

Press Release

(embargoed until 4:15 p.m. on 28 November 2003)

Economic Situation in the Third Quarter of 2003 and Updated GDP and Price Forecasts for 2003

The Government released today (Friday) the Third Quarter Economic Report 2003, together with the preliminary figure on Gross Domestic Product for the third quarter of 2003.

The Government Economist, Mr K Y Tang, described the economic situation in the third quarter of 2003 and provided updated GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy rebounded distinctly in the third quarter of 2003, from the setback caused by Severe Acute Respiratory Syndrome (SARS) in the second quarter. GDP rose by 4.0% in real terms in the third quarter of 2003 over a year earlier, reversing the 0.5% decline in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the turnaround in GDP was even more pronounced, with a 6.4% leap in real terms in the third quarter of 2003, as against a 3.7% dip in the second quarter.
- * The rebound was most conspicuous in the tourism-related sectors, driven by a sharp resurgence in visitor arrivals from the mainland of China, particularly so after the launch of the “individual visit” scheme for Mainland visitors to Hong Kong in late July. Coupled with buoyant offshore trade, exports of services rose back by 6.9% in real terms in the third quarter of 2003 over a year earlier, representing a sharp turnaround from the 13.9% plunge in the second quarter.
- * Local consumer spending resumed increase for the first time in two years, upon better sentiment and improving labour market conditions. Private consumption expenditure rebounded to a 2.0% rise in real terms in the third quarter of 2003 over a year earlier, having fallen by 2.6% in the second quarter.
- * Investment spending had a marginal decline at 0.4% in the third quarter of 2003 over a year earlier, much narrowed from the 5.7% fall in the second quarter. This was mainly contributed by a distinct pick-up in machinery and equipment acquisition, conceivably upon improved business outlook. Yet building and construction output remained slack, due to winding down of several large infrastructural projects and a lull in private sector building projects.
- * Total exports of goods leaped by 9.8% in real terms in the third quarter of 2003 over a year earlier, albeit not as marked as the 14.3% surge in the second quarter due in part to shift to a higher base of comparison. Exports to both East Asia and the European Union sustained robust growth, more than offsetting the decline in exports to the United States.

- * Prompted by the recovery in economic activity, the seasonally adjusted unemployment rate fell from 8.6% in the second quarter of 2003 to 8.3% in the third quarter (and further to 8.0% in the three months ending October). Over the same period, the underemployment rate came down even more visibly, from 4.3% to 3.6% (and further to 3.5% in the three months ending October).
- * On the strength of the prevailing upturn, the forecast growth rate in real terms of GDP for 2003 as a whole is revised to 3%, one percentage point up from that of 2% in the August round. This is the same as the ballpark updated forecast indicated by the Financial Secretary in his Statement to the Legislative Council on 22 October.
- * In the external sector, exports of services are poised for a further pick-up in the rest of the year, underpinned by continued surge in inbound tourism and vibrant offshore trade. Exports of goods should also attain further distinct growth, supported by more sanguine global and regional economic environment, as well as by weakness in the US dollar.
- * Locally, consumer spending looks set to revive further. Consumers' willingness to spend is being resurrected on the back of better employment conditions, as well as generally improved sentiment as can be felt from the local stock market and the property market. Investment spending on machinery and equipment should continue on a solid rise amidst a brighter business outlook. Yet investment spending on building and construction may still be weak in the meantime, following an earlier fall-off in new building projects.
- * There could be more upside potential for growth if domestic demand goes for a stronger upturn, and if exports of goods can sustain better growth notwithstanding a high base of comparison occurring towards the end of last year. On the other hand, the re-emergence of terrorist attacks in some places of late casts a shadow on the global scene.
- * The decline in consumer prices widened in the third quarter of 2003. But this was mostly due to the dampening effect of the rates concession and the waiver of water and sewage charges granted as relief measures by the Government. In fact, in tandem with progressive pick-up in demand and firming up in the prices of retained imports, the year-on-year decline in the Composite CPI continued to taper over the past few months, from 4.0% in July to 3.8% in August, 3.2% in September, and 2.7% in October.
- * Looking ahead to November and December, the decline in consumer prices is likely to narrow further, upon full dissipation of the dampening effect on the CPI from the Government's relief measures. Also, as demand picks up further, some of the larger price discounts offered earlier on by local retailers and service providers may tend to diminish. Moreover, there may be more appreciable upward push on the prices of retained imports, and in turn the prices of those

goods in the local market, due to the weaker US dollar. Thus the forecast rate of change in the Composite CPI for 2003 is revised up by 0.3 of a percentage point to -2.7%, from -3% in the August round.

- * As to the GDP deflator, owing to a sharper-than-expected decline in the third quarter, and a possibly also appreciable decline in the fourth quarter, the forecast rate of change in the GDP deflator for 2003 is revised down by one percentage point to -5%, from -4% in the August round.

DETAIL

GDP

According to the preliminary figure on *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP bounced back to a solid growth at 4.0% in real terms in the third quarter of 2003 over a year earlier, in contrast to a 0.5% decline in the second quarter (latter figure unchanged from the estimate put out earlier). On a seasonally adjusted quarter-to-quarter comparison, the turnaround in GDP was even more pronounced, with a 6.4% leap in real terms in the third quarter of 2003, as against a 3.7% dip in the second quarter (latter figure also unchanged from the estimate put out earlier) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2003, 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 third quarter of 2003 are described below.

External trade

3. According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) grew by 9.8% in real terms in the third quarter of 2003 over a year earlier. Together with a 16.5% surge in the first half of the year, total exports of goods leaped by 13.9% in real terms in the first nine months of 2003 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods were virtually unchanged in real terms in the third quarter of 2003, after rising for six consecutive quarters and up by 3.2% in the first quarter and 2.4% in the second quarter.

