

**Overall situation**

The Hong Kong economy, following a distinct slow-down in 2001, revived progressively under the impetus from the external sector over the course of 2002. Total exports of goods reverted from decline in the first quarter to positive growth in the second quarter, and then accentuated sharply in the third quarter and further in the fourth quarter. Within the total, exports to markets in East Asia, including notably the mainland of China (the Mainland), were particularly robust, attaining double-digit growth across many markets for the year as a whole. Exports to both the United States and the European Union picked up visibly in the latter part of the year. Exports of services had an even stronger performance than exports of goods, and the growth rate likewise accelerated through the year. There was a broad-based surge in inbound tourism, offshore trade and transportation services.

In the domestic sector, consumer spending fell in 2002, for the first time since 1998. Consumers were generally less willing to spend, amidst much concern over the prevailing employment and income conditions and with the distinct fall-off in the asset markets inflicting a negative wealth effect. Declines in consumer spending occurred through the four quarters of last year. Overall investment spending also shrank in 2002, mainly depressed by a plunge in machinery and equipment intake amidst an uncertain business outlook. Yet with machinery and equipment intake rebounding to positive growth towards the year-end, and even with building and construction activity concurrently showing a relapse, overall investment spending turned up to a modest rise in the fourth quarter.

Overall, the Gross Domestic Product (GDP) had a 2.3% growth in real terms in 2002, up from a 0.6% growth in 2001. With a generally subdued economic performance carried over from the preceding months, GDP was down by 0.5% in real terms in the first quarter of 2002 over a year earlier. Then, along with reviving external trade, GDP resumed positive growth at 0.8% in the second quarter, followed by distinctly faster growth at 3.3% in the third quarter and 5.0% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP went up through the four quarters of 2002, with increases of 0.3%, 1.0%, 1.9% and 1.7% respectively in real terms.

The labour market slackened further in the first half of 2002, as corporate downsizing and rationalisation continued to take place, and this lifted the seasonally adjusted unemployment rate from 6.2% in the fourth quarter of 2001 to a record high of 7.8% in May - July 2002. Then, as total employment improved along with the turnaround in economic activity, the seasonally adjusted unemployment rate fell back somewhat in the second half of the year, to 7.2% in the fourth quarter. The underemployment rate hovered within the range of 2.8% to 3.2% during the past year. Even with some pick-up in the latter part of the year, total employment still fell by 0.6% for 2002 as a whole, as against a 1.8% growth in total labour force. Labour earnings drifted lower, by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier.

The residential property market slid further in 2002, as demand was curbed by high unemployment and moderated income, and as the abundant supply of new flats undermined buying interest. There was a brief pick-up in transactions in the second quarter, on the back of upbeat land auction results in April and June and the Government's announcement in early June to resume sale of subsidised sale flats yet in a cautious and orderly manner upon expiry of the ten-month moratorium. Trading activities soon faltered, upon the unemployment hike and with growing uncertainties in the external environment also dampening sentiment. But with the Government's announcement in mid-November of the nine measures to stabilise the housing market, coupled with improved employment conditions, the market was re-activated somewhat towards the year-end. Amidst a generally weak sales market, flat prices drifted successively lower during the year, cumulating to a distinct further decline of on average 13% for 2002 as a whole. The rental market likewise weakened, with flat rentals falling on average also by 13% for the year.

The local financial markets showed a mixed performance in 2002. The spot exchange rate of the Hong Kong dollar against the US dollar continued to stay close to the linked rate during 2002. As to the twelve-month Hong Kong dollar/US dollar forward rate against the spot rate, the premium held broadly stable in the early part of 2002. It then narrowed down in the summer months, yet widened distinctly after mid-September amidst renewed market concern over the protracted fiscal deficit, before shrinking back appreciably towards the year-end. Local inter-bank interest rates remained generally soft in 2002, largely following their US dollar counterparts. Hong Kong dollar loans fell modestly and Hong Kong dollar deposits slightly less so during 2002, giving a slightly lower Hong Kong dollar loan-to-deposit ratio at end-2002 than a year earlier. The local stock

market in 2002 was affected much by gyrations in the US stock market, where investor sentiment was undermined by the hesitant pace of US economic recovery and a spate of US corporate frauds. In the latter part of the year, there was additional downward impact from heightened war pressure on Iraq. The Hang Seng Index plummeted to a four-year low of 8 859 in mid-October, and then rose back somewhat to close the year at 9 321, 18% below the level at end-2001. Average daily turnover in the market also fell.

Overall consumer prices fell for 50 consecutive months by December 2002. The Composite Consumer Price Index was on average down by 3.0% in 2002, after a 1.6% decrease in 2001. Part of the price decline in the past year was nevertheless due to the special relief measures announced in the 2001 Policy Address and the 2002/03 Budget, including two rounds of rates concession and the waiver of water and sewage charges, which had the combined effect of lowering the Composite CPI for the year by 1.1 percentage points. Apart from this discrete factor, local consumer prices were kept down by slack demand, keen competition in the retail market, and downward adjustments in labour wages and property rentals. Import prices were also soft, though with moderated decline towards the year-end along with a weaker US dollar and a pick-up in world commodity prices.

Statistics on the Gross National Product (GNP) are available up to the third quarter of 2002. Both external factor income inflow and outflow declined in the third quarter of 2002 over a year earlier, mainly attributable to a plunge in interest income into and out of Hong Kong amidst a distinctly low interest rate environment. Taken together, net external factor income inflow was considerably reduced, yet it still amounted to 2.5% of GDP in the third quarter. GNP rose by 1.2% in real terms in the third quarter of 2002 over a year earlier, following a 0.1% increase in the first quarter and a 0.1% decrease in the second quarter. For the first three quarters of 2002 as a whole, GNP grew by 0.4% in real terms over a year earlier, slower than the 1.3% growth in GDP in that period.

Within the net external factor income flow, net direct investment income outflow rose in the third quarter of 2002 over a year earlier, upon increased investment earnings from the local economy for investors abroad. Net portfolio investment income inflow fell slightly in the third quarter, attributable to less interest income from holding of non-resident debt securities as well as more dividend pay-outs by resident companies. Net income inflow from other investment plunged sharply in the third quarter, owing to reduced interest income from offshore loans and deposits placed by local banks, by much more than the reduction in interest income from placements here by foreign banks.

