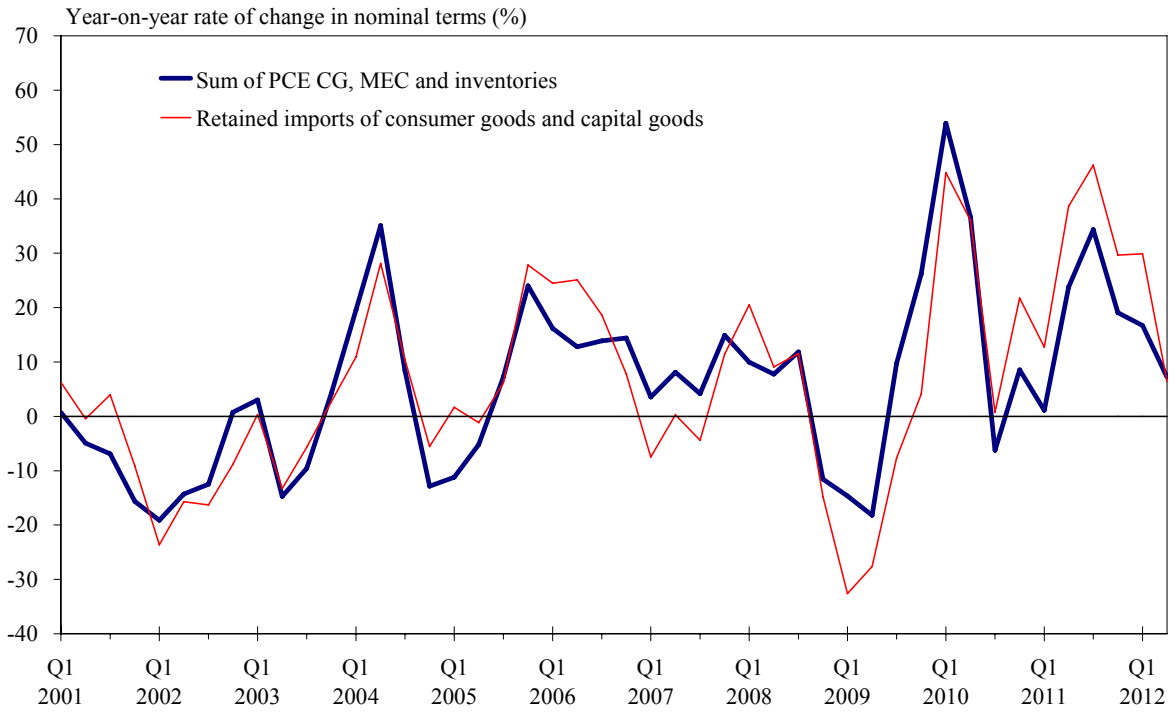
Box 2.2

Usefulness of monthly statistics on retained imports

All commodities in an economy, whether produced domestically or imported from other economies, must be used in either one of the three following ways – exports (or re-exports) to other economies, local consumption or inventory accumulation. Such supply and use relationship is in fact the cornerstone for estimating and interpreting certain components in the national accounts. In the case of Hong Kong where domestic production of goods is limited in scale, retained imports (imported goods not for subsequent re-exports) fulfil almost all of the commodities demanded by the domestic market. As such, the size of retained imports is often regarded as the flipside of the domestic demand condition, providing yet another high frequency indicator for monitoring the Hong Kong economy.

Hong Kong's retained imports are grouped into five major end-use categories. Among them, consumer goods and capital goods have the most straightforward linkages with the expenditure components of GDP. Retained imports of consumer goods are closely related to the "private consumption expenditure on consumer goods" (PCE CG), while those of capital goods are often eventually reflected in "investment spending on machinery, equipment and computer software" (MEC). These two expenditure components together already accounted for around 38% of Hong Kong's domestic demand in 2011. ***Chart 1*** shows that in nominal terms, the movements of retained imports of consumer goods and capital goods combined closely tracked the changes in the sum of the abovementioned two GDP expenditure components plus inventories. The occasional discrepancies between the two series are plausibly due to fluctuations in domestic production as well as data limitations on the breakdown of inventories by end-use.

