



# Third Quarter Economic Report 2004

Government of the Hong Kong  
Special Administrative Region

***THIRD QUARTER  
ECONOMIC REPORT 2004***

ECONOMIC ANALYSIS DIVISION  
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT  
FINANCIAL SECRETARY'S OFFICE  
GOVERNMENT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERALL VIEW

### *Summary*

- *The upturn in the Hong Kong economy extended well into the third quarter of 2004, as merchandise exports and offshore trade thrived further amidst a still favourable external environment. Domestic demand also held firm.*
- *GDP attained a further notable growth at 7.2% in real terms in the third quarter of 2004 over a year earlier, after a 12.1% leap in the second quarter which was partly inflated by an exceptionally low base of comparison caused by SARS last year.*
- *In tandem with the economic upturn, total employment expanded and vacancies surged across sectors. The seasonally adjusted unemployment rate fell to a 2½-year low of 6.8% in the third quarter. Labour earnings reverted to a mild increase in money terms.*
- *The property market regained momentum, as sentiment was rekindled along with the economic recovery and upon the end of the deflation era. Flat prices, after some relapse in the summer months, bounced back by around 6% in September over June.*
- *In July 2004, the economy finally arrested the 68-month long deflation that started in November 1998. Pricing power of retailers seems to be returning as local consumer demand strengthens. However, the pace of upturn in the overall CPI level is still being held back by the distinct fall-off in housing rentals in 2003.*

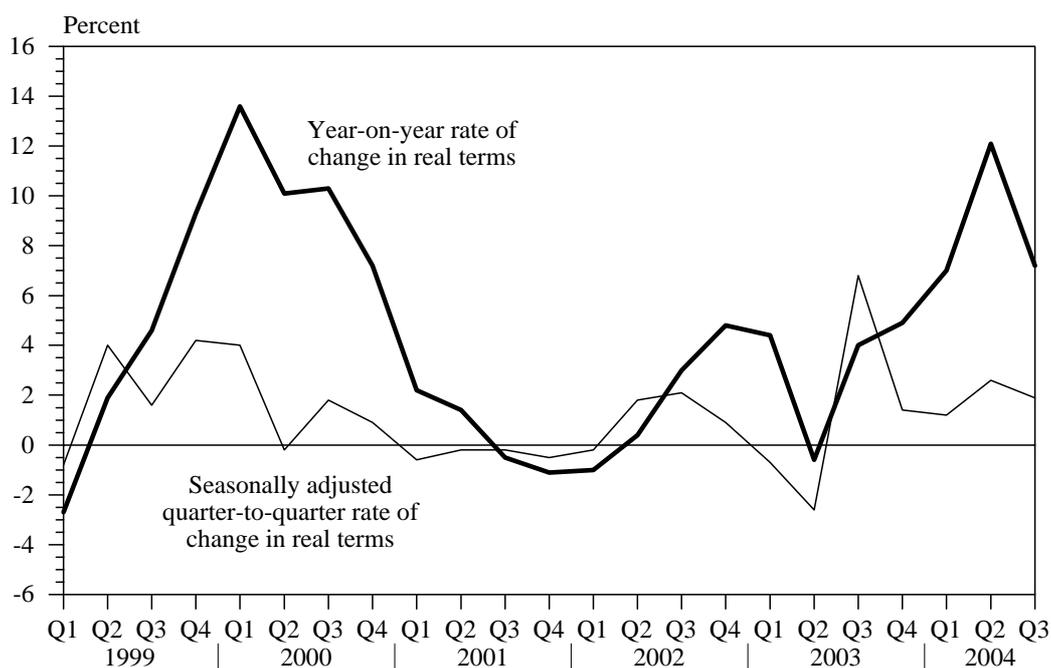
### **Overall situation**

1.1 The economic upturn extended well into the third quarter of 2004. Externally, both merchandise exports and offshore trade surged further, on the back of thriving regional trade flows and a still very strong China economy. Despite all the uncertainties about oil price hikes, up to now its impact has not been that detrimental as to hurt the global growth momentum and international trade flows. Inbound tourism continued to perform well, with the number of visitor arrivals hitting successive monthly record highs during the third quarter. Locally, consumer spending held firm on the back of improved labour market

situation and generally upbeat sentiment, even though the growth momentum seemed to have slowed somewhat in the third quarter. Overall investment spending also grew further, thanks to continued hectic acquisition of machinery and equipment.

1.2 In the third quarter of 2004, the *Gross Domestic Product (GDP)*<sup>(1)</sup> attained a further notable growth at 7.2% in real terms over a year earlier, after a 12.1% leap in the second quarter which was partly inflated by an exceptionally low base caused by Severe Acute Respiratory Syndrome (SARS) last year (latter figure unchanged from the estimate released in August). On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP expanded for the fifth consecutive quarter, by 1.9% in real terms in the third quarter of 2004, after the 2.6% growth in the second quarter (latter figure also unchanged from the estimate released in August).

**Diagram 1.1 : Gross Domestic Product**



**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> <sup>#</sup>	<u>2003</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>2003</u> <u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>2004</u> <u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	-1.2	-0.9	-3.2 (-1.1)	-4.1 (-0.8)	0.1 (2.8)	3.7 (2.9)	6.0 (1.0)	11.2 (3.7)	5.1 (-2.2)
Government consumption expenditure	2.5	1.9	1.0 (0.6)	0.5 (0.5)	0.5 (1.2)	5.5 (3.0)	5.4 (0.5)	-0.2 (-4.8)	-1.5 (-0.2)
Gross domestic fixed capital formation	-4.5	0.1	4.2 (N.A.)	-5.3 (N.A.)	* (N.A.)	1.9 (N.A.)	5.5 (N.A.)	12.7 (N.A.)	4.9 (N.A.)
<i>of which :</i>									
Building and construction	-1.1	-7.0	-3.2	-8.5	-6.6	-9.9	-11.6	-10.1	-8.4
Machinery, equipment and computer software	-7.6	6.5	12.8	-1.1	5.6	9.3	16.0	26.1	12.2
Total exports of goods	8.7	14.2	19.1 (3.4)	14.3 (1.9)	10.0 (1.7)	14.7 (6.5)	15.0 (3.3)	18.7 (5.8)	15.3 (-0.9)
Imports of goods	7.9	13.1	18.8 (3.0)	10.9 (1.1)	8.2 (2.4)	15.7 (7.5)	16.3 (3.4)	20.3 (5.5)	14.2 (-2.9)
Exports of services	11.7	7.1	14.3 (2.3)	-9.5 (-18.4)	10.4 (33.8)	11.8 (-1.0)	12.6 (1.8)	31.4 (-1.3)	10.3 (7.6)
Imports of services	3.7	-4.6	-5.4 (-5.8)	-16.8 (-14.3)	-0.3 (23.2)	3.1 (3.4)	4.1 (-4.8)	30.3 (7.2)	5.8 (-0.1)
<b>Gross Domestic Product</b>	<b>1.9</b>	<b>3.2</b>	<b>4.4</b> <b>(-0.7)</b>	<b>-0.6</b> <b>(-2.6)</b>	<b>4.0</b> <b>(6.8)</b>	<b>4.9</b> <b>(1.4)</b>	<b>7.0</b> <b>(1.2)</b>	<b>12.1</b> <b>(2.6)</b>	<b>7.2</b> <b>(1.9)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>-3.6</b>	<b>-5.3</b>	<b>-4.4</b> <b>(-1.0)</b>	<b>-5.8</b> <b>(-2.2)</b>	<b>-6.1</b> <b>(-1.4)</b>	<b>-4.8</b> <b>(-0.3)</b>	<b>-4.0</b> <b>(-0.1)</b>	<b>-2.7</b> <b>(-0.8)</b>	<b>-2.5</b> <b>(-1.3)</b>
<b>Composite Consumer Price Index</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-2.0</b> <b>(-0.1)</b>	<b>-2.5</b> <b>(-1.1)</b>	<b>-3.6</b> <b>(-1.9)</b>	<b>-2.3</b> <b>(0.8)</b>	<b>-1.8</b> <b>(0.3)</b>	<b>-0.9</b> <b>(*)</b>	<b>0.8</b> <b>(-0.3)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>-1.8</b>	<b>-2.2</b>	<b>-0.1</b>	<b>-6.3</b>	<b>-2.2</b>	<b>-0.2</b>	<b>2.5</b>	<b>9.1</b>	<b>4.4</b>

Notes : (#) Revised figures.

(+) Preliminary figures.

( ) Seasonally adjusted quarter-to-quarter rate of change.

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.

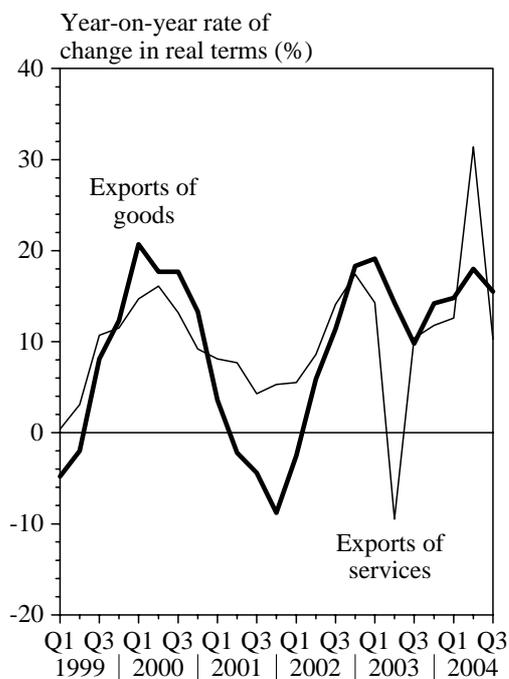
(\*) Change of less than 0.05%.

## The external sector

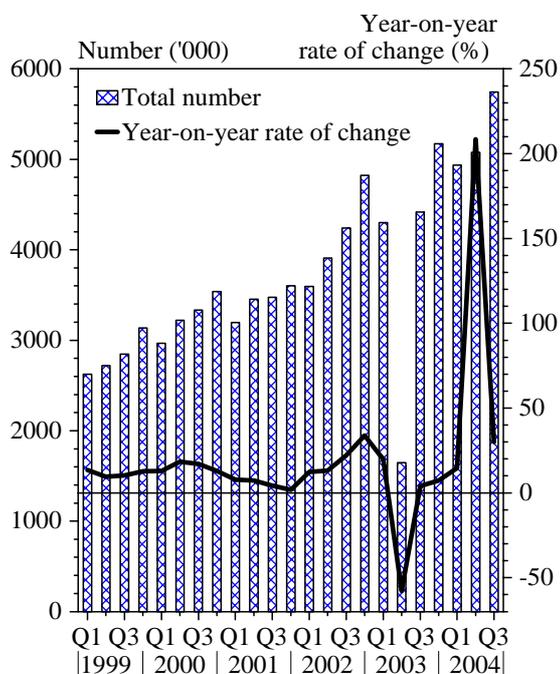
1.3 Despite increasing uncertainties in the global economic environment stemming from oil price hikes, activity still held up rather well across regions in the third quarter of 2004. With continued sturdy demand in the industrialised economies and in Asia, *total exports of goods* surged by 15.5% in real terms in the third quarter over a year earlier, after the 18.0% growth in the second quarter. The robust export performance was manifested in sustained double-digit growth in exports to almost all major markets in East Asia and the European Union. Exports to the US market also grew further, albeit still lagging behind the other markets amidst continuing structural shift to offshore trade.

1.4 On invisible trade, inbound tourism stayed resilient, with the number of visitor arrivals hitting successive record highs during the third quarter. Apart from continued surge in Mainland visitors, visitors from almost all of the other major sources grew notably further in the quarter. Coupled with continued robustness in offshore trade, *exports of services* leaped further by 10.3% in real terms in the third quarter of 2004 over a year earlier, after soaring by 31.4% in the second quarter against an abnormally low base caused by SARS last year.

**Diagram 1.2 : Total exports of goods and exports of services**



**Diagram 1.3 : Visitor arrivals**



## The domestic sector

1.5 Local consumer spending held firm as labour market conditions improved and sentiment remained generally positive. *Private consumption expenditure (PCE)* attained a solid increase of 5.1% in real terms in the third quarter of 2004 over a year earlier, after the 11.2% leap in the second quarter against an exceptionally low base of comparison due to SARS last year. On a seasonally adjusted quarter-to-quarter comparison, PCE fell back by 2.2% in real terms in the third quarter of 2004, after the 3.7% growth in the second quarter.

**Table 1.2 : Consumer spending by major component<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

*Of which :*

		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption <sup>(b)</sup> expenditure
2003	Annual	1	1	6	-4	1	-13	4	-1
	Q1	*	1	5	-5	1	-14	31	-3
	Q2	-6	*	-1	-17	-4	-31	-53	-4
	Q3	3	1	6	1	3	-3	28	*
	Q4	5	2	13	4	5	-4	13	4
2004	Q1	7	1	17	6	5	-2	4	6
	Q2	13	-2	20	27	11	50	123	11
	Q3	5	2	15	4	3	6	3	5

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

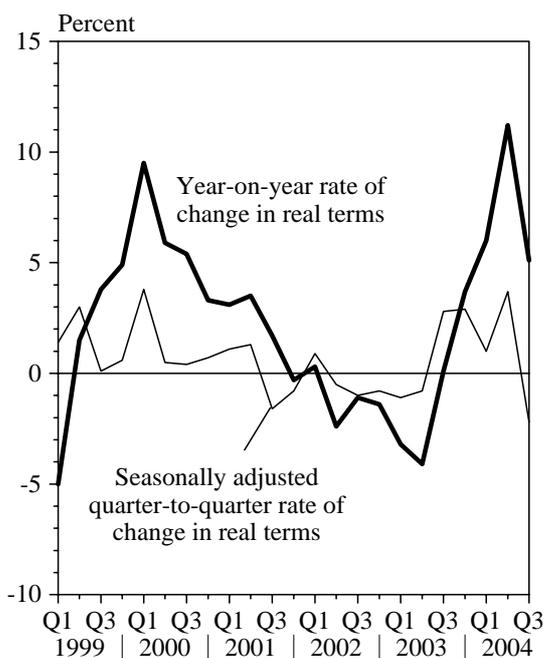
(b) Private consumption expenditure is obtained by deducting tourist spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

(\*) Change of less than 0.5%.

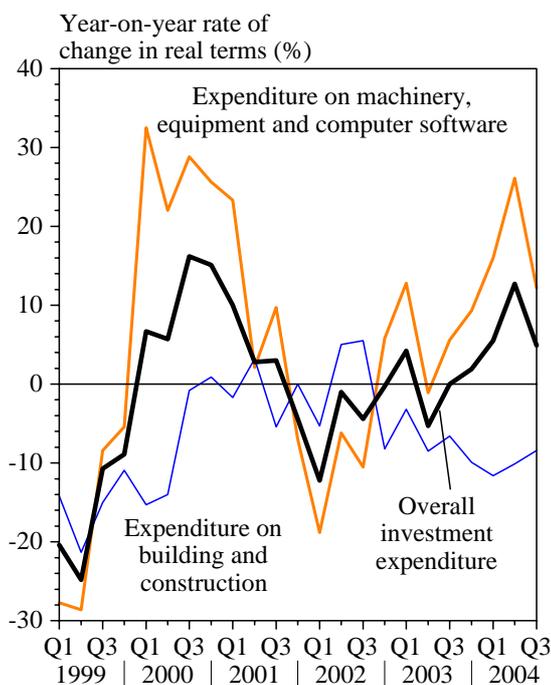
1.6 Overall investment spending in terms of the *gross domestic fixed capital formation* rose further, by 4.9% in real terms in the third quarter of 2004 over a year earlier, after a 12.7% surge in the second quarter which was again inflated by a low base caused by SARS last year. The growth in the third quarter was primarily propelled by a continued double-digit surge in expenditure on machinery, equipment and computer software, prompted by the strong growth in business activity over the past year, yet also a clear reflection of improved business sentiment. But the slack construction output continued to hold back the upturn in investment. In the third quarter, there was a further decline of 8.4%

over a year earlier, following a 10.1% fall in the second quarter. The setback was the combined result of the completion of a number of prominent private sector building projects in the earlier months, a further fall-off in construction output under the Public Housing Programme, as well as the winding down of works on priority railway projects over the past year or so.

**Diagram 1.4 : Consumer spending**



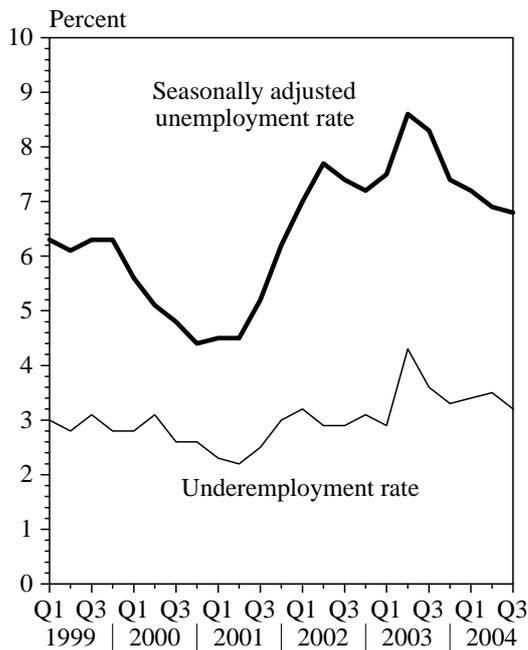
**Diagram 1.5 : Investment spending**



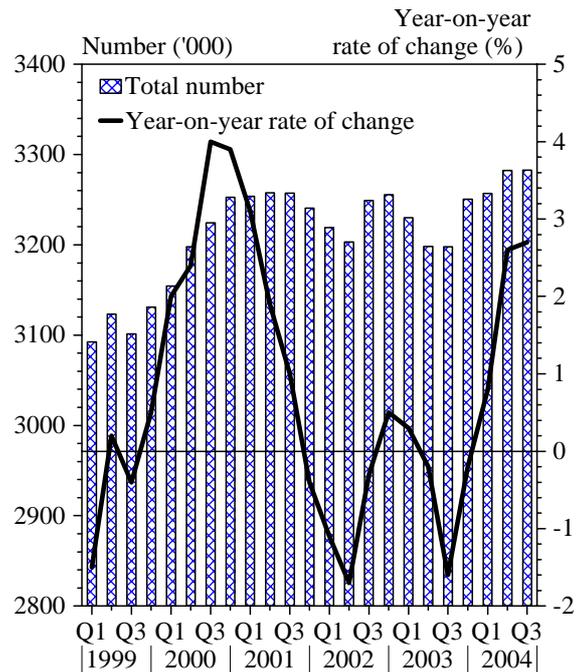
## The labour sector

1.7 The economic upturn over the past year has trickled down to benefit the labour sector. Employment expanded, while vacancies surged across sectors. In the third quarter of 2004, *total employment* grew by 2.7% over a year earlier, up from the 2.6% growth in the second quarter. Reflecting improved employment conditions, the *seasonally adjusted unemployment rate* fell from a peak of 8.6% in the second quarter of 2003 to a 2½-year low of 6.8% in the third quarter of 2004. The *underemployment rate* likewise fell, from a peak of 4.3% in the second quarter of 2003 to a near 1½-year low of 3.2% in the third quarter of this year. Also, overall labour earnings rebounded to a modest year-on-year increase in money terms in the second quarter of 2004, arresting the downtrend since the first quarter of 2002.

**Diagram 1.6 : Unemployment and underemployment rates**



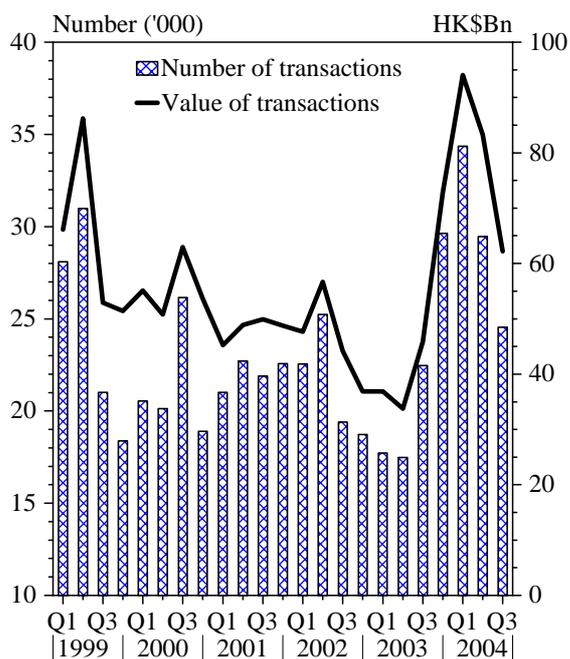
**Diagram 1.7 : Total employment**



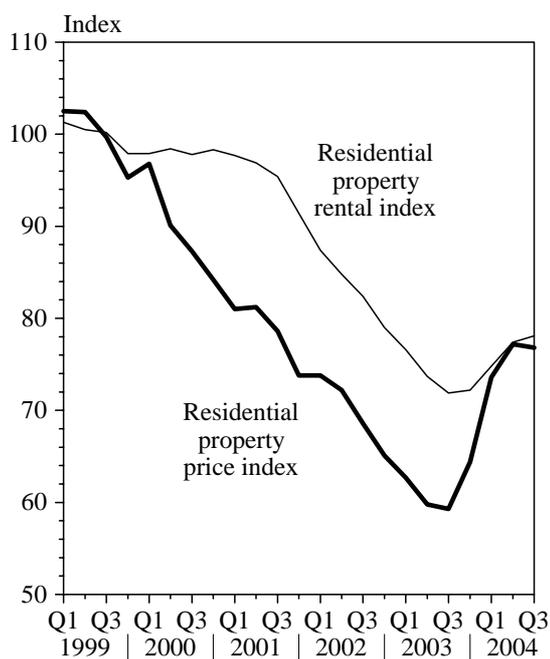
## Property market

1.8 The property market regained momentum towards the end of the third quarter of 2004, following a brief consolidation in the earlier months. Trading activity rebounded substantially in September, having fallen for five months in a row. More specifically on *residential property*, acquisition interest was rekindled by a launch of mortgage financing up to 95% of the assessed value of residential flats, successful release of two more plots of government land for auction, and the enthusiastic response in the primary sales of flats in certain developments. Apart from these, market sentiment turned more upbeat after the release of the July CPI figure signaling the end of the deflation era in Hong Kong, especially so for the luxury end of residential property. Flat prices, whilst showing a marginal decline for the third quarter as a whole, actually bounced up visibly again after July. By September 2004, flat prices have risen back by around 6% over June, resulting in a cumulative rebound of around 36% from the trough in mid-2003. Concurrently, flat rentals firmed up by around 1% in the third quarter, after a 3% rise in the second quarter. On *commercial property*, leasing activity for office space improved further amidst the upturn in overall economic activity, leading to progressive take-up of vacant floor space in prime locations. Meanwhile, the market for shopping space continued to fare well, as inbound tourism and local consumer spending stayed on an upturn.

**Diagram 1.8 : Number and value of property transaction**



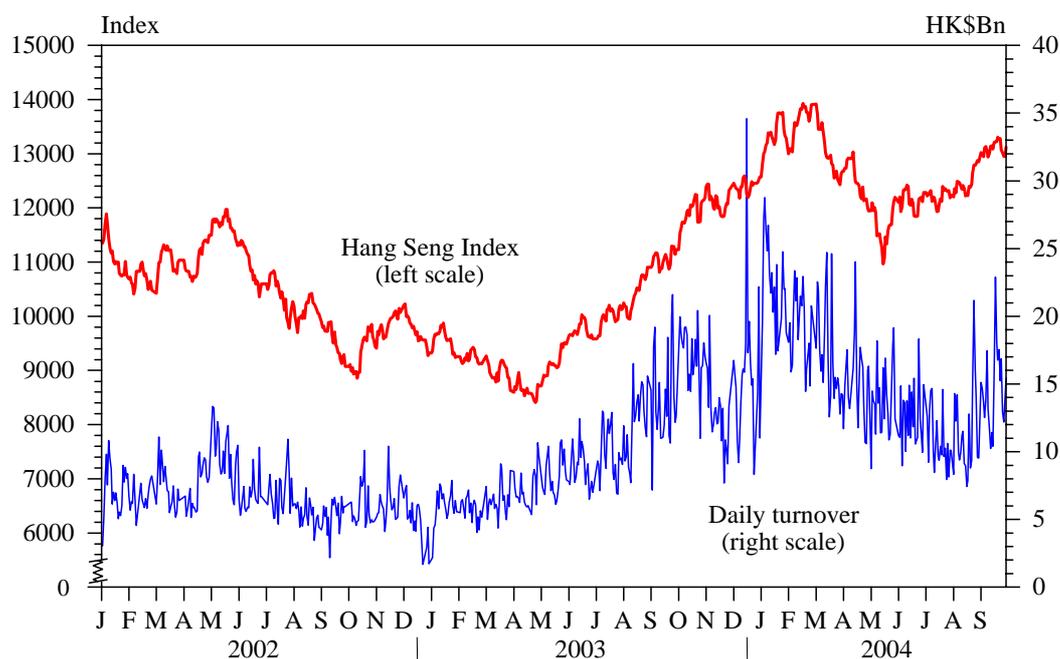
**Diagram 1.9 : Prices and rentals for residential property**



## Stock market

1.9 The local *stock market* consolidated in the early part of the third quarter of 2004, along with the corrections in major overseas stock markets, rising US interest rates and resurgence in crude oil prices. It then rallied strongly since late August, as sentiment was successively buoyed by the announcement of favourable corporate earnings results, release of upbeat GDP and CPI figures, as well as the announcement of additional liberalisation measures under the second phase of Closer Economic Partnership Arrangement (CEPA II)<sup>(3)</sup>. The Hang Seng Index advanced to hit a six-month high of 13 304 on 21 September, closing the month of September at 13 120, distinctly up by 6.8% over three months earlier.

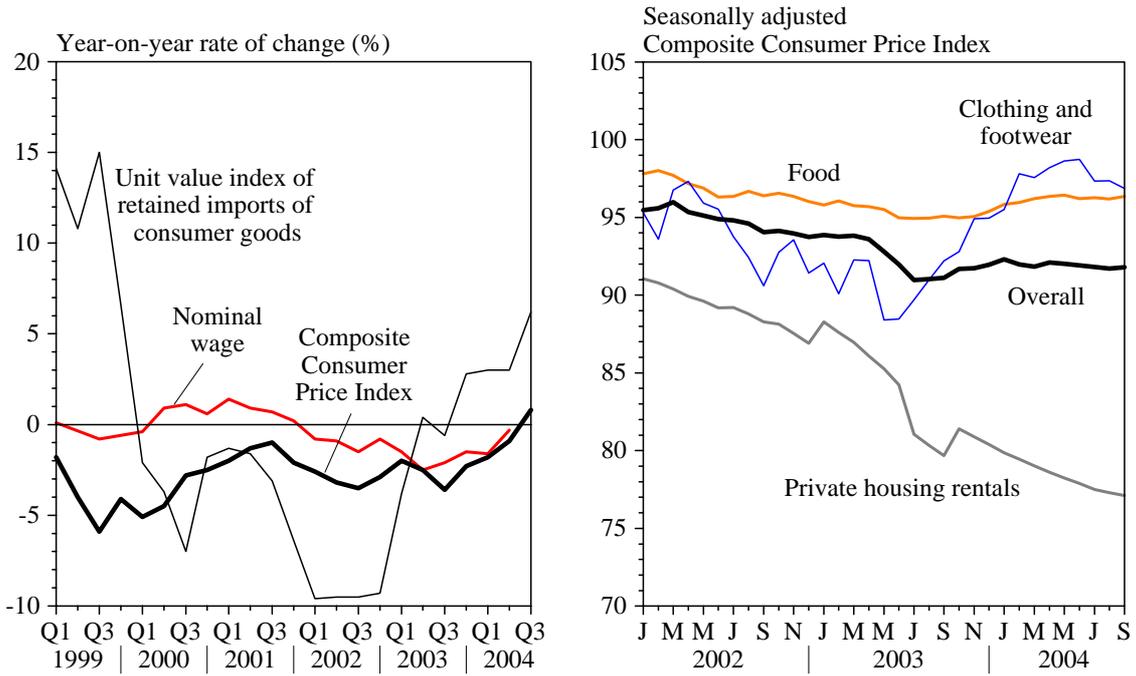
**Diagram 1.10 : Hang Seng Index and stock market turnover**



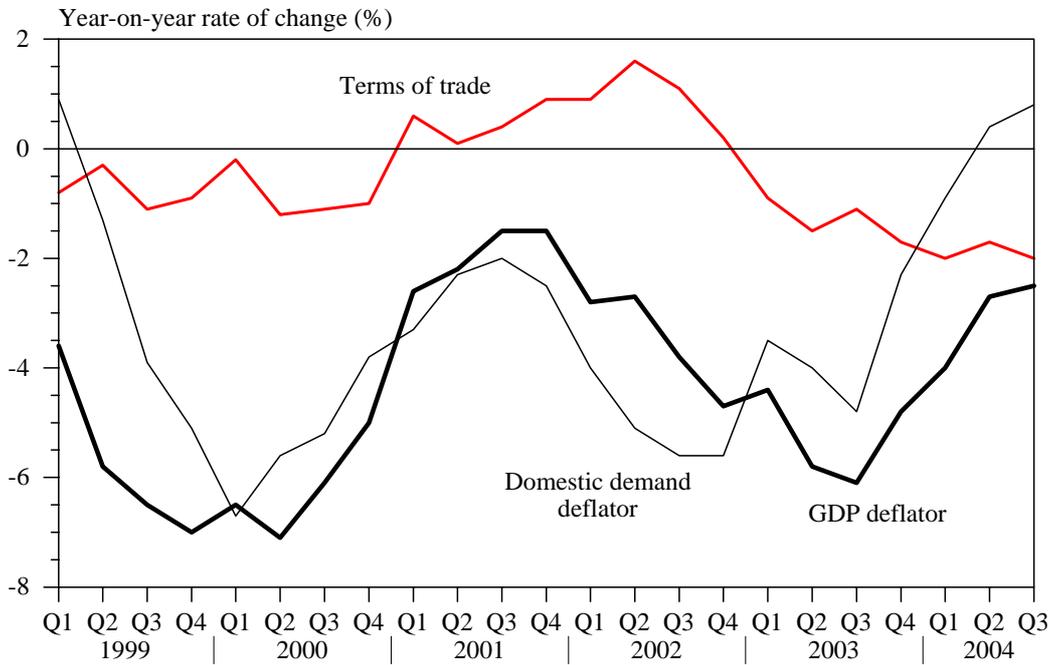
## Prices

1.10 In July 2004, the economy finally arrested the 68-month long deflation that started in November 1998. In parallel with a much improved consumer spending, the pricing power of retailers seems to be returning. Also, the rise in import prices over the past year is progressively passing through to the retail price level. For the third quarter of 2004 as a whole, the *Composite Consumer Price Index* rose by an average of 0.8% over a year earlier, reversing the 0.9% decline in the second quarter. But on a seasonally adjusted quarter-to-quarter comparison, there was actually a modest decline of 0.3% in the third quarter of 2004, mainly due to the continuing drag from the fall-off in housing rentals in the earlier period. Also partly contributed was the softening in the prices of clothing and footwear. As to the *GDP deflator*, the year-on-year rate of decline tapered slightly from 2.7% in the second quarter of 2004 to 2.5% in the third quarter, along with the rebound in consumer prices and slightly lesser decline in the price deflator for government consumption expenditure.

**Diagram 1.11 : Consumer prices**



**Diagram 1.12 : GDP deflator**



## Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is 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.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The main parts of CEPA were signed on 29 June 2003, and the six Annexes setting out the implementation details were signed on 29 September 2003. CEPA has three main parts, namely (1) zero-tariff treatment for exports from Hong Kong meeting the rules of origin requirement, with the first batch covering 374 Mainland product codes taking effect as from 1 January 2004; (2) liberalisation of market access in 18 services sectors in the Mainland; and (3) promotion of co-operation in seven areas of trade and investment facilitation, such as customs clearance, small and medium-sized enterprises, Chinese medicine and medical products, and e-commerce. This apart, it also embraces mutual recognition of professional qualifications in certain professional service fields.

On 27 August 2004, agreement was reached between the Central People's Government and HKSAR Government on further liberalisation measures under CEPA II for implementation as from 1 January 2005. Under CEPA II, the Mainland will apply zero tariffs to imports of Hong Kong goods meeting the rules of origin requirement under another 713 Mainland tariff codes, grant preferential treatment to Hong Kong companies in another 8 new areas in trade in services, and broaden the liberalisation of 11 services sectors covered by the first phase of CEPA.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *Hong Kong's external sector continued to flourish in the third quarter of 2004, as global demand stayed generally strong across many regions.*
- *Total exports of goods remained buoyant, up by 15.5% in real terms in the third quarter of 2004 over a year earlier. This marked the ninth consecutive quarter of double-digit growth. Exports to the East Asian and European markets remained brisk. But exports to the US market continued to lag behind the others, conceivably weighed down by the structural shift to offshore trade.*
- *Exports of services, after an exceptionally distinct growth in the second quarter owing to the base effect, attained a still remarkable increase of 10.3% in the third quarter. Offshore trade in particular sustained the sharp uptrend. Inbound tourism grew further.*
- *The renewed surge in oil prices after July is posing increasing downside risks to the external environment, even though up to now the overall tone for 2004 is still largely positive.*

### **Major external influences**

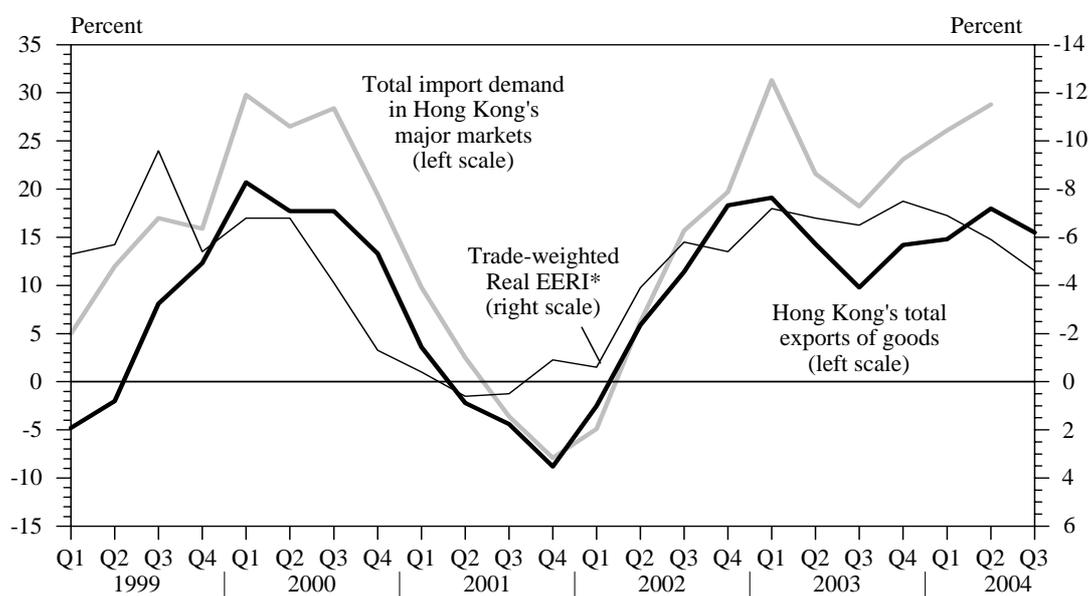
2.1 The global economy maintained solid growth momentum in overall terms more recently, despite that the growth pace was less hectic than in early 2004. Not only was there continued expansion across many regions, activity growth was also becoming more broad-based. However, the renewed surge in oil prices after July has aroused increasing concern that adverse oil price developments might eventually taint the otherwise sanguine external economic environment.

