

Press Release

(embargoed until 4:15 p.m. on 31 May 2002)

Economic Situation in the First Quarter of 2002 and Updated GDP and Price Forecasts for 2002

The Government released today (Friday) the First Quarter Economic Report 2002, together with the preliminary figure on expenditure-based Gross Domestic Product for the first quarter of 2002.

The Government Economist, Mr K Y Tang, described the economic situation in the first quarter of 2002 and provided updated GDP and price forecasts for the year.

MAIN POINTS

- * After the severe downturn in 2001, overall economic activity remained modest in the first quarter of 2002. On a year-on-year comparison, GDP fell by 0.9% in real terms in the first quarter of 2002, lesser than the 1.4% decline in the fourth quarter of 2001 (latter revised up from the 1.6% decline put out earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP rose by 0.3% in real terms in the first quarter of 2002, after a 0.1% fall in the fourth quarter of 2001 (latter also revised up from the 0.2% fall put out earlier).
- * Externally, total exports of goods were still weak in the early part of this year, yet picked up progressively in the most recent months as the global and regional economic conditions improved. Yet for the first quarter of 2002 as a whole, total exports of goods still had a 2.1% decline in real terms over a year earlier. Exports of services accelerated to a 5.3% growth in real terms, on the back of a swift recovery in inbound tourism, a sustained rise in offshore trade, and a marked rebound in exports of transportation services.
- * Locally, consumer spending moderated further along with rising unemployment and wage restraint, falling by 0.6% in real terms in the first quarter of 2002 from a year earlier. This was the first decline recorded since the first quarter of 1999. Investment spending plummeted further, by 16.5% in real terms. While machinery and equipment intake was held back by an uncertain business outlook and weakened corporate profits, building and construction activity also remained slack in overall terms. There was a further run-down in inventories in the first quarter of this year.
- * In the labour market, total employment fell amidst more extensive corporate downsizing and lay-offs, yet total labour force grew steadily. Thus the seasonally adjusted unemployment rate surged from 6.1% in the fourth quarter of 2001 to 7.0% in the first quarter of 2002 (then rising further to a new high of 7.1% in the three

months ending April). The underemployment rate likewise moved up, from 3.0% to 3.2% between the two quarters (yet falling back to 3.0% in the three months ending April).

- * In the May update of the economic forecasts for 2002, the forecast of GDP growth rate in real terms is maintained at 1%.
- * Externally, Hong Kong's exports of both goods and services are expected to pick up further in the months ahead, given a generally improved global and regional economic environment. However, in the local economy, the much slackened labour market conditions will continue to impinge on consumer spending, while investment spending is likely to remain sluggish amidst a subdued business climate and an overhang of surplus capacity in the near term. Yet on balance, GDP is still envisaged to return to an uptrend during the course of the year, yielding a mild growth for 2002 as a whole.
- * There is upside potential for growth of the Hong Kong economy in the rest of the year, if the performance of exports of both goods and services shows up more strongly, thereby rendering in turn some renewed impetus for local demand.
- * On the other hand, much downside caveat prevails, notably on the external front. The outturn of the most recent US activity leading indicators suggests that the pace of recovery in the US economy is still not clearly predictable. A possibly slower growth or even relapse in the US economy could affect the revival process in both the European and the East Asian economies. The distinct weakening in the US dollar most recently, whilst likely to be helpful to the price competitiveness of Hong Kong's exports, is in fact a reflection of market concern about certain pitfalls in the US economy. Moreover, heightened tension in South Asia and the Middle East, as well as the latest warnings of possible terrorist attacks in the United States, could also arouse uneasiness in the market. Domestically, an on-going wary over employment and income will continue to dampen spending.
- * Local consumer prices are likely to drift lower in the near term, as competition in a slackened retail market is keen, as wages are now showing a renewed moderation, and as rentals may continue to ease. Also relevant is the downward effect of the package of relief measures in the 2002/03 Budget. Meanwhile, import prices are likely to stay soft, thereby also keeping local prices down. The forecast rate of change in the Composite CPI is kept unchanged, at -2.8% for 2002 as a whole. The forecast rate of change in the GDP deflator, at -1.5% for 2002, is likewise kept unchanged.

DETAILS

GDP

According to the preliminary figure on expenditure-based *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, the economy fell by 0.9% in real terms in the first quarter of 2002 over a year earlier, lesser than the 1.4% decline in the fourth quarter of 2001 (latter revised up from the 1.6% decline put out earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP rose by 0.3% in real terms in the first quarter of 2002, after a 0.1% fall in the fourth quarter of 2001 (latter also revised up from the 0.2% fall put out earlier) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2002, 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 first quarter of 2002 are described below.

