



2003

Economic Background

Government of the Hong Kong
Special Administrative Region

2003 ECONOMIC BACKGROUND

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

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CALENDAR OF EVENTS OF SIGNIFICANCE TO THE HONG KONG ECONOMY IN 2003

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 The Hong Kong economy went through a sharp gyration during the course of 2003. Continuing the revival impetus in late 2002, the economy grew quite strongly at the beginning of 2003. The growth was abruptly derailed by the spread of Severe Acute Respiratory Syndrome (SARS)⁽¹⁾ in the second quarter. Yet overall economic activity staged a speedy and broad-based recovery in the third quarter after the waning of SARS, and the upswing spilled well into the fourth quarter upon a further lift in local sentiment. Thus, even with the profound setback caused by SARS during the year, the Hong Kong economy still attained an appreciable growth for 2003 as a whole, which was better than that in 2002.

1.2 In the external sector, inbound tourism and the travel-related sectors were badly shattered by the spread of SARS in the second quarter of 2003, yet bounced back swiftly in the third quarter and distinctly more in the fourth quarter. The remarkable turnaround was driven by a strong pick-up in visitor arrivals from the mainland of China (the Mainland), especially after the launch of the Individual Visit Scheme in late July⁽²⁾. As to merchandise exports and offshore trade, they both displayed highly robust growth throughout 2003, bolstered by continued hectic growth in the Mainland economy, a visible pick-up in the global economy following the end of the war on Iraq, as well as a surge in intra-regional trade. Enhanced competitiveness of Hong Kong's exports, underpinned by distinct weakening in the US dollar and further domestic cost adjustments, as well as deriving from increasing competitiveness of Mainland products in the world market, rendered an additional boost to the export performance.

1.3 In the domestic sector, consumer spending was likewise severely hit by SARS in the second quarter of 2003, but was progressively resurrected in the third and fourth quarters. Consumer sentiment appeared especially upbeat towards the end of the year, boosted by the rally in the local stock market, a more active property market, and steady improvement in the overall employment situation. Investment spending on machinery and equipment bounced back to a notable growth in the latter part of 2003, on the back of improved economic

/conditions

conditions and brighter business outlook especially after the signing of the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland⁽³⁾. Building and construction output however was weak all through.

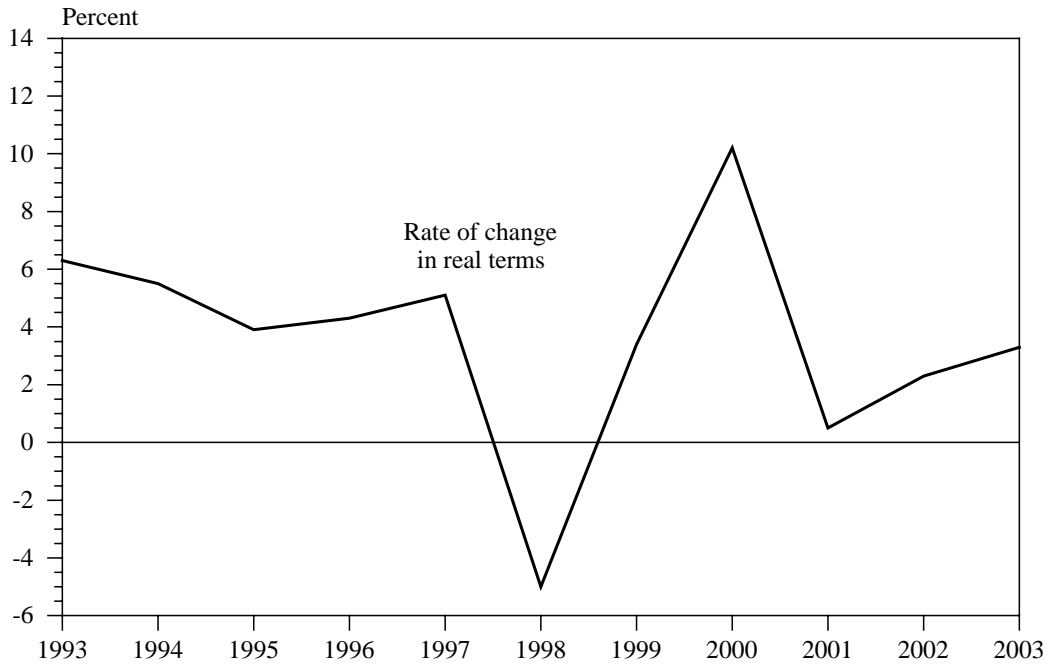
1.4 For 2003 as a whole, the *Gross Domestic Product (GDP)*⁽⁴⁾ grew by 3.3% in real terms, up from the 2.3% growth in 2002. On a year-on-year comparison, GDP leaped by 4.5% in real terms in the first quarter of 2003, before relapsing to a 0.5% decline in the second quarter upon the spread of SARS. Yet GDP bounced up strongly to a 4.0% growth in the third quarter, and further to a 5.0% growth in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison⁽⁵⁾, GDP fell by 0.5% and 2.6% respectively in real terms in the first and second quarters of 2003, yet rebounded sharply to increases by 6.6% in the third quarter and 1.5% in the fourth quarter.

/Diagram 1.1

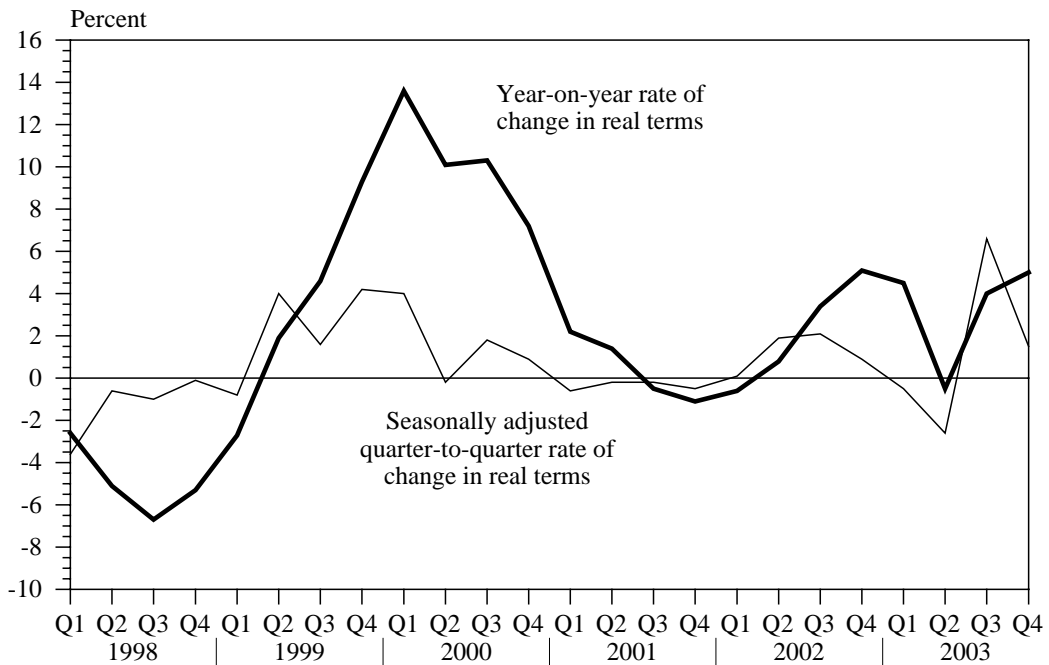
Diagram 1.1

Gross Domestic Product

(a) Annual profile



(b) Quarterly profile



/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>2002[#]</u>	<u>2003⁺</u>	<u>Q1[#]</u>	<u>2002</u>		<u>Q4[#]</u>	<u>Q1[#]</u>	<u>2003</u>		<u>Q4⁺</u>
				<u>Q2[#]</u>	<u>Q3[#]</u>			<u>Q2[#]</u>	<u>Q3[#]</u>	
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure ^(^)	-1.2	*	-0.1	-2.4	-0.9	-1.3	-1.8	-3.5	1.6	3.6
Government consumption expenditure	2.4	1.9	2.3	3.1	3.5	0.8	1.3	0.4	0.5	5.6
Gross domestic fixed capital formation	-4.3	-0.1	-11.8	-0.2	-4.3	-0.7	3.5	-5.7	-0.6	2.5
<i>of which :</i>										
Building and construction	1.2	-6.9	-3.2	7.6	8.2	-6.2	-3.5	-8.4	-6.7	-9.3
Machinery, equipment and computer software	-9.1	6.1	-19.7	-6.7	-12.1	3.2	11.9	-2.0	4.9	10.2
Total exports of goods	8.7	14.2	-2.4	5.9	11.5	18.4	19.1	14.3	10.0	14.7
Re-exports	11.0	16.3	-1.4	8.4	13.7	22.2	22.3	17.0	11.5	16.0
Domestic exports	-11.2	-7.3	-11.1	-13.6	-7.5	-12.9	-12.0	-12.6	-5.2	-0.2
Imports of goods ^(a)	7.9	13.1	-4.0	6.0	10.8	18.2	18.8	10.9	8.2	15.7
Exports of services ^(^)	12.2	5.5	6.3	9.1	14.0	18.1	12.7	-12.0	7.8	11.8
Imports of services	0.2	-4.4	-0.7	-3.8	2.0	3.4	-3.9	-19.6	0.5	4.2
Gross Domestic Product	2.3	3.3	-0.6	0.8	3.4	5.1	4.5	-0.5	4.0	5.0
<i>Change in the main price indicators (%)</i>										
GDP deflator	-3.0	-5.1	-2.3	-2.2	-3.1	-4.1	-4.6	-5.4	-5.7	-4.8
Composite Consumer Price Index^(b)	-3.0	-2.6	-2.6	-3.2	-3.5	-2.9	-2.0	-2.5	-3.6	-2.3
Consumer Price Index (A) ^(b)	-3.2	-2.1	-2.8	-3.6	-4.1	-2.4	-1.8	-1.8	-3.3	-1.7
<u>Change in nominal GDP (%)</u>	-0.8	-2.0	-3.0	-1.4	0.2	0.8	-0.2	-5.9	-1.9	*
GDP at current market prices (\$ billion)	1,260	1,235	298	306	325	331	298	288	319	330
GDP at constant (2000) market prices (\$ billion)	1,324	1,368	310	318	343	353	324	316	357	371
Changes in inventories at constant (2000) market prices (\$ billion)	3	9	-3	1	1	3	3	2	-2	6

Notes : (#) Revised figures.

(+) Preliminary figures.

(^) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(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.

(*) Change of less than 0.05%.

/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>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure ^(^)	0.6	-0.3	-0.7	-0.9	-0.1	-1.4	3.9	1.2
Government consumption expenditure	0.3	0.8	1.5	-2.0	1.0	0.1	1.3	3.0
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	4.8	5.1	5.3	3.1	3.4	1.9	1.7	6.5
Re-exports	5.8	6.0	6.1	3.8	4.0	2.3	1.4	7.0
Domestic exports	-3.2	-2.7	-2.4	-4.5	-3.0	-2.5	5.8	-0.3
Imports of goods ^(a)	3.8	7.7	5.0	1.8	3.0	1.1	2.4	7.5
Exports of services ^(^)	4.1	3.8	7.0	1.3	0.9	-19.7	33.5	2.2
Imports of services	2.8	-1.8	2.6	-0.4	-3.8	-17.8	27.8	2.9
Gross Domestic Product^(b)	0.1	1.9	2.1	0.9	-0.5	-2.6	6.6	1.5
<i>Change in the main price indicators (%)</i>								
GDP deflator	-0.6	-0.8	-1.1	-1.6	-1.3	-1.5	-1.3	-0.8
Composite Consumer Price Index^(c)	-1.1	-0.6	-0.7	-0.6	-0.1	-1.1	-1.9	0.8
Consumer Price Index (A) ^(c)	-0.6	-0.6	-0.7	-0.6	*	-0.5	-2.3	1.1

Notes : (#) Revised figures.

(+) Preliminary figures.

(^) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(*) 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.

/1.5

1.5 The *labour market* slackened distinctly along with the abrupt fall-off in economic activity caused by SARS during the first half of 2003, with deterioration in the employment situation being most distinct in the consumption and tourism-related sectors. Then, as the economy turned up again, employment and vacancies also revived steadily in the second half of the year. The seasonally adjusted unemployment rate, having leaped from 7.2% in the fourth quarter of 2002 to a high of 8.7% in May - July 2003, fell back visibly to 7.3% in the fourth quarter. The underemployment rate surged from 3.1% in the fourth quarter of 2002 to a high of 4.3% in the second quarter of 2003, as many employees in the SARS-affected sectors were temporarily suspended from work at that time. Yet it also fell back visibly, to 3.3% in the fourth quarter, as these employees generally resumed work and as the work intensity rose along with economic upturn. Labour earnings remained soft, falling by 1.8% in money terms in the third quarter of 2003 over a year earlier.

1.6 The *property market* had manifestly turned around in late 2003, after the languish performance earlier in the year. On residential property, trading activity plunged in the second quarter, but rebounded visibly in the latter part of the year amidst growing optimism for the economy. Flat prices showed a distinct upturn in the fourth quarter, while flat rentals seemed to have ceased to decline towards the end of the year. On commercial property, leasing of office space likewise rose back towards the year-end, along with a distinct pick-up in the prices for office space and a lesser decline in office rentals. As to the market for shopping space, amidst the bounce in both inbound tourism and local consumer spending, the pick-up later in the year was even more distinct, with prices lifted visibly and rentals bottoming out. On industrial property, demand remained generally weak, yet with keener interest in converting some of the existing industrial sites into hotel use.

/1.7

1.7 In the *financial market*, the spot exchange rate of the Hong Kong dollar against the US dollar persistently stayed on the strong side of the linked rate after September 2003, amidst strong fund inflow and keener demand for Hong Kong dollar. The spread of the twelve-month Hong Kong dollar forward rate against the spot rate also switched from premium to discount towards end-September 2003, and the discount widened in the fourth quarter. With ample liquidity in the local banking sector, the spread of the three-month HIBOR against the corresponding Euro-dollar deposit rate reversed from premium in the early part of 2003 to discount in the latter part of the year. As Hong Kong dollar loans fell while Hong Kong dollar deposits went up, there was a further marked decline in the loan-to-deposit ratio during the year.

1.8 The local *stock market* went through sharp swings during 2003. The Hang Seng Index, amidst the profound shock of SARS, plunged severely to a 4½-year low at 8 409 on 25 April. It bounced back visibly after mid-May, as the epidemic was progressively brought under control. Then it surged further to successive two-year highs towards the year-end. The upbeat market sentiment was boosted by the signing of CEPA, launch of the Individual Visit Scheme for Mainland visitors coming to Hong Kong, and rally in the US and regional stock markets. The Hang Seng Index reached a 28-month peak at 12 594 on 12 December, before closing 2003 at 12 576, up by 34.9% over end-2002. The average daily turnover in the local stock market also went markedly higher, from \$6.7 billion in 2002 to \$10.4 billion in 2003.

1.9 On *consumer prices*, the decline in the Composite Consumer Price Index continued in 2003, as local prices were kept down by the slack demand and profit margin squeeze especially during the course of the SARS threat, as well as by lower wages and rentals. The rates concession and waiver of water and sewage charges as the Government's relief measures also dragged down the CPI in the latter period. Yet as the downward effect from the relief measures was lessened, and as price discounts and other concessions on many of the consumer items were reduced along with steadily improving demand, the year-on-year decline in the Composite CPI narrowed appreciably to 2.3% in the fourth quarter of 2003, having widened from 2.0% in the first quarter to 2.5% and 3.6% respectively in the second and third quarters. Also relevant to the narrowed decline was firmer prices of retained imports amidst a weaker US dollar and uptrend in world commodity prices. For 2003 as a whole, the Composite CPI fell by 2.6%, modestly smaller than the 3.0% decline in 2002.

/1.10

1.10 Yet the *GDP deflator*, as a broad measure of overall price change in the economy, had a more pronounced decline, by 5.1% in 2003, as against a 3.0% decrease in 2002. This was due in large part to a continued drag from deterioration in the terms of trade upon further weakening in the US dollar, aside from downward price pressure in the domestic sector especially amidst the SARS impact. The respective year-on-year declines in the four quarters of 2003 were 4.6%, 5.4%, 5.7% and 4.8%. Taking the GDP growth in real terms and the decline in the GDP deflator together, *nominal GDP* still had a 2.0% decline for 2003 as a whole, after a 0.8% slip in 2002.

1.11 Statistics on the *Gross National Product (GNP)*⁽⁶⁾ are available up to the third quarter of 2003. Both external factor income inflow and outflow fell further in the third quarter of 2003 over a year earlier. This was partly attributable to a further fall-off in interest income into and out of Hong Kong amidst a low interest rate environment globally. Balancing these flows, there was a net inflow of external factor income amounting to 1.8% of GDP in the third quarter of 2003. Adding this net inflow to GDP gives GNP, which picked up to a notable growth at 4.4% in real terms in the third quarter of 2003 over a year earlier, having slowed markedly in growth from 7.3% in the first quarter to 0.4% in the second quarter. Such a profile was broadly in line with that for GDP over the same period. For the first three quarters of 2003 as a whole, GNP went up by 4.1% in real terms over a year earlier, visibly faster than the 0.4% rise in 2002.

1.12 Within external factor income, net direct investment income outflow fell in the third quarter of 2003 over a year earlier, largely due to decreased earnings of some prominent multinational enterprises from investment in Hong Kong. Net portfolio investment income inflow declined, on account of increased dividend pay-outs by resident companies to foreign investors. Net income inflow on other investment likewise shrank, upon a greater reduction in interest income from loans and deposits placed abroad by local banks.

/Table 1.3

Table 1.3**Gross National Product and external factor income flows**

	<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>	<u>Q2</u>	<u>Q3</u>
<i>Year-on-year rate of change in money terms (%)</i>									
Total external factor income flow ^(a)									
Inflow	-7.7	-12.4	-16.5	-23.7	-7.7	3.0	-2.1	-9.0	-11.8
Outflow	-13.1	-6.7	-12.4	-18.8	3.5	5.9	-13.1	-11.9	-13.6
Net external factor income flow at current market prices (\$ billion)	41	17	8	-1	5	5	16	2	6
GDP at current market prices (\$ billion)	1,270 (-1.4)	1,260 (-0.8)	298 (-3.0)	306 (-1.4)	325 (0.2)	331 (0.8)	298 (-0.2)	288 (-5.9)	319 (-1.9)
GNP at current market prices (\$ billion) ^(b)	1,311 (0.1)	1,276 (-2.6)	306 (-4.6)	305 (-3.4)	329 (-2.9)	336 (0.2)	314 (2.5)	290 (-5.1)	324 (-1.5)
<i>Year-on-year rate of change in real terms (%)</i>									
Gross National Product	2.0	0.4	-2.3	-1.2	0.2	4.6	7.3	0.4	4.4

Notes : (#) Revised figures.

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

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

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

/The

The external sector

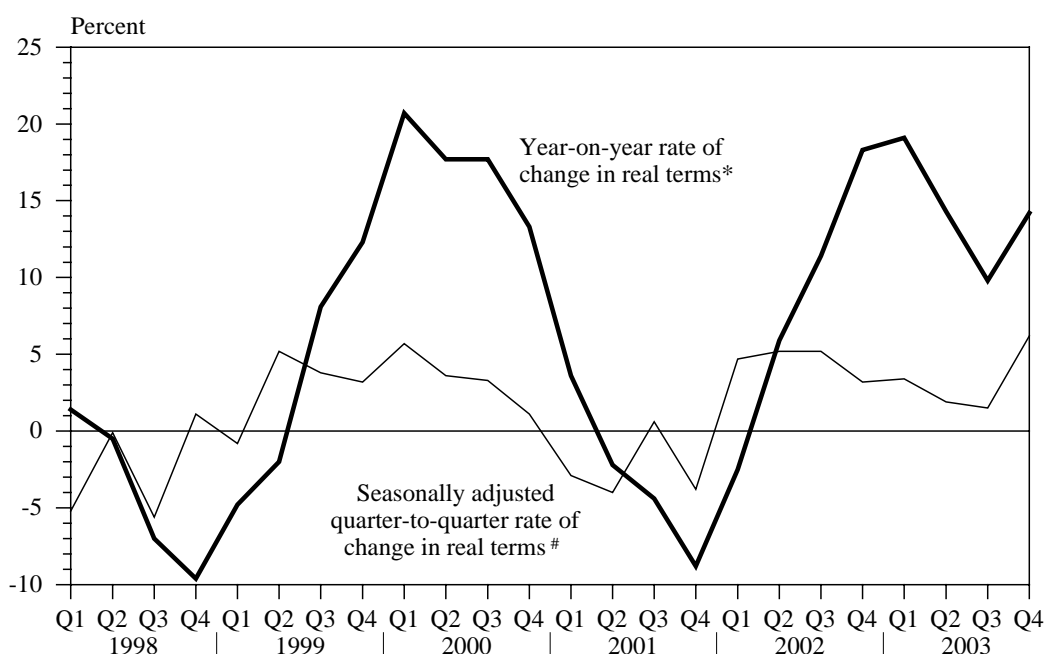
1.13 According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) picked up distinctly further to a 14.0% surge in real terms in 2003, further up from the already notable growth of 8.6% in 2002. Total exports of goods were buoyant all through the year, with year-on-year increases by 19.1%, 14.3%, 9.8% and 14.2% respectively in real terms in the four quarters. This strong performance had benefited much from the generally improved global economic environment during the year, enhanced price attractiveness of Hong Kong's exports stemming from the exchange rate movements and the domestic cost adjustments, as well as ascending competitiveness of Mainland products as the main source of Hong Kong's re-exports to the overseas markets. The war on Iraq and the outbreak of SARS had inflicted only brief and limited impact on Hong Kong's exports. The growth in exports in the third and fourth quarters remained distinct even upon a higher base of comparison in the same period a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rose further by 3.4%, 1.9% and 1.5% respectively in real terms in the first three quarters of 2003, and then picked up more sharply to a 6.2% increase in the fourth quarter (paragraph 2.7).

1.14 *Re-exports* remained the key driver of growth, surging by 16.1% in real terms in 2003, considerably up from the already distinct growth at 10.9% in 2002. There was double-digit growth in all four quarters of 2003, with increases by 22.3%, 17.0%, 11.3% and 15.4% respectively in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, re-exports likewise rose further, by 4.0%, 2.3% and 1.2% respectively in real terms in the first three quarters of 2003, and then likewise picked up more sharply, to a 6.7% increase in the fourth quarter (paragraph 2.8).

/Diagram 1.2

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.

1.15 On the other hand, the on-going structural shift towards re-exports and offshore trade continued to hold down *domestic exports*, which plunged further by 7.4% in real terms in 2003, though narrowed from the 11.3% shrinkage in 2002. The year-on-year declines were particularly marked in the first and second quarters of 2003, by 12.0% and 12.6% respectively in real terms, then narrowed to 5.4% and 0.4% in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further by 3.0% and 2.5% respectively in real terms in the first and second quarters of 2003, before turning up to increase by 5.6% in the third quarter, and then falling back slightly by 0.2% in the fourth quarter (paragraph 2.9).

/1.16

1.16 Total exports of goods to *East Asia* as a whole were buoyant throughout the year, picking up further to pronounced growth at 20.9% in real terms in 2003, from a 13.4% growth in 2002. The strong growth impetus was again led by vibrant exports to the Mainland, which maintained highly robust growth all through the year. Exports to Japan, the Republic of Korea, Singapore, Taiwan and Indonesia registered double-digit growth of various magnitudes. On the other hand, exports to Malaysia and Thailand eased back in growth, after the sharp increases in the preceding year. Total exports of goods to *North America* fell by 1.4% in real terms in 2003, having risen moderately by 3.9% in 2002. Exports to North America were also robust early in the year, but the growth momentum ran out of steam after the first quarter, along with a distinct deceleration in US import intake in around the middle of the year. Conceivably, there was some cut-back in orders at a time when the war tension in Iraq loomed high. In addition, the increasing tendency for finished products to be shipped out directly from the Shenzhen ports after outward processing in South China also weighed down Hong Kong's exports to this region. Total exports of goods to the *European Union* surged by 14.1% in real terms in 2003, in contrast to the 0.4% decline in 2002. Enhanced price attractiveness of Hong Kong's exports brought about by the strength of the euro seemed to have outweighed the sluggishness in domestic demand in this region (paragraphs 2.16 to 2.18).

1.17 *Imports of goods* were likewise robust, leaping by 12.8% in real terms in 2003, also distinctly up from the 7.8% increase in 2002. Imports of goods had the most distinct growth in the first quarter of 2003, at 18.7% in real terms over a year earlier. Growth was still robust in the second quarter, at 10.6%, upon the continued strength in re-export trade and even with the spread of SARS severely dampening import intake for local use. With the moderation in re-export growth in the third quarter partly offset by a revival in import intake for local use, imports of goods grew by 7.9% in the third quarter. This was followed by a much faster growth at 15.0% in the fourth quarter, as re-exports re-accelerated while import intake for local use picked up sharply. As to the growth profile in imports for local use, *retained imports* surged by 11.5% in real terms in the first quarter of 2003 over a year earlier, but tumbled to a 1.9% decline in the second quarter upon the profound impact of SARS. Then, along with the progressive recovery in domestic demand, retained imports turned up mildly to a 0.6% increase in the third quarter and surged further by 14.1% in the fourth quarter. For 2003 as a whole, retained imports attained a 5.8% growth in real terms, up from the 1.8% increase in 2002. On a seasonally adjusted quarter-to-quarter comparison,

/imports ...

imports of goods rose by 2.9% in real terms in the first quarter of 2003, yet moderating to a 0.9% increase in the second quarter, before picking up again to increases by 2.6% and 7.0% respectively in the third and fourth quarters. Retained imports had a broadly parallel profile during the year, initially rising by 0.4% in real terms in the first quarter of 2003, then falling back by 2.1% in the second quarter, before surging by 6.0% and 7.9% respectively in the third and fourth quarters (paragraph 2.10).

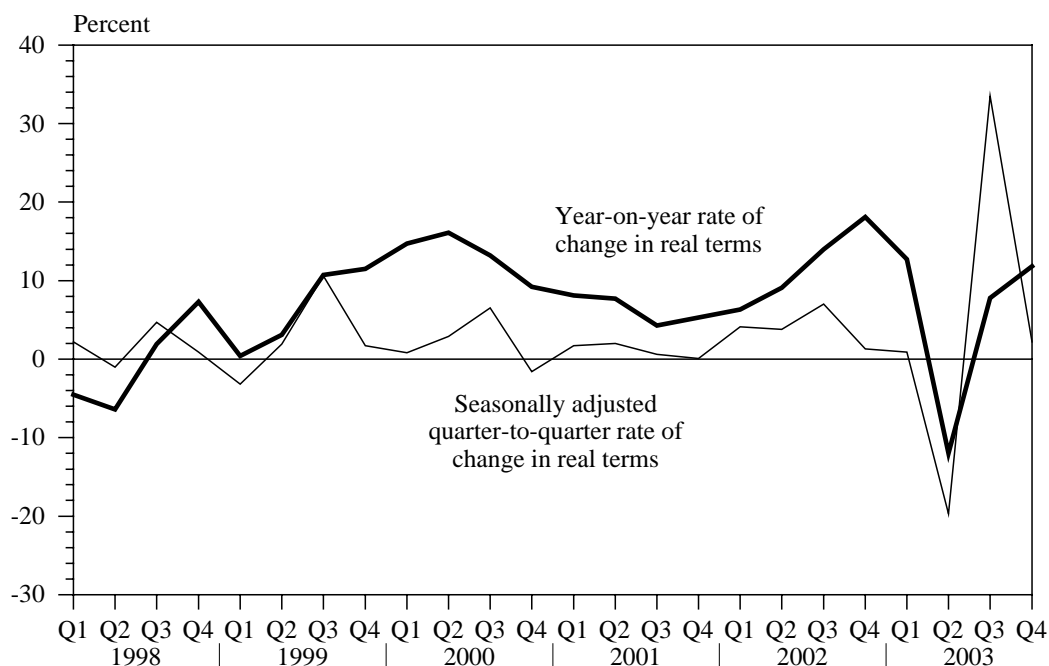
1.18 With the increase in value of imports of goods exceeding that of total exports of goods, the *visible trade deficit* reckoned on a GDP basis widened in absolute terms, to \$45.0 billion or 2.5% of the value of imports of goods in 2003, from \$39.4 billion or 2.5% in 2002 (paragraph 2.11).

1.19 On invisible trade, the strong growth momentum in *exports of services* in the first quarter of 2003 was dented severely by the spread of SARS in Hong Kong in the second quarter. Yet with a swift rebound in the third quarter and a further pick-up in the fourth quarter, exports of services still attained appreciable growth at 5.5% in real terms in 2003, albeit milder than the 12.2% surge in 2002. On a year-on-year comparison, exports of services soared by 12.7% in real terms in the first quarter of 2003, before falling abruptly by 12.0% in the second quarter as inbound tourism and related business plummeted upon the SARS impact. As such business rebounded strongly thereafter, exports of services resumed growth, rising by 7.8% in the third quarter, and then distinctly more by 11.8% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, exports of services still rose by 0.9% in real terms in the first quarter of 2003, before plummeting by 19.7% in the second quarter. A sharp turnaround ensued, with a 33.5% surge in the third quarter and a further 2.2% increase in the fourth quarter (paragraph 2.12).

/Diagram 1.3

Diagram 1.3

Exports of services



1.20 *Imports of services* were likewise severely affected by SARS in the second quarter. Even with the subsequent rebound, imports of services still fell by 4.4% in real terms in 2003, following a meagre 0.2% rise in 2002. On a year-on-year comparison, imports of services shrank by 3.9% and 19.6% respectively in real terms in the first and second quarters of 2003, before turning up to increase by 0.5% and 4.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services slipped by 3.8% in real terms in the first quarter of 2003 and then slumped by 17.8% in the second quarter, before rebounding strongly by 27.8% in the third quarter and rising further by 2.9% in the fourth quarter (paragraph 2.13).

1.21 As exports of services rose while imports of services declined, the *invisible trade surplus* reckoned on a GDP basis rose further to \$161.1 billion or 85.1% of the value of imports of services in 2003, from \$144.5 billion or 74.7% in 2002. This more than offset the enlarged visible trade deficit to yield a combined surplus of \$116.1 billion in 2003, equivalent to 5.9% of the total value of imports of goods and services in that year, as compared to \$105.1 billion or 5.9% in 2002 (paragraph 2.14).

/Domestic

Domestic demand

1.22 Local consumer spending suffered a severe blow in the second quarter of 2003 upon the spread of SARS, as many people avoided going to the busy shopping areas for fear of being contracted. Then, with the epidemic brought under control, local consumer spending revived progressively in the third quarter, followed by an even more visible pick-up in the fourth quarter. Coupling this revival with the strong resurgence in inbound tourism, the volume of *retail sales* turned up to increase by 1.2% in the third quarter of 2003 over a year earlier, and rose more distinctly by 5.2% in the fourth quarter, in contrast to the decreases by 0.8% and 7.7% in the first and second quarters. For 2003 as a whole, the volume of retail sales still went down marginally by 0.6%, yet this already represented a noticeable improvement from the 2.6% decrease in 2002. The rebound in retail sales towards the year-end was rather broad-based, with significant double-digit increases in sales of high-value items such as electrical goods and photographic equipment, and furniture. This apart, sales of the more regular items such as food, alcoholic drinks and tobacco, and clothing and footwear also turned up. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales increased by 1.0% in the first quarter of 2003, slipped to a 7.5% plunge in the second quarter, and then bounced back to notable increases by 8.4% and 3.9% respectively in the third and fourth quarters.

1.23 *Private consumption expenditure (PCE)* likewise exhibited a distinct turnaround after the waning of SARS. On a year-on-year comparison, PCE fell by 1.8% and 3.5% respectively in real terms in the first two quarters of 2003, but rebounded to growth at 1.6% in the third quarter, the first increase since the fourth quarter of 2001. As consumer sentiment improved further in tandem with the upturn in the economy, rally in the local stock market and turnaround in the property market, growth in PCE accentuated to 3.6% in the fourth quarter. For 2003 as a whole, PCE showed virtually no change in real terms, having declined by 1.2% in 2002. The pick-up in consumer spending in late last year was manifested in all major consumer goods and services. On a seasonally adjusted quarter-to-quarter comparison, PCE fell by 0.1% and 1.4% respectively in real terms in the first two quarters of 2003, and then turned up to increases by 3.9% and 1.2% respectively in the third and fourth quarters.

/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	*	27
	Q1	-1.8 (2.1)	1	*	-2	2	-3	1	10
	Q2	-4.5 (-1.5)	*	-4	-8	3	-5	-1	26
	Q3	-3.0 (-1.4)	-1	*	-7	4	*	1	28
	Q4	-1.1 (0.1)	*	5	-4	3	-1	1	41
2003	Annual	-0.6	1	6	-4	1	-9	*	-5
	Q1	-0.8 (1.0)	1	5	-5	1	-8	*	20
	Q2	-7.7 (-7.5)	*	-1	-17	-4	-29	-8	-60
	Q3	1.2 (8.4)	*	6	1	3	-1	2	10
	Q4	5.2 (3.9)	2	13	4	4	*	4	13

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. The series has been revised, incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

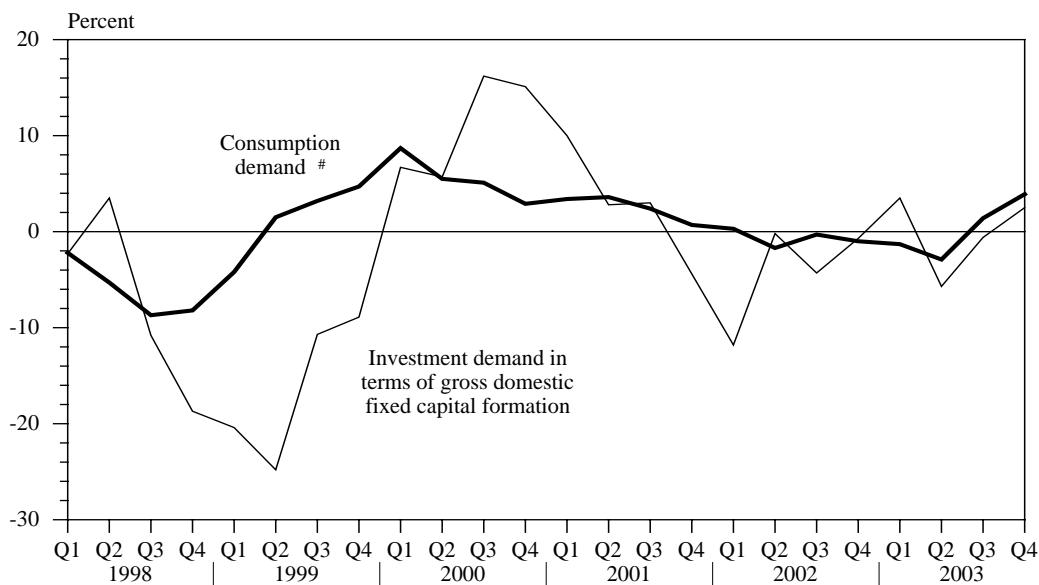
() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

(*) Change of less than 0.5%.

/Diagram 1.4

Diagram 1.4

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



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

1.24 Amidst the fiscal restraint, *government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁷⁾ registered only modest growth in the first three quarters of 2003, by 1.3%, 0.4% and 0.5% respectively in real terms over a year earlier. The growth then picked up to 5.6% in the fourth quarter. Yet this was partly due to lower base of comparison a year earlier. Also contributed were the one-off compensatory payments made to those Civil Servants retiring under the Second Voluntary Retirement Scheme. For 2003 as a whole, GCE grew by 1.9% in real terms, still slower than the 2.4% growth in 2002. On a seasonally adjusted quarter-to-quarter comparison, GCE rose throughout the four quarters of 2003, by 1.0%, 0.1%, 1.3% and 3.0% respectively in real terms.

1.25 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, regained some strength in the latter part of last year, after the setback amidst the SARS impact in the earlier months. GDFCF still grew by 3.5% in real terms in the first quarter of 2003 over a year earlier, but relapsed to a sharp decline by 5.7% in the second quarter as business conditions faltered upon the spread of SARS. Then, with the ensuing pick-up in economic activity, GDFCF had only a 0.6% fall in the third quarter, and rebounded to a

/2.5%

2.5% rise in the fourth quarter. For 2003 as a whole, GDFCF declined only marginally by 0.1% in real terms, visibly improved from the 4.3% dip in 2002.

1.26 There was renewed interest in acquisition of machinery and equipment during the year, except for a temporary relapse in the second quarter. On a year-on-year comparison, *expenditure on machinery, equipment and computer software* surged by 11.9% in real terms in the first quarter of 2003, fell by 2.0% in the second quarter, and then bounced back to distinct growth at 4.9% in the third quarter and 10.2% in the fourth quarter as business outlook brightened. Intake of several aircraft in the second half of the year had also helped. For 2003 as a whole, expenditure on machinery, equipment and computer software had an increase of 6.1% in real terms, in stark contrast to the 9.1% decrease in 2002.

1.27 On the other hand, building and construction output in overall terms remained subdued throughout the year. *Expenditure on building and construction* fell back by 6.9% in real terms in 2003, after a small increase by 1.2% in real terms in 2002. On a year-on-year comparison, the decreases were 3.5%, 8.4%, 6.7% and 9.3% respectively in real terms in the four quarters of 2003. The slump was mostly due to a distinct fall-off in private sector building work, despite a rise in consents for new building projects during the year. The increase in private sector civil engineering work during the year rendered only a marginal offset. Public sector expenditure on building and construction was also slack in the first half of the year, upon the winding down of work on the KCR West Rail and Ma On Shan Extension. Nevertheless, it regained some momentum in the second half of the year, upon commencement of several new infrastructural projects including the Hong Kong Section of Hong Kong-Shenzhen Western Corridor and Deep Bay Link.

1.28 *Inventories* went up further in the first and second quarters of 2003. Yet this was manifestly involuntary particularly for the second quarter, in face of an abrupt fall-off in demand upon the SARS impact. Following a moderate depletion in the third quarter, inventories were replenished distinctly in the fourth quarter, concurrent with a surge in import intake to meet the reviving demand. For 2003 as a whole, there was a net accumulation of inventories equivalent to 0.6% of GDP, up from that of 0.2% in 2002.

/Box 1.1

Box 1.1

GDP by income component

GDP is a measure of the total value of production of all resident producing units of an economy. GDP by income component shows how income generated by engaging in production is distributed to the main factors of production (viz. labour, and capital and entrepreneurship). There are two income components : compensation of employees and gross operating surplus.

Compensation of employees (CoE) refers to the total remuneration, in cash or in kind, payable by an establishment to an employee in return for the work done in the reference period. In other words, CoE measures the return to labour as a result of engaging in production. It comprises wages and salaries in cash; payments in kind (e.g. expenses by the employer incurred in providing housing, food and other welfare benefits to employees); and employer's social security expenditure (e.g. employer's share in the contributions to Mandatory Provident Fund schemes).

Gross operating surplus* (GOS) refers to the gross surplus or deficit of an establishment as a result of engaging in production of goods and services. In other words, GOS measures the return to capital and entrepreneurship as a result of engaging in production. It is represented by the value of goods and services produced (i.e. gross output) *less* the value of goods and services used in the production process (i.e. intermediate consumption) *less* compensation of employees.

Statistics on CoE and GOS are useful in analysing how changes in economic situation affect labour income and business profits. During the period from 1990 to 1997, CoE and GOS grew at average annual rates of 12.2% and 12.4% respectively in value terms, along with a 12.3% average annual growth in value terms in GDP at factor cost. As the overall economy expanded, both employees and entrepreneurs enjoyed growth in income.

Labour income and business profits however exhibited much volatility in the more recent years. In 1998 when GDP at factor cost declined by 4.9% in value terms as a result of the Asian financial crisis, GOS dropped significantly by 10.8% in value terms. This reflects that business profits are much more sensitive to changes in economic situation. On the other hand, CoE increased slightly by 0.7%. This shows that labour income is less sensitive to changes in economic situation. In 2000 when GDP at factor cost rebounded to growth at 4.3% in value terms, both CoE and GOS increased, by 3.9% and 4.9% respectively in value terms. The latest figures for 2002 indicate that CoE decreased by 2.1% while GOS increased by 1.0% in nominal terms.

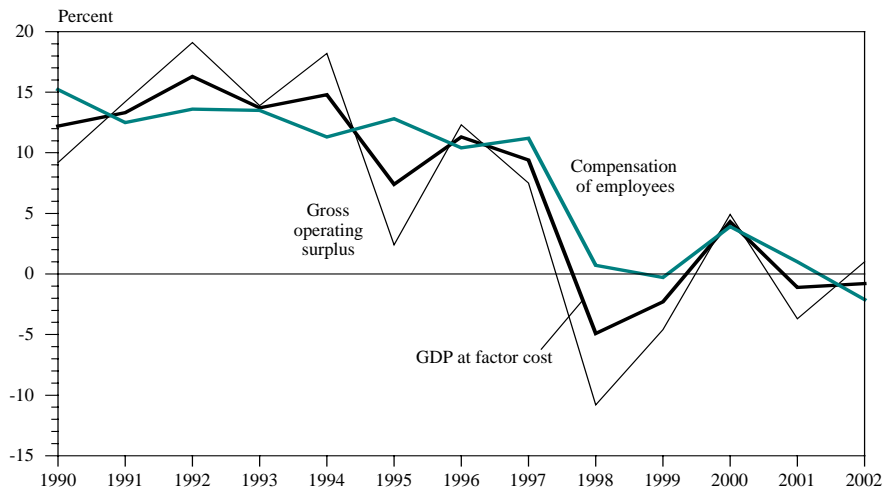
Note : (*) Gross operating surplus differs from profit in business accounting in the following aspects :

- (a) receipt from interests, dividends and other income from financial assets are not included in GOS;
- (b) interest charges, bad debt charges and payments on financial assets are not deducted from GOS;
- (c) depreciation of fixed capital is not deducted from GOS; and
- (d) profits tax is not deducted from GOS.

/Box 1.1 (cont'd)

Box 1.1 (cont'd)

Compensation of employees and gross operating surplus (rate of change in nominal terms)



CoE, GOS and GDP at factor cost

	<u>CoE</u>		<u>GOS</u>		<u>GDP at factor cost</u>	
	<u>\$Mn</u>	<u>% change in nominal terms</u>	<u>\$Mn</u>	<u>% change in nominal terms</u>	<u>\$Mn</u>	<u>% change in nominal terms</u>
1990	290,838	15.2	272,680	9.2	563,517	12.2
1991	327,165	12.5	311,441	14.2	638,606	13.3
1992	371,756	13.6	371,005	19.1	742,760	16.3
1993	421,883	13.5	422,439	13.9	844,322	13.7
1994	469,489	11.3	499,411	18.2	968,900	14.8
1995	529,546	12.8	511,526	2.4	1,041,072	7.4
1996	584,383	10.4	574,580	12.3	1,158,963	11.3
1997	649,905	11.2	617,584	7.5	1,267,489	9.4
1998	654,417	0.7	550,932	-10.8	1,205,349	-4.9
1999	652,199	-0.3	525,597	-4.6	1,177,796	-2.3
2000	677,316	3.9	551,581	4.9	1,228,897	4.3
2001	684,369	1.0	530,985	-3.7	1,215,354	-1.1
2002	669,757	-2.1	536,179	1.0	1,205,937	-0.8

/Implications

Implications of the preliminary GDP figures for the economy

1.29 *Nominal GDP* fell further, by 2.0% to \$1,235 billion in 2003, following a 0.8% decrease in 2002. This was due to a more pronounced fall in overall prices as reflected by the GDP deflator, more than offsetting the rise in real GDP. On a year-on-year comparison, nominal GDP fell slightly by 0.2% in the first quarter of 2003, and more significantly by 5.9% in the second quarter upon the SARS impact. It then showed a much narrowed decline by 1.9% in the third quarter, followed by virtually nil change in the fourth quarter.

1.30 *Per capita GDP* rose by 3.1% in real terms in 2003, up from the 1.3% rise in 2002. Yet with a larger decline in the overall price level as measured by the GDP deflator, per capita GDP was still down by 2.2% in nominal terms to \$181,500 in 2003. This came after a 1.7% fall in 2002.

1.31 *Total final demand*, excluding re-exports but with the re-export margin retained, grew by 3.3% in real terms in 2003, representing a further improvement from the 1.9% increase in 2002. It was in line with the 3.3% growth in real terms in aggregate supply as denoted by GDP.

1.32 The growth in total final demand last year was mainly propelled by a further pick-up on the external front. After an already distinct growth at 9.3% in 2002, *external demand* surged even more, by 12.7% in real terms in 2003. This in turn was underpinned by double-digit increase in exports of goods for the year as a whole, as well as by a strong resurgence in exports of services in the second half of the year. As to *domestic demand*, having declined by 1.1% in 2002, it also revived visibly, to a 0.6% growth in real terms in 2003. There was a pick-up in both consumption and investment demand in the second half of the year, particularly so in the fourth quarter. Within the total, *private sector demand* rebounded to a modest increase by 0.5% in real terms in 2003, from a 1.5% decrease in 2002, while *public sector demand* continued to rise moderately, by 1.6% in real terms in 2003, after a 1.0% increase in 2002.

/Box 1.2

Box 1.2

Reconciliation between government operating expenditure in the fiscal accounts and government consumption expenditure in the national accounts

In the context of fiscal accounts, government expenditure records the cash outlays of the government through a number of accounts and funds for financial control and funding purposes. Total government expenditure covers operating expenditure (including recurrent expenditure and subventions) under the General Revenue Account, and capital expenditure and equity investments.

In the context of national accounts, government consumption expenditure (GCE) is the value at cost for goods and services provided by the government. It comprises recurrent expenditure by way of compensation of employees and purchases of government departments which are not engaged in market activities as well as quasi-government non-profit institutions (e.g. Consumer Council, Hospital Authority). GCE does not cover the expenditure of government units which are engaged in market activities to produce goods and services principally for sale to the public (e.g. Post Office, Water Supplies Department). Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditure is in the nature of transfer payments. In compiling GCE, sales receipts for goods and services provided by the government (e.g. medical charges for out-patients of public clinics, ticket receipts from recreational and cultural programmes organised by government units) are deducted because such expenditures incurred by households are covered in private consumption expenditure.

While both GCE and government expenditure are based on the same data source of government accounts, the two sets of figures are not directly comparable because they are different in coverage and are also compiled for different purposes. While GCE is geared to individual (e.g. education, medical services) and collective (e.g. security) consumption of goods and services provided by the government, government expenditure pertains to cash outlays of the government.

As an illustration, the following table broadly reconciles government operating expenditure (in the fiscal accounts) and government consumption expenditure (in the national accounts) for the financial year 2002-03 :

		<u>\$Bn</u>
	Operating expenditure (under the General Revenue Account)	200.3
<i>Less</i>	Expenditure of government units engaged in market activities, subventions and capital purchases	(115.7)
<i>Plus</i>	Recurrent purchases in the Capital Works Reserve Fund (e.g. minor maintenance expenditure)	3.4
<i>Equal</i>	Consumption expenditure of government units	88.0
<i>Plus</i>	Recurrent expenditure of quasi-government non-profit institutions	40.5
<i>Plus</i>	Imputed expenditure*	11.2
<i>Less</i>	Sales	(8.9)
<i>Equal</i>	Government consumption expenditure	130.8

Note : (*) Refers to the imputed value of rental services for the quarters and offices owned and occupied by the Government.

/The

The Government account

1.33 According to the cash-based Consolidated Government Accounts⁽⁸⁾ for the financial year 2003/04, the revised estimate of *government revenue* stands at \$203.8 billion, up by 14.2% in money terms from the outturn of \$178.4 billion in the financial year 2002/03. Within the total for the financial year 2003/04, revenue from profits tax bounced back significantly, as business profits in 2002/03 generally improved over 2001/02, and as a higher tax rate was charged in respect of provisional profits tax for 2003/04. Revenue from stamp duties leaped, upon a surge in transactions in both the stock and property markets in the latter part of 2003 and the early part of 2004. Revenue from general rates in 2003/04 bounced up from the low base in 2002/03 brought about by the rates concession granted for the entire year of 2002, even though there was a temporary dip in the July-September 2003 quarter brought about by another rates concession to tide over the SARS impact. Concurrently, revenue from business registration, estate duty, as well as bets and sweeps tax rose back by various magnitudes. These more than offset a visible decrease in revenue from salaries tax and personal assessment, mainly on account of a \$2.3 billion salaries tax rebate granted in July 2003 under the package of relief measures to tide over the SARS impact.

1.34 The revised estimate of *government spending* in the financial year 2003/04 stands at \$252.9 billion, up by 5.3% in money terms from the outturn of \$240.1 billion in the financial year 2002/03. Within this total, operating expenditure rose by 3.2% to \$206.7 billion, including the extra expenditure incurred to re-vitalise the economy and to provide additional employment and training opportunities after the SARS impact. Capital spending surged by 15.9% to \$46.1 billion, mainly reflecting increased allocation to the Capital Works Reserve Fund and Capital Investment Fund.

1.35 The revised estimate of *fiscal balance* gives a deficit of \$49.0 billion in the financial year 2003/04, equivalent to 4.0% of GDP. These were narrowed appreciably from the corresponding deficit figures of \$61.7 billion and 4.9% in the financial year 2002/03. The improvement was helped by the progressive upturn in the economy and the asset markets since the middle of last year, as well as by a significant gain in investment income, which more than offset the decrease in revenue and increase in spending arising from the two packages of relief and support measures announced in April and June 2003 to tide over the SARS impact.

/The

The property market

1.36 The property market as a whole showed a significant turnaround in the later months of 2003. The markets for residential property and shopping space improved distinctly in the second half of the year. This occurred in tandem with better performance of the overall economy and rally in the stock market. The signing of CEPA in June and implementation of the Individual Visit Scheme for Mainland visitors to Hong Kong in July provided further support. The market for office space also showed some improvement towards the end of the year (paragraph 3.9).

1.37 The sales market for *residential property* picked up in the second half of 2003, having remained sluggish in the first half of the year. This was supported by a distinct improvement in the outlook for the economy, following the signing of CEPA and implementation of the Individual Visit Scheme, and amidst a more sanguine global economic environment. Developers actively resumed sales in the primary market as the SARS impact waned, and the sales were generally met with a good response. Hence many developers had proceeded to reduce or withdraw the price discounts and other concessions offered earlier. Moreover, there was a notable revival in activity in the secondary market. Flat prices bottomed out in the third quarter, and rebounded visibly in the fourth quarter. In the luxury end of the market, strong buying interest emerged in the latter part of the year, leading to a more pronounced rebound. Purportedly, the Government's new policy measure to attract investment immigrants to Hong Kong rendered some lift to this segment (paragraph 3.10).

1.38 On a quarter-to-quarter comparison, flat prices on average decreased by 4%, 5% and 1% respectively in the first three quarters of 2003, before increasing distinctly by 8% in the fourth quarter. For 2003 as a whole, flat prices on average fell by 2%, much narrowed from the 12% fall in 2002. Compared with the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2003 remained substantially lower, by an average of 62%. In the first half of 2003, with flat prices still falling and with the mortgage rate staying at a low level, and notwithstanding reduced household income, home purchase affordability improved further, after the substantial improvement over the past several years. Yet in the second half of the year, the distinct rebound in flat prices led to some reduction in home purchase affordability (paragraph 3.11).

/1.39

1.39 As to the rental market for residential property, leasing activity likewise turned more active in the second half of 2003, after remaining quiet in the first half of the year. Flat rentals had tended to stabilise in the fourth quarter. On a quarter-to-quarter comparison, private housing rentals on average declined by 3%, 4% and 2% respectively in the first three quarters of 2003, yet showed little change in the fourth quarter. For the year as a whole, there was on average a fall of 9%, also narrowed from the 14% fall in 2002. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2003, by an average of 48%. Mainly as a result of the marked decline in flat rentals, lease affordability likewise improved over the past few years (paragraph 3.12).

1.40 On *commercial property*, the rental market for *office space* weakened further during most of 2003, yet turned more active in the rest of the year. The abundant supply of new and existing office space, coupled with the SARS impact, exerted much downward pressure on rentals in the first half of the year. Yet after the waning of SARS, such downward pressure on rentals tended to lessen in the second half. With rentals for Grade A office space having fallen to a more attractive level and with an upturn in business sentiment, leasing demand for office space strengthened somewhat more recently. Also, more tenants were willing to relocate their offices from buildings which were older or in secondary locations to better ones. As to the sales market, investor interest was rekindled markedly in the second half of the year, stimulated in part by the signing of CEPA in June and perhaps more so by the better economic outlook. The rental market for *shopping space*, having been hard hit by the spread of SARS in the second quarter of 2003, generally revived in the second half of the year. This was supported by the pick-up in local consumer demand, as well as in inbound tourism following initiation of the Individual Visit Scheme in July. Yet there was a mixed performance amongst different retail premises amidst the revival, depending on location and management quality. Retail premises in popular locations and in better-managed shopping malls had been faring much better. The sales market showed a more distinct improvement, as investor interest became much keener in the second half of the year. There were reportedly a number of transactions involving short-term re-sale with profits (paragraphs 3.16 and 3.17).

1.41 On *industrial property*, the rental market remained generally weak in 2003. Demand for conventional factory space continued to be undermined by the

/further

further contraction in local manufacturing activity. Modern industrial premises that could be used as back-up service centres also faced competition from office space in the fringe areas, as rentals for such office space fell to an even lower level. As to the sales market, support came mainly from projects involving the conversion of industrial sites to hotel use, amidst the rebound in inbound tourism (paragraph 3.18).

1.42 *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, went up by 23% in 2003, after a marginal decrease by 1% in 2002. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property surged by 69% in terms of units or by 31% in terms of total usable floor area in 2003, reversing the corresponding decreases of 35% and 21% in 2002. On the other hand, planned developments of commercial property plummeted by 45% in 2003, after a 38% increase in 2002. Planned developments of industrial property plunged by 99% in 2003, having risen by 134% in 2002 over a low base. Planned developments of property in the “others” category soared by 306% in 2003, following a 46% increase in 2002, mainly due to a surge in hotel projects (paragraph 3.22).

The labour market

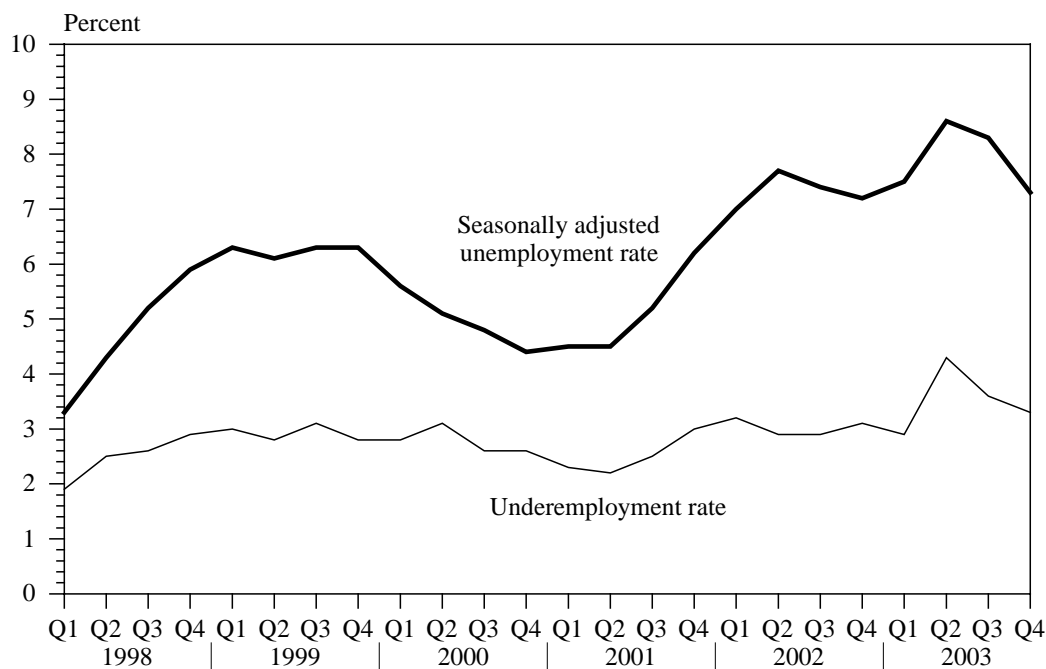
1.43 Though still slack in overall terms towards the year-end, the labour market showed a progressive turnaround in the second half of 2003, from the distinct setback in the first half of the year, mostly in the second quarter. Indicating this, the *seasonally adjusted unemployment rate* rose from 7.2% in the fourth quarter of 2002 to 7.5% in the first quarter of 2003, and sharply further to 8.6% in the second quarter and then to a peak of 8.7% in May - July, consequential to an abrupt downturn in the economy under the impact of SARS. Nevertheless, as overall economic activity and in particular inbound tourism and local consumer spending bounced up after SARS waned, the seasonally adjusted unemployment rate fell back to 8.3% in the third quarter and markedly further to 7.3% in the fourth quarter. For 2003 as a whole, the unemployment rate averaged at 7.9%, which however was still appreciably above that in 2002, at 7.3%. Furthermore, there was a clear lengthening in the median duration of unemployment, from 90 days in the fourth quarter of 2002 to 109 days in the fourth quarter of 2003, as well as a surge in the proportion of persons unemployed for six months or more, from 30% to 36% (paragraph 5.1).

/1.44

1.44 The *underemployment rate* exhibited a broadly parallel profile. It soared to a peak of 4.3% in the second quarter of 2003, after a modest decline from 3.1% in the fourth quarter of 2002 to 2.9% in the first quarter of 2003. Conceivably, this was due to a considerable proportion of employees having been temporarily suspended from work or asked to take no-pay leave during the SARS period. Yet as SARS waned and the affected employees gradually returned to their jobs, the underemployment rate came down again, to 3.6% in the third quarter and further to 3.3% in the fourth quarter. For 2003 as a whole, the underemployment rate averaged at 3.5%, which however was also appreciably higher than that in 2002, at 3.0% (paragraph 5.2).

Diagram 1.5

Unemployment and underemployment rates



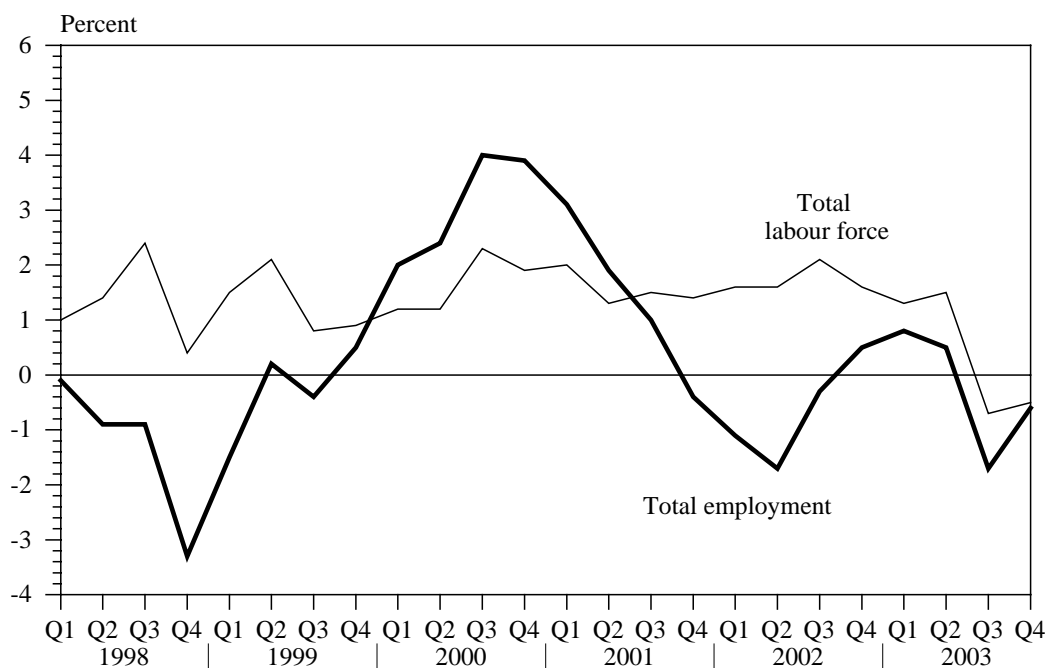
1.45 On a quarter-to-quarter comparison, *total employment* as enumerated from households went up by 1.3% in the fourth quarter of 2003, reversing the downtrend seen earlier in the year. Employment gain was most appreciable in the import/export trade, backed by the robust performance of external trade. More appreciable increases in employment were also observed in the retail trade, restaurants, hotels, transport, and amusement and recreational services, along with the surge in inbound tourism and revival in local consumer spending, as well

/as

as in real estate and in decoration and maintenance, in line with a more active property market. On the other hand, *total labour force* shrank for most of the year. On a quarter-to-quarter comparison, there was a slight decrease by 0.1% in the fourth quarter of 2003. This was attributable entirely to a fall in the labour force participation rate, especially that for younger persons aged 15-29 and middle-aged males at 40-49. As the gain in total employment went together with a contraction in total labour force, this led to an improvement in the overall manpower resource balance and hence a drop in unemployment rate towards the end of the year. On a year-on-year comparison, total employment and total labour force had broadly similar decreases, by 0.6% and 0.5% respectively in the fourth quarter of 2003. This contrasted with the situation in the preceding three quarters, when total employment either rose more slowly than or fell by more than total labour force, by 0.8%, 0.5% and -1.7% as against 1.3%, 1.5% and -0.7% (paragraph 5.4).

Diagram 1.6

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



/1.46

1.46 Labour income in money terms continued to ease. On a year-on-year comparison, *labour earnings* fell by an average of 2.1% in money terms in the first three quarters of 2003, with a more distinct fall in the second quarter under the SARS impact. This came after the 1.1% decline in 2002. Yet netting out the decrease in consumer prices as measured by the Composite CPI, labour earnings still registered a modest gain by an average of 0.6% in real terms in the first three quarters of 2003. This however was less than the 2.0% gain in 2002. On a year-on-year comparison, *labour wages* were also reduced by an average of 2.1% in money terms in the first nine months of 2003, with a more distinct fall towards mid-year under the SARS impact. This followed a 1.0% decline in 2002. Netting out the fall in consumer prices as measured by the CPI(A), labour wages likewise edged up, by an average of 0.3% in real terms in the first nine months of 2003. Yet this was likewise lesser than the 1.3% increase in 2002 (paragraph 5.5).

Prices

1.47 Overall consumer prices, whilst kept coming down for the fifth consecutive year since late 1998, had a smaller decrease in 2003 than in 2002. The moderation in price decline took place in the first and fourth quarters of 2003, outweighing the accentuated falls in the second and third quarters, which were mainly brought about by first, the severe blow of SARS on consumer demand, and then, by the special relief measures granted by the Government to alleviate the SARS impact. The moderation was more appreciable towards the year-end, when both property rentals and labour wages tended to stabilise amidst the generally improved economic conditions. Also, in face of the surge in inbound tourism and revival in local consumer spending, some of the local retailers and service providers reduced the price discounts and other concessions on their goods and services, and some others even raised the prices modestly. A rebound in the prices of retained imports over the past year, amidst a weaker US dollar and uptrend in world commodity prices, should have contributed as well (paragraph 6.1).

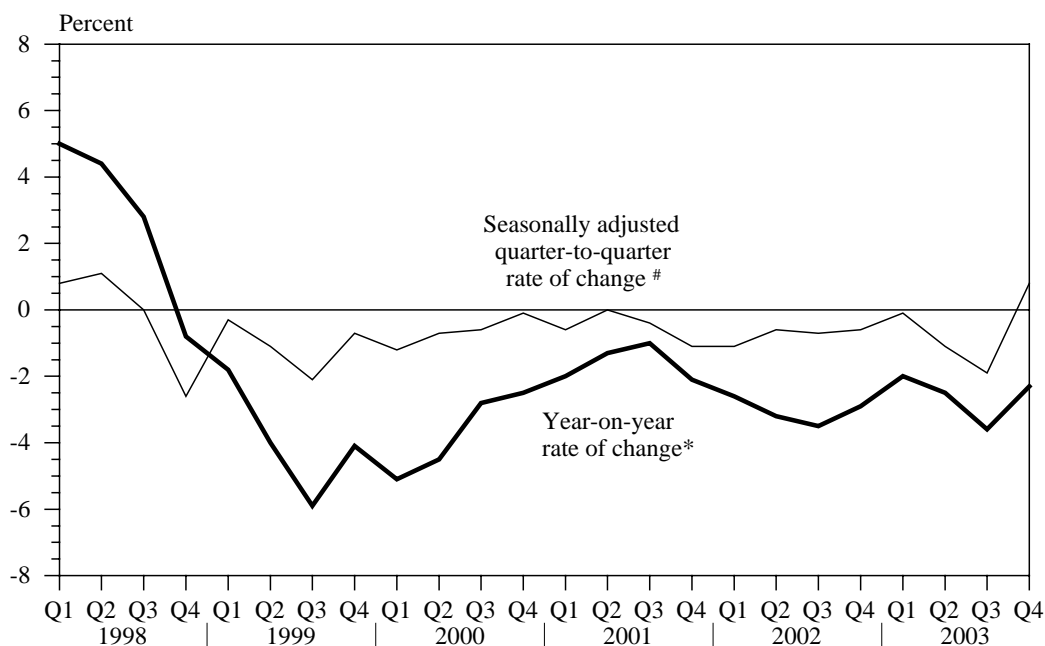
1.48 For 2003 as a whole, the *Composite Consumer Price Index* went down by 2.6%, smaller than the 3.0% decline in 2002. The year-on-year decrease actually narrowed to 2.0% in the first quarter of 2003, from 2.9% in the fourth quarter of 2002, although this was largely attributable to a low base of comparison owing to the rates concession by the Government in 2002. The decrease then widened to 2.5% in the second quarter under the impact of SARS,

/and

and further to 3.6% in the third quarter on account of the new rates concession as well as the waiver of water and sewage charges granted as relief measures by the Government. The decrease narrowed again, to 2.3% in the fourth quarter, upon firming up in retail prices of some of the goods and services, and lapse of the special relief measures (paragraph 6.2).

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.

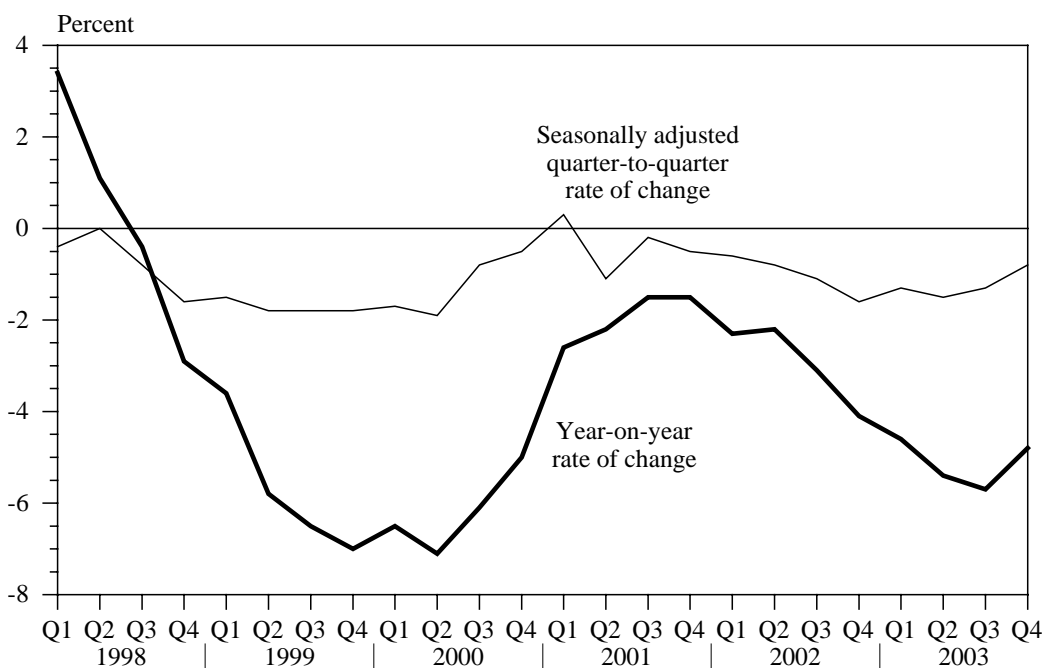
(#) From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Composite CPI are computed from the new 1999/2000-based series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based series. Splicing has been applied to the indices to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

/1.49

1.49 The *GDP deflator*, as a broad measure of overall price change in the economy, dipped by 5.1% in 2003, larger than the 3.0% decrease in 2002. Yet the year-on-year decline in the fourth quarter of 2003, by 4.8%, was narrowed from the widening declines in the second and third quarters, by 5.4% and 5.7% respectively. The larger fall in the GDP deflator in 2003 than in 2002 was mainly attributable to a worsening in the terms of trade in goods and services as well as accentuated decline in the price deflator for government consumption expenditure, which more than offset moderated decline in the price deflators for gross domestic fixed capital formation and private consumption expenditure. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* nevertheless had lesser decreases in 2003 than in 2002, by 3.8% and 2.4% respectively as against 4.5% and 3.5%. On a seasonally adjusted quarter-to-quarter comparison, the decline in the GDP deflator moderated in the latter part of the year, to 1.3% in the third quarter of 2003 and further to 0.8% in the fourth quarter, having accentuated from 1.3% in the first quarter to 1.5% in the second quarter (paragraph 6.18).

Diagram 1.8

GDP deflator



/The

The financial sector

1.50 The spot *exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate up to late September 2003, but strengthened visibly since then. It reached a high of 7.712 on 7 October, before easing back to 7.763 at the end of the year. The spread of the twelve-month Hong Kong dollar forward rate above the spot rate widened briefly to 355 pips (each pip equivalent to HK\$0.0001) in late April, amidst concern about the adverse impact of SARS on the economy, but soon narrowed back as SARS was brought under control. The premium switched into a discount as from late September, initially being influenced by increased speculation for revaluation of the renminbi and later under strong inflow of funds. The discount widened to 595 pips at end-2003, in contrast to a premium of 169 pips at end-2002 (paragraph 4.2).

1.51 Under the linked exchange rate system, movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. During 2003, the US dollar weakened against most of the other major currencies. This was initially triggered by uncertainties surrounding the US-led war on Iraq and concern about the pace of US economic recovery, and subsequently aroused by increasing market attention on the much enlarged US current account and fiscal deficits despite the clearer US economic upturn. The burden of adjustment in the US dollar was largely borne by the euro, with the dollar-euro rate weakening by 16.5% to an average of 1.132 in 2003, from that of 0.946 in 2002 (the rate moved to 1.259 at end-2003, from 1.050 at end-2002). Other major currencies also appreciated against the US dollar, albeit to a lesser extent. The dollar-pound sterling rate, at an average of 1.635 in 2003, weakened by 8.1% from that of 1.503 in 2002 (the rate moved to 1.786 at end-2003, from 1.612 at end-2002). The yen-dollar rate, at an average of 115.9 in 2003, strengthened by 7.4% from that of 125.2 in 2002 (the rate moved to 107.4 at end-2003, from 118.8 at end-2002). Most of the major East Asian currencies, except the Hong Kong dollar and renminbi, likewise appreciated against the US dollar in 2003. Taking the various currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell by 3.2% to an average of 100.7 in 2003, from that of 104.0 in 2002 (the Nominal Index moved to 98.8 at end-2003, from 102.0 at end-2002). After adjusting for changes in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* was down by 7.0% to an average of 89.4 in 2003, from that of 96.1 in 2002 (the Real

/Index

Index moved to an average of 86.4 in December 2003, from that of 93.2 in December 2002) (paragraphs 4.3 and 4.4).

1.52 Affected by changes in the spread between the Hong Kong dollar spot rate and forward rate, local inter-bank *interest rates* rose briefly in April 2003, but fell progressively during the rest of the year. At end-2003, the three-month HIBOR was at a discount of 104 basis points against the corresponding Euro-dollar deposit rate, in contrast to a premium of 9 basis points at end-2002. Following the movements in the US Fed Funds target rate, the Base Rate under the Discount Window operated by HKMA was reduced by 25 basis points to 2.5% in late June 2003, and stayed at that level since then. The best lending rate remained unchanged at 5.00% throughout 2003, while the savings deposit rate offered by the major commercial banks was lowered to 0.02% in October and further to 0.01% in December. The spread of the best lending rate over the three-month time deposit rate widened, from an average of 4.71 percentage points in 2002 to that of 4.93 percentage points in 2003 (paragraphs 4.5 and 4.6).

1.53 *Hong Kong dollar deposits*, having shrunk by 1.6% during 2002, turned up to increase by 5.8% during 2003. Yet *Hong Kong dollar loans* had an enlarged decrease, from 1.9% to 2.6%. As Hong Kong dollar loans continued to contract while Hong Kong dollar deposits expanded during 2003, the Hong Kong dollar loan-to-deposit ratio moved down much more, to 81.5% at end-2003, from 88.5% at end-2002 (paragraphs 4.8, 4.15 and 4.16).

1.54 The local *stock market*, having consolidated in the early part of last year, staged a strong rally in the remainder of the year. In the early months of 2003, market sentiment was dampened by concern over the US-led war on Iraq, uncertain outlook for the US economy, and poor performance of the major stock markets overseas. The outbreak of SARS in March dealt another blow to investor confidence. In consequence, the Hang Seng Index plummeted to a 4½-year low at 8 409 on 25 April, representing a 9.8% fall from the level at end-2002. Yet as SARS was brought under control, and as the performance and near-term outlook of the major overseas economies improved after the war on Iraq fairly quickly ended, local share prices rebounded appreciably in May. Additional boost came from the signing of CEPA with the Mainland in late June. Further lifting sentiment was a series of positive developments occurring in the second half of the year, including launch of the Individual Visit Scheme for Mainland visitors to Hong Kong thereby bolstering inbound tourism, rebound in the property market,

/and

and influx of funds. The rally in the US stock market fuelled the market upturn. As a result, the Hang Seng Index surpassed the 11 000 mark in September and then the 12 000 mark in October, to reach a 28-month high at 12 594 on 12 December. It closed 2003 at 12 576, up substantially by 34.9% over the level of 9 321 at the end of 2002. (The Hang Seng Index broke the 13 000 mark in early January 2004, and reached another high at 13 928 on 18 February, amidst growing optimism about the near-term outlook for the economy generally and the property market in particular. It closed at 13 907 on 27 February.) (paragraphs 4.31 and 4.32)

Notes :

- (1) SARS broke out in Hong Kong in around the second week of March 2003. On 2 April 2003, the World Health Organisation (WHO) issued a travel advisory against non-essential travel to Hong Kong. On 23 May, with SARS brought under control in Hong Kong, WHO lifted the travel advisory against Hong Kong. Then on 23 June, WHO removed Hong Kong from the list of SARS-affected areas, confirming that Hong Kong had been free from the SARS threat.

On 23 April 2003, in a move to help the community tide over the difficulties brought about by the outbreak of SARS and to revive the economy after SARS, the Government announced a package of relief measures amounting to \$11.8 billion. The measures included rates concession, waiver of water and sewage charges, waiver of licence fees, salaries tax rebate, rent reduction at public sector commercial premises, job creation schemes, a bank loan guarantee plan for the hard-hit industries, etc.

On 15 June 2003, in a move to alleviate further the impact of SARS on the labour market, the Government announced an enhanced package of employment and training initiatives. This involved a total cost of \$715 million, to create over 32 000 additional short-term jobs and training places.

- (2) The Individual Visit Scheme was first launched to residents of four cities in Guangdong, including Dongguan, Zhongshan, Jiangmen and Foshan, on 28 July 2003. The scheme was then extended to residents of Guangzhou, Shenzhen, Zhuhai and Huizhou on 20 August 2003, and further to residents of Beijing and Shanghai on 1 September 2003. The scheme was extended still further to residents of six more cities in Guangdong, including Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan and Yunfu, on 1 January 2004, and will cover the entire Guangdong Province by May 2004.

/Under

Under this scheme, Mainland residents can apply for travel documents which allow them to make up to two visits to Hong Kong within a period of three months, and to stay in Hong Kong each time for up to seven days. There is no restriction on the number of times that the Mainland residents may apply for renewal of the travel documents.

- (3) The main text of CEPA was signed between the Central People's Government and the Hong Kong SAR Government on 29 June 2003, and the six Annexes on 29 September 2003. On the merchandise trade front, the Mainland under CEPA accords zero tariff for exports from Hong Kong in 374 Mainland product codes as from 1 January 2004, and will do the same for exports from Hong Kong in the other product codes maintained on China's tariff system meeting the CEPA rules of origin by 1 January 2006. On the service trade front, CEPA allows earlier and wider market access in the Mainland to Hong Kong companies in 18 services sectors, including accounting services, advertising services, audiovisual services, banking services, convention services, distribution services, freight forwarding agency services, insurance services, legal services, logistics services, management consulting services, medical and dental services, real estate and construction services, securities services, storage and warehousing services, telecommunications value added services, transport services, and tourism services. As to trade and investment facilitation, there is co-operation in a number of delineated areas, including customs clearance, quarantine and inspection, quality assurance and food safety, small and medium-sized enterprises, Chinese medicine and medical products, e-commerce, trade and investment promotion, and transparency in laws and regulations.
- (4) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (5) 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.

/(6)

- (6) 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.
- (7) 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.
- (8) The Lotteries Fund has been incorporated into the Consolidated Accounts of the Government with effect from 1 April 2003. Figures for 2002/03 have been correspondingly adjusted for a valid comparison with those for 2003/04.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The global economy was generally subdued in the early part of 2003. Yet with the relatively quick end to the war on Iraq removing much of the geo-political uncertainties by April, the global economic environment had turned more sanguine since. As uncertainties receded and confidence improved, worldwide stock markets staged a sharp pick-up. In East Asia, the strong growth momentum seen in the first quarter of 2003 was temporarily held off by the outbreak of SARS in late March, which caused several affected East Asian economies to dip into negative growth in the second quarter. Yet as the epidemic was quickly brought under control, domestic demand in these affected economies had recovered swiftly thereafter. With their exports also holding up well to add strength to the recovery, these affected economies were all able to resume appreciable growth by the third quarter. On the whole, the impact of SARS, though very profound in the second quarter, turned out to be only short-lived in scare and with no lasting real damage.

2.2 The US economy embarked on a strong upswing after mid-2003, marked by a broad-based pick-up in activity. Consumer spending remained resilient all through the year, on the back of the buoyant housing market, the low interest rate environment and the fiscal stimulus measures. Business investment, which was once the main laggard in the economy, also picked up distinctly after the first quarter, as corporate profits rebounded and as overall economic sentiment improved. Industrial activity regained momentum towards the year-end. Labour market conditions likewise showed some improvement more recently, having worsened in the first half of the year. The enlarging US trade and current account deficits however continued to pose risk to the sustainability of the growth process.

2.3 The EU economy was stagnant in much of 2003, as domestic demand remained weak along with a sluggish labour market. The setback was exacerbated by the strength of the euro, which had been adversely affecting exports. Investment spending and industrial activity were both subdued. Nevertheless, there was some apparent improvement in the latter part of the year, helped in part by a relaxation in monetary policy stance and in part by a more upbeat business sentiment.

/2.4

2.4 In East Asia, the recovery in the Japanese economy which began in 2002 gathered more strength in 2003. The pick-up was mainly led by exports and business investment. Consumption was still weak, as the investment-led recovery had yet to translate into improvement in employment conditions. The Mainland economy experienced a brief relapse upon the outbreak of SARS in the second quarter of 2003, then bounced back to resume robust growth in the third quarter, and accelerated even further in the fourth quarter. External trade was buoyant all through the year, while inward foreign direct investment remained hefty. Those East Asian economies hit earlier by SARS had also recovered swiftly, as domestic demand readily resumed growth and as exports continued to do well to render support to the revival.

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	2.2	1.0	8.0	-0.4	3.6	2.2	6.3
	H1	1.5	0.8	7.8	-2.1	2.3	1.1	6.4
	H2	2.9	1.2	8.2	1.4	4.9	3.2	6.3
	Q1	1.2 (1.2)	0.6 (0.4)	7.6	-3.4 (-0.4)	0.9	-1.4 (1.4)	6.2 (2.5)
	Q2	1.8 (0.5)	1.1 (0.5)	8.0	-0.8 (1.2)	3.7	3.7 (3.7)	6.6 (1.3)
	Q3	3.0 (0.8)	1.1 (0.3)	8.1	1.0 (1.0)	5.2	3.5 (-2.0)	5.8 (1.0)
	Q4	2.8 (0.3)	1.2 (0.1)	8.3	1.7 (-0.1)	4.5	2.8 (-0.3)	6.8 (2.0)
2003	Annual	3.1	0.7	9.1	2.7	3.2	1.1	N.A.
	H1	2.3	0.7	8.2	2.6	1.7	-1.1	2.8
	H2	4.0	0.7	9.8	2.8	4.7	3.3	N.A.
	Q1	2.1 (0.5)	0.9 (*)	9.9	2.8 (0.6)	3.5	1.7 (0.2)	3.7 (-0.4)
	Q2	2.4 (0.8)	0.4 (*)	6.7	2.3 (0.8)	-0.1	-3.9 (-1.8)	1.9 (-0.7)
	Q3	3.6 (2.0)	0.6 (0.4)	9.6	2.0 (0.6)	4.2	1.7 (3.8)	2.3 (1.1)
	Q4	4.3 (1.0)	0.9 (0.4)	9.9	3.6 (1.7)	5.2	4.9 (2.7)	N.A.

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

N.A. Not yet available.

(*) Change of less than 0.05%.

/Table 2.2

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	1.3	22.4	6.4	8.9	1.9	8.0
	H1	-11.0	0.5	14.1	1.3	4.6	-7.9	-3.3
	H2	1.5	2.2	29.6	11.8	13.3	12.8	20.3
	Q1	-15.1	-2.1	10.0	-3.0	-1.0	-15.0	-11.1
	Q2	-6.7	2.9	17.8	5.7	10.1	-0.4	4.9
	Q3	1.0	3.3	28.7	7.4	16.0	16.1	15.9
	Q4	1.9	1.1	30.5	16.2	10.9	9.7	24.6
2003	Annual	4.7	-1.9	34.6	4.7	9.9	15.1	19.6
	H1	3.0	-3.3	34.0	3.9	7.0	15.1	17.4
	H2	6.3	-0.6	35.1	5.5	12.6	15.2	21.6
	Q1	4.5	-1.2	33.6	5.1	10.3	20.6	20.7
	Q2	1.6	-5.2	34.3	2.8	4.0	10.1	14.4
	Q3	2.2	-0.8	29.7	7.1	11.2	13.2	16.0
	Q4	10.3	-0.5	40.5	4.0	13.9	17.1	26.7

Notes : (#) Non-oil domestic exports.

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

Table 2.3

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

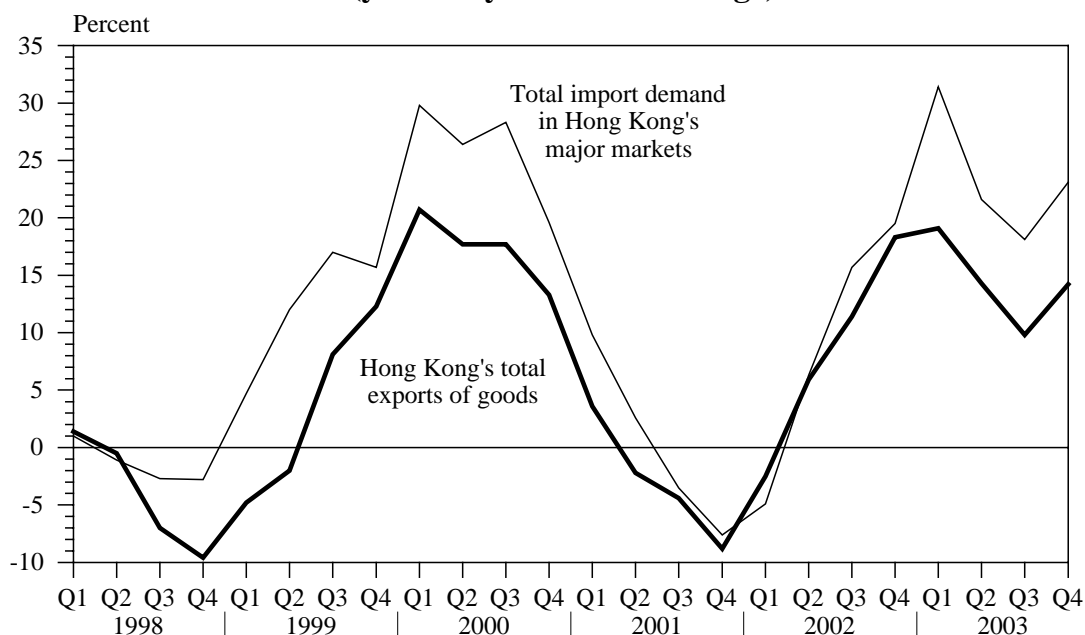
		<u>United States</u>	<u>European Union</u>	<u>Mainland of China*</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea*</u>
2002	Annual	1.6	-3.9	21.2	-0.4	7.6	0.3	7.8
	H1	-6.2	-6.8	10.4	-6.3	-1.0	-4.8	-2.2
	H2	10.0	-0.7	31.1	5.8	16.7	5.8	18.5
	Q1	-12.7	-9.1	5.1	-8.2	-8.9	-12.2	-11.4
	Q2	0.5	-4.5	15.0	-4.4	6.8	3.0	7.8
	Q3	7.7	-2.3	29.2	2.1	20.0	5.3	13.8
	Q4	12.3	0.8	33.0	9.4	13.5	6.3	23.1
2003	Annual	8.5	-0.2	39.9	5.0	12.6	6.9	17.5
	H1	10.3	-0.3	44.5	7.2	11.5	4.5	21.0
	H2	6.8	-0.2	36.3	2.8	13.6	9.2	14.4
	Q1	14.4	3.4	52.3	8.2	18.7	9.5	30.9
	Q2	6.7	-3.8	38.3	6.3	5.4	-0.1	12.1
	Q3	5.4	-1.1	34.3	6.5	6.4	4.6	10.5
	Q4	8.1	0.7	38.3	-0.5	20.8	13.9	18.1

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

/Diagram 2.1

Diagram 2.1

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



Note : 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.

2.5 On exchange rate movements, the US dollar was on a generally weakening trend against the major currencies in 2003. Though with a brief rebound upon launch of the war on Iraq in March, the US dollar soon fell off again, amidst on-going concern over the enlarging US current account and fiscal deficits. The US dollar tumbled more sharply in late September and then through to the year-end, reaching successive record lows against the euro and an 11-year low against the pound sterling in December. The US dollar likewise had an appreciable fall-off against the Japanese yen, even when faced with intermittent interventions by the Japanese government. The US dollar similarly weakened against most of the other East Asian currencies. Comparing the average level in 2003 with that in 2002, the US dollar plummeted by 16.5% against the euro, 8.1% against the pound sterling, and 7.4% against the Japanese yen. Against the East Asian currencies, it was 8.0% lower against the Indonesia rupiah, 4.8% lower against the Korean won, and 2.7% lower against the Singapore dollar, yet broadly unchanged against the New Taiwan dollar.

/Table 2.4

Table 2.4

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

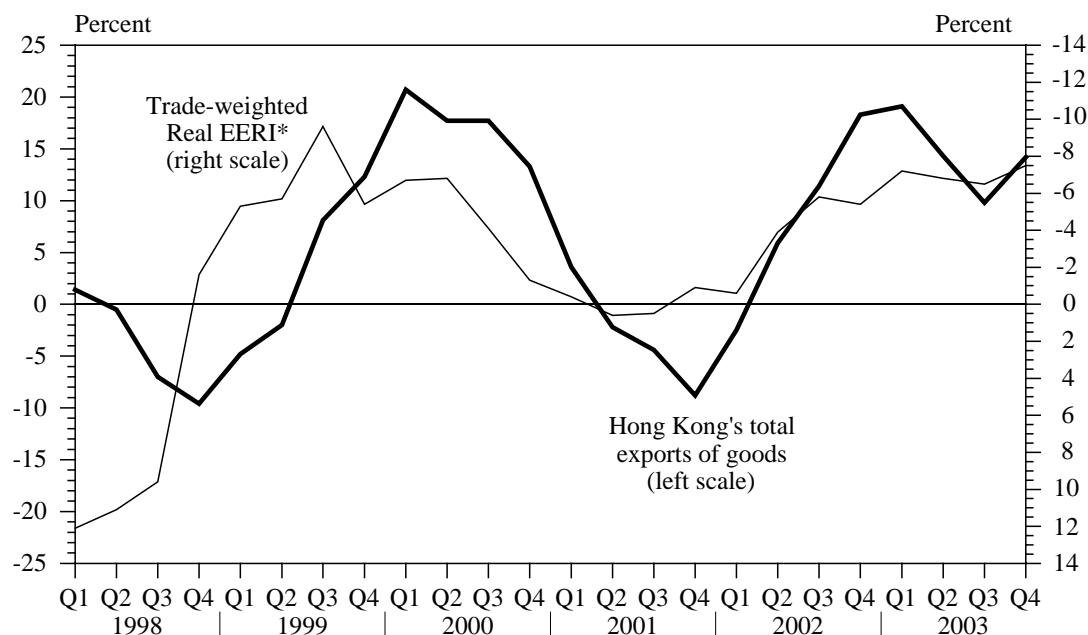
% change in terms of average in the quarter over <u>the preceding quarter</u>		Japanese <u>yen</u>	<u>Euro</u>	Pound <u>sterling</u>	New Taiwan <u>dollar</u>	Singapore <u>dollar</u>	Korean <u>won</u>
2002	Q1	-6.6	-2.0	-1.1	-1.3	-0.4	-2.1
	Q2	4.3	4.7	2.5	1.7	1.6	4.0
	Q3	6.4	7.1	6.0	1.4	2.6	6.0
	Q4	-2.6	1.7	1.5	-2.5	-0.5	-1.9
2003	Q1	2.9	7.2	2.0	0.4	1.3	1.5
	Q2	0.4	5.9	1.0	-0.1	-0.2	-0.6
	Q3	0.9	-0.9	-0.5	1.4	-0.1	2.9
	Q4	8.0	5.8	6.0	0.8	1.6	-0.6
% change in terms of average in 2003 over 2002		8.0	19.7	8.8	0.5	2.8	5.0

2.6 Tracking closely the movements in the US dollar under the linked exchange rate system, and coupled with a general price decline in Hong Kong, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar in 2003 fell by an average of 7.0% over 2002. This signified a significant enhancement in Hong Kong's external price competitiveness, in turn spurring Hong Kong's export performance during the year.

/Diagram 2.2

Diagram 2.2

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



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

Positive changes in the Real EERI denote 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.