2.2 In the US economy, the recent soft spot in private consumption caused in part by higher oil prices as well as weaker labour market conditions had been balanced by re-accelerating investment spending and strong labour productivity growth. Industrial activity remained generally strong amidst the upbeat investment sentiment. Nevertheless, the latest surge in oil prices apparently had started to take effect more prominently on overall economic sentiment. In the European Union, the modest economic recovery remained in

place, with the recent pick-up in activity still heavily dependent on external demand. Yet, as with the US economy, investment spending gathered more strength to add impetus to the EU economy. Consumer demand however improved only gradually, dragged mainly by the lacklustre labour market conditions.

2.3 In East Asia, the export boom generally continued to fuel the marked economic growth within the region. The Mainland economy sustained strong growth momentum, underpinned by buoyant exports and vivid domestic demand. The Mainland government's cooling measures seemed to be yielding some results, with growth in money supply and loans coming down from the rampant growth in early 2004, and with consumer price inflation also easing back lately. Nevertheless, in Japan, there was a visible moderation in export growth more recently. The resultant drag on overall economic growth was however cushioned partly by a steady expansion in consumer spending.

**Diagram 2.1 : Hong Kong's total exports of goods, total import demand in Hong Kong's major markets, and exchange rate movements (year-on-year rate of change)**



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

(\*) 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 denoting real appreciation of the Hong Kong dollar appear at the lower part and negative changes denoting real depreciation at the upper part of the diagram.

## Visible trade

### *Total exports of goods*

2.4 Thanks to the still buoyant global demand, and a much enhanced competitiveness after the substantial cost adjustments over the past few years, external trade continued to do well. *Total exports of goods* (comprising re-exports and domestic exports) attained further distinct growth, at 15.5% in real terms<sup>(1)</sup> in the third quarter of 2004 over a year earlier, following an 18.0% surge in the second quarter. This marked the ninth consecutive quarter of double-digit growth in total exports. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods fell back, by 0.4% in real terms in the third quarter, after a 5.4% leap in the second quarter.

2.5 Within total exports of goods, *re-exports*<sup>(2)</sup> remained the key driver of the overall export growth, surging by 16.8% in the third quarter of 2004, after a 19.0% increase in the second quarter. The Mainland features prominently in Hong Kong's re-export trade. The significance of the Mainland both as the largest export market and as the largest source of Hong Kong's re-exports reflects the prominent role of Hong Kong as the trade conduit between the Mainland and the rest of the world.

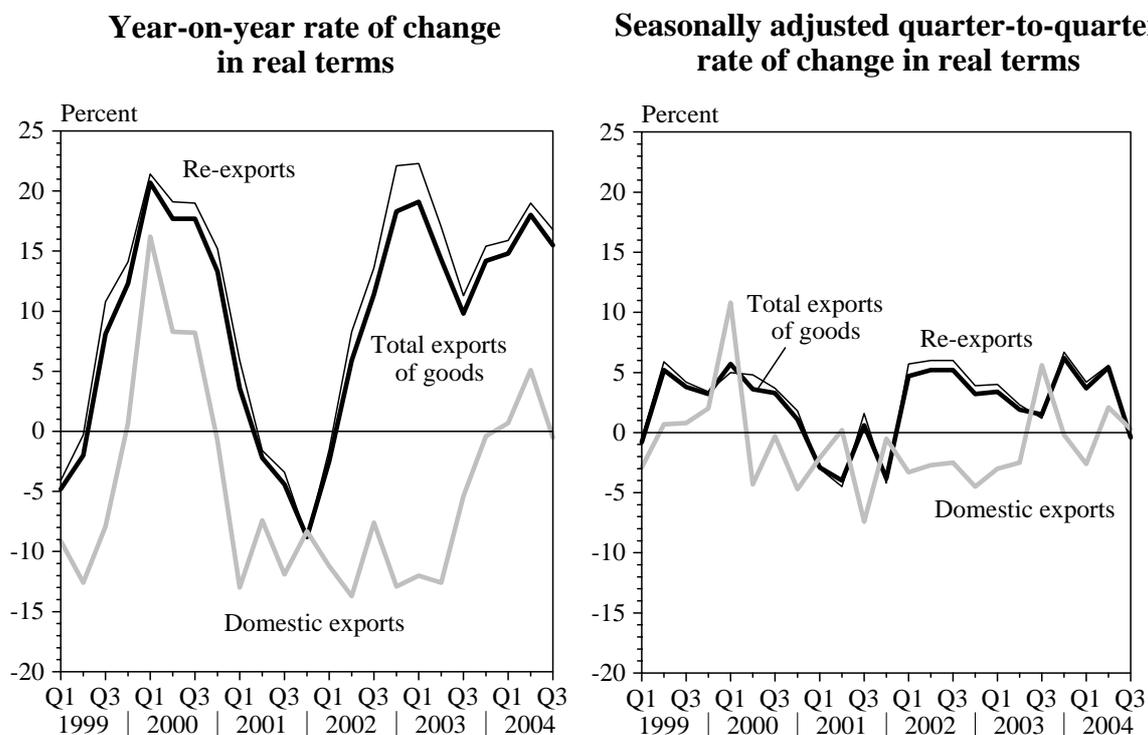
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<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>
2003 Annual	11.7	14.0	1.4	13.4	16.1	-1.5	-7.1	-7.4	0.2
Q1	17.6	19.1 (3.4)	-0.9	20.3	22.3 (4.0)	-1.1	-10.4	-12.0 (-3.0)	0.8
Q2	12.2	14.3 (1.9)	-1.4	14.4	17.0 (2.3)	-1.6	-11.4	-12.6 (-2.5)	0.7
Q3	7.1	9.8 (1.5)	-1.8	8.2	11.3 (1.2)	-2.0	-5.4	-5.4 (5.6)	0.3
Q4	11.4	14.2 (6.2)	-1.5	12.4	15.4 (6.7)	-1.5	-1.7	-0.4 (-0.2)	-0.8
2004 Q1	13.0	14.8 (3.7)	-0.7	14.0	15.9 (4.2)	-0.8	-0.6	0.7 (-2.6)	-0.6
Q2	17.8	18.0 (5.4)	0.5	18.7	19.0 (5.6)	0.5	4.9	5.1 (2.1)	0.2
Q3	17.2	15.5 (-0.4)	1.9	18.5	16.8(-0.5)	2.0	0.8	-0.5 (0.3)	1.8

Note : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

2.6 In contrast, *domestic exports* dipped into a negative growth of 0.5% in the third quarter, after a 5.1% rise in the second quarter. The on-going structural shift towards re-exports and offshore trade<sup>(3)</sup> conceivably continued to drag down domestic exports. Domestic exports now take up around 6% of total exports.

**Diagram 2.2 : Total exports of goods, re-exports and domestic exports**



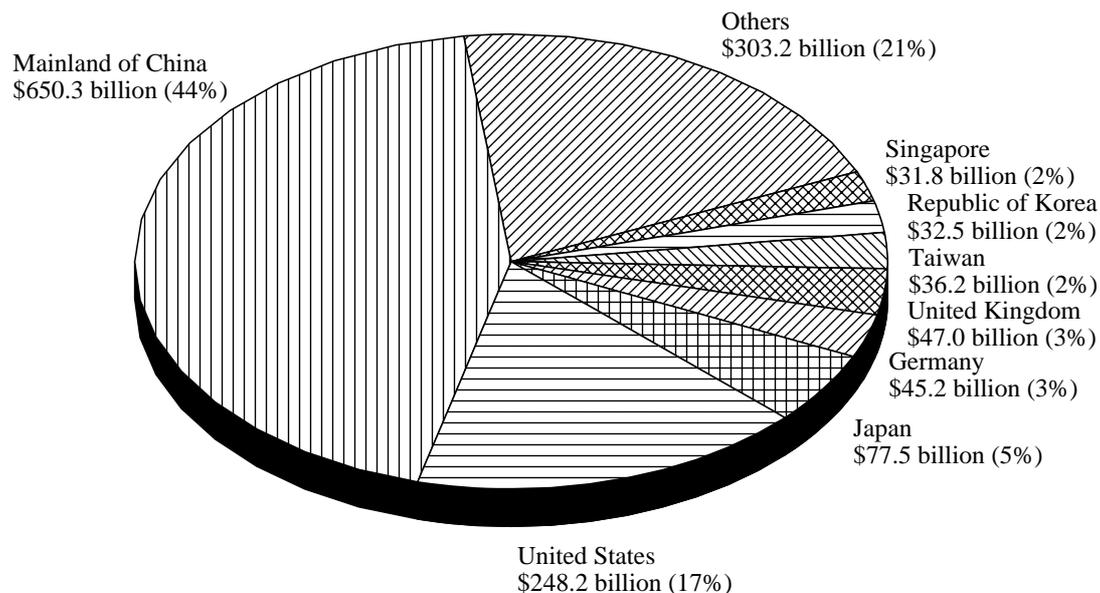
***Total exports of goods by major market***

2.7 Intra-regional trade continued to feature prominently in Hong Kong’s external trade, with the Mainland still the bright spot. In the first three quarters of 2004, 60% of the value of Hong Kong’s total exports of goods were destined to the East Asian<sup>(4)</sup> markets. Total exports of goods to the Mainland maintained strong growth of around 20% in the third quarter, marked by soaring exports of raw material and semi-manufactures and of capital goods. Exports to Japan were also robust. As to the other East Asian markets, there was sustained double-digit growth as the regional trade boom continued.

2.8 As to the industrialised economies, exports to the European Union<sup>(5)</sup> stayed strong in the third quarter, under the support of a generally firm euro and the reviving demand there. Within the EU market, exports to both Germany and the United Kingdom continued to display double-digit growth in the

quarter. As to the US market, Hong Kong's exports to this destination, though with a further modest growth in the third quarter, were persistently lagging behind US' own import demand. Conceivably, this was due to the increasing convenience for US-bound cargoes to be shipped out directly from South China after outward processing.

**Diagram 2.3 : Total exports of goods by major market in the first three quarters of 2004**



*Total exports of goods in the first three quarters of 2004 : \$1,471.9 billion*

**Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))**

		Mainland of China	United States	Japan	United Kingdom	Germany	Taiwan	Singapore	Republic of Korea
2003	Annual	23.1	-1.4	14.2	8.1	18.6	25.4	16.4	20.7
	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
2004	Q1	17.0	4.6	10.9	13.8	7.9	26.2	31.1	33.2
	Q2	21.4	7.2	17.4	13.3	16.9	27.0	30.1	27.5
	Q3	19.9	4.1	13.6	14.5	12.0	14.3	20.9	23.1

## Imports of goods

2.9 *Imports of goods* were likewise robust. Further to a 19.8% surge in the second quarter, they leaped by 14.2% in real terms in the third quarter of 2004 over a year earlier. The Mainland remained the largest source of Hong Kong's imports of goods, accounting for 43% of the total value in the first three quarters. In tandem with the vibrant re-export performance, imports from all major sources continued to expand strongly.

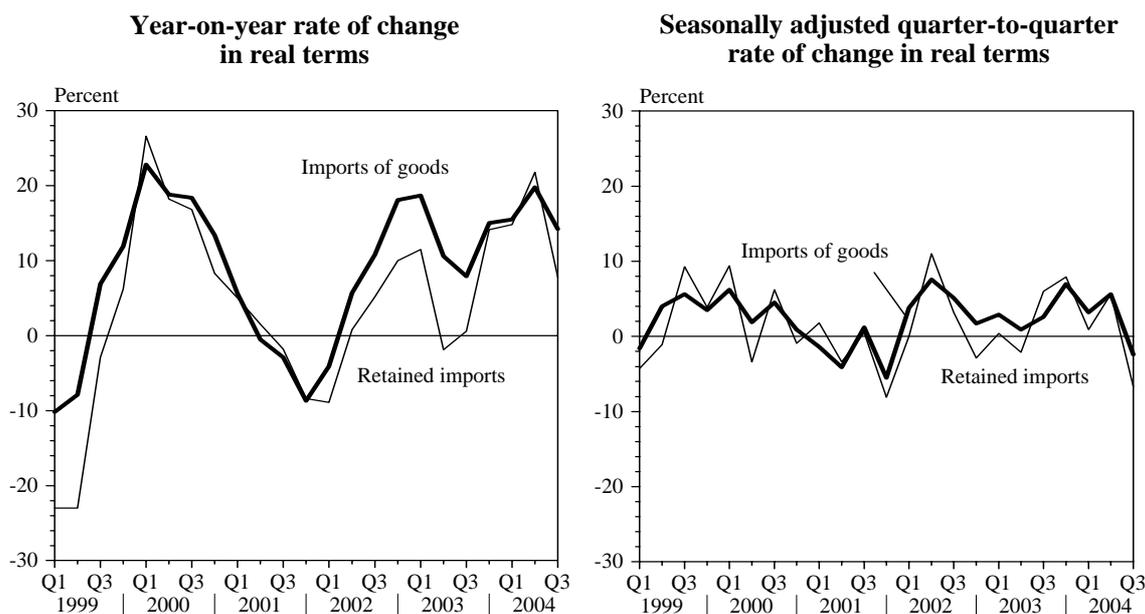
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>		
		<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>
2003	Annual	11.5	12.8	-0.4	2.6	5.8	-1.1
	Q1	17.8	18.7 (2.9)	-0.1	7.7	11.5 (0.4)	-1.9
	Q2	9.6	10.6 (0.9)	-0.3	-5.5	-1.9(-2.1)	-1.4
	Q3	6.1	7.9 (2.6)	-0.9	-3.5	0.6 (6.0)	-1.6
	Q4	13.8	15.0 (7.0)	-0.2	12.9	14.1 (7.9)	0.1
2004	Q1	15.7	15.5 (3.2)	0.7	20.3	14.8 (0.9)	4.6
	Q2	22.1	19.8 (5.6)	2.3	32.0	21.8 (5.6)	7.4
	Q3	18.4	14.2(-2.4)	4.0	18.1	7.8(-6.7)	10.8

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

- (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.

**Diagram 2.4 : Imports of goods and retained imports**



2.10 Within imports of goods, imports retained for local use or production went up by a further 7.8% in real terms in the third quarter over a year earlier. Japan continued to be the largest source of Hong Kong's *retained imports*, taking up around 17% of the total value in the first three quarters. Other major suppliers of retained imports were the Republic of Korea (with a share of around 11%), Singapore (9%), the United States (7%), Taiwan (6%), and the Mainland (5%).

2.11 Analysed by *end-use category*, retained imports of capital goods continued with a brisk growth pace. In turn this reflected the move to reinstate and enhance production capacity as the economic recovery became more established. The intake of several aircraft also added to the growth in the quarter. Along with the activity upturn, retained imports of raw materials and semi-manufactures grew strongly further. Retained imports of fuel rose further, conceivably reflecting the build-up in oil stock in a period of volatile oil price movements. Retained imports of foodstuffs also grew solidly further. On the other hand, retained imports of consumer goods eased back in the third quarter, after several quarters of growth.

**Table 2.4 : Retained imports by end-use category  
(year-on-year rate of change in real terms (%))**

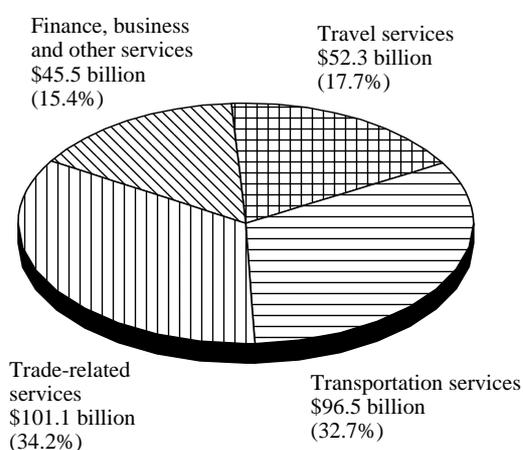
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2003	Annual	1.5	1.7	6.0	8.5	-1.4
	Q1	7.7	-4.6	10.6	18.0	9.1
	Q2	-10.3	-6.2	-2.8	5.9	-12.8
	Q3	3.2	1.5	5.1	-6.7	0.6
	Q4	6.7	15.4	11.1	19.6	-1.2
2004	Q1	2.2	7.1	17.8	22.1	9.1
	Q2	21.6	19.6	25.6	15.6	23.7
	Q3	-1.1	5.0	14.8	6.9	4.7

## Invisible trade

### *Exports of services*

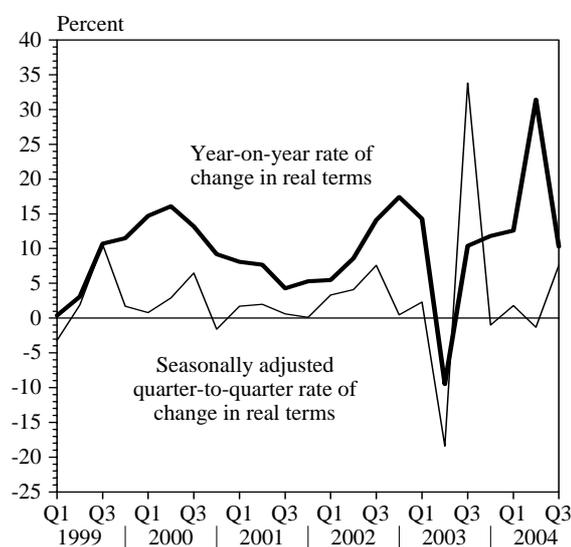
2.12 After an exceptionally distinct increase of 31.4% in the second quarter inflated partly by the abnormally low base caused by SARS, growth in *exports of services* in the third quarter attained a still remarkable growth, at 10.3%. The underlying growth momentum remained strong, with exports of services bouncing up by 7.6% in the third quarter on a seasonally adjusted quarter-to-quarter comparison, as against a 1.3% decrease in the second quarter.

**Diagram 2.5 : Exports of services by major service group in the first three quarters of 2004**



*Exports of services in the first three quarters of 2004 : \$295.4 billion*

**Diagram 2.6 : Exports of services**



2.13 Within overall exports of services, trade-related services (comprising mainly offshore trade) continued to be the largest component in Hong Kong's exports of services, accounting for more than a third by value in the first three quarters of 2004. These exports continued to render a steady and significant contribution to the growth in service exports, soaring by 12.3% in the third quarter, marking the ninth quarter of double-digit growth in a row. The robust performance owed much to the ever more buoyant offshore trade, which in turn benefitted from the vibrant trade flows involving the Mainland. Exports of transportation services - another key component accounting for nearly one-third of the total - surged further by 14.8% in the third quarter, as passenger services benefitted from the hectic visitor flows, while the buoyant external trade generated huge demand for cargo services.

2.14 As to inbound tourism, tourist spending in Hong Kong, as represented by exports of travel services, rose by a further 3.1% in real terms in the third quarter. The moderation in the year-on-year growth in the latest quarter was not unexpected, given the very low base of comparison in the second quarter of 2003 due to the SARS outbreak. Yet signs of some fall-off in per capita tourist spending after the spending spree in late 2003 and early 2004 were also evident in recent months, though with continuing strong influx of visitors from the Mainland and upturn in visitors from other sources.

**Table 2.5 : 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<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Finance, business and other services</u>
2003	Annual	7.1	16.7	*	3.5	3.6
	Q1	14.3 (2.3)	20.1	8.0	31.7	1.5
	Q2	-9.5 (-18.4)	16.0	-12.6	-53.6	-0.5
	Q3	10.4 (33.8)	14.1	-0.9	28.6	5.7
	Q4	11.8 (-1.0)	17.5	5.7	12.6	7.6
2004	Q1	12.6 (1.8)	18.6	13.4	4.0	8.9
	Q2	31.4 (-1.3)	19.9	31.1	125.5	8.5
	Q3	10.3 (7.6)	12.3	14.8	3.1	5.7

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(a) Comprising mainly offshore trade.

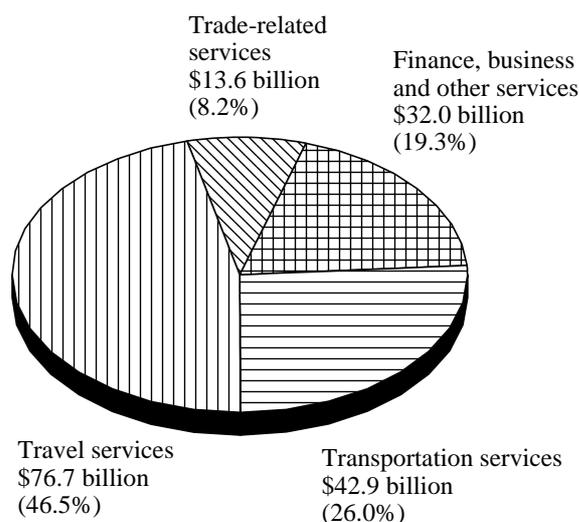
(b) Comprising mainly inbound tourism receipts.

(\*) Change of less than 0.05%.

### ***Imports of services***

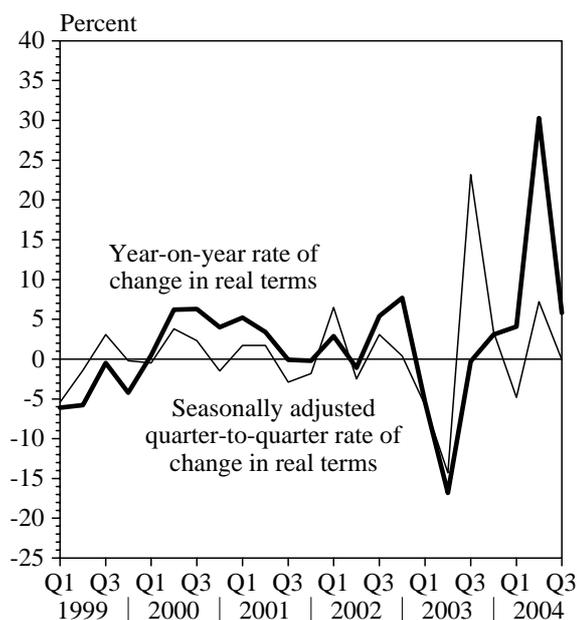
2.15 As with exports of services, after much gyrations over the past few quarters – being distorted to a large extent by the SARS outbreak last year, growth in *imports of services* settled back to a still solid growth in the third quarter, at 5.8%. Imports of travel services, the largest component within imports of services, held up well. Imports of trade-related services continued to soar in tandem with surging offshore trade. At the same time, imports of transportation services maintained strong growth as residents' outbound trips and incoming cargoes both rose further.

**Diagram 2.7 : Imports of services by major service group in the first three quarters of 2004**



Imports of services in the first three quarters of 2004 : \$165.2 billion

**Diagram 2.8 : Imports of services**



**Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))**

		<i>Of which :</i>				Finance, business and other services
		Imports of services	Travel services <sup>(a)</sup>	Transportation services	Trade-related services	
2003	Annual	-4.6	-10.6	-3.0	15.1	0.3
	Q1	-5.4 (-5.8)	-12.5	0.9	18.4	-1.1
	Q2	-16.8 (-14.3)	-26.6	-17.6	14.4	-3.0
	Q3	-0.3 (23.2)	-1.5	-3.0	12.5	0.8
	Q4	3.1 (3.4)	-2.6	7.8	15.9	4.1
2004	Q1	4.1 (-4.8)	-0.7	11.4	16.9	2.6
	Q2	30.3 (7.2)	43.0	37.1	18.2	5.1
	Q3	5.8 (-0.1)	2.2	11.6	10.7	5.0

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(a) Comprising mainly outbound travel spending.

## Visible and invisible trade balances

2.16 Reflecting the larger increase in the value of imports of goods than that in the value of total exports of goods, the *visible trade deficit*<sup>(6)</sup> widened to \$8.5 billion in the third quarter of 2004, equivalent to 1.5% of the value of imports of goods, as against \$1.4 billion or 0.3% in the same period in 2003. Together with the also much enlarged deficits in the preceding two quarters, the visible trade deficit expanded considerably for the first three quarters as a whole.

2.17 As to the *invisible trade surplus*<sup>(7)</sup>, there was a further expansion to \$49.7 billion in the third quarter, equivalent to 82.8% of the value of imports of services, up from \$42.4 billion or 78.1% in the same period in 2003. Taking into account the successive expansion in the preceding two quarters, the visible trade surplus enlarged further for the first three quarters as a whole.

2.18 With the continued sizeable invisible trade surplus more than offsetting the visible trade deficit, there was still a combined surplus of \$41.2 billion in the third quarter of 2004, equivalent to 6.7% of the total value of imports of goods and services, roughly on par with \$41.0 billion or 7.8% in the same quarter in 2003. For the first three quarters of 2004 taken together, the combined surplus stood at \$59.5 billion or 3.5% of the total value of imports of goods and services, down from \$78.4 billion or 5.4% in the same period in 2003.

**Table 2.7 : 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>
2003	Annual	1,749.1	351.9	1,794.1	196.1	-45.0	155.8	110.8
	Q1	383.4	83.0	399.4	47.8	-16.0	35.2	19.2
	Q2	419.3	67.9	429.1	39.9	-9.8	28.0	18.2
	Q3	467.5	96.6	468.9	54.2	-1.4	42.4	41.0
	Q4	478.8	104.4	496.6	54.2	-17.8	50.2	32.4
2004	Q1-Q3	1,479.1	295.4	1,549.8	165.2	-70.8	130.2	59.5
	Q1	434.4	93.5	467.2	51.4	-32.8	42.1	9.2
	Q2	497.9	92.2	527.3	53.7	-29.4	38.5	9.0
	Q3	546.7	109.8	555.2	60.1	-8.5	49.7	41.2

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

## 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) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (5) The European Union here covers twenty five member countries, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece, Portugal, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
- (6) 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.
- (7) 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.

## CHAPTER 3 : THE DOMESTIC ECONOMY

### *Summary*

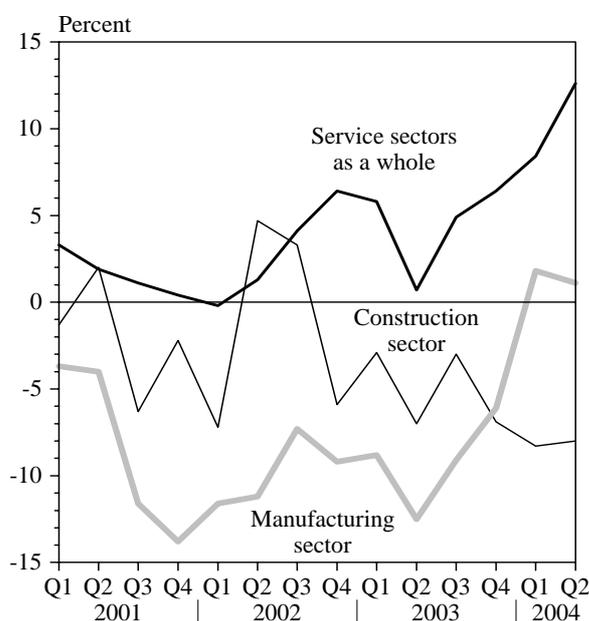
- *Net output for the service sector rose significantly in the second quarter of 2004. Apart from the abnormal low base of comparison a year earlier, further revival in local consumer spending and robust performance of inbound tourism also contributed.*
- *The residential property market picked up again towards the end of the third quarter, having undergone some consolidation in the second quarter. This was underpinned by the improved market sentiment and strengthening local economic fundamentals.*
- *Building and construction activity stayed sluggish in overall terms in the third quarter, mainly due to the continued lethargy in the private sector building activity and the completion of several railway projects in the public sector.*
- *Performance of inbound tourism remained robust in the third quarter. The main growth impetus came from the ongoing influx of Mainland visitors. The total number of incoming visitors in the first nine months of 2004 already exceeded that for 2003 as a whole.*
- *In tandem with the buoyant external trade, the cargo throughputs handled at the airport and port continued to register noticeable growth in the third quarter.*

### **Net output or value added by major economic sector**

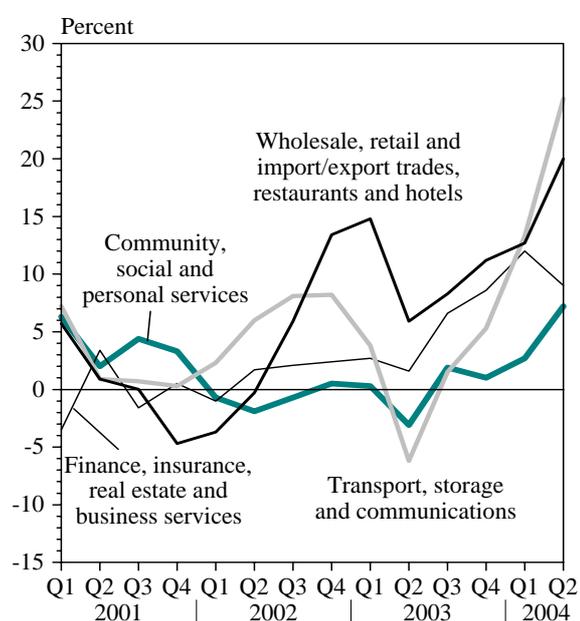
3.1 According to the quarterly GDP by major economic sector at constant prices, net output or value added for all the *service sectors* taken together<sup>(1)</sup> rose significantly, by 12.6% in real terms in the second quarter of 2004 over a year earlier, further up from the 8.4% growth in the first quarter. Analysed by constituent sector and by year-on-year comparison in real terms, net output in transport, storage and communications surged by 25.2%, driven by the buoyancy in external trade. The swift recovery of the tourism industry from the impact of SARS also boosted the net output in transport services. Net output in the wholesale, retail and import/export trades, restaurants and hotels

expanded considerably, by 20.0%, attributable mainly to the continued robust performance of Hong Kong's external trade, amidst a generally sanguine global economic environment. Also contributed were the vibrant inbound tourism, further revival in local consumer spending and a low base of comparison due to SARS a year earlier. Net output in finance, insurance, real estate and business services increased by 9.0%. This was mainly attributable to the continued growth in banking services, on the back of a noticeable growth in commission and service income. Net output in community, social and personal services went up by 7.2%, upon a low base of comparison in the second quarter of 2003.

**Diagram 3.1 : GDP by major economic sector**  
(year-on-year rate of change in real terms)



**Diagram 3.2 : GDP by main constituent services sector**  
(year-on-year rate of change in real terms)

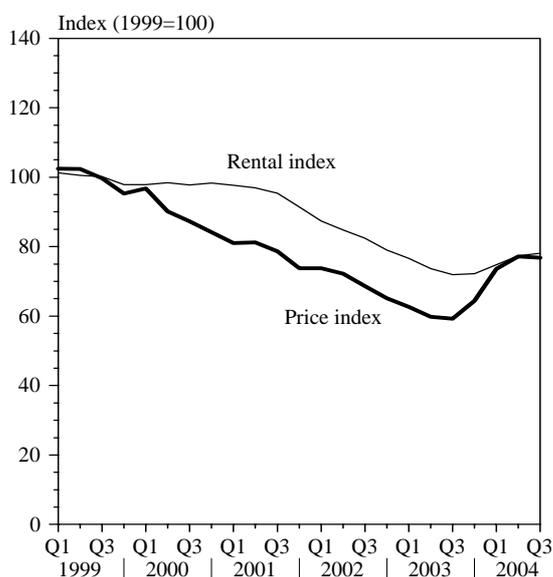


3.2 As to the net output in the local *manufacturing sector*, it registered a 1.1% growth in real terms in the second quarter of 2004 over a year earlier, supported by the brisk global and regional demand. This followed a 1.8% increase in the preceding quarter. For the *construction sector*, net output continued to shrink, by 8.0% in real terms in the second quarter of 2004 over a year earlier, yet narrowed from the 8.3% drop in the first quarter. The contraction owed much to the continued slack in private sector building activity. Likewise, construction output in the public sector fell back in the second quarter, along with the fall in output under the Public Housing Programme and the completion of the West Rail.