4. Exports to the region remained the key driving force for Hong Kong's export growth. Total exports of goods to *East Asia* as a whole continued to be strong, rising by 17.9% in real terms in the third quarter of 2003 over a year earlier. Amongst the major markets, exports to the mainland of China (the Mainland), the Republic of Korea, Singapore and Taiwan had growth approaching or exceeding 20% in real terms in the third quarter over a year earlier. Exports to Japan, Thailand and Indonesia also maintained double-digit growth. On the other hand, exports to Malaysia and the Philippines slipped into decline. Total exports of goods to *North America* slackened further, declining by 6.3% in real terms in the third quarter of 2003 over a year earlier. This went along with the deceleration in US import demand in that quarter. Conceivably also mattered was the further structural shift in re-exports to offshore trade for shipment to the US market. Total exports of goods to the *European Union* held up well, with a 10.6% rise in real terms in the third quarter of 2003 over a year earlier. The growth was largely attributable to enhanced price attractiveness of Hong Kong's exports brought about by the strength of the euro.

5. *Imports of goods* grew further, by 7.9% in real terms in the third quarter of 2003 over a year earlier. Together with a 14.3% surge in the first half of the year, imports of goods rose by 11.9% in real terms in the first nine months of 2003 over a year earlier. Within total imports, *retained imports* edged up by 0.6% in real terms in the third quarter of 2003 over a year earlier, with a notable rebound in September more than offsetting the declines in July and August. Together with a 4.3% rise in the first half of the year, retained imports went up by 2.9% in real terms in the first nine months of 2003 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose back, by 2.2% in real terms in the third quarter of 2003, after a 3.6% increase in the first quarter and a 1.1% decline in the second quarter. Retained imports bounced up more strongly, by 9.3% in real terms in the third quarter of 2003, having risen by 2.9% in the first quarter and plunged by 9.6% in the second quarter.

6. On invisible trade, *exports of services* leaped by 6.9% in real terms in the third quarter of 2003 over a year earlier, upon the swift revival in inbound tourism and continued buoyant offshore trade. This represented a sharp turnaround from the 13.9% plunge upon the SARS impact in the second quarter. Together with a 1.0% decline in the first half of the year, there was a 1.9% increase in real terms for the first three quarters of 2003 as a whole over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services had a much more pronounced surge, by 31.0% in real terms in the third quarter of 2003, having fallen by 2.6% and 20.0% respectively in the first and second quarters.

7. *Imports of services* also recovered from the plunge brought about by SARS. There was a 0.5% rise in real terms in the third quarter of 2003 over a year earlier. The sharp turnaround from the 19.6% slump in the second quarter was underpinned by a swift revival in outbound travel and related transportation services. But with an 11.5% dip in the first half of the year, imports of services still fell markedly by 7.3% in real terms for the first three quarters of 2003 as a whole over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of services had an even stronger rebound, rising by 29.7% in real terms in the third quarter of 2003, following decreases of 6.9% and 17.7% respectively in the first and second quarters.

8. On the trade balance, the *visible trade deficit* reckoned on a GDP basis shrank further, to \$27.2 billion or 2.1% of the value of imports of goods in the first nine months of 2003, from \$33.8 billion or 2.9% in the same period in 2002. Concurrently, the *invisible trade surplus* enlarged, to \$105.6 billion or 77.1% of the value of imports of services for the first three quarters of 2003 taken together, from \$98.2 billion or 67.8% in the same period in 2002. As the visible trade deficit narrowed while the invisible trade surplus expanded, the *combined surplus* surged markedly, to \$78.4 billion or 5.5% of the total value of imports of goods and services in the first three quarters of 2003, as compared to \$64.4 billion or 4.9% in the same period in 2002.

Domestic demand

9. Local consumer spending revived steadily during the third quarter of 2003, as general sentiment and labour market conditions both turned better. *Private consumption expenditure (PCE)* resumed increase for the first time in two years, up by 2.0% in real terms in the third quarter of 2003 over a year earlier, having been down by 2.6% in the second quarter. The rebound was marked by almost across-the-board increases in spending on goods and services. Residents' spending abroad also showed a distinct relative improvement as people go forth again for their outbound trips. On a seasonally adjusted quarter-to-quarter comparison, PCE rose more visibly, by 4.6% in real terms in the third quarter of 2003, reversing the 1.3% decrease in the second quarter.

10. *Government consumption expenditure (GCE)* reckoned on a national accounts basis went up by 0.5% in real terms in the third quarter of 2003 over a year earlier, broadly similar to the 0.4% increase in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE rose by 1.8% in real terms in the third quarter of 2003, following a decline of 0.3% in the second quarter.

11. Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, had a marginal decline of 0.4% in real terms in the third quarter of 2003 over a year earlier, much smaller than the 5.7% decrease in the second quarter. This relative improvement was attributable to a visible rebound in *expenditure on machinery, equipment and computer software*, which went up by 4.9% in real terms in the third quarter of 2003 over a year earlier, reversing the 2.0% decline in the second quarter. In part, it was helped by the intake of some new aircraft ordered earlier. On the other hand, *expenditure on building and construction* remained slack, falling by 6.4% in real terms in the third quarter of 2003 over a year earlier, having declined by 8.4% in the second quarter. Several major civil engineering projects had wound down or were close to completion, including the first berth of Container Terminal 9 in the private sector, as well as KCR's West Rail, Ma On Shan Extension and Tsim Sha Tsui Extension in the public sector. Also, building activity in the private sector continued to shrink, amidst a dearth of new building projects.

12. Having been accumulated for five consecutive quarters, *inventories* fell back in the third quarter of 2003, as import intake for local use dwindled for most of the quarter while overall demand in the local market staged an upturn.

