



Third Quarter Economic Report 2001

*Government of the Hong Kong
Special Administrative Region*

***THIRD QUARTER
ECONOMIC REPORT 2001***

ECONOMIC ANALYSIS DIVISION
FINANCIAL SERVICES BUREAU
GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION

November 2001

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 The Hong Kong economy continued to slow down in the third quarter of 2001, amidst a more difficult external environment and with local sentiment also hit by a further weakening in the asset markets and rising unemployment. Then, towards the end of the third quarter, local sentiment was further depressed by the shock from the terrorist attack in the United States on 11 September.

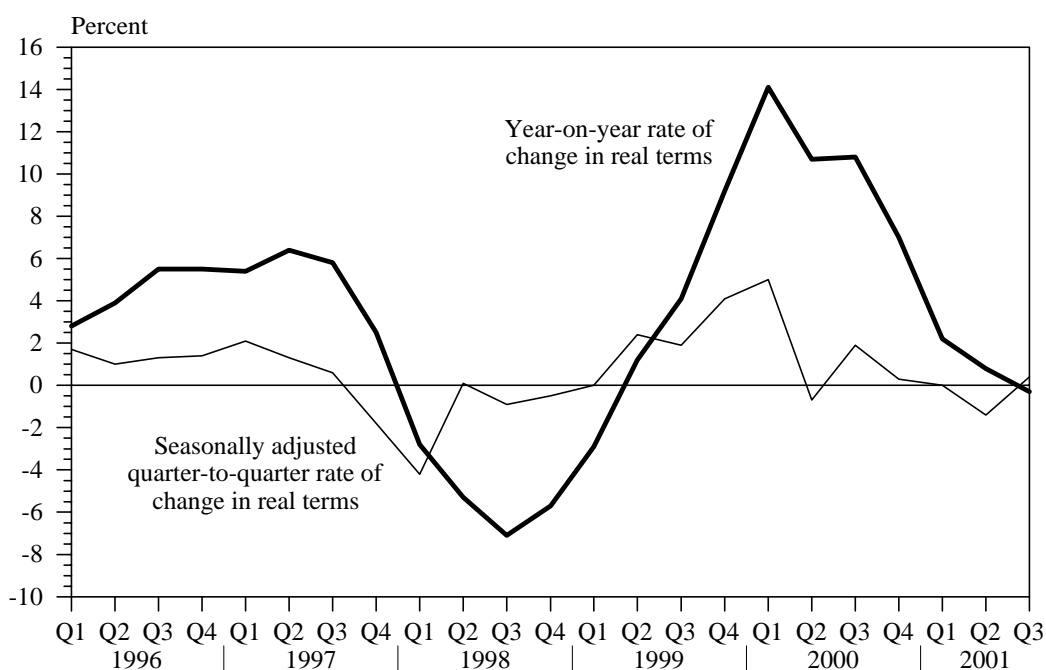
1.2 Externally, exports of goods showed an enlarged decline in the third quarter, amidst an across-the-board plunge in import intake in almost all the major markets. Exports of services still held up relatively well in July and August, but slowed distinctly in September as travel and business services demand fell off markedly after the 911 incident. In the domestic sector, consumer spending was already moderating in growth in July and August, upon the rise in unemployment and dip in asset prices. Then, upon the initial impact of the 911 incident, consumer spending slackened further in September. On the other hand, investment spending had a somewhat faster growth in the third quarter, as the intake of aircraft bolstered machinery and equipment acquisition, even though building and construction output remained sluggish.

1.3 Faced with setback on both the external and domestic fronts, the *Gross Domestic Product (GDP)*⁽¹⁾ dipped by 0.3% in real terms in the third quarter of 2001 over a year earlier, further down from the already much retarded growth of 2.2% in the first quarter and 0.8% in the second quarter (latter revised up from the 0.5% growth put out earlier). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP rose back by 0.4% in real terms in the third quarter of 2001, after staying virtually flat in the first quarter and declining by 1.4% in the second quarter (latter also revised up from the 1.7% decline put out earlier). Yet by and large, the real impact of the 911 incident has still to substantially filter through.

/Diagram 1.1

Diagram 1.1

Gross Domestic Product



1.4 As the manpower resource balance loosened along with the economic slow-down, *labour market* conditions worsened visibly in the third quarter. Vacancies in the private sector, having already eased back since the latter part of 2000, fell even more sharply in recent months. There were also incidents of corporate downsizing and lay-offs. Thus the growth in labour demand went below the growth in labour supply in the third quarter of 2001, for the first time since the fourth quarter of 1999. The seasonally adjusted unemployment rate rose markedly, from 4.5% in the second quarter of 2001 to 5.3% in the third quarter. The underemployment rate likewise went up, from 2.2% to 2.5% over the same periods.

/Table 1.1

Table 1.1

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

	<u>1999</u> [#]	<u>2000</u> [#]	<u>2000</u>				<u>2001</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	0.7	5.5	8.7	5.1	5.6	2.6	3.0	3.6	1.3
Government consumption expenditure	3.3	2.1	3.7	2.7	2.5	-0.6	3.9	4.1	6.2
Gross domestic fixed capital formation	-17.5	9.8	5.7	5.4	14.8	13.1	11.5	1.3	3.7
<i>of which :</i>									
Building and construction	-11.0	-7.7	-14.9	-10.8	-1.3	-2.3	-1.2	1.9	-6.8
Real estate developers' margin	-25.2	-9.4	-19.5	-17.5	-2.4	4.0	-5.7	4.3	-4.2
Machinery and equipment	-19.4	25.8	32.9	21.2	27.3	23.4	22.6	0.3	9.4
Total exports of goods	3.7	17.1	20.7	17.7	17.7	13.3	4.2	-1.9	-4.0
Domestic exports	-7.2	7.5	16.2	8.3	8.2	-0.8	-12.8	-8.5	-12.4
Re-exports	5.4	18.5	21.4	19.1	19.0	15.2	6.5	-1.0	-3.0
Imports of goods ^(a)	0.1	18.1	22.9	18.8	18.4	13.4	5.3	-0.7	-3.4
Exports of services	5.7	14.1	15.8	18.2	14.0	9.5	6.2	6.3	1.5
Imports of services	-3.1	2.1	-0.9	3.3	3.4	2.7	3.9	1.0	-2.0
Gross Domestic Product	3.0	10.5	14.1	10.7	10.8	7.0	2.2	0.8	-0.3
<u>GDP at current market prices (\$ billion)</u>	1,228	1,267	302	308	327	330	304	309	325
<u>GDP at constant (1990) market prices (\$ billion)</u>	809	894	209	213	235	236	214	215	234
<u>Change in inventories at constant (1990) market prices (\$ billion)</u>	-11	15	5	4	4	2	1	1	-1
<i>Change in the main price indicators (%)</i>									
GDP deflator	-5.4	-6.6	-7.1	-7.5	-6.3	-5.5	-1.8	-0.6	-0.3
Composite Consumer Price Index^{(b)(c)}	-4.0	-3.8	-5.1	-4.5	-2.8	-2.5	-2.0	-1.3	-1.0
Consumer Price Index (A) ^{(b)(c)}	-3.3	-3.0	-4.1	-3.4	-2.0	-2.2	-2.0	-1.1	-0.7

Notes : (#) Revised figures.

(+) Preliminary figures.

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

(b) From the fourth quarter of 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the year-on-year rates of change are computed from the 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

(c) Final figures.

/Table 1.2

Table 1.2

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

	<u>2000</u>				<u>2001</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	4.9	-0.1	0.7	-3.2	5.4	1.2	-1.9
Government consumption expenditure	0.9	-2.8	0.7	0.6	5.4	-2.7	2.9
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	6.1	2.0	4.9	0.7	-2.1	-5.0	3.1
Domestic exports	9.9	-4.8	0.9	-4.7	-3.4	-1.1	-2.8
Re-exports	5.6	3.0	5.4	1.3	-2.0	-5.5	3.8
Imports of goods ^(a)	6.3	0.7	6.3	0.5	-0.8	-6.4	4.0
Exports of services	3.4	4.2	6.3	-4.9	0.6	4.0	1.6
Imports of services	-0.5	4.4	0.8	-2.1	0.8	1.3	-1.8
Gross Domestic Product[^]	5.0	-0.7	1.9	0.3	*	-1.4	0.4
<i>Change in the main price indicators (%)</i>							
GDP deflator	-2.0	-2.4	-0.4	-0.9	2.0	-1.3	*
Composite Consumer Price Index^{(b)(c)}	-1.2	-0.7	-0.6	-0.1	-0.6	*	-0.4
Consumer Price Index (A) ^{(b)(c)}	-1.2	-0.7	-0.5	*	-0.8	0.3	-0.2

Notes : (#) Revised figures.

(+) Preliminary figures.

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

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

(*) Change of less than 0.05%.

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

(b) From the first quarter of 2000 onwards, the quarter-to-quarter rates of change in the seasonally adjusted Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the quarter-to-quarter rates of change are computed from the 1994/95-based CPI series.

(c) Final figures.

/1.5

1.5 The *residential property market* weakened further in the third quarter. Despite successive cuts in mortgage rates and better home ownership affordability generally, prospective home buyers continued to stay on the sideline, amidst concern about the near-term economic outlook and employment prospect. Sentiment had tended to stabilise after the announcement of a significant scale-back in flat sales from the Public Housing Programme in early September. Then, upon the shock from the 911 incident, sentiment was eroded again in the latter part of September. For the third quarter of 2001 as a whole, flat prices came down by an average of 4% from the second quarter, and flat rentals also edged down by an average of 2%, while trading activity was more subdued. (Trading activity in the primary market nevertheless turned more active most recently, suggesting that sentiment could have yet again tended to stabilise.)

1.6 In the *financial market*, local interest rates eased markedly further during the third quarter, matching closely the movements in their US counterparts. Despite widespread jitters in the global financial markets immediately after the 911 incident, the Hong Kong dollar held remarkably stable under the linked exchange rate system. But the local stock market was more volatile, with the Hang Seng Index plunging to a near three-year low of 8 934 on 21 September before bouncing back towards the end of the third quarter as the overseas stock markets settled. The Index at 9 951 at end-September was still 24% lower than at end-June, yet only 4% below the pre-911 closing on 11 September. With a dearth of lending opportunities both locally and in the region running against ample liquidity in the local banking sector, the Hong Kong dollar loan-to-deposit ratio fell further to a record low at end-September.

1.7 On *consumer prices*, the year-on-year decline in the Composite Consumer Price Index narrowed further to 1.0% in the third quarter of 2001, following declines of 2.0% in the first quarter and 1.3% in the second quarter. Broadly speaking, cost and price pressure on the local front was still scant, being held back by the economic downturn. Also, price pressure on the external front receded further, along with the fall-off in world commodity prices. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI fell back by 0.4% in the third quarter of 2001, after a 0.6% decline in the first quarter and virtually nil change in the second quarter. (The year-on-year decline in the Composite CPI however tended to enlarge again in the most recent months, as the economic situation worsened further.)

/1.8

1.8 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the second quarter of 2001. Both factor income inflow and outflow recorded some increases in the second quarter of 2001 over a year earlier. But as the growth in factor income outflow considerably outpaced that in inflow, net factor income inflow declined markedly, causing GNP to dip by 0.5% in real terms in the second quarter of 2001 over a year earlier, after a 3.1% growth in the first quarter. The faster growth in factor income outflow in the second quarter was nevertheless due in large part to increased direct investment income outflow to the non-operating entities set up by some of the Hong Kong companies in the tax haven economies. Also, there was a surge in dividend pay-outs from some publicly-listed resident companies to non-residents. Both in fact reflected relatively well on the investment return from the local economy, at least against the concurrent investment return from abroad. For the first half of 2001 as a whole, GNP was still 1.3% higher in real terms than a year earlier, not much below the 1.5% GDP growth in that period.

Table 1.3

Gross National Product and external factor income flows

	<u>1999</u> [#]	<u>2000</u> [#]	<u>2000</u>				<u>2001</u>	
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]
<i>Year-on-year rate of change in money terms (%)</i>								
Total external factor income flow ^(a)								
Inflow	0.6	12.7	32.2	12.0	12.9	-2.7	-9.3	2.1
Outflow	-1.2	18.0	33.5	14.5	22.4	4.8	-13.0	6.6
Net external factor income flow at current market prices (\$ billion)	35	22	9	6	3	3	12	2
GDP at current market prices (\$ billion)	1,228 (-2.5)	1,267 (3.2)	302 (6.0)	308 (2.4)	327 (3.7)	330 (1.1)	304 (0.4)	309 (0.2)
GNP at current market prices (\$ billion) ^(b)	1,262 (-2.0)	1,289 (2.1)	312 (6.3)	315 (2.0)	330 (1.6)	333 (-1.1)	316 (1.2)	311 (-1.1)
<i>Year-on-year rate of change in real terms (%)</i>								
Gross National Product	3.5	9.2	14.5	10.2	8.6	4.8	3.1	-0.5

Notes : (#) Revised figures.

(a) External factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.

(b) GNP is equal to GDP plus net external factor income flow.

() Figures in brackets represent the year-on-year rates of change in money terms in GDP and GNP respectively.

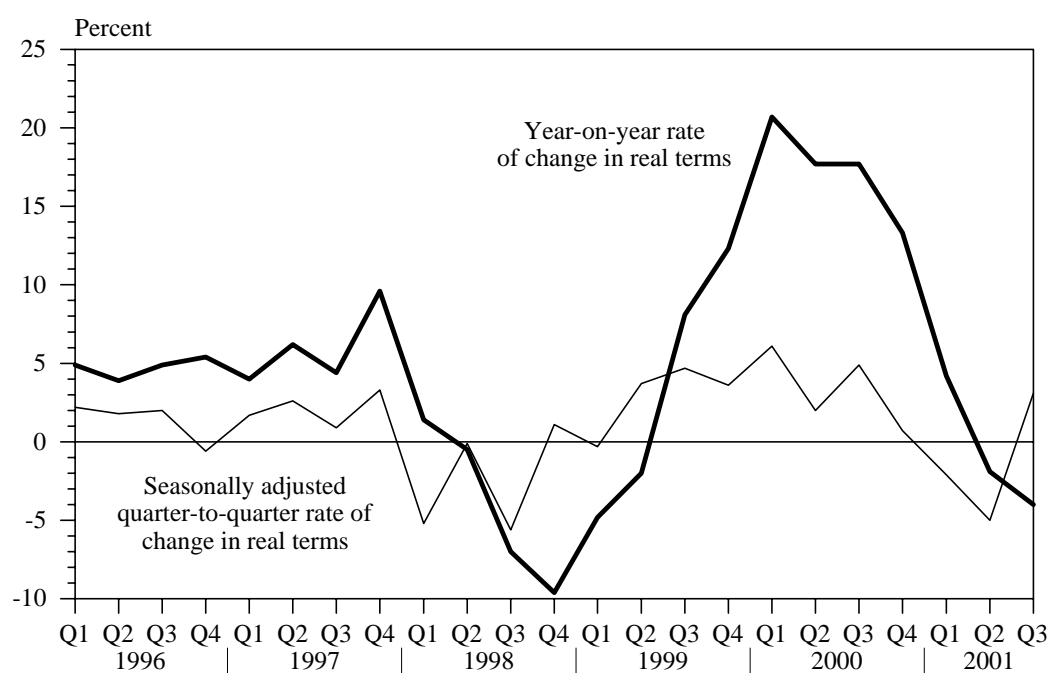
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The external sector

1.9 Hong Kong's merchandise exports slackened further in the third quarter of 2001, amidst a more difficult external trade environment. *Total exports of goods* (comprising re-exports and domestic exports) fell by 4.0% in real terms in the third quarter of 2001 over a year earlier, the largest decline since the first quarter of 1999. Total exports of goods still had a small increase of 1.7% in real terms in July, yet slackened to a 5.8% fall in August, and further to a 7.4% fall in September. The enlarged decline in the third quarter was mainly attributable to more sluggish global demand, but a distinctly higher base of comparison was also relevant. Air cargo traffic to the United States encountered a short disruption immediately after the 911 incident, yet its effect on exports for September as a whole was only modest. By and large, the real impact of the 911 incident on Hong Kong's exports was yet to be seen. Together with a 1.0% rise in the first half of the year, total exports of goods had a slight decline of 0.9% in real terms in the first nine months of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods actually rose back by 3.1% in real terms in the third quarter of 2001, after decreases of 2.1% in the first quarter and 5.0% in the second quarter (paragraph 2.5).

Diagram 1.2

Total exports of goods



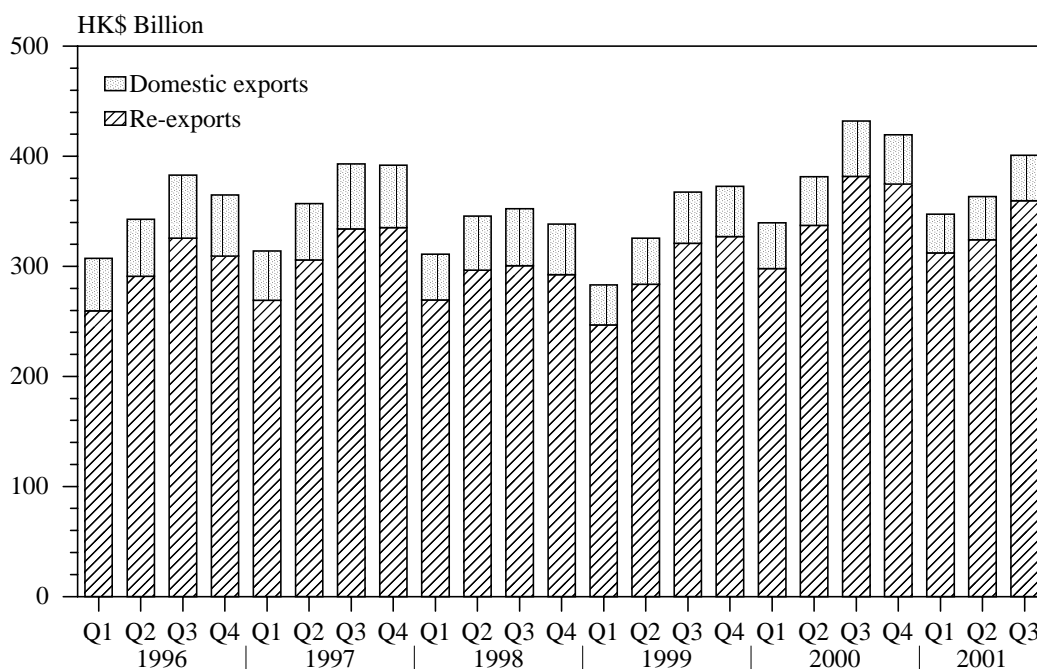
/1.10

1.10 Within total exports of goods, *re-exports* had a 3.0% fall in real terms in the third quarter of 2001 over a year earlier, further down from the already much retarded growth of 2.5% in the first half of the year. Again, the fall in the third quarter was mainly concentrated in August and September. For the first nine months of 2001 as a whole, re-exports recorded a meagre 0.5% growth in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose by 3.8% in real terms in the third quarter of 2001, having declined by 2.0% in the first quarter and 5.5% in the second quarter (paragraph 2.6).

1.11 *Domestic exports* fell more sharply, by 12.4% in real terms in the third quarter of 2001 over a year earlier, with the decline enlarging from 6.0% in July to 14.4% in August and further to 16.6% in September. Together with a 10.5% plunge in the first half of the year, domestic exports were down by 11.2% in real terms in the first nine months of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, domestic exports had a further decline of 2.8% in real terms in the third quarter of 2001, following decreases of 3.4% in the first quarter and 1.1% in the second quarter (paragraph 2.7).

Diagram 1.3

Composition of total exports of goods



/1.12

1.12 Analysed by market, merchandise exports underwent an across-the-board setback in the third quarter of 2001. Exports of goods to *East Asia* as a whole were dampened by the export and domestic demand slump in the region, the plunge in intra-regional trade, and the weakness in most of the East Asian currencies. There was only a 1.9% growth in real terms in the third quarter of 2001 over a year earlier, further down from the already markedly slower growth of 5.5% in the first half of the year. For the first nine months of 2001 as a whole, these exports rose by 4.2% in real terms over a year earlier. Exports of goods to the *United States* plunged sharply, by 10.8% in real terms in the third quarter of 2001 over a year earlier, amidst the severe fall-off in US demand. Together with a 5.2% decline in the first half of the year, these exports fell by 7.4% in real terms in the first nine months of 2001 over a year earlier. Exports of goods to the *European Union* also plummeted further, along with worsening economic conditions in the euro area and a weak euro. Following a 4.4% fall in real terms in the first half of 2001, these exports had a double-digit decline of 11.0% in the third quarter, giving a 6.9% fall in the first nine months of 2001 over a year earlier (paragraphs 2.14 to 2.16).

1.13 *Imports of goods* concurrently moderated further, falling by 3.4% in real terms in the third quarter of 2001 over a year earlier, reversing the 2.1% growth in the first half of the year. For the first nine months of 2001 as a whole, imports of goods were broadly unchanged in real terms from a year earlier. *Retained imports* eased further to a 4.5% decline in real terms in the third quarter of 2001 over a year earlier, after a meagre 1.2% rise in the first half of the year, thereby giving a 0.8% decrease for the first nine months of 2001 as a whole. The decline in recent months was particularly pronounced in the intake of raw materials and semi-manufactures, in turn associated with the plunge in domestic exports. Yet on a seasonally adjusted quarter-to-quarter comparison, imports of goods rebounded to a 4.0% rise in real terms in the third quarter of 2001, following decreases of 0.8% in the first quarter and 6.4% in the second quarter. Retained imports also rose, by 4.6% in real terms in the third quarter of 2001, after a 2.7% increase in the first quarter and a 8.7% drop in the second quarter (paragraph 2.8).

1.14 With total exports of goods falling slightly faster than imports of goods in value, the *visible trade deficit* widened to \$17.8 billion or 4.3% of the value of imports of goods in the third quarter of 2001, from \$16.4 billion or 3.7% in the same quarter in 2000. For the first nine months of 2001 as a whole, the visible

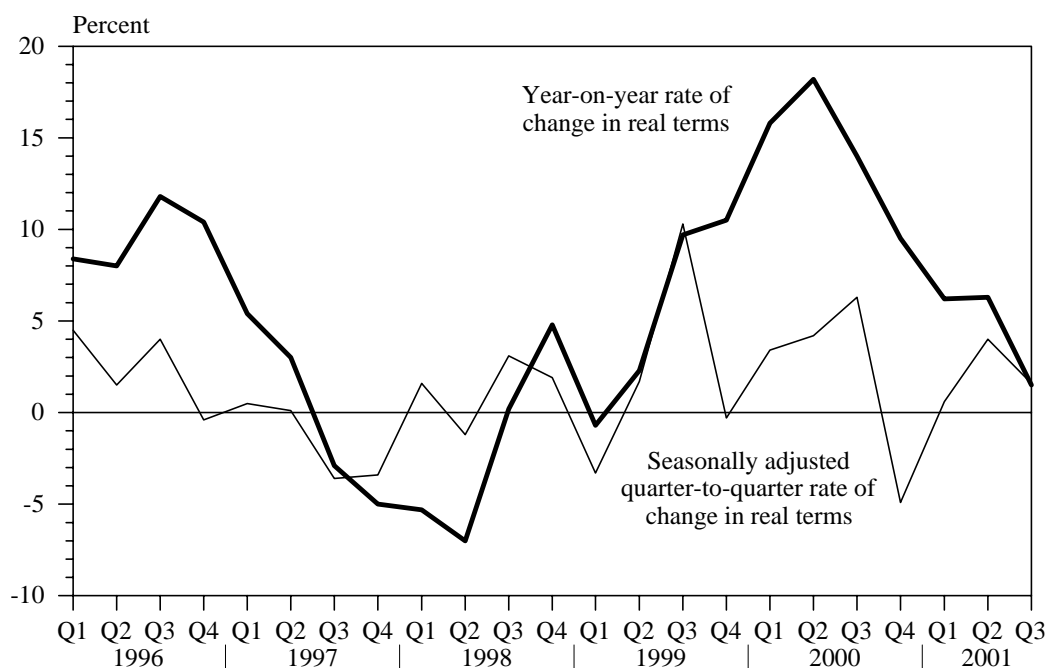
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trade deficit widened to \$76.0 billion or 6.4% of the value of imports of goods, from \$65.2 billion or 5.4% in the same period in 2000 (paragraph 2.9).

1.15 On invisible trade, *exports of services* likewise moderated visibly, to a meagre growth of 1.5% in real terms in the third quarter of 2001 over a year earlier. This was mainly caused by a fall-off in business demand in the region, with the setback in inbound tourism and in exports of transportation services after the 911 incident exacerbating the situation. Yet with a solid growth of 6.3% in the first half of the year, exports of services still had a 4.5% increase in real terms in the first three quarters of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services continued to go up, by 1.6% in real terms in the third quarter of 2001, after increases of 0.6% in the first quarter and 4.0% in the second quarter (paragraph 2.10).

Diagram 1.4

Exports of services



1.16 *Imports of services* concurrently weakened, falling by 2.0% in real terms in the third quarter of 2001 over a year earlier, after a 2.4% rise in the first half of the year. For the first three quarters of 2001 as a whole, imports of services were only 0.9% larger in real terms than a year earlier. Amidst the

/distinct

distinct setback in merchandise trade and slow-down in other economic activities, there was an across-the-board decline in imports of various major types of services in the third quarter. In particular, imports of travel services were hit by the 911 incident towards the end of the third quarter. On a seasonally adjusted quarter-to-quarter comparison, imports of services receded to a 1.8% decline in real terms in the third quarter of 2001, having increased by 0.8% in the first quarter and 1.3% in the second quarter (paragraphs 2.11 and 2.41).

1.17 As exports of services were virtually flat while imports of services fell in value, the *invisible trade surplus* increased further, to \$40.4 billion or 86.4% of the value of imports of services in the third quarter of 2001, from \$39.7 billion or 83.0% in the same quarter in 2000. For the first three quarters of 2001 as a whole, the invisible trade surplus rose to \$112.2 billion or 82.4% of the value of imports of services, from \$104.6 billion or 77.4% in the same period in 2000. Thus, even with a widened visible trade deficit, there was still a combined surplus (including an estimate of imports of gold for industrial use) of \$34.2 billion, equivalent to 2.6% of the total value of imports of goods and services, in the first three quarters of 2001, as compared to \$36.9 billion or 2.7% in the same period in 2000 (paragraph 2.12).

Domestic demand

1.18 Local consumer spending was still on the rise in the third quarter of 2001, but the growth pace had moderated distinctly as consumer sentiment was held back by rising unemployment and dip in asset prices, and then even further upon the initial impact of the 911 incident. Visitor spending still held up well in July and August, but slowed markedly in September as inbound tourism was likewise hit by the 911 incident. The volume of retail sales eased sharply, to a mere 0.5% growth in the third quarter of 2001 over a year earlier, from a 4.8% rise in the second quarter. It went into a decline in September. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales plummeted by 6.0% in the third quarter of 2001, in stark contrast to increases of 4.1% in the first quarter and 2.3% in the second quarter.

/Table 1.4

Table 1.4

**Local consumer and visitor spending in the local market
(year-on-year rate of change in real terms (%))**

		<u>Retail sales</u> ^(a)	<u>Consumer spending by major component</u> ^(a)						<u>Visitor spending</u>
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2000	Annual	8.3	5	19	5	5	-3	6	10
	Q1	14.3 (5.7)	7	34	11	6	-8	8	5
	Q2	10.5 (0.2)	9	17	8	5	-2	7	26
	Q3	5.9 (-2.6)	*	18	5	6	-1	6	7
	Q4	3.1 (0.5)	3	11	-1	2	1	3	5
2001	Q1	2.5 (4.1)	4	10	*	1	6	3	5
	Q2	4.8 (2.3)	3	14	2	3	1	4	11
	Q3	0.5 (-6.0)	2	7	-2	1	-1	1	3
	Jul	1.3							
	Aug	1.8							
	Sep	-1.7							

Notes : (a) Retail sales and consumer spending by major component include both local consumer and visitor spending, which are not separable from the survey data.

() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

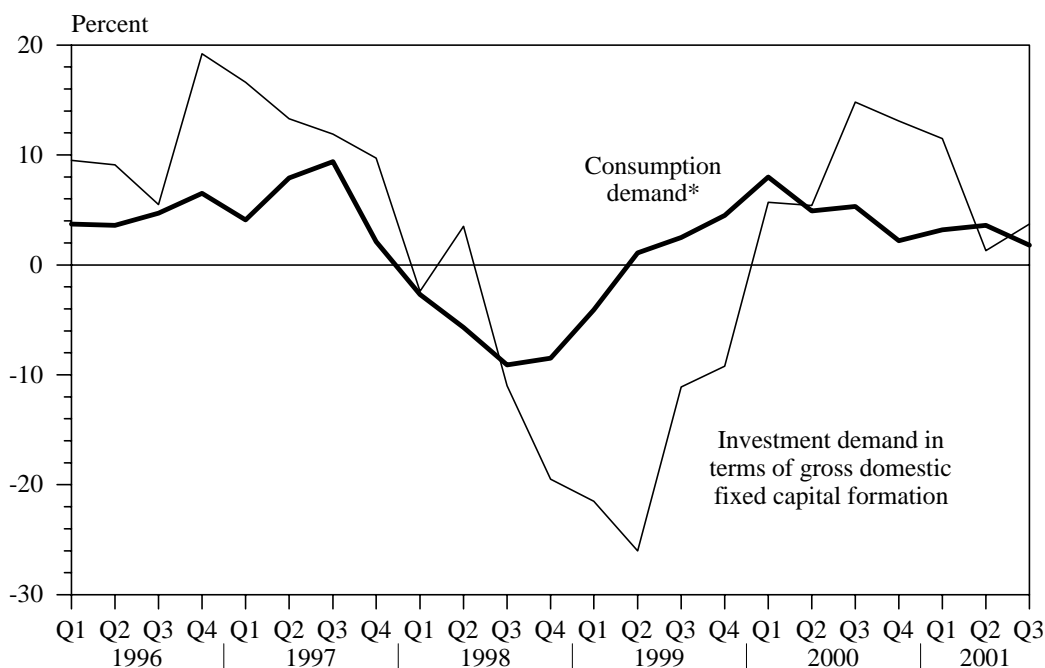
(*) Change of less than 0.5%.

1.19 Consumer spending on all major categories of goods and services registered slower growth in the third quarter of 2001. Expenditure on durable goods posted a relatively faster increase, bolstered by purchases of motor vehicles and electrical appliances before the dip in September. Expenditure on foodstuffs and on services rose modestly, but expenditure on non-durable goods fell. Meanwhile, spending by Hong Kong residents abroad went into a decline, partly affected by lesser travel demand after the 911 incident. Overall, *private consumption expenditure (PCE)* rose by 1.3% in real terms in the third quarter of 2001 over a year earlier, slower than the 3.6% increase in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, PCE slackened to a 1.9% decline in real terms in the third quarter of 2001, having risen markedly by 5.4% in the first quarter and further by 1.2% in the second quarter.

/Diagram 1.5

Diagram 1.5

**Domestic demand
(year-on-year rate of change in real terms)**



Note : (*) Comprising private consumption expenditure and government consumption expenditure.

1.20 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ increased by 6.2% in real terms in the third quarter of 2001 over a year earlier. This followed a 3.9% growth in the first quarter and a 4.1% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE again rose, by 2.9% in real terms in the third quarter of 2001, after a 5.4% surge in the first quarter and a 2.7% decline in the second quarter.

1.21 Overall investment spending, as represented by *gross domestic fixed capital formation*, had a somewhat faster growth of 3.7% in real terms in the third quarter of 2001 over a year earlier, having eased back to a 1.3% increase in the second quarter. The growth in the third quarter was mainly bolstered by intake of aircraft, but with distinctly reduced intake of other machinery and equipment in general, and also with building and construction activity remaining modest in overall terms. Within the overall investment spending, *expenditure on machinery and equipment* registered a year-on-year growth of 9.4% in real terms in the third quarter of 2001 over a year earlier, after a marginal increase of 0.3% in the second quarter. Yet intake of office equipment and industrial machinery fell off

/distinctly

distinctly, amidst a dim business outlook. *Expenditure on building and construction* had a 6.8% fall in real terms in the third quarter of 2001 over a year earlier, reversing the 1.9% growth in the second quarter. Output in the public sector was dragged down by the heavy scale-back in the Public Housing Programme, even though there was still some incremental growth from other Government projects and the Priority Railway Projects. Output in the private sector was dampened by the protracted weakness in the property market holding back the initiation of new building projects. In tandem with the sluggish building activity in the private sector, *real estate developers' margin*⁽⁵⁾ came down by 4.2% in real terms in the third quarter of 2001 from a year earlier, after a 4.3% increase in the second quarter.

1.22 Along with the slow-down in aggregate demand, there was a modest depletion in *inventories* in the third quarter of 2001, having gone through a continuous build-up since the third quarter of 1999.

The property market

1.23 The sales market for *residential property* weakened further with prices coming down more in the third quarter of 2001. Sentiment was depressed by the worsening employment situation amidst the economic downturn, continued large supply of new flats, and more recently the impact of the 911 incident. Acquisition interest remained low, notwithstanding further cuts in mortgage rates and the announcement on suspension of flat sales under the Home Ownership Scheme/Private Sector Participation Scheme up to mid-2002. The much dwindled demand prompted property developers to step up their sales programme further, chiefly by offering more attractive purchase terms and more flexible financing. This did help primary sales in some of the new residential developments. Yet the secondary market was hence undermined even more. As to the rental market for residential property, activity was generally moderate, with rentals drifting lower in recent months (paragraph 3.5).

1.24 On a quarter-to-quarter comparison, flat prices on average dropped by 4% in the third quarter of 2001, following a similar decrease in the first quarter and virtually nil change in the second quarter. Flat rentals also fell, by an average of 2% in the third quarter of 2001, slightly larger than the decline of 1% in both the first and second quarters. For the first three quarters of 2001 as a whole, flat prices were on average down by 8%, and flat rentals on average down to a lesser extent, by 3% (paragraph 3.6).

/1.25

1.25 On *commercial property*, the rental market for *office space* quietened down in the third quarter of 2001. Demand for office space receded, as companies were increasingly hit by setback in business especially after the 911 incident. In a move to improve occupancy, landlords tended to offer longer rent-free periods and other concessions to attract tenants. The sales market for office space was even more subdued, as investors generally stayed on the sideline. The rental market for *shopping space* likewise slackened in the third quarter of 2001, along with the moderation in local consumer spending and inbound tourism. The sales market for shopping space stayed weak. On *industrial property*, the rental market remained sluggish in the third quarter of 2001. Overall demand for industrial space continued to shrink, amidst the slow-down in external trade and on-going relocation of industrial processes outside the territory. Demand for space in modern industrial buildings as data centres and back-up service centres also tapered, upon further consolidation of the information technology sector. The sales market for industrial property was likewise depressed (paragraphs 3.7 to 3.9).

1.26 *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, plummeted by 68% in the third quarter of 2001 from a year earlier. Analysed by main type of property and on a year-on-year comparison, planned developments of residential property dipped by 58% in terms of units or 53% in terms of total usable floor area in the third quarter of 2001. Planned developments of industrial property, property in the “others” category and commercial property were down even more, by 99%, 86% and 75% respectively in terms of total usable floor area. For the first nine months of 2001 as a whole, planned developments of all types of property in the private sector in terms of total usable floor area decreased by 28% over a year earlier. Of these, planned developments of residential property shrank by 21% in terms of units or 18% in terms of total usable floor area. Planned developments of commercial property fell by 10% in terms of total usable floor area, while planned developments of industrial property and of property in the “others” category had much larger decreases, by 90% and 63% respectively in terms of total usable floor area (paragraph 3.14).

/The

The labour market

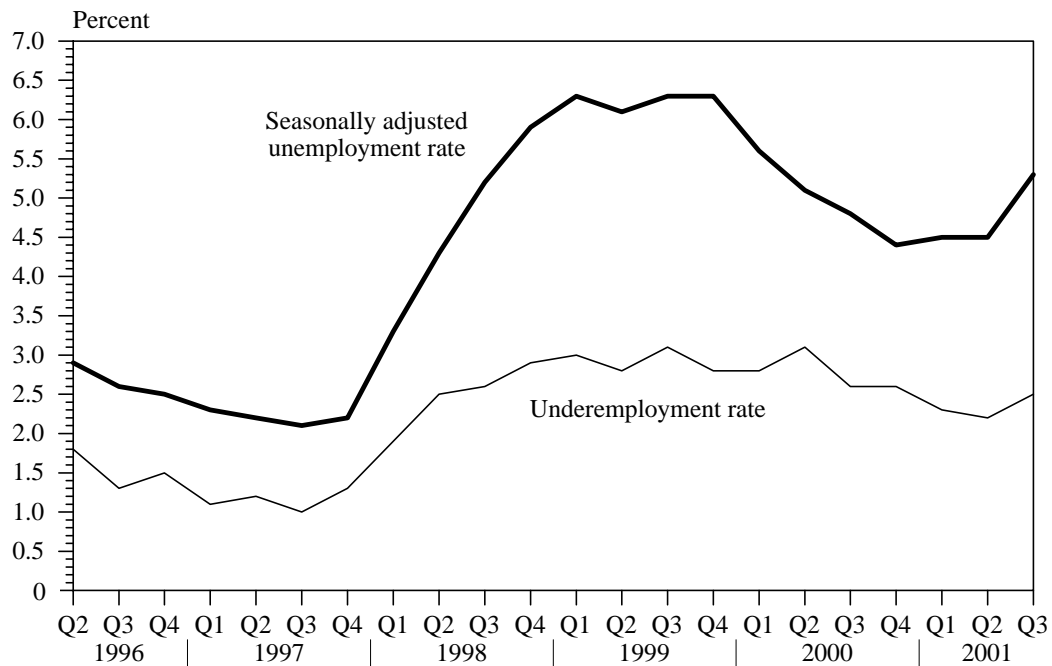
1.27 The local labour market, having held generally stable in the first two quarters of 2001, eased distinctly in the third quarter, as amidst the economic downturn and corporate downsizing, employment was unable to catch up with growth in the total labour force. The *seasonally adjusted unemployment rate* surged from 4.5% in the second quarter of 2001 to 5.3% in the third quarter. The leap was particularly pronounced in the most recent period, conceivably upon the impact of the 911 incident. The median duration of unemployment lengthened visibly, from 68 days in the second quarter to 72 days in the third quarter. The proportion of persons unemployed for six months or more also rose, from 21% to 23%. The *underemployment rate* likewise went up, from 2.2% in the second quarter of 2001 to 2.5% in the third quarter. Again, the rise in underemployment rate was concentrated in the most recent period. The proportion of employed persons working for 50 hours or more per week rose appreciably, from 32% in the second quarter to 36% in the third quarter. Concurrently, the median hours of work per week increased from 45 hours to 48 hours. These reflected greater work intensity and effort for those in employment (paragraphs 5.1 to 5.3).

1.28 On a year-on-year comparison, *total employment* as enumerated from households increased by 0.9% in the third quarter of 2001, but *total labour force* rose faster, by 1.4%. This was in stark contrast to the situation earlier in the year, when total employment growth consistently outpaced total labour force growth. Labour demand had moderated with the downturn in economic activity, particularly after the 911 incident. Yet labour supply had quite steady growth in the more recent months. On a quarter-to-quarter comparison, total labour force went up by 0.9% in the third quarter of 2001, partly upon a higher labour force participation rate, but total employment fell by 0.1%. These differential movements accounted for the surge in unemployment rate in the third quarter (paragraph 5.4).

/Diagram 1.6

Diagram 1.6

Unemployment and underemployment rates*



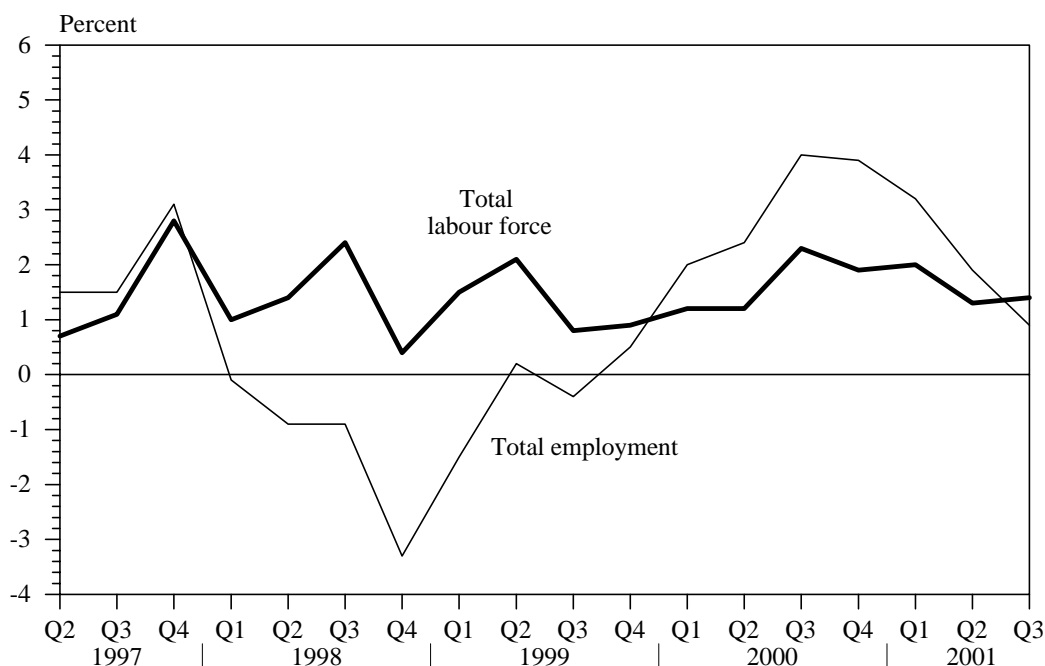
Note : (*) From the second quarter of 1996 onwards, the seasonally adjusted unemployment rate and underemployment rate are compiled on the basis of the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census.

The seasonally adjusted unemployment rate is now computed on the basis of the X-11 ARIMA method, which adjusts for the influences of all seasonal factors, as distinct from the former series which adjusts only for variations in the proportion of first-time job-seekers.

/Diagram 1.7

Diagram 1.7

**Total labour force and total employment
(year-on-year rate of change)**



Note : The year-on-year rates of change are compiled from the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census. As the new series is backdated to the second quarter of 1996, year-on-year rate of change is available as from the second quarter of 1997.

1.29 As to labour income, *earnings* went up by 2% in money terms in the second quarter of 2001 over a year earlier, slightly less than the 3% rise in the first quarter. *Wages* were higher by 1% in money terms in June 2001 than a year earlier, virtually the same as the increase in March. Netting out the decline in consumer prices, both earnings and wages had decelerated increases in real terms (paragraph 5.5).

Prices

1.30 Overall consumer prices continued to decline in the third quarter of 2001, though to a lesser extent than earlier in the year. Faced with moderating consumer spending and keen competition in the local market, retailers generally kept prices down in order to induce sales. Moreover, cost pressure from domestic

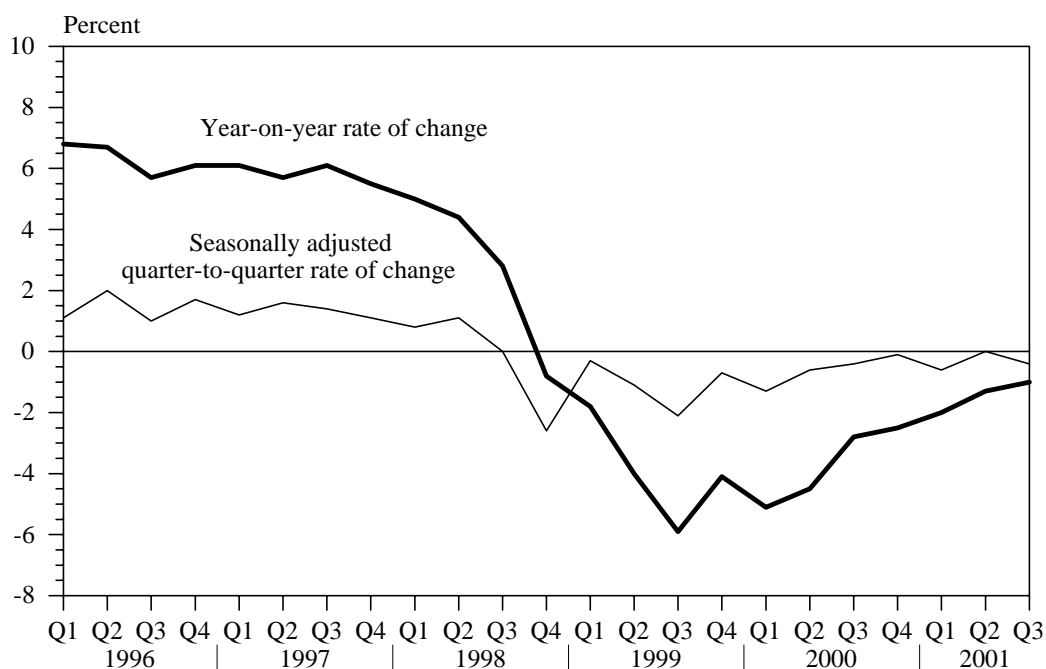
/sources

sources tended to ease again, as property rentals had been softening in the recent period and as labour earnings also rose more slowly. In parallel, price pressure from external sources were receding, with the prices of retained imports showing an enlarged decline. There was a sustained drop in world commodity prices amidst the slack global demand. Also relevant was a strengthening in the US dollar against the currencies of most of the major supplier economies over the past year (paragraph 6.1).

1.31 Comparing the third quarter of 2001 with a year earlier, the *Composite Consumer Price Index* went down by 1.0%. This was smaller than the decreases of 2.0% and 1.3% respectively in the first and second quarters. For the first nine months of 2001 as a whole, the Composite CPI fell by 1.5% over a year earlier, considerably reduced from the 3.8% drop in 2000. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI declined by 0.4% in the third quarter of 2001, having fallen by 0.6% in the first quarter and shown nil change in the second quarter (paragraphs 6.2 and 6.4).

Diagram 1.8

Composite Consumer Price Index*



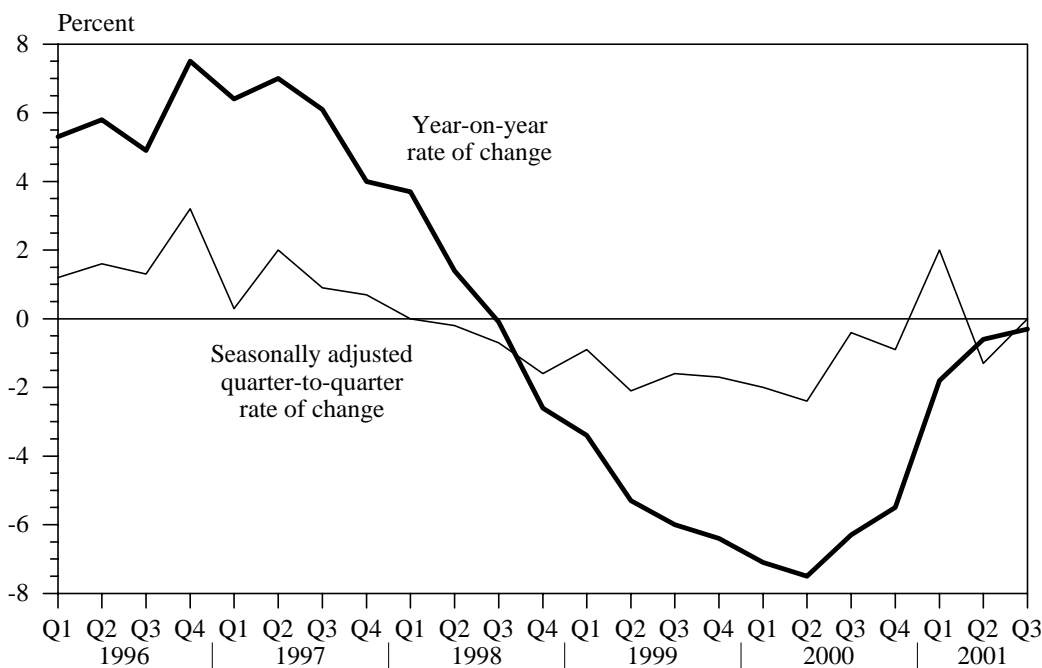
Note : (*) From the fourth quarter of 2000 onwards, the rates of change are computed from the 1999/2000-based Composite CPI series. Before then, the rates of change are computed from the 1994/95-based Composite CPI series.

/1.32

1.32 The *GDP deflator*, as a broad measure of overall price change in the economy, continued to decline, by 0.3% in the third quarter of 2001 over a year earlier, yet narrowed further from the decreases of 1.8% in the first quarter and 0.6% in the second quarter. This was mainly attributable to a larger increase in the price deflator for government consumption expenditure, and a smaller decline in the price deflator for private consumption expenditure. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* fell by 1.8% and 0.5% respectively in the third quarter of 2001 over a year earlier, as compared to decreases of 1.9% and 2.4% in the first quarter, and of 1.6% and 1.0% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator showed no change in the third quarter of 2001, after a rise of 2.0% in the first quarter and a fall of 1.3% in the second quarter (paragraph 6.14).

Diagram 1.9

GDP deflator



The financial sector

1.33 In the third quarter of 2001, the Hong Kong dollar exchange and money markets remained broadly stable, but the local stock market was more volatile

/upon

upon the shock from the 911 incident. Throughout the quarter, the *market exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate, moving within a narrow range of 7.797 to 7.800. The spread between the twelve-month Hong Kong dollar forward rate and the spot rate reversed from a small premium of three pips (each pip equivalent to HK\$0.0001) at end-June to a small discount of nine pips at end-September (paragraphs 4.1 and 4.2).

1.34 Along with the weakening in the US dollar from the earlier period and more so immediately after the 911 incident, the Hong Kong dollar softened against most of the major currencies during the third quarter of 2001. Specifically, the Hong Kong dollar fell by 4.1% against both the Japanese yen and the pound sterling, and by 7.0% against the euro. Overall, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell from 140.7 at end-June 2001 to 138.4 at end-September (paragraphs 4.3 to 4.6).

1.35 In line with further significant cuts in US interest rates, local *interest rates* eased distinctly further in September, following declines in the earlier months. The three-month HIBOR fell from 3.69% at end-June 2001 to 3.19% just before the 911 incident, and further to a low of 2.31% at end-September. Upon the full interest rate deregulation as from 3 July 2001, the savings deposit rate, and indeed all bank deposit interest rates, are to be set freely by the individual banks. In response to the reductions by a total of 100 basis points in US interest rates near end-June and in the third quarter, and reflecting ample liquidity in the local banking sector, the average savings deposit rate offered by ten major banks fell from 2.25% at end-June 2001 to 1.025% at end-September (paragraphs 4.7 and 4.8).

1.36 Notwithstanding further interest rate cuts, *Hong Kong dollar deposits* rose by 0.3% during the third quarter of 2001, following a 0.2% increase during the second quarter. Over the same period, loans to almost all the major sectors fell amidst the slow-down in economic activity, causing *Hong Kong dollar loans* to contract by 1.5% during the third quarter of 2001, after a 0.5% decrease during the second quarter. As a result, the Hong Kong dollar loan-to-deposit ratio fell from 90.8% at end-June 2001 to 89.2% at end-September, the lowest level over the past two decades (paragraphs 4.11, 4.17, 4.18 and 4.20).

/1.37

1.37 The local *stock market* took a sharp plunge during the third quarter of 2001, after some rebound in the second quarter. The gloomy global economic outlook amidst wary over a protracted US economic slow-down, and the successive waves of US corporate profits warnings, pushed down share prices worldwide. The local stock market was likewise hit. Profit-taking on Mainland-related stocks after an earlier upsurge in prices of such stocks dampened the market more. The further interest rate cut in August did not render any noticeable stimulus to market sentiment. Then the terrorist attack in the United States on 11 September led to widespread anxieties in the global financial markets, causing the *Hang Seng Index* to plummet to a near three-year low of 8 934 on 21 September, 14% down from the pre-911 closing level. As gyrations in the overseas stock markets gradually settled, share prices in the local stock market also rebounded. The Hang Seng Index rose back to 9 951 at end-September, but was still 24% lower than the level at end-June. (The Hang Seng Index recovered to above the 10 000 mark in early October, and rose further in November along with the rally in the US stock market. It stood at 11 174 on 21 November.) (paragraphs 4.32 and 4.33)

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

/(3)

- (3) The Gross National Product (GNP) is obtained by adding net external factor income flow, being the income inflow minus the corresponding income outflow, to GDP. External factor income inflow refers to income earned by residents from abroad, while external factor income outflow refers to income earned by non-residents from within the domestic territory. Hence GNP is an overall measure of income earned by the residents of an economy in a specified period, both domestically and from elsewhere. Factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.
- (4) Government consumption expenditure in national accounts terms covers the recurrent expenditures on goods and services incurred by government departments. It also covers the recurrent expenditures of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board (formerly Hong Kong Tourist Association), Consumer Council and Hospital Authority. On the other hand, it does not include the expenditures of those government departments and statutory entities engaged in the production of goods and services principally for sale to the public, such as the Housing Department and the Post Office, and such as the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong. Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditures are in the nature of transfer payments and not direct resource consumption.
- (5) Real estate developers' margin measures the services rendered by developers through acquiring land, co-ordinating the work of architects, building contractors, engineers etc for project development, arranging finance for the project, and marketing the building units. It is not the same as developers' profits, which include not only the reward for the services rendered but also land value appreciation, if any, that is realised in their development projects.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The global economic scene was bleak in July and August 2001 and turned even dimmer after the tragic event in the United States on 11 September. There had already been a significant worsening in the external economic environment since the beginning of this year, led by the abrupt downturn in the US economy. Following the 911 incident, consumer sentiment plunged sharply, dissipating the main support to growth in the US economy in the near term, while business confidence also plummeted further. At the same time, the European economies were weakening, with output falling off and with the setback in business confidence exacerbated by the spill-over effect of the 911 incident.

2.2 In East Asia, Japan's economy was slipping back into recession, and the spill-over effect of the 911 incident added to the gloom. The other East Asian economies were likewise hard hit by the slump in global demand, and some particularly by the severe downswing in the electronic product cycle. GDP growth in Taiwan and Singapore were already in negative territory, while that in the Republic of Korea had slowed down markedly. The economy of the mainland of China (the Mainland) was the only bright spot, continuing to display strong growth on the back of robust domestic demand, even though its export performance was similarly hurt.

2.3 In Hong Kong, export performance had also worsened distinctly in recent months. Yet the close economic links with the Mainland provided a certain buffer. Also, with a lesser concentration in electronic exports, the impact of the electronic product slump was not as severe as elsewhere in the region.

/Table 2.1

Table 2.1**Gross Domestic Product of selected major economies
(year-on-year rate of change in real terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2000	Annual	4.1	3.3	8.0	1.5	5.9	9.9	8.8
	H1	4.7	3.6	8.2	1.9	6.5	9.1	11.1
	H2	3.6	3.0	7.8	1.2	5.3	10.7	6.8
	Q1	4.2	3.5	8.1	2.6	7.9	9.8	12.6
	Q2	5.2	3.8	8.3	1.2	5.1	8.4	9.7
	Q3	4.4	3.2	8.2	0.4	6.7	10.3	9.2
	Q4	2.8	2.8	7.4	1.9	3.8	11.0	4.6
	2001	H1	1.9	2.1	7.9	-0.2	-0.7	2.1
Q1-Q3		1.5	N.A.	7.6	N.A.	-1.9	-0.6	2.7
Q1		2.5	2.5	8.1	0.3	0.9	4.8	3.7
Q2		1.2	1.7	7.8	-0.8	-2.4	-0.5	2.7
Q3		0.8	N.A.	7.0	N.A.	-4.2	-5.6	1.8

Note : N.A. Not yet available.

Table 2.2**Import demand in Hong Kong's major markets
(year-on-year rate of change in US dollar terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2000	Annual	19	5	36	22	26	21	34
	H1	22	6	36	26	33	24	45
	H2	16	3	36	18	21	19	25
	Q1	23	5	41	24	26	25	52
	Q2	21	8	32	28	40	22	38
	Q3	19	5	43	21	35	22	36
	Q4	14	2	29	15	9	16	16
	2001	H1	1	1	14	*	-17	-4
Q1-Q3		-3	-1 ^(a)	11	-4	-23	-10	-10
Q1		5	4	17	5	-10	6	-2
Q2		-3	-2	11	-4	-23	-12	-13
Q3		-11	-5 ^(a)	7	-12	-34	-20	-15

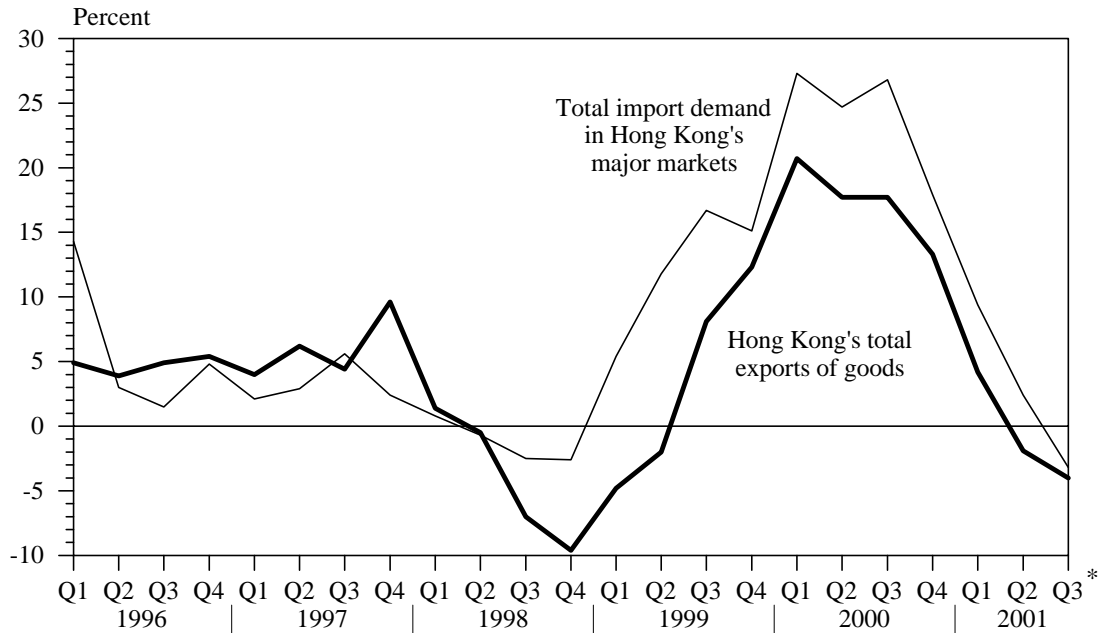
Notes : (a) Figures refer to the year-on-year rate of change in the value of imports for July and August combined, and for the first eight months of 2001 respectively.

