in Hong Kong from mid-March, inbound tourism fell off markedly in the second half of March. Yet for the first quarter of 2003 as a whole, exports of travel services still attained notable growth at 17.9% in real terms over a year earlier, albeit much moderated from the 35.6% leap in the fourth quarter of 2002.

2.46 Exports of transportation services were also retarded somewhat in the first quarter, mainly due to the abrupt fall-off in air passenger movements upon the spread of atypical pneumonia in the second half of March. But with robust growth in cargo flows throughout the quarter, exports of transportation services still had an 8.7% rise in real terms in the first quarter of 2003 over a year earlier. In the fourth quarter of 2002, there was a 17.2% increase. Exports of financial, business and other services improved mildly, rising by 2.4% in real terms in the first quarter of 2003 over a year earlier, after a 0.9% decline in the fourth quarter of 2002.

Table 2.27

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

Of which :

		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	Financial, business and other services
2002	Annual	11.7	13.5	11.5	21.1	-0.7
	H1	6.8	7.9	6.6	11.5	0.9
	H2	16.1	17.7	16.3	30.5	-2.2
	Q1	6.0	7.1	6.7	8.0	1.4
	Q2	7.7	8.7	6.5	14.4	0.3
	Q3	13.9	16.5	15.4	24.6	-3.5
	Q4	18.1	18.8	17.2	35.6	-0.9
2003	Q1	12.2	18.3	8.7	17.9	2.4

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

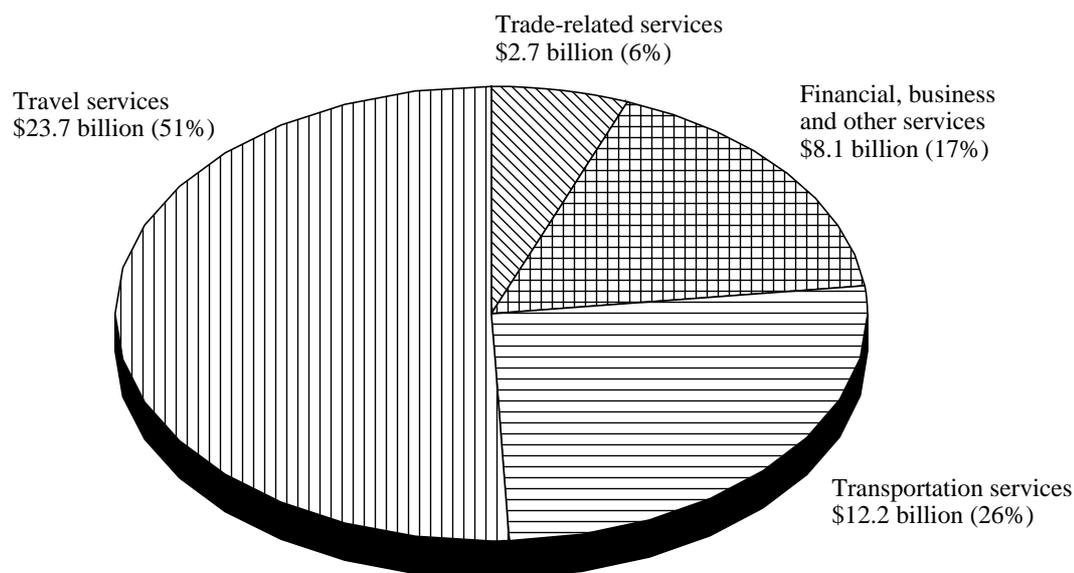
/Imports

Imports of services

2.47 Travel services continued to take up the largest share in Hong Kong's imports of services, at 51% by value in the first quarter of 2003. This was followed by imports of transportation services (with a share of 26%), financial, business and other services (17%), and trade-related services (6%).

Diagram 2.26

Imports of services by major service group in the first quarter of 2003



Imports of services in the first quarter of 2003 : \$46.8 billion

2.48 Imports of services fell back by 4.0% in real terms in the first quarter of 2003 over a year earlier, sharply reversing the increase by 3.4% in the fourth quarter of 2002. Performance in the first quarter was affected much by the relapse in imports of travel services, as the spread of atypical pneumonia after mid-March curbed residents' spending abroad, which fell distinctly by 10.1% in real terms in the first quarter of 2003 over a year earlier, after a meagre 0.8% rise in the fourth quarter of 2002. Imports of transportation services also moderated, up by only 3.7% in real terms in the first quarter of 2003 over a year earlier, as against an 11.7% increase in the fourth quarter of 2002. This was again due to the setback in air passenger movements, thereby offsetting in large part the concurrent increase in cargo freight services. Imports of financial, business and other services were flat in real terms in the first quarter of 2003 over a year earlier, though relatively improved from the 3.9% decline in the fourth quarter of 2002.

/2.49

2.49 On the other hand, imports of trade-related services remained strong, up by 11.2% in real terms in the first quarter of 2003 over a year earlier, similar to the 11.7% increase in the fourth quarter of 2002. This was in line with the uptrend in merchandise trade.

Table 2.28

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

		<i>Of which :</i>				Financial, business and other services
		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	
2002	Annual	0.2	-0.5	2.8	6.8	-3.7
	H1	-2.2	-1.9	-3.4	1.4	-2.6
	H2	2.7	0.9	9.1	10.6	-4.6
	Q1	-0.7	0.1	-2.0	0.7	-1.8
	Q2	-3.8	-4.1	-4.7	2.2	-3.3
	Q3	2.0	1.0	6.8	9.5	-5.4
	Q4	3.4	0.8	11.7	11.7	-3.9
2003	Q1	-4.0	-10.1	3.7	11.2	*

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

Overall balance of payments⁽¹⁰⁾

2.50 In the fourth quarter of 2002, the current account attained a further sizeable surplus of \$45.3 billion, equivalent to 13.7% of GDP in that quarter. This was larger than the corresponding surplus of \$42.0 billion in the third quarter, equivalent to 12.9% of GDP in that quarter. The increase in surplus was due to a further enlargement in surplus in the combined visible and invisible trade account, more than offsetting a reduction in net external factor income inflow.

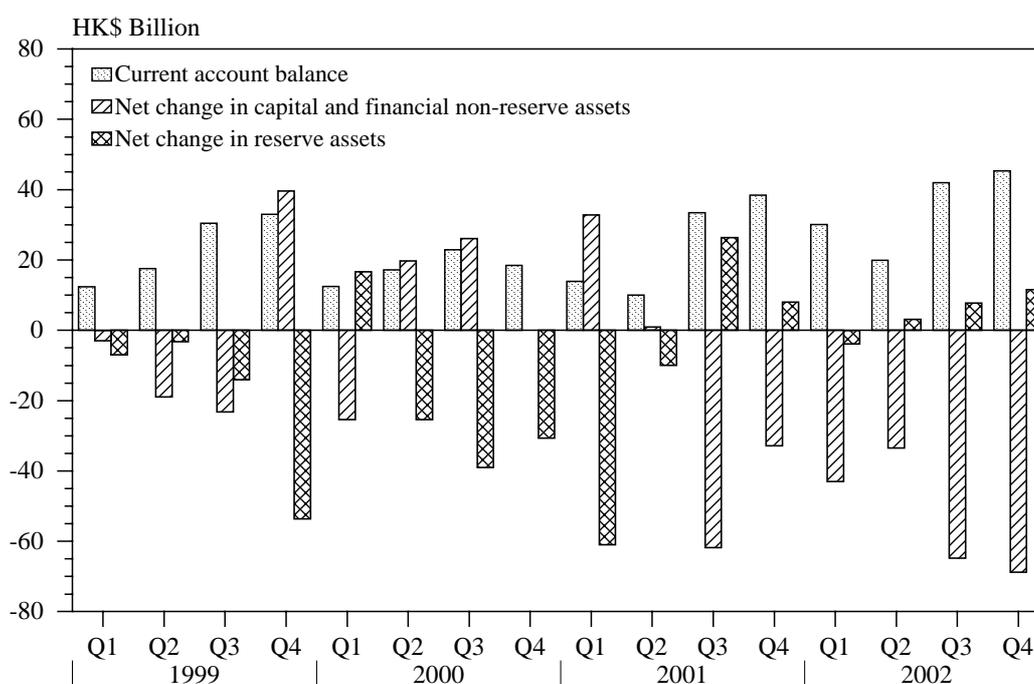
/2.51

2.51 In the capital and financial account, there was still a considerable net outflow of \$97.6 billion in the portfolio investment account in the fourth quarter of 2002, partly due to increased holding of overseas debt and equity securities by Hong Kong residents for higher return amidst a low interest rate environment. Also, there were net outflows in the direct investment account and in cash settlement of financial derivatives, at \$3.4 billion and \$2.0 billion respectively. On the other hand, the other investment account continued to show a net inflow, at \$37.5 billion, largely attributable to increased placements of deposits in Hong Kong by non-resident banks. Taken together, financial non-reserve assets had a net outflow of \$65.5 billion in the fourth quarter of 2002, equivalent to 19.8% of GDP in that quarter. This was slightly larger than the corresponding net outflow of \$62.8 billion in the third quarter, equivalent to 19.4% of GDP in that quarter.

2.52 Overall, a balance of payments deficit of \$11.6 billion, equivalent to 3.5% of GDP, was recorded in the fourth quarter of 2002, mirroring a decrease in reserve assets by the same amount in that quarter. These were larger than the corresponding deficit figures of \$7.7 billion and 2.4% in the third quarter. For 2002 as a whole, the balance of payments account recorded a deficit of \$18.5 billion, equivalent to 1.5% of GDP in that year.

Diagram 2.27

Major balances in Hong Kong's balance of payments



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

/Table 2.29

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

	<u>2001[#]</u>		<u>2001</u>				<u>2002</u>			
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>
Current account^(a)	95.8	137.3	13.9	10.0	33.5	38.4	30.0	19.9	42.0	45.3
Trade in goods	-65.0	-39.4	-24.6	-23.9	-11.4	-5.0	-12.4	-16.4	-5.0	-5.6
Trade in services	133.4	163.7	28.5	31.9	33.4	39.6	31.2	37.8	42.7	52.1
External factor income flows	41.2	27.4	13.6	5.3	15.1	7.2	14.8	2.1	8.1	2.4
Current transfers	-13.9	-14.5	-3.6	-3.3	-3.6	-3.4	-3.5	-3.6	-3.8	-3.6
Capital and financial account	-97.4	-191.4	-28.1	-9.0	-35.5	-24.8	-46.8	-30.4	-57.1	-57.2
Net change in capital transfers	-9.2	-15.7	-1.5	-3.2	-2.9	-1.6	-3.0	-7.6	-1.9	-3.2
Net change in financial non-reserve assets	-51.7	-194.2	34.3	4.2	-58.9	-31.3	-40.0	-25.9	-62.8	-65.5
<i>of which :</i>										
Direct investment	96.9	-31.0	55.2	40.2	7.4	-5.9	-10.1	15.3	-32.7	-3.4
Portfolio investment	-322.0	-290.7	-111.4	-35.3	-82.4	-92.9	7.1	-117.8	-82.5	-97.6
Financial derivatives	39.6	10.6	-7.2	12.8	25.3	8.6	12.3	6.1	-5.7	-2.0
Other investment	133.8	116.9	97.7	-13.6	-9.3	58.9	-49.2	70.6	58.1	37.5
Net change in reserve assets ^(b)	-36.5	18.5	-61.0	-9.9	26.3	8.0	-3.9	3.1	7.7	11.6
Net errors and omissions	1.6	54.1	14.3	-1.0	2.0	-13.6	16.8	10.4	15.1	11.9
Overall balance of payments	36.5	-18.5	61.0	9.9	-26.3	-8.0	3.9	-3.1	-7.7	-11.6

Notes : (#) Revised figures.

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

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

/Notes

Notes :

- (1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.
- (3) Offshore trade is covered in exports of trade-related services within the broader component of exports of services in the Gross Domestic Product. It covers the services of both “merchanting” and “merchandising for offshore transactions”. Merchanting is defined as the services associated with trading of goods which are purchased from a party outside Hong Kong and then sold to another party outside Hong Kong, without the goods ever entering and leaving Hong Kong. Merchandising for offshore transactions is defined as the services of arranging on behalf of buyers/sellers outside Hong Kong the purchase/sale of goods according to their specifications. Earnings from offshore trade include the gross margin from merchanting and the commission from merchandising for offshore transactions.
- (4) Here 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.
- (5) Exports of financial and banking services in the GDP account include commissions and fees for rendering financial and related ancillary services to non-residents. However, these do not include interest receipts from non-residents, which account for a major part of the external receipts of financial intermediaries in Hong Kong. Interest receipts from non-residents are correctly classified as investment income from abroad under GNP. The same situation applies, in an opposite direction, to interest payments to non-residents. Hence the trade in services component and the invisible trade surplus of Hong Kong would have been larger if such interest receipts and payments were classified to the services account.
- (6) 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.
- (7) North America here comprises the United States and Canada.

/(8)

- (8) 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.
- (9) Outward processing arrangements are made between Hong Kong companies and manufacturing entities in the Mainland under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Mainland entities. Raw materials or semi-manufactures are normally exported to the Mainland for such processing. The Mainland entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment.

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

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

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

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

CHAPTER 3 : THE DOMESTIC ECONOMY

Net output or value added by economic activity

3.1 As indicated by the new data series on quarterly GDP by economic activity at constant prices⁽¹⁾, net output or value added for all the *service sectors* taken together⁽²⁾ was 6.4% higher in real terms in the fourth quarter of 2002 than a year earlier, further up from a 4.3% growth in the third quarter. Analysed by constituent sector and in real terms, net output in the wholesale, retail and import/export trades, restaurants and hotels showed the largest gain, by 14.5% in the fourth quarter of 2002 over a year earlier, driven by accelerated growth in external trade as well as buoyancy in inbound tourism. Net output in transport, storage and communications increased by 6.2%, mainly underpinned by expansion in cargo handling activity. Net output in financing, insurance, real estate and business services increased by 2.5%, attributable to a significant increase in non-interest income from banking and a further growth in insurance business. Net output in community, social and personal services went up by 0.5%, mostly due to increase in education and medical services.

3.2 On the other hand, net output in the local *manufacturing sector* continued to decline, by 6.4% and 7.2% respectively in real terms in the third and fourth quarters of 2002 over a year earlier, as production processes continued to move outside the local territory. As to the *construction sector*, net output recorded a decrease of 6.4% in real terms in the fourth quarter of 2002 over a year earlier, reversing the 2.4% increase in the third quarter. This was mainly due to continued scale-back in the Public Housing Programme and tapering work on some private sector building projects.

3.3 For 2002 as a whole, there was an increase of 3.1% in net output for all the service sectors taken together, exceeding the 1.6% rise in 2001. On the other hand, net output in the local manufacturing and the construction sectors declined further, by 8.9% and 1.0% respectively in 2002, having fallen by 8.6% and 4.3% in 2001.

/Table 3.1

Table 3.1

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

	<u>2001[#]</u>					<u>2002[#]</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-8.6	-3.7	-4.0	-11.6	-13.8	-8.9	-11.3	-10.8	-6.4	-7.2
Construction	-4.3	-6.7	-4.4	-8.3	1.6	-1.0	-1.7	3.2	2.4	-6.4
Services ^(b)	1.6	3.6	2.2	1.1	-0.1	3.1	*	1.5	4.3	6.4
<i>Of which :</i>										
Wholesale, retail and import/export trades, restaurants and hotels	0.2	5.7	0.9	*	-4.7	5.1	-2.8	0.5	6.9	14.5
Transport, storage and communications	2.1	7.7	1.2	0.6	-0.4	4.0	0.2	3.6	5.5	6.2
Financing, insurance, real estate and business services	-0.4	-3.3	3.5	-1.6	0.2	0.9	-1.5	0.9	1.6	2.5
Community, social and personal services	3.9	6.7	2.5	4.4	2.6	0.7	1.0	0.3	1.1	0.5

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

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

(#) Revised figures.

(*) Change of less than 0.05%.

/Local

Local manufacturing output

3.4 The Index of Industrial Production⁽³⁾, as also reflecting output in the local manufacturing sector, contracted by 9.2% in the fourth quarter of 2002 over a year earlier, enlarged from the 7.3% decline in the third quarter. Analysed by major constituent industry in volume, output of the consumer electrical and electronic products, the fabricated metal products, and the machinery and equipment industries plummeted further, by 35.4%, 28.7% and 18.8% respectively in the fourth quarter of 2002 over a year earlier. Output of the wearing apparel, the plastic products and the textiles industries also declined visibly, by 7.1%, 7.0% and 6.5% respectively. On the other hand, output of the paper products and printing industry increased distinctly, by 8.5%. On a seasonally adjusted quarter-to-quarter comparison, the Index shrank further, by 3.8% in volume in the fourth quarter of 2002, following a 0.7% decrease in the third quarter.

3.5 For 2002 as a whole, the volume of local manufacturing output went down by 9.8%, far exceeding the 4.4% fall in 2001. This decrease was concentrated in the first half of the year. In 2002, the fall in volume of output was most significant in the fabricated metal products, the consumer electrical and electronic products, and the machinery and equipment industries, by 29.4%, 23.6% and 16.8% respectively.

/Table 3.2

Table 3.2

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

<u>Industry group</u>	<u>2001</u>					<u>2002</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual[#]</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4[#]</u>
Wearing apparel	-0.1	3.1	3.4	-9.8	3.8	-6.6	-13.4	-10.5	4.0	-7.1
Textiles	-0.3	3.5	1.7	-2.6	-2.0	-7.3	-10.6	-7.3	-5.9	-6.5
Plastic products	-15.2	-12.4	-11.0	-12.0	-25.7	-10.8	-13.1	-7.4	-15.5	-7.0
Consumer electrical and electronic products	*	-0.3	-2.0	-0.5	2.8	-23.6	-0.8	-29.6	-28.2	-35.4
Machinery and equipment	-8.5	5.7	4.3	-13.7	-24.9	-16.8	-17.4	-19.7	-11.4	-18.8
Fabricated metal products	-10.2	-7.0	-9.3	-14.5	-9.4	-29.4	-27.4	-30.7	-30.6	-28.7
Paper products and printing	-1.2	0.2	2.0	-2.9	-4.2	-0.2	-10.5	1.0	0.1	8.5
Overall manufacturing	-4.4	-0.2	-0.1	-7.1	-9.3	-9.8	-11.6	-11.2	-7.3	-9.2
		<1.4>	<-0.3>	<-7.3>	<-2.4>		<-2.4>	<-1.3>	<-0.7>	<-3.8>

Notes : (#) Provisional figures.

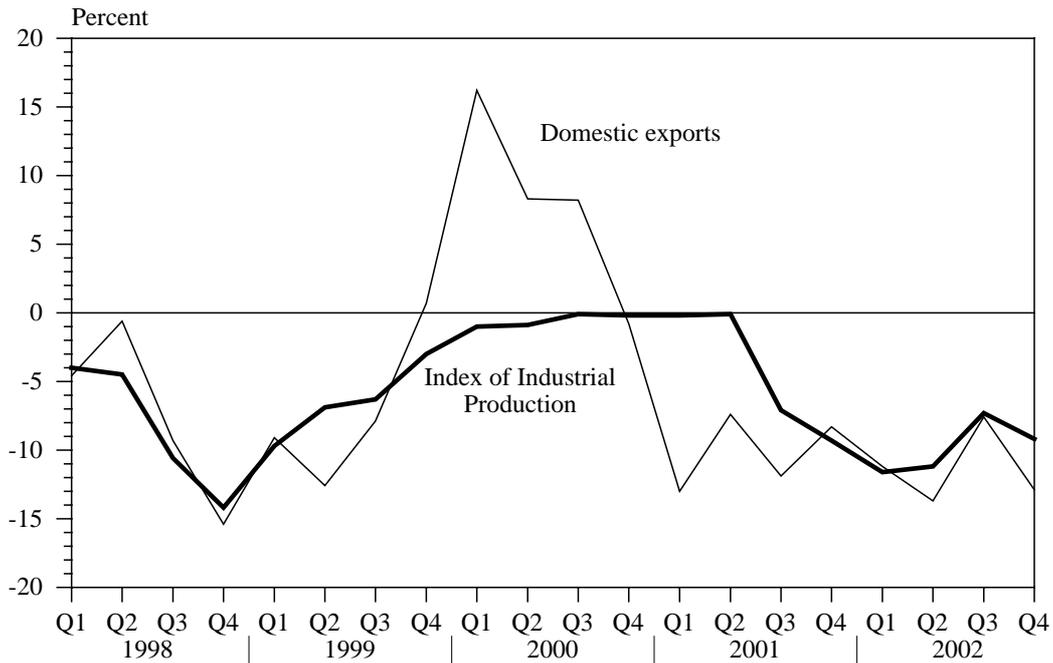
(*) Change of less than 0.05%.

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

/Diagram 3.1

Diagram 3.1

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



3.6 In the first quarter of 2003, domestic exports went markedly lower in real terms from a year earlier, as were orders-on-hand in the local manufacturing sector⁽⁴⁾. These pointed to a further considerable decrease in local manufacturing output in that quarter.

/Diagram 3.2

Diagram 3.2

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

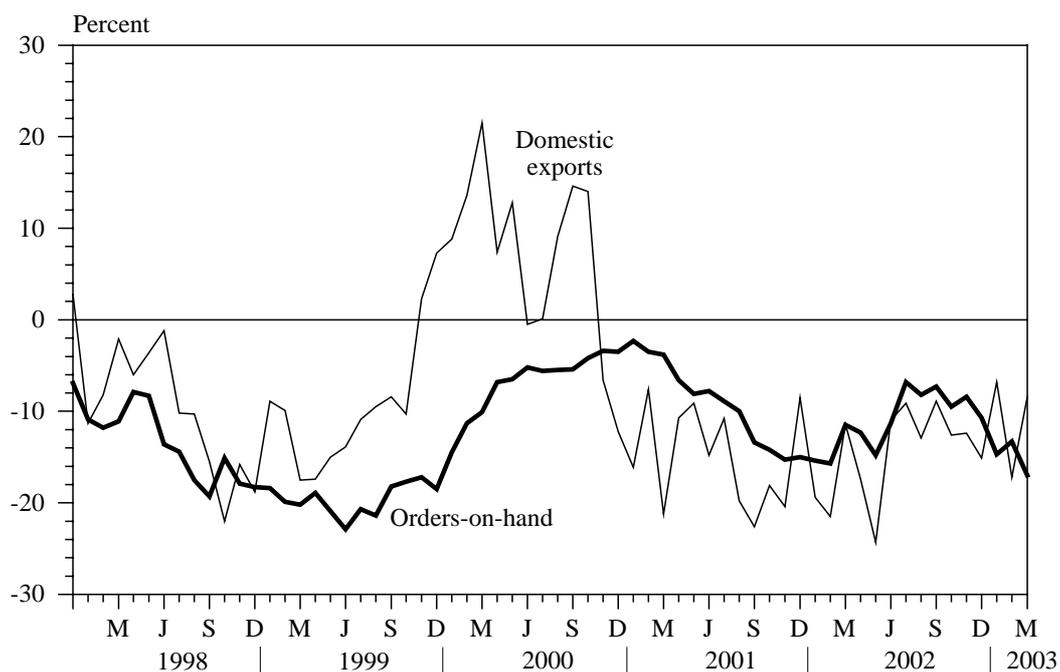


Table 3.3

Orders-on-hand in the local manufacturing sector

		<u>Value index of Orders-on-hand</u> (1993=100)	<u>Year-on-year rate of change in value terms</u> (%)
2002	Mar	54.1	-11.5
	Jun	55.6	-11.3
	Sep	49.2	-7.3
	Dec	42.4	-10.7
2003	Mar [#]	44.9	-17.0

Note : (#) Provisional figures.

/Service

Service sector receipts

3.7 Business receipts in the service sectors surveyed showed a mixed performance in the fourth quarter of 2002. Analysed by constituent sector and in value terms, business receipts in financing (except banking) dipped by 11.1% in the fourth quarter of 2002 over a year earlier, mainly reflecting reduced turnover in the stock market. Business receipts in storage fell by 6.8%, owing to reduction in rental charges for storage space. Business receipts in real estate showed a further decline of 5.2%, amidst a sluggish property market. Business receipts in wholesale trade, restaurants, retail trade and film entertainment went down by 6.2%, 5.9%, 2.4% and 1.8% respectively, being affected by subdued consumer spending and also lowered by price discounts from the business operators on their goods and services. Business receipts in business services declined by 3.5%, along with a general slow-down in commercial activities.

3.8 On the other hand, business receipts in insurance surged by 15.0%, in tandem with continued expansion in both general insurance and life insurance. Business receipts in hotels and transport also increased distinctly, by 12.5% and 10.6% respectively, mainly attributable to the substantial rise in incoming visitors. Business receipts in banking rose by 7.4%, primarily from larger non-interest income. Business receipts in the import/export trade increased by 5.3%, as external trade improved further. Business receipts in communications showed a small rebound, with a 0.5% rise, reversing the decreasing trend in the earlier quarters.

3.9 For 2002 as a whole, business receipts generally declined in the service sectors surveyed, with the exception of insurance and transport. Business receipts in storage, financing (except banking), wholesale trade and film entertainment suffered greater declines than the rest, by 9 – 20%.

/Table 3.4

Table 3.4**Index of Business Receipts for individual service sectors
(year-on-year rate of change in value terms (%))**

	<u>2001</u>					<u>2002</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Service sector</u>										
Import/export trade	-14.1	-2.1	-13.7	-18.5	-20.0	-2.8	-15.4	-2.6	1.8	5.3
Wholesale trade	-12.0	-8.3	-12.5	-13.5	-13.3	-10.7	-14.7	-12.8	-8.9	-6.2
Retail trade	-1.2	-0.1	2.3	-2.0	-5.3	-4.1	-3.7	-5.8	-4.3	-2.4
Restaurants	-2.5	0.1	-0.7	-4.5	-4.8	-5.4	-5.4	-6.0	-4.5	-5.9
Hotels	-7.6	3.3	1.9	-10.5	-21.3	-2.3	-12.5	-6.6	-2.5	12.5
Banking	2.7	-1.7	4.5	3.6	4.5	-0.8	-7.2	0.3	-4.2	7.4
Financing (except banking)	-12.6	-14.5	1.5	-22.6	-13.5	-14.3	-25.2	-11.4	-6.9	-11.1
Insurance	14.2	4.2	24.9	13.9	13.9	10.3	10.0	6.0	9.8	15.0
Real estate	-16.9	-22.0	-21.4	-18.1	-3.8	-2.5	-0.1	3.5	-8.4	-5.2
Business services	-9.6	-0.7	-6.9	-12.8	-16.5	-5.8	-10.4	-4.0	-5.0	-3.5
Transport	-2.4	11.3	-2.4	-8.2	-7.5	2.3	-8.2	0.3	6.1	10.6
Storage	-14.9	-7.7	-13.1	-16.8	-22.0	-19.6	-21.7	-27.4	-20.4	-6.8
Communications	-13.2	-11.0	-11.7	-16.0	-13.9	-2.6	-5.2	-4.3	-1.4	0.5
Film entertainment	15.2	3.0	22.2	18.1	17.6	-9.1	2.6	-15.5	-18.9	-1.8

Property

3.10 The sales market for *residential property* remained generally slack in the first quarter of 2003. Following the Government's promulgation of nine policy measures to stabilise the housing market in late 2002⁽⁵⁾, transactions went up briefly in January, but receded to a distinctly lower level in February and March, as worries over job security and income stability surfaced again to deter demand. Acquisition interest was curtailed further since mid-March, first in the light of the uncertainties stemming from the war on Iraq, and then upon the

/severe

severe impact of the spread of atypical pneumonia in Hong Kong. Also, the ample supply of new flats in the mass market continued to pose a drag. Amidst the austere situation, developers either withheld sales or staged more intensive promotion, by offering larger price discounts and more sweeteners to prospective flat buyers⁽⁶⁾. Meanwhile, the luxurious end of the market turned slightly more active, stimulated in part by the Government's new policy measure to attract investment immigrants announced in February⁽⁷⁾. As to the rental market for residential property, performance remained lacklustre in overall terms, given the still subdued user demand and increased supply of flats for lease.

3.11 On a quarter-to-quarter comparison, flat prices fell further, on average by 5% in the first quarter of 2003, after a 6% drop in the fourth quarter of 2002. Flat rentals also declined further, on average by 4% in the first quarter of 2003, following a similar fall in the fourth quarter of 2002. Compared with the peak levels in the third quarter of 1997, flat prices and rentals in the first quarter of 2003 were down substantially, by an average of 64% and 45% respectively.

3.12 On *commercial property*, both the sales and rental markets for *office space* remained weak in the first quarter of 2003, upon further consolidation and downsizing in the corporate sector amidst an uncertain business outlook. The market for Grade A office space, especially in the central business district, continued to be pulled down by abundant supply with the completion of some new projects, as well as by reduced demand with the relocation of more companies to the secondary districts for saving costs. On a quarter-to-quarter comparison, prices for office space on average fell further by 6% in the first quarter of 2003, having dropped by 5% in the fourth quarter of 2002. Office rentals on average declined by 3% in the first quarter of 2003, following a 1% cut in the fourth quarter of 2002. The effective rentals could have fallen more, given the longer rent-free periods and other lease concessions offered by many landlords in order to improve occupancy. Against their respective peak levels in 1994, prices and rentals of office space in the first quarter of 2003 were drastically lower, by an average of 74% and 58%.

3.13 The sales and rental markets for *shopping space* likewise remained bleak in the first quarter of 2003, owing to the still subdued retail business, mostly in the segment serving local consumers. Since mid-March, the markets turned even dimmer, as both inbound tourism and local consumption were

/severely

severely hit by the spread of atypical pneumonia in Hong Kong. Landlords of such premises were under a widespread plea to grant temporary rental concessions to help ease the financial difficulties facing the operators, particularly those in the restaurant and entertainment businesses which were being affected most. On a quarter-to-quarter comparison, rentals for shopping space fell on average by 2% in the first quarter of 2003, after nil change in the fourth quarter of 2002. Prices for shopping space were on average down by 5% in the first quarter of 2003, after a 4% decrease in the fourth quarter of 2002. Compared with the peak levels in the third quarter of 1997, prices and rentals for shopping space in the first quarter of 2003 plummeted by an average of 59% and 27% respectively.

3.14 On *industrial property*, the rental and sales markets remained stagnant in overall terms in the first quarter of 2003, on the back of a continued downtrend in local manufacturing activity. On a quarter-to-quarter comparison, rentals of industrial space on average edged down by 1% in the first quarter of 2003, following a 1% increase in the fourth quarter of 2002. Prices of industrial space on average also went down by 1% in the first quarter of 2003, after a 3% drop in the fourth quarter of 2002. Against their respective peak levels in 1994, prices and rentals of industrial space in the first quarter of 2003 slumped by an average of 69% and 47%.

3.15 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, went down by 5% in number albeit unchanged in total value in the first quarter of 2003 over the fourth quarter of 2002. Analysed by main type of property, transactions in residential property declined by 10% in number yet somewhat less by 7% in total value, as transactions in the luxurious end of the market were relatively more in that quarter. The decrease in transactions in residential property was partly offset by the increase in transactions in non-residential property, by 19% in number and 46% in total value. Compared with a year earlier, overall property transactions went down further in the first quarter of 2003, by 21% in number and 23% in total value. Again, this was mainly attributable to reduced transactions in residential property, by 24% in number and 28% in total value, while transactions in non-residential property were lower by 7% in number yet 14% higher in total value. Property transfer assignments, being a lagging indicator of property transactions, went up by 4% in number but went down by 7% in total value in the first quarter of 2003 over the fourth quarter of 2002.

/Compared

Compared with a year earlier, they fell by 9% and 7% respectively. As to mortgage arrangements in the first quarter of 2003, there was a marginal increase of 1% in number over the fourth quarter of 2002, but a setback of 20% in number over a year earlier.

3.16 On Government-subsidised flats, there were no new sales of flats under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) in the first quarter of 2003, following the announcement in mid-November 2002 to cease the production and sale of HOS flats and also to halt the sale of public rental flats under TPS.

Table 3.5

Indices of Property Prices and Rentals

	<u>Residential flats</u>		<u>Office space</u>		<u>Shopping space</u>		<u>Conventional flatted factory space</u>	
	<u>Price index^(a)</u> (1999=100)	<u>Rental index^(b)</u> (1999=100)	<u>Price index</u> (1999=100)	<u>Rental index^(b)</u> (1999 =100)	<u>Price index</u> (1999=100)	<u>Rental index^(b)</u> (1999=100)	<u>Price index</u> (1999=100)	<u>Rental index^(b)</u> (1999=100)
2002 Q1	73.8 (*)	87.4 (-4)	71.2 (*)	89.6 (-6)	84.4 (*)	94.0 (-3)	75.4 (-3)	85.5 (-2)
Q2	72.2 (-2)	84.8 (-3)	68.8 (-3)	85.4 (-5)	86.6 (3)	92.6 (-1)	76.9 (2)	83.0 (-3)
Q3	68.6 (-5)	82.4 (-3)	68.6 (*)	84.0 (-2)	86.1 (-1)	92.8 (*)	74.4 (-3)	81.1 (-2)
Q4 [^]	64.8 (-6)	79.1 (-4)	65.4 (-5)	83.2 (-1)	82.9 (-4)	92.6 (*)	72.4 (-3)	81.7 (1)
2003 Q1 [^]	61.8 (-5)	76.3 (-4)	61.8 (-6)	80.5 (-3)	79.0 (-5)	90.7 (-2)	71.6 (-1)	81.0 (-1)

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

(a) Prices for residential property in this table cover existing flats traded in the secondary market, but not new flats sold in the primary market.

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

() % change over the preceding quarter.

([^]) Provisional figures.

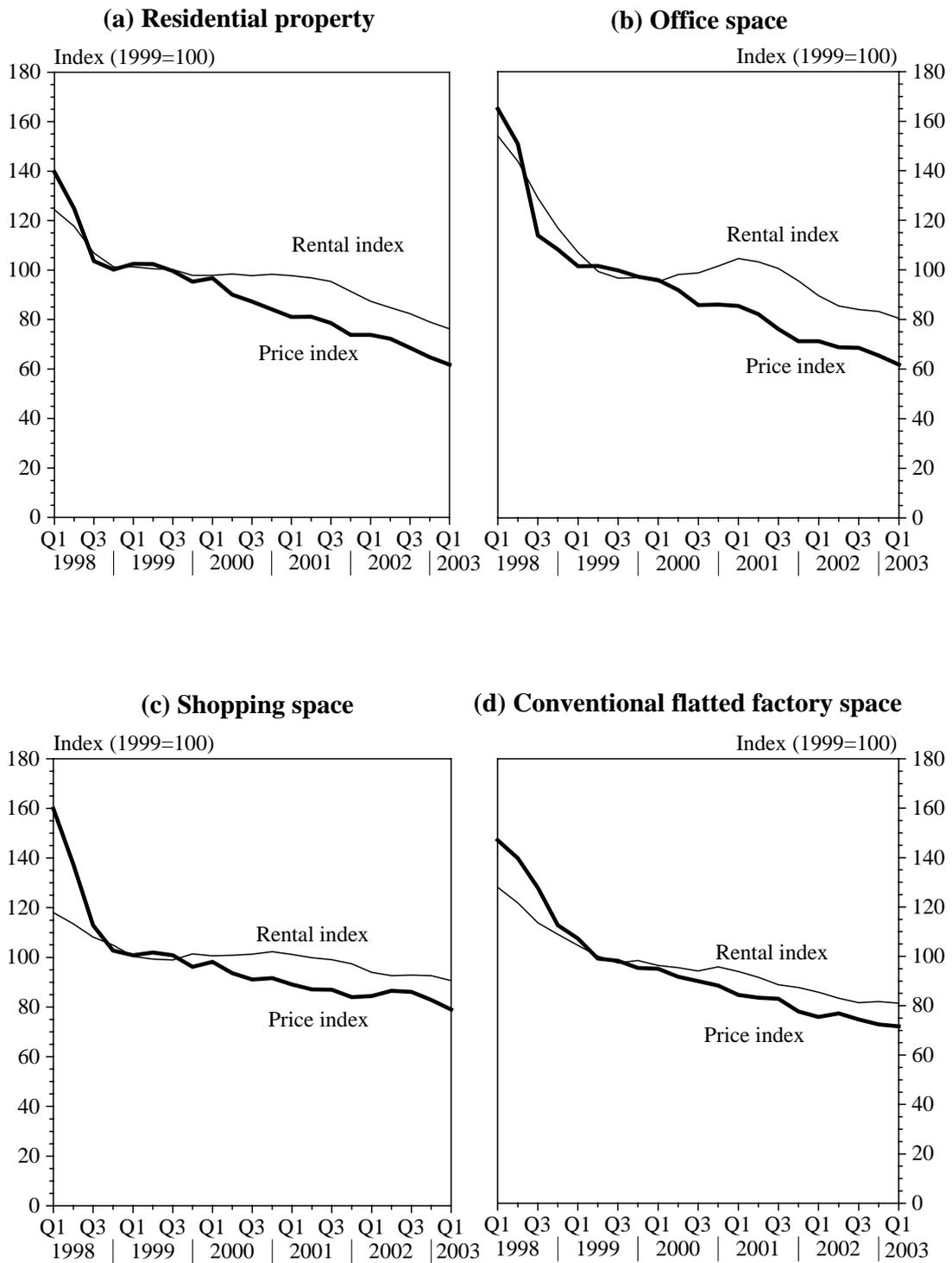
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.3

Diagram 3.3

Property prices and rentals



Note : See the footnotes to Table 3.5.

/Table 3.6

Table 3.6**Relationship between mortgage rate
and monthly instalment payment**

		Average of the best lending rates quoted by the principal banks <u>in Hong Kong</u> (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks <u>in Hong Kong</u> ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b) (\$)		
				<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
2002	Q1	5.13	2.63	949	673	536
	Q2	5.13	2.63	949	673	536
	Q3	5.13	2.63	949	673	536
	Q4	5.07	2.55	945	669	533
2003	Q1	5.00	2.50	943	667	530
	Jan	5.00	2.50	943	667	530
	Feb	5.00	2.50	943	667	530
	Mar	5.00	2.50	943	667	530

- Notes : (a) Here the effective mortgage rate refers to the modal value, representing the rate most commonly charged to customers amongst the banks.
- (b) These figures are based on equal monthly repayments throughout the mortgage period.

/3.17

3.17 On supply of new property, conditions varied amongst different types of property. *Completions* of private residential flats leaped by 49% in the first quarter of 2003 over a year earlier, up from a 31% increase in the fourth quarter of 2002. Completions of other commercial premises also rose sharply, by 167% in the first quarter of 2003 over a year earlier, though markedly below the 671% surge in the fourth quarter of 2002. Both figures were affected by a low base of comparison in the same quarter in the preceding year. On the other hand, completions of office space plunged by 38% in the first quarter of 2003 over a year earlier, having soared by 1 389% in the fourth quarter of 2002 from a low base in the same quarter in 2001. As to industrial property, completions surged by 474% in the first quarter of 2003 over a year earlier, again due to a very low base, after an increase of 82% in the fourth quarter of 2002. Comparing the twelve months ending March 2003 with the preceding twelve-month period, completions of private residential flats, commercial premises and office space all went up considerably, by 54%, 46% and 47% respectively, yet completions of industrial property dipped by 11%.

/Table 3.7

Table 3.7**Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		<u>Residential property^(a)</u>		<u>Non-residential property</u>		<u>Total</u>		<u>Residential property^(a)</u>		<u>Non-residential property</u>		<u>Total</u>	
2002	Annual	72 974	(5)	12 947	(-30)	85 921	(-3)	154.3	(2)	31.1	(-26)	185.4	(-4)
	H1	40 921	(25)	6 877	(-37)	47 798	(9)	89.9	(27)	14.4	(-38)	104.3	(11)
	H2	32 053	(-13)	6 070	(-19)	38 123	(-14)	64.4	(-19)	16.7	(-11)	81.1	(-18)
	Q1	18 992	(26)	3 569	(-40)	22 561	(7)	41.5	(21)	6.1	(-44)	47.7	(5)
	Q2	21 929	(24)	3 308	(-35)	25 237	(11)	48.3	(32)	8.3	(-32)	56.6	(16)
	Q3	16 120	(-11)	3 277	(-12)	19 397	(-11)	32.3	(-22)	11.9	(37)	44.2	(-11)
	Q4	15 933	(-15)	2 793	(-26)	18 726	(-17)	32.1	(-17)	4.8	(-52)	36.9	(-24)
2003	Q1	14 386	(-24)	3 329	(-7)	17 715	(-21)	29.9	(-28)	7.0	(14)	36.9	(-23)
			<-10>		< 19>		< -5>		< -7>		< 46>		< * >
	Jan	6 187	(-21)	1 106	(-20)	7 293	(-21)	12.0	(-34)	2.6	(5)	14.6	(-29)
	Feb	3 649	(-36)	973	(-14)	4 622	(-32)	6.4	(-48)	1.6	(-4)	8.0	(-43)
	Mar	4 550	(-17)	1 250	(19)	5 800	(-11)	11.5	(5)	2.8	(40)	14.3	(10)

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

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

() % change over a year earlier.

< > % change over the preceding quarter.