External trade

3. *Total exports of goods* (comprising re-exports and domestic exports) fell by 2.1% in real terms in the first quarter of 2002 over a year earlier, markedly smaller than the 8.8% fall in the fourth quarter of 2001. There was a further decrease in total exports of goods by 8.2% in real terms in January 2002 over a year earlier. But as the external economic environment steadily improved, total exports of goods fell distinctly less by 5.7% in February, and then picked up sharply to a 6.9% rise in March. This uptrend was also evident on a seasonally adjusted quarter-to-quarter comparison, with total exports of goods reverting to an increase at 7.0% in real terms in the first quarter of 2002, after a 6.4% decline in the fourth quarter of 2001.

4. The pick-up in exports during the first quarter occurred mostly in the East Asian markets, with total exports of goods to *East Asia* as a whole rebounding sharply to a 4.5% increase in real terms over a year earlier. Performance however varied quite widely amongst the constituent markets, with exports to the mainland of China (the Mainland), Singapore and the Republic of Korea gaining markedly, but with exports to Japan and Taiwan staying weak. Exports of goods to the *European Union* continued to be dragged down by the slack domestic demand there and the weak euro, falling further by 11.4% in real terms in the first quarter of 2002 over a year earlier. As to exports of goods to the *United States*, they shrank sharply further by 13.3% in real terms in the first quarter of 2002 over a year earlier, upon the plunge in US import demand.

5. *Imports of goods* fell by 4.3% in real terms in the first quarter of 2002 over a year earlier, lesser than the 9.1% fall in the fourth quarter of 2001. Mirroring closely the rebound in re-exports during the first quarter, imports of goods also bounced up to positive growth in March. On a seasonally adjusted quarter-to-quarter comparison, imports of goods reverted to an increase at 6.1% in real terms in the first quarter of 2002, following an 8.0% fall in the fourth quarter of 2001.

6. On invisible trade, *exports of services* accentuated to a 5.3% growth in real terms in the first quarter of 2002 over a year earlier, from a meagre 1.1% growth in the fourth quarter of 2001. The improvement was rather broad-based, marked by a swift recovery in inbound tourism, a sustained rise in offshore trade, and a marked rebound in exports of transportation services. On a seasonally adjusted quarter-to-quarter comparison, exports of services resumed growth at 3.0% in real terms in the first quarter of 2002, having declined by 1.4% in the fourth quarter of 2001.

7. *Imports of services* had virtually no change in real terms in the first quarter of 2002 over a year earlier, after a 2.1% decrease in the fourth quarter of 2001. Within the total, imports of travel services recorded a modest decline in the first quarter, largely affected by a higher base of comparison a year earlier. Yet along with the pick-up in merchandise trade, imports of transportation services reverted to positive growth, while imports of trade-related services showed a lesser fall. Imports of professional, business and other services also rebounded to a modest increase. On a seasonally adjusted quarter-to-quarter comparison, imports of services went up by 2.8% in real terms in the first quarter of 2002, as against a 0.3% decline in the fourth quarter of 2001.

8. On the trade balance, with a lesser decline in the value of total exports of goods than in the value of imports of goods, the *visible trade deficit* dwindled markedly, to \$16.5 billion or 4.8% of the value of imports of goods in the first quarter of 2002. Yet the *invisible trade surplus* expanded further, to \$37.5 billion or 82.3% of the value of imports of services in the first quarter of 2002. Taken together, the combined surplus (including an estimate of imports of gold for industrial use) rose to \$20.5 billion in the first quarter of 2002, equivalent to 5.3% of the total value of imports of goods and services. This was considerably up from the respective surplus figures of \$3.2 billion and 0.8% in the same quarter in 2001.

Domestic demand

9. Local consumer spending remained subdued, amidst rising unemployment and wage restraint. Wary about job security and income uncertainty, coupled with protracted weakness in the asset markets, tended to depress sentiment. On a year-on-year comparison, *private consumption expenditure (PCE)* slackened to a 0.6% decline in real terms in the first quarter of

2002 over a year earlier, after an already meagre growth of 0.3% in the fourth quarter of 2001. This was the first decline recorded since the first quarter of 1999. Yet on a seasonally adjusted quarter-to-quarter comparison, PCE rose back by 0.4% in real terms in the first quarter of 2002, after a 0.8% fall in the fourth quarter of 2001.

10. *Government consumption expenditure (GCE)* reckoned on a national accounts basis registered a further growth of 2.2% in real terms in the first quarter of 2002 over a year earlier, following a 6.1% rise in the fourth quarter of 2001. On a seasonally adjusted quarter-to-quarter comparison, GCE rose by 1.3% in real terms in the first quarter of 2002, further to a 0.4% increase in the fourth quarter of 2001.