(*) Change of less than 0.5%.

/Diagram 2.1

Diagram 2.1

**Hong Kong's total exports of goods
and total import demand in Hong Kong's major markets
(year-on-year rate of change)**



Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in the aggregate import demand in East Asia, the United States and the European Union in US dollar terms.

(*) Total import demand for the third quarter of 2001 is only a crude estimate, as data on import demand in the European Union are available only up to August 2001.

/Table 2.3

Table 2.3

**Performance of merchandise exports in Hong Kong
and in other selected East Asian economies
(year-on-year rate of change in US dollar terms (%))**

		<u>Hong Kong</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u> ^(a)	<u>Republic of Korea</u>
2000	Annual	16	28	15	22	10	20
	H1	18	38	21	23	12	25
	H2	15	20	8	21	8	15
	Q1	19	39	18	18	15	30
	Q2	17	38	23	28	8	21
	Q3	17	25	13	30	15	26
	Q4	12	15	3	13	2	6
2001	H1	-2	9	-11	-11	-7	-5
	Q1-Q3	-4	7	-14	-17	-15	-10
	Q1	2	14	-7	-4	*	2
	Q2	-5	5	-16	-17	-14	-12
	Q3	-7	4	-19	-29	-30	-19

Notes : (a) Non-oil domestic exports.

(*) Change of less than 0.5%.

2.4 On exchange rate movements, the US dollar softened somewhat against the major currencies during July and August 2001, amidst increasing wary over the prospect of a quick turnaround in the US economy. Market anxiety immediately after the 911 incident caused the US dollar to slip further. Yet the US dollar soon firmed up again, and had clinged close to or had become even slightly higher than the pre-911 levels by the end of September. Overall, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar still had a small decline during the third quarter, signifying a slight improvement in Hong Kong's external competitiveness generally. Even so, external competitiveness in certain segments could have been affected modestly by the earlier depreciation of many of the East Asian currencies.

/Table 2.4

Table 2.4**Exchange rates of the major currencies
and of selected East Asian currencies against the US dollar**

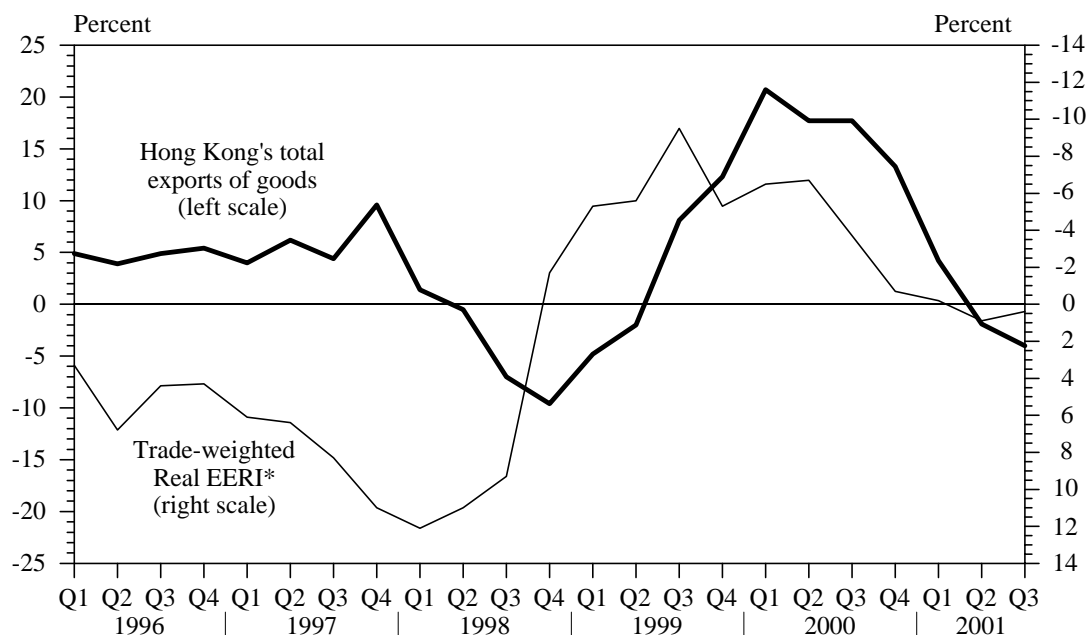
% change during <u>the quarter</u>		<u>Japanese yen</u>	<u>Euro</u>	<u>Pound sterling</u>	<u>New Taiwan dollar</u>	<u>Singapore dollar</u>	<u>Korean won</u>
2000	Q1	-0.2	-4.5	-1.0	3.0	-2.6	2.5
	Q2	-3.1	0.2	-5.1	-1.2	-1.1	-0.9
	Q3	-2.1	-7.9	-2.3	-1.7	-0.6	*
	Q4	-5.4	6.4	1.0	-5.3	0.4	-11.8
2001	Q1	-8.9	-5.8	-4.8	0.7	-4.0	-5.0
	Q2	0.5	-4.2	-1.1	-4.6	-0.9	2.3
	Q3	4.7	7.6	4.5	-0.2	3.1	-0.7

Note : (*) Change of less than 0.05%.

/Diagram 2.2

Diagram 2.2

**Hong Kong's total exports of goods and exchange rate movements
(year-on-year rate of change in real terms)**



Note : (*) The Real Effective Exchange Rate Index of the Hong Kong dollar (Real EERI), as compiled by the Hong Kong Monetary Authority, is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of 17 major trading partners after adjusting for the relative movements in the respective seasonally adjusted consumer price indices, with the weights adopted being the shares of these 17 trading partners in the total trade value of Hong Kong.

Positive changes in the Real EERI denote appreciation of the Hong Kong dollar; and negative changes denote depreciation. For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented upside down, so that positive changes appear at the lower part and negative changes at the upper part of the diagram.

Overall visible and invisible trade situation

2.5 Hong Kong's merchandise exports slackened further in the third quarter of 2001, amidst a more difficult external trade environment. *Total exports of goods* (comprising re-exports and domestic exports) fell by 7% in value terms over a year earlier to \$401.0 billion in the third quarter of 2001. After netting out the decrease in prices, there was a 4% decline in real terms⁽¹⁾, the largest decline since the first quarter of 1999. Total exports of goods still

/had

had a small increase of 2% in real terms in July, yet slackened to a 6% fall in August, and further to a 7% fall in September. The enlarged decline in the third quarter was mainly attributable to more sluggish global demand, but a distinctly higher base of comparison was also relevant. Air cargo traffic to the United States encountered a short disruption immediately after the 911 incident, yet its effect on exports for September as a whole was only modest. By and large, the real impact of the 911 incident on Hong Kong's exports was yet to be seen. Together with a 1% rise in the first half of the year, total exports of goods had a slight decline of 1% in real terms in the first nine months of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods actually rose back by 3% in real terms in the third quarter of 2001, after decreases of 2% in the first quarter and 5% in the second quarter.

2.6 Within total exports of goods, *re-exports*⁽²⁾ had a 6% fall in value terms over a year earlier to \$359.6 billion in the third quarter of 2001. After netting out the decrease in prices, there was a 3% decline in real terms, further down from the already much retarded growth of 3% in the first half of the year. Again, the fall in the third quarter was mainly concentrated in August and September. For the first nine months of 2001 as a whole, re-exports recorded virtually zero growth in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose by 4% in real terms in the third quarter of 2001, having declined by 2% in the first quarter and 5% in the second quarter.

2.7 *Domestic exports* fell even more sharply, by 18% in value terms over a year earlier to \$41.4 billion in the third quarter of 2001. After netting out the decrease in prices, a 12% drop in real terms was recorded in that quarter, with the decline enlarging from 6% in July to 14% in August and further to 17% in September. Together with an 11% plunge in the first half of the year, domestic exports were down also by 11% in real terms in the first nine months of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, domestic exports had a further decline of 3% in real terms in the third quarter of 2001, following decreases of 3% in the first quarter and 1% in the second quarter.

/Table 2.5

Table 2.5**Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2000	Annual	17	17	*	18	18	*	6	8	-1
	H1	19	19	*	20	20	*	10	12	-2
	H2	15	15	*	17	17	*	3	4	-1
	Q1	20	21	*	21	21	*	14	16	-2
	Q2	17	18	*	19	19	*	6	8	-1
	Q3	18	18	*	19	19	*	8	8	*
	Q4	13	13	-1	15	15	-1	-2	-1	-1
2001	H1	-1	1	-2	*	3	-2	-13	-11	-3
	Q1-Q3	-4	-1	-2	-2	*	-2	-15	-11	-4
	Q1	2	4	-2	5	7	-1	-15	-13	-3
	Q2	-5	-2	-2	-4	-1	-2	-11	-8	-4
	Q3	-7	-4	-3	-6	-3	-3	-18	-12	-5
	Jul	-1	2	-3	1	3	-2	-11	-6	-5
	Aug	-9	-6	-3	-8	-5	-3	-20	-14	-6
	Sep	-11	-7	-3	-10	-6	-3	-23	-17	-6

Note : (*) Change of less than 0.5%.

Table 2.6**Total exports of goods, re-exports and domestic exports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

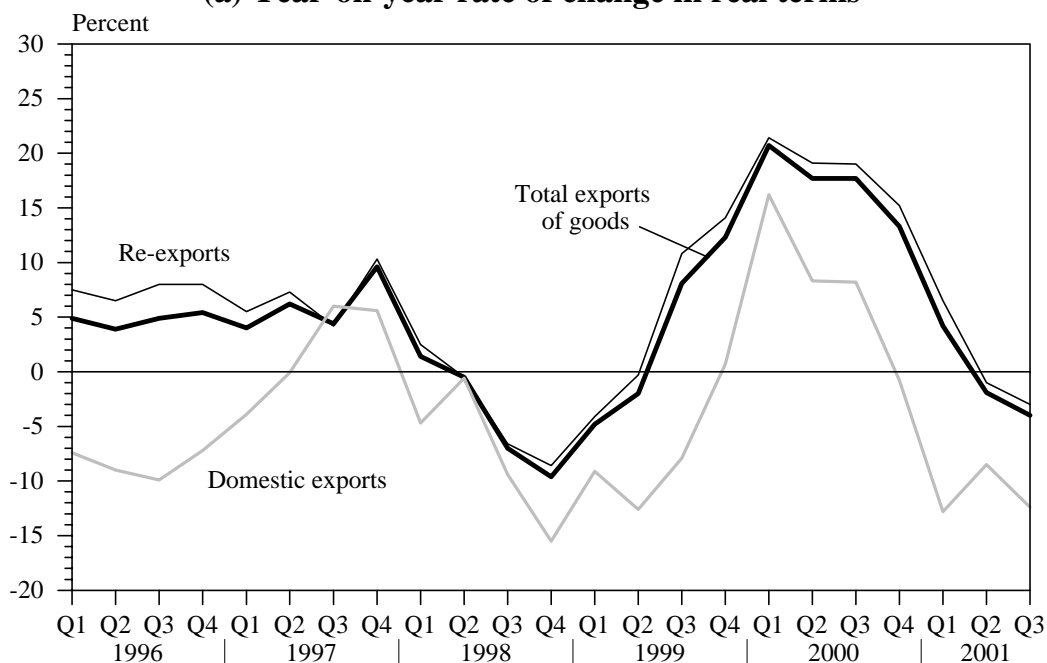
		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2000	Q1	6	6	10
	Q2	2	3	-5
	Q3	5	5	1
	Q4	1	1	-5
2001	Q1	-2	-2	-3
	Q2	-5	-5	-1
	Q3	3	4	-3

/Diagram 2.3

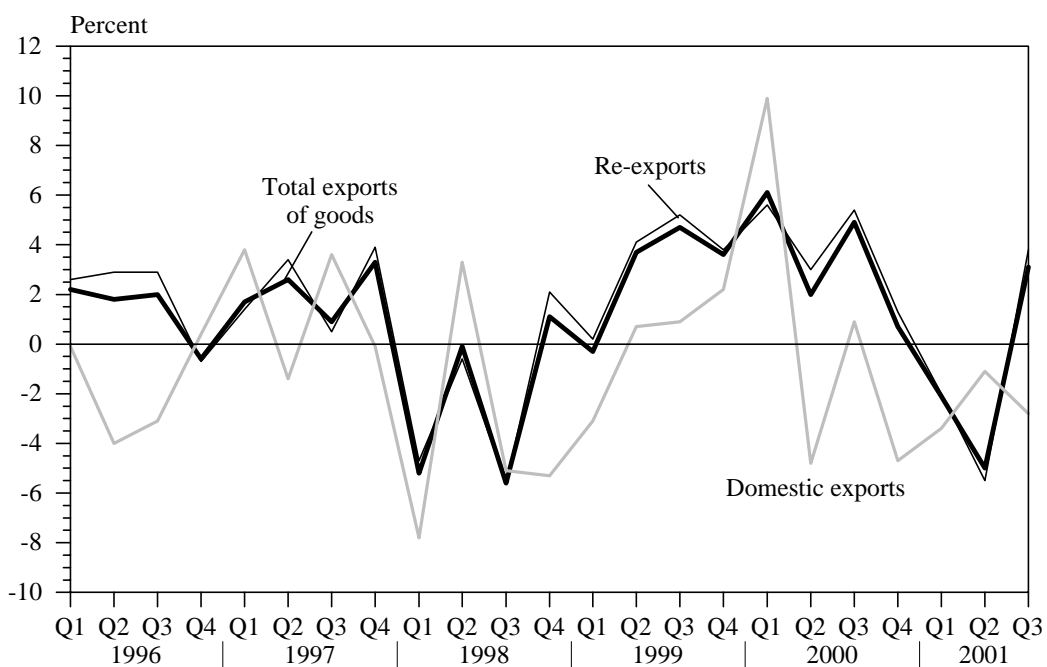
Diagram 2.3

Total exports of goods, re-exports and domestic exports

(a) Year-on-year rate of change in real terms



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



/2.8

2.8 *Imports of goods* concurrently moderated further, falling by 7% in value terms over a year earlier to \$418.8 billion in the third quarter of 2001. After netting out the decrease in prices, the decline in that quarter was 3% in real terms, reversing the 2% growth in the first half of the year. For the first nine months of 2001 as a whole, imports of goods were broadly unchanged in real terms from a year earlier. *Retained imports* eased further to a 4% decline in real terms in the third quarter of 2001 over a year earlier, after a meagre 1% rise in the first half of the year, thereby giving a 1% decrease for the first nine months of 2001 as a whole. The decline in recent months was particularly pronounced in the intake of raw materials and semi-manufactures, in turn associated with the plunge in domestic exports. Yet on a seasonally adjusted quarter-to-quarter comparison, imports of goods rebounded to a 4% rise in real terms in the third quarter of 2001, following decreases of 1% in the first quarter and 6% in the second quarter. Retained imports also rose, by 5% in real terms in the third quarter of 2001, after a 3% increase in the first quarter and a 9% drop in the second quarter.

/Table 2.7

Table 2.7

**Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports^(a)</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2000	Annual	19	18	1	23	17	5
	H1	22	21	1	27	22	5
	H2	17	16	1	20	13	5
	Q1	23	23	*	29	27	4
	Q2	20	19	1	26	18	6
	Q3	20	18	1	25	17	6
	Q4	14	13	*	16	8	3
	2001	H1	*	2	-2	-1	1
Q1-Q3		-3	*	-3	-3	-1	-4
Q1		4	5	-2	1	2	-2
Q2		-3	-1	-3	-3	*	-3
Q3		-7	-3	-4	-8	-4	-6
Jul		-1	2	-3	-4	-1	-4
Aug		-9	-6	-4	-13	-11	-7
Sep		-9	-5	-5	-8	-2	-9

Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

(*). Change of less than 0.5%.

Table 2.8

**Imports of goods and retained imports
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Imports of goods</u>	<u>Retained imports^(a)</u>
2000	Q1	6	8
	Q2	1	-5
	Q3	6	9
	Q4	1	-2
2001	Q1	-1	3
	Q2	-6	-9
	Q3	4	5

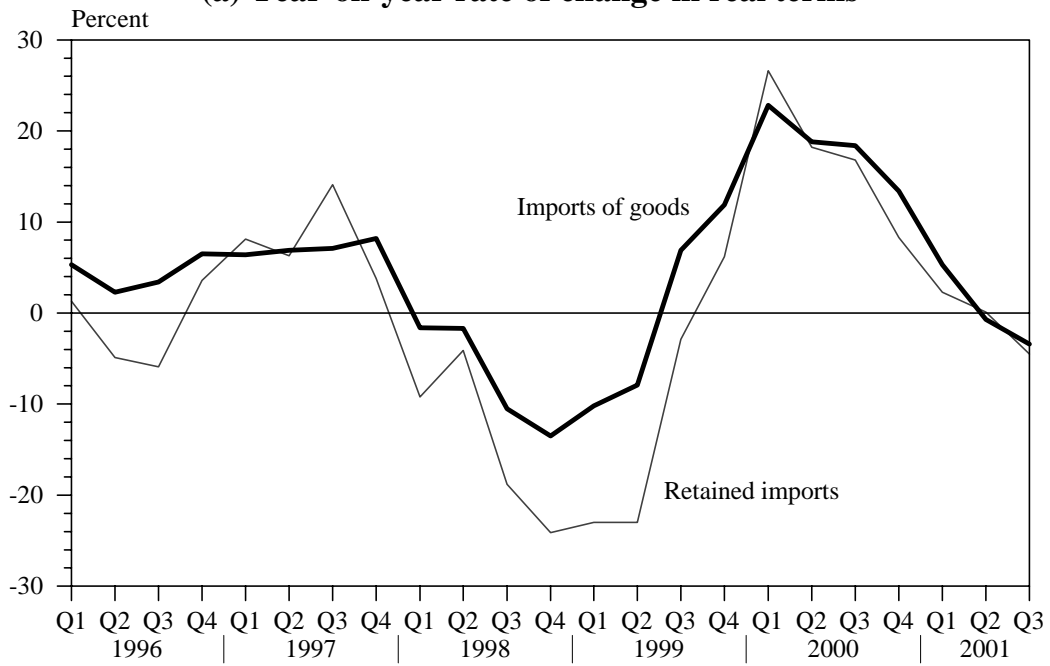
Note : (a) See Note (a) to Table 2.7.

/Diagram 2.4

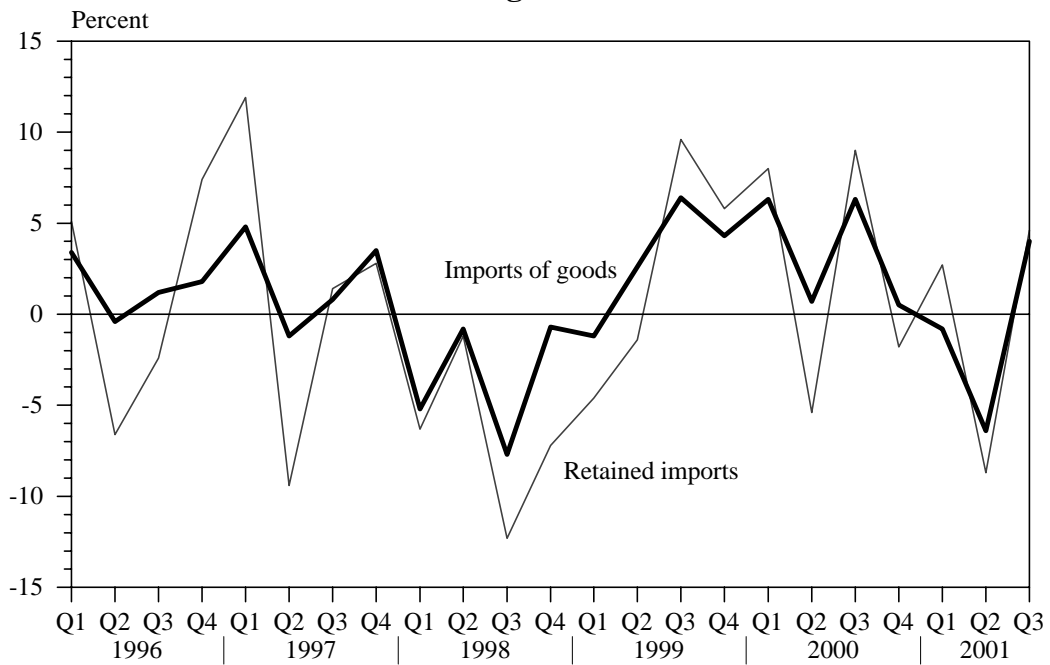
Diagram 2.4

Imports of goods and retained imports

(a) Year-on-year rate of change in real terms



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms

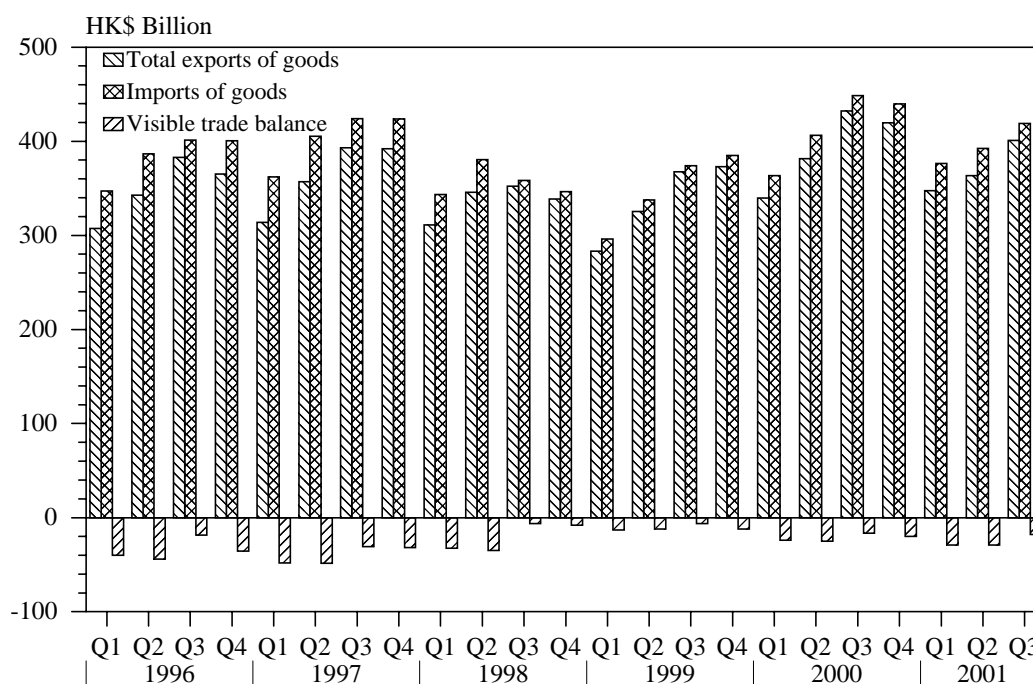


/2.9

2.9 With total exports of goods falling slightly faster than imports of goods in value, the *visible trade deficit* widened to \$17.8 billion or 4.3% of the value of imports of goods in the third quarter of 2001, from \$16.4 billion or 3.7% in the same quarter in 2000. For the first nine months of 2001 as a whole, the visible trade deficit widened to \$76.0 billion or 6.4% of the value of imports of goods, from \$65.2 billion or 5.4% in the same period in 2000.

Diagram 2.5

Value of Hong Kong's visible trade and the visible trade balance



2.10 On invisible trade, *exports of services* likewise moderated visibly, to \$87.2 billion in the third quarter of 2001, virtually unchanged in value terms from a year earlier. After netting out a small decrease in prices, there was a meagre growth of 1% in real terms. This was mainly caused by a fall-off in business demand in the region, with the setback in inbound tourism and in exports of transportation services after the 911 incident exacerbating the situation. Yet with a solid growth of 6% in the first half of the year, exports of services still had a 5% increase in real terms in the first three quarters of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services continued to go up, by 2% in real terms in the third quarter of 2001, after increases of 1% in the first quarter and 4% in the second quarter.

/2.11

2.11 *Imports of services* concurrently weakened, falling by 2% in value terms over a year earlier to \$46.8 billion in the third quarter of 2001. With little change in prices, the decline in real terms was also 2%, after a 2% rise in the first half of the year. For the first three quarters of 2001 as a whole, imports of services were only 1% larger in real terms than a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of services receded to a 2% decline in real terms in the third quarter of 2001, following a 1% increase in both the first and second quarters.

Table 2.9

**Exports and imports of services
(year-on-year rate of change (%))**

	<u>Exports of services</u>			<u>Imports of services</u>		
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2000 Annual	14	14	*	2	2	*
H1	17	17	*	1	1	*
H2	11	12	*	3	3	*
Q1	16	16	*	-1	-1	*
Q2	18	18	*	4	3	*
Q3	14	14	*	4	3	*
Q4	8	10	-1	2	3	-1
2001 H1	6	6	*	2	2	*
Q1-Q3	4	5	-1	1	1	*
Q1	6	6	*	4	4	*
Q2	5	6	-1	1	1	*
Q3	*	1	-2	-2	-2	*

Note : (*) Change of less than 0.5%.

/Table 2.10

Table 2.10

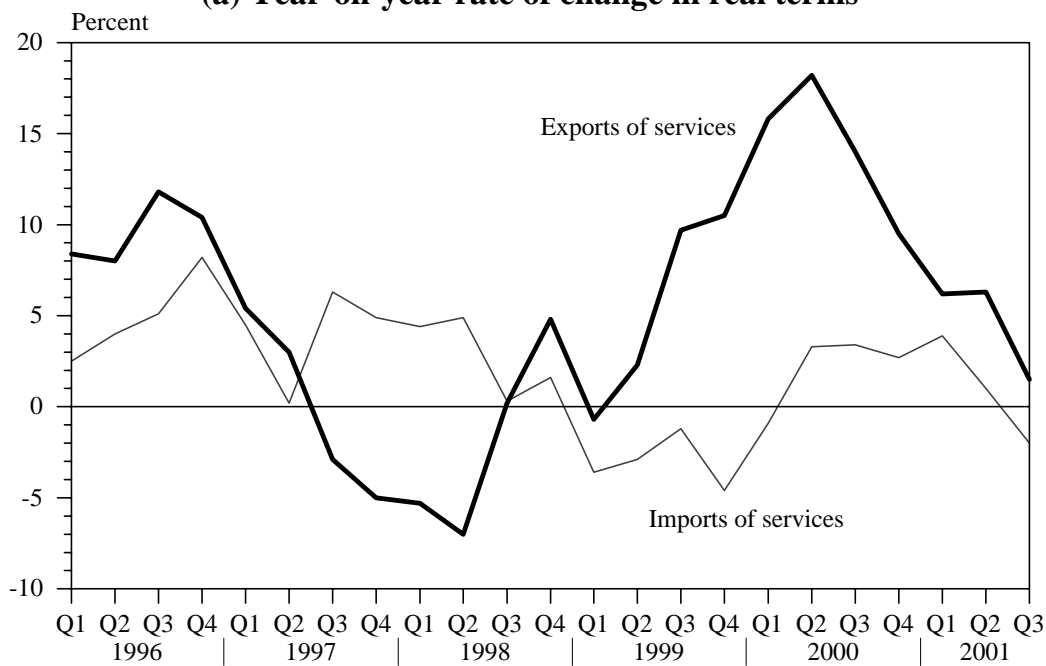
**Exports and imports of services
(seasonally adjusted quarter-to-quarter
rate of change in real terms (%))**

		<u>Exports of services</u>	<u>Imports of services</u>
2000	Q1	3	-1
	Q2	4	4
	Q3	6	1
	Q4	-5	-2
2001	Q1	1	1
	Q2	4	1
	Q3	2	-2

Diagram 2.6

Exports and imports of services

(a) Year-on-year rate of change in real terms



/Diagram 2.6 (cont'd)

Diagram 2.6 (cont'd)

(b) Seasonally adjusted quarter-to-quarter rate of change in real terms

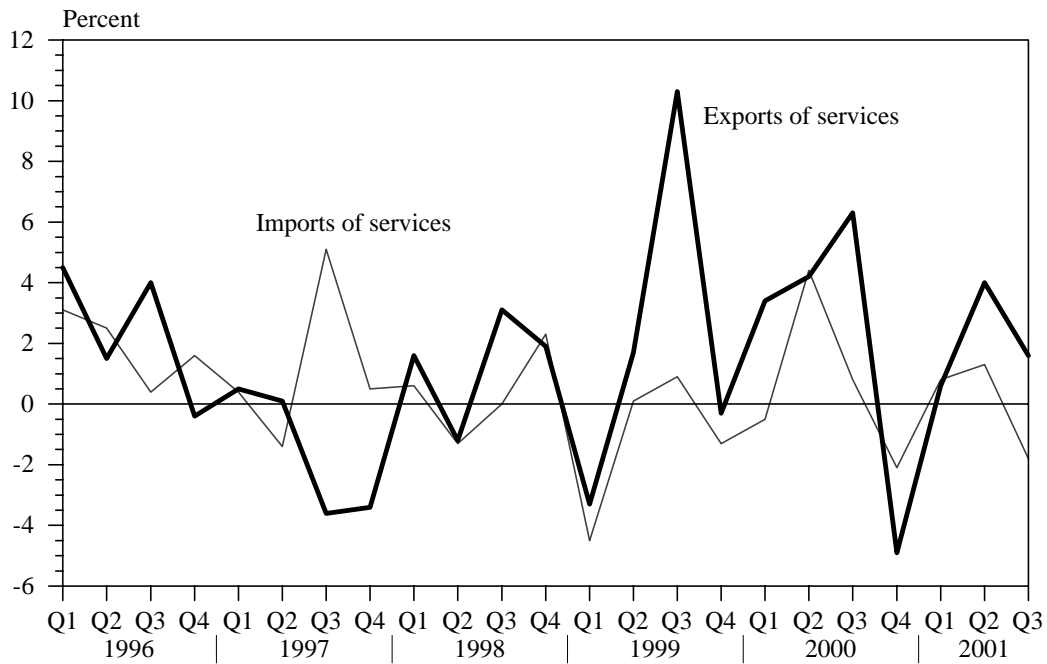
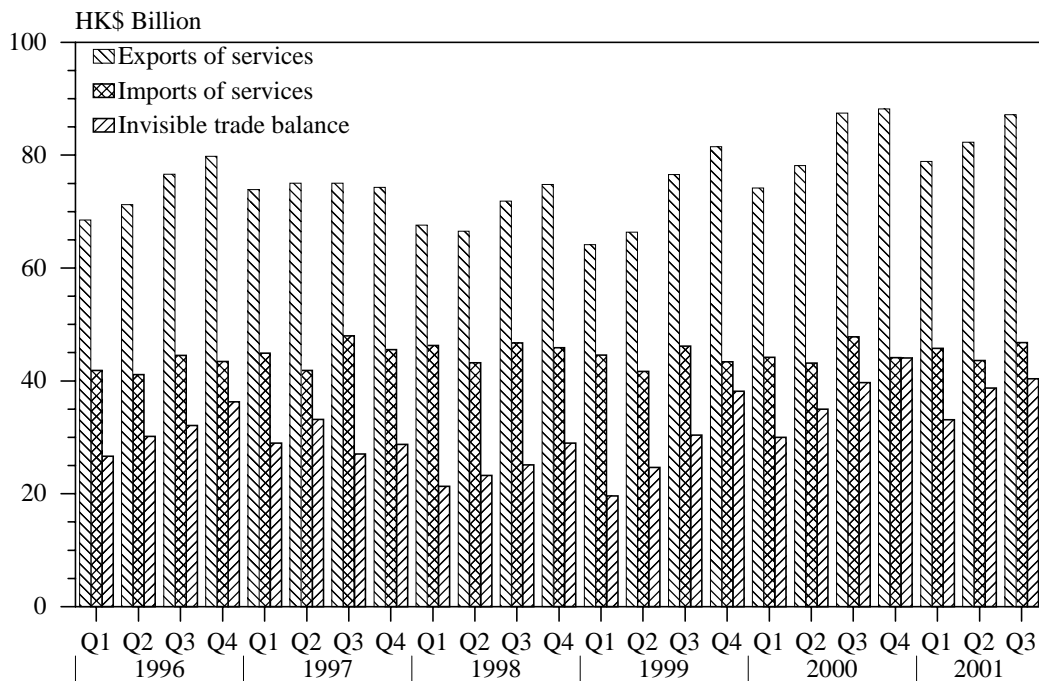


Diagram 2.7

Value of Hong Kong's invisible trade and the invisible trade balance

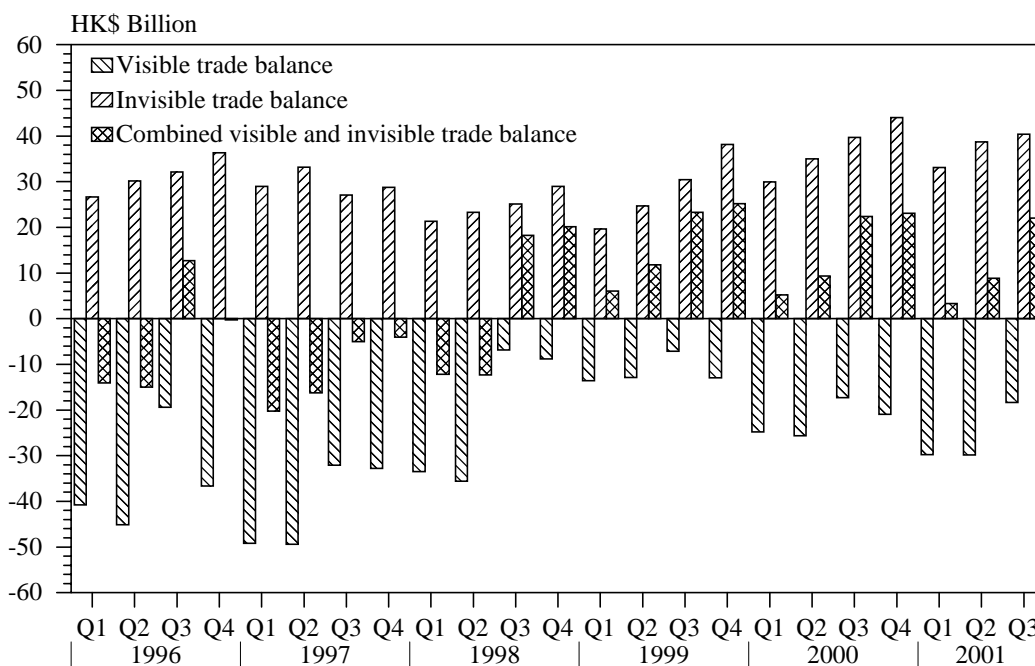


/2.12

2.12 As exports of services were virtually flat while imports of services fell in value, the *invisible trade surplus*⁽³⁾ increased further, to \$40.4 billion or 86.4% of the value of imports of services in the third quarter of 2001, from \$39.7 billion or 83.0% in the same quarter in 2000. For the first three quarters of 2001 as a whole, the invisible trade surplus rose to \$112.2 billion or 82.4% of the value of imports of services, from \$104.6 billion or 77.4% in the same period in 2000. Thus, even with a widened visible trade deficit, there was still a combined surplus (including an estimate of imports of gold for industrial use) of \$34.2 billion, equivalent to 2.6% of the total value of imports of goods and services, in the first three quarters of 2001, as compared to \$36.9 billion or 2.7% in the same period in 2000.

Diagram 2.8

Visible and invisible trade balance



/Table 2.11

Table 2.11

**Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods^(a)</u>	<u>Services</u>	<u>Goods^(a)</u>	<u>Services</u>	<u>Combined</u>
2000	Annual	1,572.7	328.0	1,661.4	179.3	-88.7	148.7	60.0
	H1	721.1	152.3	771.6	87.3	-50.5	65.0	14.5
	H2	851.5	175.7	889.8	91.9	-38.3	83.7	45.5
	Q1	339.6	74.2	364.4	44.2	-24.8	30.0	5.2
	Q2	381.6	78.1	407.2	43.2	-25.7	35.0	9.3
	Q3	432.1	87.5	449.4	47.8	-17.3	39.7	22.4
	Q4	419.5	88.2	440.4	44.1	-21.0	44.1	23.1
2001	H1	710.8	161.2	770.5	89.4	-59.6	71.8	12.2
	Q1-Q3	1,111.8	248.3	1,189.8	136.1	-78.0	112.2	34.2
	Q1	347.4	78.9	377.2	45.8	-29.8	33.1	3.3
	Q2	363.4	82.3	393.3	43.6	-29.8	38.7	8.9
	Q3	401.0	87.2	419.4	46.8	-18.4	40.4	22.0

Notes : Figures may not add up exactly to the total due to rounding.

(a) Adjusted to include an estimate of imports of gold for industrial use.

Visible trade

Total exports of goods

2.13 Reflecting the close trade relations between Hong Kong and the region, East Asia⁽⁴⁾ continued to take up the largest share of Hong Kong's total exports of goods, at 52% by value in the first nine months of 2001. This was followed by the United States (with a share of 22%), and the European Union⁽⁵⁾ (14%).

2.14 Analysed by *region*, merchandise exports underwent an across-the-board setback in the third quarter of 2001. Exports of goods to *East Asia* as a whole were dampened by the export and domestic demand slump in the region, the plunge in intra-regional trade, and the weakness in most of the East Asian currencies. There was only a 2% growth in real terms in the third quarter of 2001 over a year earlier, further down from the already markedly slower growth of 5% in the first half of the year. For the first nine months of 2001 as a whole, these exports rose by 4% in real terms over a year earlier.

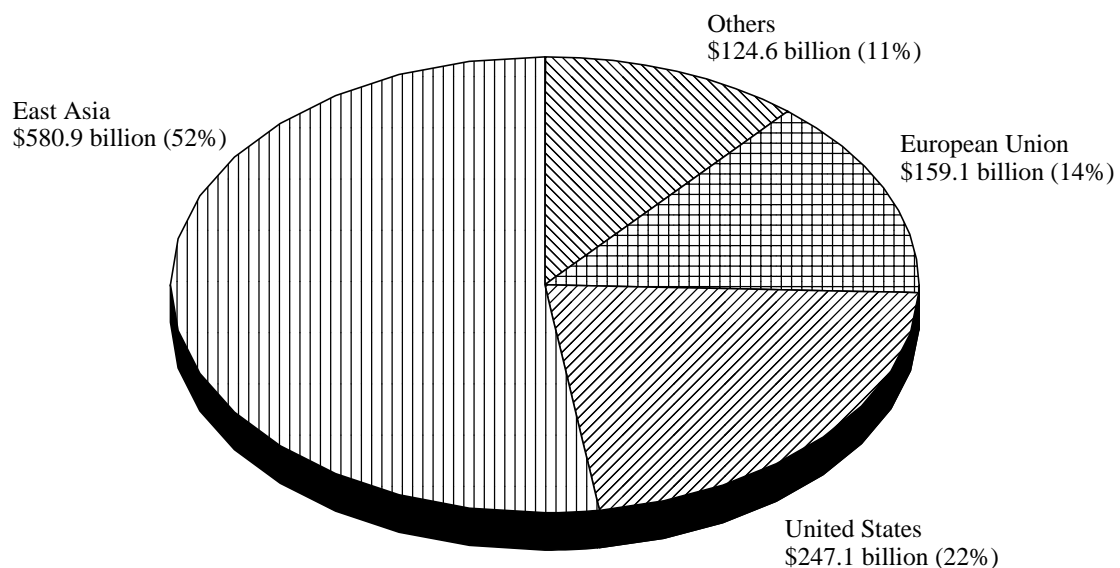
/2.15

2.15 Exports of goods to the *United States* plunged sharply, by 11% in real terms in the third quarter of 2001 over a year earlier, amidst the severe fall-off in US demand. Together with a 5% decline in the first half of the year, these exports fell by 7% in real terms in the first nine months of 2001 over a year earlier.

2.16 Exports of goods to the *European Union* also plummeted further, along with worsening economic conditions in the euro area and a weak euro. Following a 4% fall in real terms in the first half of 2001, these exports had a double-digit decline of 11% in the third quarter, giving a 7% fall in the first nine months of 2001 over a year earlier.

Diagram 2.9

**Total exports of goods by major region
in the first nine months of 2001**



Total exports of goods in the first nine months of 2001 : \$1,111.8 billion

/Table 2.12

Table 2.12**Total exports of goods by major region
(year-on-year rate of change in real terms (%))**

	<u>East Asia</u> ^{(a)(c)}	<u>United States</u>	<u>European Union</u> ^{(b)(c)}
2000 Annual	20	14	13
H1	21	16	18
H2	19	12	9
Q1	22	19	22
Q2	21	14	14
Q3	22	13	11
Q4	17	10	7
2001 H1	5	-5	-4
Q1-Q3	4	-7	-7
Q1	8	*	-1
Q2	3	-9	-8
Q3	2	-11	-11

Notes : (a) For the coverage of East Asia, see Note (4).

(b) For the coverage of the European Union, see Note (5).

(c) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods in real terms are estimated from an overall implicit price deflator covering those export markets for which separate unit value indices are not available.

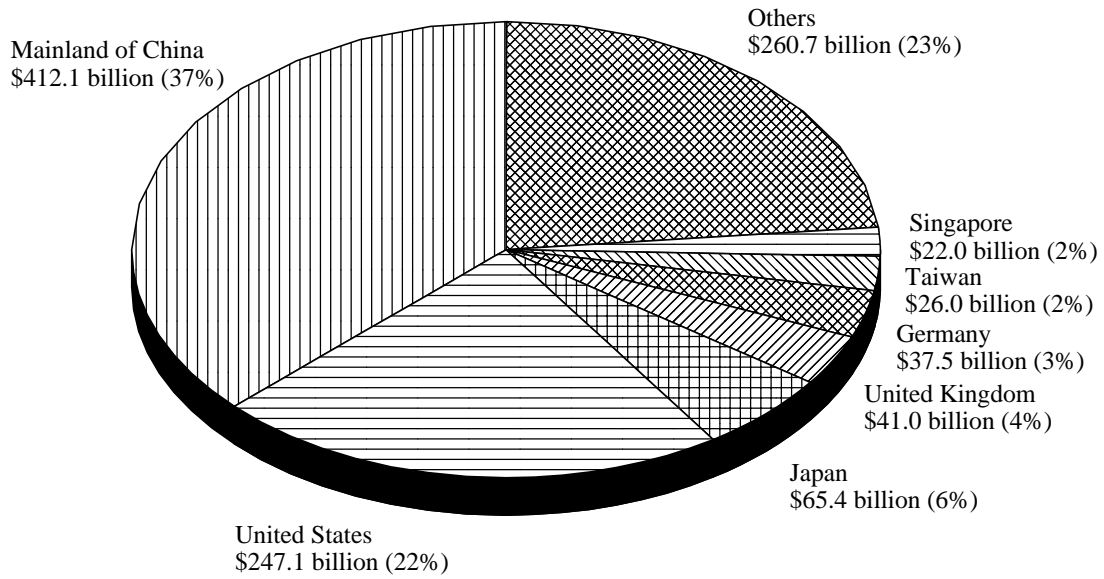
(*) Change of less than 0.5%.

2.17 Analysed by individual major *market*, the Mainland remained the largest market for Hong Kong's exports of goods, accounting for 37% of the total value in the first nine months of 2001. Other major markets included the United States (with a share of 22%), Japan (6%), the United Kingdom (4%), Germany (3%), Taiwan (2%), and Singapore (2%).

/Diagram 2.10

Diagram 2.10

**Total exports of goods by major market
in the first nine months of 2001**



Total exports of goods in the first nine months of 2001 : \$1,111.8 billion

Table 2.13

Value of total exports of goods by market

	<u>2000</u>			<u>Jan-Sep 2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,572.7	100	17	1,111.8	100	-4
Mainland of China	543.0	35	21	412.1	37	4
United States	365.5	23	14	247.1	22	-8
Japan	87.1	6	19	65.4	6	5
United Kingdom	63.0	4	13	41.0	4	-11
Germany	59.9	4	14	37.5	3	-15
Taiwan	39.8	3	21	26.0	2	-12
Singapore	36.7	2	13	22.0	2	-20
Rest of the world	377.6	24	14	260.7	23	-6

/Table 2.14

Table 2.14**Total exports of goods by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan^(a)</u>	<u>Singapore</u>
2000	Annual	19	14	23	15	17	24	19
	H1	20	16	23	24	25	27	23
	H2	18	12	23	9	10	22	17
	Q1	19	19	23	30	28	25	25
	Q2	20	14	22	20	23	28	21
	Q3	20	13	24	9	15	29	28
	Q4	16	10	22	8	6	16	7
2001	H1	7	-5	11	-8	-13	-4	-11
	Q1-Q3	7	-7	7	-9	-13	-9	-15
	Q1	9	*	16	-4	-4	-2	-6
	Q2	5	-9	7	-11	-20	-6	-16
	Q3	7	-11	-1	-11	-15	-19	-20

Notes : (a) Quantum indices of total exports of goods to Taiwan are currently not available. The figures shown here are crude estimates only.

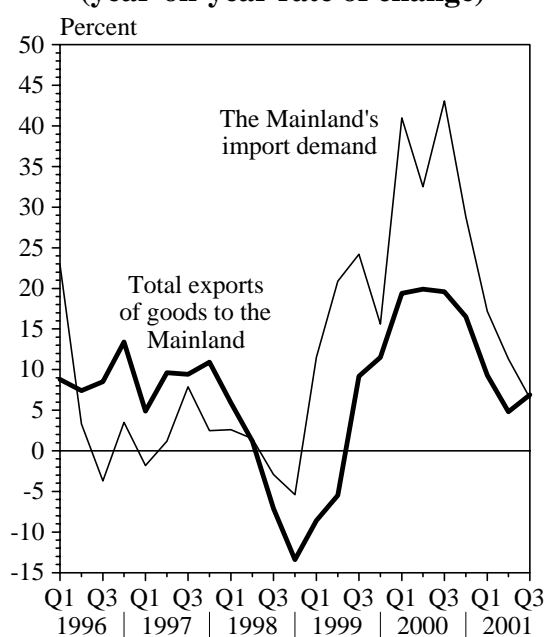
(*). Change of less than 0.5%.

/2.18

2.18 Total exports of goods to the *Mainland* still had a notable growth of 7% in real terms in the third quarter of 2001 over a year earlier. This comprised a double-digit increase of 13% in July, but followed by distinctly slower growth of 4% and 5% respectively in August and September. Together with a 7% rise in the first half of the year, total exports of goods to the Mainland rose also by 7% in real terms in the first nine months of 2001 over a year earlier. Exports to the Mainland in recent months were uneven amongst the various end-use categories, with exports of consumer goods and capital goods both maintaining solid growth along with the robust domestic demand there, yet with exports of material inputs weakening distinctly amidst the fall-off in global demand. In parallel, total exports of goods to the Mainland for meeting its own demand recorded a further double-digit growth in the first half of 2001, while total exports of goods to the Mainland for outward processing fell off distinctly.

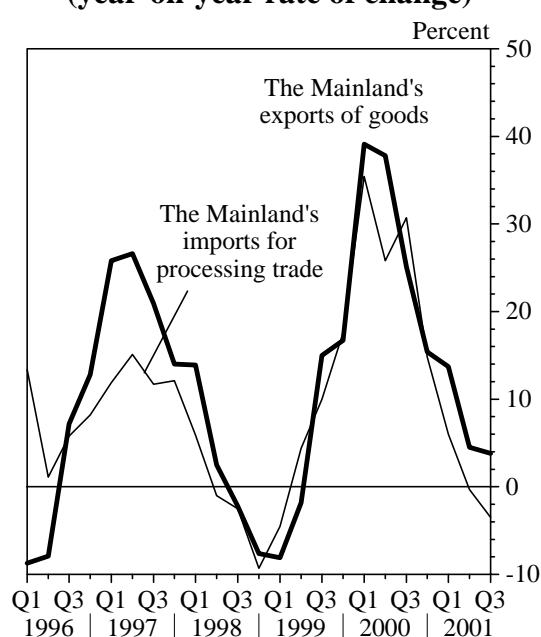
Diagram 2.11

Total exports of goods to the mainland of China and the Mainland's import demand (year-on-year rate of change)



Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in US dollar terms.

The Mainland's exports of goods and its imports for processing trade (year-on-year rate of change)



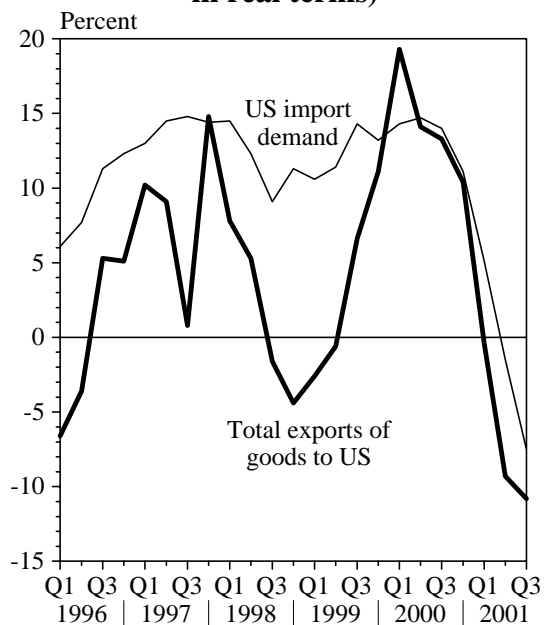
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.19

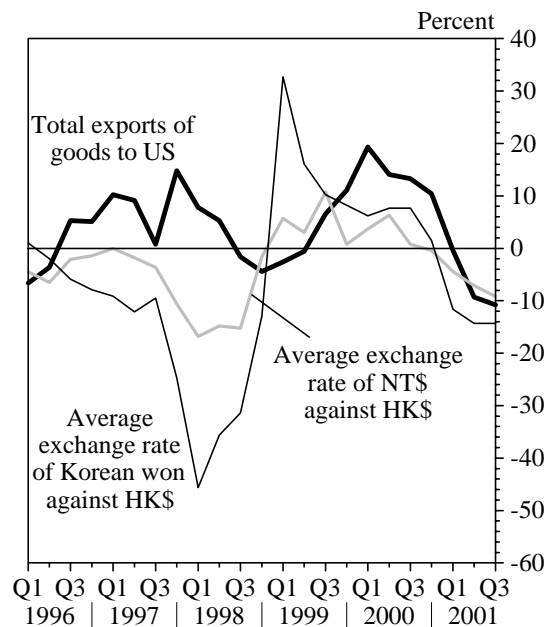
2.19 Total exports of goods to the *United States*, having declined by 5% in real terms in the first half of 2001, slackened distinctly further to an 11% fall in the third quarter over a year earlier. With air cargo flows returning to normal operation soon after the 911 incident, the effect of the disruption on exports to the United States was only modest for September as a whole. In general, the real impact of the 911 incident had yet to filter through. The weakness in exports to the United States in the third quarter was evident in all the major end-use categories. For the first nine months of 2001 as a whole, total exports of goods to the United States were down by 7% in real terms over a year earlier.

Diagram 2.12

Total exports of goods to US and US import demand (year-on-year rate of change in real terms)



Total exports of goods to US and relative price competitiveness (year-on-year rate of change)



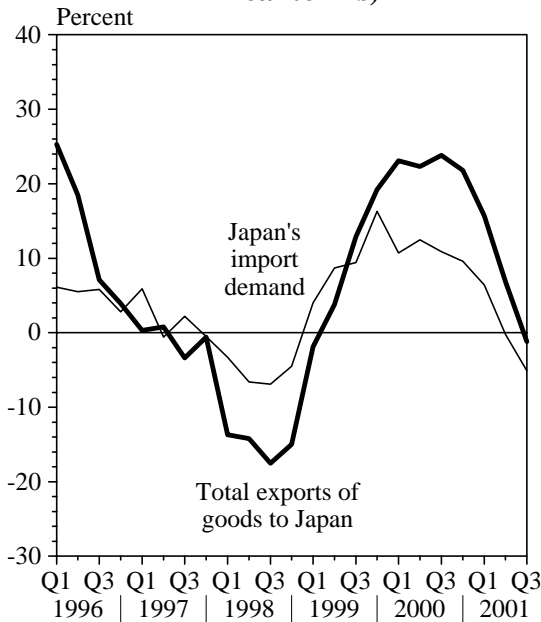
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.20

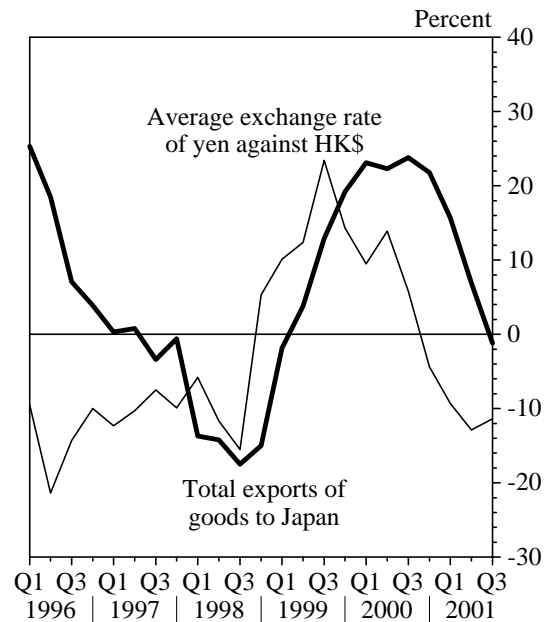
2.20 Total exports of goods to *Japan* also eased back markedly, declining by 1% in real terms in the third quarter of 2001 over a year earlier, having recorded a robust growth of 11% in the first half of the year. Taken together, total exports of goods to Japan still had a 7% growth in real terms in the first nine months of 2001 over a year earlier. The fall-off in exports to Japan in recent months occurred mainly in exports of material inputs, amidst a slump in its own exports, yet also in exports of consumer goods and capital goods, amidst its much weakened domestic demand.

Diagram 2.13

Total exports of goods to Japan and Japan's import demand (year-on-year rate of change in real terms)



Total exports of goods to Japan and the exchange rate factor (year-on-year rate of change)



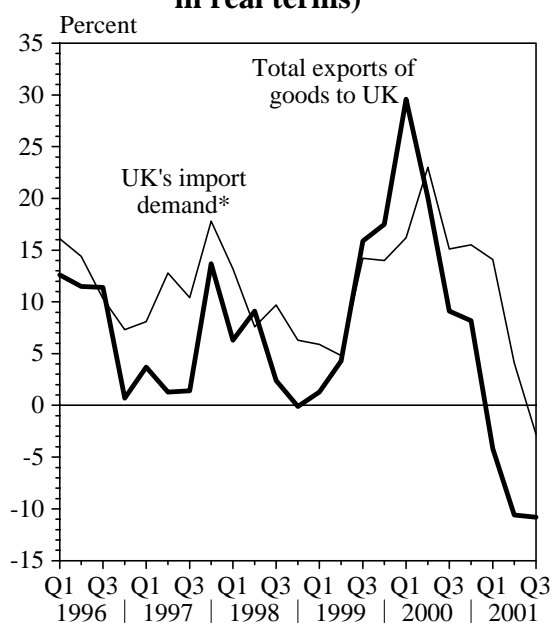
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.21

2.21 Total exports of goods to the *United Kingdom* registered a double-digit decline of 11% in real terms in the third quarter of 2001 over a year earlier, along with a distinct slackening in UK's import demand. This was down further from the 8% decrease in the first half of the year. For the first nine months of 2001 as a whole, total exports of goods to the United Kingdom fell by 9% in real terms over a year earlier.

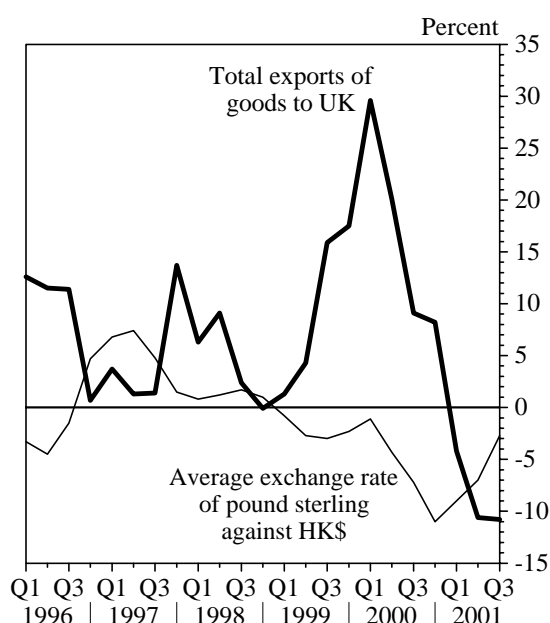
Diagram 2.14

Total exports of goods to UK and UK's import demand (year-on-year rate of change in real terms)



Note : (*) UK's import demand as depicted refers to its imports sourced from outside the European Union.

Total exports of goods to UK and the exchange rate factor (year-on-year rate of change)



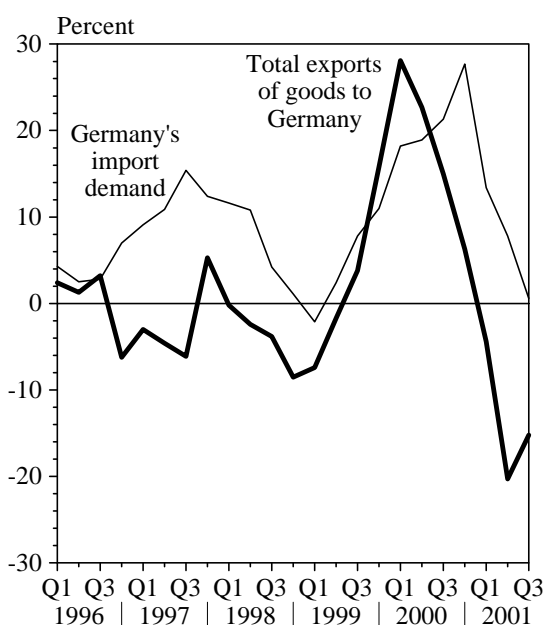
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.22

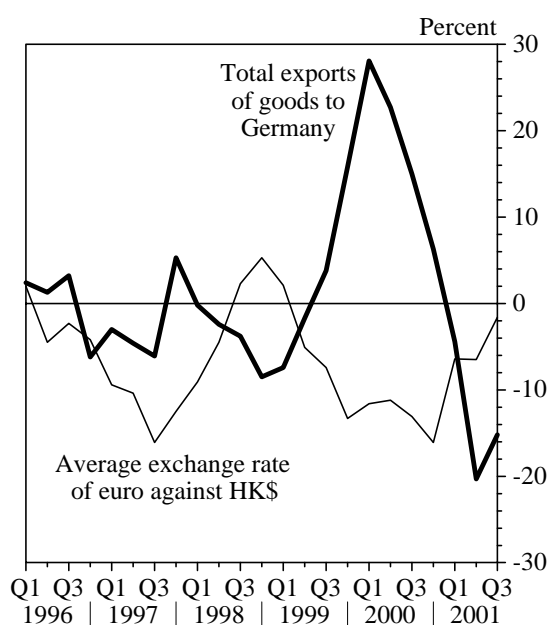
2.22 Total exports of goods to *Germany* plunged even more markedly, by 15% in real terms in the third quarter of 2001 over a year earlier. Together with a 13% decrease in the first half of the year, total exports of goods to Germany declined also by 13% in real terms in the first nine months of 2001 over a year earlier. The distinct setback in exports to this market was attributable to waning import demand amidst a slowing German economy, and conceivably also the earlier fall in the euro.