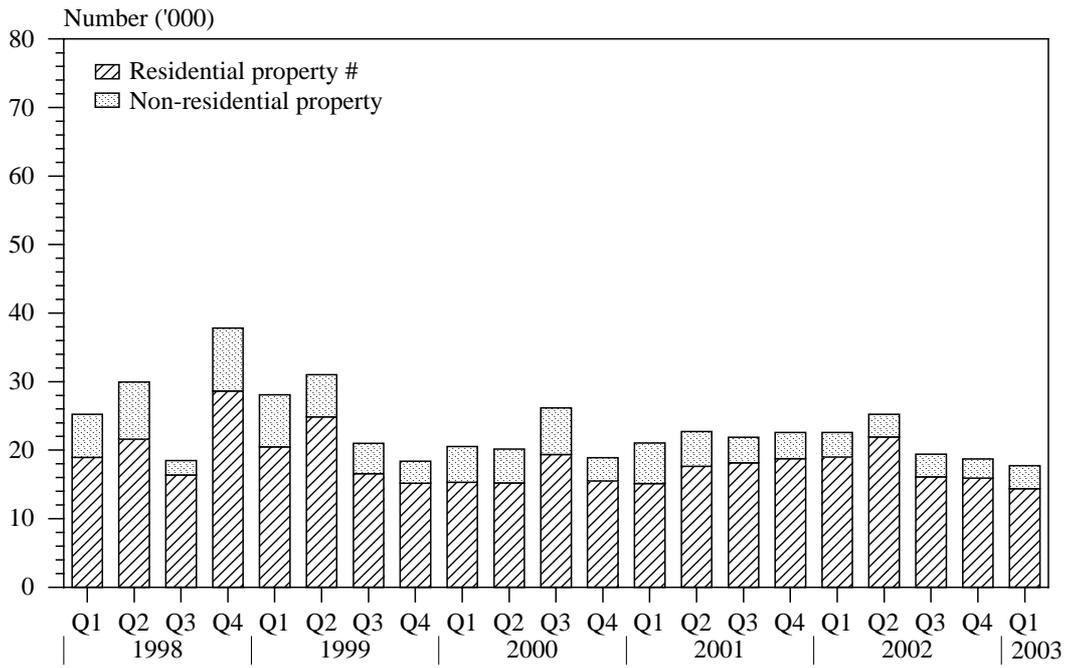
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.4

Diagram 3.4

Sale and purchase agreements by broad type of property



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

/Table 3.8

Table 3.8**Property transfer assignments and mortgage arrangements**

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
2002	Annual	119 734	(-17)	198.1	(-19)	121 791	(-22)
	H1	61 350	(-19)	100.5	(-20)	64 384	(-19)
	H2	58 384	(-14)	97.6	(-17)	57 407	(-26)
	Q1	31 512	(-19)	48.5	(-24)	33 650	(-18)
	Q2	29 838	(-19)	52.0	(-17)	30 734	(-21)
	Q3	30 998	(-24)	49.1	(-36)	30 721	(-33)
	Q4	27 386	(*)	48.5	(18)	26 686	(-14)
2003	Q1	28 557	(-9) <4>	45.0	(-7) <-7>	26 941	(-20) <1>
	Jan	10 895	(-10)	16.2	(-25)	10 294	(-23)
	Feb	9 283	(11)	16.2	(29)	9 097	(-2)
	Mar	8 379	(-25)	12.6	(-12)	7 550	(-32)

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

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

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

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Land Registry.

/Table 3.9

Table 3.9

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

<u>Usage</u>	<u>First quarter of 2002</u>	<u>First quarter of 2003[^]</u>	<u>Year- on-year rate of change</u> (%)	<u>Twelve months ending March 2002</u>	<u>Twelve months ending March 2003[^]</u>	<u>Year- on-year rate of change</u> (%)
Residential ^(a)	3 356	4 991	49	23 090	35 670	54
Commercial	69	78	13	214	313	46
<i>Of which:</i>						
Office space	52	32	-38	99	146	47
Other commercial premises (mainly shopping space) ^(b)	17	46	167	115	167	46
Industrial ^(c)	3	16	474	48	42	-11
<i>Of which:</i>						
Industrial-cum-office premises	0	16	--	14	16	8
Flatted factory space	3	0	-100	33	0	-100
Storage premises ^(d)	0	0	--	0	27	--

Notes : (a) These include all newly completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village-type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme will need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned.

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

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

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

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

([^]) Provisional figures.

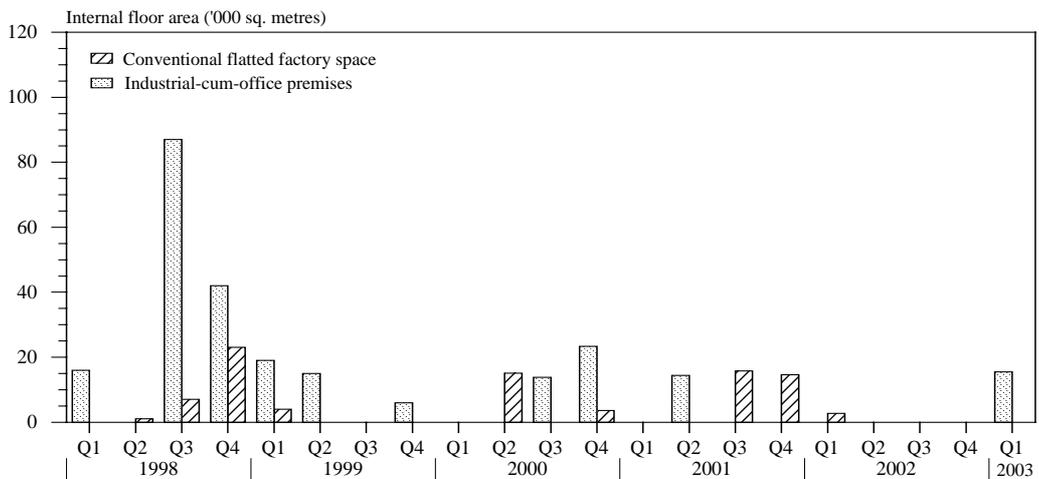
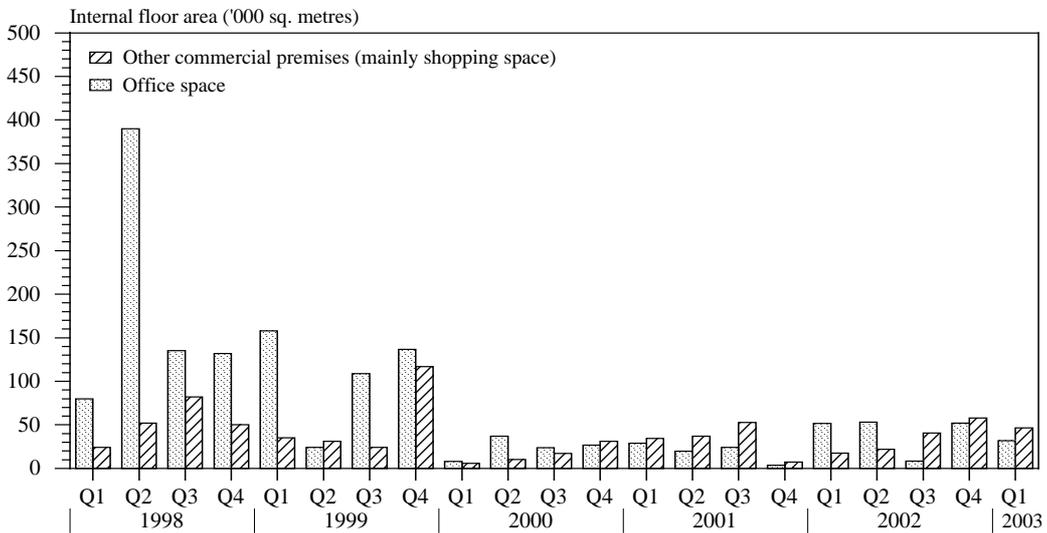
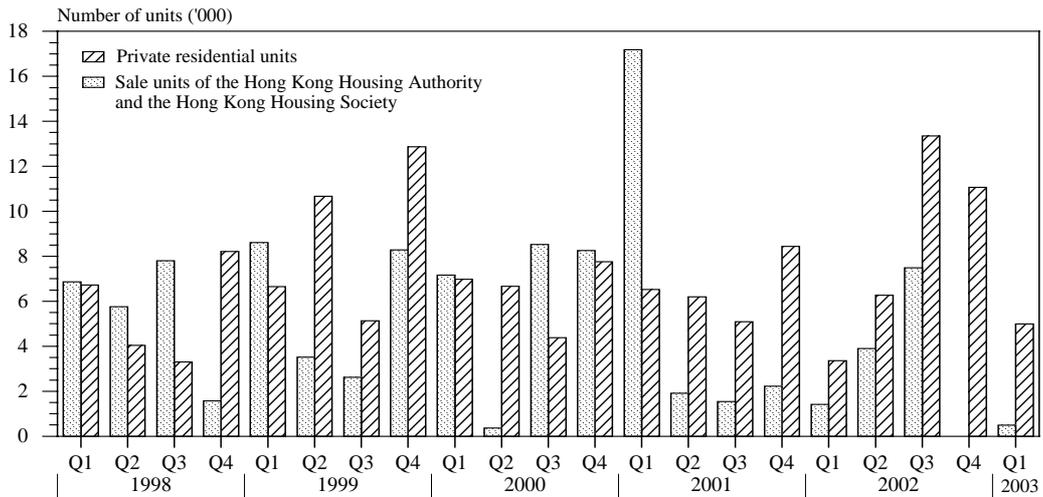
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.5

Diagram 3.5

Completions of new property by major category



Note : See the footnotes to Table 3.9.

3.18 *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, surged by 112% in the first quarter of 2003 over a year earlier, mainly due to a low base of comparison for that quarter. This followed a 4% decline in the fourth quarter of 2002. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property soared by 319% in terms of units or by 214% in terms of total usable floor area in the first quarter of 2003 from a low base a year earlier. This was in stark contrast to the respective decreases of 53% and 47% in the fourth quarter of 2002. On the other hand, planned developments of commercial property plummeted, by 67% in the first quarter of 2003, yet partly affected by a high base a year earlier. This came after a surge of 130% in the fourth quarter of 2002. There were no new planned developments of industrial property in the first quarter of 2003, following a sharp rise of 118% in the fourth quarter of 2002 against a low base. Planned developments of property in the “others” category continued to surge, by 301% in the first quarter of 2003 over a year earlier, following a 705% leap in the fourth quarter of 2002 against a low base. Comparing the twelve months ending March 2003 with the preceding twelve-month period, planned developments of all types of property increased by 45%. Planned developments of private residential property rose by 39% in terms of units or by 46% in terms of total usable floor area. Planned developments of property in the “others” category, industrial property and commercial property also went up, by 261%, 83% and 4% respectively.

/Table 3.10

Table 3.10

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

<u>Usage</u>	<u>First quarter of 2002</u>	<u>First quarter of 2003</u>	<u>Year-on-year rate of change (%)</u>	<u>Twelve months ending March 2002</u>	<u>Twelve months ending March 2003</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a)	126 (2 889)	396 (12 115)	214 (319)	724 (19 124)	1 060 (26 518)	46 (39)
Commercial	73	24	-67	305	316	4
Industrial ^(b)	14	0	-100	51	93	83
Others	16	65	301	44	158	261
Total	229	485	112	1 124	1 627	45

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

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

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

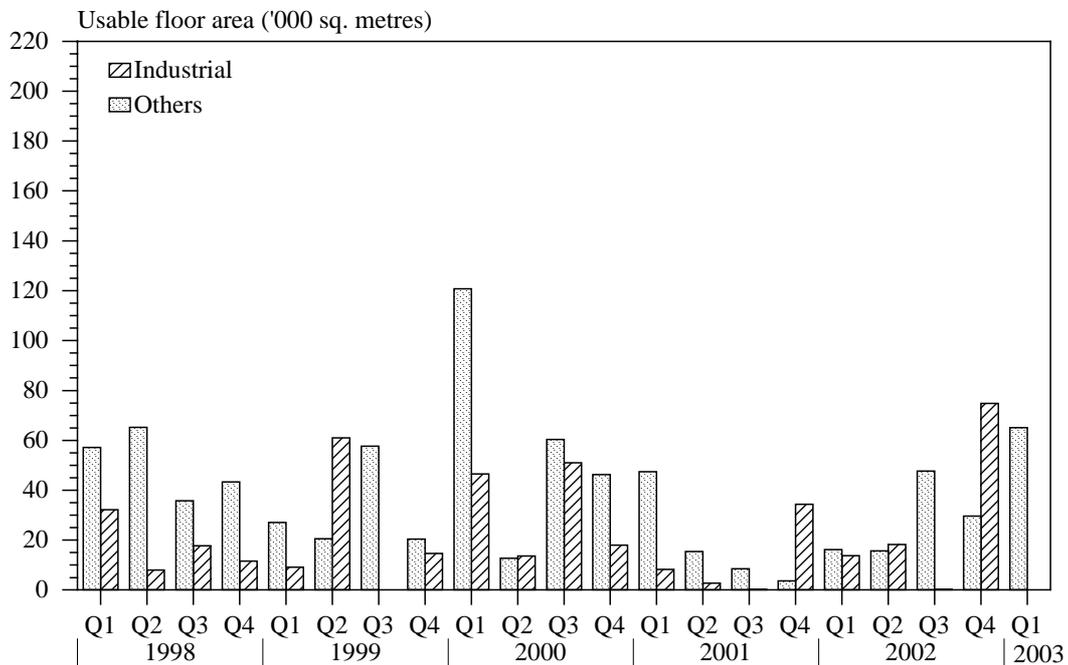
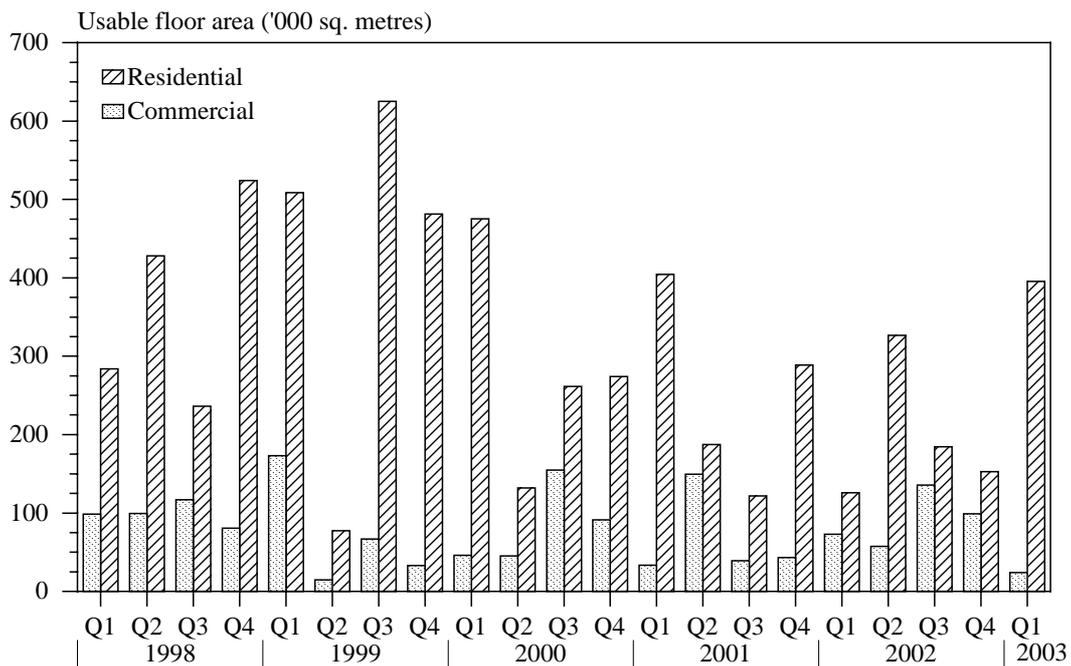
() Number of units.

Source : Buildings Department.

/Diagram 3.6

Diagram 3.6

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



Note : See the footnotes to Table 3.10.

Building and construction

3.19 Building and construction activity declined modestly in the first quarter of 2003. Reflecting this, overall expenditure on building and construction contracted by 3% in real terms in the first quarter of 2003 over a year earlier, following a 6% decrease in the fourth quarter of 2002 yet an increase of 1% for 2002 as a whole.

3.20 Expenditure on building and construction by the public sector fell by 2% in real terms in the first quarter of 2003 over a year earlier, after an increase of 2% in the fourth quarter of 2002 but a decline of 6% for the entire year. To a large extent, this was due to a further scale-back in the Public Housing Programme. Also relevant were winding down of the KCR West Rail, and completion of the MTR Tseung Kwan O Extension in the latter part of last year.

3.21 Expenditure on building and construction by the private sector went down by 3% in real terms in the first quarter of 2003 over a year earlier, subsequent to a 10% decline in the fourth quarter of 2002 but a 4% increase for the entire year. Activity in the private sector had tended to taper down since late 2002, after the more distinct rise earlier in the year.

Table 3.11

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

		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2002	Annual [#]	4	-6	1
	Q1 [#]	5	-17	-3
	Q2 [#]	10	3	8
	Q3 [#]	14	-6	8
	Q4 [#]	-10	2	-6
2003	Q1 ⁺	-3	-2	-3

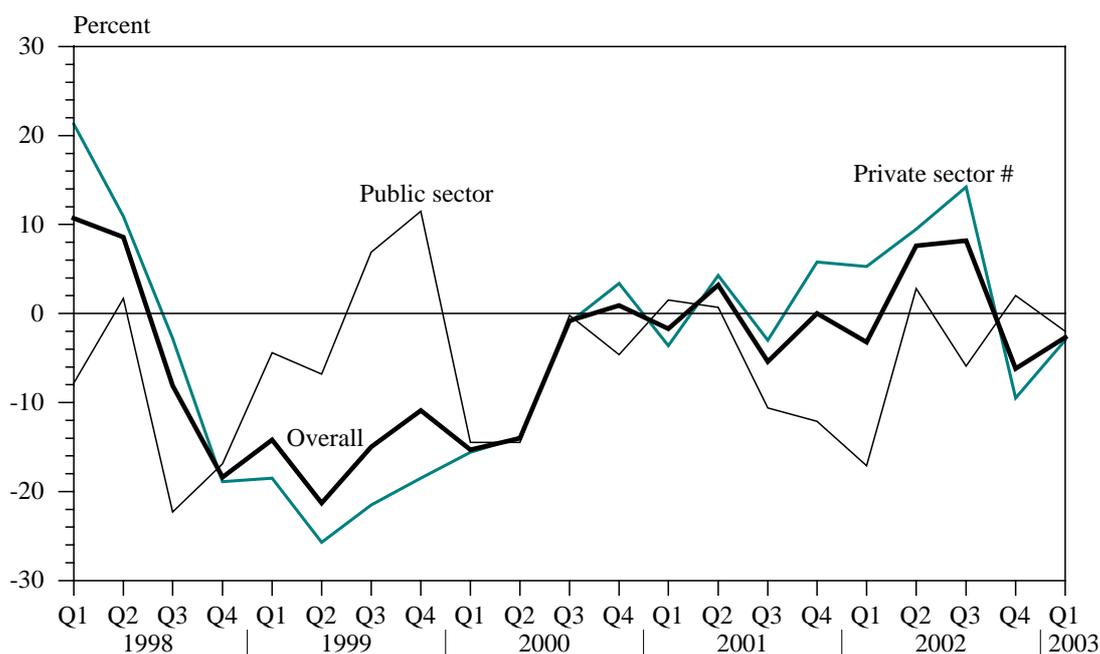
Notes : (#) Revised figures.

(+) Preliminary figures.

/Diagram 3.7

Diagram 3.7

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



Note : (#) See Footnote (a) to Table 3.11.

3.22 Retained imports of construction machinery went down distinctly further, by 9% in real terms in the first quarter of 2003 over a year earlier, after a decline of 3% in the fourth quarter of 2002 and an increase of 11% for 2002 as a whole. This was likely to be related to the slow-down in activity in the entire building and construction sector over the past two quarters.

3.23 On the other hand, retained imports of construction materials increased markedly by 42% in real terms in the first quarter of 2003 over a year earlier, partly due to a relatively low base of comparison. This followed an increase of 13% in the fourth quarter of 2002 and a decline of 10% for 2002 as a whole.

/3.24

3.24 Labour cost in the building and construction sector, as measured by the Labour Cost Index, was virtually unchanged in the fourth quarter of 2002 over a year earlier, having likewise remained stable in the third quarter and for 2002 as a whole. In 2001, there was a 1% rise. Building material cost, as measured by the Material Cost Index, also recorded nil change in the third and fourth quarters of 2002 over a year earlier. Yet for 2002 as a whole, there was a 1% decline, against zero change in 2001. Taken together, the combined Labour and Material Cost Index was static in both the third and fourth quarters of 2002 over a year earlier, and was also flat for both 2002 and 2001 as a whole.

Table 3.12

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

		<u>Labour Index</u>	<u>Material Index</u>	<u>Combined Index</u>
2001	Annual	3 581 (1)	758 (*)	1 756 (*)
	Q1	3 600 (3)	762 (*)	1 765 (2)
	Q2	3 581 (1)	759 (*)	1 757 (1)
	Q3	3 579 (*)	757 (*)	1 755 (*)
	Q4	3 564 (-2)	754 (-1)	1 748 (-2)
2002	Annual	3 575 (*)	754 (-1)	1 752 (*)
	Q1	3 570 (-1)	752 (-1)	1 749 (-1)
	Q2	3 588 (*)	753 (-1)	1 756 (*)
	Q3	3 583 (*)	755 (*)	1 755 (*)
	Q4	3 561 (*)	756 (*)	1 748 (*)
		<-1>	<*>	<*>

Notes : () % change over a year earlier.

< > % change over the preceding quarter.

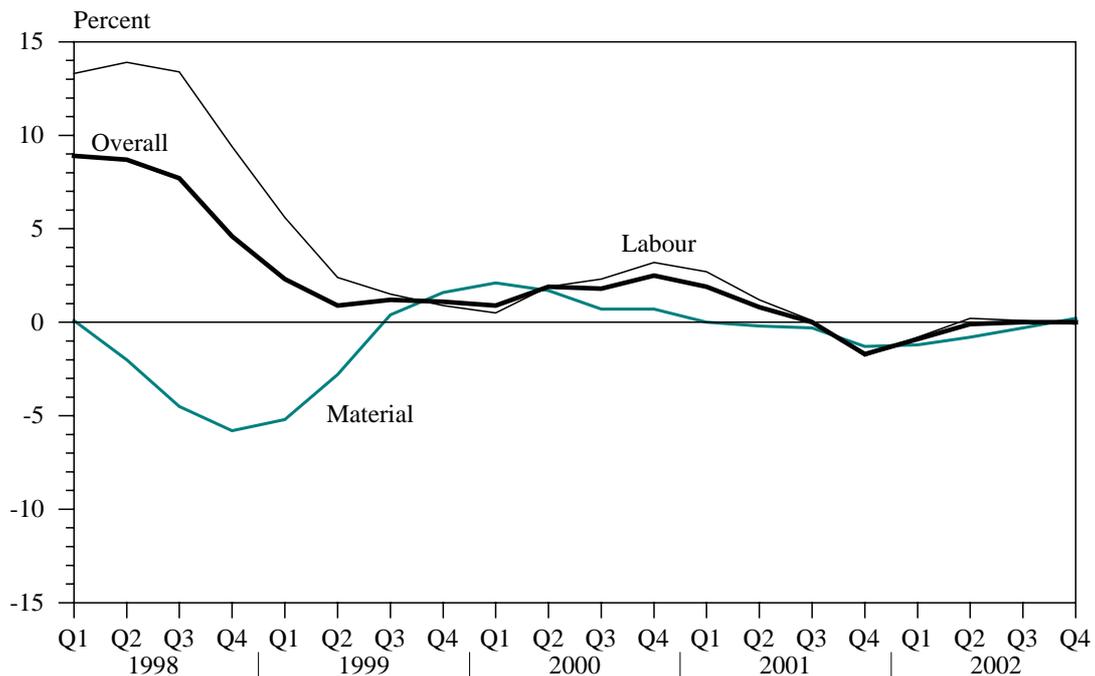
(*) Change of less than 0.5%.

Source : Architectural Services Department.

/Diagram 3.8

Diagram 3.8

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



3.25 Yet tender prices showed divergent movements in the fourth quarter of 2002. The Tender Price Index (TPI) for public housing projects compiled by the Housing Department fell further, by 10% in the fourth quarter of 2002 over a year earlier, after a 6% decline in the third quarter. This was attributable to intense competition amongst the contractors for a much reduced volume of public housing projects. In contrast, the TPI for public sector building projects compiled by the Architectural Services Department, supported by a greater volume of government building projects put out for tender, went up slightly, by 2% in the fourth quarter of 2002 over a year earlier, reversing the 14% decline in the third quarter. For 2002 as a whole, the two tender price indices fell by 10% and 12% respectively, following decreases of 15% and 9% in 2001.

/Table 3.13

Table 3.13

Tender Price Indices (TPI) for public sector projects

		TPI for public housing projects ^(a) (Jan 1970=100)		TPI for public sector building projects ^(b) (Jan 1970=100)	
2001	Annual	584	(-15)	808	(-9)
	Q1	612	(-18)	862	(-10)
	Q2	611	(-14)	842	(-4)
	Q3	558	(-17)	807	(-6)
	Q4	553	(-12)	721	(-15)
2002	Annual	527	(-10)	714	(-12)
	Q1	556	(-9)	687	(-20)
	Q2	533	(-13)	742	(-12)
	Q3	525	(-6)	692	(-14)
	Q4	495	(-10)	733	(2)
			<-6>		<6>

Notes : (a) Compiled by the Housing Department.

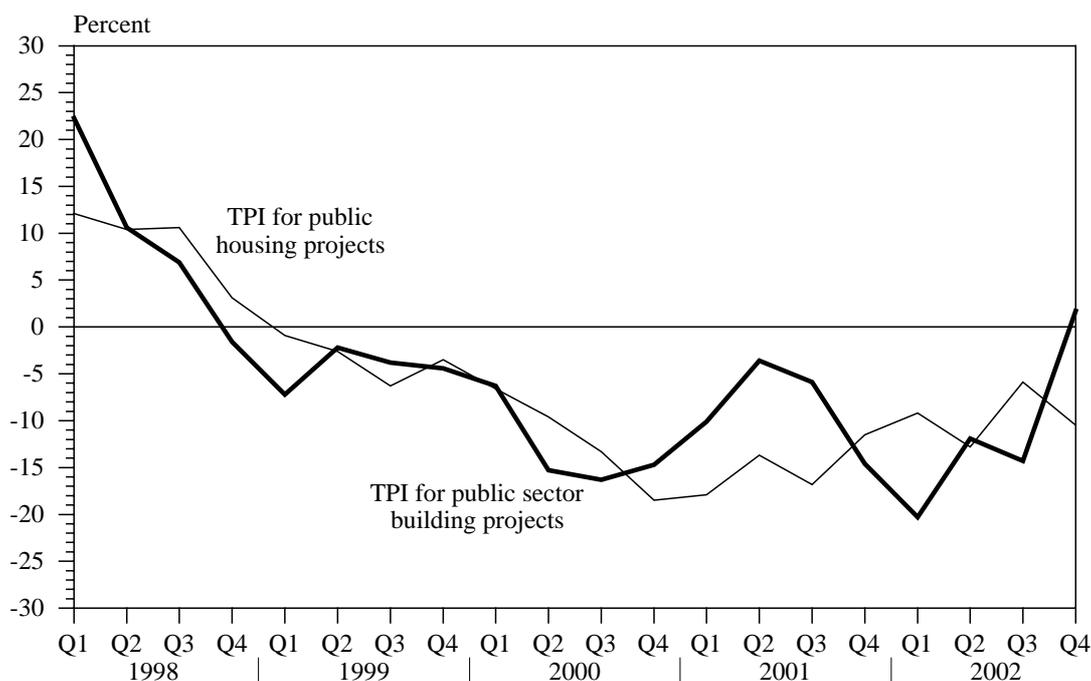
(b) Compiled by the Architectural Services Department.

() % change over a year earlier.

< > % change over the preceding quarter.

Diagram 3.9

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



/Land

Land

3.26 In the first quarter of 2003, there was no land sale whether at auction or by tender by the Government, following its announcement in November 2002 of the decision to cancel the two scheduled land auctions in the remainder of the financial year 2002/03 and to suspend the Application List⁽⁸⁾ until December 2003, as part of the package of measures to stabilise the housing market.

Table 3.14

Usage	Land sales at auction and by tender by the Government (hectares)	
	2002	First quarter of 2003
Residential	6.4	-
Residential/commercial	0.1	-
Commercial	-	-
Industrial	-	-
Others	-	-
Total	<hr/> 6.4	<hr/> -

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

Source : Lands Department.

3.27 On modification of lease on existing developed and developable land in the private sector domain⁽⁹⁾, seventeen applications were approved by the Government in the first quarter of 2003. Of this total, nine applications were for residential development, and one application each for residential-cum-commercial development, commercial development, industrial development, and education and community facilities. The remaining four were for other purposes.

/3.28

3.28 In the first quarter of 2003, there was no new take-up of sites in the three industrial estates at Tai Po, Yuen Long and Tseung Kwan O. Meanwhile, one site of 0.35 hectare in the Tai Po Industrial Estate and one site of 0.49 hectare in the Yuen Long Industrial Estate were surrendered. As at end-March 2003, the take-up rates in these three industrial estates were 94.2%, 91.3% and 47.9% respectively.

3.29 As to the Science Park in Pak Shek Kok, approvals for admission were granted to 3 technology companies in the first quarter of 2003. This followed 22 admissions in 2002 since the official commencement of operation of the Science Park in late June last year, upon completion of Phase 1a of the development project. Most of the companies admitted were engaged in the electronics, biotechnology, information technology and telecommunications, and precision engineering fields. The remainder of Phase 1 would be completed by mid-2004, and planning for Phase 2 is underway.

Electricity and gas

3.30 *Local electricity consumption* rose by 3% over a year earlier to 7 500 million kWh in the first quarter of 2003, up from zero change in the fourth quarter of 2002 and a 2% increase for 2002 as a whole. Analysed by main user type, domestic consumption and commercial consumption went up by 6% and 3% respectively in the first quarter of 2003 over a year earlier, offsetting the 3% fall in industrial consumption. As to electricity exports to the Mainland, it increased by 8% in the first quarter of 2003 over a year earlier, after an increase of 6% in the fourth quarter of 2002 and a leap of 38% for 2002 as a whole. This was due to sustained strong demand in the Pearl River Delta region amidst the robust economic growth there. In the first quarter of 2003, electricity exports to the Mainland accounted for 6% of the total electricity generated in Hong Kong.

3.31 *Towngas consumption* grew by 4% over a year ago to 7 800 terajoules in the first quarter of 2003, following a 1% increase in the fourth quarter of 2002 and nil change for 2002 as a whole. Analysed by main user type, domestic consumption and commercial consumption went up by 5% and 2% respectively in the first quarter of 2003 over a year earlier, outweighing the 4% fall in industrial consumption.

/Internal

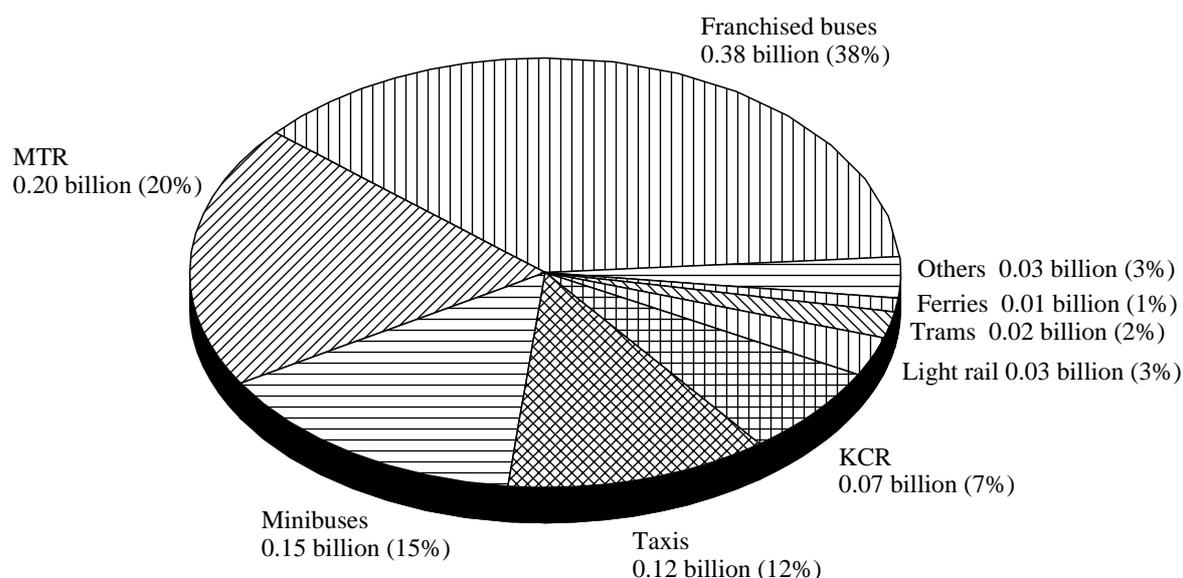
Internal transport

3.32 Total patronage on *public transport* went down by 1% over a year earlier to 1.0 billion in the first quarter of 2003, after zero growth in the fourth quarter of 2002 and a 2% rise for 2002 as a whole. Analysed by mode of transport, patronage on the Mass Transit Railway rose by 3% in the first quarter of 2003 over a year earlier, partly stimulated by the fare concessions offered. Patronage on mini-buses also went higher, by 1%. On the other hand, patronage on both the Light Rail and trams dropped by 6%, patronage on both franchised buses and ferries by 4%, and patronage on the Kowloon-Canton Railway Patronage by 3%. Patronage on taxis held steady.

3.33 On *private transport*, the total number of newly registered private cars fell markedly further, by 15% over a year earlier to 6 400 in the first quarter of 2003, following a 7% decline in the fourth quarter of 2002 and a 12% decline for 2002 as a whole. At end-March 2003, the total number of registered private cars was slightly up by 1% over a year earlier to 384 900, while the total number of licensed private cars showed little change at 340 100.

Diagram 3.10

Passenger journeys by mode of public transport in the first quarter of 2003



Total passenger journeys in the first quarter of 2003 : 0.99 billion

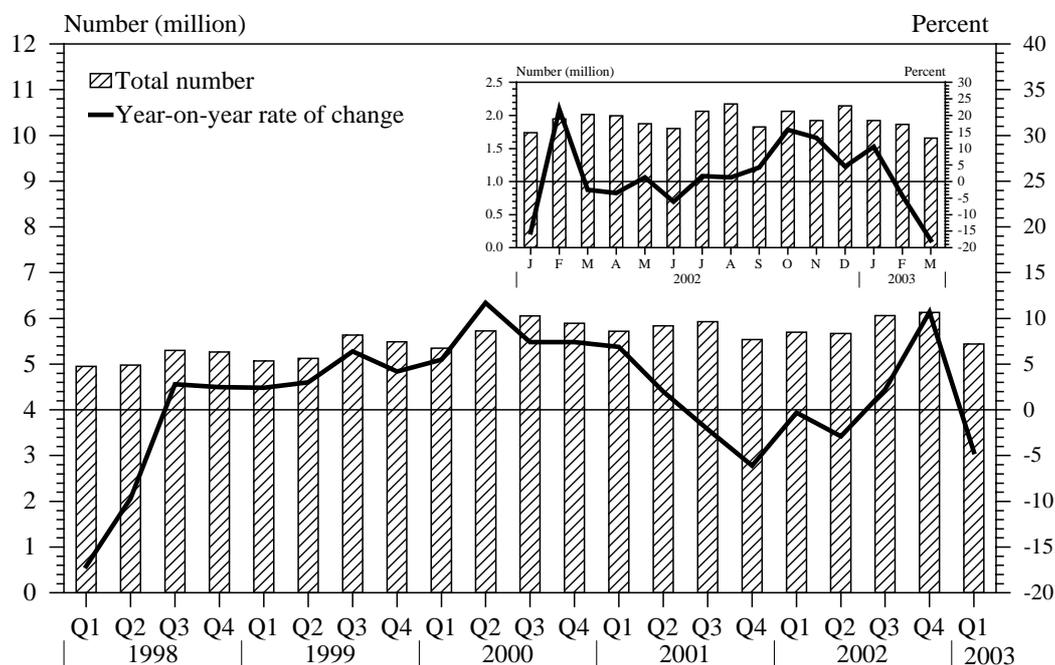
/External

External transport

3.34 On *air transport*, total *air passenger movements* declined by 5% over a year earlier to 5.4 million in the first quarter of 2003, as against the strong surge by 11% in the fourth quarter of 2002 yet a modest 2% rise for 2002 as a whole. The military tension built up in the Middle East throughout the quarter and the spread of atypical pneumonia in March both had a deterring effect on air travel. Within this total, air passenger arrivals and departures, both at 2.7 million, decreased by 4% and 5% respectively in the first quarter of 2003 over a year earlier. Air passengers coming from Mainland went up by 2%, but those going to Mainland fell by 3%. On the contrary, there was a marked increase in aircraft movements (including passenger and cargo flights), by 10% over a year earlier to 52 900 in the first quarter of 2003. While this was slower than the 13% rise in the fourth quarter of 2002, it was faster than the 5% growth for 2002 as a whole.

Diagram 3.11

Number of air passenger movements

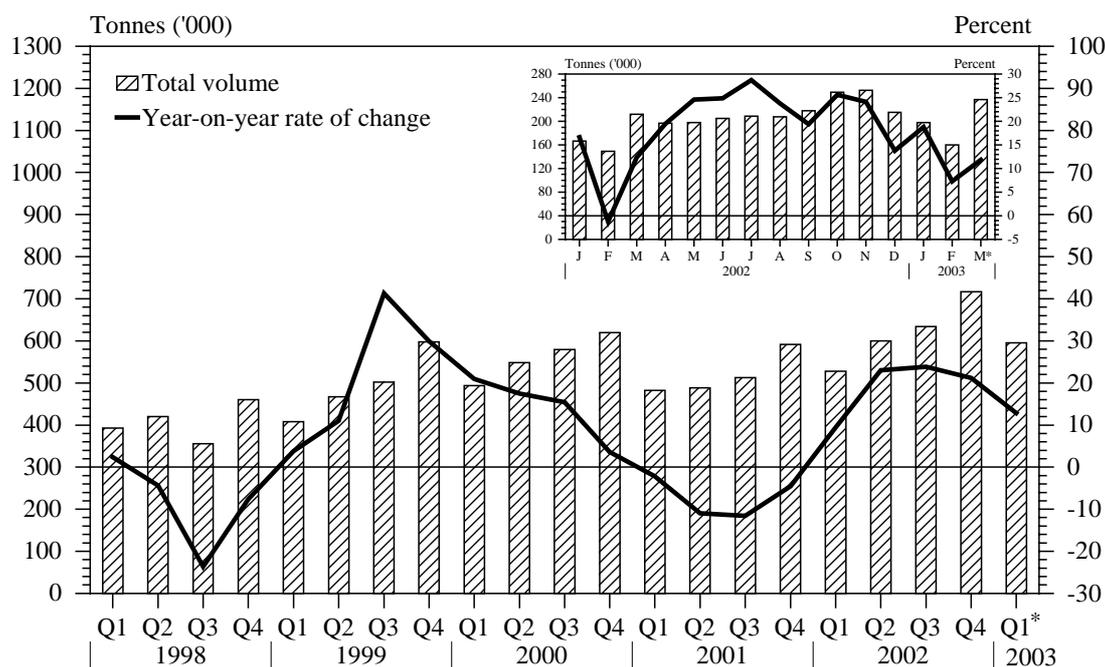


/3.35

3.35 Total *air cargo movements* surged further, by 13% over a year earlier to 595 100 tonnes in the first quarter of 2003. Yet this was more moderate than the leaps of 21% in the fourth quarter of 2002 and 19% for 2002 as a whole. Within the total, inward and outward air cargo went up by 9% and 15% respectively to 245 800 tonnes and 349 300 tonnes. These compared with the increases of 17% and 24% respectively in the fourth quarter of 2002, and of 12% and 25% respectively for 2002 as a whole.

Diagram 3.12

Cargo carried by air



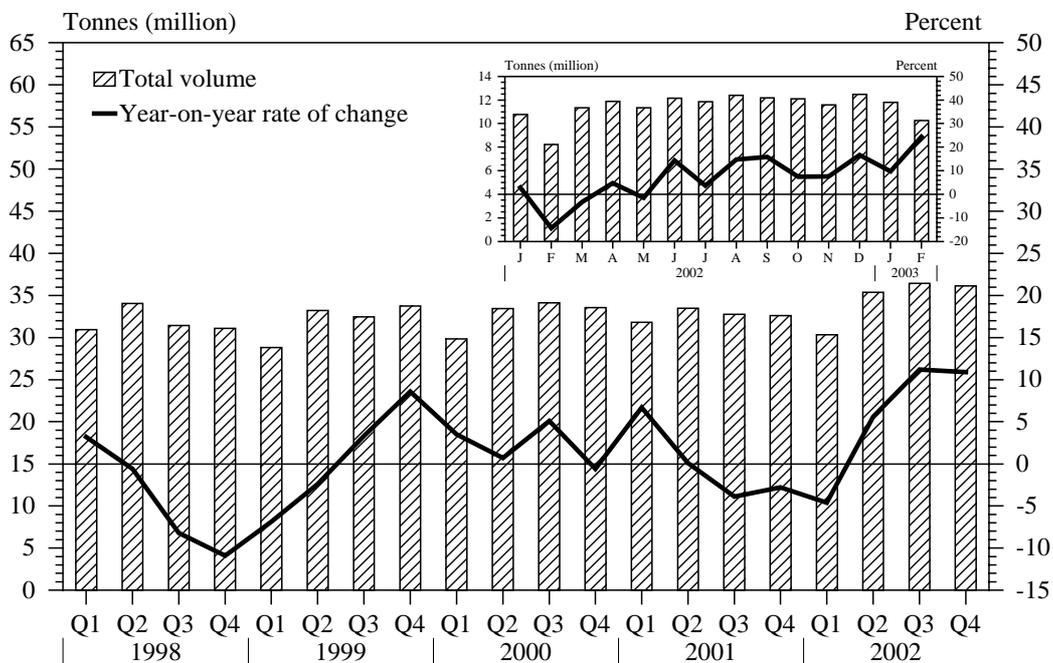
Note : (*) Provisional figures.