The property market

13. Activity in the sales market for *residential property* showed a strong pick-up during the third quarter of 2003. Sentiment improved markedly, along with the better performance of the overall economy and the strong rally in the stock market. This was particularly so after the signing of Closer Economic Partnership Arrangement (CEPA) in June and implementation of the "individual visit" scheme for Mainland visitors to Hong Kong in July. Developers resumed sales in the

primary market, which had been held off during the spread of SARS, and the sales were generally met with a good response. In view of this favourable turn, many developers had reduced or withdrawn the price discounts and other concessions they offered earlier. Moreover, there was a notable revival in activity in the secondary market. Flat prices appeared to have bottomed out in the third quarter, with a slight increase recorded in September. In the luxury end of the market, the rebound was more clearly visible. Purportedly, the Government's new policy measure to attract investment immigrants to Hong Kong rendered some lift to this segment. As to the rental market, leasing activity likewise increased in the third quarter. Flat rentals also appeared to have stabilised towards the end of the quarter.

14. On *commercial property*, both the sales and rental markets for *office space* turned more active in the third quarter of 2003. Investor interest was rekindled somewhat, stimulated in part by the signing of CEPA in June. Leasing demand also strengthened slightly. In addition, more tenants were willing to relocate their offices from buildings which were older or in secondary locations to better ones, as rentals of Grade A office space had fallen to a more attractive level to them. Yet the abundant supply of new and existing office space in overall terms continued to exert a drag on prices and rentals. Meanwhile, the sales and rental markets for *shopping space* both showed a mixed performance in the third quarter of 2003. Retail premises in popular locations and in better-managed shopping malls fared better, supported by the recovery in local consumer demand and in inbound tourism from the earlier SARS impact, whereas retail premises at the fringe continued to be left aside. The sales and rental markets for *industrial property* remained generally sluggish in the third quarter. Yet projects involving the conversion of industrial sites to hotel use gained some momentum, amidst the rebound in inbound tourism.

The labour market

15. Labour market conditions, having deteriorated markedly during the second quarter of 2003 and the beginning of the third quarter under the severe impact of SARS, showed a visible improvement towards the end of the third quarter, as SARS had come under control and as overall economic activity staged a progressive upturn. The *seasonally adjusted unemployment rate* fell back from 8.6% in the second quarter to 8.3% in the third quarter (and further to 8.0% in August – October). The *underemployment rate* concurrently declined, from 4.3% in the second quarter to 3.6% in the third quarter (and further to 3.5% in August – October). Conceivably, many of the affected employees, having earlier been suspended from work or asked to take no-pay leave, had returned to their jobs more recently. This was notably so for those workers engaged in the tourism and consumption-related sectors.

16. On a quarter-to-quarter comparison, *total employment* as enumerated from households was reduced further, by 0.8% in the third quarter of 2003, following a 0.7% decrease in the second quarter. Employment rose back in restaurants, real estate, the wholesale trade and business services, along with the

pick-up in business activity. Yet this was more than offset by employment decreases in manufacturing and in foundation and superstructure construction. (In August – October as compared to July – September, total employment nevertheless resumed increase.) *Total labour force* showed a distinct moderation, to a 0.8% decrease in the third quarter, from a 0.5% increase in the second quarter. This reflected the combined influence of a contraction in the population of working age and a decline in the labour force participation rate especially for middle-aged females. On a year-on-year comparison, total employment and total labour force both fell, by 1.7% and 0.7% respectively in the third quarter of 2003, having expanded by 0.5% and 1.5% in the second quarter.

17. Labour income drifted lower in the second quarter of 2003, as the labour market slackened distinctly further under the adverse impact of SARS. Specifically, *labour earnings* decreased by 2.5% in money terms in the second quarter of 2003 from a year earlier, after a 2.0% drop in the first quarter. Netting out the decline in consumer prices as measured by the Composite CPI, labour earnings were down by only 0.1% in real terms in the second quarter of 2003 from a year earlier, having shown nil change in the first quarter.

Prices

18. Overall consumer prices declined further in the third quarter of 2003 and in October, thereby extending their downtrend to five years. Though with a pick-up in overall economic activity and improving consumer spending during the third quarter, local retailers and service providers continued to restrain the prices of their goods and services. Price discounts and other concessions were still widespread, yet apparently with some modest narrowing by the end of the quarter. Meanwhile, the pressure on domestic costs remained scant, as property rentals and labour wages stayed subdued. In addition, there was a dampening effect on the respective costs to consumers brought about by the rates concession and the waiver of water and sewage charges granted by the Government for the periods July - September and August – November respectively. These factors taken together outweighed the pressure due to higher prices of retained imports brought about by a weaker US dollar and firmer world commodity prices.

19. On a year-on-year comparison, the *Composite Consumer Price Index* went down by 3.6% in the third quarter of 2003, exceeding the 2.5% fall in the second quarter. The enlarged drop was mainly due to the Government's relief measures, specifically the rates concession and the waiver of water and sewage charges, which had the combined effect of lowering the Composite CPI by about one percentage point in the third quarter. (In October, the Composite CPI fell by 2.7% over a year earlier, with the lesser decline attributable to dissipation of the rates concession after September.) For the first nine months of 2003 as a whole, the Composite CPI slid by 2.7% from a year earlier, which was nevertheless less than the 3.0% dip in 2002.

20. The *GDP deflator*, as a broad measure of overall price change in the economy, declined by 5.7% in the third quarter of 2003 over a year earlier, even larger than the 5.4% fall in the second quarter. This was mainly due to enlarged declines in the price deflator for private consumption expenditure and for gross domestic fixed capital formation, more than offsetting lesser deterioration in the terms of trade in goods and in services. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator fell by 1.2% in the third quarter of 2003, which was nevertheless smaller than the 1.6% decrease in the second quarter.