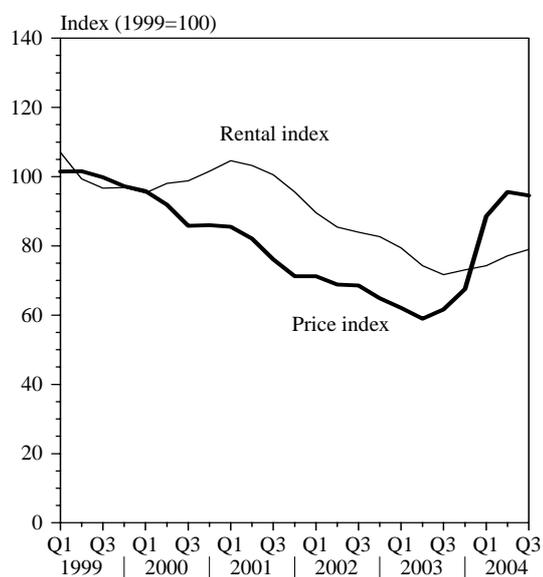
## Property

3.3 The sales market for *residential property* picked up again towards the end of the third quarter of 2004, having undergone some consolidation in the preceding quarter. Market sentiment revived upon the strengthening local economic fundamentals. The removal of the security of tenure provisions for domestic tenancies in early July<sup>(2)</sup> reportedly attracted more investors entering the market. The expansion of the Mortgage Insurance Programme in late July to cover mortgages with a maximum loan-to-value ratio of 95%<sup>(3)</sup> also helped increase end-user demand. On a quarter-to-quarter comparison, flat prices on average registered a 1% drop in the third quarter, having increased by 5% in the second quarter. Yet flat prices rebounded noticeably in September over the preceding month, along with a pick-up in trading activity. As to the rental market, leasing demand increased steadily, leading to some slight increases in rentals. Flat rentals rose on average by 1% in the third quarter, having grown by 3% in the preceding quarter. Compared with the peaks in the third quarter of 1997, flat prices and rentals in the third quarter of 2004 were still much lower, by an average of 55% and 44% respectively.

**Diagram 3.3 : Price and rental indices for private residential property**



**Diagram 3.4 : Price and rental indices for private office space**



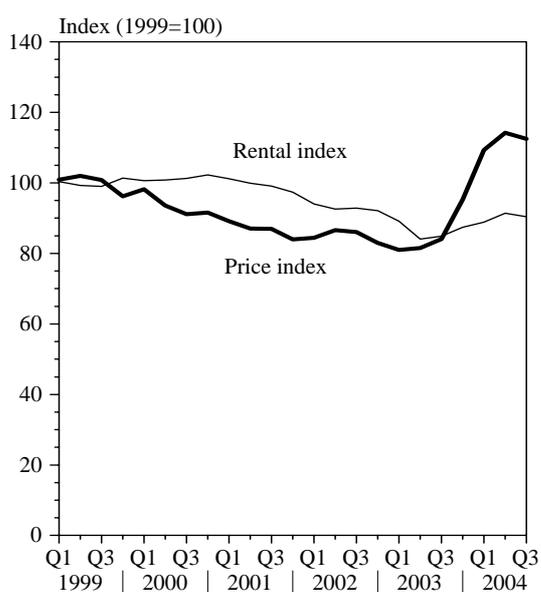
Note : See footnotes to Table 3.1.

3.4 On *commercial property*, the sales market for office space turned more stable in the third quarter of 2004, having been relatively buoyant in the preceding quarters. Market sentiment remained cautiously optimistic, mainly supported by the improved local economy, the sustained strong performance of

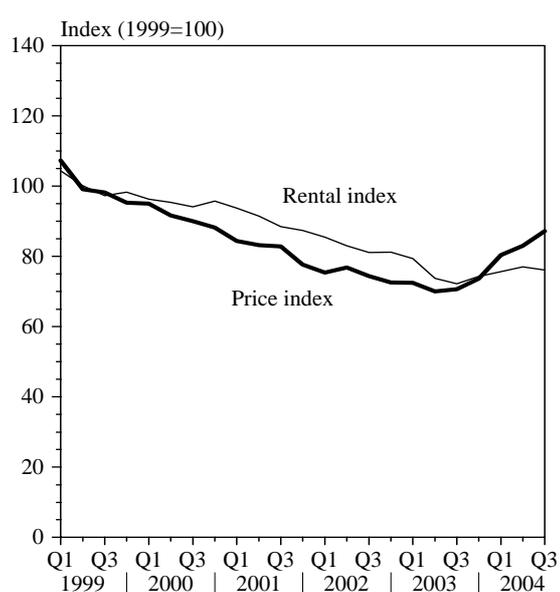
the global economy, and the implementation of CEPA. Meanwhile, leasing activity improved further, reflecting the expansion in business activity and the relocation of office space from secondary areas to prime locations. On a quarter-to-quarter comparison, prices for office space on average dropped slightly, by 1% in the third quarter of 2004. This reversed from the 8% increase in the preceding quarter. As to office rentals, there was on average a 2% growth in July-August of 2004 over the second quarter, after a 4% increase in the second quarter. Against their respective peaks in 1994, prices and rentals of office space in the third quarter of 2004 were still significantly lower, by an average of 60% and 59% respectively.

3.5 The sales and rental markets for *shopping space* were relatively stable in the third quarter of 2004, having recovered noticeably in the preceding quarters. The strong retail business and booming inbound tourism continued to provide support. This was particularly so for retail premises in popular locations and in better-managed shopping malls. Nevertheless, prices and rentals for shopping space eased somewhat in the third quarter. On a quarter-to-quarter comparison, prices for shopping space shrank on average by 1% in the third quarter of 2004, after a 4% increase in the second quarter. Likewise, rentals for shopping space dropped on average by 1% in the third quarter, having increased by 3% in the second quarter. Compared with the peaks in the third quarter of 1997, prices and rentals for shopping space in the third quarter of 2004 still plunged by an average of 42% and 27% respectively.

**Diagram 3.5 : Price and rental indices for private shopping space**



**Diagram 3.6 : Price and rental indices for private flatted factory space**



Note : See footnotes to Table 3.1.

3.6 On *industrial property*, the sales and rental markets were in overall terms less active than markets for other types of property in the third quarter of 2004. Prices for flatted factory space increased further while rentals eased slightly. Reportedly, investor sentiment was supported by the further implementation of CEPA. On a quarter-to-quarter comparison, prices rose on average by 5% in the third quarter of 2004, further up from the 3% growth in the preceding quarter. Meanwhile, rentals of industrial space went down on average by 1%, following a 2% increase in the second quarter. Against their respective peaks in 1994, prices and rentals of industrial space in the third quarter of 2004 were drastically lower, by an average of 62% and 50% respectively.

**Table 3.1 : Indices of Property Prices and Rentals**

	<u>Residential property</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index<sup>(a)</sup></u>		<u>Rental index<sup>(b)</sup></u>		<u>Price index</u>		<u>Rental index<sup>(b)</sup></u>		<u>Price index</u>		<u>Rental index<sup>(b)</sup></u>		<u>Price index</u>		<u>Rental index<sup>(b)</sup></u>	
	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	
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)	61.6	(4)	71.7	(-3)	84.1	(3)	84.9	(1)	70.7	(1)	72.2	(-2)
Q4	64.4	(9)	72.2	(*)	67.5	(10)	73.1	(2)	95.3	(13)	87.4	(3)	73.7	(4)	74.3	(3)
2004 Q1	73.6	(14)	74.8	(4)	88.6	(31)	74.3	(2)	109.3	(15)	88.9	(2)	80.4	(9)	75.7	(2)
Q2 <sup>#</sup>	77.2	(5)	77.4	(3)	95.6	(8)	77.1	(4)	114.2	(4)	91.4	(3)	83.0	(3)	77.0	(2)
Q3 <sup>^</sup>	76.8	(-1)	78.1	(1)	94.6	(-1)	79.0 <sup>+</sup>	(2)	112.5	(-1)	90.4	(-1)	87.2	(5)	76.1	(-1)

Notes : All rental indices shown in this table have been adjusted for 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.

(#) Figures for non-residential property are provisional.

(^) Provisional figures.

(\*) Change of less than 0.5%.

(+) Average figure for July and August as figure for September is not yet available.

Source : Rating and Valuation Department.

3.7 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, increased by 9% in

number and 36% in value in the third quarter of 2004 over a year earlier. Yet, on a quarter-to-quarter comparison, overall property transactions shrank by 17% in number and 25% in value in the third quarter of 2004, as the pick-up in market activity from the earlier consolidation only became more apparent in the latter part of the quarter. Property transfer assignments, a lag indicator of property transactions, grew by 13% in number and 40% in value in the third quarter of 2004 over a year earlier. Compared with the preceding quarter, they declined by 28% and 22% respectively. As to mortgage arrangements, another lag indicator of property market activity, their number in the third quarter of 2004 surged by 30% over a year earlier and dipped by 17% over the preceding quarter.

**Table 3.2 : Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		<u>Residential Property</u>		<u>Non-residential property</u>		<u>Total</u>		<u>Residential Property</u>		<u>Non-residential property</u>		<u>Total</u>	
2003	Annual	71 576	(-2)	15 733	(22)	87 309	(2)	153.6	(*)	35.8	(15)	189.4	(2)
	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)
2004	Q1-Q3	72 372	(53)	15 982	(56)	88 354	(53)	191.3	(106)	48.3	(104)	239.6	(106)
	Q1	28 624	(99)	5 735	(72)	34 359	(94)	77.3	(158)	16.7	(140)	94.0	(155)
	Q2	23 736	(66)	5 718	(82)	29 454	(68)	64.3	(138)	19.0	(180)	83.3	(147)
	Q3	20 012	(7)	4 529	(21)	24 541	(9)	49.6	(38)	12.6	(27)	62.2	(36)
			<-16>		<-21>		<-17>		<-23>		<-34>		<-25>

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

( ) % change over a year earlier.

< > % change over the preceding quarter.

(\*) Change of less than 0.5%.

Source : Land Registry.

**Table 3.3 : Property transfer assignments and mortgage arrangements**

		Property transfer assignments <sup>(a)</sup>				Mortgages other than building mortgages <sup>(b)</sup>	
		Number		Total value (\$Bn)		Number	
2003	Annual	110 052	(-8)	207.3	(5)	102 210	(-16)
	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)
2004	Q1-Q3	97 663	(27)	221.3	(61)	88 964	(24)
	Q1	31 060	(9)	61.9	(38)	25 712	(-5)
	Q2	38 801	(64)	89.6	(112)	34 646	(52)
	Q3	27 802	(13)	69.7	(40)	28 606	(30)
			<-28>		<-22>		<-17>

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

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

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

( ) % change over a year earlier.

<> % change over the preceding quarter.

Source : Land Registry.

3.8 On *Government-subsidised flats*, the Housing Authority endorsed the sales plan of Phase 6A under the Tenants Purchase Scheme (TPS) in June. By September, two out of the four housing estates under Phase 6A had been offered for sale. On home ownership loans, the Housing Authority announced the termination of the Home Assistance Loan Scheme in July, following a thorough review of the scheme. This will enable the Housing Authority to concentrate its limited resources on providing public rental housing to those in need.

3.9 On supply of new property, *completions* of private residential flats in the first nine months of 2004 sank by 14% over a year earlier. Completions of office space increased by 1%, while completions of other commercial premises

reduced by 11%. As to industrial property, completions went down drastically, by 95% in the first nine months of 2004 over a year earlier.

**Table 3.4 : Completions of new property by the private sector  
(‘000m<sup>2</sup> of internal floor area)**

<u>Usage</u>	<u>Third quarter of 2003</u>	<u>Third quarter of 2004<sup>^</sup></u>	<u>Year-on-year rate of change (%)</u>	<u>Jan-Sep of 2003</u>	<u>Jan-Sep of 2004<sup>^</sup></u>	<u>Year-on-year rate of change (%)</u>
Residential <sup>(a)</sup>	9 099	6 697	-26	19 335	16 628	-14
Commercial	41	244	497	306	299	-3
<i>Of which:</i>						
Office space	28	171	513	219	221	1
Other commercial premises (mainly shopping space) <sup>(b)</sup>	13	73	463	88	78	-11
Industrial <sup>(c)</sup>	0	1	--	15	1	-95
<i>Of which:</i>						
Industrial-cum-office premises	0	0	--	15	0	-100
Flatted factory space	0	1	--	0	1	--
Storage premises <sup>(d)</sup>	0	0	--	0	0	--

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

- (a) The figures shown are the number of private residential units, excluding units completed by the Hong Kong Housing Authority and Hong Kong Housing Society. Also excluded are village-type housing units.

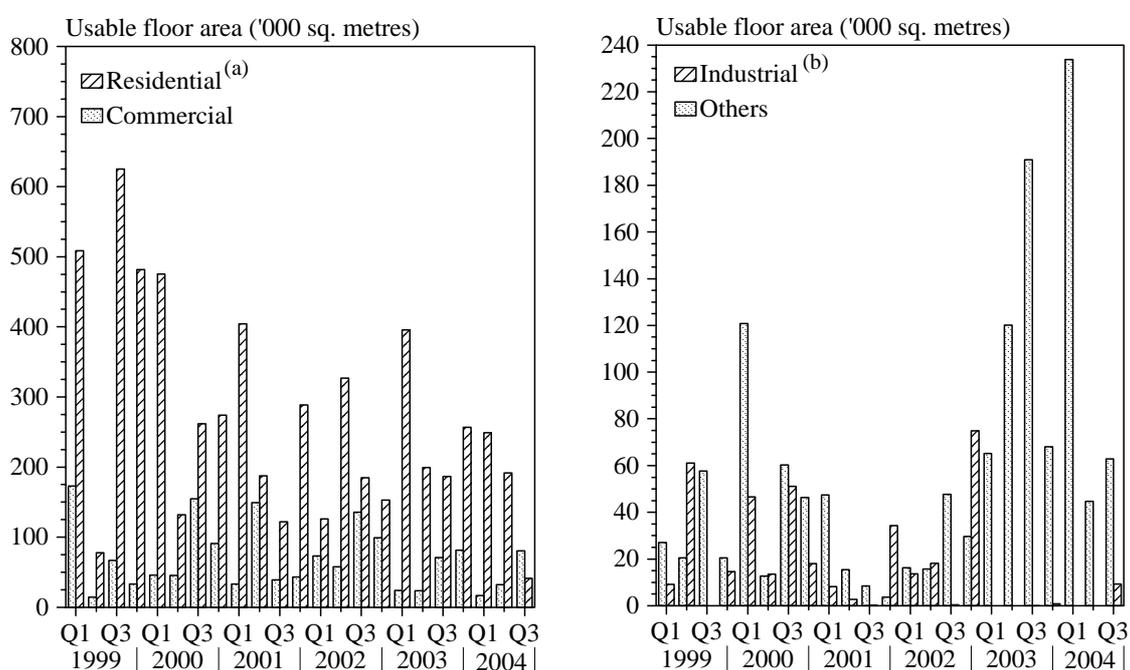
These include all newly completed residential premises to which full Occupation Permits have been granted. Property developments subject to a Consent Scheme will need a Certificate of Compliance or Consent to Assign in addition to an Occupation Permit before the premises can be individually assigned.

- (b) These include shopping arcades in residential and commercial developments, as well as premises designed or adapted for commercial use other than offices, in the nature of non-domestic space on the podium floors of tenement apartment/commercial buildings. Car-parking space is excluded.
- (c) Including industrial-cum-office premises but excluding specialised factory buildings, which are developed mainly for own use.
- (d) Including storage premises at the container terminals and the airport.
- (<sup>^</sup>) Provisional figures.
- (-- ) Not applicable.

Source : Rating and Valuation Department.

3.10 *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, declined by 25% in the first nine months of 2004 over a year earlier. Within this total, planned developments of private residential property plummeted by 38% in terms of total usable floor area and 44% in terms of units. Planned developments of commercial property registered an increase of 9%, while planned developments of industrial property grew significantly, mainly due to a low base of comparison in 2003. Planned developments of property in the “others” category shrank by 9%.

**Diagram 3.7 : Building plans with consent to commence work in the private sector by major category**



Notes : 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 third quarter of 2004, for building plans with consent to commence work in respect of private residential property, 99% in terms of units or 95% in terms of total usable floor area were re-application cases, as developers switched to construct larger flats. For the first nine months of 2004 as a whole, the corresponding proportions were 37% and 34%.

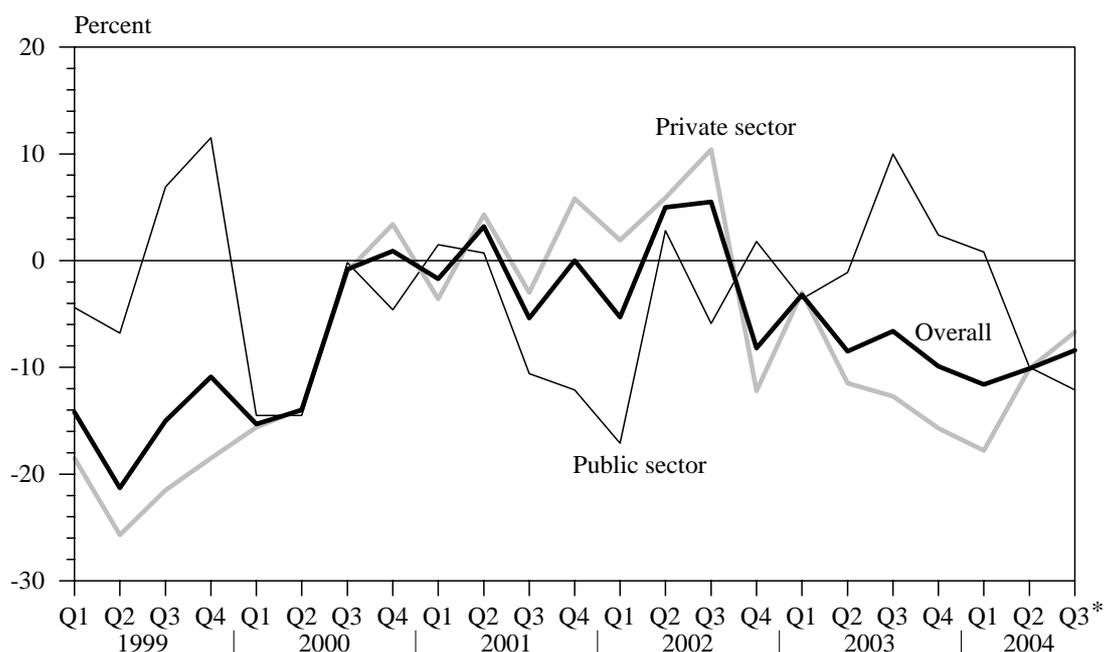
(a) Here the classification of residential property includes developments under the Urban Improvement Scheme of the Hong Kong Housing Society, but excludes developments under the Home Ownership Scheme and the Private Sector Participation Scheme of the Hong Kong Housing Authority.

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

## Building and construction

3.11 Building and construction activity stayed sluggish, with overall expenditure on building and construction shrinking by 8% in real terms in the third quarter of 2004 over a year earlier. Within this total, expenditure on building and construction by the public sector decreased by 12%, as the negative effect due to the winding down of several KCR railway projects more than offset the positive effect stemming from the intensified work on certain major civil engineering projects, including Route 8, the Deep Bay Link, infrastructure in support of the Penny's Bay development and the improvement to Castle Peak Road. Meanwhile, expenditure on building and construction by the private sector continued to drop, by 7%, as the launch of work at some new private residential building sites only partially offset the completion of work at some large private residential building sites.

**Diagram 3.8 : Expenditure on building and construction  
(year-on-year rate of change in real terms)**



Note : (\*) Provisional figures.

## Land

3.12 In the third quarter of 2004, there was no land auction held by the Government, after the two land auctions held in the preceding quarter. In

October two residential sites totalling 3.0 hectares were sold through land auction. Both of them were released from the 2004/05 Application List<sup>(4)</sup> upon applications from developers. Responses to the auction were highly positive, with prices fetched being well above market expectations. On the other hand, there was no land sale through tender by the Government in the third quarter of 2004, following the sales of two batches of petrol filling station sites totalling 1.4 hectares in the first half.

3.13 On modification of lease on existing developed and developable land in the private sector domain<sup>(5)</sup>, a total of 53 applications were approved by the Government in the first eight months of 2004. Of this total, 25 applications were for residential development, nine for residential-cum-commercial development, six for commercial development, three for education and community facilities and two for industrial development. The remaining eight were for other purposes.

3.14 In the first nine months of 2004, one site with an area of 0.65 hectare was taken up in the Yuen Long Industrial Estate. Meanwhile, there was no new take-up of site in the industrial estates at Tai Po and Tseung Kwan O. Also, no site was surrendered in the same period. As at end-September 2004, the take-up rates of the Tai Po Industrial Estate, Yuen Long Industrial estate and Tseung Kwan O Industrial Estate were 94.2%, 88.1% and 47.9% respectively.

## **Tourism**

3.15 The performance of inbound tourism remained robust in the third quarter of 2004. The total number of *incoming visitors* surged by 30% over a year earlier to 5.7 million, the highest figure ever recorded in a single quarter. The strong performance was reflected across all long-haul and short-haul markets, with all market regions except Taiwan showing double-digit growth. The major growth momentum continued to come from the influx of Mainland visitors, amidst further extension of the Individual Visit Scheme<sup>(6)</sup>. The Hong Kong Shopping Festival between late-June and August also lured additional visitors from various sources. Up by 52% over a year earlier, the total number of incoming visitors in the first nine months of 2004, at 15.8 million, already exceeded that for 2003 as a whole. Reflecting the vivid performance of the inbound tourism, the *average hotel room occupancy rate* rose further to 89% in the third quarter of 2004 from 85% in the preceding quarter.

**Table 3.5 : Number of incoming visitors by place of residence  
(year-on-year rate of change (%))**

	Annual	2003					2004		
		Q1	Q2	Q3	Q4	Q1-Q3	Q1	Q2	Q3
All sources	-6	20	-58	4	7	52	15	208	30
Mainland of China	24	53	-26	32	33	59	37	149	38
Taiwan	-24	-3	-74	-8	-12	18	-13	221	-6
South and Southeast Asia	-29	*	-81	-16	-12	67	2	450	31
Japan	-38	-2	-86	-36	-29	31	-32	440	37
United States	-32	-7	-84	-19	-14	68	3	522	40
United Kingdom	-26	2	-78	-22	-13	58	5	391	41
Others	-23	1	-72	-14	-7	49	1	280	27

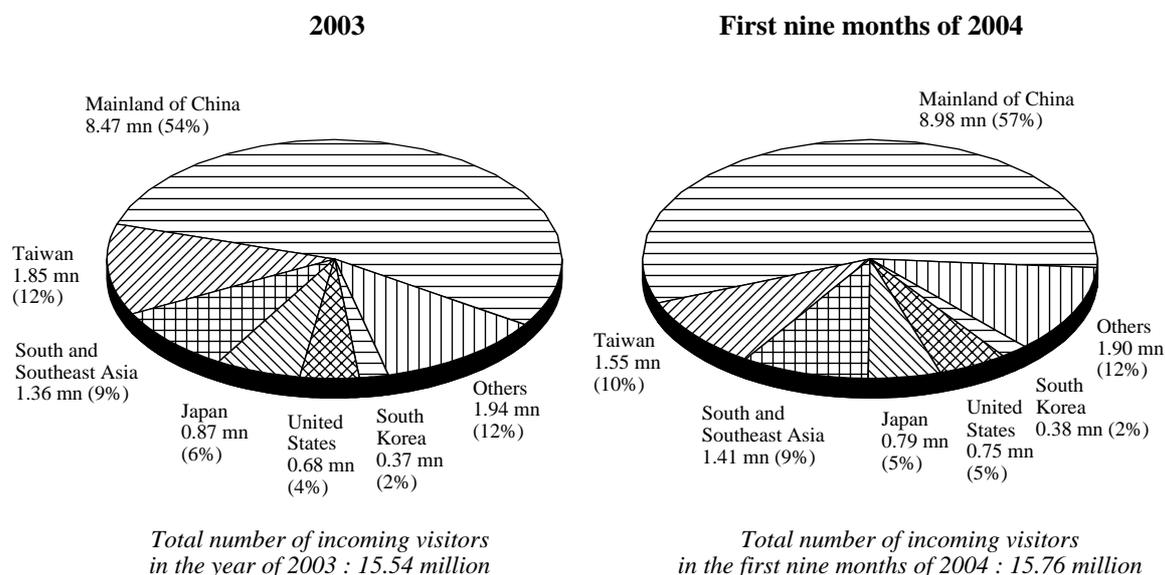
Notes : Figures in this table include also non-Macau residents coming to Hong Kong via Macau.

(\*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.16 Analysed by source, the Mainland remained the largest source of visitors to Hong Kong, with a share of 57% in the first nine months of 2004. Taiwan came next (with a share of 10%), followed by South and Southeast Asia (9%), Japan (5%) and the United States (5%).

**Diagram 3.9 : Number of incoming visitors by source**



3.17 On Hong Kong residents travelling abroad, the total number of resident departures amounted to 17.9 million in the third quarter of 2004, up by 7% over a year earlier. The increase reflected the improved local economic situation and the relatively low base of comparison in the same quarter of 2003.

For the first nine months of 2004 as a whole, the total number of resident departures grew by 15% over a year earlier to 51.2 million. Analysed by major destination, the Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 86% of the total outbound trips. A predominant proportion of these trips was destined for Guangdong. Macau was another common destination for outbound trips (with a share of 6%), followed by South and Southeast Asia (4%).

**Table 3.6 : Number of Hong Kong resident departures by destination  
(year-on-year rate of change (%))**

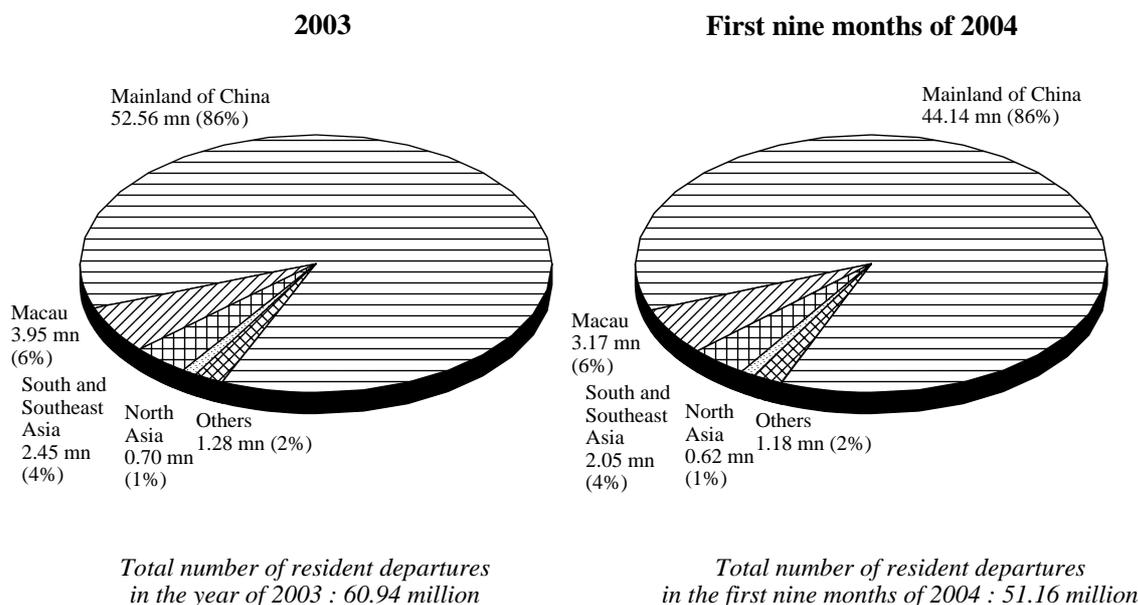
	Annual	2003		2004					
		Q1	Q2	Q3	Q4	Q1-Q3	Q1	Q2	Q3
All destinations	-6	-4	-21	*	2	15	3	41	7
Mainland of China	-6	-3	-21	*	2	16	4	42	8
Macau	-5	-7	-15	3	-3	6	-1	19	2
South and Southeast Asia	1	-10	-14	15	12	12	8	41	-3
North Asia	-10	-18	-21	2	-4	18	6	59	2
Americas <sup>(a)</sup>	-19	-7	-54	-14	*	26	-2	112	14
Taiwan	-23	-4	-76	-7	-11	41	-11	388	18
Europe	-7	-11	-30	4	9	19	14	58	2
Australia and New Zealand	-7	-7	-8	-14	1	7	2	18	5
Others	-4	-21	-20	-5	21	22	28	37	10

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

(\*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

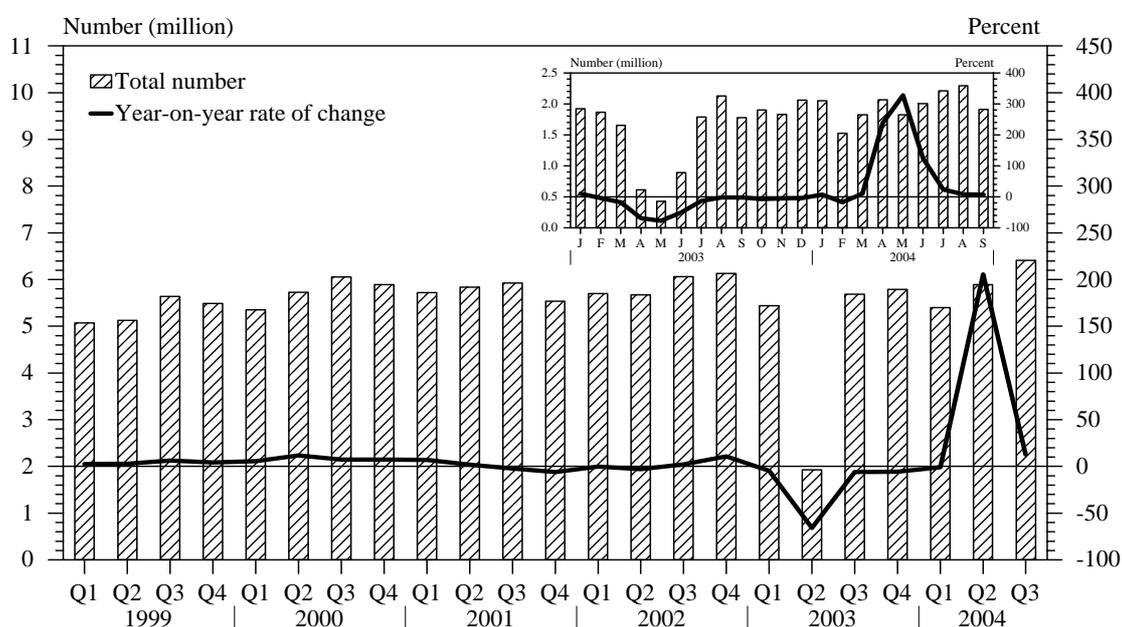
**Diagram 3.10 : Number of Hong Kong resident departures by destination**



## External transport

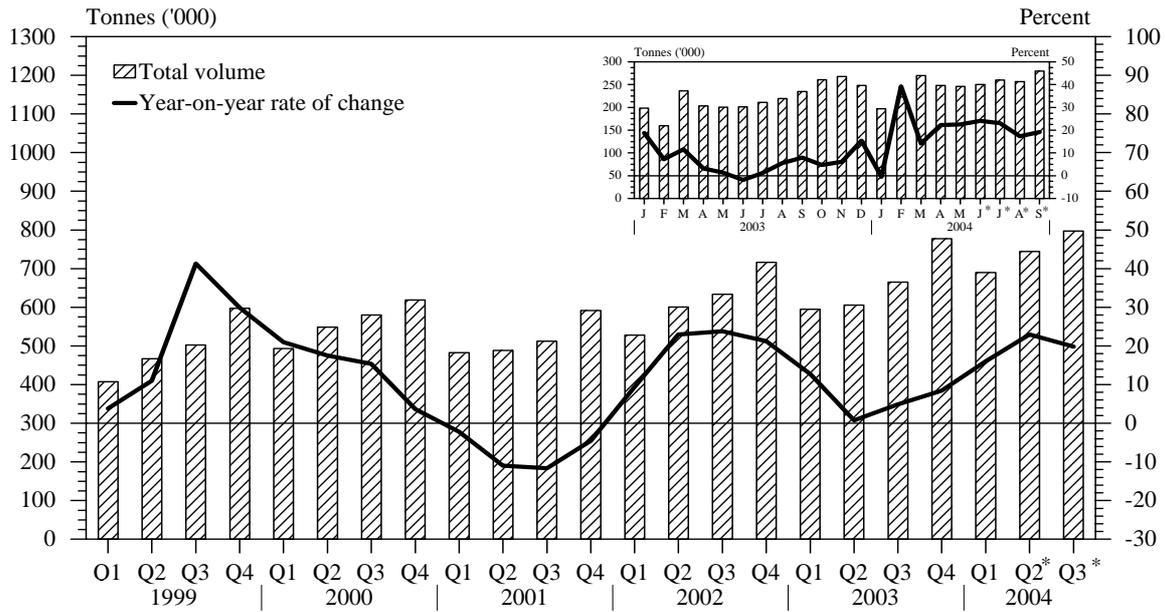
3.18 On *air transport*, total *air passenger movements* leaped by 13% over a year earlier to 6.4 million in the third quarter of 2004, following a 205% surge in the preceding quarter. Within the total, air passenger arrivals and departures both increased by 13% over a year earlier, amidst the vibrant performance of the tourism industry. Likewise, aircraft movements (including passenger and cargo flights) increased noticeably, by 27% over a year earlier to 60 900 in the third quarter of 2004, having surged by 93% in the preceding quarter.

