Box 1.1

GDP by income component

GDP is a measure of the total value of production of all resident producing units of an economy. GDP by income component shows how income generated by engaging in production is distributed to the main factors of production (viz. labour, and capital and entrepreneurship). There are two income components : compensation of employees and gross operating surplus.

Compensation of employees (CoE) refers to the total remuneration, in cash or in kind, payable by an establishment to an employee in return for the work done in the reference period. In other words, CoE measures the return to labour as a result of engaging in production. It comprises wages and salaries in cash; payments in kind (e.g. expenses by the employer incurred in providing housing, food and other welfare benefits to employees); and employer's social security expenditure (e.g. employer's share in the contributions to Mandatory Provident Fund schemes).

Gross operating surplus* (GOS) refers to the gross surplus or deficit of an establishment as a result of engaging in production of goods and services. In other words, GOS measures the return to capital and entrepreneurship as a result of engaging in production. It is represented by the value of goods and services produced (i.e. gross output) *less* the value of goods and services used in the production process (i.e. intermediate consumption) *less* compensation of employees.

Statistics on CoE and GOS are useful in analysing how changes in economic situation affect labour income and business profits. During the period from 1990 to 1997, CoE and GOS grew at average annual rates of 12.2% and 12.4% respectively in value terms, along with a 12.3% average annual growth in value terms in GDP at factor cost. As the overall economy expanded, both employees and entrepreneurs enjoyed growth in income.

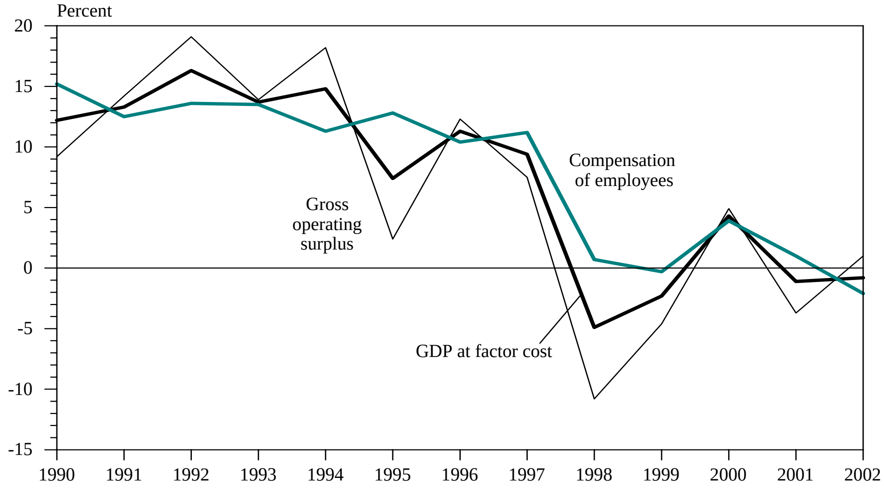
Labour income and business profits however exhibited much volatility in the more recent years. In 1998 when GDP at factor cost declined by 4.9% in value terms as a result of the Asian financial crisis, GOS dropped significantly by 10.8% in value terms. This reflects that business profits are much more sensitive to changes in economic situation. On the other hand, CoE increased slightly by 0.7%. This shows that labour income is less sensitive to changes in economic situation. In 2000 when GDP at factor cost rebounded to growth at 4.3% in value terms, both CoE and GOS increased, by 3.9% and 4.9% respectively in value terms. The latest figures for 2002 indicate that CoE decreased by 2.1% while GOS increased by 1.0% in nominal terms.

Note : (*) Gross operating surplus differs from profit in business accounting in the following aspects :

(a) receipt from interests, dividends and other income from financial assets are not included in GOS;
(b) interest charges, bad debt charges and payments on financial assets are not deducted from GOS;
(c) depreciation of fixed capital is not deducted from GOS; and
(d) profits tax is not deducted from GOS.

Box 1.1 (cont'd)

Compensation of employees and gross operating surplus
(rate of change in nominal terms)



CoE, GOS and GDP at factor cost

	CoE		GOS		GDP at factor cost	
	$Mn	*% change in nominal terms*	$Mn	*% change in nominal terms*	$Mn	*% change in nominal terms*
1990	290,838	*15.2*	272,680	*9.2*	563,517	*12.2*
1991	327,165	*12.5*	311,441	*14.2*	638,606	*13.3*
1992	371,756	*13.6*	371,005	*19.1*	742,760	*16.3*
1993	421,883	*13.5*	422,439	*13.9*	844,322	*13.7*
1994	469,489	*11.3*	499,411	*18.2*	968,900	*14.8*
1995	529,546	*12.8*	511,526	*2.4*	1,041,072	*7.4*
1996	584,383	*10.4*	574,580	*12.3*	1,158,963	*11.3*
1997	649,905	*11.2*	617,584	*7.5*	1,267,489	*9.4*
1998	654,417	*0.7*	550,932	*-10.8*	1,205,349	*-4.9*
1999	652,199	*-0.3*	525,597	*-4.6*	1,177,796	*-2.3*
2000	677,316	*3.9*	551,581	*4.9*	1,228,897	*4.3*
2001	684,369	*1.0*	530,985	*-3.7*	1,215,354	*-1.1*
2002	669,757	*-2.1*	536,179	*1.0*	1,205,937	*-0.8*