Diagram 2.15

Total exports of goods to Germany and Germany's import demand (year-on-year rate of change)



Total exports of goods to Germany and the exchange rate factor (year-on-year rate of change)



Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in value terms, i.e. in terms of its local currency.

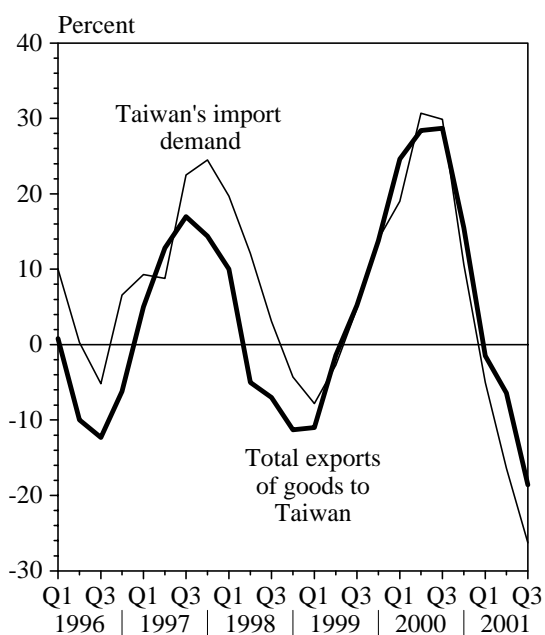
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.23

2.23 The decline in total exports of goods to *Taiwan* was enlarged considerably, to 19% in real terms in the third quarter of 2001 over a year earlier, from 4% in the first half of the year. For the first nine months of 2001 taken together, there was a 9% fall in real terms. The plunge in exports to this market was particularly sharp for material inputs and capital goods, being affected by the severe setback in Taiwan's own exports and investment.

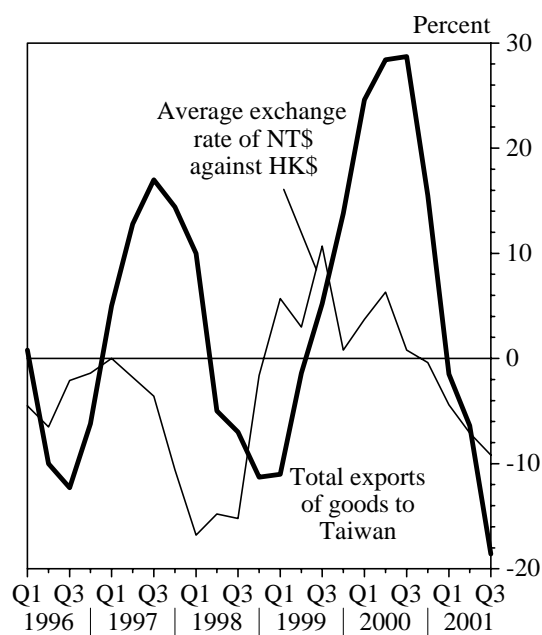
Diagram 2.16

Total exports of goods to Taiwan and Taiwan's import demand (year-on-year rate of change)



Note : See the footnote to Diagram 2.15.

Total exports of goods to Taiwan and the exchange rate factor (year-on-year rate of change)



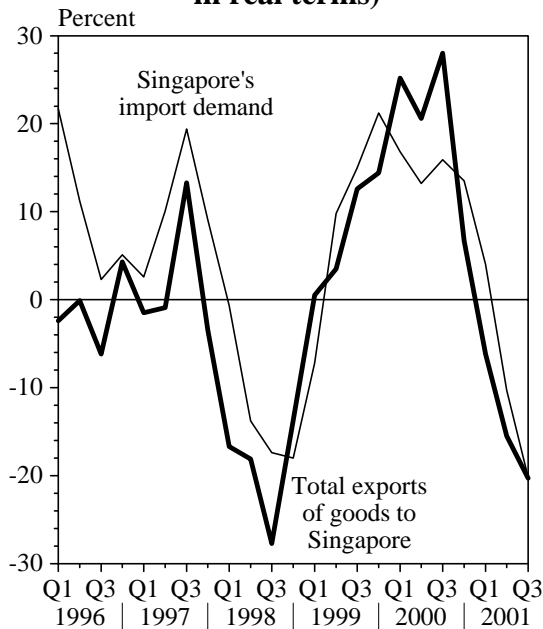
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.24

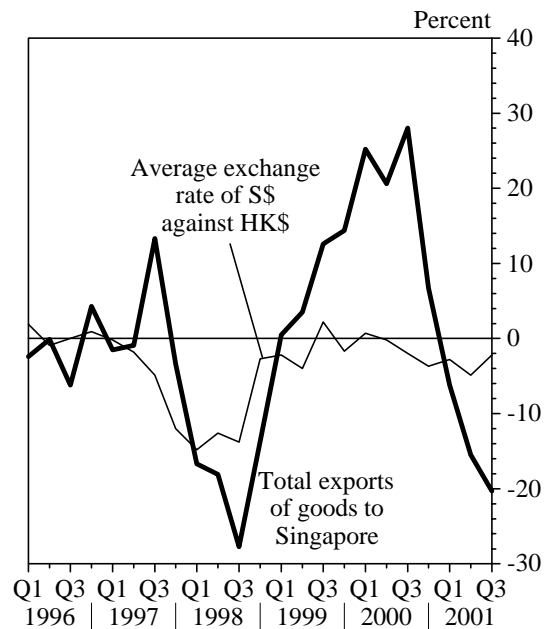
2.24 Total exports of goods to *Singapore*, having already dropped by 11% in real terms in the first half of 2001, plummeted further by 20% in the third quarter over a year earlier. This gave a 15% fall in real terms in the first nine months of 2001 over a year earlier. As in the case of Taiwan, the setback in Singapore's own exports was the main contributory factor. Singapore's exports were particularly hard hit by the global electronic down-cycle, with electronic products and components accounting for around three-fifths by value of its non-oil domestic exports.

Diagram 2.17

Total exports of goods to Singapore and Singapore's import demand (year-on-year rate of change in real terms)



Total exports of goods to Singapore and the exchange rate factor (year-on-year rate of change)



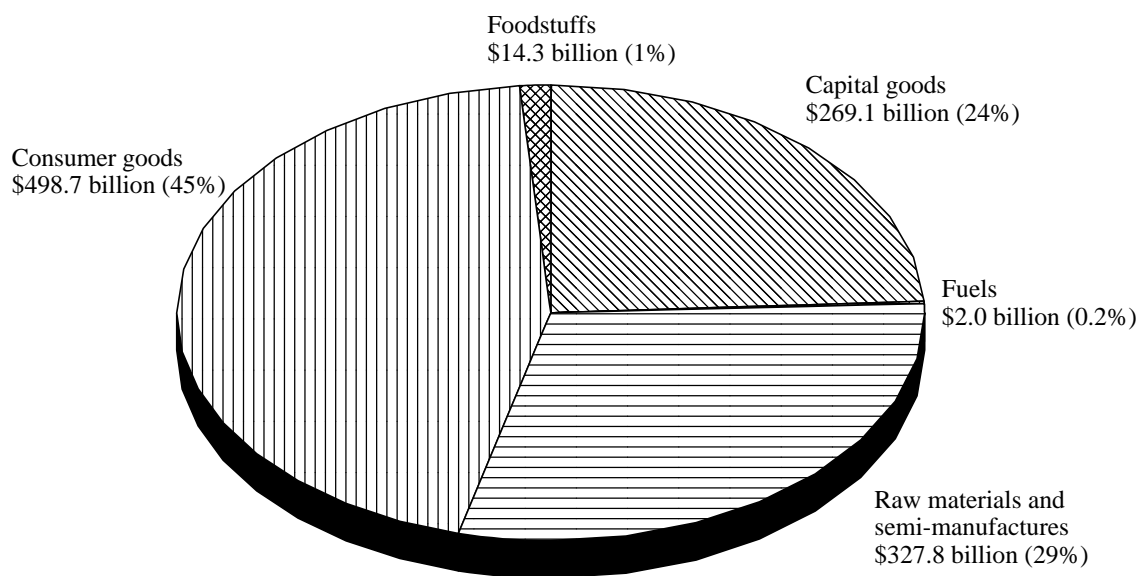
Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.25

2.25 Analysed by *end-use category*, consumer goods remained the largest category of Hong Kong's total exports of goods, accounting for 45% of the total value in the first nine months of 2001. This was followed by exports of raw materials and semi-manufactures and of capital goods, with respective shares of 29% and 24%. Total exports of goods to the Mainland and Taiwan comprised mainly raw materials and semi-manufactures for processing, while total exports of goods to most of the other major markets were mainly consumer goods. Exports in almost all the end-use categories fell in value terms in the first nine months of 2001 over a year earlier. Although exports of capital goods still had a modest growth in value terms for the first nine months of 2001 as a whole, the growth occurred solely in the first quarter, followed by declines in both the second and third quarters.

Diagram 2.18

**Total exports of goods by end-use category
in the first nine months of 2001**



Total exports of goods in the first nine months of 2001 : \$1,111.8 billion

/Table 2.15

Table 2.15

**Total exports of goods by end-use category
(year-on-year rate of change in value terms^(a) (%))**

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2000	Annual	10	5	24	22	-14
	H1	11	6	26	26	-29
	H2	10	5	22	19	3
	Q1	15	*	23	27	-29
	Q2	8	12	28	26	-29
	Q3	10	12	26	25	-10
	Q4	9	-2	19	13	18
2001	H1	-3	-8	5	-3	-7
	Q1-Q3	-5	-10	2	-6	-9
	Q1	-2	-3	14	*	1
	Q2	-5	-12	-2	-6	-14
	Q3	-7	-13	-4	-11	-12

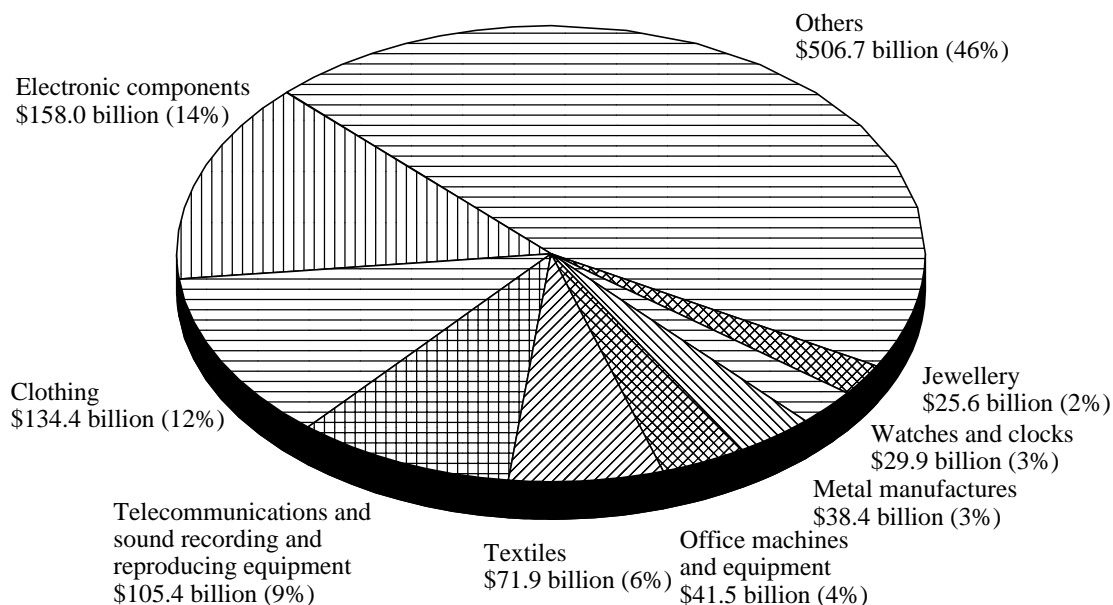
Notes : (a) Quantum indices of total exports of goods by end-use category are currently not available. Yet given the easing trend in export prices, the declines in real terms in the third quarter of 2001 and in the first nine months of the year should have been lesser than those in value terms.

(*) Change of less than 0.5%.

2.26 Analysed by major *commodity group*, electronic components took up the largest share by value of Hong Kong's total exports of goods, at 14% in the first nine months of 2001. This was followed by clothing (with a share of 12%), telecommunications and sound recording and reproducing equipment (9%), textiles (6%), and office machines and equipment (4%). Exports of textiles and of telecommunications and sound recording and reproducing equipment, which began to fall in value terms in the second quarter of 2001, continued on a decline in the third quarter. Exports of electronic components and clothing also fell off in the third quarter, after recording some increases in the second quarter. Yet exports of office machines and equipment held up well, with double-digit growth throughout the first three quarters of 2001.

/Diagram 2.19

Diagram 2.19
Total exports of goods by major commodity group
in the first nine months of 2001



Total exports of goods in the first nine months of 2001 : \$1,111.8 billion

Table 2.16
Total exports of goods by major commodity group
(year-on-year rate of change in value terms^(a) (%))

	Electronic components	Clothing	Telecom-munications and sound recording and reproducing equipment	Textiles	Office machines and equipment
2000 Annual	43	9	30	10	6
H1	50	7	28	11	7
H2	39	10	30	9	4
Q1	46	13	27	10	4
Q2	53	2	29	12	11
Q3	48	9	35	13	7
Q4	30	11	26	6	2
2001 H1	9	1	1	-7	15
Q1-Q3	3	-2	-4	-8	16
Q1	12	-2	10	1	15
Q2	7	5	-6	-12	16
Q3	-7	-7	-13	-10	16

Note : (a) Quantum indices of total exports of goods by commodity group are currently not available. Yet given the easing trend in export prices, the declines in real terms in the third quarter of 2001 and in the first nine months of the year should have been lesser than those in value terms.

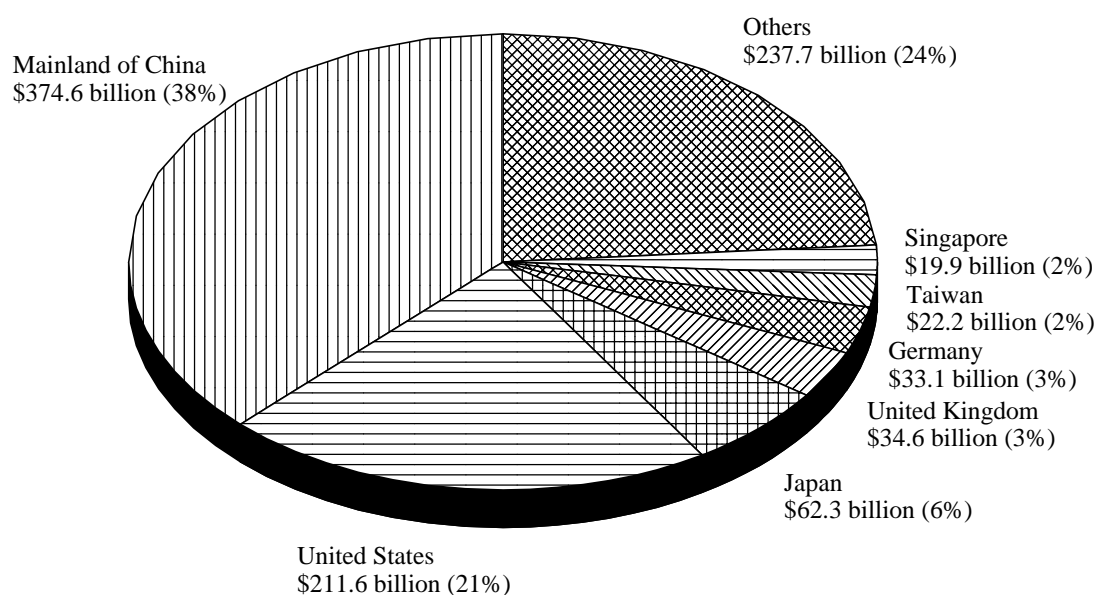
/Re-exports

Re-exports

2.27 Re-exports continued to take up a predominant share in total exports of goods, at 90% by value in the first nine months of 2001, up from 88% in the same period in 2000. Analysed by major *market*, the Mainland remained the largest market for Hong Kong's re-exports, accounting for 38% of the total value in the first nine months of 2001. This was followed by the United States (with a share of 21%), Japan (6%), the United Kingdom (3%), Germany (3%), Taiwan (2%), and Singapore (2%). Amidst the slump in global demand, re-exports to most of the major markets recorded declines of various magnitudes in real terms in the first nine months of 2001. Re-exports to the Mainland continued to fare distinctly better than many other markets, still recording solid growth in the third quarter of 2001 over a year earlier. Re-exports to Japan however came down markedly to virtually zero growth, while re-exports to the other major markets mostly had double-digit declines.

Diagram 2.20

Re-exports by major market in the first nine months of 2001



Total re-exports in the first nine months of 2001 : \$996.1 billion

/Table 2.17

Table 2.17**Value of re-exports by market**

	<u>2000</u>			<u>Jan-Sep 2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,391.7	100	18	996.1	100	-2
Mainland of China	488.8	35	22	374.6	38	5
United States	311.0	22	15	211.6	21	-7
Japan	82.1	6	22	62.3	6	6
United Kingdom	52.4	4	15	34.6	3	-9
Germany	50.6	4	15	33.1	3	-10
Taiwan	33.7	2	21	22.2	2	-11
Singapore	32.0	2	12	19.9	2	-16
Rest of the world	341.1	25	15	237.7	24	-5

Table 2.18**Re-exports by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>Japan</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>
2000	Annual	20	15	25	17	16	25	18
	H1	21	17	25	25	24	27	18
	H2	20	14	24	12	10	22	17
	Q1	20	20	26	30	26	28	20
	Q2	21	16	24	21	22	26	17
	Q3	21	14	25	12	13	30	27
	Q4	18	13	23	12	7	15	8
2001	H1	8	-5	13	-6	-7	-3	-7
	Q1-Q3	8	-7	8	-7	-8	-9	-10
	Q1	11	2	18	*	1	-2	-2
	Q2	6	-10	8	-11	-15	-4	-12
	Q3	7	-10	*	-9	-9	-19	-16

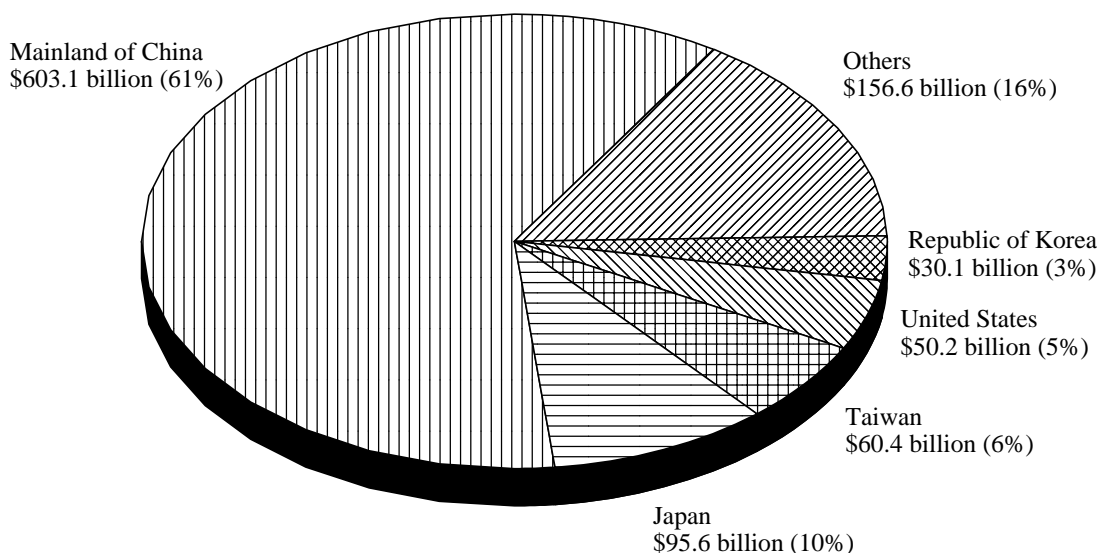
Note : (*) Change of less than 0.5%.

/2.28

2.28 Given the role of Hong Kong as a major entrepôt for the Mainland and also reflecting the significance of outward processing trade, the Mainland continued to be the largest *source* of Hong Kong's re-exports, supplying 61% by value of the goods re-exported through Hong Kong in the first nine months of 2001. This was followed by Japan (with a share of 10%), Taiwan (6%), the United States (5%), and the Republic of Korea (3%). Re-exports from most of the major sources fell in value terms in the first nine months of 2001. While re-exports sourced from the United States still recorded a modest increase in the first nine months of 2001 over a year earlier, the growth pace had decelerated sharply in recent months.

Diagram 2.21

Re-exports by major source in the first nine months of 2001



Total re-exports in the first nine months of 2001 : \$996.1 billion

/Table 2.19

Table 2.19**Value of re-exports by source**

	<u>2000</u>			<u>Jan-Sep 2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,391.7	100	18	996.1	100	-2
Mainland of China	849.5	61	18	603.1	61	-3
Japan	137.3	10	13	95.6	10	-5
Taiwan	87.9	6	22	60.4	6	-7
United States	65.5	5	15	50.2	5	3
Republic of Korea	46.1	3	19	30.1	3	-11
Rest of the world	205.4	15	21	156.6	16	5

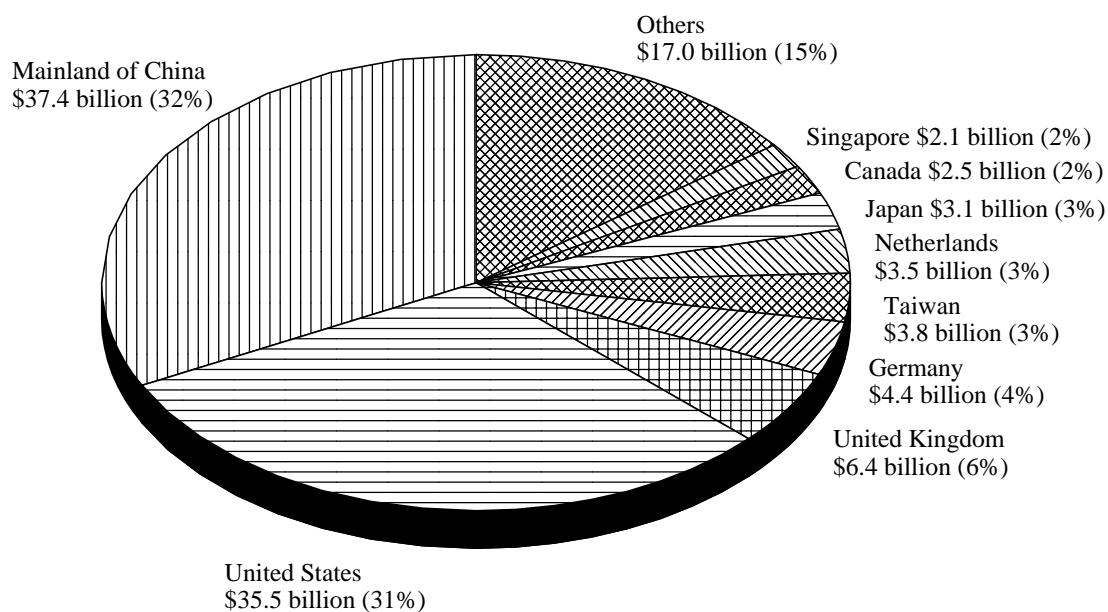
Domestic exports

2.29 The Mainland was also the largest *market* for Hong Kong's domestic exports, accounting for 32% of the total value in the first nine months of 2001. Other major markets included the United States (with a share of 31%), the United Kingdom (6%), Germany (4%), Taiwan (3%), the Netherlands (3%), Japan (3%), Canada (2%), and Singapore (2%). Domestic exports to most of the major markets recorded marked declines in real terms in the first nine months of 2001, with a particularly sharp plunge in exports to Germany and Singapore.

/Diagram 2.22

Diagram 2.22

**Domestic exports by major market
in the first nine months of 2001**



Total domestic exports in the first nine months of 2001 : \$115.7 billion

Table 2.20

Value of domestic exports by market

	2000			Jan-Sep 2001		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	181.0	100	6	115.7	100	-15
Mainland of China	54.2	30	7	37.4	32	-8
United States	54.4	30	6	35.5	31	-13
United Kingdom	10.7	6	3	6.4	6	-21
Germany	9.3	5	9	4.4	4	-39
Taiwan	6.1	3	20	3.8	3	-15
Netherlands	3.9	2	-5	3.5	3	19
Japan	5.1	3	-7	3.1	3	-20
Canada	3.2	2	2	2.5	2	4
Singapore	4.7	3	28	2.1	2	-41
Rest of the world	29.4	16	3	17.0	15	-24

/Table 2.21

Table 2.21**Domestic exports by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan^(a)</u>	<u>Netherlands^(a)</u>	<u>Japan</u>	<u>Canada^(a)</u>	<u>Singapore</u>
2000	Annual	8	6	6	21	21	-5	-5	3	31
	H1	12	11	22	29	23	-5	-8	-3	54
	H2	4	2	-5	14	19	-5	-2	8	15
	Q1	17	17	26	35	5	5	-10	-8	67
	Q2	8	7	17	24	42	-14	-6	2	43
	Q3	6	7	-2	23	19	-6	*	11	32
	Q4	2	-3	-9	5	19	-4	-4	5	*
2001	H1	-3	-8	-15	-33	-11	41	-18	15	-34
	Q1-Q3	-1	-11	-16	-36	-14	34	-18	8	-38
	Q1	-5	-12	-21	-26	-1	6	-19	16	-30
	Q2	-1	-5	-9	-41	-19	81	-17	14	-37
	Q3	3	-15	-17	-41	-18	20	-19	-1	-45

Notes : (a) Quantum indices of domestic exports to Taiwan, the Netherlands and Canada are currently not available. The figures shown here are crude estimates only.

(*) Change of less than 0.5%.

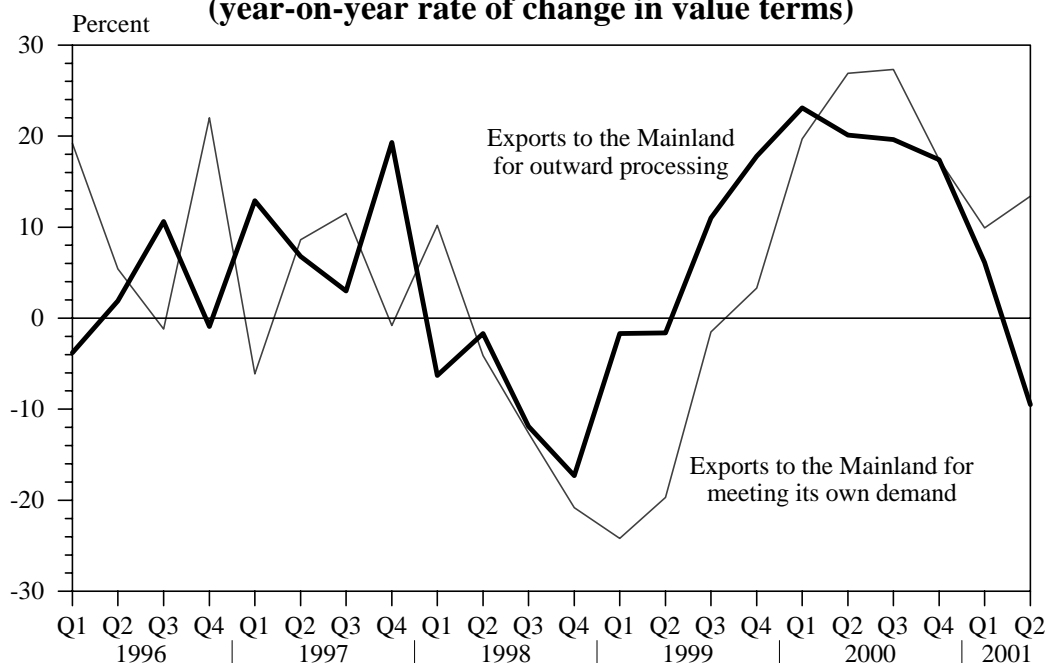
Outward processing trade

2.30 Outward processing trade⁽⁶⁾ continued to feature prominently in Hong Kong's merchandise trade. But with the distinct fall-off in exports of material inputs for processing caused by the slump in global demand, the proportion of exports to the Mainland for outward processing in Hong Kong's total exports of goods to the Mainland fell to 48% in the first half of 2001, from 52% in the same period in 2000. The proportion of re-exports of Mainland origin which were related to outward processing in Hong Kong's overall re-exports from the Mainland, at 84% in the first half of 2001, was also down, from 86% in the same period in 2000. As to Hong Kong's imports of goods from the Mainland, 78% were related to outward processing in the first half of 2001, same as in the same period in 2000.

/2.31

2.31 Total exports of goods to the Mainland for outward processing slackened, with a 3% decline in value terms over a year earlier to \$127.1 billion in the first half of 2001, in stark contrast to a robust growth of 18% in the second half of 2000. But total exports of goods to the Mainland for meeting its own demand remained strong, rising by 12% in value terms over a year earlier to \$136.2 billion in the first half of 2001, having already soared by 22% in the second half of 2000.

Diagram 2.23
Exports to the mainland of China for outward processing
and for meeting its own demand
(year-on-year rate of change in value terms)



/Table 2.22

Table 2.22

**Total exports of goods to the mainland of China
for outward processing and for meeting its own demand
(year-on-year rate of change in value terms (%))**

		<i>of which :</i>		
		<u>Total exports of goods to the Mainland</u>	<u>Total exports of goods to the Mainland for outward processing</u>	<u>Total exports of goods to the Mainland for meeting its own demand</u>
2000	Annual	21	20	23
	H1	22	21	23
	H2	20	18	22
	Q1	21	23	20
	Q2	23	20	27
	Q3	23	20	27
	Q4	17	17	17
2001	H1	4	-3	12
	Q1	8	6	10
	Q2	1	-10	13

2.32 Imports of goods from the Mainland after outward processing likewise eased, with virtually zero growth in value terms over a year earlier to \$252.4 billion in the first half of 2001. This was again in stark contrast to a 16% surge in the second half of 2000. Re-exports of Mainland origin after outward processing concurrently slackened, with a 4% decline in value terms over a year earlier to \$280.7 billion in the first half of 2001, from a marked increase of 13% in the second half of 2000.

/Table 2.23

Table 2.23

**Imports of goods from the mainland of China
and re-exports of Mainland origin
to overseas markets after outward processing
(year-on-year rate of change in value terms (%))**

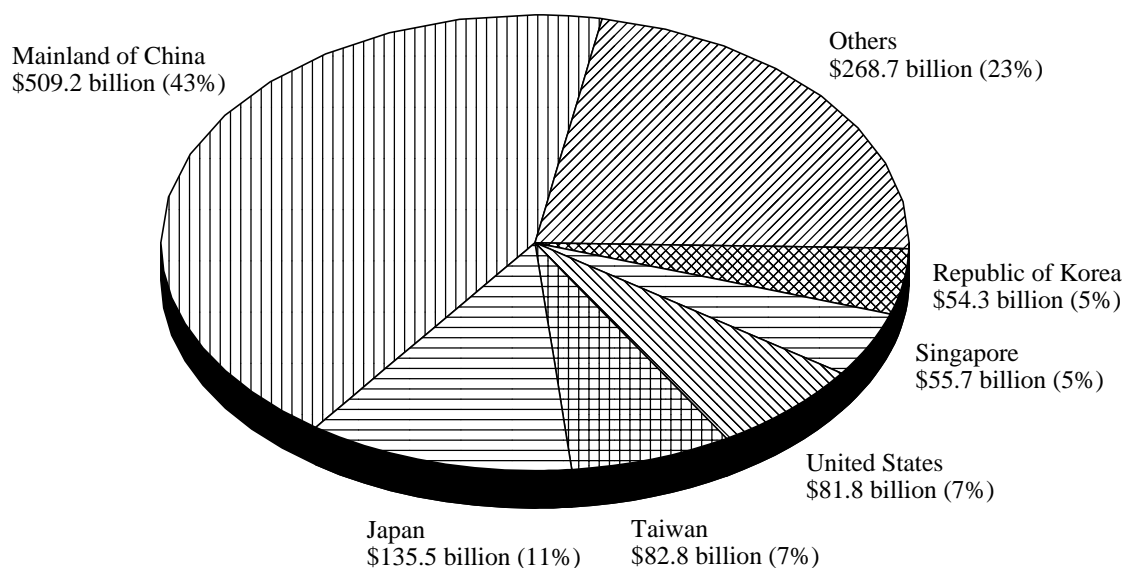
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2000	Annual	16	14
	H1	16	15
	H2	16	13
	Q1	15	13
	Q2	18	16
	Q3	23	14
	Q4	10	11
2001	H1	*	-4
	Q1	5	1
	Q2	-4	-9

Note : (*) Change of less than 0.5%.

Imports of goods

2.33 Reflecting Hong Kong as a key conduit for the Mainland's exports, the Mainland remained the largest *source* of Hong Kong's imports of goods, accounting for 43% of the total value in the first nine months of 2001. This was followed by Japan (with a share of 11%), Taiwan (7%), and the United States (7%). Imports of goods from all the major sources slowed markedly in real terms in the first nine months of 2001, with a distinct moderation seen in both re-export trade and intake of imports for local use.

/Diagram 2.24

Diagram 2.24**Imports of goods by major source
in the first nine months of 2001**

Total imports of goods in the first nine months of 2001 : \$1,187.8 billion

Table 2.24**Value of imports of goods by source**

	<u>2000</u>			<u>Jan-Sep 2001</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,658.0	100	19	1,187.8	100	-3
Mainland of China	715.0	43	18	509.2	43	-3
Japan	199.0	12	22	135.5	11	-7
Taiwan	124.2	7	24	82.8	7	-10
United States	112.8	7	14	81.8	7	-1
Singapore	75.0	5	25	55.7	5	*
Republic of Korea	80.6	5	23	54.3	5	-8
Rest of the world	351.4	21	18	268.7	23	4

Note : (*) Change of less than 0.5%.

/Table 2.25

Table 2.25

**Imports of goods by major source
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>
2000	Annual	19	18	18	14
	H1	23	23	20	16
	H2	17	15	16	13
	Q1	25	24	22	17
	Q2	21	22	20	14
	Q3	21	16	21	12
	Q4	13	15	12	14
2001	H1	1	-1	-2	3
	Q1-Q3	-2	-4	-5	1
	Q1	6	*	*	3
	Q2	-4	-1	-4	3
	Q3	-6	-10	-10	-3

Note : (*) Change of less than 0.5%.

Retained imports

2.34 The Mainland had surpassed Japan to become the largest *source* of Hong Kong's retained imports in the first nine months of 2001, accounting for about 14% of the total value in that period. Other major suppliers included Japan (with a share also of about 14%), the United States (9%), the Republic of Korea (8%), Singapore (7%), and Taiwan (7%).

2.35 Analysed by *end-use category*, retained imports of consumer goods recorded a further strong growth of 17% in real terms in the third quarter of 2001 over a year earlier, with the growth concentrated in intake of motor cars and electrical appliances, but with intake of ordinary consumer goods being generally more modest. Together with a 9% rise in the first half of the year, retained imports of consumer goods had an 11% growth in real terms in the first nine months of 2001 over a year earlier. Retained imports of foodstuffs rebounded to a marked increase of 15% in real terms in the third quarter of 2001 over a year earlier, after a 3% decline in the first half of the year, hence yielding a 3% growth in real terms for the first nine months of 2001 as a whole.

/2.36

2.36 Retained imports of capital goods, after a distinct fall-off in the second quarter, reverted to a notable increase of 9% in real terms in the third quarter of 2001 over a year earlier. With an 11% rise in the first half of the year, this gave a 10% growth in real terms for the first nine months of 2001 as a whole. The rebound in the third quarter was mainly bolstered by a surge in intake of construction machinery and aircraft. Intake of industrial machinery and office equipment were however distinctly weak.

2.37 Retained imports of raw materials and semi-manufactures plummeted by 25% in real terms in the third quarter of 2001 over a year earlier, amidst the plunge in domestic exports. Together with a 7% decrease in the first half of the year, there was a 13% decline in real terms in the first nine months of 2001 over a year earlier. Retained imports of fuels fell by 2% in real terms in the third quarter of 2001 over a year earlier, reversing the 3% rise in the first half of the year. This gave a 1% increase in real terms for the first nine months of 2001 as a whole.

Table 2.26

**Retained imports by end-use category
(year-on-year rate of change in real terms (%))**

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2000	Annual	15	7	38	17	-18
	H1	21	19	43	22	-19
	H2	8	-2	35	12	-17
	Q1	22	11	51	29	-7
	Q2	21	28	36	15	-27
	Q3	22	*	38	16	-24
	Q4	-4	-4	31	8	-9
2001	H1	9	-3	11	-7	3
	Q1-Q3	11	3	10	-13	1
	Q1	*	4	28	-10	5
	Q2	18	-9	-2	-4	2
	Q3	17	15	9	-25	-2

Notes : (*) Change of less than 0.5%.

Also see Note (a) to Table 2.7.

/Table 2.27

Table 2.27**Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))**

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Other capital goods</u>
2000	Annual	38	28	20	44
	H1	46	39	140	29
	H2	31	19	-19	59
	Q1	16	27	463	35
	Q2	78	48	68	25
	Q3	68	38	-2	48
	Q4	*	5	-36	70
2001	H1	10	46	-18	18
	Q1-Q3	-4	36	-17	19
	Q1	15	73	18	31
	Q2	7	28	-46	7
	Q3	-24	18	-15	22

Notes : (*) Change of less than 0.5%.

Also see Note (a) to Table 2.7.

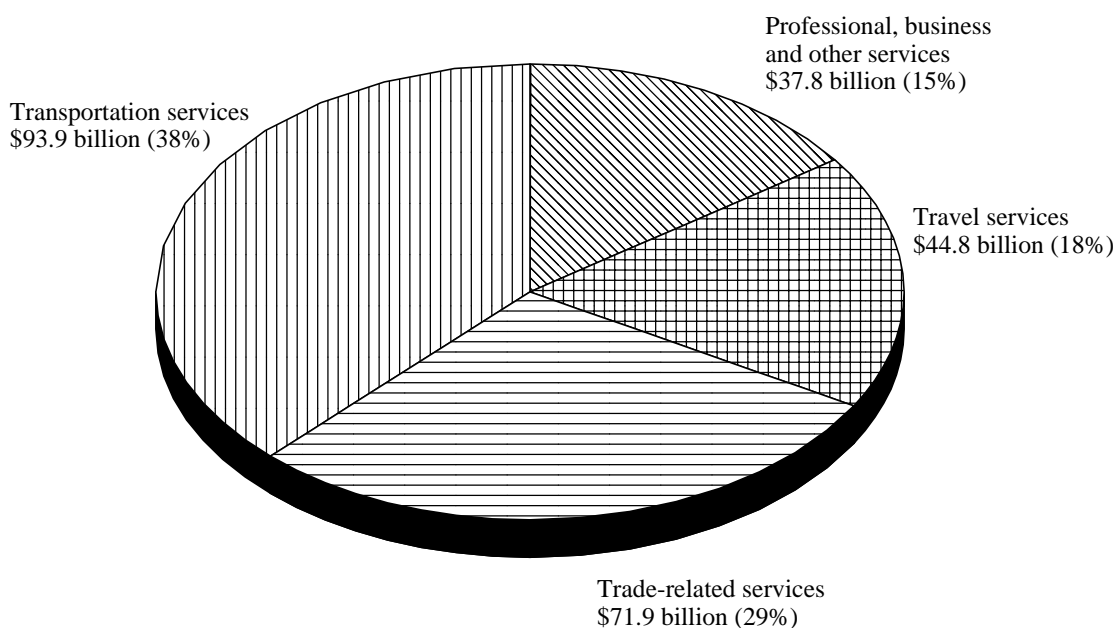
Invisible trade***Exports of services***

2.38 Transportation services continued to take up the largest share in Hong Kong's exports of services, at 38% by value in the first three quarters of 2001. This was followed by exports of trade-related services (comprising mainly offshore trading) (with a share of 29%), travel services (18%), and professional, business and other services (15%).

/Diagram 2.25

Diagram 2.25

**Exports of services by broad type
in the first three quarters of 2001**



Exports of services in the first three quarters of 2001 : \$248.3 billion

2.39 Overall exports of services slowed down visibly, to a meagre growth of 1% in real terms in the third quarter of 2001 over a year earlier. Yet with a solid growth of 6% in the first half of the year, overall exports of services still had a 5% increase in real terms in the first three quarters of 2001 over a year earlier. Within the total, exports of transportation services were most affected by the setback in global trade, giving a 1% decline in real terms in the third quarter of 2001 over a year earlier, reversing the 6% growth in the first half of the year. Exports of professional, business and other services also moderated, as business demand in the region faltered. There was an increase of only 1% in real terms in the third quarter of 2001 over a year earlier, further down from an already modest growth of 2% in the first half of the year. Exports of travel services, comprising mainly inbound tourism receipts, decelerated to an increase of 3% in real terms in the third quarter of 2001 over a year earlier, markedly down from a notable growth of 8% in the first half of the year. This was caused at least in part by the plunge in visitor arrivals after the 911 incident, particularly so for visitors from the United States. Yet exports of trade-related services were broadly sustained, upon further growth in the Mainland's merchandise trade as well as an on-going structural shift towards offshore trading activities. There was a 4% growth in real terms in the third quarter of 2001 over a year earlier, though milder than the 8% surge in the first half of the year.

/Table 2.28

Table 2.28

**Exports of services by broad category
(year-on-year rate of change in real terms (%))**

of which :

		<u>Exports of services</u>	<u>Transportation services</u>	<u>Trade-related services^(a)</u>	<u>Travel services^(b)</u>	<u>Professional, business and other services</u>
2000	Annual	14	11	16	10	24
	H1	17	12	17	15	33
	H2	12	10	16	6	16
	Q1	16	9	17	5	47
	Q2	18	15	16	26	20
	Q3	14	13	15	7	22
	Q4	10	6	17	5	11
	2001	H1	6	6	8	8
	Q1-Q3	5	3	6	7	2
	Q1	6	8	11	5	-3
	Q2	6	4	5	11	8
	Q3	1	-1	4	3	1

Notes : (a) Comprising mainly offshore trading.

(b) Comprising mainly inbound tourism receipts.

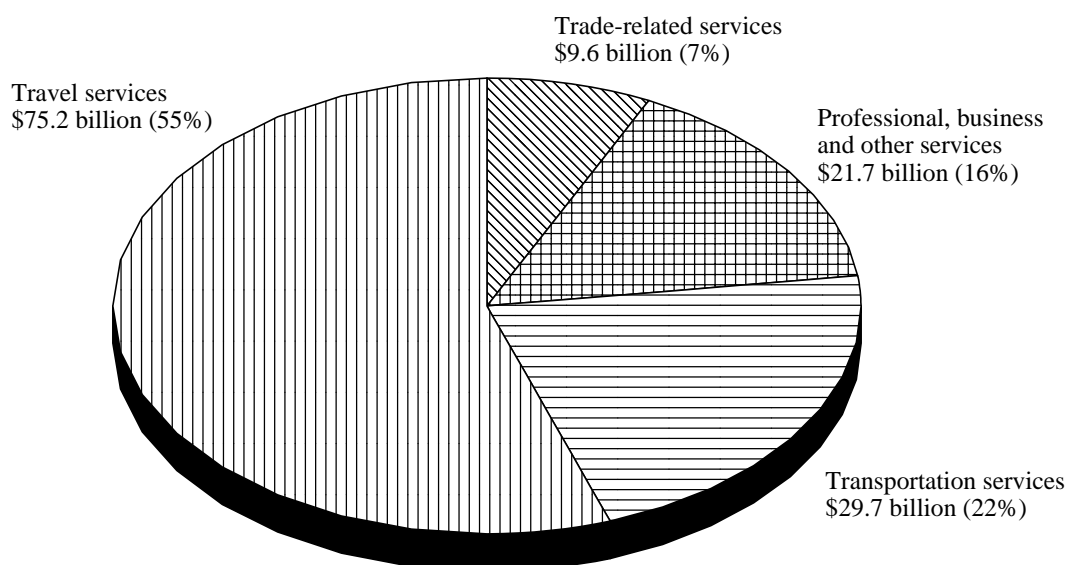
Imports of services

2.40 Travel services continued to account for the largest share in Hong Kong's imports of services, at 55% by value in the first three quarters of 2001. This was followed by imports of transportation services (with a share of 22%), professional, business and other services (16%), and trade-related services (7%).

/Diagram 2.26

Diagram 2.26

**Imports of services by broad type
in the first three quarters of 2001**



Imports of services in the first three quarters of 2001 : \$136.1 billion

2.41 Amidst the distinct setback in merchandise trade and slow-down in other economic activities, overall imports of services weakened to a 2% fall in real terms in the third quarter of 2001 over a year earlier, after a 2% increase in the first half of the year. This gave a meagre 1% rise in real terms for the first three quarters of 2001 as a whole over a year earlier. Within the overall imports of services in the third quarter, imports of trade-related services had the largest decline, by 5% in real terms in the third quarter of 2001 over a year earlier, after a 1% decrease in the first half of the year. Imports of travel services also eased back, with a 2% decrease in real terms in the third quarter of 2001 over a year earlier, following a 2% growth in the first half of the year. Imports of transportation services were down by 1% in real terms in the third quarter of 2001 over a year earlier, after a 3% growth in the first half of the year. Imports of professional, business and other services recorded virtually zero growth in real terms in the third quarter of 2001 over a year earlier, having risen by 3% in the first half of the year.

/Table 2.29

Table 2.29

**Imports of services by broad category
(year-on-year rate of change in real terms (%))**

of which :

		<u>Imports of services</u>	<u>Travel services</u> ^(a)	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Professional, business and other services</u>
2000	Annual	2	-5	4	7	18
	H1	1	-7	4	7	23
	H2	3	-2	4	6	14
	Q1	-1	-11	1	8	31
	Q2	3	-3	7	7	15
	Q3	3	-2	4	6	16
	Q4	3	-3	3	7	12
2001	H1	2	2	3	-1	3
	Q1-Q3	1	1	1	-2	2
	Q1	4	5	7	2	*
	Q2	1	*	*	-3	7
	Q3	-2	-2	-1	-5	*

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.5%.

Overall balance of payments⁽⁷⁾

2.42 With continued surplus in the combined visible and invisible trade account and a further net inflow of external factor income, there was a current account surplus of \$7.9 billion, equivalent to 2.6% of GDP, in the second quarter of 2001. This came after a current account surplus of \$11.6 billion equivalent to 3.8% of GDP in the first quarter.

2.43 In the capital and financial account, direct investment inflow remained robust in the second quarter of 2001, underpinned in large part by the sustained inflow of re-invested earnings. With a relatively small direct investment outflow at the same time, there was a net inflow of direct

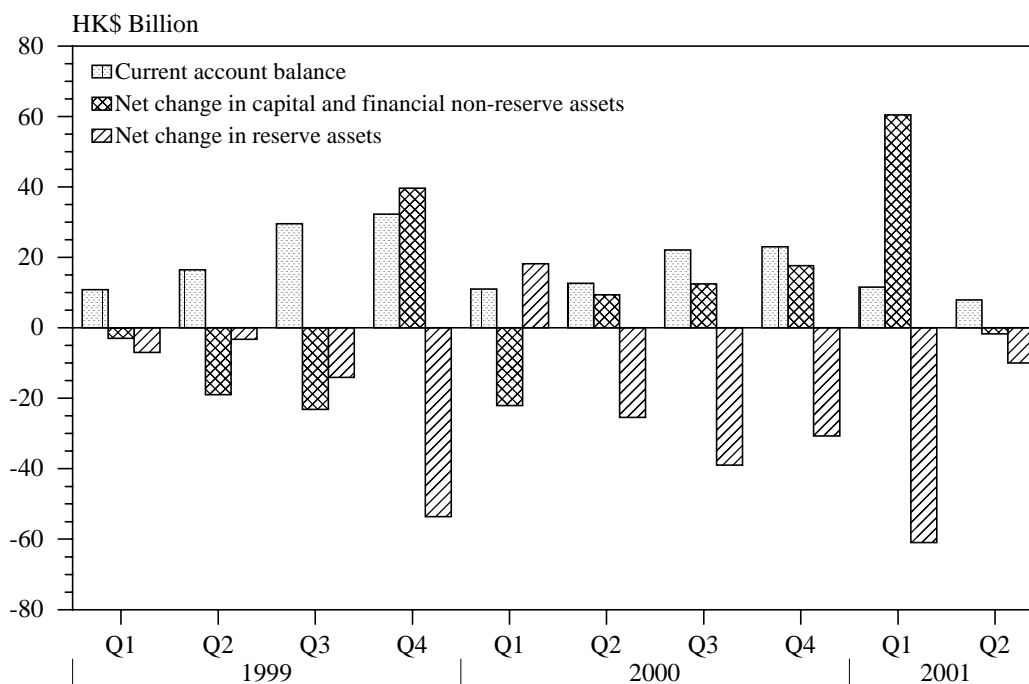
/investment

investment at \$37.4 billion in that quarter. On the other hand, portfolio investment had a further net outflow, at \$52.3 billion in the second quarter of 2001, due to increased holding of non-resident debt securities by domestic banks amidst ample liquidity in the banking sector. Other investment switched back to a small net outflow, at \$4.8 billion in the second quarter of 2001, with a reduction in placement of offshore deposits by non-resident banks more than offsetting a concurrent fall in offshore lending and deposits by resident banks. Taken together, there was still a net inflow of financial non-reserve assets at \$1.4 billion in the second quarter of 2001, equivalent to 0.5% of GDP in that quarter. Yet this was much smaller than the corresponding inflow of \$61.9 billion equivalent to 20.4% of GDP in the first quarter.

2.44 The positive balances in the current account and the financial non-reserve assets thus contributed to an overall balance of payments surplus of \$9.9 billion in the second quarter of 2001, equivalent to 3.2% of GDP in that quarter. Yet this was also much smaller than the balance of payments surplus of \$61.0 billion equivalent to 20.1% of GDP in the first quarter. Reserve assets correspondingly increased by the same magnitudes.

Diagram 2.27

Major balances in Hong Kong's balance of payments



Note : A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

/Table 2.30

Table 2.30

Hong Kong's balance of payments account
(\$ billion at current market prices)

	<u>1999</u> [#]	<u>2000</u> [#]	<u>2000</u>				<u>2001</u>	
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]
Current account ^(a)	89.1	68.8	11.1	12.6	22.1	23.0	11.6	7.9
Trade in goods	-24.5	-64.0	-19.3	-19.3	-10.5	-14.9	-24.6	-23.9
Trade in services	90.8	124.0	24.5	28.6	32.8	38.0	27.9	32.8
External factor income flows	34.8	21.5	9.2	6.4	2.9	3.0	12.0	2.1
Current transfers	-11.9	-12.7	-3.3	-3.1	-3.1	-3.2	-3.7	-3.1
Capital and financial account	-83.4	-59.4	-3.9	-16.0	-26.5	-13.0	-0.5	-11.6
Net change in capital transfers	-13.8	-11.8	-1.9	-3.6	-3.7	-2.5	-1.4	-3.1
Net change in financial non-reserve assets	8.3	29.3	-20.1	13.0	16.2	20.2	61.9	1.4
<i>of which :</i>								
Direct investment	40.7	11.0	-1.4	58.7	21.9	-68.2	59.1	37.4
Portfolio investment	256.8	226.9	87.0	5.5	2.0	132.3	-108.1	-52.3
Financial derivatives	79.0	-4.6	-41.5	15.6	-1.1	22.3	-9.2	21.1
Other investment	-368.2	-204.0	-64.2	-66.8	-6.7	-66.3	120.1	-4.8
Net change in reserve assets ^(b)	-77.9	-76.8	18.2	-25.4	-39.0	-30.6	-61.0	-9.9
Net errors and omissions	-5.7	-9.4	-7.2	3.4	4.4	-10.0	-11.0	3.7
Overall balance of payments	77.9	76.8	-18.2	25.4	39.0	30.6	61.0	9.9

Notes : (#) Revised figures.

(a) According to the international statistical standard for compiling balance of payments (BoP) account, imports of goods are valued on free-on-board (f.o.b.) basis, which is different from the practice for merchandise trade statistics where imports are valued on cost, insurance and freight (c.i.f.) basis. In the BoP account, the insurance and freight costs related to merchandise imports are classified as imports of services.

(b) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

/Notes

Notes :

- (1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.
- (3) Exports of financial and banking services in the GDP account include commissions and fees for rendering financial and related ancillary services to non-residents. However, these do not include interest receipts from non-residents, which account for a major part of the external receipts of financial intermediaries in Hong Kong. Interest receipts from non-residents are correctly classified as investment income from abroad under GNP. The same situation applies, in an opposite direction, to interest payments to non-residents. Hence the trade in services component and the invisible trade surplus of Hong Kong would have been larger if such interest receipts and payments were classified to the services account.
- (4) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (5) There are currently 15 member countries in the European Union, namely, the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece and Portugal.
- (6) Outward processing arrangements are made between Hong Kong companies and manufacturing entities in the Mainland under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Mainland entities. Raw materials or semi-manufactures are normally exported to the Mainland for such processing. The Mainland entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment.

There is no restriction on outward processing activities in general. However, outward processing on goods which claim Hong Kong origin status is strictly governed by the Hong Kong origin rules. The Trade and Industry Department operates an effective administrative arrangement whereby goods manufactured in Hong Kong but having undergone outward processing activities can be conferred Hong Kong origin status subject to the Hong Kong origin rules being fully met.

/(7)

- (7) A balance of payments (BoP) account is a statistical framework that systematically summarises the external transactions of an economy with the rest of the world in a specific time period. A complete BoP account comprises the current account and the capital and financial account. The current account records the flows of real resources, including exports and imports of goods and services, income received from and paid to abroad, and current transfers from and to abroad. The capital account records external capital transfers, and external acquisitions and disposals of non-produced and non-financial assets. The financial account records transactions in financial assets and liabilities between residents and non-residents, including direct investment, portfolio investment, financial derivatives, and other investment. Also included is net change in reserve assets.

CHAPTER 3 : THE DOMESTIC ECONOMY

Local manufacturing output

3.1 The volume of local manufacturing output, as measured by the Index of Industrial Production⁽¹⁾, showed nil change in the second quarter of 2001 over a year earlier, continuing the trend seen in the preceding three quarters. Yet performance varied amongst the major constituent industries. Output of the machinery and equipment industry continued to expand, by 4% in volume in the second quarter of 2001 over a year earlier. Output of the wearing apparel, textiles, and paper products and printing industries also rose, by 3%, 2% and 2% respectively in volume. On the other hand, output of the consumer electrical and electronic products industry decreased by 2% in volume. Output of the fabricated metal products and plastic products industries fell more distinctly, by 9% and 11% respectively in volume. On a seasonally adjusted quarter-to-quarter comparison, the volume of local manufacturing output was virtually unchanged in the second quarter of 2001, after a 1% increase in the first quarter.

Table 3.1

Index of Industrial Production for the major local manufacturing industries (year-on-year rate of change in volume (%))

	<u>2000</u>					<u>2001</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>
Wearing apparel	3	2	4	3	3	3	3
Textiles	4	1	4	5	5	4	2
Plastic products	-11	-12	-12	-9	-11	-12	-11
Consumer electrical and electronic products	-1	1	-1	-3	-1	*	-2
Machinery and equipment	7	5	8	8	6	6	4
Fabricated metal products	-19	-15	-22	-16	-20	-7	-9
Paper products and printing	2	4	-1	5	*	*	2
Overall manufacturing	-1	-1	-1	*	*	*	*
		<3>	<*>	<-2>	<-1>	<1>	<*>

Notes : (#) Provisional figures.

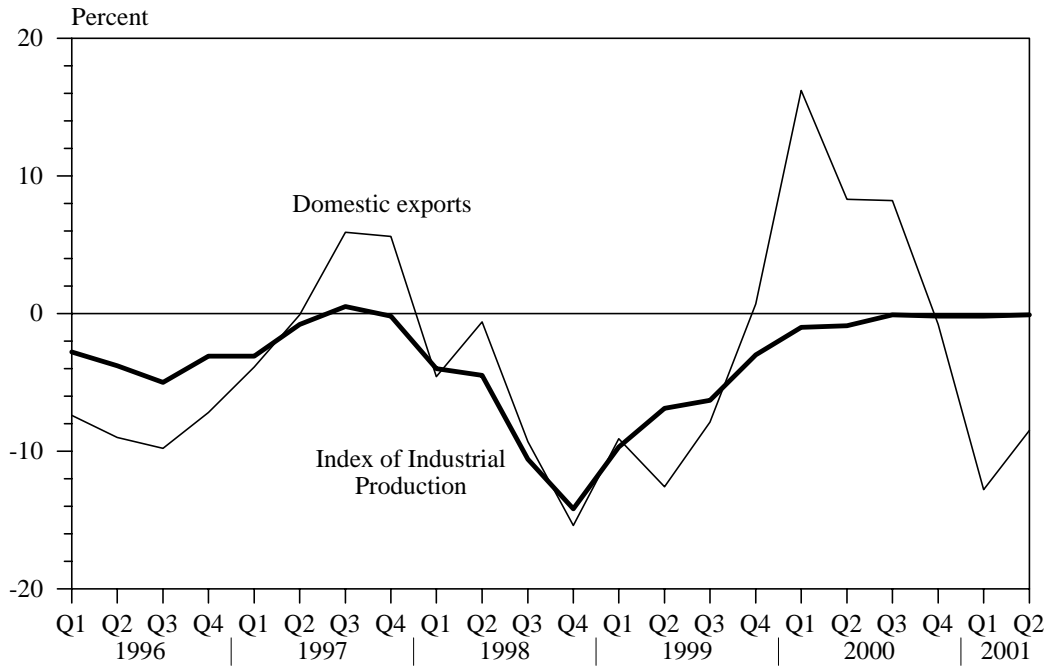
(*) Change of less than 0.5%.

< > Seasonally adjusted quarter-to-quarter % change in volume.

/Diagram 3.1

Diagram 3.1

**Local manufacturing output and domestic exports
(year-on-year rate of change in real terms)**



3.2 A contraction in local manufacturing output seemed likely in the third quarter of 2001, in view of the more distinct declines in both domestic exports and orders-on-hand⁽²⁾ as well as the significant drop in retained imports of raw materials and semi-manufactures in that quarter.