**Diagram 3.11 : Number of air passenger movements**



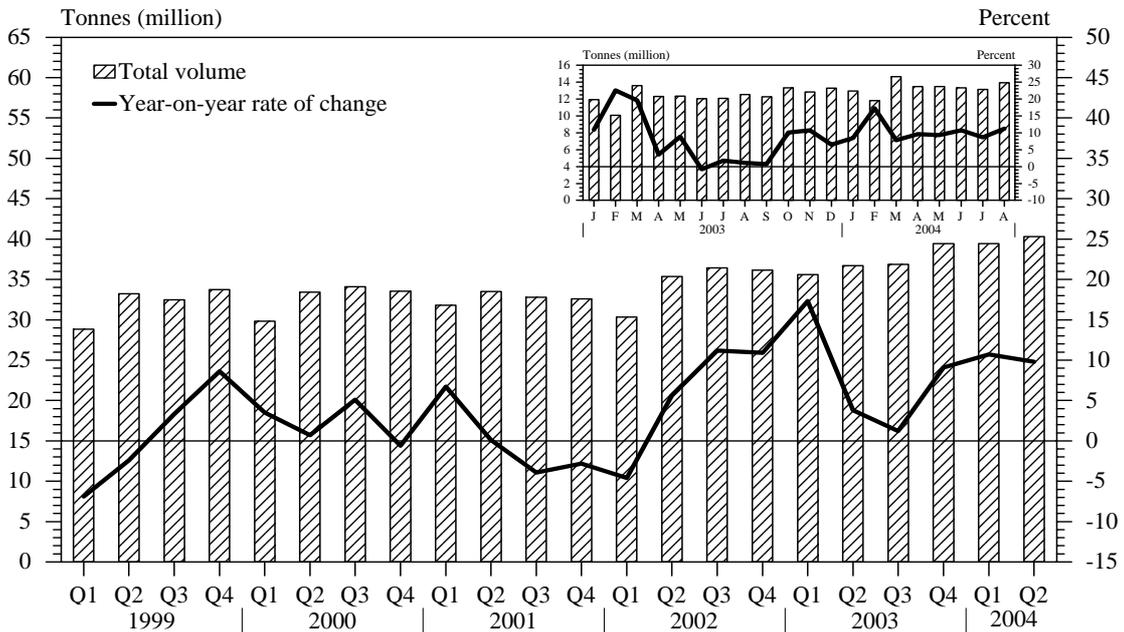
3.19 Thanks to the buoyancy in external trade, both *air cargo movements* and *ocean cargo movements* registered noticeable growth. Total air cargo movements increased by 20% over a year earlier to 797 000 tonnes in the third quarter of 2004. Within the total, both inward and outward air cargo rose noticeably, by 14% and 23% respectively. For the first nine months of 2004 as a whole, total air cargo movements grew by 20% over a year earlier to 2.23 million tonnes. As to total ocean cargo movements, there was an increase of 10% over a year earlier to 27.1 million tonnes in July-August 2004. Direct shipment cargo rose slightly, by 2% in July-August 2004 over a year earlier. By comparison, transshipment cargo grew even faster, by 21% over the same period. Within the total, inward and outward ocean cargo went up by 8% and 13% respectively. For the first eight months of 2004 as a whole, total ocean cargo movements increased by 10% over a year earlier to 106.8 million tonnes.

**Diagram 3.12 : Cargo carried by air**



Note : (\*) Provisional figures.

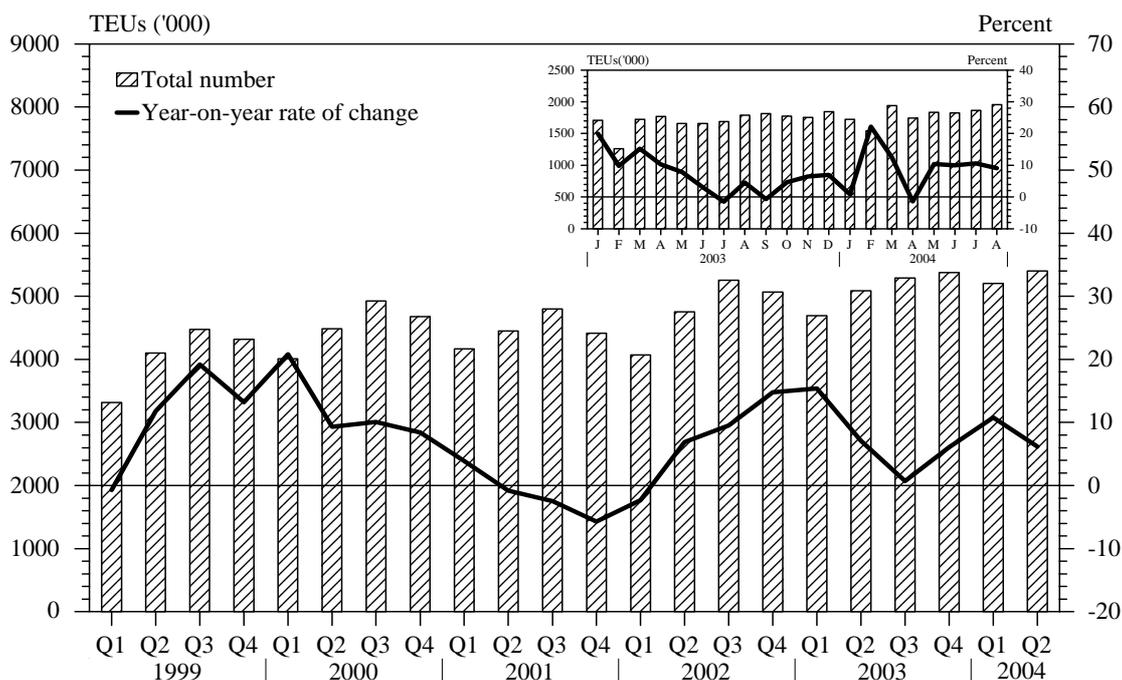
**Diagram 3.13 : Cargo carried by sea**



3.20 As to *container traffic*, total *container throughput* in terms of Twenty-foot Equivalent Units (TEUs) grew by 10% over a year earlier to 3.8 million TEUs in July-August 2004, further up from a 6% rise in the second quarter. Within this total, both inward and outward container throughput moved up, by 13% and 7% respectively. For the first eight months of 2004 as a whole, total container throughput increased by 9% over a year earlier to

14.4 million TEUs, in line with the buoyant external trade. By comparison, container throughput handled at ports in Shenzhen expanded at an even faster pace, by 25% in the third quarter of 2004 over a year earlier. This reflected the trend of relatively more manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port.

**Diagram 3.14 : Container throughput**



**Notes :**

- (1) The service sectors comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; finance, 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. Fees for financial intermediation services are however deducted.
- (2) The Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 took effect on 9 July 2004. Under the new ordinance, the security of tenure provisions for domestic tenancies was removed. A fixed term tenancy will end upon expiry while a periodic tenancy can be terminated by a notice to quit served by either party in accordance with the common law. This means that landlords and tenants are free to negotiate and enter into agreement for fresh letting or renewal of tenancies, and helps restore the free operation of private rental market.

- (3) On 28 July 2004, the Hong Kong Mortgage Corporation increased the maximum loan-to-value (LTV) ratio under the Mortgage Insurance Programme from 90% to 95%. Mortgage loans on both completed properties and properties under construction are eligible for coverage up to a LTV ratio of 95%, subject to a maximum loan size of \$5 million and a maximum loan tenor of 30 years.
- (4) The Government operates an Application List System since 1999, under which sites available for sale are put 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.

The 2004/05 Application List consists of 17 sites, comprising 14 residential sites totalling about 10.4 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.

- (5) 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 enhancement difference in land value between the “before” and “after” situation, 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.

- (6) 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, Chazhou, Meizhou, Zhaoqing, Qingyuan and Yunfu, on 1 January 2004, and covered the entire Guangdong Province on 1 May 2004. The scheme was further extended, from 1 July 2004, to residents of nine more cities. These included Nanjing, Suzhou and Wuxi in Jiangsu Province; Hangzhou, Ningpo and Taizhou in Zhejiang Province; and Fuzhou, Xiamen and Quanzhou in Fujian Province. In the first nine months of 2004, around three million Mainland visitors, or about one-third of the total, arrived at Hong Kong under the Individual Visit Scheme.

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *The spot exchange rate of the Hong Kong dollar against the US dollar stayed on the strong side of the link, while its twelve-month forward rate remained at a significant discount over the spot rate, reflecting sustained strong demand for the local currency.*
- *Hong Kong dollar deposits fell, along with contractions in demand and savings deposits. Conceivably, the recent interest rate hikes had led to a shift in the composition of deposits more towards term deposits with higher yields. Meanwhile, Hong Kong dollar loans showed little change. As a result, the Hong Kong dollar loan-to-deposit ratio moved up.*
- *The local stock market suffered a distinct setback in July, amid concerns about the soaring international crude oil prices. Share prices however rebounded subsequently to close higher over the quarter, as investment sentiment was boosted by the favourable corporate results, firmer property prices and general optimism about the local economic outlook.*

### **Exchange rates**

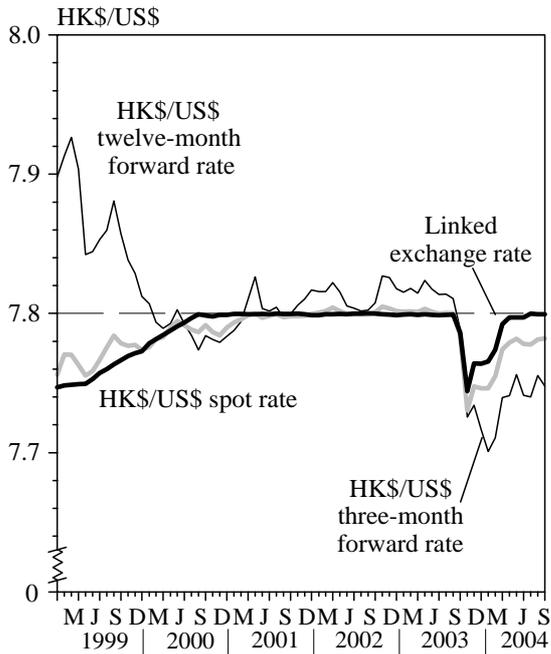
4.1 During the third quarter of 2004, the spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate (at 7.80)<sup>(1)</sup>, mostly on the strong side of the rate. As another indicator of sustained strong demand for the local currency, the twelve-month Hong Kong dollar forward rate remained at a substantial discount to the spot rate, although the discount narrowed somewhat from 643 pips (each pip equivalent to HK\$0.0001) to 590 pips over the period.

4.2 The trade-weighted Nominal Effective Exchange Rate Index<sup>(2)</sup> of the Hong Kong dollar fell slightly, by 0.1% from an average of 98.8 in June to that of 98.7 in September. After adjusting for changes in consumer prices, the corresponding Real Effective Exchange Rate Index<sup>(3)</sup> declined by 0.7% from 84.6 to 84.1.

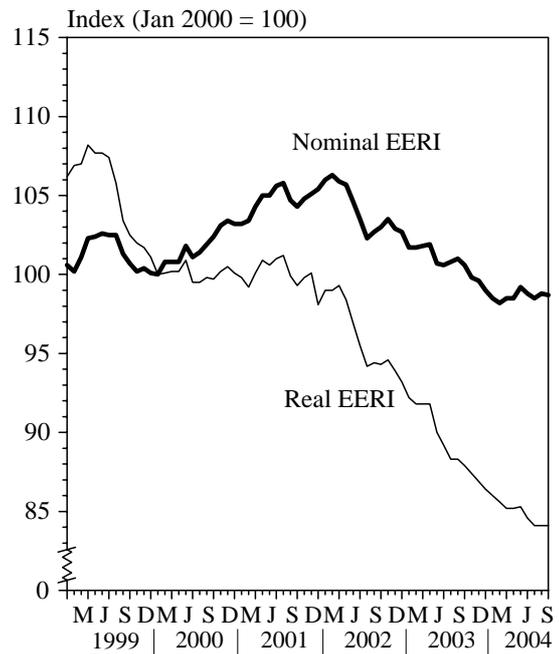
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(#) **This chapter is jointly prepared by the Hong Kong Monetary Authority and the Economic Analysis Division.**

**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)**

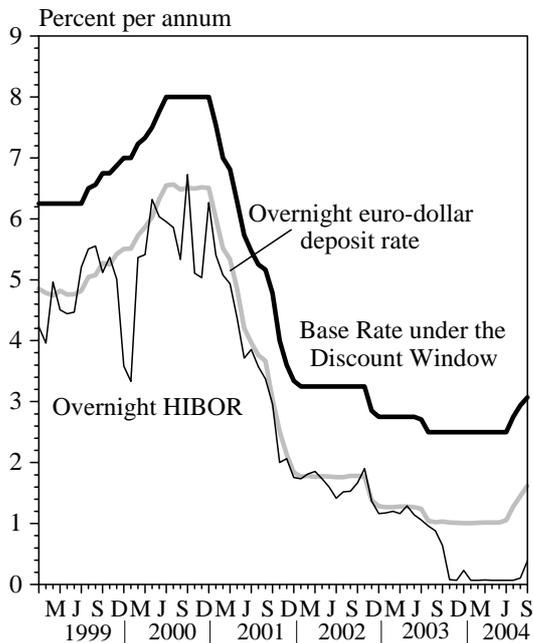


**Interest rates**

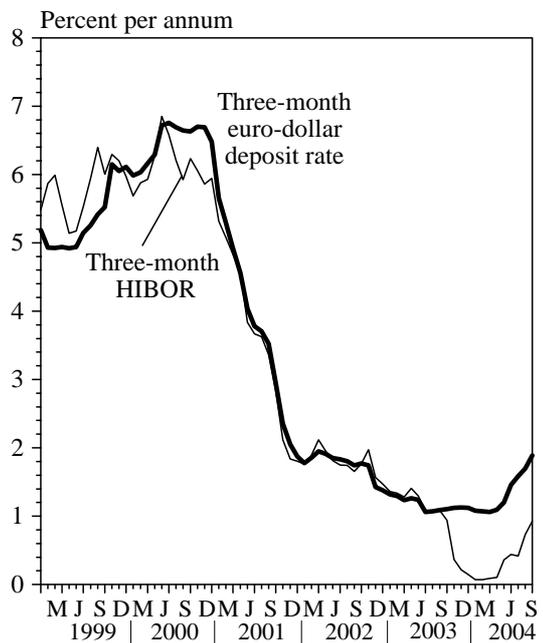
4.3 The three-month HIBOR rose to 1.1% at end-September 2004, from 0.4% at end-June. In consequence, its interest differential with the three-month euro-dollar deposit rate narrowed in the latter's favour, from 120 basis points at end-June to 93 basis points at end-September.

**Diagram 4.3 : Interest rates**

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



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



4.4 Since 30 June 2004, the US Fed Funds target rate was raised three times by a total of 75 basis points. In a similar move, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) was lifted from 2.5% at end-June to 3.25% at end-September. But the best lending rate was adjusted upward by a smaller magnitude from 5.0% to 5.1%, having regard to the still slack local credit demand and ample liquidity in the banking system. The spread of the best lending rate over the three-month time deposit rate narrowed somewhat, from an average of 4.98 percentage points in the second quarter to that of 4.95 percentage points in the third quarter.

4.5 On residential mortgage rates, 81.8% of the new mortgages in September 2004 were granted at more than 2.25 percentage points below the best lending rate, up from the proportion of 77.0% in June<sup>(4)</sup>. Over the same period, the share of fixed rate mortgages fell from 14.4% to 10.2%.

### **Money supply and deposits**

4.6 HK\$M1<sup>(5)</sup>, as a measure of narrow money supply, declined by 3.6% during the third quarter of 2004 to \$371 billion at end-September, reversing the 2.3% increase during the second quarter. On a seasonally adjusted basis<sup>(6)</sup>, there was a reduction of 4.6% during the third quarter, as against an expansion of 3.8% during the second quarter. As to broad monetary aggregates, HK\$M2 edged up by 0.1% during the third quarter to \$2,070 billion at end-September, whereas HK\$M3 was little changed at \$2,084 billion. These compared to zero growth during the second quarter. On a year-on-year comparison, HK\$M1 nevertheless surged by 24.1%, while HK\$M2 and HK\$M3 rose marginally by 0.7% and 0.6% respectively.

**Table 4.1 : Hong Kong dollar money supply and total money supply**

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>		
		HK\$	Total	HK\$ <sup>(a)</sup>	Total	HK\$ <sup>(a)</sup>	Total	
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
2004	Q1	6.1	(11.0)	5.5	-1.8	*	-1.8	*
	Q2	2.3	(3.8)	2.6	*	0.4	*	0.5
	Q3	-3.6	(-4.6)	-0.6	0.1	2.1	*	1.8
Total amount at the end of September 2004 (HK\$Bn)		371	(376)	445	2,070	3,907	2,084	3,948
% change over a year earlier		24.1	(24.1)	27.4	0.7	6.4	0.6	6.4

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

( ) 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.

(\*) Change of less than 0.05%.

4.7 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)<sup>(7)</sup>, as a key component of the money supply, decreased slightly by 0.2% during the second quarter and then by 0.1% during the third quarter to \$1,881 billion at end-September 2004. As a result, their share in total deposits declined to 51.8%, from 52.8% at end-June. On a year-on-year comparison, these deposits also fell, by 0.3%.

4.8 Within the total Hong Kong dollar deposits, savings deposits and demand deposits shrank by 2.9% and 6.9% respectively during the third quarter, whereas time deposits expanded by 6.2%. Conceivably, this was due to a shift in depositors' preference for higher-yield deposits along with the recent upturn in interest rates. Even so, demand and savings deposits were still sharply higher by 32.0% and 19.3% respectively on a year-on-year comparison, while time deposits were 22.5% lower.

**Table 4.2 : Hong Kong dollar deposits with authorized institutions**

% change during the quarter		Demand deposits	Savings deposits	Time deposits <sup>(a)(b)</sup>	Total Hong Kong dollar deposits(a)
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
2004	Q1	7.1	3.4	-11.9	-2.3
	Q2	2.8	-1.7	0.9	-0.2
	Q3	-6.9	-2.9	6.2	-0.1
Total amount at the end of September 2004 (HK\$Bn)		232	924	724	1,881
% change over a year earlier		32.0	19.3	-22.5	-0.3

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

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

4.9 Foreign currency deposits (adjusted to exclude foreign currency swap deposits) continued to increase, by 3.8% during the third quarter of 2004 to \$1,751 billion at end-September, following a 1.0% rise during the second quarter. Growth was still concentrated in US dollar deposits by 6.2%, more than offsetting the decrease in non-US dollar deposits by 0.9%. On a year-on-year comparison, both US dollar and non-US dollar deposits were up notably by 13.7% and 11.9% respectively, giving a 13.1% surge in total foreign currency deposits.

**Table 4.3 : Foreign currency deposits with authorized institutions**

% change during the quarter		US\$ deposits <sup>(a)</sup>	Non-US\$ deposits <sup>(a)</sup>	Total foreign currency deposits <sup>(a)</sup>
2003	Q1	-2.1	1.7	-0.9
	Q2	4.0	-2.1	1.9
	Q3	1.3	5.3	2.6
	Q4	6.2	4.8	5.7
2004	Q1	-2.3	11.1	2.0
	Q2	3.2	-3.0	1.0
	Q3	6.2	-0.9	3.8
Total amount at the end of September 2004 (HK\$Bn)		1,188	562	1,751
% change over a year earlier		13.7	11.9	13.1

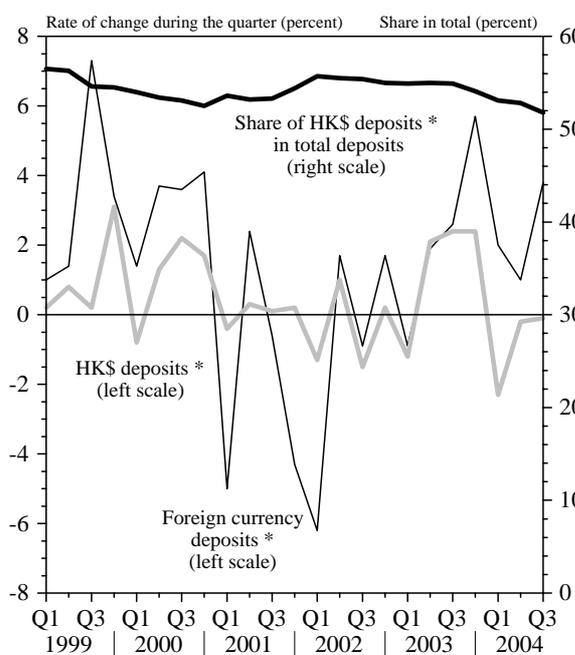
Note : (a) Adjusted to exclude foreign currency swap deposits.

4.10 Taking Hong Kong dollar and foreign currency deposits together, total deposits with authorized institutions rose by 1.7% during the third quarter of 2004 to \$3,632 billion at end-September, after a mild increase of 0.4% during the second quarter. Analysed by type of authorized institutions<sup>(8)</sup>, deposits with licensed banks and with deposit-taking companies rose by 2.0% and 9.1% respectively during the third quarter, whereas those with restricted licence banks dropped by 21.7%. Compared with a year earlier, total deposits with authorized institutions expanded by 5.8%. This comprised an increase of 5.9% in deposits with licensed banks, more than offsetting the decreases of 6.1% and 2.7% respectively in deposits with restricted licence banks and deposit-taking companies.

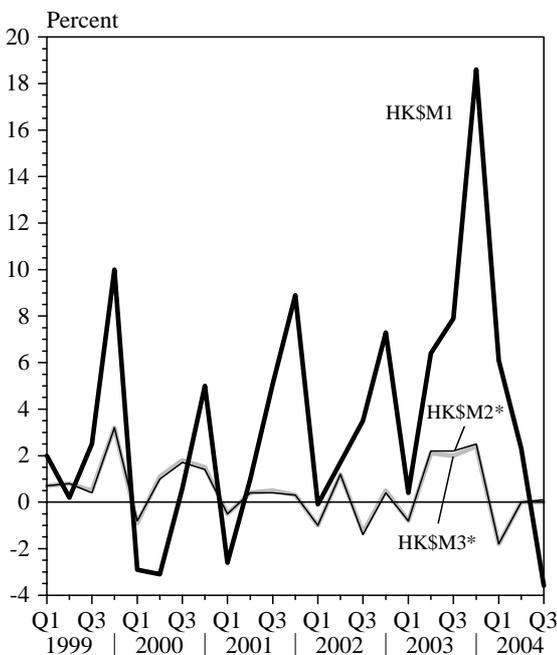
**Table 4.4 : Total deposits by major type of authorized institution**

% change during the quarter		With licensed banks			Sub-total	With restricted licence banks	With deposit-taking companies	Total
		Demand deposits	Savings deposits	Time deposits		Time deposits	Time deposits	
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	-5.2	3.8	10.7	-6.2	3.9
2004	Q1	6.1	3.6	-3.8	-0.3	3.7	-3.0	-0.3
	Q2	3.1	-0.1	0.2	0.3	4.4	-1.9	0.4
	Q3	-1.9	-1.4	5.1	2.0	-21.7	9.1	1.7
Total amount at the end of September 2004 (HK\$Bn)		306	1,303	1,985	3,594	32	5	3,632
% change over a year earlier		35.4	18.7	-4.1	5.9	-6.1	-2.7	5.8

**Diagram 4.4 : Deposits with authorized institutions by currency denomination and share of Hong Kong dollar deposits in total deposits**



**Diagram 4.5 : Hong Kong dollar money supply (rate of change during the quarter)**



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

## Loans and advances

4.11 Total loans and advances, having increased by 1.7% during the second quarter of 2004, increased further by 0.2% during the third quarter to \$2,079 billion at end-September. While Hong Kong dollar loans showed little change during the third quarter at \$1,606 billion, foreign currency loans rose by 0.9% to \$473 billion. A different picture emerged when comparison was made over a year earlier. Total loans and advances, Hong Kong dollar loans and foreign currency loans all went up, by 3.0%, 2.4% and 5.2% respectively.

**Table 4.5 : Loans and advances by currency denomination**

% change during the quarter		Hong Kong dollar loans	Foreign currency loans	Total loans and advances
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
2004	Q1	-0.1	1.8	0.3
	Q2	2.2	-0.3	1.7
	Q3	*	0.9	0.2
Total amount at the end of September 2004 (HK\$Bn)		1,606	473	2,079
% change over a year earlier		2.4	5.2	3.0

4.12 Analysed by place of usage, loans for use in Hong Kong expanded by 0.8% during the third quarter of 2004 to \$1,864 billion at end-September, but loans for use outside Hong Kong fell by 4.6% to \$215 billion. Compared with a year earlier, loans for use in Hong Kong remained higher by 4.0%, and loans for use outside Hong Kong were down by 4.6%.

4.13 Analysed by major usage, a mixed picture was observed for domestic loans during the third quarter of 2004. Specifically, loans to the wholesale and retail trades, loans for trade financing and loans to the manufacturing sector grew 5.8%, 5.5% and 4.9% respectively. Loans to financial concerns also rose, albeit modestly, by 0.6%. On the other hand, loans for building, construction, property development and property investment contracted by 0.3%, while residential mortgage loans decreased by 0.5%. Loans to stockbrokers fell more, by 8.8%.

**Table 4.6 : Loans and advances for use in Hong Kong by major usage<sup>(a)</sup>**

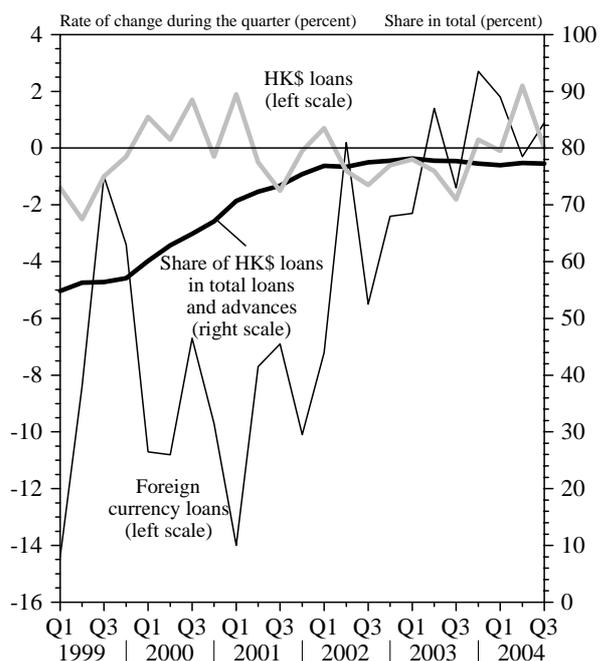
		Loans to :							
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trades	Building, construction, property develop- ment and property investment	Purchase resi- dential property <sup>(b)</sup>	Financial concerns	Stock- brokers	Others
2003	Q1	2.2	1.7	2.3	-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	7.3	10.0	-4.4
	Q4	3.0	3.1	-3.1	-1.1	-0.3	5.8	12.3	2.7
2004	Q1	6.4	5.4	2.5	-1.5	0.1	4.3	6.0	-2.3
	Q2	14.7	8.7	0.2	1.5	-0.7	2.1	-5.9	2.1
	Q3	5.5	4.9	5.8	-0.3	-0.5	0.6	-8.8	2.5
Total amount at the end of September 2004 (HK\$Bn)		129	94	99	359	609	157	9	407
% change over a year earlier		32.6	23.9	5.3	-1.4	-1.4	13.3	2.1	5.1

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.

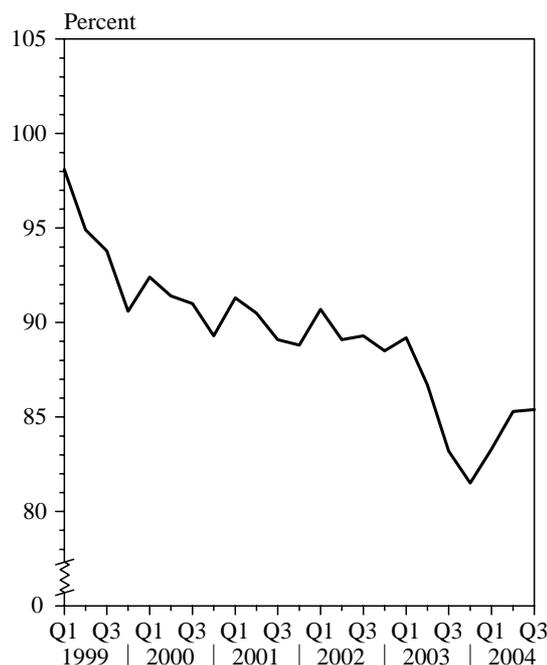
(b) Including loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme, and Tenants Purchase Scheme.

4.14 As Hong Kong dollar loans were little changed while Hong Kong dollar deposits decreased, the Hong Kong dollar loan-to-deposit ratio moved up slightly from 85.3% at end-June to 85.4% at end-September.

**Diagram 4.6 : Loans and advances by currency denomination and share of Hong Kong dollar loans in total loans and advances**

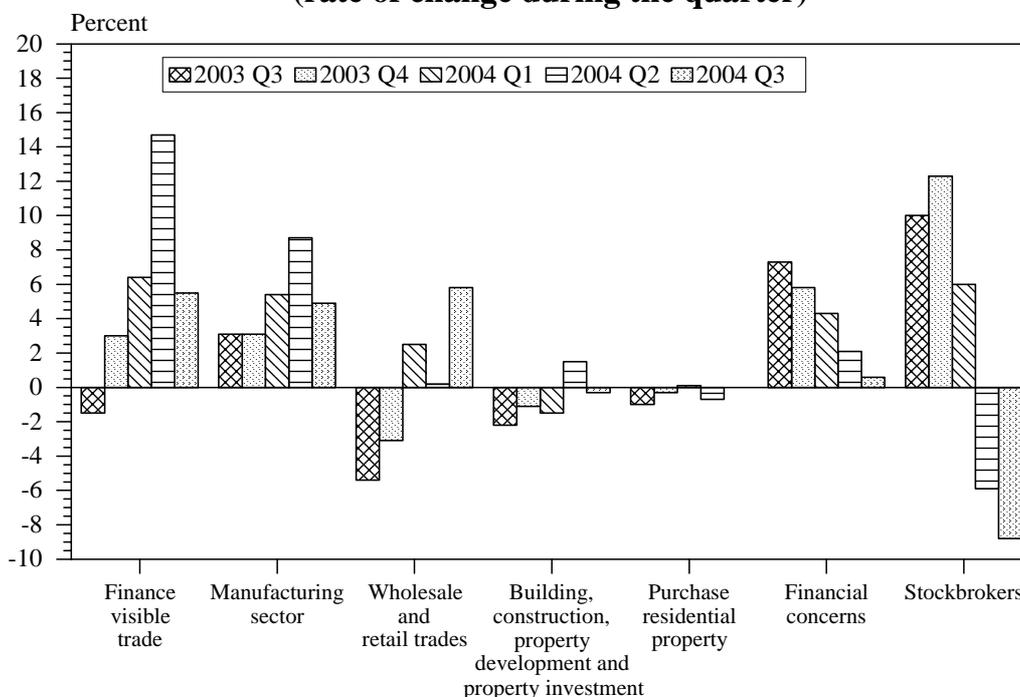


**Diagram 4.7 : Hong Kong dollar loan-to-deposit ratio\***



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

**Diagram 4.8 : Loans and advances for use in Hong Kong by major usage (rate of change during the quarter)**



4.15 The quality of assets held by the local banking sector improved appreciably further, in tandem with the revival in overall economic activity. The ratio of non-performing loans to total loans declined from 2.92% at

end-March 2004 to 2.28% at end-June 2004. Meanwhile, the ratio of classified loans to total loans fell, from 3.66% to 2.99%, as did that of overdue and rescheduled loans to total loans, from 2.61% to 2.09%<sup>(9)</sup>. Among the various types of loans, the delinquency ratio of residential mortgage loans went down from 0.70% to 0.57%, and arrears for over three months in credit card repayment from 0.78% to 0.64%. For all the local banks taken together, their consolidated capital adequacy ratio averaged 15.9% at end-June, still significantly above the standard set by the Bank for International Settlements.

4.16 Mainland debit/credit cards are allowed to be used in Hong Kong, as from 18 January 2004. A number of banks have issued renminbi cards to Hong Kong residents for use in the Mainland. Since February, banks in Hong Kong have launched renminbi deposit-taking, exchange and remittance business. At end-September, a total of 38 licensed banks were engaged in these business activities. Renminbi deposits with authorized institutions totalled RMB 7,669 million, of which 40.9% (RMB 3,136 million) were savings deposits and 59.1% (RMB 4,533 million) were time deposits. For the month of September, interest rates on renminbi savings deposits averaged 0.48% and those for three-month time deposits averaged 0.61%, according to a survey by the HKMA.

4.17 On enhancing deposit protection, the Deposit Protection Scheme Ordinance was enacted by the Legislative Council on 5 May 2004. The Hong Kong Deposit Protection Board was formed on 1 July to take charge of the establishment of the Deposit Protection Scheme. Given the time needed for preparatory work, the scheme is expected to start providing deposit protection in 2006.

## **Insurance**

4.18 The total value of business receipts for the insurance industry leaped further by 28.6% in the second quarter of 2004 over a year earlier, broadly similar to the 29.1% surge in the first quarter. The main impetus to growth came from a sustained strong expansion in life insurance business<sup>(10)</sup>.

## **The debt market**

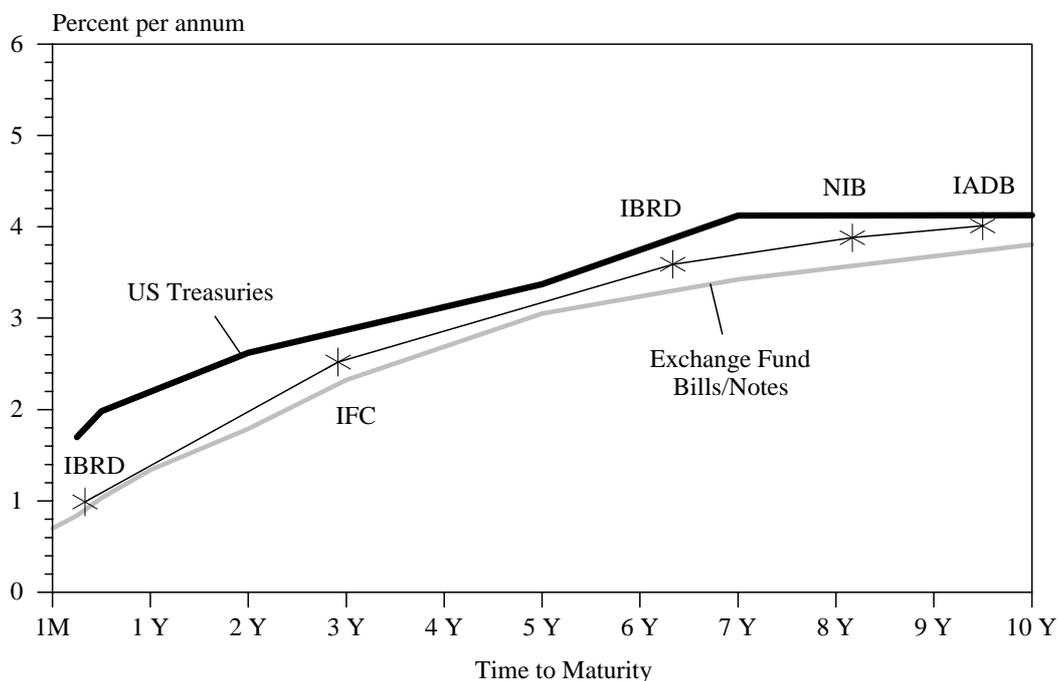
4.19 In the third quarter of 2004, a total of 27 issues of Exchange Fund paper were launched by the HKMA for replacing the earlier issues upon maturity<sup>(11)</sup>. At \$121.9 billion at end-September, the market value of Exchange Fund paper outstanding was by 0.5% higher than that at end-June. Trading in

Exchange Fund paper remained active, with the daily turnover averaging \$18.3 billion in the third quarter, more than that of \$17.5 billion in the second quarter. The yield of the five-year Exchange Fund Notes was 32 basis points below that of the corresponding US Treasuries at end-September, as against 5 basis points below at end-June.