Overall visible and invisible trade situation

2.7 On visible trade, *total exports of goods* (comprising re-exports and domestic exports) picked up distinctly further to an 11.7% growth in value terms, to \$1,742.4 billion in 2003. After netting out the decrease in prices, there was a 14.0% surge in real terms⁽¹⁾ in 2003, further up from the already notable growth of 8.6% in 2002. Total exports of goods were buoyant all through the year, with year-on-year increases by 19.1%, 14.3%, 9.8% and

/14.2%

14.2% respectively in real terms in the four quarters. This strong performance had benefited much from the generally improved global economic environment during the year, enhanced price attractiveness of Hong Kong's exports stemming from the exchange rate movements and the domestic cost adjustments, as well as ascending competitiveness of Mainland products as the main source of Hong Kong's re-exports to the overseas markets. The war on Iraq and the outbreak of SARS had inflicted only brief and limited impact on Hong Kong's exports. The growth in exports in the third and fourth quarters remained distinct even upon a higher base of comparison in the same period a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rose further by 3.4%, 1.9% and 1.5% respectively in real terms in the first three quarters of 2003, and then picked up more sharply to a 6.2% increase in the fourth quarter.

2.8 Within total exports of goods, *re-exports*⁽²⁾ remained the key driver of growth, surging by 13.4% in value terms to \$1,620.7 billion in 2003. After netting out the decrease in prices, there was a 16.1% leap in real terms in 2003, considerably up from the already distinct growth at 10.9% in 2002. There was double-digit growth in all four quarters of 2003, with increases by 22.3%, 17.0%, 11.3% and 15.4% respectively in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, re-exports likewise rose further, by 4.0%, 2.3% and 1.2% respectively in real terms in the first three quarters of 2003, and then likewise picked up more sharply, to a 6.7% increase in the fourth quarter.

2.9 On the other hand, the on-going structural shift towards re-exports and offshore trade⁽³⁾ continued to hold down *domestic exports*, which plunged further by 7.1% in value terms to \$121.7 billion in 2003. After netting out a mild increase in prices, there was a 7.4% decline in real terms in 2003, though narrowed from the 11.3% shrinkage in 2002. The year-on-year declines were particularly marked in the first and second quarters of 2003, by 12.0% and 12.6% respectively in real terms, then narrowed to 5.4% and 0.4% in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further by 3.0% and 2.5% respectively in real terms in the first and second quarters of 2003, before turning up to increase by 5.6% in the third quarter, and then falling back slightly by 0.2% in the fourth quarter.

/Table 2.5

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	Annual	11.7	14.0	-1.4	13.4	16.1	-1.5	-7.1	-7.4	0.2
	H1	14.7	16.5	-1.1	17.2	19.4	-1.3	-11.0	-12.3	0.8
	H2	9.2	12.0	-1.6	10.3	13.3	-1.8	-3.6	-3.1	-0.2
	Q1	17.6	19.1	-0.9	20.3	22.3	-1.1	-10.4	-12.0	0.8
	Q2	12.2	14.3	-1.4	14.4	17.0	-1.6	-11.4	-12.6	0.7
	Q3	7.1	9.8	-1.8	8.2	11.3	-2.0	-5.4	-5.4	0.3
	Q4	11.4	14.2	-1.5	12.4	15.4	-1.5	-1.7	-0.4	-0.8

Table 2.6**Total exports of goods, re-exports and domestic exports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

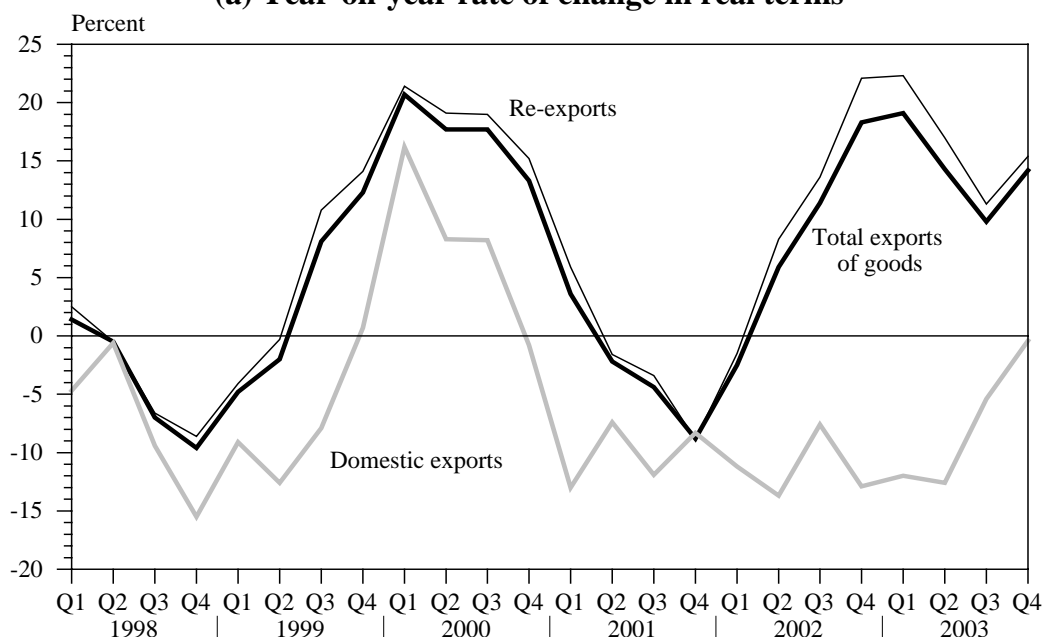
		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2002	Q1	4.7	5.7	-3.3
	Q2	5.2	6.0	-2.7
	Q3	5.2	6.0	-2.5
	Q4	3.2	3.9	-4.5
2003	Q1	3.4	4.0	-3.0
	Q2	1.9	2.3	-2.5
	Q3	1.5	1.2	5.6
	Q4	6.2	6.7	-0.2

/Diagram 2.3

Diagram 2.3

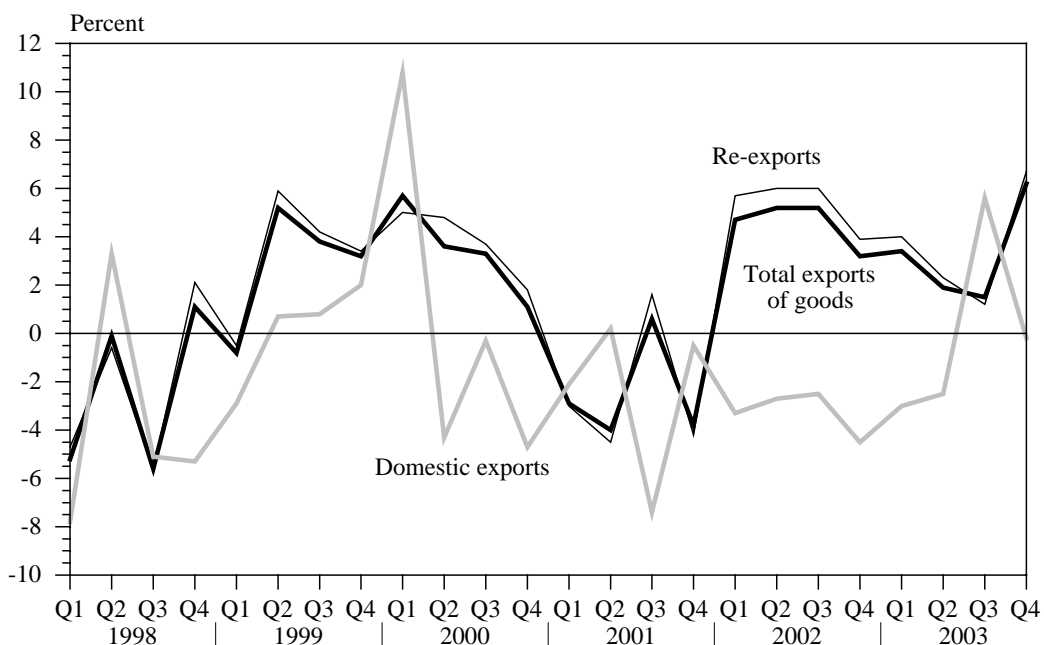
Total exports of goods, re-exports and domestic exports

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



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.

(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.

2.10 *Imports of goods* were likewise robust, leaping by 11.5% in value terms to \$1,805.8 billion in 2003. After netting out the decline in prices, there was a 12.8% rise in real terms in 2003, also distinctly up from the 7.8% increase in 2002. Imports of goods had the most distinct growth in the first quarter of 2003, at 18.7% in real terms over a year earlier. Growth was still robust in the second quarter, at 10.6%, upon the continued strength in re-export trade and even with the spread of SARS severely dampening import intake for local use. With the moderation in re-export growth in the third quarter partly offset by a revival in import intake for local use, imports of goods grew by 7.9% in the third quarter. This was followed by a much faster growth at 15.0% in the fourth quarter, as re-exports re-accelerated while import intake for local use picked up sharply. As to the growth profile in imports for local use, *retained imports* surged by 11.5% in real terms in the first quarter of 2003 over a year earlier, but tumbled to a 1.9% decline in the second quarter upon the profound impact of SARS. Then, along with the progressive recovery in domestic demand, retained imports turned up mildly to a 0.6% increase in the third quarter and surged further by 14.1% in the fourth quarter. For 2003 as a whole, retained imports attained a 5.8% growth in real terms, up from the 1.8% increase in 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose by 2.9% in real terms in the first quarter of 2003, yet moderating to a 0.9% increase in the second quarter, before picking up again to increases by 2.6% and 7.0% respectively in the third and fourth quarters. Retained imports had a broadly parallel profile during the year, initially rising by 0.4% in real terms in the first quarter of 2003, then falling back by 2.1% in the second quarter, before surging by 6.0% and 7.9% respectively in the third and fourth quarters.

/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^(a)</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	3.3	7.8	-3.9	-9.0	1.8	-9.7
	H1	-4.2	0.9	-4.8	-15.6	-3.9	-11.7
	H2	10.5	14.3	-3.0	-2.1	7.5	-7.6
	Q1	-9.1	-4.1	-4.9	-19.7	-8.9	-11.6
	Q2	0.4	5.7	-4.6	-11.7	0.8	-11.7
	Q3	6.5	10.8	-3.6	-6.0	5.2	-9.6
	Q4	14.9	18.1	-2.3	2.2	10.0	-5.5
2003	Annual	11.5	12.8	-0.4	6.8	5.8	2.9
	H1	13.4	14.3	-0.2	4.7	4.3	2.4
	H2	9.9	11.4	-0.5	8.8	7.2	3.4
	Q1	17.8	18.7	-0.1	11.8	11.5	1.9
	Q2	9.6	10.6	-0.3	-1.5	-1.9	2.8
	Q3	6.1	7.9	-0.9	0.7	0.6	2.7
	Q4	13.8	15.0	-0.2	17.4	14.1	4.1

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

Table 2.8

**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^(a)</u>
2002	Q1	3.8	*
	Q2	7.6	11.0
	Q3	5.1	3.2
	Q4	1.7	-2.9
2003	Q1	2.9	0.4
	Q2	0.9	-2.1
	Q3	2.6	6.0
	Q4	7.0	7.9

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

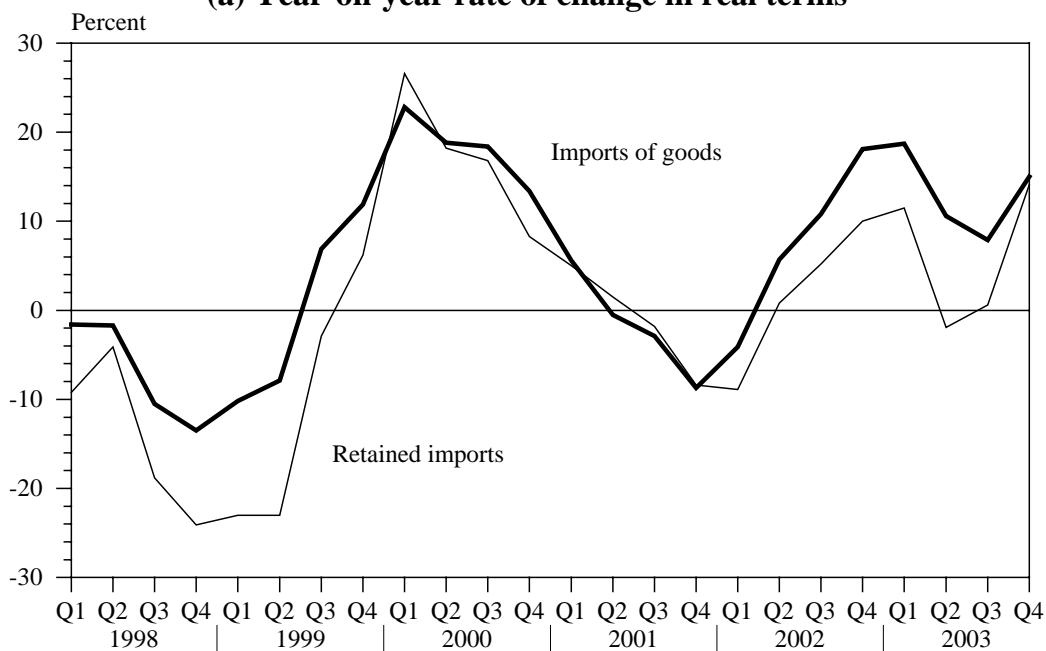
(*) Change of less than 0.05%.

/Diagram 2.4

Diagram 2.4

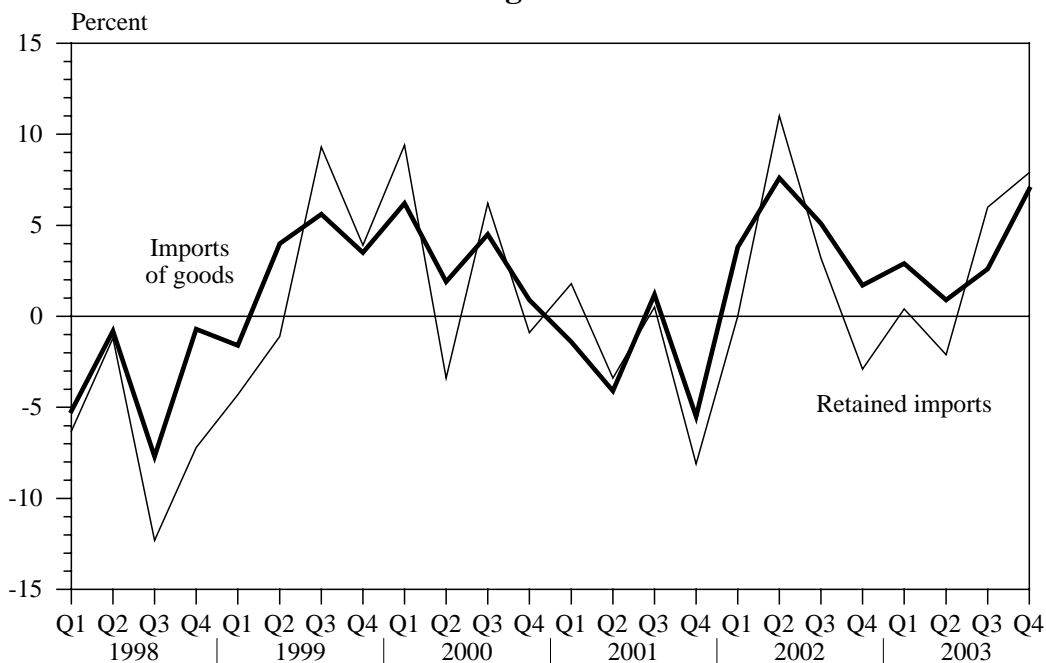
Imports of goods and retained imports

(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



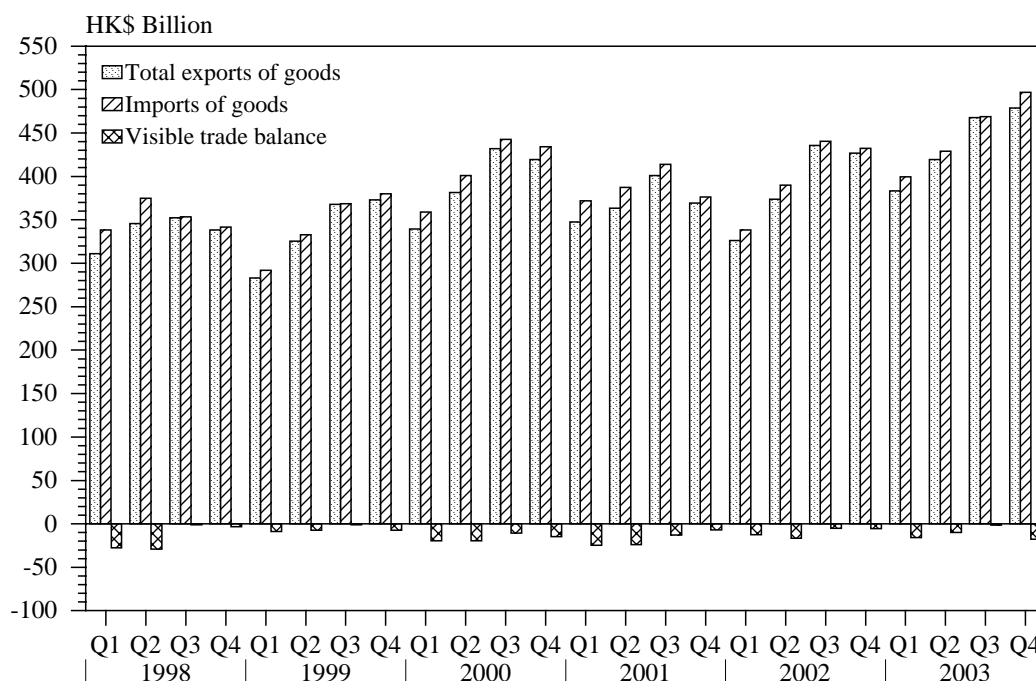
Note : See the footnote to Diagram 2.3 (b).

/2.11

2.11 With the increase in value of imports of goods exceeding that of total exports of goods, the *visible trade deficit* reckoned on a GDP basis⁽⁴⁾ widened in absolute terms, to \$45.0 billion or 2.5% of the value of imports of goods in 2003, from \$39.4 billion or 2.5% in 2002.

Diagram 2.5

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



Box 2.1

Bilateral trade balances

While Hong Kong's overall visible trade balance was persistently in deficit over the past ten years, there were considerable variations in the bilateral trade balances with different regions.

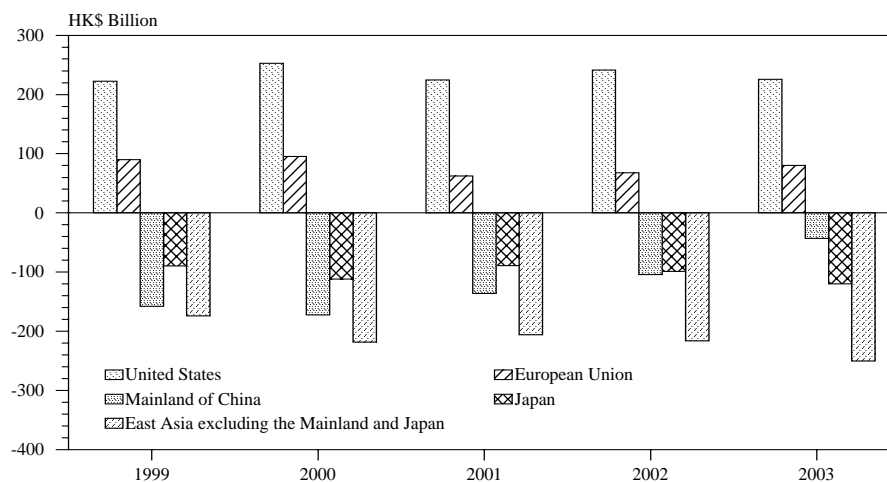
Hong Kong's bilateral visible trade balance with the major trading partners

	Overall trade balance		Mainland of China		US		EU		Japan		East Asia (excluding the Mainland & Japan)	
	\$ Bn	% of imports	\$ Bn	% of imports	\$ Bn	% of imports	\$ Bn	% of imports	\$ Bn	% of imports	\$ Bn	% of imports
1999	-43.7	3.1	-157.9	26.0	222.2	225.4	89.7	70.6	-89.7	55.1	-173.7	57.3
2000	-85.3	5.1	-172.0	24.1	252.7	224.0	95.5	66.2	-111.8	56.2	-218.4	58.2
2001	-87.2	5.6	-135.9	19.9	224.8	214.2	62.5	41.4	-89.0	50.4	-205.7	59.6
2002	-58.9	3.6	-103.8	14.5	241.5	264.0	67.5	48.5	-98.9	54.1	-216.1	58.5
2003	-63.3	3.5	-43.1	5.5	225.5	228.4	80.0	53.0	-120.0	56.1	-250.4	59.3

/Box 2.1 (Cont'd)

Box 2.1 (Cont'd)

Visible trade balance by major country/region



In general, Hong Kong persistently attained bilateral trade surpluses with the industrialised economies, viz. the United States, Canada, Germany, the United Kingdom and Australia. On the other hand, Hong Kong persistently incurred bilateral trade deficits with the East Asian economies, including most notably the mainland of China (the Mainland), Japan, Singapore, Taiwan and the Republic of Korea. This difference in the pattern of bilateral trade balances across regions reflects the fact that the industrialised economies in general are final consumers of goods from Hong Kong, whereas East Asia in general, and the Mainland in particular, are net suppliers of goods to Hong Kong. This in turn signifies Hong Kong's prominent role as the trade hub of the region in facilitating trade flows between the Mainland and other East Asian economies, and also as a trade conduit channelling goods from the Mainland and other East Asian sources out to places beyond, like North America and Europe.

As an illustration of Hong Kong's prominent role as an entrepôt for the Mainland, in 2003 around 90% of the re-exports routed through Hong Kong involved the Mainland. On the other hand, imports sourced from the Mainland which were for Hong Kong's local use accounted for just 5% of the imports of Mainland origin last year. As to the other East Asian economies, a considerable portion of the imports from these sources are also for subsequent re-exporting, but the proportions are not as high as that for the Mainland. The proliferation of outward processing arrangements, whereby Hong Kong exports material inputs to the Mainland for processing and then imports the products back to Hong Kong for exporting elsewhere, was the key factor contributing to the surge in trade flows between Hong Kong and the Mainland over the years.

Hong Kong's bilateral trade deficit with the Mainland was persistently the largest amongst the various individual East Asian economies during 1998-2002. But it was also worth noting that the size of the deficit has been declining over the past few years, both in absolute value and relative to Hong Kong's imports from the Mainland. The shrinkage was particularly distinct in 2003. This may serve to reveal the rising significance of the Mainland as a final export market for Hong Kong.

/2.12

2.12 On invisible trade, the strong growth momentum in *exports of services* in the first quarter of 2003 was dented severely by the spread of SARS in Hong Kong in the second quarter. Yet with a swift rebound in the third quarter and a further pick-up in the fourth quarter, exports of services, at \$350.3 billion for 2003 as a whole, still attained appreciable growth at 3.7% in value terms. After netting out the decline in prices, the increase in 2003 was 5.5% in real terms, albeit milder than the 12.2% surge in 2002. On a year-on-year comparison, exports of services soared by 12.7% in real terms in the first quarter of 2003, before falling abruptly by 12.0% in the second quarter as inbound tourism and related business plummeted upon the SARS impact. As such business rebounded strongly thereafter, exports of services resumed growth, rising by 7.8% in the third quarter, and then distinctly more by 11.8% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, exports of services still rose by 0.9% in real terms in the first quarter of 2003, before plummeting by 19.7% in the second quarter. A sharp turnaround ensued, with a 33.5% surge in the third quarter and a further 2.2% increase in the fourth quarter.

2.13 *Imports of services* were likewise severely affected by SARS in the second quarter. Even with the subsequent rebound, imports of services still fell by 2.2% in value terms to \$189.2 billion in 2003. After netting out the increase in prices, imports of services fell by 4.4% in real terms in 2003, following a meagre 0.2% rise in 2002. On a year-on-year comparison, imports of services shrank by 3.9% and 19.6% respectively in real terms in the first and second quarters of 2003, before turning up to increase by 0.5% and 4.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services slipped by 3.8% in real terms in the first quarter of 2003 and then slumped by 17.8% in the second quarter, before rebounding strongly by 27.8% in the third quarter and rising further by 2.9% in the fourth quarter.

/Table 2.9

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	9.8	12.2	-2.1	0.5	0.2	0.2
	H1	3.7	7.7	-3.8	-3.5	-2.2	-1.3
	H2	15.5	16.1	-0.5	4.5	2.7	1.7
	Q1	1.0	6.3	-5.0	-3.2	-0.7	-2.4
	Q2	6.3	9.1	-2.7	-3.8	-3.8	*
	Q3	13.4	14.0	-0.5	3.5	2.0	1.4
	Q4	17.5	18.1	-0.5	5.5	3.4	2.0
	2003	Annual	3.7	5.5	-1.8	-2.2	-4.4
	H1	-1.9	0.1	-2.0	-9.3	-11.5	2.5
	H2	8.2	9.9	-1.5	4.4	2.3	2.1
	Q1	11.7	12.7	-0.9	-0.6	-3.9	3.4
	Q2	-14.6	-12.0	-3.1	-18.3	-19.6	1.6
	Q3	5.5	7.8	-2.1	1.7	0.5	1.2
	Q4	10.8	11.8	-0.9	7.3	4.2	3.0

Notes : (^) Revised series after incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(*) 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	4.1	2.8
	Q2	3.8	-1.8
	Q3	7.0	2.6
	Q4	1.3	-0.4
2003	Q1	0.9	-3.8
	Q2	-19.7	-17.8
	Q3	33.5	27.8
	Q4	2.2	2.9

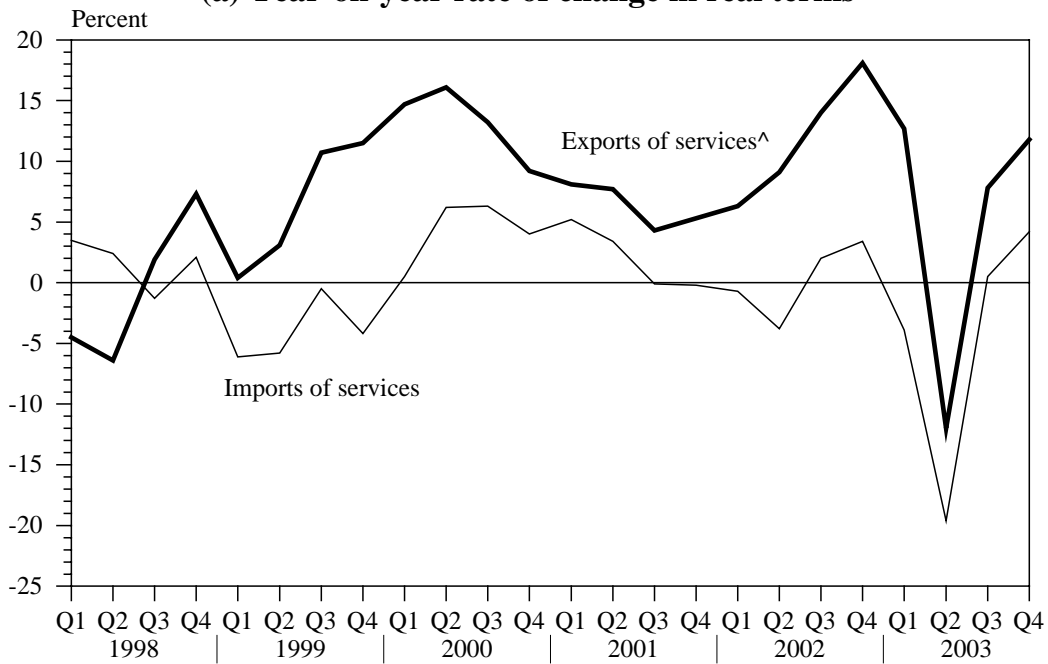
Note : (^) See the first footnote to Table 2.9.

/Diagram 2.6

Diagram 2.6

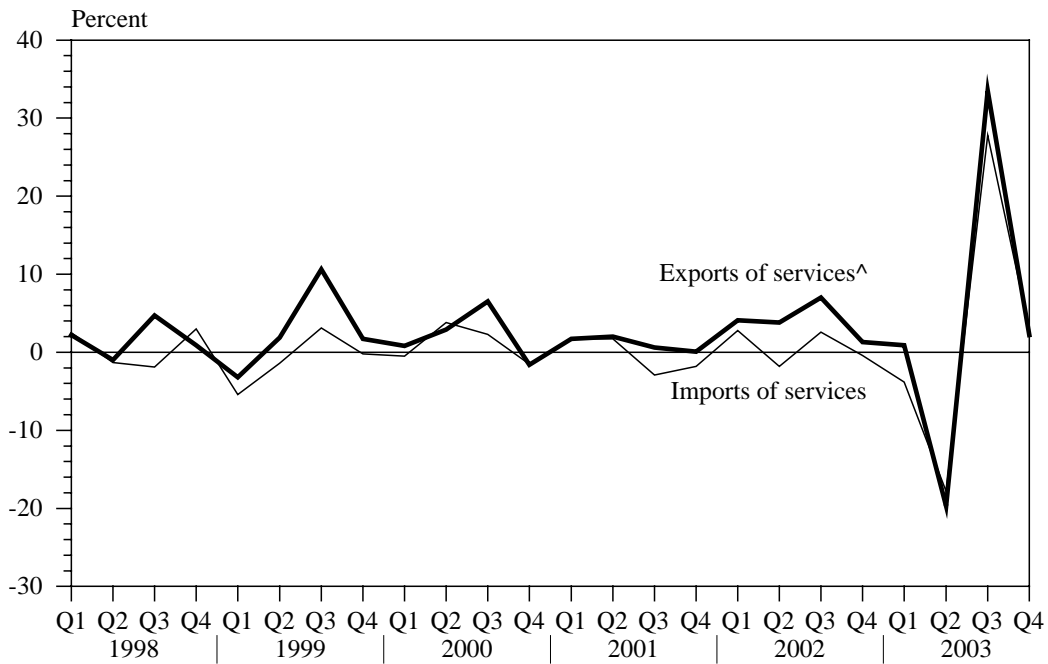
Exports and imports of services

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



Note : (^) See the first footnote to Table 2.9.

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



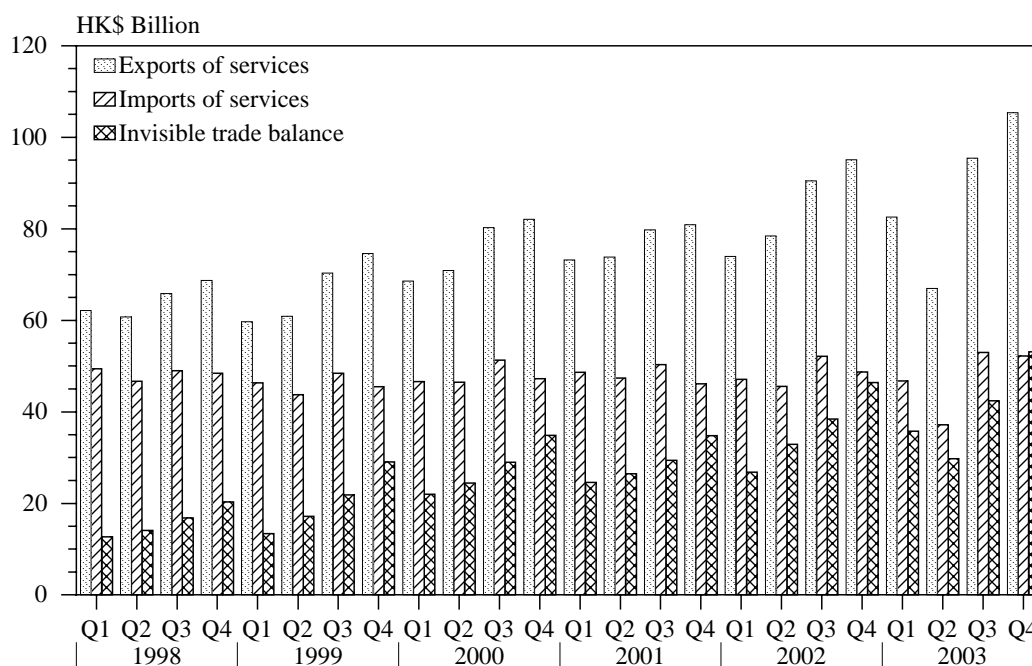
Note : (^) See the first footnote to Table 2.9.

/2.14

2.14 As exports of services rose while imports of services declined, the *invisible trade surplus*⁽⁵⁾ reckoned on a GDP basis rose further to \$161.1 billion or 85.1% of the value of imports of services in 2003, from \$144.5 billion or 74.7% in 2002. This more than offset the enlarged visible trade deficit to yield a combined surplus of \$116.1 billion in 2003, equivalent to 5.9% of the total value of imports of goods and services in that year, as compared to \$105.1 billion or 5.9% in 2002.

Diagram 2.7

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



/Table 2.11

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	337.9	1,601.5	193.4	-39.4	144.5	105.1
	H1	699.8	152.4	728.6	92.6	-28.8	59.8	30.9
	H2	862.3	185.6	872.9	100.8	-10.6	84.8	74.2
	Q1	326.1	73.9	338.5	47.1	-12.4	26.9	14.4
	Q2	373.7	78.4	390.1	45.5	-16.4	32.9	16.5
	Q3	435.5	90.5	440.5	52.1	-5.0	38.4	33.4
	Q4	426.8	95.1	432.4	48.7	-5.6	46.4	40.8
2003	Annual	1,749.1	350.3	1,794.1	189.2	-45.0	161.1	116.1
	H1	802.8	149.5	828.6	84.0	-25.8	65.6	39.8
	H2	946.3	200.8	965.5	105.2	-19.2	95.5	76.4
	Q1	383.4	82.6	399.4	46.8	-16.0	35.8	19.8
	Q2	419.3	67.0	429.1	37.2	-9.8	29.8	20.0
	Q3	467.5	95.4	468.9	53.0	-1.4	42.4	41.0
	Q4	478.8	105.3	496.6	52.2	-17.8	53.1	35.3

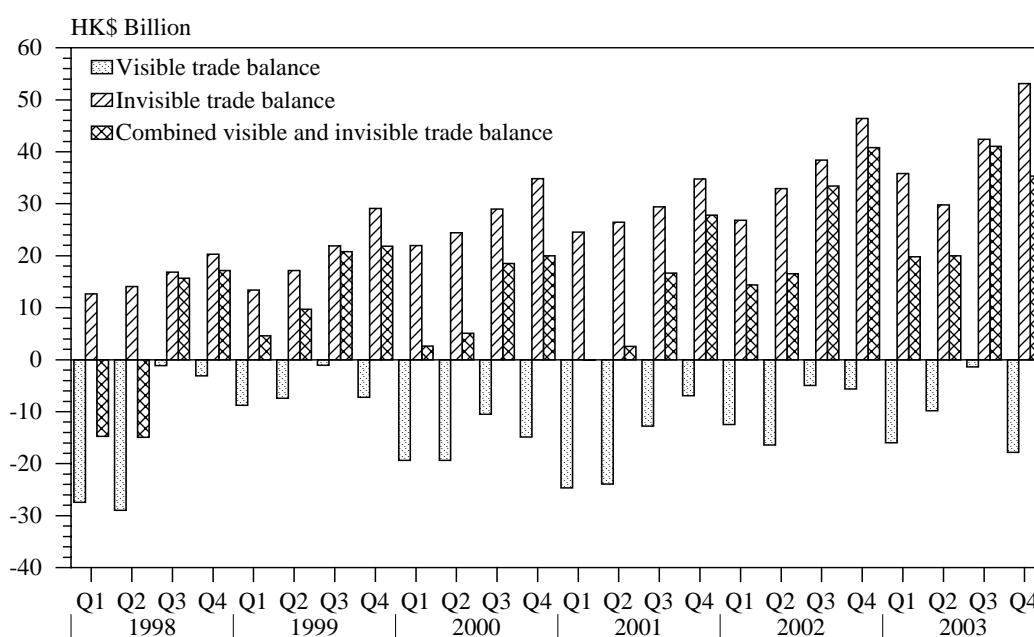
Notes : Figures in this table are reckoned on a GDP basis. Specifically, imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

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

([^]) See the first footnote to Table 2.9.

Diagram 2.8

Visible and invisible trade balance



Note : See the footnotes to Table 2.11.

/Visible

Visible trade

Total exports of goods

2.15 Reflecting the close trade relations between Hong Kong and the region, East Asia⁽⁶⁾ continued to account for the largest share in Hong Kong's total exports of goods, at 58% by value in 2003. It was followed by North America⁽⁷⁾ (with a share of 20%) and the European Union⁽⁸⁾ (13%).

2.16 Total exports of goods to *East Asia* as a whole were buoyant throughout the year, picking up further to pronounced growth at 20.9% in real terms in 2003, from a 13.4% growth in 2002. The strong growth impetus was again led by vibrant exports to the Mainland, which maintained highly robust growth all through the year. Exports to Japan, the Republic of Korea, Singapore, Taiwan and Indonesia registered double-digit growth of various magnitudes. On the other hand, exports to Malaysia and Thailand eased back in growth, after the sharp increases in the preceding year.

Box 2.2

Intra-regional trade in East Asia

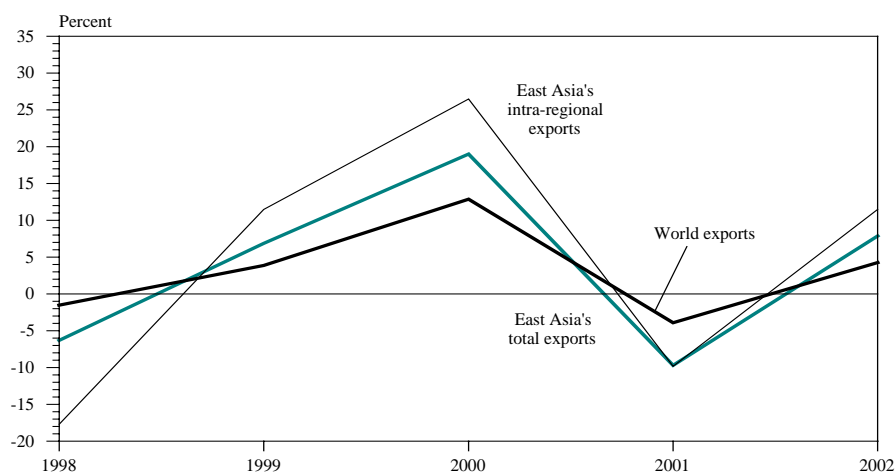
Intra-regional exports in East Asia grew rapidly by an average of 7.6% per annum in US dollar terms between 1992 and 2002, to US\$774 billion in 2002, more than doubled the level a decade ago. In terms of the share in East Asia's total exports, the proportion of intra-regional exports rose from 42.3% in 1992 to 48.0% in 2002, signifying a faster pace of growth in intra-regional exports than in East Asia's total exports over the period.

Apart from the boost from vibrant economic growth and hence import absorption in the region during most of the past decade, increased sub-division of manufacturing processes across the constituent economies has also played an important role in spurring intra-regional trade. The existence of cost differentials amongst the constituent economies has created incentive for relocating manufacturing processes to lower-cost production centres within the region. Aided further by technological advance, the scope for overall cost saving has broadened significantly and intra-regional trade flourished as a result.

/Box 2.2 (cont'd)

Box 2.2 (Cont'd)

World exports, East Asia's total exports and intra-regional exports
(rate of change)



Hong Kong has very intimate trade relations with East Asia. Exports to the region took up 54.5% of Hong Kong's total exports of goods in 2002. Imports from the region had an even larger share in Hong Kong's imports of goods, at 78.4% in 2002. On account of Hong Kong's distinct role in channelling trade between the Mainland and the other East Asian economies, a substantial portion of Hong Kong's exports to East Asia (excluding the Mainland) were re-exports sourced from the Mainland, at 66.2% in 2002. More generally, reflecting Hong Kong's notable role in intra-regional trade, its exports to the region accounted for 14.1% of total intra-regional exports in 2002, after Japan (with a share of 22.3%) and the Mainland (19.3%).

To illustrate further the relative significance of Hong Kong as an entrepôt for the Mainland, 22.1% of the Mainland's exports to the other East Asian economies and 24.5% of the Mainland's imports from the other East Asian economies in 2002 were routed through Hong Kong as re-exports. In addition, there should be some further amount of Mainland – East Asia trade involving Hong Kong in the form of offshore trade, but the respective figures are currently not available. Hong Kong functions not only as an entrepôt but also as a regional services centre, and this underpins Hong Kong's contribution in advancing intra-regional trade.

Hong Kong's role in the Mainland's trade with other East Asian economies in 2002

	Hong Kong's re-exports of Mainland origin to other East Asian economies		Hong Kong's re-exports of East Asian origin to the Mainland	
	Value (US\$Bn)	Share in the Mainland's exports to those economies (%)	Value (US\$Bn)	Share in the Mainland's imports from those economies (%)
Japan	9.3	19.2	14.0	26.2
Singapore	2.5	36.5	1.6	22.9
South Korea	1.8	11.7	5.0	17.5
Taiwan	1.7	25.9	10.3	27.1
Indonesia	0.6	18.5	0.8	17.4
Malaysia	1.1	23.1	2.5	26.4
Philippines	1.5	75.0	1.1	32.9
Thailand	1.4	48.9	1.6	27.9
East Asia	20.1	22.1	36.8	24.5

2.17 Exports to *North America* were also robust early in the year. Yet the growth momentum ran out of steam after the first quarter, along with a distinct deceleration in US import intake in around the middle of the year. Conceivably, there was some cut-back in orders at a time when the war tension in Iraq loomed high. In addition, the increasing tendency for finished products to be shipped out directly from the Shenzhen ports after outward processing in South China also weighed down Hong Kong's exports to this region. Total exports of goods to North America thus fell by 1.4% in real terms in 2003, having risen moderately by 3.9% in 2002.

2.18 Total exports of goods to the *European Union* surged by 14.1% in real terms in 2003, in contrast to the 0.4% decline in 2002. Enhanced price attractiveness of Hong Kong's exports brought about by the strength of the euro seemed to have outweighed the sluggishness in domestic demand in this region.

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	Annual	20.9	-1.4
H1		22.2	2.2	18.6
H2		19.8	-4.0	10.6
Q1		23.6	9.1	17.8
Q2		20.9	-3.3	19.4
Q3		17.9	-6.3	10.6
Q4		21.7	-1.6	10.6

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

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

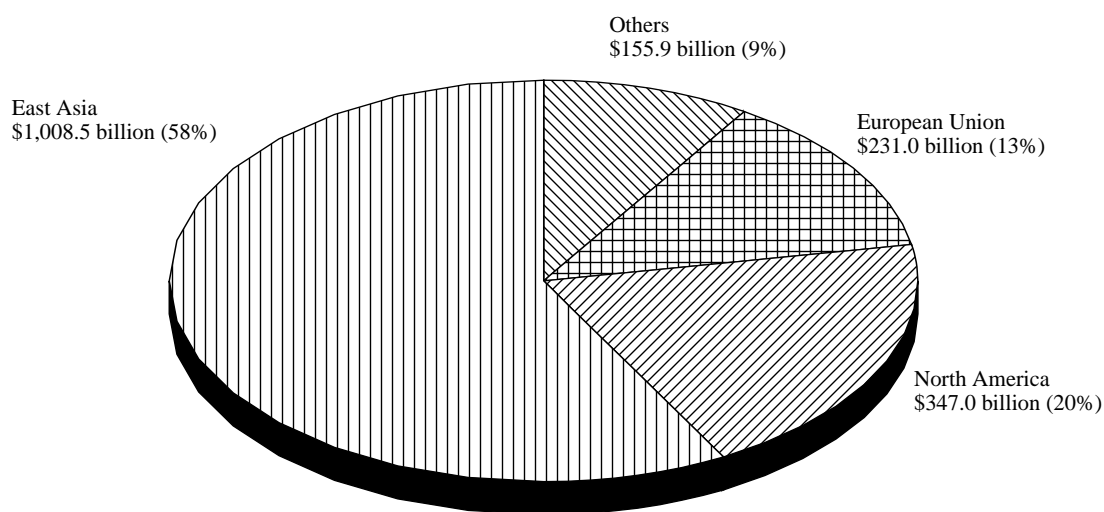
(c) For the coverage of the European Union, see Note (8).

(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 2003

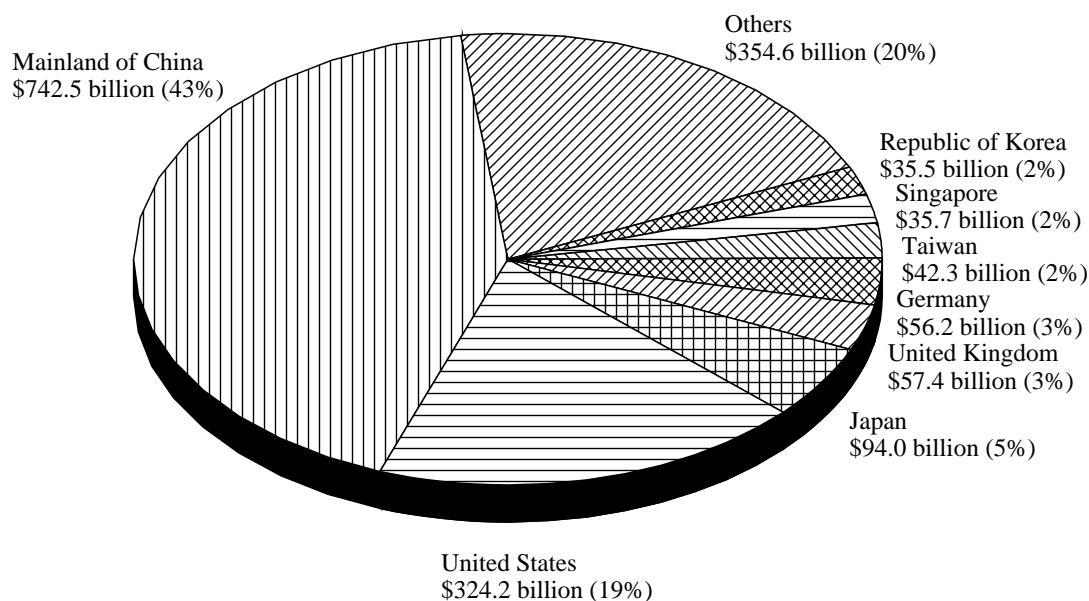


Total exports of goods in 2003 : \$1,742.4 billion

2.19 The Mainland remained the largest single *market* for Hong Kong's total exports of goods, accounting for 43% of the total value in 2003. It was followed by the United States (with a share of 19%), Japan (5%), the United Kingdom (3%), Germany (3%), Taiwan (2%), Singapore (2%), and the Republic of Korea (2%).

Diagram 2.10

Total exports of goods by major market in 2003



Total exports of goods in 2003 : \$1,742.4 billion

/Table 2.13

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

	<u>2002</u>			<u>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>Rate</u> <u>of change</u> (%)
All markets	1,560.5	100	5.4	1,742.4	100	11.7
Mainland of China	613.2	39	12.3	742.5	43	21.1
United States	333.0	21	1.0	324.2	19	-2.6
Japan	83.7	5	-4.5	94.0	5	12.3
United Kingdom	54.2	3	-2.0	57.4	3	5.8
Germany	48.8	3	-5.3	56.2	3	15.1
Taiwan	34.6	2	-2.2	42.3	2	22.2
Singapore	31.6	2	6.8	35.7	2	13.0
Republic of Korea	30.4	2	17.2	35.5	2	16.9
Rest of the world	331.0	21	3.5	354.6	20	7.1

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

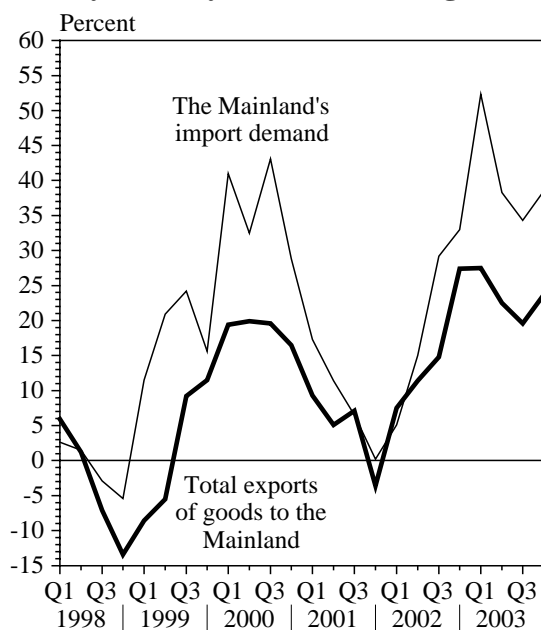
		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>Japan</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic</u> <u>of Korea</u>
2002	Annual	15.5	3.7	-1.0	0.7	-2.4	2.1	11.7	20.8
	H1	9.5	-4.5	-8.4	-6.0	-11.2	-3.7	8.5	16.0
	H2	20.8	10.8	6.0	6.4	5.3	7.8	14.7	25.5
	Q1	7.5	-13.1	-10.4	-10.7	-16.2	-5.2	3.4	16.7
	Q2	11.4	3.6	-6.1	-1.4	-5.4	-2.2	14.0	15.3
	Q3	14.8	9.9	1.6	5.2	3.9	14.9	11.4	22.4
	Q4	27.4	12.0	10.5	7.7	6.7	1.6	18.0	28.3
2003	Annual	23.1	-1.4	14.2	8.1	18.6	25.4	16.4	20.7
	H1	24.8	2.0	16.8	8.7	26.1	23.2	9.9	19.8
	H2	21.7	-3.9	12.0	7.7	13.0	27.5	22.2	21.5
	Q1	27.5	9.4	15.0	8.5	26.5	26.9	7.4	12.4
	Q2	22.5	-3.7	18.6	8.9	25.8	19.7	12.3	27.7
	Q3	19.6	-6.3	13.5	6.9	14.0	19.1	22.5	22.5
	Q4	23.7	-1.3	10.6	8.5	12.0	35.9	21.9	20.5

/2.20

2.20 After a 15.5% surge in 2002, total exports of goods to the *Mainland* leaped further by 23.1% in real terms in 2003, marking the fastest growth pace since 1993. Hong Kong's exports to the Mainland were buoyant throughout the year. This was underpinned by surging intake of finished goods for meeting its own demand all through the year, in turn stimulated partly by the tariff cuts and trade liberalisation measures after China's WTO accession. The impact of SARS on the Mainland's imports was apparently only temporary and mild. At the same time, intake of materials and machinery for production use was also boosted by the Mainland's continued strong industrial output for both its domestic and export markets.

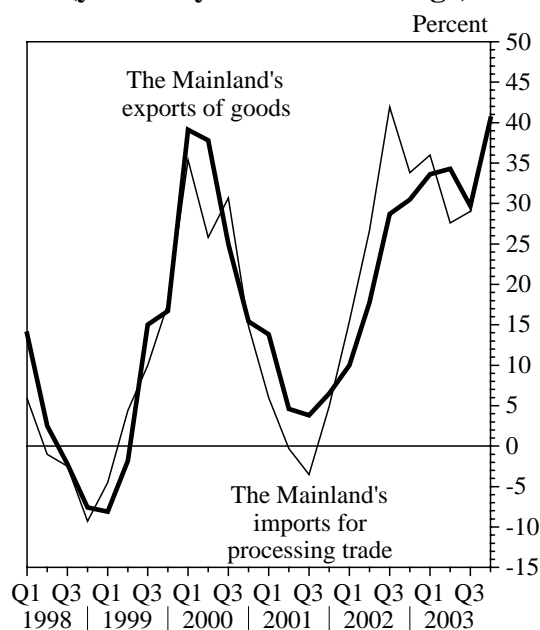
Diagram 2.11

Total exports of goods to the mainland of China and the Mainland's import demand (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.

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



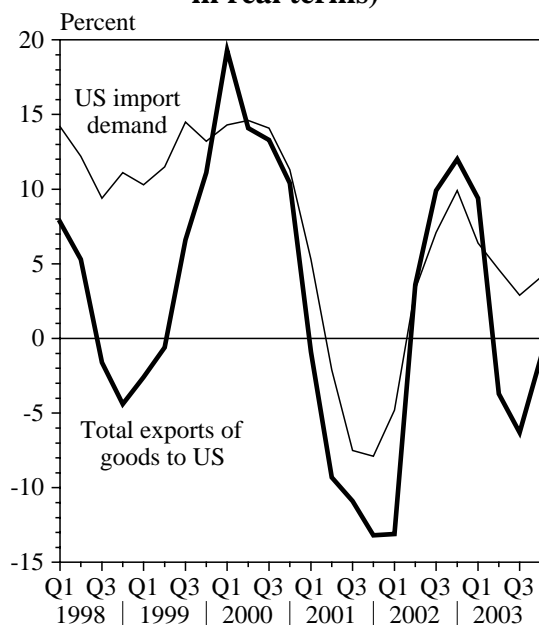
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.21

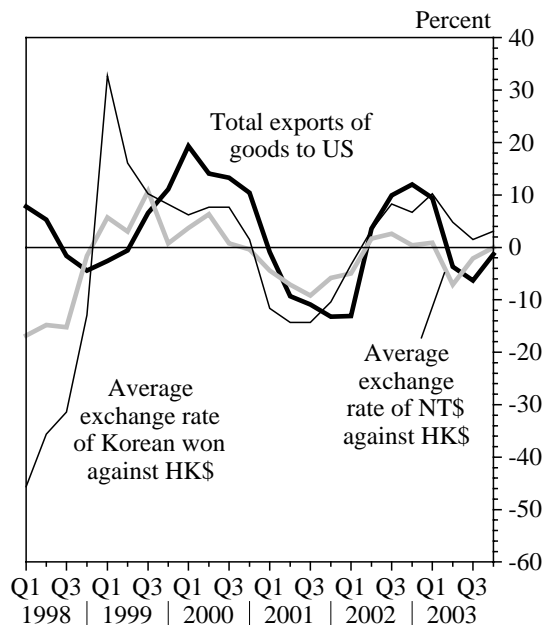
2.21 On the other hand, total exports of goods to the *United States* were weak in 2003, with a 1.4% decline in real terms, in contrast to a 3.7% increase in 2002. The growth pace in Hong Kong's exports to this market was actually still hectic early in the year, helped by better price competitiveness of Hong Kong's exports from the earlier weakening in the US dollar. Exports to this market started to fall off in the second quarter, upon a distinct deceleration in US import demand particularly for consumer goods towards the middle of the year. Conceivably, this was partly due to the cut-back in orders at a time when the war tension in Iraq loomed high. But more importantly, the structural shift away from re-exports towards offshore trade had become more pronounced in the second half of the year, as the further expansion in port capacity in Shenzhen had led to more goods manufactured in South China being shipped out directly from there.

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)



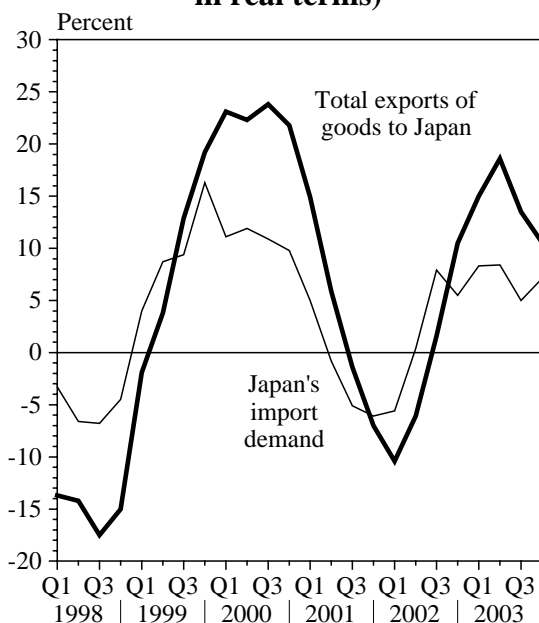
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.22

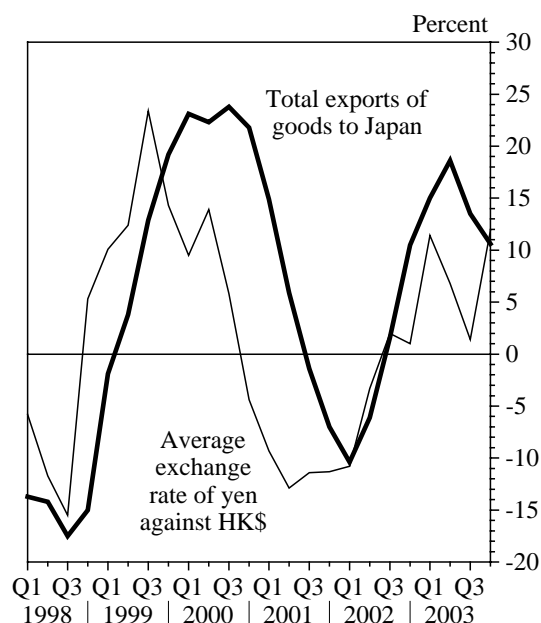
2.22 In contrast, total exports of goods to *Japan* sustained strong growth momentum throughout the year, leaping by 14.2% in real terms in 2003, as against a 1.0% decline in 2002. The distinct improvement was broadly based, underpinned by improved import demand in Japan as its economy revived further, as well as by the further strengthening in the yen.

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)



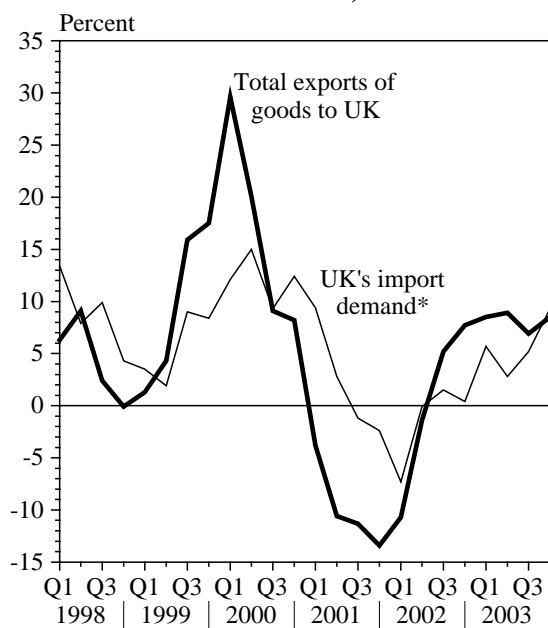
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.23

2.23 Total exports of goods to the *United Kingdom* sustained steady and appreciable growth throughout the year, yielding an 8.1% increase in real terms for the whole of 2003. This was a notable improvement from the meagre 0.7% rise in 2002. As with exports to Japan, the rebound in UK's import demand, together with the further strengthening in the pound sterling, were the key factors lifting the performance of exports to this market.

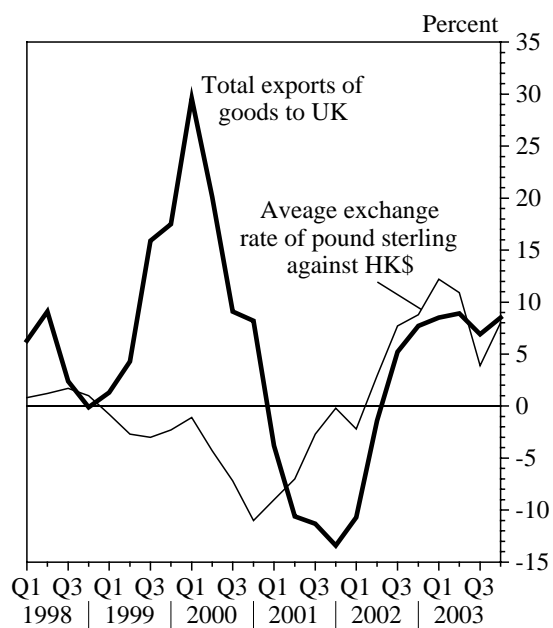
Diagram 2.14

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



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

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



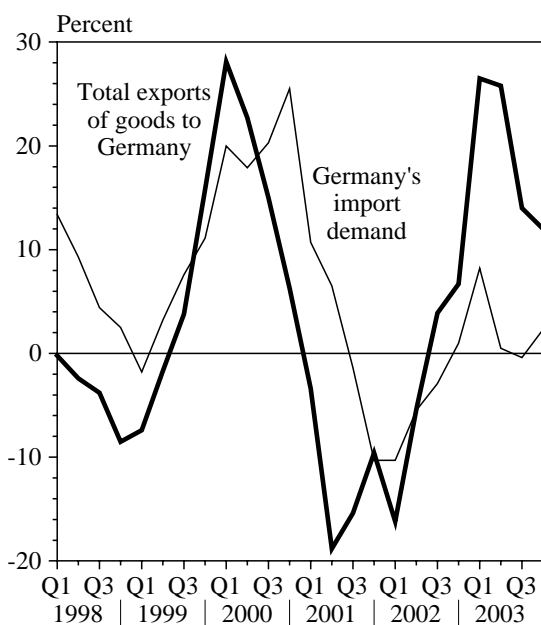
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.24

2.24 The pick-up in total exports of goods to *Germany* was even more distinct. After a 2.4% decline in 2002, these exports rebounded sharply to an 18.6% rise in real terms in 2003. Import demand in Germany was actually quite subdued in most of the year. Yet with the support of a strong euro, and with the increasing penetration of Mainland products in this market, exports to Germany were able to sustain strong performance during the year. There was some moderation in the growth rate as the base of comparison shifted higher after the middle of the year.

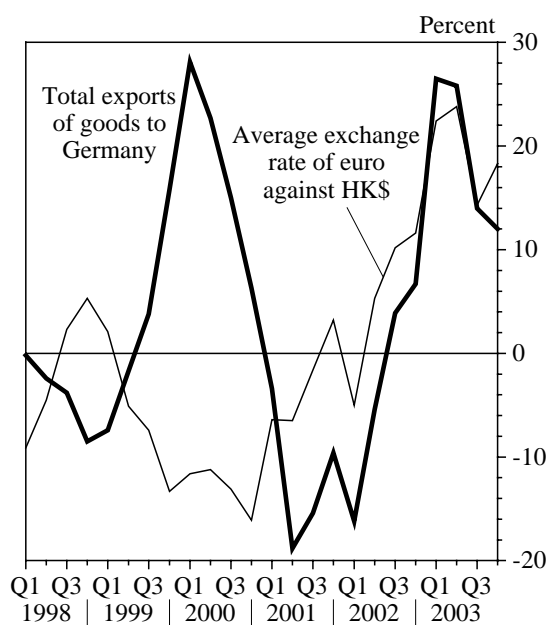
Diagram 2.15

Total exports of goods to Germany and Germany's import demand (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.

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



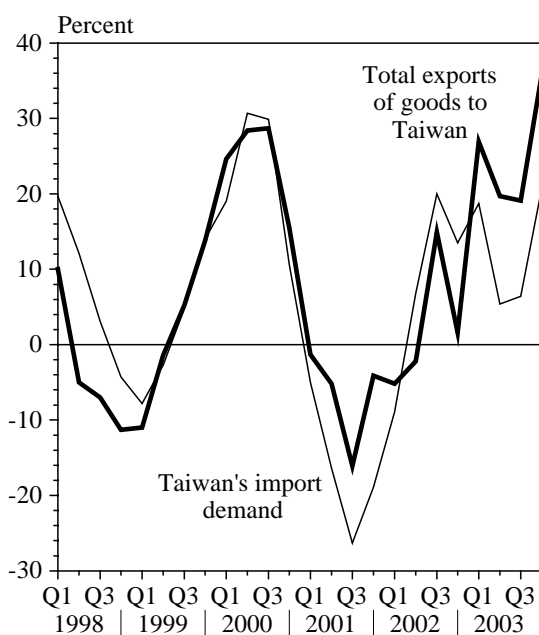
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.25

2.25 Total exports of goods to *Taiwan* accentuated to a highly distinct growth at 25.4% in real terms in 2003, from just a 2.1% rise in 2002. Exports of material inputs to this market were robust all through the year, in line with the trend in Taiwan's exports. Exports of capital goods also increased strongly, with a much larger leap in the earlier months. Exports of consumer goods bounced up visibly in the later months.

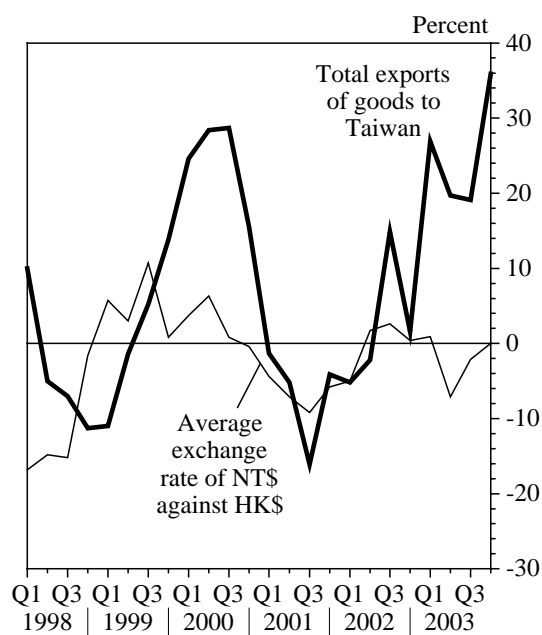
Diagram 2.16

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)



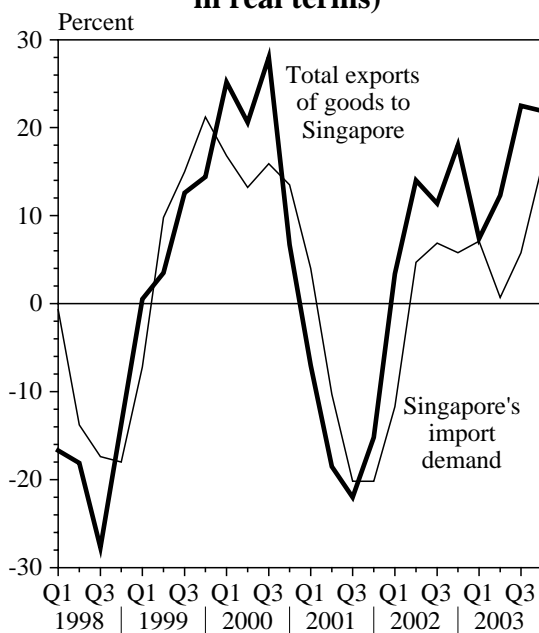
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.26

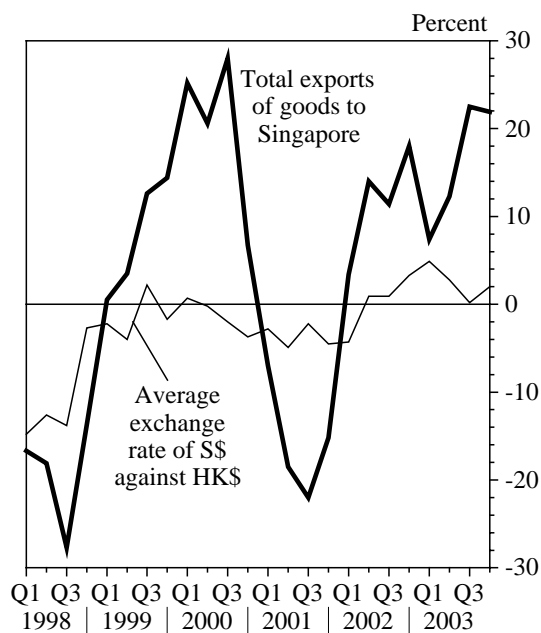
2.26 Total exports of goods to *Singapore* maintained solid growth in the early months of the year, and then advanced markedly to double-digit growth in the ensuing months. For 2003 as a whole, there was a 16.4% surge in real terms, further up from the already notable rise by 11.7% in 2002. The gain was concentrated in exports of capital goods, more than offsetting the dip in exports of material inputs and some moderation in exports of consumer goods.

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)

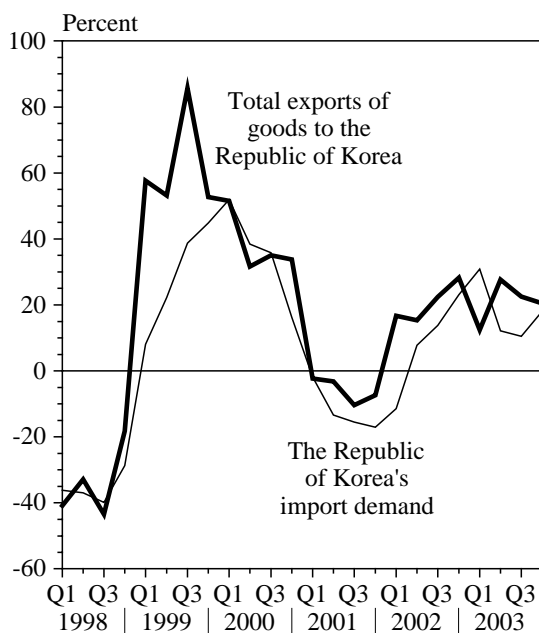


Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.27

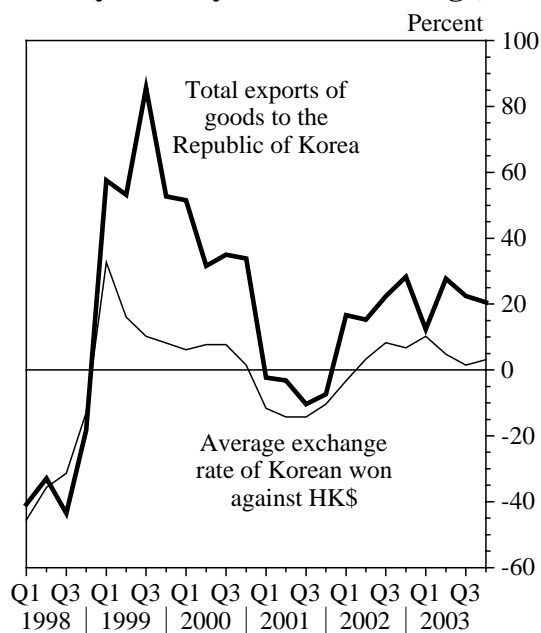
2.27 Total exports of goods to the *Republic of Korea*, having already soared by 20.8% in 2002, surged further by 20.7% in real terms in 2003. There were strong increases during most of the year, with the gain concentrated in exports of capital goods and material inputs on the back of the vibrant export performance in this country. Exports of consumer goods also attained a solid rise.

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)



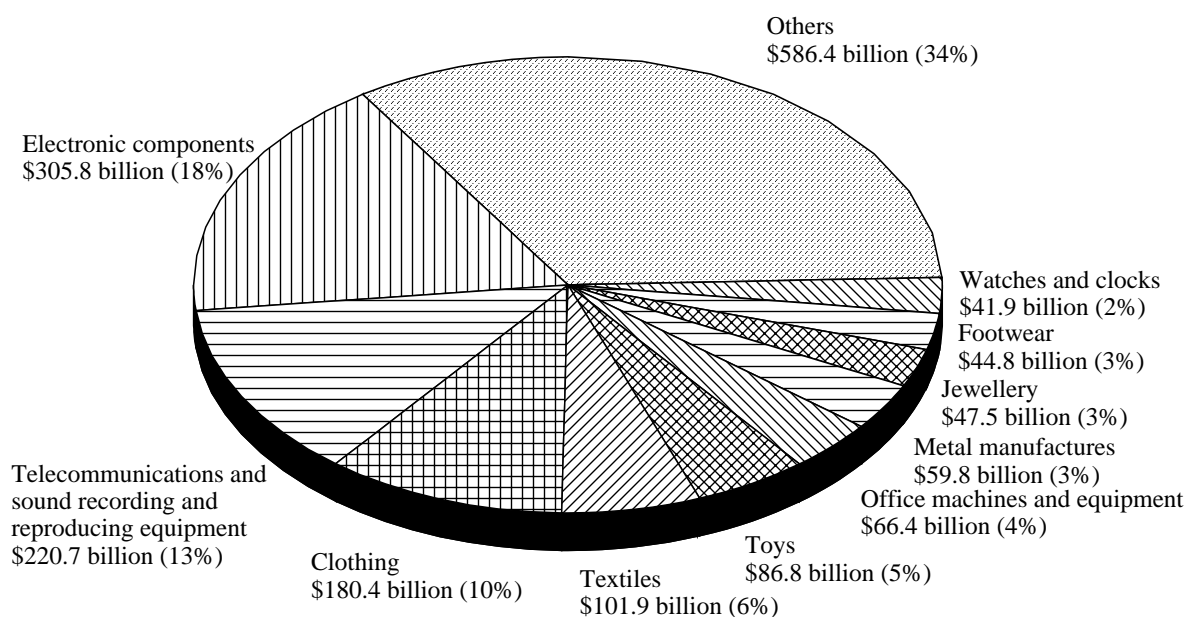
Note : (+) represents appreciation and (-) represents depreciation of the Korean won against HK\$.

/2.28

2.28 Analysed by major *commodity group*, electronic components continued to account for the largest share in Hong Kong's total exports of goods, at 18% of the total value in 2003. This was followed by telecommunications and sound recording and reproducing equipment (with a share of 13%), clothing (10%), textiles (6%), toys (5%), and office machines and equipment (4%). The pick-up in export performance in 2003 spanned across many of the major commodity groups. Specifically, exports of electronic components and of telecommunications products, having both soared by more than 20% in 2002, surged even more in 2003. Exports of clothing turned up to a moderate increase in 2003, reversing the small decline in 2002. Exports of toys also had a relative improvement. On the other hand, exports of textiles moderated somewhat in growth in 2003. Exports of office machines and equipment fell off in 2003, after a distinct surge in 2002.

Diagram 2.19

Total exports of goods by major commodity group in 2003



Total exports of goods in 2003 : \$1,742.4 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>Toys</u>	<u>Office machines and equipment</u>
2002	Annual	20.4	24.6	-1.1	5.5	1.4	31.1
	H1	9.4	10.7	-5.5	2.3	-5.2	36.4
	H2	30.9	36.3	2.4	8.6	6.0	26.4
	Q1	5.1	6.6	-7.7	-7.3	-12.6	37.8
	Q2	13.6	14.7	-3.6	10.3	1.5	35.0
	Q3	22.8	40.1	5.4	5.5	-1.8	18.7
	Q4	39.0	32.7	-0.9	11.9	17.5	33.9
2003	Annual	39.8	27.2	2.5	3.4	2.3	-5.7
	H1	39.3	33.7	5.5	7.1	7.9	-4.6
	H2	40.2	22.8	0.4	0.1	-1.3	-6.7
	Q1	37.2	37.2	9.6	16.2	10.0	-5.9
	Q2	41.2	30.4	1.9	0.8	6.3	-3.2
	Q3	39.2	18.3	1.3	-5.6	-3.1	2.0
	Q4	41.1	27.2	-0.7	5.7	0.9	-14.4

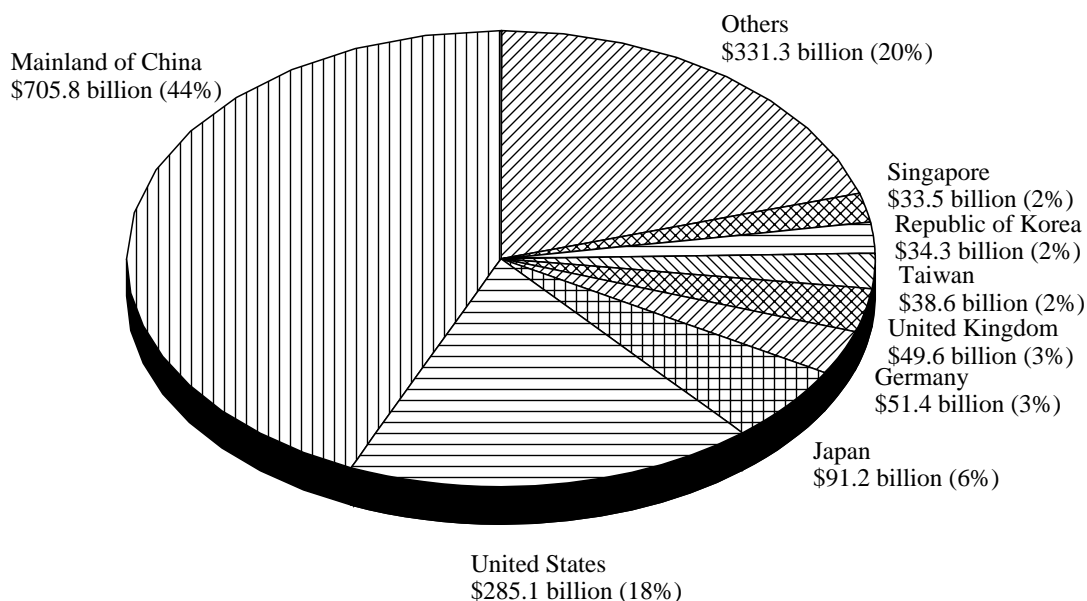
Re-exports

2.29 Re-exports continued to account for a predominant share of total exports of goods, at 93% by value in 2003, further up from 92% in 2002. Analysed by major *market*, the Mainland remained the largest market for Hong Kong's re-exports, taking up 44% of the total value in 2003. The United States came next (with a share of 18%), followed by Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (2%), the Republic of Korea (2%), and Singapore (2%).

/Diagram 2.20

Diagram 2.20

Re-exports by major market in 2003



Total re-exports in 2003 : \$1,620.7 billion

Table 2.16

Value of re-exports by market

	<u>2002</u>			<u>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>Rate</u> <u>of change</u> (%)
All markets	1,429.6	100	7.7	1,620.7	100	13.4
Mainland of China	571.9	40	15.2	705.8	44	23.4
United States	291.0	20	3.1	285.1	18	-2.0
Japan	80.7	6	-3.4	91.2	6	12.9
Germany	44.6	3	-2.6	51.4	3	15.3
United Kingdom	46.6	3	-0.3	49.6	3	6.4
Taiwan	30.2	2	0.6	38.6	2	27.9
Republic of Korea	29.3	2	18.8	34.3	2	17.3
Singapore	29.4	2	9.3	33.5	2	13.7
Rest of the world	305.8	21	5.1	331.3	20	8.3

/2.30

2.30 With the exception of those to the United States, re-exports to all major markets improved distinctly in performance in 2003. Again, the growth was particularly robust in the East Asian markets, with re-exports to many of the constituent economies including the Mainland, Japan, Taiwan and Singapore not only registering double-digit increases in 2003, but also with a much faster growth than in 2002. Re-exports to the Republic of Korea attained an increase in excess of 20% in 2003, only slightly down from that in 2002. Re-exports to Germany and the United Kingdom also picked up distinctly in growth. Re-exports to the United States fell off in 2003, along with an accelerated shift to offshore trade in the latter part of the year.

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	Annual	25.6	-0.1	14.6	18.9	8.9	32.7	21.2	17.1
	H1	28.6	4.6	17.6	27.6	8.6	33.4	21.0	10.4
	H2	23.2	-3.7	12.1	12.5	9.2	32.0	21.3	23.1
	Q1	32.3	12.2	16.0	28.4	8.2	37.3	13.4	8.2
	Q2	25.5	-1.2	19.2	26.9	8.8	29.8	29.0	12.5
	Q3	21.3	-6.1	13.7	13.8	8.0	25.0	22.1	24.3
	Q4	25.2	-1.0	10.5	11.3	10.4	38.9	20.6	21.9

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

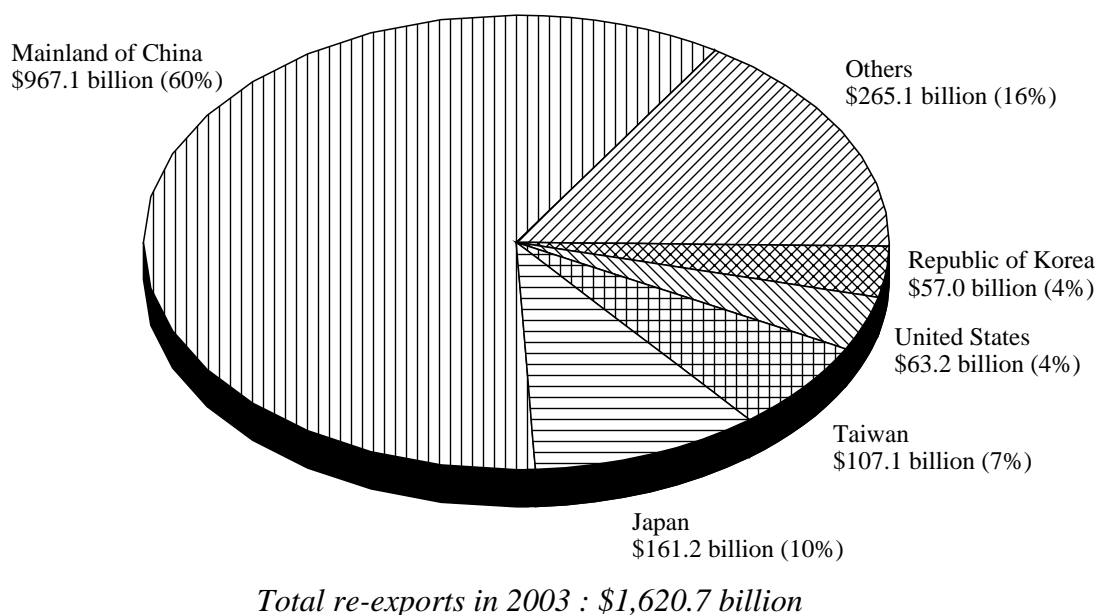
/2.31

2.31 Reflecting the prominent role of Hong Kong as the trade conduit channelling the Mainland's products to the rest of the world, the Mainland was the largest *source* of Hong Kong's re-exports, supplying 60% by value of the goods re-exported through Hong Kong in 2003. The other major sources were Japan (with a share of 10%), Taiwan (7%), the United States (4%), and the Republic of Korea (4%).

2.32 Re-exports sourced from almost all of the major suppliers accelerated further to double-digit growth in 2003. Re-exports sourced from the Republic of Korea and Japan fared particularly well. Re-exports sourced from the United States were however weaker.

Diagram 2.21

Re-exports by major source in 2003



/Table 2.18

Table 2.18**Value of re-exports by source**

	<u>2002</u>			<u>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>Rate</u> <u>of change</u> (%)
All sources	1,429.6	100	7.7	1,620.7	100	13.4
Mainland of China	864.0	60	6.9	967.1	60	11.9
Japan	135.8	9	8.1	161.2	10	18.7
Taiwan	94.3	7	17.4	107.1	7	13.7
United States	62.9	4	-3.5	63.2	4	0.4
Republic of Korea	47.2	3	18.7	57.0	4	20.7
Rest of the world	225.4	16	8.3	265.1	16	17.6

Domestic exports

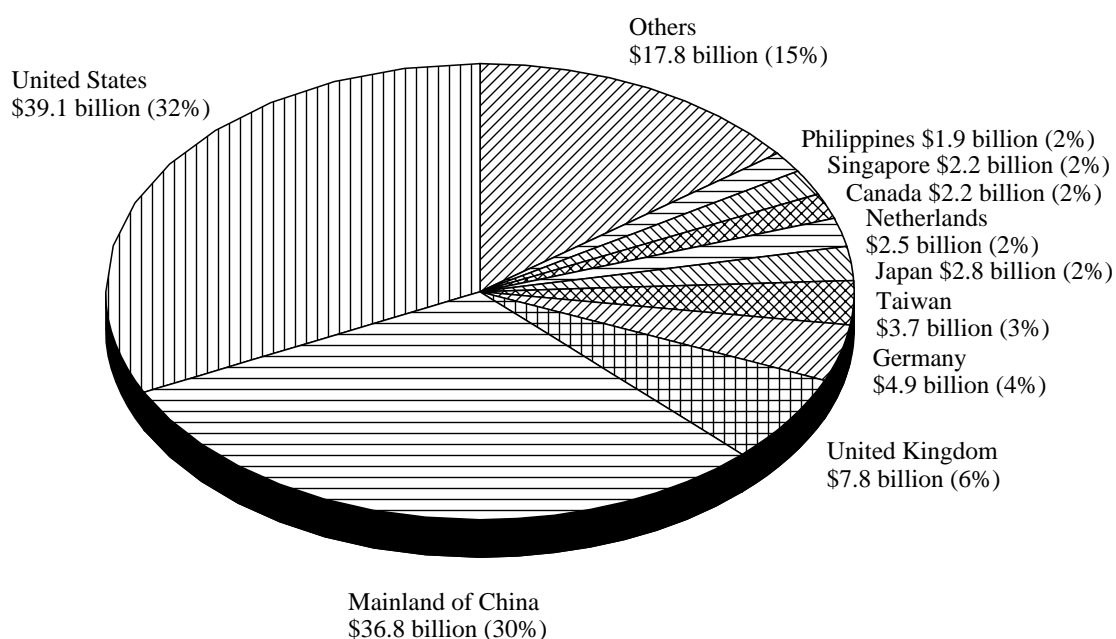
2.33 The United States and the Mainland were the two largest *markets* for Hong Kong's domestic exports, taking up 32% and 30% respectively of the total value in 2003. They were followed by the United Kingdom (with a share of 6%), Germany (4%), Taiwan (3%), Japan (2%), the Netherlands (2%), Canada (2%), Singapore (2%), and the Philippines (2%).

2.34 The performance of domestic exports by major market was mixed. Domestic exports to the United States, the Mainland and the Netherlands remained on distinct declines in 2003. Domestic exports to Taiwan fell markedly in most of 2003, yet turned up to a notable increase towards the year-end. Domestic exports to Japan, Germany and the United Kingdom rebounded sharply from the plunge in 2002 to appreciable growth in 2003.

/Diagram 2.22

Diagram 2.22

Domestic exports by major market in 2003



Total domestic exports in 2003 : \$121.7 billion

Table 2.19

Value of domestic exports by market

	<u>2002</u>			<u>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>Rate</u> <u>of change</u> (%)
All markets	130.9	100	-14.7	121.7	100	-7.1
United States	41.9	32	-11.9	39.1	32	-6.6
Mainland of China	41.4	32	-16.5	36.8	30	-11.2
United Kingdom	7.6	6	-11.5	7.8	6	2.3
Germany	4.3	3	-26.6	4.9	4	13.6
Taiwan	4.4	3	-17.9	3.7	3	-16.7
Japan	3.0	2	-26.9	2.8	2	-4.1
Netherlands	3.5	3	-24.9	2.5	2	-28.7
Canada	2.4	2	-22.0	2.2	2	-7.2
Singapore	2.2	2	-18.4	2.2	2	3.5
Philippines	1.7	1	-7.0	1.9	2	10.3
Rest of the world	18.7	14	-8.4	17.8	15	-4.4

/Table 2.20

Table 2.20

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

		<u>United States</u>	<u>Mainland of China</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Japan</u>	<u>Netherlands</u>	<u>Canada</u>
2002	Annual	-9.5	-13.5	-10.2	-25.7	-11.4	-22.0	-4.5	-19.9
	H1	-15.2	-5.9	-22.8	-29.7	-3.1	-17.1	7.0	-28.9
	H2	-4.5	-20.3	1.0	-21.4	-19.1	-26.5	-16.2	-12.1
	Q1	-18.1	3.5	-22.8	-33.3	-0.8	-12.9	14.0	-24.7
	Q2	-12.7	-13.3	-22.7	-25.6	-5.3	-21.4	2.4	-32.4
	Q3	1.5	-19.1	-0.5	-17.6	-5.8	-27.2	-0.3	-22.5
	Q4	-10.9	-21.7	2.5	-25.0	-29.6	-25.7	-30.9	3.8
2003	Annual	-9.6	-10.5	3.4	15.8	-19.1	3.5	-37.6	-4.4
	H1	-15.3	-18.8	9.8	13.3	-32.3	-2.1	-45.0	6.3
	H2	-5.2	-1.8	-0.9	18.1	-4.4	9.5	-28.1	-11.9
	Q1	-9.1	-23.2	10.4	10.2	-27.7	-6.4	-34.2	6.3
	Q2	-20.3	-14.6	9.2	16.5	-36.9	2.7	-53.0	6.2
	Q3	-7.1	-2.9	0.7	15.6	-21.3	5.7	-28.5	-9.0
	Q4	-2.9	-0.6	-2.5	20.7	13.5	13.6	-27.5	-15.1

Outward processing trade

2.35 Notwithstanding the on-going structural shift towards direct shipment through the Mainland ports, outward processing trade⁽⁹⁾ involving the Mainland still played an important role in Hong Kong's overall merchandise trade. The proportion of exports for outward processing in Hong Kong's total exports of goods to the Mainland fell to 43% in the first three quarters of 2003, from 46% in the same period in 2002. The proportion of imports after outward processing in Hong Kong's imports of goods from the Mainland also fell, to 71% in the first three quarters of 2003, from 74% in the same period in 2002. As to re-exports of Mainland origin, 79% were products of outward processing in the first three quarters of 2003, down from 83% in the same period in 2002.

2.36 In tandem with buoyant exports from the Mainland, total exports of goods to the Mainland for outward processing, at \$234.1 billion for the first three quarters of 2003 taken together, leaped by 14.6% in value terms over a year earlier, markedly up from the 7.0% rise in 2002. In line with robust domestic demand in the Mainland, total exports of goods to the Mainland for

/meeting

meeting its own demand, at \$305.1 billion for the first three quarters of 2003 taken together, had an even sharper advance, surging by 26.4% in value terms over a year earlier, likewise markedly up from the 17.1% increase in 2002. Thus, the trend of decline in relative significance of outward processing in Hong Kong's exports to the Mainland should be viewed in conjunction with the continuously ascending overall importance of the Mainland as an export market for Hong Kong.