11. Overall investment spending, as represented by *gross domestic fixed capital formation*, plummeted by 16.5% in real terms in the first quarter of 2002 over a year earlier, after a 6.1% fall in the fourth quarter of 2001. Analysed by major component, *expenditure on machinery and equipment* continued to be held back by an uncertain business outlook, weakened corporate profits, and adjustment to surplus capacity, with a 25.0% plunge in real terms in the first quarter of 2002 over a year earlier. *Expenditure on building and construction*, being dampened by two of the Priority Railway Projects tapering and substantial cut-back in the Public Housing Programme, though with private sector building activity resurrecting somewhat, had a 6.4% decline in real terms in the first quarter of 2002 over a year earlier. *Real estate developers' margin*, on the increased private sector building output, went up by 5.1% in real terms in the first quarter of 2002 over a year earlier.

12. Reflecting the still slack demand conditions in the domestic economy, there was a further run-down in *inventories* in the first quarter of 2002.

The property market

13. The sales market for *residential property*, having staged a brief rebound in trading activity towards the end of 2001 and at the beginning of 2002, showed some consolidation in the rest of the first quarter. Transactions were held up in January, but tapered somewhat in February and March. Sentiment was affected by renewed concern about demand being curbed by the worsened unemployment situation but with an ample supply of new flats coming on stream. Moreover, there was a large overhang of newly completed flats not yet occupied. Also relevant was the prospect for reversal of the earlier downtrend in interest rates later in the year. Meanwhile, property developers continued to offer distinct price discounts and attractive financing arrangements to boost sales. With flat buyers being swayed by such intensive promotion in the primary market, activity in the secondary market remained depressed during most of the first quarter. As to the rental market for residential property, performance continued to be generally lacklustre, as demand remained subdued while the supply of flats for

lease increased. Flat prices fell slightly further during the first quarter, while flat rentals came down more.

14. On *commercial property*, the rental market for *office space* slackened further in the first quarter of 2002, amidst more extensive consolidation and downsizing in the corporate sector, especially amongst the information technology and financial services operators. In a move to improve occupancy, rental reductions and other concessions were given to tenants particularly those on long leases, and more generous rent-free periods were offered for new take-ups. The sales market for office space was stagnant, as investors mostly stayed on the sideline amidst an uncertain business outlook. The rental market for *shopping space* was also slack in the first quarter of 2002, amidst further moderation in retail business particularly in the segment serving local consumers. Premises in less popular locations were being impinged more. In a move to improve occupancy, larger rental cuts and more flexible lease terms were granted to tenants. The sales market for shopping space was likewise sluggish. On *industrial property*, the rental market stayed quiet in the first quarter of 2002, as leasing demand dwindled further upon sustained contraction in the local manufacturing sector. Also relevant was receded demand for modern multi-purpose industrial premises to be used as data centres and back-up service centres. The sales market for industrial property continued to be in the doldrums.

The labour market

15. The labour market, having eased visibly in the second half of 2001, slackened markedly further in the first quarter of 2002. This was due to the combined influence of a sustained growth in total labour force in line with the population increase, and a contraction in total employment amidst more extensive corporate downsizing and lay-offs in tandem with the economic setback. The *seasonally adjusted unemployment rate* in the first quarter of 2002, at 7.0%, went substantially higher from that in the fourth quarter of 2001, at 6.1%. The *underemployment rate* also moved up, from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002. There tended to be increased employment of part-time and temporary workers relative to full-time and regular workers in the more recent period. (In the three months ending April 2002, the seasonally adjusted unemployment rate rose to a new high of 7.1%, while the underemployment rate fell back to 3.0%.)

16. *Total employment* as enumerated from households contracted by 1.0% in the first quarter of 2002 over a year earlier, larger than the 0.7% fall in the fourth quarter of 2001. Under a difficult economic climate, employers were bound to be more stringent about their staffing. On the other hand, *total labour force* had a faster growth of 1.6% in the first quarter of 2002 over a year earlier, as compared to that of 1.1% in the fourth quarter of 2001. This was attributable in part to an accelerated increase in the population of working age, and in part to a rise in the labour force participation rate predominantly amongst middle-age

females. A considerable proportion of these females were believed to be housewives pursuing jobs to supplement their family income. On a quarter-to-quarter comparison, total employment likewise shrank, by 0.3% in the first quarter of 2002, yet total labour force went up, by 0.6%. These differential growth rates led to the further rise in unemployment rate in the most recent quarter.