/Diagram 3.2

Diagram 3.2

**Orders-on-hand and domestic exports
(year-on-year rate of change in value terms)**

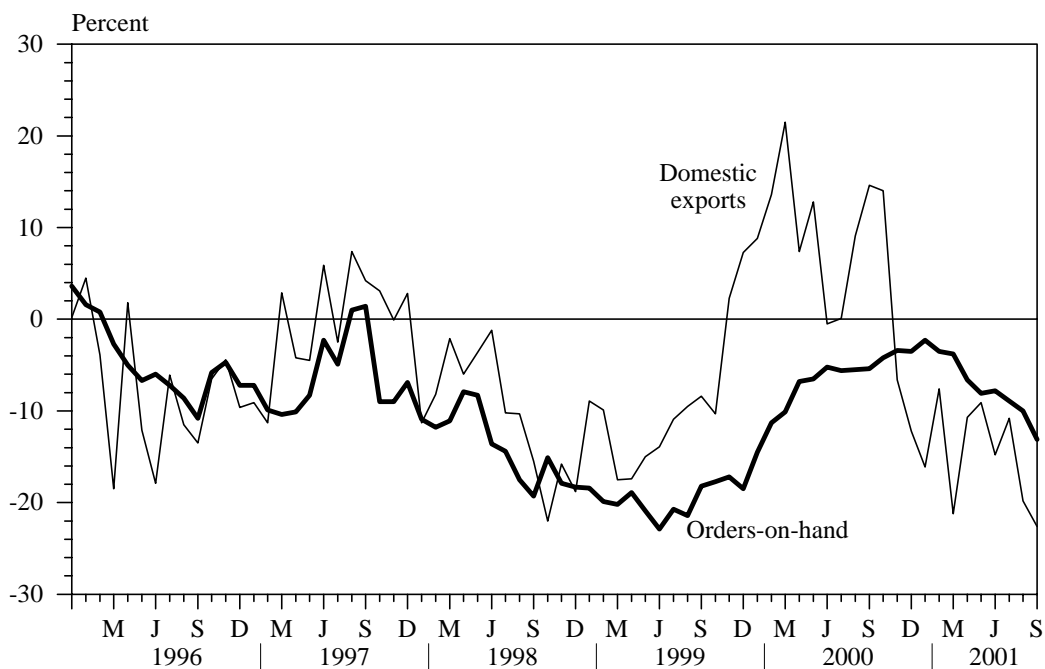


Table 3.2

Orders-on-hand in the local manufacturing sector

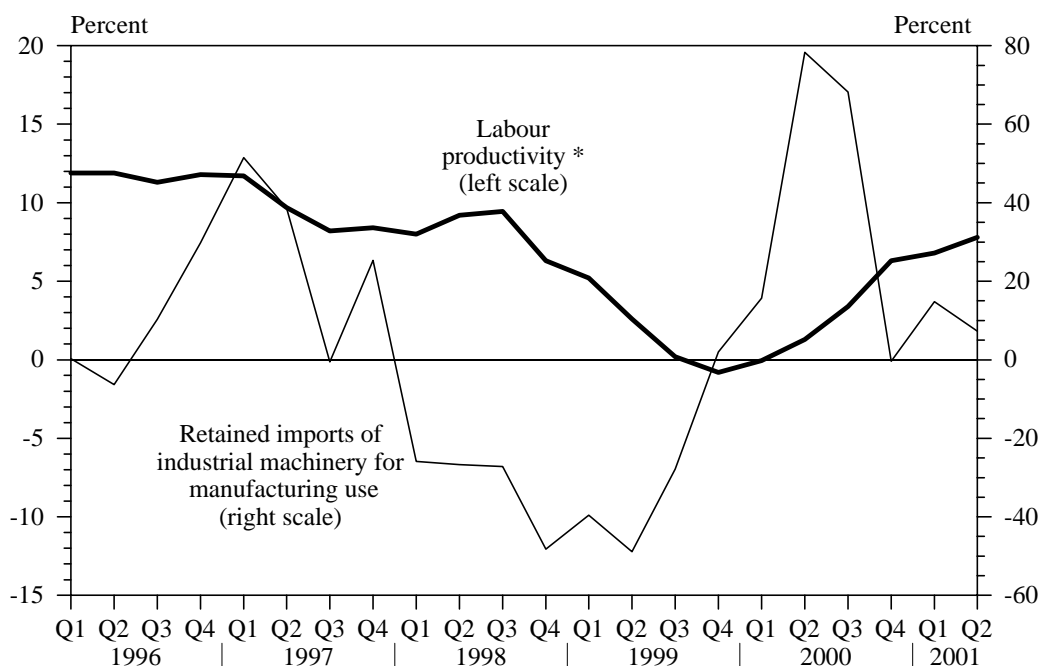
		<u>Value index of orders-on-hand</u> (1993=100)	<u>Year-on-year rate of change in value terms</u> (%)
2000	Mar	63.5	-10
	Jun	67.9	-5
	Sep	61.3	-5
	Dec	55.9	-3
2001	Mar	61.1	-4
	Jun	62.7	-8
	Sep [#]	53.3	-13

Note : (#) Provisional figures.

3.3 As to labour productivity in the local manufacturing sector, the uptrend since the early part of 2000 was well sustained in the first half of 2001. As an indicator, the volume of local manufacturing output per person engaged on a moving average basis⁽³⁾ went up further, by 7% and 8% respectively in the first two quarters of 2001 over a year earlier, following a 3% increase in 2000. To a large extent, this was due to an on-going shift in local manufacturing activity towards higher value-added products.

Diagram 3.3

**Labour productivity in the local manufacturing sector
(year-on-year rate of change in real terms)**



Note : (*) Four-quarter moving average.

/Service

Service sector receipts

3.4 The value of business receipts in the major service sectors put up a mixed performance in the second quarter of 2001, reflecting variations in their own business conditions. Specifically, business receipts in insurance leaped by 25% in the second quarter of 2001 over a year earlier, underpinned by continued strong expansion in general insurance and life insurance. Business receipts in film entertainment also surged, by 22%, on account of robust sales of video compact discs and increased cinema ticket charges. Business receipts in banking, financing (other than banking), hotels and the retail trade had relatively more moderate increases, by 4%, 2%, 2% and 2% respectively. On the other hand, business receipts in real estate plummeted by 21%, amidst further declines in property prices and rentals and reduced transactions. Business receipts in the import/export trade, storage, the wholesale trade and communications also shrank significantly, by 14%, 13%, 13% and 12% respectively. Business receipts in business services, transport and restaurants fell by 7%, 2% and 1% respectively.

/Table 3.3

Table 3.3

**Index of Business Receipts for the major service industries
(year-on-year rate of change in value terms (%))**

	<u>2000</u>					<u>2001</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade	12	12	11	16	9	-2	-14
Wholesale trade	4	*	9	5	1	-8	-13
Retail trade	4	8	5	2	1	*	2
Hotels	17	13	16	19	18	3	2
Restaurants	2	5	2	1	*	*	-1
Banking	1	12	-3	5	-9	-2	4
Financing (other than banking)	41	108	33	39	6	-15	2
Business services	2	-1	1	5	4	-1	-7
Insurance	13	4	10	11	27	4	25
Transport	21	17	27	24	16	11	-2
Storage	2	-4	3	7	1	-8	-13
Communications	9	11	14	7	3	-11	-12
Real estate	*	8	*	10	-17	-22	-21
Film entertainment	14	26	10	15	7	3	22

Note : (*) Change of less than 0.5%.

/Property

Property

3.5 The sales market for *residential property* weakened further with prices coming down more in the third quarter of 2001. Sentiment was depressed by the worsening employment situation amidst the economic downturn, continued large supply of new flats, and more recently the impact of the 911 incident. Acquisition interest remained low, notwithstanding further cuts in mortgage rates and the announcement on suspension of flat sales under the Home Ownership Scheme/Private Sector Participation Scheme (HOS/PSPS) up to mid-2002⁽⁴⁾. The much dwindled demand prompted property developers to step up their sales programme further, chiefly by offering more attractive purchase terms and more flexible financing⁽⁵⁾. This did help primary sales in some of the new residential developments. Yet the secondary market was hence undermined even more. As to the rental market for residential property, activity was generally moderate, with rentals drifting lower in recent months.

3.6 On a quarter-to-quarter comparison, flat prices on average dropped by 4% in the third quarter of 2001, following a similar decrease in the first quarter and virtually nil change in the second quarter. Flat rentals also fell, by an average of 2% in the third quarter of 2001, slightly larger than the decline of 1% in both the first and second quarters. For the first three quarters of 2001 as a whole, flat prices were on average down by 8%, and flat rentals on average down to a lesser extent, by 3%. Against their respective peak levels in the third quarter of 1997, flat prices and rentals in the third quarter of 2001 were both substantially lower, by an average of 54% and 31% respectively.

/3.7

3.7 On *commercial property*, the rental market for *office space* quietened down in the third quarter of 2001. Demand for office space receded, as companies were increasingly hit by setback in business especially after the 911 incident. In a move to improve occupancy, landlords tended to offer longer rent-free periods and other concessions to attract tenants. On a quarter-to-quarter comparison, office rentals on average fell by 2% in the third quarter of 2001, following a 3% rise in the first quarter and a 1% decline in the second quarter. For the first three quarters of 2001 as a whole, office rentals on average were virtually unchanged. The sales market for office space was even more subdued, as investors generally stayed on the sideline. On a quarter-to-quarter comparison, prices of office space on average dropped by 8% in the third quarter of 2001, having fallen by 1% and 5% respectively in the first and second quarters. For the first three quarters of 2001 as a whole, there was on average a distinct fall of 13%. Against their respective peak levels in 1997, prices and rentals of office space in the third quarter of 2001 were both markedly lower, by an average of 67% and 36% respectively.

3.8 The rental market for *shopping space* likewise slackened in the third quarter of 2001, along with the moderation in local consumer spending and inbound tourism. On a quarter-to-quarter comparison, shop rentals on average fell by 6% in the third quarter of 2001, much larger than the decline of 1% in both the first and second quarters. For the first three quarters of 2001 as a whole, shop rentals on average fell by 9%. The sales market for shopping space stayed weak. On a quarter-to-quarter comparison, prices of shopping space edged down further on average by 1% in the third quarter of 2001, following decreases of 3% in the first quarter and 2% in the second quarter. For the first three quarters of 2001 as a whole, the decline on average was 6%. Against their respective peak levels in the third quarter of 1997, prices and rentals of shopping space in the third quarter of 2001 were slashed by an average of 56% and 25% respectively.

/3.9

3.9 On *industrial property*, the rental market remained sluggish in the third quarter of 2001. Overall demand for industrial space continued to shrink, amidst the slow-down in external trade and on-going relocation of industrial processes outside the territory. Demand for space in modern industrial buildings as data centres and back-up service centres also tapered, upon further consolidation of the information technology sector. On a quarter-to-quarter comparison, rentals of industrial space on average were 5% lower in the third quarter of 2001, following decreases of 2% in both the first and second quarters. For the first three quarters of 2001 as a whole, rentals of industrial space on average fell by 9%. The sales market for industrial property was likewise depressed. On a quarter-to-quarter comparison, prices of industrial space on average declined by 2% in the third quarter of 2001, having been down by 4% and 1% respectively in the first two quarters. For the first three quarters of 2001 as a whole, there was on average an 8% drop. Against their respective peak levels in 1994, prices and rentals of industrial space in the third quarter of 2001 plummeted by an average of 64% and 43% respectively.

/Table 3.4

Table 3.4**Indices of Property Prices and Rentals**

	<u>Residential flats</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index^(a)</u>		<u>Rental index^(b)</u>		<u>Price index</u>		<u>Rental index^(b)</u>		<u>Price index</u>		<u>Rental index^(b)</u>		<u>Price index</u>		<u>Rental index^(b)</u>	
	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)	(1999=100)
2000 Q1	96.8	(2)	97.9	(*)	95.9	(-1)	95.3	(-2)	98.2	(2)	100.6	(-1)	95.0	(*)	96.3	(-2)
Q2	90.1	(-7)	98.4	(1)	91.9	(-4)	98.1	(3)	93.6	(-5)	100.8	(*)	91.7	(-3)	95.4	(-1)
Q3	87.3	(-3)	97.8	(-1)	85.8	(-7)	98.8	(1)	91.1	(-3)	101.3	(*)	90.0	(-2)	94.1	(-1)
Q4	84.2	(-4)	98.3	(1)	86.0	(*)	101.6	(3)	91.6	(1)	102.3	(1)	88.2	(-2)	95.8	(2)
2001 Q1	81.0	(-4)	97.7	(-1)	85.5	(-1)	104.6	(3)	89.1	(-3)	101.2	(-1)	84.4	(-4)	93.8	(-2)
Q2 [^]	80.8	(*)	97.2	(-1)	81.5	(-5)	103.3	(-1)	87.0	(-2)	100.0	(-1)	83.2	(-1)	91.7	(-2)
Q3 [^]	77.7	(-4)	95.6	(-2)	75.2	(-8)	101.3	(-2)	85.7	(-1)	93.6	(-6)	81.2	(-2)	87.1	(-5)

Notes : All rental indices shown in this table have been adjusted for changes in concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges.

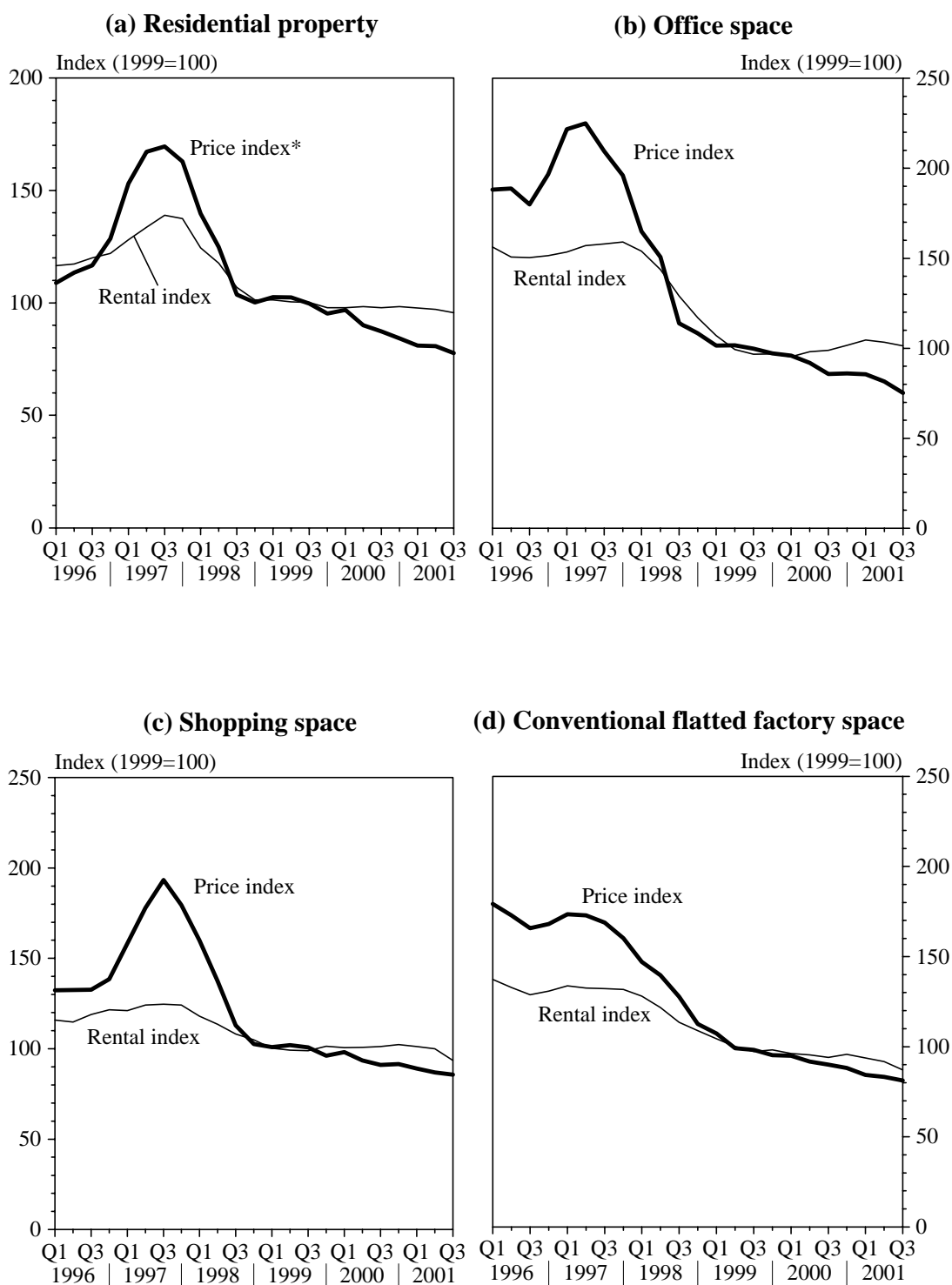
- (a) Prices for residential property in this table cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.
- (b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property cover also lease renewals upon which rentals may be revised.
- () % change over the preceding quarter.
- ([^]) Provisional figures.
- (*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.4

Diagram 3.4

Property prices and rentals



Note : (*) Prices for residential property in this diagram cover all completed flats, but not pre-completion flats, in the entire residential property sub-sector.

Table 3.5**Relationship between mortgage rate and monthly instalment payment**

		Average of the best lending rates quoted by the principal banks in Hong Kong (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks in Hong Kong ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b)		
				10 years	15 years	20 years
2000	Q1	8.64	8.14 ^(c)	1,221	964	845
	Q2	9.22	7.47	1,185	925	804
	Q3	9.50	7.58	1,191	932	811
	Q4	9.50	7.25	1,174	913	790
2001	Q1	8.70	6.44	1,133	868	742
	Q2	7.40	5.15	1,068	798	668
	Q3	6.59	4.34	1,029	757	624
	Jan	9.11	6.86	1,154	891	767
	Feb	8.57	6.32	1,126	861	735
	Mar	8.40	6.15	1,118	852	725
	Apr	7.87	5.62	1,091	823	695
	May	7.32	5.07	1,064	794	664
	Jun	7.00	4.75	1,048	778	646
	Jul	6.77	4.52	1,037	766	634
	Aug	6.69	4.44	1,033	762	629
	Sep	6.30	4.05	1,015	742	609

Notes : (a) Here the effective mortgage rate refers to the modal value, representing the rate most commonly charged amongst the banks.

Due to keener competition for mortgage business, the effective mortgage rates charged by the banks have come down to below the best lending rate since the early part of 2000.

(b) These figures are based on equal monthly repayments throughout the mortgage period.

(c) As from March 2000, calculation of the effective mortgage rate has also taken into account the option of a temporary further reduction in mortgage rate in the early part of the repayment period, as is being offered by many of the banks.

3.10 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, shrank considerably, by 16% in number and 21% in total value in the third quarter of 2001 over a year earlier. On a quarter-to-quarter comparison, there was a 4% decrease in number, yet still a 2% increase in total value, in the third quarter of 2001. Analysed by main type of property, transactions in residential property fell by 6% in number and 11% in total value in the third quarter of 2001 over a year earlier. Transactions in non-residential property had a much larger fall, by 45% in number and 48% in total value over the same periods. On a quarter-to-quarter comparison, transactions in residential property went up by 3% in number and 12% in total value in the third quarter of 2001, but transactions in non-residential property contracted by 27% in number and 28% in total value.

3.11 Property transfer assignments, as outcomes of earlier market turnover, rose by 8% in number and 11% in total value in the third quarter of 2001 over a year earlier. On a quarter-to-quarter comparison, the increase was more distinct, by 12% in number and 23% in total value in the third quarter of 2001. As to mortgage arrangements, there was a decrease of 5% in number in the third quarter of 2001 over a year earlier. Yet on a quarter-to-quarter comparison, there was also a distinct increase, by 19%.

3.12 On Government-subsidised flats, no new sales programme was launched for HOS/PSPS flats in the third quarter of 2001. Primary sales were largely constituted from the flats put out under HOS Phase 23A launched in May. By the end of September, 97% of these flats had been sold. Overall, the Housing Authority managed to sell 5 957 HOS/PSPS flats, including new sales, resales, and left-overs from the previous launches, in the third quarter of 2001. This was 167% higher than the sales level in the second quarter. As to the Tenant Purchase Scheme (TPS) for designated units in public rental estates, there was also no new sales programme in the third quarter of 2001. Primary sales comprised entirely left-overs from the previous launches. The number of TPS flats sold to sitting tenants, at 4 483 in the third quarter of 2001, was 8% less than in the second quarter.

/Table 3.6

Table 3.6**Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		Residential property ^(a)		Non-residential property		Total		Residential property ^(a)		Non-residential property		Total	
2000	Annual	65 340	(-15)	20 404	(-5)	85 744	(-13)	168.4	(-21)	54.1	(21)	222.5	(-13)
	H1	30 497	(-33)	10 186	(-26)	40 683	(-31)	77.8	(-40)	28.2	(28)	105.9	(-30)
	H2	34 843	(10)	10 218	(34)	45 061	(14)	90.6	(11)	26.0	(15)	116.6	(12)
	Q1	15 295	(-25)	5 253	(-31)	20 548	(-27)	41.0	(-26)	14.1	(31)	55.1	(-17)
	Q2	15 202	(-39)	4 933	(-20)	20 135	(-35)	36.8	(-51)	14.0	(25)	50.8	(-41)
	Q3	19 348	(17)	6 809	(53)	26 157	(24)	46.2	(9)	16.7	(62)	62.9	(19)
	Q4	15 495	(2)	3 409	(7)	18 904	(3)	44.4	(13)	9.3	(-24)	53.7	(4)
2001	H1	32 730	(7)	10 995	(8)	43 725	(7)	71.0	(-9)	23.2	(-18)	94.1	(-11)
	Q1-Q3	50 894	(2)	14 728	(-13)	65 622	(-2)	112.2	(-10)	31.9	(-29)	144.1	(-15)
	Q1	15 105	(-1)	5 913	(13)	21 018	(2)	34.3	(-16)	11.0	(-22)	45.2	(-18)
	Q2	17 625	(16)	5 082	(3)	22 707	(13)	36.7	(*)	12.2	(-13)	48.9	(-4)
	Q3	18 164	(-6)	3 733	(-45)	21 897	(-16)	41.2	(-11)	8.7	(-48)	49.9	(-21)
			<3>		<-27>		<-4 >		<12>		<-28>		<2>
	Jan	3 860	(-29)	785	(-49)	4 645	(-33)	9.5	(-34)	3.2	(-44)	12.7	(-37)
	Feb	4 014	(-15)	947	(-5)	4 961	(-13)	8.9	(-31)	2.3	(-22)	11.2	(-30)
	Mar	7 231	(40)	4 181	(54)	11 412	(45)	15.8	(16)	5.4	(*)	21.3	(12)
	Apr	5 000	(-23)	2 853	(7)	7 853	(-14)	10.9	(-32)	7.1	(34)	18.0	(-16)
	May	6 309	(31)	1 042	(-20)	7 351	(20)	12.2	(1)	2.2	(-60)	14.4	(-18)
	Jun	6 316	(62)	1 187	(23)	7 503	(54)	13.6	(58)	2.9	(-8)	16.5	(40)
	Jul	6 199	(5)	1 131	(-41)	7 330	(-6)	15.5	(18)	3.6	(-20)	19.1	(8)
	Aug	6 503	(-11)	1 330	(-57)	7 833	(-25)	14.3	(-21)	2.7	(-51)	17.1	(-28)
	Sep	5 462	(-10)	1 272	(-28)	6 734	(-14)	11.3	(-24)	2.4	(-64)	13.8	(-36)

Notes : Figures may not add up exactly to the total due to rounding.

- (a) Consequential to the policy measure effective as from 1 April 1999 of allowing payment of stamp duty upon purchase of a residential property to be deferred from the agreement stage to the assignment stage, the breakdown of the number and total value of sale and purchase agreements into residential and non-residential property have been compiled from the statistics on applications for deferred payment of stamp duty upon signing of the sale and purchase agreement.

It should be noted that primary sales of units under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) are not covered here, as sale and purchase agreements are commonly not required for these transactions. Also, according to the Land Registry, sale and purchase agreements for primary sales of units under the Private Sector Participation Scheme (PSPS) are not included in the column on residential property. Yet they are included in the column on non-residential property, and thus also in the total column.

() % change over a year earlier.

< > % change over the preceding quarter.

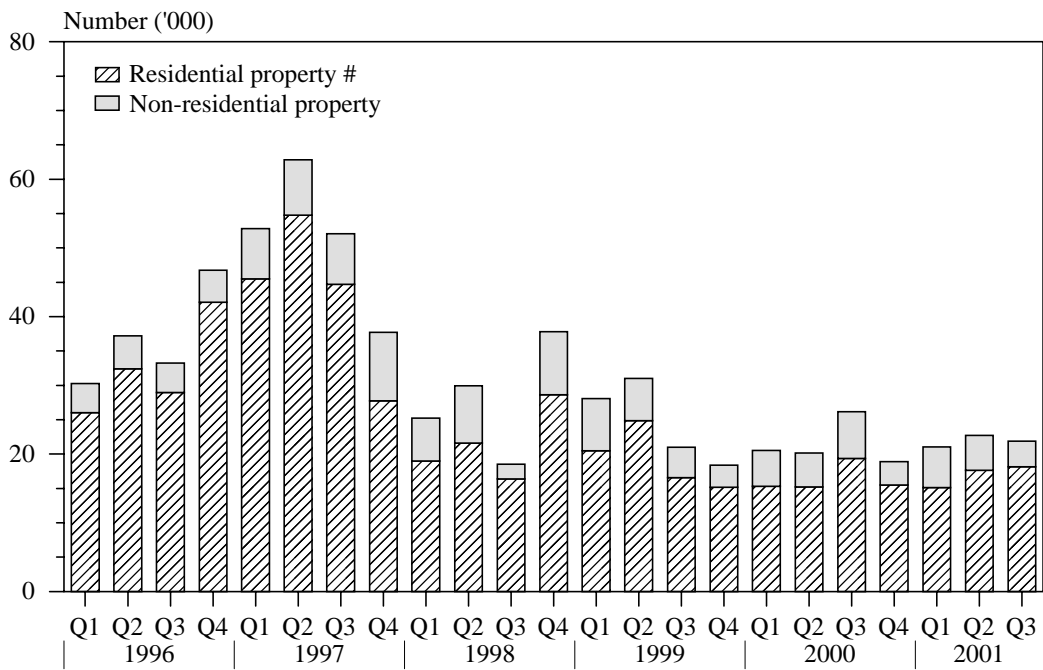
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.5

Diagram 3.5

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.6.

/Table 3.7

Table 3.7**Property transfer assignments and mortgage arrangements**

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
2000	Annual	152 022	(8)	273.0	(-9)	183 307	(1)
	H1	81 974	(14)	144.4	(-7)	98 854	(6)
	H2	70 048	(1)	128.7	(-11)	84 453	(-4)
	Q1	38 936	(8)	72.0	(-10)	49 575	(13)
	Q2	43 038	(21)	72.4	(-4)	49 279	(*)
	Q3	37 921	(2)	69.0	(-6)	48 610	(-3)
	Q4	32 127	(*)	59.7	(-16)	35 843	(-6)
	2001	H1	75 756	(-8)	125.7	(-13)	79 953
Q1-Q3		116 724	(-3)	202.4	(-5)	126 134	(-14)
Q1		39 315	(1)	63.5	(-12)	41 132	(-17)
Q2		36 621	(-15)	62.2	(-14)	38 821	(-21)
Q3		40 968	(8)	76.7	(11)	46 181	(-5)
			<12>		<23>		<19>
Jan		13 083	(3)	23.7	(-19)	13 717	(-15)
Feb		13 865	(9)	21.3	(4)	14 414	(-12)
Mar		12 187	(-10)	18.4	(-17)	13 001	(-24)
Apr		8 111	(-31)	18.0	(-7)	8 783	(-40)
May		15 513	(-1)	25.6	(2)	16 586	(-5)
Jun		12 997	(-17)	18.6	(-33)	13 452	(-22)
Jul		12 085	(-1)	27.6	(27)	14 232	(-8)
Aug		15 531	(16)	28.1	(10)	17 173	(1)
Sep		13 352	(8)	21.0	(-3)	14 776	(-9)

Notes : (a) Figures on property transfer assignments do not necessarily tally with those on agreements for sale and purchase of property, for various reasons. These include possibly long time lag between the two documents, cancellation of transaction before its completion, and waiver of the agreement for sale and purchase of property subject to consent by the parties concerned.

(b) Most of these mortgages are related to the purchase of residential flats or of other premises. Building mortgages, on the other hand, are related to the financing of building projects under construction.

Figures on the total value of mortgage arrangements are not shown, as they are likely to be incomplete. This is because in many of the mortgage arrangements lodged for registration, the value of the mortgage loan is not stated in the mortgage deed but instead is separately notified by the bank to the mortgagor.

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Land Registry.

3.13 On supply of new property, *completions* of private residential flats in terms of units rose by 15% in the third quarter of 2001 over a year earlier. Completions of other commercial premises and of industrial property in terms of total internal floor area increased substantially, by 206% and 90% respectively, but this was mainly due to the low base of comparison a year earlier. Yet completions of office space in terms of total internal floor area went up only slightly, by 2%. For the first nine months of 2001 as a whole, completions of private residential flats fell slightly, by 1% in terms of units over a year earlier, while completions of office space, other commercial premises and industrial property were 7%, 273% and 20% respectively more in terms of total internal floor area.

/Table 3.8

Table 3.8

**Completions of new property by the private sector
('000m² of internal floor area)**

<u>Usage</u>	<u>Third quarter of 2000</u>	<u>Third quarter of 2001[^]</u>	<u>Year- on-year rate of change^(e) (%)</u>	<u>Jan-Sep 2000</u>	<u>Jan-Sep 2001[^]</u>	<u>Year- on-year rate of change^(e) (%)</u>
Residential (in terms of units) ^(a)	4 388	5 068	15	18 031	17 768	-1
Commercial	41	76	87	102	198	93
<i>Of which:</i>						
Office space	24	24	2	69	74	7
Other commercial premises (mainly shopping space) ^(b)	17	52	206	33	124	273
Industrial ^(c)	15	29	90	35	42	20
<i>Of which:</i>						
Industrial-cum-office premises	14	0	-100	14	14	-1
Flatted factory space	0	12	--	15	12	-19
Storage premises ^(d)	1	17	1 169	6	17	162

Notes : (a) These include all newly completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village-type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme will need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned.

The figures shown are in respect of private residential units, excluding units completed by the Hong Kong Housing Authority and Hong Kong Housing Society.

(b) These include shopping arcades in residential and commercial developments, as well as premises designed or adapted for commercial use other than offices, in the nature of non-domestic space on the podium floors of tenement apartment/commercial buildings. Car-parking space is excluded.

(c) Including industrial-cum-office premises but excluding specialised factory buildings, which are developed mainly for own use.

(d) Including storage premises at the container terminals and the airport.

(e) The year-on-year rates of change are computed from exact figures.

([^]) Provisional figures.

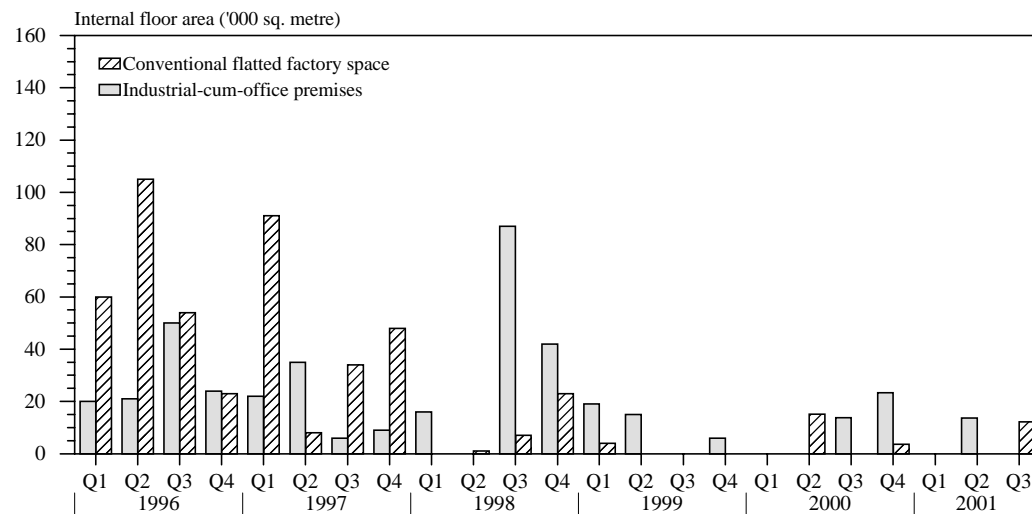
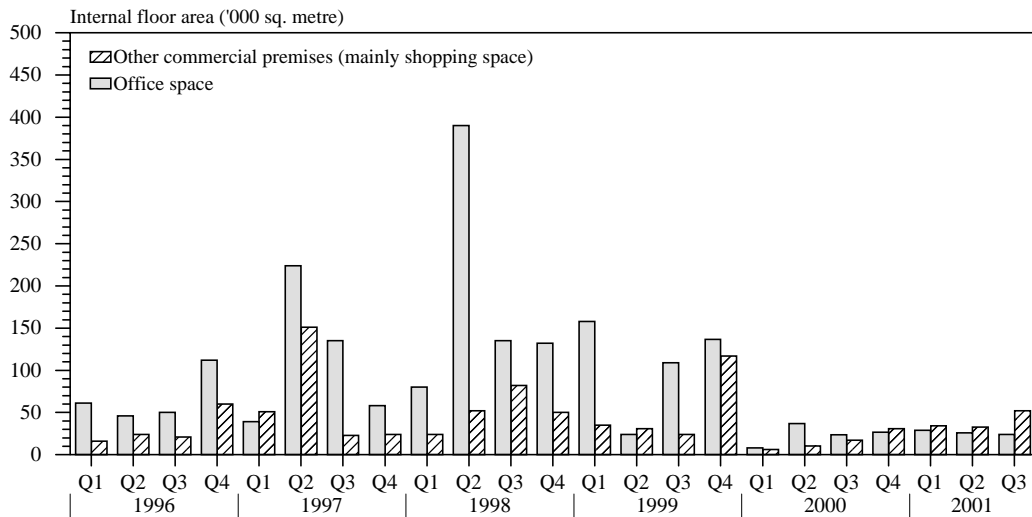
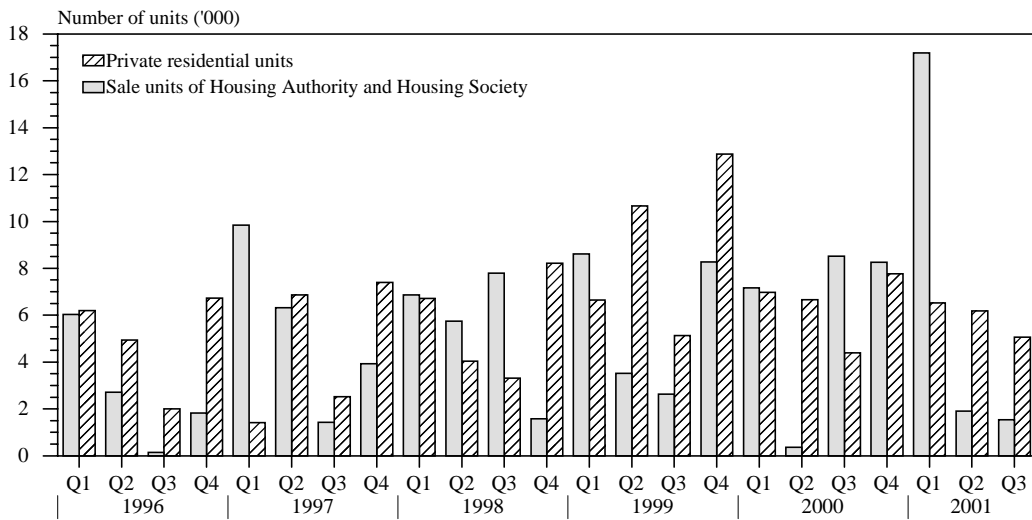
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.6

Diagram 3.6

Completions of new property by major category



3.14 *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, plummeted by 68% in the third quarter of 2001 from a year earlier. Analysed by main type of property and on a year-on-year comparison, planned developments of residential property dipped by 58% in terms of units or 53% in terms of total usable floor area in the third quarter of 2001. Planned developments of industrial property, property in the “others” category and commercial property were down even more, by 99%, 86% and 75% respectively in terms of total usable floor area. For the first nine months of 2001 as a whole, planned developments of all types of property in the private sector in terms of total usable floor area decreased by 28% over a year earlier. Of these, planned developments of residential property shrank by 21% in terms of units or 18% in terms of total usable floor area. Planned developments of commercial property fell by 10% in terms of total usable floor area, while planned developments of industrial property and of property in the “others” category had much larger decreases, by 90% and 63% respectively in terms of total usable floor area.

/Table 3.9

Table 3.9

**Building plans with consent to
commence work in the private sector
('000m² of usable floor area)**

<u>Usage</u>	<u>Third quarter of 2000</u>	<u>Third quarter of 2001</u>	<u>Year-on-year rate of change^(c) (%)</u>	<u>Jan-Sep 2000</u>	<u>Jan-Sep 2001</u>	<u>Year-on-year rate of change^(c) (%)</u>
Residential ^(a)	261 (8 242)	122 (3 449)	-53 (-58)	869 (23 659)	714 (18 688)	-18 (-21)
Commercial	155	39	-75	246	222	-10
Industrial ^(b)	51	*	-99	111	11	-90
Others	60	8	-86	194	71	-63
Total	528	170	-68	1 420	1 018	-28

Notes : Figures may not add up exactly to the totals due to rounding.

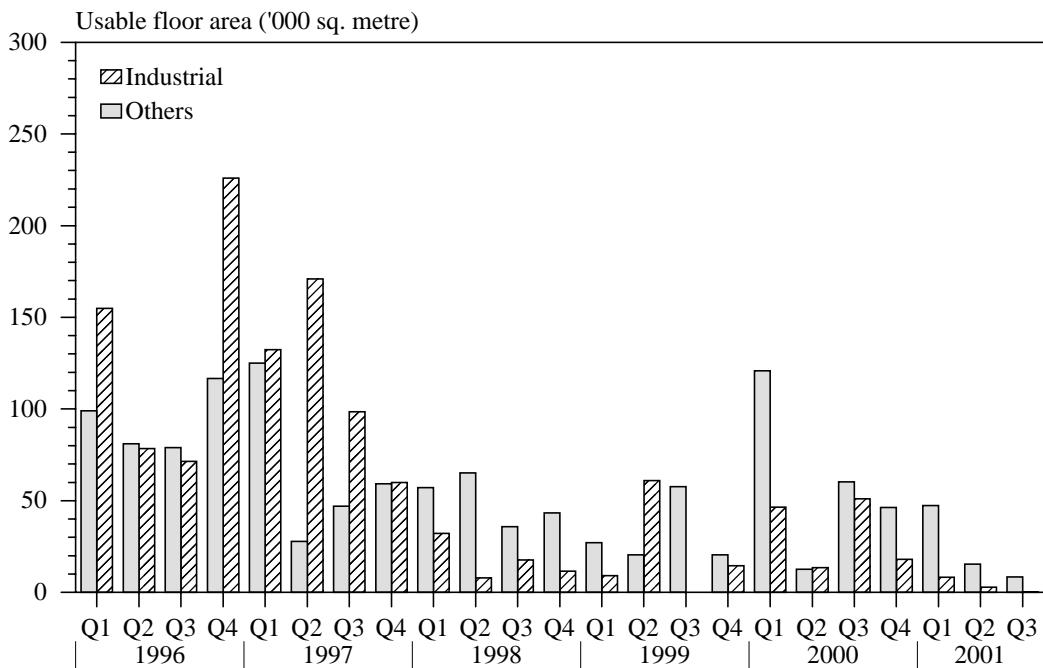
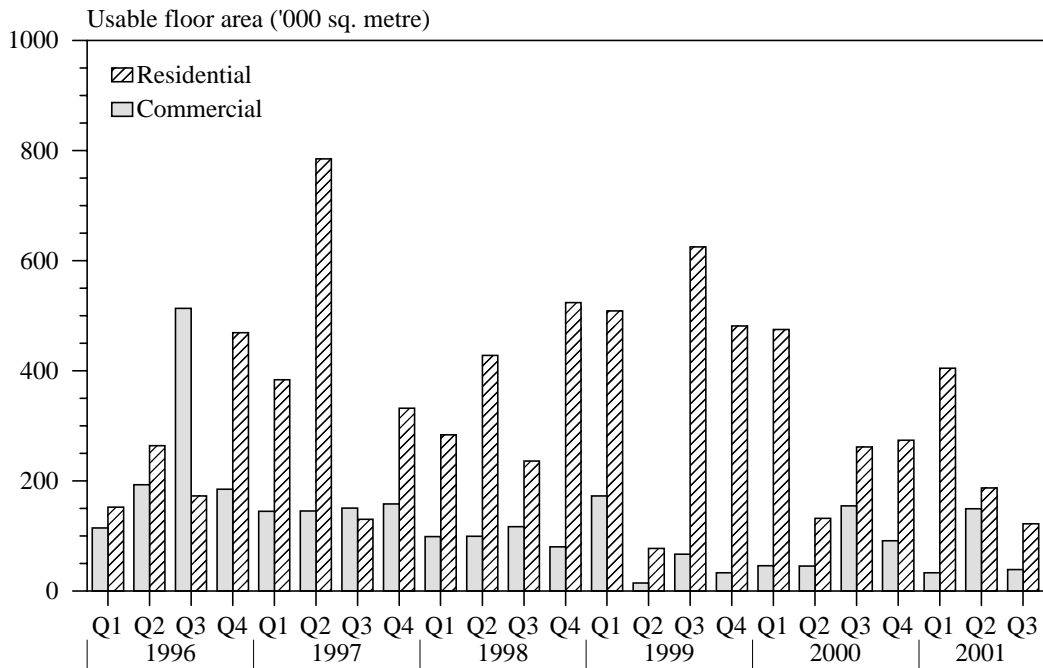
- (a) Here the classification of residential property has been revised to include developments under the Urban Improvement Scheme of the Hong Kong Housing Society, but to exclude developments under the Private Sector Participation Scheme of the Hong Kong Housing Authority.
- (b) Including multi-purpose industrial premises designed also for office use.
- (c) The year-on-year rates of change are computed from exact figures.
- () Figures in brackets denote number of units.
- (*) Usable floor area of less than 500 m².

Source : Buildings Department.

/Diagram 3.7

Diagram 3.7

**Building plans with consent to commence work
in the private sector by major category**



Building and construction

3.15 Building and construction activity remained slack in overall terms in the first half of 2001. As measured by gross value of construction work performed by main contractors, overall building and construction output fell by 4% in real terms in the second quarter of 2001 over a year earlier, following a 6% drop in the first quarter. For the first half of 2001 as a whole, the decrease averaged at 5% in real terms, slightly larger than the 4% fall in 2000. On a seasonally adjusted quarter-to-quarter comparison, overall building and construction output contracted by 2% in real terms in the second quarter of 2001, after a 4% decline in the first quarter.

3.16 The decrease in building and construction output took place entirely in the public sector. Comparing the second quarter of 2001 with a year earlier, construction output at public sector sites plummeted by 18% in real terms, even larger than the 13% drop in the first quarter. While work on the Priority Railway Projects and on land formation for the Disneyland project remained intensive, this was more than offset by a sharp scale-back in the Public Housing Programme and also completion or winding down of a number of public housing projects in Tin Shui Wai, Wong Tai Sin, Tung Chung, Shatin and Ma On Shan.

3.17 Output at private sector sites nevertheless bounced up strongly, by 15% in real terms in the second quarter of 2001 over a year earlier, following a 4% decline in the first quarter. This was mainly attributable to increased building work on a number of large residential development projects in West Kowloon, Yuen Long, Hunghom and Tseung Kwan O, as well as a pick-up in civil engineering work on the Cyberport. Also relevant was a low base of comparison in the second quarter of 2000.

3.18 As to off-site construction, output fell by 2% in real terms in the second quarter of 2001 over a year earlier, after showing nil change in the first quarter. Work on electrical and mechanical fittings rose, but was outweighed by reduced work on decoration, repair and maintenance.

/Table 3.10

Table 3.10**Gross value of construction work performed by main contractors
(year-on-year rate of change in real terms (%))**

	<u>Annual</u>	<u>2000</u>				<u>2001</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>
Construction work at private sector sites	-11	-21	-20	-5	5	-4	15
Building	-11	-20	-20	-5	6	-5	14
Civil engineering	-18	-29	-32	1	-10	27	30
Construction work at public sector sites	*	7	2	-2	-5	-13	-18
Building	-8	3	-7	-11	-18	-27	-32
Civil engineering	22	17	25	25	19	16	9
Construction work off-site	-3	-8	-2	3	-6	*	-2
Overall construction work	-4	-7	-7	-1	-2	-6	-4
		<*>	<-4>	<5>	<-3>	<-4>	<-2>

Notes : (#) Provisional figures.

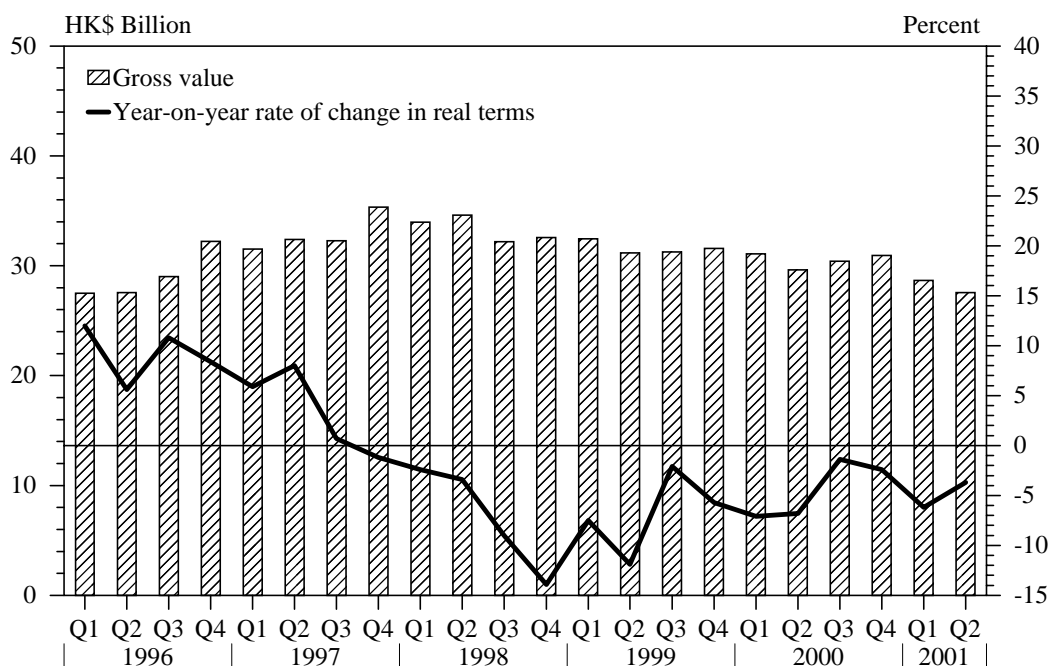
(*) Change of less than 0.5%.

< > Seasonally adjusted quarter-to-quarter % change in real terms.

/Diagram 3.8

Diagram 3.8

Gross value of construction work performed by main contractors



3.19 On overall building and construction expenditure within the GDP, there was a decrease of 7% in real terms in the third quarter of 2001 over a year earlier, after nil change in the first half of the year. This was largely attributable to an accelerated decline in output in the public sector, particularly from the Public Housing Programme, which more than offset the continued hectic work on the Priority Railway Projects and on some Government projects. Meanwhile, output in the private sector was dampened by the protracted weakness in the property market holding back the initiation of new building projects.

3.20 Concurrently, retained imports of construction machinery continued to surge, reflecting increased intake of equipment for the civil engineering projects. Comparing the third quarter of 2001 with a year earlier, retained imports of construction machinery rose by 18% in real terms, after soaring by 46% in the first half of the year.

/3.21

3.21 Labour cost in the building and construction sector, as measured by the Labour Cost Index, on average rose slightly by 1% in the second quarter of 2001 over a year earlier. This was smaller than the 3% increase in the first quarter. Building material cost, as measured by the Material Cost Index, held stable in both quarters. Taken together, the combined Labour and Material Cost Index edged up by 1% in the second quarter of 2001 over a year earlier, following a 2% rise in the first quarter.

Table 3.11

**Labour and Material Cost Index for
the building and construction sector
(Feb 1970=100)**

		<u>Labour Index</u>		<u>Material Index</u>		<u>Combined Index</u>	
2000	Annual	3 562	(2)	761	(1)	1 752	(2)
	Q1	3 504	(*)	762	(2)	1 732	(1)
	Q2	3 538	(2)	761	(2)	1 743	(2)
	Q3	3 576	(2)	759	(1)	1 755	(2)
	Q4	3 629	(3)	764	(1)	1 777	(3)
2001	Q1	3 600	(3)	762	(*)	1 765	(2)
	Q2	3 581	(1)	759	(*)	1 757	(1)

Notes : () % change over a year earlier.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

/3.22

3.22 Tender prices continued on a general downtrend, amidst keen competition amongst the contractors for a reduced volume of building and construction projects. Comparing the second quarter of 2001 with a year earlier, the Tender Price Index (TPI) for public housing projects compiled by the Housing Department and the TPI for public sector building projects compiled by the Architectural Services Department both fell, by 12% and 4% respectively. Yet these were smaller than the corresponding declines of 18% and 10% in the first quarter.

Table 3.12

Tender Price Indices (TPI) for public sector projects

		<u>TPI for public housing projects</u> ^(a) (Jan 1970=100)	<u>TPI for public sector building projects</u> ^(b) (Jan 1970=100)
2000	Annual	687 (-12)	884 (-13)
	Q1	745 (-7)	959 (-6)
	Q2	708 (-10)	873 (-15)
	Q3	671 (-13)	858 (-16)
	Q4	625 (-19)	844 (-15)
2001	Q1	612 (-18)	862 (-10)
	Q2	626 [#] (-12)	842 (-4)

Notes : (a) Compiled by the Housing Department.

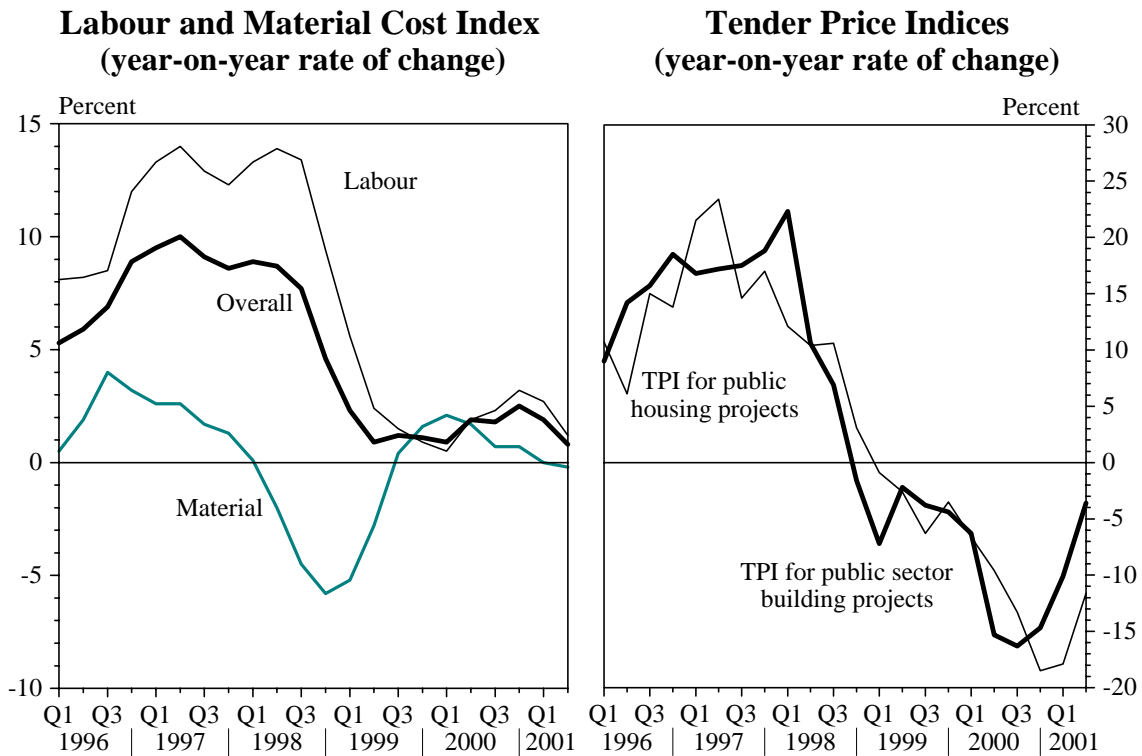
(b) Compiled by the Architectural Services Department.

(#) Provisional figures.

() % change over a year earlier.

/Diagram 3.9

Diagram 3.9



Land

3.23 In the third quarter of 2001, the Government disposed of five sites with a total area of 4.5 hectares. Of these, two residential sites and one commercial site totalling 4.1 hectares were sold at auction, while two other sites totalling 0.4 hectare were sold by tender for shipyard construction. The latter three sites were released for sale from the Government’s Reserve List through applications by developers⁽⁶⁾. The prices fetched for the sites sold at auction were broadly in line with expectations, amidst a subdued property market.

/Table 3.13

Table 3.13

**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>Third quarter of 2001</u>	<u>Jan-Sep 2001</u>
Residential	2.0	3.5
Commercial/residential	-	*
Commercial	2.0	2.0
Industrial	-	-
Others	<u>0.4</u>	<u>0.4</u>
Total	4.5	6.0

Notes : Figures may not add up exactly to the total due to rounding.

(*) Less than 0.05 hectare.

Source : Lands Department.

3.24 In the third quarter of 2001, one site of 2.8 hectares in the Tai Po Industrial Estate and one site of 0.4 hectare in the Tseung Kwan O Industrial Estate were newly taken up. As a result, the take-up rates for these two industrial estates rose from 93.8% and 48.1% respectively at end-June to 97.7% and 48.6% at end-September. As there was no new take-up in the Yuen Long Industrial Estate, the take-up rate remained unchanged at 95.8%.

Electricity and gas

3.25 *Local electricity consumption* went up by 2% over a year earlier to 41 500 terajoules in the third quarter of 2001, slightly slower than the 3% rise in the first half of the year. Analysed by main user type and on a year-on-year comparison, commercial consumption and domestic consumption increased by 4% and 2% respectively in the third quarter of 2001, while industrial consumption decreased by 7%. Electricity exports to the Mainland, which accounted for 5% of the total electricity generated in Hong Kong, continued to surge, by 30% in the third quarter of 2001 over a year earlier.

/3.26

3.26 *Towngas consumption* increased by 3% over a year earlier to 5 900 terajoules in the third quarter of 2001, following a similar rise in the first half of the year. Within this total, domestic consumption expanded by 9% in the third quarter of 2001 over a year earlier, more than offsetting the decreases in commercial consumption and industrial consumption by 3% and 1% respectively.

Internal transport

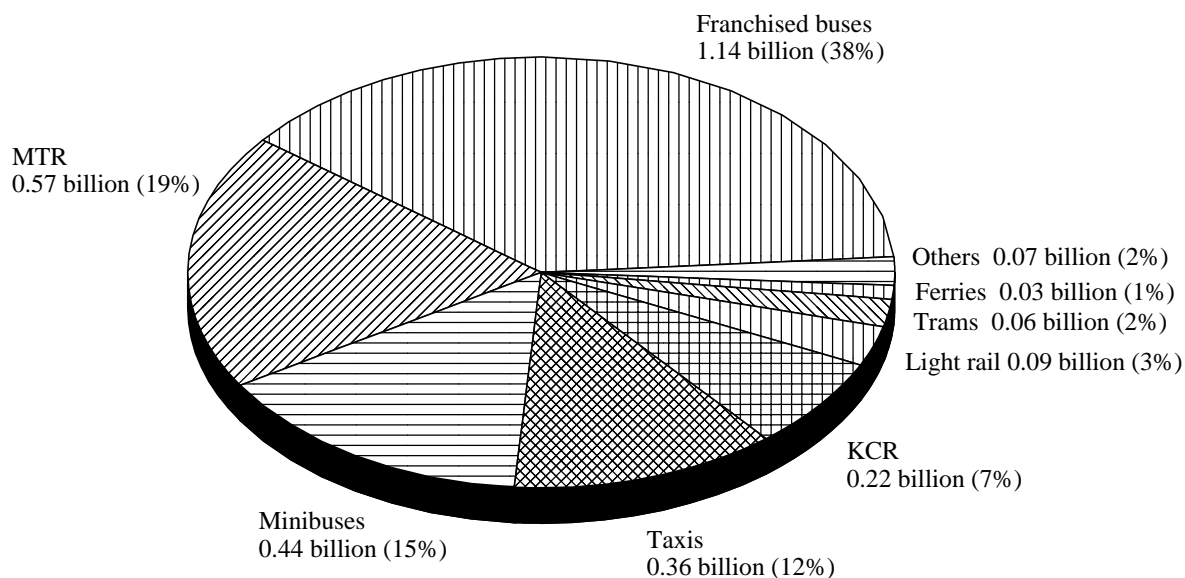
3.27 Total patronage on *public transport*, at 1 billion in the third quarter of 2001, was virtually unchanged from a year earlier, following a 1% rise in the first half of the year. Amongst the major modes of public transport, patronage on franchised buses and minibuses both edged up by 1%, while patronage on the Mass Transit Railway and the Light Rail both fell by 1%. Meanwhile, patronage on the Kowloon-Canton Railway, ferries, trams and taxis held steady.

3.28 On *private transport*, the total number of newly registered private cars rose markedly, by 11% in the third quarter of 2001 over a year earlier, mainly reflecting the buoyant car sales upon further price cuts and other inducements offered by the vendors. This was up considerably from the 5% increase in the first half of the year. At end-September 2001, the total number of registered private cars stood at 381 000 and the total number of licensed private cars at 340 000, both 3% larger than a year earlier.