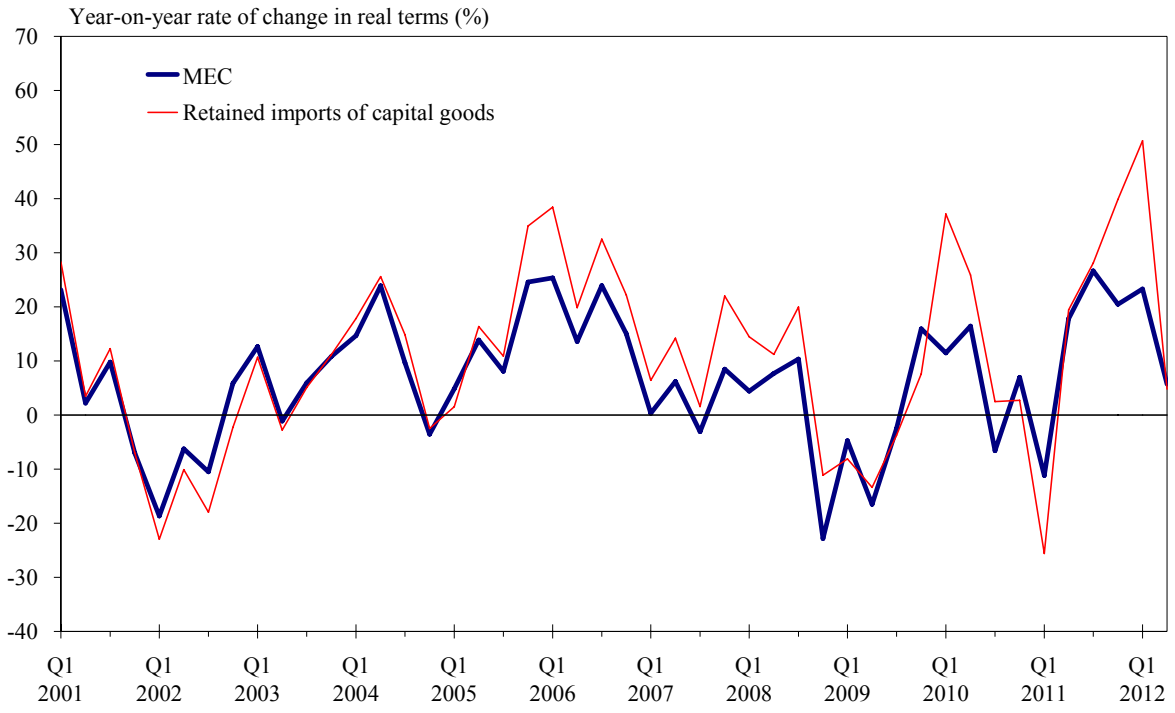
Chart 1 : Uses of retained imports of consumer goods and capital goods in Hong Kong



Box 2.2 (Cont'd)

In the context of economic surveillance, the inferences derived from retained imports of capital goods are perhaps even more useful. While the prevailing trend of PCE CG can be more frequently observed from the monthly retail sales statistics, capital goods intake by local businesses are much more difficult to monitor. Statistics on retained imports of capital goods serve to fill this gap and provide the backbone for measuring MEC (***Chart 2***). That said, as some adjustments are required to align retained imports of capital goods with the coverage of MEC, the link between these two series is not as close as that between retained imports of consumer goods and PCE CG[(1)]. Nonetheless, the movements of retained imports of capital goods have still mirrored those of MEC fairly well. Therefore, these statistics are a useful tool for macroeconomic monitoring, given that MEC is one of the most volatile expenditure components in the national accounts.

Chart 2 : Relationship between retained imports of capital goods and investment spending on machinery, equipment and computer software



Hong Kong's unique economic structure enables retained import statistics to serve as an instrumental indicator for the domestic demand condition, as far as the demand for goods is concerned, given that nearly all the goods consumed here are sourced from abroad. With the external environment being extremely fluid at this juncture, higher frequency indicators (i.e. monthly instead of quarterly) such as retained import statistics are deemed useful for timely recognition of any significant changes in growth trend, which will in turn facilitate deliberations of proactive policy measures to maintain macroeconomic stability.

(1) The required adjustments include, inter alias, subtracting the capital goods bought by households not for the purpose of capital formation and adding acquisitions of computer software by business enterprises.