17. With the labour market slackening further, labour income was on a renewed moderating trend. Overall *labour earnings*, having gone up modestly by 2% in money terms in the third quarter of 2001 over a year earlier, were virtually flat in the fourth quarter. Netting out the decline in consumer prices as reflected by the Composite CPI, labour earnings were nevertheless higher by 2% in real terms in the fourth quarter of 2001 over a year earlier, albeit slightly less than the 3% increase in the third quarter.

Prices

18. Overall consumer prices, having been on a continuous downtrend since late 1998, fell further in the first quarter of 2002. Domestically, costs and prices continued to drift lower, along with a further decline in property prices and rentals and a renewed moderation in labour wages. Also, price discounts were prevalent at the retail outlets. Externally, import prices softened further, under the combined effect of the earlier strength of the US dollar and subdued inflation in the major supplier economies. Moreover, world commodity prices remained soft in overall terms, notwithstanding a visible rebound in international crude oil prices over the past few months. In addition, there were some specific local factors, including notably the Government's rates relief and to a lesser degree the concessions on certain public utility and transport charges, which also brought the price level down.

19. The *Composite Consumer Price Index* fell by 2.6% in the first quarter of 2002 over a year earlier, enlarged from the 2.1% decrease in the fourth quarter of 2001. Yet on a seasonally adjusted quarter-to-quarter comparison, the Composite CPI decreased by 1.1% in the first quarter of 2002, same as the decline in the fourth quarter of 2001.

20. The *GDP deflator*, as a broad measure of overall price change in the economy, reverted to a decrease at 0.6% in the first quarter of 2002 over a year earlier, from a brief increase at 0.5% in the fourth quarter of 2001. This was mainly attributable to an enlarged decline in the price deflator for exports of goods and a moderated rise in the price deflator for government consumption expenditure, which together more than offset a narrowed decrease in the price deflator for gross domestic fixed capital formation and a renewed rise in the price deflator for exports of services. Yet on a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went higher by 1.9% in the first quarter of 2002, following a marginal decline of 0.1% in the fourth quarter of 2001.

The financial sector

21. The Hong Kong dollar exchange and money markets held broadly stable in the first quarter of 2002, with the spot *exchange rate of the Hong Kong dollar* against the US dollar staying close to the linked rate during the period.

22. Under the linked exchange rate system, the Hong Kong dollar strengthened further along with the US dollar against the Japanese yen, the euro and the pound sterling during the first quarter of 2002, by 3.0%, 1.9% and 1.2% respectively. Yet with these increases being partially offset by some strengthening in several East Asian currencies and in the Australian dollar during the quarter, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* rose only slightly, to 105.9 in March 2002, from 105.4 in December 2001.

23. As the interest rate down-cycle and monetary easing in the United States were seen to have come to an end, local inter-bank *interest rates* firmed up slightly during the first quarter of 2002, with the three-month HIBOR edging up from 1.9% at end-2001 to 2.2% at end-March 2002. The Base Rate under the Discount Window operated by the Hong Kong Monetary Authority remained unchanged at 3.25% during the first quarter. The best lending rate of the major commercial banks was kept at 5.13% during the quarter, while the average savings deposit rate rose marginally, from 0.15% at end-2001 to 0.16% at end-March 2002, and the average three-month time deposit rate also rose, from 0.51% at end-2001 to 0.62% at end-March 2002.

24. *Hong Kong dollar deposits* turned to a 1.2% decline during the first quarter of 2002, mainly attributable to a fall in time deposits. *Hong Kong dollar loans* reverted to a rise at 0.7% during that quarter. The Hong Kong dollar loan-to-deposit ratio thus rose back to 90.8% at end-March 2002, from 89.0% at end-2001.

25. The local *stock market* staged a brief rebound at the beginning of 2002, stimulated in part by a price surge in technology-related shares in the United States. The Hang Seng Index rose to a five-month high of 11 893 on 7 January. The market subsequently drifted lower, with the Hang Seng Index mostly hovering in the 10 500 - 11 000 range for the rest of January and in February in relatively quiet trading. Sentiment was weighed down by concern over rising unemployment and an uncertain business outlook. Then, as the major stock markets overseas rallied upon growing optimism for a sooner-than-expected recovery in the US economy, the local stock market was also activated, and the Hang Seng Index rebounded to above the 11 000 level in early March. Moreover, the 2002/03 Budget as announced on 6 March was well received. The market soon eased back again, upon wary that US interest rates might be raised earlier. The Hang Seng Index closed March 2002 at 11 033, 3.2% lower than at end-2001.

Trading was generally moderate, with the average daily turnover in the first quarter of this year reduced from the fourth quarter of last year. (The local stock market fluctuated since end-March. The Hang Seng Index stood at 11 381 on 30 May.)