### **The external sector**

According to the merchandise trade statistics, Hong Kong's total exports of goods (comprising re-exports and domestic exports) registered notable growth at 8.6% in real terms in 2002, representing a significant turnaround from the 3.3% fall in 2001. Total exports of goods showed distinct improvement over the course of the year. After a 2.5% decline in real terms in the first quarter of 2002 over a year earlier, they reverted to positive growth at 5.9% in the second quarter, and then picked up to double-digit growth at 11.4% and 18.3% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods recorded increase throughout the four quarters of 2002, by 4.5%, 5.8%, 4.0% and 4.0% respectively in real terms. Continued robust demand in the Mainland and resurgence in intra-regional trade, coupled with revived import absorption in the conventional overseas markets, was the key factor underpinning the sharp rebound in Hong Kong's exports in 2002. Improvement in Hong Kong's external price competitiveness brought about by a weaker US dollar rendered an additional boost.

Within total exports of goods, re-exports remained the key driver of export performance, attaining double-digit growth at 10.9% in real terms in 2002, also representing a sharp turnaround from the 2.4% decrease in 2001. Having shown a mild contraction by 1.5% in real terms in the first quarter of 2002 over a year earlier, re-exports rebounded to a distinct growth at 8.3% in the second quarter, followed by even more robust growth at 13.6% and 22.1% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports surged throughout the four quarters of 2002, by 5.7%, 6.6%, 4.5% and 4.7% respectively in real terms.

On the other hand, owing to the on-going structural shift towards re-exports and offshore trade, domestic exports shrank further, by 11.3% in real terms in 2002, slightly larger than the 10.2% dip in 2001. Domestic exports plummeted throughout the four quarters of 2002, with year-on-year declines by 11.2%, 13.7%, 7.6% and 12.9% respectively in real terms. On a seasonally adjusted quarter-to-quarter comparison, domestic exports also fell in all four quarters, by 5.6%, 2.0%, 0.7% and 4.3% respectively in real terms.

Total exports of goods to East Asia as a whole staged a sharp rebound, along with economic recovery in the region. There was a 13.4% surge in real terms in 2002, significantly up from the 1.8% increase in 2001. Exports to the Mainland, the Republic of Korea and Thailand were strong all through the four quarters of the year. Exports to Singapore and Malaysia also picked up distinctly after the first quarter. Exports to Japan were still weak in the first half of the year, yet improved distinctly towards the year-end. Total exports of goods to North America likewise regained strength, along with greater import intake in the United States and Canada, and helped further by better price competitiveness of Hong Kong's exports upon weakening of the US dollar. There was a 3.9% rise in real terms in 2002, in contrast to an 8.8% decline in 2001. Total exports of goods to the European Union were still held back by sluggish demand in the euro area and a relatively weak euro earlier on, yet there was also a distinct pick-up more recently, along with improved import demand and a stronger euro. A marginal decline of 0.4% in real terms was recorded in 2002, much narrowed from the 8.5% decrease in 2001.

Imports of goods likewise rebounded, rising by 7.8% in real terms in 2002, also distinctly improved from the 2.0% decline in 2001. Mirroring the profile of pick-up in re-exports over the course of the year, imports of goods, after falling by 4.1% in real terms in the first quarter of 2002 over a year earlier, resumed positive growth at 5.7% in the second quarter, and then accelerated markedly to double-digit growth at 10.8% and 18.1% respectively in the third and fourth quarters. Imports retained for local use likewise revived during the year, though at a less robust pace than that of re-exports. Specifically, retained imports still had an 8.9% decline in real terms in the first quarter of 2002 over a year earlier, yet reverted to increase by 0.8% in the second quarter, followed by considerably faster increases by 5.2% and 10.0% respectively in the third and fourth quarters. For 2002 as a whole, retained imports grew by only 1.8% in real terms, having declined by 1.1% in 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose by 4.5%, 5.8%, 4.8% and 2.9% respectively in

real terms through the four quarters of 2002. Retained imports rose in the first three quarters of 2002, by 2.3%, 4.2% and 5.4% respectively in real terms, but fell back by 1.0% in the fourth quarter.

As the value of total exports of goods rose faster than the value of imports of goods, the visible trade deficit reckoned on a BoP basis dwindled to \$40.0 billion or 2.5% of the value of imports of goods in 2002, from \$65.0 billion or 4.2% in 2001.

On invisible trade, exports of services continued to fare better than exports of goods, with double-digit growth at 12.1% in real terms in 2002, markedly better than the 5.9% growth in 2001. As with exports of goods, exports of services accelerated in growth over the course of the year. On a year-on-year comparison, growth was already rather robust at 7.7% and 8.6% respectively in real terms in the first and second quarters of 2002, yet followed by even stronger growth at 14.1% and 17.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, exports of services leaped throughout the four quarters of 2002, by 3.3%, 3.8%, 5.4% and 4.1% respectively in real terms.

Yet imports of services remained weak, with a decline of 0.8% in real terms in 2002, slightly worse than the 0.2% decrease in 2001. An improvement was nevertheless seen over the course of the year. On a year-on-year comparison, imports of services had decreases of 1.3% and 4.0% respectively in real terms in the first and second quarters of 2002, and then reverted to increase by 1.0% and 0.9% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services edged up by 0.6% in real terms in the first quarter of 2002, and then fell back by 1.2% in the second quarter, before bouncing up to increase by 2.5% in the third quarter, yet followed by a 0.7% decline in the fourth quarter.

As exports of services leaped while imports of services fell marginally, the invisible trade surplus reckoned on a BoP basis expanded markedly, to \$163.4 billion or 86.6% of the value of imports of services in 2002, from \$133.5 billion or 70.4% in 2001. Together with a much reduced visible trade deficit, the combined surplus reckoned on a BoP basis surged to \$123.4 billion or 6.9% of the total value of imports of goods and services in 2002, from \$68.5 billion or 3.9% in 2001.

**Domestic demand**

Local consumer spending remained subdued in most of 2002, as consumers' willingness to spend was held back by high unemployment, moderated income, and weakness in asset prices. Even with the support of a sharp upsurge in inbound tourism in the year, the volume of retail sales still declined by 2.6% in 2002, after a 1.2% increase in 2001. A relative improvement in retail business nevertheless emerged in the latter part of the year, upon steadier employment conditions and an even stronger surge in incoming visitors. On a year-on-year comparison, the volume of retail sales fell by 1.8% in the first quarter of 2002, and more so by 4.5% in the second quarter. The decline then narrowed back, to 3.0% in the third quarter, and further to 1.1% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales rose markedly by 4.6% in the first quarter of 2002, and then fell back by 2.4% and 3.1% respectively in the second and third quarters, yet reverted to increase by 0.2% in the fourth quarter.