/3.36

3.36 On *ocean transport*, total *ocean cargo movements* amounted to 22.1 million tonnes in the first two months of 2003, significantly up by 16% from a year earlier. This was faster than the increases of 11% in the fourth quarter of 2002 and 6% for 2002 as a whole. Both transshipment cargo and direct shipment cargo continued to rise appreciably. Within the total for the first two months of 2003, inward and outward ocean cargo increased by 17% and 14% respectively over a year earlier to 15.1 million tonnes and 6.9 million tonnes.

Diagram 3.13

Cargo carried by sea

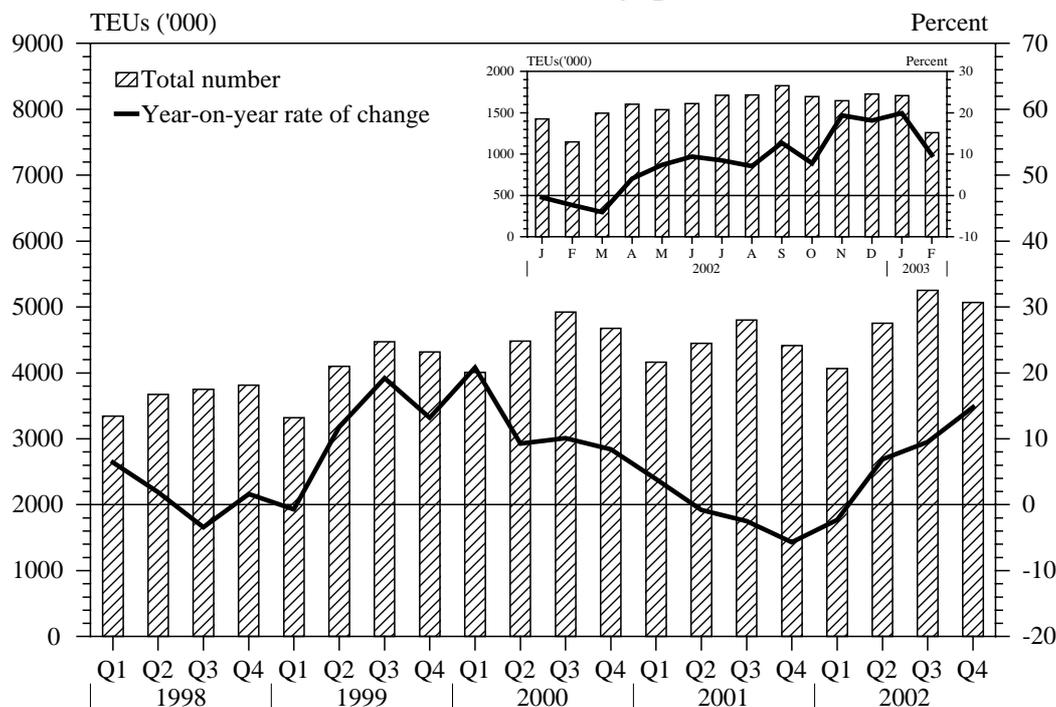


/3.37

3.37 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) went up markedly, by 15% over a year earlier to 3.0 million TEUs in the first two months of 2003. This rise was similar to that in the fourth quarter of 2002, yet advanced further from the 7% rise for 2002 as a whole. Within the total for the first two months of 2003, inward and outward container throughput leaped by 17% and 14% respectively over a year earlier, both to 1.5 million TEUs. Concurrently, there was an on-going trend of manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port. Reflecting this, container throughput at the Yantian port soared by 42% in the first two months of 2003 over a year earlier, yet this was somewhat slower than the surges of 46% in the fourth quarter of 2002 and 56% for 2002 as a whole.

Diagram 3.14

Container throughput



/Tourism

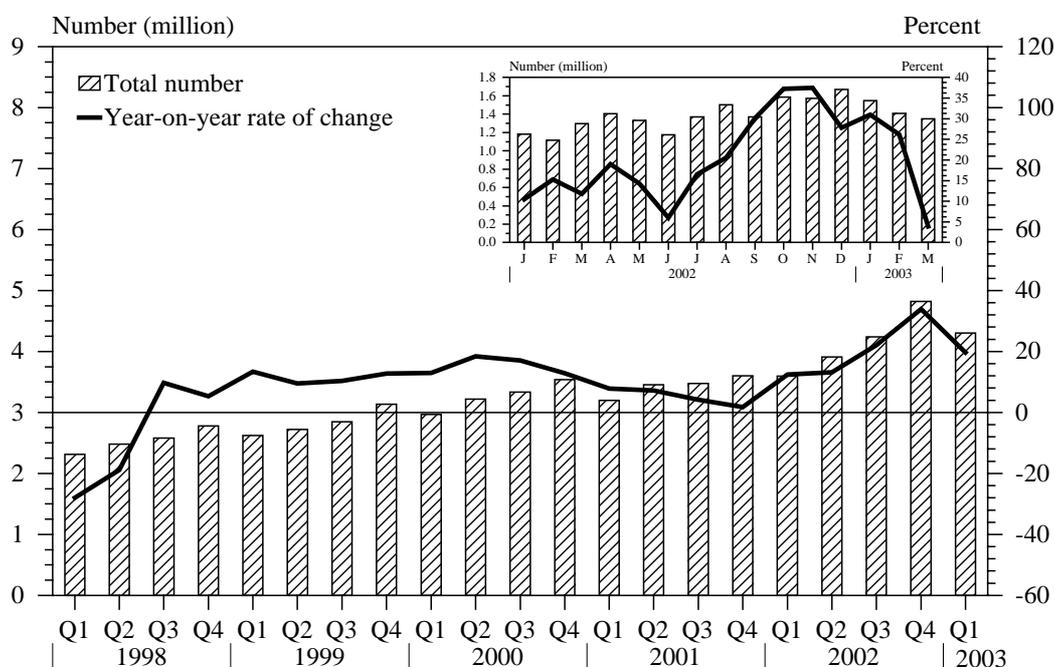
Tourism

3.38 Inbound tourism remained buoyant during most of the first quarter of 2003, mainly contributed by the continued strong inflow of visitors from the Mainland. But the growth momentum was curbed abruptly after mid-March, due to the spread of atypical pneumonia. The total number of *incoming visitors* rose by 20% over a year earlier to 4.3 million in the first quarter of 2003, not as much as the 34% surge in the fourth quarter of 2002, yet similar to the 21% increase for 2002 as a whole⁽¹⁰⁾.

3.39 Analysed by major source, visitors from the Mainland soared by 53% in the first quarter of 2003 over a year earlier, following strong leaps of 68% in the fourth quarter of 2002 and 53% for 2002 as a whole. Visitors from the United Kingdom rose modestly, by 2%. On the other hand, visitors from the United States fell by 7%, conceivably affected in part by the involvement of this country in the war on Iraq. Visitors from Taiwan and Japan declined moderately, by 3% and 2% respectively, while visitors from South and Southeast Asia remained unchanged.

Diagram 3.15

Number of incoming visitors



/Table 3.15

Table 3.15**Number of incoming visitors by place of residence
(year-on-year rate of change (%))**

	<u>2002</u>					<u>2003</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
All sources	21	12	13	22	34	20	31	26	4
Mainland of China	53	42	44	55	68	53	65	51	43
Taiwan	*	-1	-7	4	6	-3	6	1	-15
South and Southeast Asia	9	-2	5	12	18	*	15	19	-23
Japan	4	-8	-1	4	26	-2	12	6	-20
United States	7	*	-1	5	25	-7	6	5	-25
United Kingdom	5	2	*	4	14	2	12	8	-10
Others	6	4	3	3	14	1	9	11	-15

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

(*) Change of less than 0.5%.

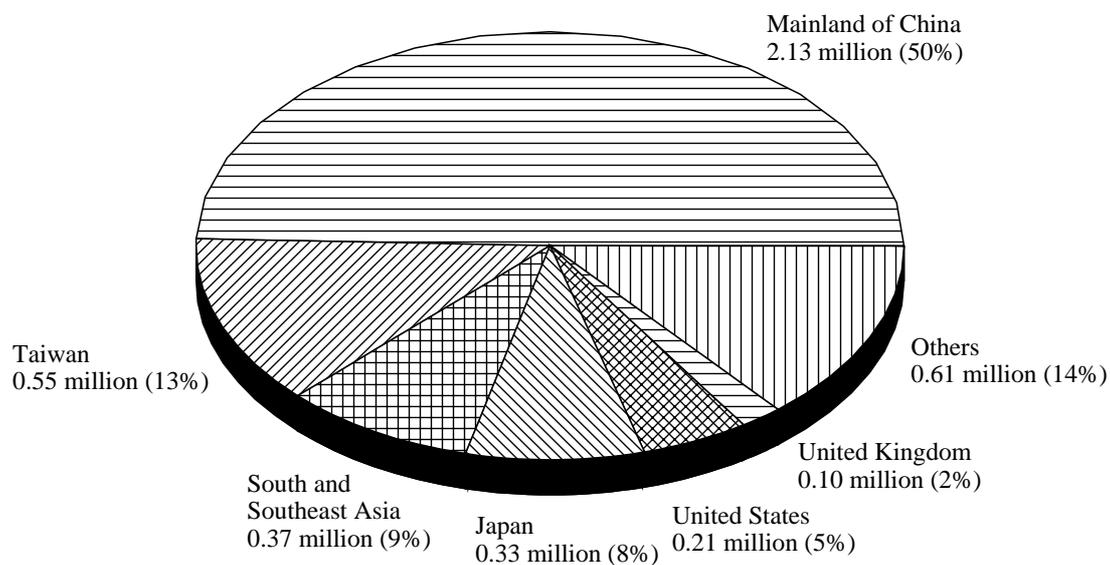
Source : Hong Kong Tourism Board.

3.40 The Mainland remained the largest source of visitors to Hong Kong, with a share of 50% in the first quarter of 2003. Taiwan came second (with a share of 13%), followed by South and Southeast Asia (9%), Japan (8%), the United States (5%), and the United Kingdom (2%).

/Diagram 3.16

Diagram 3.16

**Number of incoming visitors by source
in the first quarter of 2003**



Total number of incoming visitors in the first quarter of 2003 : 4.30 million

3.41 As at end-March 2003, there were 42 792 *hotel rooms* in Hong Kong. The *average hotel room occupancy rate*, at 81% for the first quarter of 2003 as a whole, was unchanged from the same quarter a year earlier. Yet there was a distinct decline of the occupancy rate to 79% in March 2003 from 86% a year earlier, due to the spread of atypical pneumonia.

/Table 3.16

Table 3.16**Stock of hotel rooms and occupancy rate**

		Number of hotel rooms as at end of period*		Average hotel room occupancy rate during the period (%)
2002	Annual	43 634	(--)	84
	Q1	41 829	(--)	81
	Q2	42 747	(--)	83
	Q3	42 758	(--)	83
	Q4	43 634	(--)	89
2003	Q1	42 792	(2)	81
	Jan	42 813	(2)	82
	Feb	42 833	(2)	81
	Mar	42 792	(2)	79

Notes : (*) As from the first quarter of 2002, this data series has a wider coverage, including all hotels and tourist guest houses on the record of the Office of the Licensing Authority in the Home Affairs Department. As such, the data for the first quarter of 2002 onwards are not directly comparable to those in the earlier periods.

() % change over a year earlier.

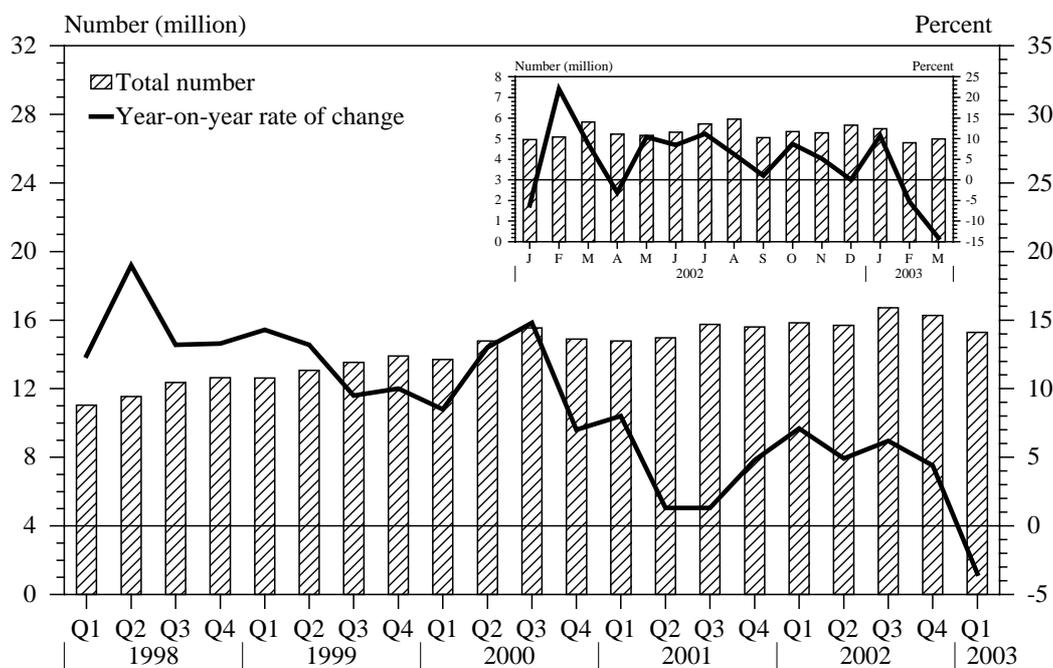
(--) Not applicable.

Source : Hong Kong Tourism Board.

/3.42

3.42 On *Hong Kong residents travelling abroad*, the total number of resident departures fell by 4% over a year earlier to 15.3 million in the first quarter of 2003, reversing the increases of 4% in the fourth quarter of 2002 and 6% for 2002 as a whole. The drop was concentrated towards the end of the quarter. The spread of atypical pneumonia after mid-March mattered. Analysed by major destination and on year-on-year comparison, resident departures to North Asia, South and Southeast Asia, and Europe fell markedly, by 18%, 10% and 11% respectively in the first quarter of 2003 over a year earlier. Resident departures to Macau, Americas, and Australia and New Zealand all declined by 7%. Resident departures to Taiwan and the Mainland fell to a lesser extent, by 4% and 3% respectively.

Diagram 3.17
Number of Hong Kong resident departures



/Table 3.17

Table 3.17**Number of Hong Kong resident departures by destination
(year-on-year rate of change (%))**

	<u>2002</u>					<u>2003</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
All destinations	6	7	5	6	4	-4	11	-5	-14
Mainland of China	7	9	7	7	5	-3	10	-4	-13
Macau	-3	-3	-5	*	-2	-7	5	-3	-22
South and Southeast Asia	-3	-2	-11	1	-1	-10	19	-14	-23
North Asia	2	5	-7	3	6	-18	31	-33	-35
Americas ^(a)	-8	-14	-20	-6	18	-7	20	-32	-13
Taiwan	2	20	-10	-3	5	-4	23	*	-23
Europe	7	10	*	8	13	-11	15	-26	-22
Australia and New Zealand	-6	-8	-16	-2	2	-7	36	-25	-25
Others	-16	-40	-24	-2	35	-21	86	-38	-55

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

(*) Change of less than 0.5%.

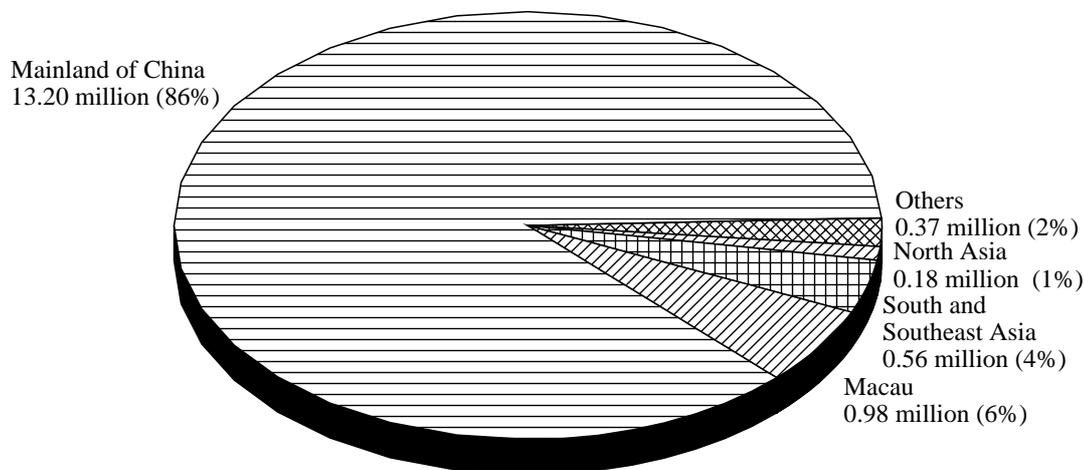
Source : Hong Kong Tourism Board.

3.43 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 86% of the total outbound trips in the first quarter of 2003. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 6%), followed by South and Southeast Asia (4%), North Asia (1%), and Taiwan (1%).

/Diagram 3.18

Diagram 3.18

**Number of Hong Kong resident departures by destination
in the first quarter of 2003**



Total number of resident departures in the first quarter of 2003 : 15.29 million

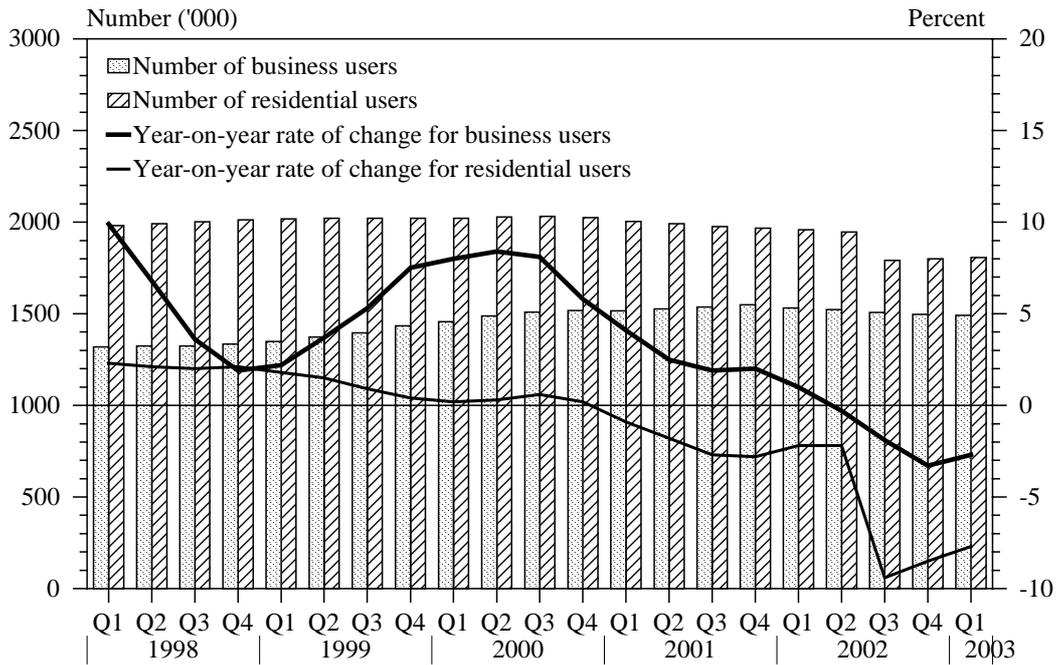
Telecommunications

3.44 On *wireline services*, the total number of direct exchange lines continued on a downtrend, falling by 2% over a year earlier to 3.82 million at end-March 2003. Within the total, the number of fixed telephone lines went down by 5% over a year earlier to 3.30 million at end-March 2003. It comprised decreases in the number of lines for business customers and for residential customers by 3% and 8% respectively over a year earlier to 1.49 million and 1.81 million at end-March 2003. These two particular groups of customers accounted for 45% and 55% respectively of all the fixed telephone lines installed at end-March 2003. At 48 fixed telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was amongst the highest in Asia. As regards the number of facsimile lines, it leaped by 31% over a year earlier to 533 200 at end-March 2003. At 31 facsimile lines per 100 business exchange lines, Hong Kong again ranked amongst the highest in Asia. On external telecommunications, external telephone traffic volume⁽¹¹⁾ went up by 1% over a year earlier to 1 393 million minutes in the first quarter of 2003. As to Internet usage, broadband services continued on a sharp uptrend, with the traffic volume surging by 177% over a year earlier to 97 800 terabits in the first quarter of 2003. There was a further profound shift in Internet usage away from the public switch telephone network, where the traffic volume plummeted by 41% to 971 million minutes in the first quarter of 2003.

/Diagram 3.19

Diagram 3.19

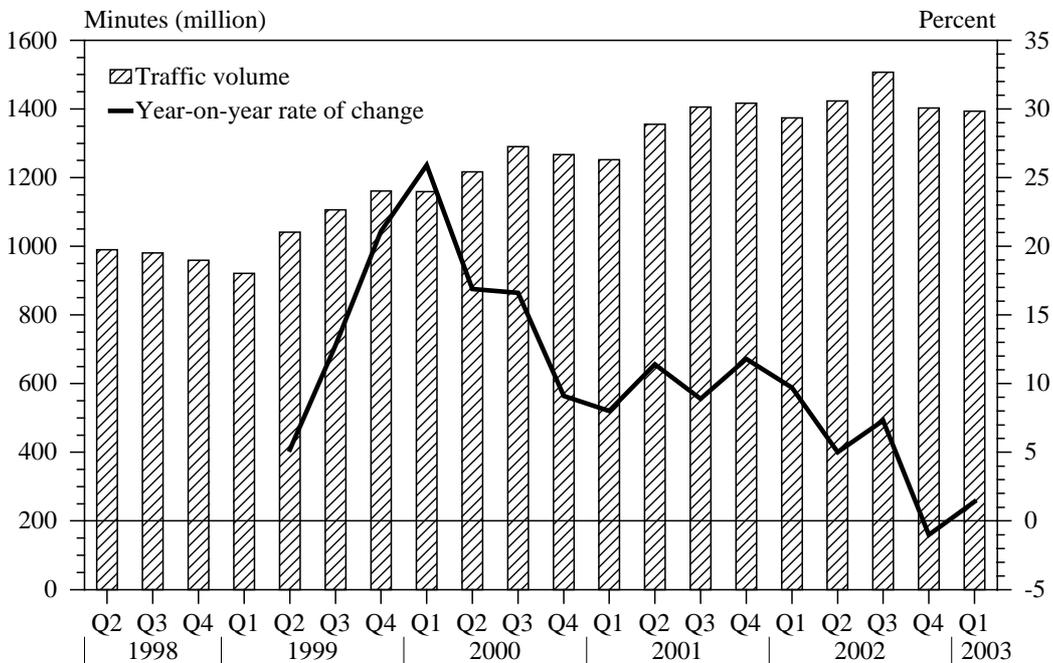
**Number of fixed telephone lines* by main user category
(as at end of quarter)**



Note : (*) Not including facsimile lines.

Diagram 3.20

**External telephone traffic volume*
(in the quarter)**



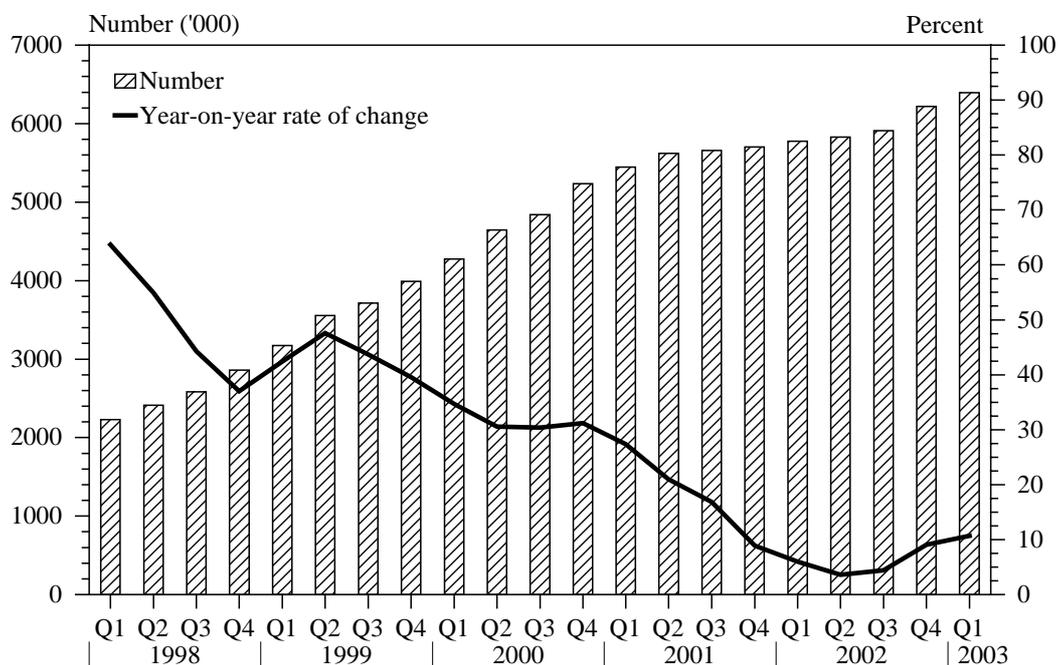
Notes : Data prior to the second quarter of 1998 are not available.

(*) Including access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.

3.45 On *wireless services*, the mobile phone segment continued to expand. At end-March 2003, the number of mobile phone customers went up by 11% from a year earlier to 6.4 million⁽¹²⁾. This corresponded to a mobile phone penetration rate of 94%, amongst the highest in the world. Meanwhile, the paging segment continued to shrink, with the number of paging customers declining further by 19% from a year earlier to 189 000 at end-March 2003.

3.46 Following finalisation of the implementation details, the local Fixed Telecommunications Network Services (FTNS) market has been fully liberalised in January 2003. There is no longer a pre-set limit on the number of licences issued. In addition, there is no requirement set for network rollout and capital expenditure. This helps to promote development of the local FTNS market and enhance flexibility in service provision to consumers. Together with the other liberalisation drives implemented in recent years, all segments of the telecommunications market have been fully opened up for competition by January 2003.

Diagram 3.21
Number of public mobile radiotelephone service customers*
(as at end of quarter)



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

/Notes

Notes :

- (1) On 1 August 2002, the Census and Statistics Department introduced a technical revision to the existing GDP series, as compiled from the expenditure approach. At the same time, a new data series on quarterly GDP by economic activity at constant prices, backdated to the first quarter of 2000, was released. This new GDP series, as compiled from the production approach, enables analysis to be done of the value-added contributions of the various economic sectors in real terms, in regard to their trend and relative significance.
- (2) The service sectors comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. Charges of financial intermediation are however deducted.
- (3) The Index of Industrial Production is intended to reflect the recent trend of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the boundary is not included.
- (4) The Monthly Survey of Orders-on-hand covers manufacturing firms engaging 50 or more workers. Its main purpose is to provide a broad indicator of the orders position in value terms in the local manufacturing sector at monthly intervals. Orders to be met by outward processing across the boundary are not included.
- (5) For more details about the nine policy measures, see Note (8) to Chapter 3 of the 2002 Economic Background.
- (6) Developers were offering a variety of inducements including flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers could opt for different combinations of these privileges, or else seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years would be reduced for the flat buyers.
- (7) As part of the population policy announced on 26 February 2003, persons with net assets under their control and disposal for investment of no less than \$6.5 million in permissible investment assets, including real estate and specified financial assets, will be eligible for admission into Hong Kong as capital investment entrants. This new policy will be applied to all foreign nationals, Macao SAR residents and Taiwan residents, but not Mainland residents. Acceptance of applications for entry is expected to start in the second half of this year.

/(8)

- (8) The Government operates an Application System under the Land Sale Programme as from April 1999, whereby additional sites are set aside on an Application List for open application by property developers. Provided that the minimum price offered by the applicant is acceptable to the Government, the site involved can be released from the Application List for open auction or tender. This helps ensure a flexible supply of Government land in response to market demand.
- (9) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with the town planning and urban renewal objectives, modification of usage (including modification by way of land exchange) may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the difference in land value between the old and the new usage, is normally required for granting of the modification.
- (10) In the light of the significant changes over the past year in the number and profile of visitor arrivals to Hong Kong, the Hong Kong Tourism Board is reviewing the tourist receipts and per capita spending figures for the sake of compiling an improved set of estimates. At the same time, a new means of presenting the figures is being contemplated. The improved estimates are expected to be available later in the year.
- (11) This includes access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.
- (12) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4 : THE FINANCIAL SECTOR*

Overall financial market situation

4.1 In the first quarter of 2003, the spot exchange rate of the Hong Kong dollar against the US dollar stayed very close to the linked rate. In the money market, local inter-bank interest rates continued to hover at relatively low levels, in line with movements in the corresponding US dollar rates. Under the low interest rate environment and the weak local demand conditions, the narrowly defined money supply kept growing while the broader-defined money supply contracted. With a larger reduction in Hong Kong dollar deposits than in Hong Kong dollar loans, there was a modest rebound in the Hong Kong dollar loan-to-deposit ratio. As to the local stock market, share prices were generally on a downtrend during the first quarter, mostly affected by the plunge in the major stock markets overseas. Investment sentiment was dampened by the US-led war on Iraq, the uncertainties in short-term outlook of the US economy, and more recently the spread of atypical pneumonia in Hong Kong. The Hang Seng Index at end-March 2003 was 7.4% lower than the level at end-2002.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar stayed within a very narrow range of 7.799 to 7.800 during the first quarter of 2003, which was virtually the same as the linked rate. The premium of the twelve-month forward rate over the spot rate held steady up to early March, and then narrowed to close the month at 136 pips (each pip equivalent to HK\$0.0001), down from 169 pips at end-2002.

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

4.3 Under the linked exchange rate system⁽¹⁾, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in respect of the US dollar. During the first quarter of 2003, the US dollar depreciated against quite a number of major currencies, triggered by concern over the US-led war on Iraq and its possible implications for the US economy. Specifically, the dollar - euro rate rose by 5.7% from a monthly average of 1.022 in December 2002 to that of 1.080 in March 2003, while the yen - dollar rate fell by 2.5% from a monthly average of 121.8 to that of 118.8. The dollar - pound sterling rate, at a monthly average of 1.583 in March 2003, was nevertheless little changed from that of 1.589 in December 2002. Meanwhile, many of the East Asian currencies generally held stable against the US dollar.

4.4 Taking these currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar declined slightly, by 0.9% from a monthly average of 102.7 in December 2002 to that of 101.8 in March 2003. After adjusting for changes in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar had a larger decrease, by 1.2% from 93.3 to 92.1 over the same period.

/Table 4.1

Table 4.1

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

<u>Average for the month</u>	<u>Trade-weighted Nominal EERI^(a) (Jan 2000 = 100)</u>		<u>Trade-weighted Real EERI^(b) (Jan 2000 = 100)</u>	
2002 Mar	105.9	(0.5)	99.3	(1.2)
Jun	103.5	(-2.3)	95.5	(-3.8)
Sep	103.0	(-0.5)	94.4	(-1.1)
Dec	102.7	(-0.3)	93.3	(-1.2)
2003 Mar	101.8	(-0.9)	92.1	(-1.2)

Notes : (a) The Nominal Effective Exchange Rate Index (EERI) of the Hong Kong dollar is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong.

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

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

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

() % change over three months earlier.

Positive change in the EERI denotes appreciation of the Hong Kong dollar; negative change in the EERI denotes depreciation.

/Diagram 4.1

Diagram 4.1

**Exchange rate of the Hong Kong dollar against the US dollar
(average for the month)**

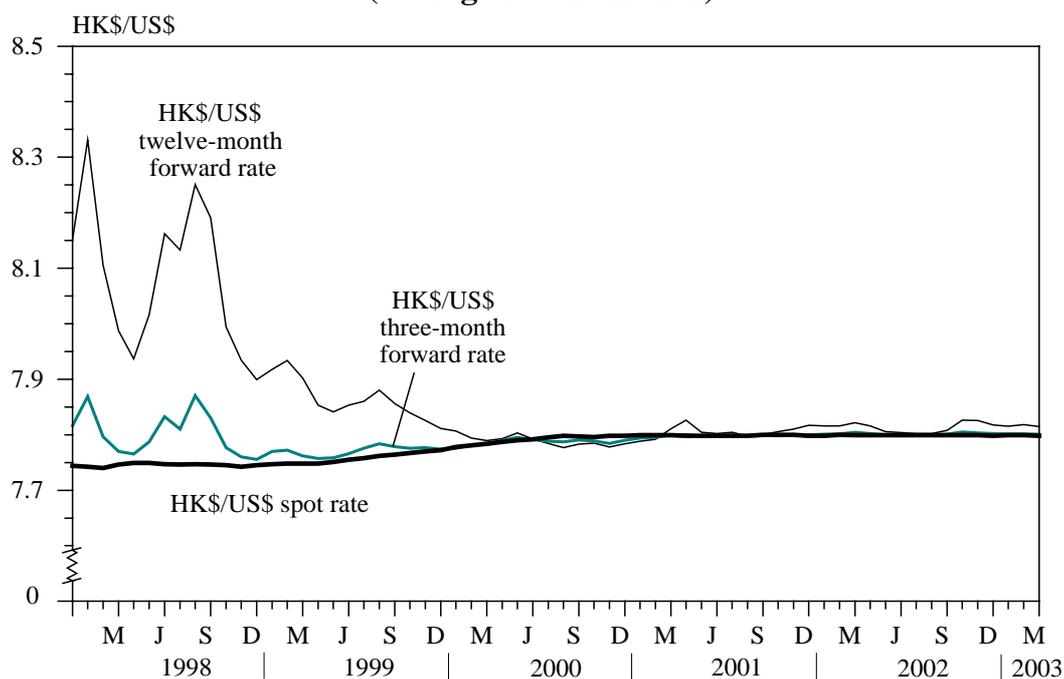
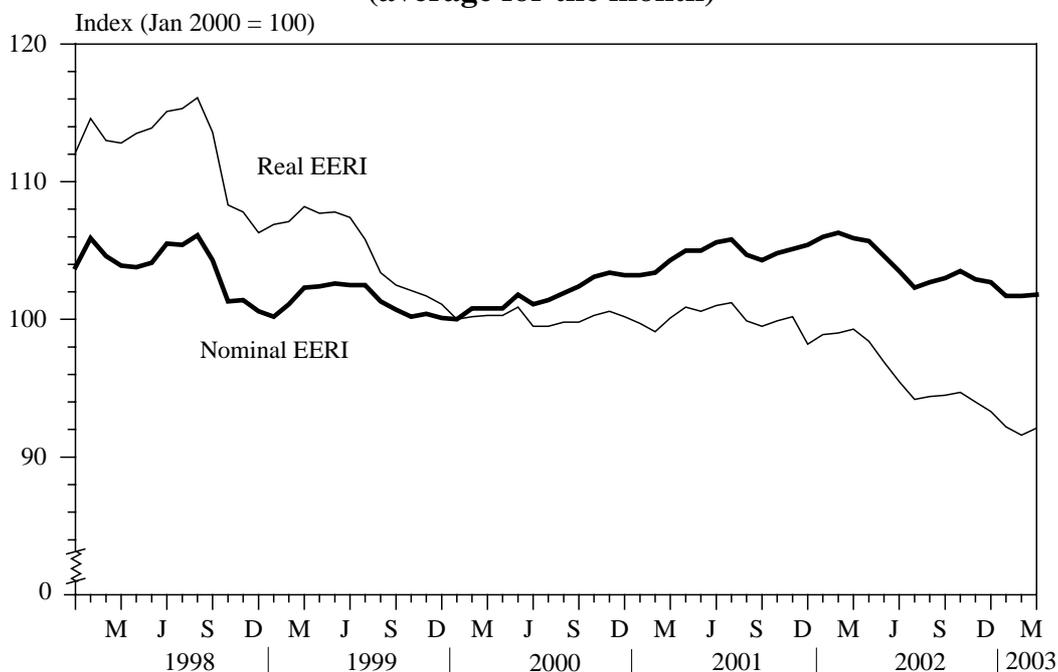


Diagram 4.2

**Trade-weighted Effective Exchange Rate Index
of the Hong Kong dollar
(average for the month)**



Note : See the footnotes to Table 4.1.

/Interest

Interest rates

4.5 Local short-term interest rates continued to edge lower during the first quarter of 2003. At 1.3% at end-March 2003, the three-month HIBOR was marginally below that of 1.4% at end-2002. Over the same period, the premium of the three-month HIBOR over the corresponding Euro-dollar deposit rate narrowed slightly, from 9 basis points to 4 basis points.

4.6 Since the cut in the US Fed Funds target rate in November 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) has been maintained at 2.75%. Throughout the first quarter of 2003, the best lending rate and savings deposit rates offered by the major commercial banks were kept at 5.00% and 0.03% respectively. As to the average spread of the best lending rate over the three-month time deposit rate, there was only a modest widening, from 4.80 percentage points in the fourth quarter of 2002 to 4.91 percentage points in the first quarter of 2003.

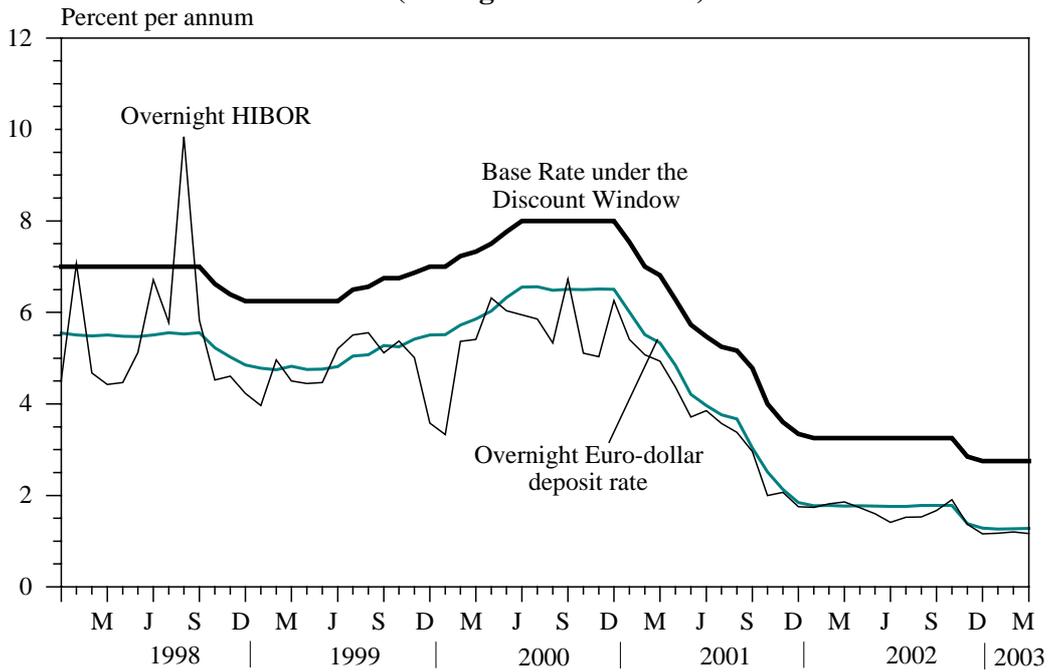
4.7 Keen competition amongst the banks for residential mortgage business prevailed, especially that related to residential flats in the primary market. In March 2003, 82.7% of the new residential mortgages were granted at more than 2.25 percentage points below the best lending rate, further up from 79.0% in December 2002⁽³⁾.