The financial sector

21. The spot *exchange rate of the Hong Kong dollar* against the US dollar stayed on the strong side of the linked rate (at 7.80) throughout the third quarter of 2003. It appreciated more visibly towards the end of the quarter, reaching 7.749 on 23 September and hovering at around that level towards end-September. The spread of the twelve-month forward rate against the spot rate switched from a premium to a discount of 105 pips (each pip equivalent to HK\$0.0001) also on 23 September. The discount narrowed to 79 pips at end-September, which contrasted with a premium of 120 pips at end-June. The fluctuations in the Hong Kong dollar exchange rate in the latter part of September were apparently affected by more intense rumours for revaluation of the renminbi.

22. 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. During the third quarter of 2003, the US dollar weakened against most of the East Asian currencies, amidst concern about the worsening US trade deficit. Yet it strengthened against the major European currencies. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* went up marginally by 0.1%, from a monthly average of 100.56 in June to that of 100.63 in September. However, after adjusting for changes in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* was down by 2.2%, from a monthly average of 90.0 to that of 88.0 over the same period.

23. Higher liquidity in the banking sector resulting from increased inflow of funds pushed down the local inter-bank *interest rates* during the third quarter of 2003. At end-September, the three-month HIBOR closed at 0.7%, down from 1.0% at end-June. Over the same period, the negative spread of the three-month HIBOR against the corresponding Euro-dollar deposit rate widened, from 6 basis points to 44 basis points. As the US Fed Funds target rate stayed intact at 1% in the third quarter of 2003, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority also held steady, at 2.5%. The best lending rate and savings deposit rate offered by the major commercial banks likewise remained unchanged, at 5.00% and 0.03% respectively throughout the quarter. There was a very slight widening in the spread of the best lending rate over the three-month time deposit rate, from an average of 4.91 percentage points in the second quarter of 2003 to that of 4.92 percentage points in the third quarter.

24. *Hong Kong dollar deposits* rose further by 2.4% during the third quarter of 2003, following a 2.1% increase during the second quarter. Yet *Hong Kong dollar loans* decreased further by 1.8% during the third quarter of 2003, after a 0.8% fall during the second quarter. With continued divergent movements in Hong Kong dollar loans as against Hong Kong dollar deposits during the third quarter, the Hong Kong dollar loan-to-deposit ratio moved down appreciably further, to 83.2% at end-September, from 86.7% at end-June.

25. The local *stock market*, having shown a distinct upturn since late April, rose significantly further during the third quarter of 2003. It was underpinned by growing optimism about the performance and near-term outlook of the Hong Kong economy. Further lifting market sentiment were signing of CEPA, implementation of the “individual visit” scheme for Mainland visitors to Hong Kong, and a rebound in activity in the residential property market. Increased inflow of funds into the region gave an additional boost. The general uptrend in the overseas stock markets also contributed. As a result, the Hang Seng Index surged amidst active market trading, reaching a high at 11 296 on 24 September. While profit-taking in the latter part of the month pared some of the earlier gains, the Hang Seng Index managed to close at 11 230 at the end of September, 17.3% higher than the level at end-June, and 33.5% higher than the trough at 8 409 on 25 April. (The Hang Seng Index rose further, to a new high at 12 251 on 21 October, upon further inflow of funds and probably also in the light of the Government’s announcement of additional measures to stabilise the residential property market. It broadly hovered within 11 700 - 12 400 thereafter, with a leap to another new high at 12 441 on 4 November. On 27 November, it closed at 12 076.) Trading surged to an even larger extent, particularly in September. The average daily turnover leaped to \$12.0 billion in the third quarter of 2003, from \$8.1 billion in the second quarter.

Updated GDP and price forecasts for 2003

26. The global and regional economic environment has turned more sanguine in recent months, raising optimism that the global recovery is finally gathering strength after a weak start at the beginning of this year. In the US economy, GDP growth in the third quarter of 2003 was the highest in 19 years, and recent indicators are pointing to a further robust growth in the fourth quarter. The EU economy appears to be gradually coming out of the doldrums. In East Asia, the recovery in the Japanese economy is also gathering pace. Most of the other East Asian economies, including in particular the Mainland, bounced back strongly in the third quarter, driven by swift revival in domestic demand and vibrant merchandise exports.

27. In the Hong Kong economy, the rebound in activity has been quicker and stronger than earlier expected. Inbound tourism and the travel-related sectors have quite promptly resumed growth. Local consumer spending picks up steadily along with improving employment conditions. External trade remains generally

buoyant. This broad-based upturn can be expected to sustain well into the rest of the year.

28. Following regular practice, the GDP and price forecasts for 2003 have been reviewed by individual components. The updated forecasts are presented in **Table 3**.

29. On visible trade, the forecast growth rate in real terms of *total exports of goods* in 2003 is raised further, from 9.2% in the August round to 12.5% in the current update. Export performance in the third quarter has turned out to be better than expected, and export outlook in the near term appears favourable. The latest forecast has given due allowance to a possible tapering in export growth against a high base of comparison towards the end of last year. Within total exports, the forecast increase in real terms in *re-exports* is lifted from 11.5% to 14.5%, while the forecast decline in real terms in *domestic exports* is trimmed from 15% to 8.5%, both in the light of better outturn in the third quarter.

30. With faster growth envisaged for both re-exports and retained imports, *imports of goods* for 2003 are now forecast to increase by 11.1% in real terms, further up from the 7.1% rise put out in the August round.