Table 2.21

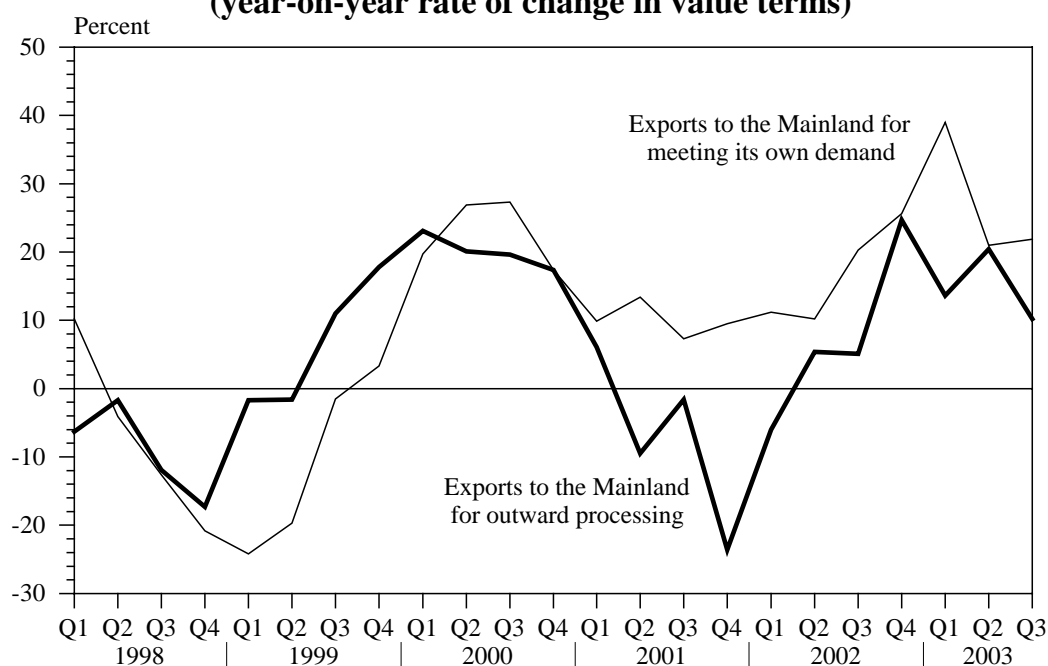
**Total exports of goods to the mainland of China
for outward processing and for meeting its own demand
(year-on-year rate of change in value terms (%))**

		<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>
2002	Annual	12.3	7.0	17.1
	H1	5.4	-0.1	10.6
	H2	18.7	13.8	23.0
	Q1	2.6	-6.0	11.2
	Q2	7.9	5.4	10.2
	Q3	12.8	5.1	20.3
	Q4	25.2	24.7	25.6
	2003	H1	23.8	17.3
Q1-Q3		21.0	14.6	26.4
Q1		27.3	13.6	39.0
Q2		20.8	20.4	21.0
Q3		16.5	10.2	21.9

/Diagram 2.23

Diagram 2.23

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



2.37 Imports of goods from the Mainland after outward processing reverted to increase, rising by 5.0% in value terms over a year earlier to \$404.8 billion for the first three quarters of 2003 taken together, after a 0.2% decline in 2002. Re-exports of Mainland origin after outward processing rose mildly further, by 1.6% in value terms over a year earlier to \$438.2 billion for the first three quarters of 2003 taken together, after a 2.8% increase in 2002.

/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 (%))**

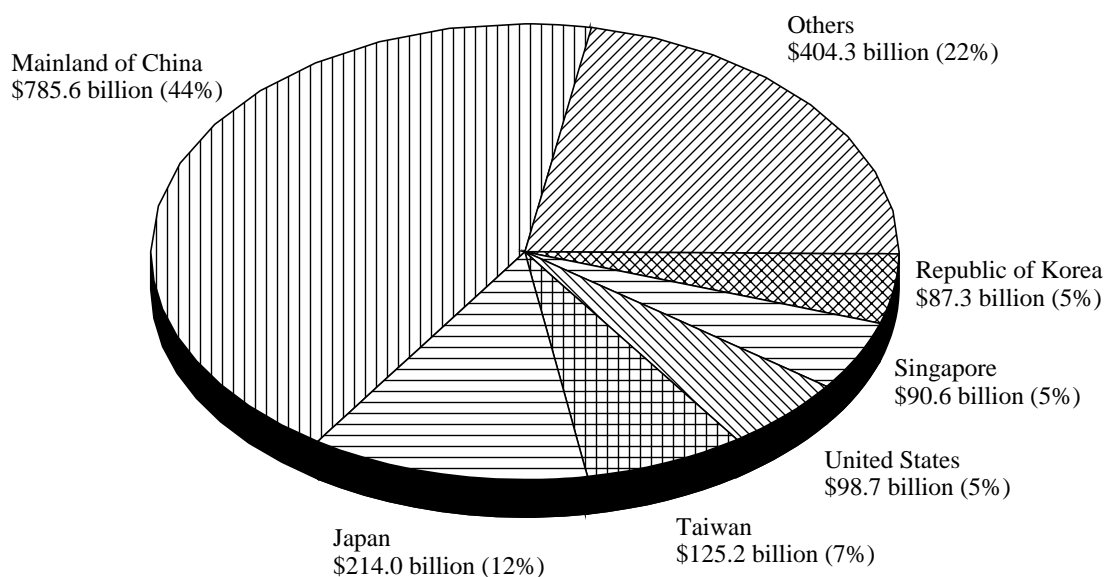
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2002	Annual	-0.2	2.8
	H1	-8.1	-5.2
	H2	7.0	10.4
	Q1	-9.0	-5.3
	Q2	-7.3	-5.0
	Q3	6.3	4.3
	Q4	7.8	17.2
2003	H1	6.3	4.0
	Q1-Q3	5.0	1.6
	Q1	5.4	0.1
	Q2	7.1	7.6
	Q3	3.1	-2.3

Imports of goods

2.38 The Mainland continued to be the largest *source* of Hong Kong's imports of goods, accounting for 44% of the total value in 2003. This was followed by Japan (with a share of 12%), Taiwan (7%), the United States (5%), Singapore (5%), and the Republic of Korea (5%).

2.39 Amidst the improved re-export performance, imports from many of the East Asian sources accentuated to even more pronounced growth in 2003, with the growth concentrated more in the first half of the year. Imports from Singapore and the Republic of Korea, in particular, registered increases well in excess of 20% in real terms in 2003. Imports from the United States reverted to increase in 2003 after the setback in 2002, with a strong surge towards the year-end.

/Diagram 2.24

Diagram 2.24**Imports of goods by major source in 2003**

Total imports of goods in 2003 : \$1,805.8 billion

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

	<u>2002</u>			<u>2003</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Rate</u> of change (%)	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Rate</u> of change (%)
All sources	1,619.4	100	3.3	1,805.8	100	11.5
Mainland of China	717.1	44	5.1	785.6	44	9.6
Japan	182.6	11	3.4	214.0	12	17.2
Taiwan	115.9	7	7.4	125.2	7	8.0
United States	91.5	6	-12.8	98.7	5	7.9
Singapore	75.7	5	3.9	90.6	5	19.6
Republic of Korea	76.0	5	7.3	87.3	5	15.0
Rest of the world	360.7	22	2.2	404.3	22	12.1

/Table 2.24

Table 2.24

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

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>Singapore</u>	<u>Republic of Korea</u>
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	Annual	10.3	14.4	9.0	11.1	24.3	21.6
	H1	12.8	16.5	7.7	8.2	27.8	18.1
	H2	8.2	12.6	10.0	13.6	21.4	24.6
	Q1	15.9	23.1	11.7	10.7	31.0	18.7
	Q2	10.3	10.8	4.3	6.0	24.8	17.5
	Q3	6.5	11.0	4.8	2.8	23.9	22.8
	Q4	9.9	14.1	15.3	24.6	19.2	26.4

Retained imports

2.40 Japan remained the largest *source* of Hong Kong's retained imports, accounting for about 16% of the total value in 2003. Other major suppliers of retained imports included the Republic of Korea (with a share of 10%), Singapore (8%), the United States (8%), the Mainland (7%), and Taiwan (5%).

2.41 Analysed by *end-use category*, retained imports of consumer goods had modest growth at 1.5% in real terms in 2003, having increased by 5.7% in 2002. Such retained imports grew visibly in the first quarter of 2003, underpinned by the upsurge in incoming visitors and generally improved local consumer spending in most of the quarter. There was a temporary yet profound setback in the second quarter upon the spread of SARS. Yet a prompt pick-up ensued, upon a steady recovery in local demand and more notably a strong influx in incoming visitors. Retained imports of foodstuffs had a distinct

/setback

setback in the earlier months of 2003, conceivably also affected much by the outbreak of SARS. Yet with a strong rebound towards the year-end more than offsetting the earlier setback, such retained imports rose by 1.7% in real terms for 2003 as a whole, albeit slower than the 5.3% increase in 2002.

2.42 Retained imports of capital goods reversed from a 13.6% plunge in real terms in 2002 to an appreciable growth at 6.0% in 2003. Such retained imports had a strong start in the first quarter of 2003, helped in part by a low base of comparison a year earlier. There was then a dip in the second quarter upon the impact of SARS. A turnaround occurred in the third quarter, albeit aided in part by the intake of aircraft ordered earlier. Growth accentuated distinctly further in the fourth quarter, upon improved business outlook and also with the delivery of several more aircraft. Analysed by broad type, intake of capital goods in the “others” category had the most distinct rebound in 2003, due to the intake of some aircraft in the latter part of the year. Intake of telecommunications equipment and of office equipment also reverted to increase. On the other hand, intake of construction machinery had a heavy slump, while intake of industrial machinery fell further.

2.43 Retained imports of raw materials and semi-manufactures rose visibly further, by 8.5% in real terms in 2003, following a 9.8% leap in 2002. Retained imports of fuels however fell back by 1.4% in real terms in 2003, after a 4.8% rise in 2002.

/Table 2.25

Table 2.25

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
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	Annual	1.5	1.7	6.0	8.5	-1.4
	H1	-2.2	-5.4	3.5	11.2	-2.7
	H2	4.9	8.7	8.1	6.0	-0.3
	Q1	7.7	-4.6	10.6	18.0	9.1
	Q2	-10.3	-6.2	-2.8	5.9	-12.8
	Q3	3.2	1.5	5.1	-6.7	0.6
	Q4	6.7	15.4	11.1	19.6	-1.2

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	Annual	-7.3	-19.1	6.5	12.4	19.8
	H1	-2.3	-16.6	19.6	-6.5	8.7
	H2	-11.8	-21.7	-3.1	29.4	30.3
	Q1	3.9	-9.4	52.9	-12.9	16.0
	Q2	-7.6	-21.6	-2.0	1.1	2.1
	Q3	-7.9	-28.6	2.9	29.3	-5.0
	Q4	-15.4	-14.1	-9.0	29.5	68.4

Note : See Note (a) to Table 2.7.

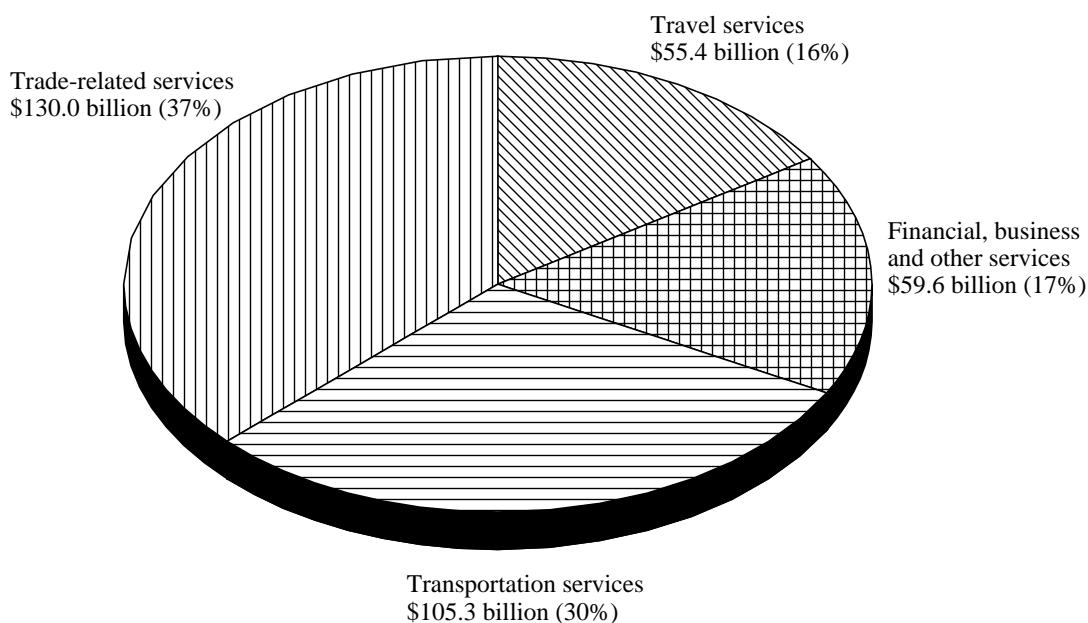
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Invisible trade

Exports of services

2.44 Trade-related services (comprising mainly offshore trade) took up the largest share in Hong Kong's exports of services, at 37% by value in 2003. Exports of transportation services came next (with a share of 30%), followed by exports of financial, business and other services (17%) and exports of travel services (16%). The much reduced share of travel services in 2003, which used to account for around one-fifth of exports of services, was mainly due to the distinct setback in inbound tourism during the year caused by SARS.

Diagram 2.25
Exports of services by major service group in 2003



Exports of services in 2003 : \$350.3 billion

2.45 Exports of services grew by 5.5% in real terms in 2003, lesser than the 12.2% surge in 2002. This lesser growth was entirely due to the plunge in the second quarter caused by the spread of SARS.

/2.46

2.46 Within the total, exports of travel services dipped by 4.8% in real terms in 2003, in stark contrast to the 27.8% surge in 2002. Inbound tourism was still vibrant in the first quarter of 2003, even amidst heightened war tension in Iraq. Then, the spread of SARS from late March to most of May dealt a severe blow to the performance in the second quarter. But with a sharp revival in visitors from the Mainland after the epidemic was brought under control in late May, and also with added boost from the launch of the Individual Visit Scheme for Mainland visitors to Hong Kong since late July, exports of travel services showed a distinct turnaround in the third quarter and picked up to an even faster growth in the fourth quarter. Exports of transportation services fell slightly, by 0.1% in real terms in 2003, having leaped by 11.5% in 2002. The setback was again due to the impact of SARS, which caused air passenger movements to plummet in late March and even more in the second quarter. But in tandem with the swift turnaround in inbound tourism, transportation services resumed growth in the latter part of the year. On the other hand, its growth tended to be held back by reduced sea freight services brought about by the fall-off in exports to the United States.

2.47 Exports of trade-related services were affected much less by SARS, with a further significant increase by 16.5% in real terms in 2003, further up from the 13.5% increase in 2002. Offshore trade, as the main component of trade-related services, continued to thrive upon the Mainland's robust external trade flows. Exports of financial, business and other services turned up to a mild increase by 3.0% in real terms in 2003, having declined by 0.7% in 2002.

/Table 2.27

Table 2.27**Exports of services by major service group[^]
(year-on-year rate of change in real terms (%))***Of which :*

		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial, business and other services</u>
2002	Annual	12.2	13.5	11.5	27.8	-0.7
	H1	7.7	7.9	6.6	19.1	0.9
	H2	16.1	17.7	16.3	36.1	-2.2
	Q1	6.3	7.1	6.7	10.9	1.4
	Q2	9.1	8.7	6.5	26.4	0.3
	Q3	14.0	16.5	15.4	29.1	-3.5
	Q4	18.1	18.8	17.2	42.3	-0.9
2003	Annual	5.5	16.5	-0.1	-4.8	3.0
	H1	0.1	17.6	-3.4	-24.8	-0.1
	H2	9.9	15.8	2.9	12.0	6.1
	Q1	12.7	20.1	8.7	20.6	1.5
	Q2	-12.0	15.0	-14.6	-60.8	-1.7
	Q3	7.8	13.9	*	10.2	5.4
	Q4	11.8	17.5	5.9	13.4	6.7

Notes : (^) Revised series after incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.05%.

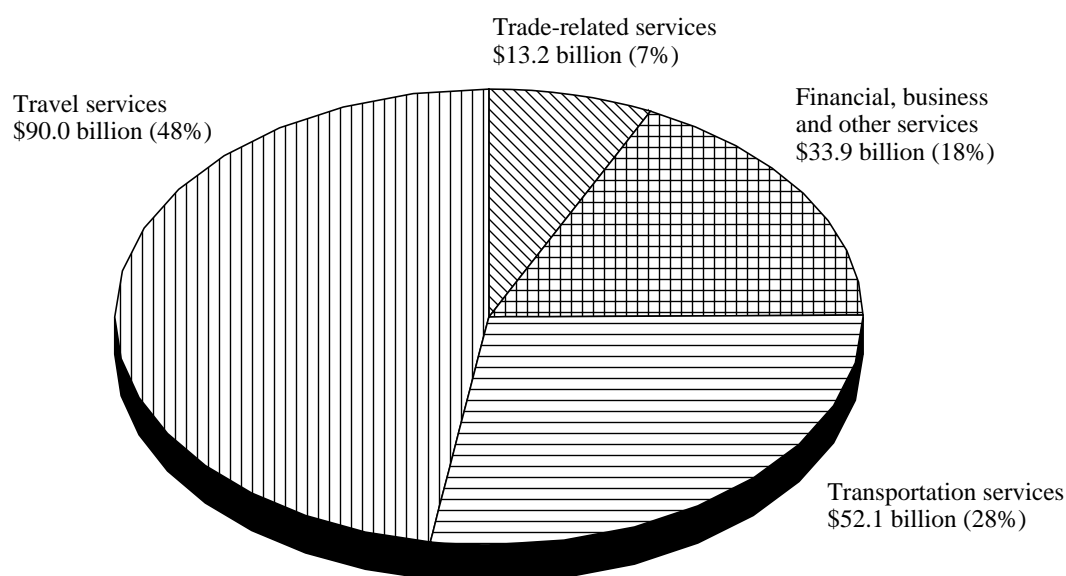
Imports of services

2.48 Despite the setback in outbound tourism during the year, travel services still accounted for the largest share in Hong Kong's imports of services, at 48% by value in 2003. This was followed by imports of transportation services (with a share of 28%), imports of financial, business and other services (18%), and imports of trade-related services (7%).

/Diagram 2.26

Diagram 2.26

Imports of services by major service group in 2003



Imports of services in 2003 : \$189.2 billion

2.49 Imports of services were likewise weak, slackening further to a 4.4% decline in real terms in 2003, after a meagre 0.2% rise in 2002. The fall-off was again concentrated in the second quarter, owing to the impact of SARS.

2.50 Within the total, imports of travel services plummeted by 9.7% in real terms in 2003, down considerably from the 0.5% decline in 2002. Residents' spending abroad was already subdued in the early part of 2003. It was aggravated by the spread of SARS in the second quarter, especially when some of the neighbouring places imposed arrival restrictions and post-arrival quarantine on passengers travelling from Hong Kong. But as those measures were subsequently lifted and as the SARS impact went off, imports of travel services improved progressively in the latter part of the year. Imports of transportation services were likewise hit by SARS, albeit to a relatively lesser extent. There was a 0.9% fall in real terms in 2003, after a 2.8% rise in 2002. The setback was again concentrated in the second quarter, mainly dragged down by the slump in air passenger movements in face of SARS. Cargo inflows were actually buoyant early in the year, but dwindled as the spread of SARS severely dampened imports for local use. Then, after the SARS impact went off, imports of transportation services bounced up to distinct positive growth towards the year-end.

/2.51

2.51 As with exports of trade-related services, imports of trade-related services were not affected much by SARS. There was a 9.5% increase in real terms in 2003, up from the 6.8% rise in 2002. This tied in well with the strong uptrend in external trade throughout the year. Imports of financial, business and other services also turned up to increase, albeit by a mere 0.1% in real terms in 2003, following a 3.7% decline in 2002.

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	Annual	-4.4	-9.7	-0.9	9.5
	H1	-11.5	-18.9	-7.4	10.5	-2.3
	H2	2.3	-0.3	5.0	8.9	2.4
	Q1	-3.9	-10.1	3.7	12.9	*
	Q2	-19.6	-29.1	-17.6	8.1	-4.6
	Q3	0.5	-0.1	-0.4	7.1	0.9
	Q4	4.2	-0.5	10.8	10.5	3.7

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

/Overall

Overall balance of payments⁽¹⁰⁾

2.52 In the third quarter of 2003, the current account surplus enlarged considerably, to \$43.0 billion, equivalent to 13.5% of GDP in that quarter. These were markedly up from the respective surplus figures of \$18.0 billion and 6.3% in the second quarter, when inbound tourism and related service exports were severely hit by the spread of SARS. The distinct gain in the third quarter was attributable in part to a much dwindled visible trade deficit, upon a swift cut-back in imports in face of the fall-off in demand. In addition, it was due to a significant rise-back in the invisible trade surplus, as inbound tourism recovered fast particularly with the aid from the Individual Visit Scheme for Mainland visitors since late July.

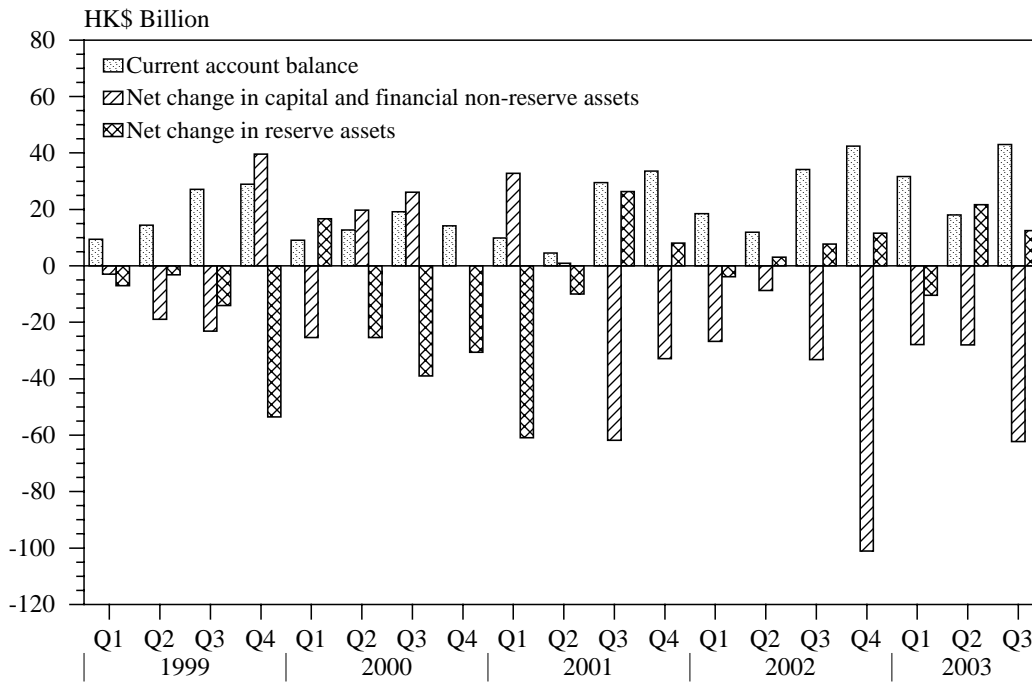
2.53 In the capital and financial account, there was however a larger net outflow of financial non-reserve assets in the third quarter of 2003, at \$61.1 billion, equivalent to 19.2% of GDP in that quarter. These compared with the respective net outflow figures of \$25.2 billion and 8.7% in the second quarter. Inward direct investment and foreign purchases of local equity securities actually had a notable increase in the third quarter, amidst a better investment environment locally. But at the same time, there was an even larger surge in investment in overseas debt and equity securities by Hong Kong residents, conceivably induced by an improved global economic climate. Moreover, increases in currency and deposits assets and loans assets abroad were recorded for the local banking sector. Thus there was a markedly larger net outflow of portfolio investment at \$81.0 billion, and a further substantial net outflow of other investment at \$38.2 billion, in the third quarter. These together outweighed a net inflow of direct investment at \$20.3 billion at that quarter.

2.54 Overall, there was a balance of payments deficit at \$12.5 billion in the third quarter of 2003, equivalent to 3.9% of GDP in that quarter. Reserve assets decreased correspondingly by the same amount. Together with a deficit of \$11.3 billion in the first half of the year, there was a balance of payments deficit at \$23.9 billion, equivalent to 2.6% of GDP, for the first three quarters of 2003 taken together.

/Diagram 2.27

Diagram 2.27

Major balances in Hong Kong's balance of payments



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

/Table 2.29

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

	<u>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> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]
Current account ^(a)	77.5	107.0	18.5	11.9	34.1	42.4	31.6	18.0	43.0
Trade in goods	-65.0	-39.4	-12.4	-16.4	-5.0	-5.6	-16.0	-9.8	-1.4
Trade in services	115.2	144.5	26.9	32.9	38.4	46.4	35.7	28.3	41.6
External factor income flows	41.2	16.7	7.9	-1.0	4.5	5.4	15.9	1.5	5.6
Current transfers	-13.9	-14.8	-3.8	-3.6	-3.8	-3.7	-4.1	-3.5	-3.7
Capital and financial account	-97.4	-151.2	-30.6	-5.6	-25.5	-89.5	-38.4	-6.3	-49.8
Net change in capital transfers	-9.2	-15.7	-2.9	-7.6	-1.9	-3.2	-1.9	-2.8	-1.2
Net change in financial non-reserve assets	-51.7	-154.0	-23.9	-1.1	-31.2	-97.8	-26.0	-25.2	-61.1
<i>of which :</i>									
Direct investment	96.9	-60.7	-12.9	39.7	-37.2	-50.3	3.0	34.8	20.3
Portfolio investment	-322.0	-302.5	-4.1	-113.2	-87.8	-97.4	-54.8	-25.9	-81.0
Financial derivatives	39.6	51.6	2.8	24.4	6.5	17.9	12.1	22.0	37.8
Other investment	133.8	157.6	-9.6	48.0	87.3	31.9	13.6	-56.2	-38.2
Net change in reserve assets ^(b)	-36.5	18.5	-3.9	3.1	7.7	11.6	-10.4	21.7	12.5
Net errors and omissions	19.8	44.1	12.1	-6.4	-8.7	47.1	6.7	-11.8	6.8
Overall balance of payments	36.5	-18.5	3.9	-3.1	-7.7	-11.6	10.4	-21.7	-12.5

Notes : (#) Figures have been revised after incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003. Also, a number of data items for 2002 have been adjusted to incorporate the necessary changes as revealed from a data quality review conducted in January 2004.

(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.

/Box 2.3

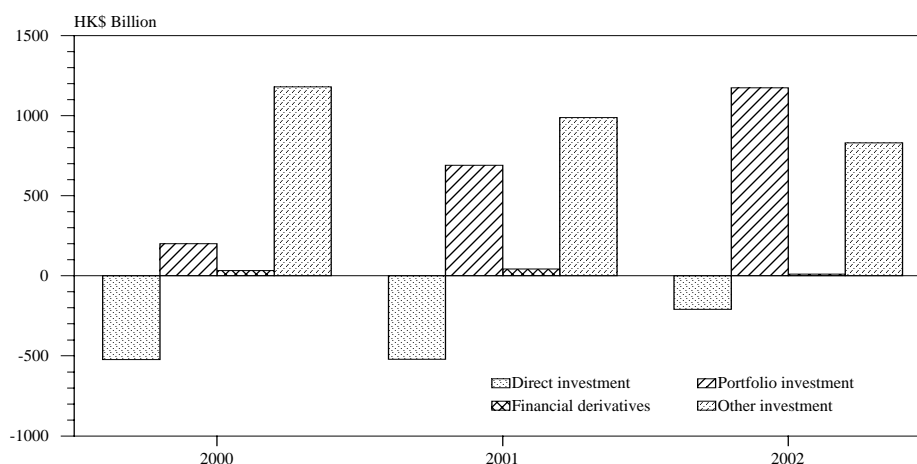
Box 2.3

Hong Kong's international investment position and external debt

Following the release of detailed balance of payments (BoP) statistics in June 2000, the availability of international investment position (IIP) and external debt (ED) statistics for publication is another notable statistical attainment in Hong Kong. IIP is a balance sheet showing the stock of an economy's external financial assets and liabilities at the end of a reference period. As to gross ED, it is the outstanding amount of those actual current, and not contingent, liabilities that require payment of principal and/or interest by the debtor at some point in the future and that are owed to non-residents by residents of an economy. Basically, it equals the sum of the non-equity liabilities components of the IIP's statement.

At end-2002, Hong Kong's net IIP stood at \$2,677.4 billion, equivalent to 213% of GDP in that year. This indicates that Hong Kong is very much a net creditor economy, with the amount of external financial assets well exceeding the amount of external financial liabilities. Amongst the major IIP components, only direct investment was in a net liability position. Yet this indicates that Hong Kong has received more direct investment from abroad than it has invested overseas.

Hong Kong's net international investment position by component
(end of period)



Such a robust net IIP bodes well for Hong Kong's external balance. Moreover, both Hong Kong's external financial assets and liabilities are substantial, reflecting that Hong Kong is a highly externally oriented economy with considerable cross-territory investment and is also a major financial centre with considerable cross-territory fund positions.

Hong Kong's external financial assets and liabilities both fell during 2001 and 2002, amidst the global economic downturn and the ensuing lacklustre economic climate. Yet with a larger dip on the liability side than on the asset side, net external financial assets actually surged, by 20% and 29% respectively during 2001 and 2002, cumulating to a 55% increase over the past two years.

As to Hong Kong's ED, it is in a healthy position, with a predominant share of the ED being associated with normal operations of the banking sector and with inward direct investment. Also, the Government has no external debt. At end-September 2003, Hong Kong's ED amounted to \$2,664.9 billion, equivalent to 216% of GDP. The banking sector takes up a large part of the overall ED, being mostly in the form of short-term inter-bank placements from overseas banks, and this reflects the role of Hong Kong as an international banking centre. As to the private non-bank sector, the level of ED other than from inward direct investment is low, indicating that it generally does not rely too much on borrowing as a source of finance.

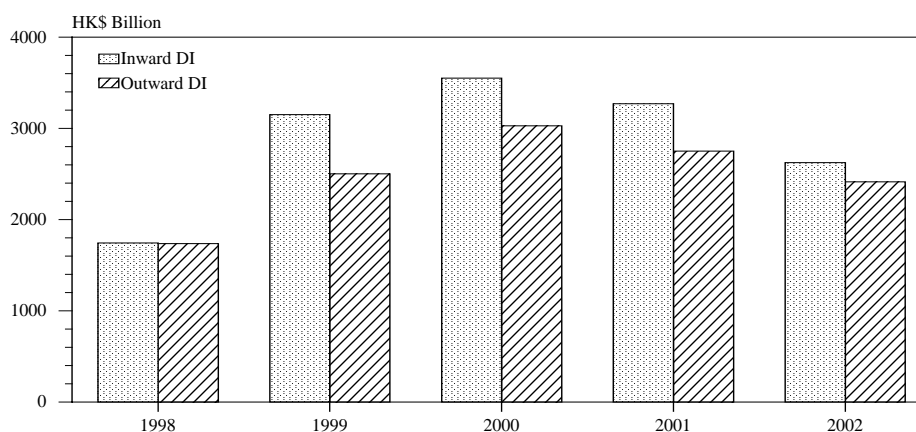
/Box 2.4

Box 2.4

Hong Kong's external direct investment

The stocks of Hong Kong's inward and outward direct investment (DI) were both very substantial over the past five years. At end-2002, the stocks of inward and outward DI at market value each amounted to about two times the size of Hong Kong's GDP.

Stocks of external DI at market value, 1998-2002



The British Virgin Islands, as a prominent offshore location for booking and channelling of funds, was both the largest immediate source of Hong Kong's inward DI and the largest immediate destination of Hong Kong's outward DI, accounting for 29.7% and 47.6% of the respective total stocks at market value at end-2002.

Taking such offshore locations apart, the mainland of China (Mainland) was the most important source of Hong Kong's inward DI, with its share in the stock of inward DI at market value leaping from 12.3% at end-1998 to 22.7% at end-2002. The Mainland was also the most important destination for Hong Kong's outward DI, with its share in the stock of outward DI at market value likewise on the rise, from 31.6% at end-1998 to 34.9% at end-2002. This was in line with Hong Kong's role as an important foothold and conduit for business between the Mainland and the rest of the world.

Amongst selected countries/territories and ranked by stock of inward DI at book value, Hong Kong was the second largest recipient of inward DI in East Asia at end-2002, next to the Mainland. Also, ranked by stock of outward DI at book value, Hong Kong was the second largest supplier of outward DI in East Asia at end-2002, next to Japan. Against the size of the economy as measured by GDP, the ratios of Hong Kong's stocks of inward and outward DI to GDP, at 181.6% and 165.3% respectively in 2002, way exceeded those for the selected economies in East Asia and also those for the industrialised economies.

/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 major economic sector

3.1 As reflected in quarterly GDP by major economic sector at constant prices⁽¹⁾, net output or value added for all the *service sectors* taken together⁽²⁾ rose by 4.7% in real terms in the third quarter of 2003 over a year earlier, distinctly faster than the mere 0.6% increase in the second quarter under the impact of SARS, and closer to the 5.6% increase in the first quarter. For the first three quarters of 2003 as a whole, there was a 3.7% rise in real terms, faster than the 3.5% increase in 2002. Analysed by constituent sector and on a year-on-year comparison in real terms, net output in the wholesale, retail and import/export trades, restaurants and hotels increased strongly by 9.5% in the first three quarters of 2003. The marked increase in net output in the import/export trades more than offset the declines, owing to the SARS impact in the second quarter, in net output in the wholesale and retail trades and in restaurants and hotels. Meanwhile, net output in financing, insurance, real estate and business services rose by 3.6%, which was mainly supported by the improved performance of banking services, and for which buoyancy in stock brokerage amidst an upsurge in stock market turnover was also relevant. On the other hand, net output in transport, storage and communications as well as in community, social and personal services decreased by 0.2% and 1.0% respectively. These were mainly attributable to the dip in air and land transport services as well as in recreation and entertainment services upon the spread of SARS in the second quarter.

3.2 Net output in the local *manufacturing sector* shrank distinctly further, by 9.1% in real terms in the third quarter of 2003 from a year earlier, after decreases of 8.8% and 12.5% respectively in the first and second quarters. For the first three quarters of 2003 as a whole, there was a 10.2% decrease in real terms, further to a 9.8% fall in 2002. The weak performance of domestic exports and on-going relocation of production processes outside Hong Kong largely contributed. As to the *construction sector*, net output declined by 2.9% in real terms in the third quarter of 2003 from a year earlier, following decreases of 3.2% and 6.9% respectively in the first and second quarters. For the first three quarters of 2003 as a whole, there was a 4.3% decrease in real terms, further to a 0.8% fall in 2002. This was mainly due to winding down of some major railway projects earlier in the year and generally slack building activity.

/Table 3.1

Table 3.1

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

	<u>2002[#]</u>						<u>2003[#]</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	-9.8	-11.6	-11.2	-7.3	-9.2	-10.2	-8.8	-12.5	-9.1
Construction	-0.8	-1.7	3.2	2.4	-6.4	-4.3	-3.2	-6.9	-2.9
Services ^(b)	3.5	0.2	1.9	4.7	6.7	3.7	5.6	0.6	4.7
<i>Of which :</i>									
Wholesale, retail and import/export trades, restaurants and hotels	4.4	-3.5	-0.1	6.2	13.7	9.5	14.8	5.9	8.3
Transport, storage and communications	6.2	2.3	6.0	8.1	8.2	-0.2	3.8	-6.2	1.5
Financing, insurance, real estate and business services	1.7	-0.8	1.9	2.4	3.2	3.6	2.7	1.6	6.4
Community, social and personal services	0.6	0.7	*	1.1	0.5	-1.0	-0.4	-3.6	1.1

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

/3.3

3.3 The structure of the economy continued to shift away from manufacturing to services over the past years. Between 1997 and 2002, net output for the service sectors as a whole fell by an average of 0.4% per annum in value terms, mainly reflecting general price decline in the overall economy. Net output of the local manufacturing sector fell much more significantly, by an average of 7.7% per annum in value terms. This led to a further advance in the contribution of the service sectors as a whole to GDP from 85.1% in 1997 to 87.5% in 2002, in contrast to a concurrent further shrinkage in the contribution of the local manufacturing sector to GDP from 6.4% to 4.5%. Within the total for the service sectors in 2002, the wholesale, retail and import/export trades, restaurants and hotels was the largest contributor to GDP, with a share of 26.9%. This was followed by community, social and personal services (22.2%), financing, insurance, real estate and business services (22.2%), and transport, storage and communications (10.6%). As to the construction sector, net output fell by an average of 6.1% per annum in value terms from 1997 to 2002. Its contribution to GDP fell moderately over the period, from 5.7% to 4.4%.

3.4 The sectoral composition of employment exhibited a broadly similar shift as the sectoral contributions to GDP over the past five years. For the service sectors as a whole, the share in total employment⁽³⁾ showed a more distinct further advance, from 80.4% in 1998 to 85.2% in 2003, in parallel with a further shrinkage in the share for the local manufacturing sector, from 8.5% to 5.4%. Concurrently, the share for the construction sector fell moderately, from 10.2% to 8.6%.

/Diagram 3.1

Diagram 3.1

Gross Domestic Product by economic sector

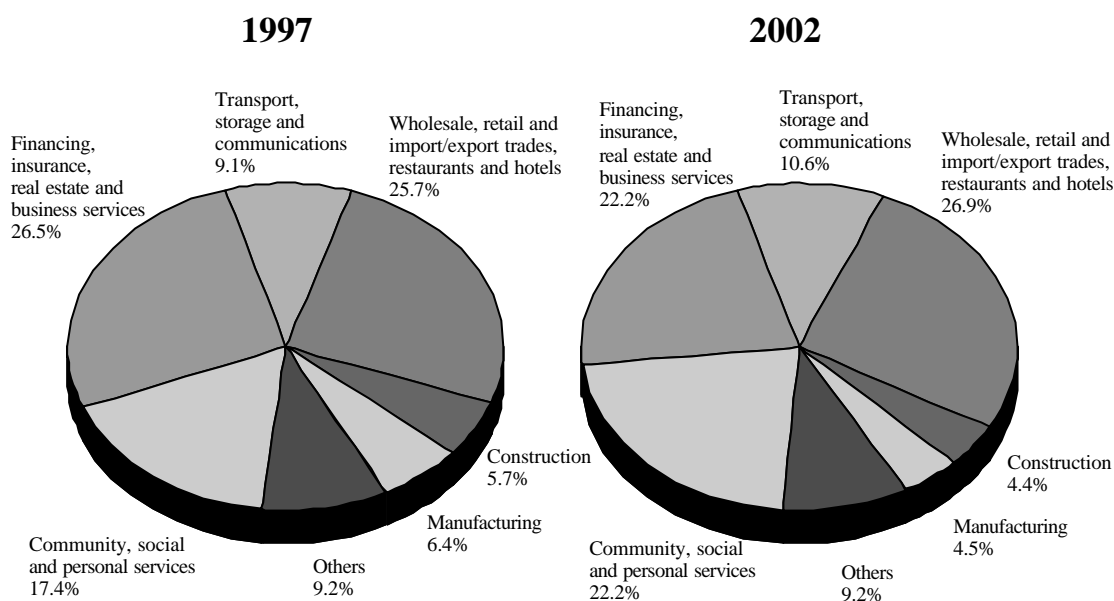
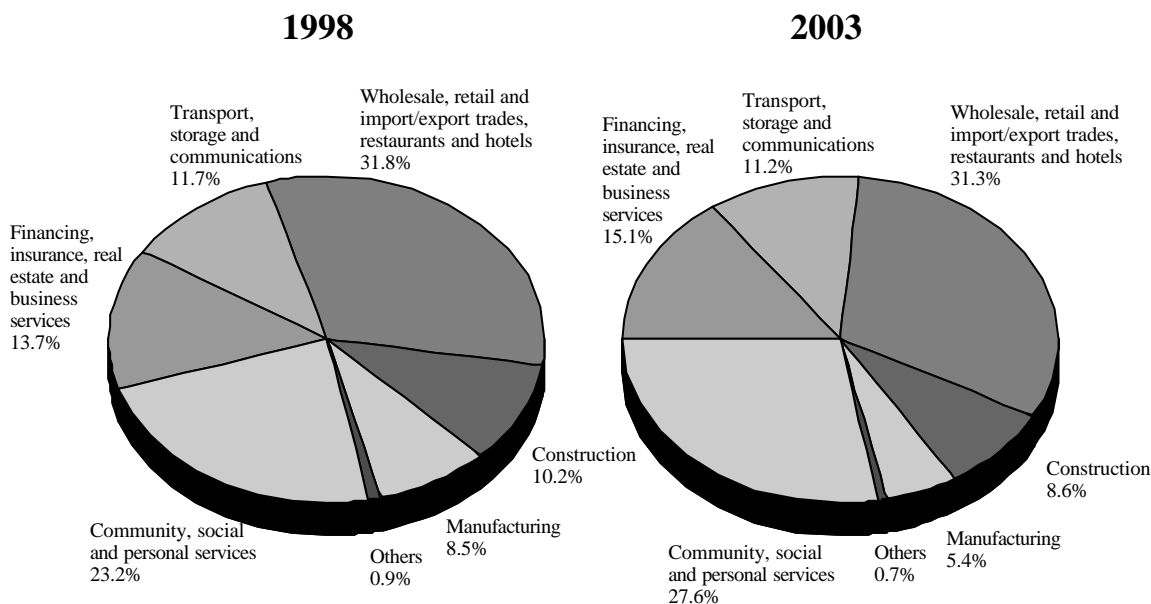


Diagram 3.2

Employment by economic sector*



Note : (*) These are the composite employment estimates, as derived from the basic data of the General Household Survey and the Quarterly Survey of Employment and Vacancies on business establishments. Figures for 1998 refer to the annual average, while figures for 2003 refer to the average for the first three quarters of the year.

/Box 3.1

Box 3.1

The Four Pillar Industries in the Hong Kong economy

The Four Pillar Industries, including financial services, trading and logistics, tourism, and producer and professional services, have been a major driving force of Hong Kong's economic growth, providing impetus to other economic sectors, and creating employment.

Financial services cover banking, insurance, stock brokerage, fund management, and other financial services. Hong Kong as an international financial centre provides a wide range of products and services to market users, both local and international, and both retail and institutional. In 2002, the value added of financial services amounted to \$146.7 billion, accounting for 12.2% of GDP. The number of persons engaged in financial services was 179 000 in 2002, accounting for 5.5% of total employment.

Value added and employment of financial services in 2002

	<u>Value added at current prices</u> (\$Mn)	<u>Share in GDP at factor cost</u> (%)	<u>Employment</u> (No.)	<u>Share in total employment</u> (%)
Financial services	146,700	12.2%	179 000	5.5%
(a) Banking	100,800	8.4%	78 100	2.4%
(b) Insurance	16,000	1.3%	42 900	1.3%
(c) Other financial services	29,900	2.5%	58 000	1.8%

Trading and logistics broadly include import/export trade, wholesale trade, freight transport, freight forwarding, storage, and postal and courier services. Effective logistics services contribute to productivity growth, as the shortened delivery time results in lower inventory levels and cost savings. Trading and logistics also play a pivotal role in the process of developing closer economic ties between Hong Kong and the Mainland. In 2002, the value added of trading and logistics amounted to \$319.7 billion, accounting for 26.5% of GDP. The activities of trading and logistics provided 778 100 jobs in 2002, accounting for 24.1% of total employment.

Value added and employment of trading and logistics in 2002

	<u>Value added at current prices</u> (\$Mn)	<u>Share in GDP at factor cost</u> (%)	<u>Employment</u> (No.)	<u>Share in total employment</u> (%)
Trading and logistics	319,700	26.5%	778 100	24.1%
(a) Trading	262,100	21.7%	582 800	18.0%
i. Wholesale trade	13,100	1.1%	71 100	2.2%
ii. Import/export trade	249,000	20.7%	511 700	15.8%
(b) Logistics	57,600	4.8%	195 300	6.0%
i. Freight transport and storage services	52,700	4.4%	173 400	5.4%
ii. Postal and courier services	4,900	0.4%	22 000	0.7%

Hong Kong is a popular destination for visitors in the Asia Pacific region and in particular is an attractive spot for Mainland visitors. On the other hand, Hong Kong residents are keen to visit the Mainland and places abroad. In 2002, the tourism industry, including both inbound tourism and outbound tourism, generated value added at \$36.6 billion, or 3.0% of GDP, as well as 127 600 jobs, or 3.9% of total employment.

Note : For details on the coverage and estimation of value added and employment for the Four Pillar Industries, see the feature article "The Four Pillar Industries in the Hong Kong Economy" in the December 2003 issue of the Hong Kong Monthly Digest of Statistics published by the Census and Statistics Department.

/Value

Value added and employment of tourism in 2002

	<u>Value added at current prices</u> (\$Mn)	<u>Share in GDP at factor cost</u> (%)	<u>Employment</u> (No.)	<u>Share in total employment</u> (%)
Tourism	36,600	3.0%	127 600	3.9%
(a) Inbound tourism	26,600	2.2%	105 700	3.3%
<i>Apportioned contribution from :</i>				
i. Hotels and boarding houses	7,200	0.6%	22 000	0.7%
ii. Cross-boundary passenger transport	7,500	0.6%	6 500	0.2%
iii. Retail trade	4,600	0.4%	35 200	1.1%
iv. Restaurants	3,600	0.3%	29 300	0.9%
v. Others	3,600	0.3%	12 800	0.4%
(b) Outbound tourism	10,100	0.8%	21 900	0.7%
<i>Apportioned contribution from :</i>				
i. Travel agents and airline ticket agents	3,100	0.3%	15 900	0.5%
ii. Cross-boundary passenger transport	6,900	0.6%	6 000	0.2%

Hong Kong is a highly service-oriented economy. A large proportion of the producer and professional services supplied in Hong Kong is closely linked to its role as a business, transport, financial cum tourism hub in the region. These services are also in support of expansion of the goods-producing activities of Hong Kong entrepreneurs outside the domestic territory, particularly in South China. Professional services broadly cover legal, accounting, auditing, information technology related services, advertising and related services, and architectural design and surveying services. In 2002, professional services and other producer services (excluding those already covered in the three pillars of financial services, trading and logistics, and tourism) together generated value added at \$138.2 billion, or 11.5% of GDP, as well as 338 000 jobs, or 10.4% of total employment.

Value added and employment of professional services and other producer services in 2002

	<u>Value added at current prices</u> (\$Mn)	<u>Share in GDP at factor cost</u> (%)	<u>Employment</u> (No.)	<u>Share in total employment</u> (%)
Professional services and other producer services	138,200	11.5%	338 000	10.4%
(a) Professional services	41,900	3.5%	126 100	3.9%
i. Legal, accounting and auditing services	14,400	1.2%	32 800	1.0%
ii. Architectural, surveying, project engineering services; engineering and technical services; and business management and consultancy services	17,000	1.4%	48 800	1.5%
iii. Others professional services (e.g. information technology related services, advertising services)	10,500	0.9%	44 500	1.4%
(b) Other producer services	96,300	8.0%	211 900	6.5%

Taken together, in 2002 the Four Pillar Industries in the Hong Kong economy generated value added at \$641 billion, or 53.2% of GDP, and provided 1.42 million jobs, or 44.0% of total employment. The corresponding figures in 2001 were \$632 billion, or 52.0% of GDP, and 1.42 million jobs, or 43.6% of total employment.

/Local

Local manufacturing output

3.5 The volume of local manufacturing output, as measured by the Index of Industrial Production⁽⁴⁾, continued to decline, by 8.8%, 12.5% and 9.1% respectively in the first three quarters of 2003 over a year earlier. For the first three quarters of 2003 taken together, the Index shrank by 10.2% over a year earlier, further to the 9.8% dip in 2002. Analysed by major constituent industry and on a year-on-year comparison in volume, output of the machinery and equipment and the fabricated metal products industries decreased the most, by 27.9% and 24.0% respectively in the first three quarters of 2003. Output of the consumer electrical and electronic products, the textiles, and the plastic products industries also fell distinctly, by 11.3%, 9.3% and 7.8% respectively. Output of the paper products and printing industry declined slightly, by 1.1%. On the other hand, output of the wearing apparel industry increased appreciably, by 5.1%. On a seasonally adjusted quarter-to-quarter comparison, the Index went up by 2.7% in the third quarter of 2003, reversed from the decreases of 2.2% and 6.5% respectively in the first and second quarters.

Table 3.2

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

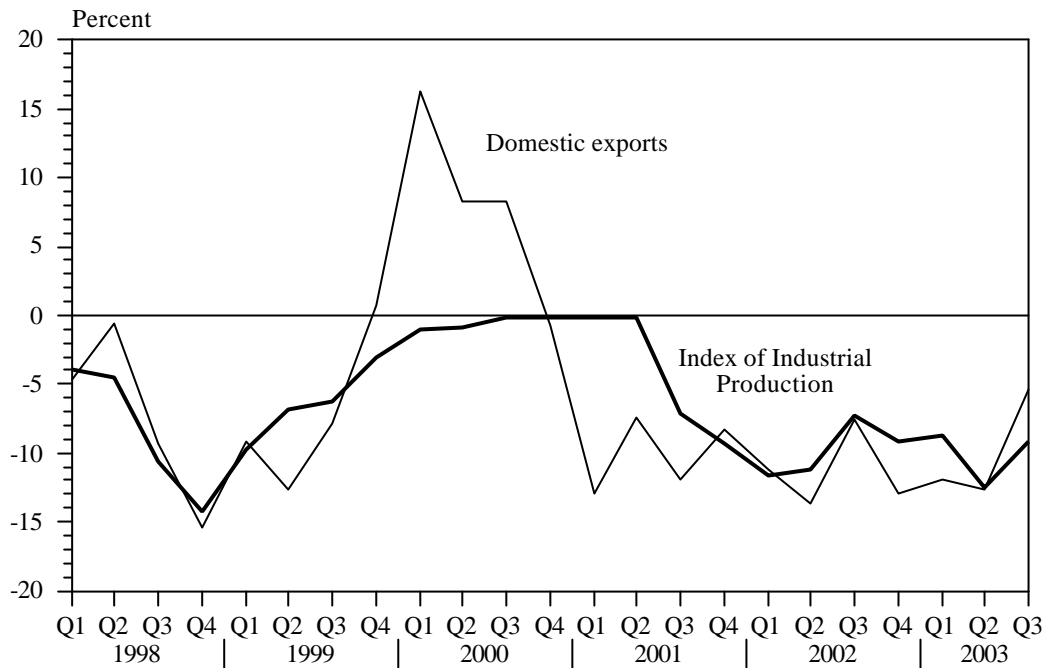
	2002						2003		
	Annual	Q1	Q2	Q3	Q4	Q1-Q3	Q1	Q2	Q3
<u>Industry group</u>									
Wearing apparel	-6.6	-13.4	-10.5	4.0	-7.2	5.1	-0.1	-5.0	17.9
Textiles	-7.2	-10.6	-7.3	-5.9	-6.4	-9.3	-0.8	-11.3	-12.6
Plastic products	-10.8	-13.1	-7.4	-15.5	-7.0	-7.8	-6.0	-7.2	-10.3
Consumer electrical and electronic products	-23.6	-0.8	-29.6	-28.2	-35.4	-11.3	-30.0	-14.8	16.3
Machinery and equipment	-16.8	-17.4	-19.7	-11.4	-18.8	-27.9	-25.4	-30.4	-27.6
Fabricated metal products	-29.4	-27.4	-30.7	-30.6	-28.8	-24.0	-27.5	-21.5	-23.2
Paper products and printing	-0.2	-10.5	1.0	0.1	8.3	-1.1	11.7	-3.4	-9.3
Overall manufacturing	-9.8	-11.6	-11.2	-7.3	-9.2	-10.2	-8.8	-12.5	-9.1
		<-2.4>	<-1.3>	<-0.7>	<-3.9>		<-2.2>	<-6.5>	<2.7>

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

/Diagram 3.3

Diagram 3.3

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

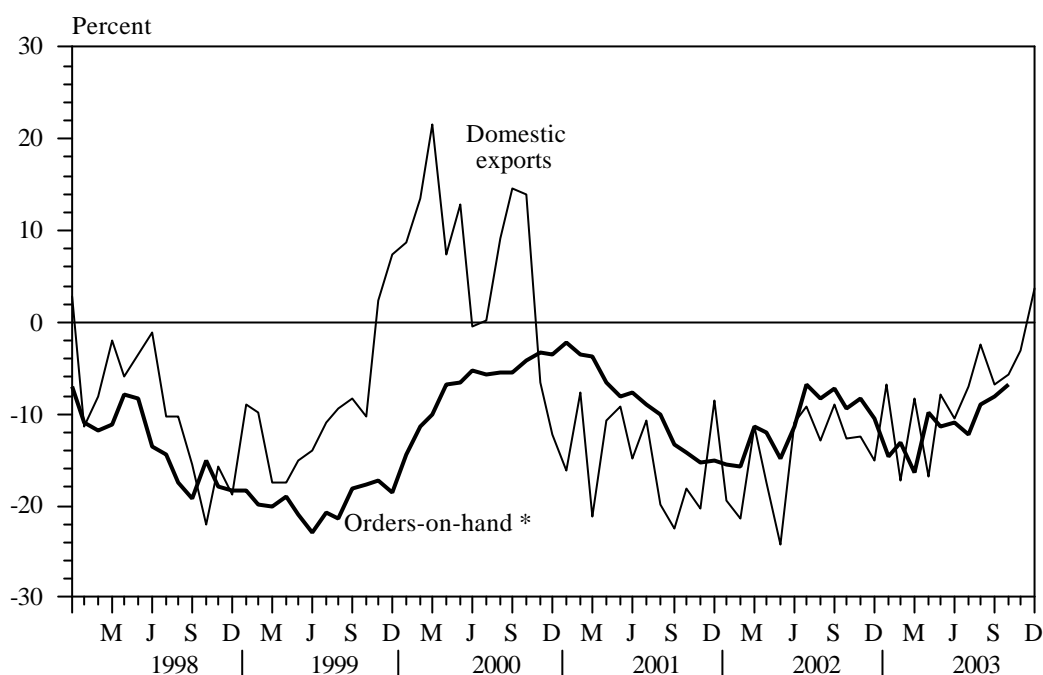


3.6 In the fourth quarter of 2003, domestic exports fell further from a year earlier, albeit at a slower pace than in the third quarter, as did orders-on-hand in the local manufacturing sector in recent months⁽⁵⁾. These might point to a further mild shrinkage in local manufacturing output in that quarter.

/Diagram 3.4

Diagram 3.4

**Order-on-hands and domestic exports
(year-on-year rate of change in value terms)**



Note : (*) This series was discontinued as from the reference month of November 2003.

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	-11.4
	Jun	55.6	-11.3
	Sep	49.2	-7.3
	Dec	42.4	-10.6
2003	Mar	45.3	-16.4
	Jun	49.5	-11.0
	Sep	45.3	-8.1
	Oct	41.0	-6.7

Note : See the footnote to Diagram 3.4.

/Service

Service sector receipts

3.7 Business receipts in many of the service sectors surveyed declined in the first three quarters of 2003 over a year earlier, as the recovery in the third quarter could only partially offset the severe setback in the second quarter under the SARS impact. Analysed by constituent sector and in value terms, business receipts in hotels and restaurants plummeted the most, by 26.5% and 11.6% respectively in the first three quarters of 2003 over a year earlier, as inbound tourism and local consumption were hard hit by the spread of SARS in the second quarter. Business receipts in the wholesale trade, the retail trade, communications, transport and business services also dropped, by 7.3%, 4.7%, 2.2%, 1.8% and 1.0% respectively, with the declines in some of these sectors likewise attributable to the spread of SARS in the second quarter. Business receipts in storage decreased by 6.6%, amidst lower rental charges for storage space. Business receipts in real estate remained unchanged, as the strong rise in the third quarter upon an upturn in the property market offset the declines in the first two quarters.

3.8 On the other hand, business receipts in insurance surged by 20.6% in value terms in the first three quarters of 2003 over a year earlier, mainly spurred by continued expansion in life insurance. Business receipts in financing (except banking), the import/export trade, banking and film entertainment also rose, by 5.9%, 4.5%, 2.3% and 1.8% respectively in value terms.

/Table 3.4

Table 3.4

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

<u>Service sector</u>	<u>2002</u>						<u>2003</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade	-2.8	-15.4	-2.6	1.8	5.3	4.5	2.4	4.3	6.5
Wholesale trade	-10.7	-14.7	-12.8	-8.9	-6.2	-7.3	-3.5	-13.7	-4.5
Retail trade	-4.1	-3.7	-5.8	-4.3	-2.4	-4.7	-2.6	-11.0	-0.4
Restaurants	-5.4	-5.4	-6.0	-4.5	-5.9	-11.6	-8.6	-19.2	-7.1
Hotels	-2.3	-12.5	-6.6	-2.5	12.5	-26.5	-2.7	-64.3	-9.5
Banking	-0.8	-7.2	0.3	-4.2	7.4	2.3	-1.3	2.3	5.8
Financing (except banking)	-14.3	-25.2	-11.4	-6.9	-11.1	5.9	-5.7	-5.5	30.9
Insurance	10.3	10.0	6.0	9.8	15.0	20.6	22.4	14.4	25.4
Real estate	-2.5	-0.1	3.5	-8.4	-5.2	*	-4.3	-12.1	18.3
Business services	-5.8	-10.4	-4.0	-5.0	-3.5	-1.0	0.2	-3.7	0.8
Transport	2.3	-8.2	0.3	6.1	10.6	-1.8	5.6	-10.9	0.3
Storage	-19.6	-21.7	-27.4	-20.4	-6.8	-6.6	-7.8	-8.3	-3.7
Communications	-2.6	-5.2	-4.3	-1.4	0.5	-2.2	1.6	-4.9	-3.1
Film entertainment	-9.1	2.6	-15.5	-18.9	-1.8	1.8	-1.0	-5.6	12.1

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

Property

3.9 The property market as a whole showed a significant turnaround in the later months of 2003. The markets for residential property and shopping space improved distinctly in the second half of the year. This occurred in tandem with better performance of the overall economy and rally in the stock market. The signing of CEPA in June and implementation of the Individual Visit Scheme for Mainland visitors to Hong Kong in July provided further support. In October, the Government announced further measures to engender steady development of the housing market⁽⁶⁾. The market for office space also showed some improvement towards the end of the year.

/3.10

3.10 The sales market for *residential property* picked up in the second half of 2003, having remained sluggish in the first half of the year. This was supported by a distinct improvement in the outlook for the economy, following the signing of CEPA and implementation of the Individual Visit Scheme, and amidst a more sanguine global economic environment. Developers actively resumed sales in the primary market as the SARS impact waned, and the sales were generally met with a good response. Hence many developers had proceeded to reduce or withdraw the price discounts and other concessions offered earlier⁽⁷⁾. Moreover, there was a notable revival in activity in the secondary market. Flat prices bottomed out in the third quarter, and rebounded visibly in the fourth quarter. In the luxury end of the market, strong buying interest emerged in the latter part of the year, leading to a more pronounced rebound. Purportedly, the Government's new policy measure to attract investment immigrants to Hong Kong rendered some lift to this segment⁽⁸⁾.

3.11 On a quarter-to-quarter comparison, flat prices on average decreased by 4%, 5% and 1% respectively in the first three quarters of 2003, before increasing distinctly by 8% in the fourth quarter. For 2003 as a whole, flat prices on average fell by 2%, much narrowed from the 12% fall in 2002. Compared with the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2003 remained substantially lower, by an average of 62%. In the first half of 2003, with flat prices still falling and with the mortgage rate staying at a low level, and notwithstanding reduced household income, home purchase affordability improved further, after the substantial improvement over the past several years. Yet in the second half of the year, the distinct rebound in flat prices led to some reduction in home purchase affordability.

3.12 As to the rental market for residential property, leasing activity likewise turned more active in the second half of 2003, after remaining quiet in the first half of the year. Flat rentals had tended to stabilise in the fourth quarter. On a quarter-to-quarter comparison, private housing rentals on average declined by 3%, 4% and 2% respectively in the first three quarters of 2003, yet showed little change in the fourth quarter. For the year as a whole, there was on average a fall of 9%, also narrowed from the 14% fall in 2002. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2003, by an average of 48%. Mainly as a result of the marked decline in flat rentals, lease affordability likewise improved over the past few years.

/3.13

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

3.14 On home ownership loans, a new Home Assistance Loan Scheme (HALS)⁽⁹⁾ was launched in January 2003, in place of the former Home Purchase Loan Scheme and Home Starter Loan Scheme, to provide interest-free loans and mortgage loan subsidies to eligible households. The initial quota was set at 10 000 cases. This arrangement was in line with the Government's move to retreat from direct involvement in the housing market. By late September, the number of applications under HALS had surpassed the initial quota of 10 000, and the Housing Authority decided to close the application for HALS with effect from 26 November. A comprehensive review of the scheme would be conducted in early 2004.

3.15 As a common indicator of the supply of new private residential flats, *completions*⁽¹⁰⁾ fell by 14% to 29 115 units in 2003, in contrast to the 30% increase in 2002. As the new supply was still large, and notwithstanding an increase in new take-ups, the *vacancy rate*⁽¹¹⁾ moved up slightly, from 6.6% at end-2002 to 6.8% at end-2003.

/Box 3.2

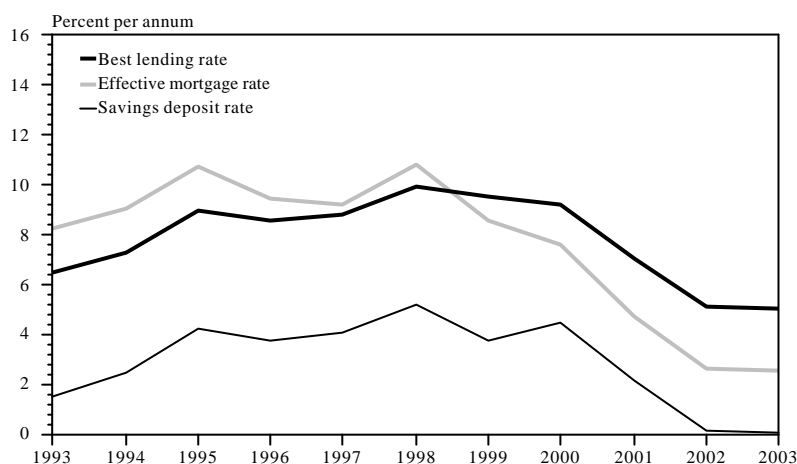
Box 3.2

Rental yields of residential and commercial property

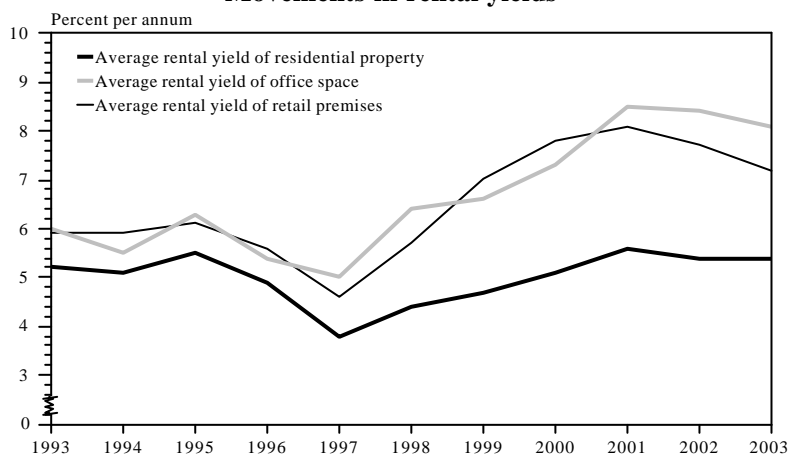
Rental yield is a measure of the recurrent return from a property investment. The rental yields of private residential and commercial property had fluctuated by a varying degree over the past decade. In general, they tended to go down when the property market was booming, and go up when the property market was sluggish. This could be seen as a manifestation of the underlying market adjustment mechanism.

The average rental yield of residential property reached a low of about 3.8% in 1997, following a period of rapid increase in flat prices at a rate faster than that in flat rentals. As the residential property market entered a period of adjustment since 1998, flat prices had been falling faster than flat rentals, giving a higher average rental yield of around 5.4-5.6% in recent years. It stood at around 5.4% in 2003. This made investment in residential property relatively more attractive, when viewed against the very low interest rates in the recent past.

Movements in local interest rates



Movements in rental yields



Similar observations can be made from the movements in the average rental yields of private office space and private retail premises. The average rental yield of office space fell to a low of about 5.0% in 1997, yet rose back to around 8.0% in recent years. The average rental yield of retail premises touched a trough of about 4.6% in 1997, before rising back to around 7-8% in recent years. The average rental yields of these two types of private property were 8.1% and 7.2% respectively in 2003.

3.16 On *commercial property*, the rental market for *office space* weakened further during most of 2003, yet turned more active in the rest of the year. The abundant supply of new and existing office space, coupled with the SARS impact, exerted much downward pressure on rentals in the first half of the year. Yet after the waning of SARS, such downward pressure on rentals tended to lessen in the second half. With rentals for Grade A office space having fallen to a more attractive level and with an upturn in business sentiment, leasing demand for office space strengthened somewhat more recently. Also, more tenants were willing to relocate their offices from buildings which were older or in secondary locations to better ones. On a quarter-to-quarter comparison, office rentals declined further, on average by 4%, 6%, 4% and 3% respectively in the four quarters of 2003. For 2003 as a whole, the decrease in office rentals averaged at 16%. As to the sales market, investor interest was rekindled markedly in the second half of the year, stimulated in part by the signing of CEPA in June and perhaps more so by the better economic outlook. On a quarter-to-quarter comparison, prices for office space on average fell by 4% and 5% respectively in the first and second quarters of 2003, yet rose by 3% and surged further by 8% in the third and fourth quarters. For 2003 as a whole, there was on average an increase of only 1%. Against their respective peak levels in 1994, prices and rentals for office space in the fourth quarter of 2003 plunged by an average of 73% and 64% respectively. On supply of new office space, *completions* increased substantially by 80% to 299 000 m² in 2003, after a surge of 117% in 2002. Despite an increase in new take-ups, the large increase in supply resulted in a further rise in the *vacancy rate*, from 12.6% at end-2002 to 14.0% at end-2003.

3.17 The rental market for *shopping space*, having been hard hit by the spread of SARS in the second quarter of 2003, generally revived in the second half of the year. This was supported by the pick-up in local consumer demand, as well as in inbound tourism following initiation of the Individual Visit Scheme in July. Yet there was a mixed performance amongst different retail premises amidst the revival, depending on location and management quality. Retail premises in popular locations and in better-managed shopping malls had been faring much better. On a quarter-to-quarter comparison, rentals for shopping space, on average having fallen by 3% and 6% respectively in the first

/and

and second quarters of 2003, rose by 1% in the third quarter and remained unchanged in the fourth quarter. For 2003 as a whole, there was on average an 8% decline. The sales market showed a more distinct improvement, as investor interest became much keener in the second half of the year. There were reportedly a number of transactions involving short-term re-sale with profits. On a quarter-to-quarter comparison, prices for shopping space on average increased by 1%, 2% and 8% respectively in the second, third and fourth quarters of 2003, after a 2% decrease in the first quarter. For 2003 as a whole, there was on average an increase of 8%. Compared with the peak levels in the third quarter of 1997, prices and rentals for shopping space in the fourth quarter of 2003 plummeted by an average of 54% and 32% respectively. On supply of new shopping space, *completions* decreased by 15% to 118 000 m² in 2003, after an increase of 5% in 2002. As the larger take-up still fell short of the new supply, the *vacancy rate* rose slightly further, from 10.7% at end-2002 to 10.8% at end-2003.

3.18 On *industrial property*, the rental market remained generally weak in 2003. Demand for conventional factory space continued to be undermined by the further contraction in local manufacturing activity. Modern industrial premises that could be used as back-up service centres also faced competition from office space in the fringe areas, as rentals for such office space fell to an even lower level. On a quarter-to-quarter comparison, rentals for industrial space on average fell by 2%, 7%, 2% and 1% respectively in the four quarters of 2003. For 2003 as a whole, rentals for industrial space on average dipped by 12%. As to the sales market, support came mainly from projects involving the conversion of industrial sites to hotel use, amidst the rebound in inbound tourism. On a quarter-to-quarter comparison, prices for industrial space on average went up by 3% in the fourth quarter of 2003, after zero change in the first quarter, a decline of 3% in the second quarter, and again zero change in the third quarter. For 2003 as a whole, prices for industrial space on average dropped by 1%. Against their respective peak levels in 1994, prices and rentals for industrial space in the fourth quarter of 2003 slumped by an average of 68% and 53% respectively. On supply of new industrial property, there were nil *completions* of conventional flatted factory space in 2003 following a plunge of 91% to 3 000 m² in 2002, while completions of industrial-cum-office space were 15 000 m² in 2003 after nil completions in 2002. *Vacancy rate* for conventional flatted factory space deteriorated marginally from 10.5% at end-2002 to 10.6% at end-2003, while that for industrial-cum-office space deteriorated more, from 12.5% to 14.8%.

/3.19

3.19 Overall *property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, went up by 2% in both number and total value in 2003. These reversed the corresponding decreases of 3% and 4% in 2002. The increase was concentrated in the second half of the year, reflecting revival in the property market, as transactions surged by 37% in number and by 46% in total value over a year earlier. Analysed by main type of property, transactions in residential property fell slightly by 2% in number but remained unchanged in total value in 2003. Transactions in non-residential property fared better, having increased by 22% in number and by 15% in total value in 2003.

3.20 Property transfer assignments, being a lagging indicator of property transactions, went down by 8% in number but went up by 5% in total value in 2003, after significant declines of 17% and 19% respectively in 2002. The decline in number of assignments in 2003 occurred predominantly in the first half of the year, while the increase in total value occurred mainly in the second half. As to mortgage arrangements, there was a decrease of 16% in number in 2003, narrowed from the 22% decline in 2002. Likewise, the decrease in 2003 was mainly concentrated in the first half of the year.

3.21 Both the best lending rate (BLR) and the effective mortgage rate (as the rate most commonly charged by the banks to mortgagors) remained unchanged during 2003, at 5% and 2.5% respectively. Meanwhile, the banks continued to offer rather attractive residential mortgage loan packages during the year, and competition in the mortgage market was keen. Mortgage loans were offered by most of the banks at more than 2.5 percentage points below the BLR for the whole term of the mortgage.

/Table 3.5

Table 3.5**Indices of Property Prices and Rentals**

	<u>Residential flats</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index^(a)</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999 =100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)	
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	65.1	(-5)	79.0	(-4)	64.9	(-5)	82.7	(-2)	83.0	(-4)	92.1	(-1)	72.6	(-2)	81.2	(*)
2003 Q1	62.7	(-4)	76.6	(-3)	62.1	(-4)	79.4	(-4)	81.0	(-2)	89.1	(-3)	72.5	(*)	79.4	(-2)
Q2	59.8	(-5)	73.7	(-4)	59.0	(-5)	74.3	(-6)	81.5	(1)	84.1	(-6)	70.0	(-3)	73.8	(-7)
Q3	59.3	(-1)	71.9	(-2)	60.5 [^]	(3) [^]	71.4 [^]	(-4) [^]	82.8 [^]	(2) [^]	84.6 [^]	(1) [^]	70.1 [^]	(*) [^]	72.1 [^]	(-2) [^]
Q4 [^]	64.0	(8)	71.9	(*)	65.4	(8)	69.5	(-3)	89.6	(8)	84.5	(*)	71.9	(3)	71.6	(-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.

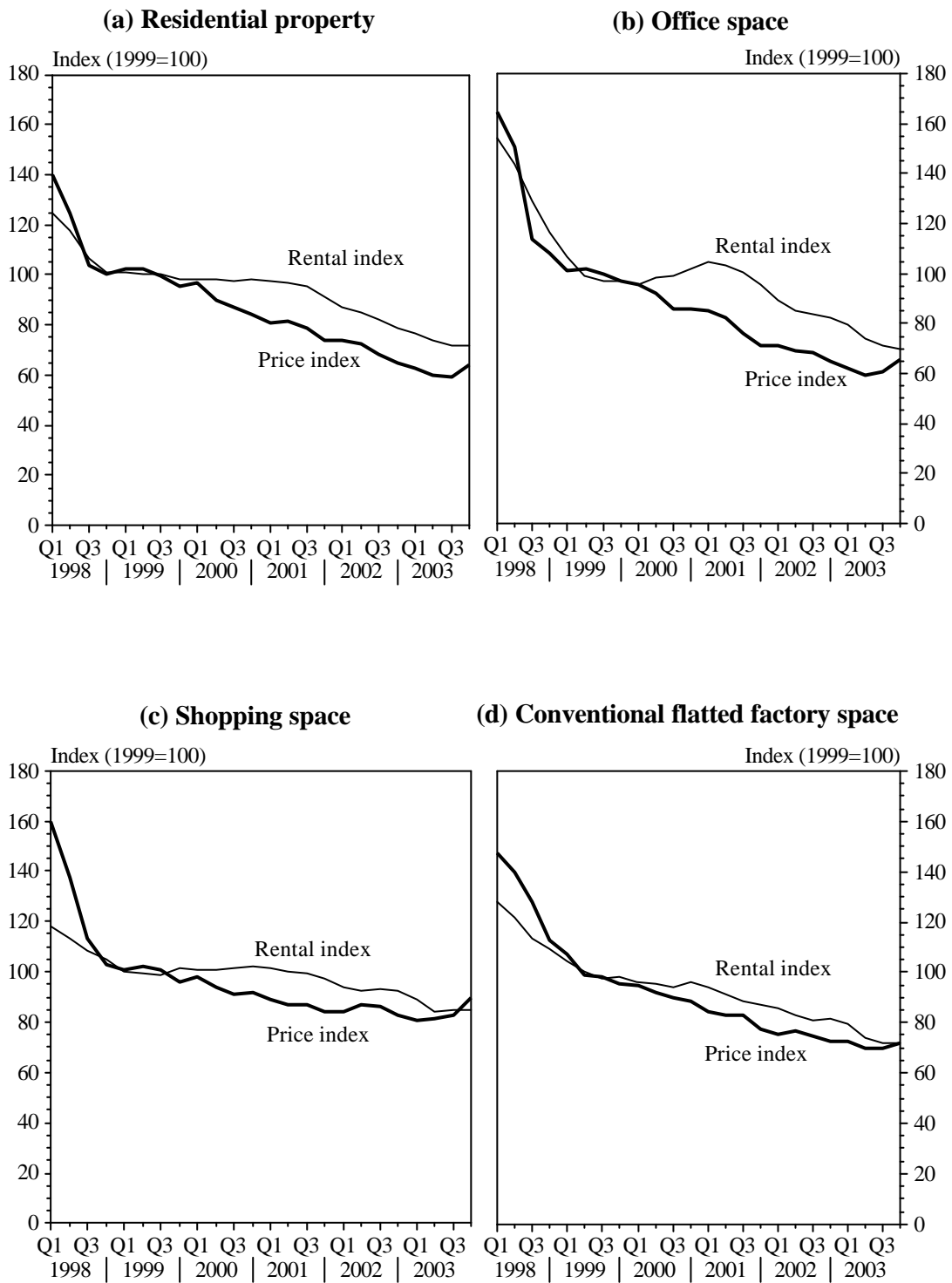
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.5

Diagram 3.5

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
	Q2	5.00	2.50	943	667	530
	Q3	5.00	2.50	943	667	530
	Q4	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.

/Table 3.7

Table 3.7

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

		Residential property ^(a) (in units)	Commercial property			Industrial property ^(d)			Sub-total
			Office space	Other commercial premises ^(c)	Sub- total	Conventional flatted factory space	Storage premises ^(e)	Industrial- cum- office premises	
2002	Annual	34 035 ^(b) (30)	166 (117)	138 (5)	304 (46)	3 (-91)	27 (--)	0 (-100)	29 (-35)
	Q1	3 356 (-49)	52 (79)	17 (-49)	69 (9)	3 (--)	0 (--)	0 (--)	3 (--)
	Q2	6 272 (1)	53 (171)	22 (-40)	75 (33)	0 (--)	0 (--)	0 (-100)	0 (-100)
	Q3	13 348 (162)	9 (-64)	41 (-23)	49 (-36)	0 (-100)	0 (--)	0 (--)	0 (-100)
	Q4	11 059 (31)	52 (1 389)	58 (671)	110 (899)	0 (-100)	27 (--)	0 (--)	27 (-82)
2003	Annual [^]	29 115 ^(b) (-14)	299 (80)	118 (-15)	417 (37)	0 (-100)	0 (-100)	15 (--)	15 (-50)
	Q1 [^]	5 048 (50)	32 (-39)	48 (174)	79 (15)	0 (-100)	0 (--)	15 (--)	15 (447)
	Q2 [^]	6 511 (4)	159 (199)	27 (23)	186 (147)	0 (--)	0 (--)	0 (--)	0 (--)
	Q3 [^]	9 816 (-26)	28 (225)	13 (-68)	41 (-17)	0 (--)	0 (--)	0 (--)	0 (--)
	Q4 [^]	7 740 (-31)	80 (54)	30 (-48)	110 (*)	0 (--)	0 (-100)	0 (--)	0 (-100)

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

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

(b) The completions figures in 2002 and 2003 include around 3 000 and 2 700 village-type housing units respectively.

(c) 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.

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

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

() % change over a year earlier.

([^]) Provisional figures.

(--). Not applicable.

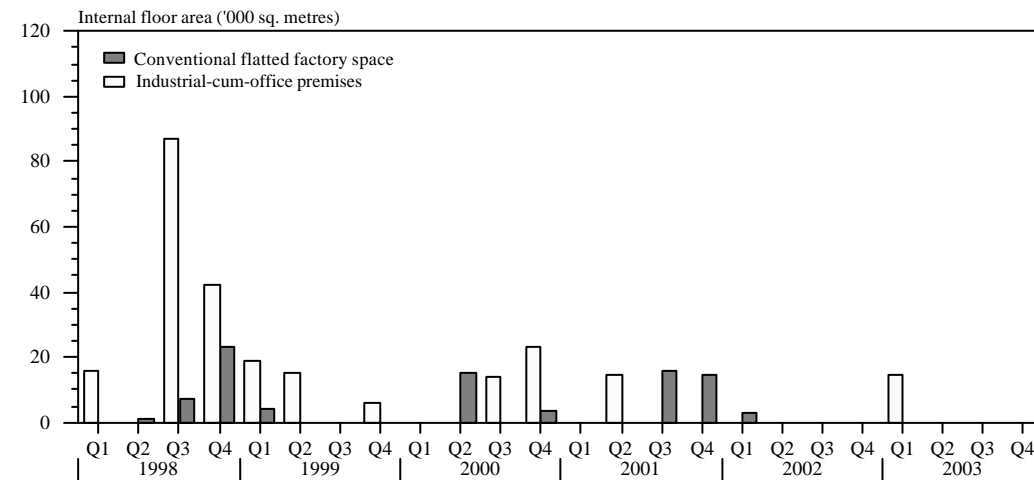
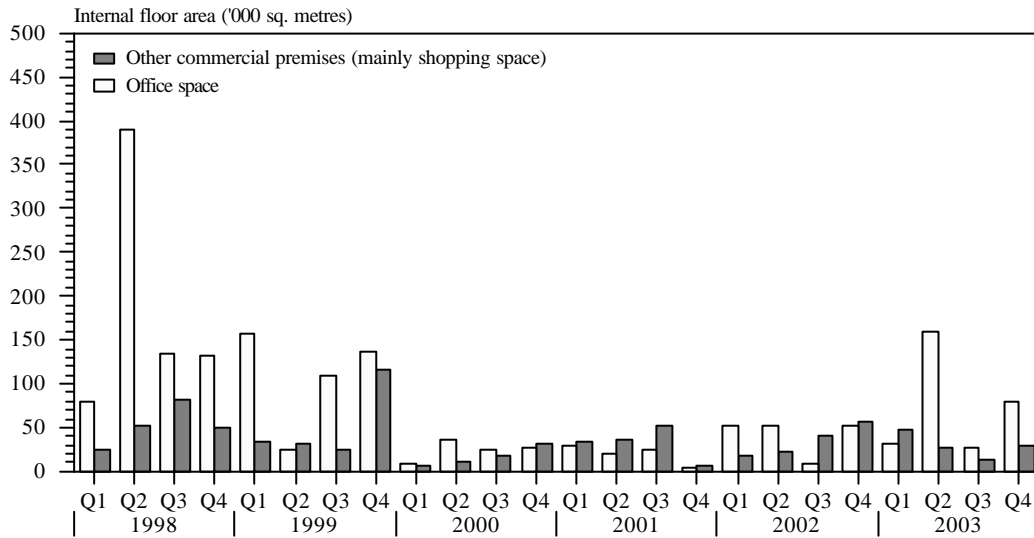
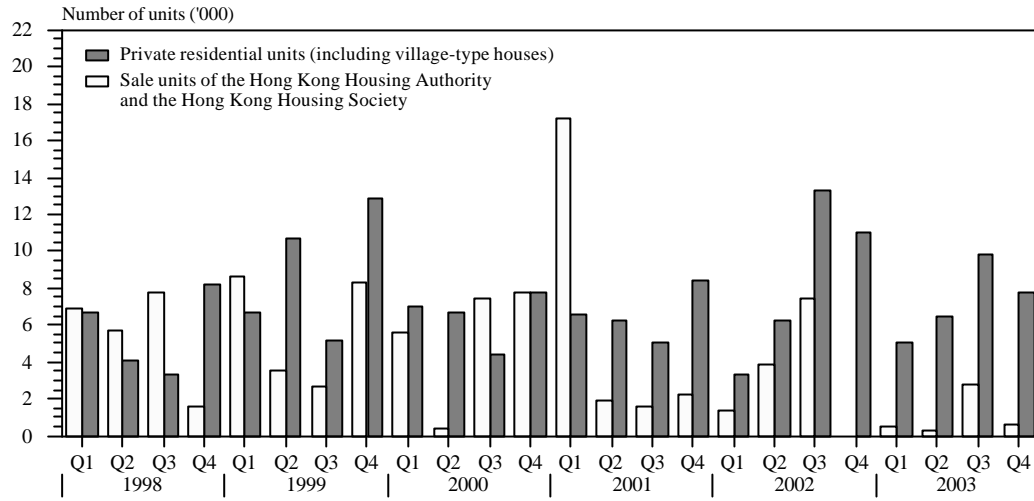
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.6

Diagram 3.6

Completions of new property by major category



Note : See the footnotes to Table 3.7.

/Table 3.8

Table 3.8**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	Annual	71 576	(-2)	15 733	(22)	87 309	(2)	153.6	(*)	35.8	(15)	189.4	(2)
	H1	28 722	(-30)	6 478	(-6)	35 200	(-26)	56.9	(-37)	13.7	(-5)	70.6	(-32)
	H2	42 854	(34)	9 255	(52)	52 109	(37)	96.7	(50)	22.1	(32)	118.8	(46)
	Q1	14 386	(-24)	3 329	(-7)	17 715	(-21)	29.9	(-28)	7.0	(14)	36.9	(-23)
	Q2	14 336	(-35)	3 149	(-5)	17 485	(-31)	27.0	(-44)	6.8	(-19)	33.8	(-40)
	Q3	18 716	(16)	3 755	(15)	22 471	(16)	35.9	(11)	9.9	(-17)	45.9	(4)
	Q4	24 138	(51)	5 500	(97)	29 638	(58)	60.7	(89)	12.2	(155)	72.9	(98)
		<29>		<46>		<32>		<69>		<22>		<59>	
	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)
	Apr	5 373	(-27)	1 009	(-4)	6 382	(-25)	10.5	(-31)	2.3	(16)	12.8	(-26)
	May	4 130	(-44)	960	(-16)	5 090	(-40)	7.5	(-56)	1.9	(-44)	9.4	(-54)
	Jun	4 833	(-33)	1 180	(6)	6 013	(-28)	9.0	(-44)	2.5	(-13)	11.5	(-40)
	Jul	6 525	(32)	1 133	(-6)	7 658	(24)	12.5	(22)	4.2	(-23)	16.7	(6)
	Aug	6 559	(34)	1 388	(18)	7 947	(31)	12.2	(24)	3.1	(-13)	15.3	(14)
	Sep	5 632	(-10)	1 234	(37)	6 866	(-4)	11.2	(-7)	2.6	(-9)	13.9	(-7)
	Oct	9 360	(60)	1 859	(97)	11 219	(65)	27.7	(138)	4.4	(141)	32.1	(138)
	Nov	7 811	(58)	1 837	(112)	9 648	(66)	17.6	(93)	3.7	(177)	21.3	(104)
	Dec	6 967	(36)	1 804	(84)	8 771	(44)	15.4	(35)	4.1	(153)	19.5	(50)

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.

/Table 3.9

Table 3.9**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	Annual	110 052	(-8)	207.3	(5)	102 210	(-16)
	H1	52 175	(-15)	87.3	(-13)	49 698	(-23)
	H2	57 877	(-1)	120.0	(23)	52 512	(-9)
	Q1	28 557	(-9)	45.0	(-7)	26 941	(-20)
	Q2	23 618	(-21)	42.3	(-19)	22 757	(-26)
	Q3	24 638	(-21)	49.9	(2)	22 080	(-28)
	Q4	33 239	(21)	70.1	(44)	30 432	(14)
			<35>		<40>		<38>
	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)
	Apr	8 748	(-5)	16.1	(-5)	8 288	(-11)
	May	8 597	(-4)	14.9	(7)	8 481	(-6)
	Jun	6 273	(-46)	11.2	(-47)	5 988	(-52)
	Jul	7 343	(-42)	17.9	(-19)	6 125	(-54)
	Aug	7 404	(-29)	16.0	(5)	6 124	(-38)
	Sep	9 891	(24)	16.0	(36)	9 831	(29)
	Oct	9 474	(-8)	24.0	(5)	8 089	(-26)
	Nov	12 515	(38)	25.0	(85)	12 364	(53)
	Dec	11 250	(40)	21.1	(74)	9 979	(29)

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.

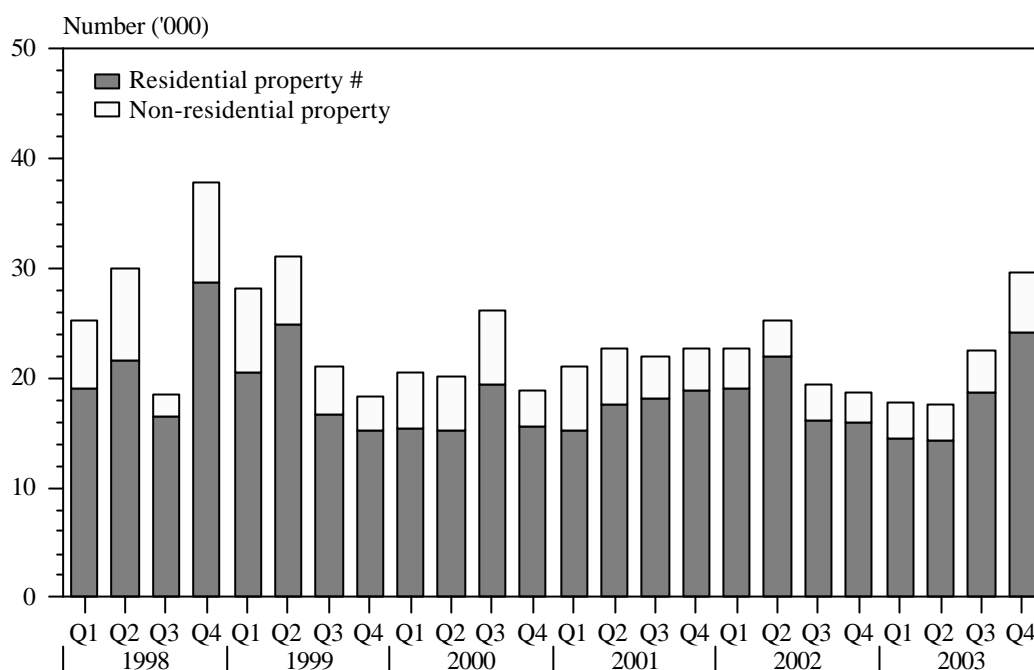
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.7

Diagram 3.7

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.8.

3.22 *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⁽¹²⁾, went up by 23% in 2003, after a marginal decrease by 1% in 2002. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property surged by 69% in terms of units or by 31% in terms of total usable floor area in 2003, reversing the corresponding decreases of 35% and 21% in 2002. On the other hand, planned developments of commercial property plummeted by 45% in 2003, after a 38% increase in 2002. Planned developments of industrial property plunged by 99% in 2003, having risen by 134% in 2002 over a low base. Planned developments of property in the “others” category soared by 306% in 2003, following a 46% increase in 2002, mainly due to a surge in hotel projects.

/Table 3.10

Table 3.10

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

		Residential property ^(a)	Commercial property	Industrial property ^(b)	Other property	Total	
2002	Annual	790 (-21)	<17 292> (-35)	365 (38)	107 (134)	1 372 (-1)	
	Q1	126 (-69)	<2 889> (-72)	73 (119)	14 (66)	229 (-54)	
	Q2	327 (74)	<6 561> (31)	57 (-62)	18 (550)	418 (18)	
	Q3	185 (51)	<4 150> (20)	136 (247)	# (9)	368 (117)	
	Q4	153 (-47)	<3 692> (-53)	99 (130)	75 (118)	356 (-4)	
2003	Annual	1 038 (31)	<29 152> (69)	200 (-45)	1 (-99)	444 (306)	1 683 (23)
	Q1	396 (214)	<12 115> (319)	24 (-67)	0 (-100)	65 (301)	485 (112)
	Q2	199 (-39)	<5 856> (-11)	24 (-59)	0 (-100)	120 (665)	343 (-18)
	Q3	186 (1)	<5 745> (38)	71 (-48)	# (-85)	191 (300)	448 (22)
	Q4	257 (68)	<5 436> (47)	81 (-18)	1 (-99)	68 (130)	407 (14)

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

Developers are required to re-apply for issue of consent to commence work on every major revision of their development projects. The figures reported here may include re-application cases and hence may contain a degree of double-counting. In the fourth quarter of 2003, for building plans with consent to commence work in respect of private residential property, 14% in terms of units or 16% in terms of total usable floor area were re-application cases. For 2003 as a whole, the corresponding proportions were 41% and 37%.

(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.

() % change over a year earlier.

(*) Change of less than 0.5%.