Private consumption expenditure (PCE) likewise fell in 2002, though to a lesser extent than the decline in retail sales, as the continued growth in spending on consumer services cushioned the setback in spending on goods. On a year-on-year comparison, PCE fell in all the four quarters of 2002, with declines by 0.3% in real terms in the first quarter, 2.4% in the second quarter, 1.5% in the third quarter, and 2.1% in the fourth quarter. For 2002 as a whole, PCE went down by 1.6% in real terms, having gone up by 1.4% in 2001. This was the first annual decline since 1998. Analysed by major category of consumer spending in 2002, spending on non-durable goods had a more distinct setback. Spending by Hong Kong residents travelling abroad likewise fell. Spending on durable goods resumed some increase in the latter part of the year, giving a marginal growth for the year as a whole. Spending on food was more stable. Spending on services sustained fairly solid growth. On a seasonally adjusted quarter-to-quarter comparison, PCE rose by 0.4% in real terms in the first quarter of 2002, and then fell back in the ensuing three quarters, by 0.9%, 0.3% and 0.9% respectively.

Government consumption expenditure (GCE) reckoned on a national accounts basis rose moderately throughout the four quarters of 2002, by 2.2%, 2.7%, 3.6% and 0.9% respectively in real terms over a year earlier. For 2002 as a whole, GCE went up by 2.4% in real terms, yet considerably slower than the 6.0% increase in 2001. On a seasonally adjusted quarter-to-quarter comparison, GCE had meagre growth at 0.1% in real terms in both the first and second quarters of 2002, accelerated to a 2.5% rise in the third quarter, and then eased back to a 1.4% decline in the fourth quarter.

Overall investment spending, as represented by gross domestic fixed capital formation (GDFCF), remained weak in most of 2002. Continuing the setback towards the end of 2001, GDFCF plummeted by 12.3% in real terms in the first quarter of 2002 over a year earlier. This was followed by lesser declines of 0.6% and 5.0% respectively in the second and third quarters. It then turned up to a modest increase of 0.5% in the fourth quarter. For 2002 as a whole, GDFCF fell by 4.4% in real terms, after a 2.9% rise in 2001.

The relapse in overall investment spending in 2002 was mainly due to a sharp fall-off in expenditure on machinery, equipment and computer software, amidst an uncertain business outlook and an overhang of excess capacity. Such expenditure plummeted by 9.6% in real terms for 2002 as a whole, reversing the 7.3% increase in 2001. There were marked declines by 20.1%, 7.0% and 12.9% respectively in real terms in the first three quarters of 2002 over a year earlier, though followed by a rebound to a 2.4% increase in the fourth quarter as was helped in part by a low base a year earlier.

On the other hand, expenditure on building and construction turned up to a modest increase of 1.8% in real terms in 2002, having declined for four consecutive years. After a 4.0% decrease in real terms in the first quarter of 2002 over a year earlier, such expenditure turned up by 7.2% and 7.9% respectively in the ensuing two quarters, and then relapsed to a 2.7% fall in the fourth quarter. The pick-up in the second and third quarters was narrowly based, mainly driven by more intensive work on some major private sector projects. As work on these projects subsequently tapered, there was a fall-back in the fourth quarter. Public sector building and construction activity stayed weak in most of the past year, and was on a decline for three years in a row. The MTR Tseung Kwan O Extension was completed in August 2002, and work on the KCR West Rail had been tapering. Moreover, output under the Public Housing Programme continued to shrink. Yet work on Container Terminal No. 9 had been intensive.



In parallel with the pace of overall economic activity, inventories went down further in the first quarter of 2002, and then reverted to some build-up in the ensuing three quarters. This resulted in a modest increase in inventories equivalent to 0.3% of GDP for 2002 as a whole.

### **Implications of the preliminary GDP figures for the economy**

Nominal GDP had a marginal decline of 0.6% to \$1,271 billion in 2002, broadly similar to the decline of 0.7% in 2001. The decline last year was mainly due to a larger fall in overall prices as reflected by the GDP deflator, more than offsetting the pick-up in real GDP growth. As with the profile of real GDP, nominal GDP showed a progressive improvement over the course of the year, reverting from declines in the first and second quarters of 2002 to small increases in the third and fourth quarters.

Per capita GDP turned up to modest growth at 1.3% in real terms in 2002, after a 0.3% decline in 2001. Again, as there was a larger decline in the overall price level, per capita GDP was still down by 1.5% in nominal terms to \$187,300 in 2002, also broadly similar to the decline of 1.6% in 2001.

Total final demand, excluding re-exports but with the re-export margin retained, went up by 1.8% in real terms in 2002. While this represented an improvement from the meagre 0.2% growth in 2001, it was still slightly below the 2.3% growth in aggregate supply as denoted by GDP. Thus the overall demand/supply balance in the economy still tended to be loose.

The pick-up in total final demand was entirely driven by the sharp rebound in external demand. After a 1.8% fall in 2001, external demand revived markedly to a 9.3% growth in real terms in 2002, with exports of goods and services both yielding double-digit increase in the second half of the year. On the other hand, domestic demand slackened to a 1.4% decline in real terms in 2002, from an already meagre growth of 0.8% in 2001. Within it, private sector demand fell back by 1.8% in real terms in 2002, after a 0.4% rise in 2001. Public sector demand likewise moderated, yet still had a small increase of 0.7% in real terms in 2002, following a 3.1% rise in 2001.

## **The Government account**

In the financial year 2002/03, the revised estimate of government revenue amounts to \$173.3 billion, down by 1.3% in money terms from the outturn of \$175.6 billion in the financial year 2001/02. Within the total for the financial year 2002/03, revenue from utilities, general rates, stamp duties and profits tax registered pronounced declines. The declines in revenue from utilities and general rates were mainly attributable to special relief measures in the form of one-off concessions announced in the 2001 Policy Address and the 2002/03 Budget.

