

Press Release

(embargoed until 4:15 p.m. on 31 August 2001)

Economic Situation in the Second Quarter of 2001 and Updated GDP and Price Forecasts for 2001

The Government released today (Friday) the Half-yearly Economic Report 2001, together with the preliminary figure on expenditure-based Gross Domestic Product for the second quarter of 2001.

The Government Economist, Mr K Y Tang, described the economic situation in the second quarter of 2001 and provided updated GDP and price forecasts for the year.

MAIN POINTS

- * The sluggish global economic environment continued to weigh on the Hong Kong economy in the second quarter of 2001. On a year-on-year comparison, GDP rose by only 0.5% in real terms in the second quarter of 2001, further moderated from the 2.3% growth in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP had a 1.7% decline in real terms in the second quarter of 2001, after staying virtually flat in the first quarter.
- * Externally, the slump in global demand resulted in an almost across-the-board fall-off in merchandise exports by market, giving an overall decline of 1.9% in real terms in the second quarter of 2001 over a year earlier. Exports of services nevertheless held up relatively better on the back of sustained notable growth in offshore trade and inbound tourism, and had a further growth of 5.3% in real terms in the second quarter of 2001 over a year earlier.
- * Locally, consumer spending picked up to a 4.0% growth in real terms in the second quarter of 2001 over a year earlier, upon increased household income and probably also helped by lower interest rates. But investment spending eased back sharply to a meagre 0.4% growth in real terms in the second quarter of 2001 over a year earlier, as machinery and equipment acquisition slackened off and as overall building and construction output remained modest. Inventory increase remained modest in the second quarter.
- * In the labour market, the seasonally adjusted unemployment rate stayed at 4.6% in both the first and the second quarters of 2001, while the underemployment rate fell slightly, from 2.4% in the first quarter to 2.3% in the second quarter. (However, labour market conditions showed more signs of easing lately. The seasonally adjusted unemployment rate edged up to 4.7% in the three months ending July 2001, even though the underemployment rate fell slightly further to 2.2%.)

- * In view of the further worsened external environment impinging on merchandise exports and the sharp ease-back in local investment, the forecast of GDP growth for 2001 as a whole is lowered further, to just 1% in real terms, from 3% in the May update.
- * Hong Kong's external demand for the rest of the year may continue to be held back by weak import absorption in the industrialised economies and by the more severe economic setback within East Asia, with exports of goods likely to be affected more than exports of services. As to local demand, consumer spending may tend to decelerate as the labour market eases, while investment spending on machinery and equipment as well as building and construction activity may continue to be slack.
- * Increased pessimism for the US economy is the key source of uncertainty dimming the global economic environment in the most recent months. Compounding this are the more distinct weakening in the European economies, the continued sluggishness in the Japanese economy, and further scale-back in current-year forecasts in many of the other East Asian economies amidst the electronic products slump. Volatilities in exchange rate movements and jitters in stock markets overseas are likewise disturbing. These adverse external influences will continue to feed into the local economy to dampen performance in the near term.
- * On the price front, the year-on-year decline in the Composite Consumer Price Index continued to narrow in recent months, as wages had risen moderately and as the effect of the earlier dip in rentals dissipated further. Yet with the larger price falls in the earlier months, the Composite CPI still had an average year-on-year decline of 1.5% in the first seven months of 2001. Looking ahead, import prices are likely to fall back further, while price pressure on the domestic front will be held off by the current economic slow-down. Thus the forecast rate of change in the Composite CPI in 2001 is trimmed down slightly further to -1.3%, from -1% in the May update. As to the GDP deflator, the forecast rate of change in 2001 is kept unchanged, at -1%.

DETAILS

GDP

According to the preliminary figure on expenditure-based *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, the economy grew by 0.5% in real terms in the second quarter of 2001 over a year earlier, further moderated from the 2.3% growth in the first quarter (revised downward from the figure of 2.5% released earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP was down by 1.7% in real terms in the second quarter of 2001, after staying virtually flat in the first quarter (also revised downward from the figure of a 0.3% growth released earlier) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2001, including the year-on-year changes in the original series and the quarter-to-quarter changes in the seasonally adjusted series, are presented in *Tables 1 and 2*. Developments in different segments of the economy in the second quarter of 2001 are described below.

External trade

3. The gloomy external trade environment continued to curtail the performance of Hong Kong's merchandise exports. *Total exports of goods* (comprising re-exports and domestic exports) fell by 1.9% in real terms in the second quarter of 2001 over a year earlier, further down from an already much slower growth of 4.2% in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods were down by 5.0% in real terms in the second quarter of 2001, after a 2.1% decline in the first quarter.