/Diagram 4.3

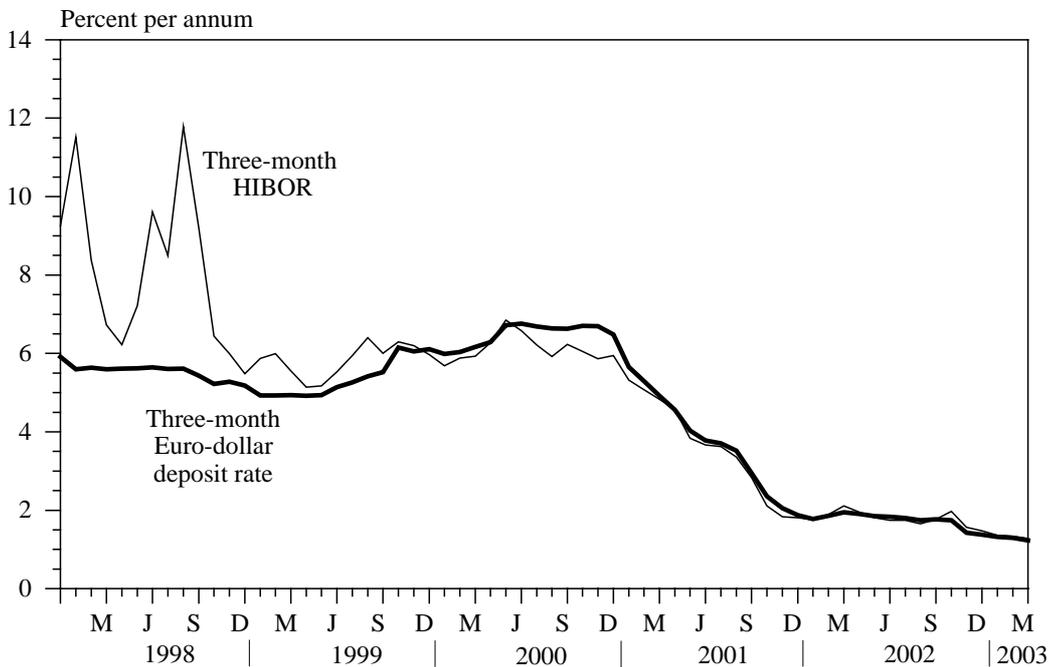
Diagram 4.3

Interest rates

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



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



/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

**(c) Twelve-month HIBOR and Euro-dollar deposit rate
(average for the month)**

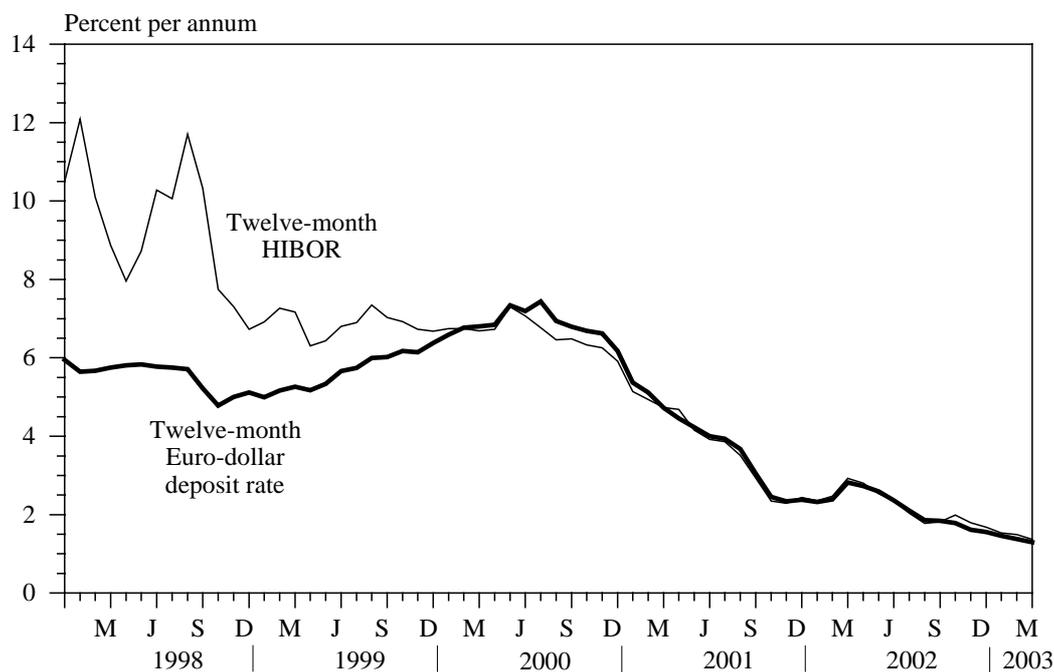


Table 4.2

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

<u>Average for the month</u>		<u>Overnight HIBOR</u>	<u>Three-month HIBOR</u>	<u>Twelve-month HIBOR</u>
2002	Mar	1.86 (9)	2.12 (17)	2.93 (11)
	Jun	1.41 (-35)	1.75 (-9)	2.34 (-4)
	Sep	1.67 (-11)	1.77 (*)	1.82 (-3)
	Dec	1.16 (-13)	1.48 (10)	1.68 (12)
2003	Jan	1.18 (-9)	1.36 (4)	1.54 (7)
	Feb	1.20 (-7)	1.34 (4)	1.50 (12)
	Mar	1.17 (-11)	1.28 (5)	1.37 (7)

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

(*) Spread of less than one basis point.

/Table 4.3

Table 4.3

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

		<u>Interest rates on time deposits below HK\$100,000</u>					<u>Savings deposit rate</u>	<u>Best lending rate</u>
<u>Average for the month</u>		<u>One- week</u>	<u>One- month</u>	<u>Three- month</u>	<u>Six- month</u>	<u>Twelve- month</u>		
2002	Mar	0.21	0.55	0.62	0.84	1.39	0.16	5.13
	Jun	0.17	0.29	0.36	0.46	0.74	0.16	5.13
	Sep	0.16	0.33	0.38	0.40	0.43	0.16	5.13
	Dec	0.09	0.13	0.15	0.19	0.25	0.03	5.00
2003	Jan	0.08	0.10	0.11	0.16	0.21	0.03	5.00
	Feb	0.08	0.08	0.09	0.14	0.19	0.03	5.00
	Mar	0.08	0.09	0.09	0.12	0.17	0.03	5.00

Deposits and money supply

4.8 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)⁽⁴⁾, fell back by 1.2% during the first quarter of 2003 to \$1,803 billion at end-March, having edged up by 0.2% during the fourth quarter of 2002. On a year-on-year comparison, there was a decline of 1.5% to end-March 2003. Comparing end-March 2003 with end-2002, the share of Hong Kong dollar deposits in total deposits fell slightly, from 55.0% to 54.9%.

4.9 Within Hong Kong dollar deposits, demand and time deposits fell by 2.9% and 3.3% respectively during the first quarter of 2003, while savings deposits increased by 2.2%. More profound changes were observed on a year-on-year comparison, as time deposits shrank by 11.0% in the first quarter of 2003 whereas demand and savings deposits surged by 16.4% and 11.8% respectively. This pointed to continued compositional shift from time deposits to demand and savings deposits under the low interest rate environment.

/Table 4.4

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

	<u>% change during the quarter</u>	<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total Hong Kong dollar deposits</u> ^(a)
2002	Q1	-4.9	0.5	-1.9	-1.3
	Q2	3.6	3.9	-1.0	1.0
	Q3	4.7	-0.9	-2.5	-1.5
	Q4	10.5	6.2	-4.7	0.2
2003	Q1	-2.9	2.2	-3.3	-1.2
Total amount at the end of March 2003 (HK\$Bn)		142	689	972	1,803
% change over a year earlier		16.4	11.8	-11.0	-1.5

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

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

4.10 Total foreign currency deposits (adjusted to exclude foreign currency swap deposits) decreased by 0.9% during the first quarter of 2003 to \$1,480 billion at end-March, after a 1.7% increase during the fourth quarter of 2002. Within total foreign currency deposits for the first quarter of 2003, US dollar deposits fell by 2.1%, outweighing a 1.6% rise in non-US dollar deposits. On a year-on-year comparison, US dollar deposits declined by 1.0% while non-US dollar deposits went up by 7.5%, giving a rise in total foreign currency deposits by 1.6% to end-March 2003.

/Table 4.5

Table 4.5

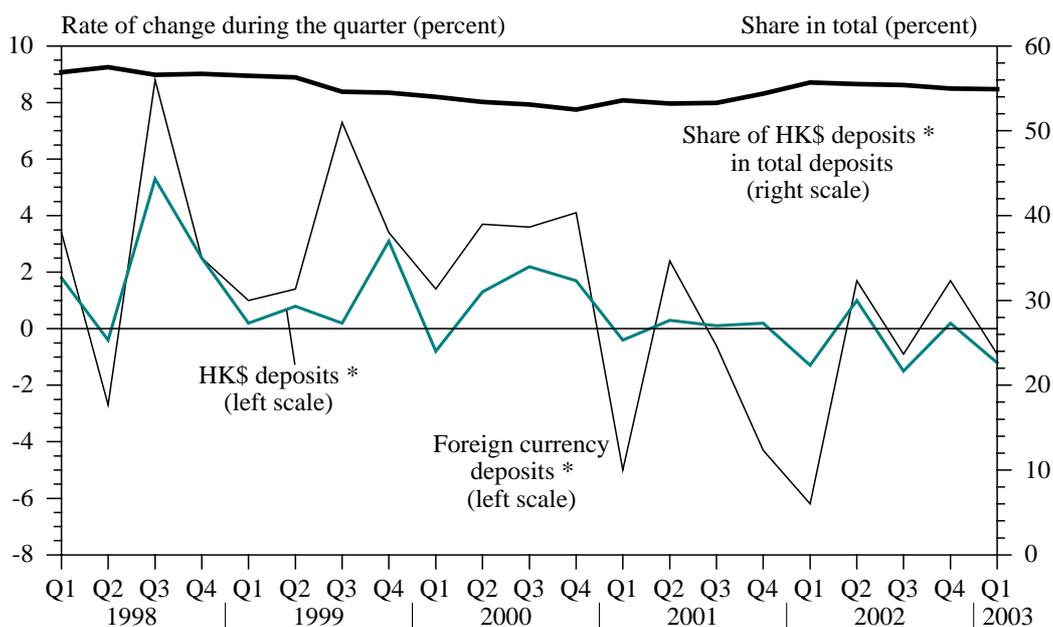
Foreign currency deposits with authorized institutions

% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2002	Q1	-2.9	-12.7	-6.2	-6.9
	Q2	1.1	3.2	1.7	-8.0
	Q3	-3.3	4.2	-0.9	-7.5
	Q4	3.4	-1.6	1.7	-8.6
2003	Q1	-2.1	1.6	-0.9	-8.4
Total amount at the end of March 2003 (HK\$Bn)		992	487	1,480	2
% change over a year earlier		-1.0	7.5	1.6	-28.8

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

Diagram 4.4

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



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

4.11 Total deposits with authorized institutions in Hong Kong contracted by 1.1% during the first quarter of 2003 to \$3,282 billion at end-March, reversing the 0.9% gain during the fourth quarter of 2002. There was a renewed decline in deposits with licensed banks by 1.0% during the first quarter of 2003. Such deposits constituted an overwhelming proportion of total deposits with authorized institutions, at 98.8% at end-March 2003. Meanwhile, there were larger falls in deposits with restricted licence banks and with deposit-taking companies, by 9.4% and 7.0% respectively during the first quarter of 2003. On a year-on-year comparison, deposits with these three types of authorized institutions had changes of -0.1%, 0.3% and -8.8% respectively, giving a decrease of 0.1% for the overall deposits to end-March 2003.

Table 4.6

Total deposits by major type of authorized institution

% change during the quarter	<u>With licensed banks</u>				<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>	<u>Total</u>
	<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	
2002 Q1	-1.5	0.2	-5.0	-3.5	-3.0	-7.0	-3.5
Q2	4.4	4.4	-0.2	1.2	10.6	-3.0	1.3
Q3	2.2	0.3	-2.2	-1.3	7.7	-2.2	-1.2
Q4	10.9	6.1	-1.9	1.0	-6.9	3.3	0.9
2003 Q1	-0.6	3.3	-2.9	-1.0	-9.4	-7.0	-1.1
Total amount at the end of March 2003 (HK\$Bn)	181	978	2,085	3,244	33	5	3,282
% change over a year earlier	17.7	14.6	-6.9	-0.1	0.3	-8.8	-0.1

/4.12

4.12 The money supply on various definitions continued to show divergent movements. At \$260 billion at end-March, the narrowly defined money supply, HK\$M1⁽⁵⁾, rose by 0.4% during the first quarter of 2003, further to a 7.3% increase during the fourth quarter of 2002. On a seasonally adjusted basis, HK\$M1 went up by 2.7% during the first quarter of 2003, following a 3.4% rise during the fourth quarter of 2002⁽⁶⁾. The broader-defined money supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits), both contracted by 0.8% during the first quarter of 2003 to \$1,969 billion and \$1,988 billion respectively at end-March, reversing the increases of 0.4% and 0.5% during the fourth quarter of 2002. On a year-on-year comparison, HK\$M1 expanded by 13.4% while HK\$M2 and HK\$M3 both shrank by 0.5% to end-March 2003. The weak domestic economic activity, and the lower return from interest-bearing deposits relative to that from alternative financial assets, including in particular debt securities, were the major factors underlying the fall in broader money supply.

Table 4.7

Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>		
		<u>HK\$</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	
2002	Q1	-0.1	(0.5)	1.5	-1.0	-3.1	-1.0	-3.1
	Q2	1.7	(5.4)	2.4	1.2	1.7	1.2	1.7
	Q3	3.5	(2.9)	2.1	-1.4	-0.8	-1.3	-0.7
	Q4	7.3	(3.4)	8.0	0.4	1.4	0.5	1.3
2003	Q1	0.4	(2.7)	1.4	-0.8	-0.3	-0.8	-0.4
Total amount at the end of March 2003 (HK\$Bn)		260	(260)	300	1,969	3,508	1,988	3,547
% change over a year earlier		13.4	(15.2)	14.5	-0.5	1.9	-0.5	1.9

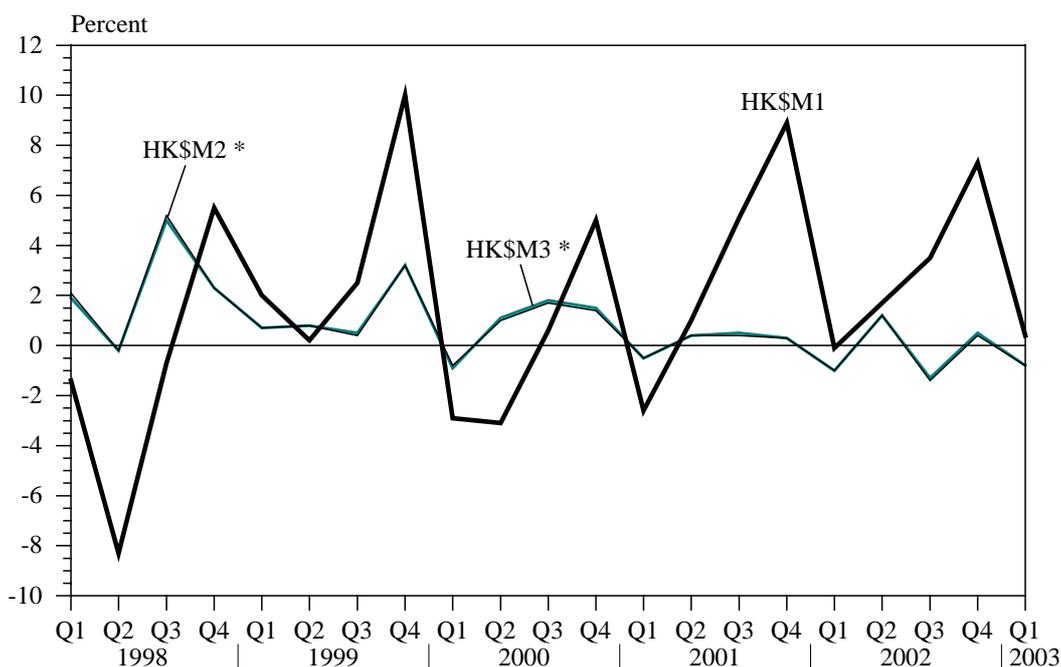
Notes : () Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK\$M1. Seasonality is not apparent for the other monetary aggregates.

(a) Adjusted to include foreign currency swap deposits.

/Diagram 4.5

Diagram 4.5

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



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

Hong Kong dollar external claims and liabilities of authorized institutions

4.13 Comparing end-February 2003 with end-2002, Hong Kong dollar claims held by Hong Kong's authorized institutions on banks outside Hong Kong bounced up by 5.0% to \$194.8 billion, after a fall of 3.5% during the fourth quarter of 2002. On a year-on-year comparison, the increase was even greater, by 12.3% to end-February 2003. This was mainly due to increased placements with banks in Europe and the Mainland. A different change was observed for Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks outside Hong Kong. Between end-2002 and end-February 2003, these liabilities contracted by 9.0% to \$146.8 billion, following a rise of 4.5% during the fourth quarter of 2002. On a year-on-year comparison, there was a decrease of 5.4% to end-February 2003. Taken together, Hong Kong's authorized institutions maintained net claims against banks abroad, at \$48.0 billion at end-February 2003, much exceeding those of \$24.4 billion at end-2002.

/4.14

4.14 On the external position against banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland continued to be prominent, accounting for 42% of the corresponding total Hong Kong dollar liabilities at end-February 2003. As to Hong Kong dollar claims held by Hong Kong's authorized institutions to banks in the Mainland, the share in the corresponding total Hong Kong dollar claims was considerably less, at 11% at end-February 2003. Owing to a reduction in deposits from banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland fell visibly, by 16.9% during the first two months of 2003 to \$61.1 billion at end-February. This represented a distinct downturn from the 4.3% increase during the fourth quarter of 2002. On a year-on-year comparison, the decrease was even greater, by 25.5% to end-February 2003. On the other hand, Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland went up by 1.5% during the first two months of 2003 to \$20.9 billion at end-February, reversing the 4.2% drop during the fourth quarter of 2002. On a year-on-year comparison, there was a surge of 11.5% to end-February 2003. Taken together, Hong Kong's authorized institutions still had net Hong Kong dollar liabilities to banks in the Mainland, at \$40.2 billion at end-February 2003, though lesser than those of \$52.9 billion at end-2002.

/Table 4.8

Table 4.8

**Hong Kong dollar external claims and liabilities
held by Hong Kong's authorized institutions**

As at the <u>end of</u>	Claims on banks <u>outside Hong Kong</u> (HK\$Bn)				Liabilities to banks <u>outside Hong Kong</u> (HK\$Bn)				Net liabilities to banks <u>outside Hong Kong</u> (HK\$Bn)	
	<u>Overall</u>		Involving banks in <u>the Mainland</u>		<u>Overall</u>		Involving banks in <u>the Mainland</u>		<u>Overall</u>	Involving banks in <u>the Mainland</u>
	2002 Q1	171.8	(1.1)	19.1	(3.2)	147.0	(-16.2)	68.4	(-28.7)	-24.9
Q2	190.1	(10.6)	19.8	(3.4)	151.2	(2.9)	67.4	(-1.4)	-38.9	47.6
Q3	192.3	(1.2)	21.5	(8.7)	154.3	(2.1)	70.6	(4.6)	-38.0	49.0
Q4	185.6	(-3.5)	20.6	(-4.2)	161.2	(4.5)	73.6	(4.3)	-24.4	52.9
2003 Jan	192.7	(3.8)	21.0	(2.1)	155.1	(-3.8)	66.2	(-10.1)	-37.6	45.1
Feb	194.8	(1.1)	20.9	(-0.6)	146.8	(-5.4)	61.1	(-7.6)	-48.0	40.2
		<12.3>		<11.5>		<-5.4>		<-25.5>		

Notes : () % change during the period.

<> % change over a year earlier.

Loans and advances

4.15 Total loans and advances continued to decrease, by 0.8% during the first quarter of 2003 to \$2,060 billion at end-March. Yet this was smaller than the 1.0% fall during the fourth quarter of 2002. Within this total, Hong Kong dollar and foreign currency loans both contracted, by 0.4% and 2.3% respectively during the first quarter of 2003 to \$1,610 billion and \$450 billion at end-March. Meanwhile, the share of Hong Kong dollar loans in total loans and advances, at 78.2% at end-March, held broadly steady during the first quarter of 2003. On a year-on-year comparison, Hong Kong dollar loans declined by 3.0% and foreign currency loans fell even more by 9.7%, giving a 4.5% reduction in total loans and advances to end-March 2003.

/Table 4.9

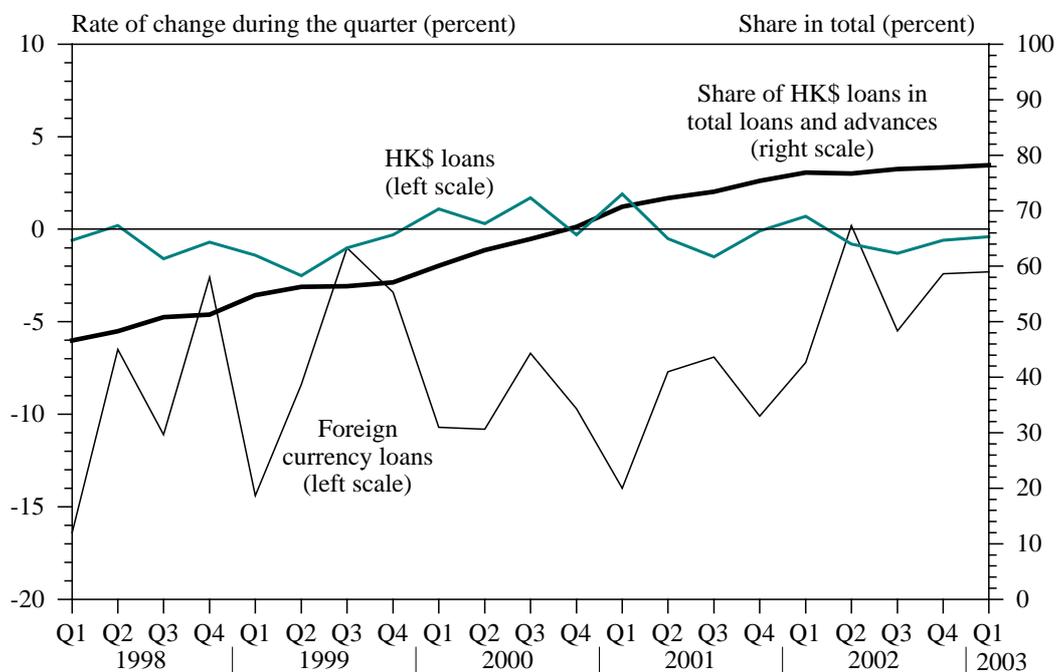
Table 4.9

Loans and advances by currency denomination

% change during the quarter		Hong Kong dollar loans	Foreign currency loans	Total loans and advances
2002	Q1	0.7	-7.2	-1.2
	Q2	-0.8	0.2	-0.5
	Q3	-1.3	-5.5	-2.2
	Q4	-0.6	-2.4	-1.0
2003	Q1	-0.4	-2.3	-0.8
Total amount at the end of March 2003 (HK\$Bn)		1,610	450	2,060
% change over a year earlier		-3.0	-9.7	-4.5

Diagram 4.6

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



4.16 As Hong Kong dollar loans fell to a lesser extent than Hong Kong dollar deposits during the first quarter of 2003, the Hong Kong dollar loan-to-deposit ratio moved up from 88.5% at end-2002 to 89.3% at end-March 2003.

Table 4.10

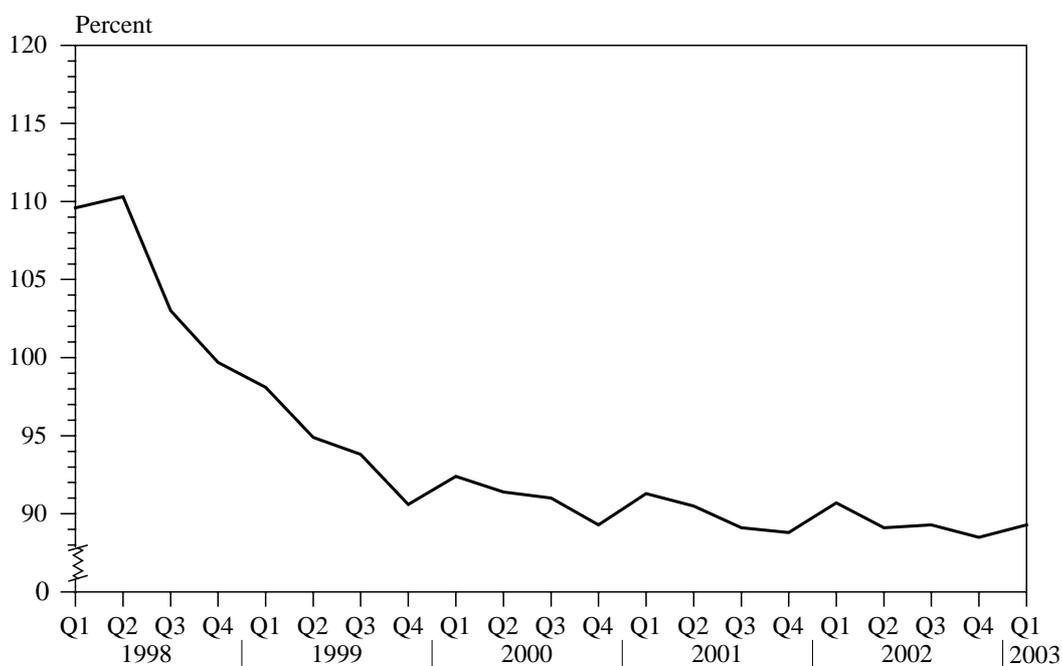
Hong Kong dollar loan-to-deposit ratio^(a)

<u>As at the end of</u>	<u>%</u>
2002 Q1	90.7
Q2	89.1
Q3	89.3
Q4	88.5
2003 Q1	89.3

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

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



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

4.17 Analysed by place of usage, loans for use in Hong Kong, at \$1,825 billion at end-March, fell slightly by 0.5% during the first quarter of 2003. Loans for use outside Hong Kong, at \$234 billion at end-March, were reduced more by 3.4% during the first quarter of 2003, upon continued cut-backs in Euro-yen Impact Loans⁽⁷⁾. On a year-on-year comparison, the respective decreases were 2.9% and 15.4% to end-March 2003.

Table 4.11

Loans and advances by place of usage

% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2002	Q1	0.1	-9.6
	Q2	-0.5	-0.8
	Q3	-1.6	-6.6
	Q4	-0.4	-5.4
2003	Q1	-0.5	-3.4
Total amount at the end of March 2003 (HK\$Bn)		1,825	234
% change over a year earlier		-2.9	-15.4

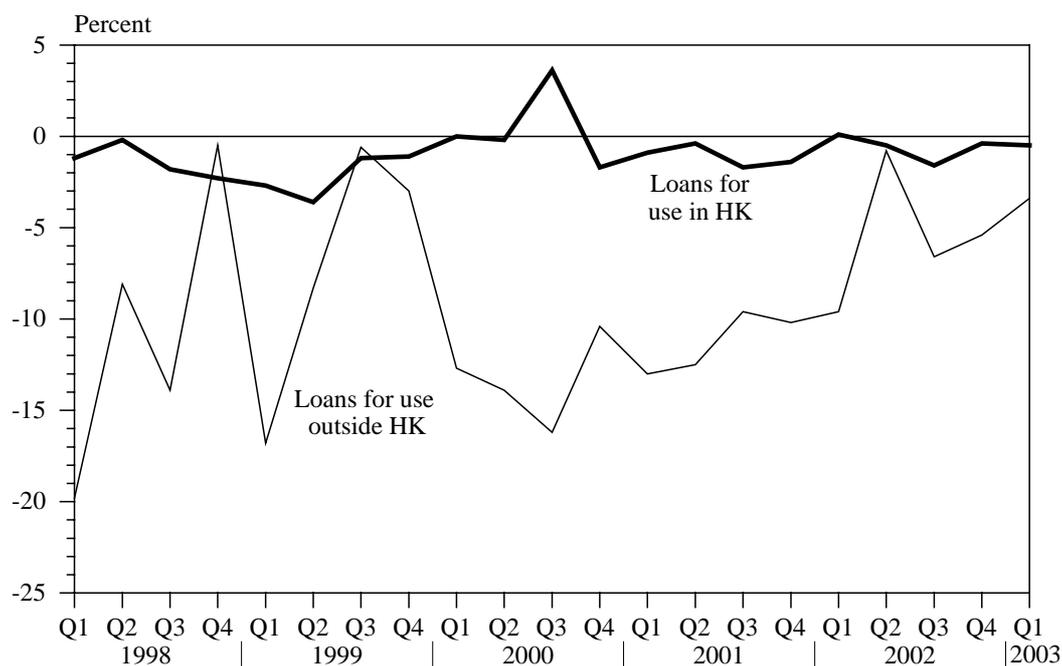
Notes : (a) Including trade financing loans.

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

/Diagram 4.8

Diagram 4.8

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



4.18 Analysed by major usage, domestic loans showed a mixed performance in the first quarter of 2003. Loans to stockbrokers increased by 4.1% during the first quarter of 2003, along with improved turnover in the local stock market. Loans for the wholesale and retail trade picked up by 2.3%, after declining for three consecutive quarters. Loans for trade financing expanded by 2.2%, amidst continued robust performance of external trade. Loans to the manufacturing sector also rose, albeit more modestly, by 1.6%. On the other hand, loans for residential mortgages were reduced by 1.3%, and those for building, construction, property development and property investment by 0.3%, as the sluggish performance of the property market continued to weigh down on property and related lending activity. As to loans for financial concerns, there was virtually no change during the first quarter of 2003.

/Table 4.12

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

		Loans to :								
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trades	Building, construction, property develop- ment and property investment	Purchase resi- dential property ^(b)	Financial concerns	Stock- brokers	Others	
2002	Q1	-2.6	1.2	1.0	-0.5	*	0.9	2.1	0.8	
	Q2	7.3	1.3	-0.1	-1.9	0.6	-8.2	23.9	-0.8	
	Q3	1.9	-4.9	-0.9	-2.4	-0.7	-3.2	-22.2	-1.4	
	Q4	-3.6	1.2	-2.5	1.0	-0.7	0.3	-5.2	1.8	
2003	Q1	2.2	1.6	2.3	-0.3	-1.3	*	4.1	-1.1	
Total amount at the end of March 2003 (HK\$Bn)		93	72	103	378	633	126	9	413	
% change over a year earlier		7.6	-0.9	-1.2	-3.6	-2.1	-10.9	-5.0	-5.0	

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

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

(*) Change of less than 0.05%.

4.19 Despite the subdued local economic climate, the quality of assets held by the local banking sector continued to improve. In particular, the ratio of non-performing loans to total loans decreased from 4.17% at end-September 2002 to 3.92% at end-2002, as did the ratio of classified loans to total loans from 5.22% to 5.03%. The ratio of overdue and rescheduled loans to total loans fell more, from 4.03% to 3.60%⁽⁸⁾. Meanwhile, arrears for over three months in mortgage repayment edged down, from 1.08% to 1.06%. Arrears for over three months in credit card repayment likewise declined, from 1.32% to 1.28%. On the whole, the local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 15.8% at end-2002, well above the standard set by the Bank for International Settlements.

/Banks

Banks and other deposit-taking institutions

4.20 The number of licensed banks increased by two during the first quarter of 2003 to 135 at end-March. On the other hand, the number of restricted licence banks fell by one to 45, and the number of deposit-taking companies by four to 41. Altogether, 221 authorized institutions (excluding representative offices) from 32 countries and territories had a presence in Hong Kong at end-March 2003. Taking all the authorized institutions in Hong Kong together, their total assets went down by 0.4% during the first quarter of 2003 to \$5,976 billion at end-March.

4.21 On enhancing deposit protection in Hong Kong, opinions obtained from an earlier public consultation by HKMA indicated broad support for the introduction of a deposit insurance scheme in Hong Kong. After further studies and another round of public consultation by HKMA on the details of the proposed scheme, the bill was drawn up and introduced into the Legislative Council on 30 April 2003.

4.22 With a view to enhancing the capability of the banks in their assessment of consumer credit, HKMA issued a circular to all authorized institutions in February 2002, recommending the best practices for management of credit card operations and also setting out the measures for preventing abuse of the bankruptcy provisions. The Hong Kong Association of Banks and the Privacy Commissioner (PC) have reached broad agreement on the scope of positive consumer credit data to be shared amongst the banks. Taking into account the feedback from a public consultation, PC is of the opinion that greater sharing of credit data, when implemented with appropriate measures to safeguard privacy protection, will be beneficial to the credit environment, which in turn will benefit both lenders and borrowers. The Code of Practice on Consumer Credit Data is being revised accordingly, for implementation in June 2003.

/Insurance

Insurance

4.23 During the first quarter of 2003, the total number of insurance companies decreased by one to 194. Within this total, 46 were engaged in long-term business, 129 in general business, and 19 in composite business. Taken together, insurance companies from 26 countries and territories maintained a presence in Hong Kong at end-March 2003. Underpinned by the strong expansion in both life insurance and general insurance businesses, the value of business receipts in the insurance industry kept surging, by 10% and 15% respectively in the third and fourth quarters of 2002 over a year earlier. For 2002 as a whole, the increase was 10%.

The debt market

4.24 In the first quarter of 2003, a total of 26 issues of Exchange Fund paper were launched to replace the maturing issues⁽⁹⁾. The total market value of Exchange Fund paper outstanding went up by 0.6% during the quarter to \$118.2 billion at end-March 2003. This was similar to the 0.8% rise during the fourth quarter of 2002. Market response to the tenders of Exchange Fund paper remained favourable, with the average over-subscription rate rising noticeably from 5.2 times in the fourth quarter of 2002 to 7.1 times in the first quarter of 2003. Trading in Exchange Fund paper also turned more active over these two quarters, with the average daily turnover increasing from \$21.0 billion to \$27.8 billion. Comparing end-March 2003 with end-2002, there was some narrowing in the yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries, from 48 basis points to 36 basis points.

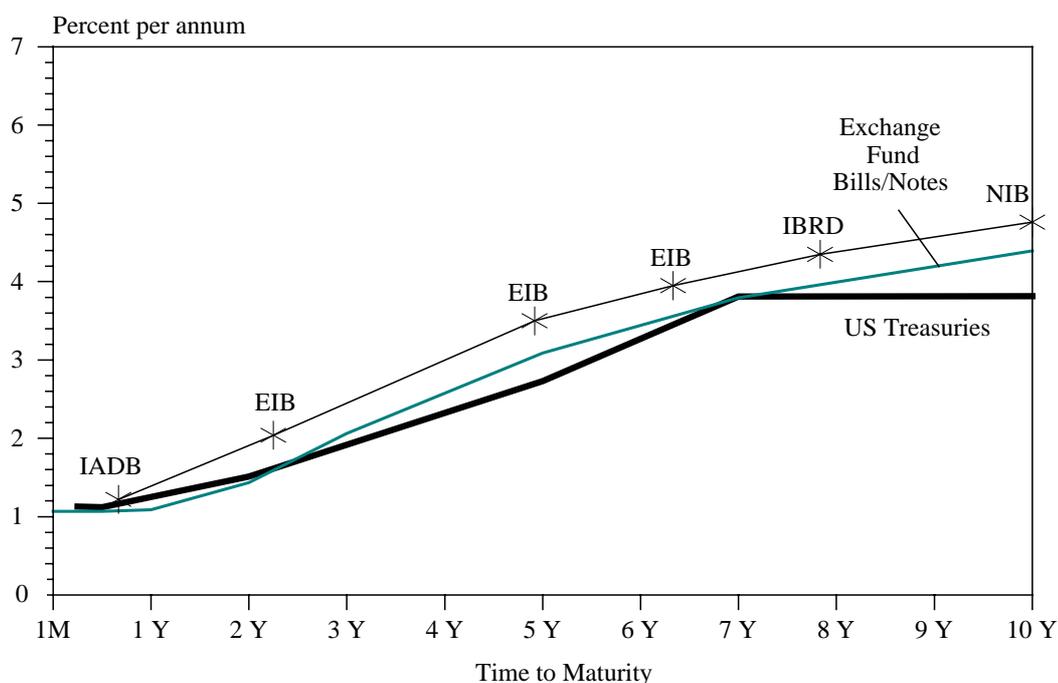
/Table 4.13

Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		Amount outstanding as at the end of the quarter (HK\$Bn)	Average daily turnover in the quarter (HK\$Bn)
2002	Q1	114.7	22.3
	Q2	115.7	22.7
	Q3	116.6	23.4
	Q4	117.5	21.0
2003	Q1	118.2	27.8

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of March 2003)



Note : AAA Hong Kong dollar debt issuers

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

/4.25

4.25 At present, the Hong Kong Mortgage Corporation (HKMC) is one of the major issuers of debt securities in Hong Kong. In the first quarter of 2003, \$3.6 billion worth of HKMC debt paper was launched. By end-March, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$5.0 billion, and that under its Debt Issuance Programme reached \$20.5 billion. In addition, retail bonds were issued by HKMC, with the outstanding value totalling \$6.1 billion at end-March.

4.26 In the first quarter of 2003, \$19.8 billion worth of new negotiable certificates of deposit (NCDs) was launched, down from \$22.3 billion in the fourth quarter of 2002. Of the new issuance of NCDs in the first quarter, \$10.0 billion was denominated in Hong Kong dollars, down from \$11.9 billion in the preceding quarter. This notwithstanding, the total value of NCDs outstanding went up to \$229.5 billion at end-March 2003, from \$211.2 billion at end-2002. Within the total for end-March, \$140.6 billion was denominated in Hong Kong dollars, up by 1.6% over three months earlier. Meanwhile, the proportion of Hong Kong dollar denominated NCDs held by the local banking sector rose slightly, from 52.3% at end-2002 to 52.6% at end-March 2003.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

As at the <u>end of</u>		<u>Issued and outstanding</u> (HK\$Bn)		<u>Held by authorized institutions</u> (HK\$Bn)		<u>Held outside the local banking sector</u> (HK\$Bn)	
		<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>
2002	Q1	132.1	173.3	73.5	85.0	58.6	88.2
	Q2	142.0	192.3	77.2	86.2	64.8	106.1
	Q3	136.8	201.0	72.9	82.0	63.9	118.9
	Q4	138.4	211.2	72.4	80.2	66.1	131.1
2003	Q1	140.6	229.5	74.0	83.1	66.6	146.5

/4.27

4.27 In the first quarter of 2003, 211 new issues of other Hong Kong dollar debt instruments, worth \$30.6 billion, were launched by the private sector. These were more than the 129 new issues worth \$18.9 billion in the fourth quarter of 2002. Partly reflecting risk aversion by debt issuers against potential interest rate volatility, the issuance of fixed rate bonds by the private sector, at \$21.6 billion in the first quarter of 2003, was still considerably higher than that of floating rate notes, at \$9.0 billion in the same quarter. At end-March 2003, the total outstanding value of Hong Kong dollar fixed rate bonds and floating rate notes issued by the private sector amounted to \$197.9 billion and \$82.8 billion respectively, adding up to a total of \$280.7 billion⁽¹⁰⁾. These exceeded the corresponding figures of \$193.9 billion, \$76.2 billion and \$270.1 billion at end-2002. Furthermore, there were three new issues of Hong Kong dollar debt paper by multilateral agencies in the first quarter of 2003, raising a total of \$1.6 billion, as against four issues for \$1.0 billion in the fourth quarter of 2002.

4.28 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding thus amounted to \$544.3 billion at end-March 2003⁽¹¹⁾, up from \$532.9 billion at end-2002. The size of the Hong Kong dollar debt market was equivalent to 27.4% of HK\$M3, or 20.2% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

4.29 Though with some occasional fluctuations, the local stock market was mostly on a downtrend during the first quarter of 2003. The Hang Seng Index started the year on a strong note, reaching an almost six-week high of 9 873 on 15 January. To a large extent, this mirrored the rally in the US stock market. Local share prices subsequently retreated, in tandem with the weakening in most of the other stock markets overseas. Increased concern over the US-led war on Iraq and an uncertain US economic outlook were the major factors dampening market sentiment. The decline steepened in March, as the spate of sluggish US economic data and the spread of atypical pneumonia in Hong Kong undermined investor confidence further. The Hang Seng Index plummeted to a 4½-year low of 8 634 at end-March 2003, down by 7.4% from the level at end-2002. (The local stock market drifted lower in April, amidst intensified worries about the adverse economic impact of the spread of atypical pneumonia. Yet with improvement in the situation more recently, the Hang Seng Index rebounded from a further low of 8 409 on 25 April to 9 304 on 23 May.)

/Diagram 4.10

Diagram 4.10**Hang Seng Index****Table 4.15**

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

		Hang Seng Index	New York Dow Jones Industrial Average	Tokyo Nikkei Average	London Financial Times Index	Frankfurt DAX 30 Index	Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
2002	Q1	11 033	10 404	11 025	5 272	5 397	4 688	3 363	1 803
	Q2	10 599	9 243	10 622	4 656	4 383	3 898	3 163	1 553
	Q3	9 072	7 592	9 383	3 722	2 769	2 777	2 928	1 352
	Q4	9 321	8 342	8 579	3 940	2 893	3 064	2 976	1 341
2003	Q1	8 634	7 992	7 973	3 613	2 424	2 618	2 849	1 268
	% change during the first quarter of 2003	-7.4	-4.2	-7.1	-8.3	-16.2	-14.5	-4.3	-5.5
	% change over a year earlier	-21.7	-23.2	-27.7	-31.5	-55.1	-44.1	-15.3	-29.7

/4.30

4.30 Consequential to the decline in share prices, total stock market capitalisation, including the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, fell by 5% during the first quarter of 2003 to \$3,429 billion at end-March. Trading activity stayed low, with an average daily turnover of \$6.1 billion in the first quarter of 2003, though improved somewhat from that of \$5.6 billion in the fourth quarter of 2002.

Table 4.16

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

		<u>Average daily turnover in the quarter</u> (HK\$Bn)			<u>Total market capitalisation as at the end of the quarter</u> (HK\$Bn)		
		<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>	<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>
2002	Q1	6.9	0.3	7.1	3,855	69	3,924
	Q2	7.8	0.2	8.0	3,792	61	3,852
	Q3	5.8	0.2	5.9	3,327	53	3,381
	Q4	5.6	0.1	5.6	3,559	52	3,611
2003	Q1	6.0	0.1	6.1	3,378	51	3,429

4.31 In the first quarter of 2003, 14 new share flotations were launched on the Stock Exchange of Hong Kong, raising a total equity capital of \$4.4 billion. Of these, nine were listed on the Main Board and five on GEM, raising equity capital of \$4.2 billion and \$0.2 billion respectively. Amongst these new issues, two pertained to H shares and were listed on the Main Board and GEM respectively, raising a sum of \$4.0 billion. In addition to the new flotations, \$0.3 billion was raised through private placements by 15 companies, and another \$0.3 billion through rights issues by seven companies.

/4.32

4.32 As to trading in derivatives on the market of the Hong Kong Exchanges and Clearing Limited, the average daily turnover of Hang Seng Index futures contracts, at 22 408 contracts in the first quarter of 2003, went up by 9% over the fourth quarter of 2002. The average daily turnover of Hang Seng Index options contracts had a larger increase, by 38% to 8 633 contracts. In stark contrast, the average daily turnover of MSCI China Free Index futures contracts⁽¹³⁾ remained very thin, with only one contract in the first quarter of 2003, further reduced from four contracts in the fourth quarter of 2002.

Table 4.17

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

<u>During the quarter</u>	<u>Hang Seng Index futures contracts</u> (no. of contracts)	<u>Hang Seng Index options contracts</u> (no. of contracts)
2002 Q1	17 956	3 338
Q2	18 739	3 185
Q3	21 053	4 652
Q4	20 508	6 242
2003 Q1	22 408	8 633

4.33 At end-March 2003, there were 34 classes of stock options contracts and 32 classes of stock futures contracts. The average daily turnover of stock options contracts amounted to 15 847 contracts in the first quarter of 2003, 12% more than in the fourth quarter of 2002. Yet the average daily turnover of stock futures contracts fell by 29% to 70 contracts in the first quarter.