Updated GDP and price forecasts for 2002

26. The global and regional economic environment, whilst still austere at the turn of the year, has fared somewhat better over the past few months. The improvement is most evident in the US economy, marked by a distinct turnaround in its activity leading indicators and a progressive firming up in its industrial output during the first quarter. Business sentiment in the European Union is also improving. Within East Asia, the export-dependent economies have been lifted by renewed export orders, as the worst of the electronic product down-cycle is apparently over. The Mainland economy is in even better shape, with its external and domestic sectors both holding up well. In Japan, external trade and business sentiment have likewise improved, although its domestic economy is still being dragged down by protracted structural problems. On this positive turn in the external environment, Hong Kong's exports of both goods and services are expected to pick up further in the months ahead. Against this, however, higher unemployment and subdued business sentiment will continue to impinge on local demand.

27. Following regular practice, the GDP and price forecasts for 2002 have been reviewed by individual components. The updated forecasts are presented in **Table 3**.

28. On visible trade, granting continued improvement in the global and regional economies, *total exports of goods* can be expected to pick up progressively in the rest of 2002, more distinctly so in the second half of the year. The forecast rate of change in real terms in total exports of goods in 2002 is thus lifted from zero as put out earlier to a 1.6% rise in the present update. Within total exports of goods, the forecast increase in *re-exports* in 2002 is lifted from 0.5% to 2.5%. But the forecast decline in *domestic exports* in 2002 is lowered from 4% to 6.5%, reflecting an accentuated drag from the structural shift towards re-exports.

29. On account of the more positive growth now envisaged for re-exports, *imports of goods* are forecast to rise by 0.4% in real terms in 2002, up from the earlier forecast of a 0.7% fall.

30. On invisible trade, given a better-than-expected outturn in the first quarter, and along with a better performance envisaged for visible trade, *exports of services* are now forecast for a 5.5% growth in real terms in 2002, up from the 4.5% growth forecast earlier. Yet in face of a weak local demand, *imports of services* are forecast at a small growth of 0.5% in real terms in 2002, same as that put out earlier.

31. In the domestic sector, the performance of consumer spending in the first quarter was generally in line with earlier expectations. With local consumer spending still curbed by the much slackened labour market conditions, *private consumption expenditure* is forecast to fall by 0.5% in real terms in 2002, also same as that put out earlier.

32. The forecast growth rate in real terms of *government consumption expenditure* in 2002 is kept unchanged at 4%.

33. Overall investment spending in the economy, as represented by *gross domestic fixed capital formation*, is now forecast at an 8.6% decline in real terms in 2002, down from the earlier forecast of a 5.1% reduction.

34. Within the overall investment spending, *expenditure on machinery and equipment* is now forecast to fall by 12.0% in real terms in 2002, worse than the 6.4% decrease forecast earlier. This is partly on account of the sharper-than-expected plunge in the first quarter. Yet it also sees the slump to protract in the period ahead, in the light of the prevailing subdued investment climate, overhang of surplus capacity, and weakened corporate profits.

35. As to *expenditure on building and construction*, the forecast rate of decline in real terms in 2002 is kept unchanged at 3.2%. Notwithstanding a bounce-back in private sector building activity in the first quarter, its output may not be able to sustain in the coming quarters, given the sharp fall-off in building consents last year. Moreover, there is a continued down-drag from the heavy cut-back in public housing production. The two major railway projects, namely the Tseung Kwan O Extension and West Rail, are also winding down.

36. Correspondingly, the forecast rate of decline in real terms in *real estate developers' margin* in 2002 is kept unchanged at 4%.

37. In face of the slack local demand, the process of depletion in *inventories* is expected to continue in the near term. Even with some possible replenishment in the latter part of the year, there may still be a modest inventory run-down for 2002 as a whole.

38. Overall, with the envisaged improvement in external demand largely offset by the slack local demand, the forecast growth rate in real terms of *GDP* for 2002, at 1%, is kept the same as that put out earlier.

39. There is upside potential for growth of the Hong Kong economy in the rest of the year, if the performance of exports of both goods and services shows up more strongly, thereby rendering in turn some renewed impetus for local demand. A lower base of comparison in the latter part of last year will also help the year-on-year growth rate.

40. On the other hand, much downside caveat prevails, notably on the external front. The outturn of the most recent US activity leading indicators suggest that the pace of recovery in the US economy is still not clearly predictable. A possibly slower growth or even relapse in the US economy could affect the revival process in both the European and the East Asian economies. The distinct weakening in the US dollar most recently, whilst likely to be helpful to the price competitiveness of Hong Kong's exports, is in fact a reflection of market concern about certain pitfalls in the US economy. Moreover, heightened tension in South Asia and the Middle East, as well as the latest warnings of possible terrorist attacks in the United States, could also arouse uneasiness in the market. Domestically, an on-going wary over employment and income will continue to dampen spending.