4. Analysed by region, exports of goods to *East Asia* as a whole moderated markedly further, amidst the fall-off in intra-regional trade and depreciation in most of the East Asian currencies. There was an increase of only 3.2% in real terms in the second quarter of 2001 over a year earlier, as compared to an 8.2% growth in the first quarter. Within the region, exports to the mainland of China (the Mainland) nevertheless still recorded a 4.8% growth in real terms in the second quarter. Exports of goods to the *United States* fell off distinctly, along with a much weaker demand in this market. Following a marginal decrease of 0.4% in real terms in the first quarter of 2001 over a year earlier, exports of goods to the United States slackened further to a 9.3% decline in the second quarter. Exports of goods to the *European Union* continued to be dampened by the weak euro as well as by moderating growth in the entire euro area, with the decline enlarging from 1.0% in real terms in the first quarter of 2001 over a year earlier to 7.7% in the second quarter.

5. Along with the fall-off in re-exports and a more modest intake of imports for local use, *imports of goods* slowed down further to a decline of 0.7% in real terms in the second quarter of 2001 over a year earlier, as against a 5.3% growth in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, imports of goods fell further, by 6.4% in real terms in the second quarter of 2001, following a 0.8% decrease in the first quarter.

6. On invisible trade, *exports of services* still had a solid growth of 5.3% in real terms in the second quarter of 2001 over a year earlier, after a 6.2% rise in the first quarter. Growth in the second quarter continued to be underpinned by the notable rise in inbound tourism and offshore trade. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose further, by 2.9% in real terms in the second quarter of 2001, following a 0.6% increase in the first quarter.

7. *Imports of services* rose by only 1.0% in real terms in the second quarter of 2001 over a year earlier, following a 4.9% rise in the first quarter. In the second quarter, travel-related spending by Hong Kong residents decelerated from the marked increase earlier on when outbound travel was boosted by the Population Census school holidays. Also, imports of transportation services came down sharply to a decline. On a seasonally adjusted quarter-to-quarter comparison, imports of services were up by 0.3% in real terms in the second quarter of 2001, after a 1.8% increase in the first quarter.

8. On the trade balance, with the value of total exports of goods falling slightly while the value of imports of goods staying virtually flat, the *visible trade deficit* widened to \$58.2 billion or 7.6% of the value of imports of goods in the first half of 2001. Yet the *invisible trade surplus* expanded to \$71.0 billion in the first half of 2001. Taken together, there was still a combined visible and invisible trade surplus (having incorporated an estimate of imports of gold for industrial use) amounting to \$11.3 billion in the first half of 2001, equivalent to 1.3% of the total value of imports of goods and services in that period. These compared with the corresponding figures of \$14.5 billion and 1.7% in the same period in 2000.

Domestic demand

9. Local consumer spending picked up in growth in the second quarter of 2001, upon increased household income and probably also helped by the successive cuts in interest rates. On a year-on-year comparison, *private consumption expenditure (PCE)* grew by 4.0% in real terms in the second quarter of 2001, faster than the 3.5% rise in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, PCE rose by 1.1% in real terms in the second quarter of 2001, having risen markedly by 5.9% in the first quarter.

10. *Government consumption expenditure (GCE)* reckoned on a national accounts basis increased further by 4.1% in real terms in the second quarter of 2001 over a year earlier, following a 3.9% rise in the first quarter. Yet on a

seasonally adjusted quarter-to-quarter comparison, GCE was down by 2.7% in real terms in the second quarter of 2001, reversing the 5.4% growth in the first quarter.

11. Overall investment spending, as represented by *gross domestic fixed capital formation*, slackened sharply to a meagre 0.4% growth in real terms in the second quarter of 2001 over a year earlier, from a strong leap of 11.5% in the first quarter.

12. This relapse was mainly caused by a sharp fall-off in *expenditure on machinery and equipment*, which grew by only 0.3% in real terms in the second quarter of 2001 over a year earlier, having soared by 22.6% in the first quarter. The slackening business environment tended to deter such expenditure, particularly after the continued surge in machinery and equipment intake throughout 2000 and in the early part of 2001.