4.34 Comparing the first quarter of 2003 with the fourth quarter of 2002, the average daily turnover of three-month HIBOR futures contracts dropped by 26% to 223 contracts, while the average daily turnover of three-year Exchange Fund Note futures contracts rose by nine contracts to 11 contracts.

/4.35

4.35 There were 372 issues of warrants listed on the Main Board at end-March 2003. These comprised 59 issues of equity warrants and 313 issues of derivative warrants. The average daily turnover of equity warrants amounted to \$2.0 million in the first quarter of 2003, down by 3% from the fourth quarter of 2002. By contrast, the average daily turnover of derivative warrants, at \$505.6 million in the first quarter, soared by 13%. On GEM, only four issues of warrants were listed at end-March 2003. Trading in them remained thin throughout the first quarter.

4.36 The Securities and Futures Ordinance (SFO) came into operation on 1 April 2003. By modernising the ten relevant ordinances and consolidating them into one single ordinance, this represents a major milestone in the regulation of Hong Kong's securities and futures markets. The enhanced SFO provides a user-friendly regulatory regime for the development of a fair, orderly and transparent market that is competitive internationally, as well as attractive to investors, securities issuers and securities intermediaries. It also improves the regulation of market intermediaries and upholds a level playing field for authorized institutions and brokers alike by applying consistent regulatory measures on their conduct of securities business.

4.37 Gold price remained firm in January and in early February 2003, amidst heightened concern about war stress in Iraq and political tension in North Korea. The weakness of the major stock markets overseas rendered an added boost to the demand for gold as a safe haven for funds. On 5 February, the price of loco-London gold reached its 6½-year high of US\$383.8 per troy ounce. Profit taking and increased expectation that the war on Iraq would end soon then pushed down the gold price. At end-March 2003, the price of loco-London gold closed at US\$335.4 per troy ounce, 3% below the level of US\$344.0 at end-2002. Gold price at the Chinese Gold and Silver Exchange Society exhibited a similar trend, with a fall of 3% during the first quarter of 2003 to \$3,115 per tael at end-March. Turnover on the Exchange amounted to 1.2 million taels in the first quarter of this year, higher than 0.8 million taels in the fourth quarter of last year.

/Unit

Unit trusts and mutual funds

4.38 At end-March 2003, the total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 1 003, up from 942 at end-2002. Gross sales of mutual funds amounted to US\$4.6 billion in the first quarter of 2003, representing a marked increase of 59% over the fourth quarter of 2002. After deducting redemptions, net sales amounted to US\$1.9 billion in the first quarter of this year, up even more by 184% over the fourth quarter of last year. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 55% of the total value of funds at end-March 2003. This was followed by bond funds, asset allocation funds and money market funds, with respective shares of 27%, 9% and 8%⁽¹⁴⁾.

4.39 The Mandatory Provident Fund (MPF) System⁽¹⁵⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should add impetus to further development of the local financial market. At end-March 2003, the aggregate net asset value of the approved constituent funds of MPF schemes rose further to \$59.3 billion, from \$55.1 billion at end-2002. This was mainly attributable to continued contributions from the enrolled population. By end-March 2003, there were 20 approved corporate trustees. On MPF products, 45 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 318 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 217 000 employers, 1.72 million employees and 302 000 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 94%, 96% and 76% respectively.

/Notes

Notes :

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

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

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

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

/(3)

(3) In the light of the changing market shares of individual authorized institutions (AIs) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by HKMA has been expanded as from May 2001, in order to increase the proportion of business covered by the survey. Altogether 38 AIs were so included immediately after the coverage expansion. The number of AIs has since fallen to 28 due to banking sector consolidation. The AIs currently covered together account for around 96% of the total business, as compared to 92% for the 32 AIs formerly covered. The outstanding amount of mortgage loans covered by the survey is hence lifted, by 8.8%.

(4) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.

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

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

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.

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

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

(6) Amongst the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series back-dated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.

(7) Euro-yen Impact Loans (EYIL) are loans made to customers in Japan by a domestic branch of a Japanese bank but booked in an overseas branch of the bank. Loans booked in this way generally have tax and funding cost advantages for customers. Reflecting a more cautious lending stance by the Japanese banks and the need to reduce the size of their balance sheets, EYIL has declined substantially since the second half of 1997.

/(8)

- (8) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Non-performing loans are those on which interest has been placed in suspense or on which interest accrual has ceased. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to certain extent with overdue and rescheduled loans.
- (9) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (10) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (11) Due to different sources for NCD data, the total value of Hong Kong dollar debt paper outstanding may not equal the sum of the outstanding values of Exchange Fund paper, HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector.
- (12) The Growth Enterprise Market was launched by the then Stock Exchange of Hong Kong Ltd in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Though open to companies in all industries and of all sizes, the market provides an efficient venue for fund raising especially by small to medium-sized enterprises.
- (13) The MSCI China Free Index is a market-capitalisation-weighted stocks index, covering Red-chip shares and H shares listed in Hong Kong, B shares listed in Shanghai and Shenzhen, and N shares listed in New York. The Index thus represents the universe of Chinese stocks open to investors outside the Mainland, and complements the Red-chip and H share markets in Hong Kong. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001.
- (14) These figures are sourced from the sales and redemptions and performance survey conducted by the Hong Kong Investment Funds Association on their members, and as such cover only the active authorized funds that have responded to the survey.

/(15)

- (15) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged between 18 and 65, subject to certain exceptions. It provides for joint contributions by the employer and the employee, each at 5% of the employee's relevant income, to a registered MPF scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. As from February 2003, the minimum income level for MPF contribution purpose is raised from \$4,000 per month to \$5,000, yet the maximum income level is kept at \$20,000 per month. The accrued MPF benefits are fully vested in the scheme, and members can be transferred from scheme to scheme when there is a change in employment.

The Mandatory Provident Fund Schemes Authority (MPFA) is the statutory body tasked with the responsibility for regulation and supervision of the MPF System and for ensuring compliance with the Mandatory Provident Fund Schemes Ordinance.

An MPF scheme may consist of one or more constituent funds each with its own investment policy. A constituent fund may maintain a portfolio of direct investment in equities, bonds or other debt instruments, or may invest in approved pooled investment funds which may be in the form of unit trusts authorized by the Securities and Futures Commission or insurance policies issued by authorized insurers. Both constituent funds and pooled investment funds have to be approved by MPFA, and be subject to investment standards applicable to MPF investment funds. Following a recent legislative amendment, a constituent fund may also invest in some other types of financial products, such as index-tracking collective investment schemes, subject to MPFA's prior approval.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation

5.1 The labour market, having shown some improvement in the second half of 2002, slackened again in the first quarter of 2003. This was mainly due to a marked reduction in employment in the construction sector, which in turn led to a larger contraction in overall employment than in total labour force in that quarter. The *seasonally adjusted unemployment rate*⁽¹⁾ went up to 7.5% in the first quarter of 2003, from 7.2% in the fourth quarter of 2002, as did the total numbers unemployed, to 259 800 from 252 600, although they were still below the respective peaks of 7.8% and 275 000 in mid-2002. The proportion of persons unemployed for less than three months rose to 54% in the first quarter of 2003, from 51% in the fourth quarter of 2002, yet the median duration of unemployment shortened to 82 days from 90 days. (The seasonally adjusted unemployment rate and the total numbers unemployed both moved up further, to 7.8% and 274 000 respectively in February - April 2003, mostly reflecting the adverse impact brought about by the spread of atypical pneumonia since mid-March. Restaurants, construction, the retail trade, hotels and business services were the sectors with more distinct increases in unemployment rate.)

5.2 The *underemployment rate*⁽²⁾ nevertheless edged lower, to 2.9% in the first quarter of 2003, from 3.1% in the fourth quarter of 2002. Conceivably, this was attributable to less temporary or part-time workers being employed, especially those engaged in construction. The total numbers underemployed were thus reduced, to 100 700 from 109 700. (The underemployment rate and the total numbers underemployed both climbed up again, to 3.2% and 113 000 respectively in February - April 2003, as some of the employees were temporarily suspended from work or asked to take no-pay leave upon the spread of atypical pneumonia since mid-March.)

5.3 For persons in employment, work intensity showed a small decrease. Reflecting this, the proportion of employed persons working for 50 hours or more per week declined to 38% in the first quarter of 2003, from 40% in the fourth quarter of 2002. The proportion of persons working for 60 hours or more per week also edged down, to 23% from 24%. Yet taking all the employed persons together, the median hours of work held steady at 48 hours per week in the first quarter of 2003, same as in the fourth quarter of 2002.

/Table 5.1

Table 5.1

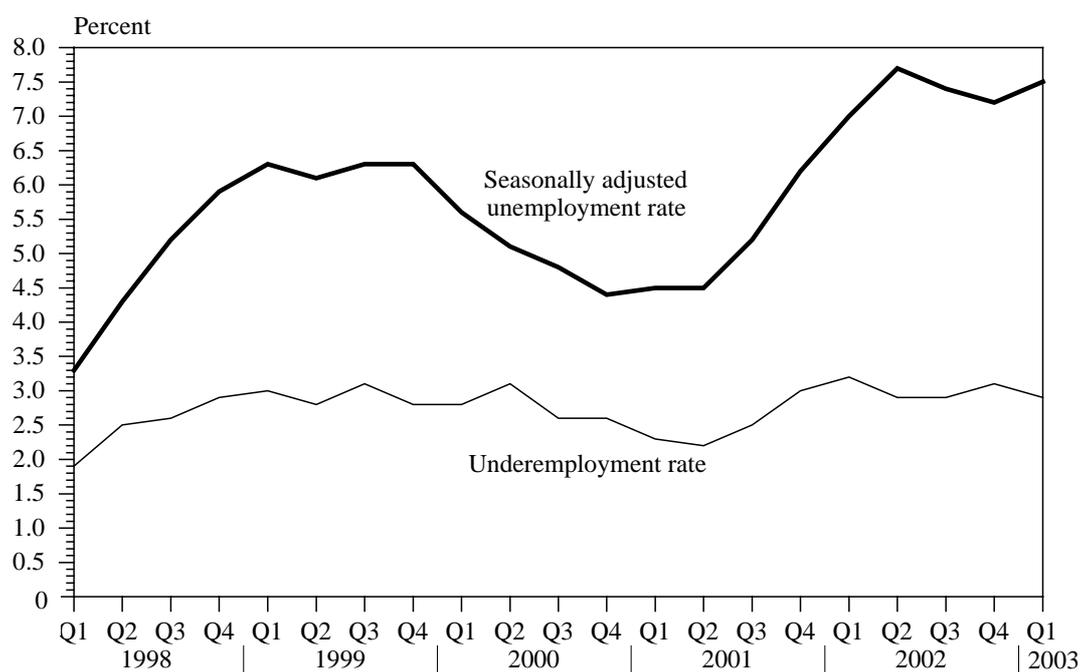
Unemployment and underemployment rates

		Seasonally adjusted <u>unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
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
2003	Q1	7.5	2.9

Source : General Household Survey, Census and Statistics Department.

Diagram 5.1

Unemployment and underemployment rates



/Table 5.2

Table 5.2

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

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> ^(a)	<u>Persons underemployed</u>
2002	Annual	3 487 900 (1.8)	3 232 300 (-0.6)	255 500	105 200
	Q1	3 459 600 (1.7)	3 220 700 (-1.0)	238 900	109 300
	Q2	3 460 100 (1.5)	3 196 700 (-1.9)	263 400	100 500
	Q3	3 512 900 (2.0)	3 245 700 (-0.4)	267 200	101 400
	Q4	3 518 800 (2.0)	3 266 200 (0.8)	252 600	109 700
2003	Q1	3 503 500 (1.3) <-0.4>	3 243 700 (0.7) <-0.7>	259 800	100 700

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

() % change over a year earlier.

< > % change over the preceding quarter.

Source : General Household Survey, Census and Statistics Department.

Table 5.3

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

		<u>Median duration of unemployment (Days)</u>	<u>Proportion unemployed for :</u>		
			<u>Less than 3 months (%)</u>	<u>3 months to less than 6 months (%)</u>	<u>6 months or more (%)</u>
2002	Annual	87	52	19	29
	Q1	87	53	20	27
	Q2	89	51	19	30
	Q3	82	55	17	28
	Q4	90	51	19	30
2003	Q1	82	54	17	29

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.4

Table 5.4

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

		Median hours of work per week for all <u>employed persons</u> (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>50-59 hours per week</u> (%)	<u>60 hours or more per week</u> (%)	<u>50 hours or more per week</u> (%)
2002	Annual	48	16	22	38
	Q1	45	14	20	34
	Q2	48	15	21	36
	Q3	48	17	22	40
	Q4	48	16	24	40
2003	Q1	48	15	23	38

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

Source : General Household Survey, Census and Statistics Department.

5.4 On a quarter-to-quarter comparison, *total employment*⁽³⁾ as enumerated from households shrank by 0.7% in the first quarter of 2003, exceeding the 0.4% fall in *total labour force*⁽⁴⁾. These reversed the corresponding increases of 0.6% and 0.2% in the fourth quarter of 2002. The reduction in employment was more apparent amongst persons with upper secondary education and tertiary non-degree education, those engaged in construction, business services, financing, real estate and communications, as well as those serving as plant and machine operators and assemblers, craft and related workers, and managers and administrators. As to the contraction in labour force, it was due to a decline in the labour force participation rates⁽⁵⁾ for both sexes. With a larger decrease in employment than in labour force, there was a loosening in the overall manpower resource balance, resulting in a pick-up in unemployment rate in the more recent months. On a year-on-year comparison, total employment, whilst still up in the first quarter of 2003, rose to a lesser extent than total labour force, by 0.7% as against 1.3%. In the fourth quarter of 2002, the differential in the respective increases was wider, by 0.8% as against 2.0%.

/Diagram 5.2

Diagram 5.2

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

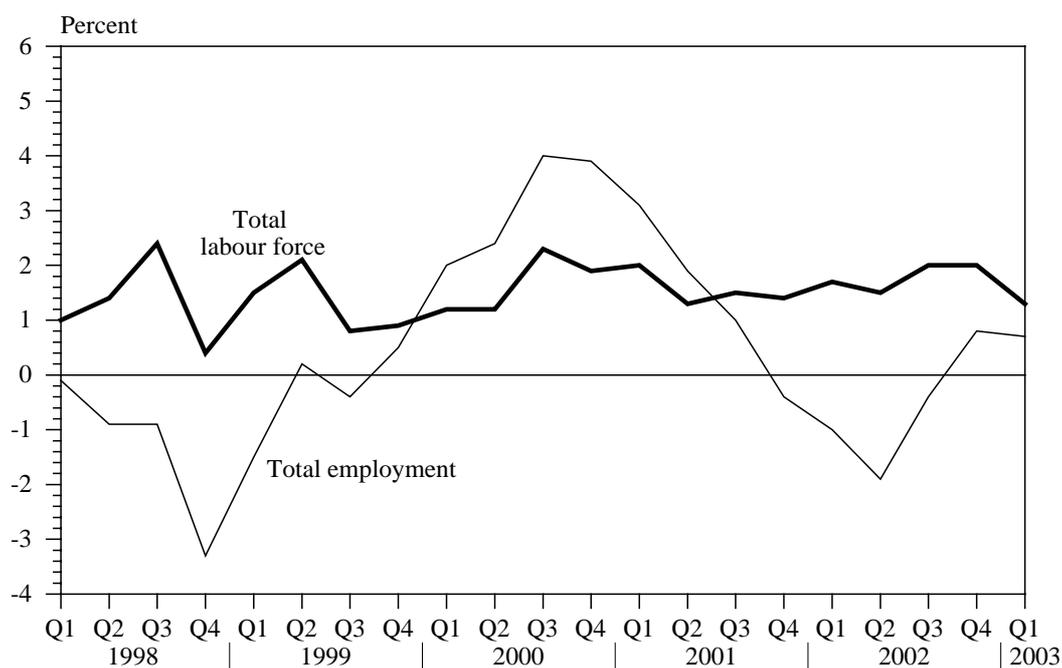


Table 5.5

Labour force participation rates by sex (%)

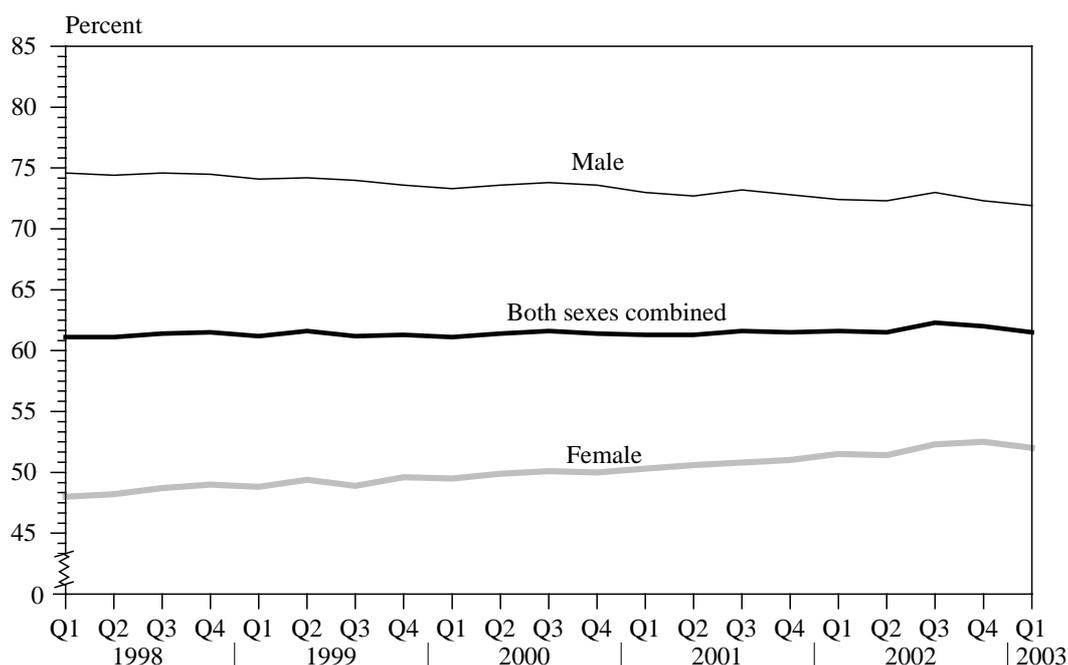
	<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2002 Annual	72.5	52.0	61.8
Q1	72.4	51.5	61.6
Q2	72.3	51.4	61.5
Q3	73.0	52.3	62.3
Q4	72.3	52.5	62.0
2003 Q1	71.9	52.0	61.5

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.3

Diagram 5.3

Labour force participation rates by sex



5.5 Overall labour income remained on a moderating trend in money terms. Specifically, *labour earnings*⁽⁶⁾ fell by 1.2% in money terms in the fourth quarter of 2002 over a year earlier, further to a 1.5% decline in the third quarter. Yet netting out a fall in the Composite CPI, labour earnings were still higher by 1.8% in real terms in the fourth quarter of 2002 over a year earlier, following a 2.1% increase in the third quarter. *Labour wages*⁽⁷⁾ likewise went down, by 0.8% in money terms in December 2002 over a year earlier, after a 1.5% decrease in September. After adjusting for the effect of a rise in the CPI(A) caused by a low base of comparison a year earlier, labour wages also went lower, by 1.8% in real terms in December 2002 over a year earlier, reversing the 2.8% gain in September.

/Profile

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, the rise in unemployment rate between the fourth quarter of 2002 and the first quarter of 2003 was most apparent in construction, especially in decoration and maintenance. Also went up were the unemployment rates in restaurants, transport and manufacturing. These outweighed the declines in unemployment rate seen in the import/export trade, insurance, communications and business services, as well as in hotels and the wholesale/retail trade, with the latter sectors being underpinned by the robust performance of inbound tourism up to mid-March before the spread of atypical pneumonia. As regards the underemployment rate, the decrease occurred mainly in construction and, to a lesser extent, in manufacturing and communications between the two quarters. Thus there was concurrently a surge in unemployment rate and a drop in underemployment rate in the construction sector. This was mostly due to slow-down in new private sector building projects as well as further reduction in the Public Housing Programme. Also, there was less work on decoration and maintenance after the Lunar New Year period. These together resulted in more construction workers, mostly those engaged in temporary or part-time work, being laid off.

/Table 5.6

Table 5.6**Unemployment rates by major economic sector (%)^(a)**

	<u>2002</u>					<u>2003</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	7.8	7.4	8.3	7.7	7.9	7.9
Transport, storage and communications	5.4	5.7	5.3	5.3	5.4	6.1
Financing, insurance, real estate and business services	4.7	4.9	4.5	4.5	4.7	4.5
Community, social and personal services	3.2	2.7	3.3	3.5	3.1	2.9
Manufacturing	7.3	7.2	8.2	7.1	6.6	7.3
Construction ^(b)	15.8	15.7	16.9	15.6	15.2	18.9

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

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

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

	<u>Annual</u>	<u>2002</u>				<u>2003</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	1.8	1.8	1.6	1.8	1.7	1.9
Transport, storage and communications	3.0	3.1	3.0	2.5	3.4	3.3
Financing, insurance, real estate and business services	0.6	0.7	0.5	0.6	0.5	0.7
Community, social and personal services	2.1	2.3	1.8	2.1	2.0	2.3
Manufacturing	2.5	2.4	2.6	2.3	2.6	1.8
Construction ^(a)	13.8	14.2	13.7	12.8	14.6	11.2

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.8

Table 5.8

**Unemployment and underemployment rates
by detailed economic sub-sector in the first quarter of 2003**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	7.9	85 800	1.9	20 900
Wholesale/retail trade	7.9	28 700	2.3	8 400
Import/export trade	4.9	20 900	0.7	2 800
Restaurants and hotels	12.4	36 200	3.3	9 600
Transport, storage and communications	6.1	22 200	3.3	11 900
Transport	5.9	18 200	3.6	11 000
Storage	4.5	200	2.3	100
Communications	7.6	3 800	1.6	800
Financing, insurance, real estate and business services	4.5	21 600	0.7	3 500
Financing	3.8	5 100	0.1	200
Insurance	3.3	1 400	0.9	400
Real estate	5.0	5 800	0.9	1 000
Business services	4.8	9 300	1.0	2 000
Community, social and personal services	2.9	25 400	2.3	20 600
Public administration	0.7	1 000	0.3	400
Education, medical and other health and welfare services	2.3	7 500	1.6	5 300
Other services	4.0	16 900	3.5	14 800
Manufacturing	7.3	22 900	1.8	5 700
Food and beverages	4.1	900	3.1	600
Clothing and footwear	9.8	8 200	3.2	2 700
Paper and printing	6.3	3 700	0.6	400
Plastic products	5.4	1 100	0.9	200
Metal products	3.9	700	2.6	500
Electrical and electronic products	8.3	5 600	0.7	500
Other manufacturing industries	6.3	2 700	2.2	1 000
Construction	18.9	64 200	11.2	38 000
Foundation and superstructure	16.5	42 800	9.8	25 500
Decoration and maintenance	26.3	21 400	15.5	12 600

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

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

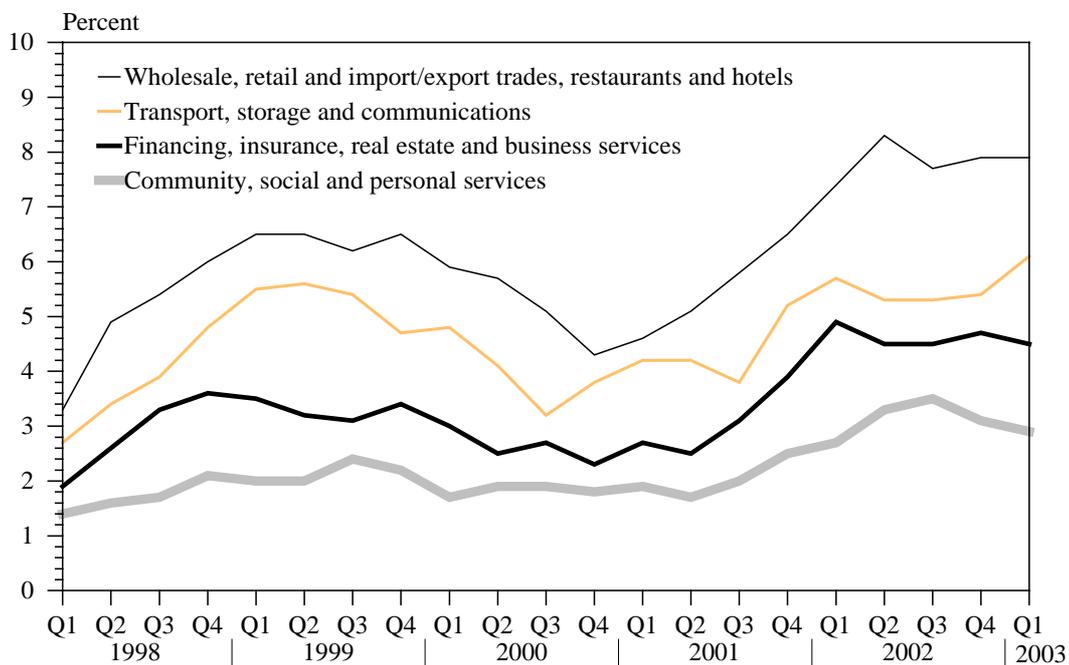
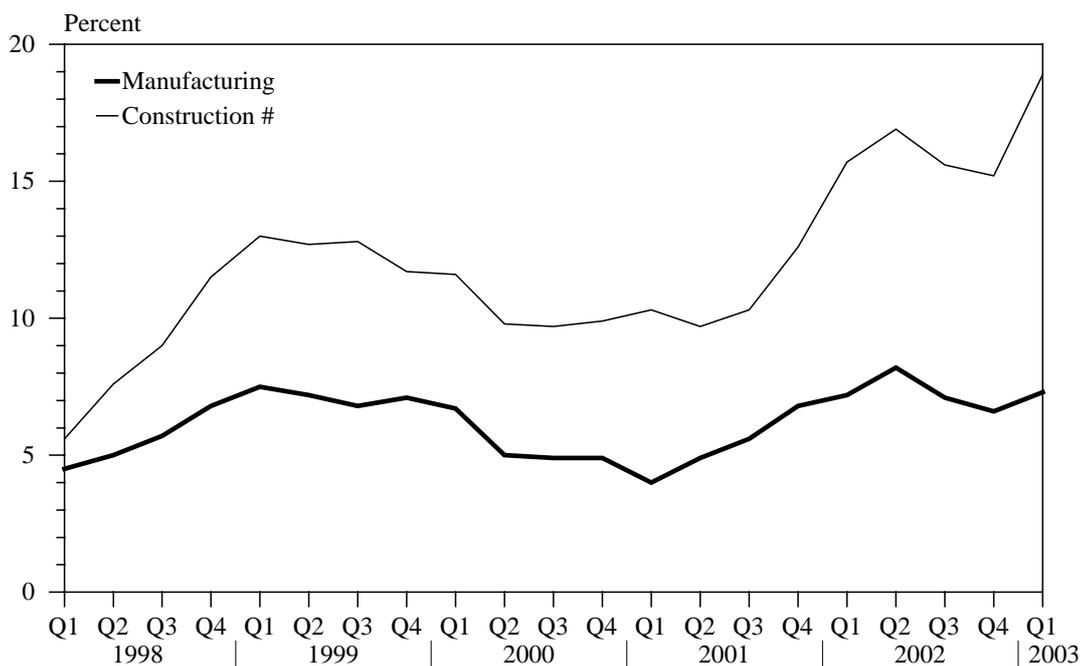
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



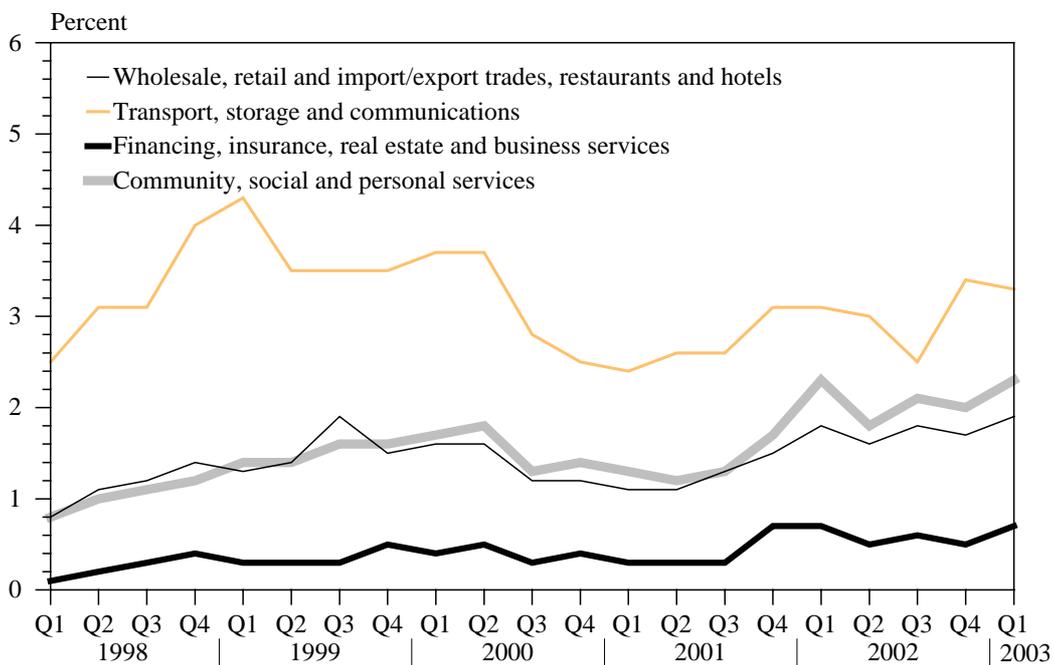
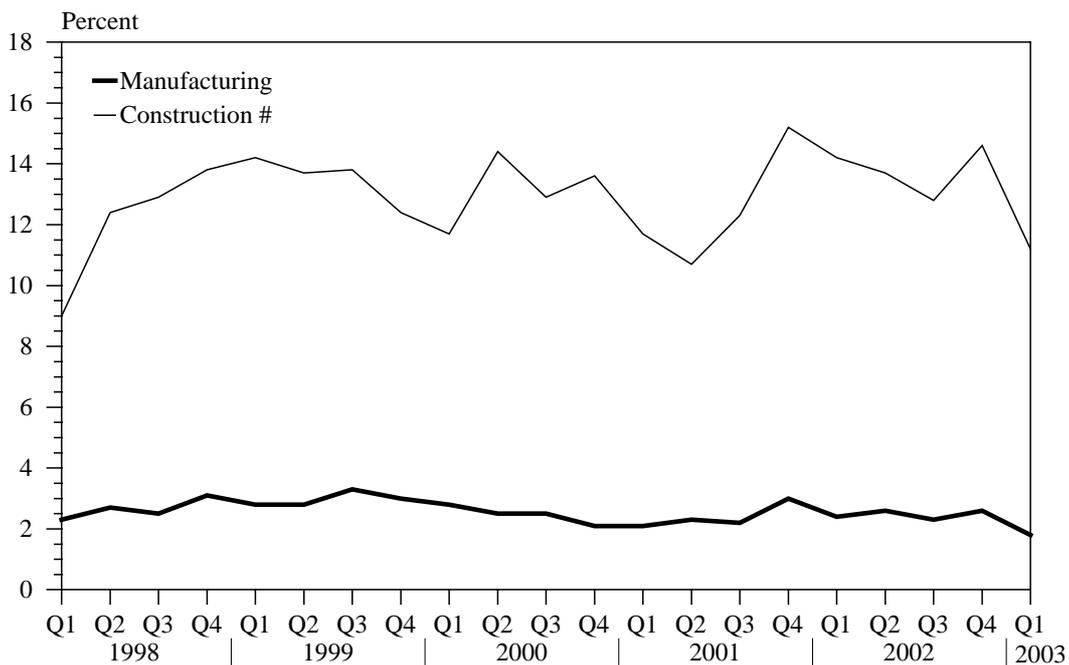
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

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

/Diagram 5.5

Diagram 5.5

Underemployment rates by major economic sector



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

5.7 Analysed by *occupation category*, the increase in unemployment rate between the fourth quarter of 2002 and the first quarter of 2003 occurred mainly amongst craft and related workers and amongst plant and machine operators and assemblers, most of whom were engaged in construction, manufacturing and transport. Yet craft and related workers, predominantly those in construction, had a marked decline in underemployment rate. Workers in elementary occupations, as well as plant and machine operators and assemblers, also had decreases in underemployment rate, though of lesser magnitude.

Table 5.9

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

	<u>2002</u>					<u>2003</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	2.7	3.5	3.1	2.3	1.9	2.1
Professionals	2.4	2.6	2.5	2.3	2.1	2.2
Associate professionals ^(b)	4.3	4.2	4.3	4.5	4.3	4.3
Clerks	5.3	5.2	5.5	5.4	5.2	5.0
Service workers and shop sales workers	9.1	8.5	9.6	9.1	9.4	9.4
Craft and related workers	14.0	12.6	15.7	14.3	13.5	16.2
Plant and machine operators and assemblers	5.9	6.4	6.6	5.4	5.2	6.8
Elementary occupations	7.7	7.4	7.7	7.8	7.9	8.0
Others	3.4	2.4	2.9	4.7	3.9	4.6

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

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.10

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

	<u>Annual</u>	<u>Q1</u>	<u>2002</u>			<u>2003</u>
			<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	*	*	0	0.2	0	0.1
Professionals	0.3	0.4	0.3	0.3	0.2	0.3
Associate professionals ^(a)	0.8	0.8	1.0	0.8	0.7	0.9
Clerks	1.1	1.1	0.9	1.2	1.2	1.1
Service workers and shop sales workers	2.5	2.6	2.3	2.8	2.4	2.8
Craft and related workers	11.3	11.2	11.0	10.6	12.5	9.4
Plant and machine operators and assemblers	3.8	4.3	3.8	3.1	3.9	3.6
Elementary occupations	4.8	5.2	4.5	4.6	5.0	4.7
Others	3.5	0.8	6.7	5.8	0	1.0

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.8

5.8 Analysed by *sex*, the unemployment rate for females edged down by 0.1 of a percentage point over the preceding quarter to 5.8% in the first quarter of 2003, but that for males leaped by 0.5 of a percentage point to 8.7%, which was largely related to worsened unemployment with construction workers. As a result, the difference between these two unemployment rates widened distinctly, to 2.9 percentage points in the first quarter of 2003, from 2.3 percentage points in the fourth quarter of 2002.

Table 5.11

Unemployment rates by sex (%)^(a)

	<u>Male</u>	<u>Female</u>
2002 Annual	8.4	6.0
Q1	8.1	5.3
Q2	8.8	6.1
Q3	8.5	6.5
Q4	8.2	5.9
2003 Q1	8.7	5.8

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

Source : General Household Survey, Census and Statistics Department.

/5.9

5.9 Analysed by *age group*, the unemployment rates for persons aged 25-29 and 40-49 rose noticeably between the fourth quarter of 2002 and the first quarter of 2003. On the other hand, the unemployment rate for younger persons aged 15-24 continued to decline, upon further absorption of first-time job-seekers in that age group into the employed workforce. Meanwhile, the unemployment rate for older persons aged 60 and above also fell.

Table 5.12

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

	<u>2002</u>					<u>2003</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
15-19	30.7	27.2	30.1	35.1	29.4	26.9
20-24	11.3	9.8	11.3	13.5	10.5	10.1
25-29	6.1	6.2	6.5	6.1	5.5	6.2
30-39	5.4	5.6	5.5	5.1	5.6	5.7
40-49	6.7	6.3	7.2	6.6	6.5	7.2
50-59	8.2	7.3	8.5	8.7	8.5	8.7
60 and above	5.0	5.3	6.0	4.6	4.2	3.6

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

Source : General Household Survey, Census and Statistics Department.

/5.10

5.10 Analysed by *educational attainment*, the unemployment rates for persons with no schooling/kindergarten education and with secondary education rose visibly between the fourth quarter of 2002 and the first quarter of 2003. On the other hand, the unemployment rate for persons with matriculation education and above came down, more so for those with tertiary non-degree education.

Table 5.13

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

	<u>Annual</u>	<u>2002</u>				<u>2003</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
No schooling/kindergarten	8.7	8.4	8.9	8.4	9.1	10.2
Primary	9.8	8.6	10.0	10.4	10.4	10.6
Lower secondary	10.9	10.4	11.5	10.5	11.1	11.5
Upper secondary ^(b)	6.9	6.6	7.3	7.2	6.5	7.0
Matriculation	5.2	5.2	5.4	5.1	5.3	5.1
Tertiary	4.3	3.9	4.2	5.0	4.0	3.8
<i>of which :</i>						
Non-degree	5.5	5.1	5.3	6.1	5.4	4.9
Degree	3.6	3.3	3.6	4.4	3.2	3.1

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

(b) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

/Profile

Profile of employment

5.11 Total employment as enumerated from business establishments remained on a downtrend throughout 2002. For all the private sector establishments surveyed taken together, total employment was reduced by 1.0% in December 2002 over a year earlier, following a 1.5% fall in September. For 2002 as a whole, total employment decreased by 1.6%, reversing the 0.2% increase in 2001. On a seasonally adjusted quarter-to-quarter comparison, total employment expanded by 0.2% in December 2002, having shown virtually nil change in September.

5.12 Taking all the *service sectors* surveyed together⁽⁸⁾, employment edged up by 0.2% in December 2002 over a year earlier, improved from the 0.4% decline in September. Analysed by constituent sector and on a year-on-year comparison, employment in the retail trade rose modestly by 0.4% in December 2002, conceivably due to more temporary or part-time workers being employed. Employment in water transport, air transport and services allied to transport and in financing, insurance, real estate and business services went up more, by 0.9% and 1.7% respectively. Employment in community, social and personal services had an even larger gain by 4.5%, underpinned by sustained strong demand for welfare, medical and health, sanitary and recreational services. On the other hand, employment in storage and communications was slashed visibly, by 14.9%, upon further consolidation in the telecommunications sector. Employment in restaurants and hotels dropped by 6.1%, with most of the decrease occurring in restaurants amidst the slack local demand conditions. Employment in the wholesale and import/export trades was slightly down, by 0.3%.

5.13 In the local *manufacturing* sector, employment contracted distinctly further, by 9.1% in December 2002 over a year earlier, after a 9.2% drop in September. Labour demand in this sector was dampened by sustained weak performance of domestic exports, as well as on-going relocation of production processes outside Hong Kong.

/5.14

5.14 Employment of manual workers at *building and construction sites*, having fallen by 8.0% in September, continued on a pronounced decrease by 13.3% in December 2002 over a year earlier. Employment at public sector sites fell markedly by 14.7%, upon further scaling back in the Public Housing Programme. Also relevant was a higher base of comparison in December 2001, when intensive work was still carried out on both the West Rail and the MTR Tseung Kwan O Extension. Employment at private sector sites had an equally visible decrease by 12.3%, mainly due to reduced employment in a number of private sector building projects outweighing the increased employment for work on Container Terminal No. 9. Analysed by type of project, employment at building and civil engineering sites both went down, by 16.6% and 5.3% respectively. Yet taking into account off-site workers and related professional and support staff, employment for the entire building and construction sector⁽⁹⁾ was still higher by 3.0% in the fourth quarter of 2002 than a year earlier, reversing the 2.7% decrease in the third quarter.

5.15 In line with the Government's move to reduce operating expenditure and contain the size of the *Civil Service*, employment in the Civil Service fell by 2.8% in December 2002 over a year earlier, after a 3.5% decline in September. As stated in the Chief Executive's Policy Address on 8 January 2003, the Government plans to reduce the civil service establishment further to around 160 000 by 2006/07 through natural wastage and normal retirement. As from 1 April 2003, recruitment to the Civil Service is frozen. Applications for the Second Voluntary Retirement Scheme started on 21 March 2003 and closed on 20 May 2003.

/Table 5.14

Table 5.14**Employment by major economic sector**

	<u>2001</u>					<u>2002</u>				
	Annual average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec
Wholesale and import/export trades	577 200 (-3.5)	581 100 (-3.5)	581 500 (-3.6)	579 300 (-5.0)	566 800 (-1.8)	567 000 (-1.8)	566 100 (-2.6)	556 000 (-4.4)	580 400 (0.2)	565 300 (-0.3)
Retail trade	219 700 (2.6)	215 400 (3.9)	228 300 (8.1)	225 000 (0.9)	210 200 (-2.2)	216 800 (-1.3)	216 300 (0.4)	218 400 (-4.3)	221 300 (-1.7)	211 100 (0.4)
Restaurants and hotels	222 200 (1.2)	220 600 (0.9)	225 100 (1.4)	223 000 (1.1)	219 900 (1.3)	211 500 (-4.8)	213 600 (-3.2)	213 700 (-5.1)	212 300 (-4.8)	206 500 (-6.1)
Water transport, air transport and services allied to transport	99 900 (2.1)	98 200 (2.1)	100 500 (1.1)	101 600 (1.5)	99 100 (3.6)	101 000 (1.2)	100 800 (2.6)	102 300 (1.8)	101 000 (-0.6)	100 000 (0.9)
Storage and communications	44 400 (2.8)	44 600 (8.2)	46 000 (6.2)	43 700 (-3.0)	43 400 (0.3)	40 100 (-9.8)	41 300 (-7.2)	41 600 (-9.7)	40 500 (-7.3)	36 900 (-14.9)
Financing, insurance, real estate and business services	435 600 (1.6)	428 900 (3.4)	442 500 (3.1)	437 300 (0.1)	433 900 (-0.1)	429 900 (-1.3)	423 400 (-1.3)	430 300 (-2.8)	424 500 (-2.9)	441 300 (1.7)
Community, social and personal services	373 800 (7.2)	360 500 (4.5)	372 500 (7.6)	377 000 (8.1)	385 100 (8.6)	396 000 (5.9)	392 100 (8.8)	390 800 (4.9)	398 300 (5.7)	402 600 (4.5)
Manufacturing	212 000 (-8.6)	217 000 (-7.2)	218 700 (-8.4)	209 300 (-8.8)	203 000 (-10.3)	193 000 (-9.0)	197 400 (-9.0)	200 100 (-8.5)	190 100 (-9.2)	184 500 (-9.1)
Building and construction sites	80 300 (0.9)	87 800 (17.8)	80 300 (1.3)	76 500 (-5.2)	76 600 (-8.7)	73 200 (-8.8)	76 900 (-12.4)	79 200 (-1.3)	70 400 (-8.0)	66 400 (-13.3)
<i>All establishments surveyed in the private sector^(a)</i>	2 312 600 (0.2)	2 301 600 (0.9)	2 343 200 (1.0)	2 319 900 (-0.9)	2 285 500 (-0.3)	2 275 900 (-1.6)	2 275 500 (-1.1)	2 280 100 (-2.7)	2 286 100 (-1.5)	2 261 900 (-1.0)
		<0.2>	<1.1>	<-1.2>	<-0.3>		<-0.7>	<-0.6>	<*>	<0.2>
<i>Civil Service^(b)</i>	177 700 (-3.5)	181 000 (-2.6)	178 700 (-3.3)	176 700 (-3.7)	174 500 (-4.4)	171 200 (-3.7)	173 000 (-4.4)	171 700 (-3.9)	170 500 (-3.5)	169 600 (-2.8)

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

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

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

() % change over a year earlier.