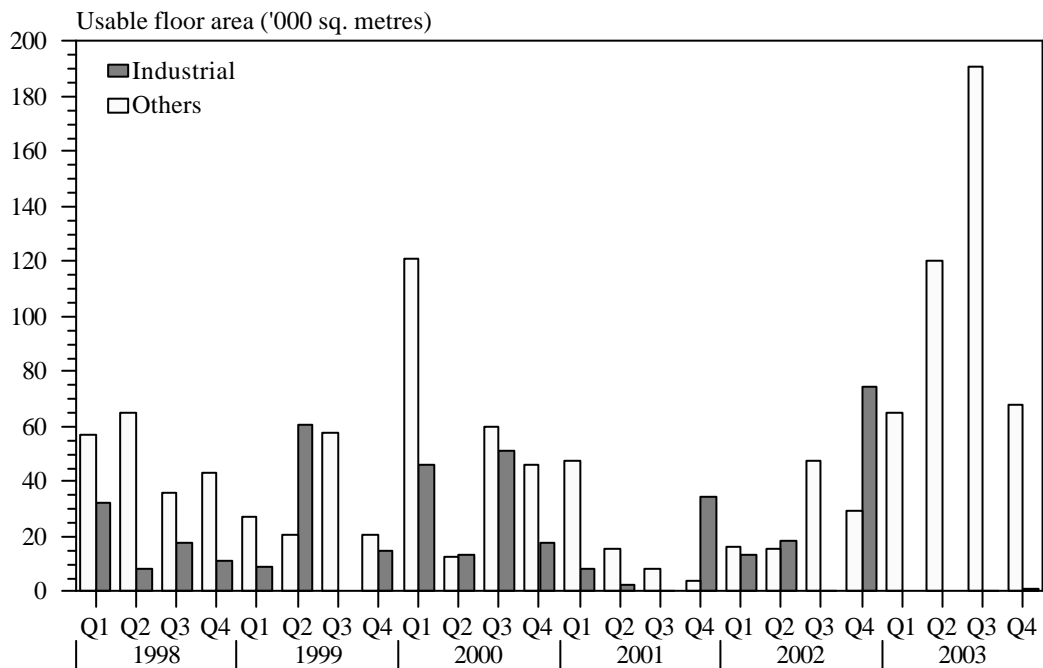
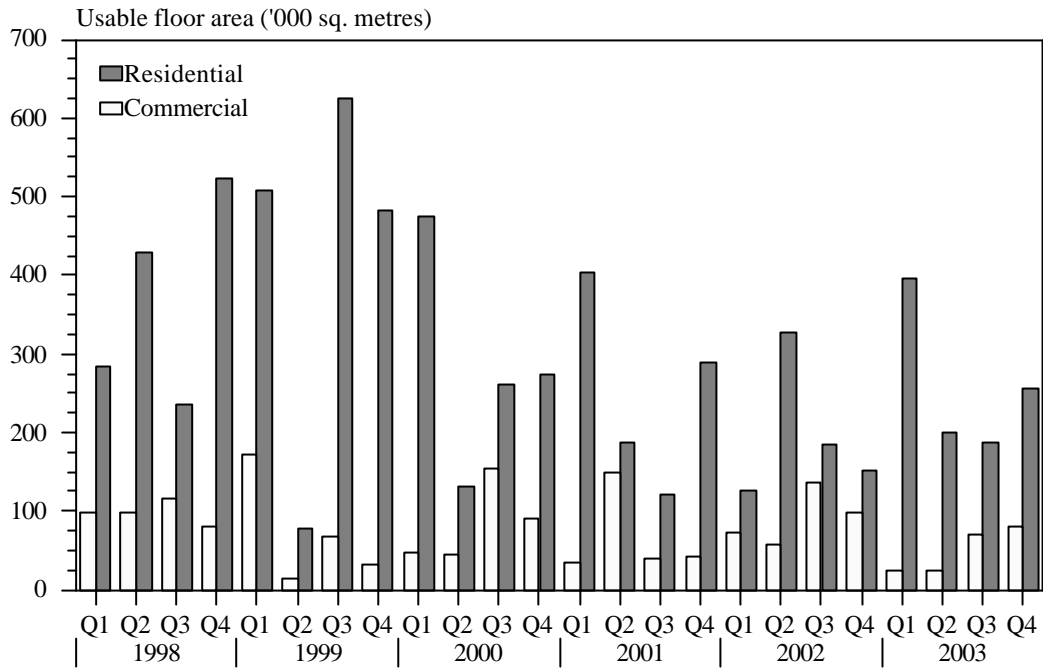
(#) Usable floor area of less than 500 m².

Source : Buildings Department.

/Diagram 3.8

Diagram 3.8

**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

3.23 Building and construction activity in overall terms had a visible decline in 2003. Overall expenditure on building and construction went down by 7% in real terms in 2003, as increased expenditure in the public sector was more than offset by decreased expenditure in the private sector. This followed a marginal increase of 1% in the overall expenditure in 2002. On a year-on-year comparison and expressed in real terms, overall expenditure on building and construction was down by 4%, 8%, 7% and 9% respectively in the four quarters of 2003.

3.24 Expenditure on building and construction by the public sector rebounded by 2% in real terms in 2003, after a 6% drop in 2002. The increase was concentrated in the second half of the year, mainly reflecting intensified work on some of the major civil engineering projects, including infrastructure in support of Container Terminal 9 and the Hong Kong Disneyland project, Route 9, Deep Bay Link, the KCR Tsim Sha Tsui Extension and the KCR Lok Ma Chau Spur Line. This offset the dampening effect from completion or winding down of civil engineering works on the West Rail and the KCR Ma On Shan Extension, and from further reduced building activity under the Public Housing Programme.

3.25 On the other hand, expenditure on building and construction by the private sector fell back distinctly by 11% in real terms in 2003, after a 4% rise in 2002. Private sector building programmes, whilst having slowed down in response to the earlier sluggishness in the property market, were also held back by the large stock of new and existing supply and by postponement of the railway property developments, as well as by suspension of land sales during last year.

/Table 3.11

Table 3.11

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

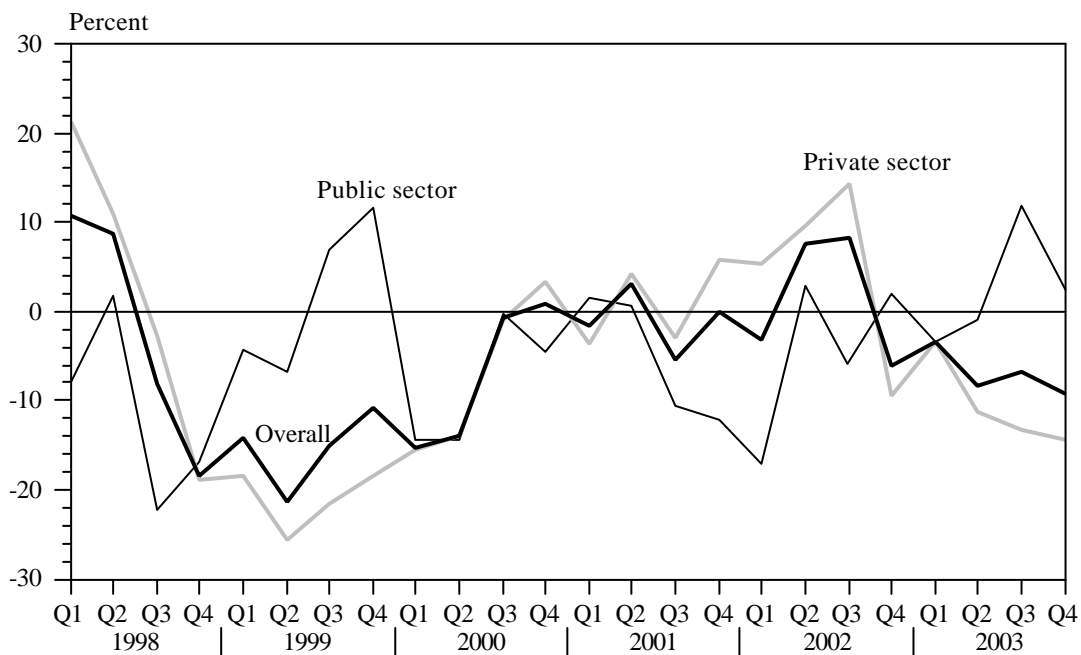
		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2002	Annual [#]	4	-6	1
	H1 [#]	7	-9	2
	H2 [#]	2	-2	1
	Q1 [#]	5	-17	-3
	Q2 [#]	10	3	8
	Q3 [#]	14	-6	8
	Q4 [#]	-10	2	-6
2003	Annual ⁺	-11	2	-7
	H1 [#]	-8	-2	-6
	H2 ⁺	-14	7	-8
	Q1 [#]	-4	-4	-4
	Q2 [#]	-11	-1	-8
	Q3 [#]	-13	12	-7
	Q4 ⁺	-15	2	-9

Notes : (#) Revised figures.

(+) Preliminary figures.

Diagram 3.9

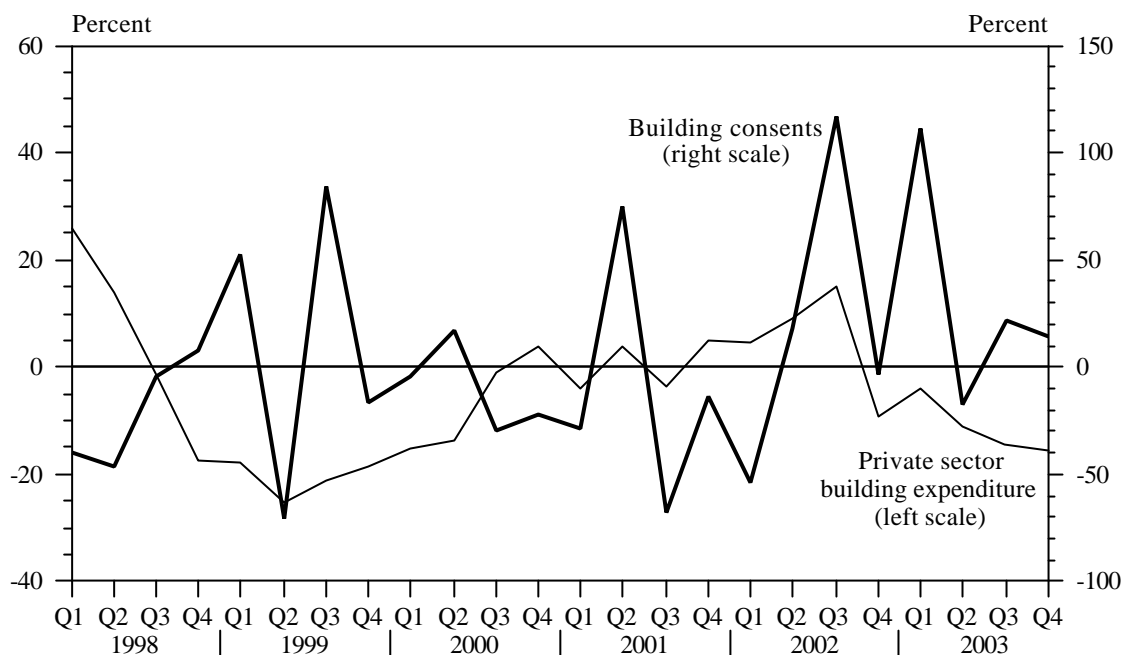
**Expenditure on building and construction
(year-on-year rate of change in real terms)**



/Diagram 3.10

Diagram 3.10

**Private sector building expenditure and building consents
(year-on-year rate of change in real terms)**



3.26 Retained imports of construction machinery went down sharply, by 29% in real terms in 2003, after an 11% increase in 2002. The reduced intake of construction equipment was concurrent with the slack building activity and the completion or winding down of some civil engineering projects in the year.

3.27 On the other hand, retained imports of general construction materials increased by 16% in real terms in 2003, following a 10% decrease in 2002. The increase was mainly concentrated in the first half of the year.

3.28 Labour cost in the building and construction sector, as measured by the Labour Cost Index, decreased by 1% for the first three quarters of 2003 as a whole over a year earlier, while building material cost, as measured by the Material Cost Index, increased by 1%. Taken together, the combined Labour and Material Cost Index was 1% lower for the first three quarters of 2003 as a whole from a year earlier, having stayed virtually flat in 2002. On a quarter-to-quarter comparison, the Labour Cost Index decreased by 1% while the Material Cost Index showed little change in the third quarter of 2003. This led to virtually nil change in the combined Labour and Material Cost Index in that quarter.

/Table 3.12

Table 3.12

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

	<u>Labour Index</u>	<u>Material Index</u>	<u>Combined Index</u>
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 (*)
2003 Q1-Q3	3 538 (-1)	758 (1)	1 741 (-1)
Q1	3 574 (*)	759 (1)	1 754 (*)
Q2	3 529 (-2)	759 (1)	1 739 (-1)
Q3	3 510 (-2)	758 (*)	1 731 (-1)
	<-1>	<*>	<*>

Notes : () % change over a year earlier.

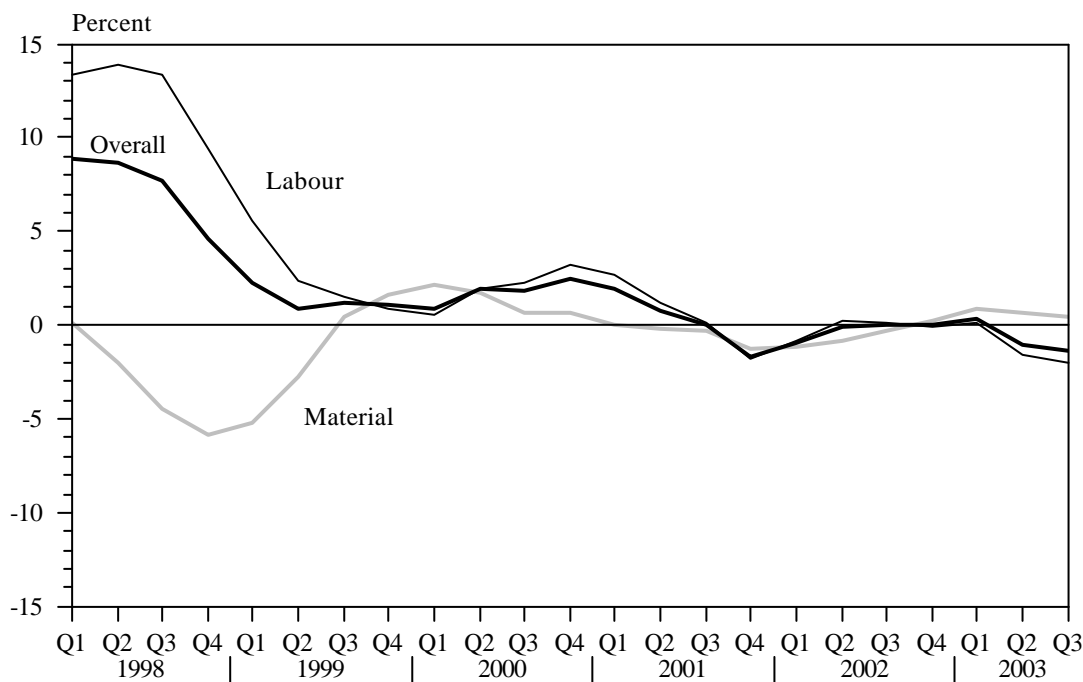
<> % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

Diagram 3.11

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



3.29 Tender prices showed a more varied picture in the first three quarters of 2003. On a year-on-year comparison, the Tender Price Index (TPI) for public housing projects compiled by the Housing Department decreased by 14% and 11% respectively in the first and second quarters of 2003. In the third quarter, there was no tender received by the Housing Department, so there was no TPI for that quarter. Yet the TPI for public sector building projects compiled by the Architectural Services Department increased by 4% in the third quarter of 2003, after a 5% increase in the first quarter and a 3% decrease in the second quarter. For the first three quarters of 2003 as a whole, there was a 2% increase. The increase was partly due to a low base of comparison in 2002, and partly supported by sustained activity on Government building projects in 2003. On a quarter-to-quarter comparison, the TPI for public sector building projects stayed flat in the third quarter of 2003.

Table 3.13

Tender Price Indices (TPI) for public sector projects

		TPI for public <u>housing projects</u> ^(a) (Jan 1970=100)		TPI for public sector <u>building projects</u> ^(b) (Jan 1970=100)	
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)
2003	H1	475	(-13)	722	(1)
	Q1-Q3	N.A.	(N.A.)	722	(2)
	Q1	476	(-14)	720	(5)
	Q2	474	(-11)	723	(-3)
	Q3	N.A.	(N.A.)	722	(4)
			<N.A.>		<*>

Notes : (a) Compiled by the Housing Department.

(b) Compiled by the Architectural Services Department.

() % change over a year earlier.

(N.A.) Not available, as there was no tender received by the Housing Department in the third quarter.

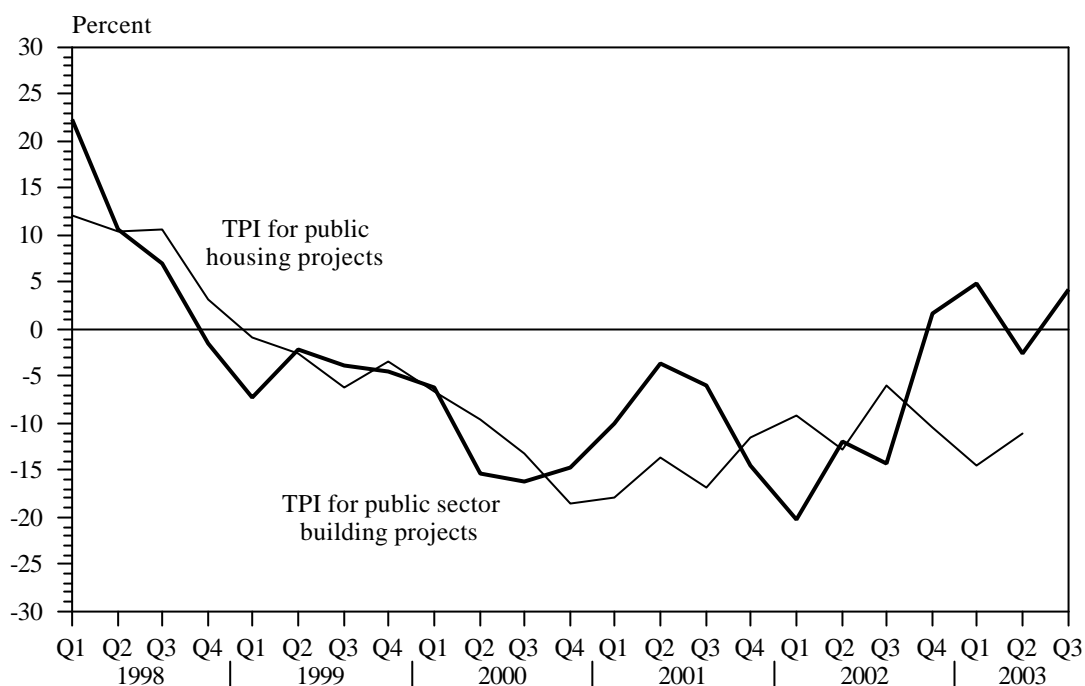
(*) Change of less than 0.5%.

< > % change over the preceding quarter.

/Diagram 3.12

Diagram 3.12

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



Land

3.30 In 2003, there was no land sale at auction by the Government, following announcement in November 2002 of the decision to stop the scheduled land auctions and to suspend the Application List⁽¹³⁾ until December 2003, as part of the package of measures to stabilise the housing market. As to land sales through tender in 2003, one commercial site of 1.2 hectares was sold in May and four small petrol filling station sites totalling 0.8 hectare were sold as a batch in September. On 9 January 2004, the Government announced the Application List for land sales from January 2004 to March 2005. The new list was so designed as to avoid overloading the property market and to enable the market to grow in a healthy manner⁽¹⁴⁾.

/Table 3.14

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

<u>Usage</u>	<u>2002</u>	<u>2003</u>
Residential	6.4	-
Residential/commercial	0.1	-
Commercial	-	1.2
Industrial	-	-
Others	-	0.8
Total	<u>6.4</u>	<u>2.0</u>

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

Source : Lands Department.

3.31 On modification of lease on existing developed and developable land in the private sector domain⁽¹⁵⁾, 109 applications were approved by the Government in 2003. Of this total, 41 applications were for residential development, 12 for residential-cum-commercial development, 6 for commercial development, 3 for industrial development, 14 for education and community facilities, and the remaining 33 for other miscellaneous purposes.

3.32 On the industrial estates, three sites totalling 1.08 hectares were taken up in the Tai Po Industrial Estate in 2003. There was no new take-up of sites in the other two industrial estates at Yuen Long and Tseung Kwan O in the year. Meanwhile, two sites totalling 1.52 hectares in the Tai Po Industrial Estate and another two sites totalling 2.63 hectares in the Yuen Long Industrial Estate were surrendered. As a result, the take-up rates in the industrial estates at Tai Po and Yuen Long fell from 94.7% and 92.1% respectively at end-2002 to 94.1% and 88.1% at end-2003, while that in the industrial estate at Tseung Kwan O remained unchanged at 47.9%.

/3.33

3.33 As to the Science Park at Pak Shek Kok, approvals for admission were granted to 25 more technology companies in 2003. As at end-December 2003, 47 tenants were already admitted, including 14 incubatees⁽¹⁶⁾. Most of the companies admitted were engaged in the electronics, biotechnology, information technology and telecommunications, and precision engineering fields. The Science Park commenced operation in June 2002, upon completion of Phase 1a of the development project. The remainder of Phase 1 was scheduled to be completed in the third quarter of 2004. Planning for Phase 2 was underway.

Electricity and gas

3.34 *Local electricity consumption* rose slightly by 1% to 38 455 million kWh in 2003, slower than the 2% increase in 2002. Analysed by main user type, domestic consumption and commercial consumption increased by 3% and 2% respectively, offsetting the decrease of industrial consumption by 8%. Electricity exports to the Mainland, which accounted for 7% of the total electricity generated in Hong Kong, rose markedly further by 38% in 2003, after a similar leap in 2002. This was attributable to a sustained surge in electricity demand in the Pearl River Delta region, underpinned by continued rapid expansion in economic activities there.

3.35 *Towngas consumption* increased by 1% to 27 000 terajoules in 2003, following zero change in 2002. Analysed by main user type, domestic consumption and industrial consumption increased by 4% and 3% respectively, more than offsetting the 3% decrease in commercial consumption.

Internal transport

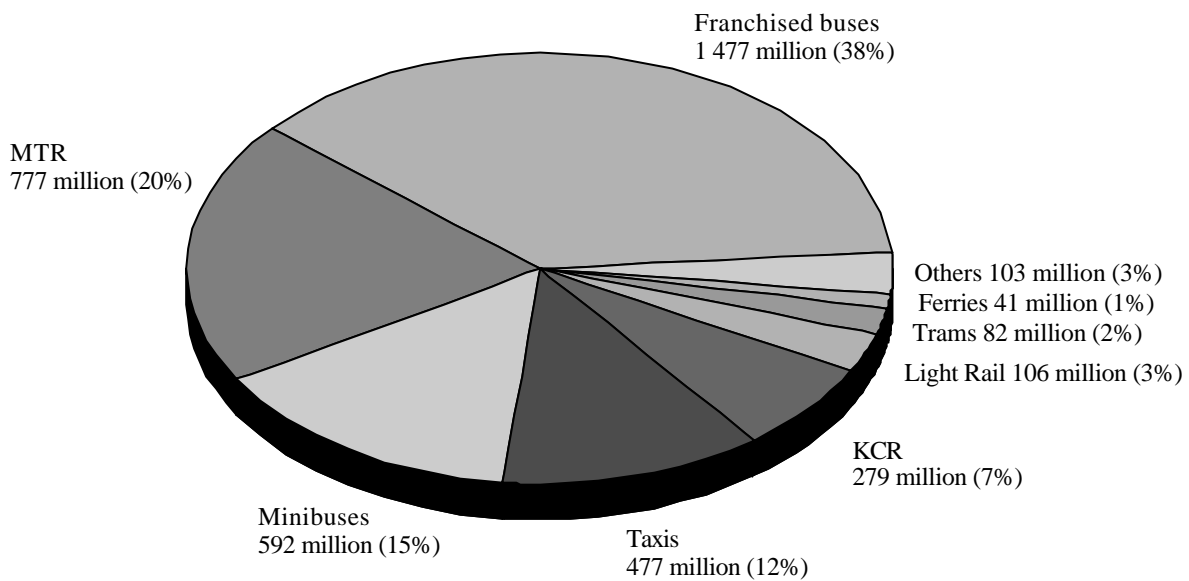
3.36 Total patronage on *public transport* declined by 4% to 3.9 billion in 2003, in contrast to a 2% rise in 2002. The decline mainly reflected the SARS impact with the ensuing suspension of classes in most schools in the second quarter. Analysed by mode of transport, patronage on the Light Rail went down the most, by 7% in 2003. Patronage on franchised buses, trams and the Kowloon-Canton Railway all fell by 6% and that on ferries by 5%. Meanwhile, patronage on mini-buses and the Mass Transit Railway both fell by 1%, but patronage on taxis was little changed.

/3.37

3.37 On *private transport*, the total number of newly registered private cars declined markedly further, by 25% to 22 800 in 2003, following a 13% decline in 2002. At end-2003, the total number of registered private cars, at 382 900, and the total number of licensed private cars, at 338 900, both decreased by 1% over a year earlier.

Diagram 3.13

Passenger journeys by mode of public transport in 2003



Total passenger journeys in 2003 : 3 935 million

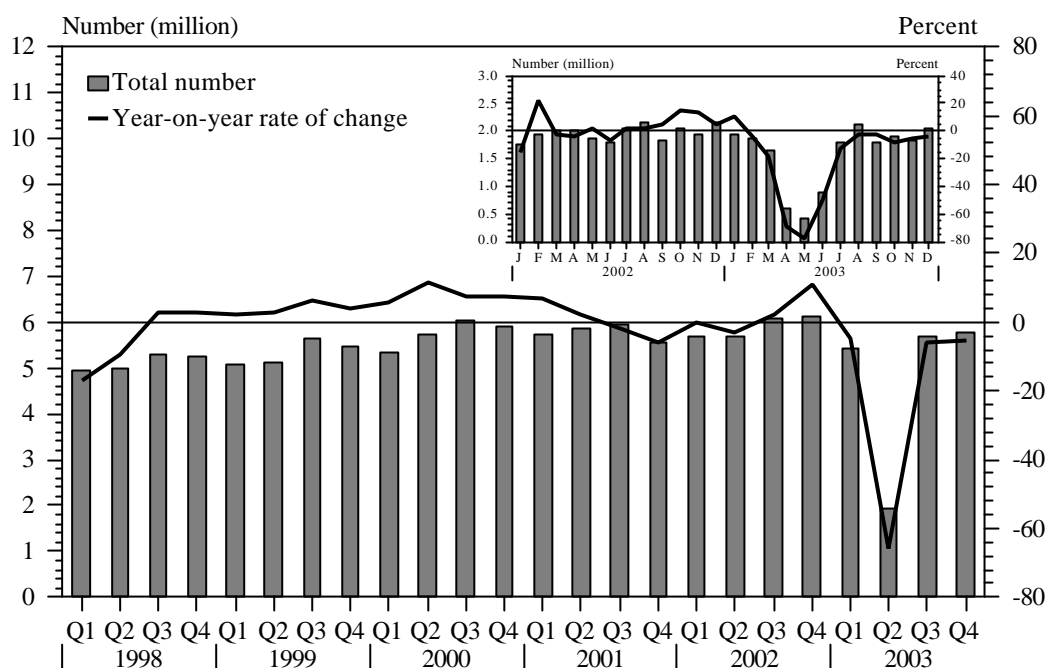
External transport

3.38 On *air transport*, total *air passenger movements* declined significantly in 2003, by 20% to 18.8 million, in contrast to a 2% rise in 2002. The decline mainly occurred in the second quarter, when SARS exerted a severe impact on both inbound and outbound travel. Within the total for 2003, air passenger arrivals and departures both decreased by 20%, to 9.5 million and 9.4 million respectively. Air passengers coming from the Mainland declined by 26%, and air passengers going to the Mainland by 16%. Aircraft movements (including passenger and cargo flights) decreased by 9% to 187 400 in 2003, in contrast to a 5% increase in 2002.

/Diagram 3.14

Diagram 3.14

Number of air passenger movements

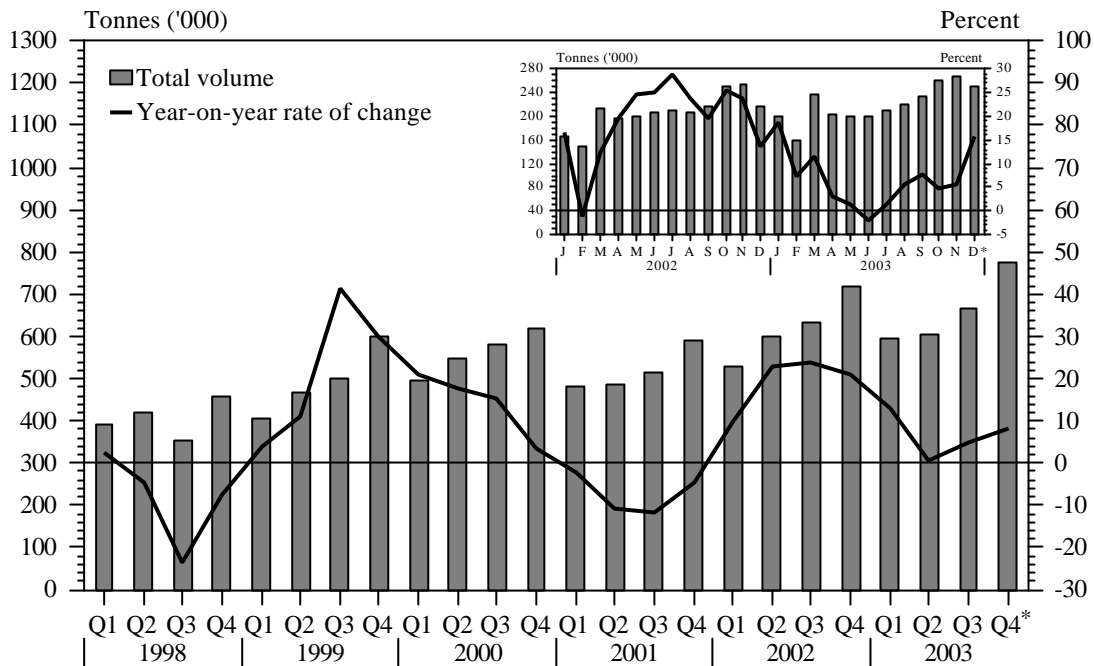


3.39 Total *air cargo movements* went up by 7% to 2 642 200 tonnes in 2003, much moderated from the 19% increase in 2002. This moderation was partly attributable to a trim-down in passenger flights, which also carried air cargo, under the SARS impact in the second quarter of 2003. Also relevant was a high base of comparison in late 2002, when there was a surge in demand for air flight to effect prompt delivery of higher-value products to meet shipment deadlines amidst shut-down of the US West Coast ports. Within the total for 2003, inward air cargo increased by 3% to 1 035 300 tonnes and outward air cargo by 9% to 1 606 900 tonnes, both underpinned by the continued growth in external trade. Yet these were slower than the corresponding increases of 12% and 25% in 2002.

/Diagram 3.15

Diagram 3.15

Cargo carried by air



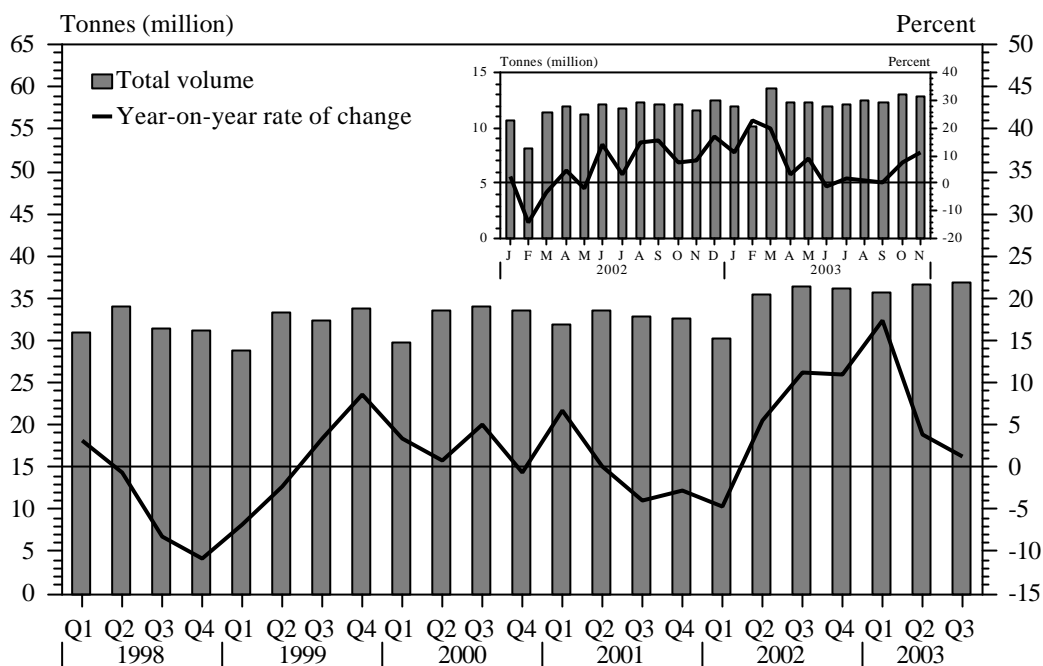
Note : (*) Provisional figures.

3.40 On *ocean transport*, total *ocean cargo movements* amounted to 135.0 million tonnes in the first eleven months of 2003, up by 7% from a year earlier. This was slightly higher than the 6% rise in 2002. Transshipment cargo continued to increase solidly, while direct shipment cargo rose only slightly. Within the total for the first eleven months of 2003, inward and outward ocean cargo went up by 6% and 10% respectively over a year earlier to 90.3 million tonnes and 44.8 million tonnes. The corresponding increases in 2002 were both 6%.

/Diagram 3.16

Diagram 3.16

Cargo carried by sea

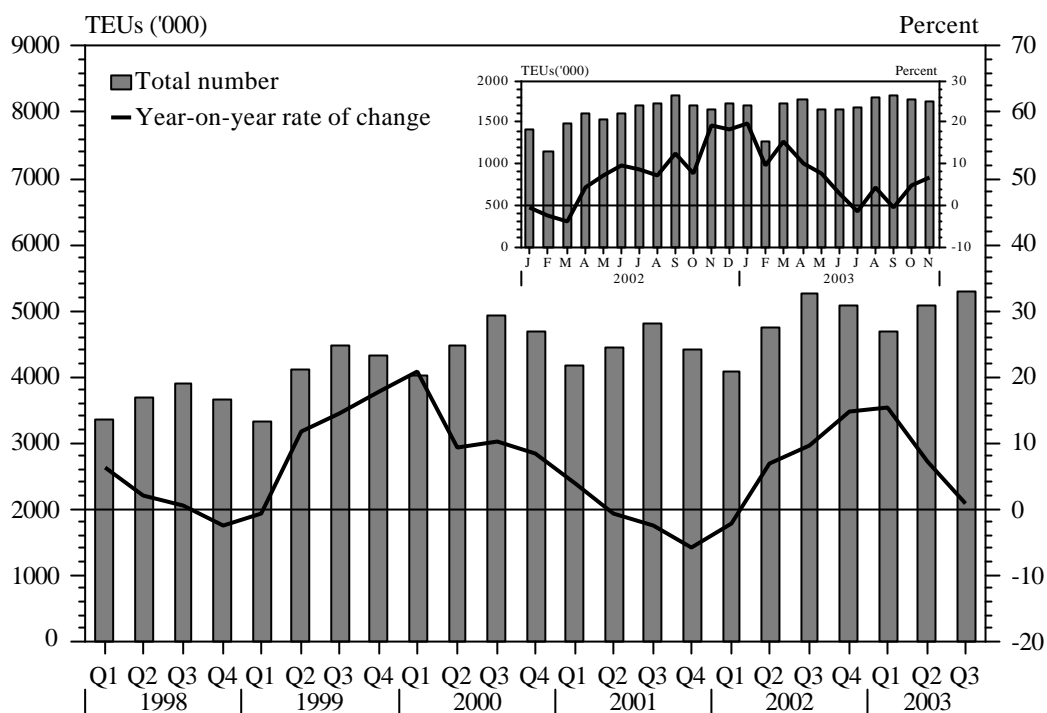


3.41 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) rose by 7% over a year earlier to 18.6 million TEUs in the first eleven months of 2003, same as the increase in 2002. (A latest estimate puts the total container throughput at around 20 million TEUs for 2003 as a whole, 4% more than that in 2002.) Within the total for the first eleven months of 2003, inward and outward container throughput, both at 9.3 million TEUs, went up by 7% and 6% respectively over a year earlier. 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 trend, container throughput at the Yantian port surged further by 27% in 2003, after a 56% leap in 2002.

/Diagram 3.17

Diagram 3.17

Container throughput



Tourism

3.42 The total number of *incoming visitors* fell by 6% to 15.5 million in 2003, mainly due to the spread of SARS in the second quarter. This was in stark contrast to the 21% leap in 2002. On a year-on-year comparison, the total number of incoming visitors increased markedly by 20% in the first quarter of 2003, before going into a precipitous decline of 58% in the second quarter. It then bounced back to a 4% rise in the third quarter. There was a 7% increase in the fourth quarter, despite a higher base in the same quarter a year earlier. The intensive promotion campaigns conducted by the industry together with the Government⁽¹⁷⁾, coupled with launch of the Individual Visit Scheme for Mainland residents coming to Hong Kong since late July⁽¹⁸⁾, contributed to the prompt recovery.

3.43 Analysed by major source, visitors from the Mainland surged further, by 24% in 2003. On the other hand, visitors from other major sources were all on a decline. Visitors from Japan, the United States, South and Southeast Asia, the United Kingdom and Taiwan fell by 38%, 32%, 29%, 26% and 24% respectively.

/Diagram 3.18

Diagram 3.18

Number of incoming visitors

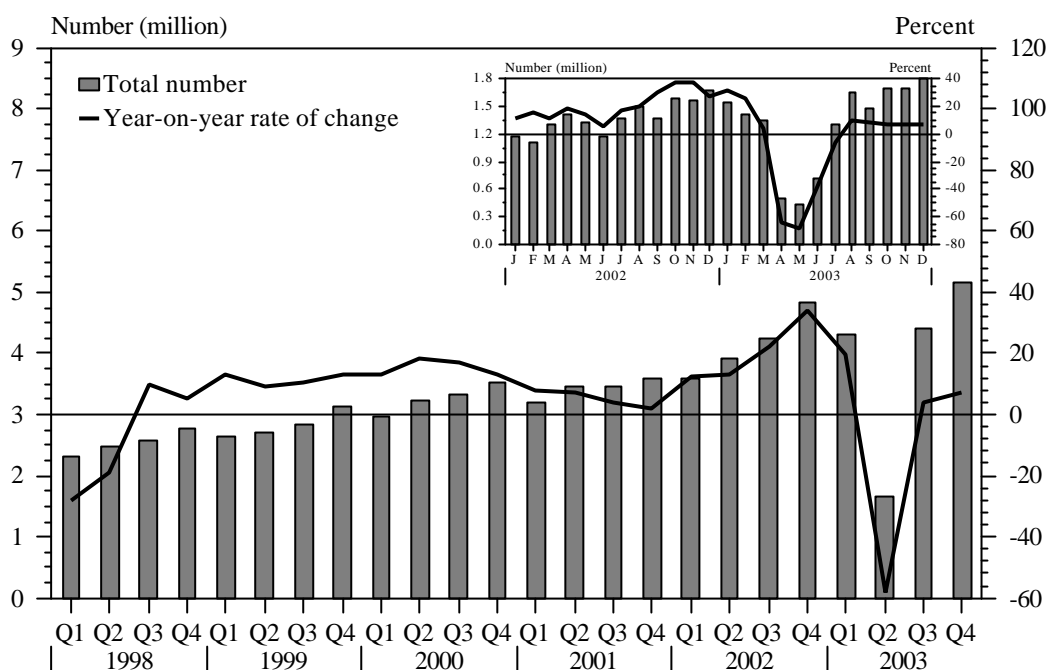


Table 3.15

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

	<u>Annual</u>	<u>2002</u>				<u>2003</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>
All sources	21	12	13	22	34	-6	20	-58	4	7
Mainland of China	53	42	44	55	68	24	53	-26	32	33
Taiwan	*	-1	-7	4	6	-24	-3	-74	-8	-12
South and Southeast Asia	9	-2	5	12	18	-29	*	-81	-16	-12
Japan	4	-8	-1	4	26	-38	-2	-86	-36	-29
United States	7	*	-1	5	25	-32	-7	-84	-19	-14
United Kingdom	5	2	*	4	14	-26	2	-78	-22	-13
Others	6	4	3	3	14	-23	1	-72	-14	-7

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

(*) Change of less than 0.5%.

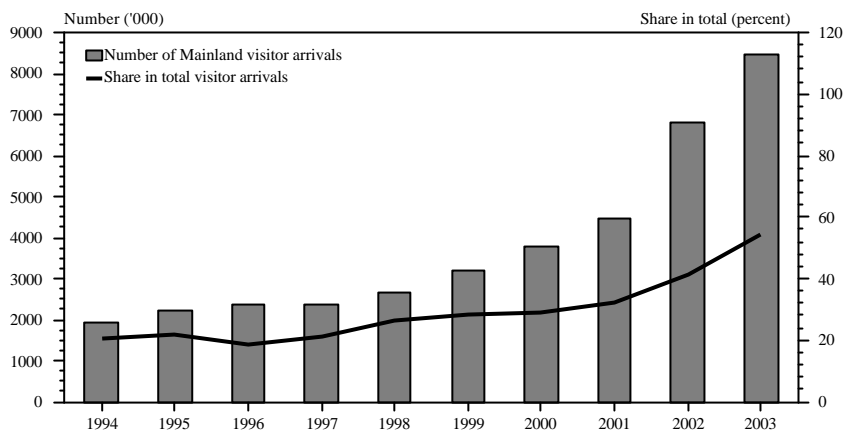
Source : Hong Kong Tourism Board.

Box 3.3

Mainland visitors to Hong Kong

Mainland visitors have been contributing significantly to Hong Kong's inbound tourism. With implementation of the Individual Visit Scheme, and notwithstanding the impact of SARS in the second quarter, in 2003 Mainland visitor arrivals rose sharply by 24% over 2002 to 8.5 million. Over the past five years, Mainland visitor arrivals increased rapidly, at an average annual rate of 26%.

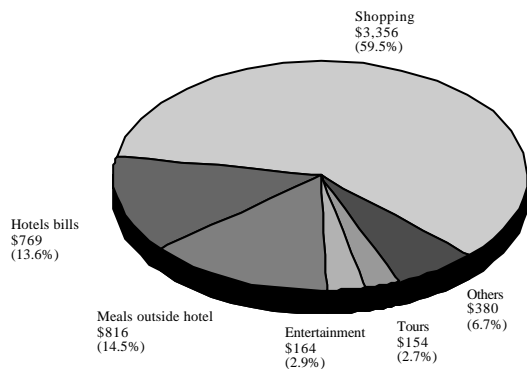
Number of Mainland visitor arrivals



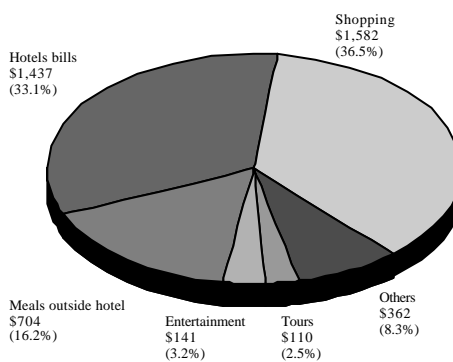
In 2002, around 70% of the Mainland visitors stayed overnight in Hong Kong, with an average length of stay of 4.5 nights. The remaining 30% were same-day visitors. The convenience brought about by the Individual Visit Scheme may lead to more same-day Mainland visitors coming to Hong Kong over time. Of all the overnight Mainland visitors, about 40% came here for vacation purpose, and nearly one-third for business purpose. Business visitors have been accounting for an increasing share in recent years, reflecting the ever closer economic ties between Hong Kong and the Mainland.

In 2002, Mainland visitors spent some \$29 billion in Hong Kong, accounting for 51% of the overall visitor spending. This share is likely to go up further in the coming years, along with the continuing influx of Mainland visitors. Equally significant, the per capita spending of overnight Mainland visitors, at \$5,640 in 2002, was 30% higher than that of overnight visitors from other sources, at \$4,340. Also, Mainland visitors spent distinctly more on shopping and distinctly less on hotel accommodation.

Pattern of per-capita spending of overnight Mainland visitors in 2002



Pattern of per-capita spending of overnight visitors from other sources in 2002

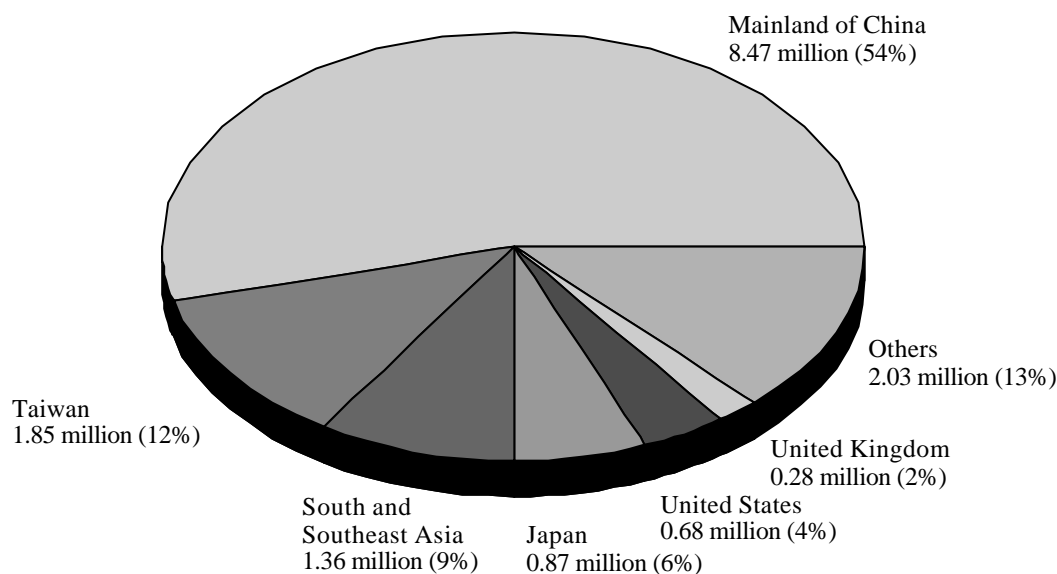


Underpinned by the robust economic development in the Mainland, implementation of CEPA, further expansion of the Individual Visit Scheme, and other facilitation measures including the launch of renminbi credit cards, Mainland visitors can be expected to play an even more important role in Hong Kong's inbound tourism in the future.

3.44 The Mainland, as the largest source of visitors to Hong Kong, ascended further in importance, with a share of 54% in 2003. Taiwan came next (with a share of 12%), followed by South and Southeast Asia (9%), Japan (6%), the United States (4%), and the United Kingdom (2%).

Diagram 3.19

Number of incoming visitors by source in 2003



Total number of incoming visitors in 2003 : 15.54 million

3.45 As at end-2003, there were 42 936 *hotel rooms* in Hong Kong, 2% less than a year earlier due to demolition or cessation of certain hotels. Reflecting the impact of SARS on inbound tourism in the second quarter, the *average hotel room occupancy rate* declined significantly, to an annual average of 68% in 2003, from that of 84% in 2002. Yet along with the distinct recovery in inbound tourism, the average hotel room occupancy rate rose back from only 25% in the second quarter to 88% in the fourth quarter of 2003, slightly less than the 89% in the same quarter in 2002.

/Table 3.16

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

		<u>Number of hotel rooms as at end of period[#]</u>		<u>Average hotel room occupancy rated during the period</u> (%)
2002	Annual	43 634	(--)	84
	Q1	41 829	(--)	81
	Q2	42 747	(--)	83
	Q3	42 758	(--)	83
	Q4	43 634	(--)	89
2003	Annual	42 936	(-2)	68
	Q1	42 792	(2)	81
	Q2	42 818	(*)	25
	Q3	42 848	(*)	80
	Q4	42 936	(-2)	88

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.

(*) Change of less than 0.5%.

(--) Not applicable.

Source : Hong Kong Tourism Board.

3.46 On *Hong Kong residents travelling abroad*, the total number of resident departures fell by 6% to 60.8 million in 2003, again mainly due to the impact of SARS in the second quarter. This contrasted with the 6% rise in 2002. Analysed by major destination, resident departures to Taiwan and to Americas declined the most, by 22% and 19% respectively in 2003. Resident departures to North Asia, Australia and New Zealand, Europe, the Mainland and Macau declined by 9%, 7%, 7%, 6% and 5% respectively, while those to South and Southeast Asia showed little change.

/Diagram 3.20

Diagram 3.20

Number of Hong Kong resident departures

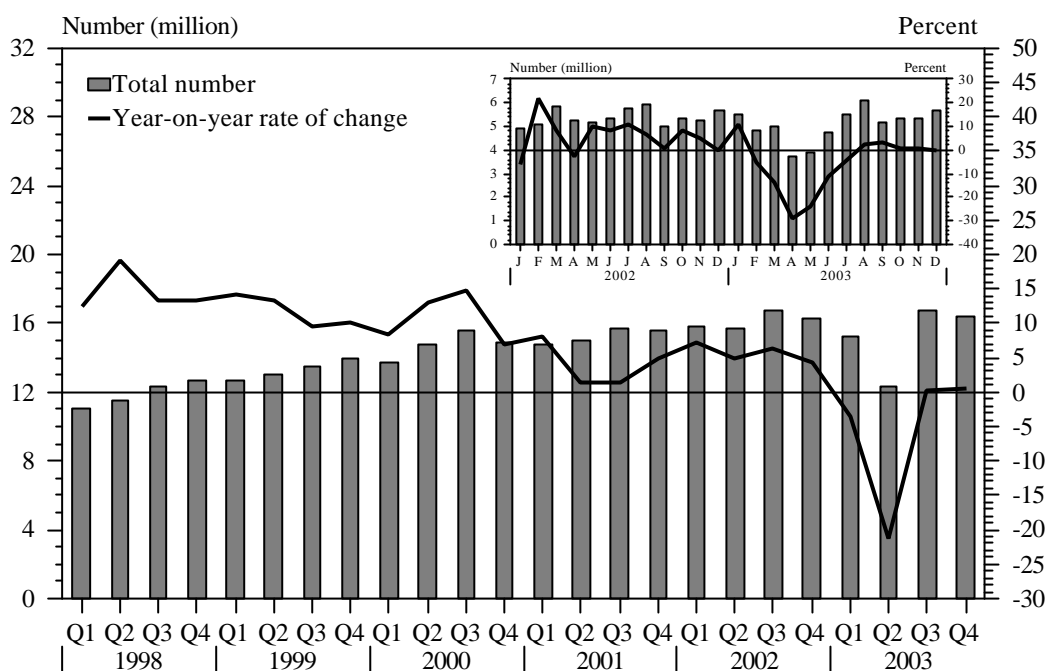


Table 3.17

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

	Annual	2002				Annual	2003			
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
All destinations	6	7	5	6	4	-6	-4	-21	*	*
Mainland of China	7	9	7	7	5	-6	-3	-21	*	1
Macau	-3	-3	-5	*	-2	-5	-7	-15	3	-2
South and Southeast Asia	-3	-2	-11	1	-1	*	-10	-14	15	6
North Asia	2	5	-7	3	6	-9	-18	-21	2	-3
Americas ^(a)	-8	-14	-20	-6	18	-19	-7	-54	-14	-1
Taiwan	2	20	-10	-3	5	-22	-4	-76	-7	-7
Europe	7	10	*	8	13	-7	-11	-30	4	9
Australia and New Zealand	-6	-8	-16	-2	2	-7	-7	-8	-14	1
Others	-16	-40	-24	-2	35	-6	-21	-20	5	12

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

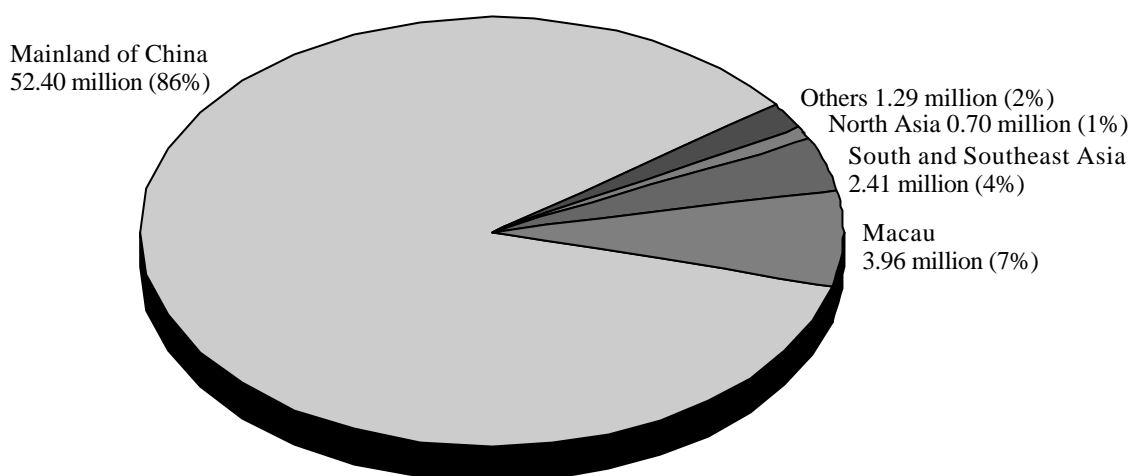
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

/Diagram 3.21

Diagram 3.21

Number of Hong Kong resident departures by destination in 2003



Total number of resident departures in 2003 : 60.76 million

3.47 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 86% of the total outbound trips in 2003. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 7%), followed by South and Southeast Asia (4%), North Asia (1%), Taiwan (1%), and Europe (1%).

/Telecommunications

Telecommunications

3.48 On *wireline services*, the total number of direct exchange lines continued to fall, by 1% over a year earlier to 3.82 million at end-2003. Within this total, the number of fixed telephone lines went up by 1% over a year earlier to 3.33 million at end-2003. It comprised a zero change in the number of lines for business customers at 1.49 million, yet a 2% rise in the number of lines for residential customers to 1.83 million. These two particular groups of customers accounted for 45% and 55% respectively of all the fixed telephone lines installed at end-2003. At 49 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 dropped by 10% over a year earlier to 491 200 at end-2003. At 29 facsimile lines per 100 business exchange lines, Hong Kong again ranked amongst the highest in Asia. On external telecommunications, external telephone traffic volume⁽¹⁹⁾ increased by 4% to 5.9 billion minutes in 2003, after a 5% increase in 2002. As to Internet usage, broadband services continued on a sharp uptrend. The traffic volume soared by 334% to 933 700 terabits in 2003, after a 192% leap in 2002. There was a further profound shift in Internet usage away from the public switch telephone network, where the traffic volume plummeted by 36% to 3.6 billion minutes in 2003. The corresponding decline in 2002 was 50%.

/Box 3.4

Box 3.4

Information technology usage and penetration in households and business

In this Information Age, the use of information technology (IT) has become increasingly popular, both at home for learning and entertainment and in business for reducing costs and enhancing competitiveness.

In 2003, 68% of all the households in Hong Kong had personal computers (PCs) at home, and 60% had their PCs connected to Internet. These represented significant increases over the corresponding proportions of 50% and 36% just three years earlier in 2000, when such figures were first collected. Also, younger people use PCs more frequently than older ones. In 2003, 94% of those aged between 15 and 24 had used PCs, as against only 16% for those aged between 55 and 64. Yet both figures were markedly higher than those in 2000, at 79% and 7% respectively.

IT usage and penetration in households (%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Proportion of households with PCs at home	50	61	62	68
Proportion of households with PCs at home connected to Internet	36	49	52	60
Proportion of persons used PCs	43	50	54	56
By selected age groups				
Aged 15-24	79	88	92	94
25-34	65	74	76	80
35-44	45	52	58	63
45-54	20	26	31	36
55-64	7	9	14	16

In the business sector, 55% of all the business establishments in Hong Kong used PCs in 2003, 48% had Internet connection, and 13% established Web pages/sites. These were appreciably higher than the corresponding proportions in 2000, at 52%, 37% and 7%.

IT usage usually increases with the size of the business establishment. In 2003, 94% of large business establishments used PCs, 85% had internet connection, and 62% of them had their own web pages/sites. These were higher than the corresponding proportions for medium-sized business establishments, at 88%, 78% and 32%, as well as those for small business establishments, at 50%, 43% and 10%.

IT usage and penetration in the business sector (%)

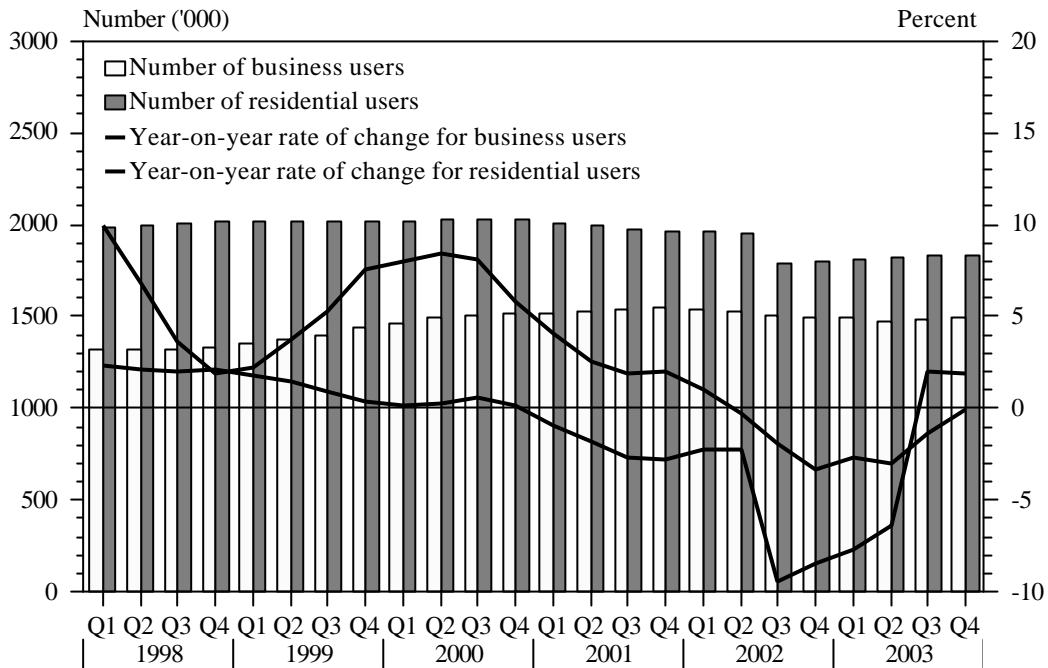
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Proportion of business establishments with PCs	52	50	55	55
Proportion of business establishments with Internet connection	37	37	44	48
Proportion of business establishments with Web page/site	7	11	12	13

Source : "Hong Kong as an Information Society, 2003 Edition", Census and Statistics Department.

/Diagram 3.22

Diagram 3.22

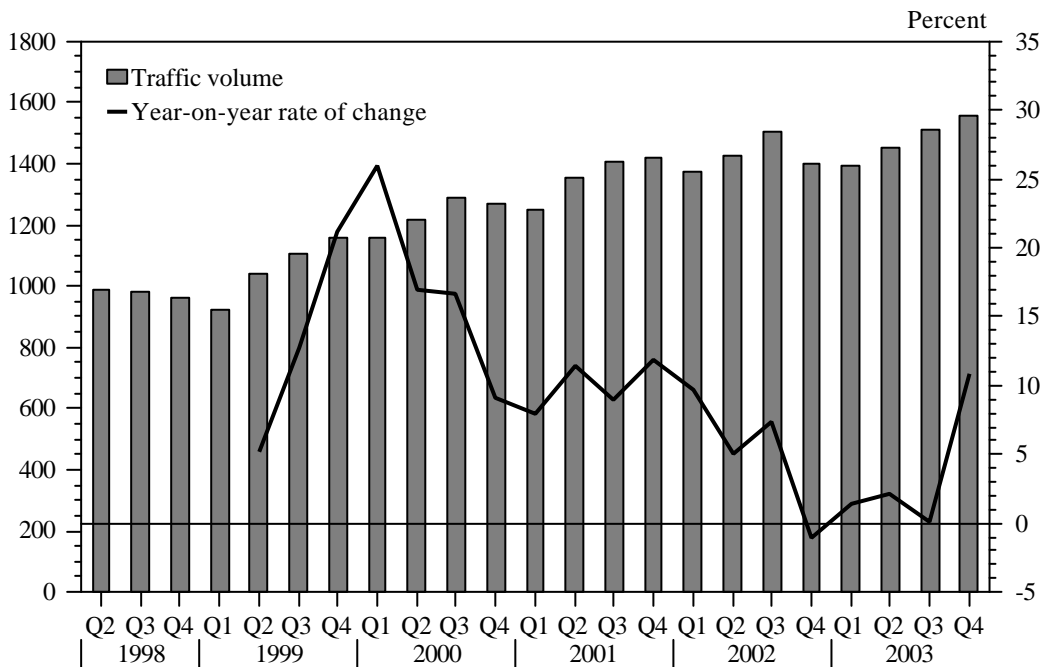
**Number of fixed telephone lines* by main user category
(as at end of quarter)**



Note : (*) Not including facsimile lines.

Diagram 3.23

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



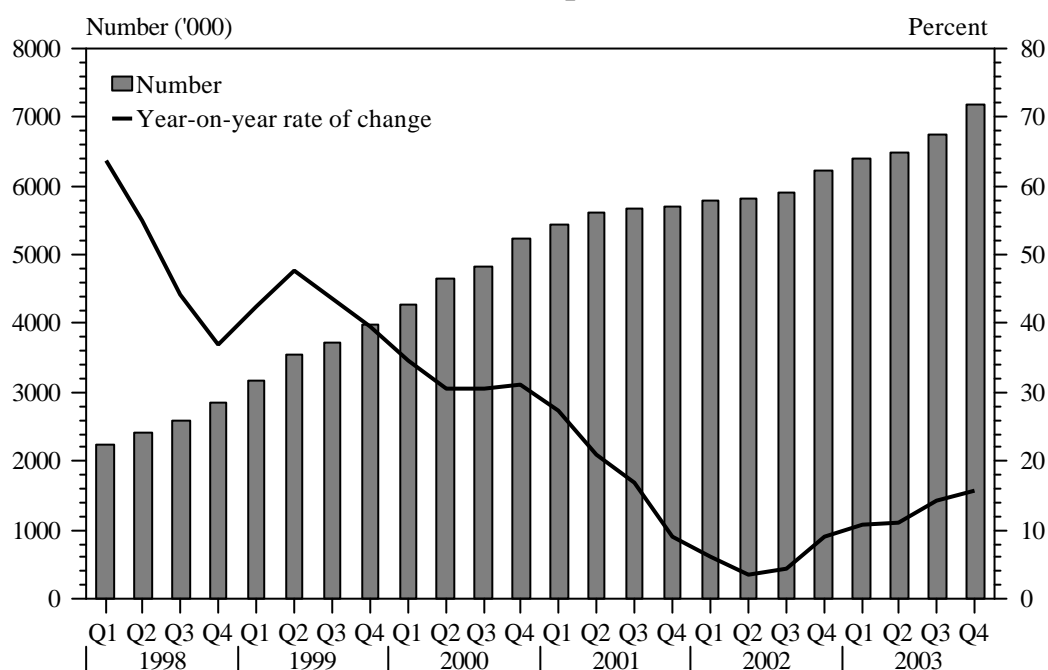
Notes : Data prior to the second quarter of 1998 are not available.

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

3.49 On *wireless services*, the mobile phone segment expanded further. The number of mobile phone customers went up by 16% over a year earlier to 7.2 million at end-2003⁽²⁰⁾. This corresponded to a mobile phone penetration rate of 106%, amongst the highest in the world. Meanwhile, the paging segment continued to shrink, with the number of paging customers going down by 10% from a year earlier to 177 900 at end-2003.

Diagram 3.24

**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.

3.50 Following finalisation of the implementation details, the local Fixed Telecommunications Network Services market has been fully liberalised in January 2003. 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.

Notes :

- (1) In August 2002, the Census and Statistics Department released a new data series on quarterly GDP by major economic sector at constant prices, backdated to the third quarter of 2000. 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) In order to provide a more accurate picture of the distribution of employment by economic sector, a set of composite employment estimates is derived by the Census and Statistics Department by reconciling under an integrated statistical framework the employment figures obtained from the General Household Survey and the Quarterly Survey of Employment and Vacancies on business establishments. Accordingly, the shares of persons engaged in the various economic sectors against the total employed population in the economy are based on these composite employment estimates.

The composite employment estimates as from 1996 are based on the “resident population” definition, with the results of the 2001 Population Census incorporated.

- (4) 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.
- (5) 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.

In view of its reduced analytical usage, this survey was discontinued as from the reference month of November 2003.

- (6) On 15 October 2003, the Secretary for Housing, Planning and Lands (SHPL) announced ways to consolidate the relevant policies and measures on the basis of the prevailing housing policy, as summarised below :
 - (a) In view of the decreasing supply of new flats in the next few years, the Application List System would be resumed as from January 2004, so that it could help regulate the demand for land through market forces to foster the healthy and normal development of the property market.

/(b)

- (b) Liaison with the two railway companies had been made to ensure that the dates of construction and completion of their property development projects would not generate significant impact on the market. The Kowloon-Canton Railway Corporation had agreed that no residential developments along the West Rail and the Ma On Shan Rail would be completed before 2008. The Mass Transit Railway Corporation Limited had undertaken to review the planning for Tseung Kwan O Area 86, and it was anticipated that the first batch of flats from that project would not be completed until 2007 at the earliest.
- (c) The periods of building covenant of development projects which originally were to expire between 1 November 2003 and 31 October 2004 would be extended for one year without additional charges, in order to provide developers with greater flexibility in adjusting the completion date and timing of sale of their development projects according to the market situation.
- (d) All unsold and returned Home Ownership Scheme flats would not be offered for sale as subsidised housing before end-2006. For those flats already completed or still under construction but had never been offered for sale, the Housing Authority would actively explore various disposal options.
- (e) On the Landlord and Tenant (Consolidation) Ordinance, the Amendment Bill was submitted to the Legislative Council for consideration in June 2003. The Government would work hard to secure early passage of the Bill.

This was further to the announcement by SHPL on 13 November 2002. For details of that announcement, see Footnote (8) to Chapter 3 of the 2002 Economic Background.

- (7) When the residential property market was sluggish earlier in the year, developers offered a variety of inducements including flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers 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.
- (8) Starting from 27 October 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, can apply for admission into Hong Kong as capital investment entrants. This new policy, as part of the population policy announced on 26 February 2003, will be applied to all foreign nationals, Macao SAR residents and Taiwan residents, but not Mainland residents.
- (9) The Home Assistance Loan Scheme (HALS), administered by the Housing Authority, has replaced both its Home Purchase Loan Scheme and the Housing Society's Home Starter Loan Scheme, in order to avoid duplicated administrative effort and confusion to the public. HALS also serves to render greater flexibility and broader choice, in terms of location and flat type, to eligible home buyers. Under HALS, the initial quota of assistance cases is equally split between Green Form applicants (including mainly existing public housing tenants and eligible applicants on the Waiting List of public rental housing) and White Form applicants (other applicants). A successful family applicant irrespective of category will be eligible for an interest-free loan at \$530,000 repayable by 13 years, or at \$390,000 repayable by 20 years, or else a monthly mortgage subsidy at \$3,800 lasting for four years. The corresponding amount of loan or subsidy for a successful singleton applicant will be halved.

/(10)

- (10) These completions figures for new private residential flats include around 3 000 and 2 700 village-type housing units in 2002 and 2003 respectively.
- (11) Vacancy indicates the number of units not physically occupied at the time of the survey conducted at the end of the year. Take-ups represent the net increase in the number of units occupied in the year under review, arrived at by adding the completions in that year to the vacancy at the beginning of the year, and then subtracting demolitions in that year and also vacancy at the end of the year. Some of the vacant units have not yet been issued with Certificate of Compliance or Consent to Assign and could not have been occupied. Units under decoration are also classified as vacant. The take-up and vacancy figures bear no relationship to the number of units sold by developers (i.e. primary sales) or still retained by them (i.e. the unsold stock).
- (12) These building consents figures may include re-application cases and hence may contain a degree of double-counting.
- (13) 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 renders a flexible supply of Government land in response to market demand.
- (14) The new Application List consists of 17 sites, comprising 14 residential sites totalling about 10.5 hectares and three commercial/business sites totalling about 2.6 hectares. The residential sites are of different sizes and are modest in terms of resultant flat supply. If all sold, they will render altogether some 7 800 flats, with their estimated completion earliest in 2007.
- (15) 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.
- The figures reported here may include re-application cases and hence may contain a degree of double-counting.
- (16) These incubatees were admitted under the Incu-Tech Programme run by the Hong Kong Science & Technology Parks Corporation, so as to assist eligible technology start-up ventures in their vulnerable inception stage.
- (17) This was part of an extensive programme to relaunch Hong Kong after the impact of SARS.

- (18) For details about the Individual Visit Scheme for Mainland residents coming to Hong Kong, see footnote (1) in Chapter 1.
- (19) This includes access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.
- (20) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4 : THE FINANCIAL SECTOR*

Overall financial market situation

4.1 The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate of 7.8 during most of the first three quarters of 2003, yet strengthened visibly since late September into the fourth quarter. In keeping with the linked rate, the Hong Kong Monetary Authority (HKMA) sold a cumulative HK\$31.9 billion for an equivalent amount of US dollars between 23 September and 31 December. The spot exchange rate of the Hong Kong dollar moved back closer to 7.8 towards the year-end, having appreciated to a high of 7.712 at one point in October. The spread of the twelve-month Hong Kong dollar forward rate against the spot rate switched from a premium to a discount during the course of the year. The increased demand for Hong Kong dollar assets thereby swelling liquidity was driven by optimism about the near-term prospects of the Hong Kong economy, further weakening in the US dollar, and market speculation for revaluation of the renminbi. On the monetary aggregates, narrow money supply continued to grow strongly, while broad money supply resumed increase after decreasing for two years. As Hong Kong dollar loans contracted while Hong Kong dollar deposits expanded, the Hong Kong dollar loan-to-deposit ratio declined further during the year. As to the local stock market, owing to uncertainties arising from the war on Iraq and the outbreak of SARS, share prices fell sharply in the early part of the year, reaching a 4½-year low at 8 409 on 25 April. Yet this was followed by a strong upturn, amidst considerable inflow of funds as well as sentiment boost from distinct pick-up in economic activity and better economic outlook. The Hang Seng Index closed 2003 at 12 576, 34.9% above the level at end-2002.

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

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate up to late September 2003, but strengthened visibly since then. It reached a high of 7.712 on 7 October, before easing back to 7.763 at the end of the year. The spread of the twelve-month Hong Kong dollar forward rate above the spot rate widened briefly to 355 pips (each pip equivalent to HK\$0.0001) in late April, amidst concern about the adverse impact of SARS on the economy, but soon narrowed back as SARS was brought under control. The premium switched into a discount as from late September, initially being influenced by increased speculation for revaluation of the renminbi and later under strong inflow of funds. The discount widened to 595 pips at end-2003, in contrast to a premium of 169 pips at end-2002.

4.3 Under the linked exchange rate system⁽¹⁾, movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. During 2003, the US dollar weakened against most of the other major currencies. This was initially triggered by uncertainties surrounding the US-led war on Iraq and concern about the pace of US economic recovery, and subsequently aroused by increasing market attention on the much enlarged US current account and fiscal deficits despite the clearer US economic upturn. The burden of adjustment in the US dollar was largely borne by the euro, with the dollar-euro rate weakening by 16.5% to an average of 1.132 in 2003, from that of 0.946 in 2002 (the rate moved to 1.259 at end-2003, from 1.050 at end-2002). Other major currencies also appreciated against the US dollar, albeit to a lesser extent. The dollar-pound sterling rate, at an average of 1.635 in 2003, weakened by 8.1% from that of 1.503 in 2002 (the rate moved to 1.786 at end-2003, from 1.612 at end-2002). The yen-dollar rate, at an average of 115.9 in 2003, strengthened by 7.4% from that of 125.2 in 2002 (the rate moved to 107.4 at end-2003, from 118.8 at end-2002). Most of the major East Asian currencies, except the Hong Kong dollar and renminbi, likewise appreciated against the US dollar in 2003.

/4.4

4.4 Taking the various currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar fell by 3.2% to an average of 100.7 in 2003, from that of 104.0 in 2002 (the Nominal Index moved to 98.8 at end-2003, from 102.0 at end-2002). After adjusting for changes in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar was down by 7.0% to an average of 89.4 in 2003, from that of 96.1 in 2002 (the Real Index moved to an average of 86.4 in December 2003, from that of 93.2 in December 2002).

Table 4.1

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

Average for the month	Trade-weighted Nominal EERI ^(a) (Jan 2000 = 100)	Trade-weighted Real EERI ^(b) (Jan 2000 = 100)
2002 Mar	105.9 (0.5)	99.3 (1.2)
Jun	103.5 (-2.3)	95.5 (-3.8)
Sep	103.0 (-0.5)	94.3 (-1.3)
Dec	102.7 (-0.3)	93.2 (-1.1)
2003 Mar	101.8 (-0.9)	91.8 (-1.6)
Jun	100.6 (-1.2)	89.2 (-2.8)
Sep	100.6 (0.1)	87.9 (-1.4)
Dec	99.0 (-1.6)	86.4 (-1.7)

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; whereas 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)**

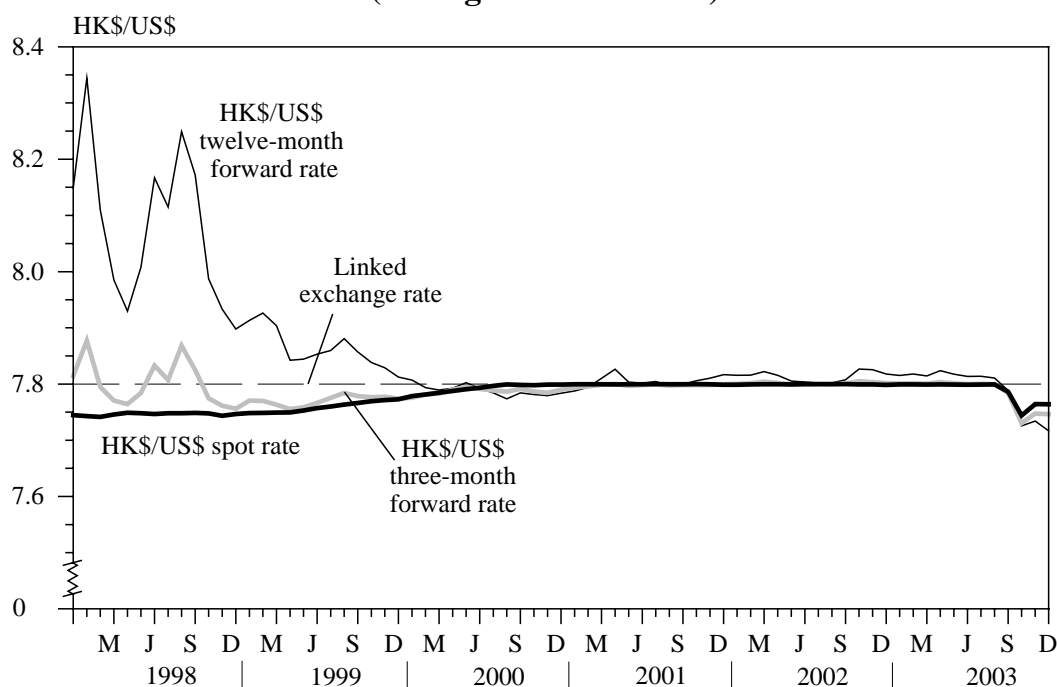
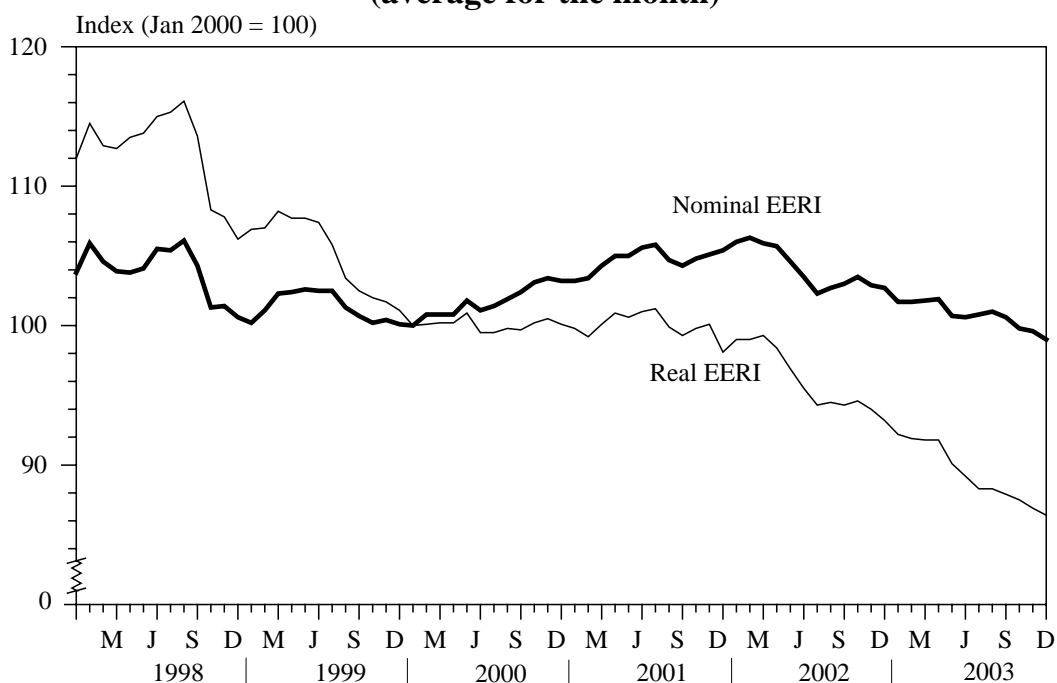


Diagram 4.2

**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 Affected by changes in the Hong Kong dollar forward rate to spot rate spread, local inter-bank interest rates rose briefly in April 2003, but fell progressively during the rest of the year. At end-2003, the three-month HIBOR was at a discount of 104 basis points against the corresponding Euro-dollar deposit rate, in contrast to a premium of 9 basis points at end-2002.

4.6 Following the movements in the US Fed Funds target rate, the Base Rate under the Discount Window operated by HKMA was reduced by 25 basis points to 2.5% in late June 2003, and stayed at that level since then. The best lending rate remained unchanged at 5.00% throughout 2003, while the savings deposit rate offered by the major commercial banks was lowered to 0.02% in October and further to 0.01% in December. The spread of the best lending rate over the three-month time deposit rate widened, from an average of 4.71 percentage points in 2002 to that of 4.93 percentage points in 2003.

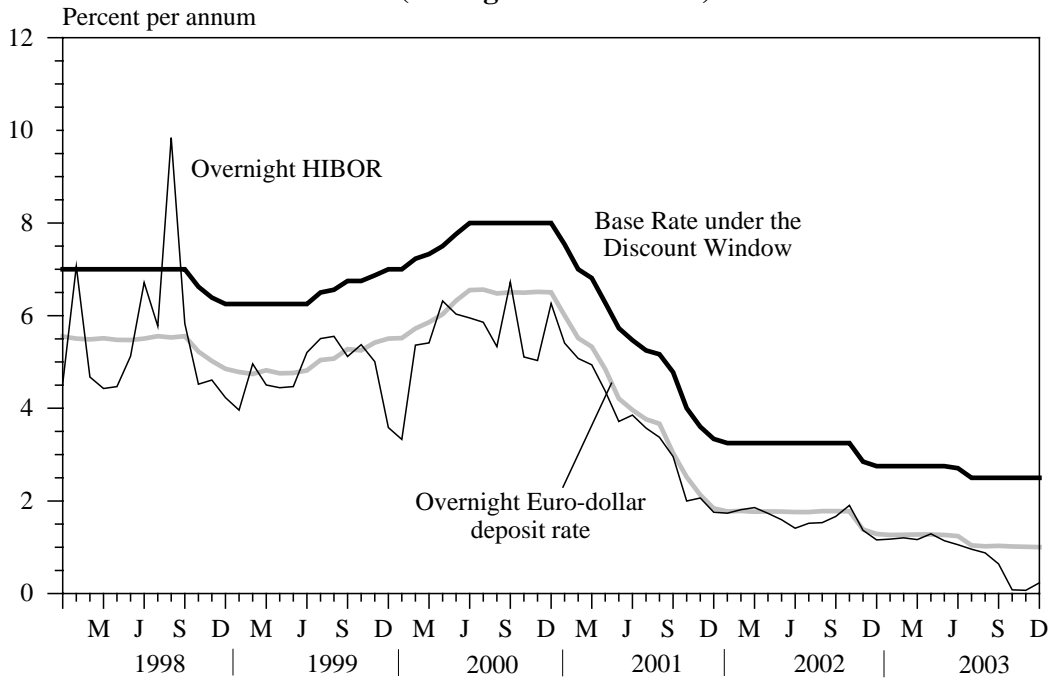
4.7 The cost of home financing, especially for flats sold in the primary market, stayed low amidst keen competition amongst the banks for residential mortgage business. In December 2003, 92.8% of the new residential mortgages were granted at more than two percentage points below the best lending rate, further up from the share of 90.9% in December 2002⁽³⁾. The proportion of new residential mortgages granted at more than 2.25 percentage points below the best lending rate rose even more, from 79.0% to 87.5% over the same period.

/Diagram 4.3

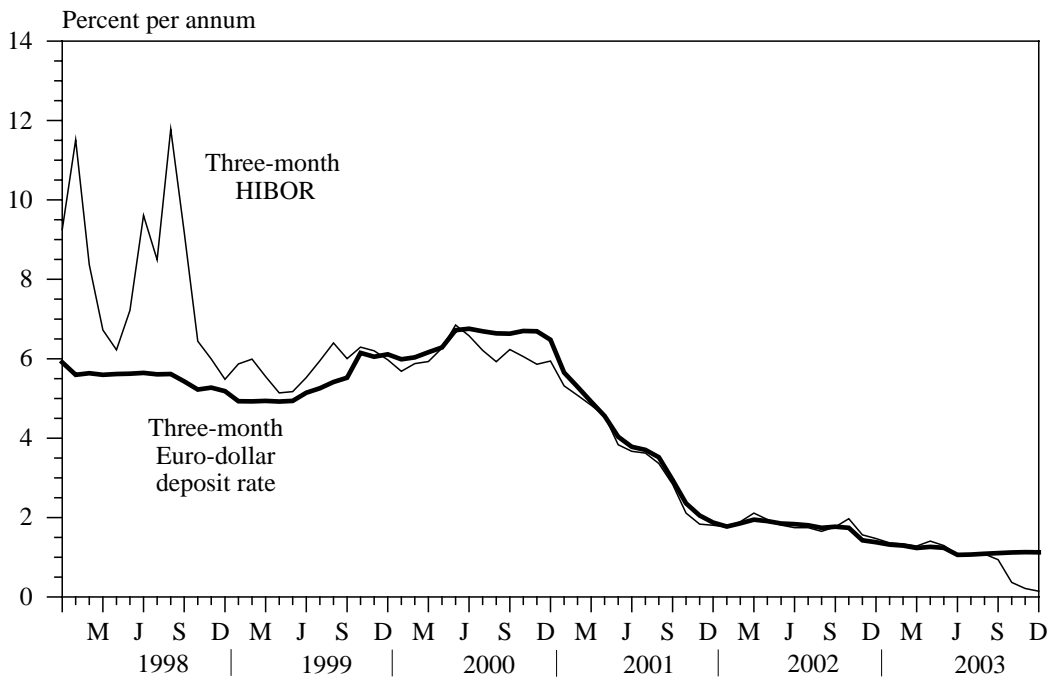
Diagram 4.3

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)**

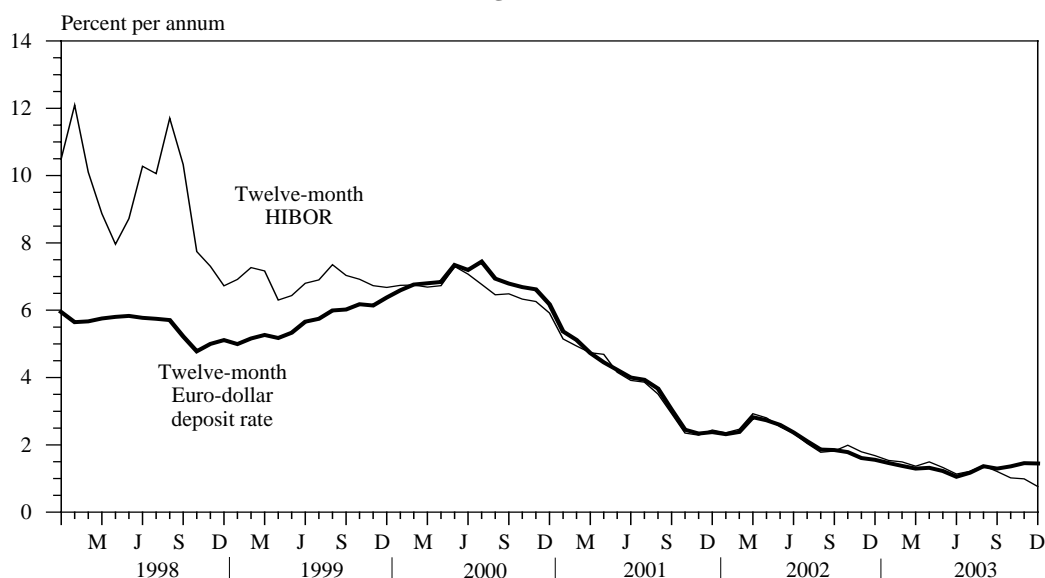


Table 4.2

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

Average for the month		Overnight HIBOR		Three-month HIBOR		Twelve-month HIBOR	
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)
	Apr	1.29	(1)	1.41	(15)	1.50	(18)
	May	1.14	(-12)	1.30	(6)	1.33	(11)
	Jun	1.06	(-18)	1.06	(1)	1.13	(8)
	Jul	0.96	(-7)	1.08	(1)	1.21	(4)
	Aug	0.88	(-14)	1.08	(-1)	1.38	(1)
	Sep	0.64	(-39)	0.94	(-16)	1.21	(-9)
	Oct	0.08	(-93)	0.37	(-76)	1.02	(-35)
	Nov	0.07	(-94)	0.21	(-92)	0.99	(-47)
	Dec	0.23	(-77)	0.15	(-98)	0.76	(-68)

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
	Apr	0.08	0.09	0.10	0.13	0.17	0.03	5.00
	May	0.08	0.08	0.09	0.12	0.14	0.03	5.00
	Jun	0.08	0.08	0.08	0.09	0.10	0.03	5.00
	Jul	0.07	0.08	0.08	0.09	0.10	0.03	5.00
	Aug	0.07	0.08	0.08	0.09	0.12	0.03	5.00
	Sep	0.07	0.07	0.07	0.08	0.10	0.03	5.00
	Oct	0.02	0.03	0.04	0.04	0.05	0.02	5.00
	Nov	0.01	0.01	0.02	0.03	0.05	0.02	5.00
	Dec	0.01	0.01	0.02	0.03	0.04	0.01	5.00

Deposits and money supply

4.8 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)⁽⁴⁾, having shrunk by 1.6% during 2002, turned up to increase by 5.8% over a year earlier to \$1,931 billion at end-2003. The increases by 2.1%, 2.4% and 2.4% respectively during the second, third and fourth quarters of 2003 came after a 1.2% decrease during the first quarter. At end-2003, Hong Kong dollar deposits accounted for 54.1% of total deposits, smaller than the proportion of 55.0% at end-2002.

4.9 Within the total Hong Kong dollar deposits, demand and savings deposits surged by 55.2% and 38.9% respectively over a year earlier to \$227 billion and \$936 billion at end-2003, whereas time deposits fell by 23.6% to \$768 billion. On demand and savings deposits, the increase occurred mainly during the second, third and fourth quarters, with an especially distinct leap during the fourth quarter. As to time deposits, the downtrend continued throughout the year. These showed a sustained shift in the composition of Hong Kong dollar deposits towards higher liquidity, under the prevailing low interest rate environment. The particularly distinct shift during the fourth quarter was mainly caused by large IPO-related placements in more liquid accounts and increased transaction demand arising from robust stock market activity.

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	-3.2	-1.2
	Q2	10.7	6.6	-2.3	2.1
	Q3	12.0	5.4	-1.6	2.4
	Q4	28.9	20.9	-17.9	2.4
Total amount at the end of December 2003 (HK\$Bn)		227	936	768	1,931
% change over a year earlier		55.2	38.9	-23.6	5.8

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.

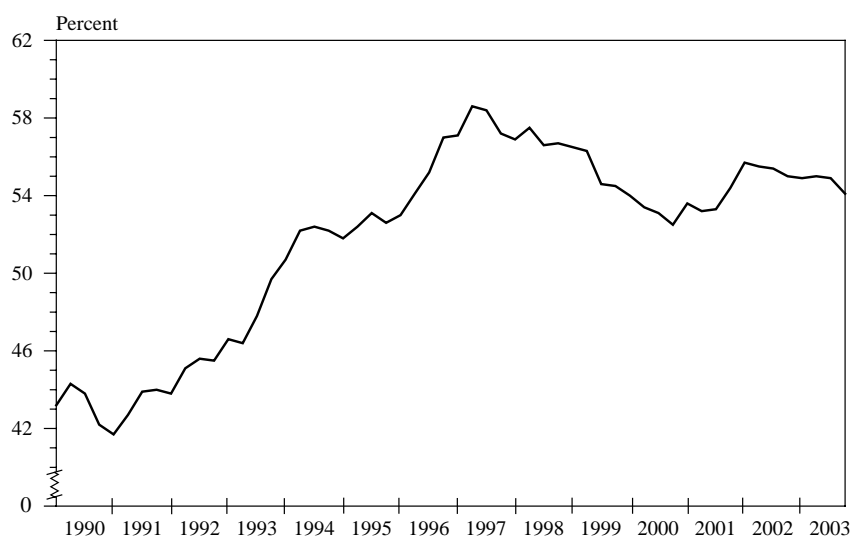
/Box 4.1

Box 4.1

Factors influencing the share of Hong Kong dollar deposits in total deposits

The share of Hong Kong dollar deposits in total deposits, having surged from 44% in 1990 to 59% in mid-1997, fell back considerably to 52% in late 2000. It then staged a modest rebound, to 54% in the fourth quarter of 2003.

Share of Hong Kong dollar deposits in total deposits



Note: As from April 1997, the deposits figures also include placements by the Exchange Fund with maturity below one month.

Several factors could influence the movement in the Hong Kong dollar deposits ratio over time in different ways. *First*, cyclical developments in the economy could affect the demand for Hong Kong dollars. In particular, faster economic growth in Hong Kong relative to its main trading partners is likely to lead to a greater demand for Hong Kong dollars relative to foreign currencies and thus a higher Hong Kong dollar deposits ratio, and vice versa. Then *secondly*, a relatively larger significance of domestic demand in overall demand in the economy is also likely to have a positive impact on the demand for Hong Kong dollar vis-à-vis foreign currency deposits. Specifically, an expanding domestic sector can be expected to boost the demand for Hong Kong dollars for transaction purposes, thereby lifting the Hong Kong dollar deposits ratio. Yet *thirdly*, Hong Kong, being an international financial centre, is closely linked with the major economies in the world. Conceivably, Hong Kong residents are holding more foreign currencies for international transaction purposes. In parallel, non-residents are holding foreign currencies in Hong Kong. These are likely to have the effect of lowering the share of Hong Kong dollar deposits in total deposits.