13. *Expenditure on building and construction* likewise registered only a marginal growth, at 0.1% in real terms in the second quarter of 2001 over a year earlier, following a 1.2% decline in the first quarter. In the public sector, activity remained modest in overall terms, as the sharp decline in output from the Public Housing Programme offset the more intensive work on the Priority Railway Projects. In the private sector, even with the sustained work on several major building and civil engineering projects initiated last year, overall output continued to be restrained by the dearth of new projects.

14. Along with the sluggish private sector building output, *real estate developers' margin* was down by 0.3% in real terms in the second quarter of 2001 over a year earlier, following a 5.7% decline in the first quarter.

15. The pace of *inventory* build-up remained modest in the second quarter of 2001, along with the easing in overall demand.

The property market

16. The sales market for *residential property* continued to be slack during most of the first half of 2001. Trading activity was weak in the first quarter, dampened by concern over deterioration in the external economic environment, sharp correction in the local stock market, and an ample supply of new flats coming on stream. Yet the primary market picked up moderately in the latter part of the second quarter, upon the more intense promotion strategy pursued by the developers, including offering a greater variety of price discounts, cash rebates, top-up loans, mortgage subsidies and preferential mortgage rates. Probably also contributed were the further cuts in local interest rates, cumulating to a total of 2.5 percentage points during the first half of the year. As to the rental market for residential property, it held largely stable in the first half of 2001.

17. On *commercial property*, the rental market for *office space* held generally steady in the first quarter of 2001, yet quietened down in the second quarter. Take-up of new office space slowed more recently, in face of an uncertain business outlook and dissipated demand from the information technology sector. The rental market for *shopping space* held largely steady while that for *industrial property* remained thin in the first half of 2001.

The labour market

18. The labour market showed a slight easing in the first half of 2001, concurrent with the moderation in overall economic activity. The *seasonally adjusted unemployment rate*, having declined distinctly from 5.6% to 4.4% during 2000, edged up to 4.6% in both the first and the second quarters of 2001. The *underemployment rate*, having fluctuated between 2.6% and 3.2% during 2000, nevertheless declined to 2.4% in the first quarter of 2001 and further to 2.3% in the second quarter. Overall manpower utilisation had tended to slacken, with the proportion of employed people working long hours falling marginally and with the median hours of work shortening more distinctly. (Labour market conditions showed more signs of easing lately. The seasonally adjusted unemployment rate edged up to 4.7% in the three months ending July 2001, even though the underemployment rate fell slightly further to 2.2%.)

19. On a year-on-year comparison, *total employment* as enumerated from households increased by 2.4% in the second quarter of 2001, representing a distinct deceleration from the 3.4% growth in the first quarter. *Total labour force* grew by 2.0% in the second quarter of 2001, also slower than the 2.3% growth in the first quarter. The differential between these two growth rates narrowed distinctly. On a quarter-to-quarter comparison, total labour force grew by 0.4% in the second quarter of 2001, slightly faster than the 0.3% increase in total employment. It was likewise in the first quarter, when the corresponding growth rates were 0.7% and 0.6%.

20. Labour income continued to rise moderately in overall terms. *Earnings* went up by 3% in money terms in the first quarter of 2001 over a year earlier, slightly faster than the 2% rise in the latter part of 2000. *Wages* were higher by 1% in money terms in March 2001 than a year earlier, similar to the increase in the latter part of 2000. Netting out the decline in consumer prices, the real gain in labour income was appreciably more, with earnings up by 5% in real terms in the first quarter of 2001 over a year earlier, and wages up by 4% in real terms in March 2001 over a year earlier.

Prices

21. The decline in overall consumer prices narrowed further in the first half of 2001, and within the period, more in the second quarter. On the domestic front, the prices of some locally produced goods and services had tended to edge up.

While overall property rentals held broadly stable, labour earnings and wages had risen moderately in money terms. In addition, certain Government fees and public utility charges were adjusted upward. Yet on the external front, the prices of retained imports showed a renewed decline, as the US dollar had strengthened earlier against the currencies of most of the major supplier economies and as world commodity prices also receded.

22. In the second quarter of 2001, the *Composite Consumer Price Index* fell by 1.3% over a year earlier, representing a further narrowing from the 2.0% decline in the first quarter. For the first half of 2001 as a whole, the Composite CPI decreased by 1.7% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI showed virtually nil change in the second quarter of 2001, representing a relative rebound from the 0.6% decrease in the first quarter.