The revised estimate of total government spending in the financial year 2002/03 amounts to \$243.4 billion, up by 1.9% in money terms over the outturn of \$238.9 billion in the financial year 2001/02. Within the total for the financial year 2002/03, operating expenditure rose by 1.9% to \$202.6 billion, while capital spending went up by 1.6% to \$40.8 billion.

The revised estimated fiscal deficit for the financial year 2002/03 amounts to \$70.0 billion, equivalent to 5.5% of GDP. This is larger than the fiscal deficit at \$63.3 billion in the financial year 2001/02, equivalent to 5.0% of GDP.

## **The property market**

The property market as a whole underwent further consolidation in 2002. Acquisition and lease demand generally fell short of absorbing the abundant supply, both existing and in the pipeline, and this led to a continued softening in property prices and rentals. Yet the markets for different types of property faced somewhat different circumstances and difficulties.

The sales market for residential property remained generally slack in 2002. While flat prices went down visibly further in 2002, there was a modest pick-up in transaction volume. The increase in trading activity was concentrated in the first half of the year, especially in the second quarter. Market sentiment was lifted by upbeat results of the two land auctions held in April and June, as well as the Government's announcement to resume sale of subsidised sale flats yet in a cautious and orderly manner after expiry of the ten-month moratorium at end-June. But acquisition interest dwindled during most of the ensuing months, amidst renewed concern about job security and income instability, falling share prices,

and in particular the continued ample supply of new flats. The brief rebound in trading volume seen in September was mainly stimulated by a fresh round of intensive sales promotion by developers, through offering even larger price discounts and other more generous concessions to prospective purchasers. As a result, the primary market diverted the demand further and the secondary market was undermined even more. Towards the year-end, market activity again showed some pick-up, conceivably spurred by the Government's promulgation of nine policy measures to stabilise the housing market.

On a quarter-to-quarter comparison, flat prices went lower on average by 2%, 4% and 7% respectively in the second, third and fourth quarters of 2002, having shown nil change in the first quarter. For the year as a whole, flat prices on average fell by 13%. Against the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2002 plummeted by an average of 62%. Following the marked decline in flat prices and successive cuts in mortgage rate, and notwithstanding reduced household income, there was a substantial improvement in home purchase affordability over the past several years.

The rental market for private residential flats stayed subdued in 2002. Apart from lesser lease demand upon the impact of reduced salaries and housing allowances, there appeared to have been increased supply of flats for lease from those hitherto for sale. Flat rentals came under greater downward pressure in those areas with a lot of newly completed flats. On a quarter-to-quarter comparison, private housing rentals on average declined by 4%, 3%, 2% and 4% respectively in the four quarters of 2002. For the year as a whole, there was on average a drop of 13%. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2002, by an average of 43%. Mainly consequential to the distinct fall in flat rentals, lease affordability likewise improved over the past several years.

On commercial property, the rental market for office space weakened further in 2002, as demand continued to be dampened by on-going downsizing and rationalisation in the business sector. Grade A office space was additionally hit by an excess supply particularly in the central business district. Also relevant was the move by some companies to relocate their offices to secondary districts for saving costs. In order to uphold the occupancy rate, landlords generally offered larger rental cuts, longer rent-free period and other concessions to their tenants. The sales market for office space was stagnant in 2002. Reduced rental yield against the heavy capital investment up-front had led potential purchasers to

stay on the sideline. The rental market for shopping space was moderate in 2002, as demand remained generally languid amidst continued setback in the retail trade. Space in well-managed shopping arcades and in the popular shopping districts was nevertheless better sought after. The sales market for shopping space stayed quiet in 2002, as investors continued to adopt a cautious attitude in face of the slack conditions in the retail trade and an uncertain near-term outlook. On industrial property, the rental market was inactive in 2002. Demand for conventional factory space was restrained by a further contraction in local manufacturing activity. Demand for modern industrial premises for use as data centres and back-up service centres was also on the wane, amidst further consolidation in the information technology sector. The sales market for industrial property was at a standstill in 2002, in the lack of buying interest.

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, fell only slightly by 1% in 2002, after a 25% plunge in 2001. Analysed by main type of property, planned developments of private residential property were reduced by 35% in terms of units, distinctly enlarged from the 12% fall in 2001. In terms of total usable floor area, the decrease of 21% in 2002 also exceeded that of 12% in 2001. On the other hand, planned developments of non-residential property rose sharply in 2002, yet this was primarily due to the low base in 2001. Specifically, planned developments of commercial property, industrial property, and property in the “others” category leaped by 38%, 134% and 46% respectively in 2002, following the pronounced decreases of 21%, 65% and 69% in 2001.

### **The labour market**

The labour market remained slack in overall terms in 2002. Yet some improvement was seen in the latter part of the year, mainly attributable to a pick-up in total employment upon an upturn in economic activity. For 2002 as a whole, the unemployment rate averaged at 7.3%, markedly up from 5.1% in 2001. The seasonally adjusted unemployment rate surged in the early part of the year, from 6.2% in the fourth quarter of 2001 to 7.0% and 7.7% respectively in the first two quarters of 2002, and further to a peak of 7.8% in May - July, amidst more extensive downsizing and lay-offs in the corporate sector. It then fell back somewhat in the latter part of the year, to 7.4% in the third quarter and 7.2% in the fourth quarter. The total number of unemployed persons (not seasonally adjusted)

stood at 252 600 in the fourth quarter. On the median duration of unemployment, there was a distinct lengthening over the past year, from 82 days in the fourth quarter of 2001 to 90 days in the fourth quarter of 2002. As to the proportion of persons unemployed for six months or more, it likewise went up visibly, from 24% to 30%.

The underemployment rate also moved higher, averaging at 3.0% in 2002, as against 2.5% in 2001. It rose from 3.0% in the fourth quarter of 2001 to 3.2% in the first quarter of 2002, then declined to 2.9% in both the second and third quarters, but edged up again to 3.1% in the fourth quarter. The total numbers underemployed stood at 109 700 in the fourth quarter. For persons in employment, work intensity was high. The proportion of employed persons working for 50 hours or more per week rose visibly, from 35% in the fourth quarter of 2001 to 40% in the fourth quarter of 2002, as did the proportion of employed persons working for 60 hours or more per week, from 21% to 24%. Yet taking all the employed persons together, the median hours of work stayed at 48 hours per week for most of 2002.