/4.10

4.10 Total foreign currency deposits (adjusted to exclude foreign currency swap deposits) went up by 9.6% over a year earlier to \$1,636 billion at end-2003, following a 3.8% decline during 2002. This increase reversed the downtrend seen over the preceding two years. Total foreign currency deposits had a modest decrease by 0.9% during the first quarter of 2003, and then bounced up at an accelerating pace by 1.9%, 2.6% and 5.7% respectively during the second, third and fourth quarters. Within the total foreign currency deposits, US dollar deposits rose by 9.5% and non-US dollar deposits by 9.8% during 2003.

Table 4.5

Foreign currency deposits with authorized institutions

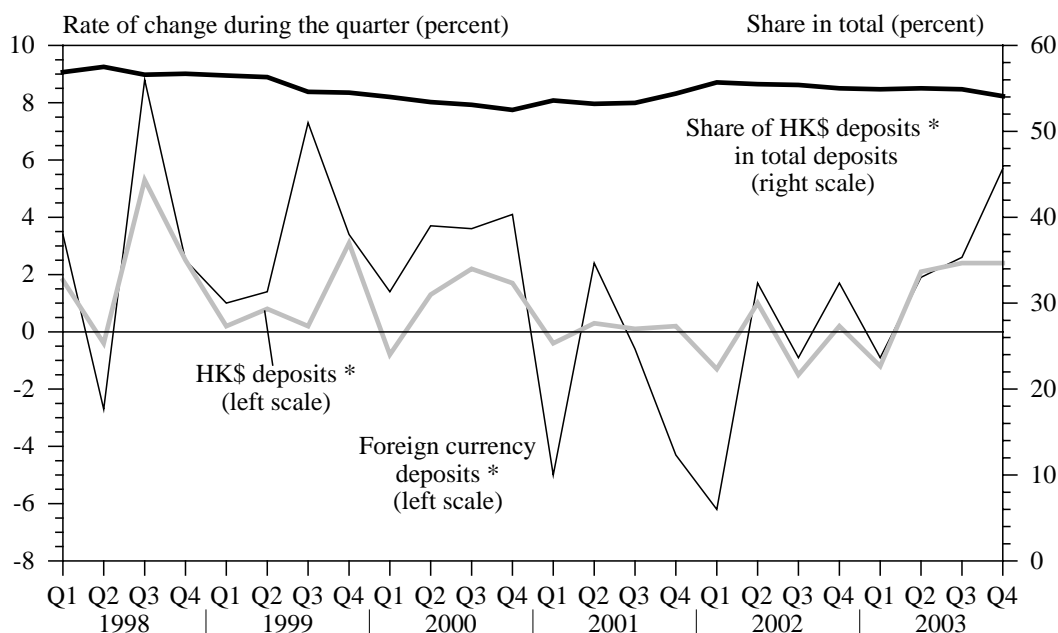
% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)
2002	Q1	-2.9	-12.7	-6.2
	Q2	1.1	3.2	1.7
	Q3	-3.3	4.2	-0.9
	Q4	3.4	-1.6	1.7
2003	Q1	-2.1	1.7	-0.9
	Q2	4.0	-2.1	1.9
	Q3	1.3	5.3	2.6
	Q4	6.1	4.8	5.7
Total amount at the end of December 2003 (HK\$Bn)		1,109	527	1,636
% change over a year earlier		9.5	9.8	9.6

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

/Diagram 4.4

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 expanded by 7.5% over a year earlier to \$3,566 billion at end-2003, after a 2.6% fall during 2002. Though with a 1.0% decrease during the first quarter of 2003, there were increases by 2.0%, 2.5% and 3.9% respectively during the second, third and fourth quarters. This profile was heavily influenced by the movements in deposits with licensed banks, which accounted for 98.8% of total deposits. During 2003, deposits with licensed banks increased by 7.6%. Concurrently, deposits with restricted licence banks went up by 6.4%, but deposits with deposit-taking companies shrank by 16.7%.

/Table 4.6

Table 4.6**Total deposits by major type of authorized institution**

		<u>With licensed banks</u>				<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>	
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	<u>Total</u>
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	-5.5	-7.0	-1.0
	Q2	11.0	5.5	-0.4	2.0	4.6	0.9	2.0
	Q3	12.4	6.4	-0.4	2.5	-2.8	-5.4	2.5
	Q4	26.2	16.3	-5.3	3.8	10.7	-6.2	3.9
Total amount at the end of December 2003 (HK\$Bn)		286	1,278	1,960	3,523	38	5	3,566
% change over a year earlier		56.5	35.0	-8.7	7.6	6.4	-16.7	7.5

4.12 The growth rates of narrow and broad money supply continued to show divergent movements. Narrow money supply, HK\$M1⁽⁵⁾, surged by 36.7% over a year earlier to \$355 billion at end-2003, after an already distinct rise by 12.9% during 2002. Growth in this monetary aggregate accelerated over the course of the year, from 0.4% during the first quarter of 2003 to 6.4% and 7.9% respectively during the second and third quarters, and then markedly further to 18.6% during the fourth quarter. The upsurge during the fourth quarter had the same reason as that for the concurrent leap in more liquid deposits. On a seasonally adjusted basis, HK\$M1⁽⁶⁾ likewise had a pick-up in growth, from 3.9% during the first quarter of 2003 to 8.2% and 7.1% respectively during the second and third quarters, and then visibly further to 12.8% during the fourth quarter. By comparison, growth in broad money

/supply

supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits), was more modest. Having fallen by 0.7% and 0.6% respectively during 2002, they rose back by 6.2% and 5.9% respectively over a year earlier to \$2,107 billion and \$2,123 billion at end-2003. For these two monetary aggregates, increases ranging from 2.0% to 2.5% were observed during the second, third and fourth quarters of 2003, after decrease both by 0.8% during the first quarter.

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	(0.9)	1.5	-1.0	-3.1	-1.0	-3.1
	Q2	1.7	(5.0)	2.4	1.2	1.7	1.2	1.7
	Q3	3.5	(3.0)	2.1	-1.4	-0.8	-1.3	-0.7
	Q4	7.3	(2.7)	8.0	0.4	1.4	0.5	1.3
2003	Q1	0.4	(3.9)	1.4	-0.8	-0.3	-0.8	-0.4
	Q2	6.4	(8.2)	7.1	2.2	2.2	2.1	2.2
	Q3	7.9	(7.1)	8.7	2.2	2.4	2.0	2.4
	Q4	18.6	(12.8)	18.4	2.5	3.9	2.4	3.9
Total amount at the end of December 2003 (HK\$Bn)		355	(342)	413	2,107	3,813	2,123	3,857
% change over a year earlier		36.7	(35.8)	39.8	6.2	8.4	5.9	8.3

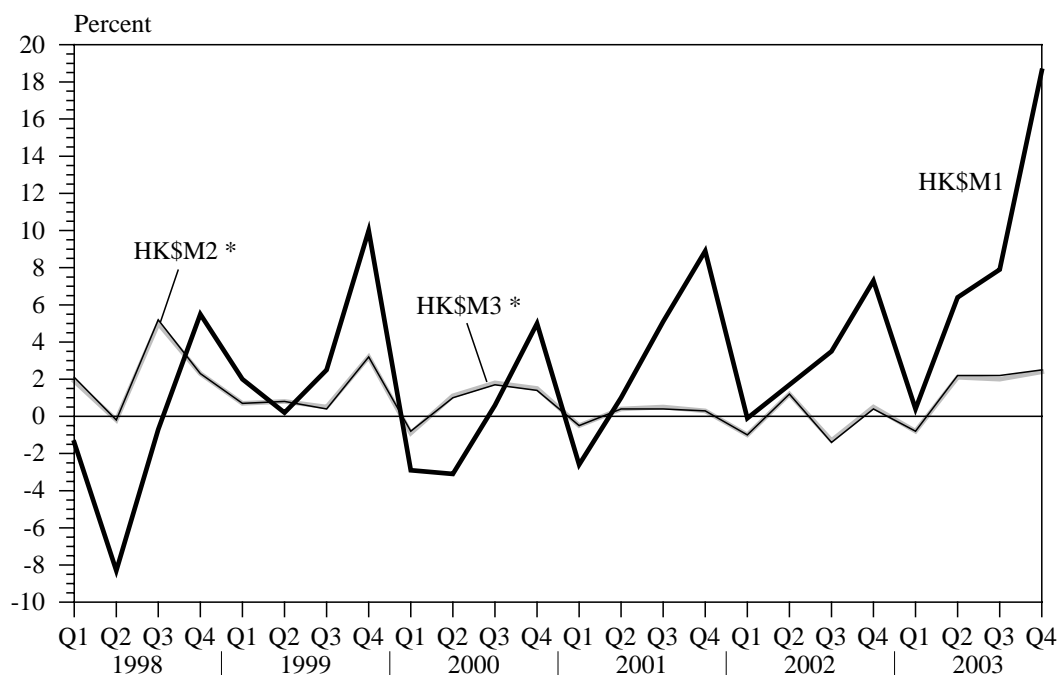
Notes : () Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK\$M1. Seasonality is not apparent for the other monetary aggregates.

(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 Hong Kong dollar claims held by Hong Kong's authorized institutions on banks outside Hong Kong surged by 36.1% over a year earlier to \$267.0 billion at end-November 2003. This followed an increase of 9.2% during 2002. Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks outside Hong Kong rose only modestly, by 3.8% over a year earlier to \$164.2 billion at end-November 2003, after a decrease of 8.1% during 2002. Taken together, Hong Kong's authorized institutions had net Hong Kong dollar claims against banks abroad amounting to \$102.9 billion at end-November 2003, significantly larger than that of \$24.4 billion at end-2002.

/4.14

4.14 On the external position vis-à-vis 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 44.9% of the total Hong Kong dollar liabilities to banks abroad at end-November 2003. Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland had a much smaller share, at 9.6% of the total Hong Kong dollar claims on banks abroad at end-November 2003. Largely due to lesser deposits from banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland fell by 3.1% over a year earlier to \$73.7 billion at end-November 2003, though much smaller than the 23.4% drop during 2002. On the other hand, with increased lending and placement to banks in the Mainland, Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland leaped by 20.8% over a year earlier to \$25.7 billion at end-November 2003, following an 11.2% rise during 2002. As to the net position, Hong Kong's authorized institutions had net Hong Kong dollar liabilities to banks in the Mainland, amounting to \$47.9 billion at end-November 2003, reduced from that of \$52.9 billion at end-2002.

Table 4.8

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

As at the <u>end of</u>	<u>Claims on banks outside Hong Kong (HK\$Bn)</u>				<u>Liabilities to banks outside Hong Kong (HK\$Bn)</u>				<u>Net liabilities to banks outside Hong Kong (HK\$Bn)</u>	
	<u>Overall</u>		<u>Involving banks in the Mainland</u>		<u>Overall</u>		<u>Involving banks in the Mainland</u>		<u>Overall</u>	<u>Involving banks in the Mainland</u>
2002 Q1	171.8	(1.1)	19.1	(3.2)	147.0	(-16.2)	68.4	(-28.7)	-24.9	49.3
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 Q1	202.4	(9.0)	21.9	(6.4)	149.8	(-7.1)	62.2	(-15.4)	-52.5	40.3
Q2	228.4	(12.9)	23.0	(4.6)	140.3	(-6.3)	54.9	(-11.7)	-88.1	32.0
Q3	259.4	(13.6)	23.8	(3.8)	138.4	(-1.4)	52.2	(-4.9)	-121.0	28.4
Oct	275.5	(6.2)	24.8	(4.1)	149.1	(7.7)	59.1	(13.2)	-126.4	34.3
Nov	267.0	(-3.1)	25.7	(3.8)	164.2	(10.1)	73.7	(24.6)	-102.9	47.9
		<36.1>		<20.8>		<3.8>		<-3.1>		

Notes : () % change during the period.

<> % change over a year earlier.

/Loans

Loans and advances

4.15 Total loans and advances fell for the sixth consecutive year, by 2.0% over a year earlier to \$2,035 billion at end-December 2003, albeit smaller than the 5.0% decrease during 2002. While foreign currency loans went up slightly by 0.3% during 2003, this was more than offset by a reduction in Hong Kong dollar loans by 2.6%. For both categories of loans and advances, there was a rebound during the fourth quarter of 2003, along with the pick-up in overall economic activity.

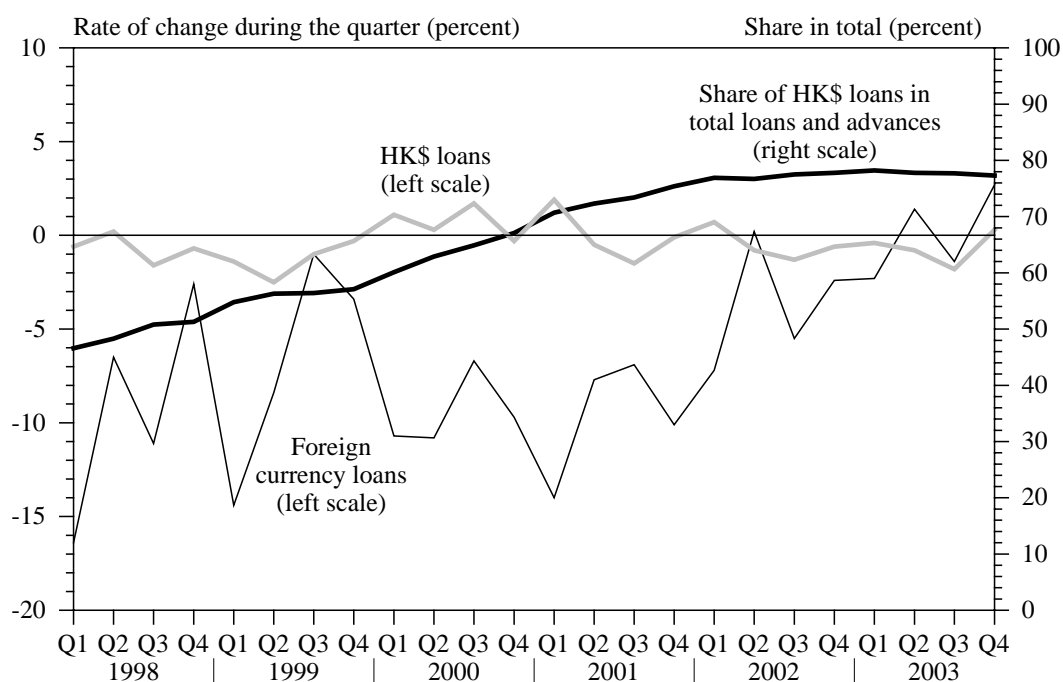
Table 4.9

Loans and advances by currency denomination

<u>% change during the quarter</u>		<u>Hong Kong dollar loans</u>	<u>Foreign currency loans</u>	<u>Total loans and advances</u>
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
	Q2	-0.8	1.4	-0.3
	Q3	-1.8	-1.4	-1.7
	Q4	0.3	2.7	0.9
Total amount at the end of December 2003 (HK\$Bn)		1,573	462	2,035
% change over a year earlier		-2.6	0.3	-2.0

/Diagram 4.6

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 continued to contract while Hong Kong dollar deposits expanded during 2003, the Hong Kong dollar loan-to-deposit ratio moved down much more, to 81.5% at end-2003, from 88.5% at end-2002.

Table 4.10

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

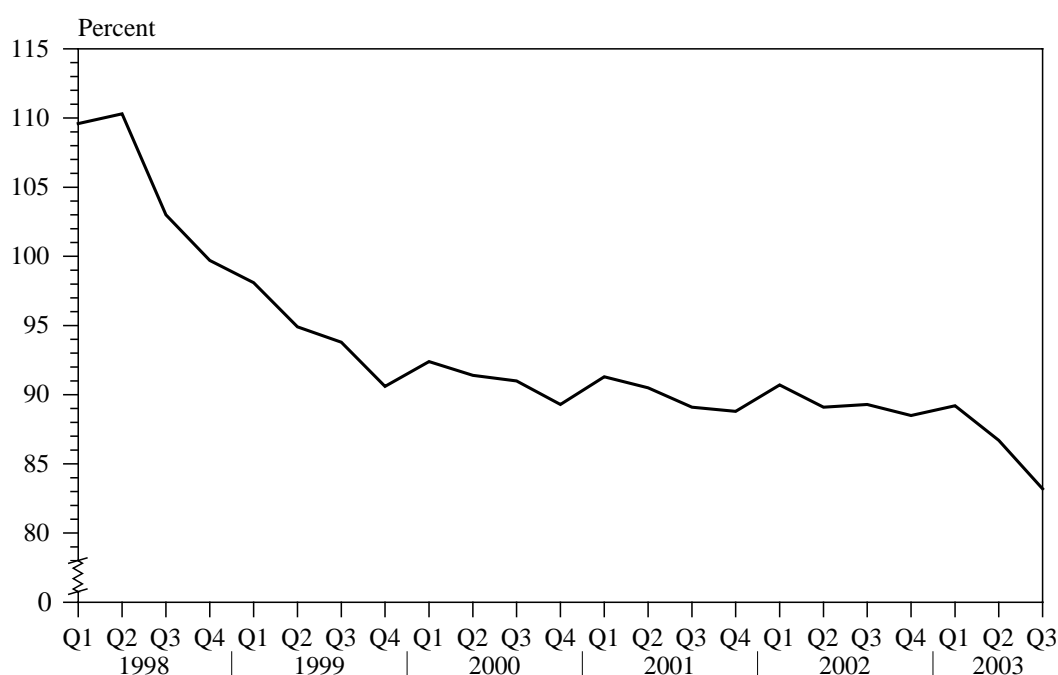
<u>As at the end of</u>		<u>%</u>
2002	Q1	90.7
	Q2	89.1
	Q3	89.3
	Q4	88.5
2003	Q1	89.2
	Q2	86.7
	Q3	83.2
	Q4	81.5

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

/Diagram 4.7

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 fell by 1.4% over a year earlier to \$1,809 billion at end-2003, smaller than the 2.4% decrease during 2002. These loans in fact rose back modestly by 1.2% during the fourth quarter of 2003, in tandem with the pick-up in overall economic activity, following decreases of 0.5%, 0.3% and 1.7% respectively during the first, second and third quarters. Loans for use outside Hong Kong contracted more, by 6.6% over a year earlier to \$226 billion at end-2003, attributable in part to continued shrinkage in Euro-yen Impact Loans⁽⁷⁾, although this was much lesser than the 20.8% plunge during 2002. The decline occurred throughout the four quarters of 2003, by 3.4%, 0.2%, 1.6% and 1.6% respectively.

/Table 4.11

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
	Q2	-0.3	-0.2
	Q3	-1.7	-1.6
	Q4	1.2	-1.6
Total amount at the end of December 2003 (HK\$Bn)		1,809	226
% change over a year earlier		-1.4	-6.6

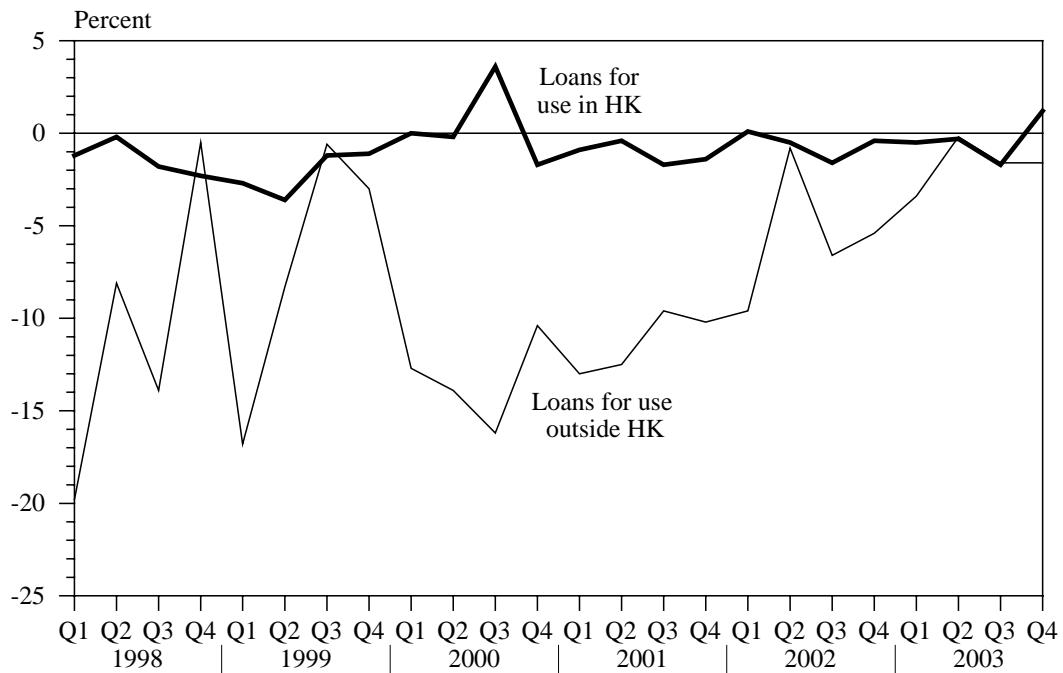
Notes : (a) Including trade financing loans.

(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 mixed changes. Specifically, loans to stockbrokers bounced up strongly, by 21.7% during 2003, largely attributable to an upsurge in stock market activity in the second half of the year. Loans to the manufacturing sector, to financial concerns and for financing visible trade also went up markedly, by 19.4%, 16.4% and 10.2% respectively during 2003, amidst continued buoyancy in external trade apart from the hectic stock market. On the other hand, loans to the wholesale and retail trades declined by 6.8% during 2003, as the revival in consumer spending had yet to generate additional credit demand from the trades concerned. Loans for building, construction, property development and property investment, as well as for purchase of residential property, were also reduced, by 4.8% and 4.0% respectively during 2003, even though the property market turned more active later in the year.

/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	0.7
	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	-1.5
	Q4	-3.7	1.2	-2.6	1.0	-0.7	0.3	-5.3	-0.3
2003	Q1	2.2	1.7	2.3	-0.3	-1.3	0.1	4.2	-1.2
	Q2	6.2	4.9	-0.5	-1.3	-1.4	2.8	-5.5	-1.0
	Q3	-1.5	3.1	-5.4	-2.2	-1.0	3.7	10.0	-4.4
	Q4	3.0	8.6	-3.2	-1.1	-0.3	9.1	12.3	1.8
Total amount at the end of December 2003 (HK\$Bn)		100	84	94	360	616	147	10	397
% change over a year earlier		10.2	19.4	-6.8	-4.8	-4.0	16.4	21.7	-4.8

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

4.19 The quality of assets held by the local banking sector, having undergone some deterioration amidst the impact of SARS, improved distinctly from mid-year onwards to more than cover the lost ground in the earlier few months, in tandem with the pick-up in the asset markets and in overall economic activity. Reflecting this, the ratio of non-performing loans to total loans fell, from 3.94% at end-2002 to 3.59% at end-September 2003. The ratio of overdue and rescheduled loans to total loans edged lower, from 3.59% to 3.58%⁽⁸⁾. The ratio of classified loans to total loans also declined, from 5.04% to 4.53%. Amongst the various types of loans, arrears for over three months in mortgage repayment improved slightly, from 1.06% at end-2002 to 1.05% at end-September 2003, while arrears for over three months in credit card repayment improved more, from 1.28% to 1.23%. In overall terms, the local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 15.6% at end-September 2003, way above the standard set by the Bank for International Settlements.

Banks and other deposit-taking institutions

4.20 The number of licensed banks in Hong Kong increased by one during 2003 to 134 at end-December. On the other hand, the number of restricted licence banks fell by four to 42, and that of deposit-taking companies by six to 39. Altogether, 215 authorized institutions (excluding representative offices) from 33 countries and territories had a presence in Hong Kong at end-2003. Taking all the authorized institutions in Hong Kong together, their total assets went up by 8.4% over a year earlier to \$6,506 billion at end-December 2003.

4.21 On 18 November 2003, the Government announced that the People's Bank of China had agreed to provide clearing arrangements for personal renminbi business in Hong Kong. The scope of business initially covers deposit-taking, exchange, remittances and renminbi cards. This should help promote even closer economic interface between Hong Kong and the Mainland, and facilitate cross-boundary visitor spending. Also, banks in Hong Kong will be able to develop new areas of business, thereby adding to the dimension of Hong Kong and the overall attractiveness of Hong Kong as an international financial centre. As from 18 January 2004, Mainland debit/credit cards are allowed to be used in Hong Kong. As from 25 February 2004, banks in Hong Kong take on renminbi deposit-taking, exchange and remittance business. Then in around April 2004, banks in Hong Kong are going to issue renminbi credit cards.

/4.22

4.22 On enhancing deposit protection in Hong Kong, opinions obtained from an earlier public consultation by HKMA indicated broad support for introduction of a deposit protection scheme in Hong Kong. After further studies and another round of public consultation by HKMA on the details of the proposed scheme, the Bill for establishing the deposit protection scheme in Hong Kong was drawn up and introduced into the Legislative Council on 30 April 2003. In order to prevent moral hazard and ensure financial viability of the scheme, it is proposed that the amount of protection for each eligible claim be capped at a specified level, and that a system of differential contributions from the depository institutions according to their regulatory ratings be introduced. It is hoped that the Bill can be passed within the first half of 2004. Then, it is expected to take about 18 months to carry out preparatory work for commencement of the scheme.

4.23 To help address the issue of increases in consumer credit defaults and personal bankruptcies, the revised Code of Practice on Consumer Credit Data has become effective as from 2 June 2003. Designed to provide practical guidance to data users in the handling of consumer credit data, the revised Code of Practice covers the collection, accuracy, use, security, access and correction aspects, as they relate to the personal data of those individuals who are or have been applicants for consumer credit. It covers, on the one hand, credit reference agencies, and on the other hand, credit providers in their dealing with credit reference agencies and debt collection agencies.

/4.24

4.24 As another initiative to facilitate credit assessment and maintain soundness of the local banking sector, HKMA, the Hong Kong Association of Banks and the Deposit Taking Companies Association jointly announced on 16 June 2003 a plan to establish a commercial credit reference agency (CCRA) in Hong Kong in the third quarter of 2004. CCRA is expected to collect credit data of small and medium-sized enterprises and make such data available to the authorized institutions. To safeguard confidentiality of the data held by CCRA, HKMA will issue a supervisory guideline to set out the minimum standards that authorized institutions have to observe in respect of sharing and use of the commercial credit data.

Insurance

4.25 The number of authorized insurers in Hong Kong declined from 195 during 2003 to 188 at end-December. Within this total, 46 were engaged in long-term insurance business, 123 in general insurance business, and 19 in composite insurance business. Taken together, authorized insurers from 24 countries and territories maintained a presence in Hong Kong at end-2003. Underpinned mainly by robust growth in life insurance business, the value of business receipts in the insurance industry leaped by an average of 20.6% for the first three quarters of 2003 as a whole over a year earlier, faster than the 10.3% increase in 2002.

/Box 4.2

Box 4.2

Development in the insurance sub-sector

The insurance sub-sector has undergone a rapid expansion over the past several years, amidst active promotion by the business operators concerned, as well as increased proliferation and sophistication of insurance products to cater for the needs of customers.

Comparison between insurance and the entire financial services sector in terms of value added contribution and employment (rate of change)

	<u>Insurance</u>		<u>Financial services*</u>		<u>All economic sectors</u>	
	Value added at current market prices (%)	Number of persons engaged (%)	Value added at current market prices (%)	Number of persons engaged (%)	GDP at factor cost (%)	Number of persons engaged (%)
1998	0.7	9.4	-10.2	0.2	-4.9	-1.3
1999	8.3	19.2	11.1	-0.6	-2.3	-0.3
2000	18.6	-3.7	11.3	-1.3	4.3	3.0
2001	4.5	0.8	-6.0	4.7	-1.1	1.4
2002	4.8	6.9	-0.2	-0.6	-0.8	-0.7
Average annual growth rate over 1997 - 2002 (5 years)	7.2	6.3	0.8	0.5	-1.0	0.4

Note: (*) Comprising banking, insurance, stock brokerage, fund management and other financial services.

Source: Composite employment estimates, Census and Statistics Department.

In terms of value added, the insurance sub-sector recorded an average annual increase of 7.2% during 1997 - 2002, much better than the 0.8% rise for the entire financial services sector and the 1.0% decrease for the economy as a whole. In 2002, the insurance sub-sector contributed some 1.3% to GDP at factor cost, up from 0.9% in 1997.

In terms of number of persons engaged, that in the insurance sub-sector went up by an average of 6.3% per annum during 1997 - 2002, again much exceeding the corresponding increases of 0.5% for the entire financial services sector and 0.4% for the economy as a whole. In 2002, the insurance sub-sector had a share of 1.3% in total employment, up from 1.0% in 1997.

Value added per persons engaged in the insurance sub-sector amounted to \$373,200 in 2002, 4.5% higher than that in 1997. At this level, it was broadly comparable to that of \$372,800 for all economic sectors taken together, yet much lower than that of \$819,500 for the entire financial services sector.

As to insurance premium, total gross premium for the insurance sub-sector surged by an average of 11.3% per annum over 1997 - 2002. Yet this was mainly attributable to a rapid increase in premium on long-term insurance by an average of 15.0% per annum. By comparison, premium on general insurance had a much slower increase by an average of only 3.8% per annum. Within long-term insurance, individual life insurance business gained a significant headway. In 2002, 77% of the Hong Kong population were covered by individual life insurance, distinctly higher than the share of 53% in 1997.

/The

The debt market

4.26 In 2003, a total of 115 issues of Exchange Fund paper were launched by HKMA to replace the earlier issues upon their maturity⁽⁹⁾. The total market value of Exchange Fund paper outstanding rose by 2.3% over a year earlier to \$120.2 billion at end-2003. Market response to the tenders of Exchange Fund paper remained favourable, with an average over-subscription rate of 6.5 times in 2003, up from 5.3 times in 2002. Trading in Exchange Fund paper continued to be active, with the daily turnover averaging at \$20.8 billion in 2003, albeit slightly smaller than that of \$22.3 billion in 2002. The yield of the five-year Exchange Fund Notes was 6 basis points below that of the corresponding US Treasuries at end-2003. This differed from the situation at end-2002, with the former yield being 48 basis points above the latter.

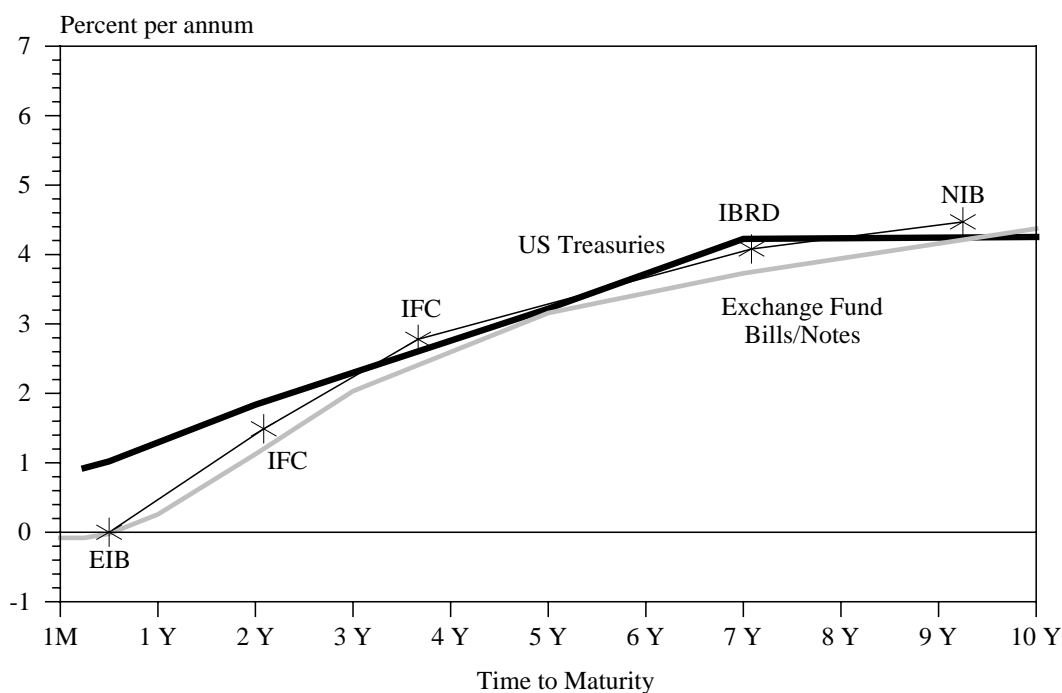
Table 4.13

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
	Q2	119.0	23.8
	Q3	119.7	16.7
	Q4	120.2	14.8

/Diagram 4.9

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



Note : AAA Hong Kong dollar debt issuers

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

4.27 The Hong Kong Mortgage Corporation (HKMC) is one of the major issuers of debt securities in Hong Kong. In 2003, \$10.9 billion worth of HKMC debt paper was launched. At end-2003, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$4.0 billion, and that under its Debt Issuance Programme amounted \$25.9 billion. In addition, retail bonds were issued by HKMC, with the outstanding value at end-2003 totalling \$6.7 billion.

/4.28

4.28 In 2003, \$94.6 billion worth of negotiable certificates of deposit (NCDs) was launched, less than that of \$109.7 billion issued in 2002. Of the new issuance of NCDs in 2003, \$59.4 billion was denominated in Hong Kong dollars, also down from that of \$71.2 billion in 2002. On the other hand, the total value of NCDs outstanding rose to \$242.3 billion at end-2003, from \$211.2 billion at end-2002. Within the total, \$132.3 billion was denominated in Hong Kong dollars at end-2003, smaller than that of \$138.4 billion at end-2002. Concurrently, the proportion of Hong Kong dollar denominated NCDs held by the local banking sector fell, from 52.3% to 51.5%.

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	146.4
	Q2	139.5	234.7	70.6	79.2	69.0	155.5
	Q3	130.1	232.8	66.7	76.7	63.4	156.1
	Q4	132.3	242.3	68.1	79.1	64.2	163.2

/4.29

4.29 In 2003, 713 new issues of other Hong Kong dollar debt instruments, worth \$110.1 billion, were launched by the private sector. The corresponding figures in 2002 were 757 new issues and \$109.2 billion. Partly reflecting risk aversion by debt issuers against potential interest rate volatility, the issuance of fixed rate bonds by the private sector in 2003, at \$83.9 billion, continued to exceed considerably that of floating rate notes, at \$26.2 billion. At end-2003, the total outstanding value of Hong Kong dollar fixed rate bonds and floating rate notes issued by the private sector amounted to \$218.4 billion and \$82.5 billion respectively, adding up to \$300.9 billion⁽¹⁰⁾. These all exceeded the corresponding figures of \$193.9 billion, \$76.2 billion and \$270.1 billion at end-2002. Furthermore, there were eight new issues of Hong Kong dollar debt paper by multilateral agencies in 2003, totalling \$2.6 billion. In 2002, there were also eight new issues, at a total value of \$5.2 billion.

4.30 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding thus amounted to \$557.8 billion at end-2003⁽¹¹⁾, up from \$532.9 billion at end-2002. The size of the Hong Kong dollar debt market was equivalent to 26.3% of HK\$M3, or 20.7% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

4.31 The local stock market, having consolidated in the early part of last year, staged a strong rally in the remainder of the year. In the early months of 2003, market sentiment was dampened by concern over the US-led war on Iraq, uncertain outlook for the US economy, and poor performance of the major stock markets overseas. The outbreak of SARS in March dealt another blow to investor confidence. In consequence, the Hang Seng Index plummeted to a 4½-year low at 8 409 on 25 April, representing a 9.8% fall from the level at end-2002.

/4.32

4.32 Yet as SARS was brought under control, and as the performance and near-term outlook of the major overseas economies improved after the war on Iraq fairly quickly ended, local share prices rebounded appreciably in May. Additional boost came from the signing of CEPA with the Mainland in late June. Further lifting sentiment was a series of positive developments occurring in the second half of the year, including launch of the Individual Visit Scheme for Mainland visitors to Hong Kong thereby bolstering inbound tourism, rebound in the property market, and influx of funds. The rally in the US stock market also fuelled the market upturn. As a result, the Hang Seng Index surpassed the 11 000 mark in September and then the 12 000 mark in October, to reach a 28-month high at 12 594 on 12 December. It closed 2003 at 12 576, up substantially by 34.9% over the level of 9 321 at the end of 2002. (The Hang Seng Index broke the 13 000 mark in early January 2004, and reached another high at 13 928 on 18 February, amidst growing optimism about the near-term outlook for the economy generally and the property market in particular. It closed at 13 907 on 27 February.)

Diagram 4.10

Hang Seng Index



/Table 4.15

Table 4.15

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

		Hang Seng Index	New York Dow Jones Industrial Average	Tokyo Nikkei Average	London FTSE 100 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
	Q2	9 577	8 985	9 083	4 031	3 221	3 084	3 000	1 448
	Q3	11 230	9 275	10 219	4 091	3 257	3 135	3 176	1 631
	Q4	12 576	10 454	10 677	4 477	3 965	3 558	3 306	1 765
% increase during 2003		34.9	25.3	24.5	13.6	37.1	16.1	11.1	31.6

4.33 Mostly underpinned by the upsurge in share prices, and also by some substantial new share flotations and private share placements, total stock market capitalisation, including the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, jumped by 53.6% to \$5,548 billion at end-2003, from \$3,611 billion at end-2002. Concurrently, the average daily turnover soared to \$10.4 billion in 2003, from \$6.7 billion in 2002. Trading was particularly active in the fourth quarter of last year, with the average daily turnover over a quarterly span reaching a near four-year high of \$15.3 billion.

/Table 4.16

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
	Q2	7.9	0.1	8.1	3,907	61	3,968
	Q3	11.8	0.2	12.0	4,708	68	4,776
	Q4	15.1	0.2	15.3	5,478	70	5,548

4.34 In 2003, 73 new share flotations were launched on the Stock Exchange of Hong Kong, raising a total equity capital of \$59.1 billion. The corresponding figures in 2002 were 117 new issues and \$52.0 billion. Of the new issues in 2003, 46 were listed on the Main Board and 27 on GEM, raising equity capital of \$57.1 billion and \$2.1 billion respectively. Amongst these new issues, 18 pertained to H shares, with 10 listed on the Main Board and 8 on GEM, raising equity capital of \$46.8 billion and \$1.4 billion respectively. Separately, \$17.8 billion was raised through private placements by 131 companies, and \$3.1 billion through rights issues by 37 companies.

4.35 As to trading in derivatives on the market at the Hong Kong Exchanges and Clearing Limited, the average daily turnover of Hang Seng Index futures contracts and Hang Seng Index options contracts leaped by 40.7% and 96.7% respectively over 2002 to 27 588 contracts and 8 596 contracts in 2003. This notwithstanding, trading in MSCI China Free Index futures contracts⁽¹³⁾ remained very scant, with the average daily turnover coming down to only one contract in 2003, from eight contracts in 2002. On 8 December 2003, the H-share futures contracts were launched, thereby enabling investors to hedge against fluctuations in the H-share Index. Active trading was seen in this new product, averaging at 3 196 contracts in December 2003.

/Table 4.17

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
Q2	27 152	9 746
Q3	30 281	9 524
Q4	30 346	6 494

4.36 At the end of 2003, there were 33 classes of stock options contracts. For 2003 as a whole, the average daily turnover, at 17 122 contracts, was up by 12.6% over 2002. Also, there were 33 classes of stock futures contracts at the end of the year. But the average daily turnover was down by 11.6% over 2002 to 76 contracts in 2003.

4.37 As to the three-month HIBOR futures contracts, the average daily turnover plummeted by 83.0% over 2002 to 194 contracts in 2003, while that of the three-year Exchange Fund Note futures contracts diminished by seven contracts over 2002 to eight contracts in 2003.

4.38 There were 575 issues of warrants listed on the Main Board at end-2003, comprising 45 issues of equity warrants and 530 issues of derivative warrants. The average daily turnover of equity warrants contracted by 33.7% over 2002 to \$4.7 million in 2003, whereas the average daily turnover of derivative warrants surged by 134.1% over 2002 to \$1.1 billion in 2003. As to GEM, there were only two issues of warrants listed at end-2003.

/4.39

4.39 Gold prices continued on an uptrend during most of 2003. The increase was particularly marked in the fourth quarter, with the price of loco-London gold on 2 December surpassing the US\$400 per troy ounce mark for the first time in seven years. During the course of the year, the upsurge in gold prices was prompted by heightened tension in the Middle East, by the threat of terrorism, and perhaps also by OPEC's decision to cut its oil production hence keeping oil prices relatively high. Moreover, the distinct weakening in the US dollar, which had effectively lowered gold prices in non-US dollar terms, should have rendered an additional boost to gold demand particularly in Europe. The price of loco-London gold closed 2003 at a seven-year high of US\$416.9 per troy ounce, up by 21.2% over the level at end-2002. Similarly, gold price at the Chinese Gold and Silver Exchange Society leaped by 20.2% to \$3,844 per tael at end-2003, from \$3,199 per tael at end-2002. Turnover on the Exchange amounted to 3.4 million taels in 2003, broadly similar to that of 3.5 million taels in 2002.

Unit trusts and mutual funds

4.40 At end-2003, the total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 963, up from 942 at end-2002. Gross sales of mutual funds amounted to US\$19.5 billion in 2003, 54.3% higher than those of US\$12.6 billion in 2002. After deducting redemptions, net sales amounted to US\$3.2 billion in 2003, representing a 29.6% decrease from those of US\$4.6 billion in 2002. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 62.1% of the total value of funds at end-2003. This was followed by fixed income/bond funds, asset allocation funds, money market funds and other funds, with respective shares of 23.8%, 7.6%, 5.8% and 0.7%⁽¹⁴⁾.

/4.41

4.41 The Mandatory Provident Fund (MPF) System⁽¹⁵⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should support further development of the local capital market. The aggregate net asset value of the approved constituent funds of MPF schemes⁽¹⁶⁾ rose further to \$89.4 billion at end-2003, from \$55.1 billion at end-2002. This was partly attributable to enlargement brought about by continued contributions from the enrolled population, and partly attributable to higher capital value of the investment portfolio in these funds.

4.42 At end-2003, there were 19 approved corporate trustees. On MPF products, 44 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 319 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 218 000 employers, 1.73 million employees and 299 000 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 95.4%, 96.3% and 81.5% respectively.

Notes :

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

/As

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) 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

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 backdated 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) 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 a 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)

- (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) 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.

- (16) 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 more 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 Though still slack in overall terms towards the year-end, the labour market showed a progressive turnaround in the second half of 2003, from the distinct setback in the first half of the year, mostly in the second quarter. Indicating this, the *seasonally adjusted unemployment rate*⁽¹⁾ rose from 7.2% in the fourth quarter of 2002 to 7.5% in the first quarter of 2003, and sharply further to 8.6% in the second quarter and then to a peak of 8.7% in May - July, consequential to an abrupt downturn in the economy under the impact of SARS. Nevertheless, as overall economic activity and in particular inbound tourism and local consumer spending bounced up after SARS waned, the seasonally adjusted unemployment rate fell back to 8.3% in the third quarter and markedly further to 7.3% in the fourth quarter. For 2003 as a whole, the unemployment rate averaged at 7.9%, which however was still appreciably above that in 2002, at 7.3%. Furthermore, there was a clear lengthening in the median duration of unemployment, from 90 days in the fourth quarter of 2002 to 109 days in the fourth quarter of 2003, as well as a surge in the proportion of persons unemployed for six months or more, from 30% to 36%.

5.2 The *underemployment rate*⁽²⁾ exhibited a broadly parallel profile. It soared to a peak of 4.3% in the second quarter of 2003, after a modest decline from 3.1% in the fourth quarter of 2002 to 2.9% in the first quarter of 2003. Conceivably, this was due to a considerable proportion of employees having been temporarily suspended from work or asked to take no-pay leave during the SARS period. Yet as SARS waned and the affected employees gradually returned to their jobs, the underemployment rate came down again, to 3.6% in the third quarter and further to 3.3% in the fourth quarter. For 2003 as a whole, the underemployment rate averaged at 3.5%, which however was also appreciably higher than that in 2002, at 3.0%.

/5.3

5.3 For the employed persons, work intensity dwindled noticeably during the second quarter of 2003, amidst the spread of SARS. The median hours of work were reduced to 45 hours per week in the second quarter, from 48 hours per week in both the fourth quarter of 2002 and the first quarter of 2003. Yet in tandem with the revival in economic activity, work intensity rose back to 48 hours per week in the third and fourth quarters. For 2003 as a whole, the median hours of work stood at 48 hours per week, same as in 2002. The proportions of employed persons working for 50 hours or more per week and for 60 hours or more per week, at 41% and 25% respectively in the fourth quarter of 2003, were even slightly higher than the corresponding figures of 40% and 24% in the fourth quarter of 2002.

Table 5.1

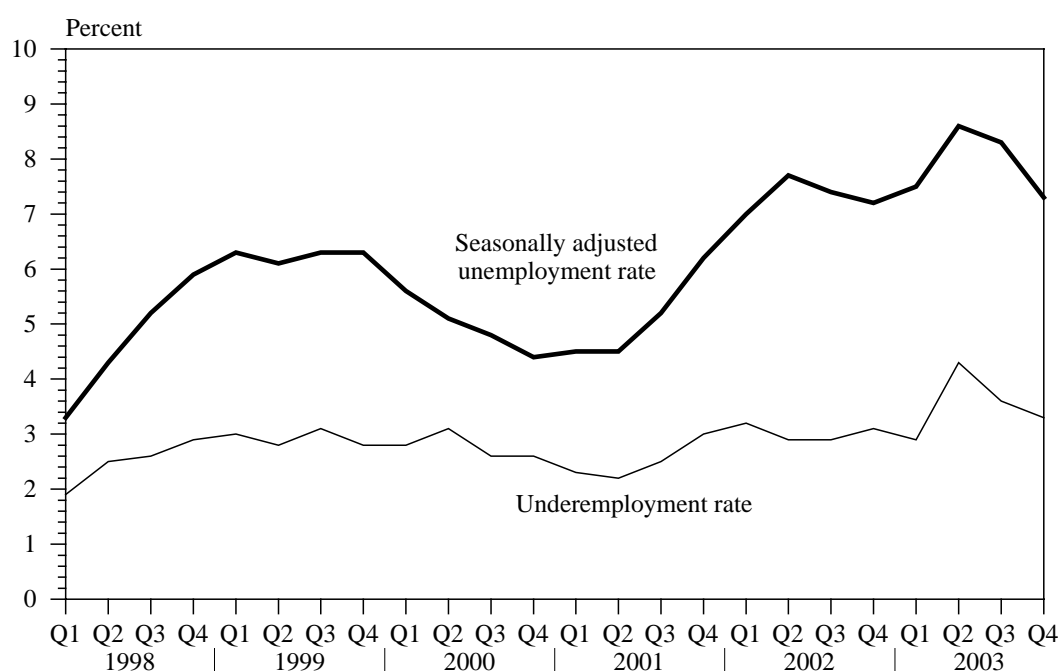
Unemployment and underemployment rates

		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	Annual	7.9	3.5
	Q1	7.5	2.9
	Q2	8.6	4.3
	Q3	8.3	3.6
	Q4	7.3	3.3

Note : Labour force statistics for 2002 have been slightly revised, upon finalisation of the end-2002 population estimates in August 2003. The revised statistics have been incorporated into Tables 5.1 - 5.18 and Diagrams 5.1 - 5.5 and 5.10.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.1

Diagram 5.1**Unemployment and underemployment rates****Table 5.2****The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2002 Annual	3 487 100 (1.8)	3 231 600 (-0.6)	255 500	105 200
Q1	3 457 600 (1.6)	3 219 000 (-1.1)	238 600	109 200
Q2	3 466 500 (1.6)	3 203 100 (-1.7)	263 400	100 600
Q3	3 517 000 (2.1)	3 249 000 (-0.3)	268 000	101 500
Q4	3 507 400 (1.6)	3 255 300 (0.5)	252 100	109 400
2003 Annual	3 500 900 (0.4)	3 223 300 (-0.3)	277 600	123 500
Q1	3 503 500 (1.3)	3 243 700 (0.8)	259 800	100 700
Q2	3 519 500 (1.5)	3 219 400 (0.5)	300 000	151 000
Q3	3 492 000 (-0.7)	3 194 800 (-1.7)	297 300	126 600
Q4	3 488 500 (-0.5)	3 235 300 (-0.6)	253 200	115 700
	<-0.1>	<1.3>		

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

Table 5.3

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

		Median duration of <u>unemployment</u> (Days)	<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	86	53	20	27
	Q2	89	51	19	30
	Q3	82	55	17	28
	Q4	90	51	19	30
2003	Annual	88	51	18	31
	Q1	82	54	17	29
	Q2	82	54	18	28
	Q3	90	50	19	31
	Q4	109	46	18	36

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

Source : General Household Survey, Census and Statistics Department.

Table 5.4

**Median hours of work per week and
proportion of the employed population
by hours of work per week**

		Median hours of work per week for all <u>employed persons</u> (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>35 - 49 hours per week</u> (%)	<u>50 hours or more per week</u> (%)	<u>60 hours or more per week</u> (%)
2002	Annual	48	51	38	22
	Q1	46	52	34	20
	Q2	48	52	36	21
	Q3	48	50	40	22
	Q4	48	50	40	24
2003	Annual	48	48	39	23
	Q1	48	46	38	23
	Q2	45	49	36	22
	Q3	48	49	40	23
	Q4	48	49	41	25

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

Source : General Household Survey, Census and Statistics Department.

/5.4

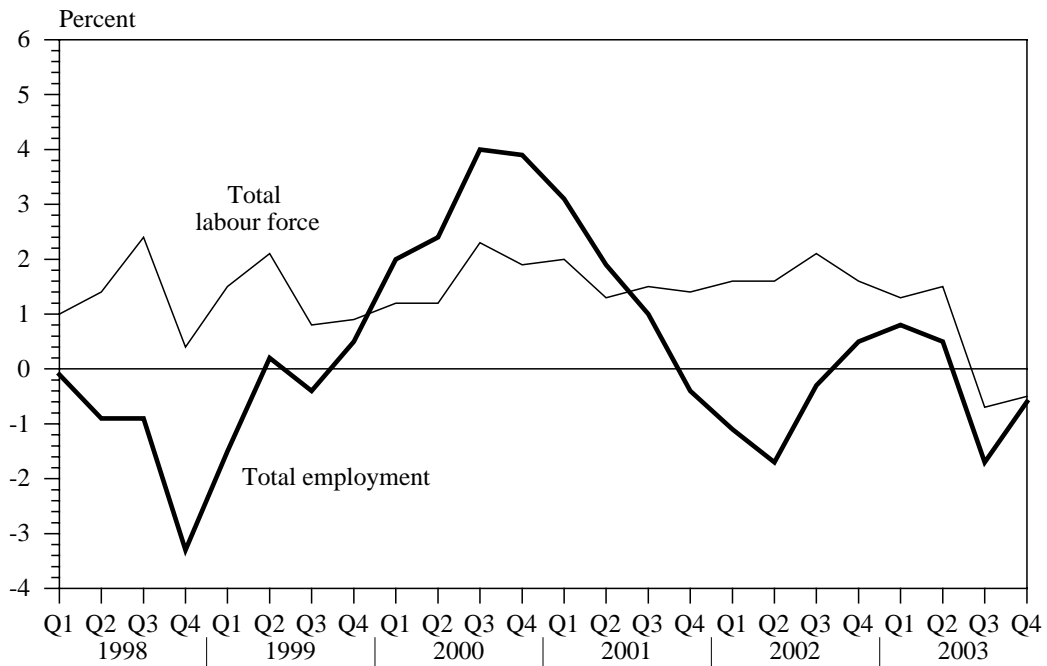
5.4 On a quarter-to-quarter comparison, *total employment*⁽³⁾ as enumerated from households went up by 1.3% in the fourth quarter of 2003, reversing the downtrend seen earlier in the year. Employment gain was most appreciable in the import/export trade, backed by the robust performance of external trade. More appreciable increases in employment were also observed in the retail trade, restaurants, hotels, transport, and amusement and recreational services, along with the surge in inbound tourism and revival in local consumer spending, as well as in real estate and in decoration and maintenance, in line with a more active property market. On the other hand, *total labour force*⁽⁴⁾ shrank for most of the year. On a quarter-to-quarter comparison, there was a slight decrease by 0.1% in the fourth quarter of 2003. This was attributable entirely to a fall in the labour force participation rate⁽⁵⁾, especially that for younger persons aged 15-29 and middle-aged males at 40-49. As the gain in total employment went together with a contraction in total labour force, this led to an improvement in the overall manpower resource balance and hence a drop in unemployment rate towards the end of the year. On a year-on-year comparison, total employment and total labour force had broadly similar decreases, by 0.6% and 0.5% respectively in the fourth quarter of 2003. This contrasted with the situation in the preceding three quarters, when total employment either rose more slowly than or fell by more than total labour force, by 0.8%, 0.5% and -1.7% as against 1.3%, 1.5% and -0.7%.

/Diagram 5.2

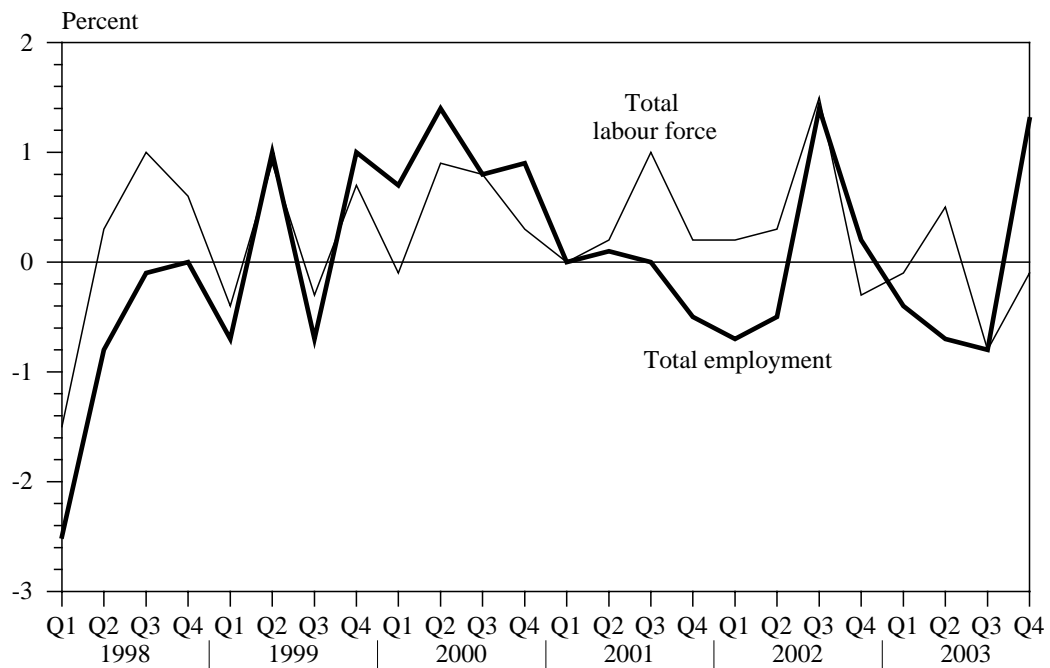
Diagram 5.2

Total labour force and total employment

(a) Year-on-year rate of change



(b) Quarter-to-quarter rate of change



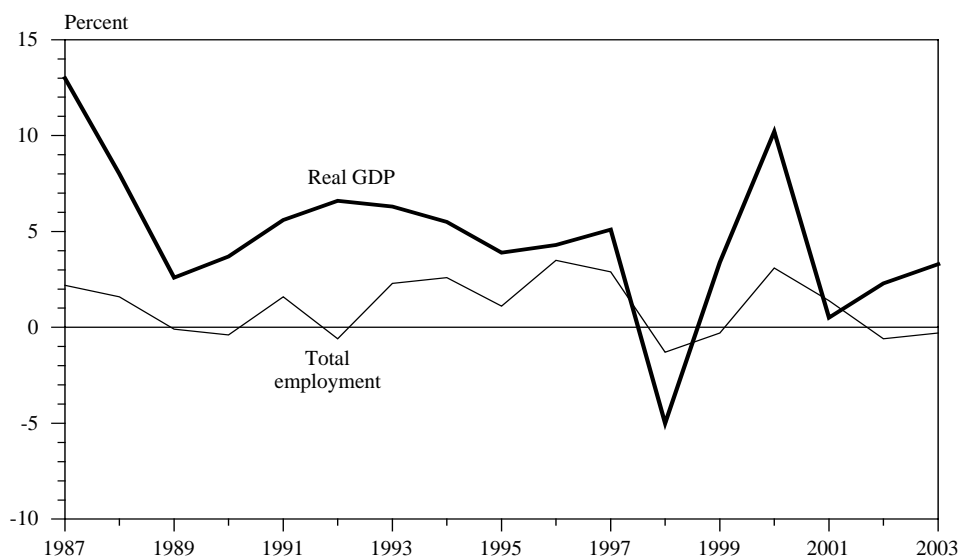
/Box 5.1

Box 5.1

Overall economic growth and total employment

Past data indicate a broad positive relationship between overall economic growth and total employment in Hong Kong. Yet the relationship has been much less than proportionate. Between 1987 and 1997, with real GDP growth averaging at 5.2% per annum, total employment went up by an average of 1.7% per annum. Between 1997 and 2003, as real GDP growth slowed down to an average of 2.3% per annum, total employment also slackened in growth, to an average of 0.3% per annum.

**Growth in real GDP and total employment
(rate of change)**



Economic growth normally generates additional jobs in the economy, but the actual number of jobs created is also influenced by other socio-economic factors, such as labour supply growth, wage movement, technological advancement, substitution of labour by capital equipment, labour productivity growth, work intensity, structural change in the economy, staff retrenchment or expansion in the corporate sector, etc. Thus real GDP and employment growth rates do not necessarily move in tandem at all times. For most of the time since 1987, real GDP in fact increased at a much faster pace than total employment. This was due in part to the gain in labour productivity resulting from technological advancement, and in part to a further shift in local production and output from a lower value-added to a higher value-added content.

A distinct loosening in the relationship between overall economic growth and total employment growth was observed in the more recent years, due to the accentuating effect of certain structural factors, including in particular further restructuring of the Hong Kong economy towards knowledge-based and higher value-added activities. Such economic restructuring had the effect of curbing employment growth in three major ways. *First*, it led to stepped-up efficiency drive in the corporate sector, thereby giving rise to increased incidents of downsizing and lay-offs. *Secondly*, it reinforced the tendency for local companies to relocate their more labour-intensive processes outside Hong Kong. *Thirdly*, it accelerated the process of substitution of labour by capital equipment and technology in the local operation. Taken together, it weakened labour demand especially for lower-skill and lesser educated workers.

5.5 Labour income in money terms continued to ease. On a year-on-year comparison, *labour earnings*⁽⁶⁾ fell by an average of 2.1% in money terms in the first three quarters of 2003, with a more distinct fall in the second quarter under the SARS impact. This came after the 1.1% decline in 2002. Yet netting out the decrease in consumer prices as measured by the Composite CPI, labour earnings still registered a modest gain by an average of 0.6% in real terms in the first three quarters of 2003. This however was less than the 2.0% gain in 2002. On a year-on-year comparison, *labour wages*⁽⁷⁾ were also reduced by an average of 2.1% in money terms in the first nine months of 2003, with a more distinct fall towards mid-year under the SARS impact. This followed a 1.0% decline in 2002. Netting out the fall in consumer prices as measured by the CPI(A), labour wages again edged up, by an average of 0.3% in real terms in the first nine months of 2003. Yet this was likewise lesser than the 1.3% increase in 2002.

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, whereas both the unemployment and underemployment rates fell extensively in the fourth quarter of 2003 over the third quarter, they had a fairly broad-based rise over the same quarter in 2002. On a quarter-to-quarter comparison, the tourism and consumption-related sectors, including the retail trade, restaurants, hotels, and amusement and recreational services, had visible declines in unemployment rate. This was underpinned by the revival in local consumer spending and surge in inbound tourism in the latter part of the year. The other sectors with more appreciable decreases in unemployment rate were real estate, and decoration and maintenance, in line with the rebound in the property market. As to the underemployment rate, the declines were more noticeable in transport, business services, construction and manufacturing. On a year-on-year comparison, the already high unemployment rate in construction went up even more in the fourth quarter of 2003, owing to completion or winding down of some major construction projects over the past year. The unemployment rate in manufacturing also surged over the same period, on account of continued weak performance of domestic exports and further relocation of production processes outside Hong Kong. As to the service sectors, increases in unemployment rate occurred in restaurants, transport, insurance, real estate, and amusement and recreational services, more than offsetting the decreases seen in the retail trade, hotels, the import/export trade and communications. On the underemployment rate, the increases were more apparent in manufacturing, the retail trade, restaurants and hotels, outweighing the decline seen in construction.

/Table 5.5

Table 5.5**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>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Wholesale, retail and import/export trades, restaurants and hotels	7.8	7.4	8.3	7.7	7.9	8.2	7.9	9.1	8.7	7.0
Transport, storage and communications	5.4	5.6	5.3	5.3	5.4	6.5	6.1	7.6	6.2	6.1
Financing, insurance, real estate and business services	4.7	4.9	4.5	4.6	4.7	5.2	4.5	5.6	5.4	5.2
Community, social and personal services	3.2	2.7	3.3	3.5	3.1	3.5	2.9	3.7	3.7	3.5
Manufacturing	7.3	7.2	8.2	7.1	6.6	7.6	7.3	8.4	7.3	7.5
Construction ^(b)	15.8	15.7	16.8	15.6	15.2	19.0	18.9	19.7	19.6	17.7

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

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.6

Table 5.6**Underemployment rates by major economic sector (%)**

	<u>2002</u>					<u>2003</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, restaurants and hotels	1.8	1.8	1.6	1.8	1.7	2.5	1.9	3.2	2.3	2.4
Transport, storage and communications	3.0	3.1	3.0	2.5	3.4	4.7	3.3	6.2	5.1	4.1
Financing, insurance, real estate and business services	0.6	0.7	0.5	0.6	0.5	0.7	0.7	0.9	0.7	0.6
Community, social and personal services	2.1	2.3	1.8	2.1	2.0	2.6	2.3	2.8	2.5	2.6
Manufacturing	2.5	2.4	2.6	2.3	2.6	3.1	1.8	3.6	3.7	3.5
Construction ^(a)	13.8	14.2	13.7	12.8	14.6	13.4	11.2	15.8	14.3	12.2

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

Table 5.7

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

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	7.0	76 300	2.4	26 300
Wholesale/retail trade	7.7	27 900	2.8	10 100
Import/export trade	3.7	17 200	0.9	4 200
Restaurants and hotels	11.5	31 100	4.5	12 100
Transport, storage and communications	6.1	22 700	4.1	15 200
Transport	6.0	18 600	4.4	13 800
Storage	10.1	500	5.9	300
Communications	6.4	3 600	1.9	1 100
Financing, insurance, real estate and business services	5.2	26 400	0.6	3 100
Financing	3.9	5 100	0.5	600
Insurance	6.0	2 500	0.7	300
Real estate	5.7	7 400	0.6	700
Business services	5.5	11 400	0.7	1 500
Community, social and personal services	3.5	30 400	2.6	22 400
Public administration	1.6	2 100	0.5	700
Education, medical and other health and welfare services	3.1	10 000	2.0	6 500
Other services	4.3	18 300	3.6	15 200
Manufacturing	7.5	20 300	3.5	9 400
Food and beverages	5.7	1 300	2.5	600
Clothing and footwear	7.6	5 800	6.6	5 100
Paper and printing	8.2	4 600	2.5	1 400
Plastic products	4.8	800	1.2	200
Metal products	14.6	2 000	2.1	300
Electrical and electronic products	6.7	3 400	1.2	600
Other manufacturing industries	7.0	2 400	3.5	1 200
Construction	17.7	56 700	12.2	39 300
Foundation and superstructure	17.0	40 700	9.9	23 600
Decoration and maintenance	19.6	16 000	19.1	15 600

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.

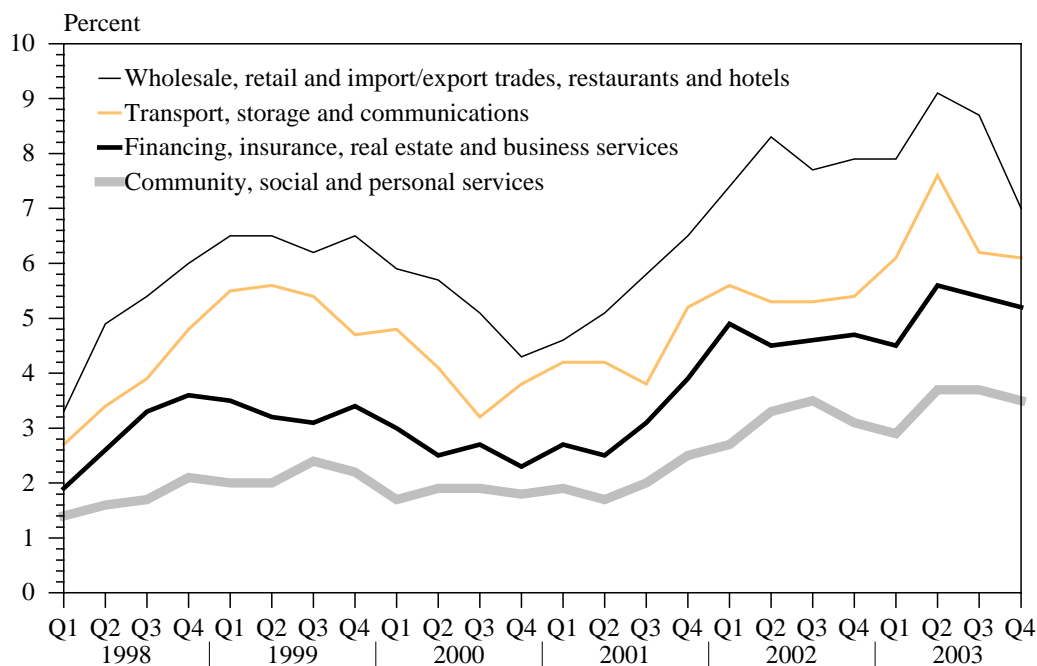
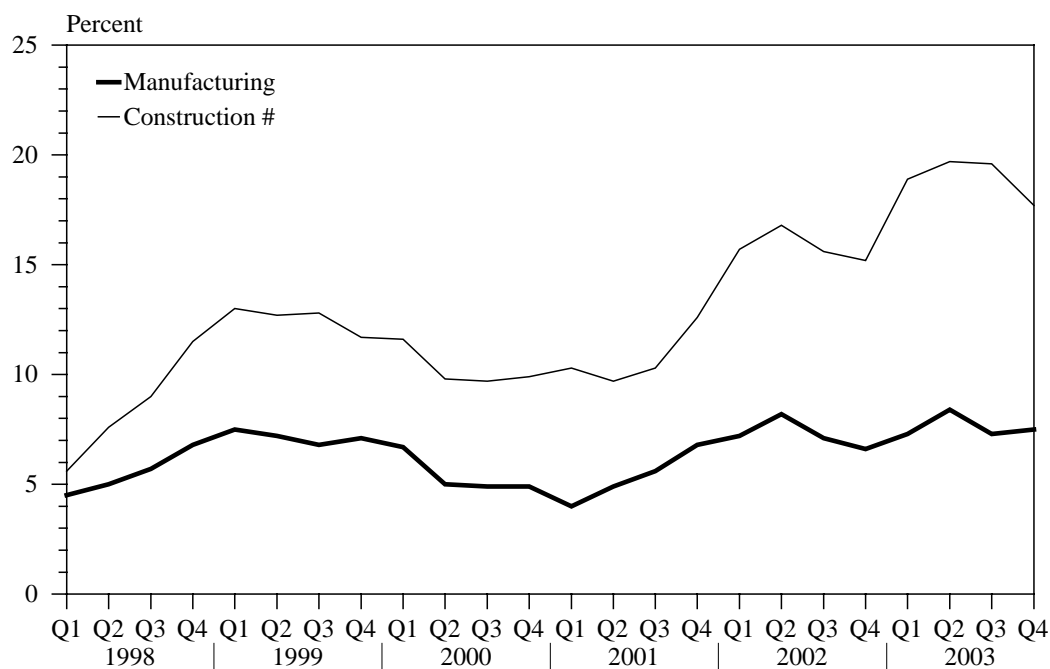
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.3

Diagram 5.3

Unemployment rates by major economic sector*



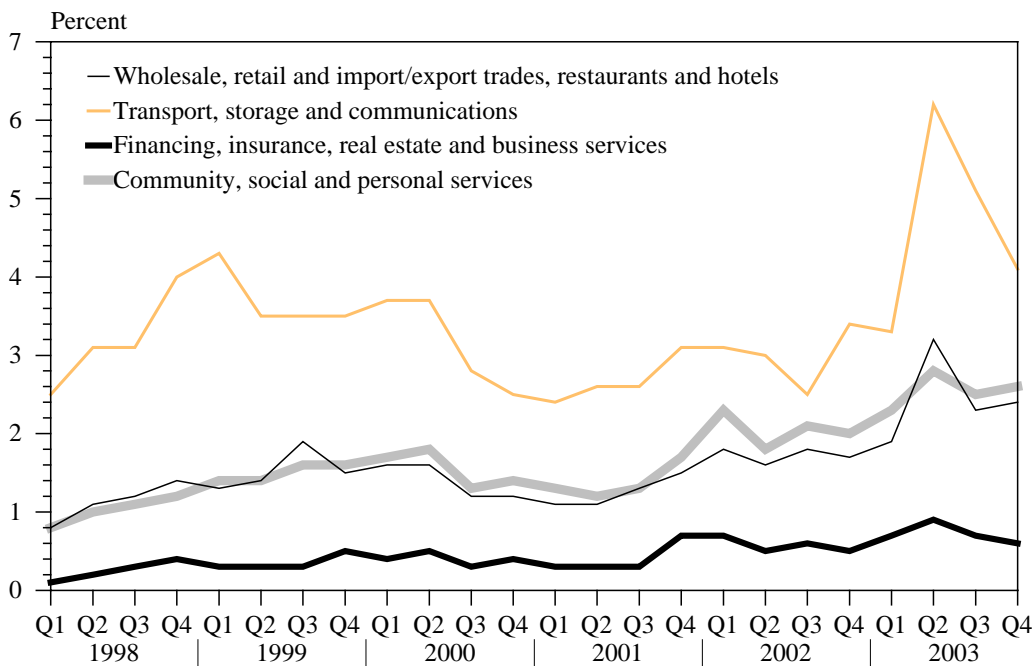
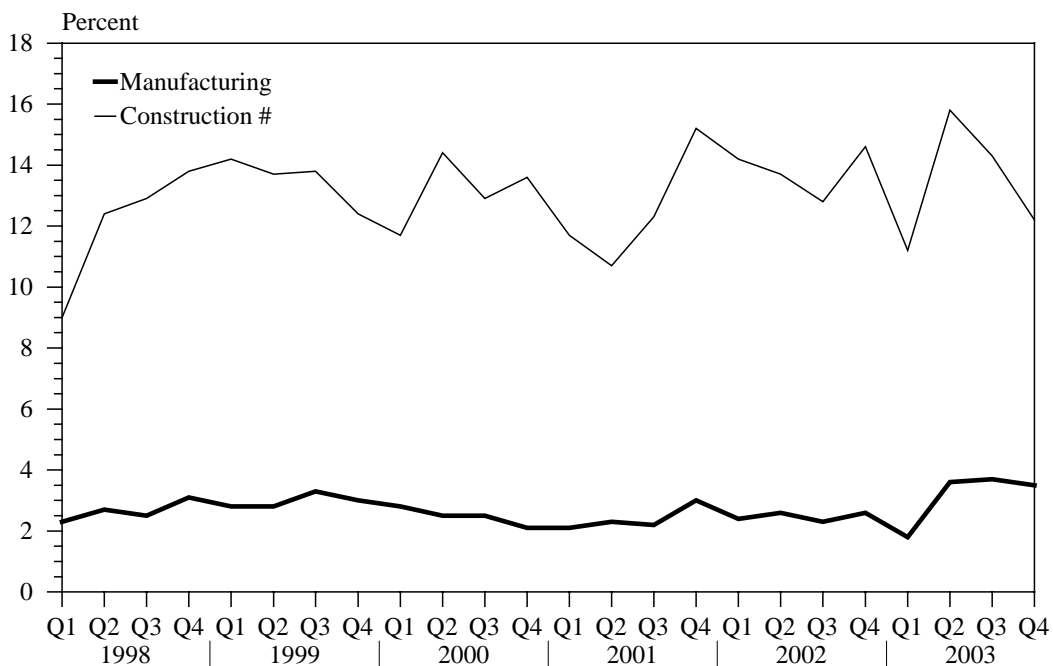
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

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

/Diagram 5.4

Diagram 5.4

Underemployment rates by major economic sector



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

5.7 Analysed by *occupation category*, there was likewise an extensive fall in unemployment rate between the third and fourth quarters of 2003. The unemployment rates for service workers and shop sales workers and for workers in elementary occupations went down appreciably, in tandem with a pick-up in labour demand in the distributive and catering trades. So did the unemployment rates for clerks and for craft and related workers. As to workers at the upper segment of the occupational hierarchy, professionals and associate professionals also had notable decreases in the unemployment rate, yet managers and administrators had a leap in the unemployment rate. On the underemployment rate, decreases between the third and fourth quarters of 2003 were found primarily amongst workers at the middle and lower segments, such as craft and related workers, plant and machinery operators and assemblers, and workers in elementary occupations. Comparing the fourth quarter of 2003 with a year earlier, while lower unemployment rates were also seen amongst service workers and shop sales workers, professionals and associate professionals, these were outweighed by higher unemployment rates amongst workers in most of the other occupation categories. On the underemployment rate, increases occurred across almost all the major occupation categories, except craft and related workers, and workers in elementary occupations.

/Table 5.8

Table 5.8**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>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Managers and administrators	2.7	3.5	3.1	2.3	1.9	2.4	2.1	2.2	2.2	3.0
Professionals	2.4	2.6	2.5	2.3	2.1	2.4	2.2	2.8	2.8	1.8
Associate professionals ^(b)	4.3	4.2	4.3	4.5	4.3	4.4	4.3	4.9	4.6	3.7
Clerks	5.3	5.2	5.5	5.4	5.2	5.4	5.0	5.4	5.8	5.2
Service workers and shop sales workers	9.1	8.4	9.5	9.1	9.4	10.3	9.4	12.3	10.8	8.7
Craft and related workers	14.0	12.6	15.7	14.2	13.5	16.0	16.2	16.3	16.1	15.3
Plant and machine operators and assemblers	5.9	6.4	6.6	5.4	5.2	7.0	6.8	7.3	7.1	6.7
Elementary occupations	7.7	7.4	7.7	7.8	7.9	8.7	8.0	9.6	8.9	8.1
Others	3.4	2.4	2.9	4.7	3.8	4.2	4.6	1.6	6.8	3.6

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 5.9

Table 5.9**Underemployment rates by major occupation category (%)**

	<u>2002</u>					<u>2003</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>
Managers and administrators	*	*	0	0.2	0	0.2	0.1	0.3	0.1	0.1
Professionals	0.3	0.4	0.3	0.3	0.2	0.5	0.3	0.6	0.5	0.8
Associate professionals ^(a)	0.8	0.8	1.0	0.8	0.7	1.2	0.9	1.6	1.1	1.2
Clerks	1.1	1.1	0.9	1.2	1.2	1.4	1.1	1.5	1.4	1.4
Service workers and shop sales workers	2.5	2.6	2.3	2.8	2.4	3.6	2.8	5.0	3.4	3.1
Craft and related workers	11.3	11.2	11.0	10.6	12.5	11.7	9.4	13.6	12.9	10.8
Plant and machine operators and assemblers	3.8	4.3	3.8	3.0	3.9	5.4	3.6	7.2	5.5	5.0
Elementary occupations	4.8	5.2	4.5	4.6	5.0	5.1	4.7	5.7	5.2	4.9
Others	3.5	0.8	6.8	5.8	0	2.8	1.0	10.1	1.3	0

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

5.8 Analysed by *sex*, the unemployment rates for male and female workers both declined between the third and fourth quarters of 2003, yet with the former rate having a larger decrease than the latter rate. Consequently, the difference between the two unemployment rates narrowed, to 2.6 percentage points in the fourth quarter of 2003, from 2.9 percentage points in the third quarter. Over the same period, the underemployment rate for male workers dropped, whereas that for female workers rose. As a result, the difference between these two rates was reduced to 0.8 of a percentage point in the fourth quarter of 2003, from 1.6 percentage points in the third quarter. Comparing the fourth quarter of 2003 with a year earlier, the unemployment rate for male workers rose slightly while that for female workers edged lower, thereby leading to an enlarged difference between the two rates. On the contrary, the underemployment rate for male workers fell but that for female workers went higher, resulting in a smaller difference between the two rates.

/Table 5.10

Table 5.10**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 Annual	9.3	6.2
Q1	8.7	5.8
Q2	10.1	6.5
Q3	9.8	6.9
Q4	8.4	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.

Table 5.11**Underemployment rates by sex (%)**

	<u>Male</u>	<u>Female</u>
2002 Annual	3.7	2.1
Q1	3.8	2.3
Q2	3.6	2.0
Q3	3.5	2.0
Q4	3.8	2.2
2003 Annual	4.1	2.8
Q1	3.4	2.2
Q2	5.1	3.3
Q3	4.3	2.7
Q4	3.7	2.9

Source : General Household Survey, Census and Statistics Department.

5.9 Analysed by *age group*, while the unemployment rate fell almost across-the-board between the third and fourth quarters of 2003, this was the most visible amongst younger persons aged 15-24, as more first-time job-seekers were absorbed into employment following the upturn in economic activity. On the underemployment rate, the decrease was concentrated in persons aged 25-49. Comparing the fourth quarter of 2003 with a year earlier, while the unemployment rate for persons aged 15-24 declined, those for all the other age groups went up. On the underemployment rate, those for persons aged 15-39 and 60 and above increased, while that for persons aged 40-59 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>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
15-19	30.7	27.2	30.1	35.2	29.4	30.2	26.9	32.8	36.1	24.9
20-24	11.3	9.8	11.3	13.5	10.5	11.6	10.1	12.4	14.6	9.5
25-29	6.1	6.2	6.5	6.1	5.5	6.7	6.2	7.6	7.6	5.6
30-39	5.4	5.6	5.5	5.1	5.6	6.0	5.7	6.5	6.1	5.7
40-49	6.7	6.3	7.2	6.6	6.5	7.3	7.2	8.0	7.4	6.6
50-59	8.2	7.3	8.5	8.7	8.5	9.4	8.7	9.4	9.7	9.6
60 and above	5.0	5.3	6.0	4.6	4.2	4.5	3.6	5.3	3.6	5.6

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.

/Box 5.2

Box 5.2

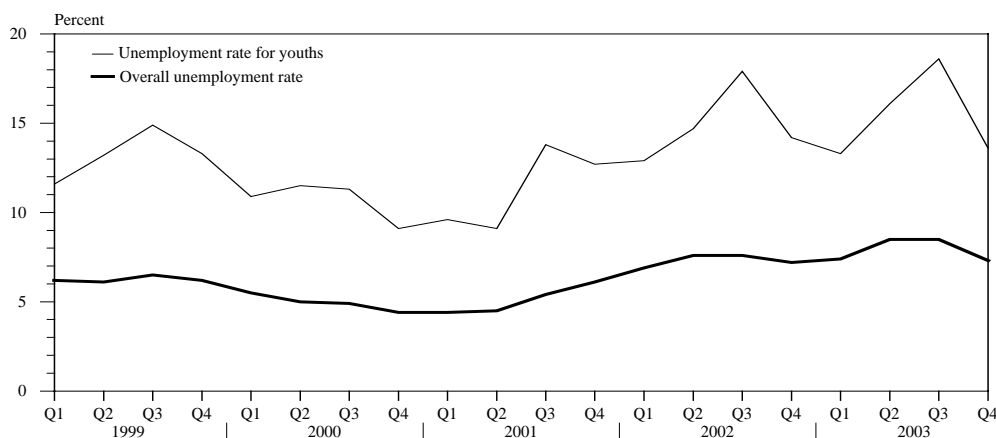
Youth unemployment

The unemployment rate for youths has been consistently higher than that for the entire labour force. For the period 1999-2003, the unemployment rate for youths (defined to cover persons aged 15-24) averaged at 13.0%, distinctly exceeding the overall unemployment rate at 6.3%. Within this particular age group, the unemployment rate for persons aged 15-19, averaged at 26.9%, was much higher than that for persons aged 20-24, averaged at 9.8%.

Lack of practical or working experience was seen as a major factor leading to a higher unemployment rate for youths. For those at the younger age of 15-19, lower educational attainment was also a pertinent factor. As some of the youths might pursue education and seek part-time or temporary employment at the same time, this would impose greater constraint on their job seeking especially in a slack labour market.

Between 1999 and 2003, the unemployment rate for youths went up appreciably, from 13.3% to 15.0%. This was attributable entirely to a reduction in youth employment by 13.5% over the period, more than offsetting a contraction in the respective labour force by 11.6% upon an increase in the school attendance rate. For 2003 as a whole, the number of unemployed youths averaged at 58 700, equivalent to 21.1% of the total unemployment.

Unemployment rate for youths, 1999-2003



Note : All figures depicted in this diagram are not seasonally adjusted.

Analysed by sex, youth unemployment was more marked for males than for females. In 2003, the unemployment rate for the former group averaged at 18.6%, much higher than that for the latter group at 11.4%.

Analysed by educational attainment, the unemployment rate for youths with lower secondary education and below averaged at 21.3% in 2003, way above that for youths with upper secondary education and above, at 13.7%, as well as that for youths with tertiary education, at 10.4%.

In 2003, about a quarter of the unemployed youths comprised first-time job seekers. For those unemployed youths with a previous job, more than half were previously engaged as service workers and shop sales workers and as workers in elementary occupations, mostly in the distributive and catering trades and in community, social and personal services. Only about 10% of them were formerly engaged in higher-skill jobs, including managers and administrators, professionals and associate professionals.

The median duration of unemployment for the unemployed youths in 2003 was 77 days, shorter than that of 88 days for all the unemployed persons.

Box 5.3

Unemployment of persons aged 50 and above

In 1999, the unemployment rate for persons aged 50 and above, at 6.3%, was broadly similar to that for the entire labour force, at 6.2%. Yet by 2003, the former unemployment rate went up to a distinctly higher level than the latter rate, at 8.5% as against 7.9%.

In 2003, the number of unemployed persons aged 50 and above accounted for 19.1% of the total unemployment in the economy. Within this particular age group, persons aged 50-59 had an unemployment rate of 9.4% in 2003, more than double that for persons aged 60 and above, at 4.5%. Relative to people in the younger ages, persons aged 50-59 on the whole were relatively less educated and of relatively lower skill. As to persons aged 60 and above, a much larger proportion of them became economically inactive mainly on account of retirement. For those still in employment, they generally had a lesser tendency to change jobs.

Analysed by sex, the unemployment rate for males aged 50 and above averaged at 9.5% in 2003, distinctly higher than that of 6.2% for their female counterpart. Of all the unemployed persons aged 50 and above, males accounted for 77.3% and females 22.7%.

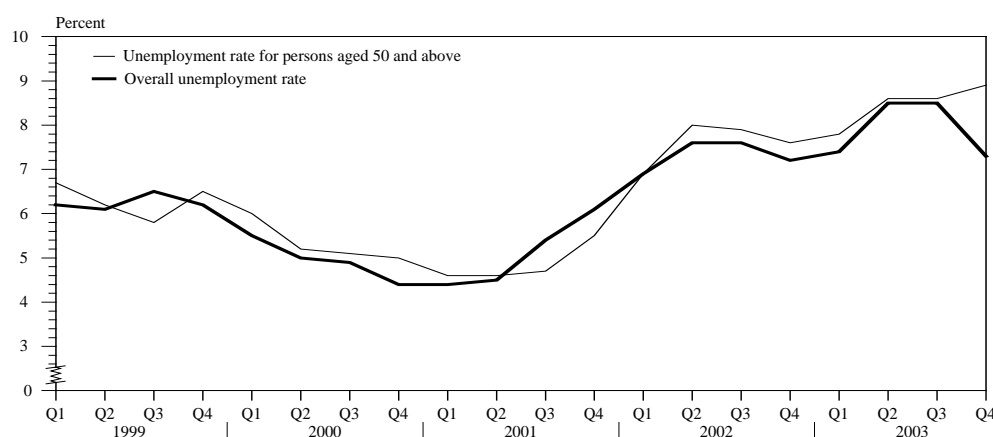
Analysed by educational attainment, amongst all the persons aged 50 and above, those with lower secondary education and below had a higher unemployment rate, averaged at 10.7% in 2003. They accounted for 77.0% of all the unemployed persons in this particular age group.

Analysed by economic sector, 32.2% of the unemployed persons aged 50 and above were previously engaged in building and construction. Another 27.0% and 11.3% respectively previously worked in the distributive and catering trades and in manufacturing.

Analysed by occupation category, 90.2% of the unemployed persons aged 50 and above previously took up lesser-skill or unskilled work, mostly as craft and related workers and as workers in elementary occupations.

The median duration of unemployment for the unemployed persons aged 50 and above was 132 days in 2003, much exceeding that of 88 days for all the unemployed persons. The proportion of the unemployed persons aged 50 and above who were unemployed for six months or more, at 42.0% in 2003, was also distinctly larger than that for all the unemployed persons, at 30.7%.

Unemployment rate for persons aged 50 and above, 1999-2003



Note : All figures depicted in this diagram are not seasonally adjusted.

/Table 5.13

Table 5.13**Underemployment rates by age group (%)**

	<u>2002</u>					<u>2003</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>
15-19	4.8	4.3	4.4	5.4	5.1	6.4	5.4	8.6	5.6	6.3
20-24	2.7	2.7	2.2	2.8	3.0	3.4	3.1	3.6	3.5	3.5
25-29	1.5	1.6	1.4	1.4	1.8	2.1	1.5	2.7	2.2	1.9
30-39	2.1	2.0	2.2	2.0	2.0	2.5	2.0	3.0	2.7	2.4
40-49	4.1	4.4	4.0	3.8	4.2	4.4	3.4	5.6	4.8	4.0
50-59	4.2	4.6	3.9	4.0	4.5	4.6	4.2	5.8	4.3	4.3
60 and above	3.1	3.6	3.0	2.8	2.8	3.2	3.3	3.1	2.8	3.8

Source : General Household Survey, Census and Statistics Department.

5.10 Analysed by *educational attainment*, persons with primary education and above generally showed a decrease in unemployment rate between the third and fourth quarters of 2003. The decline was more distinct amongst persons with upper secondary education and above, as the new batch of fresh graduates entering the labour market was increasingly absorbed into employment. On the underemployment rate, visible decreases took place mostly amongst persons with lower secondary and matriculation education. Comparing the fourth quarter of 2003 with a year earlier, the unemployment rate amongst persons with matriculation and non-degree tertiary education came down, but this was more than offset by the increases occurring amongst persons with lower educational attainment. As to the underemployment rate, increases of varying magnitudes occurred amongst persons at almost all education levels, except those with lower secondary and non-degree tertiary education.

/Table 5.14

Table 5.14**Unemployment rates by educational attainment (%)^(a)**

	<u>2002</u>					<u>2003</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>
No schooling/kindergarten	8.7	8.4	8.9	8.4	9.1	10.9	10.2	10.7	10.1	12.3
Primary	9.8	8.6	10.0	10.4	10.4	11.3	10.6	12.5	11.8	10.5
Lower secondary	10.9	10.4	11.4	10.5	11.1	12.0	11.5	13.2	12.2	11.2
Upper secondary ^(b)	6.9	6.6	7.3	7.2	6.5	7.4	7.0	7.9	7.9	6.6
Matriculation	5.2	5.1	5.4	5.1	5.3	5.5	5.1	5.9	5.9	4.9
Tertiary	4.3	3.9	4.2	5.1	4.0	4.4	3.8	4.4	5.5	3.9
<i>of which :</i>										
Non-degree	5.5	5.1	5.2	6.1	5.4	5.6	4.9	5.5	6.9	5.2
Degree	3.6	3.3	3.6	4.4	3.2	3.7	3.1	3.8	4.7	3.3

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

(b) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

/Table 5.15

Table 5.15**Underemployment rates by educational attainment (%)**

	<u>2002</u>					<u>2003</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>
No schooling/kindergarten	7.1	7.8	7.2	6.8	6.4	8.4	8.3	11.2	6.7	7.4
Primary	6.4	6.9	6.5	5.9	6.5	6.9	6.2	7.9	6.8	6.6
Lower secondary	5.5	5.8	5.0	5.4	5.7	6.1	4.9	7.3	6.6	5.4
Upper secondary ^(a)	2.2	2.2	2.0	2.1	2.3	2.8	2.0	3.5	2.9	2.7
Matriculation	1.2	0.7	1.0	1.7	1.2	2.0	1.0	3.0	2.4	1.7
Tertiary	0.6	0.5	0.6	0.6	0.8	1.0	0.8	1.2	1.0	0.9
<i>of which :</i>										
Non-degree	0.9	0.5	1.0	0.9	1.3	1.3	1.2	1.7	1.2	1.0
Degree	0.4	0.5	0.4	0.4	0.4	0.8	0.6	0.9	0.8	0.9

Note : (a) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

Demand for and supply of labour

5.11 For 2003 as a whole, *total labour force* expanded only modestly by 0.4%, much smaller than the 1.8% rise in 2002. This was entirely attributable to a decline in the labour force participation rate (LFPR) over the past year, especially those for persons aged 15-19 and aged 50 and above. Conceivably, a larger proportion of younger people had chosen to pursue further studies for betterment, or else to temporarily withhold from finding jobs in face of reduced job opportunities at the time of the SARS impact. Also, there was a reduced proportion of females aged 50-59 in the labour market amidst the SARS impact. On a year-on-year comparison, labour supply growth moderated over the course of the year, turning from increases of 1.3% and 1.5% respectively in the first and second quarters of 2003 to decreases of 0.7% and 0.5% in the third and fourth quarters.

/5.12

5.12 In 2003, *total employment* contracted by 0.3%, yet this was lesser than the 0.6% fall in 2002. On a year-on-year comparison, employment growth slowed down from 0.8% to 0.5% in the first two quarters of 2003, and then turned negative in the third quarter with a decline of 1.7%. In the fourth quarter, the decrease narrowed considerably to 0.6%, in line with improved performance of the economy. Compared with 2002, the reduction in employment in 2003 was mostly amongst persons aged 15-39, those with secondary education and below, and those engaged as clerks, craft and related workers, and plant and machine operators and assemblers. On the other hand, gain in employment was seen amongst those persons engaged as service workers and shop sales workers and as workers in elementary occupations, as well as engaged in such higher-skill jobs as professionals and associate professionals. Analysed by employment status, the number of employees declined slightly further in 2003, amidst continued downsizing and rationalisation in the corporate sector during the year. The number of self-employed persons fell modestly, having risen distinctly over the past several years. Yet the number of employers showed a mild increase.