23. The *GDP deflator*, as a broad measure of overall price change in the economy, declined by 0.5% in the second quarter of 2001 over a year earlier, much narrowed from the 1.7% decrease in the first quarter. This was mainly attributable to a smaller decrease in the price deflator for gross domestic fixed capital formation and a renewed increase in the price deflator for government consumption expenditure in the second quarter. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* also declined less, by 1.6% and 1.0% respectively in the second quarter of 2001 over a year earlier, as compared to decreases of 1.9% and 2.4% in the first quarter. Yet on a seasonally adjusted quarter-to-quarter comparison, the GDP deflator eased back by 1.3% in the second quarter of 2001, having risen by 2.1% in the first quarter.

The financial sector

24. Hong Kong's financial markets remained generally stable during the second quarter of 2001, notwithstanding further moderated economic growth as induced by the global economic slow-down. For the first half of 2001 as a whole, the spot *exchange rate* of the Hong Kong dollar against the US dollar stayed close to the linked rate, moving within a narrow range of 7.796 to 7.800. The spread between the twelve-month Hong Kong dollar forward rate and the spot rate reversed from a discount of 167 pips (each pip equivalent to HK\$0.0001) at end-2000 to a small premium of three pips at end-June 2001, as the negative spread between the twelve-month Hong Kong dollar inter-bank interest rate and its US dollar counterpart narrowed. Against the major currencies, the trade-weighted *Nominal Effective Exchange Rate Index* of the Hong Kong dollar rose to 140.7 at end-June 2001, from 136.0 at end-2000 and 140.1 at end-March 2001.

25. Local *interest rates* were on a general downtrend during the first half of 2001, in line with the successive cuts in US interest rates since the beginning of the year. The savings deposit rate set by the Hong Kong Association of Banks

was cut by 50 basis points each in January, February, March, April and May, from 4.75% at end-2000 to 2.25% at end-June 2001. (Upon the full interest rate deregulation as from 3 July 2001, the savings deposit rate, and indeed all bank deposit interest rates, are to be set freely by the individual banks. Thus the US interest rate cuts in late June and in August, by 25 basis points each, were not followed by uniform reductions in the savings deposit rate amongst the individual banks.)

26. Hong Kong dollar *deposits* rose by 0.2% during the second quarter of 2001, after a 0.4% decline during the first quarter. Yet Hong Kong dollar *loans* fell by 0.5% during the second quarter of 2001, reversing the 1.9% rise during the first quarter. As a result, the Hong Kong dollar loan-to-deposit ratio fell back from 91.5% at end-March to 90.8% at end-June 2001, which was still above the level of 89.4% at end-2000.

27. The local stock market rebounded at the beginning of 2001, upon an unexpected cut in US interest rates on 3 January. Expectations for further interest rate cuts pushed the *Hang Seng Index* to a high of 16 164 on 1 February. The market plummeted thereafter, along with the slides in the US and Tokyo stock markets and the sharp decline in the prices of telecom and technology shares worldwide. The Hang Seng Index fell to a 23-month low of 12 064 on 4 April, before recovering to above 13 000 upon another unexpected cut in US interest rates on 18 April. The Hang Seng Index then hovered around the 13 500 mark, before easing again after early June amidst renewed worry about the US economic slow-down. At 13 043 at end-June 2001, the Hang Seng Index was 14% lower than at end-2000, but was 2% higher than at end-March. (The Hang Seng Index fell further to 11 316 on 30 August, affected by lacklustre performance of the major stock markets overseas amidst a dim global economic scene.)

Updated GDP and price forecasts for 2001

28. The external economic environment is dimmed further by the downturn in the US economy, retarding growth in the European economies, and the doldrums in Japan and in most of the other East Asian economies. Exacerbating the situation are volatilities in exchange rate movements and jitters in stock markets overseas. The Mainland economy is the only bright spot, with sustained robust economic growth underpinned by strong domestic demand and surging FDI inflow. However, even so, external trade in the Mainland has also moderated considerably in growth over the past few months. Hong Kong, with its heavy reliance on external trade, is thus bound to be hit, with the effects now spreading increasingly across the domestic economy.

29. Following regular practice, the GDP and price forecasts for 2001 have been reviewed by individual components against the evolving developments. The updated forecasts are presented in **Table 3**.

30. On visible trade, *total exports of goods* are now forecast to decline by 1.1% in real terms in 2001. The large downward revision from the earlier forecast of a 3.1% growth has taken into account the much weaker-than-expected export performance in the second quarter, as well as the further deterioration in world economic outlook over the past few months. Within total exports of goods, *domestic exports* are now forecast to fall by 9.5% in real terms and *re-exports* to have virtually zero growth in real terms in 2001, both down from the respective earlier forecasts of an 8% decline and a 4.5% increase.