31. On invisible trade, the forecast increase in real terms in *exports of services* in 2003 is revised further upward to 3.5%, from 2% in the August round. Inbound tourism should continue to surge, being bolstered by the strong inflow of Mainland visitors particularly upon extension of the “individual visit” scheme, as well as by the steady return of visitors from other sources. Also, offshore trade should remain vibrant, given the highly robust growth in external trade in the Mainland and the on-going structural shift from re-exports.

32. The forecast rate of change in real terms in *imports of services* in 2003 is revised to -5%, up from -7% in the August round. This is mainly in view of outbound trips by Hong Kong residents having by now returned to normal.

33. In the domestic sector, consumer spending is poised for a further pick-up in the fourth quarter, from the renewed increase in the third quarter. This is backed by improving labour market conditions, as well as by generally better sentiment as can be felt from the local stock market and the property market. *Private consumption expenditure* for 2003 as a whole is now forecast at nil change in real terms, up from the 1.5% decline in the August round.

34. The forecast increase in real terms in *government consumption expenditure* in 2003 is lowered to 1.5%, from 3.5% in the August round, having regard to the actual outturn in the third quarter and the fiscal restraint affecting spending in the fourth quarter.

35. Overall investment spending in the economy, as represented by *gross domestic fixed capital formation*, is now forecast for a marginal increase by 0.3% in real terms in 2003. The distinct lift from the 5.4% decline put out in the August round is mainly due to the significant improvement particularly in machinery and equipment intake seen in the third quarter, as well as a better expectation for such intake in the fourth quarter in line with a brighter business outlook.

36. Within this total, *expenditure on machinery, equipment and computer software* is forecast to increase by 5.5% in real terms in 2003, in stark contrast to the 3.6% forecast decline put out earlier. Some more new aircraft are expected to arrive before the end of the year. Yet *expenditure on building and construction* is still forecast for quite an appreciable decline, by 5.3% in real terms in 2003, albeit lesser than the 7.1% forecast decline put out earlier, in the light of the more recent work profiles.

37. In line with further pick-up in overall demand in the local market, there is likely to be some resumed accumulation of *inventories* for the rest of 2003.

38. On the strength of the prevailing upturn, the forecast growth rate in real terms of *GDP* for 2003 is now revised to 3%, one percentage point up from that of 2% in the August round. This is the same as the ballpark updated forecast indicated by the Financial Secretary in his Statement to the Legislative Council on 22 October. Within the annual forecast, the solid growth pace seen in the third quarter can be expected to extend well into the fourth quarter.

39. There could be more upside potential for growth if domestic demand goes for a stronger upturn, and if exports of goods can sustain better growth notwithstanding a high base of comparison occurring towards the end of last year. On the other hand, the re-emergence of terrorist attacks in some places of late casts a shadow on the global scene.

40. For comparison, the forecasts on Hong Kong's *GDP* made by a selection of international organisations and local analysts are depicted in **Table 4**. The latest known forecasts of *GDP* growth in real terms for 2003 from the private sector analysts range from 1.5% to 3%, averaging at 2.2%.

41. On the price front, the decline in consumer prices widened in the third quarter of 2003. But this was mostly due to the dampening effect of the rates concession and the waiver of water and sewage charges granted as relief measures by the Government. In fact, in tandem with progressive pick-up in demand and firming up in the prices of retained imports, the year-on-year decline in the *Composite CPI* continued to taper over the past few months, from 4.0% in July to 3.8% in August, 3.2% in September, and 2.7% in October.

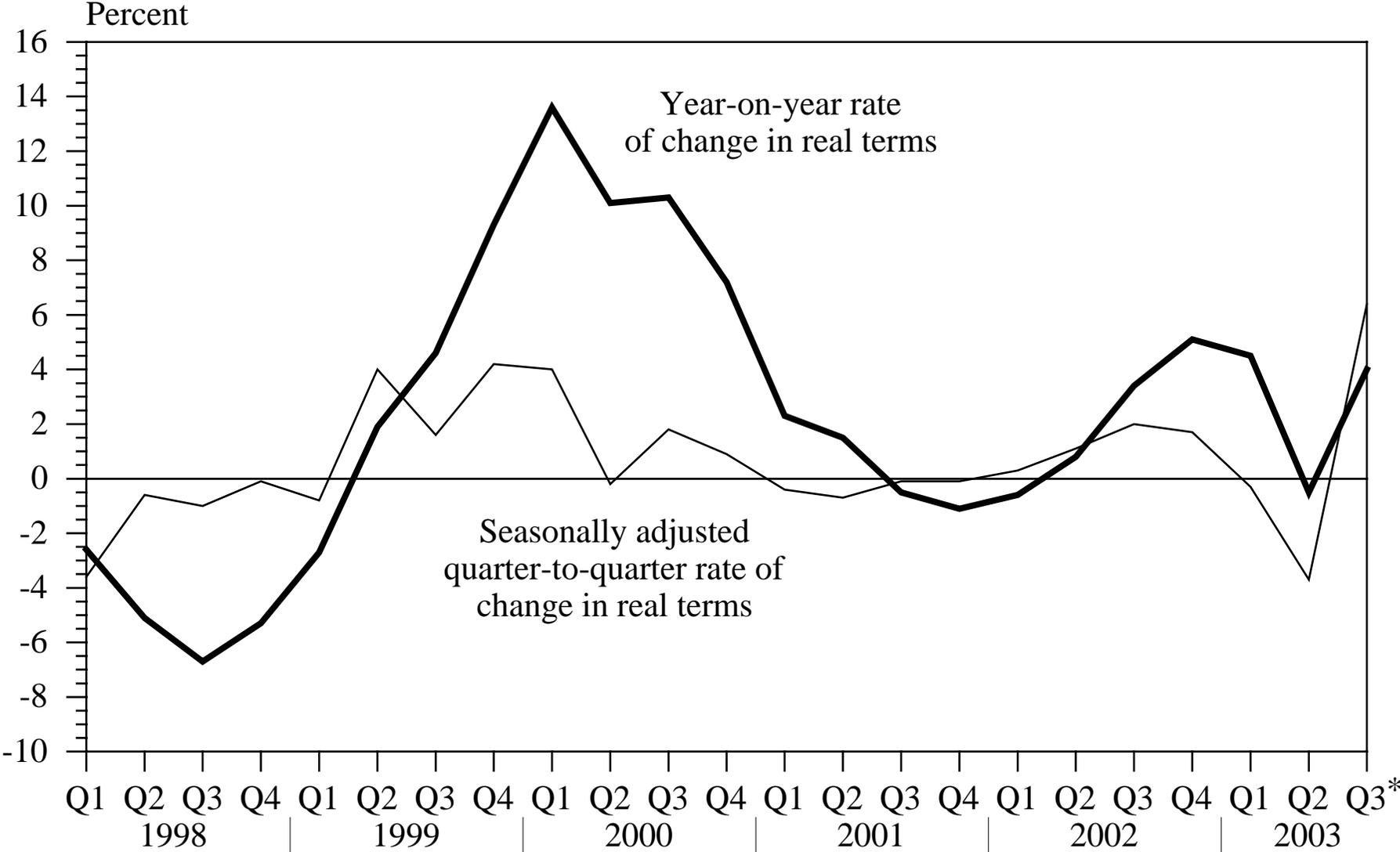
42. Looking ahead to November and December, the decline in consumer prices is likely to narrow further, upon full dissipation of the dampening effect on the CPI from the Government's relief measures. Also, as demand picks up further, some of the larger price discounts offered earlier on by local retailers and service providers may tend to diminish. Moreover, there may be more appreciable upward push on the prices of retained imports, and in turn the prices of those goods in the local market, due to the weaker US dollar. Thus the forecast rate of change in the Composite CPI for 2003 is revised up by 0.3 of a percentage point to -2.7%, from -3% in the August round.