**Table 4.7 : 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)
2003	Q1	118.2	27.8
	Q2	119.0	23.8
	Q3	119.7	16.7
	Q4	120.2	14.8
2004	Q1	120.6	14.4
	Q2	121.2	17.5
	Q3	121.9	18.3

**Diagram 4.9 : Hong Kong dollar and US dollar yield curves  
(as at the end of September 2004)**



Note : AAA Hong Kong dollar supranational issuers

IADB Inter-American Development Bank  
 IBRD International Bank for Reconstruction and Development  
 IFC International Finance Corporation  
 NIB Nordic Investment Bank

4.20 The Hong Kong Mortgage Corporation (HKMC) is one of the major issuers of debt securities in Hong Kong. During the third quarter of 2004, \$0.8 billion worth of HKMC debt papers was launched. At end-September, the total outstanding value of debt securities issued by the HKMC under its Note Issuance Programme amounted to \$1.0 billion, and that under its Debt Issuance Programme amounted to \$31.6 billion. In addition, retail bonds were issued by the HKMC, with the outstanding value totalling \$8.3 billion at end-September.

4.21 In May 2004, the Government issued \$6 billion of Toll Revenue Bond to the Hong Kong Link 2004 Limited, which in turn issued notes and bonds of the same amount to institutional and retail investors. The Toll Revenue Bond is to be repaid quarterly by the net toll revenue receivable from the Government-owned tunnels and bridges, namely, the Cross-Harbour Tunnel, Shing Mun Tunnels, Tseung Kwan O Tunnel, Aberdeen Tunnel, Lion Rock Tunnel, and Lantau Link. Separately, the Government issued notes and bonds totalling \$20 billion to institutional and retail investors in July. These include institutional notes of HK\$5 billion and retail bonds of HK\$5.25 billion denominated in Hong Kong dollar as well as institutional notes of US\$1.25 billion denominated in US dollar. Both the securitisation exercise and the bond offering were well received by investors. The net proceeds from both exercises have been credited to the Capital Works Reserve Fund to finance capital works projects.

4.22 During the third quarter of 2004, the value of negotiable certificates of deposit (NCDs) launched was \$18.2 billion, of which \$13.5 billion was denominated in Hong Kong dollar. These compared with the corresponding amounts of \$18.3 billion and \$12.0 billion in the second quarter. On NCDs outstanding, the total value was \$251.1 billion at end-September 2004 and \$128.3 billion was denominated in Hong Kong dollar, larger than those of \$240.4 billion and \$128.1 billion at end-June. The proportion of Hong Kong dollar-denominated NCDs held by the local banking sector rose from 49.3% to 49.9% over the period.

**Table 4.8 : NCDs issued by authorized institutions in Hong Kong**

As at the end of		Issued and <u>outstanding</u> (HK\$Bn)		Held by authorized <u>institutions</u> (HK\$Bn)		Held outside the local <u>banking sector</u> (HK\$Bn)	
		In HK\$	Total	In HK\$	Total	In HK\$	Total
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
2004	Q1	128.7	236.5	64.2	67.4	64.4	169.0
	Q2	128.1	240.4	63.2	68.8	64.9	171.6
	Q3	128.3	251.1	64.1	73.3	64.2	177.8

4.23 During the third quarter of 2004, 106 new issues of other Hong Kong dollar debt instruments worth \$25.1 billion were launched by the private sector. These compared with the corresponding figures of 143 new issues and \$31.1 billion in the second quarter. Partly reflecting risk aversion by debt issuers against potential interest rate volatility, the issuance of fixed rate bonds by the private sector in the third quarter of 2004, at \$22.2 billion, continued to exceed that of floating rate notes, at \$2.9 billion. At end-September 2004, the total outstanding value of Hong Kong dollar fixed rate bonds and floating rate notes issued by the private sector amounted to \$252.5 billion and \$81.0 billion respectively, adding up to \$333.5 billion<sup>(12)</sup>. The corresponding figures at end-June were \$242.8 billion, \$82.3 billion and \$325.1 billion. Furthermore, there was one new issue of Hong Kong dollar debt paper by multilateral agencies in the third quarter, totalling \$0.1 billion, as against five issues amounting to \$2.0 billion in the second quarter.

4.24 Taking the public sector and the private sector together, the total value of Hong Kong dollar debt papers outstanding amounted to \$595.6 billion at end-September 2004<sup>(13)</sup>, up from \$582.0 billion at end-June. The size of the Hong Kong dollar debt market corresponded to 28.6% of HK\$M3, or 20.9% of the Hong Kong dollar-denominated assets of the entire banking sector.

### **The stock, futures and gold markets**

4.25 The local stock market weakened in July, as investment sentiment was dampened by occasional sharp corrections in the major overseas stock markets and a renewed surge in international crude oil prices. Consequently, the Heng Seng Index dropped to a low of 11 933 on 14 July. Nevertheless, this was

followed by a turnaround particularly in late August and September, aided by the easing back of oil prices, firmer property prices, announcements of favourable corporate results, and growing optimism about the short-term outlook of the local economy. The Hang Seng Index surged to a 6-month high of 13 304 on 21 September, before ending the month at 13 120, which was 6.8% above the closing of 12 286 at end-June.

**Table 4.9 : 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
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
2004	Q1	12 682	10 358	11 715	4 386	3 857	3 625	3 416	1 859
	Q2	12 286	10 436	11 859	4 464	4 053	3 733	3 530	1 838
	Q3	13 120	10 080	10 824	4 571	3 893	3 641	3 675	1 985
% change during the third quarter of 2004	6.8	-3.4	-8.7	2.4	-3.9	-2.5	4.1	8.0	
% change during the first nine months of 2004	4.3	-3.6	1.4	2.1	-1.8	2.3	11.2	12.5	
% change at end-September 2004 over a year earlier	16.8	8.7	5.9	11.7	19.5	16.1	15.7	21.7	

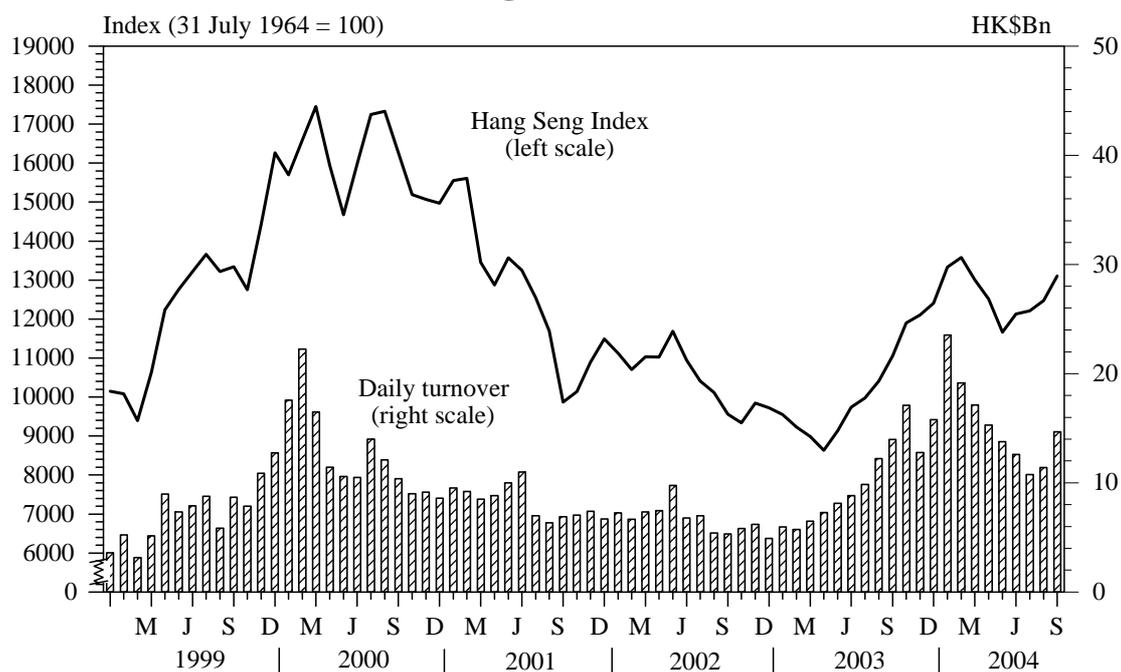
4.26 Total stock market capitalisation, covering both the Main Board and the Growth Enterprise Market (GEM)<sup>(14)</sup>, increased to \$5,961 billion at end-September 2004, from \$5,555 billion at end-June. The average daily turnover showed some decrease, from \$13.8 billion in the second quarter to \$12.3 billion in the third quarter. But the latter figure masked a continued pick-up in the monthly turnover from \$10.8 billion in July to \$11.4 billion in August, and further to \$14.7 billion in September.

**Table 4.10 : Average daily turnover and total market capitalisation of the Hong Kong stock market**

		Average daily turnover in the quarter (HK\$Bn)			Total market capitalisation as at the end of the quarter (HK\$Bn)		
		Main Board	Growth Enterprise Market	Total	Main Board	Growth Enterprise Market	Total
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
2004	Q1	19.5	0.2	19.7	5,691	79	5,769
	Q2	13.8	0.1	13.8	5,483	73	5,555
	Q3	12.2	*	12.3	5,898	62	5,961

Note : (\*) Less than HK\$0.5 billion.

**Diagram 4.10 : Hang Seng Index and Hong Kong's stock market turnover (average for the month)**



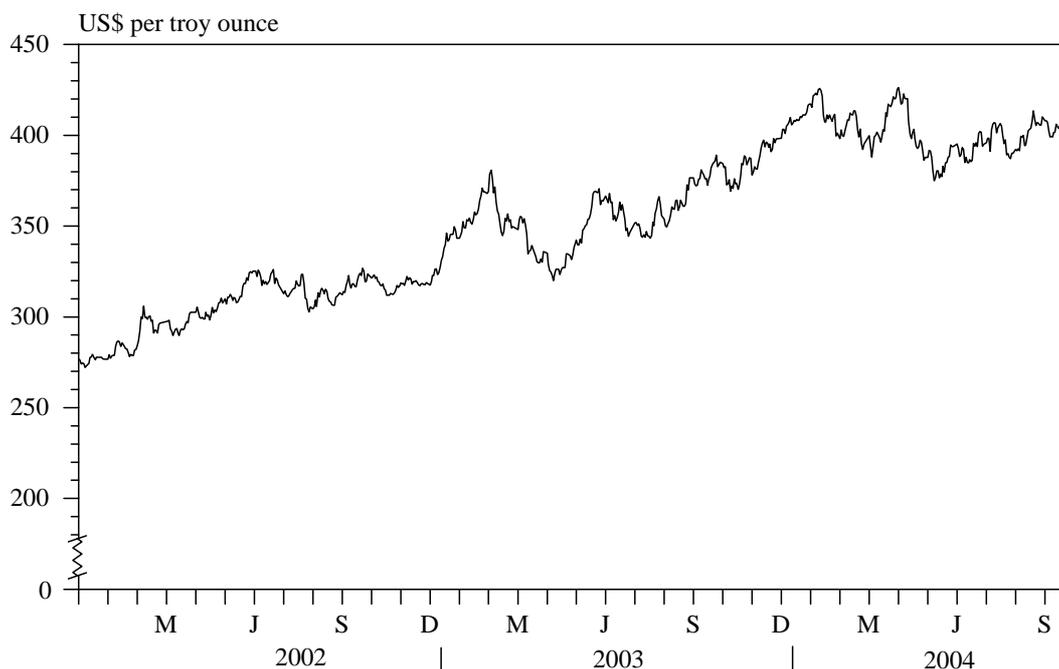
4.27 In the third quarter of 2004, 14 new share flotations were launched on the local stock market, raising a total equity capital of \$2.9 billion. Of these new issues, 9 were listed on the Main Board, raising equity capital of \$2.6 billion and the remaining five on GEM raising \$0.3 billion. Two of the new issues pertained to H shares listed on GEM, raising equity capital of \$0.2 billion. In addition, \$2.3 billion was raised through private placements by 18 companies, and \$0.4 billion through rights issues by 5 companies.

4.28 Trading in derivatives at the Hong Kong Exchanges and Clearing Limited generally fell during the third quarter of 2004. The average daily turnover of the Hang Seng Index options contracts and Hang Seng Index futures contracts shrank by 28.9% and 6.2% respectively to 7 143 contracts and 34 386 contracts, while that of the H-shares Index futures contracts fell by 14.4% to 7 331 contracts. As to the H-shares Index options contracts which were launched on 14 June 2004, their average daily turnover in the third quarter was 572 contracts.

4.29 There were 37 classes of stock options contracts at end-September 2004. Their average daily turnover amounted to 20 995 contracts in the third quarter, little changed from 21 002 contracts in the second quarter. At the same time, there were 36 classes of stock futures contracts, with the respective average daily turnover falling by 20.0% to 52 contracts.

4.30 Gold prices staged a distinct rebound in the third quarter of 2004, amid intensified concerns about the general weakening in the US dollar and soaring international crude oil prices. The loco-London gold price closed at \$412.3 per troy ounce at end-September, 4.8% above that of US\$393.3 per troy ounce at end-June. Gold price at the Chinese Gold and Silver Exchange Society likewise finished higher at \$3,827 per tael at end-September 2004, as against \$3,653 per tael at end-June. Turnover remained broadly stable on the Exchange, totalling 6.33 million taels and 6.35 million taels in the second and third quarters respectively.

**Diagram 4.11 : Price of loco-London gold**



## Unit trusts and mutual funds

4.31 The total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 1 001 at end-September 2004, down from 1 005 at end-June. Gross sales of mutual funds amounted to US\$4.2 billion in the third quarter of 2004, 7.8% less than those of US\$4.6 billion in the second quarter. After deducting redemptions, net sales surged by 84.7% from US\$0.2 billion to US\$0.4 billion. Among the various types of mutual funds, equity funds continued to take up the largest proportion, at 63.5% of the total value of funds at end-September 2004. This was followed by fixed income/bond funds, asset allocation funds, money market funds and other funds, with respective shares of 23.2%, 7.0%, 5.3% and 1.0%<sup>(15)</sup>.

4.32 Comparing end-September with end-June 2004, the aggregate net asset value of the approved constituent funds of MPF schemes<sup>(16)</sup> rose from 99.9 billion to \$107.8 billion, mainly reflecting continued contributions from the enrolled population. At end-September, there were 19 approved trustees. On MPF products, 43 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. Around 223 200 employers, 1.80 million employees and 295 600 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 97.7%, 95.8% and 79.4% respectively.

### Notes :

- (1) Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay US dollar 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, 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. Specifically, it 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. 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.

It is important to note that the EERI 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) The Real EERI 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.
- (4) 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 25 due to banking sector consolidation. The AIs currently covered together account for around 99% of the total business, as compared to 92% for the 32 AIs formerly covered.
- (5) The various definitions of the money supply are as follows:

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

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

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

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

- (6) Among 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) 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.
- (8) During the third quarter of 2004, the number of licensed banks, fell by one to 133 at end-September, as did those of restricted licence banks and deposit-taking companies, to 42 and 36 respectively. Altogether, 211 authorized institutions (excluding representative offices) from 31 countries and territories had a presence in Hong Kong. Their total assets amounted to \$6,787 billion at end-September, up by 10.0% from a year earlier.
- (9) 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.
- (10) The number of authorized insurers in Hong Kong showed a further decrease from 183 at end-June 2004 to 180 at end-September. Within this total, 45 were engaged in long-term insurance business, 116 in general insurance business, and 19 in composite insurance business. Taken together, authorized insurers from 23 countries and territories (including Hong Kong) maintained a presence in Hong Kong.
- (11) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (12) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.

- (13) 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.
- (14) The Growth Enterprise Market was launched by the Hong Kong stock market 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.
- (15) 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.
- (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

### *Summary*

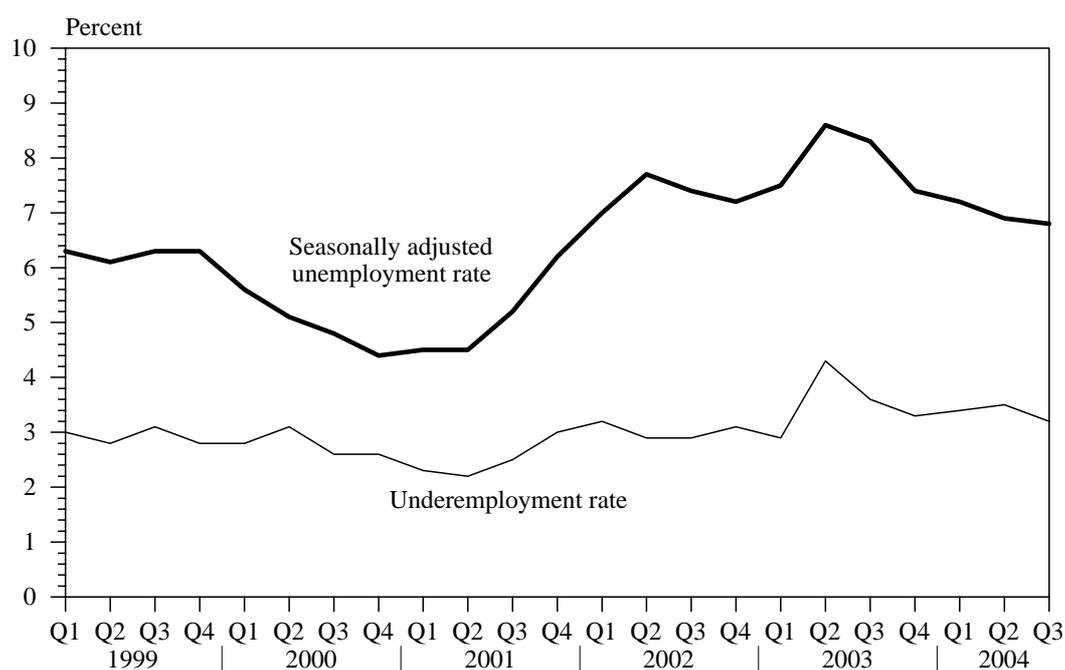
- *The seasonally adjusted unemployment rate edged down to a 30-month low of 6.8% in the third quarter of 2004. Although the total numbers unemployed went up modestly, this was mainly caused by the entry of fresh graduates and school leavers into the labour market. These new comers had nevertheless been absorbed into the employed workforce at the fastest pace in four years.*
- *While both total employment and total labour force were little changed on a quarter-to-quarter comparison, employment growth continued to outpace labour force growth on a year-on-year comparison, at 2.7% as against 1.0%.*
- *Labour earnings showed a renewed year-on-year rise of 0.4% in money terms in the second quarter of 2004, arresting the downtrend seen over the preceding two years. Concurrently, labour wages were stabilising.*

### **Overall labour market situation**

5.1 The *seasonally adjusted unemployment rate*<sup>(1)</sup> remained on a downtrend, edging lower from 6.9% in the second quarter of 2004 to 6.8% in the third quarter. The latter represented the lowest level in 2½ years. Retail, welfare and community services, sanitary services and business services were the sectors with more notable falls in unemployment rate. On the other hand, the number of unemployed persons (unadjusted) rose modestly from 240 200 to 248 900. Yet this was mainly due to the seasonal influx of fresh graduates and school leavers into the labour market during the summer months. Meanwhile, the median duration of unemployment shortened from 97 days to 88 days. (In August - October 2004, the seasonally adjusted unemployment rate and the number of unemployed persons were 6.7% and 240 000 respectively.)

5.2 The *underemployment rate*<sup>(2)</sup> went down from 3.5% in the second quarter of 2004 to 3.2% in the third quarter, as did the number of underemployed persons from 122 400 to 112 900. The decrease was most apparent in such sectors as hotels, retail, amusement and recreational services, and transport. (In August - October 2004, the underemployment rate and the number of underemployed persons were 3.2% and 112 000 respectively.)

**Diagram 5.1 : Unemployment and underemployment rates**



**Table 5.1 : Unemployment and underemployment rates**

		Seasonally adjusted unemployment rate (%)	Underemployment rate (%)
2003	Annual	7.9	3.5
	Q1	7.5	2.9
	Q2	8.6	4.3
	Q3	8.3	3.6
	Q4	7.4	3.3
2004	Q1	7.2	3.4
	Q2	6.9	3.5
	Q3	6.8	3.2

Source : General Household Survey, Census and Statistics Department.

**Table 5.2 : Median duration of unemployment and proportion of the unemployed population by duration of unemployment**

		Median duration of unemployment (Days)	Proportion unemployed for :		
			Less than 3 months (%)	3 months to less than 6 months (%)	6 months or more (%)
2003	Annual	88	51	18	31
	Q1	83	54	17	29
	Q2	82	54	18	28
	Q3	90	50	19	31
	Q4	109	46	18	36
2004	Q1	106	47	17	36
	Q2	97	49	17	34
	Q3	88	51	16	32

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

Source : General Household Survey, Census and Statistics Department.

5.3 Reflecting partly the impact of fresh graduates and school leavers entering the labour market, the proportion of persons unemployed for less than three months moved up from 49% in the second quarter of 2004 to 51% in the third quarter. On the other hand, the proportion of persons unemployed for three months to less than six months fell from 17% to 16%, and that for six months or more from 34% to 32%.

### **Total employment and labour supply**

5.4 On a quarter-to-quarter comparison, *total employment*<sup>(3)</sup> as enumerated from households, having gone up for three consecutive quarters, held steady at 3.28 million in the third quarter of 2004. On a year-on-year comparison, there was a notable growth of 2.7% in the third quarter of 2004, slightly faster than the 2.6% increase in the second quarter. The increase was more visible among persons aged 15-24 and 40-59, those with upper secondary and degree education, those engaged as professionals, associate professionals, clerks, and service workers and shop sales workers, as well as those working in the distributive trade, restaurants and transport sectors.

5.5 On a quarter-to-quarter comparison, *total labour force*<sup>(4)</sup> grew marginally by 0.3% to 3.53 million in the third quarter of 2004, after a 0.5% rise in the second quarter. This increase was attributable entirely to an expansion in the population of working age, as the overall labour force participation rate<sup>(5)</sup> was static over the period. On a year-on-year comparison, total labour force went up by 1.0% in the third quarter of 2004, after a 0.8% increase in the second quarter. These year-on-year growth rates were however slower than those for total employment, leading to continued decline in the unemployment rate over the past year.

**Table 5.3 : The labour force, and persons employed, unemployed and underemployed**

		Labour force		Persons employed		Persons unemployed <sup>(a)</sup>	Persons underemployed
2003	Annual	3 496 200	(0.3)	3 219 100	(-0.4)	277 200	123 300
	Q1	3 488 600	(0.9)	3 229 900	(0.3)	258 700	100 300
	Q2	3 496 200	(0.9)	3 198 200	(-0.2)	298 100	150 200
	Q3	3 495 700	(-0.6)	3 197 900	(-1.6)	297 800	126 600
	Q4	3 504 500	(-0.1)	3 250 400	(-0.2)	254 200	116 100
2004	Q1	3 506 400	(0.5)	3 256 900	(0.8)	249 500	118 700
	Q2	3 522 700	(0.8)	3 282 400	(2.6)	240 200	122 400
	Q3	3 531 500	(1.0)	3 282 600	(2.7)	248 900	112 900
			<0.3>		<*>		

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.

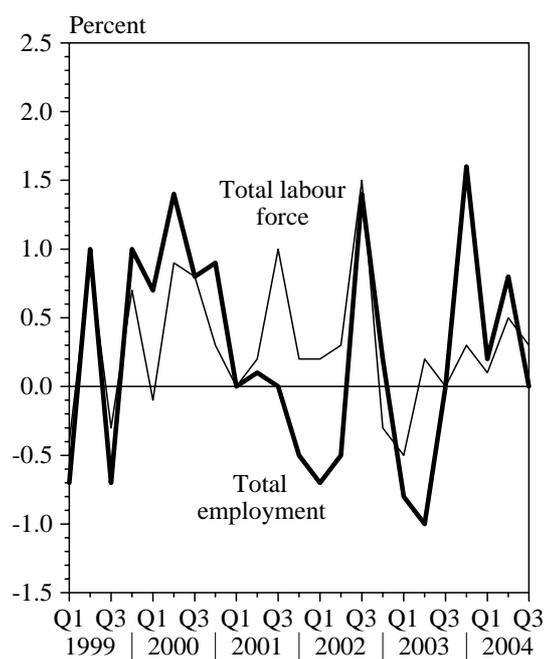
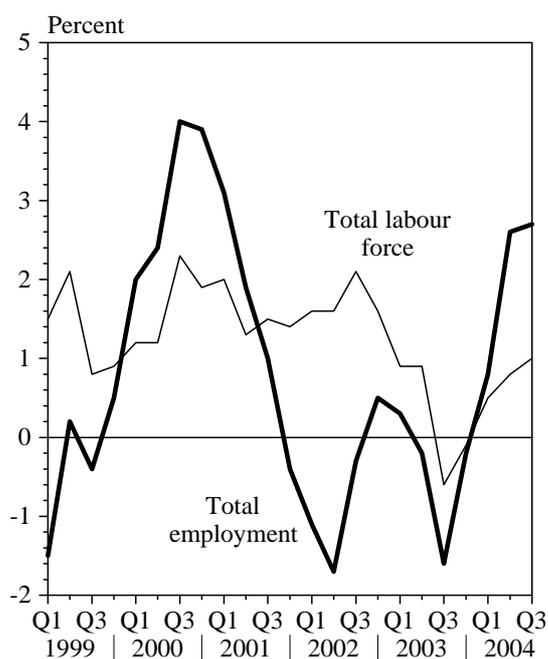
(\*) Change of less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total labour force and total employment**

**(a) Year-on-year rate of change**

**(b) Quarter-to-quarter rate of change**



**Table 5.4 : Labour force participation rates by sex (%)**

		Male	Female	Both sexes combined
2003	Annual	72.0	51.7	61.4
	Q1	72.0	52.0	61.6
	Q2	72.2	51.8	61.6
	Q3	72.2	51.4	61.3
	Q4	71.8	51.4	61.1
2004	Q1	71.8	51.8	61.3
	Q2	71.9	51.7	61.3
	Q3	71.8	51.8	61.3

Source : General Household Survey, Census and Statistics Department.

### Profile of unemployment

5.6 Analysed by *economic sector*, the unemployment rates for retail and restaurants fell notably, alongside the sustained pick-up in consumer spending and inbound tourism. Other sectors also having visible reductions in unemployment were financing, insurance, business services, and welfare and sanitary services, amid continued improvement in overall economic situation. On the other hand, the unemployment rate for manufacturing moved up, after having been on a general downtrend for almost a year.

**Table 5.5 : Unemployment rates by major economic sector (%)<sup>(a)</sup>**

	Annual	2003				2004		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Wholesale, retail and import/export trades, restaurants and hotels	8.2	7.9	9.1	8.8	7.0	7.0	6.8	6.5
Transport, storage and communications	6.5	6.1	7.6	6.2	6.1	6.1	5.2	5.2
Financing, insurance, real estate and business services	5.2	4.5	5.6	5.4	5.2	4.9	4.8	4.4
Community, social and Personal services	3.5	2.9	3.7	3.7	3.5	3.5	3.4	3.3
Manufacturing	7.6	7.3	8.4	7.3	7.4	7.1	6.2	7.4
Construction <sup>(b)</sup>	19.0	18.9	19.7	19.6	17.7	17.9	15.8	15.4

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.

5.7 Analysed by *occupation category*, most of the workers at the lower segment of the labour market benefited from the decrease in unemployment rate between the second and third quarters. This was particularly so for clerks and for service workers and shop sales workers, most of whom were engaged in the distributive trade, restaurants, financing and business services. By contrast, workers at the upper segment generally faced some rise in unemployment.

**Table 5.6 : Unemployment rates by major occupation category (%)<sup>(a)</sup>**

	Annual	2003				2004		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Managers and administrators	2.4	2.1	2.2	2.2	3.0	2.0	1.6	1.9
Professionals	2.4	2.2	2.8	2.8	1.8	2.1	2.5	2.2
Associate professionals <sup>(b)</sup>	4.4	4.3	4.9	4.6	3.6	3.6	3.4	3.9
Clerks	5.4	5.0	5.5	5.8	5.2	4.6	4.6	4.2
Service workers and shop sales workers	10.3	9.4	12.3	10.8	8.7	9.0	8.8	8.3
Craft and related workers	16.0	16.2	16.4	16.1	15.3	15.2	13.2	13.0
Plant and machine operators and assemblers	7.0	6.8	7.3	7.1	6.7	6.7	5.9	6.1
Elementary occupations	8.7	8.0	9.6	8.9	8.1	8.7	8.1	7.8

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

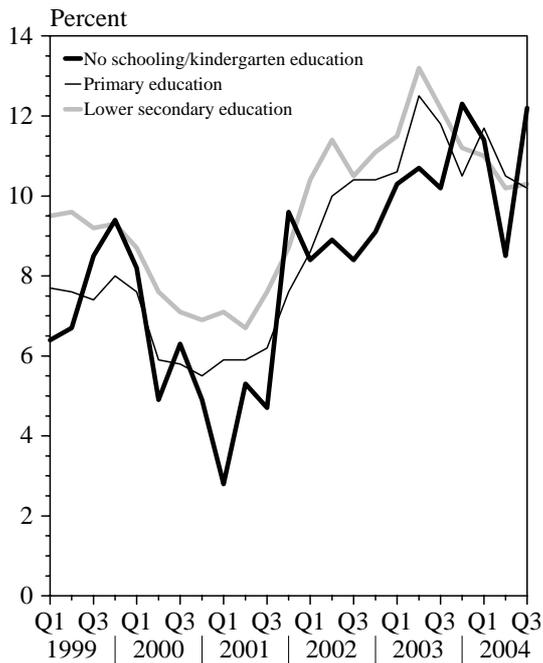
(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

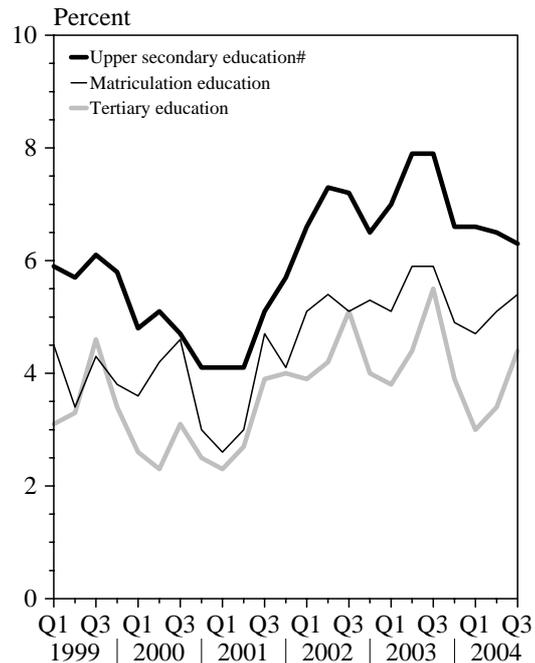
5.8 Analysed by *educational attainment*, the reduction in unemployment rate between the second and third quarters occurred mainly among persons with primary and upper secondary education. Yet the unemployment rate for persons with tertiary education rose visibly. To a large extent, this was attributable to more fresh graduates and school leavers entering the labour market, as manifested by the 69.3% jump in the number of first-time job-seekers over the period. Largely because of this, the unemployment rate for persons aged 20-24 went up distinctly, whereas the unemployment rates for persons of the other age groups either rose slightly or else declined. Nevertheless, a comparison with the experience in the past few years revealed that the new batch of fresh graduates and school leavers in this summer had been absorbed into total employment at the fastest pace in four years.

### Diagram 5.3 : Unemployment rates by educational attainment\*

(a) Workers with lower secondary education and below



(b) Workers with upper secondary education and above

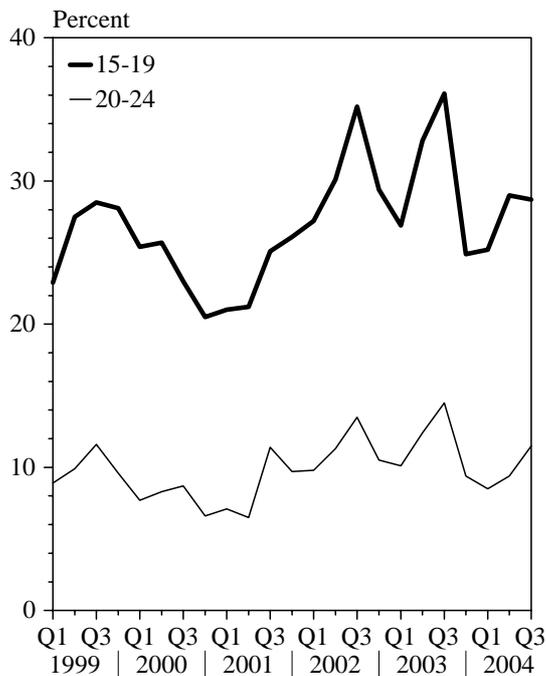


Notes : (\*) Not seasonally adjusted, but including first-time job seekers and re-entrants into the labour force.