Table 5.16

	Total labour force and total employment			
	<u>Labour force</u>	<u>Year-on-year % change</u>	<u>Persons employed</u>	<u>Year-on-year % change</u>
1997	3 234 800	1.5 ^(a)	3 163 600	2.0 ^(a)
1998	3 276 100	1.3	3 122 000	-1.3
1999	3 319 600	1.3	3 112 100	-0.3
2000	3 374 200	1.6	3 207 300	3.1
2001	3 427 100	1.6	3 252 300	1.4
2002	3 487 100	1.8	3 231 600	-0.6
2003	3 500 900	0.4	3 223 300	-0.3

Note : (a) This figure refers to the average change for the second, third and fourth quarters of 1997 taken together as compared to a year earlier, as the new series of labour force statistics, adopting the “resident population” definition and incorporating the results of the 2001 Population Census, is available only as from the second quarter of 1996.

Source : General Household Survey, Census and Statistics Department.

/Table 5.17

Table 5.17**Labour force participation rates by sex (%)**

		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2002	Annual	72.5	51.9	61.8
	Q1	72.4	51.5	61.5
	Q2	72.3	51.4	61.5
	Q3	73.0	52.3	62.3
	Q4	72.2	52.5	61.9
2003	Annual	72.0	51.6	61.4
	Q1	71.9	52.0	61.5
	Q2	72.1	51.8	61.5
	Q3	72.1	51.3	61.2
	Q4	71.8	51.3	61.1

Source : General Household Survey, Census and Statistics Department.

/Table 5.18

Table 5.18**Labour force participation rates by sex and by age group (%)**

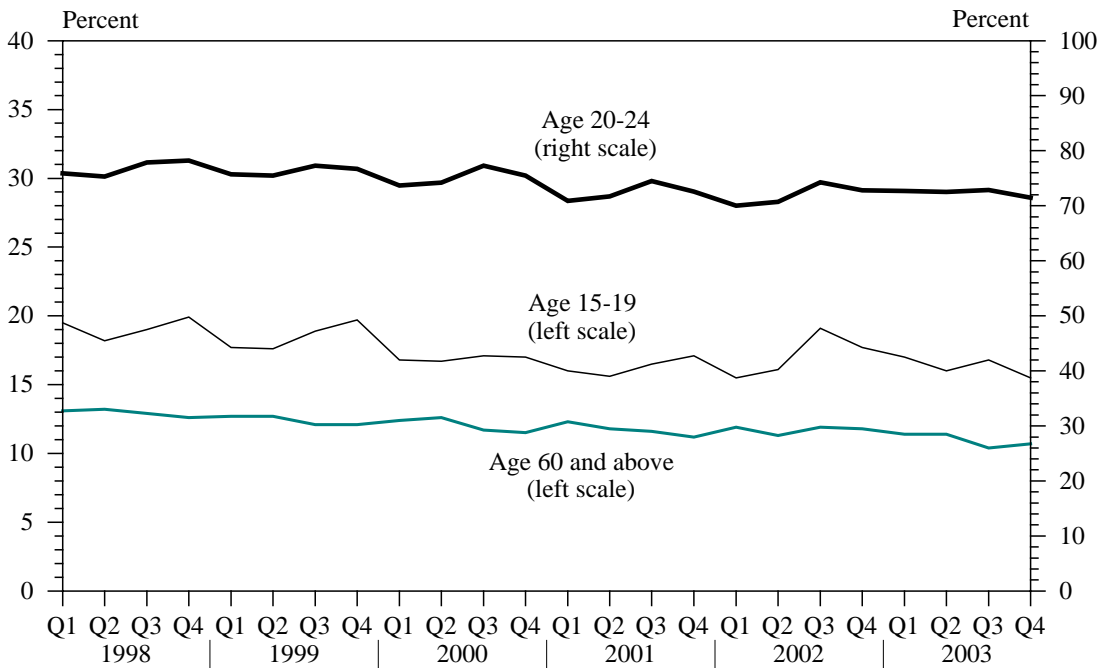
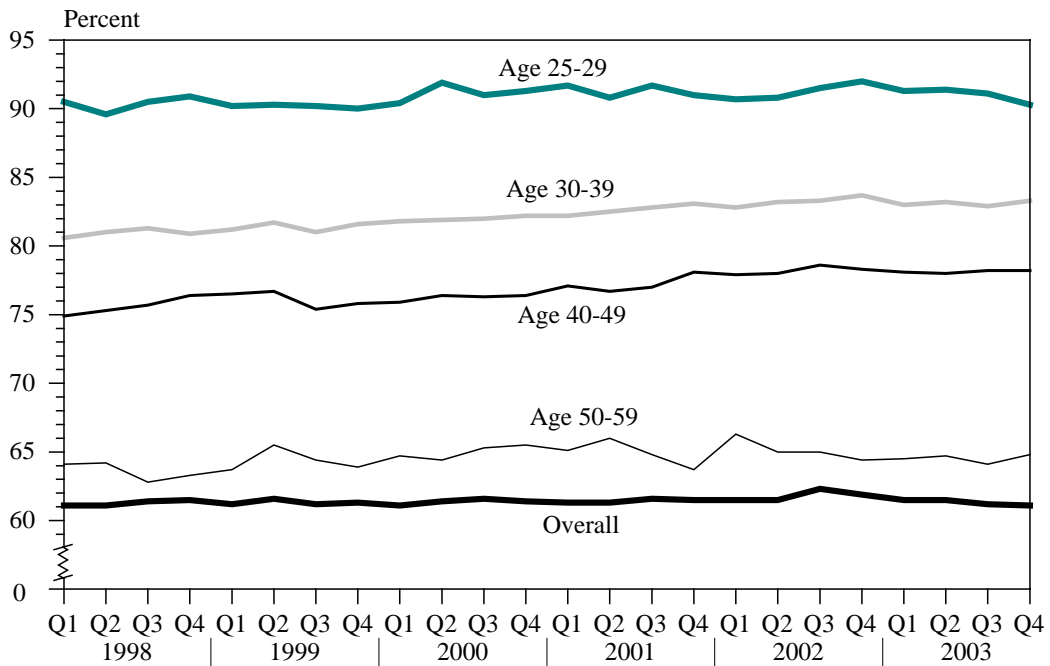
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Male</u>							
15-19	21.2	20.0	20.2	18.0	17.1	18.0	17.4
20-24	77.8	77.8	76.5	75.8	72.4	71.1	72.0
25-29	97.1	97.3	97.1	96.6	96.4	95.7	95.6
30-39	98.2	98.1	97.9	97.7	97.4	97.4	96.9
40-49	97.1	97.1	96.5	96.4	96.3	95.8	95.6
50-59	85.5	85.3	85.7	86.0	85.6	84.6	84.6
60 and above	23.7	22.3	21.1	20.6	20.2	19.4	18.1
Overall	75.1	74.6	74.0	73.5	72.9	72.5	72.0
<u>Female</u>							
15-19	17.0	18.2	16.6	15.7	15.4	16.2	15.2
20-24	76.5	75.9	76.1	74.6	72.5	72.7	72.8
25-29	83.7	84.5	84.4	86.5	87.0	87.4	87.1
30-39	64.6	65.4	67.0	68.7	70.7	72.2	72.6
40-49	53.5	53.6	55.4	56.1	58.4	61.4	62.0
50-59	35.5	38.0	39.8	41.1	42.0	44.4	43.7
60 and above	4.2	4.3	4.3	4.0	3.8	4.5	4.3
Overall	47.9	48.5	49.2	49.9	50.7	51.9	51.6
<u>Both sexes combined</u>							
15-19	19.1	19.1	18.5	16.9	16.3	17.1	16.3
20-24	77.2	76.8	76.3	75.2	72.4	71.9	72.4
25-29	89.8	90.4	90.2	91.1	91.3	91.3	91.0
30-39	80.8	80.9	81.4	82.0	82.6	83.2	83.1
40-49	75.7	75.6	76.1	76.3	77.2	78.2	78.1
50-59	62.6	63.6	64.4	65.0	64.9	65.2	64.5
60 and above	13.5	12.9	12.4	12.0	11.7	11.7	11.0
Overall	61.3	61.3	61.3	61.4	61.4	61.8	61.4

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.5

Diagram 5.5

Labour force participation rates by age group



/Profile

Profile of employment

5.13 Total employment as enumerated from private sector establishments shrank by 3.3% in September 2003 from a year earlier, following a 2.5% drop in March and a 3.8% dip in June. For the first nine months of 2003 as a whole, there was an average decrease of 3.2%, exceeding that of 1.6% in 2002. On a seasonally adjusted quarter-to-quarter comparison, total employment nevertheless edged up by 0.1% in September 2003, after a 1.7% fall in March and a 1.6% fall in June, reversing the downtrend since June 2001. Increased labour demand on the back of a turnaround in economic activity after the waning of SARS largely contributed.

5.14 Taking all the *service sectors* surveyed together⁽⁸⁾, employment fell by 2.6% in September 2003 from a year earlier, further to decreases of 1.4% in March and 2.2% in June. Analysed by major constituent sector, employment in storage and communications continued on a marked decline, by 13.0% in September 2003 from a year earlier, amidst more downsizing and lay-offs in the telecommunications sector predominantly in the early part of the year. Yet employment in restaurants and hotels had a moderated decrease than in the earlier few months, by 8.7%, aided by the surge in inbound tourism and revival in local consumer spending. Employment in the retail trade still went down, by 6.4%, though with business already improving. Employment in water transport, air transport and services allied to transport was reduced by 4.4%, with more distinct decreases seen in air transport services and in air ticket and travel agents. Employment in the wholesale and import/export trades contracted by 4.3%, mainly reflecting the higher base of comparison a year earlier. Meanwhile, employment in financing, insurance, real estate and business services had only a small reduction, by 0.5%. On the other hand, employment in community, social and personal services was higher by 3.9%, underpinned by strong demand for the relevant services.

5.15 As to the local *manufacturing sector*, employment continued to drop, by 9.1% in September 2003 from a year earlier, albeit lesser than the 9.4% dip in March and the 13.8% dip in June. Subdued performance of domestic exports and on-going relocation of production processes outside Hong Kong remained the major contributory factors.

/5.16

5.16 Employment of manual workers at *building and construction sites* dwindled by 8.5% in September 2003 from a year earlier, yet this was much smaller than the plunges of 13.3% in March and 20.2% in June. Within the total for September 2003, employment at private sector sites plummeted by 10.2%, partly due to reduced work on some of the residential and commercial development projects along the MTR Tung Chung Line. Employment at public sector sites was down by 6.0%, amidst still lesser building activity under the Public Housing Programme and winding down of the KCR West Rail project. Analysed by project type, employment at civil engineering sites shrank by 8.1%, and employment at building sites more, by 8.6%. Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector⁽⁹⁾ was 9.0% fewer in the third quarter of 2003 than a year earlier, following a 3.5% decline in the first quarter and a 5.4% decline in the second quarter.

5.17 In line with the Government's objective to cut operating expenditure and contain the size of the *Civil Service*, employment in the Civil Service was down by 2.3% in September 2003 from a year earlier. This followed decreases of 2.3% in March and 2.0% in June. 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. As from 1 April 2003, recruitment to the Civil Service is frozen. The Second Voluntary Retirement Scheme is implemented as another downsizing measure. Applications for the Scheme were received during 21 March - 20 May 2003, and the results were announced on 24 July. Out of 5 961 applications, 5 292 constituting 89% of the total were granted approval.

/Table 5.19

Table 5.19**Employment by major economic sector**

	Annual average	2002				2003		
		Mar	Jun	Sep	Dec	Mar	Jun	Sep
Wholesale and import/export trades	567 000 (-1.8)	566 100 (-2.6)	556 000 (-4.4)	580 400 (0.2)	565 300 (-0.3)	563 900 (-0.4)	558 200 (0.4)	555 700 (-4.3)
Retail trade	216 800 (-1.3)	216 300 (0.4)	218 400 (-4.3)	221 300 (-1.7)	211 100 (0.4)	209 700 (-3.1)	209 000 (-4.3)	207 100 (-6.4)
Restaurants and hotels	211 500 (-4.8)	213 600 (-3.2)	213 700 (-5.1)	212 300 (-4.8)	206 500 (-6.1)	198 200 (-7.2)	191 100 (-10.6)	193 900 (-8.7)
Water transport, air transport and services allied to transport	101 000 (1.2)	100 800 (2.6)	102 300 (1.8)	101 000 (-0.6)	100 000 (0.9)	100 200 (-0.6)	96 100 (-6.1)	96 600 (-4.4)
Storage and communications	40 100 (-9.8)	41 300 (-7.2)	41 600 (-9.7)	40 500 (-7.3)	36 900 (-14.9)	33 300 (-19.5)	35 300 (-15.1)	35 200 (-13.0)
Financing, insurance, real estate and business services	429 900 (-1.3)	423 400 (-1.3)	430 300 (-2.8)	424 500 (-2.9)	441 300 (1.7)	422 500 (-0.2)	419 000 (-2.6)	422 300 (-0.5)
Community, social and personal services	396 000 (5.9)	392 100 (8.8)	390 800 (4.9)	398 300 (5.7)	402 600 (4.5)	398 100 (1.5)	400 600 (2.5)	414 100 (3.9)
Manufacturing	193 000 (-9.0)	197 400 (-9.0)	200 100 (-8.5)	190 100 (-9.2)	184 500 (-9.1)	178 900 (-9.4)	172 500 (-13.8)	172 800 (-9.1)
Building and construction sites	73 200 (-8.8)	76 900 (-12.4)	79 200 (-1.3)	70 400 (-8.0)	66 400 (-13.3)	66 700 (-13.3)	63 200 (-20.2)	64 400 (-8.5)
<i>All establishments surveyed in the private sector^(a)</i>	2 275 900 (-1.6)	2 275 500 (-1.1) <-0.4>	2 280 100 (-2.7) <-0.2>	2 286 100 (-1.5) <-0.4>	2 261 900 (-1.0) <-0.1>	2 219 000 (-2.5) <-1.7>	2 192 900 (-3.8) <-1.6>	2 209 900 (-3.3) <0.1>
<i>Civil Service^(b)</i>	171 200 (-3.7)	173 000 (-4.4)	171 700 (-3.9)	170 500 (-3.5)	169 600 (-2.8)	169 100 (-2.3)	168 200 (-2.0)	166 500 (-2.3)

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, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, and other Government employees such as non-Civil Service contract staff are not included.

() % change over a year earlier.

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

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

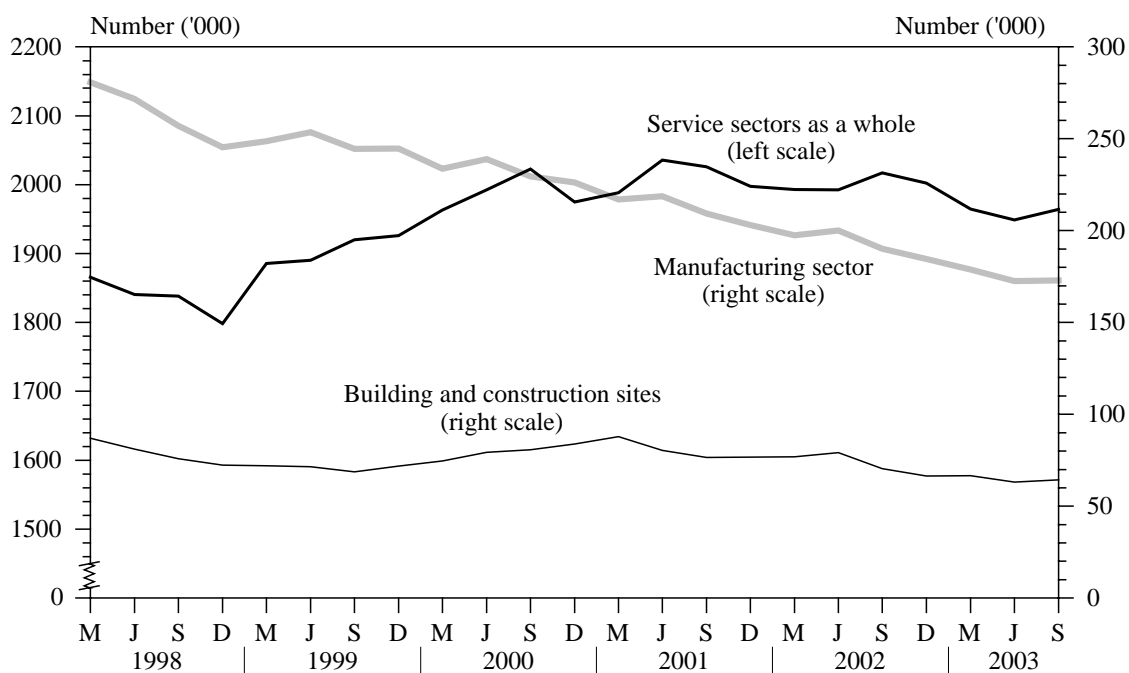
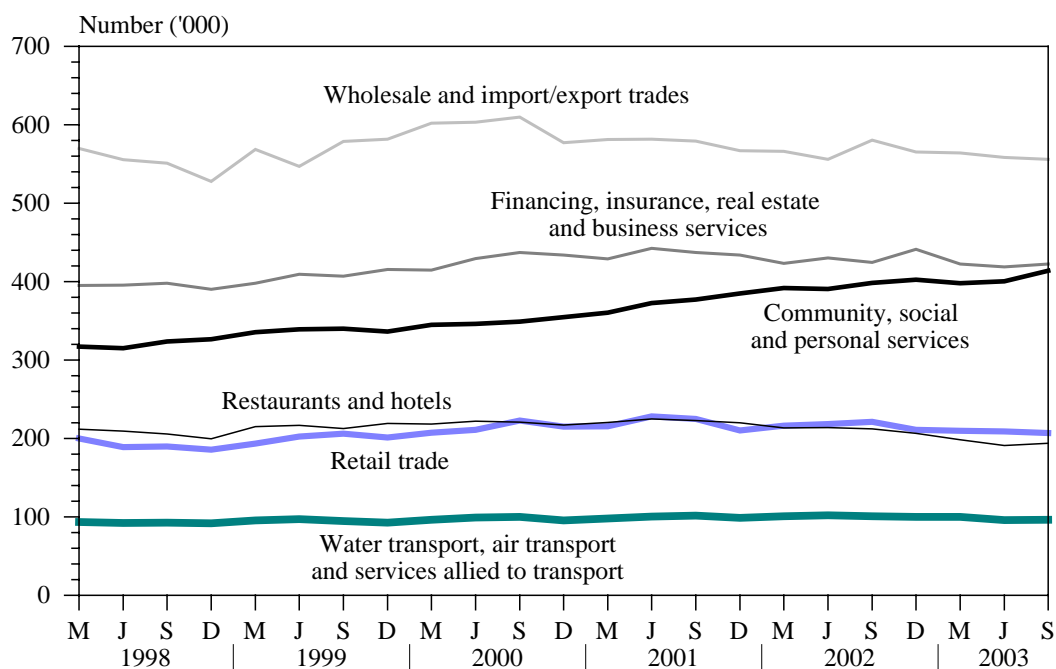


Diagram 5.7

Employment in the major service sectors



/Box 5.4

Box 5.4

Socio-economic characteristics of part-time workers

An earlier survey by the Census and Statistics Department showed that there were about 130 900 part-time employees in the second quarter of 2002, equivalent to 4.7% of total employees.

Analysed by *sex* and *age*, females accounted for 59.4% of part-time employees in the second quarter of 2002, higher than the corresponding proportion of 47.4% for all the employees in the economy. About two-thirds of these female workers were aged 30-49, of whom 85% were married. As to male part-time workers, almost 70% were aged 20-49. For all the part-time employees taken together, the median age was 42, as against that of 37 for all the employees in the economy.

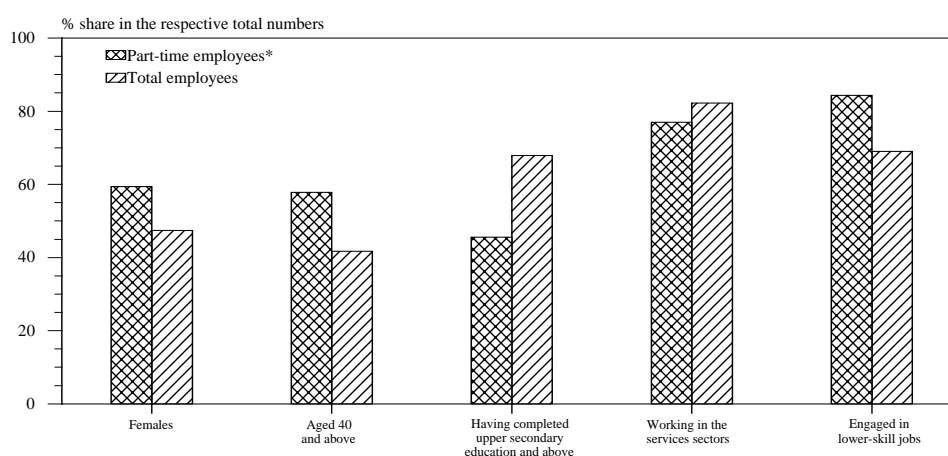
Analysed by *educational attainment*, part-time workers were generally lesser educated. Amongst them, 45.4% had attained upper secondary education and above, which was distinctly smaller than the corresponding proportion of 67.9% for all the employees in the economy. Likewise, the proportion of part-time workers having attained tertiary education, at 18.3%, was less than that for all the employees in the economy, at 27.6%.

On *occupational profile*, as part-time employees were constrained by their relatively lower educational attainment and limited time commitment, the majority of them (84.3%) were engaged in lower-skill jobs, mostly as workers in elementary occupations and as service workers and shop sales workers. The corresponding proportion for total employees was 69.0%.

Regarding *sectoral distribution*, 77.0% of the part-time employees worked in the service sectors, mostly in the distributive and catering trades, and in community, social and personal services. Construction was another major sector employing part-time workers, accounting for 15.9% of the total, while manufacturing gave a smaller share of 6.9%. By comparison, the corresponding shares for total employees in the service sectors and the manufacturing sector were larger at 82.2% and 8.9% respectively, whereas that for total employees in the construction sector was smaller at 8.2%.

As to the *major reason not to work longer hours*, 28.4% of part-time employees cited the need to take care of other family members. 24.0% attributed this to requirement from the employers, while another 18.7% and 6.5% to non-availability of desirable jobs with longer hours of work and to sparing of time for educational pursuit.

Comparison of part-time employees and total employees
by selected socio-economic attributes



Note : (*) Defined here to include employees whose main employment involves working time of less than 5 days per week, or less than 6 hours per working day, or less than 30 hours per week. For details, see Special Topics Report No. 33 published by the Census and Statistics Department.

Vacancies

5.18 Vacancies bounced up in the more recent months, reflecting a strengthening in labour demand alongside the upturn in economic activity. For all the private sector establishments surveyed taken together, vacancies surged by 12.5% in September 2003 over a year earlier, reversing the decreases of 23.4% in March and 4.9% in June. For the first nine months of 2003 as a whole, while vacancies still registered decrease by 5.8%, this was much lesser than the 17.5% drop in 2002. On a seasonally adjusted quarter-to-quarter comparison, vacancies rose further, by 7.1% in September 2003, having turned up sharply to a 29.8% leap in June from an 18.6% dip in March. The overall vacancy rate in the private sector held stable at 0.9% in September, same as that in June.

5.19 Analysed by *economic sector*, vacancies for all the *service sectors* taken together went up by 16.6% in September 2003 over a year earlier, representing a distinct turnaround from the 23.0% dip in March and the 3.9% fall in June. Amongst the constituent sectors, vacancies in the wholesale and import/export trades had the largest increase, by 26.1% in September 2003 over a year earlier, benefiting from the sustained robust performance of external trade. Vacancies in restaurants and hotels also had a strong leap, by 23.3%, along with the pick-up in inbound tourism and local consumer spending. Vacancies in financing, insurance, real estate and business services likewise soared, by 18.8%, mainly attributable to additional jobs being created in real estate amidst a more active property market. Vacancies in community, social and personal services were higher by 14.6%, with more distinct increases recorded for welfare services and for amusement and recreational services. Vacancies in the retail trade and in storage and communications also rose, albeit only modestly, by 2.9% and 1.3% respectively. But vacancies in water transport, air transport and services allied to transport edged down by 1.1%. As to the local *manufacturing sector*, vacancies continued to plunge, by 34.7% in September 2003 from a year earlier, having been slashed by 23.5% in March and 16.4% in June. Vacancies for manual workers at *building and construction sites* had an even sharper fall, by 57.4% in September 2003 over a year earlier, having slumped by 81.7% in March and 52.6% in June, and the number of vacancies left was only trivial. As to vacancies in the *Civil Service*, there was a 9.9% reduction in September 2003 over a year earlier, following a 3.8% drop in March and a 13.5% drop in June. This was in line with the target to hold down the size of the Civil Service.

/Table 5.20

Table 5.20**Vacancies by major economic sector**

	<u>No. of vacancies</u>								<u>Vacancy rate in Sep 2003 (%)</u>
	<u>Annual average</u>	<u>2002</u>				<u>2003</u>			
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Wholesale and import/export trades	4 400 (-7.1)	5 000 (-32.2)	5 000 (9.5)	4 200 (3.5)	3 500 (15.0)	4 400 (-12.2)	4 900 (-1.9)	5 300 (26.1)	0.9
Retail trade	1 800 (-14.3)	1 700 (-31.4)	2 500 (20.0)	1 600 (-33.1)	1 500 (-4.0)	1 100 (-35.1)	1 500 (-37.8)	1 700 (2.9)	0.8
Restaurants and hotels	1 300 (-13.8)	1 600 (-28.5)	1 400 (4.7)	1 400 (-10.8)	1 100 (-11.9)	800 (-47.0)	1 100 (-22.3)	1 700 (23.3)	0.9
Water transport, air transport and services allied to transport	500 (-24.3)	500 (-48.3)	600 (-21.6)	500 (17.2)	400 (-17.7)	400 (-9.7)	500 (-17.7)	500 (-1.1)	0.5
Storage and communications	400 (-26.1)	400 (-31.0)	400 (-15.7)	400 (-11.3)	300 (-42.9)	300 (-25.6)	400 (14.3)	500 (1.3)	1.3
Financing, insurance, real estate and business services	5 200 (-18.6)	5 400 (-34.6)	6 000 (-22.3)	4 800 (-8.4)	4 600 (6.3)	4 200 (-22.1)	6 200 (3.2)	5 700 (18.8)	1.3
Community, social and personal services	4 100 (-26.5)	4 400 (-23.5)	4 200 (-35.4)	4 200 (-23.8)	3 700 (-20.9)	3 300 (-23.8)	4 600 (11.0)	4 800 (14.6)	1.1
Manufacturing	1 300 (-16.6)	1 400 (-25.0)	1 500 (-22.0)	1 400 (3.9)	900 (-17.9)	1 100 (-23.5)	1 200 (-16.4)	900 (-34.7)	0.5
Building and construction sites	100 (-43.5)	100 (-42.7)	100 (-48.6)	100 (-19.7)	# (-62.7)	# (-81.7)	# (-52.6)	# (-57.4)	*
<i>All establishments surveyed in the private sector^(a)</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>15 900 (-23.4)</i>	<i>20 800 (-4.9)</i>	<i>21 100 (12.5)</i>	<i>0.9</i>
		<i><*></i>	<i><6.0></i>	<i><-10.3></i>	<i><-0.3></i>	<i><-18.6></i>	<i><29.8></i>	<i><7.1></i>	
<i>Civil Service^(b)</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>1 600 (-3.8)</i>	<i>1 700 (-13.5)</i>	<i>1 600 (-9.9)</i>	<i>0.9</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 Schemes.

() % change over a year earlier.

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

(*) Less than 0.05%.

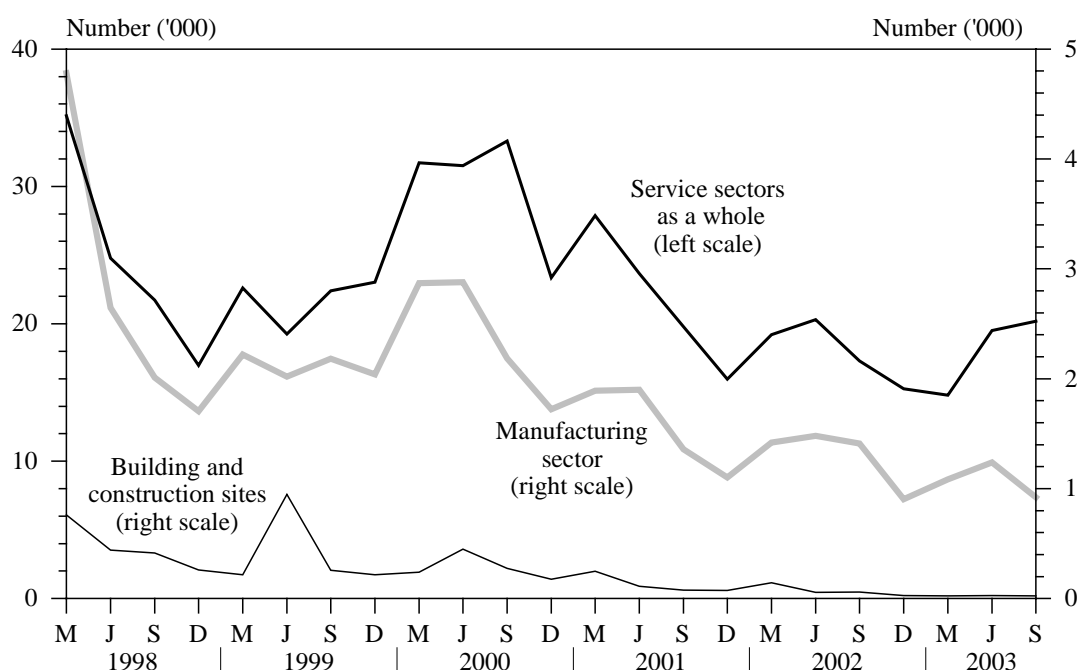
(#) Less than 50.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.20 Analysed by *occupation category*, vacancies for professionals increased most sharply, by 43.1% in September 2003 over a year earlier. Vacancies for associate professionals also rose markedly, by 17.5%. Vacancies for managers and administrators were however reduced, by 9.3%. Down the hierarchy, vacancies for craft and related workers rose substantially, by 46.4% in September 2003 over a year earlier, while vacancies for clerks and for service workers and shop sales workers were also distinctly up, by 22.2% and 12.2% respectively. But vacancies for plant and machine operators and assemblers were sharply reduced, by 59.2%. Vacancies for workers in elementary occupations had a modest decrease, by 1.2%.

/Table 5.21

Table 5.21**Vacancies by major occupation category**

	<u>No. of vacancies</u>								
	<u>Annual average</u>	<u>2002</u>					<u>2003</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Managers and administrators	400 (-21.5)	400 (-48.7)	500 (-31.0)	500 (23.2)	400 (1.5)	500 (25.5)	400 (-11.6)	500 (-9.3)	
Professionals	1 100 (-39.1)	1 300 (-52.0)	1 100 (-53.5)	900 (-26.5)	1 100 (10.3)	1 100 (-12.9)	1 300 (21.5)	1 300 (43.1)	
Associate professionals	6 900 (-5.8)	7 500 (-21.8)	8 300 (7.2)	6 400 (-4.1)	5 500 (1.7)	5 600 (-24.5)	8 200 (-0.5)	7 500 (17.5)	
Clerks	3 800 (-32.4)	4 100 (-42.7)	4 200 (-37.9)	3 400 (-26.7)	3 400 (-9.7)	3 600 (-11.9)	4 300 (2.5)	4 200 (22.2)	
Service workers and shop sales workers	3 700 (-8.1)	3 900 (-20.1)	3 900 (7.3)	3 800 (-4.4)	3 000 (-11.7)	2 300 (-41.9)	3 100 (-20.4)	4 300 (12.2)	
Craft and related workers	500 (-27.8)	600 (-37.8)	600 (-13.9)	400 (-40.9)	500 (-9.0)	600 (-4.9)	600 (-0.3)	600 (46.4)	
Plant and machine operators and assemblers	800 (-6.3)	900 (3.0)	700 (-31.9)	900 (22.5)	500 (-8.3)	400 (-54.4)	600 (-11.4)	400 (-59.2)	
Elementary occupations	2 300 (-17.8)	2 200 (-32.4)	2 700 (-8.0)	2 400 (-13.8)	1 800 (-13.7)	1 900 (-16.0)	2 200 (-16.1)	2 400 (-1.2)	

Note : () % change over a year earlier.

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

/5.21

5.21 As a rough indicator of the more recent labour market situation, the number of vacancies received and the number of job placements achieved at the employment services run by the Labour Department, having bounced up by 20.3% and 2.9% respectively in the third quarter of 2003 over a year earlier, rose significantly further by 19.4% and 21.3% in the fourth quarter. For 2003 as a whole, the number of vacancies increased further by 7.4%, following a 19.2% surge in 2002. Concurrently, the number of job placements turned up to a 5.8% rise, from a 0.6% decrease. As another crude indicator, the number of newly authorized unemployment cases under the Comprehensive Social Security Assistance (CSSA) Scheme fell for the first time in three years, by 6.0% in the fourth quarter of 2003 from a year earlier, reversing the 10.1% rise in the third quarter. Compared with the preceding quarter, the number of these new cases in the third and fourth quarters of 2003 fell even more distinctly, by 32.2% and 23.0% respectively. Yet for 2003 as a whole, there was still a 25.2% leap in the number of these new cases, though moderated distinctly from the 55.9% surge in 2002.

Earnings and wages

5.22 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, eased further by 1.8% in money terms in the third quarter of 2003 over a year earlier, after a 2.0% decline in the first quarter, and an enlarged 2.5% decline in the second quarter owing to the SARS impact. Amongst the business establishments surveyed in the third quarter of 2003, 41% reported a reduction in average labour earnings over a year earlier, while 28% cited virtually no change. The remaining 31% indicated a rise in average labour earnings, but this was partly due to a continued shift in the employment composition towards higher-skill and hence better-paid employees upon retrenchment of workers at the lower level. Netting out a larger decline in consumer prices as reflected by the Composite CPI, overall labour earnings were nevertheless up by 1.9% in real terms in the third quarter of 2003 over a year earlier, after virtually nil change in the first quarter and a 0.1% fall in the second quarter. For the first three quarters of 2003 as a whole, overall labour earnings decreased by an average of 2.1% in money terms from a year earlier, exceeding the 1.1% reduction in 2002. In real terms, labour earnings increased much less for the first three quarters of 2003 as a whole, by an average of 0.6% over a year earlier, as against the 2.0% rise in 2002. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings rose marginally by 0.2% in money terms in the third quarter of 2003, having been down by 1.0% in the

/first

first quarter and 0.7% in the second quarter. The downtrend over the preceding seven quarters was thus reversed. In real terms, overall labour earnings picked up further by 1.5% in the third quarter of 2003, after reverting from a 0.6% fall in the first quarter to a 0.5% rise in the second quarter.

5.23 Analysed by *economic sector*, labour earnings in money terms fell virtually across-the-board. For all the *service sectors* surveyed taken together, labour earnings went lower by 2.0% in money terms in the third quarter of 2003 over a year earlier, further to a 2.1% decline in the first quarter and a 3.0% decline in the second quarter. Yet netting out the decrease in consumer prices, labour earnings still moved up by 1.6% in real terms in the third quarter of 2003 over a year earlier, as against a 0.1% fall in the first quarter and a 0.6% fall in the second quarter. Analysed by major constituent sector, earnings in community, social and personal services and in restaurants and hotels were down by 5.7% and 5.2% respectively in money terms, or 2.2% and 1.7% in real terms, in the third quarter of 2003 over a year earlier. Earnings in transport, storage and communications, in the wholesale, retail and import/export trades, and in financing, insurance, real estate and business services decreased to a lesser extent, by 0.6 - 1.8% in money terms. In real terms, there were nevertheless increases, by 1.8 - 3.1%. As to the local *manufacturing sector*, labour earnings were 3.6% less in money terms in the third quarter of 2003 than a year earlier, lesser than the 5.1% drop in the first quarter but larger than the 2.2% drop in the second quarter. In real terms, labour earnings in this sector were slightly down by 0.1% in the third quarter of 2003 from a year earlier, as compared to a 3.2% fall in the first quarter and a 0.3% rise in the second quarter.

/Table 5.22

Table 5.22

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

	<u>Payroll per person engaged</u>									Average amount in <u>Q3 2003</u> (\$)
	<u>2002</u>						<u>2003</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3^(a)</u>	
Wholesale, retail and import/export trades	-1.6 (1.4)	-1.0 (1.6)	-1.6 (1.7)	-2.1 (1.5)	-2.0 (1.0)	-1.6 (1.0)	-1.3 (0.7)	-2.5 (*)	-1.3 (2.4)	11,400
Restaurants and hotels	-4.2 (-1.1)	-4.9 (-2.3)	-5.5 (-2.4)	-3.0 (0.5)	-3.1 (-0.1)	-7.2 (-4.7)	-6.6 (-4.7)	-9.8 (-7.6)	-5.2 (-1.7)	7,900
Transport, storage and communications	-0.2 (2.9)	-1.9 (0.7)	1.5 (4.9)	-2.5 (1.0)	2.0 (5.1)	-1.9 (0.7)	-0.3 (1.7)	-3.8 (-1.4)	-1.8 (1.8)	17,000
Financing, insurance, real estate and business services	-2.2 (0.8)	-2.0 (0.6)	-2.6 (0.6)	-1.4 (2.2)	-2.9 (*)	-1.7 (1.0)	-2.7 (-0.7)	-1.5 (0.9)	-0.6 (3.1)	17,200
Community, social and personal services	-1.3 (1.9)	* (2.7)	0.1 (3.4)	-2.4 (1.2)	-2.7 (0.3)	-4.8 (-2.2)	-4.2 (-2.2)	-4.6 (-2.2)	-5.7 (-2.2)	19,000
Manufacturing	-1.2 (1.9)	-0.8 (1.8)	-0.6 (2.7)	-1.1 (2.6)	-2.2 (0.7)	-3.7 (-1.1)	-5.1 (-3.2)	-2.2 (0.3)	-3.6 (-0.1)	10,800
All sectors surveyed in the private sector	-1.1 (2.0)	-0.6 (2.1)	-1.0 (2.2)	-1.5 (2.1)	-1.2 (1.8)	-2.1 (0.6)	-2.0 (*)	-2.5 (-0.1)	-1.8 (1.9)	14,200
		<-0.1> {1.1}	<-0.2> {0.6}	<-0.5> {-0.1}	<-0.2> {0.2}		<-1.0> {-0.6}	<-0.7> {0.5}	<0.2> {1.5}	

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

(a) The lift in labour earnings in real terms as against the corresponding year-on-year decline in nominal terms was largely caused by an abrupt fall in the Composite CPI in the third quarter of 2003, consequential to the special relief measures implemented by the Government in that quarter.

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

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

(*) Change of less than 0.05%.

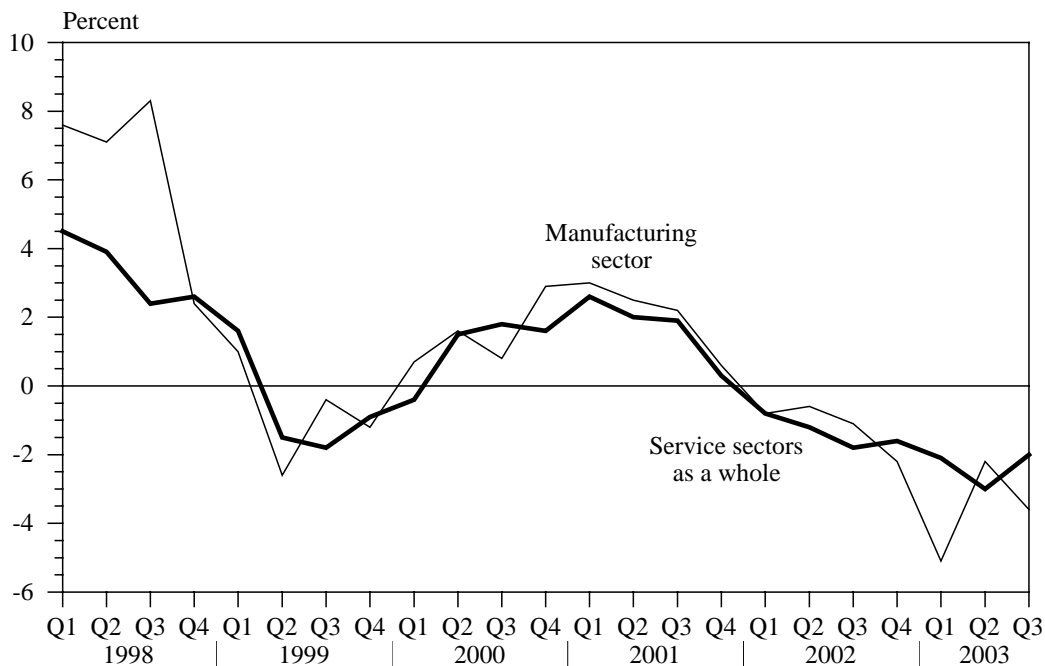
Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

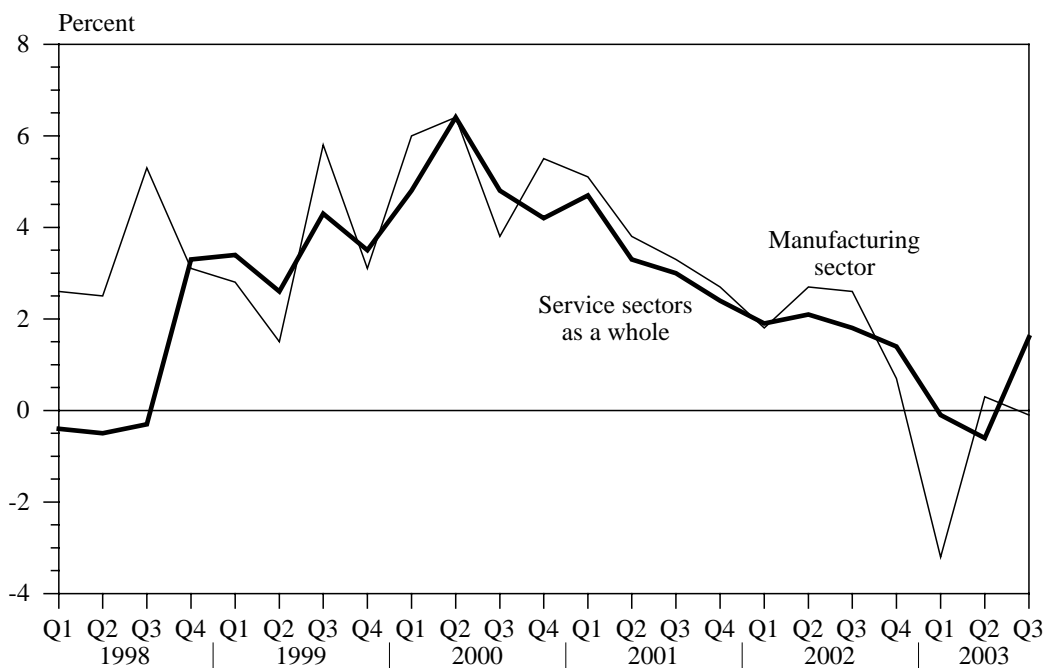
Diagram 5.9

Earnings by broad economic sector

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



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



5.24 Overall *labour wages* in money terms in the private sector likewise continued to fall, by 2.1% in September 2003 over a year earlier, following a decrease of 1.5% in March, and a larger decrease of 2.5% in June due to the SARS impact. Amongst the business establishments surveyed in September 2003, 51% reported a reduction in average wage rate from a year earlier, involving primarily a cut in guaranteed bonuses and allowances. Another 15% revealed nil change. The remaining 34% cited a rise in average wage rate, which again was partly attributable to a shift in employment composition towards better-paid workers upon retrenchment of the lower-paid clerical staff and operatives. Netting out an enlarged decline in consumer prices as measured by the CPI(A)⁽¹⁰⁾, overall labour wages turned up to increase by 0.7% in real terms in September 2003 over a year earlier, having risen by 0.3% in March and then edged down by 0.1% in June. For the first nine months of 2003 as a whole, overall labour wages fell by an average of 2.1% in money terms over a year earlier, yet went higher by an average of 0.3% in real terms. In 2002, there was a decline of 1.0% in money terms, yet an increase of 1.3% in real terms.

5.25 Analysed by *economic sector*, wages in all the *service sectors* surveyed remained soft. Specifically, wages in restaurants and hotels and in personal services were lower by 5.0% and 4.1% respectively in money terms in September 2003 than a year earlier. In real terms, the corresponding decreases were 2.3% and 1.3%. Wages in transport services and in the wholesale, retail and import/export trades fell less, by 1.6% and 1.5% respectively in money terms. In real terms, there were increases by 1.1% and 1.3%. Wages in financing, insurance, real estate and business services had an even smaller decline by 0.3% in money terms, and thus a larger increase by 2.5% in real terms. As to the local *manufacturing sector*, wages continued to fall, by 3.7% in money terms or 1.0% in real terms in September 2003 over a year earlier.

/Table 5.23

Table 5.23**Wages by selected major economic sector
(year-on-year rate of change (%))**

	<u>By reference to the wage index</u>								
	<u>2002</u>						<u>2003</u>		
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Jan-Sep</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep^(b)</u>
Wholesale, retail and import/export trades	-0.6 (1.7)	* (2.1)	0.3 (4.4)	-2.0 (2.4)	-0.7 (-1.7)	-1.9 (0.5)	-1.2 (0.7)	-2.9 (-0.5)	-1.5 (1.3)
Restaurants and hotels	-2.6 (-0.3)	-1.4 (0.6)	-3.3 (0.6)	-2.7 (1.6)	-3.0 (-4.0)	-4.2 (-1.9)	-3.2 (-1.4)	-4.5 (-2.1)	-5.0 (-2.3)
Transport services	0.6 (2.9)	1.1 (3.1)	0.8 (4.9)	* (4.4)	0.5 (-0.5)	-1.7 (0.7)	-1.4 (0.4)	-2.0 (0.4)	-1.6 (1.1)
Financing, insurance, real estate and business services	-0.8 (1.5)	-1.7 (0.3)	-1.8 (2.2)	* (4.4)	0.3 (-0.8)	-0.3 (2.1)	0.3 (2.2)	-0.9 (1.5)	-0.3 (2.5)
Personal services	-1.5 (0.8)	-0.9 (1.1)	-2.0 (2.0)	-3.0 (1.3)	-0.1 (-1.1)	-3.4 (-1.1)	-3.4 (-1.6)	-2.8 (-0.3)	-4.1 (-1.3)
Manufacturing	-1.4 (0.8)	-2.1 (-0.2)	-0.7 (3.4)	-1.5 (2.8)	-1.4 (-2.5)	-2.9 (-0.6)	-2.6 (-0.7)	-2.4 (*)	-3.7 (-1.0)
All selected sectors surveyed in the private sector	-1.0 (1.3)	-0.8 (1.2)	-0.9 (3.1)	-1.5 (2.8)	-0.8 (-1.8)	-2.1 (0.3)	-1.5 (0.3)	-2.5 (-0.1)	-2.1 (0.7)

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

(a) Because of a low base of comparison in December 2001, due to the waiver of public housing rentals in that month, 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.

(b) The lift in labour wages in real terms as against the corresponding year-on-year decline in nominal terms was largely caused by an abrupt fall in the CPI(A) in the third quarter of 2003, consequential to the special relief measures implemented by the Government in that quarter.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

5.26 Analysed by *occupation category*, wages for service workers and miscellaneous non-production workers fell more visibly, both by 4.0% in money terms or 1.3% in real terms in September 2003 over a year earlier. Wages for clerical and secretarial workers, operatives, and craftsman also went down, by 2.7%, 2.4% and 1.9% respectively in money terms, though still up by 0.1%, 0.3% and 0.9% in real terms. Wages for supervisory and technical workers were reduced by 0.4% in money terms, yet raised by 2.5% in real terms.

Table 5.24

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

	<u>By reference to the wage index</u>								
	<u>2002</u>					<u>2003</u>			
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Jan-Sep</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep^(b)</u>
Supervisory and technical workers	-0.2 (2.1)	-0.2 (1.8)	0.1 (4.2)	-0.7 (3.7)	* (-1.0)	-0.8 (1.6)	-0.2 (1.7)	-1.8 (0.6)	-0.4 (2.5)
Clerical and secretarial workers	-1.1 (1.2)	-0.2 (1.8)	-0.8 (3.2)	-1.8 (2.5)	-1.7 (-2.7)	-2.6 (-0.3)	-2.2 (-0.4)	-3.0 (-0.6)	-2.7 (0.1)
Craftsmen	-0.9 (1.4)	-0.6 (1.4)	-1.6 (2.4)	-1.5 (2.9)	0.2 (-0.8)	-1.4 (1.0)	-1.5 (0.3)	-0.8 (1.7)	-1.9 (0.9)
Operatives	-0.9 (1.4)	-1.0 (1.0)	0.1 (4.2)	-1.3 (3.0)	-1.3 (-2.3)	-2.6 (-0.3)	-2.7 (-0.9)	-2.7 (-0.3)	-2.4 (0.3)
Service workers	-3.0 (-0.8)	-3.0 (-1.0)	-3.6 (0.3)	-3.4 (0.9)	-2.1 (-3.2)	-3.1 (-0.8)	-2.3 (-0.4)	-3.2 (-0.8)	-4.0 (-1.3)
Miscellaneous non-production workers	-1.3 (1.0)	-0.9 (1.1)	-1.4 (2.6)	-1.8 (2.6)	-1.0 (-2.1)	-3.6 (-1.3)	-2.8 (-1.0)	-4.0 (-1.6)	-4.0 (-1.3)

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

(a) Also see Note (a) to Table 5.23.

(b) Also see Note (b) to Table 5.23.

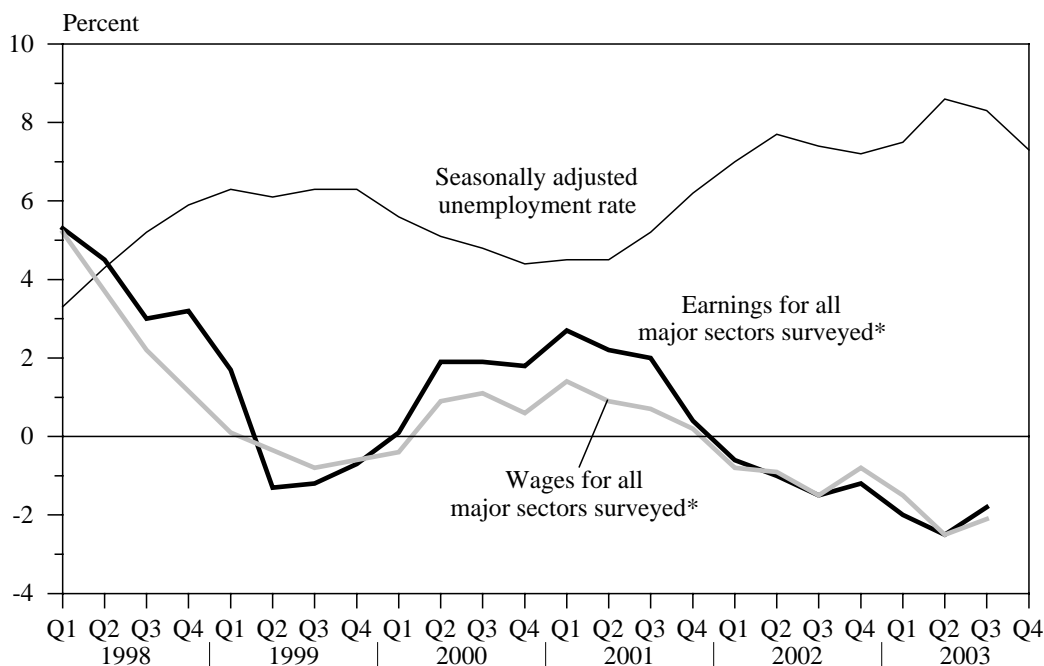
(*) Change of less than 0.05%.

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.

5.27 Overall wages in the *construction sector* remained on an easing trend, falling by 1.0% and then by 1.3% in money terms in the second and third quarters of 2003 from a year earlier, having been virtually unchanged in the first quarter. Nevertheless, after netting out an enlarged fall in consumer prices as shown by the CPI(A), construction wages had a larger increase in real terms in the third quarter of 2003 than in the second quarter, by 2.1% as against 0.8%, and these followed a 1.8% rise in the first quarter. Taking the first three quarters of 2003 together, construction wages fell by an average of 0.8% in money terms from a year earlier, having been static on average in 2002. In real terms, these wages went up by an average of 1.6% for the first three quarters of 2003 as a whole over a year earlier, as against a 3.3% rise in 2002.

5.28 Wages for the various constituent job categories in the construction sector continued to exhibit divergent movements. Specifically, steelbenders, carpenters and joiners, plant operators, concretors/bricklayers/drainlayers, electricians (wiremen), painters, and plasterers had reduction in wages, ranging from 0.7% to 4.6% in money terms in the third quarter of 2003 over a year earlier. On the other hand, fitters, plumbers and truck drivers had gain in wages, by 5.8%, 3.0% and 0.1% respectively in money terms.

/Table 5.25

Table 5.25**Construction wage rates by selected job category
(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-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Concretors/bricklayers/ drainlayers	0.4	-0.2	3.0	1.1	-2.0	-1.4	*	-2.5	-1.7
Steelbenders	2.2	1.0	3.1	3.4	1.4	-2.0	-0.1	-1.1	-4.6
Carpenters and joiners	3.0	-1.5	5.2	5.6	3.0	-1.3	2.6	-3.5	-3.0
Plumbers	-1.9	-3.8	-2.1	-2.3	0.6	2.0	1.1	1.9	3.0
Fitters	-0.8	2.6	-0.7	-2.4	-2.5	3.1	0.7	2.7	5.8
Plasterers	-1.8	-3.6	-1.9	-1.3	-0.3	-1.1	-1.3	-1.3	-0.7
Painters	-3.0	-2.1	-3.6	-4.5	-1.5	0.8	2.1	1.4	-1.0
Electricians (wiremen)	1.9	3.3	2.7	0.3	1.4	*	1.4	-0.2	-1.4
Plant operators	1.2	3.3	2.8	0.2	-1.4	-1.6	-1.1	-1.5	-2.3
Truck drivers	-0.3	2.5	1.3	-1.9	-2.8	-0.5	-2.0	0.4	0.1
All job categories in the construction sector ^(a)	* (3.3)	-0.2 (2.6)	1.6 (5.3)	-0.4 (3.8)	-0.9 (1.6)	-0.8 (1.6)	* (1.8)	-1.0 (0.8)	-1.3 (2.1)

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.

5.29 In February 2003, the Government announced its decision to restore the dollar value of all Civil Service pay points below Directorate Pay Scale Point 3 (D3) or equivalent back to the levels as at 30 June 1997 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 back to the levels as at 30 June 1997 from 1 January 2004. With the enactment of the Public Officers Pay Adjustments (2004/2005) Ordinance in December 2003, which served to implement the pay reductions in 2004 and 2005, the first stage of the Civil Service pay reduction took effect on 1 January 2004.

5.30 The Government has embarked on an exercise to develop, in consultation with staff, an improved Civil Service pay adjustment mechanism on the basis of the existing one. The improved mechanism will comprise the conduct of periodic pay level surveys to compare the 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 pay adjustments. To take forward the exercise, a steering committee has been set up to tender advice in the process. Staff feedback is gauged through a consultative group comprising staff representatives. The aim is to complete the exercise, including the conduct of a pay level survey, in the second quarter of 2005.

/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.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (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)

- (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) 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 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 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, whilst kept coming down for the fifth consecutive year since late 1998, had a smaller decrease in 2003 than in 2002. The moderation in price decline took place in the first and fourth quarters of 2003, outweighing the accentuated falls in the second and third quarters, which were mainly brought about by first, the severe blow of SARS on consumer demand, and then, by the special relief measures granted by the Government to alleviate the SARS impact⁽¹⁾. The moderation was more appreciable towards the year-end, when both property rentals and labour wages tended to stabilise amidst the generally improved economic conditions. Also, in face of the surge in inbound tourism and revival in local consumer spending, some of the local retailers and service providers reduced the price discounts and other concessions on their goods and services, and some others even raised the prices modestly. A rebound in the prices of retained imports over the past year, amidst a weaker US dollar and uptrend in world commodity prices, should have contributed as well.

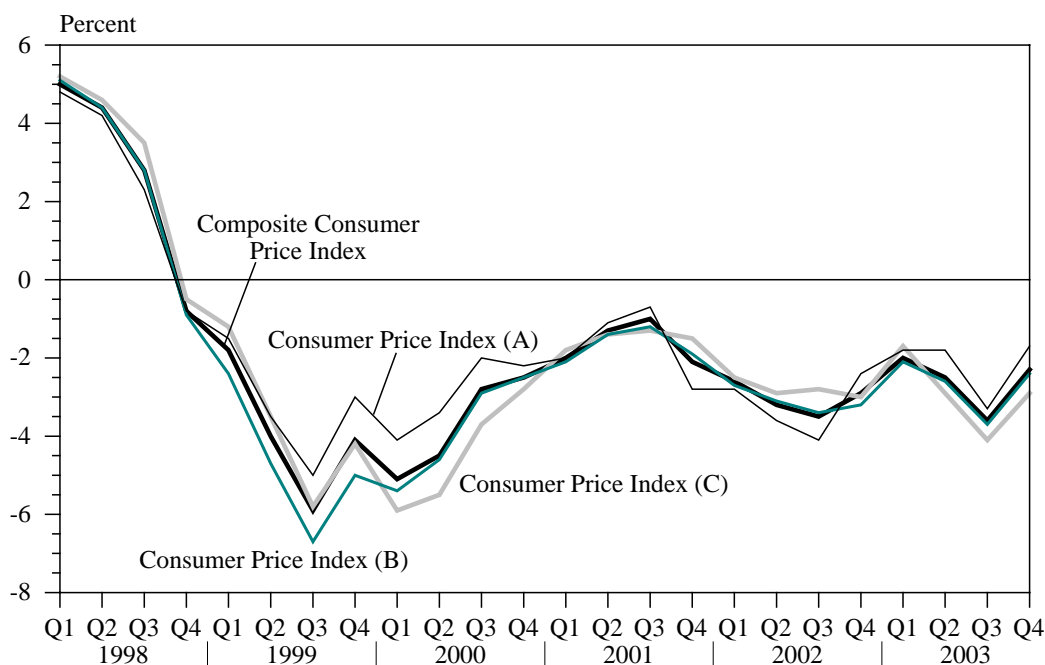
6.2 For 2003 as a whole, the *Composite Consumer Price Index*⁽²⁾ went down by 2.6%, smaller than the 3.0% decline in 2002. The year-on-year decrease actually narrowed to 2.0% in the first quarter of 2003, from 2.9% in the fourth quarter of 2002, although this was largely attributable to a low base of comparison owing to the rates concession by the Government in 2002⁽³⁾. The decrease then widened to 2.5% in the second quarter under the impact of SARS, and further to 3.6% in the third quarter on account of the new rates concession as well as the waiver of water and sewage charges granted as relief measures by the Government. The decrease narrowed again, to 2.3% in the fourth quarter, upon firming up in retail prices of some of the goods and services, and lapse of the special relief measures.

/6.3

6.3 Analysed by sub-index, the CPI(A) and CPI(B) likewise had a lesser decline in 2003, by 2.1% and 2.7% respectively, than in 2002, by 3.2% and 3.1%. As to the CPI(C), the decrease however widened slightly, from 2.8% to 2.9%. This was mainly due to lower rentals for private housing and reduced charges for package tours during the past year, which tended to benefit the higher-income households more. The quarterly profiles of these sub-indices were nevertheless similar, characterised in general by enlarged declines in the second and third quarters yet moderated falls in the first and fourth quarters.

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 ^(a)	-3.2	-3.6	-3.1	-2.9
	Q3	-3.5	-4.1	-3.4	-2.8
	Q4 ^(b)	-2.9	-2.4	-3.2	-3.0
2003	Annual	-2.6	-2.1	-2.7	-2.9
	H1	-2.2	-1.8	-2.3	-2.3
	H2	-3.0	-2.5	-3.1	-3.5
	Q1 ^(c)	-2.0	-1.8	-2.1	-1.7
	Q2	-2.5	-1.8	-2.6	-2.9
	Q3	-3.6	-3.3	-3.7	-4.1
	Q4	-2.3	-1.7	-2.4	-2.9
	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
	Apr ^(d)	-1.8	-1.2	-2.0	-2.1
	May	-2.5	-1.7	-2.7	-3.0
	Jun ^(e)	-3.1	-2.4	-3.2	-3.7
	Jul ^(f)	-4.0	-3.6	-4.1	-4.5
	Aug	-3.8	-3.5	-3.9	-4.1
	Sep	-3.2	-2.8	-3.2	-3.8
	Oct ^(g)	-2.7	-2.0	-2.7	-3.3
	Nov	-2.4	-1.8	-2.5	-2.8
	Dec ^(h)	-1.9	-1.2	-2.1	-2.5

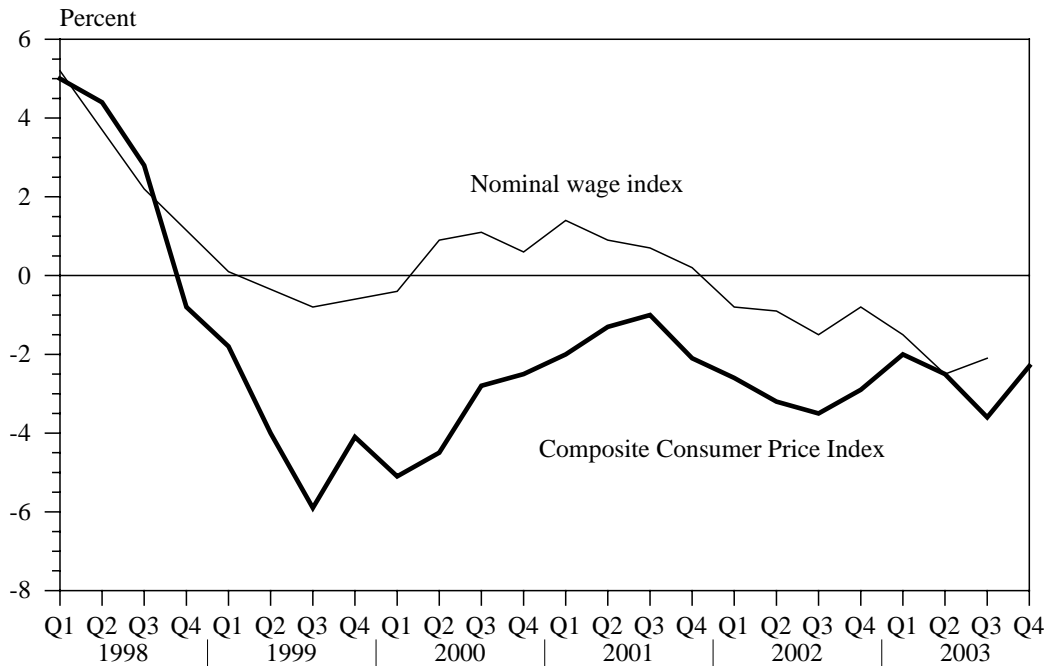
- Notes :
- (a) The widening in year-on-year decline in the CPIs in the second quarter of 2002 from the first quarter was related in part to the waiver of water and sewage charges as well as the additional rates concession granted by the Government as from April 2002.
 - (b) The narrowing in year-on-year decline in the Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2002 from the third quarter was mostly attributable to a lower base of comparison a year earlier, caused by the waiver of public housing rentals by the Housing Authority and Housing Society in December 2001. This was irrelevant to the CPI(C).
 - (c) The further narrowing in year-on-year decline in the CPIs in the first quarter of 2003 from the fourth quarter of 2002 was mainly attributable to a lower base of comparison brought about by the rates concession by the Government in 2002.
 - (d) The narrowing in year-on-year decline in the Composite CPI, CPI(A) and CPI(B) in April 2003 from March was mainly attributable to a lower base of comparison brought about by full dissipation of the earlier waiver of water and sewage charges as mentioned in (a) above. The CPI(C) was affected much less by such a measure.
 - (e) The widening in year-on-year decline in the CPIs in June 2003 from May was partly due to a special one-off rebate of electricity charges granted by a power company in June and July 2003.
 - (f) The further widening in year-on-year decline in the CPIs in July 2003 from June was largely attributable to the rates concession granted by the Government for the third quarter of 2003.
 - (g) The narrowing in year-on-year decline in the CPIs in October 2003 from September largely reflected dissipation of the dampening effect brought about by the rates concession as mentioned in (f) above, though with the waiver of water and sewage charges granted by the Government for August to November 2003 still in force.
 - (h) The further narrowing in year-on-year decline in the CPIs in December 2003 from November partly reflected dissipation of the dampening effect brought about by the waiver of water and sewage charges as mentioned in (g) above.

/Diagram 6.2

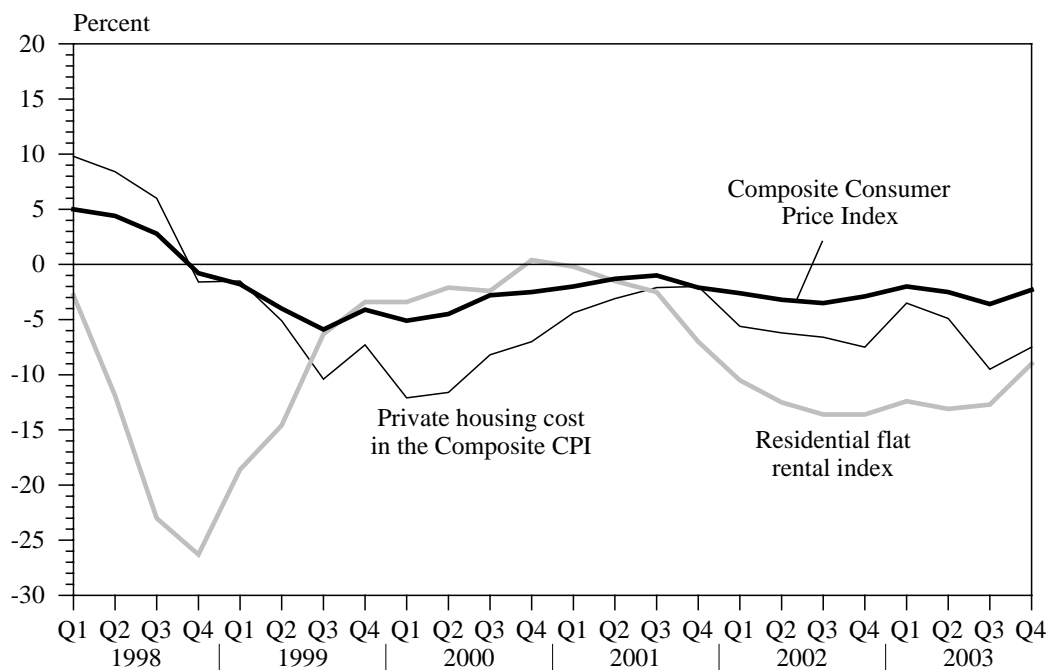
Diagram 6.2

**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



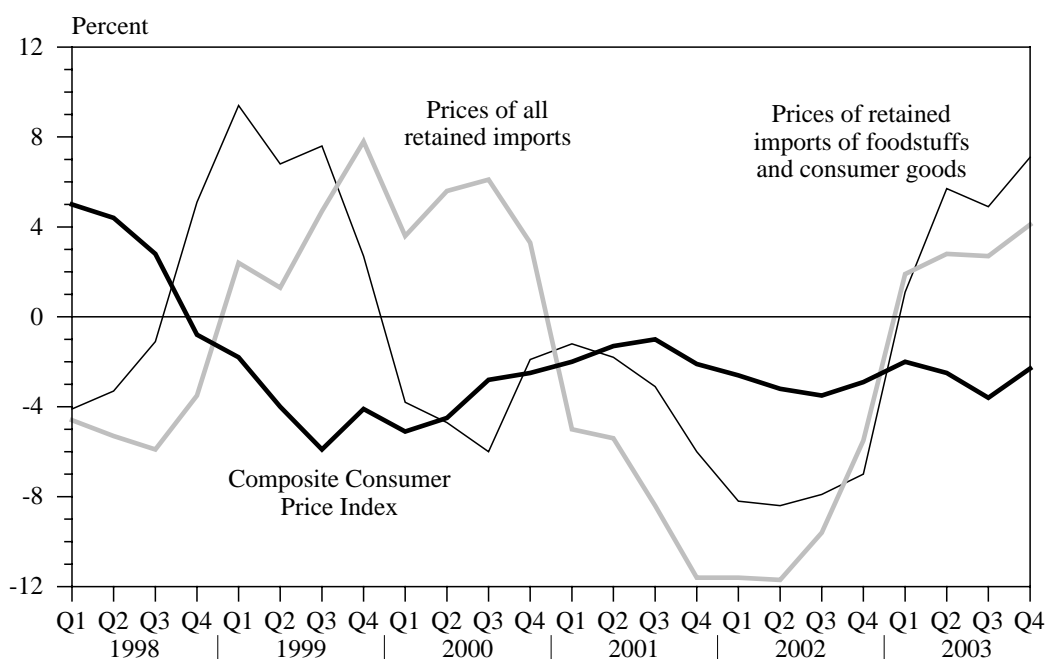
(b) Compared with residential flat rentals



/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.

6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI went down only marginally by 0.1% in the first quarter of 2003. This was mainly due to a lower base of comparison in 2002 brought about by the Government's rates concession in that year. In a similar vein, the CPI(A) and CPI(C) were static, while the CPI(B) edged lower by 0.2%. The decline in the Composite CPI accentuated to 1.1% in the second quarter upon the impact of SARS, and further to 1.9% in the third quarter when the special relief measures including a new rates concession and the waiver of water and sewage charges took effect. The corresponding declines in the CPI(A), CPI(B) and CPI(C) were 0.5%, 1.1% and 1.8% in the second quarter, and 2.3%, 1.8% and 1.6% in the third quarter. In the fourth quarter, the Composite CPI bounced up by 0.8%, as did the CPI(A), CPI(B) and CPI(C), by 1.1%, 0.7% and 0.6% respectively, as the dampening effect of the rates concession dissipated and that of the waiver of water and sewage charges levelled, and as the retail prices of some of the goods and services firmed.

/Table 6.2

Table 6.2

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

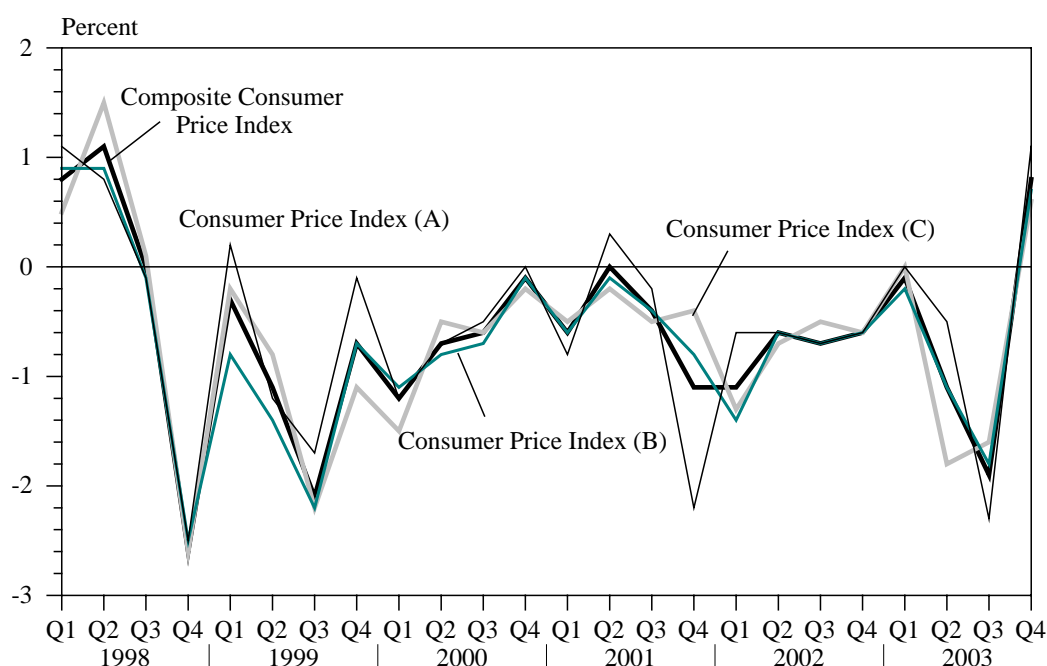
	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2002 Q1	-1.1	-0.6	-1.4	-1.3
Q2 ^(a)	-0.6	-0.6	-0.6	-0.7
Q3	-0.7	-0.7	-0.7	-0.5
Q4	-0.6	-0.6	-0.6	-0.6
2003 Q1 ^(b)	-0.1	*	-0.2	*
Q2 ^(c)	-1.1	-0.5	-1.1	-1.8
Q3 ^(d)	-1.9	-2.3	-1.8	-1.6
Q4 ^(e)	0.8	1.1	0.7	0.6

- Notes :
- (a) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly narrowed in the second quarter of 2002 from the first quarter. There was little additional dampening effect from the rates concession by the Government 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 special one-off rebate of electricity charges 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 granted by the Government for one year from April 2002 to March 2003.
 - (b) The quarter-to-quarter decline in the seasonally adjusted CPIs narrowed distinctly further in the first quarter of 2003 from the fourth quarter of 2002. This was mainly attributable to a low base of comparison brought about by the rates concession by the Government in 2002, which outweighed the downward effect of the special one-off rebate of electricity charges granted by a power company in January and February 2003.
 - (c) The quarter-to-quarter decline in the seasonally adjusted CPIs widened considerably in the second quarter of 2003 from the first quarter, mainly reflecting the impact of SARS on consumer demand and hence on consumer prices.
 - (d) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly enlarged further in the third quarter of 2003 from the second quarter, mainly reflecting the dampening effects from the rates concession and the waiver of water and sewage charges granted by the Government for the periods July - September and August - November respectively.
 - (e) The seasonally adjusted CPIs turned up to increase in the fourth quarter of 2003 from the third quarter, mainly due to dissipation of the dampening effect from the rates concession and levelling of that from the waiver of water and sewage charges, but also due to firming in some of the consumer prices.
 - (*) Change of less than 0.05%.

/Diagram 6.3

Diagram 6.3

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



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

6.5 Analysed by major *commodity group* in the Composite CPI, the prices of clothing and footwear went down by 2.7% in 2003, reversing the 0.7% rise in 2002. The decline was more apparent in the early part of 2003, when consumer demand receded upon the impact of SARS. The charges for miscellaneous services showed an accentuated decrease, from 2.3% in 2002 to 3.2% in 2003. This was due in part to a further reduction in charges for telephone and other communications services, and in part to a downward adjustment in charges for package tours during the SARS period. The prices of alcoholic drinks and tobacco were marginally higher by 0.1% in 2003, after a 2.4% rise in 2002. The cost of public housing, having been slashed by 2.7% in 2002, rose back by 9.1% in 2003. But this mainly reflected the low base effect arising from the rates concession in 2002, more than offsetting the downward effect stemming from the new rates concession in the third quarter of 2003.

/By

By contrast, the cost of private housing had broadly similar decreases in the two years, by 6.5% and 6.3% respectively, as the low base effect in 2002 was largely mitigated by a continued softening in private housing rentals during most of 2003⁽⁴⁾. Likewise, the prices of durable goods had roughly the same falls, by 6.3% and 6.4% respectively in the two years, as the enlarged decreases in the prices of watches, cameras and optical goods, video and sound equipment, furniture, and travel and sports goods were mostly offset by the narrowed declines in the prices of computers and telecommunications equipment, and electric and gas home appliances. The prices of basic foodstuffs fell by 1.7% in 2003, smaller than the 3.1% dip in 2002. A rebound in the prices of retained imports of foodstuffs from some of the major supply sources mainly contributed. The charges for meals at restaurants were lowered by 1.5% in both years, reflecting continued price restraint on the part of restaurant operators so as to lure customers. The cost of transport eased further by 0.4% in 2003, after a 0.6% fall in 2002, on account of reduced fares for inbound and outbound transport and additional fare concessions by some of the public transport operators. The charges for electricity, gas and water turned from a 7.0% decline in 2002 to a 1.4% rise in 2003. Given that the waiver of water and sewage charges in 2002 exceeded that in 2003, the low base effect in the former year outweighed the dampening effect in the latter. As to the prices of miscellaneous goods, there was a modest increase from 1.7% in 2002 to 2.3% in 2003, mainly caused by higher prices of gold and hence prices of jewellery.

6.6 On a year-on-year comparison, the prices of the major commodity groups in the Composite CPI showed mixed changes in the first and second halves of last year. Specifically, the prices of clothing and footwear had a distinctly narrowed decrease in the second half of 2003 than in the first half, by 0.5% as against 4.9%, along with the recovery in consumer spending. The prices of durable goods also moderated in decline between these two periods, from 6.9% to 6.0%, as did the charges for meals at restaurants and the prices of basic foodstuffs, from 1.6% and 1.9% respectively to 1.3% and 1.5%. The prices of miscellaneous goods were lifted by 2.7% in the second half of 2003, larger than the 1.9% rise in the first half of the year, owing to an accelerated rise in the prices of jewellery as well as a lesser decline in the prices of cosmetics and personal care products. The charges for electricity, gas and water also rose to a larger extent, by 2.1% in the second half of 2003 as against 0.7% in the first half, as the low base effect brought about by the waiver of water and sewage charges in 2002⁽⁵⁾ had a more significant effect on the second half of 2003. The cost of public housing went up by 6.5% in the second half of 2003,

/but

but this was considerably smaller than the 11.8% surge in the first half of the year, due to the rates concession implemented in the third quarter. For the same reason, the cost of private housing fell less in the first half than in the second half of 2003, by 4.2% as against 8.5%. The charges for miscellaneous services declined by 3.6% in the second half of 2003, larger than the 2.7% decrease in the first half of the year, on account of an accentuated fall in the prices of telephone and other communications services. As to the prices of alcoholic drinks and tobacco, there was a slight easing by 0.1% in the second half of 2003, following a 0.4% rise in the first half of the year. On the cost of transport, there was a small decline by 0.4% in both periods.

6.7 Yet between the third and fourth quarters of last year, there was a general easing in downward pressure on the prices of most of the major commodity groups in the Composite CPI. On a year-on-year comparison, the prices of durable goods, and the charges for miscellaneous services and for meals at restaurants all declined to a lesser extent in the fourth quarter than in the third quarter of 2003, by 5.2%, 3.5% and 1.1% respectively as against 6.7%, 3.7% and 1.6%. The cost of private housing moved down by 7.5% in the fourth quarter of 2003, likewise reduced from the 9.5% fall in the third quarter, upon dissipation of the dampening effect from the rates concession. The cost of public housing had an accelerated increase to 11.5% from 1.5% between the two quarters, owing to the same factor. The charges for electricity, gas and water and the prices of miscellaneous goods leaped by 4.1% and 3.8% respectively in the fourth quarter of 2003, much exceeding the increases by 0.1% and 1.6% in the third quarter. The prices of clothing and footwear turned up to a 1.7% rise in the fourth quarter of 2003, from a 2.8% fall in the third quarter. The cost of transport held steady in the fourth quarter of 2003, having declined by 0.8% in the third quarter. By contrast, the prices of alcoholic drinks and tobacco edged lower by 0.3% in the fourth quarter of 2003, following nil change in the third quarter. As to the prices of basic foodstuffs, they were down by 1.5% in both quarters.

/Table 6.3

Table 6.3**Consumer Price Indices by component
(year-on-year rate of change (%))****(a) In 2002 and 2003**

Expenditure component	<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Food	-2.1	-1.5	-2.2	-1.6	-2.1	-1.6	-1.7	-1.3
<i>Meals bought away from home</i>	-1.5	-1.5	-1.7	-1.4	-1.9	-1.6	-0.3	-1.2
<i>Other foodstuffs</i>	-3.1	-1.7	-2.9	-1.9	-2.6	-1.7	-4.0	-1.4
Housing ^(a)	-5.7	-4.8	-5.7	-3.0	-5.9	-5.1	-5.5	-6.5
<i>Private dwellings</i>	-6.5	-6.3	-6.8	-5.9	-6.6	-6.1	-6.0	-7.1
<i>Public dwellings</i>	-2.7	9.1	-2.7	9.1	-2.7	9.2	NA	NA
Electricity, gas and water	-7.0	1.4	-8.2	1.3	-6.7	1.5	-5.1	1.5
Alcoholic drinks and tobacco	2.4	0.1	2.4	0.1	2.4	0.1	2.2	0.6
Clothing and footwear	0.7	-2.7	2.6	-3.0	2.0	-2.7	-2.8	-2.5
Durable goods	-6.3	-6.4	-6.0	-6.3	-6.5	-6.6	-6.2	-6.3
Miscellaneous goods	1.7	2.3	1.0	1.1	1.4	2.1	2.8	3.7
Transport	-0.6	-0.4	-0.6	-1.0	-0.5	-0.5	-0.9	0.4
Miscellaneous services	-2.3	-3.2	-3.3	-3.7	-2.3	-2.9	-1.4	-3.0
All items	-3.0	-2.6	-3.2	-2.1	-3.1	-2.7	-2.8	-2.9

(b) In the first and second halves of 2003

Expenditure component	<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
	<u>2003 H1</u>	<u>2003 H2</u>	<u>2003 H1</u>	<u>2003 H2</u>	<u>2003 H1</u>	<u>2003 H2</u>	<u>2003 H1</u>	<u>2003 H2</u>
Food	-1.7	-1.4	-1.9	-1.3	-1.9	-1.3	-0.9	-1.7
<i>Meals bought away from home</i>	-1.6	-1.3	-1.8	-1.0	-2.0	-1.2	-0.5	-2.0
<i>Other foodstuffs</i>	-1.9	-1.5	-2.1	-1.6	-1.9	-1.5	-1.7	-1.1
Housing ^(a)	-2.8	-6.8	-1.1	-4.9	-3.1	-7.1	-4.5	-8.5
<i>Private dwellings</i>	-4.2	-8.5	-4.0	-7.9	-3.9	-8.3	-4.6	-9.5
<i>Public dwellings</i>	11.8	6.5	11.8	6.5	11.8	6.5	NA	NA
Electricity, gas and water	0.7	2.1	0.3	2.3	0.9	2.1	1.1	1.9
Alcoholic drinks and tobacco	0.4	-0.1	0.2	-0.1	0.3	-0.2	1.1	0.1
Clothing and footwear	-4.9	-0.5	-4.6	-1.4	-4.4	-1.1	-6.2	1.4
Durable goods	-6.9	-6.0	-7.0	-5.7	-7.0	-6.1	-6.5	-6.2
Miscellaneous goods	1.9	2.7	0.8	1.4	1.7	2.5	3.1	4.2
Transport	-0.4	-0.4	-1.0	-1.1	-0.5	-0.5	0.5	0.3
Miscellaneous services	-2.7	-3.6	-3.4	-4.1	-2.6	-3.3	-2.3	-3.6
All items	-2.2	-3.0	-1.8	-2.5	-2.3	-3.1	-2.3	-3.5

/Table 6.3 (cont'd)

Table 6.3 (cont'd)**(c) In the third and fourth quarters of 2003**

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2003 Q3	2003 Q4	2003 Q3	2003 Q4	2003 Q3	2003 Q4	2003 Q3	2003 Q4
Food	-1.5	-1.2	-1.5	-1.0	-1.6	-1.1	-1.6	-1.8
<i>Meals bought away from home</i>	-1.6	-1.1	-1.3	-0.7	-1.5	-0.9	-2.0	-1.9
<i>Other foodstuffs</i>	-1.5	-1.5	-1.8	-1.5	-1.6	-1.4	-0.7	-1.5
Housing ^(a)	-7.9	-5.6	-6.6	-3.2	-8.1	-6.1	-9.1	-7.9
<i>Private dwellings</i>	-9.5	-7.5	-9.1	-6.8	-9.3	-7.3	-10.2	-8.8
<i>Public dwellings</i>	1.5	11.5	1.5	11.5	1.5	11.5	NA	NA
Electricity, gas and water	0.1	4.1	0.1	4.6	0.1	4.0	0.4	3.4
Alcoholic drinks and tobacco	*	-0.3	-0.1	-0.2	-0.1	-0.3	0.4	-0.2
Clothing and footwear	-2.8	1.7	-3.2	0.4	-2.9	0.5	-2.1	4.7
Durable goods	-6.7	-5.2	-6.5	-4.9	-6.8	-5.3	-6.8	-5.6
Miscellaneous goods	1.6	3.8	0.7	2.1	1.5	3.6	2.5	5.8
Transport	-0.8	*	-1.3	-0.9	-0.9	-0.1	-0.3	1.0
Miscellaneous services	-3.7	-3.5	-4.1	-4.2	-3.4	-3.2	-3.9	-3.4
All items	-3.6	-2.3	-3.3	-1.7	-3.7	-2.4	-4.1	-2.9

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

NA Not applicable.

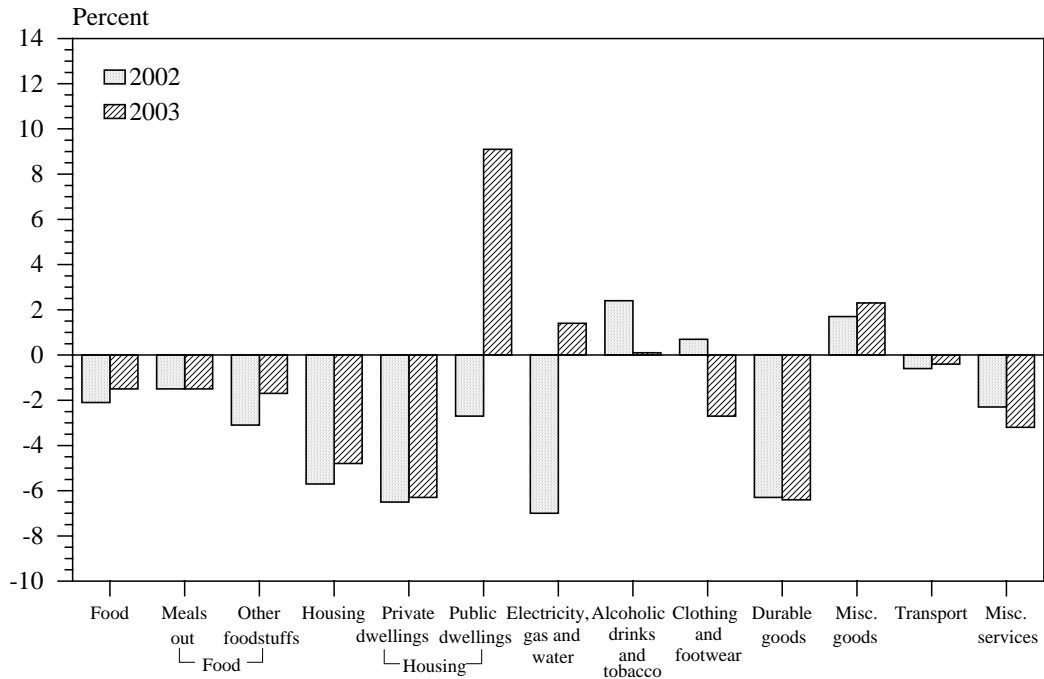
(*) Change of less than 0.05%.