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

(*) Change of less than 0.05%.

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

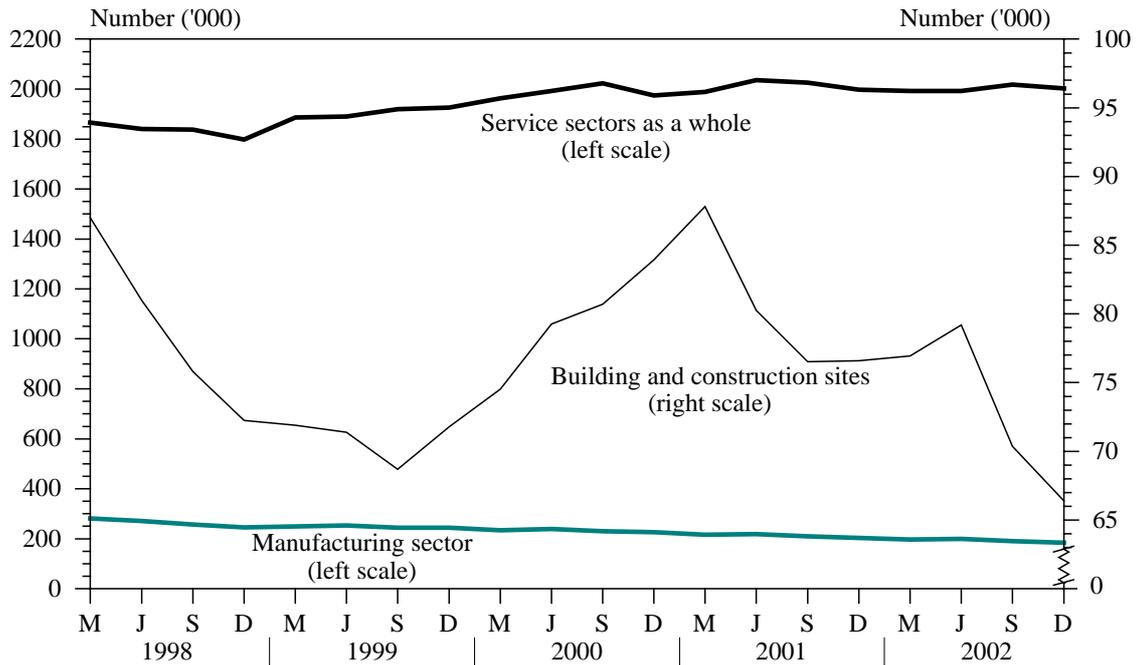
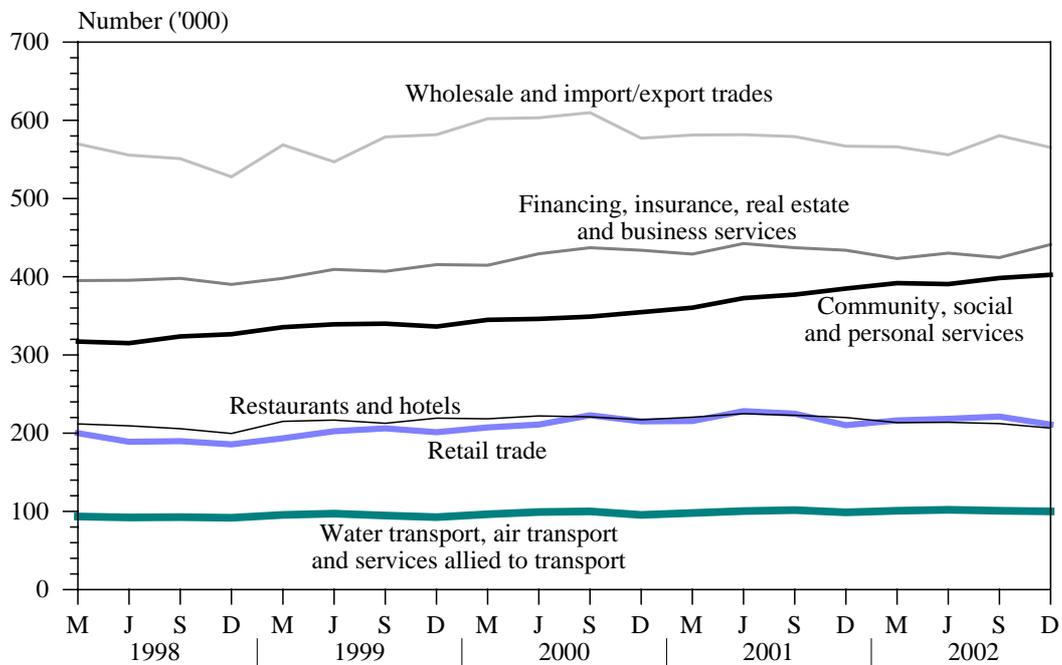


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.16 Vacancies in the private sector continued to decline, as employers were generally stringent on their staffing. Yet there appeared to have been some tapering in the decline over the course of 2002. Taking all the private sector establishments surveyed together, vacancies fell by 5.5% in December 2002 over a year earlier, smaller than the 11.6% drop in September. On a seasonally adjusted quarter-to-quarter comparison, the decrease in vacancies narrowed rather more distinctly, to 0.3% from 13.0% for these two months. For 2002 as a whole, the decrease by 17.5% was considerably more moderate than the 28.0% fall in 2001. The overall vacancy rate in the private sector edged down to 0.7% in December 2002 from 0.8% in September, as well as to an average of 0.8% in 2002 from that of 1.0% in 2001.

5.17 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed taken together shrank by 4.4% in December 2002 over a year earlier, much lesser than the 12.6% decline in September. On a year-on-year comparison, there was a substantial reduction in vacancies in storage and communications by 42.9% in December 2002, amidst continued rationalisation in the telecommunications sector. Vacancies in community, social and personal services and in water transport, air transport and services allied to transport were also markedly reduced, by 20.9% and 17.7% respectively. Vacancies in restaurants and hotels were lower by 11.9%, with the decrease attributable entirely to restaurants. Vacancies in the retail trade fell relatively less, by 4.0%. On the other hand, vacancies in the wholesale and import/export trades surged by 15.0%, while vacancies in financing, insurance, real estate and business services went up by 6.3%. As to the local *manufacturing sector*, vacancies were slashed by 17.9% in December 2002 over a year earlier. This came after a modest increase of 3.9% in September. For manual workers at *building and construction sites*, vacancies plunged by 62.7% in December 2002 over a year earlier, much exceeding the 19.7% drop in September. The lack of major new projects was the primary contributory factor. Vacancies in the *Civil Service* went down by 11.2% in December 2002 from a year earlier, reversing the 1.9% rise in September.

/Table 5.15

Table 5.15

Vacancies by major economic sector

	<u>No. of vacancies</u>										Vacancy rate in Dec 2002 (%)
	<u>2001</u>					<u>2002</u>					
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	
Wholesale and import/export trades	4 700 (-45.0)	7 400 (-29.0)	4 600 (-50.2)	4 000 (-56.5)	3 000 (-46.8)	4 400 (-7.1)	5 000 (-32.2)	5 000 (9.5)	4 200 (3.5)	3 500 (15.0)	0.6
Retail trade	2 100 (-20.5)	2 400 (-3.2)	2 100 (-20.3)	2 400 (-20.1)	1 500 (-38.7)	1 800 (-14.3)	1 700 (-31.4)	2 500 (20.0)	1 600 (-33.1)	1 500 (-4.0)	0.7
Restaurants and hotels	1 600 (-21.0)	2 200 (7.0)	1 300 (-29.8)	1 500 (-35.9)	1 200 (-24.1)	1 300 (-13.8)	1 600 (-28.5)	1 400 (4.7)	1 400 (-10.8)	1 100 (-11.9)	0.5
Water transport, air transport and services allied to transport	700 (-33.2)	900 (6.1)	800 (-24.4)	400 (-68.8)	500 (-30.1)	500 (-24.3)	500 (-48.3)	600 (-21.6)	500 (17.2)	400 (-17.7)	0.4
Storage and communications	500 (-25.6)	600 (-29.2)	500 (-50.4)	500 (-23.2)	500 (38.0)	400 (-26.1)	400 (-31.0)	400 (-15.7)	400 (-11.3)	300 (-42.9)	0.8
Financing, insurance, real estate and business services	6 400 (-30.5)	8 200 (-12.9)	7 800 (-22.2)	5 300 (-48.8)	4 300 (-39.3)	5 200 (-18.6)	5 400 (-34.6)	6 000 (-22.3)	4 800 (-8.4)	4 600 (6.3)	1.0
Community, social and personal services	5 600 (0.5)	5 700 (5.5)	6 500 (16.0)	5 500 (-11.1)	4 700 (-8.0)	4 100 (-26.5)	4 400 (-23.5)	4 200 (-35.4)	4 200 (-23.8)	3 700 (-20.9)	0.9
Manufacturing	1 600 (-35.2)	1 900 (-34.1)	1 900 (-34.0)	1 400 (-37.8)	1 100 (-36.1)	1 300 (-16.6)	1 400 (-25.0)	1 500 (-22.0)	1 400 (3.9)	900 (-17.9)	0.5
Building and construction sites	100 (-55.3)	200 (3.3)	100 (-75.3)	100 (-72.4)	100 (-57.6)	100 (-43.5)	100 (-42.7)	100 (-48.6)	100 (-19.7)	# (-62.7)	*
<i>All establishments surveyed in the private sector^(a)</i>	<i>23 500 (-28.0)</i>	<i>30 000 (-13.8)</i>	<i>25 700 (-26.4)</i>	<i>21 200 (-40.6)</i>	<i>17 200 (-32.1)</i>	<i>19 400 (-17.5)</i>	<i>20 800 (-30.8)</i>	<i>21 900 (-14.9)</i>	<i>18 800 (-11.6)</i>	<i>16 200 (-5.5)</i>	<i>0.7</i>
		<i><-4.5></i>	<i><-7.8></i>	<i><-16.9></i>	<i><-6.7></i>		<i><-3.1></i>	<i><12.6></i>	<i><-13.0></i>	<i><-0.3></i>	
<i>Civil Service^(b)</i>	<i>1 700 (-12.3)</i>	<i>1 500 (-31.8)</i>	<i>1 700 (-19.7)</i>	<i>1 700 (-8.1)</i>	<i>1 900 (19.8)</i>	<i>1 800 (3.3)</i>	<i>1 700 (9.0)</i>	<i>1 900 (16.0)</i>	<i>1 700 (1.9)</i>	<i>1 700 (-11.2)</i>	<i>1.0</i>

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

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

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Scheme.

() % change over a year earlier.

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

(*) Less than 0.05%.

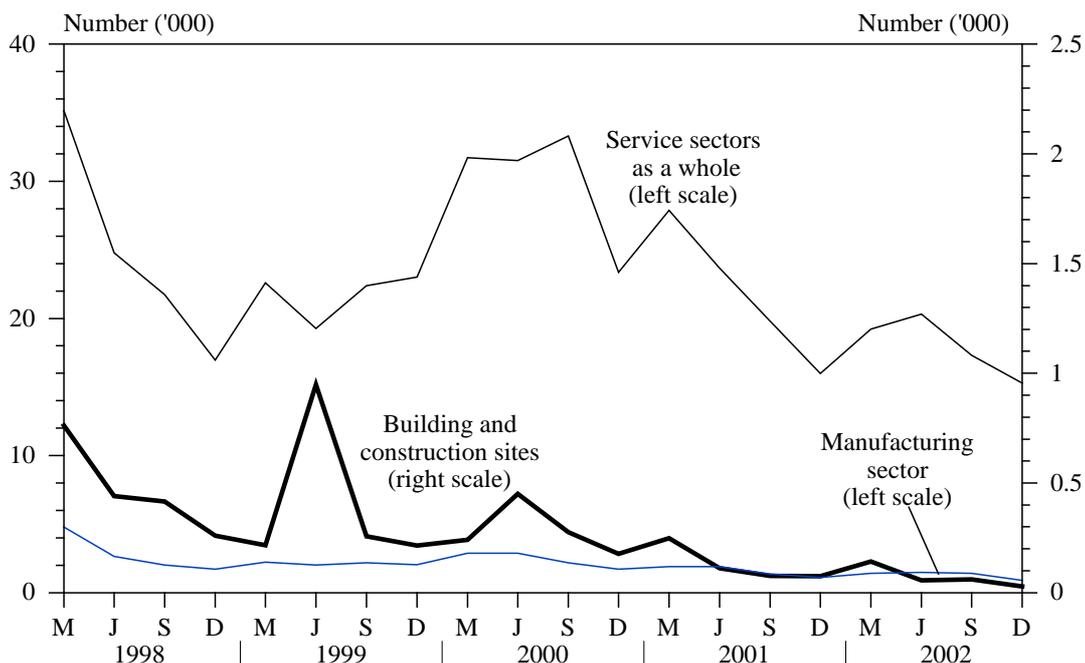
(#) Less than 50.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.18 Analysed by *occupation category*, vacancies for workers in elementary occupations, service workers and shop sales workers, clerks, craft and related workers, and plant and machine operators and assemblers all went down, by 13.7%, 11.7% 9.7%, 9.0% and 8.3% respectively in December 2002 over a year earlier. Yet at the same time, vacancies for workers at the upper segment of the occupational hierarchy went up. Specifically, vacancies for professionals increased distinctly, by 10.3% in December 2002 over a year earlier, while vacancies for associate professionals and for managers and administrators rose more modestly, by 1.7% and 1.5% respectively.

/Table 5.16

Table 5.16**Vacancies by major occupation category**

	<u>No. of vacancies</u>											
	<u>Annual average</u>	<u>2001</u>					<u>Annual average</u>	<u>2002</u>				
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>		<u>Jun</u>	<u>Sep</u>	<u>Dec</u>		
Managers and administrators	600 (-3.2)	800 (35.1)	700 (4.6)	400 (-33.1)	400 (-20.5)	400 (-21.5)	400 (-48.7)	500 (-31.0)	500 (23.2)	400 (1.5)		
Professionals	1 800 (-41.8)	2 600 (-17.8)	2 300 (-30.4)	1 200 (-64.6)	1 000 (-56.4)	1 100 (-39.1)	1 300 (-52.0)	1 100 (-53.5)	900 (-26.5)	1 100 (10.3)		
Associate professionals	7 300 (-37.5)	9 600 (-25.0)	7 700 (-40.6)	6 700 (-46.9)	5 400 (-37.7)	6 900 (-5.8)	7 500 (-21.8)	8 300 (7.2)	6 400 (-4.1)	5 500 (1.7)		
Clerks	5 600 (-10.3)	7 100 (5.2)	6 700 (8.2)	4 700 (-26.0)	3 700 (-32.4)	3 800 (-32.4)	4 100 (-42.7)	4 200 (-37.9)	3 400 (-26.7)	3 400 (-9.7)		
Service workers and shop sales workers	4 000 (-17.8)	4 900 (-1.7)	3 600 (-24.0)	4 000 (-30.2)	3 400 (-12.0)	3 700 (-8.1)	3 900 (-20.1)	3 900 (7.3)	3 800 (-4.4)	3 000 (-11.7)		
Craft and related workers	700 (-43.8)	900 (-26.0)	700 (-56.6)	700 (-43.3)	500 (-46.8)	500 (-27.8)	600 (-37.8)	600 (-13.9)	400 (-40.9)	500 (-9.0)		
Plant and machine operators and assemblers	800 (-33.3)	800 (-41.1)	1 100 (-22.8)	700 (-41.4)	600 (-24.7)	800 (-6.3)	900 (3.0)	700 (-31.9)	900 (22.5)	500 (-8.3)		
Elementary occupations	2 800 (-26.3)	3 300 (-15.3)	2 900 (-27.3)	2 800 (-38.4)	2 100 (-20.5)	2 300 (-17.8)	2 200 (-32.4)	2 700 (-8.0)	2 400 (-13.8)	1 800 (-13.7)		

Note : () % change over a year earlier.

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

/Earnings

Earnings and wages

5.19 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, continued to drift lower, by 1.2% in money terms in the fourth quarter of 2002 from a year earlier, following a 1.5% fall in the third quarter. Amongst the business establishments surveyed in the fourth quarter of 2002, 46% reported a decrease in average labour earnings over a year earlier, while 19% reported virtually no change. The remaining 35% reported an increase in average labour earnings, but this was mainly due to a higher proportion of higher-skill and hence better-paid workers upon retrenchment of workers at the lower level. After netting out the decline in consumer prices as reflected by the Composite CPI, overall labour earnings still went up, by 1.8% in real terms in the fourth quarter of 2002 over a year earlier, further to a 2.1% rise in the third quarter. For 2002 as a whole, overall labour earnings fell by an average of 1.1% in money terms, yet up by 2.0% in real terms. These represented a moderation from the increases of 1.8% and 3.5% respectively in 2001. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings decreased by 0.2% in money terms in the fourth quarter of 2002, following a 0.4% decline in the third quarter. This corresponded to an increase of 0.4% in real terms, coming after that of 0.5%.

5.20 Analysed by *economic sector*, labour earnings fell almost across-the-board in money terms. Taking all the *service sectors* surveyed together, earnings were 1.6% lower in money terms in the fourth quarter of 2002 than a year earlier, somewhat smaller than the 1.8% decrease in the third quarter. Yet in real terms, there were still an increase of 1.4%, though lesser than that of 1.8%, for the two quarters. Amongst the various constituent sectors, earnings in restaurants and hotels had a more distinct decline, by 3.1% in money terms in the fourth quarter of 2002 over a year earlier, although the corresponding decrease in real terms was only 0.1%. Earnings in financing, insurance, real estate and business services fell by 2.9% in money terms, but were virtually unchanged in real terms. Earnings in community, social and personal services and in the wholesale, retail and import/export trades were down by 2.7% and 2.0% respectively in money terms, yet higher by 0.3% and 1.0% in real terms. On the other hand, earnings in transport, storage and communications rose by 2.0% in money terms or 5.1% in real terms, due in part to award of double pay to some of the employees in this sector. As to the local *manufacturing sector*, earnings had a larger drop by 2.2% in money terms in the fourth quarter of 2002 over a year earlier, as against the 1.1% decline in the third quarter. The corresponding increase was 0.7% in real terms, after that of 2.6%.

/Table 5.17

Table 5.17

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

	<u>Payroll per person engaged</u>										Average amount in Q4 2002 (\$)
	<u>2001</u>					<u>2002</u>					
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
Wholesale, retail and import/export trades	2.0 (3.7)	2.7 (4.8)	2.4 (3.7)	1.5 (2.6)	1.2 (3.3)	-1.6 (1.4)	-1.0 (1.6)	-1.6 (1.7)	-2.1 (1.5)	-2.0 (1.0)	12,400
Restaurants and hotels	0.1 (1.7)	1.6 (3.7)	1.4 (2.7)	-0.8 (0.3)	-2.2 (-0.1)	-4.2 (-1.1)	-4.9 (-2.3)	-5.5 (-2.4)	-3.0 (0.5)	-3.1 (-0.1)	8,400
Transport, storage and communications	1.3 (3.0)	2.7 (4.8)	1.4 (2.8)	1.6 (2.7)	-0.5 (1.5)	-0.2 (2.9)	-1.9 (0.7)	1.5 (4.9)	-2.5 (1.0)	2.0 (5.1)	20,300
Financing, insurance, real estate and business services	0.4 (2.0)	2.5 (4.6)	1.7 (3.0)	-0.8 (0.3)	-2.0 (0.1)	-2.2 (0.8)	-2.0 (0.6)	-2.6 (0.6)	-1.4 (2.2)	-2.9 (*)	19,300
Community, social and personal services	0.7 (2.3)	0.8 (2.8)	-0.8 (0.5)	3.1 (4.2)	-0.5 (1.6)	-1.3 (1.9)	* (2.7)	0.1 (3.4)	-2.4 (1.2)	-2.7 (0.3)	19,400
Manufacturing	2.1 (3.8)	3.0 (5.1)	2.5 (3.8)	2.2 (3.3)	0.6 (2.7)	-1.2 (1.9)	-0.8 (1.8)	-0.6 (2.7)	-1.1 (2.6)	-2.2 (0.7)	11,500
All sectors surveyed in the private sector	1.8 (3.5)	2.7 (4.8)	2.2 (3.5)	2.0 (3.1)	0.4 (2.5)	-1.1 (2.0)	-0.6 (2.1)	-1.0 (2.2)	-1.5 (2.1)	-1.2 (1.8)	15,400
		<0.8> {1.1}	<0.2> {0.3}	<0.1> {0.5}	<-0.6> {0.6}		<-0.2> {0.5}	<-0.2> {0.6}	<-0.4> {0.5}	<-0.2> {0.4}	

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

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

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

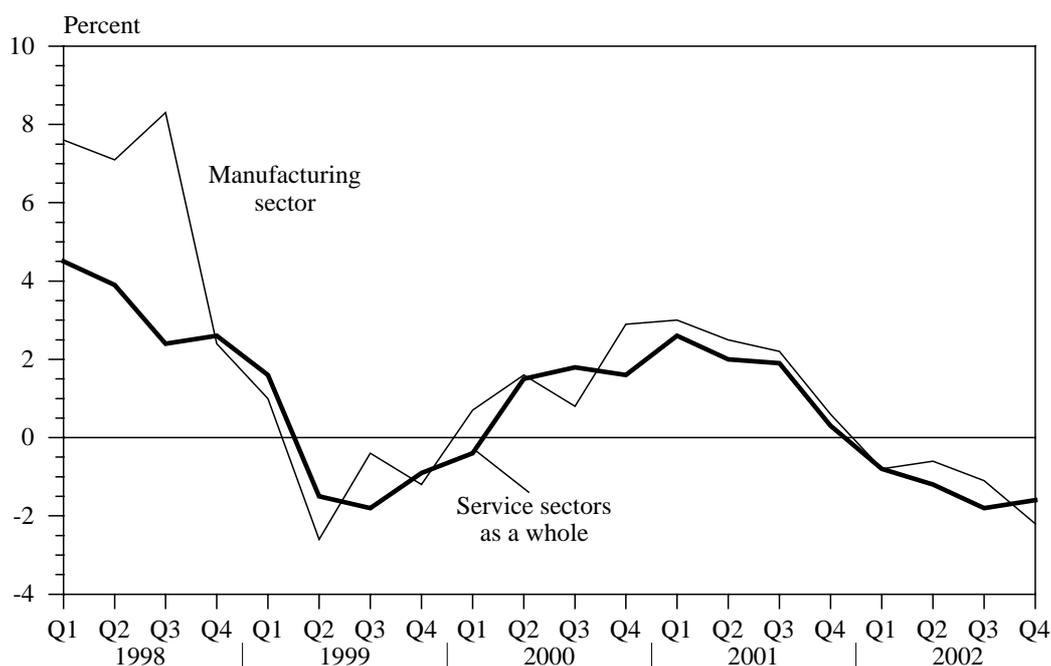
(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

Diagram 5.9

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



5.21 Overall *labour wages* in the private sector fell by 0.8% in money terms in December 2002 over a year earlier, after a 1.5% drop in September. Amongst the business establishments surveyed in December 2002, 49% reported a reduction in average wage rate over a year earlier, partly reflecting a cut in guaranteed bonuses and allowances. Another 13% reported nil change. The remaining 38% reported a rise in average wage rate, which was again attributable to a shift in employment composition towards higher-skill and thus better-paid workers upon retrenchment of employees at the lower level. Of particular note was that, after adjusting for the rise in consumer prices as measured by the CPI(A)⁽¹⁰⁾, overall labour wages also declined in real terms, by

/1.8%

1.8% in December 2002 over a year earlier. This contrasted with a 2.8% increase in September. The decrease in real wages in December 2002 was attributable entirely to an upswing in the CPI(A) in that month, owing to a low base of comparison in December 2001 upon the waiver of public housing rentals at that time. For 2002 as a whole, labour wages were on average down by 1.0% in money terms, yet still up by 1.3% in real terms. In 2001, labour wages moved up both in money terms and in real terms, by 0.8% and 3.4% respectively.

5.22 Analysed by *economic sector*, wages in restaurants and hotels had a larger decrease, by 3.0% in money terms in December 2002 over a year earlier, while wages in the wholesale, retail and import/export trades and in personal services fell less, by 0.7% and 0.1% respectively. Discounting the rise in the CPI(A), there were decreases of 1.1 - 4.0% in real terms. On the other hand, wages in transport services and in financing, insurance, real estate and business services moved up, by 0.5% and 0.3% respectively in money terms, yet fell by 0.5% and 0.8% in real terms. As to the local manufacturing sector, wages declined by 1.4% in money terms or 2.5% in real terms.

/Table 5.18

Table 5.18**Wages by selected major economic sector
(year-on-year rate of change (%))**

By reference to the wage index

	<u>2001</u>					<u>2002</u>				
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(b)</u>
Wholesale, retail and import/export trades	1.4 (4.1)	1.8 (4.0)	1.7 (2.4)	1.2 (2.1)	1.1 (7.8)	-0.6 (1.7)	* (2.1)	0.3 (4.4)	-2.0 (2.4)	-0.7 (-1.7)
Restaurants and hotels	0.7 (3.3)	0.8 (3.0)	0.6 (1.4)	0.9 (1.9)	0.2 (6.9)	-2.6 (-0.3)	-1.4 (0.6)	-3.3 (0.6)	-2.7 (1.6)	-3.0 (-4.0)
Transport services	0.7 (3.4)	0.5 (2.7)	0.1 (0.9)	0.3 (1.3)	2.0 (8.7)	0.6 (2.9)	1.1 (3.1)	0.8 (4.9)	* (4.4)	0.5 (-0.5)
Financing, insurance, real estate and business services	-0.9 (1.7)	0.8 (3.0)	-0.1 (0.6)	-1.7 (-0.8)	-2.5 (4.0)	-0.8 (1.5)	-1.7 (0.3)	-1.8 (2.2)	* (4.4)	0.3 (-0.8)
Personal services	0.7 (3.3)	1.4 (3.5)	1.0 (1.7)	1.4 (2.3)	-0.9 (5.7)	-1.5 (0.8)	-0.9 (1.1)	-2.0 (2.0)	-3.0 (1.3)	-0.1 (-1.1)
Manufacturing	2.2 (4.8)	3.0 (5.2)	1.6 (2.4)	2.7 (3.6)	1.4 (8.1)	-1.4 (0.8)	-2.1 (-0.2)	-0.7 (3.4)	-1.5 (2.8)	-1.4 (-2.5)
All selected sectors surveyed in the private sector	0.8 (3.4)	1.4 (3.6)	0.9 (1.7)	0.7 (1.6)	0.2 (6.9)	-1.0 (1.3)	-0.8 (1.2)	-0.9 (3.1)	-1.5 (2.8)	-0.8 (-1.8)

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

(a) The larger lift in wages in real terms from their change in nominal terms in December 2001 over a year earlier was caused by an abrupt fall in the CPI(A) in that month, owing to the waiver of public housing rentals at that time. The CPI(A) instead of the Composite CPI is taken as the price deflator here, on account of its closer relevance to the occupation coverage of the wage series.

(b) Because of a low base of comparison in December 2001, the CPI(A) had an upswing in December 2002, and this dampened the change in wages to decline in real terms across-the-board in December 2002 over a year earlier.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/5.23

5.23 Analysed by *occupation category*, there was a fairly broad-based decline in wages. Specifically, wages for service workers, clerical and secretarial workers, operatives and miscellaneous non-production workers went down by 1.0 - 2.1% in money terms or 2.1 - 3.2% in real terms in December 2002 from a year earlier. Wages for supervisory and technical workers showed nil change in money terms, or a fall of 1.0% in real terms. As for craftsmen, wages were marginally higher by 0.2% in money terms, but modestly lower by 0.8% in real terms.

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

	<u>By reference to the wage index</u>									
	<u>2001</u>					<u>2002</u>				
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(b)</u>
Supervisory and technical workers	0.9 (3.5)	1.8 (4.0)	1.1 (1.8)	0.4 (1.3)	0.1 (6.8)	-0.2 (2.1)	-0.2 (1.8)	0.1 (4.2)	-0.7 (3.7)	* (-1.0)
Clerical and secretarial workers	1.8 (4.4)	2.0 (4.1)	1.7 (2.4)	2.0 (3.0)	1.4 (8.2)	-1.1 (1.2)	-0.2 (1.8)	-0.8 (3.2)	-1.8 (2.5)	-1.7 (-2.7)
Craftsmen	1.0 (3.6)	0.8 (3.0)	1.5 (2.2)	0.9 (1.8)	0.9 (7.6)	-0.9 (1.4)	-0.6 (1.4)	-1.6 (2.4)	-1.5 (2.9)	0.2 (-0.8)
Operatives	2.6 (5.2)	4.3 (6.5)	0.6 (1.3)	3.1 (4.0)	2.3 (9.1)	-0.9 (1.4)	-1.0 (1.0)	0.1 (4.2)	-1.3 (3.0)	-1.3 (-2.3)
Service workers	-1.8 (0.8)	-0.9 (1.2)	-1.2 (-0.5)	-1.4 (-0.5)	-3.5 (2.9)	-3.0 (-0.8)	-3.0 (-1.0)	-3.6 (0.3)	-3.4 (0.9)	-2.1 (-3.2)
Miscellaneous non-production workers	1.2 (3.9)	1.3 (3.5)	1.6 (2.3)	0.6 (1.5)	1.5 (8.2)	-1.3 (1.0)	-0.9 (1.1)	-1.4 (2.6)	-1.8 (2.6)	-1.0 (-2.1)

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

Also see Notes (a) and (b) to Table 5.18.

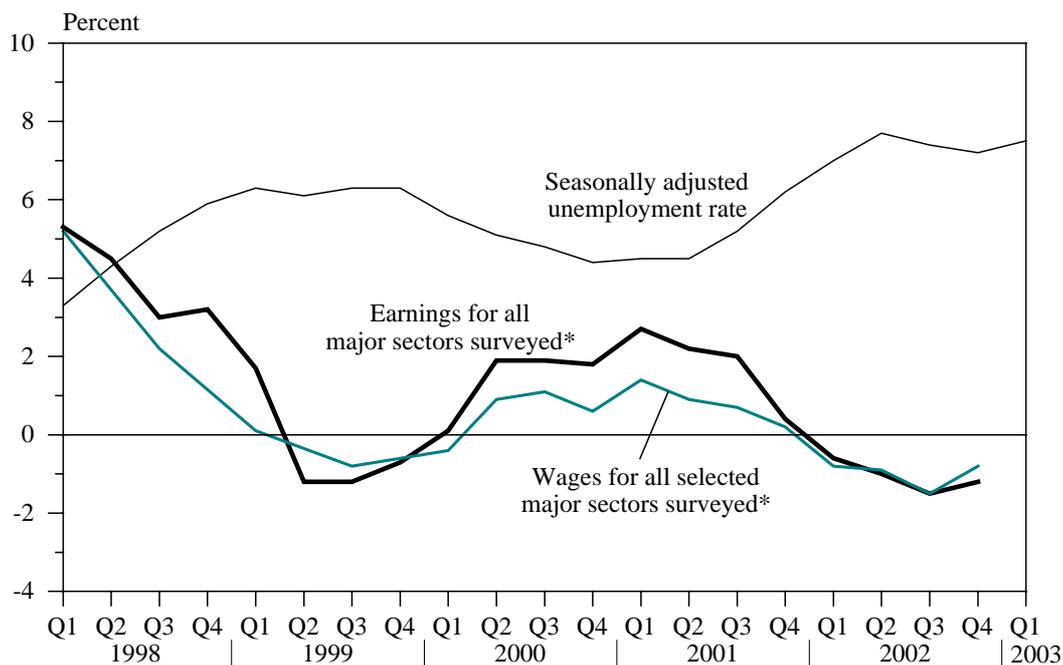
(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



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

5.24 Overall wages in the *construction sector* likewise declined, by 0.9% in money terms in the fourth quarter of 2002 over a year earlier, following a 0.4% decrease in the third quarter. Discounting the concurrent fall in consumer prices as reflected by the CPI(A), there was still a 1.6% gain in real terms in the fourth quarter of 2002 over a year earlier, although this was smaller than that of 3.8% in the third quarter. For 2002 as a whole, construction wages were almost static in money terms, with the increase in the second quarter virtually offset by the decreases in the other quarters. In real terms, there was nevertheless a rise of 3.3%. In 2001, construction wages edged down by 0.1% in money terms, but were up by 1.6% in real terms.

5.25 Amongst the various job categories, wages for truck drivers, fitters, concretors/bricklayers/drainlayers, painters, plant operators and plasterers fell by 0.3 - 2.8% in money terms in the fourth quarter of 2002 over a year earlier. By contrast, wages for carpenters and joiners, steelbenders, electricians (wiremen) and plumbers went up, by 0.6 - 3.0% in money terms.

/Table 5.20

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

	<u>2001</u>					<u>2002</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Concretors/bricklayers/ drainlayers	-1.1	3.3	-2.7	-2.0	-2.7	0.4	-0.2	3.0	1.1	-2.0
Steelbenders	-1.6	0.6	-2.1	-2.8	-2.1	2.2	1.0	3.1	3.4	1.4
Carpenters and joiners	-4.3	-0.7	-6.8	-5.3	-4.2	3.0	-1.5	5.2	5.6	3.0
Plumbers	5.3	11.1	9.2	4.5	-2.8	-1.9	-3.8	-2.1	-2.3	0.6
Fitters	2.8	1.4	4.0	2.3	3.2	-0.8	2.6	-0.7	-2.4	-2.5
Plasterers	3.7	10.8	9.2	1.1	-5.2	-1.8	-3.6	-1.9	-1.3	-0.3
Painters	4.9	3.8	7.2	6.0	2.8	-3.0	-2.1	-3.6	-4.5	-1.5
Electricians (wiremen)	0.8	-1.3	-0.4	2.9	1.8	1.9	3.3	2.7	0.3	1.4
Plant operators	2.3	2.6	2.2	2.0	2.5	1.2	3.3	2.8	0.2	-1.4
Truck drivers	2.1	1.9	0.4	2.6	3.5	-0.3	2.5	1.3	-1.9	-2.8
All job categories in the construction sector ^(a)	-0.1 (1.6)	1.5 (3.6)	-0.7 (0.4)	* (0.7)	-1.0 (1.9)	* (3.3)	-0.2 (2.6)	1.6 (5.3)	-0.4 (3.8)	-0.9 (1.6)

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

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

(*) Change of less than 0.05%.

Source : Census and Statistics Department.

/5.26

5.26 Following enactment of the Public Officers Pay Adjustment Ordinance on 19 July 2002, civil service pay at the directorate level and the upper salary band was adjusted downwards by 4.42%, and those at the middle and the lower salary bands by 1.64% and 1.58% respectively, as from 1 October 2002.

5.27 On 25 February 2003, the Government announced its decision to restore the dollar value of all civil service pay points below Directorate Pay Scale 3 (D3) or equivalent to the levels as at 30 June 1997 in cash terms by two adjustments of broadly equal amount to be implemented on 1 January 2004 and 1 January 2005 respectively, and to restore the dollar value of all civil service pay points at D3 and above or equivalent to the levels as at 30 June 1997 in cash terms from 1 January 2004. This pay reduction will be implemented by legislation. Following consultation with staff representatives on the draft legislation, the Government has published the Public Officers Pay Adjustments (2004/2005) Bill in the Gazette on 16 May 2003 and introduced the Bill into the Legislative Council on 21 May 2003.

5.28 The Government has also decided to develop in consultation with staff an improved civil service pay adjustment mechanism on the basis of the existing mechanism. It will comprise the conduct of periodic pay level surveys to compare civil service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology, and an effective means for implementing both upward and downward adjustments. For this purpose, a steering committee has been set up to take forward the development of the improved pay adjustment mechanism. Staff representatives will be consulted in the process through a consultative group. The aim is to complete the exercise, including the conduct of a pay level survey, by the end of 2004.

/Notes

Notes :

- (1) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

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

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

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

- (2) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.
- (3) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.

/(6)

- (6) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (7) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.
- (8) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.
- (9) Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (10) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for labour earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for labour wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

CHAPTER 6 : PRICES

Consumer prices

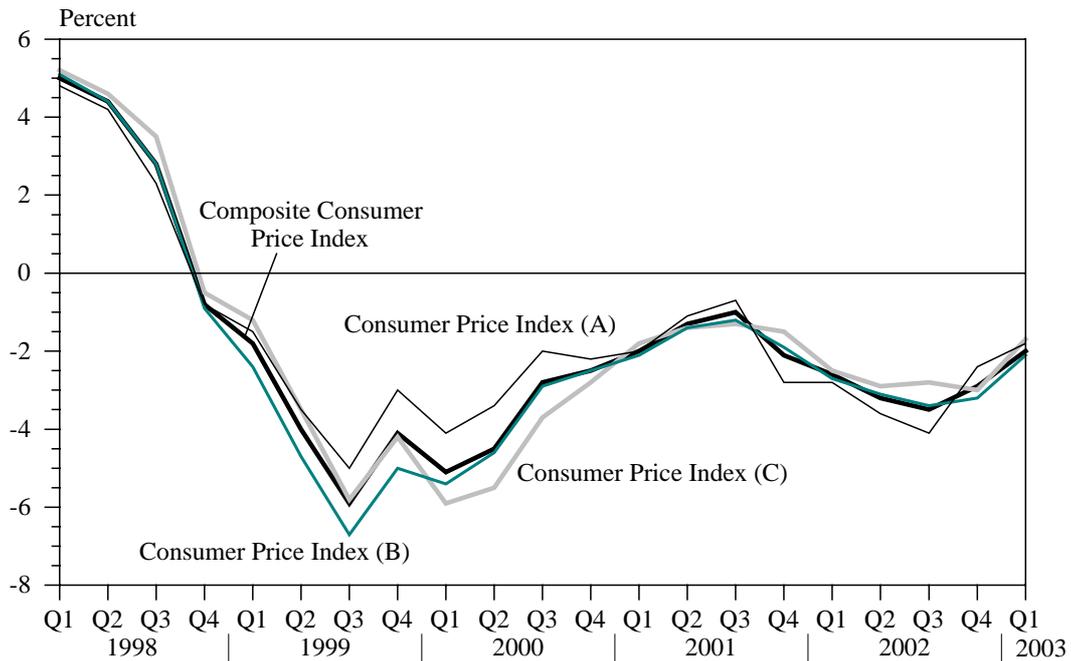
6.1 Overall consumer prices, though still on a continuous downtrend, had a smaller year-on-year decrease in the first quarter of 2003 than in the fourth quarter of 2002. This was mainly attributable to a lower base of comparison in 2002, caused by the rates concession granted by the Government in that year. Also relevant was a rebound in the prices of retained imports in the more recent months, upon a firming up in world commodity prices and the earlier weakening in the US dollar. These offset in part the effects of lower labour wages and property rentals, as well as further price discounts offered by many retailers in face of subdued local consumer demand. (The spread of atypical pneumonia since mid-March could have begun to exert dampening impact on local consumer prices in the affected trades in the latter part of that month. The impact tended to become more apparent in April, with enlarged decreases seen in the prices of such items as clothing and footwear as well as durable goods.)

6.2 Comparing the first quarter of 2003 with a year earlier, the *Composite Consumer Price Index*⁽¹⁾ was lower by 2.0%, yet this was lesser than the 2.9% drop in the fourth quarter of 2002. The year-on-year decreases in the CPI(A), CPI(B) and CPI(C) likewise narrowed, to 1.8%, 2.1% and 1.7% respectively in the first quarter of this year, from 2.4%, 3.2% and 3.0% in the fourth quarter of last year. That the CPI(A) and CPI(B) had relatively larger declines in the first quarter of 2003 was due in part to lower prices of such items as foodstuffs as well as electricity, gas and water, which carried heavier weightings in these two sub-indices. On the other hand, the CPI(C) was affected more by higher prices of such items as jewellery and motor fuel in that quarter. (The Composite CPI had a smaller decline in April than in March, by 1.8% as against 2.1%. But this was due to the effect of a lower base of comparison, as the special relief measures including the waiver of water and sewage charges and the additional rates concession available in April last year had already dissipated by April this year. After netting out that effect, the decline in the Composite CPI actually widened, by around 0.2 of a percentage point, partly reflecting the price dampening impact brought about by the spread of atypical pneumonia.)