/Diagram 3.10

Diagram 3.10

**Passenger journeys by mode of public transport
in the first nine months of 2001**



Total passenger journeys in the first nine months of 2001 : 2.98 billion

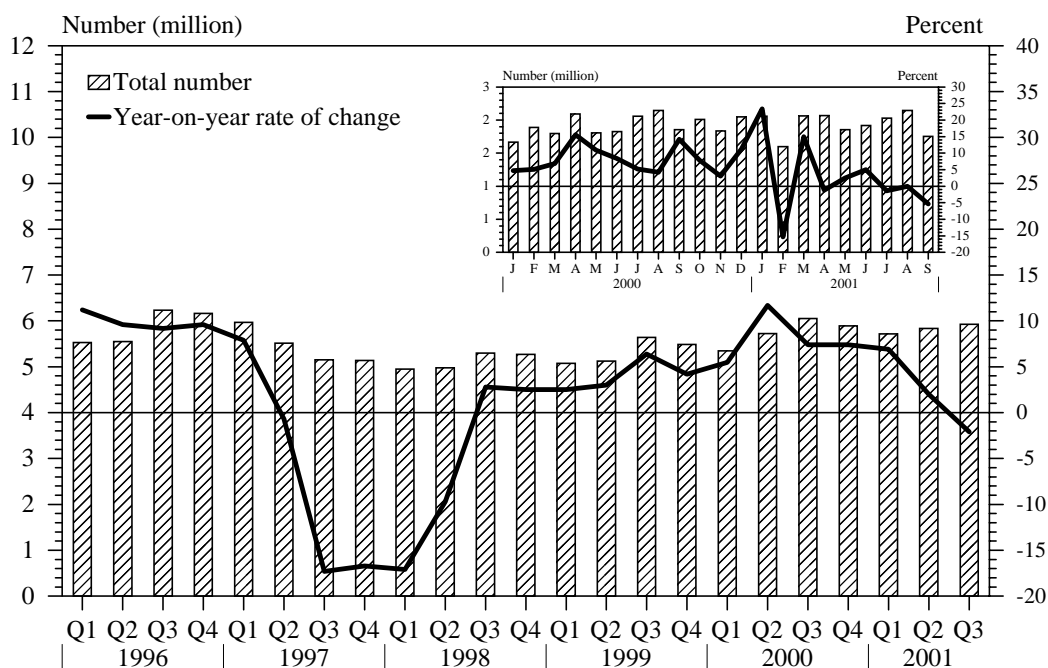
External transport

3.29 On *air transport*, total *air passenger movements* decreased by 2% over a year earlier to 5.9 million in the third quarter of 2001, reversing the 4% rise in the first half of the year. The decline was more pronounced in September, when international air traffic, particularly for North America and Europe, was hard hit by the 911 incident. Within the total air passenger movements, air passenger arrivals and departures were both down by 2% over a year earlier to 2.9 million and 3.0 million respectively in the third quarter of 2001, following increases of 4% and 5% in the first half of the year. Nevertheless, air passenger arrivals from the Mainland had a smaller decrease of 1% while air passenger departures to the Mainland even picked up further by 4% in the third quarter of 2001 over a year earlier. As to aircraft movements (including passenger and cargo flights), there was a continued rise of 8% over a year earlier to 51 000 in the third quarter of 2001, after an 11% increase in the first half of the year.

/Diagram 3.11

Diagram 3.11

Number of air passengers

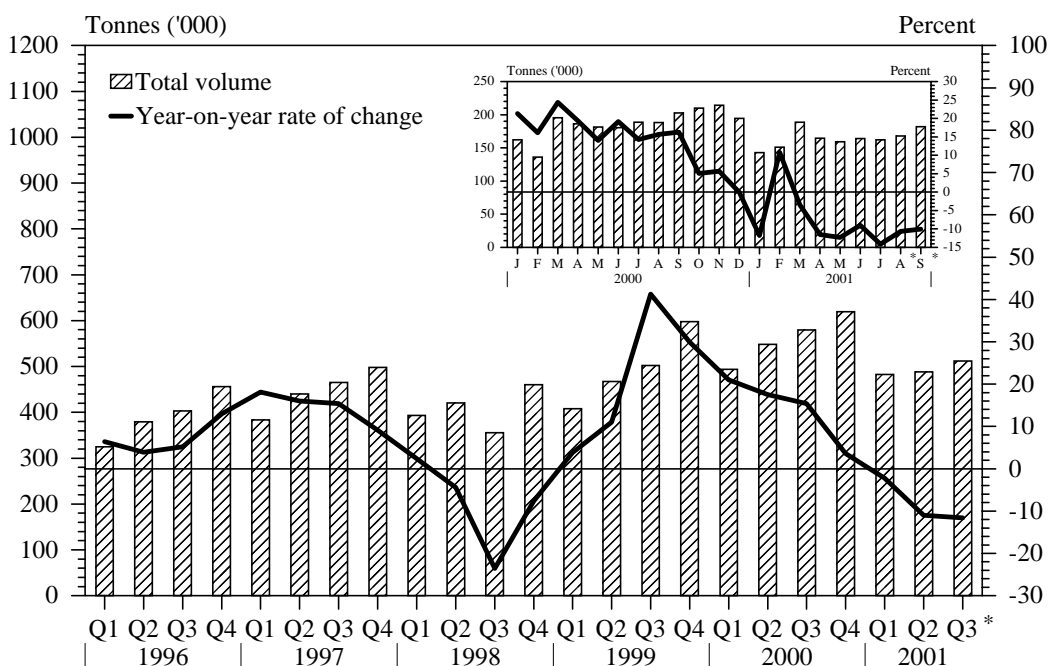


3.30 *Air cargo movements* showed an enlarged decline in the third quarter of 2001. Comparing the third quarter of 2001 with a year earlier, total air cargo movements fell by 12%, to 512 000 tonnes. Within this total, inward air cargo shrank by 11% to 219 000 tonnes and outward air cargo by 12% to 293 000 tonnes. These were all larger than the corresponding decreases of 7%, 2% and 10% in the first half of the year.

/Diagram 3.12

Diagram 3.12

Cargo carried by air



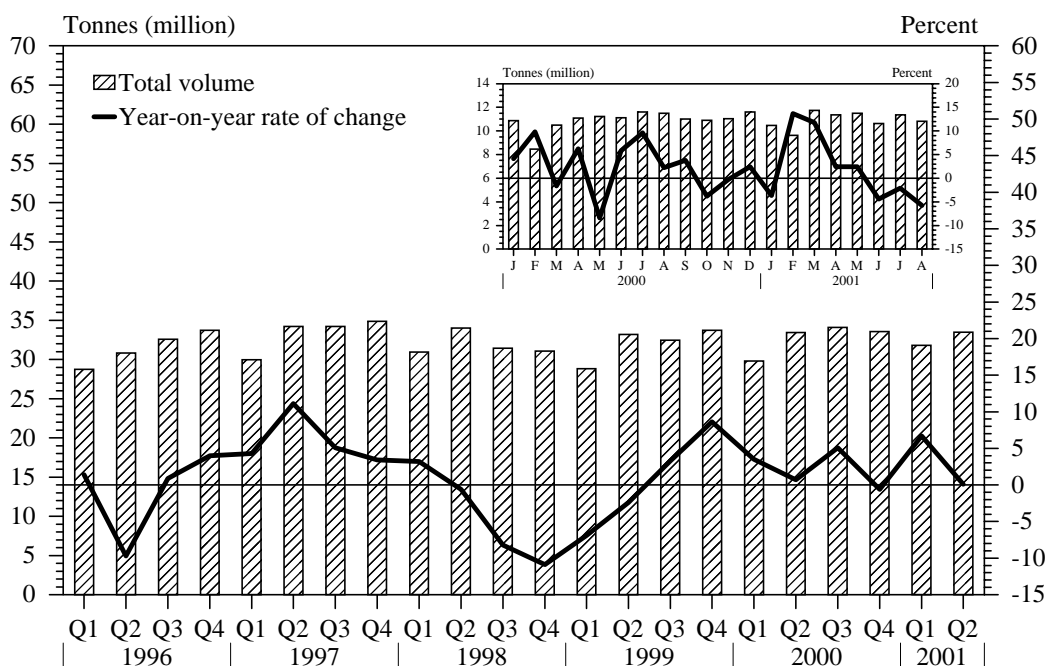
Note : (*) Provisional figures.

3.31 On *ocean transport*, total *ocean cargo movements* fell by 4% over a year earlier to 22.2 million tonnes in July-August 2001. This was further down from a 7% increase in the first quarter and nil change in the second quarter. Within this total, inward and outward ocean cargo fell by 3% and 6% respectively over a year earlier to 14.8 million tonnes and 7.4 million tonnes in July-August. For the first eight months of 2001 as a whole, total ocean cargo movements still had a small increase of 1% over a year earlier, comprising a 2% rise in inward ocean cargo and nil change in outward ocean cargo.

/Diagram 3.13

Diagram 3.13

Cargo carried by ocean vessels

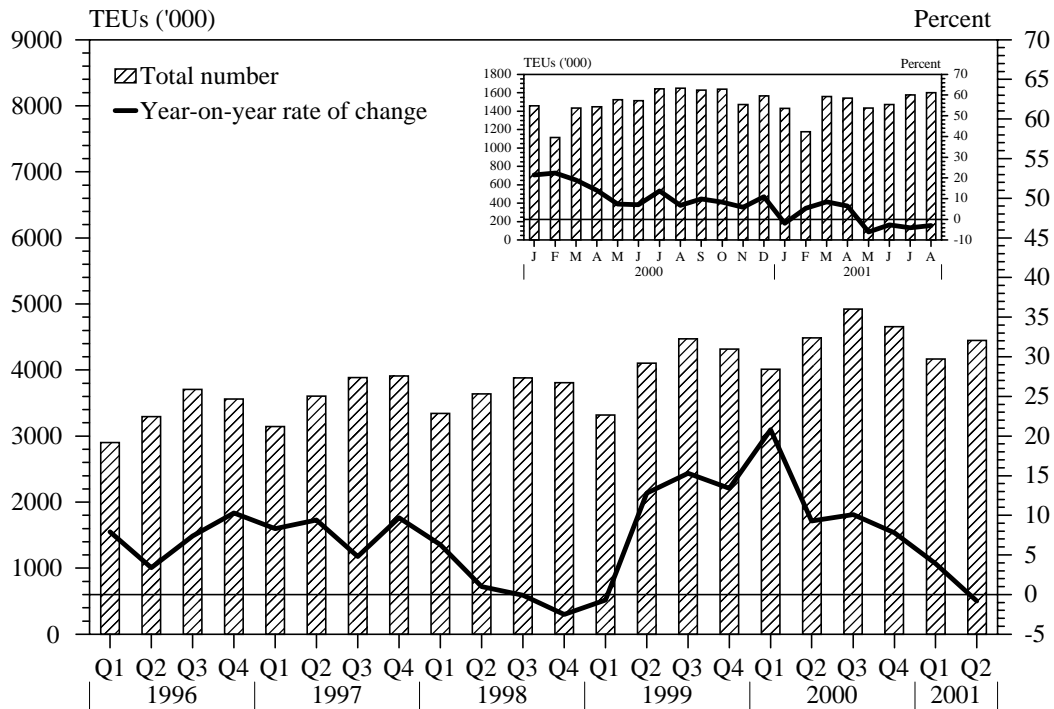


3.32 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) fell by 4% over a year earlier to 3.2 million TEUs in July-August 2001. This was also further down from a 4% rise in the first quarter and a 1% fall in the second quarter. Within this total, inward and outward container throughput contracted by 4% and 3% respectively over a year earlier to 1.6 million TEUs each in July-August. For the first eight months of 2001 as a whole, total container throughput was virtually unchanged from a year earlier, and within it so did inward and outward container throughput. To a large extent, the slow-down was due to a significant slackening in external trade. Also partly contributed was an on-going trend of manufactured output being shipped out directly from the Mainland ports rather than indirectly through the Hong Kong port. Indicative of this trend, container throughput at the Yantian port continued to surge, by 20% in the first nine months of 2001 over a year earlier.

/Diagram 3.14

Diagram 3.14

Container throughput



Tourism

3.33 Inbound tourism maintained a solid growth in the first eight months of 2001, but suffered a distinct setback in September when visitor arrivals from most of the major sources showed an abrupt downturn, upon the repercussions of the 911 incident. Visitor arrivals from the Mainland were the notable exception, with continued double-digit growth. The total number of *incoming visitors* went up by 4% over a year earlier to 3.5 million in the third quarter of 2001, only about half of the growth rates of 8% and 7% respectively in the first two quarters. For the first nine months of 2001 as a whole, the total number of incoming visitors increased by 6% over a year earlier to 10.1 million, also considerably slower than the 15% rise in 2000.

3.34 Analysed by major source, visitors from Japan, South and Southeast Asia, Taiwan and the United States decreased by 5%, 3%, 2% and 2% respectively in the third quarter of 2001 over a year earlier, reversing the uptrend seen in the earlier periods. Visitors from the United Kingdom, which had already gone into a decline in the second quarter of 2001, fell slightly further by 1% in the third quarter over a year earlier. In stark contrast, visitors from the Mainland continued to fare distinctly well, registering a surge of 17% in the third quarter of 2001 over a year earlier.

/Table 3.14

Table 3.14

**Number of incoming visitors by place of residence
(year-on-year rate of change (%))**

	2000					2001					
	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul	Aug	Sep
All sources	15	13	18	17	13	8	7	4	7	7	-2
Mainland of China	18	11	23	22	16	10	13	17	20	19	12
Taiwan	16	14	19	17	12	8	6	-2	2	1	-10
South and Southeast Asia	16	19	13	20	12	3	2	-3	*	*	-8
Japan	18	23	24	14	13	8	7	-5	*	-2	-11
United States	12	7	16	14	13	9	5	-2	2	7	-17
United Kingdom	10	5	20	7	9	6	-4	-1	*	1	-4
Others	11	10	12	12	11	8	7	2	2	4	*

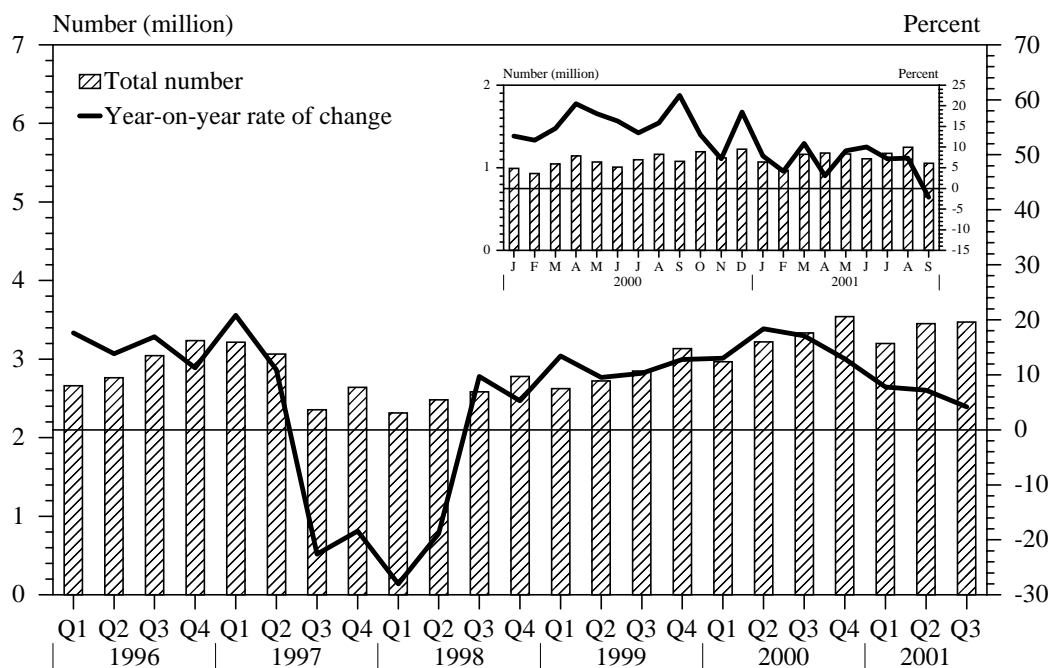
Notes : Figures shown in this table include also non-Macau residents coming to Hong Kong via Macau.

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

Diagram 3.15

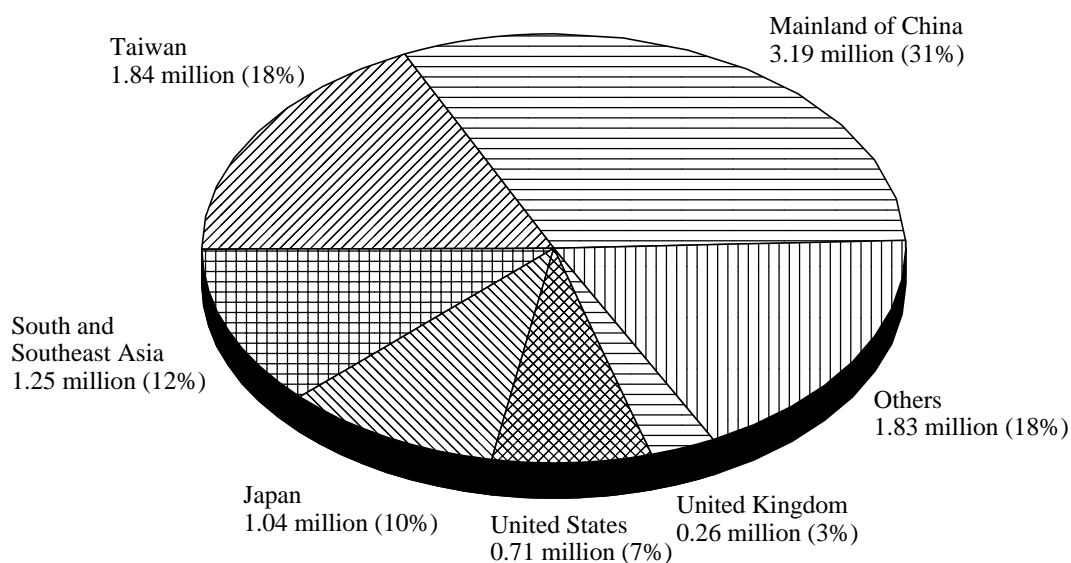
Number of incoming visitors



3.35 In the first nine months of 2001, the Mainland remained the largest source of visitors to Hong Kong, accounting for 31% of the total visitor arrivals. Taiwan was in the second place, with a share of 18%. Other major sources included South and Southeast Asia (at 12%), Japan (10%), the United States (7%), and the United Kingdom (3%).

Diagram 3.16

**Number of incoming visitors by source
in the first nine months of 2001**



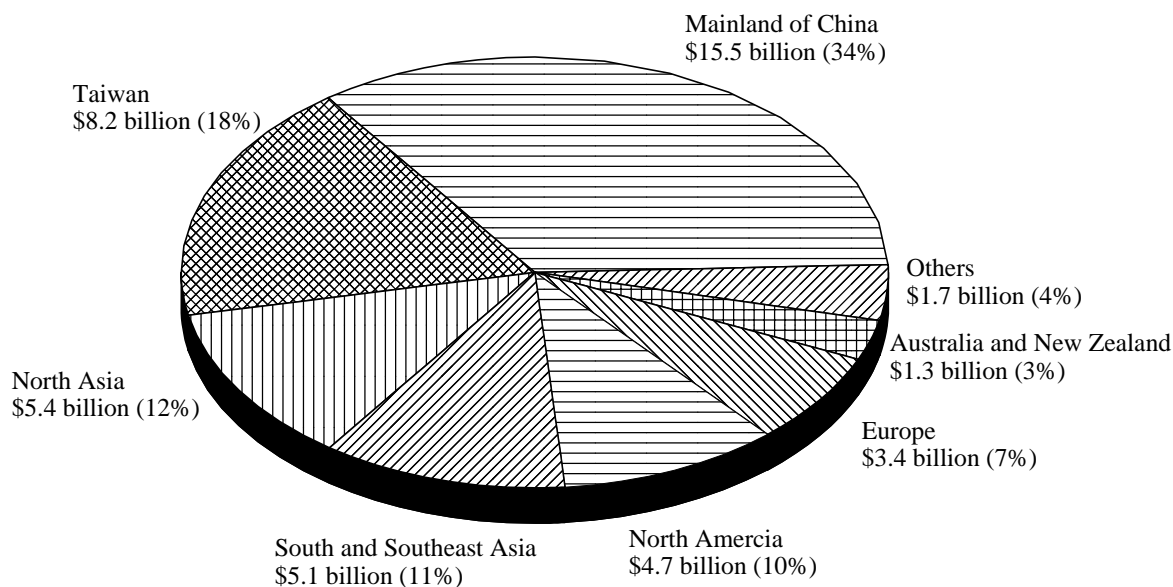
Total number of incoming visitors in the first nine months of 2001 : 10.12 million

3.36 Tourism receipts moderated along with the slow-down in incoming visitors. In the third quarter of 2001, total *visitor spending* rose by only 1% in money terms over a year earlier to \$14 billion, distinctly smaller than the 8% increase in the first half of the year. For the first nine months of 2001 as a whole, the increase averaged at 5%, also smaller than the 9% rise in 2000. On a per capita basis, visitor spending amounted to \$4,059 in the third quarter of 2001, down by 3% in money terms from a year earlier.

/Diagram 3.17

Diagram 3.17

Visitor spending by source in the first nine months of 2001



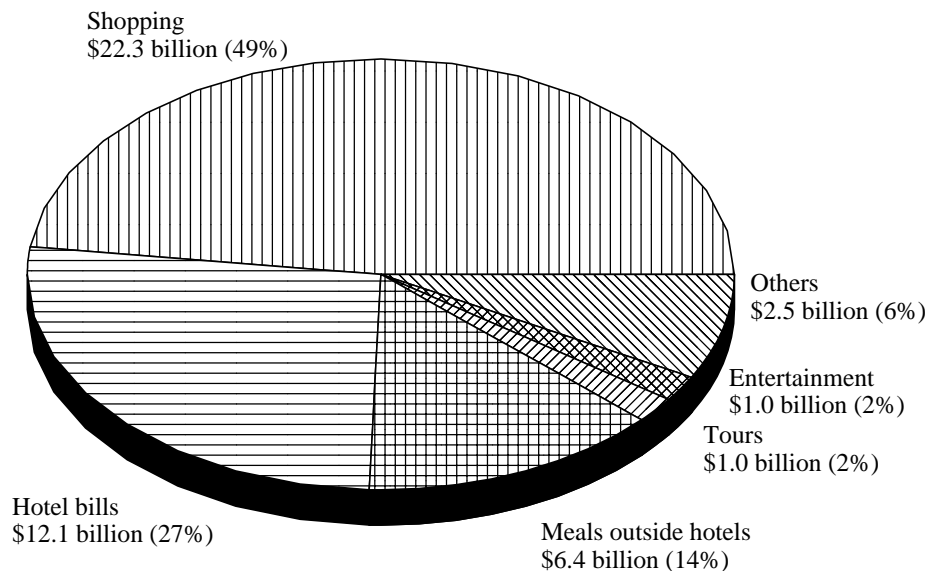
Total visitor spending in the first nine months of 2001 : \$45.4 billion

3.37 Analysed by expenditure category, shopping accounted for 49% of the total visitor spending in the first nine months of 2001, while hotel bills and meals outside hotels took up 27% and 14% respectively. Analysed by source, visitors from the Mainland constituted the largest spending group, accounting for 34% of the total visitor spending in the first nine months of 2001. Visitors from Taiwan came next, taking up 18% of the total. These were followed by visitors from North Asia (at 12%), South and Southeast Asia (11%), North America (10%), Europe (7%), and Australia and New Zealand (3%).

/Diagram 3.18

Diagram 3.18

**Visitor spending by expenditure category
in the first nine months of 2001**



Total visitor spending in the first nine months of 2001 : \$45.4 billion

3.38 The stock of *hotel rooms* in Hong Kong went up by 4% over a year earlier to 36 600 at end-September 2001. As the increased supply of hotel rooms coincided with a slow-down in inbound tourism, the *average hotel room occupancy rate* fell to 78% in the third quarter of 2001, from 83% in the same quarter in 2000.

/Table 3.15

Table 3.15**Stock of hotel rooms and occupancy rate**

		<u>Number of hotel rooms as at end of period</u>		<u>Average hotel room occupancy rate during the period</u> (%)
2000	Annual	35 311	(*)	83
	Q1	35 420	(4)	81
	Q2	35 420	(1)	82
	Q3	35 324	(1)	83
	Q4	35 311	(*)	87
2001	Q1	36 712	(4)	78
	Q2	36 971	(4)	79
	Q3	36 591	(4)	78

Notes : These figures cover high-tariff hotels, medium-tariff hotels, hostels and guest houses which are members of the Hong Kong Tourism Board. Other premises which may have been used for accommodating visitors to Hong Kong are not included.

() % change over a year earlier.

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.39 On *Hong Kong residents travelling abroad*, the total number of resident departures rose slightly further, by 1% over a year earlier to 15.7 million in the third quarter of 2001. The corresponding increases were 8% and 1% in the first two quarters. This suggested a continued deceleration in growth, if the effect straddling the first and second quarters on account of the special school holidays for conducting the 2001 Population Census in March was taken into account⁽⁷⁾. Hong Kong residents travelling abroad were also seen to be affected by the 911 incident. In particular, there was a drastic drop in trips to the Americas in September. For the first nine months of 2001 as a whole, the total number of resident departures went up by 3% over a year earlier to 45.5 million, which was markedly slower than the 11% increase in 2000.

/3.40

3.40 Analysed by destination and on a year-on-year comparison, resident departures to the Americas fell significantly, by 13% in the third quarter of 2001, with most of the plunge occurring in September when travel was severely down immediately after the 911 incident. This was followed by resident departures to Macau, Europe and North Asia, with decreases of 5%, 4% and 3% respectively. Yet resident departure to Taiwan continued to increase strongly, by 12%, upon simplification of the entry process to Taiwan for Hong Kong residents⁽⁸⁾. Resident departures to Australia and New Zealand, the Mainland, and South and Southeast Asia also rose, by 6%, 2% and 1% respectively.

Table 3.16

**Number of Hong Kong resident departures by destination
(year-on-year rate of change (%))**

	<u>2000</u>					<u>2001</u>					
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
All destinations	11	9	13	15	7	8	1	1	-5	5	4
Mainland of China	11	9	13	15	7	8	*	2	-4	5	5
Macau	11	4	4	25	10	7	8	-5	-10	*	-4
South and Southeast Asia	20	21	33	20	10	16	8	1	-3	3	4
North Asia	-5	-10	1	-9	-1	13	-3	-3	-11	5	-3
Americas ^(a)	*	-7	8	1	*	7	5	-13	-10	-3	-32
Taiwan	12	4	8	6	33	8	9	12	6	22	7
Europe	5	2	8	9	*	4	3	-4	-9	5	-6
Australia and New Zealand	1	-7	16	-3	3	4	3	6	10	16	-7
Others	9	-4	9	17	13	84	28	-3	9	6	-24

Notes : Figures may not add up exactly to the total due to rounding.

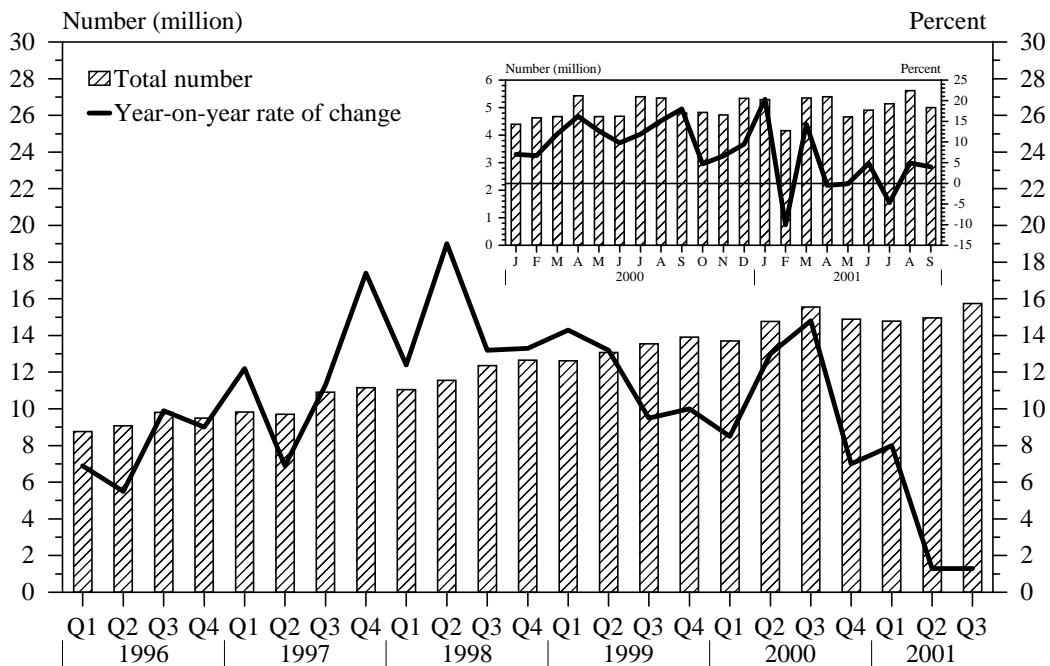
(a) This includes the United States, Canada, Central America and South America.

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

/Diagram 3.19

Diagram 3.19
Number of Hong Kong resident departures

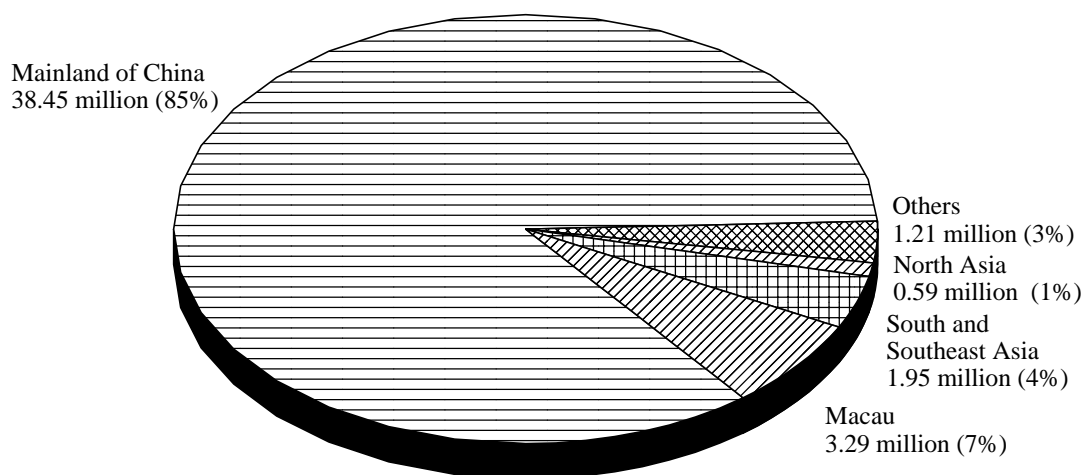


3.41 The Mainland continued to be the most popular visit destination for Hong Kong residents, accounting for 85% of all the departures in the first nine months of 2001. Most of these trips were destined for Guangdong Province. Macau came second (with a share of 7%), followed by South and Southeast Asia (4%), and North Asia (1%).

/Diagram 3.20

Diagram 3.20

**Number of Hong Kong resident departures by destination
in the first nine months of 2001**



Total number of resident departures in the first nine months of 2001 : 45.50 million

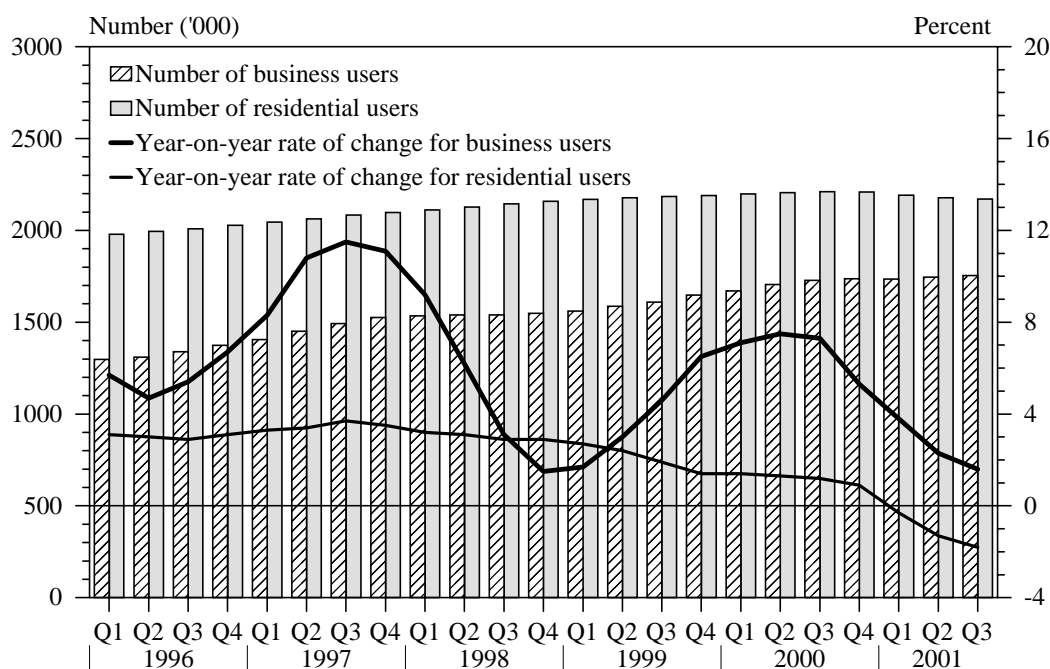
Telecommunications

3.42 On *wireline services*, the number of fixed telephone lines stood at 3.93 million at end-September 2001, virtually unchanged from a year earlier. Within this total, the number of lines for business customers rose by 2%, while the number of lines for residential customers fell by 2%. These two groups of customers accounted for 45% and 55% respectively of all the telephone lines rendered at end-September 2001. Per capita tele-density in Hong Kong, at 58 telephone lines per 100 inhabitants at end-September 2001, was one of the highest in Asia. As to facsimile lines, the number went up by 4% over a year earlier to 412 000 at end-September 2001. This gave 24 facsimile lines per 100 business telephone lines, again amongst the highest in Asia. Internet traffic volume⁽⁹⁾ fell by 33% over a year earlier to 2.7 billion minutes in the third quarter of 2001, following decreases of 12% and 22% in the first two quarters and on the back of a phenomenal growth in recent years. The decrease was likely to be related to recent consolidation of the information technology sector.

/Diagram 3.21

Diagram 3.21

**Number of direct exchange lines* by main user category
(as at end of quarter)**



Note : (*) Including facsimile lines.

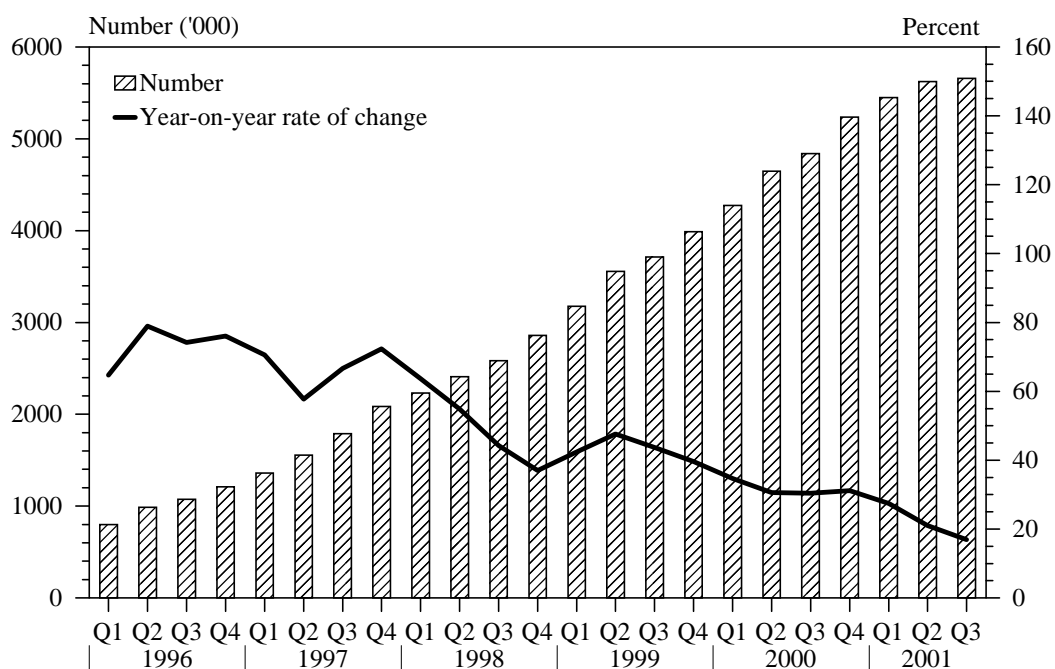
3.43 On *wireless services*, the mobile phone segment remained buoyant, with the number of customers surging by 17% over a year earlier to 5.7 million⁽¹⁰⁾ at end-September 2001. This gave a mobile phone penetration rate of 84%, which was amongst the highest in the world. On the other hand, the paging segment continued to contract, with the number of customers down further by 19% over a year earlier to 275 000 at end-September 2001.

3.44 On 18 July 2001, the Government issued the Information Memorandum on licensing of Third Generation (3G) mobile phone services, inviting applications for four licences to render 3G services in Hong Kong. On 18 September, the Government announced that four licences would be provisionally awarded to all the four bidding operators. The licences were henceforth granted on 22 October, enabling the licensees to start to rollout their 3G networks and services. Thus Hong Kong would be able to enjoy 3G services at the same time as the advanced economies.

/Diagram 3.22

Diagram 3.22

**Number of public mobile radiotelephone service customers*
(as at end of quarter)**



Note : (*) Including all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

/Notes

Notes :

- (1) The Index of Industrial Production is intended to reflect the recent trend of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the border is not included.
- (2) The Monthly Survey of Orders-on-hand covers manufacturing firms engaging 50 or more workers. Its main purpose is to provide a broad indicator of the orders position in value terms in the local manufacturing sector at monthly intervals. Orders for outward processing operations across the border are not included.
- (3) Abstracting from short-term fluctuations caused by factors unrelated to productivity changes, output per person engaged may be taken as a broad indicator of average labour productivity. To smooth out short-term fluctuations, a four-quarter moving average is used in computing output per person engaged. Besides the increase in the workers' own efficiency, average labour productivity also reflects the increased output brought about by investment in machinery and equipment, thereby resulting in a greater capital intensity per worker. An upward shift in the occupational mix also raises average labour productivity.
- (4) On 3 September 2001, the Chief Secretary for Administration announced that a moratorium would be imposed immediately on all sales of HOS/PSPS flats until end-June 2002, and that additional home ownership loans equal in number to the sale flats put on hold would be made available to eligible families. He also announced that the supply of new HOS/PSPS flats after the moratorium would not exceed 9 000 units a year up to the financial year 2005/06.
- (5) Developers usually offered a variety of inducements pertaining to flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers might opt for different combinations of these privileges, or else might seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years for the flat buyers could be reduced considerably.
- (6) Since April 1999, the Government has been operating an Application System under the Land Sale Programme, whereby the Government sets aside additional sites on a Reserve List for open application by the developers. Provided that the deposit placed for the application reflects the prevailing market price, the site involved can be released from the Reserve List for open auction or tender. This helps ensure a flexible supply of Government land in response to market demand.
- (7) The special school holidays in March for conducting the 2001 Population Census led to an advancement of some of the outbound tours originally scheduled for Easter in April. This gave a boosting effect on the number of resident departures in the first quarter of 2001, but a dampening effect on the number of resident departures in the second quarter.

/(8)

- (8) As from 8 August 2001, the Taiwanese authorities adopt a new measure to simplify the entry process for Hong Kong and Macau residents visiting Taiwan. Under the new measure, those Hong Kong and Macau residents who have previously visited Taiwan may only need to apply for a temporary entry permit lasting for 14 days upon arrivals in Taiwan.

- (9) This includes access through the public switch telephone network (PSTN), but not access through the leased circuits.

- (10) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4: THE FINANCIAL SECTOR*

Overall financial market situation

4.1 In the third quarter of 2001, the Hong Kong dollar exchange and money markets remained broadly stable, but the local stock market was more volatile upon the shock from the 911 incident. Throughout the quarter, the market exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate. Yet the spread between the Hong Kong dollar forward rates and spot rate against the US dollar reversed from a small premium at end-June to a small discount at end-September. Along with further significant cuts in US interest rates, local interest rates also eased distinctly further. Hong Kong dollar deposits grew slightly further during the third quarter, while Hong Kong dollar loans continued to decline. As a result, the Hong Kong dollar loan-to-deposit ratio fell to a new low at end-September 2001. In the local stock market, share prices were weighed down by heightened concern over the global economic outlook. Mirroring the weakness in the global stock markets inflicted by the 911 incident, the Hang Seng Index plunged to a near three-year low of 8 934 on 21 September. The index rebounded distinctly soon afterwards, to 9 951 at end-September 2001, though still 24% below the level at end-June.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate and moved within a narrow range of 7.797 to 7.800 during the third quarter of 2001, notwithstanding the volatility in the global financial markets immediately after the 911 incident. The spread between the twelve-month Hong Kong dollar forward rate and the spot rate reversed from a small premium of three pips (each pip equivalent to HK\$0.0001) at end-June to a small discount of nine pips at end-September.

(*) This chapter is jointly prepared by the Hong Kong Monetary Authority and the Economic Analysis Division.

4.3 Under the linked exchange rate system⁽¹⁾, 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 weakened against most of the major currencies during the third quarter of 2001, primarily upon worries about a more protracted US economic slow-down and the sizeable US current account deficit, and was weighed down further by the instant impact of the 911 incident. (Yet by early October, the US dollar had recovered most of the lost ground consequential to the 911 incident.)

4.4 Despite the weakness in the Japanese economy, the yen strengthened from 126.00 against the US dollar in early July to 120.95 just before the 911 incident. Upon a brief softening of the dollar triggered by the 911 incident, the yen advanced further to a high of 116.21 on 20 September, even amidst successive interventions by the Bank of Japan to restrain a rapid strengthening of the yen. Then with some ease-back, the yen settled to 119.51 at end-September. This still represented a 4.2% gain over the level at end-June. Against most of the other East Asian currencies, the US dollar also softened during the third quarter.

4.5 Against the euro, the US dollar likewise weakened during the third quarter of 2001. The euro rose from 0.85 in early July to a high of 0.92 on 17 August, before settling at 0.89 in early September. Upon the shock of the 911 incident, the euro picked up further to a high of 0.93 on 18 September, before easing modestly to 0.91 at end-September. This was 7.1% higher than the level at end-June. Against the pound sterling, the US dollar similarly went down during the third quarter.

4.6 In line with the depreciation of the US dollar against most of the major currencies, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar fell from 140.7 at end-June 2001 to 138.4 at end-September. Adjusting for relative movements in the respective consumer price indices corresponding to the respective nominal exchange rates, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar also declined, from 172.7 at end-June 2001 to 169.1 at end-September.

/Table 4.1

Table 4.1

**Trade-weighted Effective Exchange Rate Index
of the Hong Kong dollar**

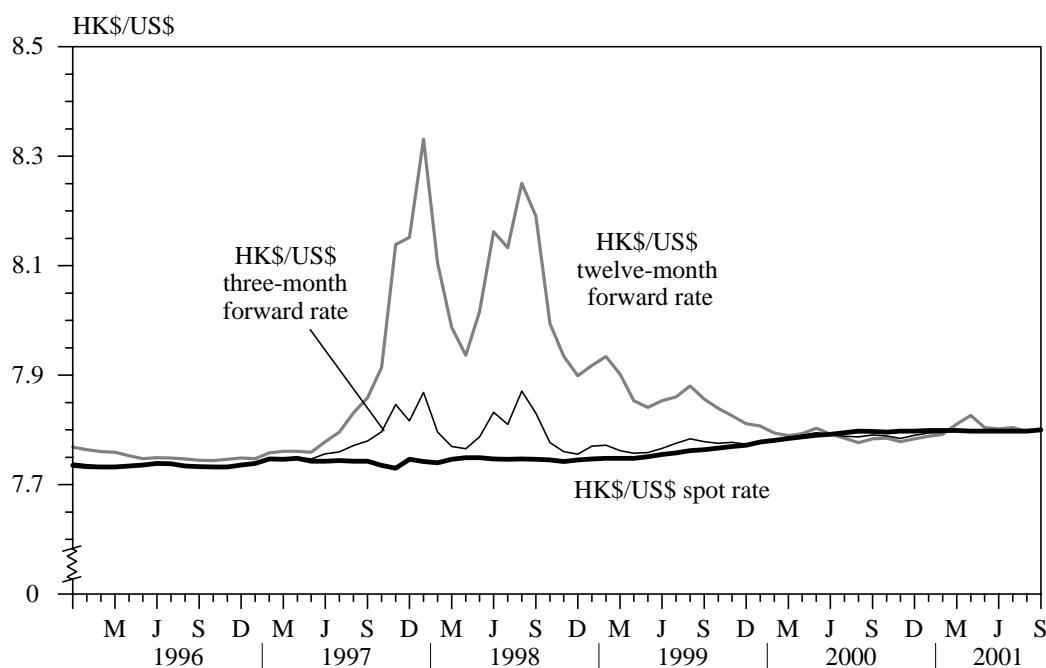
As at the end of		Trade-weighted Nominal EERI (Nov 1983 = 100)		Trade-weighted Real EERI ^(a) (Nov 1983 = 100)	
2000	Q1	132.4	(0.7)	171.2	(-0.7)
	Q2	132.7	(0.2)	169.7	(-0.9)
	Q3	134.9	(1.7)	170.7	(0.6)
	Q4	136.0	(0.8)	171.9	(0.7)
2001	Q1	140.1	(3.0)	171.3	(-0.3)
	Q2	140.7	(0.4)	172.7	(0.8)
	Q3	138.4	(-1.6)	169.1	(-2.1)

Notes : (a) The real Effective Exchange Rate Index (EERI) of the Hong Kong dollar, as compiled by the Hong Kong Monetary Authority, is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of 17 major trading partners after adjusting for relative movements in the respective seasonally adjusted consumer price indices, with the weights being the shares of these 17 trading partners in the total trade value of Hong Kong.

() % change during the quarter.

Diagram 4.1

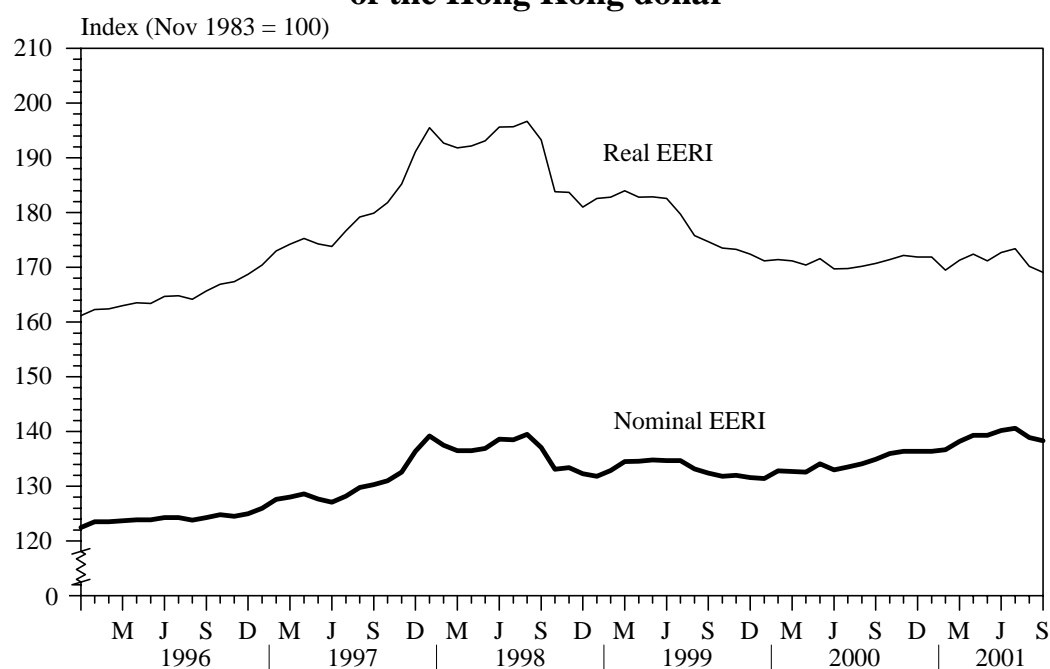
Exchange rate of Hong Kong dollar against US dollar



/Diagram 4.2

Diagram 4.2

**Trade-weighted Effective Exchange Rate Index
of the Hong Kong dollar**



Interest rates

4.7 In a concerted effort to bolster consumer and investor confidence and to alleviate the adverse economic impact of 911 incident, major central banks in the world eased their monetary policies. In line with further significant cuts in US interest rates, local interest rates eased distinctly further in September, following declines in the earlier months. The three-month HIBOR fell from 3.69% at end-June 2001 to 3.19% just before the 911 incident, and further to a low of 2.31% at end-September. The spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate widened slightly, from 16 basis points in favour of the US dollar at end-June, to 23 basis points at end-September.

4.8 The US Fed Funds target rate was lowered by 25 basis points on 21 August, and further by 50 basis points just before the US stock market re-opened on 17 September after the 911 incident. These cumulated to a total reduction of 350 basis points in that interest rate so far in 2001. Accordingly, the Base Rate under the Discount Window was lowered twice during the third quarter, and stood at 4.5% at end-September. Upon the full interest rate deregulation as from 3 July 2001, the savings deposit rate, and indeed all bank

/deposit

deposit interest rates, are to be set freely by the individual banks. While US interest rate cuts are thus no longer followed by uniform reductions in the savings deposit rate amongst the individual banks, interest rates in the local banking sector have matched the cuts closely. The average savings deposit rate offered by ten major banks fell from 2.25% at end-June 2001 to 1.025% at end-September.

4.9 The best lending rate of the major banks followed a similar downtrend, easing to 6.0% at end-September 2001, the lowest level since April 1988. Time deposit rates fell by a slightly larger extent, as the banks were apparently less keen in competing for time deposits amidst ample liquidity. The spread of the best lending rate over the three-month time deposit rate thus widened from 4.39 percentage points to 4.85 percentage points during the third quarter.

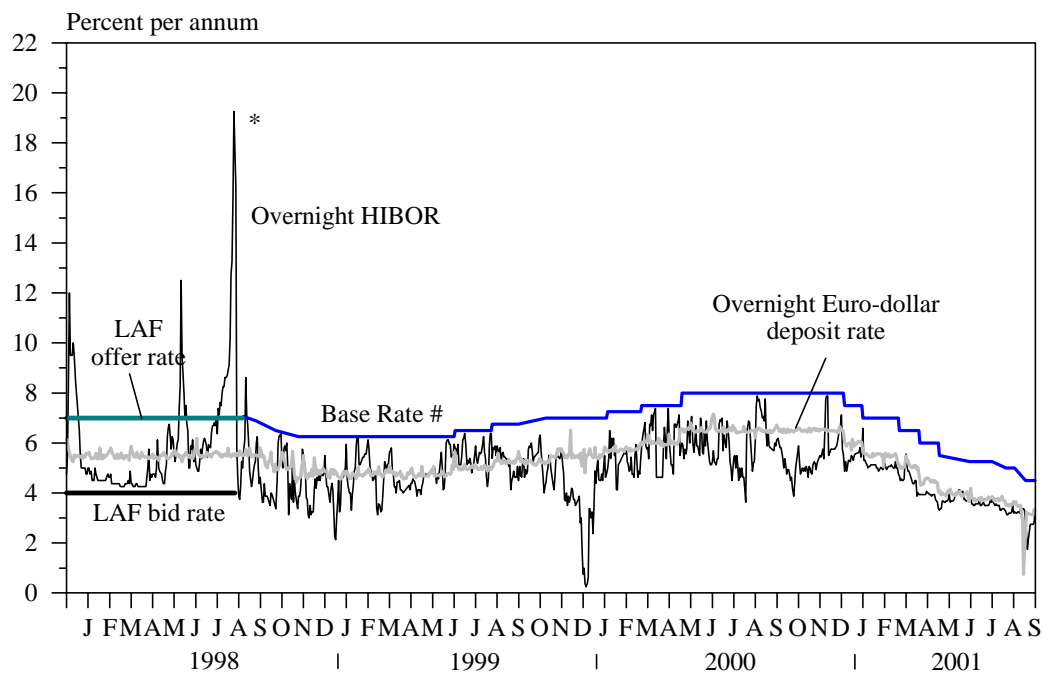
4.10 Meanwhile, competition amongst the banks for residential mortgage business remained intense. The proportion of new mortgage loans granted at below the best lending rate stood at 91.7% in September 2001, similar to that of 92.1% in June, while the proportion of those granted at more than two percentage points below the best lending rate rose slightly, from 79.0% in June to 80.5% in September⁽³⁾.

/Diagram 4.3

Diagram 4.3

Interest rates

(a) Former LAF bid and offer rates, Base Rate under the Discount Window, and overnight HIBOR and Euro-dollar deposit rate

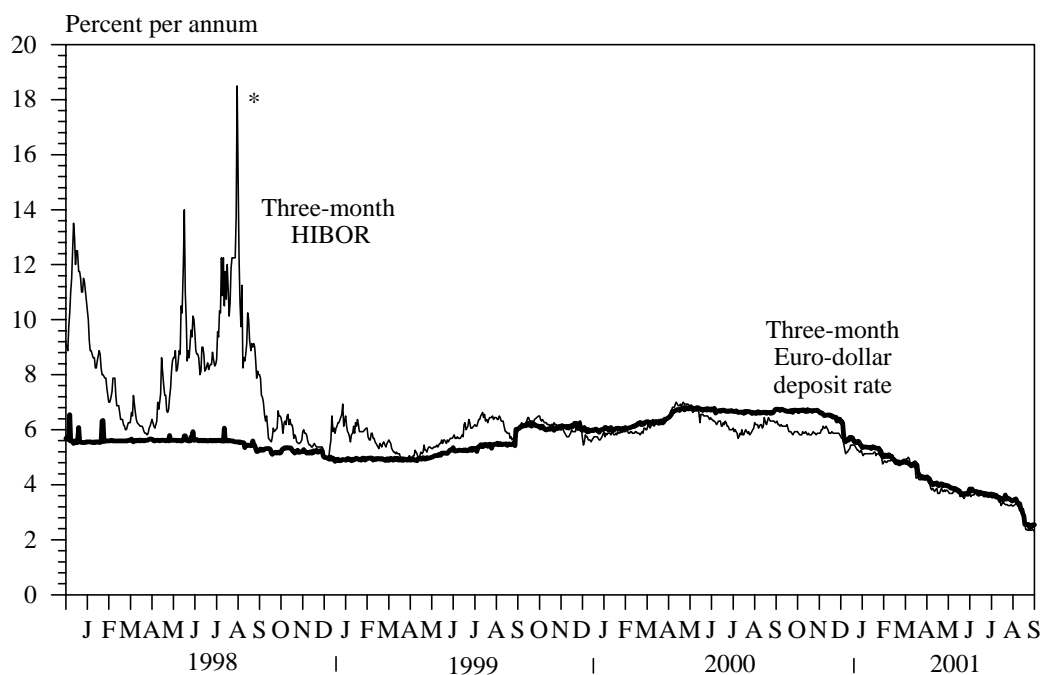


Note : (#) As from 7 September 1998, the Liquidity Adjustment Facility has been replaced by the Discount Window, with the LAF bid rate abolished and the former LAF offer rate replaced by a Base Rate. While the former LAF offer rate was the rate at which licensed banks could borrow overnight funds from HKMA through repo agreements on eligible securities, the Base Rate is only the foundation for calculating different discount rates in respect of different percentage thresholds of eligible securities held. As such, the two rates are not strictly comparable.

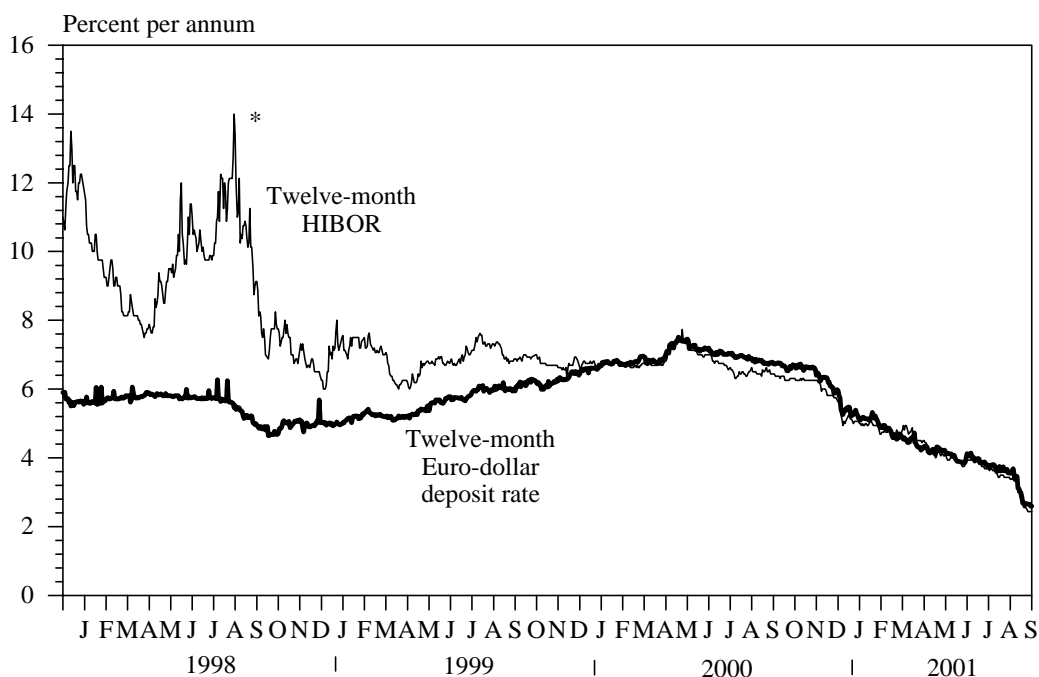
/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

(b) Three-month HIBOR and Euro-dollar deposit rate



(c) Twelve-month HIBOR and Euro-dollar deposit rate



Note : (*) The overnight and three-month HIBORs both surged to a closing high of 19% on 28 August 1998, as speculative selling of the Hong Kong dollar intensified amidst the financial turbulence in Russia. The twelve-month HIBOR rose to a lesser extent, to 14% on that day.

/Table 4.2

Table 4.2

Hong Kong dollar inter-bank offer rates (HIBORs)
 (% per annum, as monthly average)

<u>During the month</u>		<u>Overnight HIBOR</u>		<u>Three-month HIBOR</u>		<u>Twelve-month HIBOR</u>	
2000	Mar	5.41	(-45)	5.93	(-23)	6.69	(-11)
	Jun	5.95	(-61)	6.58	(-18)	7.07	(-12)
	Sep	6.73	(22)	6.23	(-40)	6.49	(-30)
	Dec	6.26	(-25)	5.94	(-54)	5.92	(-27)
2001	Jan	5.41	(-59)	5.32	(-35)	5.14	(-23)
	Feb	5.08	(-44)	5.08	(-22)	4.94	(-18)
	Mar	4.94	(-39)	4.83	(-9)	4.74	(1)
	Apr	4.37	(-45)	4.57	(2)	4.69	(25)
	May	3.72	(-48)	3.84	(-19)	4.16	(-7)
	Jun	3.85	(-11)	3.67	(-12)	3.92	(-9)
	Jul	3.57	(-19)	3.63	(-8)	3.86	(-7)
	Aug	3.38	(-29)	3.36	(-16)	3.51	(-16)
	Sep	2.96	(-15)	2.84	(-11)	2.93	(-11)

Note : () Figures in brackets represent the spread between HIBOR and the corresponding Euro-dollar deposit rate in basis points. A positive value denotes a differential in favour of the Hong Kong dollar, while a negative value denotes a differential in favour of the US dollar.