/Diagram 6.4

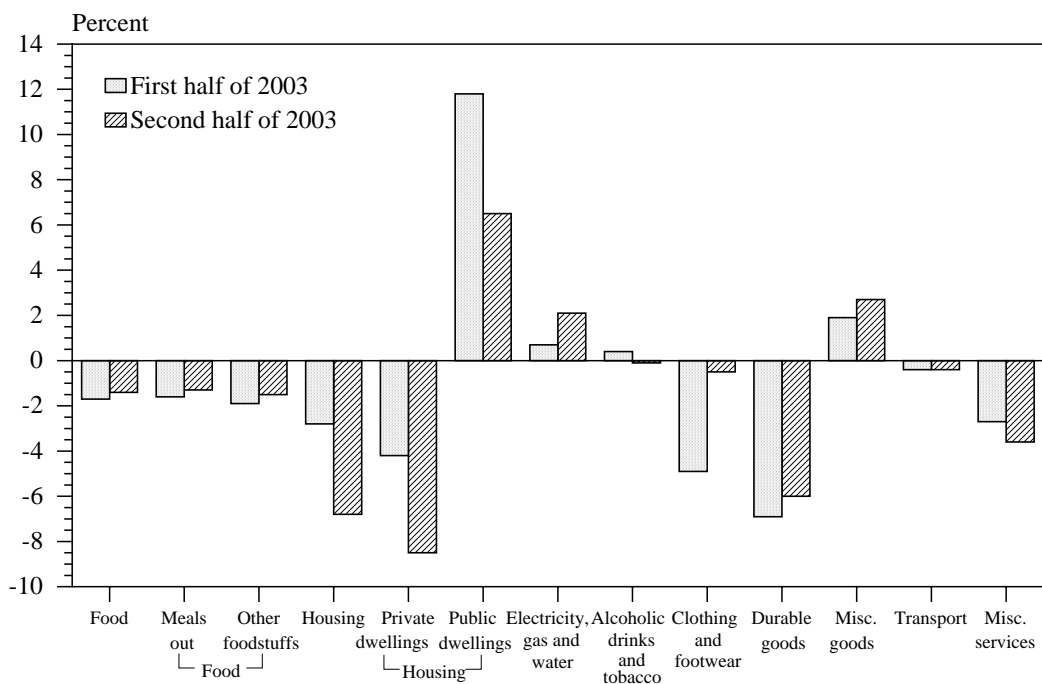
Diagram 6.4

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

(a) In 2002 and 2003



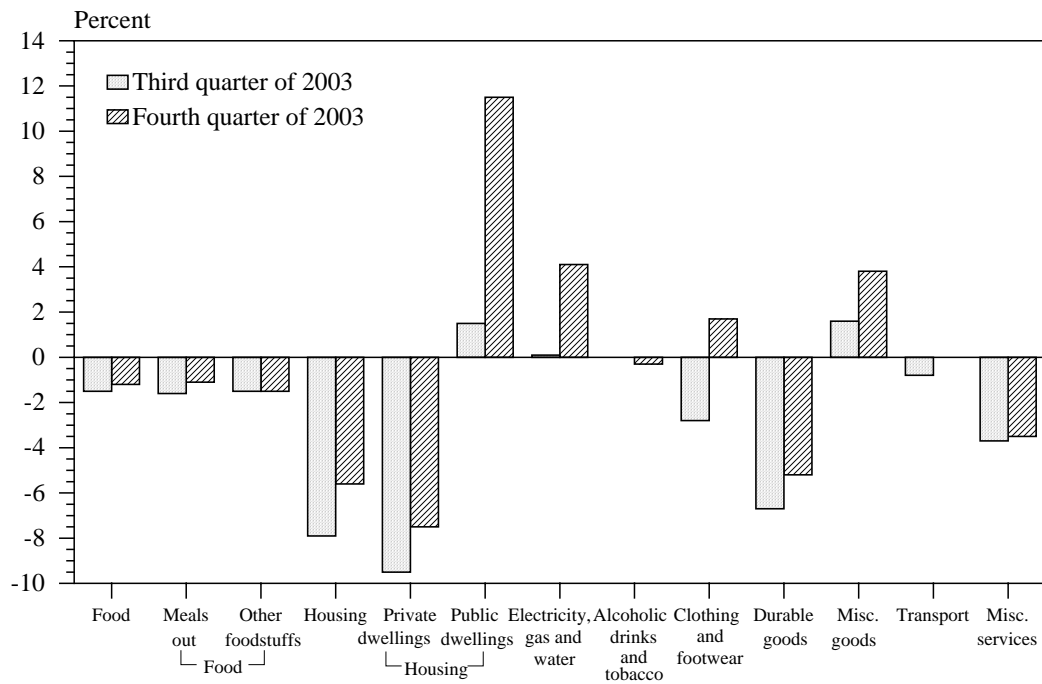
(b) In the first and second halves of 2003



/Diagram 6.4 (cont'd)

Diagram 6.4 (cont'd)

(c) In the third and fourth quarters of 2003

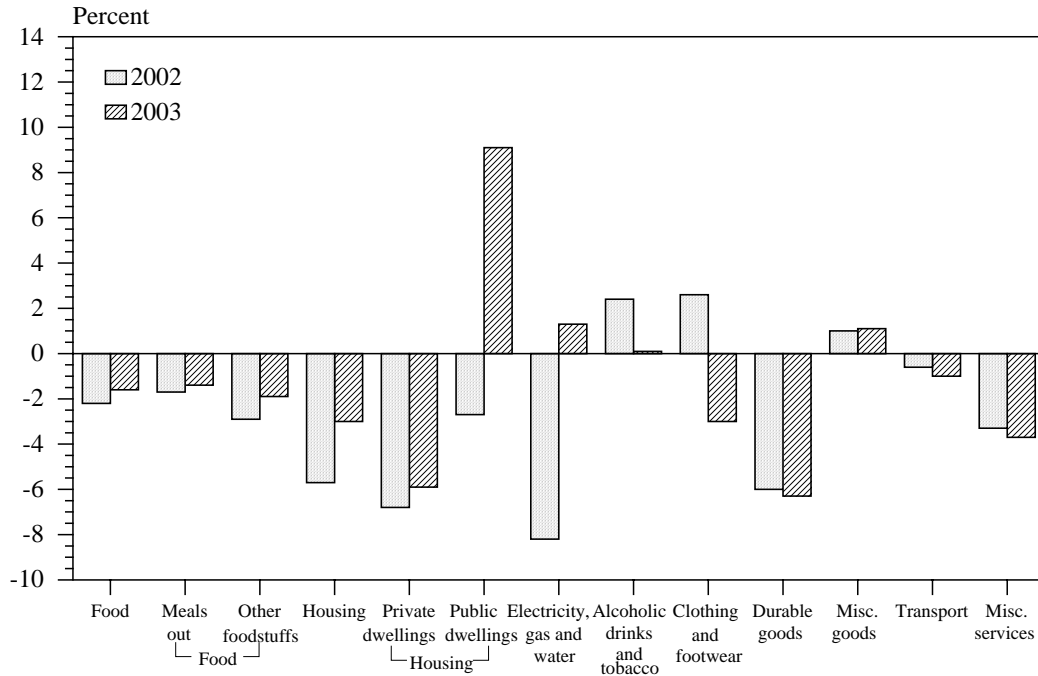


/Diagram 6.5

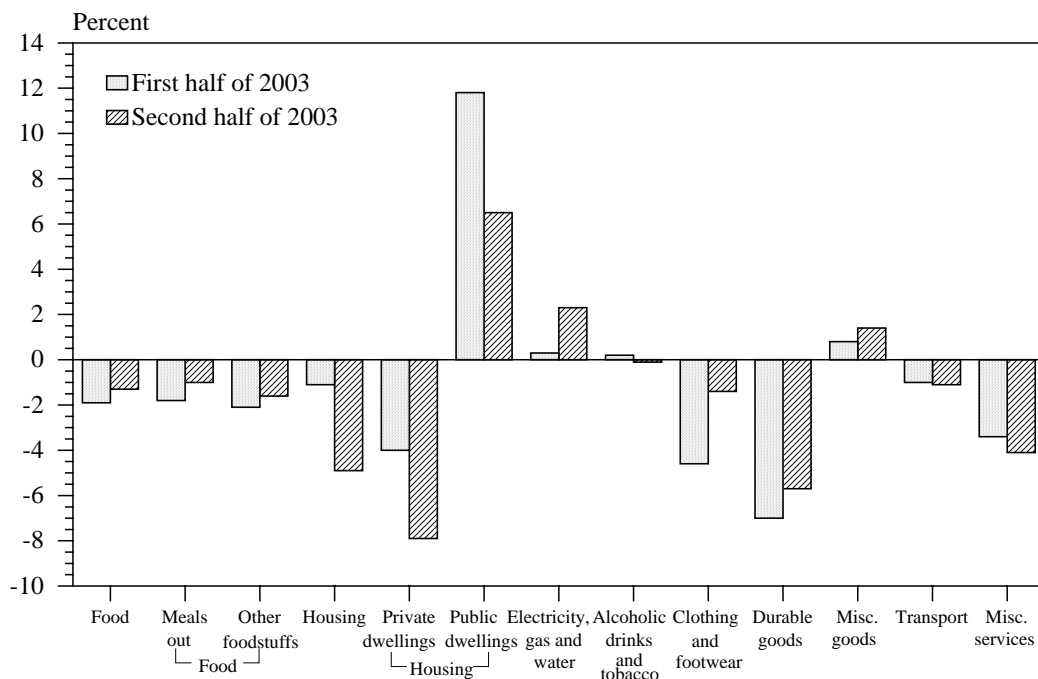
Diagram 6.5

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

(a) In 2002 and 2003



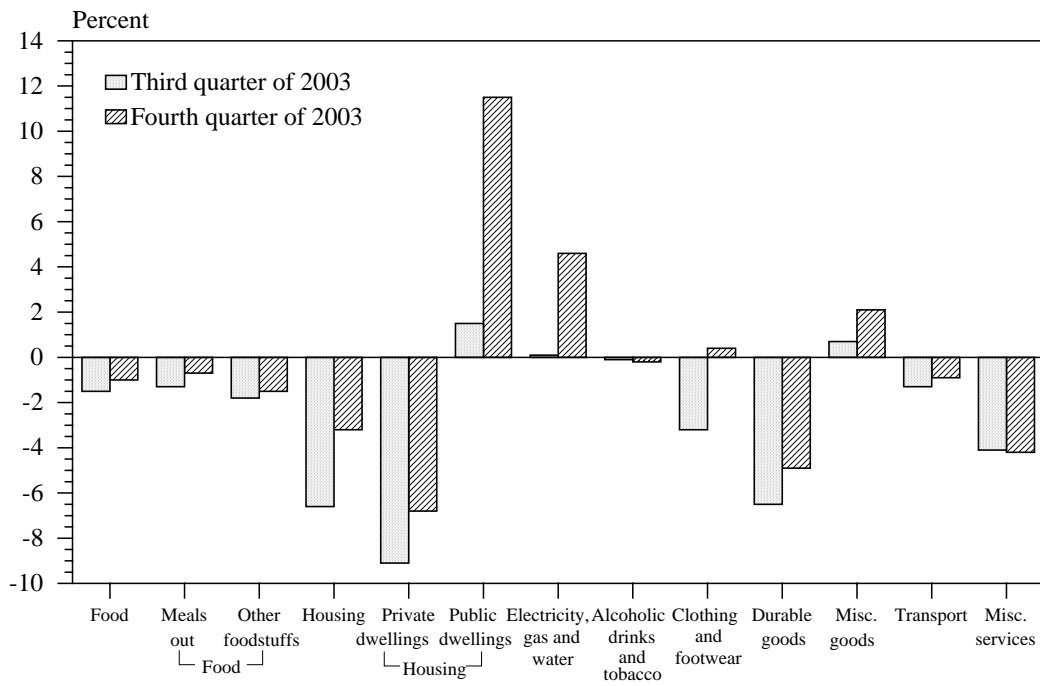
(b) In the first and second halves of 2003



/Diagram 6.5 (cont'd)

Diagram 6.5 (cont'd)

(c) In the third and fourth quarters of 2003



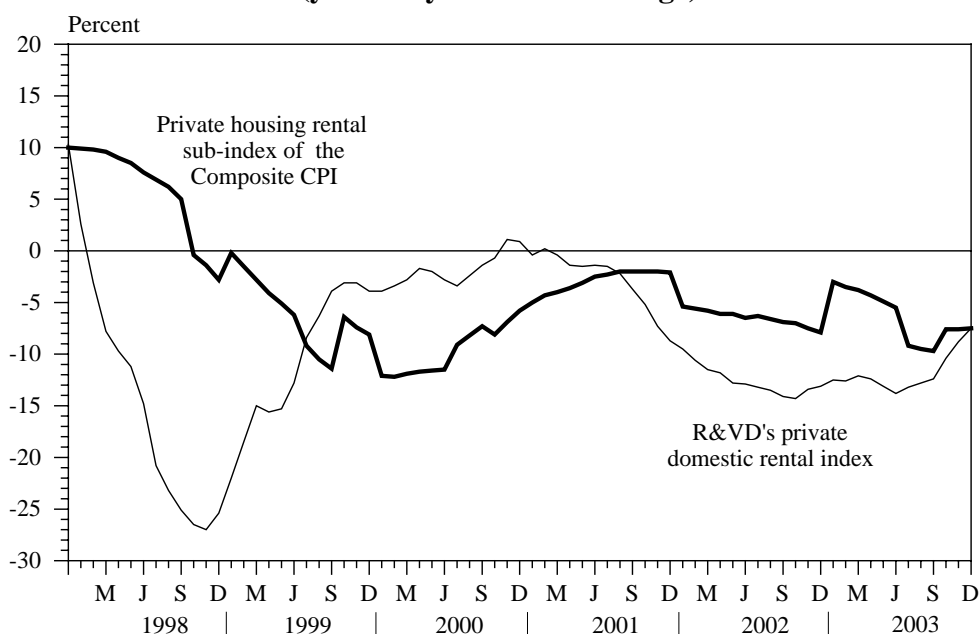
/Box 6.1

Box 6.1

Changes in the CPI's private housing rental sub-index and in R&VD's private domestic rental index

The private housing rental sub-index of the Consumer Price Index, as compiled by the Census and Statistics Department, tracks the movement in average rent, including rates and government rent, paid by all private residential households. It covers all kinds of residential leases, including new, renewed and existing ones. Separately, a rental index for private domestic premises is compiled by the Rating and Valuation Department (R&VD), which covers only rent for fresh lettings, exclusive of rates and government rent. Relative to R&VD's rental index, the private housing rental sub-index of the Composite CPI has fluctuated within a narrower range over the past years.

Movements in the private housing rental sub-index of the Composite CPI and in R&VD's private domestic rental index (year-on-year rate of change)



In the case of new and renewed lettings, the rent is directly influenced by the prevailing lease market situation at the time. Yet new and renewed lettings normally constitute only a small proportion of the total tenancy of private dwellings. Given the broad coverage of the Composite CPI's private housing rental sub-index, the leases therein comprise mostly tenancy agreements made some time ago, the terms and conditions of which are expected to hold throughout the contractual period, including the rent which is not to be adjusted freely. This explains why the movement in the private housing rental sub-index of the Composite CPI tends to be less directly susceptible to changing lease market conditions, or to be susceptible only with a distinct time lag, as compared to R&VD's private domestic rental index.

Import

Import prices

6.8 The *prices of imports of goods*, whilst still soft in overall terms, fell to a lesser extent in 2003. As measured by the unit value index of imports of goods, the prices of imports of goods declined by 0.4% in 2003, distinctly narrowed from the 3.9% dip in 2002. This was mainly due to the combined influence of marked weakening in the US dollar and surge in world commodity prices, including higher oil prices, over the past year or so.

6.9 Analysed by major *source*, the moderation in price decline occurred almost across-the-board. Specifically, the prices of goods imported from the United States went down by 0.9% in 2003, considerably smaller than the 5.0% fall in 2002. This was mainly attributable to more moderate decreases in the prices of consumer goods, raw materials and semi-manufactures, and capital goods, as well as a rebound in the prices of foodstuffs, imported from this source. The prices of goods imported from Taiwan and the Mainland edged lower by 0.6% and 0.2% respectively in 2003, likewise narrowed from the corresponding decreases of 3.5% and 3.3% in 2002. This was mostly due to an upturn in the prices of consumer goods, and raw materials and semi-manufactures imported from these two sources. Also relevant was a lesser decline in the prices of capital goods imported from the Mainland. The prices of goods imported from Japan turned up to a 2.4% rise in 2003, from a 3.7% drop in 2002. This partly stemmed from the strengthening of the Japanese yen against the US dollar.

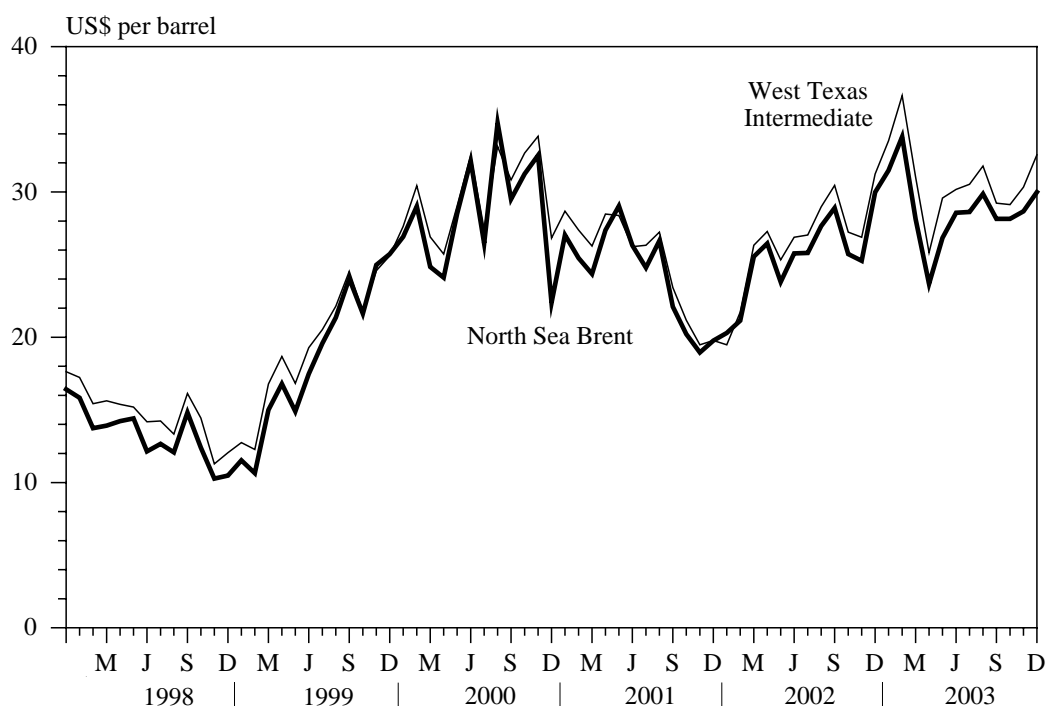
/Table 6.4

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	-0.6	0.5	2.1	1.6	-2.7
	H1	-15.0	-5.9	-3.1	-9.5	-7.4
	H2	16.5	7.4	7.3	14.2	2.4
	Q1	-21.5	-7.0	-3.7	-10.7	-9.3
	Q2	-8.4	-4.7	-2.5	-8.5	-5.4
	Q3	3.5	3.1	2.3	9.3	-0.3
	Q4	33.3	12.0	12.7	19.5	5.3
2003	Annual	16.7	7.1	5.8	3.9	11.9
	H1	25.4	8.0	9.7	8.1	5.0
	H2	9.1	6.4	2.2	-0.1	19.0
	Q1	47.1	10.1	11.9	12.9	5.3
	Q2	7.1	5.9	7.5	3.7	4.7
	Q3	7.3	2.8	-1.3	-1.5	13.7
	Q4	10.9	9.9	5.6	1.5	24.1

Source : IMF International Financial Statistics.

/Diagram 6.6

Diagram 6.6**Spot price of crude oil***

Note : (*) Month-end figures.

Table 6.5

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

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
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	Annual	-0.2	2.4	-0.6	-0.9
H1		-0.4	3.1	0.3	-2.0	-0.2
H2		*	1.8	-1.3	0.1	-0.5
Q1		-1.0	3.3	1.1	-2.6	-0.1
Q2		0.1	2.9	-0.3	-1.4	-0.3
Q3		-0.1	0.9	-1.3	-1.1	-0.9
Q4		*	2.7	-1.3	1.1	-0.2

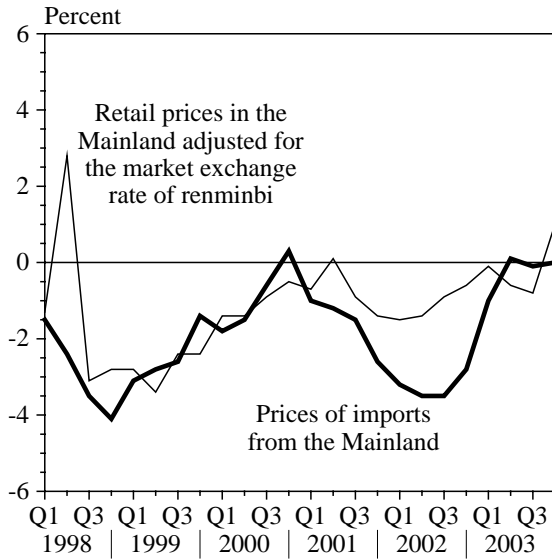
Note : (*) Change of less than 0.05%.

/Diagram 6.7

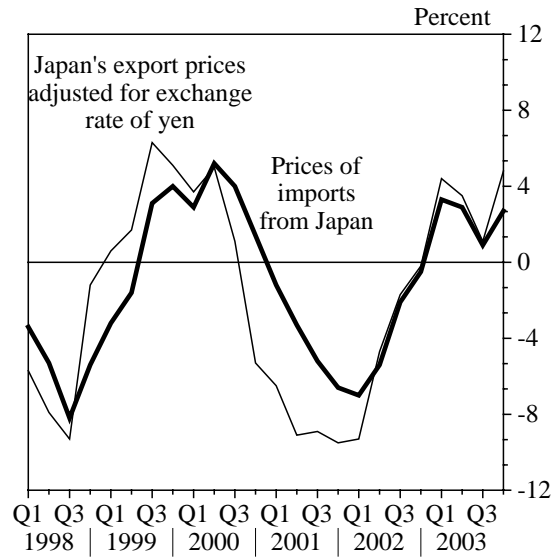
Diagram 6.7

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

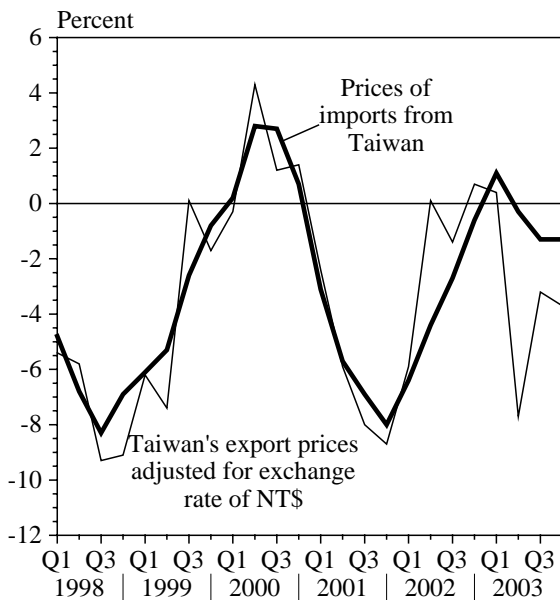
(a) For imports from the mainland of China



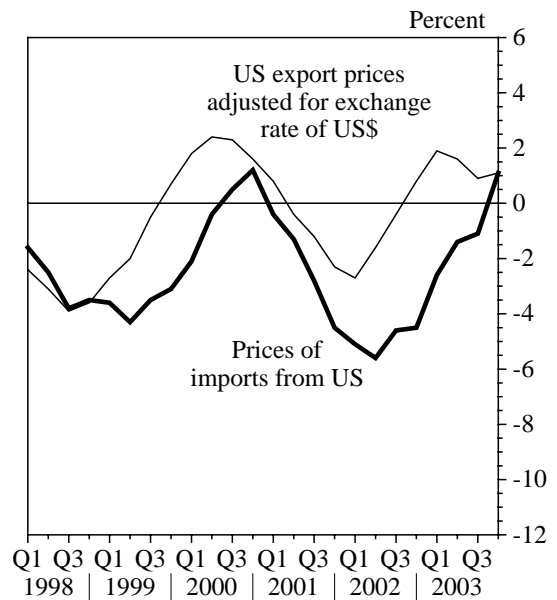
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



/6.10

6.10 The *prices of retained imports*, as measured by the unit value index of retained imports, bounced up by 2.9% in 2003, in stark contrast to the 9.7% dip in 2002. Also, the year-on-year increase in the prices of retained imports accelerated during the course of the year, from 1.9% in the first quarter of 2003 to 4.1% in the fourth quarter. Firmer prices of retained imports should have contributed to the generally lesser decline in local consumer prices in recent months.

6.11 Analysed by *end-use category*, there was an extensive rebound in prices of the various retained imports over the past year. Specifically, the prices of fuels soared by 13.0% in 2003, much exceeding the 0.5% rise in 2002. International crude oil price stayed high, averaging at around US\$29 per barrel (in terms of North Sea Brent) in 2003, amidst the volatile situation in the Middle East and relatively low oil inventories in the United States. The prices of retained imports of consumer goods leaped by 6.4% in 2003, reversing the 9.5% fall in 2002. Price upturn was more visible for such imported commodities as watches and clocks, passenger motor cars, and travel goods and handbags. The prices of retained imports of raw materials and semi-manufactures likewise resumed increase, leaping by 5.8% in 2003, after a 9.5% drop in 2002. To a large extent, this was associated with the upsurge in world commodity prices since mid-2002. The prices of retained imports of foodstuffs also turned up to a 0.9% rise in 2003, from a 4.1% fall in 2002. This was due in part to renewed increase in the prices of foodstuffs imported from the United States, and in part to moderated decrease in the prices of foodstuffs imported from the Mainland and Japan. The prices of retained imports of capital goods, having plunged by 11.4% in 2002, fell considerably less by 6.8% in 2003, on account of lesser falls in the prices of imports of electrical machinery and transport equipment, as well as a pick-up in the prices of imports of industrial machinery.

/Table 6.6

Table 6.6

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

		<u>Food-</u> <u>stuffs</u>	<u>Consumer</u> <u>goods</u>	<u>Fuels</u>	<u>Raw</u> <u>materials</u> <u>and semi-</u> <u>manufactures</u>	<u>Capital</u> <u>goods</u>	<u>All</u> <u>categories</u>
2002	Annual	-4.1	-9.5	0.5	-9.5	-11.4	-9.7
	H1	-5.9	-9.6	-10.7	-12.4	-11.8	-11.7
	H2	-2.4	-9.4	11.8	-6.2	-10.9	-7.6
	Q1	-6.0	-9.6	-15.7	-12.0	-11.0	-11.6
	Q2	-5.8	-9.5	-6.9	-12.6	-12.7	-11.7
	Q3	-3.2	-9.5	0.1	-9.5	-11.4	-9.6
	Q4	-1.6	-9.3	25.6	-2.5	-10.2	-5.5
2003	Annual	0.9	6.4	13.0	5.8	-6.8	2.9
	H1	0.5	4.8	21.5	3.3	-5.5	2.4
	H2	1.3	7.8	6.4	8.2	-7.8	3.4
	Q1	-0.2	2.1	37.3	2.3	-6.1	1.9
	Q2	1.3	7.2	8.9	4.0	-5.1	2.8
	Q3	1.0	6.0	6.9	7.7	-8.5	2.7
	Q4	1.5	9.8	5.9	8.2	-7.1	4.1

/Prices

Prices of key inputs

6.12 On *labour cost*, overall wages and earnings continued to ease, by an average of 2.1% each in money terms in the first nine months of 2003 over a year earlier. The decrease was more distinct in the second quarter, when the labour market slackened markedly upon the impact of SARS. On *property cost*, the prices of office space, shopping space and conventional flatted factory space all went down, by an average of 9.6%, 1.5% and 4.9% respectively in 2003. The decreases occurred mainly in the first half of the year, more than offsetting the rebound in the second half. Rentals for office space, shopping space and conventional flatted factory space had more significant decreases, by an average of 13.7%, 7.9% and 10.3% in 2003, with dips generally seen throughout the year. On *capital equipment and material cost*, the prices of retained imports of raw materials and semi-manufactures firmed up in all the four quarters, giving a 5.8% increase for 2003 as a whole. On the other hand, the prices of retained imports of capital goods remained soft during the course of the year, giving a 6.8% fall for 2003 as a whole. For all these cost items taken together, the overall cost of doing business in Hong Kong should have come down further in 2003.

Prices of local manufacturing output

6.13 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁶⁾, fell by an average of 0.7% for the first three quarters of 2003 as a whole over a year earlier, considerably reduced from the 2.7% decline in 2002. Also, the decline tapered progressively during the year, from 1.2% in the first quarter of 2003 to 0.9% in the second quarter and further to virtually nil change in the third quarter. Analysed by major *industry group*, output prices for fabricated metal products decreased by an average of 3.4% for the first three quarters of 2003 as a whole over a year earlier. This was followed by output prices for paper products and printing (down by 2.0%), consumer electrical and electronic products (1.6%), machinery and equipment (0.9%), textiles (0.4%), and wearing apparel (0.2%). Output prices for plastic products moved up by 1.7% over the same period.

/Table 6.7

Table 6.7

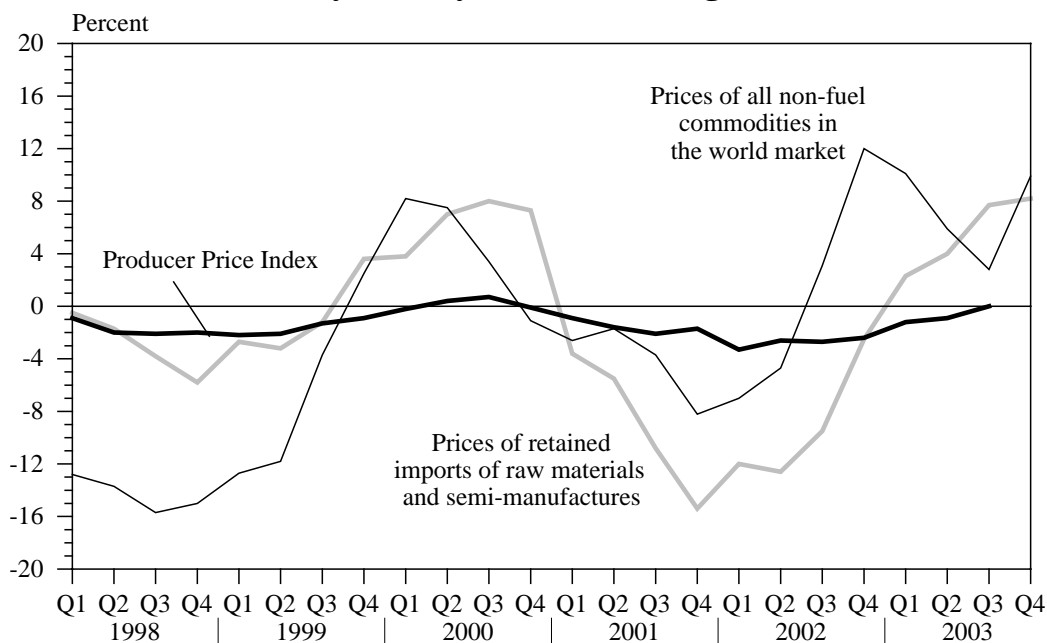
**Producer Price Index for the local manufacturing sector
(year-on-year rate of change (%))**

<u>Industry group</u>	<u>2002</u>						<u>2003</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Wearing apparel	-3.5	-3.2	-4.1	-3.6	-2.9	-0.2	-0.8	0.1	0.2
Textiles	-1.4	-1.8	-1.8	-1.1	-0.7	-0.4	-0.6	-0.5	-0.2
Plastic products	-2.7	-1.7	-1.5	-4.1	-3.7	1.7	0.1	2.5	2.6
Consumer electrical and electronic products	-4.7	-4.4	-5.7	-4.5	-4.2	-1.6	-1.7	-0.8	-2.3
Machinery and equipment	-5.1	-3.8	-5.2	-5.5	-5.9	-0.9	-3.1	0.1	0.5
Fabricated metal products	-2.6	-3.1	-2.5	-2.0	-2.6	-3.4	-3.0	-3.9	-3.3
Paper products and printing	-2.4	-2.6	-1.7	-2.0	-3.2	-2.0	-2.0	-2.3	-1.7
Overall manufacturing	-2.7	-3.3	-2.6	-2.7	-2.4	-0.7	-1.2	-0.9	*

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

6.14 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, showed varied movements in 2003. Specifically, output prices in telecommunications declined by an average of 9.9% for the first three quarters of 2003 as a whole from a year earlier, yet distinctly lesser than the 18.6% dip in 2002. There were further reductions in charges for mobile phone services, international calls and Internet services, amidst intense competition amongst service providers. Also relevant were further price cuts for mobile phone sets and related items. Output prices in hotels and boarding houses, decreased further by 4.4% in the first three quarters of 2003, having been lowered by 1.1% in 2002. The decline was most pronounced in the second quarter of 2003, when hotel room tariffs were heavily slashed under the impact of SARS. Output prices in land transport were reduced by 1.8% in the first three quarters of 2003, partly due to a downward adjustment in hiring charges for taxis. In 2002, there was a similar decrease, by 1.9%. On the other hand, output prices in air transport edged up by 0.3% for the first three quarters of 2003 as a whole over a year earlier, same as the increase in 2002. Output prices in miscellaneous communications services moved up by 5.7% in the first three quarters of 2003, further to a 3.9% rise in 2002, owing to higher charges for international courier services. Output prices in maritime transport leaped by 6.6% in the first three quarters of 2003, amidst strengthened demand for sea freight services. This reversed a 3.0% drop in 2002.

/Table 6.8

Table 6.8

Producer Price Indices for selected service sectors^(a)
(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-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
<u>Selected service sector</u>									
Hotels and boarding houses	-1.1	-5.8	-4.2	-3.6	9.3	-4.4	1.6	-10.5	-4.2
Land transport	-1.9	-1.4	-2.0	-2.1	-2.1	-1.8	-0.7	-1.9	-2.7
Maritime transport	-3.0	-9.4	-5.5	2.9	0.9	6.6	5.5	7.6	6.7
Air transport	0.3	-5.5	-3.4	3.4	7.1	0.3	1.8	-0.6	-0.4
Telecommunications	-18.6	-21.7	-24.5	-15.5	-11.0	-9.9	-7.7	-12.0	-10.1
Miscellaneous communications services	3.9	0.4	0.1	5.1	9.8	5.7	7.1	6.9	3.1

Note : (a) Producer Price Indices for the 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

6.15 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, continued to drift lower, by 1.4% in 2003, although this was lesser than the 2.7% decrease in 2002. While competition in major overseas markets remained keen thereby dampening prices, import demand there generally picked up in 2003, thereby diluting the dampening effect. Within the total, the prices of domestic exports rose mildly by 0.2% in 2003, after a 3.3% fall in 2002, while the prices of re-exports declined further by 1.5%, after a 2.7% fall in 2002.

/6.16

6.16 Analysed by major *market*, the prices of total exports of goods to Singapore and Germany fell by 3.4% and 2.5% respectively in 2003, both narrowed from the declines of 3.9% and 3.2% in 2002. To a large extent, this was attributable to a moderated decrease in the prices of consumer goods and of raw materials and semi-manufactures exported to these two markets. The prices of total exports of goods to the United Kingdom also fell by less, by 1.7% in 2003 as against 2.5% in 2002. This was due to smaller downward adjustment in the prices of consumer goods exported to this market over the past year. The prices of total exports of goods to Japan likewise went for a lesser decrease in 2003 than in 2002, by 1.4% as against 3.2%. There was a rebound in the prices of consumer goods exported to this market since the early part of last year. The prices of total exports of goods to the Mainland did so, by 0.9% as against 2.5%. There was a milder drop in the prices of raw materials and semi-manufactures exported to this market. The prices of total exports of goods to the United States did as well, by 0.8% as against 2.6%. A smaller decline in the prices of consumer goods and capital goods exported to this market largely contributed.

Table 6.9

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

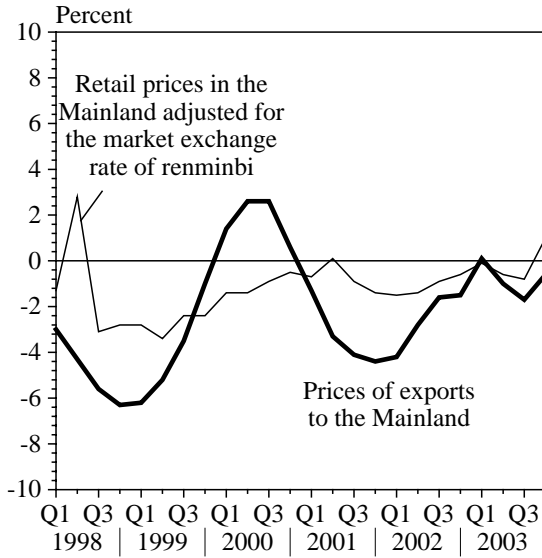
		United States	Mainland of China	Germany	United Kingdom	Japan	Singapore	All markets
2002	Annual	-2.6	-2.5	-3.2	-2.5	-3.2	-3.9	-2.7
	H1	-2.2	-3.5	-3.4	-3.0	-3.5	-4.2	-3.1
	H2	-2.9	-1.6	-2.9	-2.1	-2.9	-3.4	-2.4
	Q1	-1.9	-4.2	-4.0	-3.6	-3.5	-4.8	-3.4
	Q2	-2.4	-2.8	-2.8	-2.3	-3.4	-3.5	-2.7
	Q3	-3.2	-1.6	-2.8	-2.3	-2.7	-3.1	-2.4
	Q4	-2.6	-1.5	-3.0	-1.9	-3.0	-3.6	-2.3
2003	Annual	-0.8	-0.9	-2.5	-1.7	-1.4	-3.4	-1.4
	H1	-0.9	-0.5	-2.6	-1.4	-1.1	-2.4	-1.1
	H2	-0.7	-1.2	-2.5	-1.9	-1.7	-4.0	-1.6
	Q1	-1.3	0.1	-2.3	-1.0	-1.1	-1.6	-0.9
	Q2	-0.6	-1.0	-2.9	-1.7	-1.2	-3.1	-1.4
	Q3	-0.3	-1.7	-2.9	-2.1	-2.1	-4.5	-1.8
	Q4	-1.1	-0.6	-2.1	-1.6	-1.3	-3.6	-1.5

/Diagram 6.9

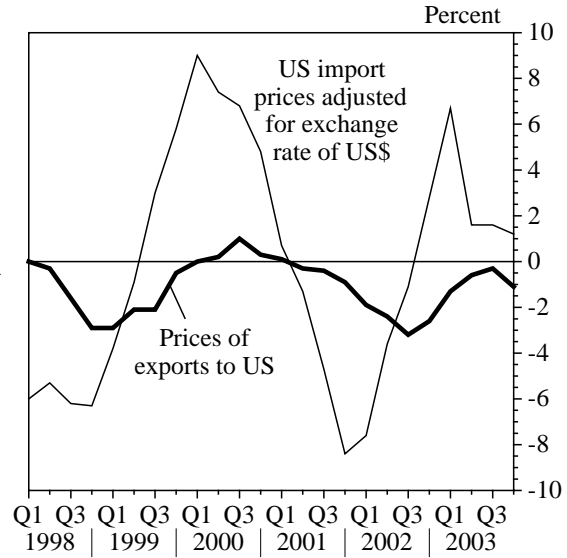
Diagram 6.9

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

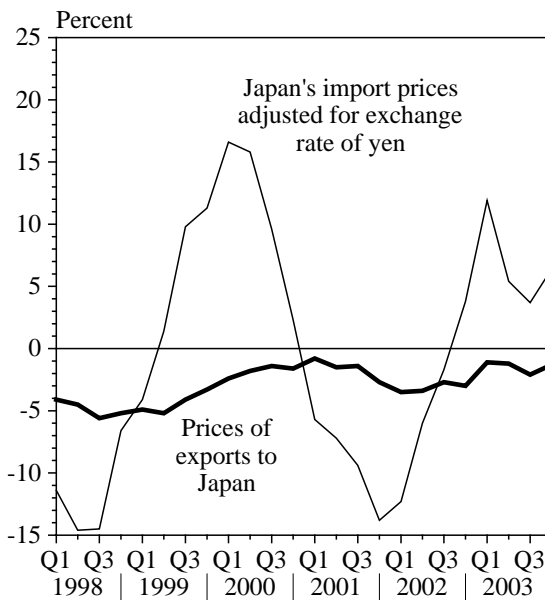
**(a) For exports to the
mainland of China**



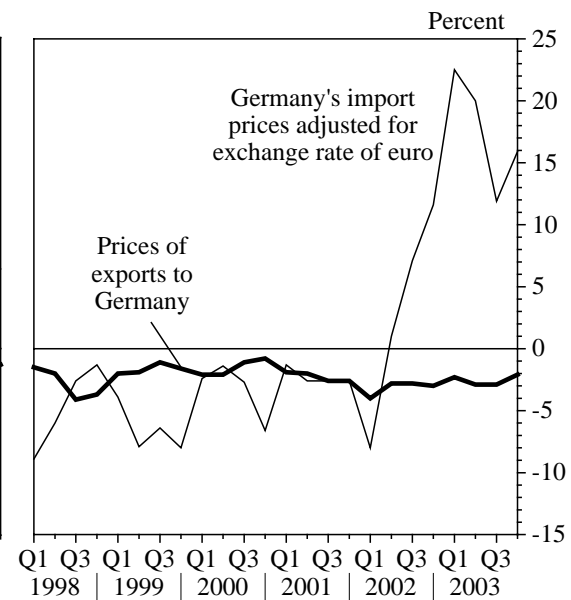
(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



/Terms

Terms of trade

6.17 With the prices of total exports of goods falling to a larger extent than the prices of imports of goods, the *terms of trade in goods*⁽⁷⁾ for Hong Kong went down by 1.0% in 2003, reversing the 1.2% rise in 2002.

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	Annual	101.0
H1		101.4	-1.0
H2		100.7	-1.1
Q1		101.4	-0.8
Q2		101.3	-1.1
Q3		101.1	-0.9
Q4		100.4	-1.3

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)**

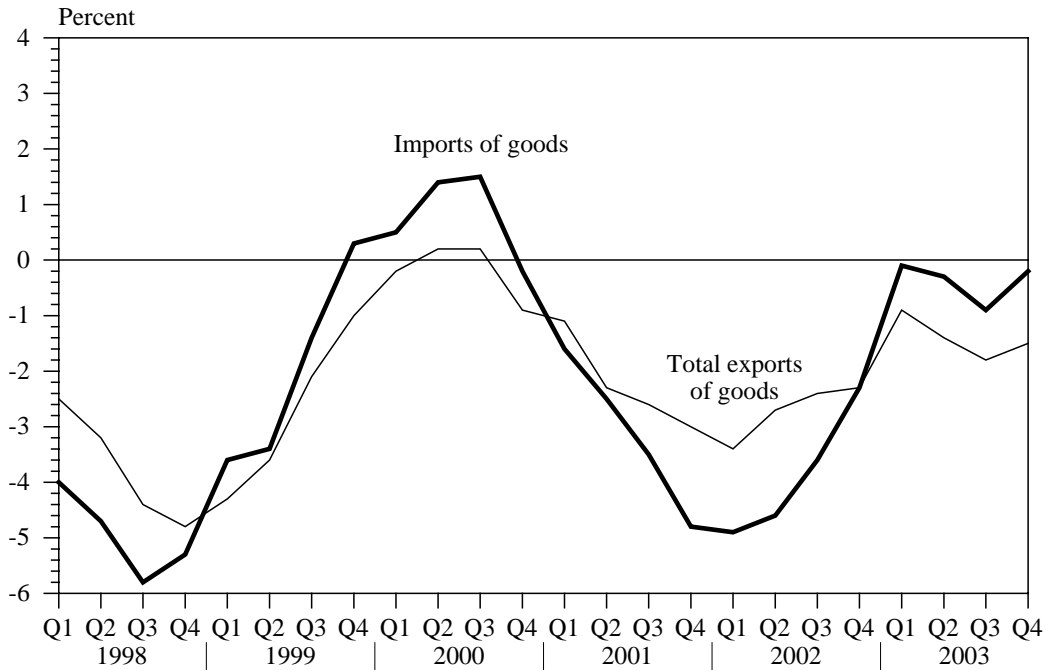
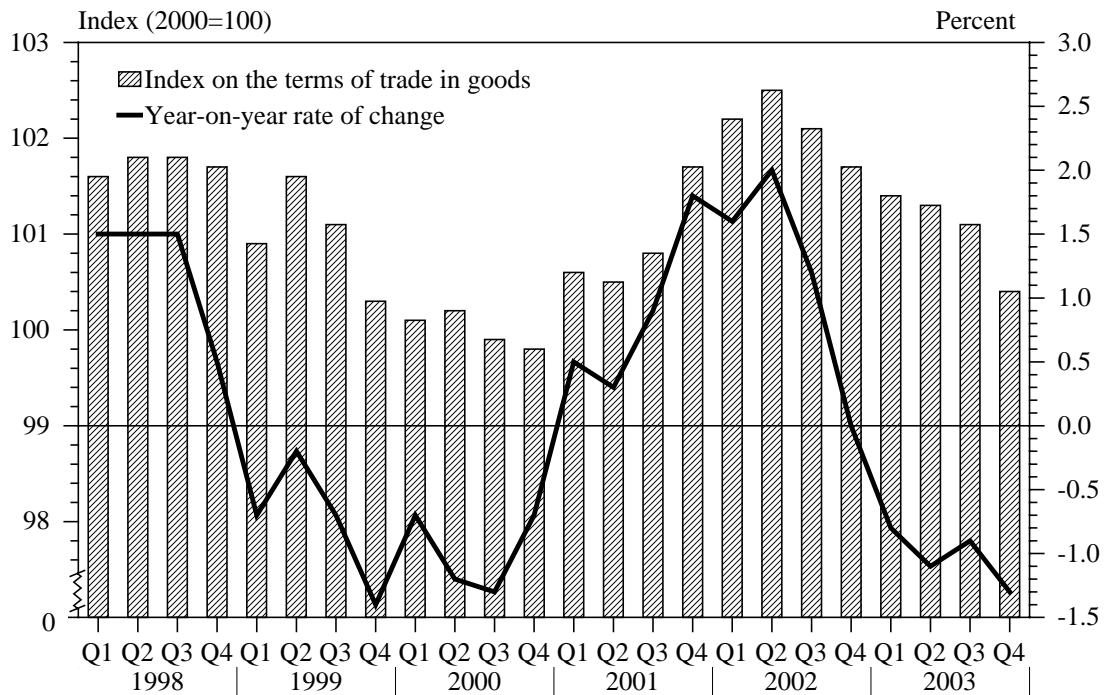


Diagram 6.11

Terms of trade in goods



/GDP

GDP deflator

6.18 The *GDP deflator*⁽⁸⁾, as a broad measure of overall price change in the economy, dipped by 5.1% in 2003, larger than the 3.0% decrease in 2002. Yet the year-on-year decline in the fourth quarter of 2003, by 4.8%, was narrowed from the widening declines in the second and third quarters, by 5.4% and 5.7% respectively. The larger fall in the GDP deflator in 2003 than in 2002 was mainly attributable to a worsening in the terms of trade in goods and services as well as accentuated decline in the price deflator for government consumption expenditure, which more than offset moderated decline in the price deflators for gross domestic fixed capital formation and private consumption expenditure. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* nevertheless had lesser decreases in 2003 than in 2002, by 3.8% and 2.4% respectively as against 4.5% and 3.5%. On a seasonally adjusted quarter-to-quarter comparison, the decline in the GDP deflator moderated in the latter part of the year, to 1.3% in the third quarter of 2003 and further to 0.8% in the fourth quarter, having accentuated from 1.3% in the first quarter to 1.5% in the second quarter.

/Table 6.11

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

	<u>2002</u> [#]	<u>2003</u> ⁺	<u>2002</u>				<u>2003</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> ⁺
Private consumption expenditure	-3.6	-3.0	-3.0	-3.6	-4.0	-4.1	-2.6	-3.4	-3.8	-2.4
Government consumption expenditure	-0.5	-2.8	1.4	-0.6	-0.7	-2.6	-2.5	-3.6	-3.5	-1.4
Gross domestic fixed capital formation	-8.1	-5.9	-7.4	-8.5	-9.2	-7.5	-6.8	-6.0	-6.9	-3.8
Total exports of goods	-2.9	-2.0	-3.8	-3.0	-2.7	-2.4	-1.3	-1.8	-2.3	-2.2
Imports of goods	-4.2	-0.9	-5.2	-4.9	-3.9	-2.6	-0.8	-0.8	-1.6	-0.8
Exports of services	-2.1	-1.8	-5.0	-2.7	-0.5	-0.5	-0.9	-3.1	-2.1	-0.9
Imports of services	0.2	2.4	-2.4	*	1.4	2.0	3.4	1.6	1.2	3.0
Gross Domestic Product	-3.0	-5.1	-2.3	-2.2	-3.1	-4.1	-4.6	-5.4	-5.7	-4.8
			<-0.6>	<-0.8>	<-1.1>	<-1.6>	<-1.3>	<-1.5>	<-1.3>	<-0.8>
Total final demand	-3.5	-2.4	-3.9	-3.6	-3.3	-3.1	-2.1	-2.8	-3.0	-2.1
Domestic demand	-4.5	-3.8	-3.5	-4.5	-5.1	-5.0	-3.8	-4.1	-4.4	-2.5

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)

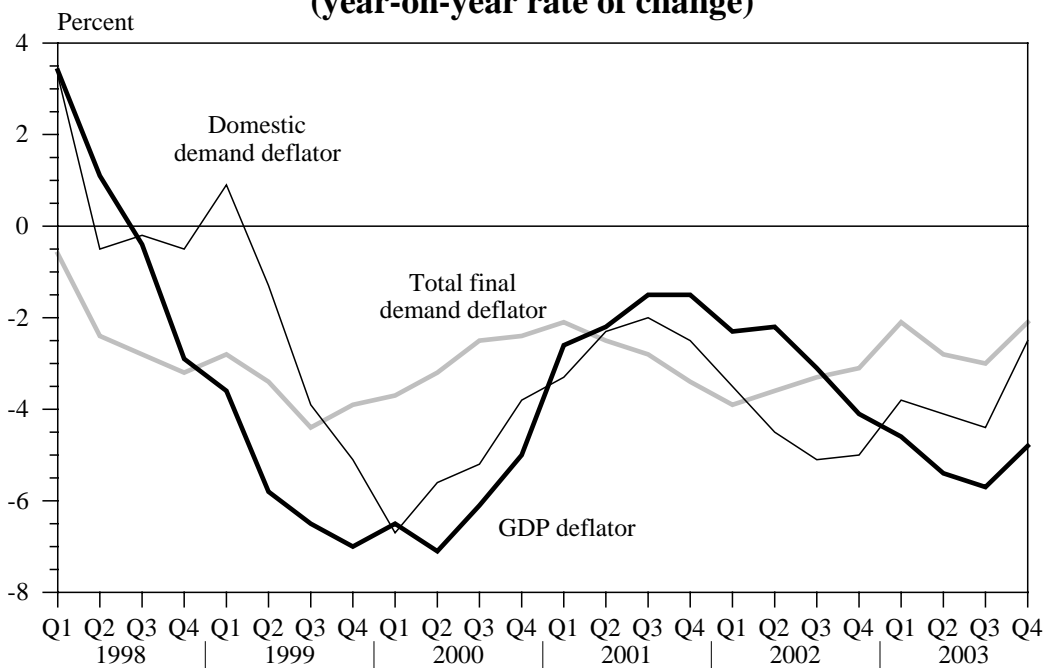
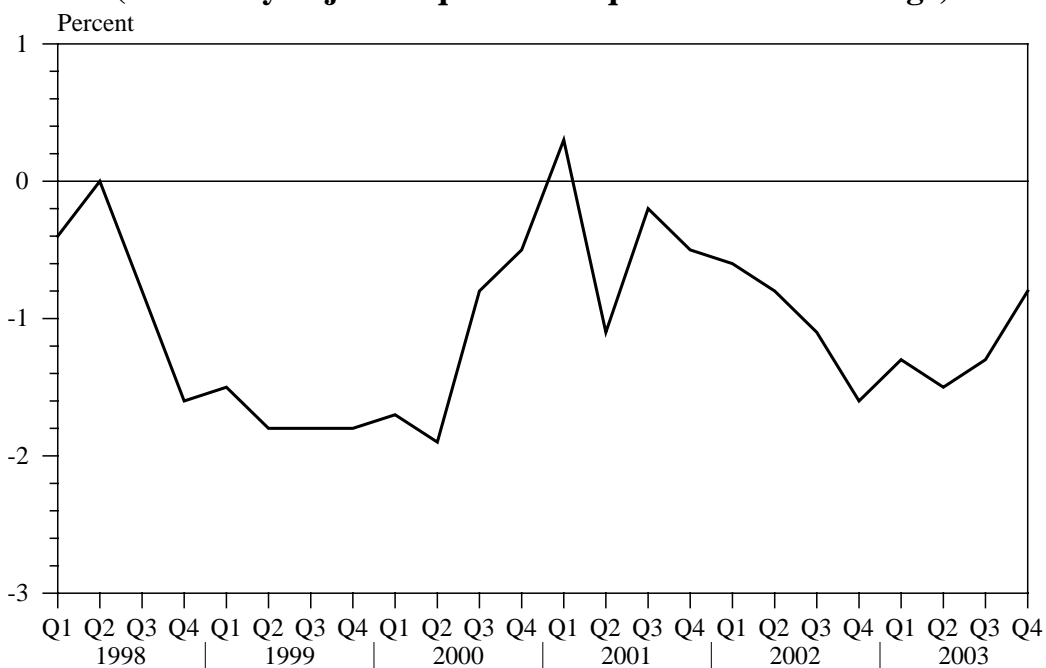


Diagram 6.13
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



/Box 6.2

Box 6.2

Movement in the GDP deflator

The GDP deflator is a broad measure of changes in overall price level in an economy. Under the expenditure approach for compiling GDP, the GDP deflator aggregates movements in the price deflators for the various expenditure components of GDP, with their current relative shares in GDP as weights.

GDP compiled on this basis is equal to total final expenditure comprising domestic demand (DD) and exports of goods and services (X), less imports of goods and services (M); or symbolically, $GDP = DD + X - M$. The movement in the GDP deflator is thus affected by price variations associated with both the domestic demand component (including final consumption expenditures of households and government, and fixed asset investment expenditure) and the external trade component (more specifically, change in export prices relative to that in import prices, or change in the terms of trade).

GDP deflator, domestic demand deflator and the terms of trade (rate of change (%))

	<u>GDP deflator</u>	<i>Of which:</i> <u>Domestic demand deflator</u>	<u>Terms of trade*</u>
1997	5.7	4.6	-0.1
1998	0.2	0.5	0.9
1999	-5.8	-2.4	-0.7
2000	-6.2	-5.3	-0.9
2001	-1.9	-2.5	0.5
2002	-3.0	-4.5	1.0
2003	-5.1	-3.8	-1.2

Note : (*) Here the terms of trade is defined as the ratio of the price deflator for total exports of goods and services to that for total imports of goods and services. This is not the same as the terms of trade shown in paragraph 6.17, which is defined as the ratio of the prices of total exports of goods to the prices of imports of goods only.

The GDP deflator in Hong Kong, having risen in both 1997 and 1998, started to follow a downtrend in 1999. Comparing 2003 with 1998, there was a cumulative decrease of 20%. This was largely attributable to continued easing in the prices of goods and services used locally amidst subdued local demand, as borne out by sustained decline in the domestic demand deflator over the period. Yet in 1999, 2000 and 2003, the GDP deflator fell to a larger extent than the domestic demand deflator. This was due to deterioration in the terms of trade, stemming from a relatively steeper fall in export prices than in import prices amidst keen competition in the world market.

In 2003, the domestic demand deflator went down by 3.8%, as the prices of goods and services for local use continued to drift lower, especially so during the period of SARS impact. The terms of trade also declined, by 1.2%, under the influence of a weak US dollar. In consequence, the GDP deflator fell distinctly, by 5.1%.

/Notes

Notes :

- (1) On 23 April 2003, the Government announced a package of relief measures to help the community tide over the difficulties caused by the outbreak of SARS in Hong Kong. For households, it includes a rates concession of up to \$1,250 per tenement for the period July to September 2003, as well as a waiver of water and sewage charges of up to \$267 and \$67 respectively per household for the period August to November 2003. These two measures are estimated to have the effect of lowering the Composite CPI by around 0.8 and 0.2 of a percentage point respectively during their implementation periods. For 2003 as a whole, they are estimated to have the effect of lowering the Composite CPI by around 0.2 and 0.1 of a percentage point respectively, or combined by around 0.3 of a percentage point.
- (2) 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>	<i>16.39</i>	<i>17.94</i>	<i>17.20</i>	<i>13.28</i>
<i>Other foodstuffs</i>	<i>10.28</i>	<i>13.94</i>	<i>8.74</i>	<i>8.10</i>
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	<i>24.59</i>	<i>21.76</i>	<i>25.48</i>	<i>26.67</i>
<i>Public dwellings</i>	<i>2.07</i>	<i>5.08</i>	<i>1.03</i>	<i>--</i>
<i>Maintenance costs and other housing charges</i>	<i>3.25</i>	<i>2.29</i>	<i>3.17</i>	<i>4.55</i>
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
				/(3)

- (3) The Chief Executive in his 2001 Policy Address announced that a concession on rates payable for 2002 was to be granted by a maximum of \$2,000 per household. The Financial Secretary in his 2002/03 Budget further announced that the maximum amount of reduction in rates payable for 2002 was to be raised to \$5,000. These two rounds of rates concession taken together had the effect of lowering the Composite CPI by 0.9 of a percentage point in 2002. Owing to different weightings attached to the rates payment and different impacts of these two successive rounds of concessions on households in the various expenditure ranges, the dampening effects on the three sub-indices varied. Specifically, the CPI(A) was lowered by 1.2 percentage points, the CPI(B) by 0.9 of a percentage point, and the CPI(C) by 0.6 of a percentage point.
- (4) 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.
- (5) In addition to the effect of the waiver of water and sewage charges granted by the Government for the period August to November 2003, there was also the residual effect from the earlier waiver of water and sewage charges granted by the Government for the period April 2002 to March 2003, which was up to \$800 and \$200 respectively per household.
- (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 prices deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

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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.

Calendar of Events of Significance to the Hong Kong Economy in 2003

- 1 Jan The Mainland of China (the Mainland) continued to reduce its import tariffs in line with China's World Trade Organisation (WTO) commitments. The import tariff rates were lowered to an average of 11%. Import tariffs on more than 3 000 product items were reduced to various extent.
- The rice trade was liberalised with the abolition of the import quota system. Interested parties may apply for registration as rice stockholders with the Trade and Industry Department at any time.
- 2 Jan Hong Kong Customs, under the Import and Export (General) Regulations Chapter 60A, enforced the Kimberley Process Certification Scheme. The Scheme seeks to curb illicit trade in "rough diamonds", so as to curb its effect in fuelling armed conflicts, activities of rebel movements, and illicit proliferation of armament.
- 8 Jan The Chief Executive (CE) delivered the 2003 Policy Address. He announced a number of measures to improve the business environment, enhance core industries, and encourage diversified development and human resources development. He also stressed the importance of forging closer economic co-operation with the Mainland and expediting economic integration with the Pearl River Delta.
- 12 Jan The Hong Kong Disneyland groundbreaking ceremony marked the commencement of the theme park construction.
- 13 Jan An agreement for avoidance of double taxation on shipping income was signed with Germany.
- 15 Jan The Anti-Cigarette-Smuggling Reward Scheme financed by the tobacco industry of Hong Kong was renewed.
- 16 Jan The operating results of the Exchange Fund for the year 2002 were announced. The Exchange Fund recorded an investment income of HK\$47 billion in 2002, achieving an investment return of 5.1%, which was 120 basis points above the benchmark set for it by the Exchange Fund Advisory Committee.
- 21 Jan The Government announced that the completion of the North Hong Kong Island Line of the Island Line Extensions would be deferred to beyond 2016. Yet it asked the Mass Transit Railway Corporation Limited (MTRCL) to proceed with further planning on the West Hong Kong Island Line Phase 1 from Sheung Wan to Belcher, including a possible link with the South Hong Kong Island Line. MTRCL plans to submit a recommended railway scheme by around the second quarter of 2004.

The Hong Kong Digital Entertainment Excellence Awards was launched. This first ever award scheme for the industry seeks to recognise and honour the best works produced in Hong Kong in digital entertainment and to promote excellence in this field.

26 Jan The first cross-strait indirect charter flight service between Shanghai and Taipei, with a technical stop in Hong Kong, commenced. A total of 16 indirect flights between the two places would be operated on a trial basis during the Lunar New Year period from 27 January and 9 February.

27 Jan The direct link from the Central Moneymarkets Unit (CMU) of the Hong Kong Monetary Authority (HKMA) to the settlement system of Clearstream Banking Luxembourg commenced live operation, allowing CMU Members to clear, settle and hold Clearstream-eligible securities through their CMU accounts.

With the support and facilitation of the Central People's Government and the relevant Mainland authorities, 24-hour passenger clearance was implemented at the Lok Ma Chau / Huanggang Control Point.

28 Jan The Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong Limited (SEHK) signed a new Memorandum of Understanding (MOU) on their respective roles, responsibilities and supervisory relationship.

New features in the MOU include the dual filing arrangement and the establishment of a high-level liaison group comprising senior representatives of the two regulators to review systemic and policy issues concerning listing-related matters.

1 Feb Certain provisions of the Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance 2002 enacted in July 2002 became effective. These provisions include mainly raising of the minimum relevant income level for making MPF contributions from \$4,000 to \$5,000 per month and simplification of scheme administration.

18 Feb The Hong Kong population was provisionally estimated at 6.82 million at end-2002, as against a revised estimate of 6.79 million in mid-2002. The overall population growth at end-2002 over end-2001 was 0.8%.

19-22 Feb The Hong Kong Information Infrastructure Expo and Conference 2003 was held. Since its inception in 1998, this event has become a major international IT event held in Hong Kong. More than 400 exhibitors and about 36 000 visitors participated in the 2003 event.

20 Feb Croatia granted visa-free access to holders of Hong Kong Special Administrative Region (HKSAR) passport.

21 Feb SFC issued three sets of guidelines to facilitate offers of shares and debentures. The guidelines constitute a facilitative interpretation of particular provisions of the current prospectus regime, and make

adjustments to current market practices and procedural requirements so as to facilitate the conduct of a public offering of shares or debentures.

The Commissioner of Insurance, acting on behalf of the Government, entered into an agreement with the newly established Employees Compensation Insurer Insolvency Bureau for its operation of the Employees Compensation Insurer Insolvency Scheme. The Scheme would meet the relevant insurance claims arising out of insurer insolvency occurring on or after 1 April 2004.

25 Feb The Government announced its decision to develop in consultation with staff an improved civil service pay adjustment mechanism which should 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 pay adjustments.

In its concluding statement, the International Monetary Fund (IMF) Staff Mission to Hong Kong for the Article IV Consultation expected the Hong Kong economy to grow by 3% in 2003, up from 2% in 2002. The faster growth expected for 2003 was based on strengthening external demand, supported by robust growth in the Mainland. The Mission strongly supported Hong Kong's linked exchange rate system, which remained robust, but pointed out that large and persistent fiscal deficits could undermine the long-term sustainability of the public finances and the stability of the linked exchange rate system.

26 Feb The Government released the Report of the Task Force on Population Policy. The report identified the major challenges and concerns arising from Hong Kong's evolving demographic trends and proposed a set of policy measures for the short to medium term. Key measures included extending the existing immigration policy to cater for investment immigrants and easing restrictions on the entry of Mainland talents and professionals.

27 Feb The Housing Authority (HA) granted letting incentive or rent relief for the commercial tenants of three shopping centres in Kwun Tong and Sha Tin who were uniquely affected by suspension of Home Ownership Scheme sales. Specifically, these were the commercial tenants of the Lei Yue Mun Plaza, Po Tat and Yu Chui Shopping Centres who were faced with uncertainty relating to population intake into the respective housing estates. They were given an extra 20% rent reduction, effective from 1 March 2003.

Following the biennial rent review for flatted factory units, about 51% of the 1 200 tenants in five factory estates in Chai Wan, San Po Kong, Tai Wo Hau, Kwun Tong and Kowloon Bay had their rent reduced by up to 11%, while the remaining 49% of the tenants, who had been paying less than 80% of market rent, had their rent frozen. The rent adjustment would be effective for two years as from August 2003.

- 5 Mar The Financial Secretary presented the Budget for the financial year 2003/04 to the Legislative Council.
- To restore fiscal balance over the medium term, the Financial Secretary proposed a number of measures to cut expenditure on the one hand and raise revenue on the other. The measures to reduce operating expenditure included trimming civil service establishment by 10%, cutting civil service pay by 6% in two phases in two years, and adjusting social security payments downward by 11%. The measures to raise revenue included adjusting the standard tax rate and profits tax rate up by one and 1.5 percentage points respectively to 16% and 17.5%, raising the air passenger departure tax from \$80 to \$120, adopting a marginal tax rate system for motor vehicle first registration tax, increasing the property tax rate by one percentage point to 16% over a period of two years, and introducing football betting duty and boundary facilities improvement tax.
- The 2002 Economic Background and 2003 Economic Prospects were published along with the 2003/04 Budget Speech. On Hong Kong's economic outlook for 2003, the Gross Domestic Product (GDP) was forecast to grow by 3% in real terms, while the Composite Consumer Price Index (CPI) was forecast to decline by 1.5%.
- 5-18 Mar The First Session of the Tenth National People's Congress was convened. The Congress effected a change of government tenure in the Mainland, with Hu Jintao and Wen Jiabao elected as President and Premier respectively. The new government pledged to continue with the entrenched policy of economic reform and transition towards a market-based economy.
- 10 Mar A previously unknown illness of atypical pneumonia, subsequently named as Severe Acute Respiratory Syndrome (SARS) by the World Health Organisation (WHO), broke out in the Prince of Wales Hospital in Hong Kong. The disease initially broke out in southern China in mid-November 2002, and then spread much further afield by late February 2003. Other than Hong Kong, the most severely affected areas included the Mainland, Canada, Singapore, Vietnam and Taiwan.
- 11 Mar Hong Kong Customs commenced operation of two vehicle X-ray inspection systems at the Lok Ma Chau Control Point. The X-ray systems shorten the examination time of a loaded 40-foot container from about four hours to less than 20 minutes.
- 15 Mar WHO issued an emergency travel advisory, naming the new illness of atypical pneumonia as Severe Acute Respiratory Syndrome (SARS).
- 16-24 Mar In conjunction with Invest Hong Kong and Science Park, Cyberport launched its first overseas promotion tour to the United States and Canada.
- 17 Mar The Anti-piracy Reward Scheme financed by the copyright industry was renewed.

- 19 Mar US President George W Bush announced the start of military action against Iraq, after Iraqi leader Saddam Hussein defied an ultimatum from Bush to leave Iraq by that day.
- 20 Mar HA moderately adjusted the income and asset limits for public rental housing applicants. The limits, effective on 1 April 2003, were lowered by 3.8% and 5.1% respectively. For four-person households, the income limit were reduced from \$14,800 to \$14,600, whereas the asset limit remained unchanged at \$380,000.
- 21 Mar The Government introduced the Second Voluntary Retirement (VR) Scheme to facilitate reduction in the size of civil service establishment and hence to bring about long-term savings to the Government. Civil servants in 229 designated grades with identified or anticipated surplus staff were invited to apply to leave the service voluntarily with compensation.
- 24 Mar The Government signed a contract with Global e-Trading Services Limited, for it to become an additional provider of front-end Government Electronic Trading Services (GETS) for processing certain official trade-related documents from 2004 onwards.
- All nine stations of the Kowloon-Canton Railway Corporation (KCRC) Ma On Shan Rail were topped out.
- 25 Mar The Hong Kong Trade Development Council (TDC) held a Style Hong Kong exhibition in Beijing. This was the largest exhibition of Hong Kong brand-name products and fashion design services held in the Mainland.
- 27 Mar The Innovative Products Development Assistance Scheme was launched. The scheme, which would be introduced on a trial basis starting from 1 April 2003, aims to upgrade the product development capability of local manufacturers through promotion of innovation and technological applications in product design and development. Consumer electronics products have been selected as the target sector for the trial scheme.
- 31 Mar The SME Loan Guarantee Scheme was launched. This replaced the SME Business Installations and Equipment Loan Guarantee Scheme. Under the new scheme, Government provides guarantees for small to medium-sized enterprises (SMEs) to secure loans from lending institutions for meeting working capital needs, in addition to acquiring business installations and equipment.
- 1 Apr The Securities and Futures Ordinance (SFO) commenced operation, marking the beginning of an important chapter in Hong Kong's securities and futures regulation. The SFO consolidates and modernises ten old ordinances into a composite piece of legislation governing the securities and futures markets to keep the regulatory regime on a par with international standards and practices. It includes (a) a streamlined single licensing regime; (b) proportionate disciplinary sanctions to combat market misconduct; (c) measures to protect the interests of investors, such as personal rights of action through the civil courts for loss caused by market

misconduct or false or misleading public statements concerning securities; (d) a comprehensive investor compensation scheme; and (e) a tighter regime for disclosure of interests in listed companies.

The Office of the US Trade Representative released the 2003 National Trade Estimate Report on Foreign Trade Barriers. The report continued to give recognition to Hong Kong's strong legal and banking systems and a rigorously enforced anti-corruption regime. It also commented that Hong Kong was well-positioned to continue to benefit from the growth in trade resulting from China's WTO accession.

The US State Department published its sixth report on Hong Kong after Hong Kong's reunification with the Mainland. The report was positive about the developments in Hong Kong in the 12-month period ending March 2003. It recognised that Hong Kong remained an international city and one of the world's most open and free economies. It affirmed Hong Kong's autonomy, rule of law, and respect for freedom and rights.

Hong Kong Customs implemented an Open Bond System. It allows all bonded warehouses storing dutiable goods to be operated without full-time Customs supervision. It thus facilitates the trade by lowering compliance costs and allowing greater flexibility in business operations.

To help achieve the target to reduce the civil service establishment to around 160 000 by 2006-07, a general recruitment freeze to the civil service was imposed with effect from this date. Exemption from the recruitment freeze may only be granted under very exceptional circumstances.

- 2 Apr WHO issued travel advisory against Hong Kong, due to the spread of SARS.
An agreement on maritime transport was signed with Ukraine.
- 4 Apr The Trade Marks Ordinance came into force. It modernises Hong Kong's trade mark registration regime, simplifies the procedure for registration, and reduces the fees.
- 10 Apr HKMA and the Hong Kong Association of Banks (HKAB) jointly announced that the new Cheque Imaging and Truncation System (CITS) would commence operation on 21 June 2003. The new image-based cheque clearing method would transform the current clearing process driven by physical exchange of cheques.
- 11 Apr GETS for electronic submission of cargo manifests (except for cargo transported by road) was launched.
- 14 Apr Work on the superstructure of the Hong Kong Wetland Park Phase II in Tin Shui Wai commenced. It is the first major eco-tourism development designed solely for wetland exhibition. It will comprise a purposely-built Visitor Centre, three Exhibition Galleries, a Resource Centre, a Satellite Building and other ancillary facilities. It is scheduled for completion in the second half of 2005.

- 16 Apr The Government published the Report of the Working Group on the Business Environment of the Stockbroking Industry. The Working Group sought ways to enhance the competitiveness of the small and medium-sized stock brokerage firms. The Working Group made 23 recommendations, including (a) enhancing transparency of brokerage commissions and other service fees; (b) minimising compliance burden and rationalising fees; (c) upgrading market infrastructure; and (d) improving training opportunities for brokers. Implementation of the recommendations by the regulators, market operators and the stockbroking industry ensued.
- The Deposit Protection Scheme Bill was approved for introduction into the Legislative Council on 30 April 2003. The Bill contains HKMA's proposals on how the deposit protection scheme (DPS) in Hong Kong should be structured, including the establishment of a Deposit Protection Board and a DPS Fund.
- 23 Apr The Chief Executive announced a \$11.8 billion economic relief package to help the community tide over the difficulties due to the outbreak of SARS in Hong Kong and to revive the economy after SARS was brought under control. Of this amount, \$1 billion was set aside to embark on large-scale publicity and promotional activities, to be organised under the Economic Relaunch Campaign in a move to relaunch Hong Kong as the best place in Asia to do business and a great place to visit.
- HA decided to grant rent concessions to tenants in its commercial premises so as to assist them to overcome the business difficulties stemming from the outbreak of SARS. The catering trades were offered a 50% rent reduction for three months, while all other trades were offered a 30% rent reduction, with the exception of supermarkets and superstores. All concessions were backdated to 1 April 2003, and altogether 11 491 tenants would benefit from this \$205 million package.
- 24 Apr HKMA announced that Hong Kong would process its first transaction through the new Euro Clearing System on 28 April 2003, allowing financial institutions in Hong Kong and in the region to settle euro transactions real-time in the Asian time zone.
- 25 Apr The Hang Seng Index fell to a 4½-year low of 8 409, amidst grave concern about the adverse economic impact brought about by the spread of SARS.
- 28 Apr The Government announced the plan to tender in early 2004 the site of the Central Police Station, Victoria Prison and former Central Magistracy for the development of a heritage tourism attraction by the private sector.
- 30 Apr The \$50 million Film Guarantee Fund (FGF) was opened for application. FGF seeks to assist local film production companies in obtaining loans for film production and to help create an environment conducive to the development of a film financing infrastructure in Hong Kong.
- 1 May US President George W Bush announced the end of the major battle in Iraq.

The Office of the US Trade Representative released the 2003 Special 301 Report. Hong Kong continued to remain off from any watch lists regarding intellectual property rights protection. The report also praised the continued commitment in preventing optical media piracy and in the use of authorized software by the HKSAR Government.

- 5 May The Government set up a \$3.5 billion Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries so as to provide immediate cash-flow relief to those industries badly hit by the outbreak of SARS and thus to preserve jobs. Under the scheme, the Government would provide full guarantee for loans extended by participating lending institutions to restaurants and hotels, travel agents and related operations, retail outlets, as well as cinemas and karaokes. Applications to the loan guarantee scheme were closed on 31 July 2003. The lending institutions approved altogether 1 559 loans, totalling \$499 million, with 18 236 employees having been benefited.
- 5-7 May The Financial Secretary set up two ad hoc bodies to advise on and oversee the implementation of the Economic Relaunch Campaign, namely the Economic Relaunch Working Group comprising Government officials only, and the Economic Relaunch Strategy Group comprising the same Government officials together with participation by non-official members.
- 12 May Hong Kong Customs and US Customs commenced the 6-month Container Security Initiative pilot scheme. It signified commitment by the two sides in enhancing global security of ocean-going containers through intensifying information exchange and strengthening customs cooperation at seaport. The scheme was found to be effective, and would hence continue.
- 14 May The International Institute for Management Development (IMD), based in Switzerland, released its World Competitiveness Yearbook 2003. Hong Kong was ranked as the fourth most competitive economy amongst the small economies, up from the tenth in the preceding year. Hong Kong stood high in such criteria as total reserves, entrepreneurship, labour regulations, direct investment flows, corporate tax rate etc.
- 15 May The Hong Kong International Airport (HKIA) was named “Cargo Airport of the Year” for the second consecutive year by Air Cargo News, a leading international air cargo trade publication based in London.
- 16 May To provide assistance to employees in those industries hard hit by the outbreak of SARS, the Finance Committee of the Legislative Council approved an employment-cum-training package to create 21 500 employment/training openings at a cost of \$432 million. Of these, 10 000 were training places and 11 500 were job openings. The initiative was coordinated by the Labour Department. Other departments/bodies involved included the Food and Environment Hygiene Department, the Social Welfare Department, and the Employees Retraining Board.
- 23 May WHO lifted the travel advisory against non-essential travel to Hong Kong, which was issued on 2 April 2003 due to the spread of SARS.

The Land (Miscellaneous Provisions) (Amendment) Ordinance 2003 was enacted. It introduced a charging scheme for excavation in unleased Government land.

The Government issued the first consultation paper for an overall review of the regulatory policy for Type II interconnection. The review would consider, having regard to the latest market conditions, whether the current arrangements closely fitted the Government's policy objectives of promoting the telecommunications industry, encouraging efficient investment, and facilitating effective competition and consumer choices.

27 May The Government announced the award of the tender for the heritage tourism development at the monument site of the former Marine Police Headquarters in Tsim Sha Tsui to Flying Snow Limited on a 50-year land grant.

28 May The Housing Department announced the deferral of the launch of the Tenants Purchase Scheme, which was Phase 6 originally scheduled for April 2003, pending the outcome of a comprehensive condition survey on the drainage system of all public rental housing estates.

The Government introduced subsidiary legislation to reduce the licence fees for the fixed carrier licences permitting provision of external telecommunications services only from \$1,000,000 to \$500,000, to reflect the decrease in administrative costs. The reduction took effect from July 2003.

30 May GETS for electronic submission under the textiles traders registration scheme was launched.

With the waning of SARS, the Finance Committee of the Legislative Council approved the allocation of \$1 billion for a campaign to relaunch Hong Kong, of which \$417 million was to be used for a comeback campaign in the tourism sector. The tourism comeback campaign included the Hong Kong Tourism Board (HKTB) worldwide marketing campaign, sponsorship and hosting of world-class tourism events in Hong Kong, and the "We Love Hong Kong" campaign. The worldwide marketing campaign of HKTB, which would run till the first quarter of 2004, included familiarisation visits for the travel trade and the media, worldwide advertising programmes, consumer and trade promotional events, and mega events for visitors.

In the Staff Report of the IMF's Article IV Consultation, IMF welcomed the temporary fiscal relief and support package put out by the HKSAR Government to address the adverse impact of SARS. IMF projected real GDP growth for Hong Kong at 2.2% in 2003, and expressed support for Hong Kong's commitment to the linked exchange rate system.

The Government published the First Quarter Economic Report 2003. The report pointed out that the Hong Kong economy continued to display strong

growth momentum at the beginning of 2003, after the distinct pick-up in the latter part of 2002. While the external sector remained the key driver of growth, the domestic sector also showed signs of improvement in the first two months of 2003. However, the economic situation worsened abruptly since mid-March upon the spread of SARS, with inbound tourism and local consumer spending being particularly hard hit. For the first quarter of 2003 as whole, GDP 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.

In the May update of the economic forecast for 2003, the forecast growth rate in real terms of GDP was marked down to 1.5%, from 3% in the Budget round, in recognition of the impact of SARS. The forecast rate of change in the Composite CPI was lowered to -2.5%, from -1.5% in the Budget round.

- 1 Jun The Hong Kong Port and Maritime Board was re-organised and replaced by the Hong Kong Port Development Council and the Hong Kong Maritime Industry Council so as to better promote Hong Kong as a regional hub port and to strengthen Hong Kong's role as a major international maritime centre.
- 2 Jun HKMA welcomed the launch of the Asian Bond Fund by the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Group, of which HKMA is a member. The Fund would have an initial size of about US\$1 billion, and would be invested in a basket of US dollar denominated bonds issued by the major Asian economies. All 11 members of the EMEAP Group would invest in the Fund at its launch.
- 3 Jun Hong Kong Customs joined hand with the Fire Services Department and the oil industry in implementing the Self-regulatory Scheme on the Bulk Sale of Duty-paid Light Diesel Oil and the Verification Scheme on Marked Ultra-low Sulphur Diesel End-users. The schemes aim to clamp down on illicit filling facilities and to prevent marked diesel from being diverted to illicit use.
- 10 Jun HKIA was named for the third straight year as the "World's Best Airport 2003" in a large-scale annual survey undertaken by Skytrax Research in London involving 1.7 million nominations from travellers around the world.
- 11 Jun The Standing Committee on Company Law Reform (SCCLR) issued its Corporate Governance Review Phase II Consultation Paper, which detailed proposals to enhance Hong Kong's corporate governance regime.
- The Landlord and Tenant (Consolidation) (Amendment) Bill 2003 was introduced into the Legislative Council. This would remove the security of tenure restrictions hitherto imposed on landlords of rented premises, with a view to restoring free operation of the private rental market.
- 13 Jun The People's Bank of China issued a circular in a move to cool excessive investment in the property market. More stringent requirements are

applied to the extension of loans to real estate developers by the commercial banks. Granting of mortgage loans by the commercial banks to home buyers is also tightened. Loans for purchase of pre-completion units are prohibited. Down-payment at higher than 20% of the flat price is set for the purchase of a second property or a luxurious unit.

16 Jun HKMA, HKAB and the Deposit Taking Companies Association announced the plan for the establishment of a commercial credit reference agency in Hong Kong, which would collect credit data of SMEs and make this information available to authorized institutions.

19 Jun The Skills Upgrading Scheme (SUS) was decided to continue until exhaustion of the funding provision of \$400 million. In September 2001, the Government launched the scheme to provide focused skills training for in-service workers with secondary or lower education, so as to enhance their employability and competitiveness in the labour market. Initially, the scheme was intended to run for two years.

20 Jun The Office of the Telecommunications Authority (OFTA) issued the first report on the effectiveness of competition in Hong Kong's telecommunications market. The report has established that Hong Kong is a leading market in terms of effectiveness of competition as benchmarked against seven other markets, Australia, Japan, Singapore, the Republic of Korea, Sweden, United Kingdom and the United States.

The Financial Action Task Force on Money Laundering, of which Hong Kong is a member, issued the revised Forty Recommendations to combat money laundering at its Plenary Meeting held in Berlin, Germany.

23 Jun WHO removed Hong Kong from the list of areas with local transmission of SARS, so declaring Hong Kong henceforth SARS-free.

HKTb launched a global revival campaign, featuring a series of destination promotions and events, with a view to enhancing the attractiveness and competitiveness of Hong Kong as a tourist city destination and inducing more visitors to come to Hong Kong. Activity highlights included a worldwide advertising programme as well as a series of spectacular events, including the Strato-Fantasia in August and September, the International Musical Fireworks Competition in October, and the Harbour Lighting Programme to be complimented by a special month-long programme of nightly pyrotechnic display at the rooftop of buildings surrounding the Victoria Harbour.

To help SMEs to enhance further their competitiveness after the waning of SARS, the Government raised the maximum amount of grant that individual SMEs could receive under the SME Export Marketing Fund and the level of subsidy under the SME Training Fund.

25 Jun Construction of the Deep Bay Link commenced. It will connect the Hong Kong – Shenzhen Western Corridor, as the fourth vehicular boundary crossing, to Hong Kong's road network. The project is expected to be

completed by end-2005.

The 2003 Electronic Transactions (Amendment) Bill was introduced into the Legislative Council. The Bill aims to improve the current legal framework for electronic transactions so as to facilitate the development of e-business in Hong Kong.

The US Fed Funds target rate was reduced by 25 basis points to a near 45-year low of 1.00%. This was the only rate cut by the Federal Reserve in 2003. The Base Rate under the Discount Window operated by HKMA followed suit with a 25 basis points cut to 2.5%. Yet the best lending rate and savings deposit rate offered by the major commercial banks were kept at 5.00% and 0.03% respectively.

26 Jun SFC and the Australian Securities and Investments Commission (ASIC) signed a Declaration on Co-operation and Supervision of Cross-Border Investment Management Activity. Under this regulatory co-operation, SFC and ASIC will be able to exchange information and offer assistance to each other concerning the activities of fund managers licensed in their own jurisdiction. It facilitates SFC in its supervision and inspection of fund managers that are licensed with ASIC and are managing SFC authorized funds.

27 Jun HKMA published an exchange of letters between the Financial Secretary and the Monetary Authority, dated 25 June 2003, setting out the division of functions and responsibilities between the Financial Secretary and the Monetary Authority. A further accompanying letter from the Financial Secretary to the Monetary Authority, also dated 25 June 2003, specifies the monetary policy objective and the structure of the monetary system of Hong Kong.

IMF published its Financial System Stability Assessment, concluding that the financial system in Hong Kong is resilient, sound, and overseen by a comprehensive supervisory framework.

A varied Air Operator's Certificate was issued to CR Airways Limited for the operation of its first Bombardier CRJ-200 regional jet. CR Airways Limited then became the third Hong Kong-based airline holding a licence to carry passengers by air on scheduled journeys to the Mainland using fixed-wing aircraft.

29 Jun The Central People's Government and the Government of the Hong Kong Special Administrative Region signed the main parts of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). CEPA provides extensive liberalisation measures for trade in goods and services as well as a cooperation framework for trade and investment facilitation between the Mainland and Hong Kong, to be implemented as from 1 January 2004.

2 Jul The Copyright (Amendment) Ordinance 2003 was enacted. Under this Ordinance, legal restrictions on parallel importation and subsequent dealing

in computer software products are removed. However, if the principal attraction of a computer software product is musical sound or visual recordings, movies, television dramas, e-books, or a combination of them, the current restrictions on parallel-imported copyright works will continue to apply.

4 Jul The Government released the Manpower Projection to 2007, which assesses the manpower demand and supply situation in Hong Kong by 2007. The projections showed that there would be a mismatch between the job requirements and the qualifications of workers. By 2007, there would be a shortage of manpower supply at the "post secondary" and "first degree and above" levels while there would be a surplus of manpower supply at the "lower secondary and below" and "upper secondary" levels. To address the problem, the Government would continue its efforts to upgrade manpower quality so as to reduce the mismatch.

To further relieve the impact of SARS on unemployment and to prepare for the entry of school leavers into the labour market, the Finance Committee of the Legislative Council approved an enhanced employment-cum-training package to create an additional 32 050 employment/training openings at a cost of \$715 million. Of these, 13 000 were training places and 19 050 were job openings, and 14 350 of these training/employment openings were catered specifically for youths.

6 Jul The first berth of Container Terminal 9 commenced operation.

8 Jul The Cato Institute of the United States, in conjunction with the Fraser Institute of Canada and 52 other research bodies around the world, released the Economic Freedom of the World: 2003 Annual Report. Hong Kong was again ranked the freest economy in the world, followed by Singapore and the United States.

9 Jul The National Tourism Administration announced the resumption of inter-province travel and outbound travel, which had been suspended earlier on due to the spread of SARS in the Mainland. Outbound tours to Hong Kong and Macau, as well as to 22 countries including Germany, Australia, New Zealand, Japan, the Republic of Korea and most of the Southeast Asian countries were resumed.

The Telecommunications (Amendment) Ordinance 2003 was enacted. It provides a clear and comprehensive regime for regulating merger and acquisition activities in the telecommunications market. The provisions regulating such activities are to become effective on a date to be specified by the Secretary for Commerce, Industry and Technology.

11 Jul The High Court handed down the Judgment on the Judicial Review sought by two public housing tenants on HA's decision to defer the review of rents of its public rental housing estates. The Court ruled in favour of the tenants.

- 13-15 Jul A forum on Revitalising Asia Tourism was co-organised by the Government together with the Boao Forum and the World Tourism Organisation. It attracted some 1 200 attendees, including registered delegates and the media. Participants included 25 government delegations and 7 international organisations.
- 15 Jul The Admission Scheme for Mainland Talents and Professionals was launched. Under this new scheme, eligible Mainland residents with Hong Kong employer sponsorship can apply to work in Hong Kong. There was no quota or sectoral restriction.
- 16 Jul Mr. Antony Leung resigned from the post of Financial Secretary.
- 18 Jul The Island Eastern Corridor widened section, North Point Interchange to Sai Wan Ho, was opened to traffic.
- 22 Jul The sound broadcasting licences of the Hong Kong Commercial Broadcasting Company Limited and the Metro Broadcast Corporation Limited were renewed for twelve years, subject to a mid-term review in 2010. The renewed licences would be valid from 26 August 2004 to 25 August 2016.
- 24 Jul The Government announced the result of the Second VR Scheme. Out of some 5 400 valid applications received, about 5 300 were approved. Most of the VR takers would be released by July 2004.
- HA approved a plan to divest its retail and car parking facilities, with an estimated value of over \$20 billion.
- HA decided to lodge an appeal against the Judgment of the High Court on the Judicial Review handed down on 11 July 2003.
- 25 Jul The Companies (Amendment) Bill 2003 was introduced into the Legislative Council. The Bill seeks to improve the prospectus regime to facilitate market development, enhance corporate governance standards, and modernise the registration regime for overseas companies.
- HKMA announced the appointment of the Bank of East Asia, DBS Bank (Hong Kong) Limited and Wing Lung Bank as Retail Exchange Fund Notes Distributors under a pilot scheme to facilitate retail access to Exchange Fund Notes. The scheme, scheduled to be launched on 1 August 2003, introduces a new arrangement whereby a portion of each quarterly issue of 2-year and 3-year Exchange Fund Notes will be made available for non-competitive tender by retail investors.
- 25-27 Jul The Liverpool soccer team from Britain visited Hong Kong for an exhibition match and a 3-day programme. This was the first international sport event held in Hong Kong after the SARS outbreak, and was sponsored by the Government as part of the Economic Relaunch Campaign.

- 28 Jul The Individual Visit Scheme for Mainland visitors coming Hong Kong was first launched in four Guangdong cities, namely Dongguan, Zhongshan, Jiangmen and Foshan. It allows residents of these cities to visit Hong Kong in their personal capacity and they no longer have to visit Hong Kong in a tour group. The scheme is expected to be extended to the whole Guangdong Province by May 2004.
- 30 Jul SFC published the Code on Real Estate Investment Trusts (REITs) and the related Consultation Conclusions Paper. The new Code aims at regulating all publicly offered REITs in Hong Kong. REITs are a new financial product that combines the features of an investment fund with those of a listed property company.
- 31 Jul The Chief Secretary for Administration led a delegation to Beijing to attend the Fourth Meeting of the Mainland/HKSAR Conference on the Coordination of Major Infrastructure Projects. The Conference endorsed the findings of a joint study on “Transport Linkage between Hong Kong and Pearl River West”, which confirmed the need for and urgency of a land transport link between Hong Kong, Macao and Zhuhai and recommended building a bridge to link up the three places as soon as possible. The Conference also agreed to study further the railway technology and location of interchange stations in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link.
- 1 Aug Construction of the Hong Kong Section of the Hong Kong - Shenzhen Western Corridor, estimated to cost \$2.7 billion, commenced. It will be the fourth vehicle boundary crossing between Hong Kong and Shenzhen, and is expected to be completed by end-2005.
- OFTA issued a consultation paper to solicit views from the industry and interested parties on the future licensing arrangements after expiry of the current licences for second generation mobile services in 2005 and 2006.
- 4 Aug Mr. Henry Tang was appointed as Financial Secretary of the HKSAR.
- 5 Aug The Sixth Meeting of the Hong Kong/Guangdong Cooperation Joint Conference was held in Hong Kong. It announced a new cooperation framework and a structured long-term cooperation agenda. Under the new framework, the Joint Conference is to be chaired by the Chief Executive of the HKSAR and the Governor of Guangdong. Both sides will work towards a common objective to turn the Pearl River Delta region into one of the world’s most vibrant economic hubs in the next two decades. To achieve this objective, 15 expert groups are to be set up to take forward the various cooperation initiatives, covering implementation of CEPA, control point operation, infrastructure, tourism, innovation and technology, education, intellectual property rights protection, environmental protection, etc. Alongside the 15 expert groups, a research group and a business committee are to be set up to conduct comprehensive and in-depth research on subjects relating to Hong Kong - Guangdong co-operation and to facilitate discussion and exchange between Hong Kong and Guangdong enterprises, trade and business associations. It also announced the setting

up of a Hong Kong-Zhuhai-Macao Bridge Advance Work Coordination Group for coordinating and taking forward the advance work for construction of the Bridge, including studies on economic benefits, alignment, environmental protection and hydrology.

- 6 Aug The Financial Secretary announced the Government's intention to proceed with partial privatisation of the Airport Authority Hong Kong.
- 6 -9 Aug The Real Madrid soccer team from Spain visited Hong Kong for an exhibition match and a 3-day programme, under sponsorship by the Government as part of the Economic Relaunch Campaign. Hong Kong was one of the four stops in the first Asian tour of the Club.
- 12 Aug HA resolved to file an application for a stay of execution of the Order issued by the Court pursuant to the Judgement on First Instance the Judicial Review on HA's decisions to defer the review of rents in its public rental housing estates. The Order directed HA to review and determine the variation of rents of the batch of public rental housing units, of which the two applicants' units are part, according to the true meaning and effect of section 16(1A) of the Housing Ordinance.
- The Pearl River Delta Software Industry Forum, aimed to promote cooperation between the software industries in the Pearl River Delta and Hong Kong, was held in Hong Kong. Over 200 government officials and software industry representatives from the Mainland and Hong Kong participated in the event.
- 14 Aug The Hong Kong population was provisionally estimated at 6.82 million in mid-2003, as against a revised estimate of 6.79 million at end-2002. The overall population growth at mid-2003 over mid-2002 was 0.4%.
- 15 Aug Central African Republic granted visa-free access to holders of HKSAR passport.
- 20 Aug The Individual Visit Scheme for Mainland visitors coming to Hong Kong was extended to four other cities in Guangdong, namely Guangzhou, Shenzhen, Zhuhai and Huizhou.
- HA undertook to refund, in the event of an unsuccessful appeal to the Court of Appeal (and, if appropriate, in the event of an unsuccessful final appeal), to the applicants of the Judicial Review and all families affected by the Order the difference between the rents at existing levels and the rents that they should have been paying pending the appeal(s) in the absence of a stay of execution together with interest.
- 23 Aug The Government signed a joint venture agreement with the Airport Authority Hong Kong and a private consortium to construct an International Exhibition Centre at Chek Lap Kok.
- 25 Aug HKMA and the China Banking Regulatory Commission signed a Memorandum of Understanding which provides for the sharing of

supervisory information and co-operation in the area of banking supervision.