Total employment as enumerated from households staged an upturn towards the end of last year, to a year-on-year increase of 0.8% in the fourth quarter, having worsened from a 1.0% decrease in the first quarter. It stood at 3.27 million in the fourth quarter of 2002. Total labour force had a faster growth over the past year, with the year-on-year increase picking up to 2.0% in the fourth quarter of 2002, from 1.7% in the first quarter. It stood at 3.52 million in the fourth quarter of 2002. The swing in the growth rate differential between total labour force and total employment pointed to a relative narrowing in the overall manpower resource balance, leading to lower unemployment rate in the latter part of last year.

Overall labour income had been moderating over the past year, amidst more incidents of pay freeze or cuts. Labour earnings went down by an average of 1.0% in money terms in the first three quarters of 2002 over a year earlier, albeit still up by 2.1% in real terms. This compared with the respective increases of 1.8% and 3.5% in 2001. Labour wages likewise fell, by an average of 1.1% in money terms in the first nine months of 2002 over a year earlier, yet still higher by 2.4% in real terms. This compared with the respective increases of 0.8% and 3.4% in 2001.

## **Prices**

Overall consumer prices continued to decline in 2002. By December, overall consumer prices had fallen for 50 consecutive months. Though with some relative narrowing towards the year-end, the decrease for 2002 as a whole widened considerably from that in 2001. This reflected mostly the influence of domestic factors. In particular, there were the special relief measures of rates concession and waiver of water and sewage charges implemented by the Government during the year. Domestic cost pressure was lessened, by softening in both labour wages and property rentals. Also, local retailers reduced the prices of their goods and services further, in face of sluggish consumer demand and keen competition in the retail market. On the external front, while import prices stayed soft in overall terms, the decline moderated over the past year, upon a weaker US dollar and a rebound in world commodity prices.

For 2002 as a whole, the Composite Consumer Price Index went down by 3.0%, nearly double the 1.6% fall in 2001. There was an enlargement in the year-on-year decrease for most of the year, from 2.6% in the first quarter of 2002 to 3.2% in the second quarter and further to 3.5% in the third quarter. To a large extent, this was due to the two rounds of rates concession as well as the waiver of water and sewage charges granted as from the early part of 2002. (Netting out the effect of these special relief measures, the decline widened only modestly over the period.) Also relevant were further reductions in the prices of basic foodstuffs and in the charges of such services items as mobile phone and other telecommunications services. The year-on-year decrease then narrowed to 2.9% in the fourth quarter of 2002. Yet this was mostly attributable to a low base of comparison a year earlier, caused by a waiver of public housing rentals by the Housing Authority and Housing Society in December 2001. On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI went down by 1.1% in the first quarter of 2002, followed by more modest declines of 0.6-0.7% in the ensuing three quarters. The larger drop in the first quarter mainly reflected the dampening effects of the rates concession effected in January as well as the special one-off rebate of electricity charges granted by a power company in January and February.

The GDP deflator, as a broad measure of overall price change in the economy, decreased by 3.8% in the fourth quarter of 2002 from a year earlier. This exceeded the declines of 2.1%, 2.1% and 3.0% respectively in the first three quarters. For 2002 as a whole, the GDP deflator went down by 2.7%, larger than the 1.4% fall in 2001. Within the GDP deflator, the domestic demand deflator and the total final demand deflator both showed larger decreases in 2002 than in 2001, by 4.2% and 3.4% respectively as against 1.8% and 2.4%. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator declined further by 0.9% in the fourth quarter of 2002, having fallen by 0.6%, 1.0% and 1.1% respectively in the first three quarters.

### **The financial sector**

The performance of the local financial markets was mixed in 2002. The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate throughout 2002, moving within a narrow range of 7.796 to 7.800. As to the spread of the twelve-month forward rate against the spot rate, the premium held generally stable in the early part of 2002, except for a brief pick-up to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. It then narrowed distinctly in the ensuing months, to an eight-month low of merely one pip on 26 June. It widened after mid-September amidst market concern over the protracted fiscal deficit in Hong Kong, moving mostly in the range of 250 to 350 pips between mid-October and late November. Yet it shrank again towards the year-end, and closed 2002 at 169 pips, considerably reduced from that of 235 pips at end-2001.

Under the linked exchange rate system, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. The US dollar remained strong at the beginning of 2002, but weakened against the major currencies since mid-April, due to uncertainties over the pace of US economic recovery and plausible military action on Iraq. The dollar - euro exchange rate, at an average of 0.946 in 2002, weakened by 5.6% from that of 0.896 in 2001. The dollar - pound sterling exchange rate also weakened, by 4.4% to an average of 1.504 in 2002, from that of 1.441 in 2001. The yen - dollar exchange rate, averaged at 125.2 in 2002, nevertheless went up by 3.0% from 121.5 in 2001, signifying relative strengthening in the US dollar. In 2002, most of the other major East Asian currencies appreciated to various extent against the US dollar. Taking these currency movements together, the

trade-weighted Nominal Effective Exchange Rate Index of the Hong Kong dollar fell slightly by 0.7%, to an average of 104.0 in 2002, from 104.7 in 2001. After adjusting for relative movements in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell distinctly more by 3.9%, to an average of 96.1 in 2002, from 100.0 in 2001.

In the money market, local short-term interest rates largely tracked their US dollar counterparts. They remained low during most of 2002, and eased further in the last two months of the year. The three-month HIBOR went down to 1.4% at end-2002, from 1.9% at end-2001. The average spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate reversed from a discount of 6 basis points in December 2001 to a premium of 10 basis points in December 2002. Following the movement in the US Fed Funds target rate, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority was maintained at 3.25% until early November 2002, when it was reduced by 50 basis points to 2.75%. The best lending rate of the major commercial banks was lowered to 5.00% at end-2002, from 5.13% at end-2001. Savings deposit rates offered by the major banks were also trimmed, to an average of merely 0.03% at end-2002, from 0.15% at end-2001. The average spread of the best lending rate over the three-month time deposit rate widened slightly, to 4.71 percentage points in 2002, from 4.62 percentage points in 2001 .

Hong Kong dollar deposits fell modestly, by 1.6% during 2002, having risen marginally by 0.2% during 2001. Hong Kong dollar loans also declined modestly, by 1.9% during 2002, further to a 0.3% decrease during 2001. As the decline in Hong Kong dollar loans was slightly more than that in Hong Kong dollar deposits during 2002, the Hong Kong dollar loan-to-deposit ratio fell slightly further, to a new low of 88.5% at end-2002, from that of 88.8% at end-2001.