/Diagram 6.1

Diagram 6.1

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



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

/Table 6.1

Table 6.1

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

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
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*	-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
2003	Q1+	-2.0	-1.8	-2.1	-1.7
	Jan	-1.6	-1.6	-1.7	-1.4
	Feb [^]	-2.0	-2.0	-2.2	-1.9
	Mar	-2.1	-1.9	-2.3	-1.9

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

(#) The narrowing in year-on-year decline in the Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2002 was mostly attributable to a low base of comparison a year earlier, caused by the waiver of public housing rentals by the Housing Authority and Housing Society in December 2001. The CPI(C) was unaffected by such a measure, as public housing cost was irrelevant to this sub-index.

(+) The further narrowing in year-on-year decline in the CPIs in the first quarter of 2003 was mainly attributable to a lower base brought about by the rates concession by the Government in 2002.

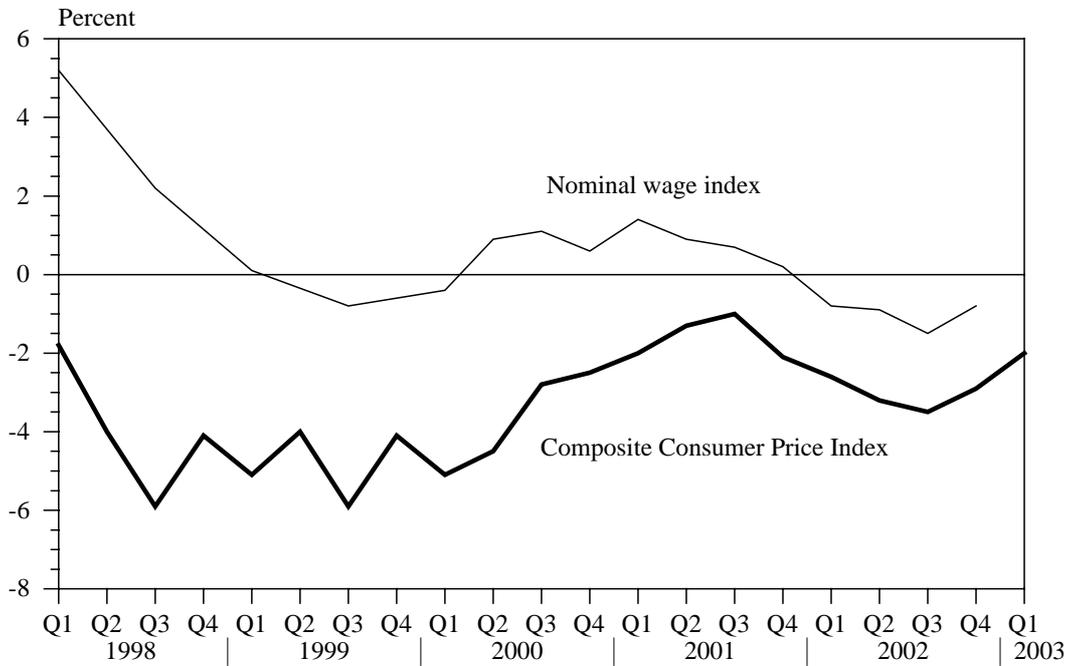
([^]) The larger year-on-year decline in the CPIs in February than in January 2003 was attributable in part to the difference in timing of the Lunar New Year Festival, which occurred in the beginning of February this year but around mid-February last year. As festive purchases at higher seasonal prices took place in late January this year but in the early part of February last year, the difference in timing of the Festival had led to a smaller year-on-year decline in consumer prices in January 2003, but a larger year-on-year decline in February 2003.

/Diagram 6.2

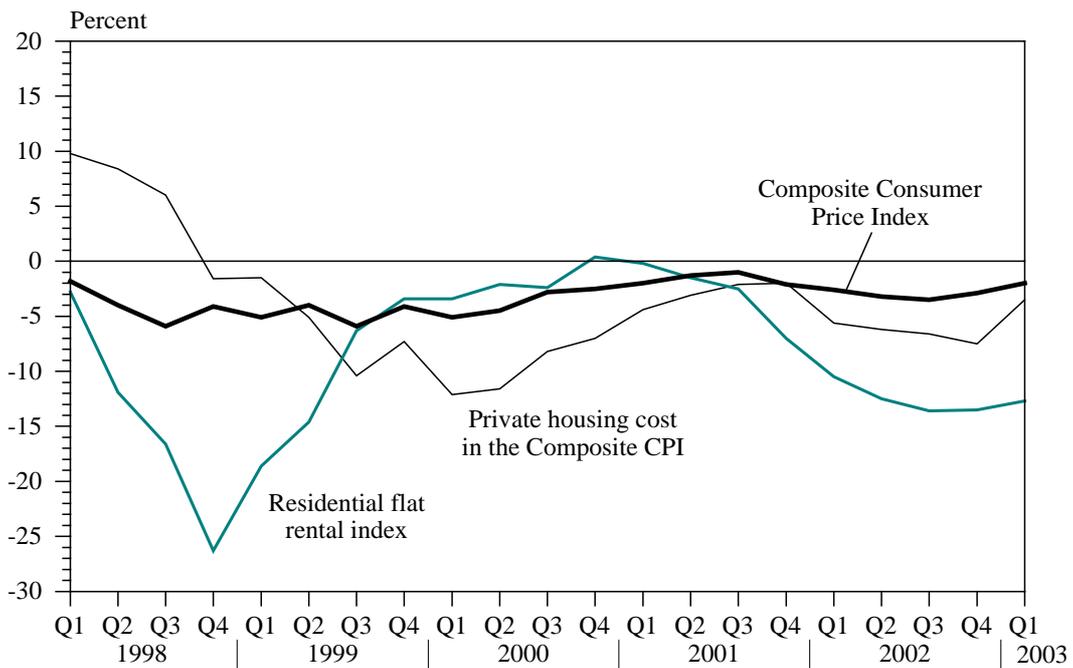
Diagram 6.2

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

(a) Compared with labour wages



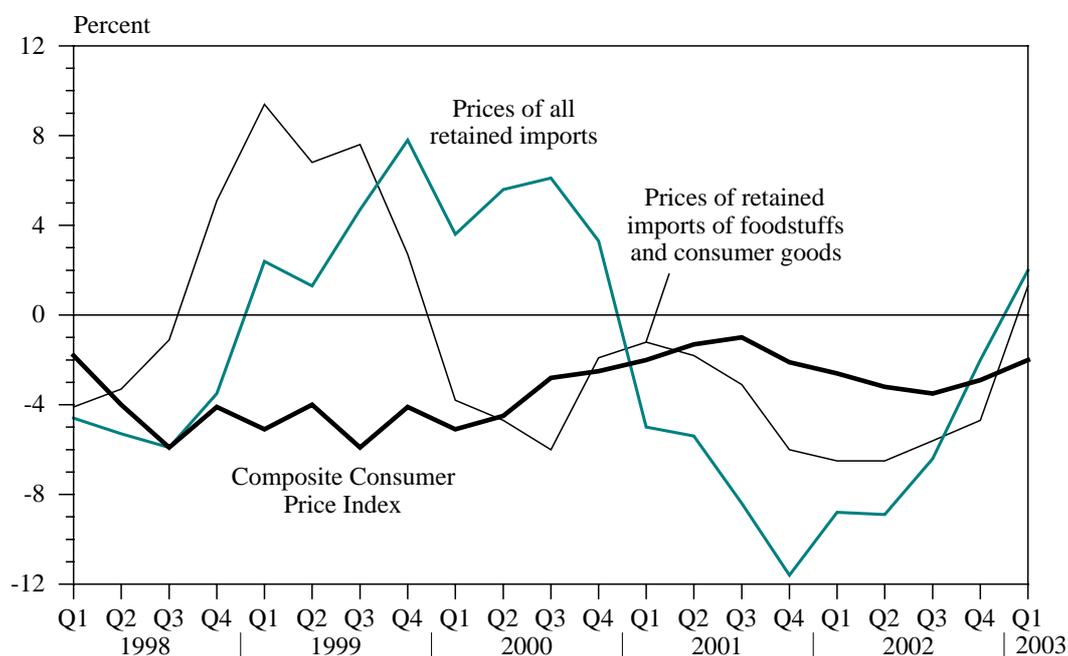
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with prices of retained imports



Note : See the footnote to Diagram 6.1.

6.3 On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI declined only marginally, by 0.1% in the first quarter of 2003, having dipped by 0.6% in the fourth quarter of 2002. The moderated decline was mainly attributable to dissipation of the downward effect of the rates concession granted by the Government upon its expiry at end-2002. This outweighed the downward effect of a one-off rebate of electricity charges granted by a power company in January and February 2003⁽²⁾. A broadly similar pattern of movement was observed for the three sub-indices. The seasonally adjusted CPI(A) and CPI(C) were virtually static in the first quarter of 2003, while the seasonally adjusted CPI(B) edged lower by only 0.2%. Yet in the fourth quarter of 2002, they were all down by 0.6%.

/Table 6.2

Table 6.2

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

	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2002 Q1 [#]	-1.1	-0.6	-1.4	-1.3
Q2 [^]	-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
2003 Q1 ⁺	-0.1	*	-0.2	*

Notes : (#) The relatively larger quarter-to-quarter decline in most of the seasonally adjusted CPIs in the first quarter of 2002 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 effect amounted to 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 additional 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.

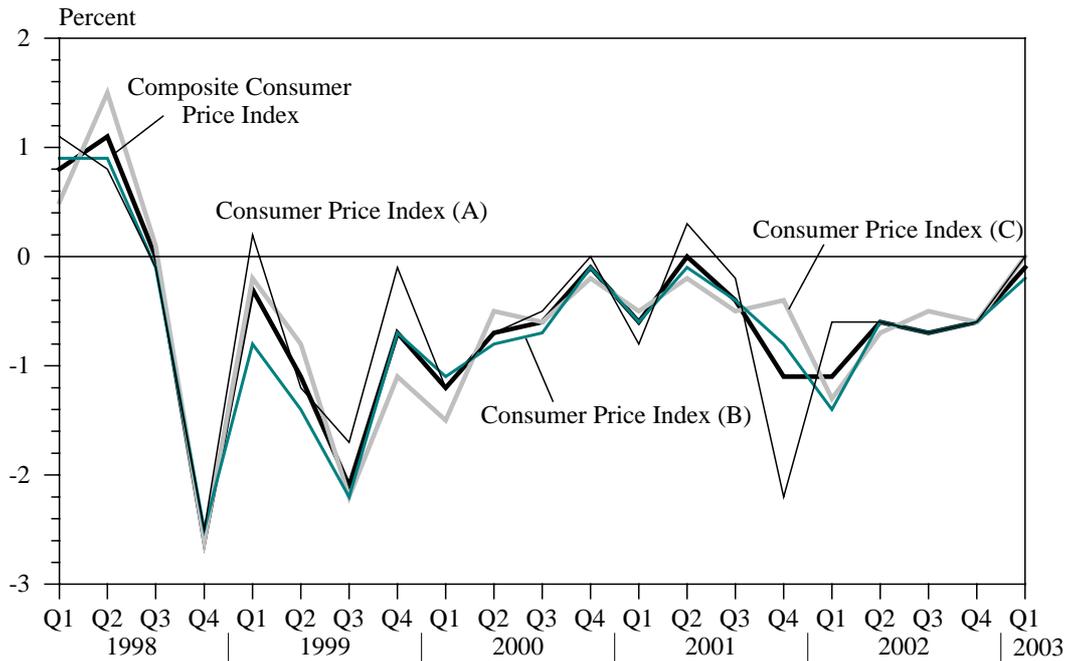
(+) The quarter-to-quarter decline in the seasonally adjusted CPIs narrowed further, in the first quarter of 2003. This was mainly attributable to dissipation of the downward effect of the rates concession granted by the Government in 2002, which outweighed the downward effect of the one-off rebate of electricity charges granted by a power company in January and February 2003. The former factor had the effect of lifting the seasonally adjusted Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.8 of a percentage point, 1.2 percentage points, 0.7 of a percentage point and 0.4 of a percentage point respectively in the first quarter of 2003 over the fourth quarter of 2002. The latter factor had the opposite effect of lowering the seasonally adjusted Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.3, 0.6, 0.3 and 0.1 of a percentage point over the same period.

(*) Change of less than 0.05%.

/Diagram 6.3

Diagram 6.3

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



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

/6.4

6.4 Analysed by major *commodity group* in the Composite CPI and on a year-on-year comparison, charges for electricity, gas and water went down by 6.5% in the first quarter of 2003, as the waiver of water and sewage charges effective from April 2002⁽³⁾ still carried impact. The prices of durable goods had a roughly similar decline, by 6.0%, mainly reflecting further price cuts for computer products and telecommunications equipment. The prices of clothing and footwear fell less, by 3.5%, being largely dragged down by lower prices of women's outer-clothing. The prices of basic foodstuffs also dropped, by 2.5%, attributable to reduction in prices of fresh foodstuffs, especially those of meat, fruits and vegetables imported from the Mainland. The prices of meals at restaurants were trimmed by 1.6%, amidst lower prices of basic foodstuffs and intensified competition in the catering business. The prices of miscellaneous services likewise dipped by 1.6%, on account of downward adjustment in charges for mobile phone and other telecommunications services. The cost of transport was only slightly lower, by 0.1%, owing to lower prices of motor vehicles and fare concessions granted by some of the public transport operators. On the other hand, the prices of miscellaneous goods rose by 3.3% in the first quarter of 2003, due in part to firming up in prices of jewellery and newspapers. The prices of alcoholic drinks and tobacco also moved higher, by 0.5%, attributable to higher prices of certain beer as well as increased duty rate for wine as from March 2002⁽⁴⁾. As to housing cost, there was a surge in public housing cost by 11.8% in the first quarter of 2003, mostly due to a lower base in 2002 brought about by the Government's rates concession granted in that year. But private housing cost continued to fall, by 3.5%, with the marked decrease in private residential rentals over the past year⁽⁵⁾ outweighing the lower base effect arising from the rates concession in 2002.

/Table 6.3

Table 6.3

**Consumer Price Indices
by component in the first quarter of 2003
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
Food	-1.9	-2.2	-2.1	-1.1
<i>Meals bought away from home</i>	-1.6	-1.8	-2.1	-0.3
<i>Other foodstuffs</i>	-2.5	-2.6	-2.5	-2.6
Housing [#]	-2.3	-0.6	-2.5	-3.9
<i>Private dwellings</i>	-3.5	-3.3	-3.2	-3.9
<i>Public dwellings</i>	11.8	11.8	11.8	--
Electricity, gas and water	-6.5	-8.3	-5.8	-4.4
Alcoholic drinks and tobacco	0.5	0.3	0.5	1.5
Clothing and footwear	-3.5	-3.6	-3.2	-3.7
Durable goods	-6.0	-6.4	-6.2	-5.5
Miscellaneous goods	3.3	1.5	3.0	5.3
Transport	-0.1	-0.6	-0.2	0.6
Miscellaneous services	-1.6	-2.4	-1.7	-1.0
All items	-2.0	-1.8	-2.1	-1.7

Notes : (#) The housing component covers rent, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only.

(--) Not applicable.

/Diagram 6.4

Diagram 6.4

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

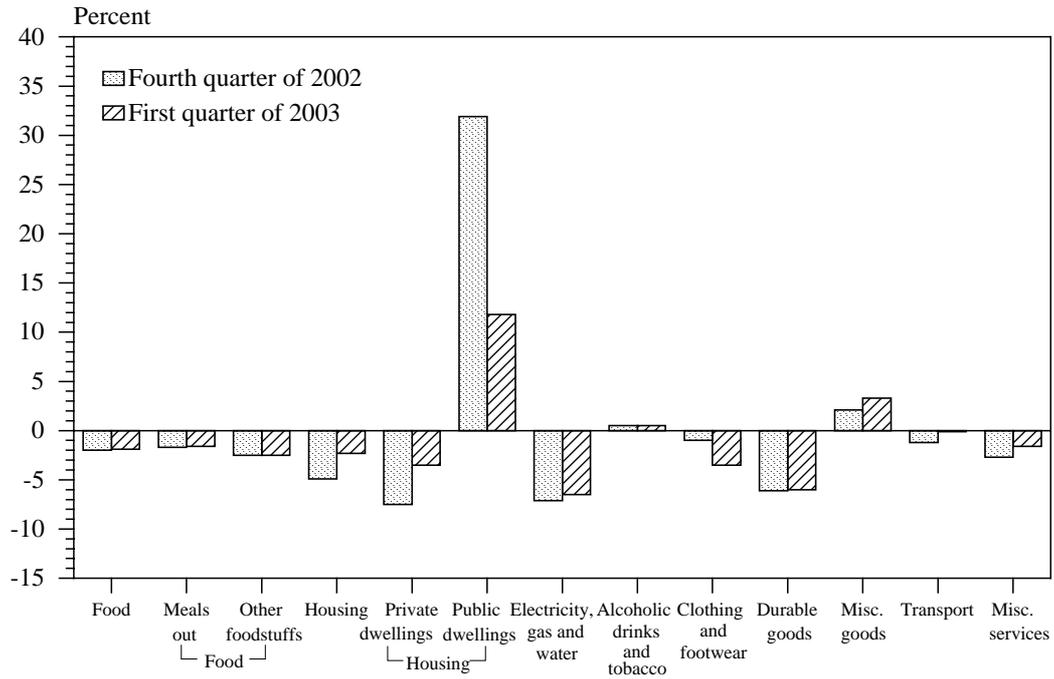
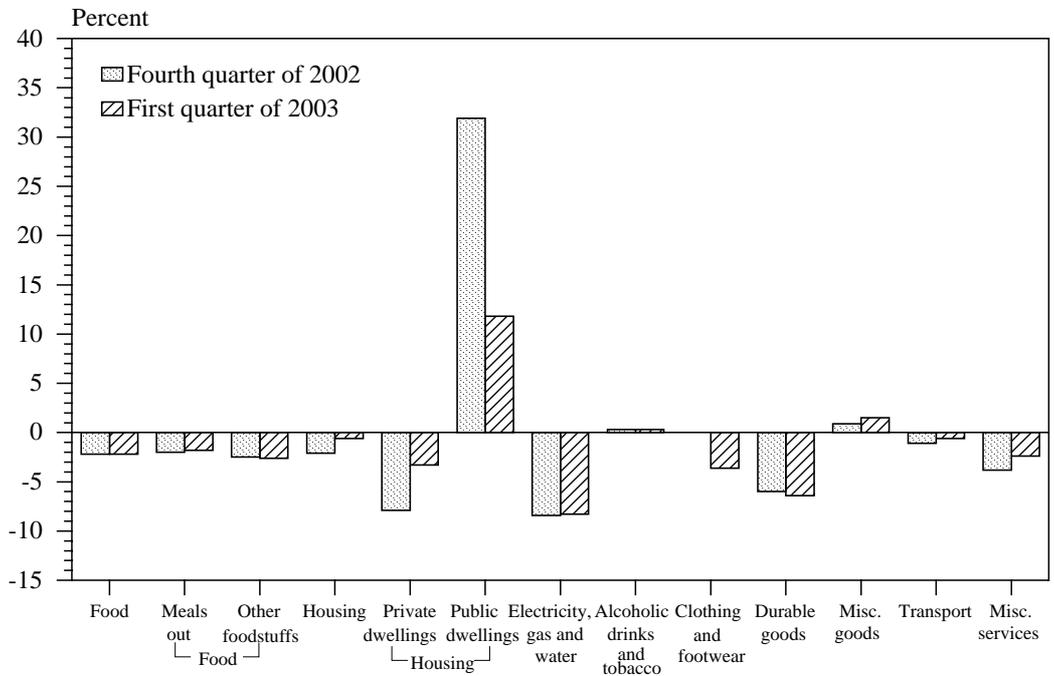


Diagram 6.5

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



Import prices

6.5 The *prices of imports of goods*, as measured by the unit value index of imports of goods, edged down by 0.1% in the first quarter of 2003 from a year earlier, much lesser than the 2.3% fall in the fourth quarter of 2002. This was largely attributable to a pick-up in world commodity prices and the earlier weakening in the US dollar. For crude oil price in particular, the price of North Sea Brent soared to a 30-month high of around US\$34 per barrel in early March, before easing back to around US\$28 per barrel at the end of the month.

6.6 Analysed by major source and on a year-on-year comparison, the prices of goods imported from Japan were higher by 3.3% in the first quarter of 2003, reversing the 0.5% decline in the fourth quarter of 2002. This was in line with the strengthening in the Japanese yen against the US dollar and hence against the Hong Kong dollar over the past year or so. The prices of goods imported from Taiwan likewise picked up, by 1.1% in the first quarter of 2003, after a decrease of 0.6% in the fourth quarter of 2002. Higher prices of consumer goods and of raw materials and semi-manufactures from that source largely contributed. On the other hand, the prices of goods imported from the United States sank by 2.6% in the first quarter of 2003, with the decrease concentrated in the prices of capital equipment and of raw materials and semi-manufactures. This followed a fall of 4.5% in the fourth quarter of 2002. The prices of goods imported from the Mainland also drifted lower, by 1.0% in the first quarter of 2003, having dropped by 2.8% in the fourth quarter of 2002. The decline occurred fairly extensively across many of the commodity items imported from the Mainland, amidst the subdued price pressure there.

/Table 6.4

Table 6.4

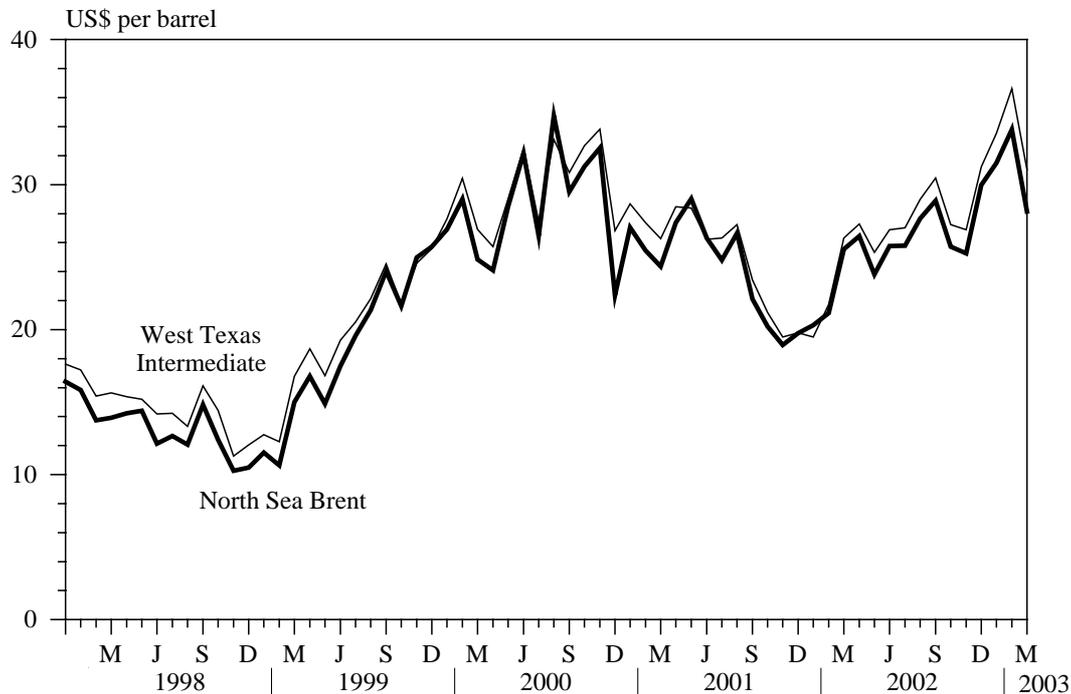
**World commodity prices
(year-on-year rate of change (%))**

		<i>Of which :</i>				
		<u>Fuels</u>	<u>All non-fuel commodities</u>	<u>Food and beverages</u>	<u>Agricultural raw materials</u>	<u>Metals</u>
2002	Annual	-0.2	0.6	2.2	1.6	-2.7
	H1	-14.8	-5.8	-3.1	-9.5	-7.4
	H2	17.2	7.4	7.3	14.2	2.4
	Q1	-21.4	-6.9	-3.5	-10.7	-9.3
	Q2	-8.3	-4.7	-2.6	-8.5	-5.4
	Q3	4.7	3.0	2.2	9.3	-0.3
	Q4	33.2	12.0	12.8	19.5	5.3
2003	Q1	46.7	10.8	12.4	15.6	4.8

Source : IMF International Financial Statistics.

Diagram 6.6

Spot price of crude oil*



Note : (*) Month-end figures.

/Table 6.5

Table 6.5**Unit value indices of imports of goods by major source
(year-on-year rate of change (%))**

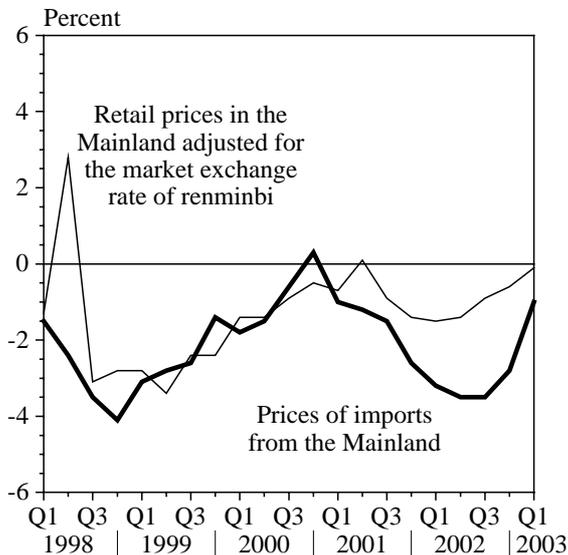
		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2002	Annual	-3.3	-3.7	-3.5	-5.0	-3.9
	H1	-3.4	-6.1	-5.4	-5.3	-4.8
	H2	-3.2	-1.3	-1.7	-4.6	-3.0
	Q1	-3.2	-7.0	-6.4	-5.1	-4.9
	Q2	-3.5	-5.4	-4.4	-5.6	-4.6
	Q3	-3.5	-2.1	-2.7	-4.6	-3.6
	Q4	-2.8	-0.5	-0.6	-4.5	-2.3
2003	Q1	-1.0	3.3	1.1	-2.6	-0.1

/Diagram 6.7

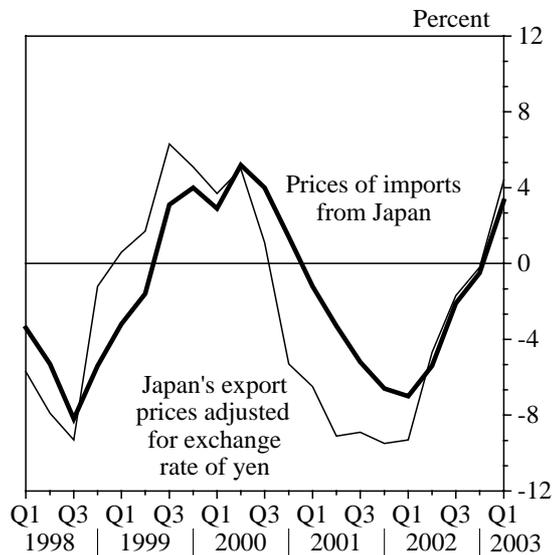
Diagram 6.7

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

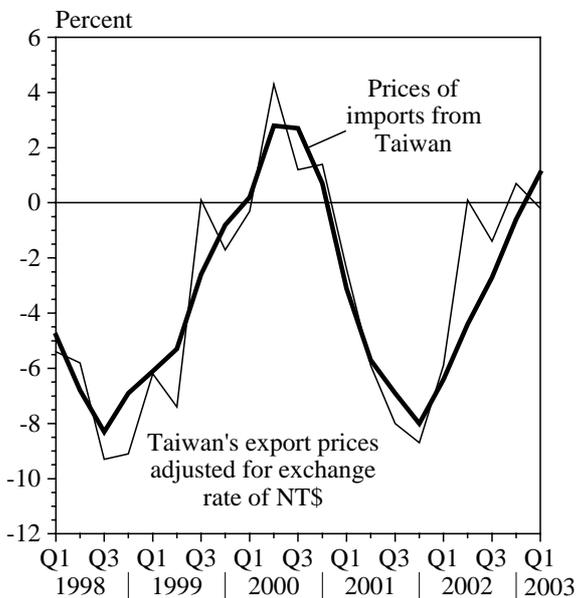
(a) For imports from the mainland of China



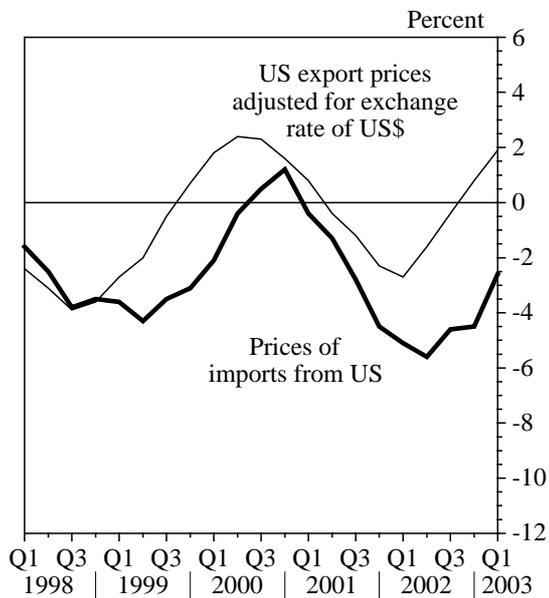
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



6.7 The *prices of retained imports*, as measured by the unit value index of retained imports, turn up to an increase of 2.0% in the first quarter of 2003 over a year earlier, from a drop of 2.0% in the fourth quarter of 2002. This was the first increase in two years.

6.8 Analysed by *end-use category* and on a year-on-year comparison, the prices of retained imports of fuels showed an accelerated surge, from 25.7% in the fourth quarter of 2002 to 37.3% in the first quarter of 2003, mainly due to a further jump in international crude oil price up to early March. The prices of retained imports of raw materials and semi-manufactures turned up to an increase of 2.4% in the first quarter of 2003, from a decrease of 0.5% in the fourth quarter of 2002, along with an upsurge in the prices of imported textiles and plastic materials. The prices of retained imports of consumer goods also rebounded, by 2.3% in the first quarter of 2003, after a drop of 5.6% in the fourth quarter of 2002, on account of a firming up in the prices of imported motor vehicles and electrical appliances. On the other hand, the prices of retained imports of capital goods fell by 5.8% in the first quarter of 2003, mainly due to a further decline in the prices of imported telecommunications equipment and construction machinery. Yet this was narrowed from the 6.2% decline in the fourth quarter of 2002. The prices of retained imports of foodstuffs also exhibited a moderated decrease, to 0.1% in the first quarter of 2003, from 1.9% in the fourth quarter of 2002. This mainly reflected lesser decline in the prices of foodstuffs imported from most of the major sources except the Mainland.

/Table 6.6

Table 6.6

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

		Food- stuffs	Consumer goods	Fuels	Raw materials and semi- manufactures	Capital goods	All categories
2002	Annual	-4.6	-6.3	0.5	-7.7	-7.8	-6.6
	H1	-6.3	-6.7	-10.7	-10.7	-8.4	-8.9
	H2	-2.8	-5.9	11.8	-4.2	-7.3	-4.3
	Q1	-6.5	-6.7	-15.7	-10.3	-7.5	-8.8
	Q2	-6.2	-6.6	-6.9	-11.0	-9.4	-8.9
	Q3	-3.6	-6.1	0.1	-7.7	-8.0	-6.4
	Q4	-1.9	-5.6	25.7	-0.5	-6.2	-2.0
2003	Q1	-0.1	2.3	37.3	2.4	-5.8	2.0

Prices of local manufacturing output

6.9 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁶⁾, remained on a downtrend, falling by 2.7% and 2.3% respectively in the third and fourth quarters of 2002 over a year earlier. For 2002 as a whole, there was a 2.7% decline, larger than the 1.6% decrease in 2001. To a considerable extent, these prices were kept down by keen competition from other suppliers in the overseas market. Also relevant were reduced operating costs in the local economy, specifically in respect of labour wages and property rentals. Analysed by major *industry group* and on a year-on-year comparison, output prices in the machinery and equipment and the consumer electrical and electronic products industries had more distinct decreases, by 5.6% and 4.0% respectively in the fourth quarter of 2002. This was followed by output prices in the plastic products industry (down by 3.4%), the wearing apparel industry (3.1%), the paper products and printing industry (2.9%), the fabricated metal products industry (2.4%), and the textiles industry (0.9%).

/Table 6.7

Table 6.7

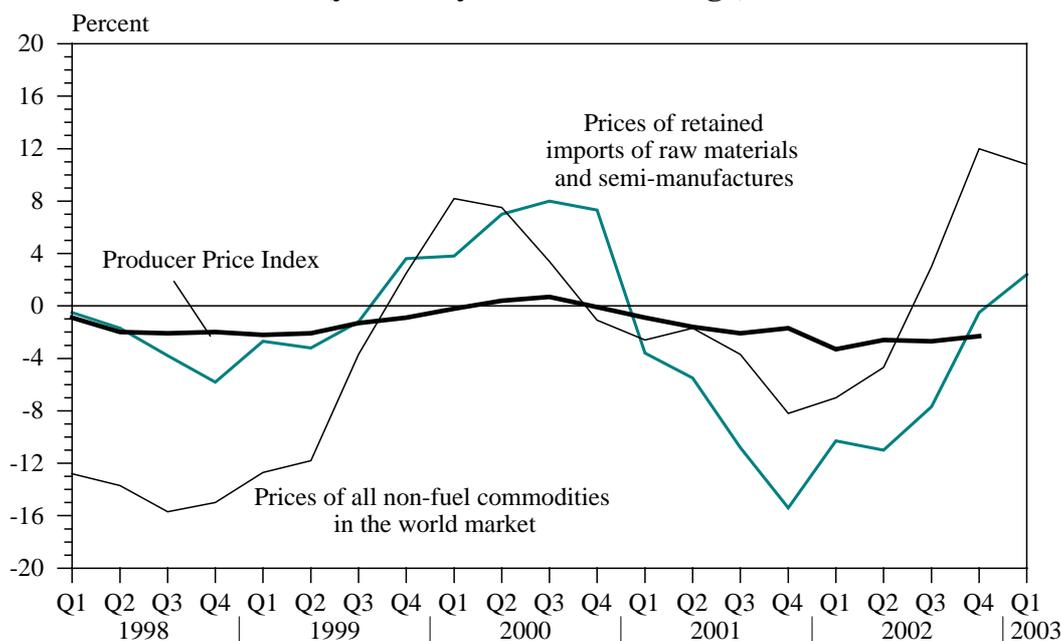
**Producer Price Index for the local manufacturing sector
(year-on-year rate of change (%))**

<u>Industry group</u>	<u>2001</u>					<u>2002</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Wearing apparel	-0.2	0.4	0.1	-0.5	-1.0	-3.5	-3.2	-4.1	-3.6	-3.1
Textiles	-1.2	*	-1.1	-1.7	-2.1	-1.4	-1.8	-1.8	-1.1	-0.9
Plastic products	-0.3	-0.6	-2.3	0.3	1.6	-2.7	-1.7	-1.5	-4.1	-3.4
Consumer electrical and electronic products	-1.9	-2.1	-2.1	-1.6	-1.6	-4.7	-4.4	-5.7	-4.5	-4.0
Machinery and equipment	-2.8	-3.3	-2.2	-4.2	-1.4	-5.0	-3.8	-5.2	-5.5	-5.6
Fabricated metal products	-1.8	1.0	-0.4	-3.9	-3.8	-2.5	-3.1	-2.5	-2.0	-2.4
Paper products and printing	-0.3	-0.9	-0.3	-0.2	0.1	-2.3	-2.6	-1.7	-2.0	-2.9
Overall manufacturing	-1.6	-0.9	-1.6	-2.1	-1.7	-2.7	-3.3	-2.6	-2.7	-2.3

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

Diagram 6.8

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



/Prices

Prices of output in selected service sectors

6.10 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, showed a mixed picture. Output prices in telecommunications went markedly lower, by 11.8% in the fourth quarter of 2002 from a year earlier, although this was lesser than the 15.5% fall in the third quarter. Substantial cuts in charges for international calls and Internet services, as well as in prices of mobile phone sets and related items, largely contributed. Output prices in land transport went down by 2.1% in both the third and fourth quarters of 2002, on account of lower charges for freight transport and fare concessions for some public transport services. On the other hand, output prices in miscellaneous communications services leaped by 9.8% in the fourth quarter of 2002, backed by a further increase in charges for international courier services. This exceeded the 5.1% rise in the third quarter. Output prices in hotels and boarding houses surged by 9.4% in the fourth quarter of 2002, reversing the 3.6% dip in the third quarter. This was due in part to a lift in hotel room tariffs in the fourth quarter of 2002, and in part to a low base of comparison in late 2001 under the impact of the 911 incident. Output prices in air transport showed an accelerated increase, to 7.1% in the fourth quarter of 2002, from 3.4% in the third quarter, mainly reflecting an upward adjustment in charges for air freight services in October 2002 in face of the shut-down of the US West Coast ports. Output prices in maritime transport ascended modestly, by 0.9% in the fourth quarter of 2002, attributable to higher charges for seaborne cargo. This followed a 2.9% rise in the third quarter. For 2002 as a whole, telecommunications, maritime transport, land transport, and hotels and boarding houses were the service sectors with decreases in output prices, by 18.8%, 3.0%, 1.9% and 1.1% respectively, whereas miscellaneous communications services and air transport were the ones with increases in output prices, by 3.9% and 0.3% respectively.

/Table 6.8

Table 6.8

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

<u>Selected service sector</u>	<u>Annual</u>	<u>2001</u>				<u>2002</u>				
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Hotels and boarding houses	1.0	5.8	5.2	1.1	-7.1	-1.1	-5.8	-4.2	-3.6	9.4
Land transport	-0.5	-1.0	-0.3	-0.2	-0.6	-1.9	-1.4	-2.0	-2.1	-2.1
Maritime transport	-5.6	-0.2	-3.3	-9.3	-9.5	-3.0	-9.4	-5.5	2.9	0.9
Air transport	-6.0	-2.3	-4.9	-8.8	-7.8	0.3	-5.5	-3.4	3.4	7.1
Telecommunications	-8.4	-5.5	-1.3	-12.9	-14.5	-18.8	-21.7	-24.5	-15.5	-11.8
Miscellaneous communications services	1.3	2.8	1.2	0.7	0.5	3.9	0.4	0.1	5.1	9.8

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

Export prices

6.11 Export prices stayed soft. But the declining trend had tapered progressively during the past year or so, amidst improved import demand in some of the major overseas markets. Comparing the first quarter of 2003 with a year earlier, the *prices of total exports of goods*, as measured by the unit value index of total exports of goods, were still lower by 0.9%. Yet this was narrowed from the 2.3% decrease in the fourth quarter of 2002. Within the total for the first quarter of 2003, the prices of domestic exports bounced up by 0.8% while the prices of re-exports had a moderated decline by 1.1% as compared to a year earlier.

/6.12

6.12 Analysed by major *market*, the prices of total exports of goods moved down almost across-the-board. On a year-on-year comparison, the prices of total exports of goods to Germany and Singapore fell by 2.3% and 1.6% respectively in the first quarter of 2003, mainly attributable to lower prices of capital goods and foodstuffs exported to both markets. Yet these were smaller than the decreases of 3.0% and 3.6% in the fourth quarter of 2002. The prices of total exports of goods to the United States and Japan drifted lower by 1.3% and 1.1% respectively in the first quarter of 2003, again smaller than the declines of 2.6% and 3.0% in the fourth quarter of 2002. This moderated fall went along with a rebound in import prices in the two countries. The prices of total exports of goods to the United Kingdom also registered a lesser decrease, from 1.9% in the fourth quarter of 2002 to 1.0% in the first quarter of 2003. The prices of total exports of goods to the Mainland even reverted from a decrease of 1.5% to an increase of 0.1% between the two quarters.