31. With the forecast for re-exports lowered further and with a lesser intake envisaged for imports for local use, *imports of goods* are now forecast at a 0.4% decline in real terms in 2001, likewise down from the earlier forecast of a 3.3% growth.

32. On invisible trade, *exports of services* are now forecast to grow by 5.5% in real terms in 2001, modestly down from the earlier forecast increase of 6.5%. Inbound tourism should continue to fare relatively well. While offshore trade may also maintain appreciable growth, exports of transportation services may be dampened further by the bleak merchandise trade performance. Also, there could have been some negative impact from disruption to air cargo services caused by the industrial action in a local airline. In parallel, the forecast growth rate in real terms of *imports of services* in 2001 is revised slightly down to 1.5%, from 2% earlier.

33. In the domestic sector, the forecast for *private consumption expenditure* in 2001 is kept unchanged at a 2.5% growth in real terms in the present update. This is on the back of the better growth in the first half of the year, yet with allowance for some moderation in the ensuing months upon a possible further easing in local employment.

34. As to *government consumption expenditure*, the forecast growth rate in real terms in 2001 is lifted slightly to 3%, from 2.5% in the last round, mainly in the light of the faster growth attained in the first half of the year.

35. Overall investment spending in the economy, as represented by *gross domestic fixed capital formation*, is forecast to grow by 2.2% in real terms in 2001, lower than the earlier forecast of a 4.5% growth.

36. Within this total, the forecast decline in real terms in *expenditure on building and construction* in 2001 is kept unchanged at 0.3%. Building and construction output is likely to remain modest in overall terms, amidst the scale-back in the Public Housing Programme, the slow turn-out in other government capital works projects, and a dearth of new building projects in the private sector.

37. The forecast decline in real terms in *real estate developers' margin* in 2001 is also kept unchanged, at 1.5%.

38. *Expenditure on machinery and equipment* is now forecast to grow by 4.2% in real terms in 2001. The distinct downward revision from an 8% growth in the earlier forecast has taken into account the sharp ease-off in machinery and equipment intake seen in the second quarter, and the further slack envisaged for the coming months amidst a subdued business climate.

39. *Inventories* are projected for only a small further increase in 2001, after the boost in 2000.

40. Taken together, the forecast growth rate in real terms of *GDP* for 2001 as a whole is revised further downward to 1%, from 3% in the May update.

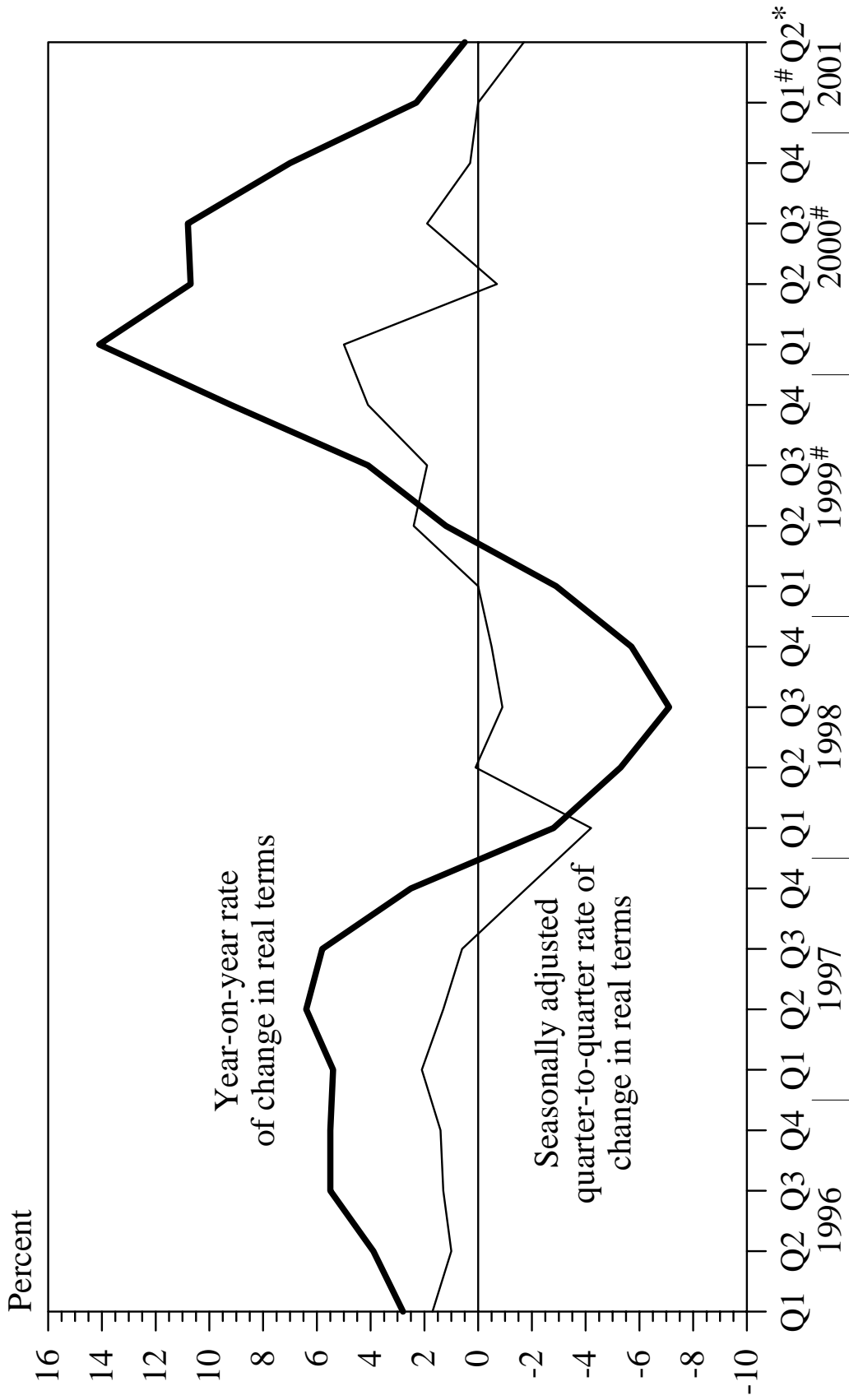
41. For comparison, the forecasts on Hong Kong's GDP made by a selection of international organisations and local analysts are depicted in **Table 4**. Private sector analysts have progressively adjusted their forecasts downward. Their latest forecasts of the growth rate in real terms of GDP for 2001 range from 1.8% to 2%, averaging at 1.9%.