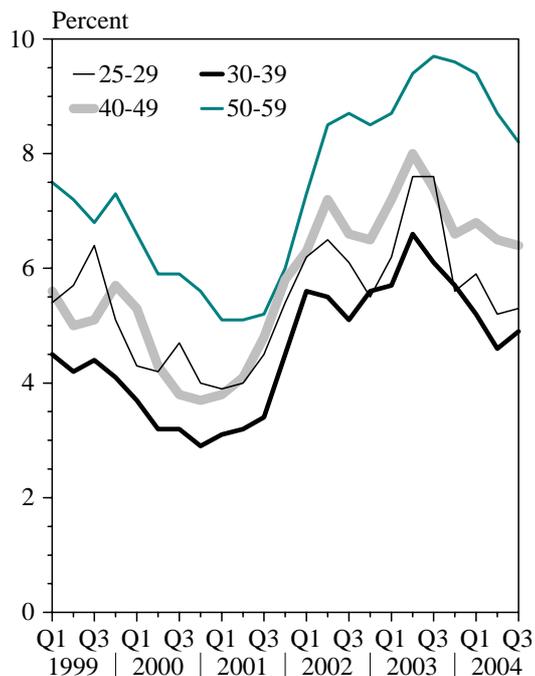
(#) Including craft courses.

### Diagram 5.4 : Unemployment rates by age group\*

(a) Workers aged 15-24



(b) Workers aged 25 and above



Note : (\*) See the first note to Diagram 5.3.

## **Profile of underemployment**

5.9 Comparing the third quarter with the second quarter of 2004, the underemployment rate came down extensively across many different occupation categories and educational attainment levels, as well as across a wide range of sectors like amusement and recreational services, hotels, the distributive trade and transport. Analysed by age group, persons aged 30 and above were the ones facing a more noticeable decline in underemployment.

## **Profile of employment**

5.10 Total employment as enumerated from private sector establishments grew visibly by 3.1% in June 2004 over a year earlier, faster than the 0.6% increase in March. This was due to improved labour demand upon further pick-up in economic activity, although the low base of comparison was also a contributory factor. On a seasonally adjusted quarter-to-quarter comparison, total employment likewise showed an accelerated increase, by 0.9% in June as against 0.6% in March. More specifically for the *service sectors*, employment gains, whilst occurring almost across-the-board, were more notable in restaurants and hotels, water transport, air transport and services allied to transport, and community, social and personal services. Taking all the service sectors<sup>(6)</sup> together, employment went up by 3.7% in June 2004 over a year earlier, exceeding the 1.4% rise in March.

5.11 By contrast, employment in the local *manufacturing sector* fell further by 1.7% in June 2004 from a year earlier, although this was smaller than the 5.6% reduction in March. The on-going relocation of production processes outside Hong Kong continued to dampen labour demand in this sector. Likewise, employment of manual workers at *building and construction sites* shrank by 1.0% in June 2004 from a year earlier, after a 5.5% drop in March. The decrease occurred entirely at public sector sites where employment dipped by 15.0% due to a fall-off in civil engineering work and continued scale-back in the Public Housing Programme, which more than offset a 12.2% rebound seen at private sector sites. Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector<sup>(7)</sup> nevertheless went up by 2.2% in the second quarter of 2004 over a year earlier, having fallen by 6.4% in the first quarter.

5.12 Employment in the civil service remained on a downtrend, decreasing by 3.9% in June 2004 over a year earlier, as a result of natural wastage and staff departure under the Secondary Voluntary Retirement Scheme. Furthermore, the general recruitment freeze imposed since 1 April 2003 has put a lid on such employment.

**Table 5.7 : Employment by major economic sector**

	Annual Average	2003				2004	
		Mar	Jun	Sep	Dec	Mar	Jun
Wholesale and import/export trades	558 300 (-1.5)	563 900 (-0.4)	558 200 (0.4)	555 700 (-4.3)	555 400 (-1.8)	556 600 (-1.3)	563 100 (0.9)
Retail trade	210 700 (-2.8)	209 700 (-3.1)	209 000 (-4.3)	207 100 (-6.4)	217 100 (2.9)	214 600 (2.3)	216 500 (3.6)
Restaurants and hotels	196 100 (-7.3)	198 200 (-7.2)	191 100 (-10.6)	193 900 (-8.7)	201 400 (-2.5)	204 600 (3.2)	209 500 (9.7)
Water transport, air transport and services allied to transport	98 000 (-3.1)	100 200 (-0.6)	96 100 (-6.1)	96 600 (-4.4)	99 000 (-1.0)	101 600 (1.4)	104 500 (8.7)
Storage and communications	35 100 (-12.5)	33 300 (-19.5)	35 300 (-15.1)	35 200 (-13.0)	36 500 (-1.1)	35 900 (8.0)	36 100 (2.2)
Financing, insurance, real estate and business services	421 900 (-1.9)	422 500 (-0.2)	419 000 (-2.6)	422 300 (-0.5)	423 800 (-4.0)	428 600 (1.4)	434 200 (3.6)
Community, social and personal services	407 300 (2.9)	398 100 (1.5)	400 600 (2.5)	414 100 (3.9)	416 500 (3.5)	412 000 (3.5)	418 100 (4.4)
Manufacturing	173 100 (-10.3)	178 900 (-9.4)	172 500 (-13.8)	172 800 (-9.1)	168 300 (-8.8)	168 900 (-5.6)	169 600 (-1.7)
Building and construction sites <sup>(a)</sup>	67 600 (-7.7)	69 900 (-9.1)	67 300 (-15.1)	68 000 (-3.4)	65 100 (-2.0)	66 100 (-5.5)	66 600 (-1.0)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	2 215 800 (-2.6)	2 222 200 (-2.3)	2 197 000 (-3.6)	2 213 500 (-3.2)	2 230 400 (-1.4)	2 236 000 (0.6)	2 265 000 (3.1)
<i>Civil service<sup>(c)</sup></i>	167 100 (-2.4)	169 100 (-2.3)	168 200 (-2.0)	166 500 (-2.3)	164 700 (-2.9)	163 000 (-3.6)	161 700 (-3.9)

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) Due to an expansion in survey coverage as from March 2003, the employment figures for manual workers at building and construction sites in 2003 have been revised accordingly to facilitate comparison.

(b) 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.

(c) 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.

## Vacancies

5.13 The number of vacancies in the private sector showed a broad-based jump from the low base a year earlier. For all the private sector establishments surveyed taken together, the number of vacancies soared by 55.0% in June 2004 over a year earlier, following a surge of 78.7% in March. On a seasonally adjusted quarter-to-quarter comparison, vacancies were up by 5.7% in June 2004, after a 13.2% leap in March. As a result, the overall vacancy rate moved up further from 1.3% to 1.4% between the two months.

5.14 Analysed by *economic sector*, vacancies in the *service sectors* rose markedly, by 81.8% and 56.5% in March and June 2004 respectively over a year earlier. They accounted for about 95% of the total vacancies for all the private sector establishments. Vacancies in the local *manufacturing sector* also surged in the two periods, by 37.5% and 30.2%. As for manual workers at *building and construction sites*, the growth in vacancies doubled from 57.7% to 118.5%, yet the absolute number involved was rather small.

5.15 On vacancies in the *civil service*, there was a reduction of 1.9% in June 2004 over a year earlier, yet this was much smaller than the 21.7% drop in March. The moderated decline was mainly caused by an increased wastage in disciplinary services and the lead time required for recruitment after they were granted exemption from the recruitment freeze in October 2003.

**Table 5.8 : Vacancies by major economic sector**

	No. of vacancies							Vacancy rate in Jun 2004 (%)
	Annual average	2003				2004		
		Mar	Jun	Sep	Dec	Mar	Jun	
Wholesale and import/export trades	4 800 (10.0)	4 400 (-12.2)	4 900 (-1.9)	5 300 (26.1)	4 800 (39.8)	7 200 (64.7)	8 700 (77.5)	1.5
Retail trade	1 700 (-8.1)	1 100 (-35.1)	1 500 (-37.8)	1 700 (2.9)	2 400 (60.5)	2 300 (108.2)	2 400 (55.2)	1.1
Restaurants and hotels	1 300 (-2.4)	800 (-47.0)	1 100 (-22.3)	1 700 (23.3)	1 700 (56.0)	1 800 (113.1)	2 200 (100.6)	1.0
Water transport, air transport and services allied to transport	500 (-5.7)	400 (-9.7)	500 (-17.7)	500 (-1.1)	500 (9.4)	900 (102.3)	1 300 (161.0)	1.2
Storage and communications	400 (-6.9)	300 (-25.6)	400 (14.3)	500 (1.3)	300 (-18.8)	600 (83.8)	400 (-3.3)	1.2
Financing, insurance, real estate and business services	5 600 (8.0)	4 200 (-22.1)	6 200 (3.2)	5 700 (18.8)	6 300 (38.7)	8 600 (106.0)	9 000 (45.4)	2.0
Community, social and personal services	4 200 (1.3)	3 300 (-23.8)	4 600 (11.0)	4 800 (14.6)	3 900 (4.9)	5 200 (56.5)	6 200 (34.2)	1.5
Manufacturing	1 000 (-21.5)	1 100 (-23.5)	1 200 (-16.4)	900 (-34.7)	800 (-6.4)	1 500 (37.5)	1 600 (30.2)	0.9
Building and construction sites	# (-60.1)	# (-81.7)	# (-52.6)	# (-57.4)	# (28.6)	# (57.7)	100 (118.5)	0.1
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>19 700 (1.4)</i>	<i>15 900 (-23.4)</i>	<i>20 800 (-4.9)</i>	<i>21 100 (12.5)</i>	<i>20 900 (28.9)</i>	<i>28 400 (78.7)</i>	<i>32 200 (55.0)</i>	1.4
		<i>&lt;-18.6&gt;</i>	<i>&lt;23.1&gt;</i>	<i>&lt;12.5&gt;</i>	<i>&lt;14.4&gt;</i>	<i>&lt;13.2&gt;</i>	<i>&lt;5.7&gt;</i>	
<i>Civil service<sup>(b)</sup></i>	<i>1 500 (-14.8)</i>	<i>1 600 (-3.8)</i>	<i>1 700 (-13.5)</i>	<i>1 600 (-9.9)</i>	<i>1 200 (-32.1)</i>	<i>1 300 (-21.7)</i>	<i>1 600 (-1.9)</i>	1.0

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.

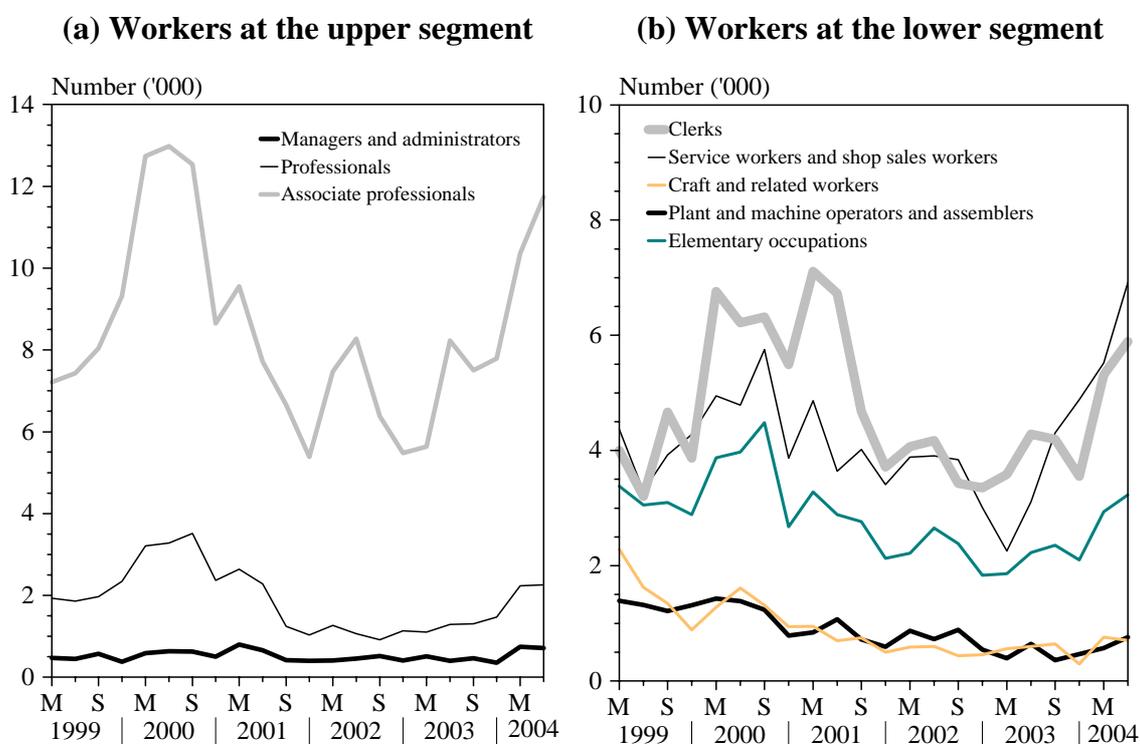
< > Seasonally adjusted quarter-to-quarter % change.

(#) Less than 50.

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

5.16 Analysed by *occupation category*, vacancies went up appreciably across-the-board. At the lower segment of occupational hierarchy, vacancies for service workers and shop sales workers and for workers in elementary occupations were sharply higher by 122.3% and 45.1% respectively in June 2004 than a year earlier, with most of the increase occurring in the distributive and catering trades and in community, social and personal services. Vacancies for clerks also rose visibly by 37.6%, with most of the job opportunities arising in the import/export trades. As to vacancies for higher-skill workers, the growth rate ranged from 42.6% for associate professionals to 76.5% for managers and administrators. These additional vacancies were mainly found in the import/export trades.

**Diagram 5.5 : Vacancies by major occupation category**



5.17 The statistics from the Labour Department pointed to a sustained strong growth in vacancies in the third quarter of 2004, when the number of vacancies received increased by 12.8% year-on-year to a record high of 83 800. The quarter-to-quarter growth was also impressive, at 18.1%. Moreover, the number of vacancies received remained high, averaging at 1 200 per day for both August and September and at 1 300 per day for October.

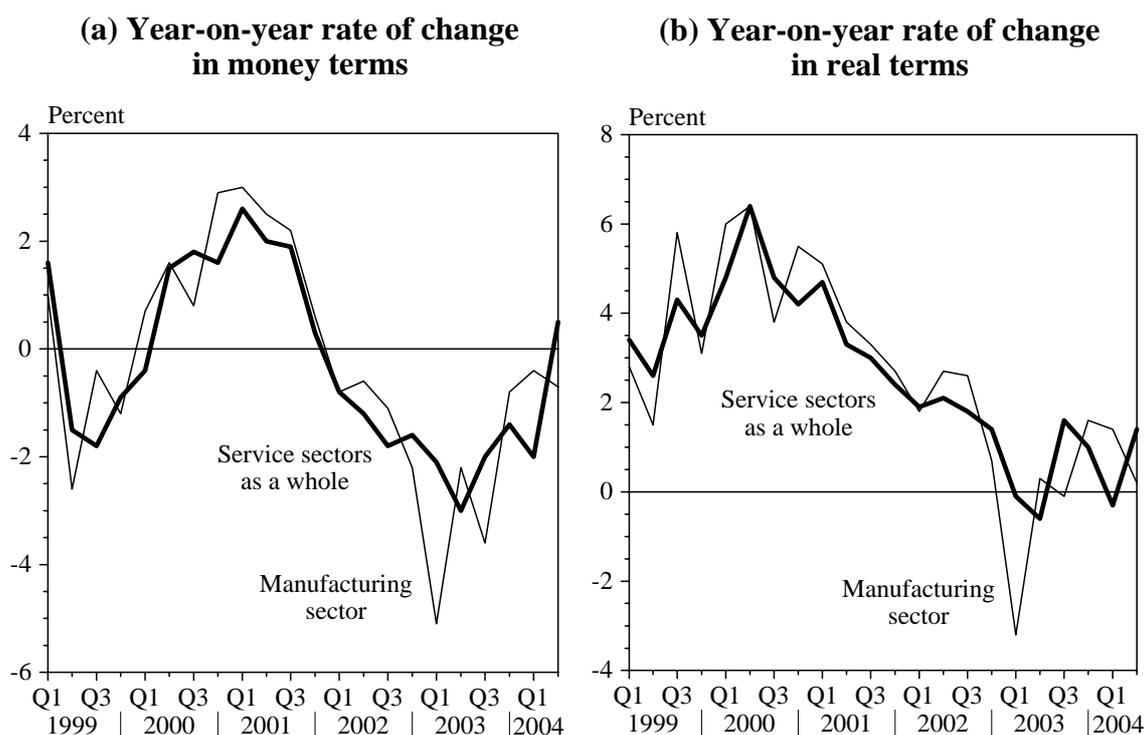
### Earnings and wages

5.18 Overall *labour earnings*<sup>(8)</sup> in the private sector, as measured by

payroll per person engaged, edged up by 0.4% in money terms in the second quarter of 2004 over a year earlier. This reversed the 1.7% decline in the first quarter, as well as the downtrend established since the beginning of 2002. Increased overtime allowance and discretionary bonus were the major contributory factors. Discounting the fall in consumer prices as reflected by the Composite CPI, overall labour earnings rose by 1.3% in real terms in the second quarter of 2004, larger than the 0.1% increase in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings reverted to increases of 1.6% in money terms and 1.7% in real terms in the second quarter of 2004, from decreases of 1.3% and 1.7% in the first quarter.

5.19 Analysed by *economic sector*, earnings in most of the major service sectors recorded year-on-year gains in money terms in the second quarter of 2004, ranging from 0.7% for transport, storage and communications to 2.1% for restaurants and hotels. Whilst earnings in community, social and personal services fell by 2.8%, this was attributable to the downward adjustment in payrolls by some government-subsidised organisations to tie in with the civil service pay cut earlier in the year. Taken together, labour earnings in the *service sectors* edged higher by 0.5% in money terms and 1.4% in real terms in the second quarter of 2004 over a year earlier. On the other hand, labour earnings in the local *manufacturing sector* went down by 0.7% in money terms, although in real terms there was still a mild increase of 0.2%.

**Diagram 5.6 : Earnings by broad economic sector**



5.20 Overall *labour wages*<sup>(9)</sup> in the private sector, excluding the irregular payment items, declined by 0.3% in June 2004 from a year earlier. Yet this was more moderate than the 1.6% drop in March. Discounting the change in consumer prices as measured by the CPI(A)<sup>(10)</sup>, overall labour wages in real terms switched from a 0.2% increase in March to a 0.5% decrease in June.

5.21 Analysed by *economic sector*, wages either recorded a lesser decline or a modest rise in money terms. Within the *service sectors*, wages in restaurants and hotels, the wholesale, retail and import/export trades and transport services were down by 0.5-1.6% in June 2004 from a year earlier. Concurrently, wages in financing, insurance, real estate and business services moved up by 0.8%, and those in personal services by 2.7%. As to the local *manufacturing sector*, wages drifted lower by 1.1% in money terms. For all these sectors, their wages showed similar changes in real terms.

5.22 As for the *construction sector*, wages fell by 3.9% in money terms in the second quarter of 2004 from a year earlier, larger than the 0.4% decrease in the first quarter. The reduced demand for manual workers at building and construction sites largely contributed. In real terms, these wages turned from an increase of 0.9% to a decrease of 3.2% between the two quarters.

5.23 The civil service pay was lowered on 1 January 2004, following the enactment of the Public Officers Pay Adjustments (2004/2005) Ordinance in December 2003. This will be followed by another reduction of broadly equal magnitude on 1 January 2005 in accordance with the same ordinance. After the two reductions, all civil service pay points will be restored to the levels, in dollar terms, as at 30 June 1997.

5.24 Regarding the development of an improved civil service pay adjustment mechanism, the Government presented the proposals on the pay level survey methodology and application of the survey results for extensive consultation in early November 2004. The consultation would last for two months. The plan is to embark on the field work of the pay level survey in the first quarter of 2005.

## 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) 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) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; finance, insurance, real estate and business services; and community, social and personal services.
- (7) 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.
- (8) 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.
- (9) 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.
- (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

### *Summary*

- *The downtrend in overall consumer prices since November 1998 was arrested in mid-2004. For the three consecutive months from July to September 2004, overall consumer prices were slightly higher than a year earlier.*
- *The GDP deflator, though still on a declining trend, exhibited a slightly moderated decrease in the third quarter of 2004, as the continued decline in the terms of trade in goods was largely offset by an accelerated rise in the domestic demand deflator.*

### **Consumer prices**

6.1 Overall consumer prices, having declined continuously on a year-on-year comparison since November 1998, resumed increase in the third quarter of 2004. The *Composite Consumer Price Index (CPI)*<sup>(1)</sup> rose by 0.8% year-on-year in that quarter. This was partly due to the low base of comparison a year earlier. Also contributed was the increased price pressure generated from sustained pick-up in consumer demand and higher import prices and property rentals. For the first nine months of 2004 as a whole, the Composite CPI was modestly down by 0.6%, distinctly smaller than the 2.6% decrease in 2003.

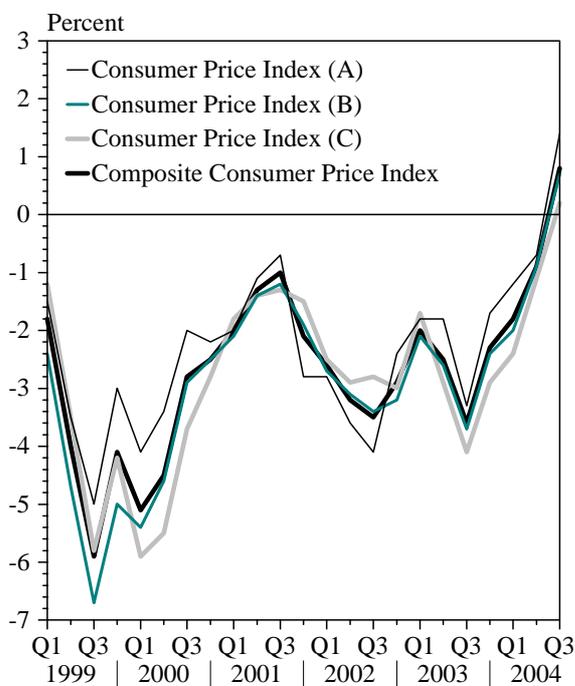
6.2 Analysed by sub-index, the CPI(A), CPI(B) and CPI(C) were all higher, by 1.4%, 0.7% and 0.2% respectively in the third quarter of 2004 over a year earlier. The larger rise in the CPI(A) was due to the lower comparison base for this sub-index brought about by the Government's rates concession and rebate of water and sewage charges last year<sup>(2)</sup>, as rates and water and sewage charges constituted a relatively greater weighting in the CPI(A).

**Table 6.1 : Consumer Price Indices**  
(year-on-year rate of change (%))

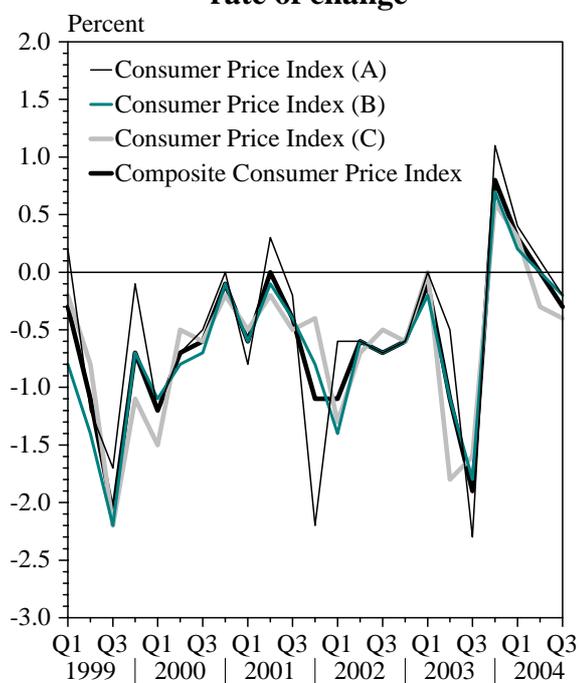
		Composite CPI	CPI(A)	CPI(B)	CPI(C)
2003	Annual	-2.6	-2.1	-2.7	-2.9
	H1	-2.2	-1.8	-2.3	-2.3
	H2	-3.0	-2.5	-3.1	-3.5
	Q1	-2.0	-1.8	-2.1	-1.7
	Q2	-2.5	-1.8	-2.6	-2.9
	Q3	-3.6	-3.3	-3.7	-4.1
	Q4	-2.3	-1.7	-2.4	-2.9
	2004	H1	-1.3	-1.0	-1.4
	Q1-Q3	-0.6	-0.2	-0.7	-1.1
	Q1	-1.8	-1.2	-2.0	-2.4
	Q2	-0.9	-0.7	-0.9	-1.1
	Q3	0.8	1.4	0.7	0.2
	Jul	0.9	1.5	0.8	0.4
	Aug	0.8	1.4	0.7	0.1
	Sep	0.7	1.3	0.6	0.3

**Diagram 6.1 : Consumer Price Indices**

(a) year-on-year rate of change



(b) Seasonally adjusted quarter-to-quarter rate of change

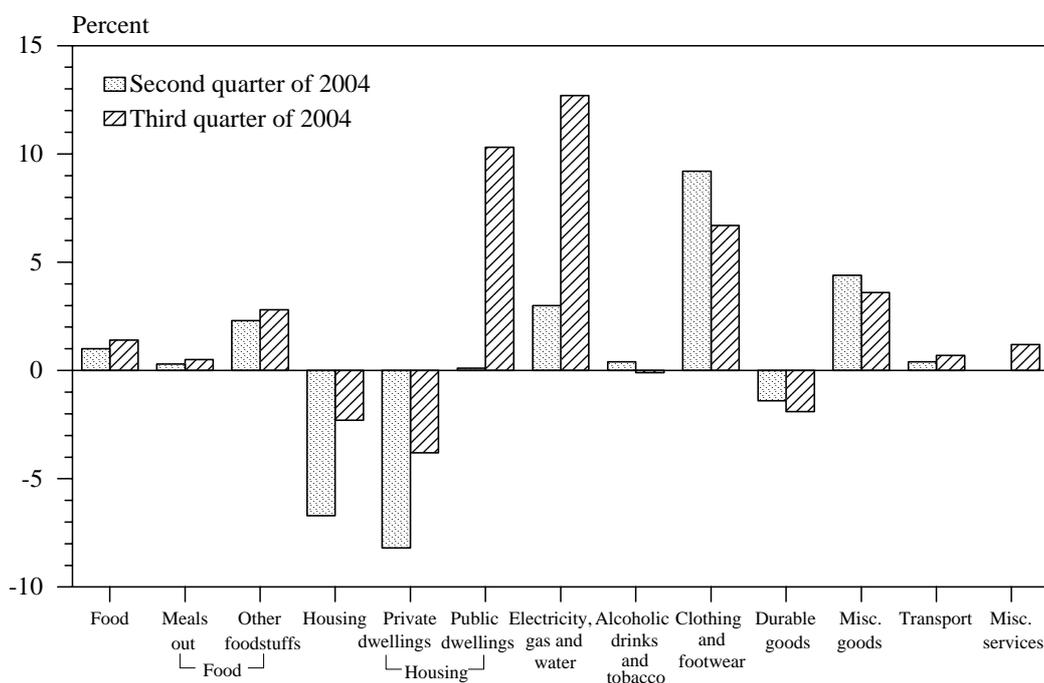


Note : The year-on-year and quarter-to-quarter changes in the Consumer Price Indices are computed from the new 1999/2000-based CPI series, as from the fourth quarter of 2000 and the first quarter of 2000 respectively onwards. Before then, the changes are computed from the old 1994/95-based CPI series.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

6.3 Yet on a quarter-to-quarter comparison, the seasonally adjusted Composite CPI edged lower by 0.3% in the third quarter of 2004, following nil change in the second quarter. This reflected mainly the effects of softer prices of clothing and footwear, food, miscellaneous services and durable goods during the third quarter. The seasonally adjusted CPI(A), CPI(B) and CPI(C) likewise declined slightly, by 0.2%, 0.2% and 0.4% respectively.

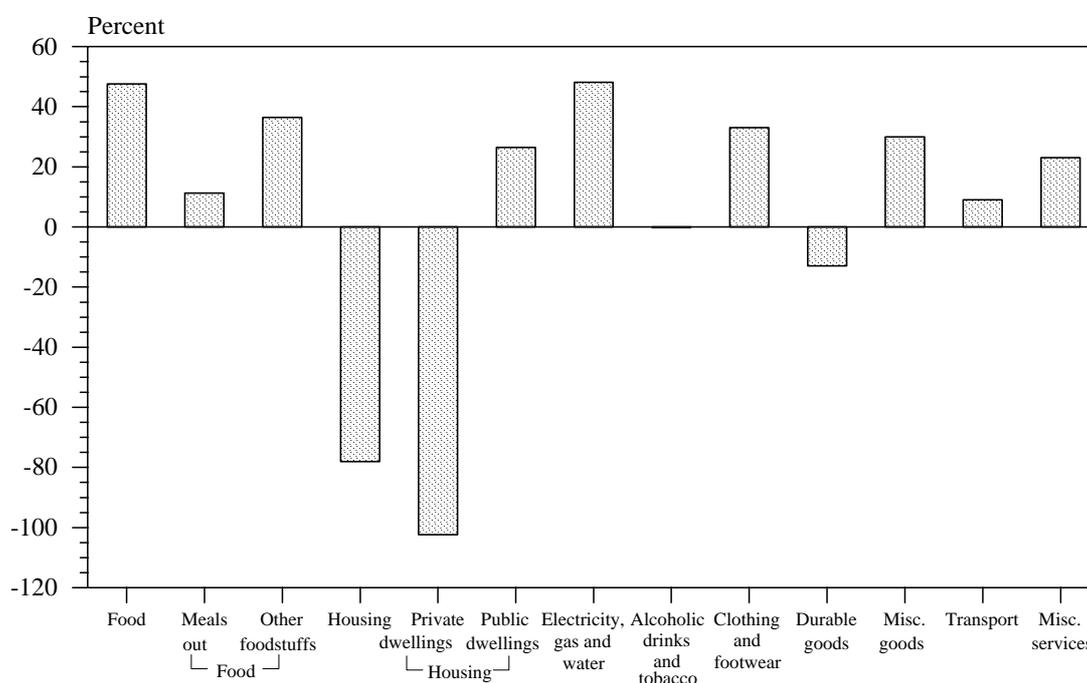
6.4 Analysed by main component of the Composite CPI, price increases occurred fairly extensively across many of the major consumer items. The charges for electricity, gas and water and the public housing cost (including rates) rose significantly by 12.7% and 10.3% respectively in the third quarter of 2004 from the low base a year earlier. The prices of clothing and footwear, miscellaneous goods and basic foodstuffs also rose notably by 6.7%, 3.6% and 2.8%, backed by the sustained growth in consumer spending. These more than offset the decreases in private housing cost and the prices of durable goods, by 3.8% and 1.9% respectively.

**Diagram 6.2 : Composite Consumer Price Index by component (year-on-year rate of change)**



6.5 Higher food prices contributed some 48% to the increase in the Composite CPI in the third quarter of 2004 over a year earlier, by virtue of its heavy weighting in the price index. Roughly the same contribution was observed from electricity, gas and water charges, which showed a big jump from the low base a year earlier. Other commodity items with smaller, positive contributions were clothing and footwear, miscellaneous goods, public housing rent, miscellaneous services and transport cost. On the other hand, negative contributions were observed from private housing rent, durable goods, and alcoholic drinks and tobacco.

**Diagram 6.3 : Factors underlying the overall increase in the Composite Consumer Price Index in the third quarter of 2004**



Note : Positive figures denote contribution to the overall increase in the Composite CPI in the third quarter of 2004, while negative figures represent dampening effect on the overall increase.

**Table 6.2 : Composite Consumer Price Index by component**

Expenditure component	Weighting	Year-on-year rate of change (%)			% contribution to the overall change in the Composite CPI		
		2004 Q1	2004 Q2	2004 Q3	2004 Q1 <sup>(a)</sup>	2004 Q2 <sup>(a)</sup>	2004 Q3 <sup>(b)</sup>
Food	26.67	0.1	1.0	1.4	-2.1	-31.8	47.6
Meals bought <i>away from home</i>	16.39	-0.5	0.3	0.5	4.8	-5.2	11.1
<i>Other foodstuffs</i>	10.28	1.1	2.3	2.8	-6.9	-26.6	36.5
Housing <sup>(c)</sup>	29.91	-7.7	-6.7	-2.3	118.9	215.2	-78.0
<i>Private dwellings</i>	24.59	-9.3	-8.2	-3.8	116.3	211.3	-102.4
<i>Public dwellings</i>	2.07	0.1	0.1	10.3	-0.1	-0.3	26.4
Electricity, gas and water	2.98	21.8	3.0	12.7	-31.5	-10.9	48.1
Alcoholic drinks and tobacco	0.94	-0.1	0.4	-0.1	0.1	-0.5	-0.1
Clothing and footwear	4.13	6.1	9.2	6.7	-12.7	-43.6	33.1
Durable goods	6.24	-3.6	-1.4	-1.9	10.6	8.7	-12.9
Miscellaneous goods	5.70	3.8	4.4	3.6	-13.2	-32.1	30.0
Transport	9.01	-0.4	0.4	0.7	2.3	-4.4	9.1
Miscellaneous services	14.42	-3.4	*	1.2	27.6	-0.6	23.1
All items	100.00	-1.8	-0.9	0.8	100.0	100.0	100.0

Notes : (a) Positive figures denote contribution to the overall decline in the Composite CPI in the first and second quarters of 2004, while negative figures represent a relief to the overall decline.

(b) Positive figures denote contribution to the overall increase in the Composite CPI in the third quarter of 2004, while negative figures represent a downdrag to the overall increase.

(c) 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. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

(\*) Change of less than 0.05%.

## Factor input costs and domestic output prices

6.6 Factor input costs generally turned up along with the improvement in overall economic conditions. On *capital equipment and material costs*, the prices of retained imports of raw materials and semi-manufacturers surged by 16.0% in the third quarter of 2004 over a year earlier, although the prices of capital goods fell marginally by 0.2%. As for *property cost*, the rentals for shopping space and conventional flatted factory moved up by 6.5% and 5.4% respectively over the same period, and those for office space by 10.2% in July and August combined. Regarding *labour cost*, labour earnings resumed increase by 0.4% in money terms in mid-2004, whereas labour wages had a slight decline by only 0.3%.