43. As to the *GDP deflator*, owing to a sharper-than-expected decline in the third quarter, and a possibly also appreciable decline in the fourth quarter, the forecast rate of change in the GDP deflator for 2003 is revised down by one percentage point to -5%, from -4% in the August round.

(The Third Quarter Economic Report 2003 can now be purchased on-line at http://www.statisticalbookstore.gov.hk/desc_eng.htm, or by calling the Publications Sales Section of the Information Services Department (ISD) at 2537 1910. Both the hard and soft copies of the report are available for sale at \$88 a copy, yet with a postage charge for the hard copy.)

(The GDP figures up to the third quarter of 2003 are published in the Report of the Gross Domestic Product, Third Quarter 2003, which can also be purchased on-line at http://www.statisticalbookstore.gov.hk/desc_eng.htm, or by calling the Publications Sales Section of ISD. Both the hard and soft copies of the report are available for sale at \$30 per copy, yet with a postage charge for the hard copy.)

Hong Kong's Gross Domestic Product



Note : (*) Preliminary figures.

Table 1

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

	<u>2001</u> [#]	<u>2002</u> [#]	<u>Q1</u> [#]	<u>2002</u>			<u>Q1</u> [#]	<u>2003</u>	
				<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]		<u>Q2</u> [#]	<u>Q3</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure ^(^)	2.0	-1.2	-0.1	-2.4	-0.9	-1.3	-1.7	-2.6	2.0
Government consumption expenditure	6.1	2.4	2.3	3.0	3.5	0.8	1.3	0.4	0.5
Gross domestic fixed capital formation	2.7	-4.3	-11.8	-0.2	-4.3	-0.7	3.5	-5.7	-0.4
<i>of which :</i>									
Building and construction	-1.1	1.2	-3.2	7.6	8.2	-6.2	-3.5	-8.4	-6.4
Machinery, equipment and computer software	6.2	-9.1	-19.8	-6.7	-12.2	3.2	11.9	-2.0	4.9
Total exports of goods	-3.3	8.7	-2.4	5.9	11.5	18.4	19.1	14.3	10.0
Re-exports	-2.4	11.0	-1.4	8.4	13.7	22.2	22.3	17.0	11.5
Domestic exports	-10.2	-11.2	-11.1	-13.6	-7.5	-12.9	-12.0	-12.6	-5.2
Imports of goods ^(a)	-1.9	7.9	-4.0	6.0	10.8	18.2	18.8	10.9	8.2
Exports of services ^(^)	6.2	12.2	6.3	9.1	14.0	18.1	12.5	-13.9	6.9
Imports of services	2.0	0.2	-0.7	-3.8	2.0	3.4	-3.9	-19.6	0.5
Gross Domestic Product	0.5	2.3	-0.6	0.8	3.4	5.1	4.5	-0.5	4.0
<i>Change in the main price indicators (%)</i>									
GDP deflator	-1.9	-3.0	-2.3	-2.2	-3.1	-4.1	-4.6	-5.4	-5.7
Composite Consumer Price Index ^(b)	-1.6	-3.0	-2.6	-3.2	-3.5	-2.9	-2.0	-2.5	-3.6
Consumer Price Index (A) ^(b)	-1.7	-3.2	-2.8	-3.6	-4.1	-2.4	-1.8	-1.8	-3.3
<u>Change in nominal GDP (%)</u>	-1.4	-0.8	-3.0	-1.4	0.2	0.8	-0.2	-5.9	-1.9
<u>GDP at current market prices (\$ billion)</u>	1,270	1,260	298	306	325	331	298	288	318
<u>GDP at constant (2000) market prices (\$ billion)</u>	1,294	1,324	310	318	343	353	324	316	357
<u>Changes in inventories at constant (2000) market prices (\$ billion)</u>	-5	3	-3	1	1	3	3	2	-2

Notes : (#) Revised figures.