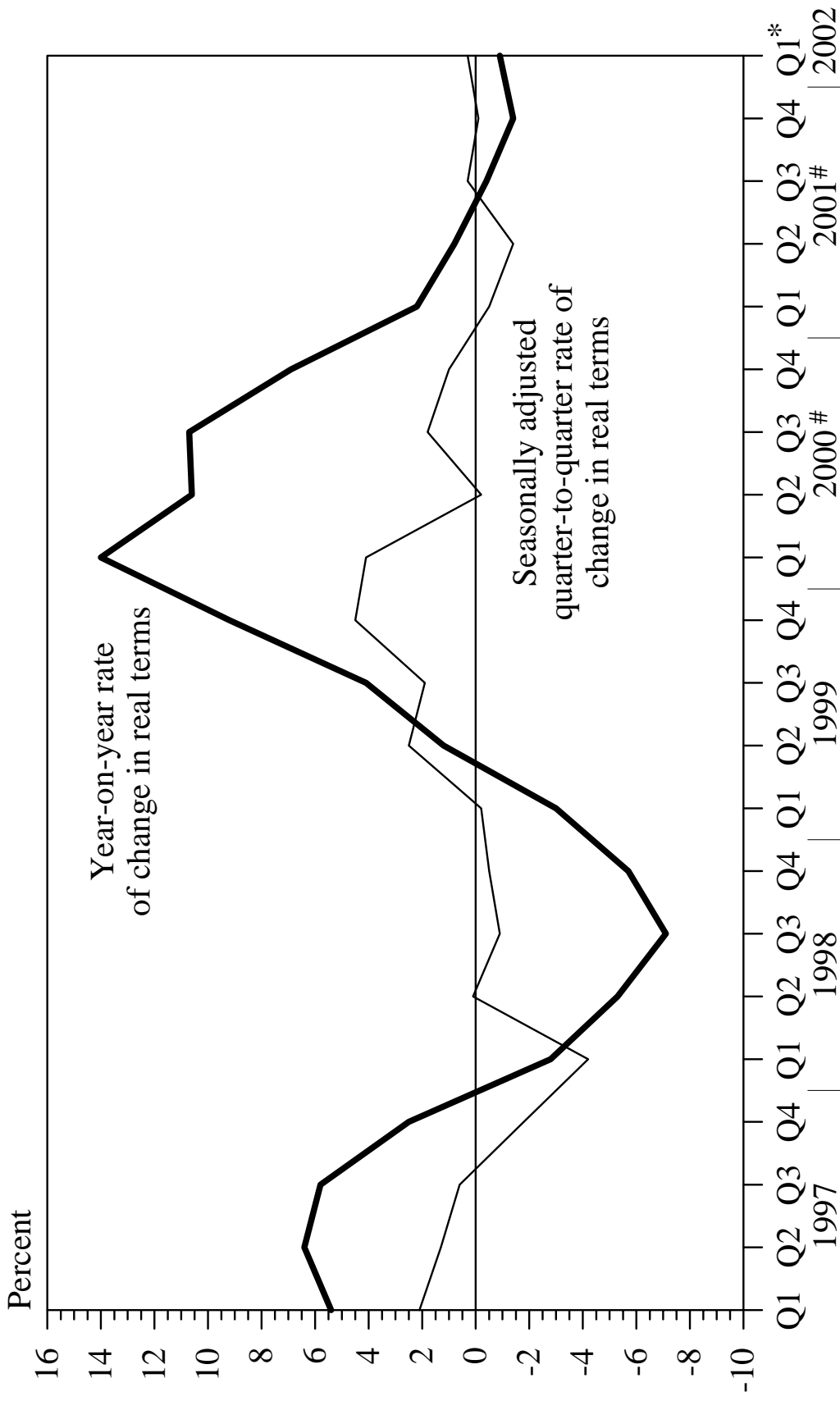
41. For comparison, the forecasts on Hong Kong's *GDP* made by a selection of international organisations and local analysts are depicted in **Table 4**. IMF and ADB have raised their forecasts of *GDP* growth for Hong Kong recently. While a number of private sector analysts maintain their forecasts, some others have adjusted their forecasts up or down. Their latest forecasts of the growth rate in real terms of *GDP* for 2002 range from 0% to 2.7%, averaging at 1.5%.