/Table 4.3

Table 4.3

Hong Kong dollar interest rates
 (% per annum, as monthly average of the rates
 quoted by the major banks)

Time deposit rates for
deposits of less than HK\$100,000

	<u>During the month</u>	<u>One- week</u>	<u>One- month</u>	<u>Three- month</u>	<u>Six- month</u>	<u>Twelve- month</u>	<u>Savings deposit rate</u>	<u>Best lending rate</u>
2000	Mar	3.98	4.46	4.70	4.97	5.53	4.04	8.79
	Jun	4.64	5.22	5.51	5.66	5.78	4.75	9.50
	Sep	4.69	5.09	5.09	5.15	5.27	4.75	9.50
	Dec	4.60	5.00	4.91	4.88	5.05	4.75	9.50
2001	Jan	4.17	4.53	4.49	4.43	4.42	4.36	9.11
	Feb	3.68	3.98	3.96	3.90	3.90	3.82	8.57
	Mar	3.53	3.74	3.73	3.71	3.71	3.65	8.40
	Apr	3.04	3.31	3.31	3.31	3.39	3.12	7.87
	May	2.49	2.67	2.70	2.76	2.92	2.57	7.32
	Jun	2.22	2.41	2.46	2.52	2.73	2.25	7.00
	Jul	2.01	2.29	2.29	2.34	2.56	1.97	6.77
	Aug	1.90	2.09	2.08	2.16	2.34	1.88	6.69
	Sep	1.36	1.59	1.58	1.63	1.73	1.33	6.30

Deposits and money supply

4.11 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits⁽⁴⁾) rose slightly further, by 0.3% during the third quarter of 2001 to \$1,849 billion at end-September, following a 0.2% increase during the second quarter. On a year-on-year comparison, Hong Kong dollar deposits were 2.0% higher at end-September 2001. The share of Hong Kong dollar deposits in total deposits stood at 53.8% at end-September, similar to that of 53.7% at end-June.

4.12 Amidst the further interest rate cuts, the growth in demand deposits within the Hong Kong dollar deposits picked up sharply, to 5.9% during the third quarter of 2001, after a 0.9% increase during the second quarter. The growth in savings deposits moderated distinctly, to 4.4% during the third quarter, from 8.3% during the second quarter. Time deposits fell further, by 2.0% during the third quarter, following a decline of 3.2% during the second quarter. Partly reflecting expectations for further interest rate easing, the maturity of the time deposits lengthened somewhat.

/Table 4.4

Table 4.4**Hong Kong dollar deposits with authorized institutions**

% change during the quarter		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	Total Hong Kong dollar deposits ^(a)
2000	Q1	1.7	1.1	-2.0	-1.0
	Q2	-4.4	-2.9	4.4	1.9
	Q3	1.5	-1.0	3.1	2.0
	Q4	7.5	12.2	-2.1	1.9
2001	Q1	-6.1	1.4	-0.6	-0.4
	Q2	0.9	8.3	-3.2	0.2
	Q3	5.9	4.4	-2.0	0.3
Total amount at the end of September 2001 (HK\$Bn)		113	565	1,172	1,849
% change over a year earlier		7.9	28.7	-7.7	2.0

Notes : (a) Adjusted to include foreign currency swap deposits.

(b) Time deposits with licensed banks plus deposits with restricted licence banks and deposit-taking companies.

4.13 Foreign currency deposits (adjusted to exclude foreign currency swap deposits) amounted to \$1,586 billion at end-September 2001, having decreased slightly by 0.3% during the third quarter. This followed a 2.7% rise during the second quarter. On a year-on-year comparison, foreign currency deposits were up by 1.2% at end-September 2001. Amongst the foreign currency deposits, US dollar deposits decreased by 0.6% during the third quarter, reversing a 2.7% increase during the second quarter. Non-US dollar foreign currency deposits rose by 0.3% during the third quarter, moderated from a 2.7% increase during the second quarter.

/Table 4.5

Table 4.5

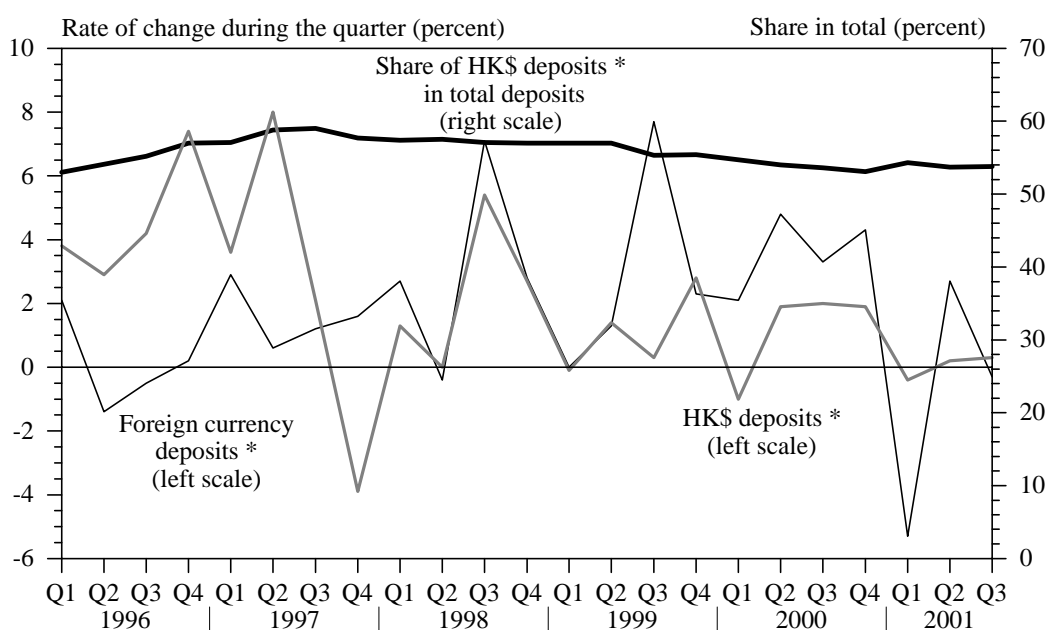
Foreign currency deposits with authorized institutions

% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2000	Q1	3.0	0.8	2.1	-3.3
	Q2	6.6	2.4	4.8	1.0
	Q3	7.9	-3.5	3.3	-82.6
	Q4	7.6	-1.1	4.3	-10.1
2001	Q1	-4.3	-7.0	-5.3	-10.3
	Q2	2.7	2.7	2.7	-20.4
	Q3	-0.6	0.3	-0.3	-7.4
Total amount at the end of September 2001 (HK\$Bn)		1,028	558	1,586	3
% change over a year earlier		5.1	-5.2	1.2	-40.6

Note : (a) Adjusted to exclude foreign currency swap deposits.

Diagram 4.4

Deposits with authorized institutions by currency denomination and share of Hong Kong dollar deposits in total deposits



Note : (*) Adjusted for foreign currency swap deposits.

4.14 Total deposits with authorized institutions in Hong Kong stayed flat during the third quarter of 2001, with the level at end-September being virtually the same as that at end-June. This came after a 1.3% increase during the second quarter. Deposits with licensed banks remained unchanged during the third quarter, after a 1.4% increase during the second quarter. Deposits with restricted licence banks and deposit-taking companies nevertheless increased, by 7.0% and 16.0% respectively during the third quarter, representing a rebound from the declines of 3.2% and 6.5% during the second quarter. On a year-on-year comparison, total deposits with authorized institutions went up by 1.6% at end-September 2001.

Table 4.6

Total deposits by major type of authorized institution

		<u>With licensed banks</u>				<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>	
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	<u>Total</u>
2000	Q1	2.4	1.7	0.2	0.6	-16.2	-6.2	0.4
	Q2	-2.9	-2.8	5.3	3.3	-2.4	2.6	3.3
	Q3	4.3	0.1	3.1	2.6	0.7	6.1	2.6
	Q4	16.6	9.2	0.8	3.0	9.5	-5.1	3.0
2001	Q1	-13.0	0.8	-3.1	-2.8	4.7	5.5	-2.7
	Q2	0.6	7.3	-0.2	1.4	-3.2	-6.5	1.3
	Q3	6.7	4.3	-1.7	*	7.0	16.0	*
Total amount at the end of September 2001 (HK\$Bn)		142	785	2,468	3,395	34	7	3,435
% change over a year earlier		8.9	23.2	-4.3	1.5	18.8	8.6	1.6

Note : (*) Change of less than 0.05%.

/4.15

4.15 Narrow money supply⁽⁵⁾, HK\$M1, rose distinctly further, by 5.1% during the third quarter of 2001, following an increase of 1.0% during the second quarter. On a seasonally adjusted basis, HK\$M1⁽⁶⁾ also increased distinctly, by 5.2% during the third quarter, having risen by 5.3% during the second quarter. The broader definitions of money supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits), rose much more modestly, by 0.6% and 0.7% respectively during the third quarter, both following an increase of 0.2% during the second quarter. On a year-on-year comparison, HK\$M1, HK\$M2 and HK\$M3 all went up, by 8.7%, 2.0% and 2.2% respectively at end-September 2001.

Table 4.7

Hong Kong dollar money supply and total money supply

% change during the quarter	<u>M1</u>		<u>M2</u>		<u>M3</u>		
	HK\$	Total	HK\$ ^(a)	Total	HK\$ ^(a)	Total	
2000 Q1	-2.9	(1.4)	-2.1	-1.0	0.4	-1.0	0.2
Q2	-3.1	(0.9)	-2.3	1.6	3.1	1.6	3.0
Q3	0.6	(0.4)	2.3	1.5	2.2	1.6	2.2
Q4	5.0	(2.3)	10.7	1.7	2.9	1.7	2.9
2001 Q1	-2.6	(-3.9)	-7.5	-0.5	-2.7	-0.5	-2.6
Q2	1.0	(5.3)	0.9	0.2	1.5	0.2	1.4
Q3	5.1	(5.2)	5.7	0.6	0.2	0.7	0.3
Total amount at the end of September 2001 (HK\$Bn)	211	(213)	240	1,991	3,569	2,009	3,615
% change over a year earlier	8.7	(8.8)	9.2	2.0	1.9	2.2	1.9

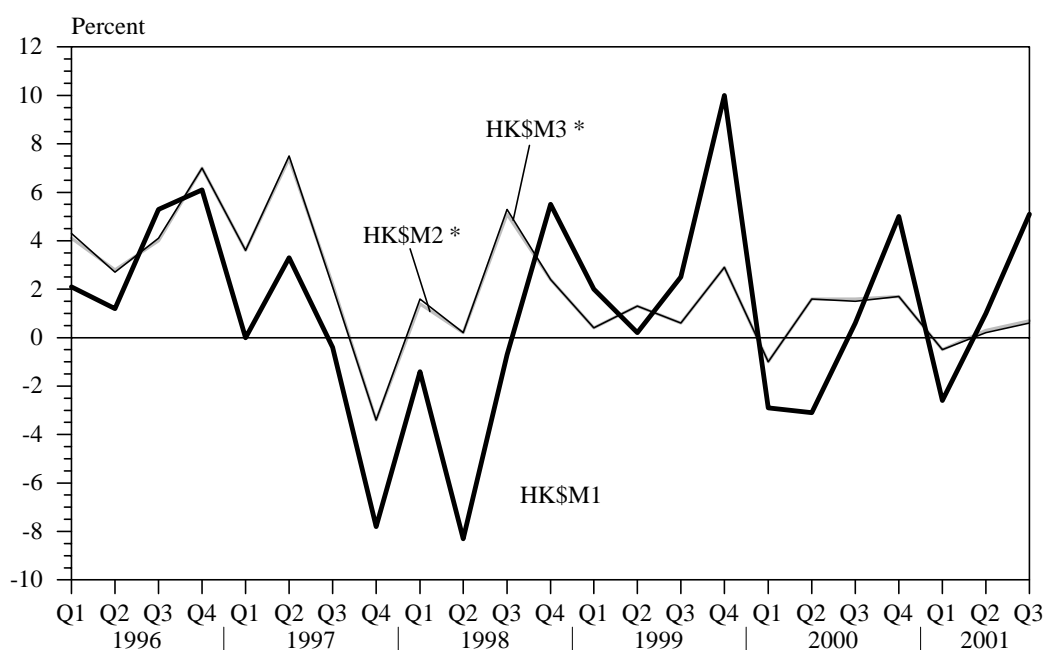
Notes : () Figures in brackets represent percentage changes on the basis of the seasonally adjusted series for HK\$M1. Seasonality is not apparent for the other measures of the money supply.

(a) Adjusted to include foreign currency swap deposits.

/Diagram 4.5

Diagram 4.5

**Hong Kong dollar money supply
(rate of change during the quarter)**



Note : (*) Adjusted to include foreign currency swap deposits.

Authorized institutions' Hong Kong dollar external claims and liabilities against banks in the Mainland

4.16 The close economic relations between the Mainland and Hong Kong have led to the accumulation of a substantial amount of Hong Kong dollar funds from trading activities and inward investment in the Mainland. These funds are then placed with the banks in the Mainland and subsequently channelled back to Hong Kong through the inter-bank market. Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell markedly, by 17.5% over the past twelve months to \$108 billion at end-August 2001, reversing the upward trend in 2000. Hong Kong dollar claims of Hong Kong's authorized institutions on banks in the Mainland declined to a much greater extent, by 57.5% over the past twelve months to only \$19 billion at end-August 2001, as the respective lending activities dwindled. Taken together, net Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland rose slightly, from \$87 billion at end-August 2000 to \$89 billion at end-August 2001.

/Table 4.8

Table 4.8

**Hong Kong dollar external claims and liabilities
involving banks in the mainland of China held by
Hong Kong's authorized institutions**

<u>As at the end of</u>		<u>Claims on banks in the Mainland (HK\$Bn)</u>		<u>Liabilities to banks in the Mainland (HK\$Bn)</u>		<u>Net liabilities to banks in the Mainland (HK\$Bn)</u>
2000	Q1	49	(-2.0)	119	(12.2)	70
	Q2	44	(-9.4)	123	(3.3)	79
	Q3	44	(-1.4)	133	(8.3)	90
	Q4	43	(-2.5)	157	(18.0)	115
2001	Q1	43	(-0.3)	141	(-10.3)	99
	Q2	19	(-55.4)	116	(-18.1)	97
	Jul	19	(-2.3)	112	(-2.7)	94
	Aug	19	(0.6)	108	(-4.0)	89
			<-57.5>		<-17.5>	

Notes : () % change during the period.

< > % change over a year earlier.

Loans and advances

4.17 Total loans and advances contracted further, by 3.0% during the third quarter of 2001 to \$2,247 billion at end-September, following a 2.6% decrease during the second quarter. This was in the line with the worsening business outlook amidst continued slow-down in the local economy, and more recently also upon the repercussions of the 911 incident. Within this total, Hong Kong dollar loans and foreign currency loans shrank by 1.5% and 6.9% respectively during the third quarter, after decreases of 0.5% and 7.7% during the second quarter. As foreign currency loans fell to a larger extent than Hong Kong dollar loans owing to a more austere regional economic situation, the share of Hong Kong dollar loans in total loans increased further, from 72.3% at end-June 2001 to 73.4% at end-September. On a year-on-year comparison, Hong Kong dollar loans were down slightly by 0.5% at end-September 2001, while foreign currency loans plunged sharply by 33.3%, giving a 12.0% decline for total loans and advances over the year.

/Table 4.9

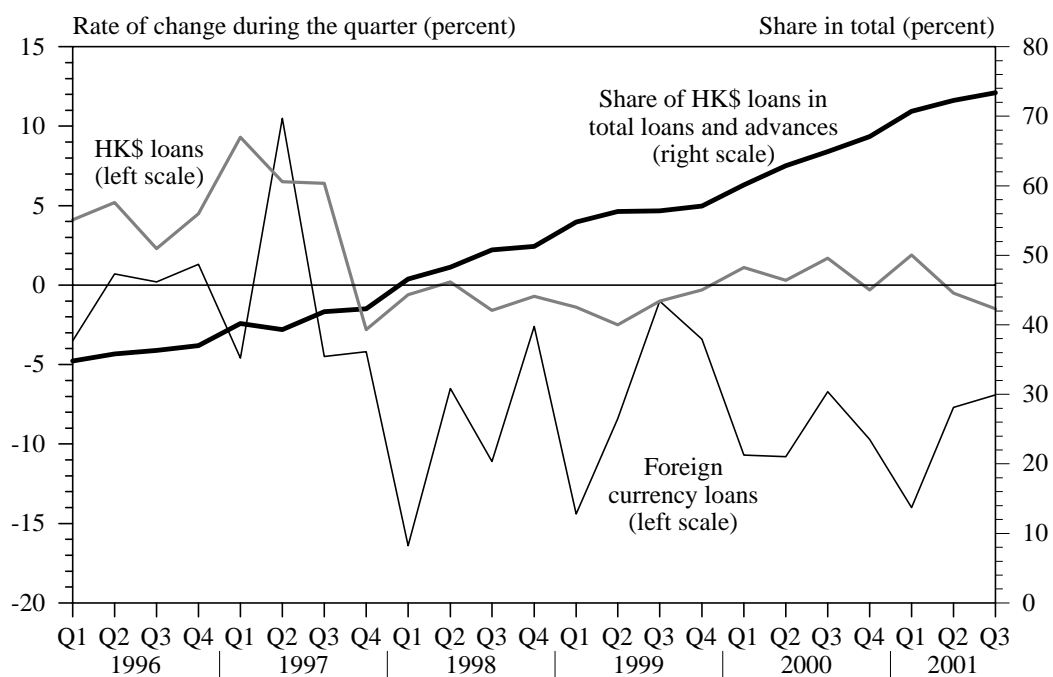
Table 4.9

Loans and advances by currency denomination

% change during the quarter		Hong Kong dollar loans	Foreign currency loans	Total loans and advances
2000	Q1	1.1	-10.7	-4.0
	Q2	0.3	-10.8	-4.1
	Q3	1.7	-6.7	-1.4
	Q4	-0.3	-9.7	-3.6
2001	Q1	1.9	-14.0	-3.4
	Q2	-0.5	-7.7	-2.6
	Q3	-1.5	-6.9	-3.0
Total amount at the end of September 2001 (HK\$Bn)		1,649	598	2,247
% change over a year earlier		-0.5	-33.3	-12.0

Diagram 4.6

Loans and advances by currency denomination and share of Hong Kong dollar loans in total loans and advances



/4.18

4.18 As Hong Kong dollar loans decreased while Hong Kong dollar deposits increased during the third quarter of 2001, the Hong Kong dollar loan-to-deposit ratio decreased from 90.8% at end-June to 89.2% at end-September, the lowest level over the past two decades.

Table 4.10

Hong Kong dollar loan-to-deposit ratio^(a)

<u>As at the end of</u>		<u>%</u>
2000	Q1	93.2
	Q2	91.6
	Q3	91.4
	Q4	89.4
2001	Q1	91.5
	Q2	90.8
	Q3	89.2

Note : (a) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



Note : (*) See the footnote to Table 4.10.

4.19 Analysed by place of usage, loans for use in Hong Kong fell by 1.7% during the third quarter of 2001, following a 0.4% decrease during the second quarter. On a year-on-year comparison, these loans were down by 4.7% at end-September 2001. Loans for use outside Hong Kong continued to contract sharply, reflecting in part the cut-back in Euro-yen Impact Loans⁽⁷⁾ and in part the general slow-down in economic activity within the region. There was a further decline of 9.6% during the third quarter, having fallen by 12.5% during the second quarter. On a year-on-year comparison, these loans plummeted by 38.4% at end-September 2001.

Table 4.11

Loans and advances by place of usage

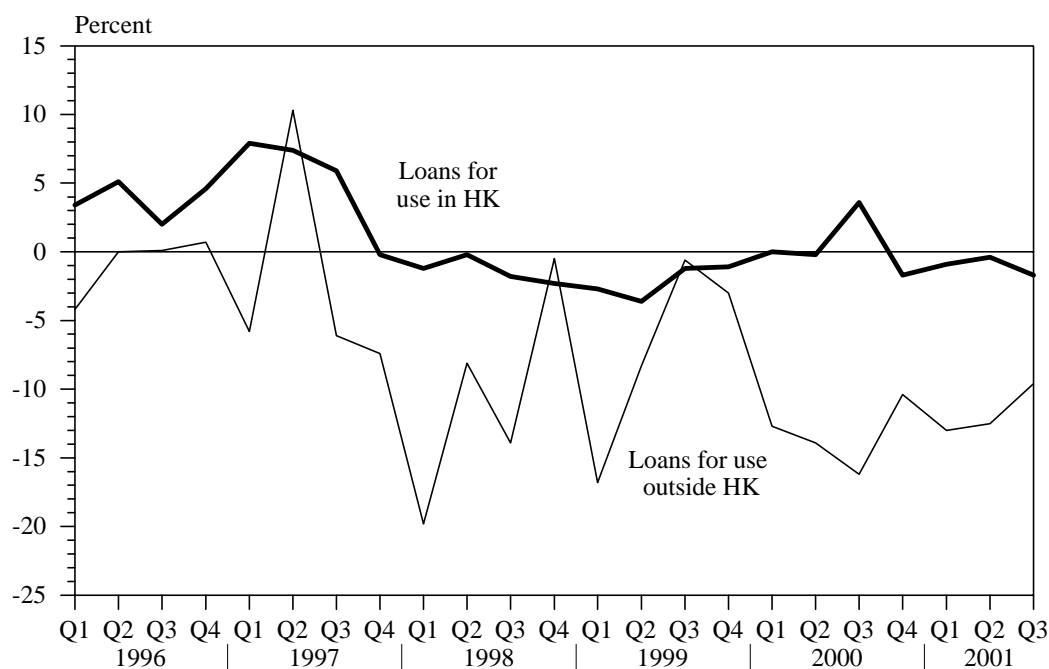
% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2000	Q1	*	-12.7
	Q2	-0.2	-13.9
	Q3	3.6	-16.2
	Q4	-1.7	-10.4
2001	Q1	-0.9	-13.0
	Q2	-0.4	-12.5
	Q3	-1.7	-9.6
Total amount at the end of September 2001 (HK\$Bn)		1,906	341
% change over a year earlier		-4.7	-38.4

- Notes : (a) Including trade financing loans.
 (b) Including loans where the place of usage is unknown.
 (*) Change of less than 0.05%.

/Diagram 4.8

Diagram 4.8

**Loans and advances by place of usage
(rate of change during the quarter)**



4.20 Analysed by major usage, the decline in domestic loans to the major economic sectors during the third quarter of 2001 was across-the-board, with the exception of residential mortgage loans. Along with the slackening in merchandise exports, loans for trade financing and to the manufacturing sector both fell, by 4.2% and 5.6% respectively during the third quarter, reversing the increases of 2.0% and 2.9% during the second quarter. With retail business moderating in recent months, loans for the wholesale and retail trades contracted by 6.1% during the third quarter, further down from a 0.9% decrease during the second quarter. Amidst the setback in the local stock market, loans to stockbrokers reversed the strong 27.2% rise during the second quarter to a 2.0% decline during the third quarter. Loans to financial concerns likewise fell, by 8.0% during the third quarter, having declined by 5.7% during the second quarter. Faced with a subdued property market, loans for building, construction, property development and property investment dropped by 2.2% during the third quarter, after falling by 3.2% during the second quarter. Loans for residential mortgages still maintained some increase, at 0.9% during the third quarter following 1.0% during the second quarter.

/Table 4.12

Table 4.12**Loans and advances for use in Hong Kong by major usage^(a)**

		Loans to :							
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trade	Building, construction, property develop- ment and property investment	Purchase resi- dential property ^(b)	Financial concerns	Stock- brokers	Others
2000	Q1	-1.9	-1.3	-0.4	1.6	1.2	-3.6	7.4	-0.7
	Q2	4.2	-3.2	-5.4	1.2	0.4	-5.4	0.1	1.0
	Q3	-3.3	-0.9	-5.3	-0.3	0.2	7.1	68.7	15.9
	Q4	-7.6	-2.3	-5.8	1.0	1.0	-8.4	-16.2	-1.9
2001	Q1	-4.1	0.8	-2.5	2.0	0.7	-1.8	-12.0	-4.3
	Q2	2.0	2.9	-0.9	-3.2	1.0	-5.7	27.2	0.7
	Q3	-4.2	-5.6	-6.1	-2.2	0.9	-8.0	-2.0	-0.3
Total amount at the end of September 2001 (HK\$Bn)		97	72	109	386	642	144	10	447
% change over a year earlier		-13.4	-4.3	-14.6	-2.4	3.5	-22.0	-8.0	-5.8

Notes : (a) Statistics in this table are revised on a regular basis to incorporate subsequent amendments and loan re-classifications made by the authorized institutions concerned. The rates of change for the earlier quarters have been adjusted for the revisions known up to the latest reference quarter.

(b) Including loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme, and Tenants Purchase Scheme.

4.21 The quality of the loan portfolio with the banks in Hong Kong continued to improve in overall terms. For local banks, overdue and rescheduled loans stood at 4.81% and classified loans at 6.81%⁽⁸⁾ against their overall loan portfolio at end-June 2001, further down from 5.41% and 7.12% respectively at end-March. Yet arrears for over three months in credit card repayment increased to 1.0% at end-June, from 0.93% at end-March. Arrears for over three months in mortgage repayment, at 1.28% at end-September, decreased from 1.35% at end-June. Local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 18.0% at end-June 2001, well above the standard set by the Bank for International Settlements.

/4.22

4.22 In October 2001, the Hong Kong Monetary Authority (HKMA) conducted a survey in respect of residential mortgage loans in negative equity. As estimated from a sample of banks, the total number of customers with their mortgage loans in negative equity was probably around 65 000, representing about 14% of all mortgage borrowers. The total amount of mortgage loans that were in negative equity was probably around \$127 billion, representing about 23% of the overall outstanding mortgage loan value. There were further 16 000 mortgage loans that were associated with co-financing schemes which had not been included in the figures above. As the banks did not have information on the outstanding amounts with the co-financiers, it was not known to what extent these loans were in negative equity⁽⁹⁾.

Banks and other deposit-taking institutions

4.23 During the third quarter of 2001, the number of licensed banks decreased by four to 149. The number of restricted licence banks remained unchanged at 48. The number of deposit-taking companies fell by three to 55. Altogether, 252 authorized institutions from 31 countries and territories maintained a presence (in the form of branches, excluding representative offices) in Hong Kong at end-September 2001. Total assets of all the authorized institutions in Hong Kong increased by 1.0% during the third quarter of 2001 to \$6,549 billion at end-September.

4.24 Following implementation of the final phase of interest rate deregulation on 3 July 2001, interest rates on all types of deposits are to be determined by competitive market forces and set freely by individual banks⁽¹⁰⁾. The prohibition of interest on current accounts has also been lifted at the same time. The banks have so far responded variedly to the deregulation, with respect to their charging policies for banking services, minimum balance requirements, and tiering of interest rates.

4.25 On enhancing deposit protection in Hong Kong, opinions obtained from public consultation indicate that while some large banks remain opposed to a deposit insurance scheme, there is broad support for introduction of such a scheme in Hong Kong. In April, the Administration approved in principle the establishment of a deposit insurance scheme in Hong Kong. More detailed work towards producing a set of final recommendations on the structure of the

/scheme

scheme is under way. In September, HKMA issued a discussion paper to seek views from the industry and the public on issues relating to funding and premium assessment for the scheme. Other issues still to be worked out include the rules relating to management of and pay-out from the fund involved, and the legal structure and powers of the scheme.

Insurance

4.26 The total number of insurance companies decreased by one during the third quarter of 2001 to 206 at end-September. Within this total, 45 were engaged wholly in long-term business, 142 wholly in general business, and 19 in composite business. Taken together, insurance companies from 26 countries and territories maintained a presence in Hong Kong at end-September 2001. Benefited mostly from the robust performance of life insurance business, the value of business receipts in the insurance industry rose considerably, by 25% in the second quarter of 2001 over a year earlier, after a 4% increase in the first quarter.

The debt market

4.27 In the third quarter of 2001, a total of 29 issues of Exchange Fund paper were launched to replace the maturing issues⁽¹¹⁾. The total value of Exchange Fund paper outstanding rose by \$1.2 billion during the third quarter to \$112.7 billion at end-September. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 6.1 times in the third quarter, up from 4.4 times in the second quarter. On the other hand, trading in Exchange Fund paper decreased slightly, with the average daily turnover coming down from \$20.7 billion in the second quarter to \$19.7 billion in the third quarter. The yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries narrowed, from 60 basis points at end-June 2001 to 50 basis points at end-September.

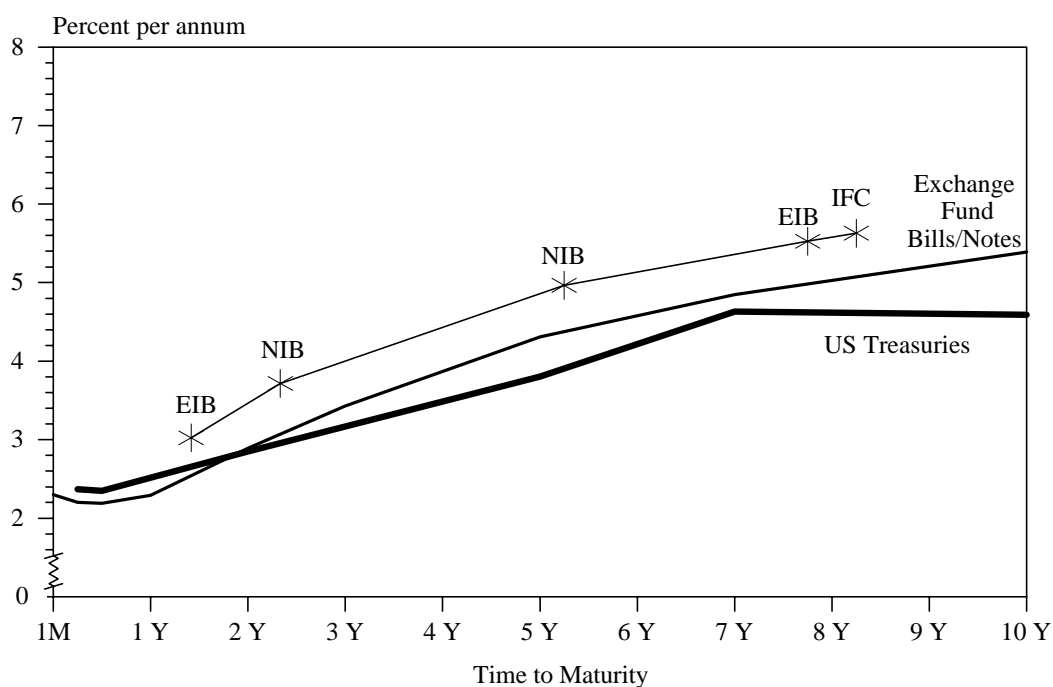
/Table 4.13

Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		Amount outstanding as at the end of quarter (HK\$Bn)	Average daily turnover in the quarter (HK\$Bn)
2000	Q1	103.5	23.4
	Q2	105.2	23.8
	Q3	106.8	24.0
	Q4	108.6	23.9
2001	Q1	110.1	21.5
	Q2	111.5	20.7
	Q3	112.7	19.7

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of September 2001)



Note : AAA Hong Kong dollar debt issuers

EIB European Investment Bank
 IFC International Finance Corporation
 NIB Nordic Investment Bank

/4.28 ...

4.28 The Hong Kong Mortgage Corporation (HKMC) has become one of the major issuers of debt securities in Hong Kong. In the third quarter of 2001, \$3.0 billion worth of HKMC notes was launched, while in the second quarter this was \$7.0 billion. At end-September 2001, the total outstanding amount of debt securities issued by HKMC under its Note Issuance Programme and Debt Issuance Programme stood at \$13.0 billion and \$8.6 billion respectively, up from \$11.5 billion and \$8.2 billion at end-June.

4.29 In the third quarter of 2001, \$24.2 billion worth of new negotiable certificates of deposit (NCDs) was launched, less than that of \$29.5 billion in the second quarter. Of all the new issuance of NCDs, \$18.9 billion was denominated in Hong Kong dollars, which was nevertheless up from \$16.7 billion in the second quarter. At end-September 2001, the total value of NCDs outstanding stood at \$179.7 billion, slightly lower than that of \$180.1 billion at end-June. Within this total, \$147.4 billion was denominated in Hong Kong dollars at end-September, as compared to \$148.6 billion at end-June. The proportion of Hong Kong dollar denominated NCDs held by the local banking sector decreased to 58.3% at end-September, from 61.6% at end-June.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

		<u>Issued and outstanding</u> (HK\$Bn)		<u>Held by authorized institutions</u> (HK\$Bn)		<u>Held outside the local banking sector</u> (HK\$Bn)	
		<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>
<u>As at the end of</u>							
2000	Q1	174.0	202.8	105.7	117.3	68.4	85.5
	Q2	165.7	197.7	98.4	112.1	67.3	85.6
	Q3	158.4	185.5	95.7	109.0	62.7	76.5
	Q4	151.5	178.5	92.0	104.4	59.5	74.1
2001	Q1	146.9	173.4	90.4	102.9	56.4	70.5
	Q2	148.6	180.1	91.5	104.8	57.1	75.2
	Q3	147.4	179.7	86.0	98.6	61.4	81.1

/4.30

4.30 206 new issues of other Hong Kong dollar debt instruments by the private sector, totalling \$21.0 billion, were launched in the third quarter of 2001. These were less than the corresponding figures of 224 and \$31.1 billion in the second quarter. Partly reflecting risk aversion by the issuers against interest rate volatility, issuance of fixed rate bonds by the private sector, at \$16.1 billion in the third quarter, continued to exceed substantially that of floating rate notes, at \$4.9 billion. At end-September 2001, outstanding Hong Kong dollar fixed rate bonds and floating rate notes amounted to \$176.2 billion and \$51.6 billion respectively, giving a total of \$227.8 billion⁽¹²⁾. These were higher than the corresponding figures of \$172.4 billion, \$46.9 billion and \$219.2 billion at end-June. Meanwhile, there was no new issue of Hong Kong dollar debt paper by multilateral agencies in the third quarter of 2001, as compared to five issues totaling \$0.7 billion in the second quarter.

4.31 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding amounted to \$495.1 billion at end-September 2001⁽¹³⁾, higher than that of \$489.6 billion at end-June. The size of the Hong Kong dollar debt market was equivalent to 24.6% of HK\$M3, or 17.1% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

4.32 The local stock market took a sharp plunge during the third quarter of 2001, after some rebound in the second quarter. The gloomy global economic outlook amidst wary over a protracted US economic slow-down, and the successive waves of US corporate profits warnings, pushed down share prices worldwide. The local stock market was likewise hit. Profit-taking on Mainland-related stocks after an earlier upsurge in prices of such stocks dampened the market more. The further interest rate cut in August did not render any noticeable stimulus to market sentiment.

4.33 Then the terrorist attack in the United States on 11 September led to widespread anxieties in the global financial markets, causing the Hang Seng Index to plummet to a near three-year low of 8 934 on 21 September, 14% down from the pre-911 closing level. As gyrations in the overseas stock markets gradually settled, share prices in the local stock market also rebounded. The Hang Seng Index rose back to 9 951 at end-September, but was still 24%

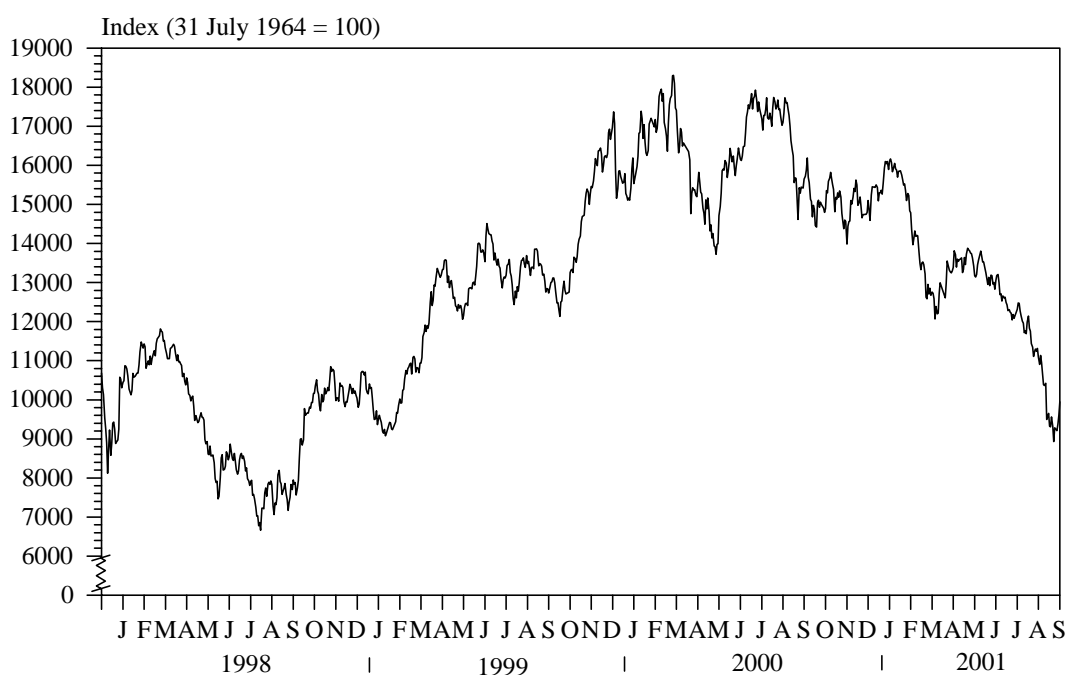
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lower than the level at end-June. All the major stock markets overseas likewise came under heavy downward pressure during the third quarter, with particularly sharp falls in the Asian markets. (The Hang Seng Index recovered to above the 10 000 mark in early October, and rose further in November along with the rally in the US stock market. It stood at 11 174 on 21 November.)

4.34 Along with the marked decline in local share prices, total stock market capitalisation, including the Main Board and the Growth Enterprise Market (GEM)⁽¹⁴⁾, plummeted by 24% during the third quarter of 2001 to \$3,420 billion at end-September. The average daily turnover in the local stock market also fell distinctly, from \$10.4 billion in the second quarter to \$6.7 billion in the third quarter.

Diagram 4.10

Hang Seng Index



/Table 4.15

Table 4.15

**Movements in the Hang Seng Index and
in the share price indices in selected overseas markets
(index as at the last trading day of the quarter)**

		<u>Hang Seng Index</u>	<u>New York Dow Jones Industrial Average</u>	<u>Tokyo Nikkei Average</u>	<u>London Financial Times Index</u>	<u>Sydney All Ordinaries Index</u>	<u>Singapore Straits Times Index</u>
2000	Q1	17 407	10 922	20 337	6 540	3 133	2 133
	Q2	16 156	10 448	17 411	6 313	3 258	2 038
	Q3	15 649	10 651	15 747	6 294	3 246	1 997
	Q4	15 096	10 787	13 786	6 222	3 155	1 927
2001	Q1	12 761	9 879	13 000	5 634	3 097	1 674
	Q2	13 043	10 502	12 969	5 643	3 425	1 727
	Q3	9 951	8 848	9 775	4 903	2 988	1 320
% change during the third quarter of 2001		-23.7	-15.8	-24.6	-13.1	-12.8	-23.6
% change during the first three quarters of 2001		-34.1	-18.0	-29.1	-21.2	-5.3	-31.5
% change over a year earlier		-36.4	-16.9	-37.9	-22.1	-8.0	-33.9

Table 4.16

**Average daily turnover and total market capitalisation
of the Hong Kong stock market**

		<u>Average daily turnover in the quarter (HK\$Bn)</u>			<u>Total market capitalisation as at the end of quarter (HK\$Bn)</u>		
		<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>	<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>
2000	Q1	18.0	0.6	18.6	4,983	87	5,070
	Q2	10.6	0.2	10.8	4,807	56	4,863
	Q3	11.8	0.4	12.2	4,721	80	4,801
	Q4	8.8	0.1	8.9	4,795	67	4,862
2001	Q1	8.9	0.1	9.0	4,179	61	4,240
	Q2	10.1	0.3	10.4	4,450	70	4,520
	Q3	6.6	0.1	6.7	3,373	46	3,420

/4.35

4.35 15 new share flotations on the Hong Kong Stock Exchange were launched in the third quarter of 2001, raising a total equity capital of \$1.7 billion. Of these, five were listed on the Main Board and 10 on GEM, raising equity capital of \$1.0 billion and \$0.7 billion respectively. In addition, around \$2.0 billion was raised through private placements by 36 companies, and \$0.5 billion through rights issues by seven companies.

4.36 As to trading in derivatives on the Hong Kong Exchanges and Clearing Ltd – Derivative Unit, the average daily turnover of Hang Seng Index futures contracts increased by 8% over the second quarter of 2001 to 18 758 contracts in the third quarter. The average daily turnover of Hang Seng Index options contracts rose markedly more, by 21% to 2 992 contracts between the two quarters. The average daily turnover of three-month HIBOR futures contracts surged by 30% over the second quarter to 3 056 contracts in the third quarter, but that of Rolling Forex (currency futures) contracts shrank by 52% to 13 contracts.

4.37 The average daily turnover of Red-Chip Index futures contracts plunged by 67% over the second quarter of 2001 to only one contract in the third quarter, and there was no trading in Red-Chip Index options contracts.

4.38 At end-September 2001, there were 31 classes of stock options contracts. The average daily turnover of these stock options contracts decreased by 20% over the second quarter of 2001 to 14 111 contracts in the third quarter. Meanwhile, the average daily turnover of stock futures contracts increased by more than three times to 28 contracts.

/Table 4.17

Table 4.17**Average daily turnover of Hang Seng Index futures and options contracts on the Hong Kong futures market**

<u>During the quarter</u>	<u>Hang Seng Index futures contracts</u> (no. of contracts)	<u>Hang Seng Index options contracts</u> (no. of contracts)
2000 Q1	16 727	2 470
Q2	14 709	1 874
Q3	16 814	2 031
Q4	16 809	2 424
2001 Q1	17 443	2 763
Q2	17 447	2 480
Q3	18 758	2 992

4.39 Having reached a high in May 2001, gold prices eased in June and July. Gold prices then picked up again in August, amidst concern about a weaker US dollar as the US economy faltered. Gold prices soared further immediately after the 911 incident, as some investors tended to revert to gold as a safe-haven asset, amidst anxieties in the global financial markets. The prices of loco-London gold rose to a 15-month high of US\$291.6 per troy ounce at end-September 2001, 8% higher than that of US\$270.6 at end-June. Gold price at the Chinese Gold and Silver Exchange Society likewise went up, by 8% to \$2,704 per tael at end-September, from \$2,509 at end-June. However, turnover on the Exchange decreased to 1.0 million taels in the third quarter of 2001, from 1.3 million taels in the second quarter.

Unit trusts and mutual funds

4.40 The total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong rose to 1 870 at end-September 2001, from 1 848 at end-June. Gross sales of mutual funds increased from US\$2.3 billion in the second quarter to US\$2.6 billion in the third quarter. After netting out redemptions, there were net sales of US\$1.2 billion in the third quarter, up from US\$1.1 billion in the second quarter. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 65% of the total value of funds at end-September 2001. This was followed by bond funds, asset allocation funds and money market funds, with respective shares of 19%, 11% and 5%.

/4.41

4.41 The Mandatory Provident Fund (MPF) System⁽¹⁵⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should add impetus to further development of the local financial market. At end-September 2001, the aggregate net asset values of the approved constituent funds of MPF schemes stood at \$28.3 billion, further up from \$24.5 billion at end-June⁽¹⁶⁾. Along with continuing contribution from the enrolled population, there was a further rise in the compliance rate during the third quarter. Yet the asset prices of equity funds had generally fallen during that quarter. By 15 November 2001, there were 20 approved corporate trustees. On MPF products, 47 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 300 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 1.74 million employees, 208 000 employers and 300 000 self-employed persons had enrolled in MPF schemes, with compliance rates for employers, relevant employees and self-employed persons standing at 88%, 95% and 91% respectively.

Notes :

- (1) Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay US dollars to the Hong Kong Monetary Authority (HKMA) for the account of the Exchange Fund at the fixed rate of HK\$7.8 to US\$1.0 in return for non-interest-bearing Certificates of Indebtedness (CIs), as backing for issue of their Hong Kong dollar banknotes. As from September 1998, HKMA has also provided an explicit undertaking to convert the Hong Kong dollar balances held in the clearing accounts maintained by the banks with HKMA at the Convertibility Undertaking Rate. This was set at 7.750 when the convertibility undertaking was introduced, because it was the then market exchange rate. From 1 April 1999, the Convertibility Undertaking Rate for the Aggregate Balance moved from 7.750 by 1 pip per calendar day, reaching 7.800 on 12 August 2000, where it has stayed.
- (2) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. These currencies are selected on account of their importance in Hong Kong's trade, and the weights reflect their relative importance in Hong Kong's visible trade. The corresponding Real EERI as compiled by HKMA takes into account the movements in the seasonally adjusted consumer price indices in the respective economies. It is important to note that the EERIs thus compiled assume constant

/weights

weights on the respective currencies, while the pattern of trade changes over time. In particular, Hong Kong's trade with the Mainland has shifted more towards re-export trade, from domestic exports and retained imports. With the Mainland being the largest source of Hong Kong's re-exports, movements in the exchange rate of the Renminbi would have different implications for Hong Kong's export competitiveness, compared with the movements in other currencies.

- (3) In the light of the changing market shares of individual authorized institutions (AIs) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by the HKMA is expanded as from May 2001, in order to increase the proportion of business being covered by the survey. The 38 AIs covered after the expansion together account for around 96% of the total business, as compared to 92% for the 32 AIs formally covered. Also, the outstanding amount of mortgage loans covered by the survey is lifted by 8.4%.
- (4) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.
- (5) The various definitions of the money supply are as follows:
 - M1 : notes and coins with the public, plus customers' demand deposits with licensed banks.
 - M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.
 - M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.
- (6) Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series back-dated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.
- (7) Euro-yen Impact Loans (EYIL) are loans made to customers in Japan by a domestic branch of a Japanese bank but booked in an overseas branch of the bank. Loans booked in this way generally have tax and funding cost advantages for customers. Reflecting a more cautious lending stance by the Japanese banks and the need to downsize their balance sheets, there was a substantial decline in EYIL since the second half of 1997.

/(8)

- (8) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to certain extent with overdue and rescheduled loans.
- (9) The sample covered a majority of the outstanding mortgage loans with the banks as at end-September 2001. The loan value represents the outstanding balance of the mortgage loan concerned, while negative equity is defined here as the situation where the value of the outstanding balance of a mortgage loan exceeds the current market value of the property mortgaged under the loan. A co-financing scheme involves the provision of a top-up loan by the property developer or else by a co-financier, in addition to the mortgage loan granted by the bank.
- (10) As part of the overall plan to reform and further develop the banking sector, the Hong Kong Monetary Authority undertook to deregulate the Interest Rate Rules (IRRs) by two phases. The first phase of deregulation, which removed the IRRs on time deposits with a maturity of less than seven days (but not the IRR on savings deposits) and the prohibition on benefits for deposits (other than for Hong Kong dollar savings and current accounts), took effect on 3 July 2000. The second phase of deregulation, which removed the IRR on savings deposits and the remaining prohibition, took effect on 3 July 2001.
- (11) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (12) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (13) The total value of Hong Kong dollar debt paper outstanding may not tally with the sum of the outstanding values of Exchange Fund paper, HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector. This is due to the difference in sources of data for NCDs.
- (14) The Growth Enterprise Market was launched by the then Stock Exchange of Hong Kong Ltd in November 1999 as an alternative market to the Main Board, so as to render emerging growth companies easier access to the funds of the investing public. It is open to companies in all industries and of all sizes. Yet it is expected to provide an efficient venue for fund raising by small and medium enterprises, particularly those engaged in technology-related businesses.

(15)

- (15) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged 18 or above, subject to certain exceptions. It provides for joint contributions by the employer and the employee, each at 5% of the employee's relevant income, to a registered MPF trust scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. The accrued benefits are fully vested in the scheme members and can be transferred from scheme to scheme when there is a change in employment. The Mandatory Provident Fund Schemes Authority (MPFA) is the statutory body tasked with the responsibility for prudential regulation and supervision of the MPF System and for ensuring compliance with the Mandatory Provident Fund Schemes Ordinance.

An MPF scheme may consist of one or more constituent funds each with its own investment policy. A constituent fund may maintain a portfolio of direct investment in equities, bonds or other debt instruments, or may invest in approved pooled investment funds which may be in the form of unit trusts authorized by the Securities and Futures Commission or insurance policies issued by authorized insurers. Both constituent funds and pooled investment funds have to be approved by MPFA, and be subject to investment standards applicable to MPF investment funds.

- (16) The aggregate net asset values of approved constituent funds of MPF schemes include assets transferred from schemes under the Occupational Retirement Schemes Ordinance, which are exempted from the MPF System.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation⁽¹⁾

5.1 The local labour market, having held generally stable in the first two quarters of 2001, eased distinctly in the third quarter, as amidst the economic downturn and corporate downsizing, employment was unable to catch up with growth in the total labour force. The *seasonally adjusted unemployment rate*⁽²⁾ surged from 4.5% in the second quarter of 2001 to 5.3% in the third quarter, while the total numbers unemployed (not seasonally adjusted) leaped from 152 600 to 185 600. The surge in unemployment rate was particularly pronounced in the most recent period, conceivably upon the impact of the 911 incident. The median duration of unemployment lengthened visibly, from 68 days in the second quarter to 72 days in the third quarter. The proportion of persons unemployed for six months or more also rose, from 21% to 23%.

5.2 The *underemployment rate*⁽³⁾ likewise went up, from 2.2% in the second quarter of 2001 to 2.5% in the third quarter, as did the total numbers underemployed, from 75 100 to 84 400. Again, the rise in underemployment rate was concentrated in the most recent period.

5.3 The proportion of employed persons working for 50 hours or more per week rose appreciably, from 32% in the second quarter of 2001 to 36% in the third quarter. Concurrently, the median hours of work per week increased from 45 hours to 48 hours. These reflected greater work intensity and effort for those in employment.

/Table 5.1

Table 5.1**Unemployment and underemployment rates**

		<u>Seasonally adjusted unemployment rate^(a)</u> (%)	<u>Underemployment rate</u> (%)
2000	Annual	4.9	2.8
	Q1	5.6	2.8
	Q2	5.1	3.1
	Q3	4.8	2.6
	Q4	4.4	2.6
2001	Q1	4.5	2.3
	Q2	4.5	2.2
	Q3	5.3	2.5
	Jul*	4.7	2.2
	Aug*	4.9	2.2
	Sep*	5.3	2.5

Notes : (a) The new series of seasonally adjusted unemployment rate presented in Table 5.1 and Diagrams 5.1 and 5.10 has adopted the “resident population” definition and incorporated the results of the 2001 Population Census. The seasonally adjusted unemployment rate is now based on the X-11 ARIMA method, which adjusts for the influences of all seasonal factors, as distinct from the former series which adjusts only for variations in the proportion of first-time job-seekers. For more details, see Note (2) at the end of this chapter.

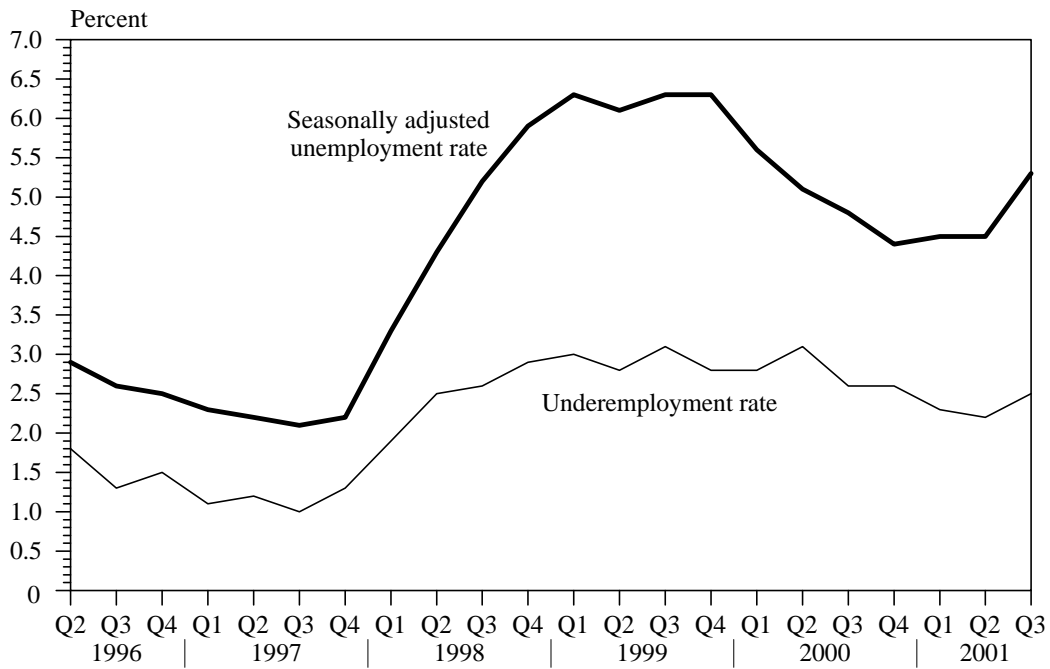
(*) Three-monthly figures ending the specific month.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.1

Diagram 5.1

Unemployment and underemployment rates



Notes : Diagrams 5.1-5.5 and 5.10 are compiled on the basis of the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census, back-dated to the second quarter of 1996.

Also see Note (a) to Table 5.1.

/Table 5.2

Table 5.2

**The labour force, and persons employed,
unemployed and underemployed**

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2000	Annual	3 374 200	(1.6)	3 207 300	(3.1)	166 900	93 500
	Q1	3 337 100	(1.2)	3 154 500	(2.0)	182 600	93 300
	Q2	3 365 900	(1.2)	3 197 800	(2.4)	168 100	104 300
	Q3	3 391 600	(2.3)	3 224 400	(4.0)	167 200	87 800
	Q4	3 402 200	(1.9)	3 252 500	(3.9)	149 600	88 700
2001	Q1	3 404 100	(2.0)	3 254 400	(3.2)	149 700	77 700
	Q2	3 410 100	(1.3)	3 257 500	(1.9)	152 600	75 100
	Q3	3 440 200	(1.4)	3 254 500	(0.9)	185 600	84 400
			<0.9>		<-0.1>		
	Jul*	3 416 700	(1.3)	3 255 900	(1.7)	160 800	73 700
	Aug*	3 427 600	(1.4)	3 255 400	(1.4)	172 200	74 800
	Sep*	3 440 200	(1.4)	3 254 500	(0.9)	185 600	84 400

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Three-monthly figures ending the specific month.

Source : General Household Survey, Census and Statistics Department.

/Table 5.3

Table 5.3

**Median duration of unemployment and
proportion of the unemployed population
by duration of unemployment**

		Median duration of <u>unemployment</u> (Days)	<u>Proportion unemployed for :</u>		
			<u>Less than 3 months</u> (%)	<u>3 months to less than 6 months</u> (%)	<u>6 months or more</u> (%)
2000	Annual	77	58	18	24
	Q1	90	51	21	28
	Q2	74	60	17	23
	Q3	65	65	15	20
	Q4	78	58	18	23
2001	Q1	75	58	20	22
	Q2	68	62	18	21
	Q3	72	61	16	23

Note : Figures may not add up exactly to the total due to rounding.

Source : General Household Survey, Census and Statistics Department.

Table 5.4

**Median hours of work per week and
proportion of the employed population
working for 50 hours or more per week**

		Median hours of work per week for all <u>employed persons</u> (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>50-59 hours per week</u> (%)	<u>60 hours or more per week</u> (%)	<u>50 hours or more per week</u> (%)
2000	Annual	48	15	18	33
	Q1	45	13	18	31
	Q2	48	14	18	32
	Q3	48	16	18	34
	Q4	48	15	19	34
2001	Q1	48	14	19	33
	Q2	45	14	18	32
	Q3	48	15	20	36

Note : Figures may not add up exactly to the total due to rounding.

Source : General Household Survey, Census and Statistics Department.

/5.4

5.4 On a year-on-year comparison, *total employment*⁽⁴⁾ as enumerated from households increased by 0.9% in the third quarter of 2001, but *total labour force*⁽⁵⁾ rose faster, by 1.4%. This was in stark contrast to the situation earlier in the year, when total employment growth consistently outpaced total labour force growth. Labour demand had moderated with the downturn in economic activity, particularly after the 911 incident. Yet labour supply had quite steady growth in the more recent months. On a quarter-to-quarter comparison, total labour force went up by 0.9% in the third quarter of 2001, partly upon a higher labour force participation rate⁽⁶⁾, but total employment fell by 0.1%. These differential movements accounted for the surge in unemployment rate in the third quarter.