42. On the price front, the year-on-year decline in the *Composite CPI* continued to narrow in the most recent month. It averaged at 1.5% in the first seven months of 2001. Looking ahead, import prices seem likely to fall further, as the effect of the earlier weakening in the yen and in some of the other East Asian currencies continues to feed through, and as world commodity prices have eased back amidst a slack global demand. Also, price pressure on the domestic front will be held off by the current economic slow-down. Thus the forecast rate of change in the Composite CPI in 2001 is lowered slightly further to -1.3%, from -1% in the May update. As to the *GDP deflator*, the actual outturn so far is generally in line with earlier expectations. Hence its forecast rate of change in 2001 is kept unchanged, at -1%.

(The Half-yearly Economic Report 2001 is now on sale at the Government Publications Centre on Ground Floor, Low Block, Queensway Government Offices, at \$70 a copy.)

(The expenditure-based GDP figures up to the second quarter of 2001 are published in the report of the Gross Domestic Product, Second Quarter 2001, which is now also on sale at the Government Publications Centre at Queensway, at \$22 per copy.)

Gross Domestic Product



Notes : (#) Revised figures.

(*) Preliminary figures.

Table 1

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

	<u>1999</u> [#]	<u>2000</u> [#]	<u>Q1</u> [#]	<u>2000</u>			<u>2001</u>	
				<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	0.7	5.5	8.7	5.1	5.6	2.6	3.5	4.0
Government consumption expenditure	3.3	2.1	3.7	2.7	2.5	-0.6	3.9	4.1
Gross domestic fixed capital formation	-17.5	9.8	5.7	5.4	14.8	13.1	11.5	0.4
<i>of which :</i>								
Building and construction	-11.0	-7.7	-14.9	-10.8	-1.3	-2.3	-1.2	0.1
Real estate developers' margin	-25.2	-9.4	-19.5	-17.5	-2.4	4.0	-5.7	-0.3
Machinery and equipment	-19.4	25.8	32.9	21.2	27.3	23.4	22.6	0.3
Total exports of goods	3.7	17.1	20.7	17.7	17.7	13.3	4.2	-1.9
Domestic exports	-7.2	7.5	16.2	8.3	8.2	-0.8	-12.8	-8.5
Re-exports	5.4	18.5	21.4	19.1	19.0	15.2	6.5	-1.0
Imports of goods ^(a)	0.1	18.1	22.9	18.8	18.4	13.4	5.3	-0.7
Exports of services	5.7	14.1	15.8	18.2	14.0	9.5	6.2	5.3
Imports of services	-3.1	2.1	-0.9	3.3	3.4	2.7	4.9	1.0
Gross Domestic Product	3.0	10.5	14.1	10.7	10.8	7.0	2.3	0.5
<u>GDP at current market prices (\$ billion)</u>	1,228	1,267	302	308	327	330	304	308
<u>GDP at constant (1990) market prices (\$ billion)</u>	809	894	209	213	235	236	214	214
<u>Change in inventories at constant (1990) market prices (\$ billion)</u>	-11	15	5	4	4	2	1	1
<i>Change in the main price indicators (%)</i>								
GDP deflator	-5.4	-6.6	-7.1	-7.5	-6.3	-5.5	-1.7	-0.5
Composite Consumer Price Index^{(b)(c)}	-4.0	-3.8	-5.1	-4.5	-2.8	-2.5	-2.0	-1.3
Consumer Price Index (A) ^{(b)(c)}	-3.3	-3.0	-4.1	-3.4	-2.0	-2.2	-2.0	-1.1