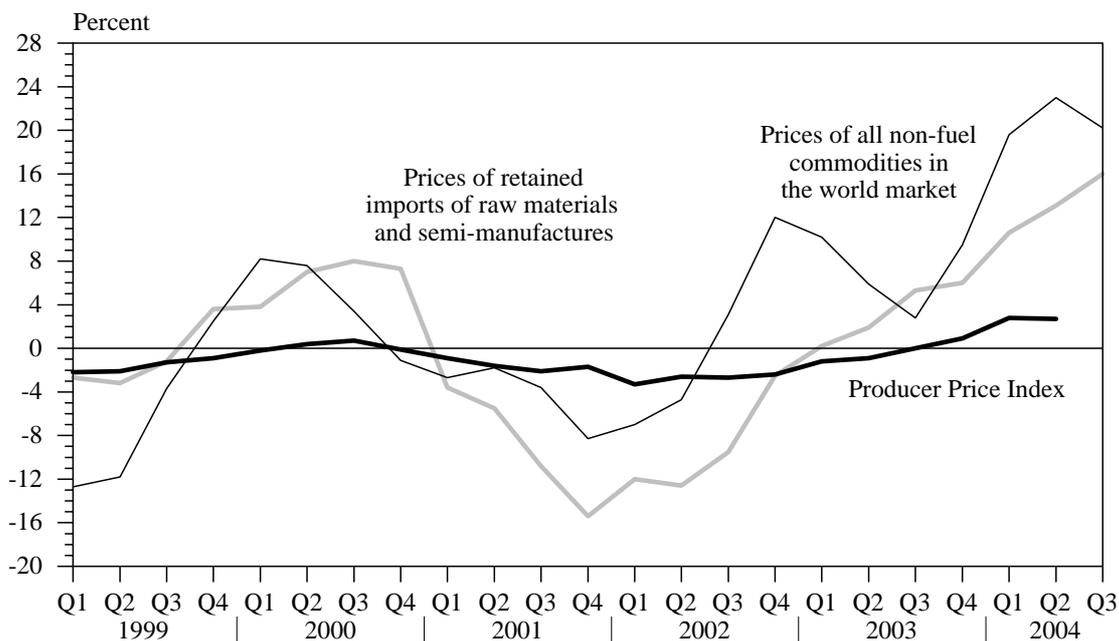
6.7 The higher factor input costs and strong demand in the major overseas markets continued to prop up domestic output prices. Reflecting this, the *prices of local manufacturing output*, as measured by the Producer Price Index<sup>(3)</sup>, rose by 2.8% and 2.7% year-on-year in the first and second quarters of 2004 respectively, in contrast to the decline of 0.3% in 2003. Analysed by *industry group*, increases in output prices were observed in the second quarter of 2004 for plastic products (by 3.1%), machinery and equipment (1.7%), fabricated metal products (1.1%) and textiles (1.0%). These more than offset the decreases observed for consumer electrical and electronic products (by 5.8%) and wearing apparels (0.1%).

**Table 6.3 : Producer Price Index for the local manufacturing sector**  
(year-on-year rate of change (%))

Industry group	Annual	2003				2004	
		Q1	Q2	Q3	Q4	Q1	Q2
Wearing apparel	-0.2	-0.8	0.1	0.2	-0.2	-0.4	-0.1
Textiles	-0.1	-0.6	-0.5	-0.2	1.0	1.4	1.0
Plastic products	2.6	0.1	2.5	2.6	5.1	4.7	3.1
Consumer electrical and electronic products	-1.7	-1.7	-0.8	-2.3	-2.1	-4.5	-5.8
Machinery and equipment	-1.3	-3.1	0.1	0.5	-2.7	3.1	1.7
Fabricated metal products	-2.9	-3.0	-3.9	-3.3	-1.3	0.2	1.1
Paper products and printing	-1.7	-2.0	-2.3	-1.7	-0.7	-0.4	*
Overall manufacturing	-0.3	-1.2	-0.9	*	0.9	2.8	2.7

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

**Diagram 6.4 : Producer Price Index, world commodity prices, and prices of retained imports of raw materials and semi-manufactures (year-on-year rate of change)**



6.8 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, went up on a broad front. Specifically, output prices for hotels and boarding houses leaped by 17.5% in the second quarter of 2004 over a year earlier, backed by the robust growth in inbound tourism. Also relevant was the low base of comparison upon the impact of SARS last year. Output prices for air transport, maritime transport and land transport increased by 4.7%, 1.1% and 0.4% respectively, reflecting the upward adjustments made to compensate for the soaring fuel cost. Output prices for miscellaneous communications services rose by 2.8%, on account of higher charges for international courier services. On the other hand, output prices for telecommunications continued to decrease, by 7.7%, owing to reduced charges for international calls and mobile phone services, as well as lower prices for mobile phone sets.

**Table 6.4 : Producer Price Indices for selected service sectors<sup>(a)</sup>**  
(year-on-year rate of change (%))

Selected service sector	Annual	2003				2004	
		Q1	Q2	Q3	Q4	Q1	Q2
Hotels and boarding houses	-4.9	1.6	-10.5	-4.2	-6.3	2.9	17.5
Land transport	-1.6	-0.7	-1.9	-2.7	-1.1	-1.9	0.4
Maritime transport	7.2	5.5	7.6	6.2	9.5	2.7	1.1
Air transport	0.4	1.8	-0.6	-0.4	0.9	1.2	4.7
Telecommunications	-10.7	-7.7	-12.0	-10.1	-13.2	-13.6	-7.7
Miscellaneous communications services	3.9	7.1	6.9	3.1	-1.1	2.9	2.8

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.

### Import and export prices

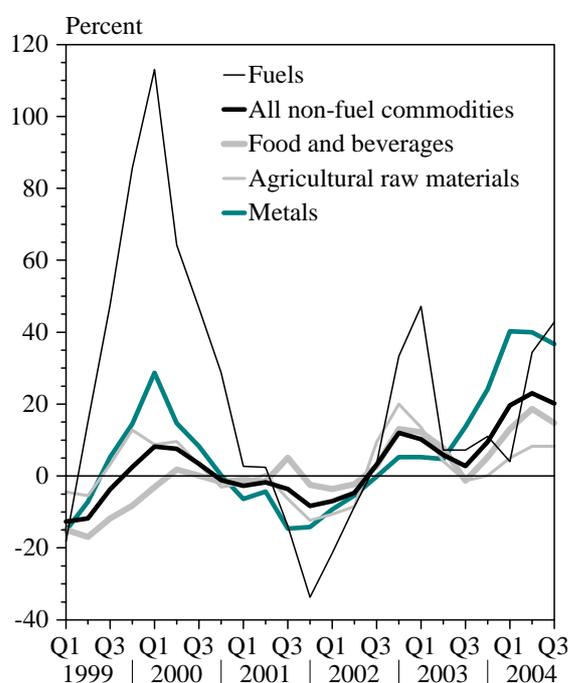
6.9 On the external front, the *prices of imports of goods* showed an accelerated increase, under the combined influence of a weaker US dollar, firmer world commodity prices and higher inflation in some of the major supplier economies. Comparing the third quarter of 2004 with a year earlier, the unit value index of imports of goods firmed up by 4.0%, exceeding the 2.3% rise in the second quarter. For the first nine months of 2004 as a whole, the increase was 2.4%, in contrast to a 0.4% fall in 2003.

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

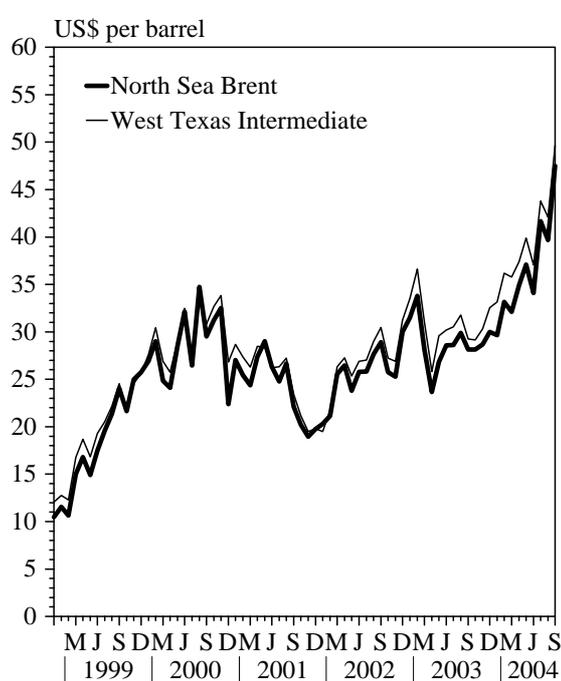
		Mainland of China	Japan	Taiwan	United States	All sources
2003	Annual	-0.2	2.4	-0.6	-0.9	-0.4
	H1	-0.4	3.1	0.3	-2.0	-0.2
	H2	*	1.8	-1.3	0.1	-0.5
	Q1	-1.0	3.3	1.1	-2.6	-0.1
	Q2	0.1	2.9	-0.3	-1.4	-0.3
	Q3	-0.1	0.9	-1.3	-1.1	-0.9
	Q4	*	2.7	-1.3	1.1	-0.2
	2004	H1	0.7	2.4	1.5	1.3
Q1-Q3		1.1	2.8	2.7	1.7	2.4
Q1		0.5	2.3	0.4	1.1	0.7
Q2		0.9	2.4	2.4	1.5	2.3
Q3		1.9	3.4	4.9	2.4	4.0

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

**Diagram 6.5 : World commodity prices  
(year-on-year rate of change)**

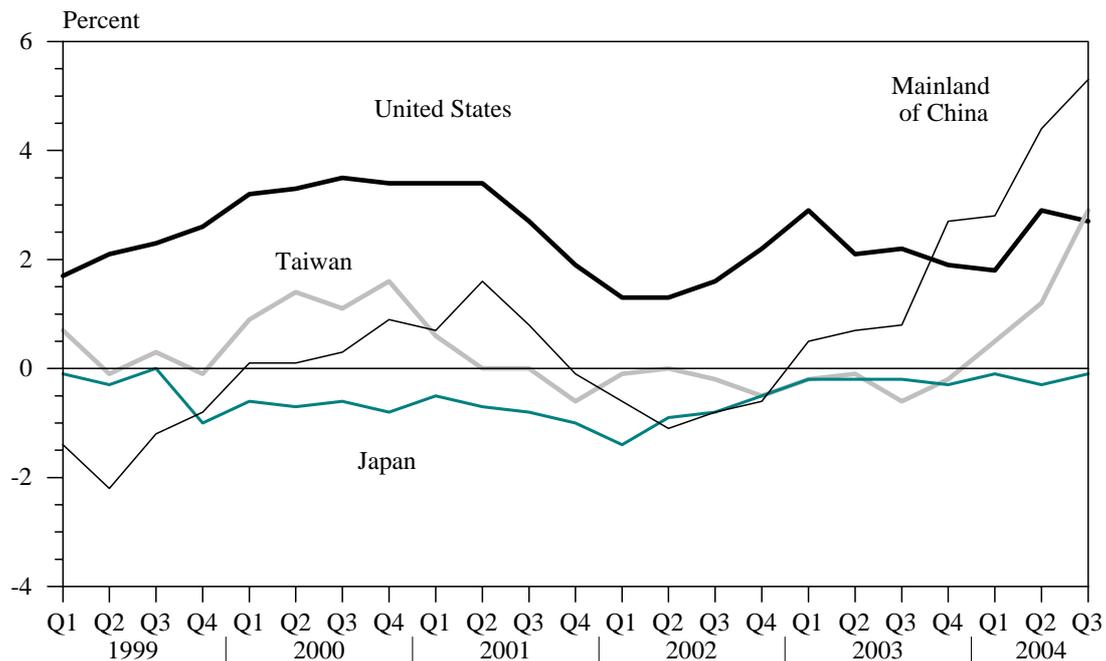


**Diagram 6.6 : Spot price of crude oil\***



Note : (\*) Month-end figures.

**Diagram 6.7 : Consumer prices in the major supplier economies  
(year-on-year rate of change)**



6.10 Analysed by major *source* and on a year-on-year comparison, the prices of goods imported from Taiwan, Japan, the United States and the Mainland rose by 4.9%, 3.4%, 2.4% and 1.9% respectively in the third quarter of 2004, larger than the increases of 2.4%, 2.4%, 1.5% and 0.9% in the second quarter. This was largely attributable to the further pick-up in the prices of raw materials and semi-manufacturers and some capital goods imported from these sources. Also relevant were an accelerated increase in the prices of foodstuffs imported from the Mainland and also a moderated decline in the prices of consumer goods imported from Japan.

6.11 The *prices of retained imports*, as indicated by the unit value index of retained imports, likewise rose faster in the third quarter than in the second quarter of 2004, by 10.8% as against 7.4%. For the first nine months of 2004 as a whole, the increase was 7.6%, reversing the 1.1% drop in 2003. The upsurge in the prices of retained imports was a major factor behind the rebound in the local retail prices of some commodity items in recent months.

6.12 Analysed by *end-use category*, the prices of retained imports of fuels showed the most discernible surge by 38.2% in the third quarter of 2004 over a year earlier. The sharp escalation in international crude oil prices, due to the tighter supply relative to demand, was the primary factor. As to retained imports of raw materials and semi-manufactures, the prices jumped by 16.0%.

Among them, base metals, iron and steel, and plastic materials were the ones having more notable price increases. On retained imports of consumer goods, the prices were up by 6.2%, attributable mainly to higher import prices of travel goods and handbags, jewellery and precious stones. The prices of retained imports of foodstuffs had a more modest rise by 3.0%, with most of the increase coming from such major import suppliers as the United States, the Mainland and Japan. The prices of retained imports of capital goods edged down by 0.2%, along with a softening in the import prices of office machines.

**Table 6.6 : Unit value indices of retained imports  
by major end-use category  
(year-on-year rate of change (%))**

		Food- stuffs	Consumer goods	Fuels	Raw materials and semi- manufactures	Capital goods	All categories
2003	Annual	1.2	-0.2	13.1	3.6	-10.2	-1.1
	H1	0.8	-1.5	21.7	1.2	-9.1	-1.6
	H2	1.6	1.0	6.5	5.9	-11.1	-0.7
	Q1	0.1	-3.8	37.4	0.2	-9.4	-1.9
	Q2	1.5	0.4	9.0	1.9	-8.8	-1.4
	Q3	1.3	-0.6	7.0	5.3	-11.9	-1.6
	Q4	1.8	2.8	6.0	6.0	-10.4	0.1
	2004	H1	2.2	3.0	15.1	11.9	-0.9
Q1-Q3		2.4	4.1	22.8	13.0	-0.6	7.6
Q1		2.1	3.0	5.7	10.6	-1.9	4.6
Q2		2.3	3.0	25.5	13.1	0.1	7.4
Q3		3.0	6.2	38.2	16.0	-0.2	10.8

6.13 By comparison, the *prices of total exports of goods*, as measured by the unit value index of total exports of goods, went up less, by 0.5% and 1.9% respectively in the second and third quarters of 2004 over a year earlier. Within the total for the third quarter, the prices of re-exports rose by 2.0% and those of domestic exports by 1.8%. For the first nine months of 2004 as a whole, the prices of total exports of goods were higher by 0.6%, which comprised an increase of 0.6% each in the prices of re-exports and domestic exports. This came after a 1.4% fall in 2003.

6.14 Analysed by major *market* and on a year-on-year comparison, the prices of total exports of goods to the Mainland and Singapore moved up by 3.8% and 0.3% respectively in the third quarter of 2004 over a year earlier, reflecting mainly a pick-up in the prices of raw materials and semi-

manufacturers and a rebound in the prices of capital goods exported to the two markets. The prices of total exports of goods to Japan, the United Kingdom, Germany and the United States went higher by 0.4-1.2%, in tandem with the firming up in the prices of consumer goods exported to these countries.

**Table 6.7 : 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
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
2004	H1	-0.5	1.1	-0.4	-0.3	-0.3	-3.2	-0.1
	Q1-Q3	-0.2	2.1	-0.1	0.2	0.3	-1.9	0.6
	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7
	Q2	-0.4	1.9	*	0.1	0.1	-2.3	0.5
	Q3	0.4	3.8	0.5	1.0	1.2	0.3	1.9

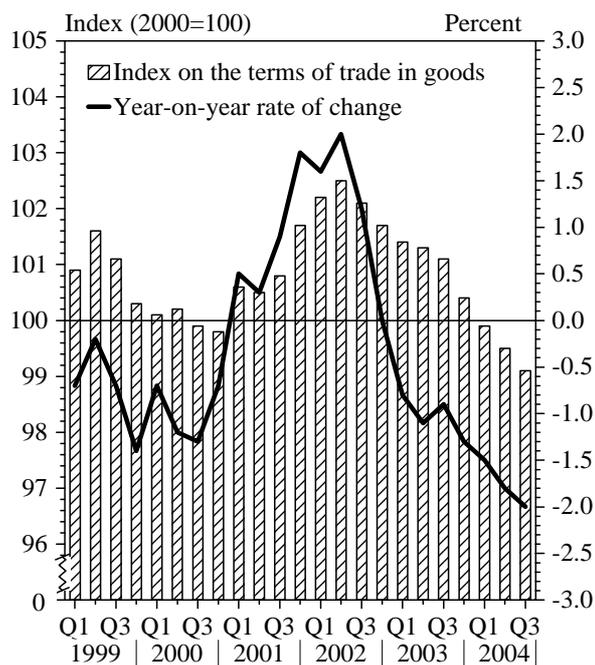
Note : (\*) Change of less than 0.05%.

6.15 With the prices of total exports of goods rising by a smaller magnitude than the prices of imports of goods, the *terms of trade in goods*<sup>(4)</sup> for Hong Kong fell by 2.0% in the third quarter of 2004 from a year earlier, following a 1.8% decrease in the second quarter. For the first nine months of 2004 as a whole, the decline was 1.8%, as against that of 1.0% in 2003.

**Diagram 6.8 : Unit value indices of total exports of goods and imports of goods (year-on-year rate of change)**



**Diagram 6.9 : Terms of trade in goods**



## GDP deflator

6.16 The *GDP deflator*<sup>(5)</sup>, as a broad measure of overall price change in the economy, showed a moderating decline in recent quarters. Specifically, the GDP deflator fell by 2.5% in the third quarter of 2004 from a year earlier, slightly smaller than the 2.7% drop in the second quarter. Despite a worsening in the terms of trade, this was outweighed by the combined effect of a rebound in the price deflator for private consumption expenditure and a moderated decline in the price deflator for government consumption expenditure. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator declined by 1.3% in the third quarter, after a 0.8% decrease in the second quarter.

6.17 Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* were both higher, by 0.8% and 1.4% respectively in the third quarter of 2004 over a year earlier, following increases of 0.4% and 0.5% in the second quarter. These partly reflected growing price pressure generated from the sustained pick-up in overall economic activity.

**Table 6.8 : GDP deflator and the main expenditure component deflators  
(year-on-year rate of change (%))**

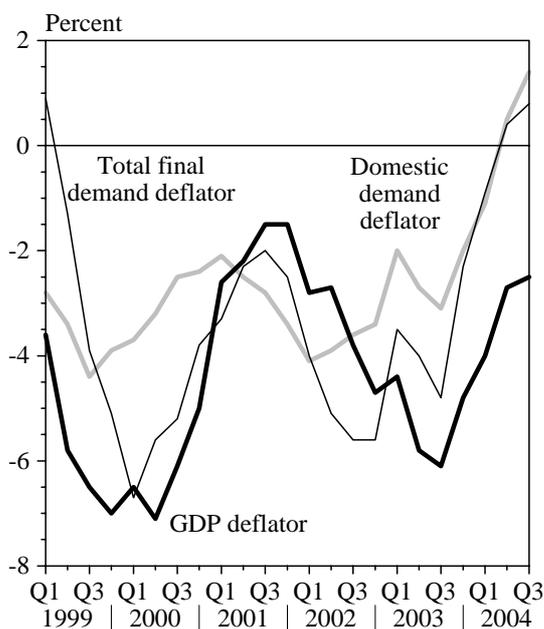
	Annual <sup>#</sup>	Q1 <sup>#</sup>	2003			Q1 <sup>#</sup>	2004	
			Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>		Q2 <sup>#</sup>	Q3 <sup>+</sup>
Private consumption expenditure	-2.9	-2.1	-3.3	-4.0	-2.3	-2.0	-0.3	0.8
Government consumption expenditure	-2.7	-2.6	-3.7	-3.5	-1.4	-3.4	-2.9	-2.6
Gross domestic fixed capital formation	-6.0	-7.0	-6.0	-7.7	-3.5	2.0	3.0	2.2
Total exports of goods	-2.0	-1.3	-1.8	-2.3	-2.2	-1.5	0.1	1.3
Imports of goods	-0.9	-0.8	-0.8	-1.6	-0.8	0.5	2.2	3.7
Exports of services	-2.0	-0.9	-3.7	-2.7	-1.1	0.1	3.3	3.1
Imports of services	2.8	3.8	2.7	1.2	3.8	3.3	3.3	4.6
<b>Gross Domestic Product</b>	<b>-5.3</b>	<b>-4.4</b>	<b>-5.8</b>	<b>-6.1</b>	<b>-4.8</b>	<b>-4.0</b>	<b>-2.7</b>	<b>-2.5</b>
		<-1.0>	<-2.2>	<-1.4>	<-0.3>	<-0.1>	<-0.8>	<-1.3>
Total final demand	-2.6	-2.0	-2.7	-3.1	-2.0	-1.1	0.5	1.4
Domestic demand	-3.6	-3.5	-4.0	-4.8	-2.3	-0.9	0.4	0.8

Notes : (#) Revised figures.

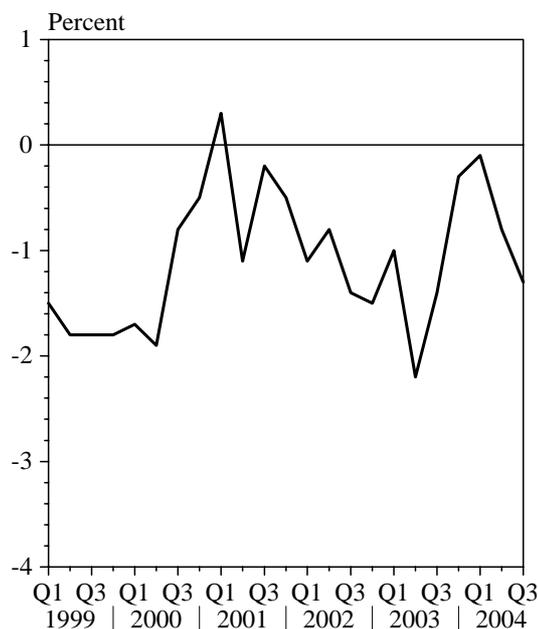
(+) Preliminary figures.

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

**Diagram 6.10 : GDP deflator, total final demand deflator and domestic demand deflator  
(year-on-year rate of change)**



**Diagram 6.11 : GDP deflator  
(seasonally adjusted quarter-to-quarter rate of change)**



## Notes :

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

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

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

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

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

- (2) 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.

- (3) 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.
- (4) 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.
- (5) 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.

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

## Statistical Appendix

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**Table 1 : Gross Domestic Product**

	<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>	
	\$Mn	% change over a year earlier	\$	% change over a year earlier	\$Mn	% change over a year earlier	\$	% change over a year earlier
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 <sup>#</sup>	1,247,381	-1.8	183,790	-2.7	1,318,743	1.9	194,304	1.0
2003 <sup>#</sup>	1,220,023	-2.2	179,333	-2.4	1,361,213	3.2	200,087	3.0
2004 Q1 <sup>#</sup>	302,898	2.5			344,382	7.0		
Q2 <sup>#</sup>	309,836	9.1			352,754	12.1		
Q3 <sup>+</sup>	327,805	4.4			380,751	7.2		
<u>Average annual growth rate (%):</u>								
1993-2003 (10 years)	2.9		1.5		3.2		1.8	
1998-2003 (5 years)	-1.0		-1.7		3.8		3.0	

Notes : (#) Revised figures.

(+) Preliminary figures.

**Table 2 : Gross Domestic Product by major expenditure component**

(year-on-year rate of change in real terms (%))

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002<sup>#</sup></u>	<u>2003<sup>#</sup></u>	<u>2004</u>		
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>+</sup>
Private consumption expenditure	1.3	5.9	2.0	-1.2	-0.9	6.0	11.2	5.1
Government consumption expenditure	3.1	2.0	6.1	2.5	1.9	5.4	-0.2	-1.5
Gross domestic fixed capital formation	-16.6	11.0	2.6	-4.5	0.1	5.5	12.7	4.9
<i>Building and construction</i>	<i>-15.5</i>	<i>-7.6</i>	<i>-1.1</i>	<i>-1.1</i>	<i>-7.0</i>	<i>-11.6</i>	<i>-10.1</i>	<i>-8.4</i>
<i>Machinery, equipment and computer software</i>	<i>-18.2</i>	<i>27.0</i>	<i>6.2</i>	<i>-7.6</i>	<i>6.5</i>	<i>16.0</i>	<i>26.1</i>	<i>12.2</i>
Exports of goods	3.7	17.1	-3.3	8.7	14.2	15.0	18.7	15.3
<i>Domestic exports</i>	<i>-7.2</i>	<i>7.5</i>	<i>-10.2</i>	<i>-11.2</i>	<i>-7.3</i>	<i>0.8</i>	<i>5.0</i>	<i>-0.6</i>
<i>Re-exports</i>	<i>5.4</i>	<i>18.5</i>	<i>-2.4</i>	<i>11.0</i>	<i>16.3</i>	<i>16.1</i>	<i>19.7</i>	<i>16.6</i>
Less Imports of goods	*	18.2	-1.9	7.9	13.1	16.3	20.3	14.2
Exports of services	6.7	13.1	6.2	11.7	7.1	12.6	31.4	10.3
Less Imports of services	-4.1	4.2	2.0	3.7	-4.6	4.1	30.3	5.8
<b>Gross Domestic Product</b>	<b>3.4</b>	<b>10.2</b>	<b>0.5</b>	<b>1.9</b>	<b>3.2</b>	<b>7.0</b>	<b>12.1</b>	<b>7.2</b>

Notes : (#) Revised figures.

(+ ) Preliminary figures.

(\*) Change of less than 0.05%.

**Table 3 : Gross Domestic Product by economic activity  
(at current prices)**

	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002<sup>#</sup></u>		<u>2003<sup>+</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,171	0.1	920	0.1	1,003	0.1	1,002	0.1	824	0.1
Mining and quarrying	307	*	241	*	174	*	136	*	116	*
Manufacturing	67,540	5.7	71,655	5.8	63,519	5.2	54,848	4.5	47,684	4.1
Electricity, gas and water	37,211	3.2	38,853	3.2	40,126	3.3	41,540	3.4	40,587	3.5
Construction	67,232	5.7	64,026	5.2	58,971	4.9	53,089	4.4	46,233	3.9
Services	1,004,335	85.3	1,053,202	85.7	1,051,562	86.5	1,054,864	87.5	1,038,865	88.5
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	296,318	25.2	324,622	26.4	324,654	26.7	324,131	26.9	320,747	27.3
<i>Transport, storage and communications</i>	112,667	9.6	125,724	10.2	124,260	10.2	128,278	10.6	123,170	10.5
<i>Finance, insurance, real estate and business services</i>	281,439	23.9	291,062	23.7	274,030	22.5	267,537	22.2	271,864	23.2
<i>Community, social and personal services</i>	246,003	20.9	252,435	20.5	265,081	21.8	267,659	22.2	262,760	22.4
<i>Ownership of premises</i>	162,488	13.8	155,303	12.6	159,118	13.1	159,586	13.2	148,731	12.7
<i>less Adjustment for financial intermediation services indirectly measured</i>	94,580	8.0	95,945	7.8	95,582	7.9	92,328	7.7	88,407	7.5
<b>GDP at factor cost</b>	<b>1,177,796</b>	<b>100.0</b>	<b>1,228,897</b>	<b>100.0</b>	<b>1,215,354</b>	<b>100.0</b>	<b>1,205,479</b>	<b>100.0</b>	<b>1,174,308</b>	<b>100.0</b>
Taxes on production and imports	53,474		57,908		53,917		43,325		48,007	
Statistical discrepancy (%)	1.2		0.1		*		-0.1		-0.2	
<b>GDP at current market prices</b>	<b>1,246,134</b>		<b>1,288,338</b>		<b>1,269,896</b>		<b>1,247,381</b>		<b>1,220,023</b>	

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

(#) Revised figures.

(+) Preliminary figures.

(\*) Less than 0.05%.

**Table 4 : Gross Domestic Product by economic activity**

(year-on-year rate of change in real terms (%))

	<u>2001</u>	<u>2002</u> <sup>#</sup>	<u>2003</u> <sup>#</sup>	<u>2004</u>	
				Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture and fishing	4.1	-0.7	-5.6	*	-0.4
Mining and quarrying	-14.1	-11.1	2.2	-17.4	-29.1
Manufacturing	-8.6	-9.8	-9.1	1.8	1.1
Electricity, gas and water	2.5	3.0	2.3	2.8	1.2
Construction	-2.0	-1.5	-5.0	-8.3	-8.0
Services	1.6	3.0	4.5	8.4	12.6
<i>Wholesale, retail and     import/export trades,     restaurants and hotels</i>	0.2	4.2	10.0	12.7	20.0
<i>Transport, storage and     communications</i>	2.1	6.2	1.2	13.3	25.2
<i>Finance, insurance,     real estate and business     services</i>	-0.4	1.3	4.9	12.0	9.0
<i>Community, social and     personal services</i>	3.9	-0.7	*	2.7	7.2
<i>Ownership of premises</i>	3.8	2.5	2.2	1.2	2.8
<i>less Adjustment for     financial intermediation     services indirectly measured</i>	0.7	-4.3	4.0	14.1	11.1
Taxes on production and imports	-1.1	-0.3	2.7	19.7	16.8
<b>GDP at constant (2000) market prices</b>	<b>0.5</b>	<b>1.9</b>	<b>3.2</b>	<b>7.0</b>	<b>12.1</b>

Notes : (#) Revised figures.

(\*) Change of less than 0.05%.

**Table 5 : Visible and invisible trade  
(at current market prices)**

	(\$Mn)							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002<sup>#</sup></u>	<u>2003<sup>#</sup></u>		<u>2004</u>	
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>+</sup>
Total exports of goods	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089	434,433	497,894	546,732
Imports of goods <sup>(a)</sup>	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059	467,247	527,326	555,244
<b>Visible trade balance</b>	<b>-24,500</b>	<b>-64,022</b>	<b>-68,235</b>	<b>-39,406</b>	<b>-44,970</b>	<b>-32,814</b>	<b>-29,432</b>	<b>-8,512</b>
	<b>(-1.8)</b>	<b>(-3.9)</b>	<b>(-4.4)</b>	<b>(-2.5)</b>	<b>(-2.5)</b>	<b>(-7.0)</b>	<b>(-5.6)</b>	<b>(-1.5)</b>
Exports of services	265,536	301,813	307,657	335,412	351,890	93,470	92,161	109,763
Imports of services	184,052	191,543	192,453	199,676	196,080	51,415	53,701	60,060
<b>Invisible trade balance</b>	<b>81,484</b>	<b>110,270</b>	<b>115,204</b>	<b>135,736</b>	<b>155,810</b>	<b>42,055</b>	<b>38,460</b>	<b>49,703</b>
	<b>(44.3)</b>	<b>(57.6)</b>	<b>(59.9)</b>	<b>(68.0)</b>	<b>(79.5)</b>	<b>(81.8)</b>	<b>(71.6)</b>	<b>(82.8)</b>
<b>Visible and invisible trade balance</b>	<b>56,984</b>	<b>46,248</b>	<b>46,969</b>	<b>96,330</b>	<b>110,840</b>	<b>9,241</b>	<b>9,028</b>	<b>41,191</b>
	<b>&lt;3.7&gt;</b>	<b>&lt;2.5&gt;</b>	<b>&lt;2.7&gt;</b>	<b>&lt;5.3&gt;</b>	<b>&lt;5.6&gt;</b>	<b>&lt;1.8&gt;</b>	<b>&lt;1.6&gt;</b>	<b>&lt;6.7&gt;</b>

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.

(#) Revised figures.

(+) Preliminary figures.