42. On the price front, local consumer prices are likely to drift lower in the near term, as competition in a slackened retail market is keen, as wages are now showing a renewed moderation, and as rentals may continue to ease. Also relevant is the downward effect of the package of relief measures in the 2002/03 Budget. Meanwhile, import prices are likely to stay soft, thereby also keeping local prices down. The forecast rate of change in the *Composite CPI* is kept unchanged, at -2.8% for 2002 as a whole. The forecast rate of change in the *GDP deflator*, at -1.5% for 2002, is likewise kept unchanged.

(The First Quarter Economic Report 2002 is now on sale at the Government Publications Centre on Ground Floor, Low Block, Queensway Government Offices, at \$96 a copy. Both the hard and soft copies of the report can also be purchased on-line at http://www.statisticalbookstore.gov.hk/desc_eng.htm at the same price, yet with a postage charge for the hard copy.)

(The expenditure-based GDP figures up to the first quarter of 2002 are published in the report of the Gross Domestic Product, First Quarter 2002, which is now also on sale at the Government Publications Centre at Queensway, at \$22 per copy. Both the hard and soft copies of the report can also be purchased on-line at http://www.statisticalbookstore.gov.hk/desc_eng.htm at the same price, yet with a postage charge for the hard copy.)

Hong Kong's 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>2000</u> [#]	<u>2001</u> [#]	<u>2001</u>				<u>2002</u>
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	5.4	2.0	3.0	3.5	1.2	0.3	-0.6
Government consumption expenditure	2.1	5.1	3.9	4.1	6.2	6.1	2.2
Gross domestic fixed capital formation	9.8	2.2	11.5	1.2	3.2	-6.1	-16.5
of which :							
Building and construction	-7.7	-2.5	-1.2	1.8	-7.8	-2.6	-6.4
Real estate developers' margin	-9.4	-1.3	-5.7	4.3	-6.3	2.9	5.1
Machinery and equipment	25.8	5.2	22.6	0.3	9.4	-8.5	-25.0
Total exports of goods	17.1	-3.0	4.2	-1.9	-4.0	-8.8	-2.1
Domestic exports	7.5	-11.0	-12.8	-8.5	-12.4	-10.4	-12.7
Re-exports	18.5	-2.0	6.5	-1.0	-3.0	-8.6	-0.9
Imports of goods ^(a)	18.1	-2.4	5.3	-0.7	-3.4	-9.1	-4.3
Exports of services	13.8	3.6	6.2	6.3	1.6	1.1	5.3
Imports of services	2.1	0.1	3.8	1.0	-2.0	-2.1	*
Gross Domestic Product	10.4	0.2	2.2	0.8	-0.4	-1.4	-0.9
<u>GDP at current market prices (\$ billion)</u>	1,266	1,262	303	308	324	326	299
<u>GDP at constant (1990) market prices (\$ billion)</u>	893	894	213	215	234	233	211
<u>Change in inventories at constant (1990) market prices (\$ billion)</u>	15	-2	1	1	-1	-3	-2
<i>Change in the main price indicators (%)</i>							
GDP deflator	-6.5	-0.5	-1.8	-0.6	-0.2	0.5	-0.6
Composite Consumer Price Index^(b)	-3.8	-1.6	-2.0	-1.3	-1.0	-2.1	-2.6
Consumer Price Index (A) ^(b)	-3.0	-1.7	-2.0	-1.1	-0.7	-2.8	-2.8

Notes : (#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

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

(b) 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>2001</u>				<u>2002</u>
	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>					
Private consumption expenditure	2.3	0.5	-1.0	-0.8	0.4
Government consumption expenditure	5.4	-1.7	2.0	0.4	1.3
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	-2.4	-2.8	1.5	-6.4	7.0
Domestic exports	-2.8	-1.5	-3.3	-4.1	-3.4
Re-exports	-2.4	-2.9	2.1	-6.7	8.2
Imports of goods ^(a)	-1.3	-3.7	2.4	-8.0	6.1
Exports of services	0.4	2.1	1.6	-1.4	3.0
Imports of services	0.3	*	-2.4	-0.3	2.8
Gross Domestic Product[^]	-0.5	-1.4	0.3	-0.1	0.3
<i>Change in the main price indicators (%)</i>					
GDP deflator	2.9	-2.1	-0.1	-0.1	1.9
Composite Consumer Price Index^(b)	-0.6	*	-0.4	-1.1	-1.1
Consumer Price Index (A) ^(b)	-0.8	0.3	-0.2	-2.2	-0.6

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) 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 2002**