Notes : (#) Revised figures.

(+) Preliminary figures.

(a) Including an estimate of imports of gold for industrial use.

(b) From the fourth quarter of 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the year-on-year rates of change are computed from the 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

(c) Final figures.

Table 2

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

	<u>2000</u>				<u>2001</u>	
	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>						
Private consumption expenditure	4.9	-0.1	0.7	-3.2	5.9	1.1
Government consumption expenditure	0.9	-2.8	0.7	0.6	5.4	-2.7
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	6.1	2.0	4.9	0.7	-2.1	-5.0
Domestic exports	9.9	-4.8	0.9	-4.7	-3.4	-1.1
Re-exports	5.6	3.0	5.4	1.3	-2.0	-5.5
Imports of goods ^(a)	6.3	0.7	6.3	0.5	-0.8	-6.4
Exports of services	3.4	4.2	6.3	-4.9	0.6	2.9
Imports of services	-0.5	4.4	0.8	-2.1	1.8	0.3
Gross Domestic Product[^]	5.0	-0.7	1.9	0.3	*	-1.7
<i>Change in the main price indicators (%)</i>						
GDP deflator	-2.0	-2.4	-0.4	-0.9	2.1	-1.3
Composite Consumer Price Index^{(b)(c)}	-1.2	-0.7	-0.6	-0.1	-0.6	*
Consumer Price Index (A) ^{(b)(c)}	-1.2	-0.7	-0.5	*	-0.8	0.3

Notes : (#) Revised figures.

(+) Preliminary figures.

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

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

(*) Change of less than 0.05%.

(a) Including an estimate of imports of gold for industrial use.

(b) From the first quarter of 2000 onwards, the quarter-to-quarter rates of change in the seasonally adjusted Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the quarter-to-quarter rates of change are computed from the 1994/95-based CPI series.

(c) Final figures.

Table 3**Forecast growth rates of the Gross Domestic Product
and its main expenditure components and forecast rates of change
in the main price indicators for 2001**

	Forecast for 2001 as released <u>on 25.5.2001</u> (%)	August update of the forecast for 2001 released <u>on 31.8.2001</u> (%)
<i>Growth rate in real terms of :</i>		
Private Consumption Expenditure	2.5	2.5
Government Consumption Expenditure	2.5	3
Gross Domestic Fixed Capital Formation	4.5	2.2
<i>of which:</i>		
Building and construction	-0.3	-0.3
Real estate developers' margin	-1.5	-1.5
Machinery and equipment	8.0	4.2
Total Exports of Goods	3.1	-1.1
Domestic exports	-8	-9.5
Re-exports	4.5	0
Imports of Goods	3.3	-0.4
Exports of Services	6.5	5.5
Imports of Services	2	1.5
Gross Domestic Product (GDP)	3	1
<i>Rate of change in :</i>		
GDP Deflator	-1	-1
Composite Consumer Price Index	-1	-1.3