The local stock market exhibited much volatility over the course of 2002. There was a brief rally at the beginning of the year, upon a price surge in technology-related shares in the United States. With greater optimism about a sooner-than-expected recovery in the US economy, local share prices continued to hold up well in February and March. Fund inflows and market expectation for no imminent rise in US interest rates then pushed the Hang Seng Index to a high of 11 975 on 17 May.



Local share prices soon drifted lower, with the Hang Seng Index falling to levels below 10 000 in late July. Apart from lacklustre corporate performance in the local economy, market sentiment was also weighed down by growing concern worldwide about the uncertain tempo of US economic recovery and the likely consequence of US corporate frauds. Then, looming war pressure on Iraq led to a further dip in share prices in September. The Hang Seng Index plunged to a four-year low of 8 859 on 10 October. Local share prices recovered some lost ground in November, upon the US interest rate cut and steadier employment conditions locally. But as war pressure on Iraq escalated and tension over nuclear control in North Korea broke out towards the year-end, local share prices were dampened again. The Hang Seng Index closed the year at 9 321, 18.2% lower than the level of 11 397 at end-2001. Share prices in the major stock markets overseas likewise plummeted during 2002, for some by even greater magnitudes than in the local market. Average daily turnover in the market fell distinctly, to \$6.7 billion in 2002, from \$8.2 billion in 2001.

## **Overview**

The outlook for 2003 is for a further modest pick-up in GDP growth. Exports should still render the key impetus to growth this year. Domestic demand is also expected to firm up somewhat in 2003, as the income generation effects of the export growth gradually spread through to the domestic sector. Yet compared with the recovery in the past, the pick-up in domestic demand may be less forthcoming this time, amidst the influence of on-going economic restructuring and persistent price decline.

On the external front, the US economy, as the leading economy setting the tempo for the global economy, should benefit from the Federal Reserve's loose monetary stance, and in the course of time, also from the Bush Administration's economic stimulus package now underway. A better course for the US economy will help lift the European and East Asian economies, including the Hong Kong economy. As to the exchange rate factor, it is currently supportive, as a weaker US dollar should bode well for Hong Kong's export price competitiveness.

The mainland of China (the Mainland), by virtue of its ascending productivity and competitiveness, has now emerged as the leading production centre in the region. Indeed, it has been gaining market share in the global context in recent years, and generally more so in 2002 with its trade and investment boom after China's accession to the World Trade Organisation (WTO). Hong Kong, with its close proximity to and intimate business links with the Mainland, should have much to gain from this development. Hong Kong's exports of goods can thus be expected for a further notable growth in 2003, albeit probably not as strong as that attained in 2002 owing to a higher base in the more recent months.

Hong Kong's exports of services should also remain sound in 2003. There is likely to be a further surge in exports of trade-related services, bolstered by robust exports from the Mainland and an on-going structural shift to offshore trade. Inbound tourism looks set to stay vibrant, while exports of transportation services can likewise grow further, in tandem with the expanding volume of merchandise trade and external passenger movements. Exports of financial, business and other services may pick up somewhat, reflecting greater business demand from the Mainland and the other regional economies.

In the domestic sector, consumer spending in the early part of 2003 may still be curbed by reduced household income and worry over employment prospects. Also, the dip in asset values over the past year may carry over a negative wealth effect on consumption. But as the impetus from the export surge feeds through, consumer spending may set off to steadily improve in due course. As to the government consumption expenditure, growth in 2003 may still be modest, owing to fiscal restraint.

With the economy now back on the growth path, overall investment spending should hopefully stage some rebound in 2003. There will probably be renewed acquisition of machinery, equipment and computer software, for the sake of reinstating productive capacity. Intake of new aircraft will render an added boost. On the other hand, overall building and construction activity, after a brief pick-up last year, may fall back again, amidst a dearth of new projects, as well as further scale-back in public housing production and winding down of work on the KCR West Rail.

Overall, Hong Kong's GDP seems likely to maintain a rather solid growth in the early part of 2003, on the back of continued surge in exports of goods and services. GDP may then settle to a relatively milder growth pace in the latter part of the year, set against a higher base in the same period last year. For 2003 as a whole, GDP is forecast at a growth of 3% in real terms, up modestly further from the 2.3% growth in 2002.

A number of uncertainties are prevailing on both the external and domestic fronts. Externally, there is concern about slower growth pace in the US economy, with ensuing drag on the rest of the world. The Hong Kong economy, given its high dependence on trade, is bound to be hit if the global economy were to relapse again. At the same time, fluidity in the geo-political perspective, including the pressure of war on Iraq and alertness to risk of resurgence of terrorist attacks, is clearly disturbing. Domestically, there is concern that with the further shift from re-exports to offshore trade, it may take more time for an external boost to filter through to lift domestic demand and hence the overall economy. Also, the local labour market, particularly its lower segment, may face continued loosening, in turn restraining wages and domestic demand.

Local costs and prices seem likely to remain on a downtrend in 2003. The marked fall-off in property rentals over the course of last year is expected to show up more fully in the CPI during this year, while the easing in labour wages is expected to continue. Moreover, there is an on-going structural drag from the factor price equalisation process, upon closer inter-flows of economic activities between Hong Kong and the Mainland. Externally, a weaker US dollar will entail some pick-up in import prices, but part of the lift may perhaps be absorbed by local retailers and distributors amidst keen competition in the domestic market. Also, on-going deflation in the Mainland and Japan, as Hong Kong's two leading suppliers of imports, may help reduce price pressure from the external source. The Composite Consumer Price Index is thus forecast to fall by an average of 1.5% in 2003, following a 3.0% decline in 2002. The lesser decline envisaged for 2003 is mostly due to dissipation of the Government's special relief measures for 2002.

## **External sector**

### *Exports of goods and services*

In 2003, Hong Kong's merchandise exports should continue to benefit from the vibrant demand in the Mainland and the advances in intra-regional trade. The boost to Hong Kong's export price competitiveness brought about by a weaker US dollar should also help. But as growth in the global economy will probably still be below trend, and as the base of comparison progressively shifts higher in the second half of last year, the growth momentum in exports may tend to taper later in the year. For 2003 as a whole, Hong Kong's total exports of goods are forecast for still robust growth at 6.6%, albeit not as strong as the 8.6% growth attained in 2002. Within the total, the lead will continue to come from re-exports, even though there is concurrently a structural shift from re-exports to offshore trade. As to domestic exports, there is likely to be a further distinct decline, given the still on-going relocation of production processes outside the territory. Thus, re-exports are forecast for further notable growth at 8% in 2003, after an 11.0% surge in 2002, while domestic exports are forecast to decline by 8% in 2003, having fallen by 11.2% in 2002.