Table 5.5

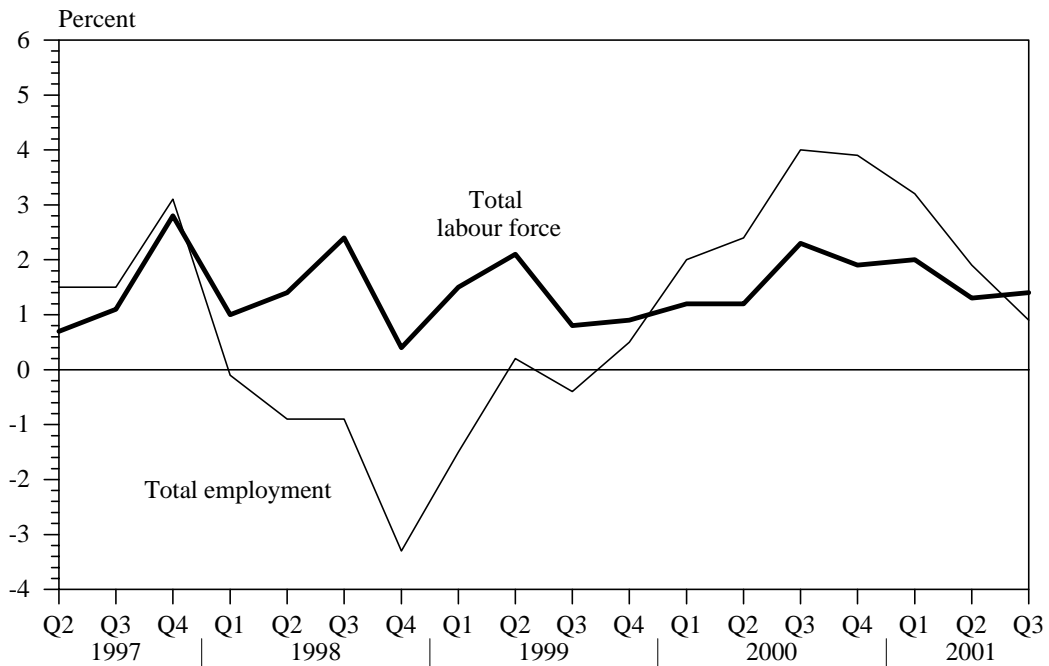
		Labour force participation rates by sex (%)		
		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2000	Annual	73.5	49.9	61.4
	Q1	73.3	49.5	61.1
	Q2	73.6	49.9	61.4
	Q3	73.8	50.1	61.6
	Q4	73.6	50.0	61.4
2001	Q1	73.0	50.3	61.3
	Q2	72.6	50.5	61.2
	Q3	73.2	50.8	61.6

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.2

Diagram 5.2

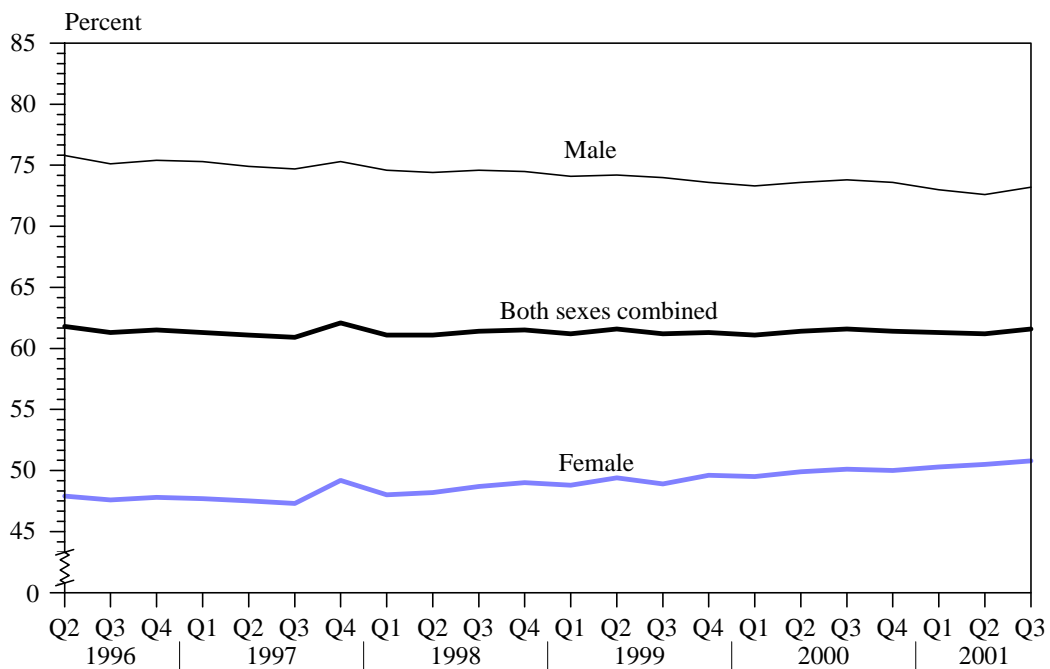
**Total labour force and total employment
(year-on-year rate of change)**



Note : Year-on-year rates of change from the new series of labour force statistics, which has adopted the “resident population” definition and incorporated the results of the 2001 Population Census, are available as from the second quarter of 1997.

Diagram 5.3

Labour force participation rates by sex



/5.5

5.5 As to labour income, *earnings*⁽⁷⁾ went up by 2% in money terms in the second quarter of 2001 over a year earlier, slightly less than the 3% rise in the first quarter. *Wages*⁽⁸⁾ were higher by 1% in money terms in June 2001 than a year earlier, virtually the same as the increase in March. Netting out the decline in consumer prices, both earnings and wages had decelerated increases in real terms.

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, the unemployment rate showed a broad-based increase in the third quarter of 2001 over the second quarter. The unemployment rates in the external trade and travel related sectors, such as the retail trade, restaurants and hotels, and manufacturing, rose distinctly. The unemployment rates in communications and business services also rose visibly, as did the unemployment rates in foundation and superstructure construction, and real estate. As to the underemployment rate, the increase was concentrated in construction and the import/export trade.

Table 5.6

Unemployment rates by major economic sector (%)^(a)

	<u>2000</u>					<u>2001</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Wholesale, retail and import/export trades, restaurants and hotels	5.3	5.9	5.7	5.1	4.3	4.6	5.1	5.8
Transport, storage and communications	4.0	4.8	4.1	3.2	3.8	4.2	4.2	3.8
Financing, insurance, real estate and business services	2.6	3.0	2.5	2.7	2.3	2.7	2.5	3.1
Community, social and personal services	1.8	1.7	1.9	1.9	1.8	1.9	1.7	2.0
Manufacturing	5.4	6.7	5.0	4.9	4.9	4.0	4.9	5.6
Construction ^(b)	10.2	11.6	9.8	9.7	9.9	10.3	9.8	10.3

Notes : (a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(b) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

Table 5.7**Underemployment rates by major economic sector (%)**

	<u>2000</u>					<u>2001</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Wholesale, retail and import/export trades, restaurants and hotels	1.4	1.6	1.6	1.2	1.2	1.1	1.1	1.3
Transport, storage and communications	3.2	3.7	3.7	2.8	2.5	2.4	2.6	2.6
Financing, insurance, real estate and business services	0.4	0.4	0.5	0.3	0.4	0.3	0.3	0.3
Community, social and personal services	1.6	1.7	1.8	1.3	1.4	1.3	1.2	1.3
Manufacturing	2.5	2.8	2.5	2.5	2.1	2.1	2.3	2.2
Construction ^(a)	13.2	11.7	14.4	12.9	13.6	11.7	10.7	12.3

Note : (a) Including both site and non-site workers.

Source : General Household Survey, Census and Statistics Department.

/Table 5.8

Table 5.8

**Unemployment and underemployment rates
by detailed economic sub-sector in the third quarter of 2001**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	5.8	60 400	1.3	13 700
Wholesale/retail trade	6.3	22 600	1.6	5 900
Import/export trade	3.7	15 000	0.5	2 100
Restaurants and hotels	8.4	22 800	2.1	5 800
Transport, storage and communications	3.8	13 900	2.6	9 500
Transport	3.7	11 500	2.8	8 600
Storage	2.3	100	4.4	200
Communications	4.3	2 200	1.4	700
Financing, insurance, real estate and business services	3.1	15 200	0.3	1 500
Financing	1.8	2 600	0.3	400
Insurance	2.6	1 100	0	0
Real estate	3.5	4 100	0.4	500
Business services	3.7	7 600	0.3	700
Community, social and personal services	2.0	16 300	1.3	10 600
Public administration	0.6	800	0.2	300
Education, medical and other health and welfare services	1.8	5 400	0.8	2 500
Other services	2.7	10 200	2.1	7 800
Manufacturing	5.6	19 800	2.2	7 800
Food and beverages	4.2	900	1.3	300
Clothing and footwear	7.8	7 900	4.7	4 800
Paper and printing	4.5	3 000	0.7	500
Plastic products	3.3	800	1.7	400
Metal products	4.5	900	2.0	400
Electrical and electronic products	5.8	4 500	1.1	800
Other manufacturing industries	4.3	1 900	1.5	700
Construction	10.3	33 800	12.3	40 600
Foundation and superstructure	9.1	22 600	10.5	26 200
Decoration and maintenance	13.9	11 300	17.8	14 400

Notes : As the above figures are based on a sample survey, they are subject to sampling errors, more so for the finer breakdowns. For instance, a zero figure may mean a positive figure of a small magnitude.

Figures may not add up exactly to the total due to rounding.

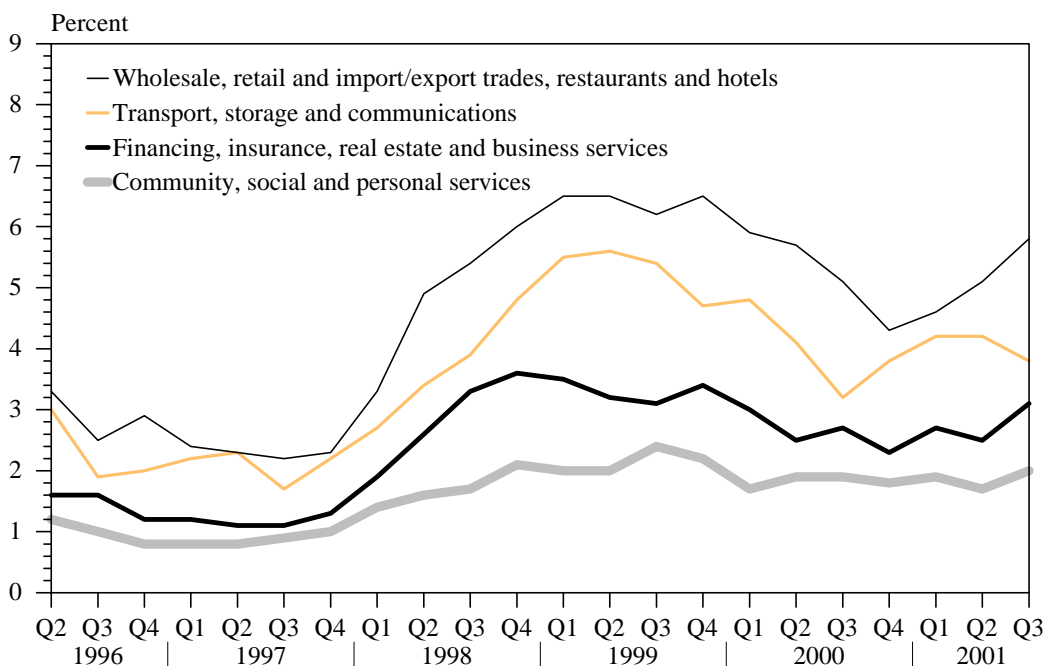
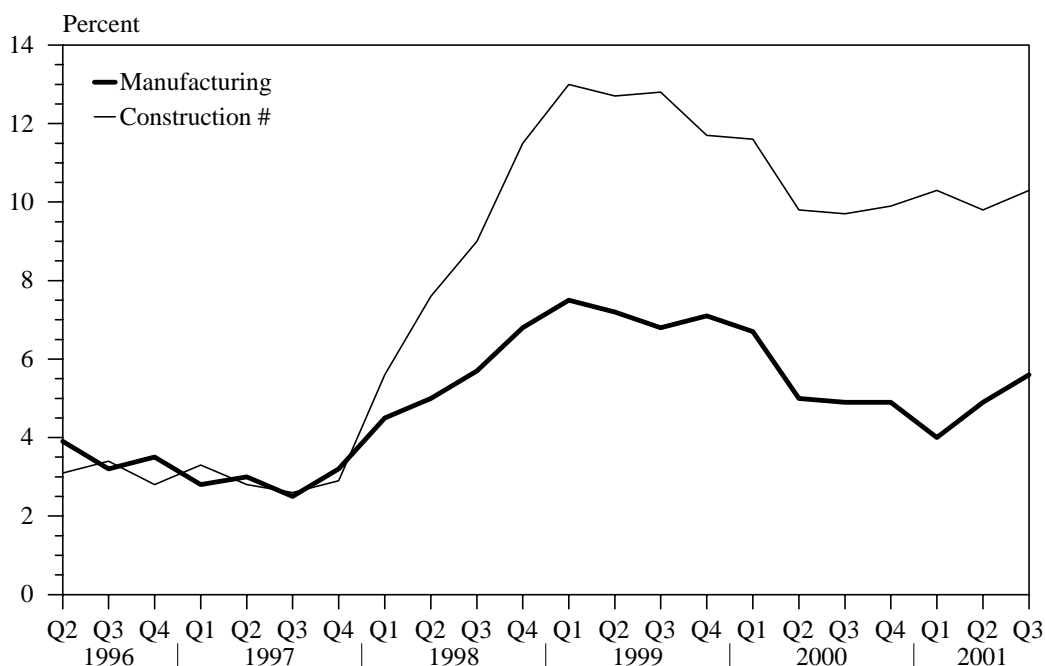
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



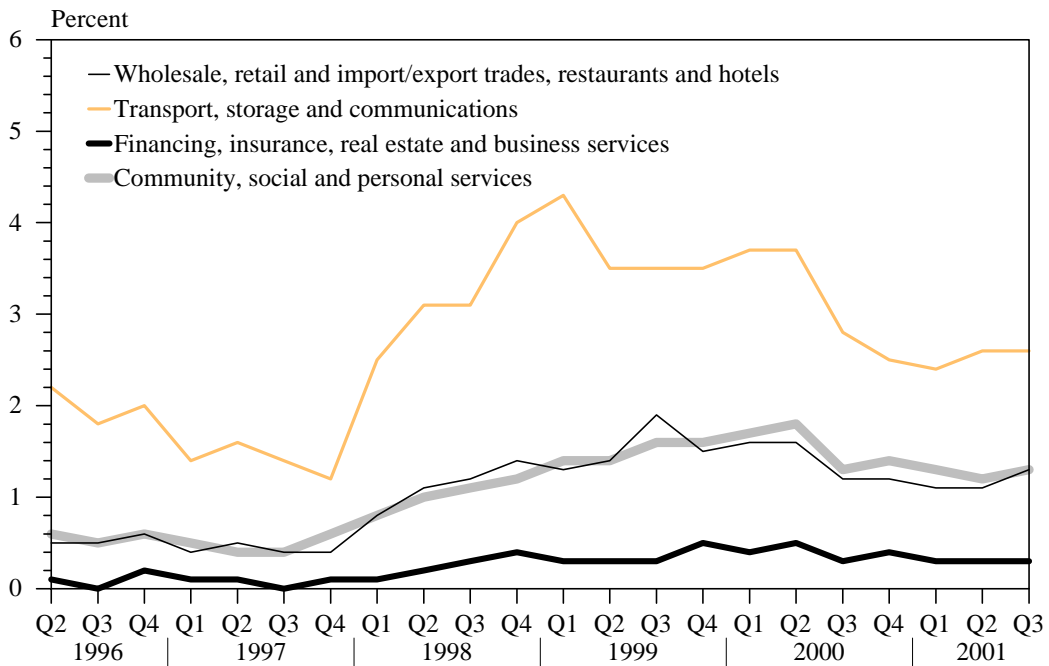
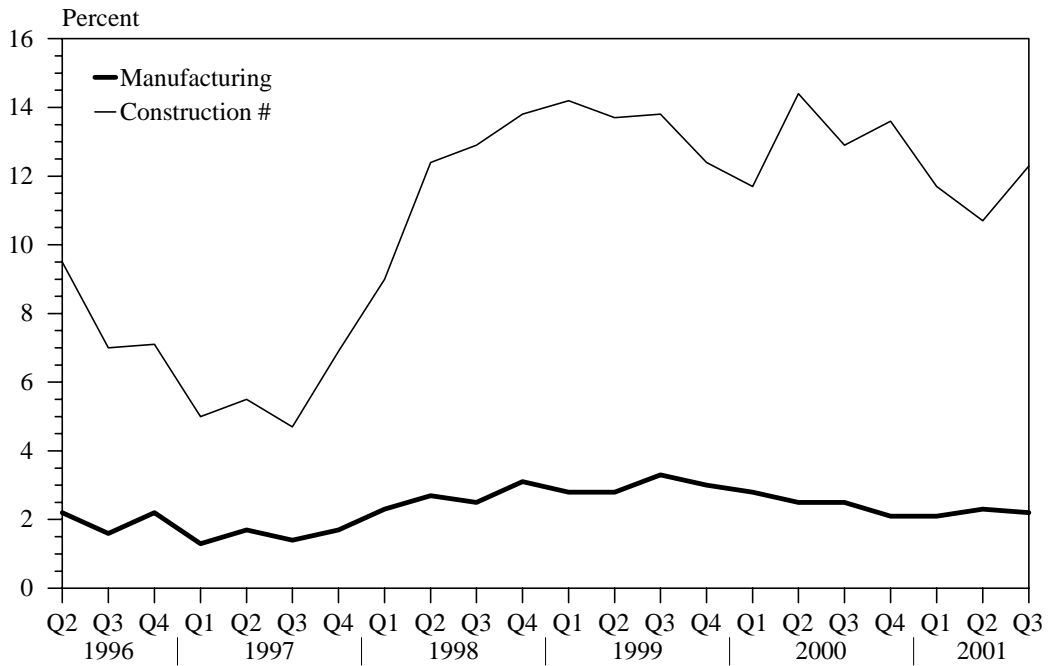
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(#) Including both site and non-site workers.

/Diagram 5.5

Diagram 5.5

Underemployment rates by major economic sector



Note : (#) Including both site and non-site workers.

/5.7

5.7 Analysed by *occupation category*, the unemployment rate also showed a broad-based increase between the second and third quarters of 2001, as the recent wave of corporate downsizing and rationalisation affected not only workers at the lower segment of the occupational hierarchy, but also those at the middle and upper segments. Thus the unemployment rates for managers and administrators, professionals and associate professionals rose visibly, concurrent with the unemployment rates for craft and related workers, plant and machine operators and assemblers, clerks, and service workers and shop sales workers. As to the underemployment rate, the increase occurred mainly amongst craft and related workers and workers in elementary occupations.

Table 5.9

Unemployment rates by major occupation category (%)^(a)

	<u>Annual</u>	<u>2000</u>				<u>2001</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Managers and administrators	1.7	2.3	1.6	1.5	1.2	1.4	1.6	2.0
Professionals	1.1	0.9	0.8	1.6	1.2	1.2	1.5	2.2
Associate professionals ^(b)	2.4	2.7	2.3	2.4	2.1	2.6	2.6	3.0
Clerks	3.5	4.2	3.9	3.0	2.9	3.1	3.2	3.7
Service workers and shop sales workers	6.9	7.1	7.7	6.7	6.0	5.6	6.1	6.9
Craft and related workers	8.9	9.8	8.5	8.8	8.6	8.9	8.1	9.3
Plant and machine operators and assemblers	4.2	5.4	3.9	3.4	3.9	4.0	3.9	4.8
Elementary occupations	4.9	5.7	4.7	4.8	4.4	4.8	5.0	4.8
Others	2.7	3.5	2.1	2.0	3.3	1.2	8.0	1.6

Notes : (a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.10

Table 5.10**Underemployment rates by major occupation category (%)**

	<u>Annual</u>	<u>2000</u>				<u>2001</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Managers and administrators	*	*	0	0	0	0.1	*	0.1
Professionals	0.3	0.3	0.5	0.2	0.2	0.2	0.3	0.1
Associate professionals ^(a)	0.5	0.4	0.6	0.4	0.6	0.5	0.5	0.5
Clerks	0.8	0.9	0.8	0.7	0.8	0.6	0.6	0.8
Service workers and shop sales workers	2.0	2.2	2.3	1.8	1.7	1.5	1.7	1.7
Craft and related workers	10.1	8.9	11.0	10.4	10.1	9.1	8.0	8.8
Plant and machine operators and assemblers	3.5	3.8	4.3	3.2	2.6	2.8	3.4	3.2
Elementary occupations	4.6	5.0	5.0	4.0	4.4	3.8	3.7	4.5
Others	3.3	0.8	2.2	9.7	0	0	3.8	8.9

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/Profile

Profile of employment

5.8 Employment as enumerated from establishments grew at only a small pace. For all the business establishments surveyed taken together, total employment in the private sector increased by 1% in both March and June 2001 over a year earlier, slower than the 3% rise in 2000. On a seasonally adjusted quarter-to-quarter comparison, total employment in the private sector edged up by 1% in June 2001, after nil change in March.

5.9 The *service sectors*⁽⁹⁾ continued to be the main source of employment growth. On a year-on-year comparison, employment in all the service sectors surveyed taken together went up by 2% in June 2001, following a 1% increase in March. Yet performance varied considerably amongst these sectors. Employment in community, social and personal services rose most distinctly, by 8% in June 2001 over a year earlier, with the increase occurring mostly in education and welfare services. Employment in the retail trade rose equally distinctly, by 8%, probably due to increased hiring of temporary, part-time and casual workers. Employment in storage and communications increased by 6%. Employment in financing, insurance, real estate and business services, in restaurants and hotels, and in water transport, air transport and services allied to transport were up by 3%, 1% and 1% respectively. On the other hand, employment in the wholesale and import/export trades shrank by 4%.

/5.10

5.10 Employment in the local *manufacturing sector* contracted further, by 8% in June 2001 over year earlier. This was even larger than the 7% decline in March. The on-going relocation of manufacturing processes to the Mainland and the downturn in domestic exports both contributed.

5.11 Employment of manual workers at *building and construction sites*, having surged by 18% in March 2001 over a year earlier, edged up by 1% in June. This was attributable largely to a reduction of 16% in employment at public sector sites, upon winding down of several public housing projects and further scale-back in the Public Housing Programme, which almost offset a 23% increase in employment at private sector sites, along with a pick-up in building activity on some private sector projects. Analysed by type of project, while employment at civil engineering sites leaped by 31%, amidst intensive work on the Priority Railway Projects, Cyberport and Container Terminal 9, employment at building sites fell by 7%, with the decrease concentrating in public sector projects. Taking into account off-site workers and related professional and support staff, total employment in the building and construction sector⁽¹⁰⁾ was 5% less in the second quarter of 2001 than a year earlier, following an increase of 2% in the first quarter.

5.12 Employment in the *Civil Service* was reduced by 3% in June 2001 over a year earlier, following a similar decrease in March. This reflected the on-going effort to contain the size of the Civil Service for greater efficiency. Some 8 000 posts were deleted from the Civil Service establishment in the financial year 2000/01⁽¹¹⁾. In April 2001, the recruitment freeze was lifted, but the effect on Civil Service employment had yet to be shown up by June.

/Table 5.11

Table 5.11**Employment by major economic sector**

	Annual average	2000				2001	
		Mar	Jun	Sep	Dec	Mar	Jun
Wholesale and import/export trades	597 900 (5)	602 000 (6)	603 100 (10)	609 600 (5)	577 000 (-1)	581 100 (-3)	581 500 (-4)
Retail trade	214 100 (7)	207 300 (7)	211 200 (4)	223 000 (8)	215 000 (7)	215 400 (4)	228 300 (8)
Restaurants and hotels	219 600 (2)	218 500 (2)	222 100 (2)	220 600 (4)	217 100 (-1)	220 600 (1)	225 100 (1)
Water transport, air transport and services allied to transport	97 800 (3)	96 200 (1)	99 400 (2)	100 100 (6)	95 600 (3)	98 200 (2)	100 500 (1)
Storage and communications	43 200 (6)	41 200 (1)	43 300 (10)	45 000 (8)	43 300 (6)	44 600 (8)	46 000 (6)
Financing, insurance, real estate and business services	428 800 (5)	414 800 (4)	429 300 (5)	437 000 (7)	434 100 (5)	428 900 (3)	442 500 (3)
Community, social and personal services	348 600 (3)	345 000 (3)	346 200 (2)	348 900 (3)	354 500 (5)	360 500 (4)	372 500 (8)
Manufacturing	232 000 (-6)	233 700 (-6)	238 800 (-6)	229 400 (-6)	226 200 (-8)	217 000 (-7)	218 700 (-8)
Building and construction sites	79 600 (12)	74 500 (4)	79 300 (11)	80 700 (17)	83 900 (17)	87 800 (18)	80 300 (1)
<i>All establishments surveyed in the private sector^(a)</i>	2 308 500 (3)	2 280 500 (3)	2 319 100 (4)	2 341 300 (4)	2 293 200 (2)	2 301 600 (1)	2 343 200 (1)
		<I>	<I>	<I>	<-I>	<*>	<I>
<i>Civil Service^(b)</i>	184 200 (-2)	185 900 (-2)	184 900 (-2)	183 400 (-2)	182 500 (-2)	181 000 (-3)	178 700 (-3)

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in coverage: the former survey covers employers, full-time employees and part-time employees in selected major sectors; the latter survey has a wider coverage, incorporating also the self-employed, and canvassing all sectors in the economy.

(a) The total figures on private sector employment cover also employment in mining and quarrying and in electricity and gas supply, besides employment in the major sectors indicated above.

(b) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, ICAC officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

(*) Change of less than 0.5%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

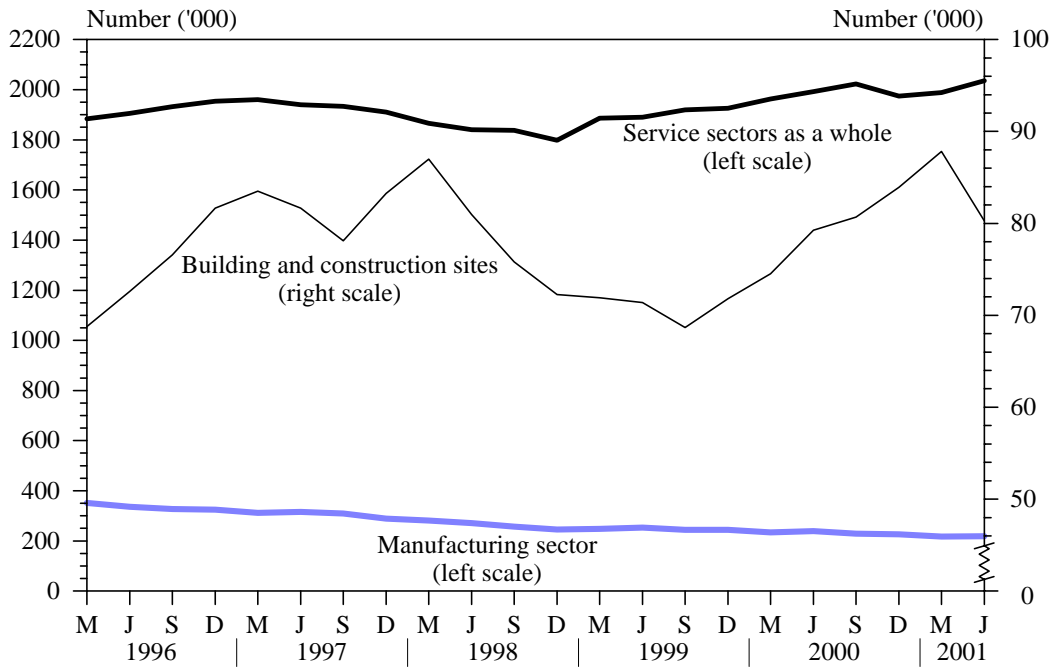
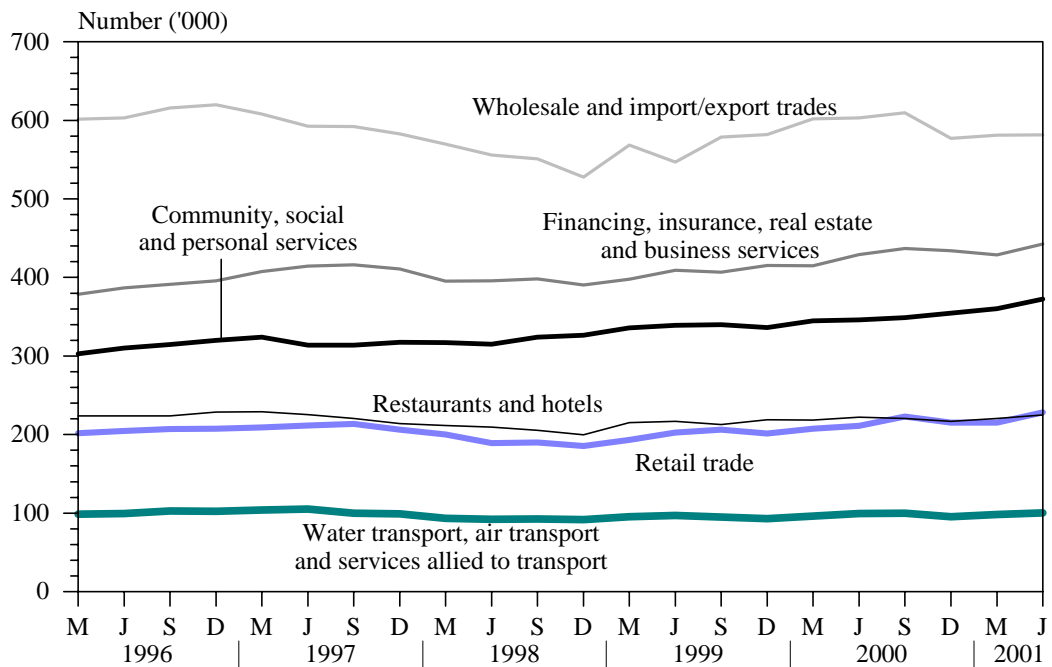


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.13 For all the business establishments surveyed taken together, total vacancies in the private sector were slashed by 26% in June 2001 over a year earlier, following a 14% drop in March. This reflected the general slackening in the labour market. On a seasonally adjusted quarter-to-quarter comparison, total vacancies in the private sector fell by 4% in June 2001, same as the decrease in March. In consequence, the overall vacancy rate in the private sector declined further, from 1.3% in March to 1.1% in June.

5.14 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed taken together plummeted by 25% in June 2001 over a year earlier, after a 12% fall in March. Within this total, vacancies in the wholesale and import/export trades and in storage and communications had the largest decrease, both by 50% in June 2001 over a year earlier. This was followed by vacancies in restaurants and hotels, in water transport, air transport and services allied to transport, in financing, insurance, real estate and business services, and in the retail trade, with declines of 30%, 24%, 22% and 20% respectively. Nevertheless, vacancies in community, social and personal services went up by 16%. As to the local *manufacturing sector*, vacancies were 34% fewer in June 2001 than a year earlier, same as the decrease in March. Vacancies for manual workers at *building and construction sites* had a more substantial fall, by 75% in June 2001 over a year earlier, in contrast to an increase of 3% in March. Yet vacancies in the *Civil Service* surged by 37% in June 2001 over a year earlier, after a 10% rise in March. This was partly due to the relatively low base of comparison in 2000.

/Table 5.12

Table 5.12

Vacancies by major economic sector

	<u>No. of vacancies</u>					<u>Vacancy rate (%)</u>				
	Annual <u>average</u>	<u>2000</u>			<u>2001</u>		<u>2001</u>			
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Mar</u>		
Wholesale and import/export trades	8 600 (53)	10 400 (85)	9 200 (91)	9 300 (50)	5 700 (-4)	7 400 (-29)	4 600 (-50)	1.2	0.8	
Retail trade	2 700 (21)	2 500 (-17)	2 600 (46)	3 000 (36)	2 500 (40)	2 400 (-3)	2 100 (-20)	1.1	0.9	
Restaurants and hotels	2 000 (24)	2 000 (15)	1 900 (60)	2 400 (80)	1 600 (-24)	2 200 (7)	1 300 (-30)	1.0	0.6	
Water transport, air transport and services allied to transport	1 000 (28)	900 (39)	1 000 (24)	1 300 (25)	800 (28)	900 (6)	800 (-24)	0.9	0.7	
Storage and communications	700 (21)	900 (25)	900 (89)	700 (26)	400 (-40)	600 (-29)	500 (-50)	1.4	1.0	
Financing, insurance, real estate and business services	9 200 (55)	9 400 (77)	10 000 (84)	10 300 (65)	7 100 (5)	8 200 (-13)	7 800 (-22)	1.9	1.7	
Community, social and personal services	5 600 (14)	5 400 (5)	5 600 (22)	6 100 (30)	5 100 (1)	5 700 (5)	6 500 (16)	1.6	1.7	
Manufacturing	2 400 (14)	2 900 (29)	2 900 (43)	2 200 (*)	1 700 (-15)	1 900 (-34)	1 900 (-34)	0.9	0.9	
Building and construction sites	300 (-30)	200 (11)	500 (-53)	300 (7)	200 (-18)	200 (3)	100 (-75)	0.3	0.1	
<i>All establishments surveyed in the private sector^(a)</i>	<i>32 700 (34)</i>	<i>34 800 (39)</i>	<i>34 900 (57)</i>	<i>35 800 (44)</i>	<i>25 300 (*)</i>	<i>30 000 (-14)</i>	<i>25 700 (-26)</i>	<i>1.3</i>	<i>1.1</i>	
<i>Civil Service^(b)</i>	<i>2 100 (-35)</i>	<i>2 300 (-37)</i>	<i>2 100 (-25)</i>	<i>1 800 (-38)</i>	<i>2 000 (-38)</i>	<i>2 500 (10)</i>	<i>2 900 (37)</i>	<i>1.4</i>	<i>1.6</i>	

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) The total figures on private sector vacancies cover also vacancies in mining and quarrying and in electricity and gas supply, besides vacancies in the major sectors indicated above.

(b) These figures cover only vacancies for those staff to be employed on Civil Service terms of appointment.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change.

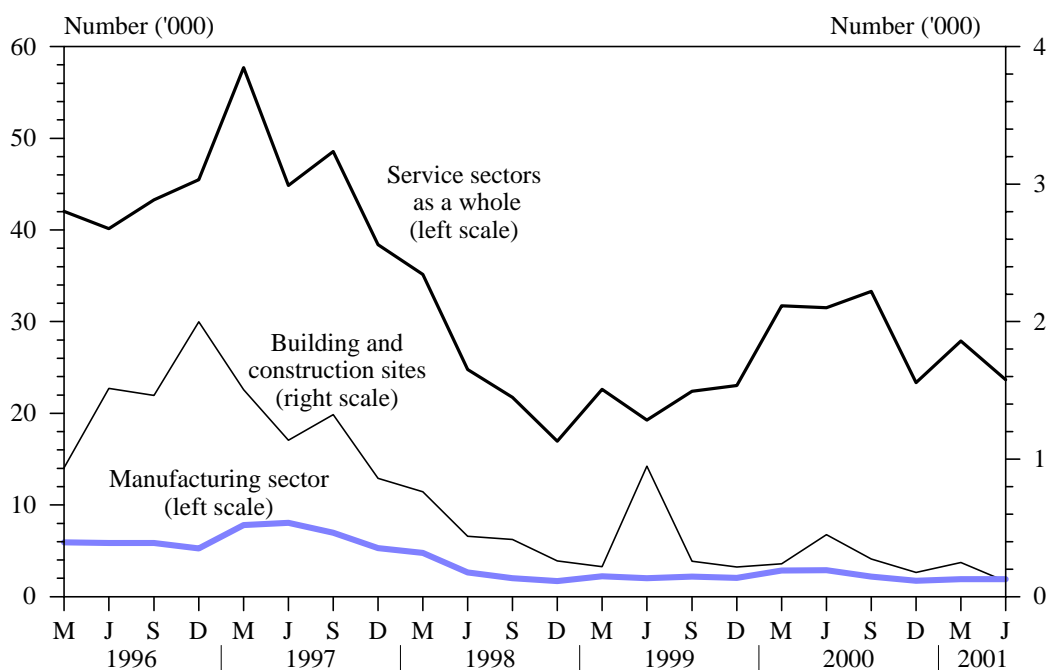
(*) Change of less than 0.5%.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.15 Analysed by *occupation category*, the decrease in vacancies was widespread. On higher-skill workers, vacancies for professionals and associate professionals were both significantly slashed, by 30% and 41% respectively in June 2001 over a year earlier. Yet vacancies for managers and administrators still gained by 5%. As to lower-skill workers, vacancies for craft and related workers fell most visibly, by 57%. This was followed by vacancies for workers in elementary occupations, for service workers and shop sales workers, and for plant and machine operators and assemblers, with significant declines of 27%, 24% and 23% respectively. Against these, there was an increase of 8% in vacancies for clerks.

/Table 5.13

Table 5.13**Vacancies by major occupation category**

	Annual average	<u>2000</u>				<u>2001</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Managers and administrators	600 (26)	600 (25)	600 (41)	600 (9)	500 (34)	800 (35)	700 (5)
Professionals	3 100 (53)	3 200 (66)	3 300 (77)	3 500 (78)	2 400 (1)	2 600 (-18)	2 300 (-30)
Associate professionals	11 700 (47)	12 700 (76)	13 000 (75)	12 500 (56)	8 600 (-7)	9 600 (-25)	7 700 (-41)
Clerks	6 200 (57)	6 800 (69)	6 200 (94)	6 300 (35)	5 500 (42)	7 100 (5)	6 700 (8)
Service workers and shop sales workers	4 800 (22)	5 000 (13)	4 800 (45)	5 800 (47)	3 900 (-10)	4 900 (-2)	3 600 (-24)
Craft and related workers	1 300 (-16)	1 300 (-44)	1 600 (-1)	1 300 (-2)	900 (6)	900 (-26)	700 (-57)
Plant and machine operators and assemblers	1 200 (-8)	1 400 (3)	1 400 (5)	1 200 (2)	800 (-40)	800 (-41)	1 100 (-23)
Elementary occupations	3 800 (21)	3 900 (15)	4 000 (30)	4 500 (45)	2 700 (-7)	3 300 (-15)	2 900 (-27)

Note : () % change over a year earlier.

Source : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

/Earnings

Earnings and wages

5.16 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, were still up, but the increase in the second quarter of 2001, at 2% in money terms over a year earlier, was smaller than that in the first quarter, at 3%. These increases essentially reflected the pay rise at the beginning of 2001, which was made on the basis of improved business conditions in 2000. Amongst the business establishments surveyed in the second quarter of 2001, 43% reported a rise in average labour earnings over a year earlier, 40% reported a decline, and 17% reported nil change. Netting out the decline in consumer prices in terms of the Composite CPI, overall labour earnings were 4% higher in real terms in the second quarter of 2001 than a year earlier. Yet this was again smaller than the 5% increase in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings were virtually unchanged both in money terms and in real terms in the second quarter of 2001, following increases of 1% and 2% respectively in the first quarter.

5.17 Analysed by *economic sector*, labour earnings for all the *service sectors* surveyed taken together rose by 2% in money terms or 3% in real terms in the second quarter of 2001 over a year earlier. Within this broad group, earnings in the wholesale, retail and import/export trades, in financing, insurance, real estate and business services, in transport, storage and communications, and in restaurants and hotels all registered increases, by around 1-2% in money terms or 3-4% in real terms. On the other hand, earnings in community, social and personal services edged lower by 1% in money terms, though still up by 1% in real terms. In the local *manufacturing sector*, earnings gained by 2% in money terms or 4% in real terms in the second quarter of 2001 over a year earlier, with larger increases observed in the wearing apparel, textiles, fabricated metal products and non-metallic mineral products industries.

/Table 5.14

Table 5.14

**Labour earnings by major economic sector
(year-on-year rate of change (%))**

	<u>Payroll per person engaged</u>							Average amount in Q2 2001 (\$)
	<u>Annual</u>	<u>2000</u>				<u>2001</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	
Wholesale, retail and import/export trades	2 (6)	1 (6)	2 (7)	4 (7)	3 (6)	3 (5)	2 (4)	11,800
Restaurants and hotels	-2 (1)	-6 (-1)	-2 (3)	* (3)	-2 (1)	2 (4)	1 (3)	8,900
Transport, storage and communications	1 (5)	-1 (4)	1 (6)	2 (5)	2 (4)	3 (5)	1 (3)	17,600
Financing, insurance, real estate and business services	1 (5)	* (5)	2 (7)	1 (4)	3 (6)	2 (5)	2 (3)	18,300
Community, social and personal services	* (4)	-1 (4)	1 (6)	-1 (2)	1 (4)	1 (3)	-1 (1)	19,300
Manufacturing	1 (5)	1 (6)	2 (6)	1 (4)	3 (6)	3 (5)	2 (4)	11,400
All sectors surveyed in the private sector	1 (5)	* (5)	2 (7)	2 (5)	2 (4)	3 (5)	2 (4)	14,700
		<*> {1}	<1> {2}	<*> {1}	<1> {1}	<1> {2}	<*> {*}	

Notes : Figures not in brackets represent percentage changes in money terms, while those in round brackets represent percentage changes in real terms.

< > Seasonally adjusted quarter-to-quarter % change in money terms.

{ } Seasonally adjusted quarter-to-quarter % change in real terms.

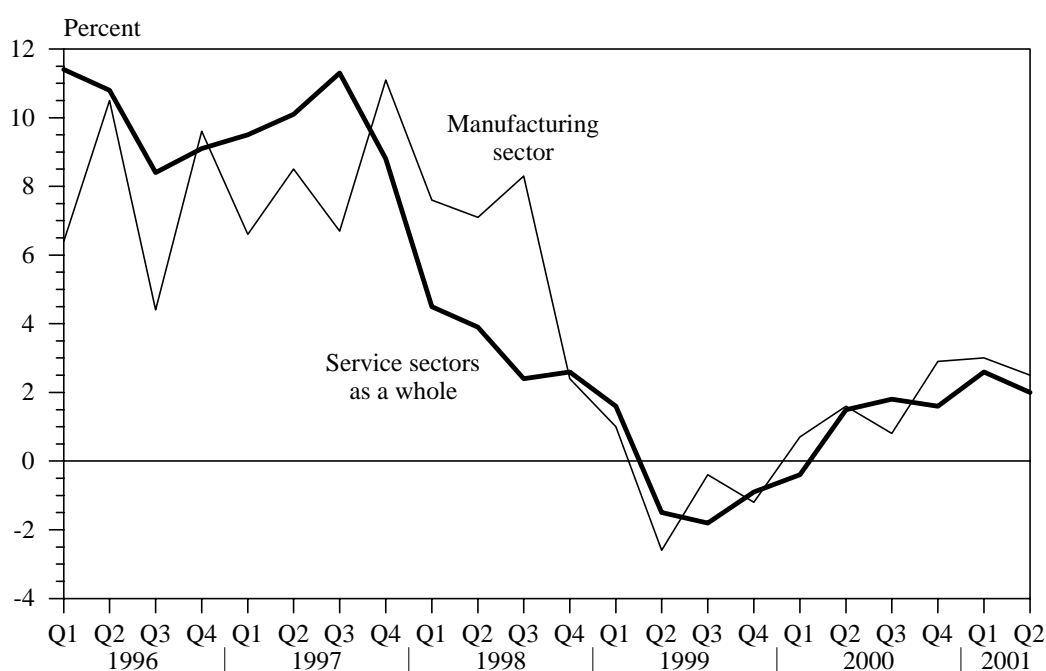
(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

Diagram 5.9

**Earnings by broad economic sector
(year-on-year rate of change in money terms)**



5.18 Overall *labour wages* in the private sector went up by 1% in money terms in June 2001 over a year earlier, same as the increase in March. Amongst the business establishments surveyed in June 2001, 56% reported a rise in average wage rate over a year earlier, 34% reported a decrease, and 10% reported nil change. Netting out the fall in consumer prices in terms of the CPI(A), overall labour wages increased by 2% in real terms in June 2001 over a year earlier. Yet this was smaller than the 4% rise in March.

5.19 Analysed by *economic sector*, wages in most of the sectors surveyed were higher by around 1-2% in money terms in June 2001 over a year earlier. The corresponding gains in real terms were slightly larger. Those sectors having a slightly faster increase in wages were the wholesale, retail and import/export trades, and manufacturing, whereas those sectors having a slower increase or little change in wages were restaurants and hotels, personal services, transport services, and financing, insurance, real estate and business services.

/Table 5.15

Table 5.15**Wages by selected major economic sector
(year-on-year rate of change (%))**

	<u>By reference to the wage index</u>						
	<u>Annual</u>	<u>2000</u>				<u>2001</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Wholesale, retail and import/export trades	2 (5)	* (5)	2 (6)	3 (5)	2 (4)	2 (4)	2 (2)
Restaurants and hotels	-1 (2)	-1 (3)	* (3)	-1 (1)	-1 (1)	1 (3)	1 (1)
Transport services	-3 (*)	-4 (*)	-3 (*)	-3 (-1)	-2 (*)	1 (3)	* (1)
Financing, insurance, real estate and business services	* (3)	-1 (3)	1 (5)	2 (4)	* (2)	1 (3)	* (1)
Personal services	* (3)	* (4)	1 (5)	* (2)	* (2)	1 (4)	1 (2)
Manufacturing	2 (5)	1 (6)	2 (6)	2 (5)	2 (4)	3 (5)	2 (2)
All selected sectors surveyed in the private sector	1 (4)	* (4)	1 (5)	1 (4)	1 (3)	1 (4)	1 (2)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/5.20

5.20 Analysed by *occupation category*, wages for most of the selected categories had increases of around 1-2% in money terms in June 2001 over a year earlier, with slightly larger gains in real terms. Wages for service workers however edged down further.

Table 5.16
Wages by selected major occupation category
(year-on-year rate of change (%))

	<u>By reference to the wage index</u>						
	<u>2000</u>					<u>2001</u>	
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Supervisory and technical workers	2 (5)	1 (5)	3 (6)	3 (5)	2 (4)	2 (4)	1 (2)
Clerical and secretarial workers	* (3)	-1 (3)	1 (4)	1 (3)	1 (3)	2 (4)	2 (2)
Craftsmen	-1 (2)	-2 (2)	-1 (2)	-2 (1)	* (2)	1 (3)	1 (2)
Operatives	1 (4)	-1 (3)	2 (6)	1 (4)	2 (4)	4 (7)	1 (1)
Service workers	-1 (2)	-1 (3)	* (4)	-1 (1)	-1 (1)	-1 (1)	-1 (-1)
Miscellaneous non-production workers	* (3)	-1 (3)	-1 (3)	* (3)	* (2)	1 (3)	2 (2)
All selected occupations surveyed in the private sector	1 (4)	* (4)	1 (5)	1 (4)	1 (3)	1 (4)	1 (2)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

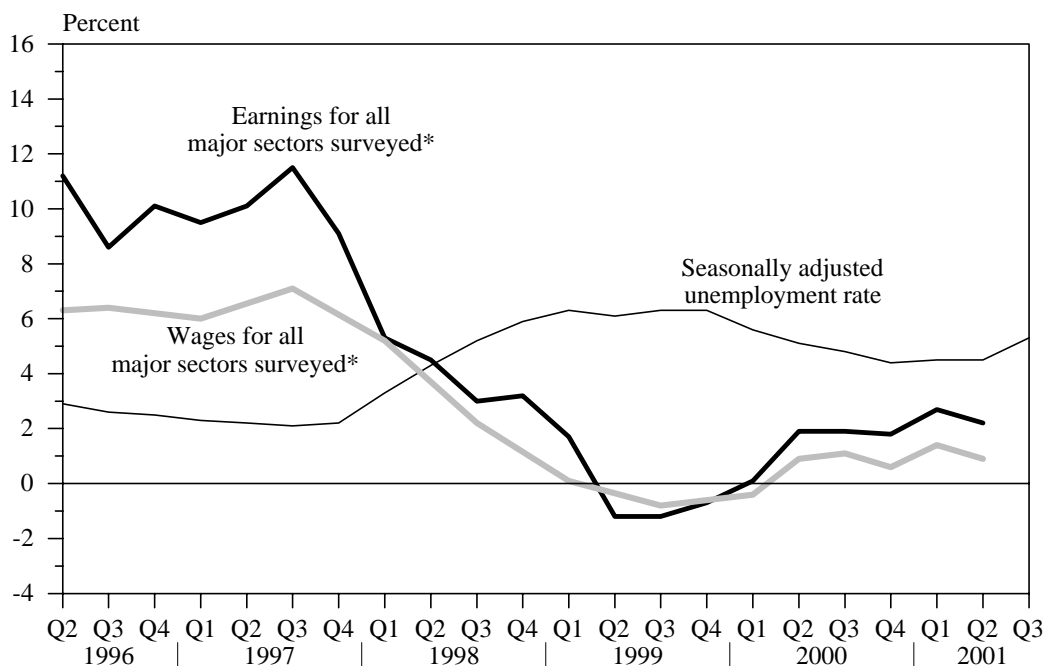
(*) Change of less than 0.5%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



Notes : (*) Depicted as year-on-year rates of change in money terms.

Also see Note (a) to Table 5.1.

5.21 Wage rates in the *construction sector* fell by 1% in money terms in the second quarter of 2001 over a year earlier, following a 2% rise in the first quarter. Analysed by major job category, decreases in wages occurred mainly amongst carpenters and joiners, concretors/bricklayers/drainlayers, and steelbenders. On the other hand, increases in wages were observed amongst plumbers, plasterers, painters, fitters and plant operators. Netting out the decline in consumer prices, overall construction wages still went up by 1% in real terms in the second quarter of 2001 over a year earlier, although this was considerably smaller than the 4% increase in the first quarter.

/Table 5.17

Table 5.17**Construction wage rates by selected job category
(year-on-year rate of change (%))**

	<u>2000</u>					<u>2001</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Concretors/bricklayers/ drainlayers	3	1	4	4	4	3	-3
Steelbenders	2	2	2	2	2	1	-2
Carpenters and joiners	-2	-4	1	-3	-1	-1	-7
Plumbers	6	*	3	9	13	11	9
Fitters	1	-1	1	2	2	1	4
Plasterers	2	-2	-2	2	11	11	9
Painters	2	3	2	2	2	4	7
Electricians (wiremen)	-2	-2	-1	-2	-2	-1	*
Plant operators	3	*	2	5	4	3	2
Truck drivers	4	2	5	5	4	2	*
All job categories in the construction sector ^(a)	2 (6)	* (5)	3 (8)	3 (6)	3 (6)	2 (4)	-1 (1)

Notes : Figures not in brackets represent percentage changes in money terms, while those in brackets represent percentage changes in real terms.

(a) Apart from the above selected job categories, this also covers such other job categories as masons, blacksmiths, terrazzo and granolithic workers, glaziers, heavy load coolies, pneumatic drillers, bamboo workers and scaffolders, structural steel erectors, divers and diver's linesmen. Yet as the employment involved in such job categories is much smaller, their respective wages are of lesser significance and are therefore not separately shown in the table.

(*) Change of less than 0.5%.

Source : Census and Statistics Department.

5.22 Following two successive years of pay freeze, salaries in the Civil Service were adjusted upwards in the financial year 2001/02, by reference to the results of the pay trend survey conducted on private sector establishments in 2000/01. More specifically, salaries for directorate staff and the upper pay band were raised by 4.99% in money terms in June 2001 over a year earlier, and salaries for the middle and lower pay bands by 2.38%. Netting out the decrease in consumer prices, the respective increases in real terms were about 6% and 4%.

Notes :

- (1) On 17 September 2001, the Census and Statistics Department released a revised series of labour force statistics backdated to the second quarter of 1996, which are based on the “resident population” definition, with the results of the 2001 Population Census incorporated. While the resultant revisions to the total labour force, total employment, total numbers unemployed and total numbers underemployed are very small in magnitude, the effect on their respective rates of change are generally larger. For the unemployment and underemployment rates, which are ratios of these primary labour force statistics, the revisions are generally marginal.
- (2) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered as unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

In April 2001, the Census and Statistics Department has revised the series of seasonally adjusted unemployment rate by reference to the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment (i.e. the changes due to holiday effects, seasonally ups and downs in economic activity, seasonal variations in first-time job-seekers, etc). This replaces the former series which adjusts only for seasonal variations in the proportion of first-time job-seekers in the labour force. For more details, see Note (3) at the end of Chapter 5 of the Half-yearly Economic Report 2001.

/(3)

- (3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.
- (4) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (5) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (6) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.
- (9) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.
- (10) Employment for the building and construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in the building and construction sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (11) In his 2001/02 Budget, the Financial Secretary announced that 8 000 Civil Service posts had been deleted during 2000/01. Notwithstanding the lifting of the recruitment freeze as from April 2001, the Government aims to reduce the establishment further by 9 000 Civil Service posts in the ensuing two years up to 2002/03, through natural wastage, staff redeployment, and the Voluntary Retirement Scheme. By the end of 2002/03, the total number of Civil Service posts is expected to fall to around 181 000.

CHAPTER 6 : PRICES

Consumer prices

6.1 Overall consumer prices continued to decline in the third quarter of 2001, though to a lesser extent than earlier in the year. Faced with moderating consumer spending and keen competition in the local market, retailers generally kept prices down in order to induce sales. Moreover, cost pressure from domestic sources tended to ease again, as property rentals had been softening in the recent period and as labour earnings also rose more slowly. In parallel, price pressure from external sources were receding, with the prices of retained imports showing an enlarged decline. There was a sustained drop in world commodity prices amidst the slack global demand. Also relevant was a strengthening in the US dollar against the currencies of most of the major supplier economies over the past year.

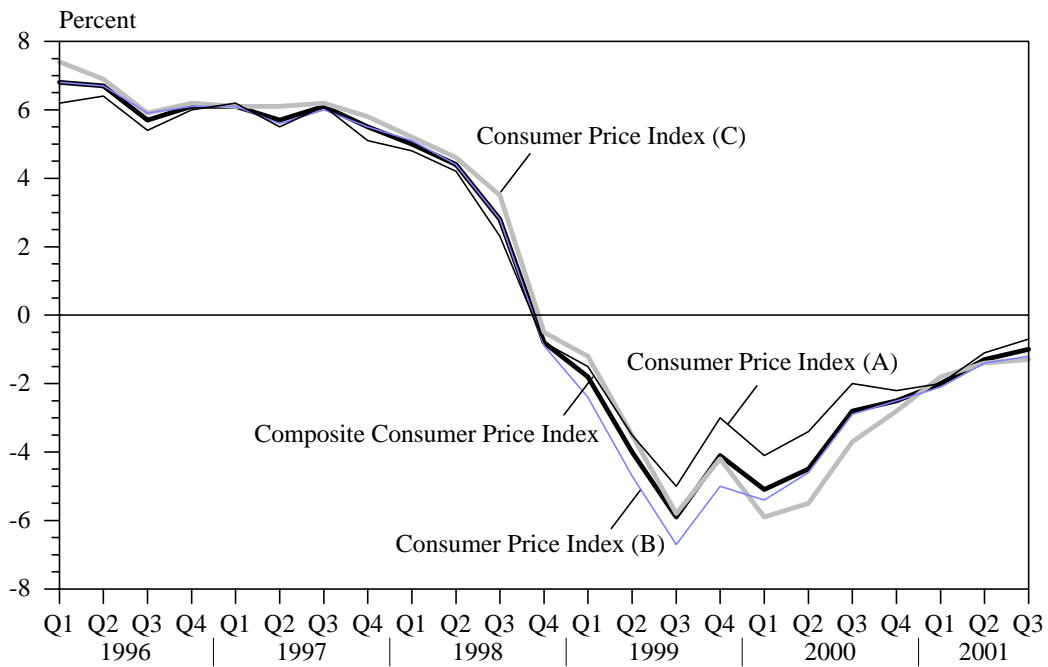
6.2 Comparing the third quarter of 2001 with a year earlier, the *Composite Consumer Price Index*⁽¹⁾ went down by 1.0%. This was smaller than the decreases of 2.0% and 1.3% respectively in the first and second quarters. The narrowed decline was partly attributable to further dissipation of the effect of the previous fall in private housing market rentals. Also contributed was a lesser drop in the prices of foodstuffs, as well as a further increase in the prices of certain services, such as school fees and entertainment charges. For the first nine months of 2001 as a whole, the Composite CPI fell by 1.5% over a year earlier, considerably reduced from the 3.8% drop in 2000.

6.3 Analysed by sub-index, the CPI(A), CPI(B) and CPI(C) were all lower in the third quarter of 2001 than a year earlier, by 0.7%, 1.2% and 1.3% respectively. These were also smaller than the decreases of 2.0%, 2.1% and 1.8% in the first quarter, and of 1.1%, 1.4% and 1.4% in the second quarter. For the first nine months of 2001 as a whole, the three sub-indices fell by 1.3%, 1.6% and 1.5% respectively over a year earlier, again much reduced from the declines of 3.0%, 3.9% and 4.5% in 2000.

/Diagram 6.1

Diagram 6.1

**Consumer Price Indices
(year-on-year rate of change)**



Note : From the fourth quarter of 2000 onwards, the year-on-year changes in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the year-on-year changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

/Table 6.1

Table 6.1

**Consumer Price Indices
(year-on-year rate of change (%))**

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2000	Annual	-3.8	-3.0	-3.9	-4.5
	H1	-4.8	-3.8	-5.0	-5.7
	H2	-2.7	-2.1	-2.7	-3.2
	Q1	-5.1	-4.1	-5.4	-5.9
	Q2	-4.5	-3.4	-4.6	-5.5
	Q3 ⁺	-2.8	-2.0	-2.9	-3.7
	Q4	-2.5	-2.2	-2.5	-2.8
2001	H1	-1.7	-1.6	-1.7	-1.6
	Q1-Q3	-1.5	-1.3	-1.6	-1.5
	Q1	-2.0	-2.0	-2.1	-1.8
	Q2	-1.3	-1.1	-1.4	-1.4
	Q3	-1.0	-0.7	-1.2	-1.3
	Jan	-1.5	-1.4	-1.7	-1.4
	Feb ^{#*}	-2.4	-2.5	-2.5	-2.3
	Mar [#]	-1.9	-2.1	-2.0	-1.5
	Apr	-1.4	-1.2	-1.6	-1.4
	May	-1.5	-1.3	-1.6	-1.6
	Jun	-1.1	-0.7	-1.2	-1.3
	Jul	-0.9	-0.5	-1.1	-1.2
	Aug	-1.1	-0.9	-1.2	-1.2
	Sep	-1.2	-0.9	-1.3	-1.4

Notes : From the fourth quarter of 2000 onwards, the year-on-year changes in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the year-on-year changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

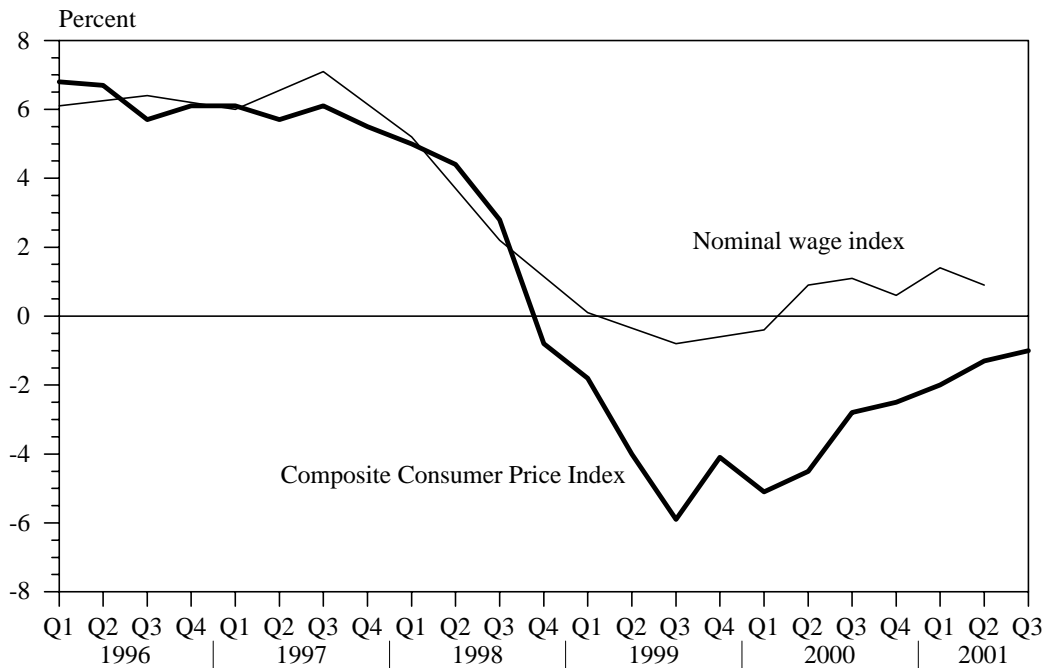
- (+) The lesser decline in the third quarter of 2000 was due in part to a lower base of comparison in the third quarter of 1999, caused by a 50% cut in the rates payable for that quarter.
- (#) The larger declines in February and March 2001 than in January 2001 were due in part to a special one-off rebate of electricity charges by a power company during February - March 2001.
- (*) The distinct enlargement in decline from January to February 2001 was due additionally to the seasonal effect of the Lunar New Year Festival, which fell in January this year but in February last year. As the prices of many consumer items picked up around the Festival and then eased back to a more normal level afterwards, the different timing of the Festival led to a smaller year-on-year decline in consumer prices in January 2001, but a larger year-on-year decline in consumer prices in February 2001.