(+) Preliminary figures.

(^) Revised series incorporating a new set of tourism expenditure figures as released by the Hong Kong Tourism Board near end-November 2003.

(a) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

(b) Final figures.

Table 2

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

	<u>2002</u>				<u>2003</u>		
	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure ^(^)	0.4	-0.9	-0.1	-0.4	-0.6	-1.3	4.6
Government consumption expenditure	0.4	-0.2	2.3	-1.2	0.1	-0.3	1.8
Gross domestic fixed capital formation	N.A.						
Total exports of goods	4.6	5.7	4.1	3.9	3.1	2.4	0.2
Re-exports	5.8	6.6	4.6	4.7	3.9	2.7	-0.4
Domestic exports	-5.5	-2.0	-0.6	-4.3	-6.3	-1.8	8.5
Imports of goods ^(a)	4.6	5.9	4.6	3.0	3.7	-0.9	2.0
Exports of services ^(^)	2.5	4.8	5.9	4.1	-2.6	-20.0	31.0
Imports of services	0.4	-1.6	3.8	1.1	-6.9	-17.7	29.7
Gross Domestic Product^(b)	0.3	1.1	2.0	1.7	-0.3	-3.7	6.4
<i>Change in the main price indicators (%)</i>							
GDP deflator	-0.7	-0.8	-0.9	-1.6	-1.4	-1.6	-1.2
Composite Consumer Price Index^(c)	-1.1	-0.6	-0.7	-0.6	-0.1	-1.1	-1.9
Consumer Price Index (A) ^(c)	-0.6	-0.6	-0.7	-0.6	*	-0.5	-2.3

Notes : (#) Revised figures.

(+) Preliminary figures.

(^) Revised series incorporating a new set of tourism expenditure figures as released by the Hong Kong Tourism Board near end-November 2003.

(*) Change of less than 0.05%.

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

(a) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

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

(c) Final figures.

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 2003**

	August update of the forecasts for 2003 as released on <u>29.8.2003</u> (%)	November update of the forecasts for 2003 released on <u>28.11.2003</u> (%)
<i>Growth rate in real terms of :</i>		
Private Consumption Expenditure	-1.5	0
Government Consumption Expenditure	3.5	1.5
Gross Domestic Fixed Capital Formation	-5.4	0.3
<i>of which:</i>		
Building and construction	-7.1	-5.3
Machinery, equipment and computer software	-3.6	5.5
Total Exports of Goods	9.2	12.5
Re-exports	11.5	14.5
Domestic exports	-15	-8.5
Imports of Goods	7.1	11.1
Exports of Services	2	3.5
Imports of Services	-7	-5
Gross Domestic Product (GDP)	2	3
<i>Rate of change in :</i>		
GDP Deflator	-4	-5
Composite Consumer Price Index	-3	-2.7
<i>Rate of change in Nominal GDP</i>	-2	-2

Table 4

2003 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts

	Date of release	GDP (growth	Private consumption expenditure rate	Gross domestic fixed capital formation in real	Total exports of goods terms	Exports of services (%)	Rate of change in consumer prices (%)	Reference source
International organisations:								
IMF	Sep 2002	3.4	--	--	--	--	-0.5	World Economic Outlook, Sep 2002.
	Feb 2003	3	--	--	--	--	--	Asian Wall Street Journal, 26 Feb 2003.
	Apr 2003	3	--	--	--	--	-1.6	World Economic Outlook, Apr 2003.
	May 2003	2.2	1	1.2	--	--	-2	IMF Country Report No. 03/143, May 2003.
	Sep 2003	1.5	--	--	--	--	-2.6	World Economic Outlook, Sep 2003.
ADB	Sep 2002	3.5	--	--	--	--	0.5	Asian Development Outlook, 2002 Update, Sep 2002.
	Dec 2002	2.8	--	--	--	--	--	Media Briefing Note, Dec 2002.
	Apr 2003	2	--	--	--	--	-1.5	Asian Development Outlook 2003.
	May 2003	-1.4 to 0.8	--	--	--	--	--	News Release, No. 065/03, 9 May 2003.
	Sep 2003	2.1	--	--	--	--	-2.8	Asian Development Outlook, 2003 Update, Sep 2003.
World Bank	Apr 2002	4.3	--	--	--	--	--	East Asia Update, Apr 2002.
	Nov 2002	2.7	--	--	--	--	--	East Asia Update, Nov 2002.
	Apr 2003	2	--	--	--	--	--	East Asia Update, Apr 2003.
	Oct 2003	2.1	--	--	--	--	--	East Asia Update, Oct 2003.
Private sector analysts:								
<i>(a) Major local banks</i>								
Hongkong Bank	Mar 2003	1.6	-0.9	-0.8	--	--	-1.5	Asian Economics, Q2 2003.
	Apr 2003	0.5	-3	-0.6	--	--	-2	Asian Economic Insight, 25 Apr 2003.
	Sep 2003	1.5	-1.8	-2.2	8.4	4.2	-2.5	Asian Economic Insight, 5 Sep 2003.
Standard Chartered Bank	Oct 2002	3.5	--	--	--	--	-0.5	Hong Kong Snapshot, 22 Oct 2002.
	Apr 2003	0.5	--	--	--	--	-2	Asian Economic Focus, May 2003.
	Sep 2003	3	--	--	--	--	--	The Standard, 2 Sep 2003.
	Nov 2003	3	--	--	--	--	-2.5	Asian Economic Focus, Dec 2003.