Analysed by major region, exports of goods to the United States are expected for a further notable rise in the early part of 2003, extending from the momentum of its recent import intake. The recent further strengthening in the East Asian currencies against the US dollar also makes Hong Kong's exports more attractive in price terms. The outlook for the latter part of the year will hinge on how the US import demand fares and on how the US dollar moves. Yet against a higher base in the latter months, the growth rate may tend to ease. For 2003 as a whole, the forecast of exports to this market is for a further moderate growth. There could be upside potential if the recovery process in the US economy can regain more strength. As to exports of goods to the European Union, there may well be further appreciable increase in the near term, on the back of the much strengthened euro and the improved import intake. However, the generally sluggish economic situation there implies that exports to this market for 2003 as a whole seem unlikely to show a distinct growth.

Exports of goods to the markets in East Asia should attain a further solid growth in 2003. The Mainland on its robust economic growth and progressive trade liberalisation will still be the brightest spot this year. Hong Kong's exports to the Mainland both for outward processing and for meeting its own demand are likely to remain on a strong uptrend. Moreover, surging foreign direct investment inflow and better external market access brought by China's accession to the WTO should continue to boost Hong Kong's trade involving the Mainland. The major firms and organisations engaged in China trade are in general highly upbeat about the growth prospect for Hong Kong's exports of goods to the Mainland for 2003 as a whole.

Exports of goods to Japan may hold up fairly well in 2003, on the back of a stronger yen and with the regional recovery rendering some support to its own economic growth. Also, the increasing trend of outsourcing by Japanese corporations from the other East Asian economies should continue to benefit Hong Kong's exports to this market, given Hong Kong's role as a prominent conduit for intra-regional trade. As to exports of goods to the other East Asian economies, the outlook for 2003 may continue to be good, upon further recovery in these economies underpinning their own import intake, as well as sustained surge in intra-regional trade.

Exports of services have again out-performed exports of goods in 2002. For 2003, there should be a further surge in offshore trade, along with the robust export growth in the Mainland and a rising tendency for goods to be directly shipped out from South China after export processing. Inbound tourism is likely to remain vibrant, bolstered by the strong uptrend in visitors from the Mainland, and to a considerable extent also upon further rise in visitors from the rest of the region. Exports of transportation services should likewise grow further, in tandem with the expanding volume of merchandise trade and external passenger movements. Exports of financial, business and other services may pick up somewhat, reflecting greater business demand from the Mainland and the other regional economies. Overall, exports of services are forecast for further visible growth at 8% in 2003, having already leaped by 12.1% in 2002.

***Imports of goods and services***

Retained imports are forecast to rise further, by 2.6% in 2003, after a 1.7% increase in 2002. This mainly reflects a continuing inventory build-up, as well as an envisaged improvement in domestic demand. Analysed by end-use category, retained imports of capital goods are expected to rebound in 2003, along with an envisaged upturn in machinery and equipment investment. Retained imports of consumer goods will probably pick up further. Retained imports of material inputs may however ease back after the upsurge in the latter part of last year, in view of the likely further shrinkage in domestic exports this year. Together with the forecast for re-exports, total imports of goods are forecast to rise by 6.3% in 2003, following a 7.9% increase in 2002.

Imports of services, after two years of decline, seem likely to turn up in 2003 as domestic demand climbs back. But with the travel pattern of Hong Kong residents shifting more towards short-duration trips, their travel spending may only show a moderate rebound. Imports of trade-related services and transportation services should pick up more, along with the envisaged further growth in merchandise trade. Overall, imports of services are forecast to rise by 1.5% in 2003, in contrast to a 0.8% decline in 2002.

**Domestic sector*****Private consumption expenditure***

The outlook for local consumer spending in the near term will still be clouded by concern over job security and possible pay freeze/cut. Also, there is still some negative wealth effect on consumption carried over from the marked fall-off in property prices and in share prices last year. But as the impetus from the continued surge in exports feeds through to activate the domestic sector, consumer spending may set off to improve steadily. The prevailing low interest rate environment should be of help, and there should be better support if the local asset markets could stabilise more. Yet with spending propensity likely to remain subdued in the imminent months, and even with some incremental climb-back in the months ensued, private consumption expenditure is forecast to be only flat in 2003, though improved from the 1.6% decline in 2002.

***Government consumption expenditure***

On the basis of information contained in the Government's revised estimates of expenditure for the financial year 2002/03 and the draft estimates of expenditure for the financial year 2003/04, government consumption expenditure in national accounts terms is forecast at 2.5% growth in 2003, following a 2.4% increase in 2002.

***Gross domestic fixed capital formation***

Expenditure on machinery, equipment and computer software by the private sector, having gone through four quarters of fall-off since the fourth quarter of 2001, bounced back to increase in the fourth quarter of 2002. Some resurrection is to be expected for 2003, given the need to reinstate productive capacity as the recovery process spreads. Renewed aircraft intake will render an additional boost. On the other hand, expenditure on machinery, equipment and computer software by the public sector is likely to shrink markedly in 2003, as the rolling stock and other equipment for the Priority Railway Projects have by and large been delivered. As the private sector expenditure predominates, total expenditure on machinery, equipment and computer software is forecast for appreciable growth at 6.8% in 2003, distinctly up from the 9.6% decline in 2002.



Private sector building activity rebounded in 2002, as work on some major residential and commercial development projects intensified. But as most of these projects have already passed the peak, and as new projects have become fewer and are yet to be stepped up, the rebound seen in 2002 may not be able to sustain in 2003. Cessation of the Home Ownership Scheme, the output of which is classified as private sector building output in the GDP estimates on the basis of ownership, will also dampen the activity. Suspension of the Land Sales Programme until end-2003 will lead to a dearth of new projects in the near term. As to civil engineering projects, work on Container Terminal No. 9 should have also passed its peak. Overall, private sector building and construction output is likely to fall back quite visibly in 2003.