Table 6.9

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

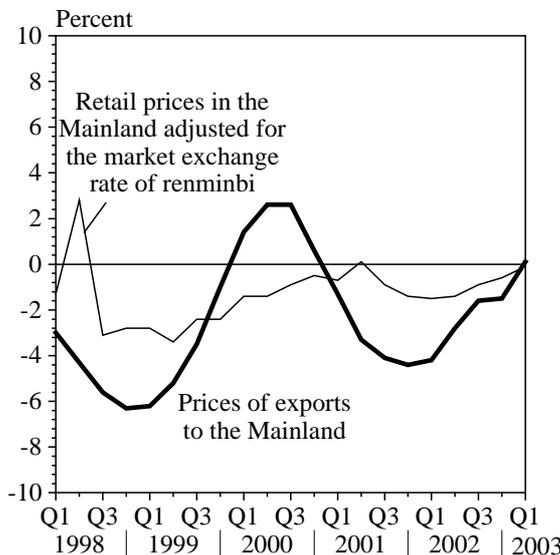
		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2002	Annual	-2.6	-2.5	-3.2	-2.5	-3.2	-3.9	-2.7
	H1	-2.2	-3.5	-3.4	-3.0	-3.5	-4.2	-3.1
	H2	-2.9	-1.6	-2.9	-2.1	-2.9	-3.4	-2.4
	Q1	-1.9	-4.2	-4.0	-3.6	-3.5	-4.8	-3.4
	Q2	-2.4	-2.8	-2.8	-2.3	-3.4	-3.5	-2.7
	Q3	-3.2	-1.6	-2.8	-2.3	-2.7	-3.1	-2.4
	Q4	-2.6	-1.5	-3.0	-1.9	-3.0	-3.6	-2.3
2003	Q1	-1.3	0.1	-2.3	-1.0	-1.1	-1.6	-0.9

/Diagram 6.9

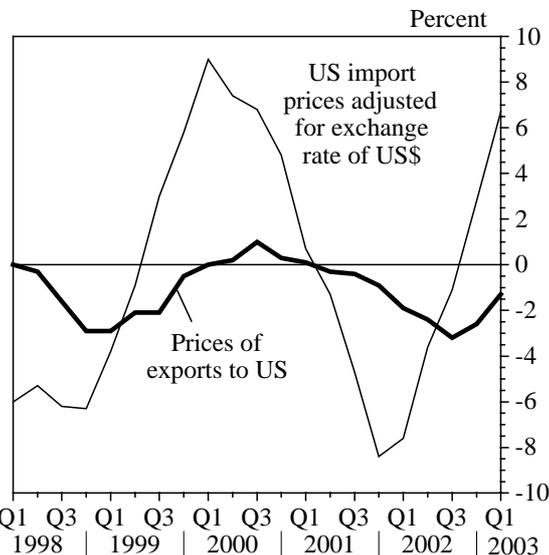
Diagram 6.9

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

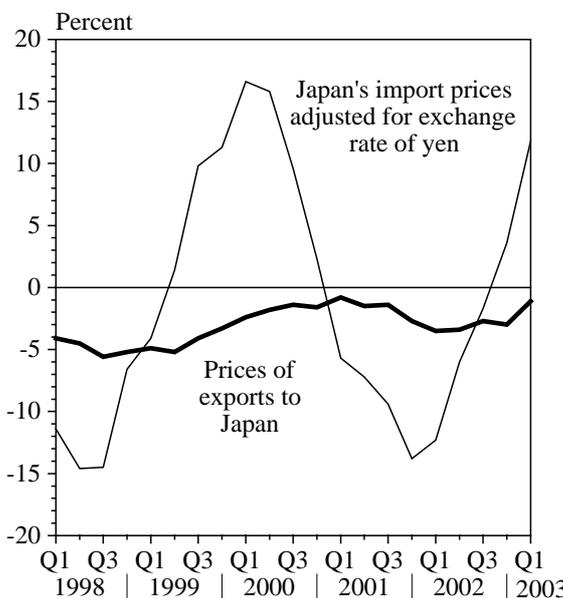
**(a) For exports to the
mainland of China**



(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



/Terms

Terms of trade

6.13 As the prices of imports of goods fell slightly less than the prices of total exports of goods, the terms of trade in goods⁽⁷⁾ for Hong Kong edged down by 0.8% in the first quarter of 2003 over a year earlier, following nil change in the fourth quarter of 2002. This represented the first decrease since the fourth quarter of 2000.

Table 6.10

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (2000 = 100)	<u>Year-on-year rate of change</u> (%)
2002	Annual	102.1	1.2
	H1	102.3	1.8
	H2	101.9	0.7
	Q1	102.2	1.6
	Q2	102.5	2.0
	Q3	102.1	1.2
	Q4	101.7	*
	2003	Q1	101.4

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

/Diagram 6.10

Diagram 6.10

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

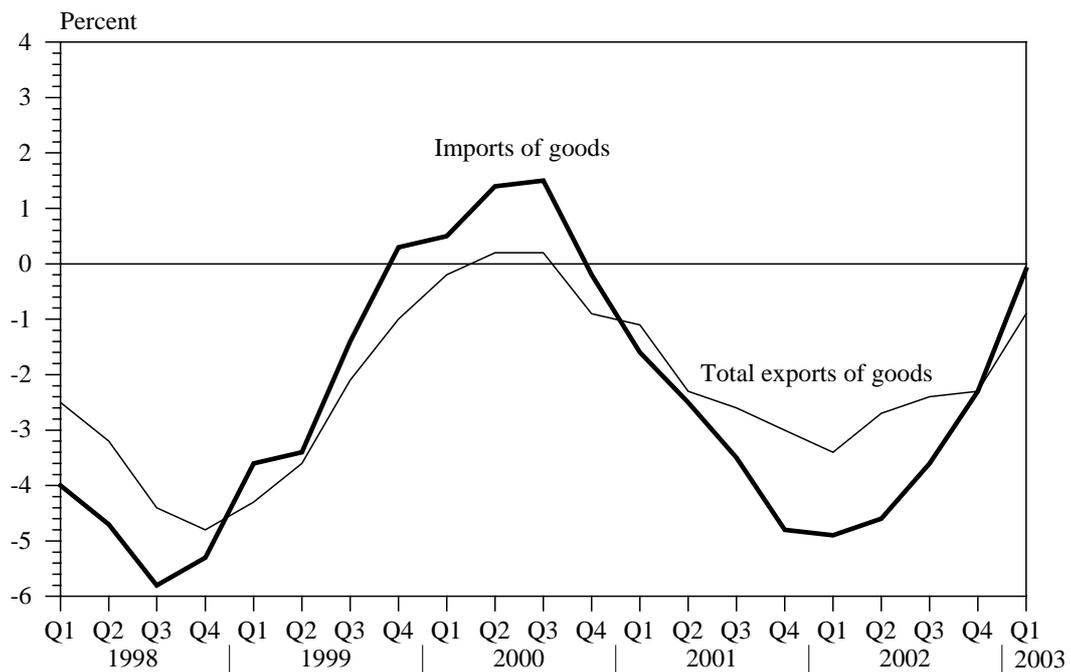
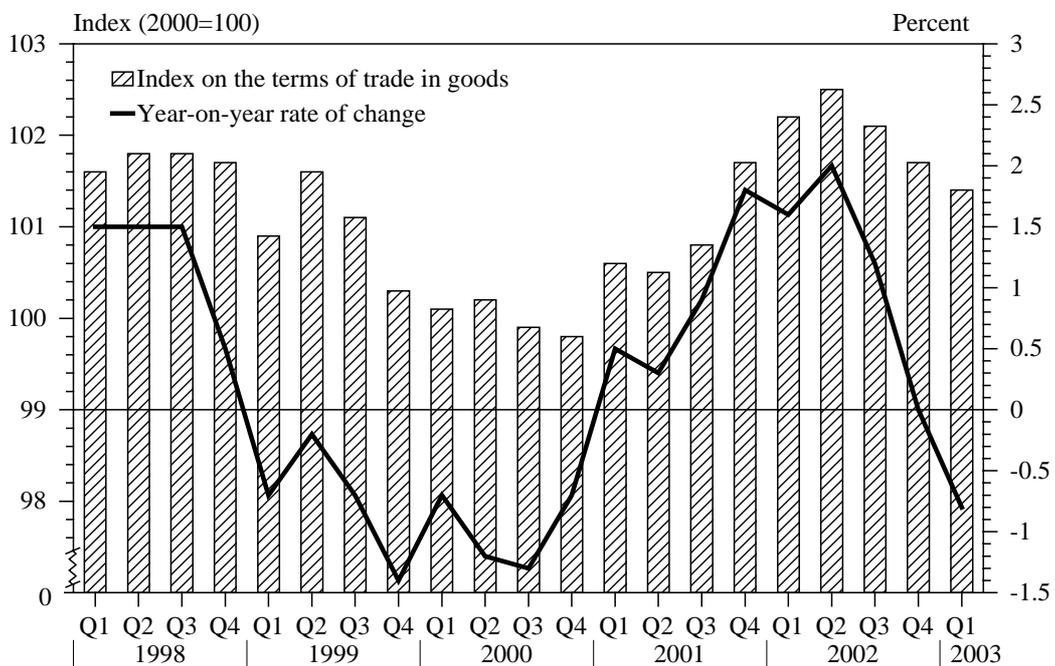


Diagram 6.11

Terms of trade in goods



/GDP

GDP deflator

6.14 The *GDP deflator*⁽⁸⁾, as a broad measure of overall price change in the economy, declined by 4.7% in the first quarter of 2003 over a year earlier, enlarged from the 4.1% drop in the fourth quarter of 2002. This was mainly due to a renewed decline in the terms of trade in goods and services, more than offsetting lesser decreases in the price deflators for private consumption expenditure and for gross domestic fixed capital formation. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* nevertheless showed moderated declines, to 4.0% and 2.2% respectively in the first quarter of 2003 over a year earlier, from 5.1% and 3.1% respectively in the fourth quarter of 2002. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went down by 1.5% in the first quarter of 2003, similar to the decrease of 1.6% in the fourth quarter of 2002.

/Table 6.11

Table 6.11**GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>2001[#]</u>	<u>2002[#]</u>	<u>2002</u>				<u>2003</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
Private consumption expenditure	-1.2	-3.8	-3.2	-3.8	-4.0	-4.1	-2.7
Government consumption expenditure	1.1	-0.5	1.4	-0.6	-0.7	-2.6	-2.5
Gross domestic fixed capital formation	-6.6	-8.1	-7.4	-8.5	-9.2	-7.5	-7.3
Total exports of goods	-2.6	-2.9	-3.8	-3.0	-2.7	-2.4	-1.3
Imports of goods	-3.5	-4.2	-5.2	-4.9	-3.9	-2.6	-0.8
Exports of services	-4.0	-1.9	-4.3	-2.4	-0.6	-0.5	-1.2
Imports of services	-1.5	0.2	-2.4	*	1.4	2.0	3.4
Gross Domestic Product	-1.9	-3.0	-2.3 <-0.7>	-2.2 <-0.8>	-3.1 <-0.9>	-4.1 <-1.6>	-4.7 <-1.5>
Total final demand	-2.7	-3.5	-3.9	-3.6	-3.3	-3.1	-2.2
Domestic demand	-2.5	-4.6	-3.6	-4.7	-5.1	-5.1	-4.0

Notes : (#) Revised figures.

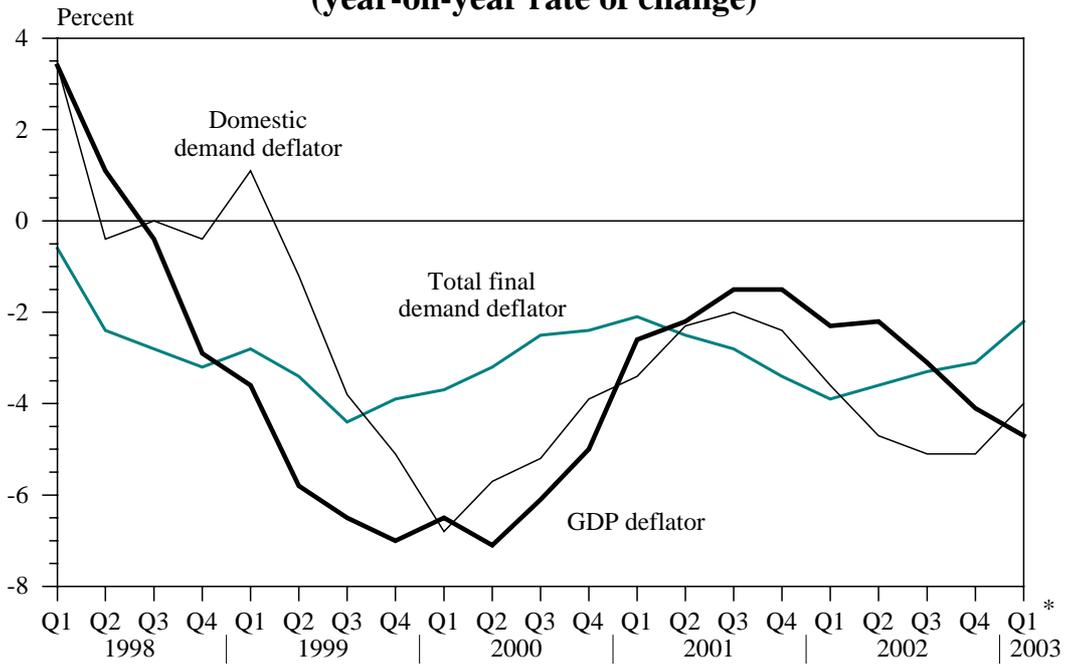
(+) Preliminary figures.

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

(*) Change of less than 0.05%.

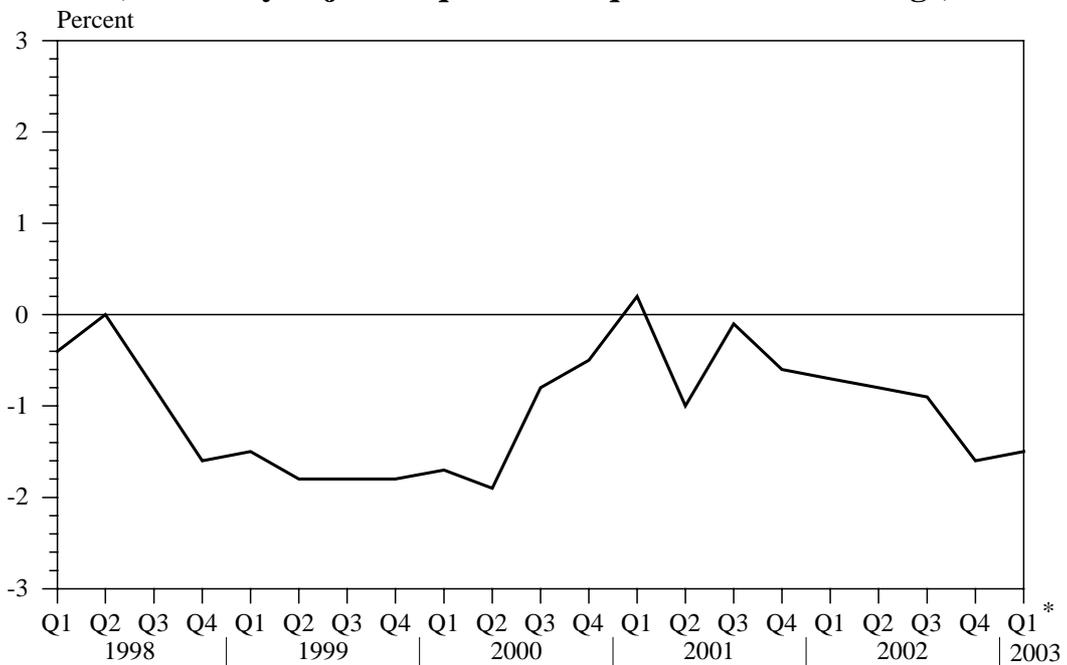
/Diagram 6.12

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



Note : (*) Preliminary figures.

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



Note : (*) Preliminary figure.

/Notes

Notes :

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

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

	<u>Approximate proportion of households covered</u> (%)	<u>Monthly expenditure range (at 1999/2000 prices)</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 1999/2000-based CPIs are as follows:

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

- (2) The special one-off rebate of electricity charges granted by a power company in January and February 2003 had the effect of lowering the seasonally adjusted Composite CPI by 0.3 of a percentage point in the first quarter of 2003. The corresponding dampening effect on the CPI(A), CPI(B) and CPI(C) amounted to 0.6, 0.3 and 0.1 of a percentage point.
- (3) As announced by the Financial Secretary in the 2002/03 Budget, water and sewage charges for domestic households were to be waived for one year as from April 2002, subject to maximum amounts of \$800 and \$200 respectively.

/(4)

- (4) As announced in the 2002/03 Budget, the duty rate on wine was raised from 60% to 80%, as from 6 March 2002.
- (5) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost, as indicated in the various CPIs, thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the Rating and Valuation Department's rental index for private residential flats.
- (6) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (7) The terms of trade in goods is defined as the ratio of the prices of total exports of goods to the prices of imports of goods.
- (8) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit price deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, as total final demand in the economy is equated to GDP plus imports, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of imports. Likewise, as domestic demand in the economy is equated to GDP plus imports and less exports, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.

STATISTICAL APPENDIX

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Table 1 Gross Domestic Product (GDP) by expenditure component

Expenditure component	(HK\$ million)			
	At current market prices		At constant (2000) market prices	
	2001 [#]	2002 [#]	2001 [#]	2002 [#]
Private consumption expenditure	746,856 (0.3)	709,231 (-5.0)	756,266 (1.6)	746,311 (-1.3)
Government consumption expenditure	128,863 (7.3)	131,199 (1.8)	127,432 (6.1)	130,479 (2.4)
Gross domestic fixed capital formation	333,115 (-4.1)	292,595 (-12.2)	356,650 (2.7)	341,189 (-4.3)
<i>of which</i> : Building and construction	142,651 (-8.2)	135,361 (-5.1)	153,720 (-1.1)	155,636 (1.2)
Machinery, equipment and computer software	180,090 (-0.1)	147,798 (-17.9)	191,402 (6.2)	173,993 (-9.1)
Change in inventories	-4,060	2,417	-4,889	2,880
Total exports of goods	1,480,987 (-5.8)	1,562,121 (5.5)	1,520,244 (-3.3)	1,651,945 (8.7)
Domestic exports	153,520 (-15.2)	131,079 (-14.6)	162,588 (-10.2)	144,376 (-11.2)
Re-exports	1,327,467 (-4.6)	1,431,041 (7.8)	1,357,656 (-2.4)	1,507,569 (11.0)
<i>less</i> Imports of goods ^(a)	1,549,222 (-5.3)	1,601,527 (3.4)	1,605,267 (-1.9)	1,732,470 (7.9)
Exports of services	325,889 (2.6)	357,147 (9.6)	339,393 (6.9)	379,199 (11.7)
<i>less</i> Imports of services	192,453 (0.5)	193,412 (0.5)	195,447 (2.0)	195,883 (0.2)
Total expenditure on GDP	1,269,975 (-1.4)	1,259,771 (-0.8)	1,294,382 (0.5)	1,323,650 (2.3)
Per capita GDP ^(b) (\$)	188,847 (-2.3)	185,615 (-1.7)	192,476 (-0.4)	195,027 (1.3)
Implicit Price Deflator (2000=100)	Index for 2001	% change over 2000	Index for 2002	% change over 2001
GDP	98.1	-1.9	95.2	-3.0
Total final demand ^(c)	97.3	-2.7	93.9	-3.5
Domestic demand ^(d)	97.5	-2.5	93.0	-4.6

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

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

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

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

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

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

(#) Revised figures

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

Economic activity	At current prices (HK\$ million)		Year-on-year % change		% share in GDP	
	2000	2001 [#]	2000	2001 [#]	2000	2001 [#]
Agriculture and fishing	920	1,003	-21.4	9.0	0.1	0.1
Mining and quarrying	241	174	-21.5	-27.8	*	*
Manufacturing	71,655	63,519	6.1	-11.4	5.8	5.2
Electricity, gas and water	38,853	40,126	4.4	3.3	3.2	3.3
Construction	64,026	58,971	-4.8	-7.9	5.2	4.8
Services	1,053,202	1,052,449	4.9	-0.1	85.7	86.5
Wholesale, retail and import/ export trades, restaurants and hotels	324,622	324,652	9.6	*	26.4	26.7
Transport, storage and communications	125,724	124,260	11.6	-1.2	10.2	10.2
Financing, insurance, real estate and business services	291,062	274,919	3.4	-5.5	23.7	22.6
Community, social and personal services	252,435	265,081	2.6	5.0	20.5	21.8
Ownership of premises	155,303	159,118	-4.4	2.5	12.6	13.1
<i>less</i> Adjustment for financial intermediation services indirectly measured	95,945	95,582	1.4	-0.4	7.8	7.9
GDP at factor cost	1,228,897	1,216,241	4.3	-1.0	100.0	100.0
Taxes on production and imports	57,908	53,917	8.3	-6.9		
Statistical discrepancy (%)	0.1	*	--	--		
GDP at current market prices	1,288,338	1,269,975	3.4	-1.4		

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

(#) Revised figures.

(*) Less than 0.05%.

(--) Not applicable.

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

(HK\$ million)

Economic activity	2002 [#]	2001 [#]	2002 [#]			
		4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Agriculture and fishing	997 (4.1)	255 (9.0)	246 (3.4)	262 (6.9)	226 (2.7)	264 (3.5)
Mining and quarrying	179 (-13.5)	50 (-7.4)	40 (-23.1)	40 (-20.0)	38 (-30.9)	60 (20.0)
Manufacturing	59,688 (-8.9)	16,248 (-13.8)	13,477 (-11.3)	15,031 (-10.8)	16,108 (-6.4)	15,072 (-7.2)
Electricity, gas and water	41,030 (3.0)	9,673 (1.6)	8,506 (1.2)	10,632 (6.9)	12,157 (2.9)	9,736 (0.7)
Construction	60,677 (-1.0)	17,646 (1.6)	14,876 (-1.7)	14,128 (3.2)	15,156 (2.4)	16,516 (-6.4)
Services	1,104,002 (3.1)	277,965 (-0.1)	257,084 (*)	264,713 (1.5)	286,422 (4.3)	295,783 (6.4)
Wholesale, retail and import/ export trades, restaurants and hotels	341,835 (5.1)	85,645 (-4.7)	73,724 (-2.8)	76,012 (0.5)	94,063 (6.9)	98,035 (14.5)
Transport, storage and communications	133,498 (4.0)	33,053 (-0.4)	31,263 (0.2)	31,988 (3.6)	35,141 (5.5)	35,106 (6.2)
Financing, insurance, real estate and business services	292,640 (0.9)	73,714 (0.2)	70,361 (-1.5)	73,282 (0.9)	73,417 (1.6)	75,579 (2.5)
Community, social and personal services	264,266 (0.7)	68,231 (2.6)	63,886 (1.0)	66,359 (0.3)	65,450 (1.1)	68,570 (0.5)
Ownership of premises	164,468 (2.1)	41,032 (4.3)	40,889 (2.8)	40,228 (1.4)	41,535 (2.1)	41,816 (1.9)
<i>less</i> Adjustment for financial intermediation services indirectly measured	92,705 (-4.1)	23,709 (-2.7)	23,040 (-5.4)	23,156 (-4.3)	23,184 (-4.8)	23,325 (-1.6)
Taxes on production and imports	57,768 (0.8)	14,452 (-1.4)	15,002 (-0.1)	15,403 (1.2)	12,531 (-0.6)	14,833 (2.6)
Statistical discrepancy (%)	-0.1	-0.1	0.1	-0.7	0.1	0.3
GDP at constant (2000) market prices	1,323,650 (2.3)	335,996 (-1.1)	309,548 (-0.6)	317,857 (0.8)	342,983 (3.4)	353,262 (5.1)

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

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

(#) Revised figures.

(*) Change of less than 0.05%.

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

		(HK\$ million)						
Income component	<u>2001</u>		<u>2002</u>		<u>2002</u>			
					1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
(At current market prices)								
Direct investment income								
Inflow total	168,497	(9.5)	165,164	(-2.0)	39,744	38,871	49,463	37,086
Banking	8,152	(-2.7)	8,539	(4.7)	1,683	2,233	2,315	2,309
Others ^(a)	160,345	(10.2)	156,625	(-2.3)	38,061	36,639	47,148	34,777
Outflow total	244,838	(-8.1)	230,854	(-5.7)	52,818	55,775	66,561	55,699
Banking	63,156	(-13.6)	61,322	(-2.9)	16,581	16,984	13,560	14,197
Others ^(a)	181,681	(-6.0)	169,532	(-6.7)	36,237	38,792	53,001	41,502
Portfolio investment income								
Inflow total	96,338	(1.3)	93,499	(-2.9)	25,160	22,622	24,723	20,995
Banking	27,077	(13.2)	26,394	(-2.5)	5,769	6,626	6,704	7,296
Others ^(a)	69,261	(-2.7)	67,105	(-3.1)	19,391	15,996	18,019	13,699
Outflow total	26,835	(-0.2)	27,014	(0.7)	4,838	10,215	5,563	6,398
Banking	4,569	(20.2)	4,195	(-8.2)	1,700	749	1,363	382
Others ^(a)	22,266	(-3.6)	22,820	(2.5)	3,138	9,466	4,200	6,016
Other investment income								
Inflow total	119,730	(-28.6)	65,421	(-45.4)	17,502	16,613	15,638	15,669
Banking	102,384	(-30.7)	56,255	(-45.1)	15,142	14,208	13,304	13,602
Others ^(a)	17,347	(-13.3)	9,166	(-47.2)	2,360	2,405	2,334	2,067
Outflow total	71,718	(-29.5)	38,793	(-45.9)	9,971	9,978	9,600	9,244
Banking	63,934	(-32.3)	32,180	(-49.7)	8,748	8,280	8,094	7,058
Others ^(a)	7,784	(7.1)	6,613	(-15.0)	1,223	1,698	1,506	2,186
Compensation of employees								
Inflow total	30	(-43.4)	15	(-50.0)	6	4	3	2
Outflow total	30	(-43.4)	15	(-50.0)	6	4	3	2
Total EFIF								
Inflow total	384,595	(-7.7)	324,099	(-15.7)	82,412	78,110	89,826	73,751
Outflow total	343,420	(-13.1)	296,676	(-13.6)	67,633	75,973	81,726	71,344
Net flow total	41,174		27,423		14,779	2,137	8,099	2,408
(At current market prices)								
GNP (\$ million) [#]	1,311,149	(0.1)	1,287,194	(-1.8)	313,098	308,360	332,776	332,959
Per capita GNP (\$) [#]	194,969	(-0.8)	189,656	(-2.7)	--	--	--	--
(At constant (2000) market prices)								
GNP (\$ million) [#]	1,336,820	(2.0)	1,353,136	(1.2)	325,294	320,154	351,787	355,901
Per capita GNP (\$) [#]	198,787	(1.1)	199,372	(0.3)	--	--	--	--

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

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

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

(#) Revised figures.

(--) Not applicable.

Table 5 Balance of payments account

(HK\$ million)

Standard components	2001 [#]	2002 [#]	2002			
			1st Qtr [#]	2nd Qtr [#]	3rd Qtr [#]	4th Qtr [#]
Current account ⁽¹⁾	95,763	137,277	30,034	19,943	41,993	45,306
Trade in goods	-64,970	-39,406	-12,444	-16,381	-4,979	-5,603
Exports	1,488,982	1,562,121	326,087	373,691	435,519	426,824
Imports	-1,553,952	-1,601,527	-338,531	-390,072	-440,498	-432,427
Trade in services	133,436	163,735	31,160	37,805	42,695	52,075
Exports	325,889	357,147	78,241	83,343	94,798	100,765
Imports	-192,453	-193,412	-47,081	-45,538	-52,103	-48,690
External factor income flows	41,174	27,423	14,779	2,137	8,099	2,408
Inflow	384,595	324,099	82,412	78,110	89,826	73,751
Outflow	-343,420	-296,676	-67,633	-75,973	-81,726	-71,344
Current transfers	-13,878	-14,475	-3,461	-3,618	-3,822	-3,573
Inflow	4,719	5,357	1,076	2,174	1,031	1,076
Outflow	-18,597	-19,831	-4,537	-5,792	-4,853	-4,649
Capital and financial account ⁽¹⁾	-97,359	-191,417	-46,809	-30,363	-57,056	-57,189
Capital transfers	-9,155	-15,725	-2,998	-7,586	-1,912	-3,229
Direct investment	96,948	-31,007	-10,139	15,254	-32,735	-3,387
Abroad	-88,476	-137,993	-40,923	-29,503	-62,429	-5,138
In HK	185,424	106,986	30,784	44,757	29,694	1,751
Portfolio investment	-322,045	-290,749	7,056	-117,765	-82,478	-97,561
Assets	-312,992	-283,684	-13,435	-126,842	-60,200	-83,208
Liabilities	-9,054	-7,065	20,491	9,076	-22,279	-14,353
Financial derivatives	39,640	10,616	12,316	6,054	-5,706	-2,048
Assets	140,147	107,530	42,239	23,266	15,343	26,683
Liabilities	-100,507	-96,914	-29,923	-17,212	-21,049	-28,731
Other investment	133,783	116,906	-49,183	70,560	58,075	37,454
Assets	461,197	324,054	96,784	50,015	126,936	50,318
Liabilities	-327,414	-207,147	-145,967	20,545	-68,862	-12,863
Net change in reserve assets ⁽²⁾	-36,530	18,541	-3,861	3,120	7,700	11,582
Net errors and omissions	1,597	54,140	16,775	10,420	15,063	11,883
Overall balance of payments	36,530 (in surplus)	-18,541 (in deficit)	3,861 (in surplus)	-3,120 (in deficit)	-7,700 (in deficit)	-11,582 (in deficit)

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

- (1) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value for the balance figure indicates a net inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.
- (2) The estimates on net change in reserve assets under the balance of payments framework are transaction figures. Effects from valuation changes (including price changes and exchange rate changes) and reclassifications are excluded.
- (#) Revised figures.

**Table 6 Major economic indicators in the external sector
for the first quarter of 2003**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	357,134	-9.3	20.3
Domestic exports	\$Mn	25,957	-20.5	-10.4
Total exports of goods	\$Mn	383,091	-10.2	17.6
Imports of goods	\$Mn	403,240	-7.7	14.6
Visible trade balance	\$Mn	-20,149	--	--
<u>Unit value indices (2000 = 100)</u>				
Re-exports		95.0	0.1	-1.1
<i>to :</i> Mainland of China		94.9	0.7	*
United States		96.2	-0.7	-2.2
Japan		95.0	0.3	-0.8
United Kingdom		94.6	-0.6	-1.3
Germany		93.7	-1.0	-2.5
Domestic exports		92.4	-0.2	0.8
<i>to :</i> United States		98.2	0.4	4.4
Mainland of China		89.2	0.2	0.2
United Kingdom		94.4	-0.1	0.5
Taiwan		84.9	1.6	-0.3
Germany		87.8	-3.3	-1.1
Imports of goods		93.3	0.4	-0.1
<i>from :</i> Mainland of China		95.1	0.3	-1.0
Japan		94.1	1.0	3.3
Taiwan		91.0	-0.2	1.1
United States		91.4	-0.4	-2.6
Republic of Korea		89.5	-0.3	1.3
<i>of :</i> Raw materials and semi-manufactures		91.3	0.5	0.6
Consumer goods		96.5	0.8	-0.3
Capital goods		91.3	-1.2	-2.8
Foodstuffs		90.7	-0.5	-3.1
Fuels		108.3	12.1	38.0

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

(--) Not applicable.

(*) Change of less than 0.05%.

**Table 6 Major economic indicators in the external sector
for the first quarter of 2003 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (2000 = 100)	101.4	-0.3	-0.8
<u>Quantum indices</u> (2000 = 100)			
Re-exports	109.2	-9.1	22.3
<i>to :</i> Mainland of China	133.5	-3.7	32.3
United States	80.9	-23.4	12.2
Japan	111.2	-6.6	16.0
United Kingdom	81.6	-21.2	8.2
Germany	99.9	-11.8	28.4
Domestic exports	62.8	-20.0	-12.0
<i>to :</i> United States	57.9	-30.5	-9.1
Mainland of China	65.2	-15.4	-23.2
United Kingdom	63.9	-28.0	10.4
Taiwan	65.4	-18.1	-27.7
Germany	54.1	8.5	10.2
<i>of :</i> Textiles and clothing	67.9	-27.3	-2.0
Products other than textiles and clothing	58.2	-10.5	-20.7
Imports of goods	105.4	-7.9	18.7
<i>from :</i> Mainland of China	99.7	-13.9	15.9
Japan	104.4	-6.3	23.1
Taiwan	98.9	-11.1	11.7
United States	87.4	-4.6	10.7
Republic of Korea	107.6	-6.6	18.7
<i>of :</i> Raw materials and semi-manufactures	110.3	-3.2	26.1
Consumer goods	94.9	-12.8	13.9
Capital goods	114.0	-8.2	20.1
Foodstuffs	102.1	-2.2	-6.3
Fuels	96.5	-14.9	7.7

Table 7 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Manufacturing sector</u> (4th Qtr 2002)				
Index of Industrial Production (2000 = 100)		86.2	-6.5	-9.2
<u>Property</u> (1st Qtr 2003)				
Completions of new property				
<i>for</i> : Residential	no. of units	4 991	-54.9	48.7
Commercial	'000 sq. m	78	-28.8	13.2
<i>of which</i> :				
Office space	'000 sq. m	32	-38.8	-38.4
Other commercial premises	'000 sq. m	46	-19.7	166.7
Industrial	'000 sq. m	16	-41.7	474.1
<i>of which</i> :				
Industrial-cum-office premises	'000 sq. m	16	--	--
Flatted factory space	'000 sq. m	0	--	-100.0
Storage premises	'000 sq. m	0	-100.0	--
Floor area of building consents				
<i>for</i> : Residential	'000 sq. m	396	158.9	214.0
Commercial	'000 sq. m	24	-75.8	-67.2
Industrial	'000 sq. m	0	-100.0	-100.0
Others	'000 sq. m	65	119.7	301.1
Total	'000 sq. m	485	36.0	111.7
<u>Building and construction</u>				
Labour and Material Cost Index (Jan 2003) (mid-Feb 1970 = 100)		1 758	0.5	0.6
Tender Price Indices (4th Qtr 2002) (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		733	5.9	1.7
Public housing projects		495	-5.7	-10.5
<u>Electricity consumption</u> (1st Qtr 2003)				
<i>for</i> : Industrial	Mn KWh	898	-18.4	-2.7
Commercial	Mn KWh	5 041	-15.1	3.3
Domestic	Mn KWh	1 571	-19.5	6.5
<u>Gas consumption</u> (1st Qtr 2003)				
<i>for</i> : Industrial	Terajoule	245	6.1	-3.5
Commercial	Terajoule	2 940	13.7	1.9
Domestic	Terajoule	4 607	34.9	5.0

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

(--) Not applicable.

Table 7 Major economic indicators in the domestic economy (cont'd)

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Transport				
Passenger journeys (1st Qtr 2003)				
<i>by</i> : KMB	'000	271 923	-4.3	-3.9
NWFB	'000	45 379	-5.8	-6.7
City Bus	'000	53 140	-5.7	-1.3
New Lantau Bus	'000	2 311	-2.4	9.1
Long Win Bus	'000	4 882	-4.8	1.3
MTR	'000	195 410	-6.6	3.2
KCR	'000	71 766	-6.2	-2.5
LRT	'000	26 875	-6.7	-5.9
Hong Kong Tramways	'000	20 859	-5.0	-6.4
New World First Ferry	'000	3 498	-5.4	-7.5
Star Ferry	'000	6 962	-9.3	-1.6
Private cars licensed				
new registration (1st Qtr 2003)	no.	6 436	-7.7	-14.6
total licensed (end-Mar 2003)	no.	340 120	-0.2	*
Air passenger movements (1st Qtr 2003)	'000	5 439	-11.3	-4.6
Air cargo (1st Qtr 2003)	'000 tonne	595	-17.0	12.8
Ocean cargo (4th Qtr 2002)	'000 tonne	36 151	-0.8	10.9
Container throughput (4th Qtr 2002)	'000 TEUs	5 068	-3.5	14.8
Tourism				
Arrivals of incoming visitors (1st Qtr 2003)	'000	4 302	-10.8	19.7
Departures of Hong Kong residents (1st Qtr 2003)	'000	15 285	-6.1	-3.5
<i>to</i> : Mainland of China	'000	13 202	-7.2	-2.6
Macau	'000	979	0.4	-7.4
Other countries	'000	1 105	2.1	-10.2
Hotel rooms (end-Mar 2003)	no.	42 792	-1.9	2.3
Hotel room occupancy rate (1st Qtr 2003)	%	81	-9.0	*
Telecommunications (end-Mar 2003)				
Telephone lines	Mn	3.8	-0.3	-1.7
<i>for</i> : Residential users	Mn	2.1	-0.2	-1.0
Business users	Mn	1.7	-0.4	-2.6
Facsimile lines	'000	533	-2.4	30.9
Public mobile radiotelephone services customers	'000	6 396	2.8	10.7

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

(*) Change of less than 0.05%.

**Table 8 Major economic indicators in the financial sector
as at end-March 2003**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Exchange rate</u>				
Effective Exchange Rate Indices of the Hong Kong dollar (Jan 2000 = 100)				
trade-weighted		101.9	-0.1	-3.9
import-weighted		102.8	0.1	-3.7
export-weighted		100.9	-0.3	-4.2
HK\$/US\$ interbank T/T rate	HK\$	7.798	*	*
<u>Interest rate</u>				
3-month HIBOR	%	1.28	--	--
Savings rate	%	0.03	--	--
Best lending rate	%	5.00	--	--
<u>Monetary statistics</u>				
Money supply :				
M1	\$Mn	299,885	1.4	14.5
M2	\$Mn	3,507,521	-0.3	1.9
M3	\$Mn	3,547,371	-0.4	1.9
Deposits with :				
licensed banks	\$Mn	3,244,368	-1.0	-0.1
restricted licence banks	\$Mn	32,512	-9.4	0.3
deposit-taking companies	\$Mn	5,484	-7.0	-8.8
all authorized institutions	\$Mn	3,282,364	-1.1	-0.1
Deposits by type :				
demand	\$Mn	181,348	-0.6	17.7
savings	\$Mn	977,675	3.3	14.6
time	\$Mn	37,996	-9.1	-1.1
total	\$Mn	3,282,364	-1.1	-0.1

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

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 8 Major economic indicators in the financial sector
as at end-March 2003 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	1,924,120	-0.6	-4.0
restricted licence banks	\$Mn	108,668	-3.3	-11.2
deposit-taking companies	\$Mn	26,925	-1.4	-13.5
all authorized institutions	\$Mn	2,059,713	-0.8	-4.5
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	83,567	2.2	6.9
to finance merchandising trade not touching Hong Kong	\$Mn	9,289	1.7	14.4
other loans for use in Hong Kong	\$Mn	1,732,573	-0.6	-3.5
other loans for use outside Hong Kong	\$Mn	219,339	-5.7	-17.7
other loans where the place of use is not known	\$Mn	14,946	51.8	45.3
<u>Stock market</u>				
Hang Seng Index (31 Jul 1964 = 100)		8 634	-7.4	-21.7
Stock market capitalisation				
Main Board	\$Mn	3,377,575	-5.1	-12.4
Growth Enterprise Market	\$Mn	51,357	-1.7	-25.7
Total	\$Mn	3,428,932	-5.1	-12.6
Stock market turnover (1st Qtr 2003)				
Main Board	\$Mn	365,000	6.1	-9.8
Growth Enterprise Market	\$Mn	4,786	-17.5	-68.0
Total	\$Mn	369,786	5.7	-11.9

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

Table 9 Major economic indicators in the labour sector

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Labour force characteristics</u> (1st Qtr 2003)				
Labour force	'000	3 503	-0.4	1.3
Unemployed	'000	260	2.8	8.7
Underemployed	'000	101	-8.2	-7.9
Employed	'000	3 244	-0.7	0.7
Labour force participation rate	%	61.5	--	--
Seasonally adjusted unemployment rate	%	7.5	--	--
Underemployment rate	%	2.9	--	--
<u>Employment</u> (Dec 2002)				
Manufacturing	'000	185	-2.9	-9.1
Services	'000	2 003	-0.7	0.2
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	776	-3.2	-0.1
Restaurants and hotels	'000	207	-2.7	-6.1
Transport, storage and communications	'000	176	-2.6	-3.3
Financing, insurance, real estate and business services	'000	441	4.0	1.7
Community, social and personal services	'000	403	1.1	4.5
Building and construction sites	'000	66	-5.7	-13.3
Civil service	'000	170	-0.5	-2.8
<u>Vacancies</u> (Dec 2002)				
Manufacturing	'000	1	-36.0	-17.9
Services	'000	15	-11.7	-4.4
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	5	-14.6	8.5
Restaurants and hotels	'000	1	-20.9	-11.9
Transport, storage and communications	'000	1	-15.8	-18.5
Financing, insurance, real estate and business services	'000	5	-5.5	6.3
Community, social and personal services	'000	4	-10.8	-20.9
Building and construction sites	'000	#	-54.1	-62.7
Civil Service	'000	2	-2.1	-11.2

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

(--) Not applicable.

(#) Less than 500.

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

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Earnings</u> (4th Qtr 2002)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	94.1	6.3 (6.8)	-1.2 (1.8)
<i>for</i> : Manufacturing	90.3	3.3 (3.8)	-2.2 (0.7)
Services	93.1	6.1 (6.6)	-1.6 (1.4)
<i>of which</i> :			
Wholesale, retail and import/export trades	88.7	7.7 (8.2)	-2.0 (1.0)
Restaurants and hotels	80.6	0.8 (1.2)	-3.1 (-0.1)
Transport, storage and communications	101.4	17.1 (17.6)	2.0 (5.1)
Financing, insurance, real estate and business services	93.1	11.8 (12.3)	-2.9 (*)
Community, social and personal services	95.0	-4.0 (-3.5)	-2.7 (0.3)
<u>Wages</u> (Dec 2002)			
Nominal wage index (Sep 1992 = 100)	149.3	-0.3 (0.2)	-0.8 (-1.8)
<i>for</i> : Manufacturing	146.4	-0.6 (-0.1)	-1.4 (-2.5)
Services			
<i>of which</i> :			
Wholesale, retail and import/export trades	159.0	0.5 (1.0)	-0.7 (-1.7)
Restaurants and hotels	133.5	-0.9 (-0.5)	-3.0 (-4.0)
Transport services	150.6	0.9 (1.3)	0.5 (-0.5)
Financing, insurance, real estate and business services	155.1	-1.7 (-1.3)	0.3 (-0.8)
Personal services	151.1	-0.7 (-0.3)	-0.1 (-1.1)
Nominal index of construction wage rate (Jan 1970 = 100) (Feb 2003)	3 525.4	-1.0 (-0.8)	-0.5 (1.6)

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

(*) Change of less than 0.05%.

Table 10 Various price indices for the first quarter of 2003

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Consumer Price Indices</u> (Oct 1999 - Sep 2000 = 100)			
Composite CPI	93.6	-0.1 [#]	-2.0
CPI(A)	93.7	* [#]	-1.8
CPI(B)	93.5	-0.2 [#]	-2.1
CPI(C)	93.9	* [#]	-1.7
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	61.8	-4.6	-16.3
Office space	61.8	-5.5	-13.2
Shopping space	79.0	-4.7	-6.4
Conventional flatted factory space	71.6	-1.1	-5.0
<u>GDP deflator</u> ⁺ (2000 = 100)	91.9	-1.5 [#]	-4.7

Notes : (+) Preliminary figures.

(#) Seasonally adjusted series.

(*) Change of less than 0.05%.