( ) As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

**Table 6 : Total exports of goods by market**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>					
						<u>Q1</u>	<u>Q2</u>		<u>Q3</u>		
							%	%	%		
						change	change	change	change	change	
						over a	over a	over a	over a	over a	
						year	year	year	year	year	
						earlier	earlier	earlier	earlier	earlier	
	(% change over the preceding year)					\$Mn	\$Mn	\$Mn	\$Mn		
<b>All markets</b>	<b>0.1</b>	<b>16.6</b>	<b>-5.8</b>	<b>5.4</b>	<b>11.7</b>	<b>432,967</b>	<b>13.0</b>	<b>493,291</b>	<b>17.8</b>	<b>545,613</b>	<b>17.2</b>
Mainland of China	-3.0	20.8	0.6	12.3	21.1	187,278	16.0	222,533	22.2	240,454	23.0
United States	1.9	13.9	-9.8	1.0	-2.6	70,241	3.7	81,113	6.6	96,831	4.2
Japan	3.3	19.4	0.5	-4.5	12.3	24,439	9.6	25,363	17.2	27,731	14.3
Germany	1.3	13.7	-13.9	-5.3	15.1	13,778	6.6	14,977	16.7	16,487	12.5
United Kingdom	6.9	12.7	-12.2	-2.0	5.8	13,088	12.4	14,728	12.2	19,144	15.3
Taiwan	-2.7	20.8	-11.1	-2.2	22.2	11,885	20.1	12,172	24.8	12,096	14.5
Republic of Korea	54.3	34.5	-9.4	17.2	16.9	10,623	29.1	10,946	26.0	10,961	23.5
Singapore	5.4	13.4	-19.5	6.8	13.0	9,804	25.0	10,489	27.1	11,552	20.5
Rest of the world	-1.8	12.4	-8.4	3.5	7.1	91,830	13.3	100,970	16.9	110,357	19.0

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

**Table 7 : Imports of goods by source**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>					
						<u>Q1</u>	<u>Q2</u>		<u>Q3</u>		
							%	%	%		
						change	change	change	change	change	
						over a	over a	over a	over a	over a	
						year	year	year	year	year	
						earlier	earlier	earlier	earlier	earlier	
	(% change over the preceding year)					\$Mn	\$Mn	\$Mn	\$Mn		
<b>All sources</b>	<b>-2.5</b>	<b>19.0</b>	<b>-5.4</b>	<b>3.3</b>	<b>11.5</b>	<b>466,710</b>	<b>15.7</b>	<b>527,782</b>	<b>22.1</b>	<b>560,202</b>	<b>18.4</b>
Mainland of China	4.6	17.7	-4.6	5.1	9.6	192,377	13.9	224,049	18.1	253,201	18.3
Japan	-9.6	22.3	-11.2	3.4	17.2	58,577	20.6	65,521	28.8	66,942	22.4
Taiwan	-3.5	23.6	-13.1	7.4	8.0	34,160	23.3	39,566	31.7	40,370	25.2
United States	-7.5	14.4	-7.0	-12.8	7.9	26,439	19.1	27,671	17.3	27,815	14.3
Singapore	-2.3	25.0	-2.8	3.9	19.6	25,269	17.1	28,569	34.4	28,961	23.9
Republic of Korea	-4.9	23.2	-12.2	7.3	15.0	24,150	26.3	25,761	23.0	25,590	10.8
Rest of the world	-9.0	17.9	0.5	2.2	12.1	105,738	11.1	116,644	21.7	117,322	15.8

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

**Table 8 : Retained imports of goods by end-use category**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>					
	(% change over the preceding year)					<u>Q1</u>	% change over a year earlier	<u>Q2</u>	% change over a year earlier	<u>Q3</u>	% change over a year earlier
						\$Mn		\$Mn		\$Mn	
<b>Overall</b>	<b>-6.8</b>	<b>23.5</b>	<b>-9.1</b>	<b>-9.0</b>	<b>2.6</b>	<b>132,425</b>	<b>20.3</b>	<b>147,378</b>	<b>32.0</b>	<b>141,281</b>	<b>18.1</b>
Foodstuffs	-8.1	1.8	-2.6	0.2	1.5	12,205	7.8	11,761	20.6	11,827	8.5
Consumer goods	2.6	15.5	3.9	-5.2	-1.8	27,896	5.4	32,983	28.1	33,515	7.8
Fuels	53.6	30.3	-10.2	3.9	12.9	9,880	16.3	11,254	56.8	12,350	42.8
Raw materials and semi-manufactures	-9.0	25.5	-22.3	-1.6	10.7	52,079	33.8	56,892	29.1	50,354	20.9
Capital goods	-16.6	34.0	-2.8	-24.9	-6.6	29,277	18.5	31,976	30.0	32,373	15.2

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

**Table 9 : Exports and imports of services by component**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002<sup>#</sup></u>	<u>2003<sup>#</sup></u>	<u>2004</u>					
	(% change over the preceding year)					<u>Q1<sup>#</sup></u>	% change over a year earlier	<u>Q2<sup>#</sup></u>	% change over a year earlier	<u>Q3<sup>+</sup></u>	% change over a year earlier
						\$Mn		\$Mn		\$Mn	
<b>Exports of services</b>	<b>3.2</b>	<b>13.7</b>	<b>1.9</b>	<b>9.0</b>	<b>4.9</b>	<b>93,470</b>	<b>12.6</b>	<b>92,161</b>	<b>35.7</b>	<b>109,763</b>	<b>13.6</b>
Transportation	4.9	11.5	-5.9	10.8	1.8	30,287	17.3	31,426	41.5	34,822	22.5
Travel	-2.6	7.4	0.7	26.9	2.0	16,576	7.9	16,421	153.6	19,280	11.5
Trade-related	6.1	19.7	9.0	9.0	10.9	30,901	13.2	29,940	15.8	40,233	11.0
Other business	0.8	12.9	4.3	-7.1	1.5	15,706	8.4	14,374	7.4	15,428	5.2
<b>Imports of services</b>	<b>-4.9</b>	<b>4.1</b>	<b>0.5</b>	<b>3.8</b>	<b>-1.8</b>	<b>51,415</b>	<b>7.6</b>	<b>53,701</b>	<b>34.6</b>	<b>60,060</b>	<b>10.7</b>
Transportation	-8.5	23.9	4.7	-4.7	0.6	13,219	15.1	14,346	41.1	15,376	16.3
Travel	-2.4	-4.4	-1.4	0.8	-8.0	23,697	3.4	25,131	48.0	27,897	7.9
Trade-related	23.6	6.3	5.7	24.2	14.7	4,103	17.8	4,004	21.0	5,445	15.3
Other business	-14.3	5.9	-1.9	17.7	4.2	10,396	5.4	10,220	8.2	11,342	8.6
<b>Net exports of service:</b>	<b>27.6</b>	<b>35.3</b>	<b>4.5</b>	<b>17.8</b>	<b>14.8</b>	<b>42,055</b>	<b>19.5</b>	<b>38,460</b>	<b>37.2</b>	<b>49,703</b>	<b>17.3</b>

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

(#) Revised figures.

(+) Preliminary figures.

**Table 10 : Incoming visitors by source**

	<b>All sources</b>	Mainland of China	Taiwan	South and Southeast Asia	Japan	United States	Europe	Others
(Number)								
1999	<b>11 328 272</b>	3 206 452	2 063 027	1 510 865	1 174 071	858 925	1 021 009	1 493 923
2000	<b>13 059 477</b>	3 785 845	2 385 739	1 747 113	1 382 417	966 008	1 068 837	1 723 518
2001	<b>13 725 332</b>	4 448 583	2 418 827	1 746 558	1 336 538	935 717	1 019 894	1 819 215
2002	<b>16 566 382</b>	6 825 199	2 428 776	1 905 208	1 395 020	1 000 844	1 083 888	1 927 447
2003	<b>15 536 839</b>	8 467 211	1 852 378	1 359 622	867 160	683 791	780 843	1 525 834
2004 Q1	<b>4 935 200</b>	2 919 108	481 812	376 497	220 047	219 281	261 786	456 669
Q2	<b>5 077 418</b>	2 749 023	500 956	533 356	256 814	263 012	267 249	507 008
Q3	<b>5 745 474</b>	3 311 344	562 476	500 540	317 836	263 708	260 751	528 819
(% change over a year earlier)								
1999	<b>11.5</b>	20.0	9.4	18.6	6.7	3.7	0.8	7.7
2000	<b>15.3</b>	18.1	15.6	15.6	17.7	12.5	4.7	15.4
2001	<b>5.1</b>	17.5	1.4	*	-3.3	-3.1	-4.6	5.6
2002	<b>20.7</b>	53.4	0.4	9.1	4.4	7.0	6.3	5.9
2003	<b>-6.2</b>	24.1	-23.7	-28.6	-37.8	-31.7	-28.0	-20.8
2004 Q1	<b>14.7</b>	37.0	-13.1	2.4	-32.4	3.2	2.9	0.1
Q2	<b>208.4</b>	148.9	220.6	449.7	440.1	521.7	458.9	236.6
Q3	<b>30.1</b>	37.9	-6.0	31.2	36.8	39.5	41.8	23.2

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

(\*) Change of less than 0.05%.

**Table 11 : Hong Kong residents travelling abroad by destination**

	<b>All destinations</b>	Mainland of China	Macau	South and Southeast Asia	North Asia	Taiwan	Europe	Americas <sup>(a)</sup>	Australia and New Zealand
(Number)									
1999	<b>53 143 675</b>	45 175 166	3 793 785	1 985 675	778 186	420 094	307 438	398 255	230 350
2000	<b>58 901 071</b>	50 083 105	4 206 853	2 389 619	738 991	468 688	323 489	399 206	231 576
2001	<b>61 095 895</b>	52 002 944	4 293 622	2 504 621	761 616	525 526	323 746	376 635	237 493
2002	<b>64 540 132</b>	55 648 363	4 182 402	2 421 750	774 466	538 232	346 630	346 285	223 201
2003	<b>60 936 082</b>	52 555 615	3 952 610	2 446 992	699 832	414 545	322 698	280 074	207 070
2004									
Q1	<b>15 805 221</b>	13 677 181	968 438	606 052	187 526	120 680	87 761	78 592	63 937
Q2	<b>17 450 884</b>	15 151 376	1 017 824	696 134	209 191	140 154	93 976	79 796	47 740
Q3	<b>17 907 519</b>	15 313 710	1 186 878	748 879	219 378	144 444	117 938	103 831	51 753
(% change over a year earlier)									
1999	<b>11.7</b>	15.4	-10.9	5.1	-11.5	10.3	-4.2	-7.9	-2.7
2000	<b>10.8</b>	10.9	10.9	20.3	-5.0	11.6	5.2	0.2	0.5
2001	<b>3.7</b>	3.8	2.1	4.8	3.1	12.1	0.1	-5.7	2.6
2002	<b>5.6</b>	7.0	-2.6	-3.3	1.7	2.4	7.1	-8.1	-6.0
2003	<b>-5.6</b>	-5.6	-5.5	1.0	-9.6	-23.0	-6.9	-19.1	-7.2
2004									
Q1	<b>3.4</b>	3.6	-1.0	8.0	6.0	-10.8	14.3	-2.3	2.1
Q2	<b>41.4</b>	41.8	18.9	41.0	59.4	388.5	57.9	112.2	18.0
Q3	<b>6.8</b>	7.8	1.5	-3.4	2.1	17.8	1.6	14.4	5.3

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 12 : Property prices and rentals**

	<u>Residential flats</u>		<u>Office space<sup>(c)</sup></u>		<u>Shopping space</u>		<u>Conventional flatted factory space</u>	
	Price Index <sup>(a)</sup>	Rental Index <sup>(b)</sup>	Price Index	Rental Index <sup>(b)</sup>	Price Index	Rental Index <sup>(b)</sup>	Price Index	Rental Index <sup>(b)</sup>
(Index (1999=100))								
1999	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2000	89.6	98.1	89.9	98.5	93.6	101.3	91.2	95.4
2001	78.7	95.4	78.7	101.0	86.8	99.4	82.0	90.3
2002	69.9	83.4	68.4	85.4	85.0	92.9	74.8	82.7
2003	61.6	73.6	62.5	74.6	85.5	86.4	71.7	74.9
2004 Q1	73.6	74.8	88.6	74.3	109.3	88.9	80.4	75.7
Q2 <sup>#</sup>	77.2	77.4	95.6	77.1	114.2	91.4	83.0	77.0
Q3 <sup>^</sup>	76.8	78.1	94.6	79.0 <sup>+</sup>	112.5	90.4	87.2	76.1
(% change over a year earlier)								
1999	-14.6	-11.2	-25.7	-26.4	-22.1	-10.1	-24.1	-15.3
2000	-10.4	-1.9	-10.1	-1.5	-6.4	1.3	-8.8	-4.6
2001	-12.2	-2.8	-12.5	2.5	-7.3	-1.9	-10.1	-5.3
2002	-11.2	-12.6	-13.1	-15.4	-2.1	-6.5	-8.8	-8.4
2003	-11.9	-11.8	-8.6	-12.6	0.6	-7.0	-4.1	-9.4
2004 Q1	17.4	-2.3	42.7	-6.4	34.9	-0.2	10.9	-4.7
Q2 <sup>#</sup>	29.1	5.0	62.0	3.8	40.1	8.7	18.6	4.3
Q3 <sup>^</sup>	29.5	8.6	53.6	10.1 <sup>+</sup>	33.8	6.5	23.3	5.4

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 rental 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.
- (#) Figures for non-residential property are provisional.
- (^) Provisional figures.
- (+) Average figure for July and August as figure for September is not yet available.

**Table 13 : Business receipts indices for service industries/domains**

(year-on-year rate of change (%))

		Wholesale trade	Retail trade	Import/export trade	Restaurants	Hotels	Transport <sup>(a)</sup>	Storage	Com-munications
1999		-13.7	-8.0	-13.9	0.3	-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		-5.0	-2.3	6.5	-9.7	-19.7	0.5	-4.5	-2.4
2004	Q1	5.7	8.4	14.3	3.7	13.0	13.4	17.6	-3.7
	Q2	9.5	19.0	15.6	21.4	190.4	36.5	24.5	1.7

		Banking	Finance (other than banking)	Insurance	Real estate	Business services	Film entertainment	Tourism, convention and exhibition services	Computer and information services
1999		6.6	3.1	4.0	-14.2	-10.1	-7.8	-2.4	5.6
2000		0.8	40.6	13.1	-0.1	2.4	14.4	13.7	24.5
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		*	17.3	19.1	6.2	0.5	2.3	-12.4	5.7
2004	Q1	13.8	76.0	29.1	25.0	7.6	4.2	8.6	23.0
	Q2	-1.4	38.5	28.6	5.8	10.1	14.5	142.0	18.4

Notes : (a) Including business receipts from the Airport Authority Hong Kong.

(\*) Change of less than 0.05%.

**Table 14 : Money supply**

As at end of	<u>M1</u>			<u>M2</u>			<u>M3</u>			
	HK\$	Foreign currency	Total	HK\$ <sup>(a)</sup>	Foreign currency <sup>(b)</sup>	Total	HK\$ <sup>(a)</sup>	Foreign currency <sup>(b)</sup>	Total	
(\$ 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	3,858
2004 Q1	376	(379)	60	436	2,069	1,743	3,812	2,085	1,774	3,859
Q2	385	(394)	63	448	2,069	1,759	3,828	2,084	1,793	3,876
Q3	371	(376)	74	445	2,070	1,837	3,907	2,084	1,864	3,948
(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	36.8	(35.8)	61.9	39.8	6.2	11.2	8.4	5.9	11.4	8.3
2004 Q1	6.1	(11.0)	2.4	5.5	-1.8	2.1	*	-1.8	2.2	*
Q2	2.3	(3.8)	4.1	2.6	*	1.0	0.4	*	1.1	0.5
Q3	-3.6	(-4.6)	18.1	-0.6	0.1	4.4	2.1	*	4.0	1.8

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.

(\*) Change of less than 0.05%.

**Table 15 : 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>			
	HK\$ <sup>(a)</sup>	Foreign currency <sup>(b)</sup>	Total	HK\$ <sup>(a)</sup>	Foreign currency <sup>(b)</sup>	Total	HK\$ <sup>(a)</sup>	Foreign currency <sup>(b)</sup>	Total	
(\$ 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	3,524	15	28	43	1,931	1,636	3,567	
2004	Q1	1,872	1,640	3,512	15	29	44	1,887	1,669	3,556
	Q2	1,869	1,654	3,523	15	31	46	1,884	1,686	3,570
	Q3	1,868	1,726	3,594	13	24	37	1,881	1,751	3,632
(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	
2004	Q1	-2.3	2.0	-0.3	0.6	2.9	-2.3	2.0	-0.3	
	Q2	-0.2	0.9	0.3	-3.2	3.7	-0.2	1.0	0.4	
	Q3	-0.1	4.4	2.0	-8.0	-18.6	-0.1	3.8	1.7	

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 16 : Loans and advances extended by authorized institutions**

As at end of	Loans for use in <u>Hong Kong</u> <sup>(a)</sup>		Loans for use <u>outside Hong Kong</u>		<u>Others</u> <sup>(b)</sup>		<u>Total loans and advances</u>		
	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	
2004	Q1	1,539	275	26	179	5	16	1,571	470
	Q2	1,569	280	31	172	6	16	1,606	469
	Q3	1,573	290	27	168	6	15	1,606	473
(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	9.7	12.8	-13.9	140.0	91.6	-2.6	0.3	
2004	Q1	-0.2	3.2	3.2	-1.0	-3.8	11.5	-0.1	1.8
	Q2	1.9	1.9	19.4	-4.1	4.3	3.3	2.2	-0.3
	Q3	0.3	3.6	-15.0	-2.3	3.7	-11.1	*	0.9

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 17 : 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>		<u>2004</u>		<u>2004</u>		<u>2004</u>		
		% change over a year \$Bn earlier		% change over a year \$Bn earlier		% change over a year \$Bn earlier		% change over a year \$Bn earlier		% change over a year \$Bn earlier		% change over a year \$Bn earlier	<u>Mar</u>	% change over a year \$Bn earlier	<u>Jun</u>	% change over a year \$Bn earlier	<u>Sep</u>
<b>Liabilities</b>																	
Amount due to authorized institutions in Hong Kong	529	-15.0	543	2.7	470	-13.4	394	-16.2	470	19.4	470	18.9	478	12.5	442	4.3	
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	1,575	17.2	1,697	29.2	1,638	27.7	
Deposits from customers	3,251	8.4	3,528	8.5	3,407	-3.4	3,318	-2.6	3,567	7.5	3,556	8.3	3,570	6.5	3,632	5.8	
NCDs outstanding	199	-4.8	178	-10.9	172	-2.9	211	22.6	242	14.7	236	3.0	240	2.4	251	7.9	
Other liabilities	604	-2.5	661	9.5	646	-2.2	683	5.6	764	11.9	835	15.4	816	12.7	824	3.2	
<b>Total liabilities</b>	<b>6,784</b>	<b>-6.5</b>	<b>6,661</b>	<b>-1.8</b>	<b>6,154</b>	<b>-7.6</b>	<b>5,999</b>	<b>-2.5</b>	<b>6,491</b>	<b>8.2</b>	<b>6,673</b>	<b>11.7</b>	<b>6,802</b>	<b>12.5</b>	<b>6,787</b>	<b>10.0</b>	
<b>Assets</b>																	
Notes and coins	27	96.8	15	-41.8	14	-10.0	14	-2.7	15	13.5	13	9.2	13	9.9	15	9.4	
Amount due from authorized institutions in Hong Kong	536	-14.8	551	2.9	468	-15.1	395	-15.6	472	19.3	479	21.4	447	5.7	440	4.2	
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	2,249	20.3	2,367	27.1	2,361	22.4	
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	2,041	-0.9	2,075	1.1	2,079	3.0	
NCDs held	138	-4.2	135	-2.7	128	-5.3	134	4.7	144	8.1	130	-9.3	124	-15.1	123	-17.7	
Other assets	882	3.7	1,048	18.9	1,200	14.5	1,461	21.8	1,682	15.1	1,760	17.6	1,775	14.4	1,770	8.0	
<b>Total assets</b>	<b>6,784</b>	<b>-6.5</b>	<b>6,661</b>	<b>-1.8</b>	<b>6,154</b>	<b>-7.6</b>	<b>5,999</b>	<b>-2.5</b>	<b>6,491</b>	<b>8.2</b>	<b>6,673</b>	<b>11.7</b>	<b>6,802</b>	<b>12.5</b>	<b>6,787</b>	<b>10.0</b>	

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

**Table 18 : Labour force characteristics**

	<u>Population of working age</u>		<u>Labour force participation rate</u>	<u>Labour force</u>		<u>Persons employed</u>	
	Number	% change over a year earlier	%	Number	% change over a year earlier	Number	% change over a year earlier
1999	5 414 800	1.3	61.3	3 319 600	1.3	3 112 100	-0.3
2000	5 498 700	1.6	61.4	3 374 200	1.6	3 207 300	3.1
2001	5 579 200	1.5	61.4	3 427 100	1.6	3 252 300	1.4
2002	5 642 800	1.1	61.8	3 487 100	1.8	3 231 600	-0.6
2003	5 694 000	0.9	61.4	3 496 200	0.3	3 219 100	-0.4
2004 Q1	5 717 900	1.0	61.3	3 506 400	0.5	3 256 900	0.8
Q2	5 745 600	1.2	61.3	3 522 700	0.8	3 282 400	2.6
Q3	5 761 400	1.0	61.3	3 531 500	1.0	3 282 600	2.7

	<u>Persons unemployed</u>		<u>Seasonally adjusted unemployment rate</u>	<u>Persons underemployed</u>		<u>Under-employment rate</u>
	Number	% change over a year earlier	%	Number	% change over a year earlier	%
1999	207 500	34.7	6.2	96 900	18.5	2.9
2000	166 900	-19.6	4.9	93 500	-3.5	2.8
2001	174 800	4.7	5.1	85 500	-8.6	2.5
2002	255 500	46.2	7.3	105 200	23.0	3.0
2003	277 200	8.5	7.9	123 300	17.3	3.5
2004 Q1	249 500	-3.5	7.2	118 700	18.4	3.4
Q2	240 200	-19.4	6.9	122 400	-18.5	3.5
Q3	248 900	-16.4	6.8	112 900	-10.9	3.2

**Table 19 : Employment in selected major economic sectors**

Major economic sector	1999	2000	2001	2002	2003	2004			
	(% change over the preceding year)					Mar		Jun	
						No.	% change over a year earlier	No.	% change over a year earlier
<b>Manufacturing</b>	<b>-6.0</b>	<b>-6.4</b>	<b>-8.6</b>	<b>-9.0</b>	<b>-10.3</b>	<b>168 900</b>	<b>-5.6</b>	<b>169 600</b>	<b>-1.7</b>
<i>of which :</i>									
Wearing apparel, except footwear	-6.4	-11.6	-14.9	-19.3	-11.6	22 400	-1.6	22 800	1.2
Textiles	-13.4	-7.4	-8.7	-1.1	-16.8	20 200	-16.7	19 400	-16.3
Electronics	-2.2	4.7	-17.4	-13.1	-18.9	15 000	-7.1	15 300	0.6
Plastic products	-9.7	-11.8	-16.4	-17.0	-19.1	3 600	-12.6	3 500	-17.0
Fabricated metal products, except machinery and equipment	-14.1	-8.8	-16.9	-14.6	-20.7	7 300	-0.4	6 300	-10.2
<b>Wholesale, retail, import/export trades, restaurants and hotels</b>	<b>3.9</b>	<b>4.7</b>	<b>-1.2</b>	<b>-2.3</b>	<b>-3.0</b>	<b>975 800</b>	<b>0.4</b>	<b>989 200</b>	<b>3.2</b>
<i>of which :</i>									
Wholesale, retail and import/export trades	3.7	5.5	-1.9	-1.6	-1.9	771 200	-0.3	779 700	1.6
Restaurants and hotels	4.5	1.7	1.2	-4.8	-7.3	204 600	3.2	209 500	9.7
<b>Transport, storage and communications</b>	<b>1.9</b>	<b>2.6</b>	<b>2.4</b>	<b>-1.8</b>	<b>-4.4</b>	<b>176 100</b>	<b>2.1</b>	<b>178 900</b>	<b>4.7</b>
<i>of which :</i>									
Land transport	3.2	-2.3	2.6	-0.3	0.5	38 600	-0.9	38 300	-3.0
Water transport	4.8	0.3	3.3	1.0	-3.6	27 200	-1.8	28 200	4.3
Services allied to transport	3.3	5.9	-0.8	1.1	-3.7	54 600	3.0	55 900	11.7
<b>Financing, insurance, real estate and business services</b>	<b>3.2</b>	<b>5.3</b>	<b>1.6</b>	<b>-1.3</b>	<b>-1.9</b>	<b>428 600</b>	<b>1.4</b>	<b>434 200</b>	<b>3.6</b>
<i>of which :</i>									
Financial institutions	2.2	0.1	-0.5	-5.6	-6.5	119 800	-2.5	119 600	3.2
Insurance	1.6	-1.1	7.1	0.3	1.2	27 400	3.0	27 100	-0.3
Real estate	7.5	-0.7	-3.0	5.2	0.7	85 000	1.1	87 600	1.8
Business services except machinery and equipment rental and leasing	2.2	13.6	4.5	-1.2	-0.2	195 500	3.8	199 100	5.3
<b>Community, social and personal services</b>	<b>5.4</b>	<b>3.2</b>	<b>7.2</b>	<b>5.9</b>	<b>2.9</b>	<b>412 000</b>	<b>3.5</b>	<b>418 100</b>	<b>4.4</b>
<i>of which :</i>									
Sanitary and similar services	18.1	4.3	5.1	13.8	6.0	55 700	3.2	56 300	3.6
Education services	5.5	3.3	6.9	2.5	2.9	128 800	2.9	129 500	1.9
Medical, dental and other health services	2.6	-0.3	5.5	3.2	-0.3	75 000	1.8	75 700	2.1
Welfare institutions	6.9	10.6	25.4	11.9	13.9	50 300	4.7	52 700	7.0
<b>Civil Service<sup>(a)</sup></b>	<b>0.2</b>	<b>-2.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-2.4</b>	<b>163 000</b>	<b>-3.6</b>	<b>161 700</b>	<b>-3.9</b>

Note : (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.

**Table 20 : Number of workers engaged at building and construction sites**

	<u>Building sites</u>						<u>Civil engineering sites</u>						<u>Total</u>	
	<u>Private sector</u>		<u>Public sector<sup>(a)</sup></u>		<u>Sub-total</u>		<u>Private sector</u>		<u>Public sector<sup>(a)</sup></u>		<u>Sub-total</u>			
	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	31 179	-23.9	27 137	13.9	58 315	-10.0	1 510	-5.5	11 116	-11.9	12 626	-11.2	70 941	-10.2
2000	34 024	9.1	27 254	0.4	61 277	5.1	1 657	9.7	16 666	49.9	18 322	45.1	79 599	12.2
2001	40 556	19.2	17 183	-37.0	57 738	-5.8	2 633	58.9	19 931	19.6	22 564	23.1	80 302	0.9
2002	40 017	-1.3	11 727	-31.8	51 744	-10.4	2 869	9.0	18 611	-6.6	21 480	-4.8	73 223	-8.8
2003	33 892	-15.3	13 449	14.7	47 341	-8.5	2 755	-4.0	17 466	-6.2	20 221	-5.9	67 562	-7.7
2004 Mar	34 684	-2.3	13 043	-7.7	47 727	-3.8	2 065	-33.0	16 289	-5.4	18 354	-9.6	66 081	-5.5
Jun	36 077	12.0	11 004	-25.4	47 081	0.3	2 664	15.0	16 820	-6.6	19 484	-4.1	66 565	-1.0

Note : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

**Table 21 : Average labour earnings by major economic sector**

Major economic sector	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	\$	\$	\$	\$	\$	Q1 \$	Q2 \$
Wholesale, retail and import/export trades	12,100 (0.3) <4.3>	12,400 (2.4) <6.4>	12,700 (2.0) <3.7>	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	14,300 (0.9) <2.7>	11,500 (1.4) <2.3>
Restaurants and hotels	9,200 (-3.5) <0.4>	9,000 (-2.4) <1.5>	9,000 (0.1) <1.7>	8,700 (-4.2) <-1.1>	8,100 (-6.2) <-3.7>	8,500 (-3.5) <-1.7>	7,700 (2.1) <3.0>
Transport, storage and communications	18,500 (-3.3) <0.6>	18,700 (0.9) <4.8>	18,900 (1.3) <3.0>	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	19,400 (-2.4) <-0.6>	17,300 (0.7) <1.6>
Financing, insurance, real estate and business services	18,900 (-1.9) <2.1>	19,200 (1.4) <5.4>	19,200 (0.4) <2.0>	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	20,400 (0.5) <2.3>	17,900 (2.0) <2.9>
Community, social and personal services	19,900 (1.0) <5.1>	19,900 (0.1) <4.0>	20,000 (0.7) <2.3>	19,800 (-1.3) <1.9>	18,900 (-4.7) <-2.2>	18,300 (-6.2) <-4.5>	17,900 (-2.8) <-1.9>
Manufacturing	11,500 (-0.7) <3.3>	11,700 (1.5) <5.5>	11,900 (2.1) <3.8>	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	12,400 (-0.4) <1.4>	11,000 (-0.7) <0.2>
<b>All sectors surveyed</b>	<b>15,000</b> <b>(-0.3)</b> <b>&lt;3.7&gt;</b>	<b>15,200</b> <b>(1.4)</b> <b>&lt;5.3&gt;</b>	<b>15,400</b> <b>(1.8)</b> <b>&lt;3.5&gt;</b>	<b>15,300</b> <b>(-1.1)</b> <b>&lt;2.0&gt;</b>	<b>15,000</b> <b>(-1.8)</b> <b>&lt;0.8&gt;</b>	<b>16,100</b> <b>(-1.7)</b> <b>&lt;0.1&gt;</b>	<b>14,200</b> <b>(0.4)</b> <b>&lt;1.3&gt;</b>

Notes : ( ) % change over a year earlier in money terms.

< > % change over a year earlier in real terms.

**Table 22 : Wage indices by selected major economic sector**

(% change over a year earlier)

Selected major economic sector	<u>1999</u>		<u>2000</u>		<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>			
											<u>Mar</u>		<u>Jun</u>	
	In money terms	In real terms												
Wholesale, retail and import/ export trades	-0.2	3.9	1.8	4.9	1.4	4.1	-0.6	1.7	-1.7	0.4	-2.2	-0.4	-0.8	-1.0
Restaurants and hotels	-0.2	4.0	-0.9	2.1	0.7	3.3	-2.6	-0.3	-4.1	-2.1	-3.6	-1.8	-1.6	-1.8
Transport services	-0.4	3.7	-3.1	-0.1	0.7	3.4	0.6	2.9	-1.9	0.1	-1.9	-0.1	-0.5	-0.7
Financing, insurance, real estate and business services	-1.1	3.1	0.4	3.4	-0.9	1.7	-0.8	1.5	-0.1	2.0	0.6	2.5	0.8	0.6
Personal services	-1.1	3.1	0.3	3.4	0.7	3.3	-1.5	0.8	-3.1	-1.1	-2.4	-0.6	2.7	2.5
Manufacturing	0.1	4.3	2.0	5.1	2.2	4.8	-1.4	0.8	-2.7	-0.7	-1.4	0.4	-1.1	-1.3
<b>All sectors surveyed</b>	<b>-0.4</b>	<b>3.8</b>	<b>0.5</b>	<b>3.6</b>	<b>0.8</b>	<b>3.4</b>	<b>-1.0</b>	<b>1.3</b>	<b>-1.9</b>	<b>0.2</b>	<b>-1.6</b>	<b>0.2</b>	<b>-0.3</b>	<b>-0.5</b>

**Table 23 : Composite Consumer Price Index**

(% change over a year earlier)

Year	Month	All items	Food	Meals bought away from home	Food, excluding meals bought away from home	Housing <sup>(a)</sup>	Private housing rent	Public housing rent
	Weight	100.0	26.67	(16.39)	(10.28)	29.91	(24.59)	(2.07)
1999		-4.0	-1.8	-1.2	-2.8	-5.1	-6.1	1.4
2000		-3.8	-2.2	-0.9	-4.2	-8.2	-9.8	1.1
2001		-1.6	-0.8	-0.3	-1.7	-3.1	-2.9	-8.3
2002		-3.0	-2.1	-1.5	-3.1	-5.7	-6.5	-2.7
2003		-2.6	-1.5	-1.5	-1.7	-4.8	-6.3	9.1
2004	Jan	-1.5	0.1	-0.2	0.7	-7.9	-9.5	0.1
	Feb	-2.0	-0.2	-0.9	1.0	-7.7	-9.3	0.1
	Mar	-2.1	0.5	-0.3	1.7	-7.5	-9.1	0.1
	Apr	-1.5	0.8	*	2.1	-7.1	-8.7	0.1
	May	-0.9	1.0	0.3	2.2	-6.7	-8.2	0.1
	Jun	-0.1	1.4	0.5	2.8	-6.2	-7.5	0.1
	Jul	0.9	1.5	0.5	3.1	-2.8	-4.4	10.3
	Aug	0.8	1.3	0.4	2.8	-2.3	-3.8	10.3
	Sep	0.7	1.4	0.5	2.7	-1.8	-3.2	10.3

Year	Month	Electricity, gas and water	Alcoholic drinks and tobacco	Clothing and footwear	Durable goods	Miscellaneous goods	Transport	Miscellaneous services
	Weight	2.98	0.94	4.13	6.24	5.70	9.01	14.42
1999		-0.4	1.2	-20.6	-6.3	-0.7	0.5	-1.3
2000		3.6	-0.9	-10.1	-4.6	0.9	1.0	-0.2
2001		-1.9	3.3	-4.6	-7.1	1.3	0.4	0.5
2002		-7.0	2.4	0.7	-6.3	1.7	-0.6	-2.3
2003		1.4	0.1	-2.7	-6.4	2.3	-0.4	-3.2
2004	Jan	34.0	-0.1	4.2	-4.5	4.8	-0.1	-1.9
	Feb	33.3	-0.1	7.8	-3.3	2.9	-0.8	-5.1
	Mar	2.6	-0.1	6.0	-2.8	3.7	-0.4	-3.1
	Apr	-4.2	0.2	6.9	-1.6	6.6	-0.2	-1.4
	May	1.3	0.9	10.4	-1.3	3.2	0.2	0.6
	Jun	12.8	*	10.5	-1.3	3.2	1.2	1.0
	Jul	13.5	-0.1	7.5	-1.8	4.0	1.1	1.7
	Aug	12.2	-0.1	7.0	-1.8	4.0	0.6	1.1
	Sep	12.5	-0.1	5.3	-2.0	2.9	0.5	0.7

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.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fee and other housing charges" and "Tools and materials for housing maintenance".

(\*) Change of less than 0.05%.

**Table 24 : Implicit price deflators of GDP and its main expenditure components**

(% change over a year earlier)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u> <sup>#</sup>	<u>2003</u> <sup>#</sup>	<u>2004</u>		
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>+</sup>
Private consumption expenditure	-5.4	-4.9	-1.3	-3.7	-2.9	-2.0	-0.3	0.8
Government consumption expenditure	-0.1	-1.9	1.1	-0.6	-2.7	-3.4	-2.9	-2.6
Gross domestic fixed capital formation	0.4	-3.8	-6.6	-10.1	-6.0	2.0	3.0	2.2
Total exports of goods	-3.4	-0.5	-2.6	-2.9	-2.0	-1.5	0.1	1.3
Imports of goods	-2.6	0.8	-3.5	-4.2	-0.9	0.5	2.2	3.7
Exports of services	-3.3	0.5	-4.0	-2.4	-2.0	0.1	3.3	3.1
Imports of services	-0.8	-0.2	-1.5	*	2.8	3.3	3.3	4.6
<b>Gross Domestic Product</b>	<b>-5.8</b>	<b>-6.2</b>	<b>-1.9</b>	<b>-3.6</b>	<b>-5.3</b>	<b>-4.0</b>	<b>-2.7</b>	<b>-2.5</b>
Total final demand	-3.7	-2.9	-2.7	-3.7	-2.6	-1.1	0.5	1.4
Domestic demand	-2.4	-5.3	-2.5	-5.1	-3.6	-0.9	0.4	0.8

Notes : (#) Revised figures.

(+) Preliminary figures.

(\*) Change of less than 0.05%.