As to public sector building and construction output, in the light of further scale-back in the Public Housing Programme, completion of the MTR Tsueng Kwan O Extension in August last year, and expected winding down of the KCR West Rail this year, it is also likely to decline distinctly in 2003. Taking the private and the public sectors together, overall expenditure on building and construction is forecast to shrink by 5.9% in 2003, after a small increase of 1.8% in 2002.

Combining the forecasts for the individual components of investment expenditure, gross domestic fixed capital formation is forecast to rise modestly by 0.9% in 2003, representing a turnaround from the 4.4% decline in 2002.

### ***Change in inventories***

There should be a further build-up in inventories in 2003, along with the envisaged improvement in domestic demand and solid growth in external trade.

## **Prices**

The decline in local consumer prices enlarged again in 2002, essentially reflecting the continued cost and price adjustments brought about by the economic downturn in 2001. The special relief measures from the 2001 Policy Address and the 2002/03 Budget also dragged down the CPI. Looking ahead, local costs and prices are likely to remain on a downtrend in 2003. The marked fall-off in property rentals over the course of last year is expected to show up more fully in the CPI during this year, while the easing in labour wages is expected to continue. Moreover, there is an on-going structural drag from the factor price equalisation process, upon closer inter-flows of economic activities between Hong Kong and the Mainland.

Externally, the more recent upsurge in international crude oil price is expected to have only a marginal lifting effect on local costs, as Hong Kong is not a very oil-dependent economy. A weaker US dollar will entail some pick-up in import prices, but part of the lift may perhaps be absorbed by local retailers and distributors amidst keen competition in the domestic market. Also, on-going deflation in the Mainland and Japan, as Hong Kong's two leading suppliers of imports, may help reduce price pressure from the external source. The Composite Consumer Price Index is thus forecast to fall by an average of 1.5% in 2003, following a 3.0% decline in 2002. The lesser decline envisaged for 2003 is mostly due to dissipation of the Government's special relief measures for 2002.

The movement in the GDP deflator depends on those in the price deflators for the individual GDP components. Domestically, the private consumption expenditure deflator is forecast for a 2% decline in 2003, also smaller than the 3.3% decrease in 2002, in tandem with the envisaged trend in consumer prices. The government consumption expenditure deflator is forecast for a 2.5% decline in 2003, after a 0.4% decrease in 2002, reflecting the further effect of the 2002/03 Civil Service pay cut implemented since October 2002, as well as the general price reduction in government purchases. As to the investment components, the deflator for expenditure on building and construction is forecast to fall further, by 5.5% in 2003, following a 6.3% decline in 2002, upon the continued fall-off in tender prices. Yet the deflator for expenditure on machinery, equipment and computer software is forecast to rise back, by 1.5% in 2003, after a 7.3% decline in 2002, largely on account of a weaker US dollar against the Japanese yen and the euro.

Externally, on account of the lift in import cost due to a weaker US dollar, the prices of exports of goods are forecast to bounce back, by 0.5% in 2003, after a 2.9% fall in 2002. The prices of exports of services are forecast to be flat in 2003, having come down by 2.8% in 2002. Meanwhile, in face of again a weaker US dollar, the prices of imports of goods are forecast to rebound, to a rise of 0.6% in 2003, having decreased by 4.2% in 2002. Likewise, the prices of imports of services are forecast to go up, by 1.5% in 2003, following a 0.4% increase in 2002.

Taking the forecasts for these price deflators together, the GDP deflator is forecast for a decline of 2% in 2003, after a 2.7% fall in 2002. The domestic demand deflator is forecast to fall by 1.9% in 2003, after a 4.2% fall in 2002.

## **Gross Domestic Product**

### ***GDP at constant prices***

Taking all the expenditure components together, GDP is forecast at a 3% growth in real terms in 2003, further up from the 2.3% increase in 2002.

There are however caveats on both the external and domestic fronts. First, the global economic recovery is fickle, being subject to the tempo in the US economy and also vulnerable to adverse developments in the geo-political perspective. Secondly, while a weaker US dollar should bode well for Hong Kong's external price competitiveness, a further distinct downslide in the US dollar, if triggered by a massive shift in investor sentiment against US dollar assets, might jeopardise the US financial markets, with negative repercussions on markets in the rest of the world. Thirdly, there is much local concern that the recovery in domestic demand may not come about as fast and as strong as in the previous upturns, under the drag of on-going economic restructuring and persistent price declines. Amidst these uncertainties, the prevailing forecasts of Hong Kong's GDP growth for 2003 by the private sector are quite diverse, ranging from 1.6% to 4.0%, averaging at 2.8%.

### ***GDP at current market prices***

Putting the forecasts for real GDP and the GDP deflator together, nominal GDP is forecast to rise by 1% in 2003, having fallen by 0.6% in 2002. Taking into account the projected overall population growth, per capita GDP is forecast to fall by 0.2% in money terms in 2003, after a 1.5% decline in 2002. GDP at current market prices in 2003 is forecast at \$1,283 billion, and the corresponding per capita GDP at \$186,900 or US\$24,000.

## Summary of forecast

**Rates of change in the Gross Domestic Product  
and its expenditure components and  
in the main price indicators**

	Preliminary figures for 2002 (%)	Forecast for 2003 (%)
<i>Rate of change in real terms :</i>		
Private Consumption Expenditure	-1.6	0
Government Consumption Expenditure	2.4	2.5
Gross Domestic Fixed Capital Formation	-4.4	0.9
<i>of which:</i>		
Building and construction <sup>(a)</sup>	1.8	-5.9
Machinery, equipment and computer software	-9.6	6.8
Total Exports of Goods	8.6	6.6
Imports of Goods	7.9	6.3
Exports of Services	12.1	8
Imports of Services	-0.8	1.5
<b>Gross Domestic Product (GDP)</b>	<b>2.3</b>	<b>3</b>
Per Capita GDP	1.3	1.8
<i>Rate of change in money terms :</i>		
GDP	-0.6	1
Per Capita GDP	-1.5	-0.2
<i>Rate of change in :</i>		
GDP Deflator	-2.7	-2
Domestic Demand Deflator	-4.2	-1.9
<b>Composite Consumer Price Index</b>	<b>-3.0<sup>(b)</sup></b>	<b>-1.5</b>

Notes: (a) Following a review of the presentation by the Census and Statistics Department, real estate developers' margin is now incorporated into private sector expenditure on building and construction, instead of being delineated separately in the expenditure components of GDP.

(b) Final figure.