Table 4

**2001 GDP and price forecasts
by selected international organisations and private sector analysts**

	Date of release	GDP (growth	Private consumption expenditure rate	Gross domestic fixed capital formation in real	Total exports of goods terms	Exports of services (%)	Rate of change in consumer prices (%)	Reference source
International organisations:								
IMF	Nov 2000	4	--	--	--	--	1	IMF's Concluding Statement for the Article IV Consultation, Nov 2000.
	May 2001	3.5	--	--	--	--	0.5	World Economic Outlook, May 2001.
ADB	Sep 2000	8.8	--	--	10	--	2.1	Asian Development Outlook, 2000 Update.
	Apr 2001	4	--	--	5.3	--	1	Asian Development Outlook, 2001.
World Bank	Mar 2001	4.1	--	--	--	--	--	East Asia Update, March 2001.
Private sector analysts:								
Hongkong Bank	Jan 2001	3.4	--	--	--	--	--	Sing Tao Daily, 19 Jan 2001.
	Mar 2001	2.2	0.7	4.6	2.7	2.5	0	Asian Economic Insight, Vol 35, 22 Mar 2001.
	Jul 2001	1.8	0.9	7.4	--	--	-1	Asian Economic Insight, Vol 52, 26 July 2001.
Standard Chartered Bank	Dec 2000	4.5	--	--	--	--	1	Hong Kong Globe, 28 Dec 2000.
	May 2001	3	--	--	--	--	-1	Economics Department, Standard Chartered Bank, May 2001.
	Aug 2001	2	--	--	--	--	-1	Economics Department, Standard Chartered Bank, Aug 2001.
Bank of China	Mar 2001	3-3.5	--	--	--	--	--	Hong Kong Economic Times, 22 Mar 2001.
	May 2001	3.2	--	--	--	--	-0.5	Ming Pao, 23 May 2001.
	Jul 2001	2.6	2.2	6	2	3.8	-1.3	Economic Review, Vol I No.7 2001 Index, July 2001.
	Aug 2001	2	--	--	--	--	--	Hong Kong Economic Journal, 31 August 2001.
Hang Seng Bank	Dec 2000	4	3	--	6.5	--	1.5	Hang Seng Economic Monthly, Dec 2000.
	May 2001	3	--	--	--	--	-0.5	Economic Research Department, Hang Seng Bank, May 2001.
	Jul 2001	2	2	4.4	-2	2.5	-1	Hang Seng Economic Monthly, July 2001.
Bank of East Asia	Mar 2001	4	--	--	--	--	--	Hong Kong Economic Times, 22 Mar 2001.
	May 2001	2.8	--	--	--	--	0	Economic Research Department, Bank of East Asia, May 2001.
	Aug 2001	1.9	--	--	--	--	-1.1	Economic Research Department, Bank of East Asia, Aug 2001.

Table 4 (cont'd)

**2001 GDP and price forecasts
by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u> (growth	<u>Private consumption expenditure</u> rate	<u>Gross domestic fixed capital formation</u> in real	<u>Total exports of goods</u> terms	<u>Exports of services</u> (%))	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
Dao Heng Bank	Dec 2000	3.8	--	--	--	--	2	Hong Kong Economic Journal, 29 Dec 2000.
	May 2001	2.6	2.4	9.8	3	2.8	-1	Economic Research Department, Dao Heng Bank, May 2001.
	Aug 2001	2	2.3	8.7	-0.4	2	-1.2	Economic Research Department, Dao Heng Bank, Aug 2001.
Hong Kong General Chamber of Commerce	Jan 2001	4.8	--	--	--	--	2	The Bulletin, Jan 2001.
	May 2001	2.8	--	--	--	--	0	Chamber press release, 28 May 2001.
Credit Suisse First Boston	Jan 2001	4.7	--	--	--	--	--	Hong Kong Economic Times, 6 Jan 2001.
	May 2001	3.3	2	8	--	--	-1.1	Credit Suisse First Boston, May 2001.
Merrill Lynch	Mar 2001	4	--	--	--	--	--	Asian Wall Street Journal, 22 Mar 2001.
	May 2001	3.1	--	--	--	--	--	Apple Daily, 12 May 2001.
JP Morgan Chase	May 2001	3.5	--	--	--	--	--	Hong Kong Economic Journal, 25 May 2001.
	Aug 2001	1.8	--	--	--	--	--	Hong Kong Economic Journal, 3 Aug 2001.
Goldman Sachs Asia	Dec 2000	4.2	--	--	--	--	1	Hong Kong Globe, 28 December 2000.
	May 2001	2	--	--	--	--	--	Economic Flash, Goldman Sachs Asia, 29 May 2001.

Observation:

In view of the weak external environment, the local analysts have progressively revised downward their forecasts of Hong Kong's economic growth over the past few months. Their latest forecasts of GDP growth in real terms for 2001 range from 1.8% to 2%, averaging at 1.9%.