26 Aug The Court of First Instance decided to grant a stay of execution of the Order until HA's appeal to the Court of Appeal was completed. HA indicated that it would start a review of rents immediately.

29 Aug The first meeting of the Hong Kong-Zhuhai-Macao Bridge Advance Work Co-ordination Group confirmed the need for and urgency of the Bridge, and agreed to conduct a feasibility study for the project.

The Government published the Half-yearly Economic Report 2003. The report pointed out that the spread of SARS in Hong Kong since mid-March had dealt a heavy blow to the economy, causing GDP in the second quarter of 2003 to slacken to a 0.5% decline in real terms over a year earlier, from a solid growth of 4.5% in the first quarter. The blow to inbound tourism and the travel-related sectors was the most severe, particularly in April and May. While offshore trade continued to grow apace, it rendered only a partial offset. Local consumer spending likewise went distinctly lower in April, yet turned up steadily in May and June as the SARS threat receded. Investment spending slackened considerably. Building and construction output had an enlarged decline amidst a weak property market, while machinery and equipment intake also moderated as business conditions faltered. Yet total exports of goods were relatively unaffected by SARS, sustaining double-digit growth all through the second quarter.

In the August update of the economic forecast for 2003, the forecast growth rate in real terms of GDP was revised up to 2%, from 1.5% in the May update. Yet the forecast rate of change in the Composite CPI was lowered further to -3%, from -2.5% in the May update.

1 Sep The Individual Visit Scheme for Mainland visitors coming to Hong Kong was extended further to Beijing and Shanghai.

3 Sep TDC and MCH Swiss Exhibition Limited signed an agreement which provides certainty to Hong Kong's future participation in the BaselWorld, the world's largest jewellery and watch trade fair.

5 Sep The 2003 World Investment Report was published by the United Nations Conference on Trade and Development. Foreign direct investment (FDI) flows to Hong Kong in 2002 reached US\$13.7 billion and maintained its position as the second largest recipient of FDI in Asia, behind the Mainland (US\$52.7 billion). Hong Kong also retained its position as the best-performing host economy for FDI in Asia. The next largest FDI recipients in Asia, after Hong Kong, were Japan (US\$9.3 billion), Singapore (US\$7.6 billion), Malaysia (US\$3.2 billion), and the Republic of Korea (US\$2 billion).

10-14 Sep The Fifth WTO Ministerial Conference that took place in Cancun, Mexico failed to reach consensus on the direction of the new round of multilateral trade negotiations under the Doha Development Agenda.

- 15 Sep The European Commission published its fifth report on Hong Kong. The report commented that Hong Kong's further economic integration with Mainland was an asset for both, provided that Hong Kong retained its individual personality within the framework of the "One Country, Two Systems" principle. It also highlighted the good trade relations between the European Union and Hong Kong.
- 19 Sep The Government issued a Consultation Paper on the Proposals to Enhance the Oversight of the Public Interest Activities of Auditors and establish a Financial Reporting Review Panel. The consultation paper served as part of the promotion of a more transparent and accountable regulatory regime for the accounting profession and for improving the quality of financial statement of companies.
- 21 Sep The People's Bank of China raised the reserve ratio requirement for all commercial banks and financial institutions, except for rural and urban credit cooperatives, from 6% to 7%.
- 23 Sep Construction of Route 9 – Lai Chi Kok Viaduct commenced.
- The application by PCCW VOD Limited to replace its video-on-demand service with a new broadband television service was approved by the Government.
- 24 Sep The Competition Policy Advisory Group promulgated the "Guidelines to maintain a competitive environment and define and tackle anti-competitive practices", in a move to promote implementation of Hong Kong's competition policy by the private sector and to ensure consistent application of the policy across business sectors.
- 25 Sep With availability of adequate resources to cope with the demand for self-contained small units from elderly applicants, HA agreed to phase out the pilot Rent Allowance for Elderly Scheme. The scheme was launched in August 2000 to give elderly applicants an arrangement to draw cash rent allowance to lease private accommodation in lieu of direct allocation of units.
- 29 Sep The Central People's Government and the Government of the Hong Kong Special Administrative Region signed the six CEPA Annexes which set out the implementation details of CEPA.
- SkyPier at the airport commenced operation. It provides high-speed and reliable ferry transfer services between HKIA and four ports in the Pearl River Delta, and makes HKIA a multi-modal international hub.
- The enhancement to passenger clearance facilities at the Lok Ma Chau Boundary Crossing was completed. It includes extension of the Main Terminal Building, increase in number of Immigration Department counters from 28 to 50, construction of covered coach parking and passenger circulation area, installation of electronic coach parking information system, and installation of passenger travellers.

- 1 Oct The Oil Industry Reward Scheme financed by the oil industry to encourage the public to provide information on illicit fuel activities was renewed.
- Hong Kong Customs and the sea cargo industry formed the 7th Customs Liaison Group (Sea Cargoes) to enhance cooperation and partnership.
- The liberalisation measures in respect of telecommunications services under CEPA came into effect.
- 10 Oct The Government issued a public consultation paper on the updated Digital 21 Strategy to be promulgated in early 2004. The Digital 21 Strategy, first issued in 1998 and then revised in 2001, is the blueprint for driving IT development in Hong Kong. The aim of the further updating is to sustain the momentum created over the past five years in making Hong Kong a leading digital city, and to continue to harness the benefits of IT for business and for the wider community.
- 11-14 Oct The Third Plenary of the 16th Central Committee of the Chinese Communist Party was held. It re-affirmed the major reform tasks towards establishment of a market-based economy, including enhancing the ownership system, reducing urban-rural disparity, co-ordinating regional development, and improving employment, income distribution and social security. It also put emphasis on raising the status of private enterprises, by offering parity treatment to private enterprises as against state-controlled enterprises in the areas of financing, taxation, land use and external trade.
- 12 Oct The second meeting of the Hong Kong-Zhuhai-Macao Bridge Advance Work Co-ordination Group agreed to set up an office in Guangzhou to take forward the preparatory work for the project, and to commission a design institute familiar with the situation in the Pearl River Delta and with the relevant experience and technical expertise to conduct the feasibility study.
- 13 Oct The Ministry of Finance and the State Administration of Taxation jointly promulgated the “Notice on the Adjustment of Tax Rebate Rate of Exports”. With effect from 1 January 2004, the rates of rebate on value-added tax for the various types of export products will be reduced.
- An Air Services Arrangement was signed with the Government of the Macao SAR.
- 15 Oct The Government announced the measures relating to the implementation and consolidation of housing policy. These measures include resumption of the Application List system as from 2004, orderly disposal of the railway related property developments, and suspension of sale of surplus Home Ownership Scheme (HOS) flats till end-2006.
- 16 Oct An agreement for the avoidance of double taxation on shipping income was signed with Norway.
- 17 Oct HA invited the public to express interest in converting two surplus HOS blocks into guesthouses or similar use. This was one of the possible

options approved by HA for disposal of surplus HOS flats.

- 20 Oct Construction of Route 9 – Eagle’s Nest Tunnel and Associated Works commenced.
- The Reward Scheme against corporate software end-user piracy financed by the Business Software Alliance was re-launched.
- The 9th and 10th pairs of Guangzhou-Kowloon Through Trains commenced operation.
- 20-21 Oct The Chief Executive attended the Eleventh Asia-Pacific Economic Cooperation (APEC) Economic Leaders Meeting in Bangkok, Thailand. Leaders re-affirmed their strong commitment to continuing the negotiations in WTO to advance the Doha Development Agenda for an ambitious and balanced outcome.
- 21 Oct Hong Kong was unanimously approved at the WTO General Council Meeting to host the Sixth WTO Ministerial Conference, probably forwards the end of 2004.
- 22 Oct In a speech to the Legislative Council on the Hong Kong economy and management of public finances, the Financial Secretary announced that the target of restoring fiscal balance would be postponed to 2008/09, and that recurrent expenditure would be gradually reduced to \$200 billion in the ensuing five years. Under the principle of “Big market, Small Government”, public expenditure would also be controlled and reduced to 20% or below of GDP.
- On economic outlook, the Financial Secretary marked up the forecast growth rate in real terms of GDP in 2003 by one percentage point to around 3% . The forecast trend growth rate in real terms of GDP over the medium term was also raised, by 0.5 of a percentage point to 3.5%.
- 27 Oct The Capital Investment Entrant Scheme was launched. It facilitates the entry for residence by capital investment entrants, i.e. persons who make capital investment in Hong Kong but are not engaged in the running of any business here.
- The Hong Kong/Shanghai Economic and Trade Cooperation Conference was established to foster closer cooperation on economic and trade matters between Hong Kong and Shanghai. The first meeting of the Conference, co-chaired by the Chief Executive of HKSAR and the Mayor of Shanghai, was held in Hong Kong on the same day.
- 29 Oct The Import and Export (Facilitation) Ordinance 2003 was enacted. It removes or relaxes licensing control over nine categories of goods. The Ordinance is scheduled to commence operation on 8 January 2004.
- 30 Oct The World Economic Forum (WEF), based in Switzerland, released its 2003 Global Competitiveness Report. Hong Kong’s ranking fell from 22nd to

24th. This relatively low ranking is mainly attributable to Hong Kong's modest ranking in the "Technology Index". But Hong Kong's ranking in the "Public Institutions Index" improves, and that in the "Macroeconomic Environment Index" remains stable.

- 31 Oct HA, having considered the market situation, decided to freeze the monthly car park charges in its estates for a year as from 1 January 2004.
- 3 Nov The Reward Scheme against counterfeiting of pharmaceutical products financed by the Hong Kong Association of the Pharmaceutical Industry was launched.
- 4 Nov The Peak Tramways Company Limited was granted a 10-year extension of its existing right to run and operate the peak tramway from 1 January 2004, subject to the payment of premium at \$36.8 million.
- 5-6 Nov InvestHK co-hosted the CEO Forum. It attracted an elite gathering of business leaders and policy makers from around the world and across the region. Its discussion focused on emerging strategic priorities, innovative business practices, and the evolving role of the chief executive.
- 7 Nov Construction of a new boundary bridge between Lok Ma Chau and Huanggang commenced. It is a joint project between Hong Kong and Shenzhen, and is scheduled for completion by end-2004. Hong Kong's share of the project cost is about \$330 million.
- 13 Nov The Hong Kong Shipping Register hit a new record of 20 million gross tonnes.
- 14 Nov The Hong Kong/Guangdong Expert Group on Cooperation in Innovation and Technology was established under the Hong Kong/Guangdong Cooperation Joint Conference and held its first meeting. Both sides reached agreement on arrangements for enhancing technology cooperation .
- 18 Nov The United States invoked for the first time the safeguard mechanism under the terms of China's WTO accession against imports from China. A cap of 7.5% was imposed unilaterally by the US government on the annual growth of certain items of textiles imports from China.
- The Chief Executive announced that, following approval by the State Council, the People's Bank of China had agreed to provide clearing arrangements for banks in Hong Kong to conduct personal renminbi business on a trial basis. The scope of renminbi business would include deposit taking, exchange, remittance, and issue of renminbi-denominated debit cards and credit cards to Hong Kong residents for use in the Mainland.
- 23 Nov The State Council announced the revised "Regulations on Import and Export Tariff" for regulating the levy of tariff on imports and exports.
- 25 Nov The Working Group on Digital Entertainment under the Information Infrastructure Advisory Committee published its report on digital

entertainment, recommending a package of measures to facilitate and support the further development of digital entertainment in Hong Kong.

26 Nov HA decided to close the application for the Home Assistance Loan Scheme with immediate effect. But it would continue to process applications already received until exhaustion of the 10 000 quota. The decision was taken after considering the availability of mortgage loans in the market and the low interest rate, as well as HA's own financial position.

27 Nov Taiwan's Legislative Yuan passed a referendum bill that empowered the government to hold a defensive referendum in case of external threat. This would enable a defensive referendum to be held at the time of Taiwan's presidential election on 20 March 2004.

The Hong Kong Accreditation Service was accepted into the Pacific Accreditation Cooperation Multilateral Recognition Arrangement.

28 Nov The Copyright (Amendment) Ordinance 2003, enacted on 2 July 2003, came into operation.

An agreement for the avoidance of double taxation on shipping and air services incomes was signed with Singapore.

The Government published the Third Quarter Economic Report 2003. The report pointed out that the Hong Kong economy rebounded distinctly in the third quarter of 2003, from the setback caused by SARS in the second quarter. GDP rose by 4.0% in real terms in the third quarter of 2003 over a year earlier, reversing the 0.5% decline in the second quarter. The rebound was most conspicuous in the tourism-related sectors, driven by a sharp resurgence in visitor arrivals from the Mainland, particularly so after the launch in late July of the Individual Visit Scheme for Mainland visitors coming to Hong Kong. Local consumer spending resumed increase for the first time in two years, upon better sentiment and improving labour market conditions. There was a distinct pick-up in machinery and equipment acquisition, conceivably upon improved business outlook. Yet building and construction output remained slack, due to winding down of several large infrastructural projects and a lull in private sector building projects. Total exports of goods continued to leap, as sustained robust growth in exports to both East Asia and the European Union more than offset the decline in exports to the United States. Prompted by the recovery in economic activity, labour market conditions also improved.

In the November update of the economic forecast for 2003, the forecast growth rate in real terms of GDP was revised further up to 3%, from 2% in the August update, in recognition the sharp rebound from the impact of SARS. The forecast rate of change in the Composite CPI was lifted to -2.7%, from -3% in the August update.

29 Nov Track laying for the main line of the KCR Ma On Shan Rail were completed.

- 1 Dec Foreign banks in nine designated Mainland cities, namely Shanghai, Shenzhen, Tianjin, Dalian, Guangzhou, Zhuhai, Wuhan, Nanjing and Qingdao, were allowed to expand their renminbi business to cover Mainland enterprises.
- Foreign banks in four more cities in the Mainland, namely Jinan, Fuzhou, Chengdu and Chongqing, were allowed to conduct renminbi business for both foreign enterprises and Mainland enterprises.
- 2 Dec TDC organised the CEPA SME Expo to help Hong Kong, Mainland and overseas companies identify and capitalise on the opportunities arising from CEPA.
- The Innovation Centre and Photonics Centre of the Hong Kong Science Park Phase 1b was officially opened.
- Cathay Pacific Airways Limited launched its thrice weekly services to Beijing. This marked the resumption of its scheduled services to the Mainland since their termination in 1990.
- 3 Dec The Intellectual Property Department, Guangdong Provincial Intellectual Property Office and Macao SAR Economic Services jointly launched the Intellectual Property Database for Hong Kong, Guangdong and Macao. The database provides information on the intellectual property protection regimes pertaining to copyright, trade mark, patent and registered design in the three places.
- 5 Dec SFC and the China Securities Regulatory Commission (CSRC) signed the "Mainland/Hong Kong Closer Economic Partnership Arrangement - Arrangements relating to Qualifications of Securities and Futures Industry Practitioners". It records the consensus reached between CSRC and SFC on implementation of the commitments in respect of securities and futures industry practitioners under CEPA. It facilitates the flow of qualified personnel and expertise between the Mainland and Hong Kong, thereby benefiting the development of both markets.
- A second consultation paper on digital terrestrial broadcasting in Hong Kong, which sets out the proposed framework for introducing digital terrestrial television into Hong Kong, was published. The Government proposes that the existing terrestrial television broadcasters shall start digital migration by 2006, with a view to achieving territory-wide digital coverage by 2008.
- 7 Dec The West Kowloon Heliport commenced full operations. Replacing the Central Heliport, it is available for domestic helicopter services initially up to end-2005.
- 7-10 Dec Premier Wen Jiabao paid an official visit to the United States. On China-US trade relations, the two sides agreed to set up a mechanism to promote bilateral dialogue for resolving trade differences.

- 10 Dec The Dutiable Commodities (Amendment) Regulation 2003 came into operation. It removes the prescribed standards of quality for Chinese-type spirits, and introduces a uniform labelling requirement on alcoholic strength for all the liquors for local consumption.
- 11-12 Dec The Mainland, Hong Kong SAR and Macao SAR Intellectual Property Symposium 2003 was held in Beijing.
- 12 Dec The Securities and Futures (Price Stabilizing) (Amendment) Rules, which provide for recognition of the UK Price Stabilizing Rules, were gazetted. Subject to negative vetting by the Legislative Council, the Rules would come into effect on 6 February 2004.
- The Hang Seng Index surged to a 28-month high of 12 594.
- 15 Dec The Hong Kong Wireless Development Centre was opened. Funded by the Innovation and Technology Fund and supported by over 30 industry players, the Centre provides central testing and exhibition facilities for developers of mobile and wireless applications so as to speed up the development cycle and help disseminate their products locally and overseas.
- 17 Dec The Taiwan Affairs Office of the State Council issued a policy document on “santong”. The document recognised that “santong” should be in the mutual interests of people in the two places, and that full-fledged “santong” should help the two places to face the trend of globalisation and regional development.
- The Joint Steering Committee of CEPA met for the first time in Beijing, in preparation for implementation of CEPA on 1 January 2004.
- 19 Dec The Mainland and Hong Kong Closer Economic Tourism Cooperation Agreement was signed with the China National Tourism Administration.
- HA intended to pursue a REIT structure for implementing the divestment plan for its retail and car parking facilities.
- 20 Dec The KCR West Rail was officially opened. This 30.5 km long twin-track passenger railway with nine stations links Sham Shui Po in West Kowloon with Tuen Mun in Northwest New Territories. It interchanges with the existing MTR and Light Rail systems, forming an integrated rail network in Hong Kong.
- 23 Dec Amidst encouraging signs of economic recovery, IMF projected Hong Kong's GDP to grow by around 4.5-5% in real terms in 2004, following an estimated growth of 3% in 2003.
- 31 Dec Hong Kong's container throughput rose by around 4% over 2002 to around 20 million TEUs in 2003. As this level, the Hong Kong port remained as the busiest port in the world in terms of containers handled.

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Table 1 : Gross Domestic Product (GDP)

	<u>At current market prices</u>				<u>At constant (2000) market prices</u>			
	<u>GDP</u>		<u>Per capita GDP</u>		<u>GDP</u>		<u>Per capita GDP</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$</u>	<u>% change</u>
1993	912,809	15.4	154,687	13.4	990,831	6.3	167,908	4.5
1994	1,029,773	12.8	170,622	10.3	1,045,154	5.5	173,170	3.1
1995	1,096,263	6.5	178,078	4.4	1,085,764	3.9	176,371	1.8
1996	1,210,925	10.5	188,163	5.7	1,132,524	4.3	175,981	-0.2
1997	1,344,546	11.0	207,194	10.1	1,189,966	5.1	183,374	4.2
1998	1,279,850	-4.8	195,585	-5.6	1,130,838	-5.0	172,813	-5.8
1999	1,246,134	-2.6	188,622	-3.6	1,169,474	3.4	177,019	2.4
2000	1,288,338	3.4	193,299	2.5	1,288,338	10.2	193,299	9.2
2001 [#]	1,269,896	-1.4	188,835	-2.3	1,294,306	0.5	192,465	-0.4
2002 [#]	1,259,771	-0.8	185,615	-1.7	1,323,650	2.3	195,027	1.3
2003 ⁺	1,234,944	-2.0	181,527	-2.2	1,367,608	3.3	201,027	3.1
<u>Average annual growth rate:</u>								
1993-2003 (10 years)		3.1		1.6		3.3		1.8
1998-2003 (5 years)		-0.7		-1.5		3.9		3.1

Notes : (#) Revised figures.
 (+) Preliminary figures.

**Table 2 : Gross Domestic Product by major expenditure component
(at current market prices)**

	<u>1999</u>		<u>2000</u>		<u>2001[#]</u>		<u>2002[#]</u>		<u>2003⁺</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>
Private consumption expenditure ^(a)	754,450	-4.1	760,168	0.8	765,105	0.6	728,429	-4.8	705,690	-3.1
Government consumption expenditure	119,984	3.0	120,148	0.1	128,846	7.2	131,199	1.8	130,079	-0.9
Gross domestic fixed capital formation	325,328	-16.3	347,375	6.8	333,036	-4.1	292,595	-12.1	275,133	-6.0
Changes in inventories	-10,612	--	14,399	--	-4,060	--	2,417	--	7,914	--
Exports of goods	1,349,000	0.1	1,572,689	16.6	1,480,987	-5.8	1,562,121	5.5	1,749,089	12.0
<i>Less</i> Imports of goods	1,373,500	-2.5	1,636,711	19.2	1,549,222	-5.3	1,601,527	3.4	1,794,059	12.0
Exports of services ^(a)	265,536	3.2	301,813	13.7	307,657	1.9	337,949	9.8	350,315	3.7
<i>Less</i> Imports of services	184,052	-4.9	191,543	4.1	192,453	0.5	193,412	0.5	189,217	-2.2
Gross Domestic Product	1,246,134	-2.6	1,288,338	3.4	1,269,896	-1.4	1,259,771	-0.8	1,234,944	-2.0

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

(a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(#) Revised figures.

(+) Preliminary figures.

(--) Not applicable.

**Table 3 : Gross Domestic Product by major expenditure component
(at constant (2000) market prices)**

	<u>1999[^]</u>		<u>2000</u>		<u>2001[#]</u>		<u>2002[#]</u>		<u>2003⁺</u>	
	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	
Private consumption expenditure ^(a)	1.3	760,168	5.9	775,055	2.0	765,846	-1.2	765,669	*	
Government consumption expenditure	3.1	120,148	2.0	127,417	6.1	130,479	2.4	133,019	1.9	
Gross domestic fixed capital formation	-16.6	347,375	11.0	356,572	2.6	341,189	-4.3	340,747	-0.1	
Changes in inventories	--	14,399	--	-4,889	--	2,880	--	8,904	--	
Exports of goods	3.7	1,572,689	17.1	1,520,244	-3.3	1,651,945	8.7	1,886,760	14.2	
<i>Less</i> Imports of goods	*	1,636,711	18.2	1,605,267	-1.9	1,732,470	7.9	1,959,603	13.1	
Exports of services ^(a)	6.7	301,813	13.1	320,621	6.2	359,664	12.2	379,349	5.5	
<i>Less</i> Imports of services	-4.1	191,543	4.2	195,447	2.0	195,883	0.2	187,237	-4.4	
Gross Domestic Product	3.4	1,288,338	10.2	1,294,306	0.5	1,323,650	2.3	1,367,608	3.3	

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

(a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

([^]) The level figures in respect of GDP by component at constant (2000) market prices are not available.

([#]) Revised figures.

(⁺) Preliminary figures.

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 4 : Gross Domestic Product (GDP) by economic activity
(at current prices)**

	1998		1999		2000		2001 [#]		2002 [#]	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,530	0.1	1,171	0.1	920	0.1	1,003	0.1	1,002	0.1
Mining and quarrying	301	*	307	*	241	*	174	*	136	*
Manufacturing	72,601	6.0	67,540	5.7	71,655	5.8	63,519	5.2	54,848	4.5
Electricity, gas and water	36,081	3.0	37,211	3.2	38,853	3.2	40,126	3.3	41,540	3.4
Construction	71,000	5.9	67,232	5.7	64,026	5.2	58,971	4.9	53,089	4.4
Services	1,023,836	84.9	1,004,335	85.3	1,053,202	85.7	1,051,562	86.5	1,055,321	87.5
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	<i>301,693</i>	<i>25.0</i>	<i>296,318</i>	<i>25.2</i>	<i>324,622</i>	<i>26.4</i>	<i>324,654</i>	<i>26.7</i>	<i>324,131</i>	<i>26.9</i>
<i>Transport, storage and communications</i>	<i>111,409</i>	<i>9.2</i>	<i>112,667</i>	<i>9.6</i>	<i>125,724</i>	<i>10.2</i>	<i>124,260</i>	<i>10.2</i>	<i>128,278</i>	<i>10.6</i>
<i>Financing, insurance, real estate and business services</i>	<i>296,352</i>	<i>24.6</i>	<i>281,439</i>	<i>23.9</i>	<i>291,062</i>	<i>23.7</i>	<i>274,030</i>	<i>22.5</i>	<i>267,537</i>	<i>22.2</i>
<i>Community, social and personal services</i>	<i>233,169</i>	<i>19.3</i>	<i>246,003</i>	<i>20.9</i>	<i>252,435</i>	<i>20.5</i>	<i>265,081</i>	<i>21.8</i>	<i>268,221</i>	<i>22.2</i>
<i>Ownership of premises</i>	<i>170,660</i>	<i>14.2</i>	<i>162,488</i>	<i>13.8</i>	<i>155,303</i>	<i>12.6</i>	<i>159,118</i>	<i>13.1</i>	<i>159,481</i>	<i>13.2</i>
<i>less Adjustment for financial intermediation services indirectly measured</i>	<i>89,446</i>	<i>7.4</i>	<i>94,580</i>	<i>8.0</i>	<i>95,945</i>	<i>7.8</i>	<i>95,582</i>	<i>7.9</i>	<i>92,328</i>	<i>7.7</i>
GDP at factor cost	1,205,349	100.0	1,177,796	100.0	1,228,897	100.0	1,215,354	100.0	1,205,937	100.0
Taxes on production and imports	60,372		53,474		57,908		53,917		49,794	
Statistical discrepancy (%)	1.1		1.2		0.1		*		0.3	
GDP at current market prices	1,279,850		1,246,134		1,288,338		1,269,896		1,259,771	

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

(#) Revised figures.

(*) Less than 0.05%.

**Table 5 : Gross Domestic Product (GDP) by economic activity[#]
(at constant (2000) prices)**

	<u>2001</u>		<u>2002</u>		<u>Q1</u>		<u>Q2</u>		<u>Q3</u>	
	<u>\$Mn</u>	<u>%</u>	<u>\$Mn</u>	<u>%</u>	<u>\$Mn</u>	<u>%</u>	<u>\$Mn</u>	<u>%</u>	<u>\$Mn</u>	<u>%</u>
		<u>change</u>		<u>change</u>		<u>change</u>		<u>change</u>		<u>change</u>
Agriculture and fishing	958	4.1	951	-0.7	246	3.4	256	2.4	218	1.9
Mining and quarrying	207	-14.1	184	-11.1	46	7.0	55	12.2	46	2.2
Manufacturing	65,508	-8.6	59,107	-9.8	12,252	-8.8	13,096	-12.5	14,501	-9.1
Electricity, gas and water	39,841	2.5	41,029	3.0	8,867	4.3	10,349	-2.7	12,608	3.7
Construction	62,718	-2.0	62,192	-0.8	15,228	-3.2	14,038	-6.9	15,040	-2.9
Services	1,070,483	1.6	1,107,557	3.5	271,609	5.6	266,714	0.6	301,169	4.7
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	<i>325,130</i>	<i>0.2</i>	<i>339,542</i>	<i>4.4</i>	<i>83,962</i>	<i>14.8</i>	<i>80,020</i>	<i>5.9</i>	<i>101,155</i>	<i>8.3</i>
<i>Transport, storage and communications</i>	<i>128,417</i>	<i>2.1</i>	<i>136,384</i>	<i>6.2</i>	<i>32,955</i>	<i>3.8</i>	<i>30,588</i>	<i>-6.2</i>	<i>36,592</i>	<i>1.5</i>
<i>Financing, insurance, real estate and business services</i>	<i>289,997</i>	<i>-0.4</i>	<i>294,942</i>	<i>1.7</i>	<i>72,632</i>	<i>2.7</i>	<i>75,111</i>	<i>1.6</i>	<i>78,705</i>	<i>6.4</i>
<i>Community, social and personal services</i>	<i>262,394</i>	<i>3.9</i>	<i>263,924</i>	<i>0.6</i>	<i>63,300</i>	<i>-0.4</i>	<i>63,481</i>	<i>-3.6</i>	<i>66,139</i>	<i>1.1</i>
<i>Ownership of premises</i>	<i>161,168</i>	<i>3.8</i>	<i>165,010</i>	<i>2.4</i>	<i>41,781</i>	<i>2.2</i>	<i>41,151</i>	<i>2.5</i>	<i>42,808</i>	<i>2.6</i>
<i>less Adjustment for financial intermediation services indirectly measured</i>	<i>96,623</i>	<i>0.7</i>	<i>92,245</i>	<i>-4.5</i>	<i>23,021</i>	<i>0.3</i>	<i>23,635</i>	<i>2.6</i>	<i>24,230</i>	<i>5.1</i>
Taxes on production and imports	57,282	-1.1	57,122	-0.3	14,722	-1.5	14,508	-4.2	13,122	6.8
Statistical discrepancy (%)	-0.2	--	-0.3	--	0.2	--	-0.8	--	*	--
GDP at constant (2000) market prices	1,294,306	0.5	1,323,650	2.3	323,628	4.5	316,363	-0.5	356,666	4.0

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

(#) Revised figures.

(*) Less than 0.05%.

(--) Not applicable.

Table 6 : Gross National Product (GNP) and external factor income flows (EFIF) by income component (at current market prices)

	1999		2000		2001 [#]		2002 ^{#@}		2003 [#] Q1-Q3	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
<u>Type of income component</u>										
Direct investment income										
Inflow	136,454	9.2	153,848	12.7	168,497	9.5	179,008	6.2	128,015	-5.2
Outflow	197,094	44.5	266,324	35.1	244,838	-8.1	254,730	4.0	170,408	-13.2
Portfolio investment income										
Inflow	86,291	15.9	95,086	10.2	96,338	1.3	92,208	-4.3	74,735	4.8
Outflow	25,410	2.9	26,900	5.9	26,835	-0.2	26,981	0.5	22,917	11.4
Other investment income										
Inflow	142,008	-12.8	167,787	18.2	119,730	-28.6	65,868	-45.0	35,054	-31.9
Outflow	107,472	-37.7	101,729	-5.3	71,718	-29.5	38,675	-46.1	21,411	-27.7
Compensation of employees										
Inflow	110	-69.7	53	-51.8	30	-43.4	13	-56.7	6	-45.5
Outflow	110	-69.7	53	-51.8	30	-43.4	13	-56.7	6	-45.5
Total EFIF										
Inflow	364,863	0.6	416,774	14.2	384,595	-7.7	337,097	-12.4	237,810	-7.8
Outflow	330,086	-1.2	395,006	19.7	343,420	-13.1	320,399	-6.7	214,742	-12.9
Net flow	34,777	--	21,768	--	41,174	--	16,698	--	23,067	--
GDP (\$Mn)	1,246,134	-2.6	1,288,338	3.4	1,269,896	-1.4	1,259,771	-0.8	904,470	-2.7
Per capita GDP (\$)	188,622	-3.6	193,299	2.5	188,835	-2.3	185,615	-1.7	N.A.	N.A.
GNP (\$Mn)	1,280,911	-2.1	1,310,106	2.3	1,311,070	0.1	1,276,469	-2.6	927,537	-1.4
Per capita GNP (\$)	193,886	-3.0	196,565	1.4	194,958	-0.8	188,076	-3.5	N.A.	N.A.

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

(#) Revised figures.

(@) A number of data items for 2002 have been adjusted to incorporate the necessary changes as revealed from a data quality review conducted in January 2004.

(--) Not applicable.

N.A. Not available.

Table 7 : Balance of payments account by major component

	<u>1999</u>	<u>2000</u>	<u>2001[#]</u>	<u>2002^{#@}</u>	<u>2003[#]</u> <u>Q1-Q3</u>
	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>
Current account^{(a)(c)}	79,816	55,193	77,531	107,042	92,624
Goods	-24,501	-63,832	-64,970	-39,406	-27,182
Services ^(c)	81,484	110,270	115,204	144,537	107,992
Income	34,777	21,768	41,174	16,698	23,067
Current transfers	-11,943	-13,013	-13,878	-14,787	-11,253
Capital and financial account^(a)	-83,374	-57,863	-97,359	-151,179	-94,396
Capital and financial non-reserve assets (net change)	-5,507	20,459	-60,829	-169,720	-118,251
Capital transfers	-13,812	-12,044	-9,155	-15,686	-5,930
Financial non-reserve assets (net change)	8,305	32,503	-51,674	-154,033	-112,321
Direct investment	40,511	19,976	96,948	-60,685	58,130
Portfolio investment	256,812	190,782	-322,045	-302,484	-161,646
Financial derivatives	79,225	1,661	39,640	51,563	71,992
Other investment	-368,243	-179,917	133,783	157,573	-80,796
Reserve assets (net change) ^(b)	-77,867	-78,321	-36,530	18,541	23,855
Net errors and omissions^(c)	3,557	2,670	19,829	44,137	1,772
Overall balance of payments	77,867 (in surplus)	78,321 (in surplus)	36,530 (in surplus)	-18,541 (in deficit)	-23,855 (in deficit)

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

- (a) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value for the balance figure indicates a net inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.
- (b) The estimates on net change in reserve assets under the balance of payments framework are transaction figures. Effects from valuation changes (including price changes and exchange rate changes) and reclassifications are excluded.
- (c) Revised figures incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.
- (#) Revised figures.
- (@) A number of data items for 2002 have been adjusted to incorporate the necessary changes as revealed from a data quality review conducted in January 2004.

**Table 8: Visible and invisible trade
(at current market prices)**

	<u>1999</u>	<u>2000</u>	<u>2001[#]</u>	<u>2002[#]</u>	<u>2003⁺</u>
	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>
Total exports of goods	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089
Imports of goods ^(a)	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059
Visible trade balance	-24,500 (-1.8)	-64,022 (-3.9)	-68,235 (-4.4)	-39,406 (-2.5)	-44,970 (-2.5)
Exports of services ^(b)	265,536	301,813	307,657	337,949	350,315
Imports of services	184,052	191,543	192,453	193,412	189,217
Invisible trade balance ^(b)	81,484	110,270	115,204	144,537	161,098
Visible and invisible trade balance ^(b)	56,984 <3.7>	46,248 <2.5>	46,969 <2.7>	105,131 <5.9>	116,128 <5.9>

Notes : Figures in this table are reckoned on a GDP basis.

(a) Imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis which is the on-going practice for the merchandise trade statistics, as presented in Tables 14 and 15.

(b) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(#) Revised figures.

(+) Preliminary figures.

() As a percentage of the total value of imports of goods on f.o.b. basis.

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

Table 9 : Re-exports by market

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
All markets	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6	1,429,590	7.7	1,620,749	13.4
Mainland of China	399,188	-2.0	488,823	22.5	496,574	1.6	571,870	15.2	705,787	23.4
United States	269,444	3.7	311,047	15.4	282,189	-9.3	291,043	3.1	285,084	-2.0
Japan	67,506	5.2	82,050	21.5	83,551	1.8	80,743	-3.4	91,154	12.9
Germany	44,122	4.7	50,599	14.7	45,774	-9.5	44,567	-2.6	51,369	15.3
United Kingdom	45,541	7.8	52,356	15.0	46,764	-10.7	46,644	-0.3	49,625	6.4
Taiwan	27,859	1.8	33,696	21.0	30,021	-10.9	30,193	0.6	38,616	27.9
Republic of Korea	19,793	61.7	26,978	36.3	24,640	-8.7	29,264	18.8	34,336	17.3
Singapore	28,716	12.1	32,028	11.5	26,929	-15.9	29,424	9.3	33,468	13.7
Rest of the world	276,230	-0.7	314,146	13.7	291,025	-7.4	305,844	5.1	331,309	8.3

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

Table 10 : Re-exports by source

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
All sources	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6	1,429,590	7.7	1,620,749	13.4
Mainland of China	720,126	4.2	849,517	18.0	808,370	-4.8	863,967	6.9	967,104	11.9
Japan	121,265	-2.1	137,338	13.3	125,649	-8.5	135,793	8.1	161,231	18.7
Taiwan	71,957	0.2	87,942	22.2	80,321	-8.7	94,275	17.4	107,144	13.7
United States	56,737	4.0	65,465	15.4	65,193	-0.4	62,900	-3.5	63,158	0.4
Republic of Korea	38,822	-2.1	46,057	18.6	39,775	-13.6	47,218	18.7	57,000	20.7
Malaysia	19,031	8.9	27,050	42.1	27,170	0.4	27,412	0.9	33,933	23.8
Germany	15,558	-0.5	18,790	20.8	20,322	8.2	21,890	7.7	26,583	21.4
Singapore	13,805	-31.6	14,991	8.6	14,650	-2.3	16,676	13.8	23,479	40.8
Rest of the world	121,099	-3.0	144,572	19.4	146,017	1.0	159,459	9.2	181,117	13.6

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

Table 11 : Re-exports by selected commodity group

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
All re-exports	1,178,400	1.7	1,391,722	18.1	1,327,467	-4.6	1,429,590	7.7	1,620,749	13.4
Office machinery	98,331	5.7	120,755	22.8	132,892	10.1	154,032	15.9	184,441	19.7
Electronic components	61,502	33.0	97,724	58.9	99,418	1.7	122,255	23.0	157,290	28.7
Electrical machinery	72,209	15.4	97,238	34.7	89,471	-8.0	99,484	11.2	120,234	20.9
Clothing	99,308	2.6	111,268	12.0	110,609	-0.6	109,912	-0.6	116,477	6.0
Toys, games and sporting goods	92,661	*	102,588	10.7	85,666	-16.5	85,139	-0.6	86,516	1.6
Radios, television-sets, gramophones, records, tape recorders and amplifiers	47,177	-12.8	59,203	25.5	54,831	-7.4	64,716	18.0	81,078	25.3
Telecommunication equipment	34,951	1.5	42,637	22.0	41,643	-2.3	46,259	11.1	49,974	8.0
Plastic materials	35,353	3.9	41,806	18.3	36,219	-13.4	40,172	10.9	45,299	12.8
Footwear	47,840	-7.8	50,534	5.6	45,938	-9.1	44,905	-2.2	44,667	-0.5
Jewellery, precious stones and related articles	22,071	33.3	29,688	34.5	29,403	-1.0	36,701	24.8	41,928	14.2
Others	566,997	-1.7	638,280	12.6	601,377	-5.8	626,015	4.1	692,844	10.7

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

(*) Change of less than 0.05%.

Table 12 : Domestic exports by market

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>
All markets	170,600	-9.5	180,967	6.1	153,520	-15.2	130,926	-14.7	121,687	-7.1
United States	51,358	-6.4	54,438	6.0	47,589	-12.6	41,908	-11.9	39,130	-6.6
Mainland of China	50,414	-10.1	54,158	7.4	49,547	-8.5	41,374	-16.5	36,757	-11.2
United Kingdom	10,392	3.3	10,681	2.8	8,578	-19.7	7,588	-11.5	7,762	2.3
Germany	8,543	-12.9	9,294	8.8	5,818	-37.4	4,273	-26.6	4,853	13.6
Taiwan	5,101	-21.6	6,104	19.7	5,346	-12.4	4,388	-17.9	3,653	-16.7
Japan	5,459	-15.2	5,084	-6.9	4,060	-20.1	2,969	-26.9	2,848	-4.1
Netherlands	4,119	-13.0	3,910	-5.1	4,619	18.1	3,470	-24.9	2,473	-28.7
Canada	3,151	-12.4	3,210	1.9	3,093	-3.7	2,411	-22.0	2,237	-7.2
Rest of the world	32,064	-11.9	34,087	6.3	24,870	-27.0	22,546	-9.3	21,972	-2.5

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

Table 13 : Domestic exports by selected commodity group

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>	<u>\$Mn</u>	<u>% change</u>
All domestic exports	170,600	-9.5	180,967	6.1	153,520	-15.2	130,926	-14.7	121,687	-7.1
Clothing	74,251	-0.8	77,415	4.3	72,240	-6.7	65,039	-10.0	63,880	-1.8
Electronic components	22,874	-11.6	26,554	16.1	19,184	-27.8	14,940	-22.1	9,431	-36.9
Textiles	9,488	-11.9	9,164	-3.4	8,193	-10.6	7,645	-6.7	5,898	-22.8
Jewellery, precious stones and related articles	5,430	6.1	6,350	16.9	5,138	-19.1	5,472	6.5	5,621	2.7
Office machines and equipment	3,571	-1.1	3,049	-14.6	2,734	-10.3	3,567	30.5	3,030	-15.0
Metal manufactures	3,823	-6.5	3,896	1.9	2,398	-38.4	1,665	-30.6	1,476	-11.4
Scientific, medical, optical measuring and controlling instruments and apparatus	5,913	-1.5	7,923	34.0	4,554	-42.5	1,833	-59.7	1,472	-19.7
Watches and clocks	5,040	-43.6	3,012	-40.2	2,354	-21.8	1,164	-50.6	850	-26.9
Telecommunications and sound recording and reproducing equipment	3,798	-39.8	4,211	10.9	3,511	-16.6	1,105	-68.5	603	-45.4
Others	36,411	-15.1	39,393	8.2	33,213	-15.7	28,496	-14.2	29,425	3.3

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

Table 14 : Imports of goods by source

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
All sources	1,392,718	-2.5	1,657,962	19.0	1,568,194	-5.4	1,619,419	3.3	1,805,770	11.5
Mainland of China	607,546	4.6	714,987	17.7	681,980	-4.6	717,074	5.1	785,625	9.6
Japan	162,652	-9.6	198,976	22.3	176,599	-11.2	182,569	3.4	213,995	17.2
Taiwan	100,426	-3.5	124,172	23.6	107,929	-13.1	115,906	7.4	125,203	8.0
United States	98,572	-7.5	112,801	14.4	104,941	-7.0	91,478	-12.8	98,730	7.9
Singapore	60,017	-2.3	74,998	25.0	72,898	-2.8	75,740	3.9	90,570	19.6
Republic of Korea	65,432	-4.9	80,600	23.2	70,791	-12.2	75,955	7.3	87,340	15.0
Rest of the world	298,073	-9.0	351,430	17.9	353,057	0.5	360,698	2.2	404,308	12.1

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

Table 15 : Imports of goods by end-use category

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
All imports of goods^(a)	1,392,718	-2.5	1,657,962	19.0	1,568,194	-5.4	1,619,419	3.3	1,805,770	11.5
Foodstuffs ^(a)	61,555	-10.1	63,671	3.4	60,353	-5.2	59,145	-2.0	58,339	-1.4
Consumer goods	502,749	-0.7	562,188	11.8	537,967	-4.3	543,203	1.0	575,811	6.0
Fuels	27,362	17.1	34,006	24.3	30,362	-10.7	31,288	3.1	35,395	13.1
Raw materials and semi-manufactures	472,995	-2.5	580,475	22.7	511,367	-11.9	558,088	9.1	654,389	17.3
Capital goods	328,056	-5.2	417,622	27.3	428,147	2.5	427,695	-0.1	481,837	12.7

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

(a) Including imports of fresh water.

**Table 16 : Exports and imports of services by component
(at current market prices)**

	1999		2000		2001 [#]		2002 [#]		2003 ⁺	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Exports of services^(a)	265,536	3.2	301,813	13.7	307,657	1.9	337,949	9.8	350,315	3.7
Transportation	89,230	4.9	99,513	11.5	93,675	-5.9	103,003	10.0	105,311	2.2
Travel ^(a)	42,840	-2.6	46,019	7.4	46,362	0.7	58,848	26.9	55,425	-5.8
Insurance	3,065	-1.2	3,452	12.6	3,556	3.0	3,739	5.1	4,013	7.3
Financial	19,206	17.7	20,859	8.6	21,823	4.6	20,906	-4.2	21,519	2.9
Trade-related	81,524	6.1	97,616	19.7	106,447	9.0	117,216	10.1	129,970	10.9
Other business	29,672	-7.5	34,355	15.8	35,794	4.2	34,237	-4.3	34,077	-0.5
Imports of services	184,052	-4.9	191,543	4.1	192,453	0.5	193,412	0.5	189,217	-2.2
Transportation	39,238	-8.5	48,628	23.9	50,916	4.7	51,670	1.5	52,081	0.8
Travel	101,889	-2.4	97,402	-4.4	96,057	-1.4	96,846	0.8	90,049	-7.0
Insurance	4,975	8.2	4,111	-17.4	4,028	-2.0	4,024	-0.1	4,326	7.5
Financial	5,729	-15.0	5,536	-3.4	5,242	-5.3	5,348	2.0	5,756	7.6
Trade-related	10,510	23.6	11,170	6.3	11,802	5.7	12,132	2.8	13,234	9.1
Other business	21,711	-18.0	24,695	13.7	24,408	-1.2	23,392	-4.2	23,771	1.6
Net exports of services^(a)	81,484	27.6	110,270	35.3	115,204	4.5	144,537	25.5	161,098	11.5

Notes : (a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(#) Revised figures.

(+) Preliminary figures.

Table 17 : Travel and tourism

	<u>Incoming visitors</u>		<u>Foreign visitors passing through Hong Kong to Mainland of China</u>		<u>Hong Kong residents travelling abroad</u>	
	<u>Number ('000)</u>	<u>% change</u>	<u>Number ('000)</u>	<u>% change</u>	<u>Number ('000)</u>	<u>% change</u>
1999	11 328	11.5	2 496	14.4	53 144	11.7
2000	13 059	15.3	3 001	20.2	58 901	10.8
2001	13 725	5.1	3 177	5.9	61 096	3.7
2002	16 566	20.7	3 464	9.0	64 540	5.6
2003	15 537	-6.2	2 722	-21.4	60 759	-5.9

Table 18 : Incoming visitors by source

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	<u>Number ('000)</u>	<u>% change</u>	<u>Number ('000)</u>	<u>% change</u>	<u>Number ('000)</u>	<u>% change</u>	<u>Number ('000)</u>	<u>% change</u>	<u>Number ('000)</u>	<u>% change</u>
All sources	11 328	11.5	13 059	15.3	13 725	5.1	16 566	20.7	15 537	-6.2
Mainland of China	3 206	20.0	3 786	18.1	4 449	17.5	6 825	53.4	8 467	24.1
Taiwan	2 063	9.4	2 386	15.6	2 419	1.4	2 429	0.4	1 852	-23.7
South and Southeast Asia	1 511	18.6	1 747	15.6	1 747	*	1 905	9.1	1 360	-28.6
Japan	1 174	6.7	1 382	17.7	1 337	-3.3	1 395	4.4	867	-37.8
United States	859	3.7	966	12.5	936	-3.1	1 001	7.0	684	-31.7
United Kingdom	334	-5.3	368	10.2	361	-2.0	380	5.4	281	-26.0
Others	2 181	6.5	2 424	11.2	2 479	2.2	2 631	6.2	2 025	-23.0

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

(*) Change of less than 0.05%.

Table 19 : Hong Kong residents travelling abroad by destination

	1999		2000		2001		2002		2003	
	Number (‘000)	% change	Number (‘000)	% change	Number (‘000)	% change	Number (‘000)	% change	Number (‘000)	% change
All destinations	53 144	11.7	58 901	10.8	61 096	3.7	64 540	5.6	60 759	-5.9
Mainland of China	45 175	15.4	50 083	10.9	52 003	3.8	55 648	7.0	52 405	-5.8
Macau	3 794	-10.9	4 207	10.9	4 294	2.1	4 182	-2.6	3 956	-5.4
South and Southeast Asia	1 986	5.1	2 390	20.3	2 505	4.8	2 422	-3.3	2 412	-0.4
North Asia	778	-11.5	739	-5.0	762	3.1	774	1.7	701	-9.5
Taiwan	420	10.3	469	11.6	526	12.1	538	2.4	420	-21.9
Europe	307	-4.2	323	5.2	324	0.1	347	7.1	323	-6.9
Americas ^(a)	398	-7.9	399	0.2	377	-5.7	346	-8.1	280	-19.3
Australia and New Zealand	230	-2.7	232	0.5	237	2.6	223	-6.0	207	-7.3
Others	55	-5.5	60	8.8	70	17.0	59	-15.6	56	-5.5

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

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

**Table 20 : Private consumption expenditure by broad category
(rate of change in real terms (%))**

	1999	2000	2001 [#]	2002 [#]	2003 ⁺
Private consumption expenditure^(a)	1.3	5.9	2.0	-1.2	*
Consumption expenditure in the domestic market	1.6	7.2	2.2	0.8	0.6
<i>Food</i>	2.1	5.4	2.4	0.2	0.9
<i>Consumer durables</i>	-2.6	14.9	2.2	0.2	5.9
<i>Consumer non-durables</i>	-0.7	4.8	0.2	-5.3	-4.1
<i>Services</i>	3.9	6.4	2.8	3.1	0.8
Expenditure of residents abroad	0.2	-3.0	1.1	-2.2	-9.2
<i>Less</i> Expenditure of non-residents in the domestic market ^(a)	7.0	7.9	3.7	27.0	-4.7

Notes : (a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

Table 21 : Expenditure on building and construction

	At current market prices					At constant (2000) market prices [^]					
	Private sector		Public sector ^(a)		Total	Private sector		Public sector ^(a)		Total	
	\$Mn	% share	\$Mn	% share	\$Mn	\$Mn	% change	\$Mn	% change	\$Mn	% change
1999	116,952	68.0	54,978	32.0	171,930	N.A.	-21.1	N.A.	1.0	N.A.	-15.5
2000	104,125	67.0	51,316	33.0	155,441	104,125	-7.1	51,316	-8.8	155,441	-7.6
2001 [#]	94,401	66.2	48,250	33.8	142,651	105,013	0.9	48,707	-5.1	153,720	-1.1
2002 [#]	92,105	68.0	43,256	32.0	135,361	109,684	4.4	45,952	-5.7	155,636	1.2
2003 ⁺	76,854	64.4	42,404	35.6	119,258	97,927	-10.7	46,909	2.1	144,836	-6.9

- Notes :
- (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.
 - ([^]) The level figures at constant (2000) market prices before 2000 are not available.
 - ([#]) Revised figures.
 - (⁺) Preliminary figures.
 - N.A. Not available.

Table 22 : Property prices and rentals

As in Q4 of	Residential flats				Office space ^(c)				Shopping space				Conventional flattened factory space			
	Price Index ^(a)		Rental Index ^(b)		Price Index		Rental Index ^(b)		Price Index		Rental Index ^(b)		Price Index		Rental Index ^(b)	
	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier	(1999=100)	% change over a year earlier
1999	95.3	-4.9	97.9	-3.4	97.2	-10.2	96.9	-17.1	96.2	-6.3	101.4	-3.3	95.3	-15.4	98.3	-9.7
2000	84.2	-11.6	98.3	0.4	86.0	-11.5	101.6	4.9	91.6	-4.8	102.3	0.9	88.2	-7.5	95.8	-2.5
2001	73.8	-12.4	91.4	-7.0	71.2	-17.2	95.6	-5.9	84.0	-8.3	97.4	-4.8	77.7	-11.9	87.4	-8.8
2002	65.1	-11.8	79.0	-13.6	64.9	-8.8	82.7	-13.5	83.0	-1.2	92.1	-5.4	72.6	-6.6	81.2	-7.1
2003 [^]	64.0	-1.7	71.9	-9.0	65.4	0.8	69.5	-16.0	89.6	8.0	84.5	-8.3	71.9	-1.0	71.6	-11.8

- 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 cover also lease renewals upon which rentals may be revised.
 - (c) Since 2000, the price and rental indices for office space in the private sector have been recompiled according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.
 - ([^]) Provisional figures.

Table 23 : Cost and price indices for the building and construction industry

	Labour and Material Cost Index (Feb 1970 = 100)						Tender Price Index for public sector building projects (Jan 1970 = 100)	Tender Price Index for public housing projects (Jan 1970 = 100)		
	<u>Labour Index</u>		<u>Material Index</u>		<u>Combined Index</u>					
	<u>Index</u>	% change over a year earlier	<u>Index</u>	% change over a year earlier	<u>Index</u>	% change over a year earlier	<u>Index</u>	% change over a year earlier	<u>Index</u>	% change over a year earlier
1999	3 493	2.6	752	-1.5	1 721	1.4	1 017	-4.4	781	-3.3
2000	3 562	2.0	761	1.3	1 752	1.8	884	-13.1	687	-11.9
2001	3 581	0.5	758	-0.4	1 756	0.3	808	-8.5	584	-15.1
2002	3 575	-0.2	754	-0.5	1 752	-0.3	714	-11.7	527	-9.6
2003 Jan-Sep	3 538	-1.2	758	0.7	1 741	-0.7	722 [^]	1.0 [^]	475 [^]	-12.8 [^]

Note : (^) Figures for Jan-Jun 2003.

Table 24 : Expenditure on machinery, equipment and computer software

	<u>At current market prices</u>					<u>At constant (2000) market prices[^]</u>					
	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Total</u>	<u>Private sector</u>		<u>Public sector^(a)</u>		<u>Total</u>	
	<u>\$Mn</u>	% <u>share</u>	<u>\$Mn</u>	% <u>share</u>	<u>\$Mn</u>	<u>\$Mn</u>	% <u>change</u>	<u>\$Mn</u>	% <u>change</u>	<u>\$Mn</u>	% <u>change</u>
1999	130,676	92	10,673	8	141,349	N.A.	-19.4	N.A.	-0.6	N.A.	-18.2
2000	171,120	95	9,084	5	180,204	171,120	30.3	9,084	-15.3	180,204	27.0
2001 [#]	170,266	95	9,745	5	180,011	181,018	5.8	10,306	13.5	191,324	6.2
2002 [#]	137,516	93	10,282	7	147,798	162,112	-10.4	11,881	15.3	173,993	-9.1
2003 ⁺	138,151	94	9,313	6	147,464	173,303	6.9	11,349	-4.5	184,652	6.1

Notes : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

(^) The level figures at constant (2000) market prices before 2000 are not available.

(#) Revised figures.

(+) Preliminary figures.

N.A. Not available.

**Table 25 : Indices of Industrial Production
(year-on-year rate of change (%))**

of which:

	<u>All manufacturing industries</u>	<u>Food, beverages and tobacco</u>	<u>Wearing apparel (except footwear)</u>	<u>Textile (including knitting)</u>	<u>Paper products and printing</u>	<u>Chemical, rubber, plastic and non-metallic mineral products</u>	<u>Plastic products</u>
1999	-6.4	-1.6	-0.1	-5.5	-9.6	-14.9	-18.6
2000	-0.5	-3.1	3.0	3.8	2.0	-14.4	-10.9
2001	-4.4	-1.7	-0.1	-0.3	-1.2	-7.8	-15.2
2002	-9.8	8.1	-6.6	-7.2	-0.2	-17.3	-10.8
2003 Q1-Q3	-10.2	-13.9	5.1	-9.3	-1.1	3.5	-7.8

	<u>Basic metals and fabricated metal products</u>	<u>Fabricated metal products</u>	<u>Electrical and electronic products, machinery, professional equipment and optical goods</u>	<u>Consumer electrical and electronic products</u>	<u>Machinery, equipment apparatus, parts and components</u>	<u>Miscellaneous manufacturing industries</u>
1999	-19.7	-21.3	-1.9	-2.8	0.9	-11.8
2000	-11.2	-18.5	0.8	-1.1	7.0	4.3
2001	-15.4	-10.2	-7.9	*	-8.5	-5.1
2002	-23.7	-29.4	-22.2	-23.6	-16.8	3.8
2003 Q1-Q3	-11.6	-24.0	-25.7	-11.3	-27.9	-2.1

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

**Table 26 : Business receipts indices for service industries/domains
(year-on-year rate of change in value terms (%))**

	<u>Wholesale trade</u>	<u>Retail trade</u>	<u>Import/export trade</u>	<u>Restaurants</u>	<u>Hotels</u>	<u>Transport[^]</u>	<u>Storage</u>	<u>Communications</u>
1999	-13.7	-8.1	-13.9	0.4	-3.8	4.5	-20.7	-14.9
2000	3.6	3.8	12.0	2.1	16.7	20.8	2.0	8.7
2001	-12.0	-1.2	-14.1	-2.5	-7.6	-2.4	-14.9	-13.2
2002	-10.7	-4.1	-2.8	-5.4	-2.3	2.3	-19.6	-2.6
2003 Q1-Q3	-7.3	-4.7	4.5	-11.6	-26.5	-1.8	-6.6	-2.2

	<u>Banking</u>	<u>Financing (other than banking)</u>	<u>Insurance</u>	<u>Real estate</u>	<u>Business services</u>	<u>Film entertainment</u>	<u>Tourism, convention and exhibition services[#]</u>	<u>Computer and information services</u>
1999	6.6	3.1	4.0	-14.1	-10.1	-7.8	-2.4	5.6
2000	0.8	40.7	13.1	-0.1	2.4	14.4	13.7	24.6
2001	2.7	-12.6	14.2	-16.9	-9.6	15.2	-3.8	-11.6
2002	-0.8	-14.3	10.3	-2.5	-5.8	-9.1	11.5	5.7
2003 Q1-Q3	2.3	5.9	20.6	*	-1.0	1.8	-24.5	3.5

Notes : (^) Including business receipts from the Airport Authority Hong Kong.

(#) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(*) Change of less than 0.05%.

Table 27 : Market exchange rate of the Hong Kong dollar against the US dollar and the Effective Exchange Rate Index

<u>Average for</u>	Market exchange rate of HK\$ against US\$	Effective Exchange Rate Index ^(a) (January 2000 = 100)		
		<u>Trade-weighted</u>	<u>Import-weighted</u>	<u>Export-weighted</u>
1999	7.758	100.9	101.4	100.4
2000	7.791	101.7	101.5	101.9
2001	7.799	104.7	105.1	104.3
2002	7.799	104.0	104.7	103.3
2003	7.787	100.7	101.6	99.8
2003 Jan	7.799	101.7	102.4	100.9
Feb	7.799	101.7	102.5	100.8
Mar	7.798	101.8	102.6	100.9
Apr	7.799	101.9	102.9	100.9
May	7.798	100.7	101.8	99.6
Jun	7.798	100.6	101.7	99.3
Jul	7.798	100.8	101.8	99.7
Aug	7.798	101.0	102.0	100.1
Sep	7.785	100.6	101.4	99.8
Oct	7.743	99.8	100.5	99.0
Nov	7.763	99.6	100.5	98.7
Dec	7.763	99.0	100.0	98.0

Note : (a) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled based on the average merchandise trade pattern from 1999 to 2000. The EERIs for earlier periods are compiled based on old weights and have been re-scaled to the new base period for linking with the new index series.

Table 28 : Hong Kong dollar interest rates

<u>Average for</u>	<u>Hong Kong dollar inter-bank offered rates</u>			<u>Time deposit rates for deposits of less than HK\$100,000</u>			<u>Savings deposits rate</u>	<u>Best lending rate</u>	
	<u>Overnight</u>	<u>Three-month</u>	<u>Twelve-month</u>	<u>One-week</u>	<u>Three-month</u>	<u>Twelve-month</u>			
(Percent per annum)									
1999	4.81	5.84	6.88	3.77	4.85	5.76	3.74	8.49	
2000	5.54	6.11	6.63	4.39	4.97	5.40	4.47	9.22	
2001	3.58	3.56	3.73	2.10	2.36	2.53	2.16	7.00	
2002	1.61	1.79	2.20	0.16	0.40	0.74	0.14	5.11	
2003	0.82	0.96	1.24	0.06	0.07	0.12	0.03	5.00	
2003	Jan	1.18	1.36	1.54	0.08	0.11	0.21	0.03	5.00
	Feb	1.20	1.34	1.50	0.08	0.09	0.19	0.03	5.00
	Mar	1.17	1.28	1.37	0.08	0.09	0.17	0.03	5.00
	Apr	1.29	1.41	1.50	0.08	0.10	0.17	0.03	5.00
	May	1.14	1.30	1.33	0.08	0.09	0.14	0.03	5.00
	Jun	1.06	1.06	1.13	0.08	0.08	0.10	0.03	5.00
	Jul	0.96	1.08	1.21	0.07	0.08	0.10	0.03	5.00
	Aug	0.88	1.08	1.38	0.07	0.08	0.12	0.03	5.00
	Sep	0.64	0.94	1.21	0.07	0.07	0.10	0.03	5.00
	Oct	0.08	0.37	1.02	0.02	0.04	0.05	0.02	5.00
	Nov	0.07	0.21	0.99	0.01	0.02	0.05	0.02	5.00
	Dec	0.23	0.15	0.76	0.01	0.02	0.04	0.01	5.00

Table 29 : Deposits by major type of authorized institution

As at end of	<u>Licensed banks</u>			<u>Restricted licence banks and deposit- taking companies</u>			<u>All authorized Institutions</u>		
	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>
(\$ billion)									
1999	1,763	1,447	3,210	10	31	41	1,773	1,477	3,251
2000	1,839	1,652	3,491	12	25	37	1,851	1,677	3,528
2001	1,838	1,528	3,367	16	23	40	1,855	1,552	3,407
2002	1,806	1,470	3,276	19	23	42	1,825	1,493	3,318
2003	1,916	1,608	3,523	15	28	43	1,931	1,636	3,566
(Rate of change during the period (%))									
1999	4.4	14.4	8.7	-1.6	-14.3	-11.4	4.3	13.6	8.4
2000	4.3	14.2	8.7	23.1	-19.4	-8.8	4.4	13.5	8.5
2001	*	-7.5	-3.6	31.7	-5.2	7.2	0.2	-7.4	-3.4
2002	-1.8	-3.8	-2.7	15.6	-2.8	4.8	-1.6	-3.8	-2.6
2003	6.1	9.4	7.6	-21.3	23.5	3.1	5.8	9.6	7.5

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

(a) Adjusted to include foreign currency swap deposits.

(b) Adjusted to exclude foreign currency swap deposits.

(*) Change of less than 0.05%.

Table 30 : Money supply

As at end of	<u>M1</u>			<u>M2</u>			<u>M3</u>			
	<u>HK\$</u>	<u>Foreign currency</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Foreign currency^(b)</u>	<u>Total</u>	
(\$ billion)										
1999	205	(191)	20	225	1,923	1,463	3,386	1,935	1,499	3,434
2000	204	(200)	40	244	1,988	1,662	3,649	2,002	1,690	3,693
2001	230	(224)	28	258	1,999	1,551	3,550	2,017	1,577	3,594
2002	259	(251)	36	296	1,984	1,534	3,518	2,004	1,558	3,562
2003	355	(342)	59	413	2,107	1,706	3,813	2,123	1,735	3,857
(Rate of change during the period (%))										
1999	15.2	(8.6)	2.1	13.9	5.2	14.0	8.8	5.1	12.9	8.4
2000	-0.7	(4.8)	101.2	8.3	3.4	13.6	7.8	3.5	12.8	7.5
2001	12.7	(12.3)	-29.3	5.8	0.5	-6.6	-2.7	0.7	-6.7	-2.7
2002	12.9	(12.0)	28.4	14.6	-0.7	-1.1	-0.9	-0.6	-1.3	-0.9
2003	36.7	(35.8)	61.9	39.8	6.2	11.2	8.4	5.9	11.4	8.3

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

(a) Adjusted to include foreign currency swap deposits.

(b) Adjusted to exclude foreign currency swap deposits.

() Figures in brackets represent the corresponding level or change based on the seasonally adjusted series for HK\$M1.

Table 31 : Loans and advances extended by authorized institutions

As at end of	Loans for use in Hong Kong ^(a)		Loans for use outside Hong Kong		Others ^(b)		Total loans and advances	
	HK\$	Foreign currency	HK\$	Foreign currency	HK\$	Foreign currency	HK\$	Foreign currency
(\$ billion)								
1999	1,584	349	20	837	3	20	1,607	1,206
2000	1,626	339	22	455	4	15	1,652	809
2001	1,626	252	19	278	2	7	1,648	537
2002	1,591	243	23	210	2	7	1,616	461
2003	1,542	267	26	181	6	14	1,573	462
(Rate of change during the period (%))								
1999	-4.9	-21.5	-23.1	-26.6	-26.8	-17.6	-5.2	-25.1
2000	2.6	-2.8	11.5	-45.7	43.1	-22.9	2.8	-32.9
2001	*	-25.6	-15.5	-38.9	-37.5	-52.2	-0.3	-33.6
2002	-2.2	-3.7	19.3	-24.4	-1.5	3.7	-1.9	-14.3
2003	-3.1	9.8	12.8	-13.9	140.0	91.6	-2.6	0.3

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

(a) Including trade financing loans.

(b) Including mainly those loans for which the place of usage is not clearly known.

(*) Change of less than 0.05%.

Table 32 : Assets and liabilities of authorized institutions

	<i>As at end of :</i>									
	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	\$Bn	% change	\$Bn	% change	\$Bn	% change	\$Bn	% change	\$Bn	% change
<u>Liabilities</u>										
Amount due to authorized institutions in Hong Kong	529	-15.0	543	2.7	470	-13.4	394	-16.2	468	18.8
Amount due to banks abroad	2,202	-21.5	1,752	-20.4	1,459	-16.7	1,394	-4.5	1,448	3.9
Deposits from customers	3,251	8.4	3,528	8.5	3,407	-3.4	3,318	-2.6	3,566	7.5
NCDs outstanding	199	-4.8	178	-10.9	172	-2.9	211	22.6	242	14.7
Other liabilities	604	-2.5	661	9.5	646	-2.2	683	5.6	781	14.4
Total liabilities	6,784	-6.5	6,661	-1.8	6,154	-7.6	5,999	-2.5	6,506	8.4
<u>Assets</u>										
Notes and coins	27	96.8	15	-41.8	14	-10.0	14	-2.7	15	13.5
Amount due from authorized institutions in Hong Kong	536	-14.8	551	2.9	468	-15.1	395	-15.6	472	19.3
Amount due from banks abroad	2,389	3.3	2,450	2.6	2,160	-11.9	1,919	-11.1	2,142	11.6
NCDs held	138	-4.2	135	-2.7	128	-5.3	134	4.7	144	8.1
Loans and advances to customers	2,813	-14.9	2,461	-12.5	2,185	-11.2	2,076	-5.0	2,035	-2.0
Other assets	882	3.7	1,048	18.9	1,200	14.5	1,461	21.8	1,697	16.2
Total assets	6,784	-6.5	6,661	-1.8	6,154	-7.6	5,999	-2.5	6,506	8.4

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

Table 33 : Balance sheet of the Exchange Fund

	As at end of :									
	1999		2000		2001		2002		2003 [^]	
	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change	\$Mn	% change
Assets										
Foreign currency assets	755,115	7.7	856,680	13.5	877,427	2.4	891,632	1.6	929,198	4.2
Hong Kong dollar assets	247,641	17.3	166,683	-32.7	101,719	-39.0	63,433	-37.6	82,019	29.3
Total assets^(a)	1,002,756	9.9	1,023,363	2.1	979,146	-4.3	955,065	-2.5	1,011,217	5.9
Liabilities and Fund Equity										
Certificates of Indebtedness ^(b)	118,195	36.7	99,265	-16.0	107,545	8.3	118,475	10.2	134,215	13.3
Government-issued currency notes and coins in circulation	5,777	*	5,918	2.4	5,691	-3.8	5,891	3.5	6,297	6.9
Balance of the banking system ^(c)	7,960	215.0	669	-91.6	671	0.3	525	-21.8	28,277	5,286.1
Exchange Fund Bills and Notes	101,828	3.6	109,288	7.3	118,157	8.1	122,925	4.0	123,520	0.5
Placements by other HKSAR government funds ^(d)	392,206	-7.6	417,162	6.4	380,602	-8.8	301,669	-20.7	252,296	-16.4
Other liabilities ^(e)	85,932	64.1	83,962	-2.3	63,891	-23.9	78,406	22.7	81,747	4.3
Total liabilities^(a)	711,898	6.2	716,264	0.6	676,557	-5.5	627,891	-7.2	626,352	-0.2
Accumulated Surplus	290,858	20.1	307,099	5.6	302,589	-1.5	327,174	8.1	384,865	17.6

Notes:

The balance sheet comprises the accounts of the Exchange Fund only and does not include those of the subsidiary companies.

- (a) (i) *Investments*
The Fund is invested in interest-bearing placements with banks and other financial institutions both in Hong Kong and outside Hong Kong and in a variety of financial instruments, including bonds, notes, treasury bills and equities.
- (ii) *Foreign currency assets distribution*
A large proportion of the Fund's foreign currency assets is held in US dollars. Apart from the US dollar, the Fund also holds assets denominated in fully convertible foreign currencies.
- (iii) *Location of assets*
The assets are held in deposit, trustee and safe-keeping accounts with banks, central banks and custodial organisations situated in Hong Kong and other major financial centres.
- (iv) *Valuation of assets and liabilities*
Debt securities, equities and Exchange Fund Bills and Notes are valued in the accounts at market value at the balance sheet date. Placements with banks and other financial institutions, certificates of deposit, consideration received or paid under repurchase and resale agreements, securities lending agreements, placements by banks and other financial institutions, placements by other HKSAR government funds for which interest is payable at market-based rates and placements by Hong Kong statutory bodies are valued according to a price matrix of discounted cash flows using applicable interest rates for discounting. The consequential change in value of the asset or liability is reflected in the carrying value of the relevant asset or liability in the Balance Sheet except in the case of placements by other HKSAR government funds for which interest is payable at market-based rates, which are stated in the Balance Sheet at the principal amounts payable at the balance sheet date with the revaluation differences included in other liabilities. Placements by other HKSAR government funds for which interest is payable at rates determined by reference to the investment income of the Fund are stated at the principal amounts payable at the balance sheet date.
- (v) *Translation of foreign currency assets and liabilities*
Assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency assets and liabilities are included in the Income and Expenditure Account.
Certificates of Indebtedness, government-issued currency notes and coins in circulation, all of which are denominated in Hong Kong dollars but are issued and redeemed in US dollars at the linked exchange rate of US\$1=HK\$7.80 are stated in the accounts at their Hong Kong dollar face value. At the balance sheet date the difference between their Hong Kong dollar face value and the market value of the US dollars required for their redemption is included in other assets.
- (b) As backing for their bank note issues, each note-issuing bank is required to hold a non-interest bearing Certificate of Indebtedness issued by the Financial Secretary. Payments for the issuance and redemption of notes against these Certificates are made in US dollars at a fixed rate of US\$1 = HK\$7.80.
- (c) Under the interbank payment system based on Real Time Gross Settlement principles, all licensed banks maintain a clearing account with the Hong Kong Monetary Authority for the account of the Exchange Fund. The aggregate balance in these accounts represents the total level of liquidity in the interbank market.
- (d) These represent placements by other HKSAR government funds with the Exchange Fund. With effect from 1 April 1998, the basis of interest payable on certain placements by other HKSAR government funds was amended from market-based rates to rates determined by reference to the investment income of the Fund.
- (e) Other liabilities include placements by banks and other financial institutions, placements by Hong Kong statutory bodies, interest payable on Exchange Fund Notes, revaluation losses on off-balance sheet items which are marked to market, other accrued expenses and provisions and the revaluation differences of placements by other HKSAR government funds for which interest is payable at market-based rates.
- ([^]) Unaudited figures.
- (*) Change of less than 0.05%.

Table 34 : Labour force characteristics

<u>As in Q4 of</u>	<u>Population of working age</u>		<u>Labour force participation rate</u>		<u>Labour force</u>		<u>Persons employed</u>	
	<u>Number</u>	<u>% change over a year earlier</u>	<u>%</u>	<u>Number</u>	<u>% change over a year earlier</u>	<u>Number</u>	<u>% change over a year earlier</u>	
1999	5 447 000	1.3	61.3	3 339 800	0.9	3 131 100	0.5	
2000	5 537 600	1.7	61.4	3 402 200	1.9	3 252 500	3.9	
2001	5 609 400	1.3	61.5	3 451 200	1.4	3 240 500	-0.4	
2002	5 662 000	0.9	61.9	3 507 400	1.6	3 255 300	0.5	
2003	5 708 600	0.8	61.1	3 488 500	-0.5	3 235 300	-0.6	

<u>As in Q4 of</u>	<u>Persons unemployed</u>		<u>Seasonally adjusted unemployment rate</u>		<u>Persons underemployed</u>		<u>Under-employment rate</u>	
	<u>Number</u>	<u>% change over a year earlier</u>	<u>%</u>	<u>Number</u>	<u>% change over a year earlier</u>	<u>%</u>		
1999	208 700	7.2	6.3	93 500	-2.9	2.8		
2000	149 600	-28.3	4.4	88 700	-5.1	2.6		
2001	210 700	40.8	6.2	104 500	17.8	3.0		
2002	252 100	19.6	7.2	109 400	4.7	3.1		
2003	253 200	0.4	7.3	115 700	5.7	3.3		

Table 35 : Employment in selected major economic sectors

Major economic sector	As in September of:									
	1999		2000		2001		2002		2003	
	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier
Manufacturing	244 500	-4.9	229 400	-6.2	209 300	-8.8	190 100	-9.2	172 800	-9.1
<i>of which :</i>										
Wearing apparel, except footwear	43 200	-3.9	37 000	-14.4	31 700	-14.1	25 200	-20.5	23 700	-6.1
Textiles	31 800	-9.5	29 400	-7.4	27 100	-8.0	26 400	-2.6	21 400	-18.8
Electronics	25 500	2.9	26 100	2.6	20 900	-19.9	18 600	-11.3	15 300	-17.7
Plastic products	8 000	-8.1	6 800	-14.2	5 900	-13.1	4 500	-24.8	4 100	-7.9
Fabricated metal products, except machinery and equipment	12 500	-16.8	12 100	-3.4	9 800	-19.1	7 700	-21.5	6 400	-16.6
Wholesale, retail, import/export trades, restaurants and hotels	997 500	5.4	1 053 300	5.6	1 027 300	-2.5	1 014 000	-1.3	956 700	-5.7
<i>of which :</i>										
Wholesale, retail and import/export trades	784 900	5.9	832 600	6.1	804 300	-3.4	801 700	-0.3	762 800	-4.8
Restaurants and hotels	212 600	3.4	220 600	3.8	223 000	1.1	212 300	-4.8	193 900	-8.7
Transport, storage and communications	175 600	3.6	183 300	4.4	184 200	0.5	180 400	-2.1	171 200	-5.1
<i>of which :</i>										
Land transport	39 000	2.9	38 200	-2.1	38 800	1.8	38 800	*	39 400	1.5
Water transport	26 500	-1.5	29 000	9.2	28 800	-0.7	28 500	-0.8	27 800	-2.5
Services allied to transport	51 900	7.6	53 900	3.9	53 800	-0.2	52 900	-1.7	50 500	-4.6
Financing, insurance, real estate and business services	406 900	2.2	437 000	7.4	437 300	0.1	424 500	-2.9	422 300	-0.5
<i>of which :</i>										
Financial institutions	137 400	7.0	137 400	*	136 300	-0.8	126 600	-7.2	117 100	-7.5
Insurance	27 100	2.4	25 400	-6.3	26 900	6.1	26 200	-2.8	27 400	4.8
Real estate	81 900	3.9	83 900	2.4	82 200	-1.9	83 400	1.4	85 200	2.1
Business services except machinery and equipment rental and leasing	159 500	-2.2	189 200	18.6	190 800	0.9	187 200	-1.9	191 900	2.5
Community, social and personal services	340 000	5.0	348 900	2.6	377 000	8.1	398 300	5.7	414 100	3.9
<i>of which :</i>										
Sanitary and similar services	42 800	14.9	42 600	-0.5	46 800	9.8	53 700	14.8	55 900	4.0
Education services	109 000	4.6	112 800	3.4	120 600	7.0	123 300	2.3	127 200	3.1
Medical, dental and other health services	68 200	1.7	68 200	*	71 700	5.2	74 100	3.4	73 100	-1.4
Welfare institutions	29 600	4.6	35 900	21.5	41 000	14.0	46 000	12.2	54 900	19.4
Civil Service^(a)	188 000	-0.2	183 400	-2.4	176 700	-3.7	170 500	-3.5	166 500	-2.3

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

(*) Change of less than 0.05%.

Table 36 : Reported vacancies in selected major economic sectors

Major economic sector	As in September of:										Vacancy rate in Sep 2003
	1999		2000		2001		2002		2003		
	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	
Manufacturing	2 200	8.6	2 200	*	1 400	-37.8	1 400	3.9	900	-34.7	0.5
<i>of which :</i>											
Wearing apparel, except footwear	600	-14.7	500	-12.5	400	-24.2	700	74.4	200	-77.7	0.6
Textiles	200	-3.1	100	-28.5	100	-52.2	#	-22.2	#	-42.9	0.1
Electronics	400	130.5	400	11.0	100	-68.3	100	-19.2	200	61.4	1.1
Plastic products	100	55.6	100	-28.6	#	-56.7	#	-26.9	#	-63.2	0.2
Fabricated metal products, except machinery and equipment	100	-20.3	#	-37.3	100	51.4	#	-62.5	#	-33.3	0.2
Wholesale, retail, import/export trades, restaurants and hotels	9 700	7.7	14 700	51.1	8 000	-45.7	7 100	-10.3	8 600	20.3	0.9
<i>of which :</i>											
Wholesale, retail and import/export trades	8 400	14.5	12 300	46.6	6 400	-47.6	5 800	-10.2	6 900	19.6	0.9
Restaurants and hotels	1 300	-22.0	2 400	79.8	1 500	-35.9	1 400	-10.8	1 700	23.3	0.9
Transport, storage and communications	1 800	8.7	2 300	28.8	1 100	-50.1	1 200	5.4	1 100	-7.6	0.6
<i>of which :</i>											
Land transport	200	-45.0	300	54.1	200	-32.5	300	21.6	200	-32.7	0.5
Water transport	200	32.4	400	106.9	100	-73.3	100	10.6	100	-39.1	0.3
Services allied to transport	800	79.2	800	-1.8	300	-62.5	200	-21.3	300	30.2	0.6
Financing, insurance, real estate and business services	6 200	-0.1	10 300	64.9	5 300	-48.8	4 800	-8.4	5 700	18.8	1.3
<i>of which :</i>											
Financial institutions	1 200	55.3	2 300	88.0	1 500	-35.9	1 000	-33.1	1 100	9.9	0.9
Insurance	800	-54.2	1 400	83.3	600	-59.1	900	59.4	700	-27.3	2.4
Real estate	1 800	-5.7	2 200	21.1	1 300	-41.4	1 000	-21.1	1 500	50.5	1.8
Business services except machinery and equipment rental and leasing	2 400	31.2	4 300	78.5	1 900	-56.0	1 900	-0.2	2 400	28.7	1.2
Community, social and personal services	4 700	-3.4	6 100	30.2	5 500	-11.1	4 200	-23.8	4 800	14.6	1.1
<i>of which:</i>											
Sanitary and similar services	400	5.7	700	95.2	300	-63.1	300	17.5	200	-36.2	0.4
Education services	400	-36.1	900	139.5	800	-14.1	600	-17.9	700	8.4	0.5
Medical, dental and other health services	2 100	-0.1	2 200	4.3	1 900	-16.3	1 400	-23.7	1 100	-21.5	1.5
Welfare institutions	600	-14.9	700	20.8	800	11.7	700	-16.3	1 000	56.9	1.9
Civil Service^(a)	3 000	-32.5	1 900	-37.5	1 700	-8.1	1 700	1.9	1 600	-9.9	0.9

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

(a) As from June 1999, the definition of Civil Service vacancies is revised to exclude posts pending deletion, posts held by temporary staff, and posts reserved for other staff. Figures for 1996-98 have been revised accordingly to facilitate year-on-year comparison. As from December 2000, Civil Service vacancies also exclude voluntary retirements.

(*) Change of less than 0.05%.

(#) Less than 50.

Table 37: Number of workers engaged at building and construction sites

As in September of	Building sites						Civil engineering sites						Total	
	Private sector		Public sector ^(a)		Sub-total		Private sector		Public sector ^(a)		Sub-total		No.	% change over a year earlier
	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier	No.	% change over a year earlier		
1999	28 371	-30.4	28 124	26.5	56 495	-10.4	1 447	-20.9	10 741	-2.0	12 188	-4.7	68 683	-9.4
2000	35 060	23.6	26 691	-5.1	61 751	9.3	1 378	-4.8	17 562	63.5	18 940	55.4	80 691	17.5
2001	40 551	15.7	14 042	-47.4	54 593	-11.6	2 484	80.3	19 447	10.7	21 931	15.8	76 524	-5.2
2002	39 022	-3.8	9 638	-31.4	48 660	-10.9	2 709	9.1	19 007	-2.3	21 716	-1.0	70 376	-8.0
2003	34 030	-12.8	10 432	8.2	44 462	-8.6	3 453	27.5	16 507	-13.2	19 960	-8.1	64 422	-8.5

Note : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

Table 38: Average labour earnings by major economic sector

Major economic sector	As in Q3 of:				
	1999	2000	2001	2002	2003
	\$	\$	\$	\$	\$
Wholesale, retail and import/export trades	11,200 (-2) <4>	11,600 (4) <7>	11,800 (2) <3>	11,500 (-2) <2>	11 400 (-1) <2>
Restaurants and hotels	8,600 (-4) <2>	8,600 (* <3>	8,600 (-1) <*>	8,300 (-3) <1>	7 900 (-5) <-2>
Transport, storage and communications	17,100 (-5) <1>	17,500 (2) <5>	17,800 (2) <3>	17,400 (-3) <1>	17 000 (-2) <2>
Financing, insurance, real estate and business services	17,400 (-1) <5>	17,700 (1) <4>	17,500 (-1) <*>	17,300 (-1) <2>	17 200 (-1) <3>
Community, social and personal services	20,200 (* <7>	20,000 (-1) <2>	20,700 (3) <4>	20,100 (-2) <1>	19 000 (-6) <-2>
Manufacturing	10,900 (* <6>	11,000 (1) <4>	11,300 (2) <3>	11,200 (-1) <3>	10 800 (-4) <*>
All sectors surveyed	14,200 (-1) <5>	14,400 (2) <5>	14,700 (2) <3>	14,500 (-2) <2>	14 200 (-2) <2>

Notes : () % change over a year earlier in money terms.

< > % change over a year earlier in real terms.

(*) Change of less than 0.5%.

**Table 39: Wage indices by selected major economic sector
(year-on-year rate of change (%))**

As in September of :

Selected major economic sector	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>	
	In money terms	In real terms	In money terms	In real terms	In money terms	In real terms	In money terms	In real terms	In money terms	In real terms
Wholesale, retail and import/export trades	-1	5	3	5	1	2	-2	2	-1	1
Restaurants and hotels	*	5	-1	1	1	2	-3	2	-5	-2
Transport services	-2	3	-3	-1	*	1	*	4	-2	1
Financing, insurance, real estate and business services	-2	3	2	4	-2	-1	*	4	*	3
Personal services	*	5	*	2	1	2	-3	1	-4	-1
Manufacturing	-1	5	2	5	3	4	-2	3	-4	-1
All sectors surveyed	-1	4	1	4	1	2	-2	3	-2	1

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

**Table 40: Composite Consumer Price Index
(year-on-year rate of change (%))**

Year/month	All items	<i>of which :</i>			<i>of which :</i>			Electricity, gas and water	Alcoholic drinks and tobacco (for home consumption)	Clothing and footwear	Durable goods	Miscellaneous goods	Transport	Miscellaneous services	
		Food	Meals bought away from home	Other food	Housing	Private dwellings	Public Dwellings								
1999	-4.0	-1.8	-1.2	-2.8	-5.1	-6.1	1.4	-0.4	1.2	-20.6	-6.3	-0.7	0.5	-1.3	
2000	-3.8	-2.2	-0.9	-4.2	-8.2	-9.8	1.1	3.6	-0.9	-10.1	-4.6	0.9	1.0	-0.2	
2001	-1.6	-0.8	-0.3	-1.7	-3.1	-2.9	-8.3	-1.9	3.3	-4.6	-7.1	1.3	0.4	0.5	
2002	-3.0	-2.1	-1.5	-3.1	-5.7	-6.5	-2.7	-7.0	2.4	0.7	-6.3	1.7	-0.6	-2.3	
2003	-2.6	-1.5	-1.5	-1.7	-4.8	-6.3	9.1	1.4	0.1	-2.7	-6.4	2.3	-0.4	-3.2	
332 2003	Jan	-1.6	-1.9	-1.7	-2.3	-1.9	-3.0	11.8	-9.4	0.2	-3.0	-5.5	3.2	0.4	-0.3
	Feb	-2.0	-2.1	-1.5	-3.0	-2.3	-3.5	11.8	-7.7	0.8	-4.3	-5.9	4.0	-0.5	-2.1
	Mar	-2.1	-1.8	-1.6	-2.3	-2.5	-3.8	11.8	-2.9	0.5	-3.0	-6.7	2.6	-0.2	-2.6
	Apr	-1.8	-1.5	-1.6	-1.4	-2.9	-4.3	11.8	12.8	-0.1	-3.8	-7.4	0.5	*	-2.3
	May	-2.5	-1.5	-1.5	-1.4	-3.4	-4.9	11.8	10.7	*	-7.7	-7.8	0.7	-0.6	-4.1
	Jun	-3.1	-1.5	-1.7	-1.1	-4.0	-5.5	11.8	-0.7	0.8	-7.5	-7.9	0.5	-1.2	-4.7
	Jul	-4.0	-1.5	-1.6	-1.4	-7.7	-9.2	1.4	-1.1	*	-4.8	-7.1	0.7	-1.7	-4.7
	Aug	-3.8	-1.9	-1.6	-2.3	-8.0	-9.5	1.4	0.5	-0.2	-2.9	-6.9	1.4	-0.7	-3.7
	Sep	-3.2	-1.3	-1.5	-0.9	-8.1	-9.7	1.4	1.0	0.1	-0.6	-6.1	2.8	-0.1	-2.8
	Oct	-2.7	-1.6	-1.4	-1.8	-5.7	-7.6	11.5	1.1	-0.5	-0.7	-5.5	3.1	0.1	-3.5
	Nov	-2.4	-1.4	-1.1	-1.7	-5.6	-7.6	11.5	1.3	-0.5	1.9	-5.4	3.8	*	-3.3
	Dec	-1.9	-0.8	-0.7	-0.9	-5.5	-7.5	11.5	9.8	0.3	3.7	-5.0	4.6	-0.3	-3.8

Notes : As from October 2000 onwards, the year-on-year rates of change are computed from the 1999/2000-based Consumer Price Indices series. For the earlier periods, the year-on-year rates of change are computed from the 1994/95-based CPI series.

(*) Change of less than 0.05%.

Table 41 : Consumer Price Index (A)
(year-on-year rate of change (%))

		<i>of which :</i>													
		<i>Meals bought away from home</i>				<i>of which :</i>			Electricity, gas and water	Alcoholic drinks and tobacco (for home consumption)	Clothing and footwear	Durable goods	Miscellaneous goods	Transport	Miscellaneous services
<u>Year/month</u>	<u>All items</u>	<u>Food</u>	<u>Other food</u>	<u>Housing</u>	<u>Private dwellings</u>	<u>Public dwellings</u>									
1999		-3.3	-2.2	-1.4	-3.1	-4.5	-6.4	1.5	-0.6	1.1	-19.9	-5.2	-0.1	0.4	-0.6
2000		-3.0	-2.4	-0.8	-4.3	-6.2	-8.8	1.1	3.9	-0.8	-11.9	-4.2	1.5	0.6	*
2001		-1.7	-1.0	-0.5	-1.8	-3.6	-2.9	-8.2	-2.7	3.6	-4.3	-6.9	2.7	0.5	0.6
2002		-3.2	-2.2	-1.7	-2.9	-5.7	-6.8	-2.7	-8.2	2.4	2.6	-6.0	1.0	-0.6	-3.3
2003		-2.1	-1.6	-1.4	-1.9	-3.0	-5.9	9.1	1.3	0.1	-3.0	-6.3	1.1	-1.0	-3.7
333	2003 Jan	-1.6	-2.1	-1.9	-2.3	-0.3	-2.9	11.7	-11.9	0.2	-3.3	-5.7	1.5	*	-1.2
	Feb	-2.0	-2.4	-1.7	-3.2	-0.6	-3.4	11.7	-10.0	0.5	-4.6	-6.2	2.0	-1.0	-2.7
	Mar	-1.9	-2.1	-1.9	-2.3	-0.8	-3.7	11.7	-3.9	0.3	-3.1	-7.1	1.1	-1.0	-3.3
	Apr	-1.2	-1.7	-1.8	-1.7	-1.2	-4.3	11.8	14.2	-0.2	-2.7	-7.4	-0.1	-0.7	-2.9
	May	-1.7	-1.6	-1.7	-1.5	-1.6	-4.7	11.8	12.1	-0.1	-6.9	-7.8	*	-1.3	-4.6
	Jun	-2.4	-1.5	-1.6	-1.4	-1.9	-5.1	11.8	-0.9	0.8	-6.9	-7.5	0.1	-2.0	-5.3
	Jul	-3.6	-1.7	-1.5	-1.9	-6.4	-8.7	1.4	-1.3	-0.1	-4.8	-7.0	0.3	-2.3	-5.2
	Aug	-3.5	-2.0	-1.3	-3.0	-6.7	-9.2	1.4	0.6	-0.1	-4.0	-6.6	0.5	-1.1	-4.1
	Sep	-2.8	-0.9	-1.1	-0.6	-6.8	-9.3	1.4	1.0	*	-0.8	-5.8	1.3	-0.6	-3.0
	Oct	-2.0	-1.3	-1.0	-1.8	-3.3	-6.9	11.5	1.2	-0.5	-1.4	-5.1	1.8	-0.6	-3.9
	Nov	-1.8	-1.3	-0.8	-1.9	-3.1	-6.8	11.5	1.4	-0.4	0.9	-4.9	2.1	-1.0	-4.0
	Dec	-1.2	-0.6	-0.4	-0.8	-3.0	-6.7	11.5	11.0	0.3	1.7	-4.6	2.6	-1.2	-4.7

Notes : As from October 2000 onwards, the year-on-year rates of change are computed from the 1999/2000-based Consumer Price Indices series. For the earlier periods, the year-on-year rates of change are computed from the 1994/95-based CPI series.

(*) Change of less than 0.05%.

**Table 42 : Implicit price deflators of GDP and its main expenditure components
(rate of change (%))**

	<u>1999</u>	<u>2000</u>	<u>2001</u> [#]	<u>2002</u> [#]	<u>2003</u> ⁺
Private consumption expenditure ^(a)	-5.4	-4.9	-1.3	-3.6	-3.0
Government consumption expenditure	-0.1	-1.9	1.1	-0.5	-2.8
Gross domestic fixed capital formation	0.4	-3.8	-6.6	-8.1	-5.9
Total exports of goods	-3.4	-0.5	-2.6	-2.9	-2.0
Imports of goods	-2.6	0.8	-3.5	-4.2	-0.9
Exports of services ^(a)	-3.3	0.5	-4.0	-2.1	-1.8
Imports of services	-0.8	-0.2	-1.5	0.2	2.4
Gross Domestic Product	-5.8	-6.2	-1.9	-3.0	-5.1
Total final demand	-3.7	-2.9	-2.7	-3.5	-2.4
Domestic demand ^(a)	-2.4	-5.3	-2.5	-4.5	-3.8

Notes : (a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(#) Revised figures.

(+) Preliminary figures.