Table 4 (cont'd)

2003 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts

	Date of release	GDP	Private consumption expenditure	Gross domestic fixed capital formation	Total exports of goods	Exports of services	Rate of change in consumer prices	Reference source
		(growth rate	rate	in real	terms	(%)	(%)	
Hang Seng Bank	Dec 2002	2.3	-0.5	-1.7	6.8	8.7	-1	Hang Seng Economic Monthly, Nov/Dec 2002.
	May 2003	0.8	-2.5	-4.1	9.4	3.2	-2	Hang Seng Economic Monthly, May 2003.
	Aug 2003	2.2	--	--	--	--	--	HK Commercial Daily, 30 Aug 2003.
	Nov 2003	2.5	--	--	--	--	-2.6	Economic Research Department, Nov 2003.
Bank of China (HK)	Dec 2002	2.8	0.5	-0.3	7.8	12.5	-2	BOC Economic Review Monthly, Vol. 1 No.12, 2002.
	Apr 2003	0 to 1.5	-3 to -5	-1.2 to -2	3.7 to 4.7	3 to 4.5	-2.3 to -2.5	BOC Economic Review Monthly, Vol. 1 No. 4 2003.
	Aug 2003	1.8	--	--	--	--	-2.5	Economic and Strategy Planning Department, Aug 2003.
	Nov 2003	2.5	--	--	--	--	-3	Economic and Strategy Planning Department, Nov 2003.
Bank of East Asia	Dec 2002	2	--	--	--	--	-1.5	Economic Research Department, Dec 2002.
	Jan 2003	2	0.5	1	5.9	9.3	--	Economic Analysis, Jan 2003.
	May 2003	1.6	-1.2	-1	7.1	7	-2.5	Economic Research Department, May 2003.
	Sep 2003	2.3	--	--	--	--	--	The Standard, 2 Sep 2003.
	Nov 2003	2.3	--	--	--	--	-2.5	Economic Research Department, Nov 2003.
<i>(b) Investment banks</i>								
JP Morgan Chase	Dec 2002	3.7	--	--	--	--	--	Hong Kong Economic Journal, 12 Dec 2002.
	Apr 2003	1.6	--	--	--	--	--	Hong Kong Economic Times, 12 Apr 2003.
	May 2003	1	--	--	--	--	--	Hong Kong Economic Journal, 21 May 2003.
	Nov 2003	1.7	--	--	--	--	-2.8	Global Data Watch, 21 Nov 2003.
Goldman Sachs Asia	Dec 2002	3	--	--	--	--	-1.2	Hong Kong Economic Journal, 13 Dec 2002.
	Apr 2003	1.7	--	--	--	--	--	Hong Kong Economic Journal, 3 Apr 2003.
	Sep 2003	2.1	--	--	--	--	--	Hong Kong Economic Journal, 2 Sep 2003.

Table 4 (cont'd)**2003 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts**

	Date of release	GDP	Private consumption expenditure		Gross domestic fixed capital formation		Total exports of goods	Exports of services	Rate of change in consumer prices	Reference source
			(growth rate	rate	in	real				
Morgan Stanley Asia	Feb 2003	2.7	--	--	--	--	--	--	--	Apple Daily, 26 Feb 2003.
	Apr 2003	2.1	0.5		2.2	--	--	-1.2		Hong Kong Economics, 1 Apr 2003.
	Jun 2003	1.8	-2		1.3	--	--	-2.2		Hong Kong Economics, 2 Jun 2003.
	Nov 2003	2.4	-1.4		0.9	--	--	-2.7		Hong Kong Economics, 4 Nov 2003.
Merrill Lynch	Feb 2003	3.9	--	--	--	--	--	-1.4		The Asian Equity Economist, 14 Feb 2003.
	Mar 2003	4.6	--	--	--	--	--	-1.4		Economics, 5 Mar 2003.
	Apr 2003	3.1	--	--	--	--	--	--		Hong Kong Economic Times, 15 Apr 2003.
	Aug 2003	2.5	--	--	--	--	--	-2.8		FlashNote, 29 Aug 2003.
	Nov 2003	2.5	--	--	--	--	--	-2.4		The Asian Equity Economist, 12 Nov 2003.
Credit Suisse First Boston	Feb 2003	2.6	2		3.2	--	--	-1.7		Asian Daily, 19 Feb 2003.
	Apr 2003	2	--	--	--	--	--	--		Emerging Markets Economics Daily Non-Japan Asia, 7 Apr 2003.
	Apr 2003	1.8	--	--	--	--	--	-2.7		Emerging Markets Economics Research, 29 Apr 2003.
	Jun 2003	1.8	-1.6		-1	--	--	-2.6		Emerging Markets Economics Research, 23 Jun 2003.
	Sep 2003	2.4	--	--	--	--	--	-2.6		Sing Tao Daily News, 2 Sep 2003.
<i>(c) Others</i>										
Economist Intelligence Unit	Mar 2003	2.7	0.2		3.5	--	--	-1.5		Country Forecast, Mar 2003.
	May 2003	0.3	-2		0	--	--	-3.5		Country Forecast, May 2003.
	Aug 2003	1.1	-4.5		0	--	--	-2.4		Country Forecast, Aug 2003.
	Nov 2003	2	-2.1		-1	--	--	-2.8		Country Forecast, Nov 2003.
Hong Kong General Chamber of Commerce	Nov 2002	2.1	--	--	--	--	--	-1.5		Hong Kong Business Summit, 27 Nov 2002.
	Apr 2003	1.5	--	--	--	--	--	-2		Chief Economist, HKGCC, 24 Apr 2003.

Observation :

The latest known forecasts of GDP growth in real terms for 2003 from the private sector analysts listed above range from 1.5% to 3%, averaging at 2.2%.