	Forecast for 2002 as released on <u>6.3.2002</u> (%)	May update of the forecast for 2002 released on <u>31.5.2002</u> (%)
<i>Growth rate in real terms of :</i>		
Private Consumption Expenditure	-0.5	-0.5
Government Consumption Expenditure	4	4
Gross Domestic Fixed Capital Formation	-5.1	-8.6
of which :		
Building and construction	-3.2	-3.2
Real estate developers' margin	-4	-4
Machinery and equipment	-6.4	-12.0
Total Exports of Goods	0.0	1.6
Domestic exports	-4	-6.5
Re-exports	0.5	2.5
Imports of Goods	-0.7	0.4
Exports of Services	4.5	5.5
Imports of Services	0.5	0.5
Gross Domestic Product (GDP)	1	1
<i>Rate of change in :</i>		
GDP Deflator	-1.5	-1.5
Composite Consumer Price Index	-2.8	-2.8

Table 4
2002 GDP and price forecasts for Hong Kong
by selected international organisations and private sector analysts

	Date of release	GDP (growth	Private consumption expenditure rate	Gross domestic fixed capital formation		Total exports of goods terms	Exports of services (%)	Rate of change in consumer prices (%)	Reference source
				in	real				
International organisations:									
IMF	Dec 2001	1	--	--	--	--	--	0	World Economic Outlook, Dec 2001.
	Apr 2002	1.5	--	--	--	--	--	-2.5	World Economic Outlook, Apr 2002.
ADB	Nov 2001	2	--	--	4.5	--	--	0.3	Asian Development Outlook, 2001 Update, Nov 2001.
	Apr 2002	2.1	--	--	1.6	--	--	-0.8	Asian Development Outlook, 2002, Apr 2002.
World Bank	Oct 2001	3.6	--	--	--	--	--	--	East Asia Update, Oct 2001.
	Apr 2002	1.8	--	--	--	--	--	--	East Asia Update, Apr 2002.
Private sector analysts:									
Hongkong Bank	Feb 2002	1.8	0.8	0.9	--	--	--	-1.7	Asian Economic Insight, Vol. 74, 21 Feb 2002.
	May 2002	2.7	-0.7	-2.9	--	--	--	-3	Asian Economic Insight, Vol. 88, 30 May 2002.
Standard Chartered Bank	Jan 2002	1	--	--	0.2	--	--	-1	Hong Kong Snapshot, 11 Jan 2002.
	Mar 2002	1	--	--	0.2	--	--	-3.8	Hong Kong Snapshot, 20 Mar 2002.
Bank of China	Jan 2002	1	1.8	1.5	1.7	3	--	-2	Economic Review (Monthly), Jan 2002.
	May 2002	2	--	--	--	--	--	--	Hong Kong Economic Journal, 31 May 2002.
Hang Seng Bank	Dec 2001	1	1	-0.5	1.9	3.2	--	-1	Hang Seng Economic Monthly, Nov/Dec 2001.
	May 2002	1	0.3	-3.8	5.6	5.4	--	-3	Economic Research Department, Hang Seng Bank, 28 May 2002.
Bank of East Asia	Jan 2002	0	--	2.3	-0.6	--	--	-1	Hong Kong Economic Journal, 3 Jan 2002.
	May 2002	0	-1.5	-3	-0.6	4	--	-2.5	Economic Research Department, Bank of East Asia, 28 May 2002.
Dao Heng Bank	Dec 2001	1	1.5	5.1	4.6	5.4	--	-1	Hong Kong Economic Outlook for 2002, 18 Dec 2001.
	Mar 2002	1	0	-3.3	4	5.2	--	-3	Economic Analysis, 28 Mar 2002.
Hong Kong General Chamber of Commerce	Dec 2001	2	2.5	4	-2.2	3	--	--	Media Statement, 13 Dec 2001.
	May 2002	2	--	--	--	--	--	--	Ming Pao, 1 May 2002.

Table 4 (cont'd)**2002 GDP and price forecasts for Hong Kong
by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u> (growth	Private consumption <u>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>
Economist Intelligence Unit	Jan 2002	2	1	2.4	--	--	-1	Country Forecast, Jan 2002.	
	Apr 2002	1.7	0.5	1.2	--	--	-3	Country Forecast, Apr 2002.	
Credit Suisse First Boston	Feb 2002	1.8	--	--	--	--	--	Asian Daily, 11 Feb 2002.	
	May 2002	1.6	--	--	--	--	-2.5	Hong Kong Economic Journal, 31 May 2002.	
Merrill Lynch	Feb 2002	2	--	--	2.1	--	-0.2	Asia Pacific : Economics & Strategy Focus, 20 Feb 2002.	
	Apr 2002	2.5	--	--	--	--	-1	Asia Pacific : Economics & Strategy Focus, 30 April 2002.	

Observation :

While a number of private sector analysts maintain their GDP forecasts over the past few months, some others have adjusted their forecasts up or down. Their latest forecasts of the growth rate in real terms of GDP for 2002 range from 0% to 2.7%, averaging at 1.5%.