/Diagram 6.2

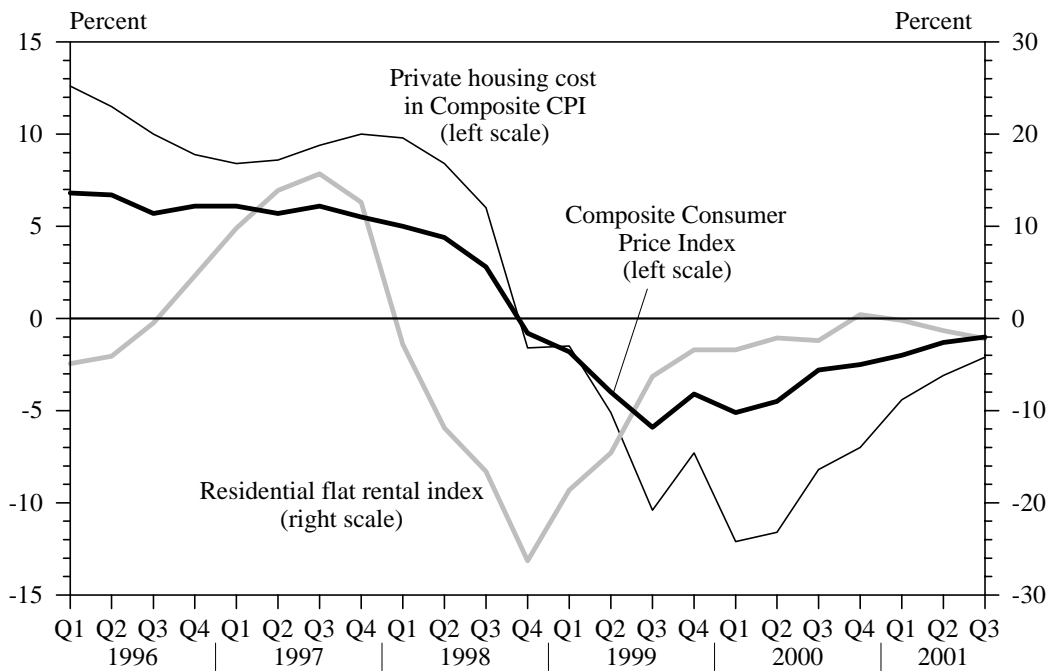
Diagram 6.2

**Composite Consumer Price Index vis-à-vis labour wages,
residential flat rentals, and prices of retained imports
(year-on-year rate of change)**

(a) Compared with labour wages



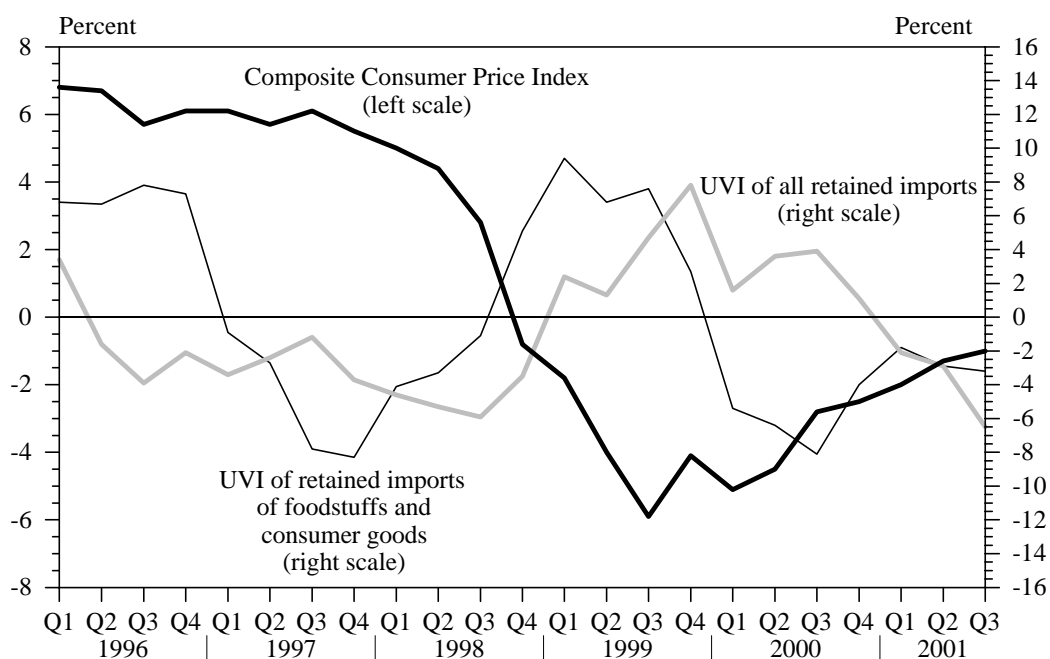
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with the unit value index of retained imports



Note : See the footnote to Diagram 6.1.

6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI declined by 0.4% in the third quarter of 2001, having shown nil change in the second quarter. Analysed by sub-index, the seasonally adjusted CPI(A) fell back by 0.2% in the third quarter of 2001, after rising by 0.3% in the second quarter. As to the seasonally adjusted CPI(B) and CPI(C), they were down further, by 0.4% and 0.5% respectively in the third quarter of 2001, following decreases of 0.1% and 0.2% in the second quarter.

/Table 6.2

Table 6.2

**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change (%))**

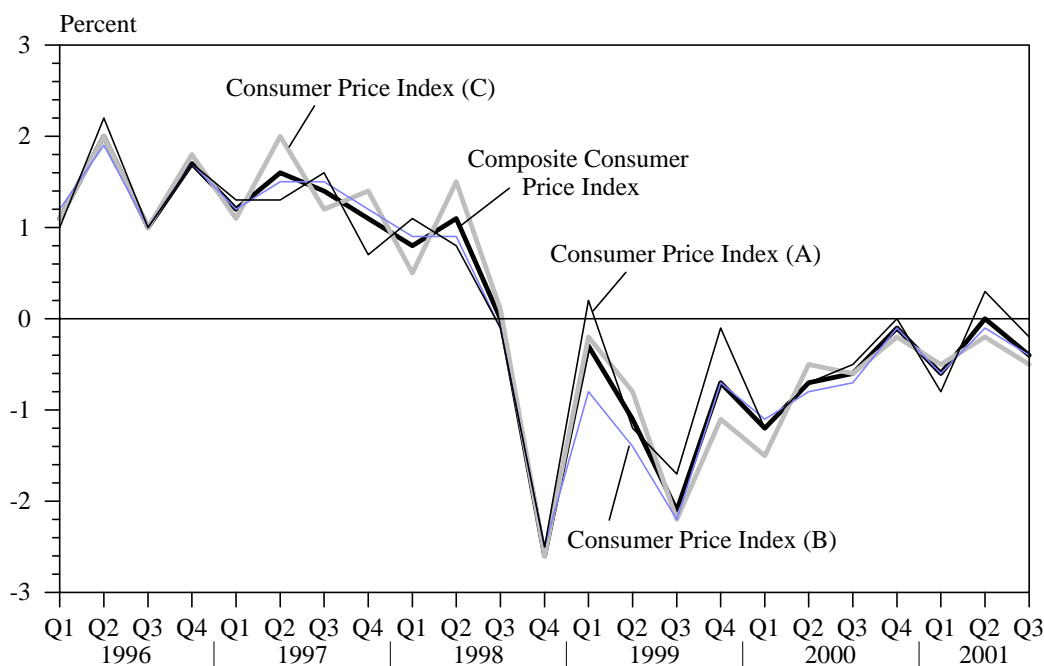
		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2000	Q1	-1.2	-1.2	-1.1	-1.5
	Q2	-0.7	-0.7	-0.8	-0.5
	Q3	-0.6	-0.5	-0.7	-0.6
	Q4	-0.1	*	-0.1	-0.2
2001	Q1	-0.6	-0.8	-0.6	-0.5
	Q2	*	0.3	-0.1	-0.2
	Q3	-0.4	-0.2	-0.4	-0.5

Notes : From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Consumer Price Indices are computed from the new 1999/2000-based CPI series.

(*) Change of less than 0.05%.

Diagram 6.3

**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change)**



Note : From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Consumer Price Indices are computed from the new 1999/2000-based CPI series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

6.5 Analysed by major *commodity group* in the Composite CPI and on a year-on-year comparison, the prices of durable goods and of clothing and footwear had more distinct falls, by 7.7% and 4.9% respectively in the third quarter of 2001. This was mainly attributable to lower prices of outer-clothing and of computer products and telecommunications equipment. The prices of food went down marginally, by 0.2% in overall terms, comprising decreases of 0.6% in the prices of basic foodstuffs and 0.1% in the charges for meals at restaurants. Public housing cost also came down slightly, by 0.3%. As to private housing cost, while the decline was relatively larger at 2.1%, it still represented a moderation from the earlier declines, upon further dissipation of the effect of the previous fall in private housing market rentals⁽²⁾. On the other hand, the prices of miscellaneous services rose mildly, by 0.6%, attributable in part to further increases in school fees and entertainment charges. The prices of alcoholic drinks and tobacco and of miscellaneous goods also went up, by 3.0% and 1.4% respectively, as did the charges for electricity, gas and water, by 0.5%. The charges for transport services were generally stable.

/Table 6.3

Table 6.3

**Consumer Price Indices
by component in the third quarter of 2001
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
Food	-0.2	-0.3	-0.4	0.1
<i>Meals bought away from home</i>	-0.1	-0.3	-0.5	0.8
<i>Other foodstuffs</i>	-0.6	-0.3	-0.4	-1.3
Housing ^(a)	-1.9	-1.7	-1.8	-2.0
<i>Private dwellings</i>	-2.1	-2.2	-2.1	-2.1
<i>Public dwellings</i>	-0.3	-0.2	-0.3	--
Electricity, gas and water	0.5	0.4	0.5	0.9
Alcoholic drinks and tobacco	3.0	3.4	3.1	1.1
Clothing and footwear	-4.9	-4.3	-4.1	-6.7
Durable goods	-7.7	-7.6	-8.3	-6.7
Miscellaneous goods	1.4	2.9	1.3	0.1
Transport	*	0.2	*	-0.2
Miscellaneous services	0.6	0.9	0.6	0.2
All items	-1.0	-0.7	-1.2	-1.3

Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only.

(--) Not applicable.

(*) Change of less than 0.05%.

/Diagram 6.4

Diagram 6.4

**Composite Consumer Price Index by component
(year-on-year rate of change)**

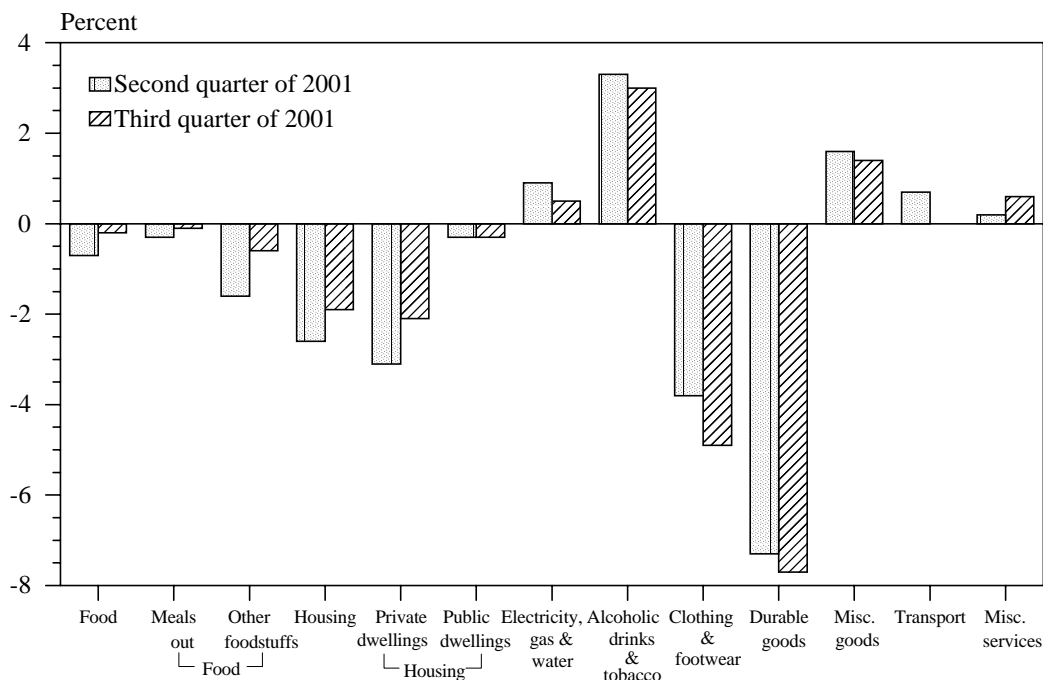
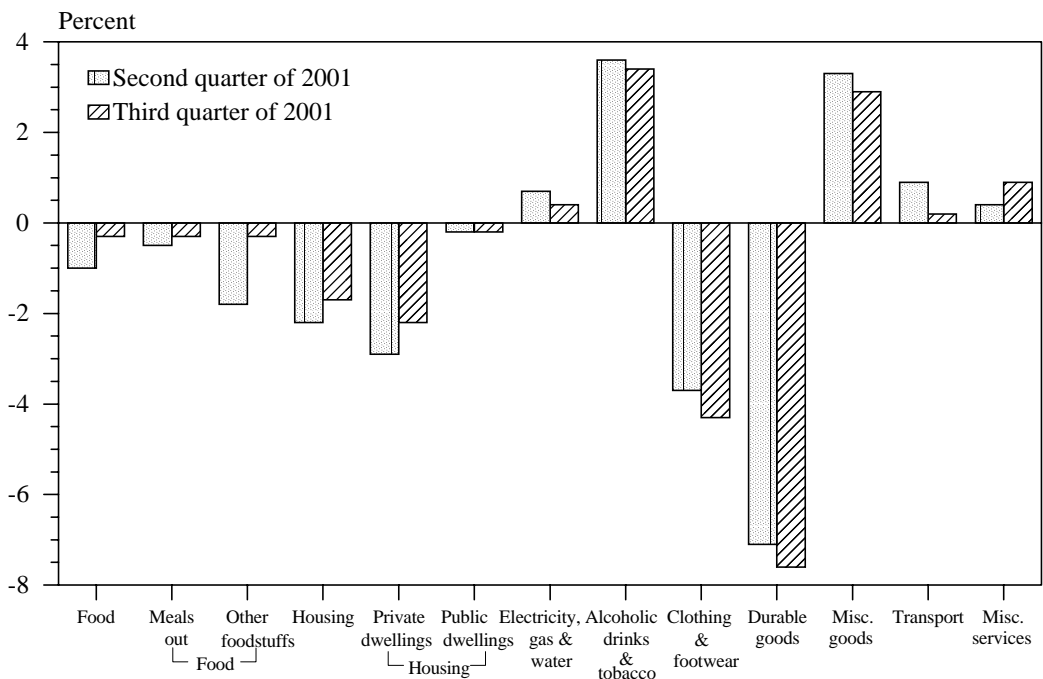


Diagram 6.5

**Consumer Price Index (A) by component
(year-on-year rate of change)**



/Import

Import prices

6.6 The *prices of imports of goods*, as measured by the unit value index of imports of goods, were down by 4% in the third quarter of 2001 from a year earlier, larger than the decreases of 2% and 3% respectively in the first two quarters. To a large extent, this was attributable to a continued fall in world commodity price amidst the slackened global demand. Also partly contributed was the earlier appreciation of the US dollar against the currencies of most of the major supplier economies. Taking the first nine months of 2001 as a whole, the prices of imports of goods declined by 3% over a year earlier, reversing the 1% rise in 2000.

6.7 Analysed by major *source*, the prices of imports from Taiwan and Japan fell more visibly, by 7% and 5% respectively in the third quarter of 2001 over a year earlier, consequential to the depreciation of the New Taiwan dollar and the Japanese yen against the US dollar, and hence the Hong Kong dollar, over the past year. The prices of imports from the United States and the Mainland also came down, yet to a less extent, by 3% and 2%.

/Table 6.4

Table 6.4

**World commodity prices
(year-on-year rate of change (%))**

		<u>Agricultural raw materials</u>	<u>Metals</u>	<u>All non-fuel commodities</u>	<u>Fuels</u>
2000	Annual	2	12	2	57
	H1	7	21	5	93
	H2	-3	5	-1	34
	Q1	7	27	5	128
	Q2	7	14	5	67
	Q3	*	9	1	46
	Q4	-6	1	-3	25
2001	H1	-6	-4	-5	*
	Q1-Q3	-5	-8	-4	-6
	Q1	-6	-5	-4	1
	Q2	-6	-4	-5	*
	Q3	-4	-15	-4	-16

Note : (*) Change of less than 0.5%.

Source : IMF International Financial Statistics.

Table 6.5

**Unit value indices of imports of goods by major source
(year-on-year rate of change (%))**

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2000	Annual	-1	3	2	*	1
	H1	-2	4	2	-1	1
	H2	*	3	2	1	1
	Q1	-2	3	*	-2	*
	Q2	-2	5	3	*	1
	Q3	-1	4	3	1	1
	Q4	*	1	1	1	*
2001	H1	-1	-2	-4	-1	-2
	Q1-Q3	-1	-3	-5	-2	-3
	Q1	-1	-1	-3	-1	-2
	Q2	-1	-3	-6	-2	-3
	Q3	-2	-5	-7	-3	-4

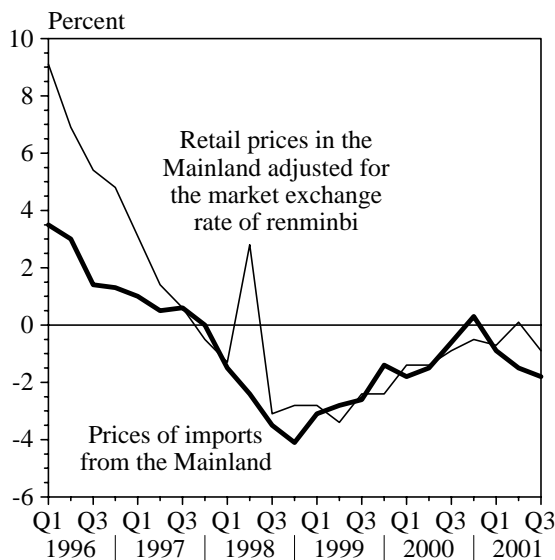
Note : (*) Change of less than 0.5%.

/Diagram 6.6

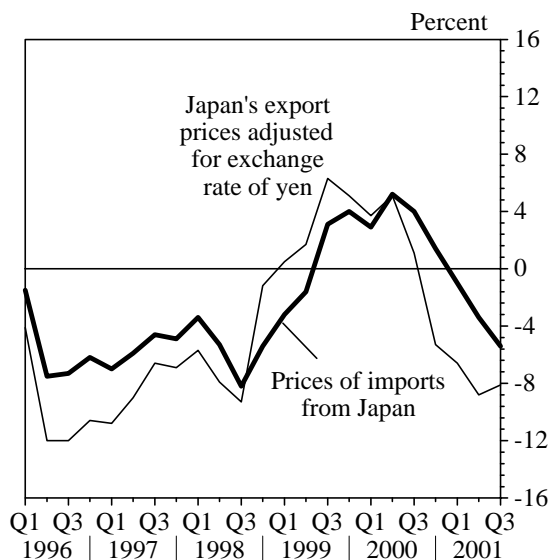
Diagram 6.6

**Prices of imports of goods by major source
(year-on-year rate of change)**

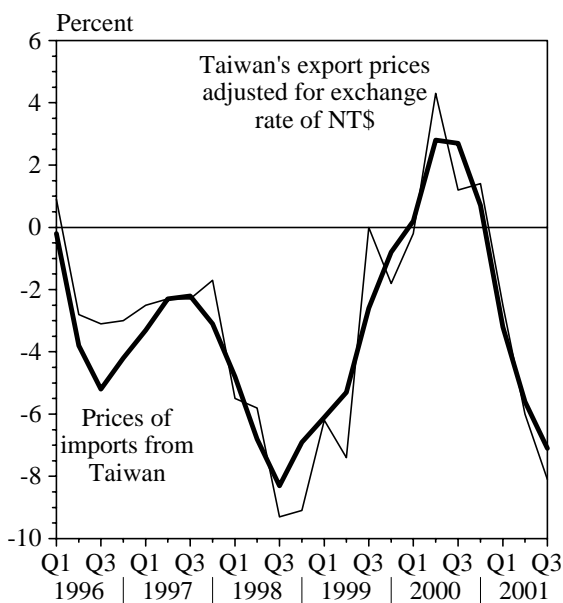
(a) For imports from the mainland of China



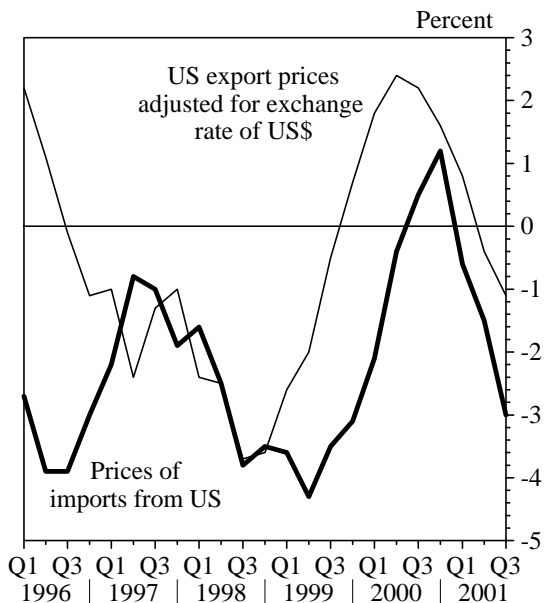
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



6.8 The *prices of retained imports*, as measured by the unit value index of retained imports, likewise exhibited a larger fall. In the third quarter of 2001, the prices of retained imports were lower by 6% from a year earlier, following declines of 2% and 3% respectively in the first two quarters. For the first nine months of 2001 as a whole, the decrease averaged at 4%, which was a distinct contrast to the 5% rise in 2000.

6.9 Analysed by *end-use category* and on a year-on-year comparison, the prices of retained imports fell across-the-board in the third quarter of 2001. Specifically, the prices of retained imports of fuels dropped by 18%, in line with a further softening in international oil prices. The prices of retained imports of raw materials and semi-manufactures declined by 8%, largely attributable to lower import prices of materials for industrial use, especially those of electronic parts, plastic resins and chemical materials. The prices of retained imports of foodstuffs and of consumer goods also went down, by 5% and 3% respectively, mainly reflecting lower import prices of such supplies from the Mainland and Japan. The prices of retained imports of capital goods had a smaller decrease of 2%, largely due to lower prices of construction machinery and industrial equipment.

/Table 6.6

Table 6.6

**Unit value indices of retained imports by end-use category
(year-on-year rate of change (%))**

		<u>Food- stuffs</u>	<u>Consumer goods</u>	<u>Fuels</u>	<u>Raw materials and semi- manufactures</u>	<u>Capital goods</u>	<u>All categories</u>
2000	Annual	-4	-4	66	7	1	5
	H1	-6	-3	78	5	5	5
	H2	-2	-4	57	8	-2	5
	Q1	-7	-2	95	4	1	4
	Q2	-5	-4	67	7	7	6
	Q3	-3	-7	74	8	4	6
	Q4	-2	-2	37	7	-7	3
2001	H1	-3	-2	1	-4	-3	-2
	Q1-Q3	-4	-2	-7	-5	-3	-4
	Q1	-3	-1	-1	-3	-3	-2
	Q2	-4	-2	2	-5	-2	-3
	Q3	-5	-3	-18	-8	-2	-6

Prices of local manufacturing output

6.10 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽³⁾, edged down further by 2% in the second quarter of 2001 over a year earlier, following a 1% fall in the first quarter. In 2000, these prices were virtually static. This recent downtrend was partly related to renewed decline in the prices of retained imports of raw materials and semi-manufactures since the beginning of this year. Analysed by major industry group, output prices of the machinery and equipment industry continued to fall more appreciably, by 3% in the second quarter of 2001 over a year earlier. Output prices of the consumer electrical and electronic products and the plastic products industries were both lower by 2%, and output prices of the textiles industry by 1%. Meanwhile, output prices of the paper products and printing, the fabricated metal products and the wearing apparel industries held broadly stable.

/Table 6.7

Table 6.7

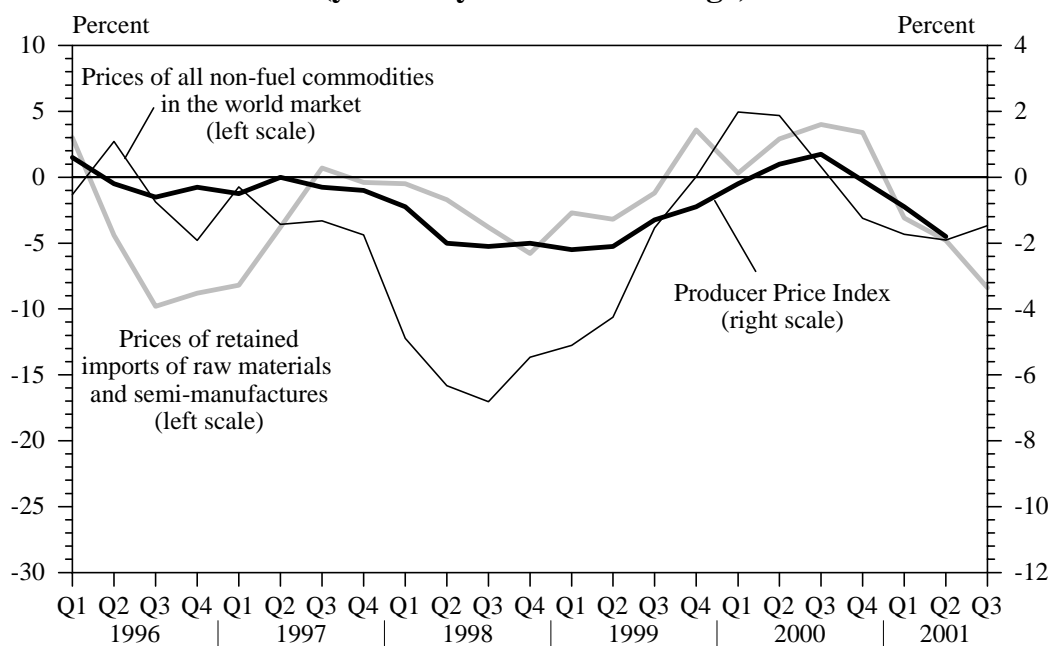
**Producer Price Index for the local manufacturing sector
(year-on-year rate of change (%))**

<u>Industry</u>	<u>2000</u>					<u>2001</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Wearing apparel	*	*	*	*	*	*	*
Textiles	-1	-1	-1	*	*	*	-1
Plastic products	-1	*	*	-2	-2	-1	-2
Consumer electrical and electronic products	-6	-8	-7	-4	-7	-2	-2
Machinery and equipment	2	2	2	2	2	-3	-3
Fabricated metal products	1	-2	*	4	3	1	*
Paper products and printing	*	2	2	-1	-1	-1	*
Overall manufacturing	*	*	*	1	*	-1	-2

Note : (*) Change of less than 0.5%.

Diagram 6.7

**Producer Price Index, world commodity prices, and prices of retained imports of raw materials and semi-manufactures
(year-on-year rate of change)**



/Export

Export prices

6.11 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, went down further, by 3% in the third quarter of 2001 over a year earlier, after a decline of 2% in both the first and second quarters. This was mainly attributable to price curb from buyers and keener competition from other exporters, amidst sluggish demand in the major overseas markets. For the first nine months of 2001 as a whole, the decrease averaged at 2%, after nil change in 2000.

6.12 Analysed by major *market*, the prices of total exports of goods to Singapore had the largest fall, by 6% in the third quarter of 2001 over a year earlier, largely affected by lower prices of semi-conductor and electronic products in the world market. Concurrently, the prices of total exports of goods to the Mainland, Germany, the United Kingdom, the United States and Japan declined by 4%, 3%, 3%, 2% and 1% respectively.

Table 6.8

**Unit value indices of total exports of goods by major market
(year-on-year rate of change (%))**

		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2000	Annual	*	2	-1	-2	-2	-4	*
	H1	*	2	-2	-2	-2	-4	*
	H2	1	2	-1	-1	-2	-3	*
	Q1	*	1	-2	-2	-2	-3	*
	Q2	*	3	-2	-2	-2	-5	*
	Q3	1	3	-1	-1	-1	-4	*
	Q4	*	1	-1	-2	-2	-3	-1
2001	H1	-1	-2	-1	-2	-1	-4	-2
	Q1-Q3	-1	-3	-2	-2	-1	-4	-2
	Q1	*	-1	-1	-1	-1	-3	-2
	Q2	-1	-3	-2	-2	-2	-4	-2
	Q3	-2	-4	-3	-3	-1	-6	-3

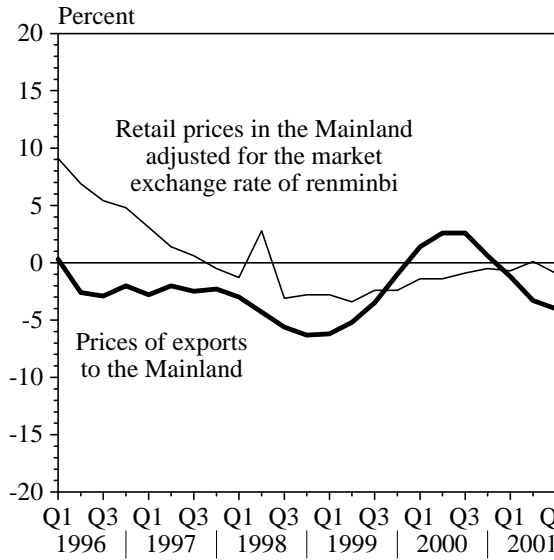
Note : (*) Change of less than 0.5%.

/Diagram 6.8

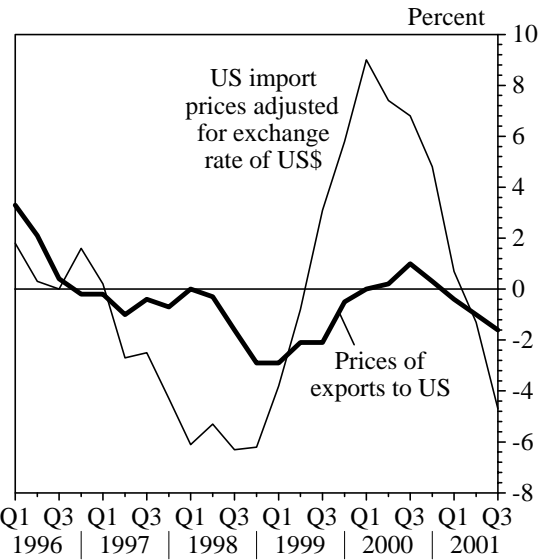
Diagram 6.8

**Prices of total exports of goods by major market
(year-on-year rate of change)**

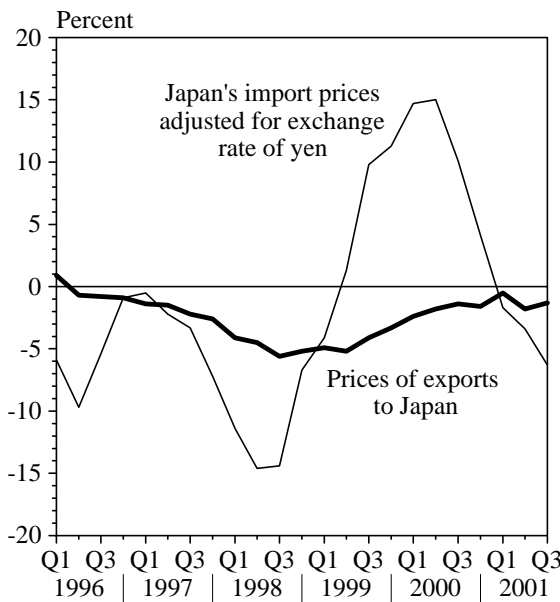
(a) For exports to the mainland of China



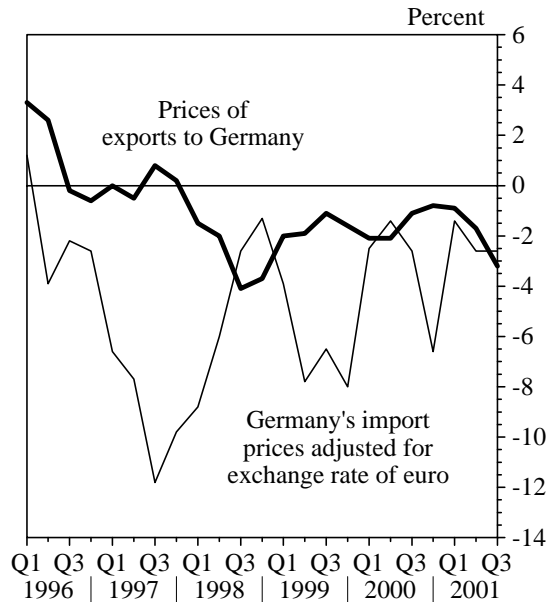
(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



Terms of trade

6.13 As the prices of imports of goods fell slightly faster than the prices of total exports of goods, the terms of trade in goods for Hong Kong edged up by 1% in the third quarter of 2001 over a year earlier. This followed nil change in both the first and second quarters. For the first nine months of 2001 as a whole, the terms of trade held stable, as against a 1% fall in 2000.

Table 6.9

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (1990 = 100)	<u>Year-on-year rate of change</u> (%)
2000	Annual	99.9	-1
	H1	100.2	-1
	H2	99.6	-1
	Q1	100.1	-1
	Q2	100.3	-1
	Q3	99.7	-1
	Q4	99.4	-1
	2001	H1	100.3
Q1-Q3		100.4	*
Q1		100.2	*
Q2		100.4	*
Q3		100.6	1

Note : (*) Change of less than 0.5%.

/Diagram 6.9

Diagram 6.9

**Unit value indices of total exports of goods and imports of goods
(year-on-year rate of change)**

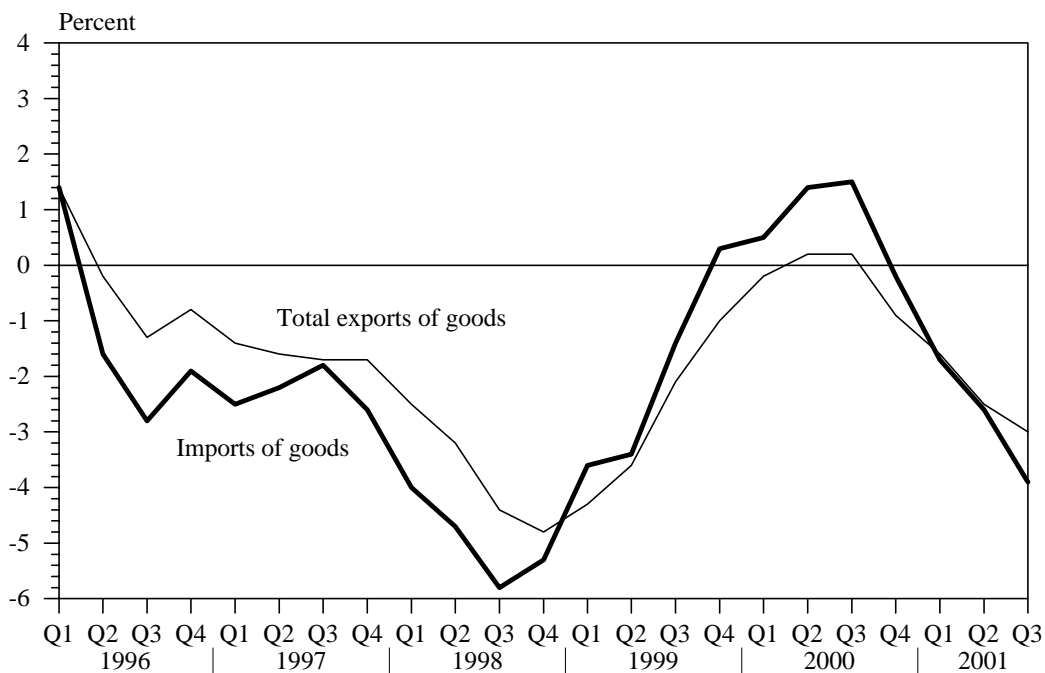
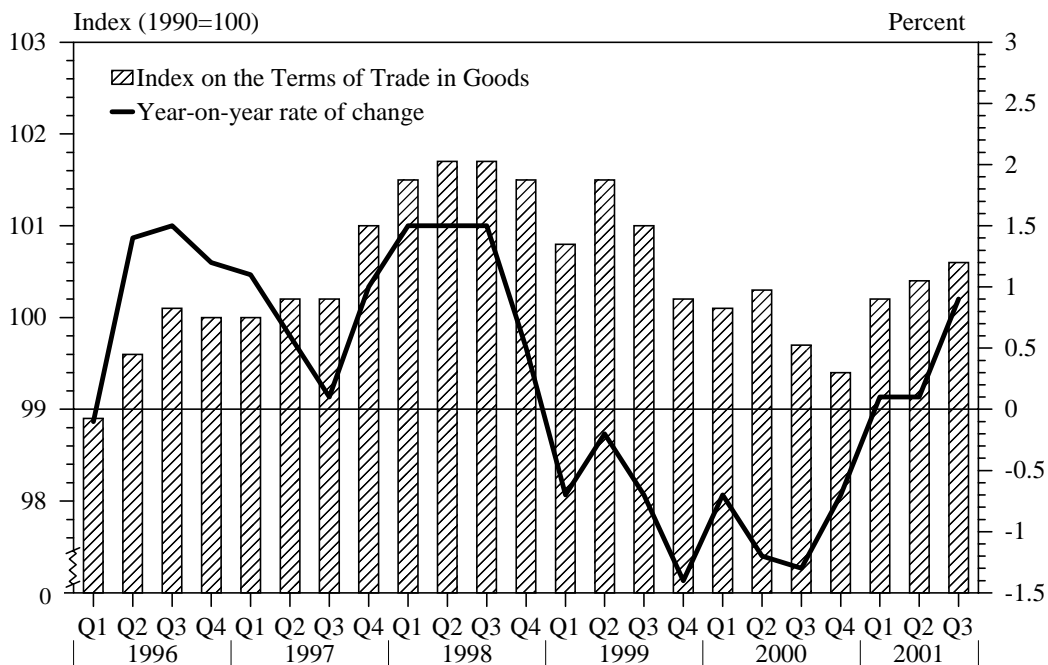


Diagram 6.10

Terms of trade in goods



/GDP

GDP deflator

6.14 The *GDP deflator*⁽⁴⁾, as a broad measure of overall price change in the economy, continued to decline, by 0.3% in the third quarter of 2001 over a year earlier, yet narrowed further from the decreases of 1.8% in the first quarter and 0.6% in the second quarter. This was mainly attributable to a larger increase in the price deflator for government consumption expenditure, and a smaller decline in the price deflator for private consumption expenditure. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* fell by 1.8% and 0.5% respectively in the third quarter of 2001 over a year earlier, as compared to decreases of 1.9% and 2.4% in the first quarter, and of 1.6% and 1.0% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator showed no change in the third quarter of 2001, after a rise of 2.0% in the first quarter and a fall of 1.3% in the second quarter.

/Table 6.10

Table 6.10**GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>1999</u> [#]	<u>2000</u> [#]	<u>2000</u>				<u>2001</u>		
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> ⁺
Private consumption expenditure	-4.4	-4.8	-6.4	-5.6	-4.6	-2.8	-1.3	-1.3	-1.0
Government consumption expenditure	-0.2	-1.7	-1.2	-2.5	-1.9	-1.4	-0.9	2.9	3.4
Gross domestic fixed capital formation	0.8	-4.4	-4.7	-3.7	-3.7	-5.1	-6.5	-3.3	-4.6
Total exports of goods	-3.4	-0.5	-0.6	-0.4	-0.1	-0.7	-1.8	-2.9	-3.3
Imports of goods	-2.7	0.8	*	1.3	1.2	0.6	-1.7	-2.7	-3.4
Exports of services	-2.7	-0.4	-0.2	-0.4	0.2	-1.2	0.1	-0.9	-1.9
Imports of services	-0.5	-0.2	0.1	0.2	0.2	-0.9	-0.3	0.1	-0.2
Gross Domestic Product	-5.4	-6.6	-7.1	-7.5	-6.3	-5.5	-1.8	-0.6	-0.3
			<-2.0>	<-2.4>	<-0.4>	<-0.9>	<2.0>	<-1.3>	<*>
Total final demand	-3.5	-3.1	-4.0	-3.3	-2.6	-2.7	-1.9	-1.6	-1.8
Domestic demand	-1.8	-5.5	-7.1	-5.9	-5.2	-3.9	-2.4	-1.0	-0.5

Notes : (#) Revised figures.

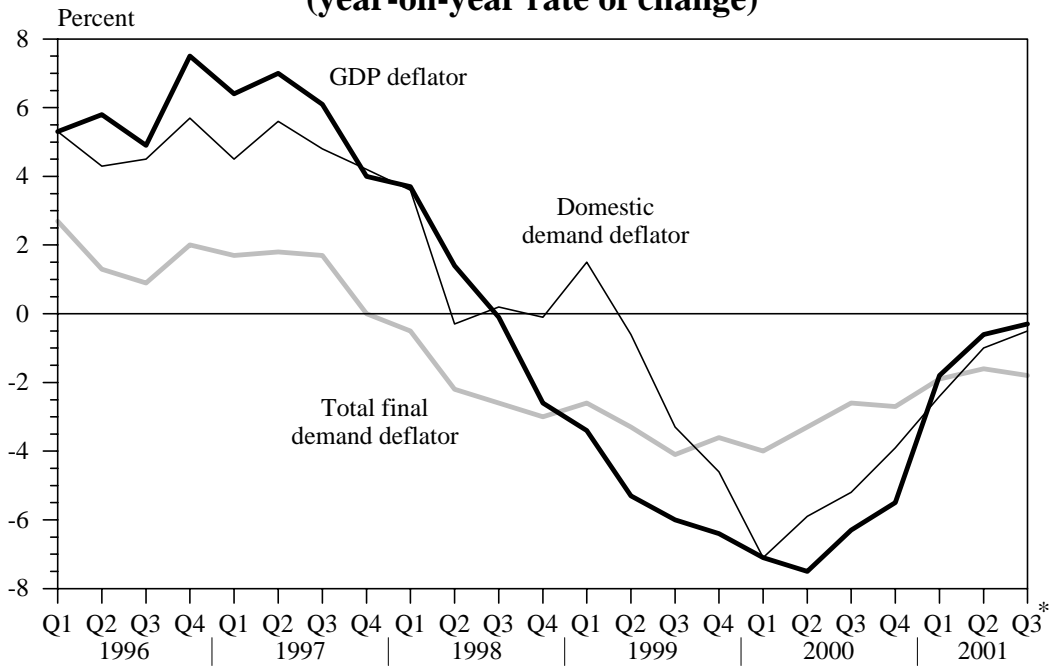
(+) Preliminary figures.

(*) Change of less than 0.05%.

< > Seasonally adjusted quarter-to-quarter % change.

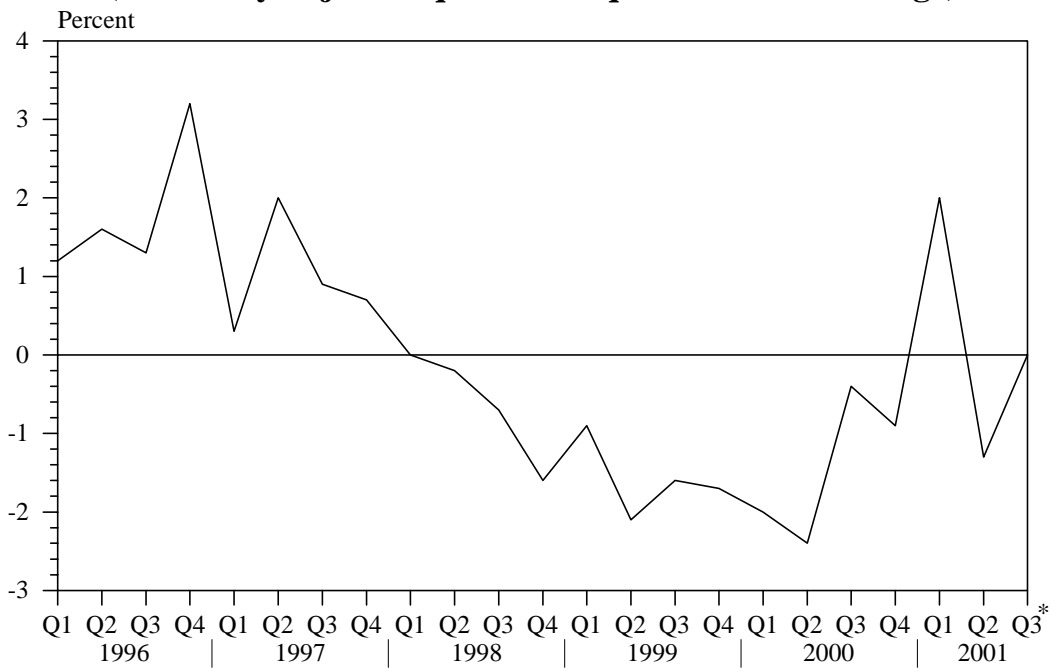
/Diagram 6.11

Diagram 6.11
GDP deflator, total final demand deflator
and domestic demand deflator
(year-on-year rate of change)



Note : (*) Preliminary figures.

Diagram 6.12
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



Note : (*) Preliminary figure.

/Notes

Notes :

- (1) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as enumerated from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by these three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 1999/2000-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Monthly expenditure range (at 1999/2000 prices)</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 1999/2000-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	26.67	31.88	25.94	21.38
Housing	29.91	29.13	29.68	31.22
Electricity, gas and water	2.98	3.99	2.81	2.02
Alcoholic drinks and tobacco	0.94	1.50	0.86	0.39
Clothing and footwear	4.13	3.36	4.47	4.55
Durable goods	6.24	4.96	6.93	6.73
Miscellaneous goods	5.70	5.25	5.58	6.43
Transport	9.01	8.23	9.05	9.94
Miscellaneous services	14.42	11.70	14.68	17.34
All items	100.00	100.00	100.00	100.00

- (2) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost, as indicated in the various Consumer Price Indices, thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the Rating and Valuation Department's rental index for private residential flats.

/(3)

- (3) The Producer Price Index is designed to reflect changes in the prices of local manufacturing output. Producer prices refer to the actual prices plus any surcharges received by the manufacturers, but net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.

- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit price deflators. Rather, the growth rates in real terms are directly calculated by comparing the constant price measures at the two different periods.

The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time interval. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, as total final demand in the economy is equated to GDP plus imports, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of imports. Likewise, as domestic demand in the economy is equated to GDP less exports, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of exports.

STATISTICAL APPENDIX

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Table 1 Expenditure-based Gross Domestic Product (GDP)

(HK\$ million)

Expenditure component	At current market prices		At constant (1990) market prices	
	1999 [#]	2000 [#]	1999 [#]	2000 [#]
Private consumption expenditure	733,575 (-3.8)	736,204 (0.4)	466,906 (0.7)	492,395 (5.5)
Government consumption expenditure	121,465 (3.1)	121,834 (0.3)	64,203 (3.3)	65,529 (2.1)
Gross domestic fixed capital formation	316,960 (-16.8)	332,965 (5.0)	232,397 (-17.5)	255,267 (9.8)
<i>of which</i> : Building and construction	125,725 (-8.9)	115,946 (-7.8)	75,700 (-11.0)	69,906 (-7.7)
Machinery and equipment	132,981 (-15.6)	168,472 (26.7)	119,990 (-19.4)	150,938 (25.8)
Change in inventories	-10,637	16,194	-10,824	14,791
Total exports of goods	1,349,000 (0.1)	1,572,689 (16.6)	1,392,823 (3.7)	1,631,144 (17.1)
Domestic exports	170,600 (-9.5)	180,967 (6.1)	172,884 (-7.2)	185,927 (7.5)
Re-exports	1,178,400 (1.7)	1,391,722 (18.1)	1,219,938 (5.4)	1,445,217 (18.5)
<i>less</i> Imports of goods	1,395,521 (-2.6)	1,661,404 (19.1)	1,425,939 (0.1)	1,683,831 (18.1)
Exports of services	288,574 (2.8)	327,969 (13.7)	226,042 (5.7)	257,924 (14.1)
<i>less</i> Imports of services	175,758 (-3.5)	179,276 (2.0)	136,782 (-3.1)	139,682 (2.1)
Total expenditure on GDP	1,227,658 (-2.5)	1,267,175 (3.2)	808,826 (3.0)	893,537 (10.5)
Per capita GDP (\$)	185,826 (-3.4)	190,124 (2.3)	122,429 (2.0)	134,064 (9.5)
	Index for	% change	Index for	% change
<u>Implicit Price Deflator</u> (1990=100)	<u>1999</u>	<u>over 1998</u>	<u>2000</u>	<u>over 1999</u>
GDP	151.8	-5.4	141.8	-6.6
Total final demand ^(a)	118.0	-3.5	114.4	-3.1
Domestic demand ^(b)	154.3	-1.8	145.8	-5.5

Notes : Figures in brackets represent percentage changes over a year earlier.

Figures may not add up exactly to the totals due to rounding.

(a) Total final demand is defined as the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, change in inventories, and exports of goods and services.

(b) Domestic demand is total final demand less exports of goods and services.

(#) Revised figures.

Table 2 Production-based Gross Domestic Product (GDP)

Economic sector	At current prices (HK\$ million)		Year-on-year % change		% share in GDP	
	1999 [#]	2000 ⁺	1999 [#]	2000 ⁺	1999 [#]	2000 ⁺
Agriculture and fishing	1,171	920	-23.5	-21.4	0.1	0.1
Mining and quarrying	307	243	2.0	-20.8	*	*
Manufacturing	65,767	68,123	-7.2	3.6	5.8	5.8
Electricity, gas and water	34,358	35,900	2.4	4.5	3.0	3.0
Construction	66,111	63,181	-5.5	-4.4	5.8	5.3
Wholesale, retail and import/ export trades, restaurants and hotels	282,194	311,126	-2.0	10.3	24.8	26.3
Transport, storage and communications	108,957	119,439	0.9	9.6	9.6	10.1
Financing, insurance, real estate and business services	267,017	278,379	-5.5	4.3	23.4	23.5
Community, social and personal services	245,647	250,555	5.4	2.0	21.6	21.2
Ownership of premises	162,415	152,751	-4.8	-6.0	14.3	12.9
Adjustment for financial intermediation services indirectly measured	-94,580	-96,755	-5.7	-2.3	-8.3	-8.2
GDP at factor cost (production-based)	1,139,363	1,183,862	-2.5	3.9	100.0	100.0
Taxes on production and imports	55,846	60,510	-10.7	8.4		
GDP at market prices (production-based)	1,195,209	1,244,371	-3.0	4.1		
GDP at market prices (expenditure-based)	1,227,658	1,267,175	-2.5	3.2		
Statistical discrepancy (%)	-2.6	-1.8	--	--		

Notes : Figures may not add up exactly to the totals due to rounding.

(#) Revised figures.

(+) Preliminary figures.

(*) Share of less than 0.05%.

(--) Not applicable.

Table 3 Gross National Product (GNP) and external factor income flows (EFIF)

Income component	(HK\$ million)						
	2000		2000			2001	
			2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr
(At current market prices)							
Direct investment income							
Inflow total	159,868	(17.2)	41,483	36,967	36,281	36,376	46,600
Banking	8,132	(16.5)	1,786	2,031	2,445	2,030	1,842
Others ^(a)	151,736	(17.2)	39,697	34,936	33,836	34,346	44,758
Outflow total	272,661	(38.3)	62,297	71,042	65,550	62,320	69,577
Banking	75,034	(15.6)	18,748	18,813	16,936	16,656	15,486
Others ^(a)	197,627	(49.5)	43,549	52,229	48,614	45,663	54,091
Portfolio investment income							
Inflow total	96,109	(11.4)	23,463	25,528	23,195	26,348	23,982
Banking	24,193	(45.3)	5,661	6,517	7,034	7,267	7,030
Others ^(a)	71,916	(3.3)	17,803	19,011	16,161	19,081	16,952
Outflow total	27,591	(8.6)	11,554	5,317	7,731	3,202	13,505
Banking	3,854	(-5.6)	718	1,335	555	1,866	773
Others ^(a)	23,737	(11.3)	10,836	3,982	7,176	1,336	12,732
Other investment income							
Inflow total	155,112	(9.2)	37,799	39,118	39,009	35,428	34,304
Banking	136,179	(5.2)	34,036	33,941	33,622	30,124	30,014
Others ^(a)	18,933	(51.5)	3,764	5,177	5,387	5,304	4,290
Outflow total	89,297	(-16.9)	22,516	22,352	22,170	20,679	19,662
Banking	82,361	(-17.7)	20,807	20,773	20,073	18,903	17,480
Others ^(a)	6,936	(-6.7)	1,709	1,579	2,096	1,776	2,181
Compensation of employees							
Inflow total	53	(-51.8)	13	10	9	10	11
Outflow total	53	(-51.8)	13	10	9	10	11
Total EFIF							
Inflow total	411,141	(12.7)	102,759	101,624	98,495	98,162	104,897
Outflow total	389,602	(18.0)	96,381	98,722	95,460	86,211	102,754
Net flow total	21,540		6,378	2,901	3,035	11,951	2,142
(At current market prices)							
GNP (\$ million) [#]	1,288,715	(2.1)	314,513	329,561	333,013	315,518	310,902
Per capita GNP (\$) [#]	193,356	(1.2)	--	--	--	--	--
(At constant (1990) market prices)							
GNP (\$ million) [#]	908,255	(9.2)	217,615	236,850	238,475	221,906	216,549
Per capita GNP (\$) [#]	136,272	(8.3)	--	--	--	--	--

Notes : Figures in brackets represent percentage changes over a year earlier.

Figures may not add up exactly to the totals due to rounding.

(a) Including households, government units, non-profit institutions, and companies other than those in the banking business.

(#) Revised figures.

(--) Not applicable.

Table 4 Balance of payments account

(HK\$ million)

Standard components	2000 [#]		2001 [#]		2001 [#]	
		2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr
Current account ⁽¹⁾	68,784	12,612	22,127	22,971	11,551	7,928
Trade in goods	-64,021	-19,329	-10,487	-14,860	-24,646	-23,888
Exports	1,579,178	382,526	433,530	422,858	350,421	364,089
Imports	-1,643,199	-401,855	-444,017	-437,718	-375,067	-387,977
Trade in services	123,976	28,632	32,835	37,969	27,932	32,766
Exports	322,033	76,644	85,989	86,708	77,315	80,714
Imports	-198,057	-48,012	-53,154	-48,739	-49,383	-47,948
External factor income flows	21,540	6,378	2,901	3,035	11,951	2,142
Inflow	411,141	102,759	101,624	98,495	98,162	104,897
Outflow	-389,602	-96,381	-98,722	-95,460	-86,211	-102,754
Current transfers	-12,712	-3,069	-3,122	-3,173	-3,686	-3,092
Inflow	4,651	1,152	1,223	1,303	1,105	2,338
Outflow	-17,362	-4,221	-4,345	-4,476	-4,791	-5,430
Capital and financial account ⁽¹⁾	-59,369	-16,019	-26,531	-12,956	-504	-11,597
Capital transfers	-11,829	-3,641	-3,716	-2,534	-1,438	-3,116
Direct investment	11,005	58,667	21,947	-68,169	59,090	37,372
Abroad	-491,122	-78,467	-34,387	-311,553	-7,485	-14,966
In HK	502,127	137,134	56,334	243,384	66,575	52,337
Portfolio investment	226,852	5,476	1,996	132,335	-108,070	-52,268
Assets	-152,563	-109,699	15,847	-86,564	-75,082	-77,803
Liabilities	379,416	115,176	-13,851	218,899	-32,988	25,535
Financial derivatives	-4,648	15,644	-1,088	22,300	-9,209	21,147
Assets	62,487	22,081	9,229	25,234	18,072	42,583
Liabilities	-67,135	-6,437	-10,317	-2,934	-27,280	-21,435
Other investment	-203,952	-66,797	-6,701	-66,253	120,080	-4,807
Assets	126,222	79,274	47,796	-34,041	62,689	153,406
Liabilities	-330,174	-146,071	-54,497	-32,212	57,391	-158,213
Net change in reserve assets ⁽²⁾	-76,798	-25,368	-38,969	-30,636	-60,958	-9,924
Net errors and omissions	-9,415	3,407	4,404	-10,014	-11,046	3,669
Overall balance of payments	76,798 (in surplus)	25,368 (in surplus)	38,969 (in surplus)	30,636 (in surplus)	60,958 (in surplus)	9,924 (in surplus)

Notes : Figures may not add up exactly to the totals due to rounding.

(1) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value for the balance figure indicates a net inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.

(2) The estimates on net change in reserve assets under the balance of payments framework are transaction figures. Effects from valuation changes (including price changes and exchange rate changes) and reclassifications are excluded.

(#) Revised figures.

**Table 5 Major economic indicators in the external sector
for the third quarter of 2001**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	359,609	10.9	-5.8
Domestic exports	\$Mn	41,380	5.5	-17.9
Total exports of goods	\$Mn	400,989	10.3	-7.2
Imports of goods	\$Mn	418,789	6.7	-6.6
Visible trade balance	\$Mn	-17,800	--	--
<u>Unit value indices (1990 = 100)</u>				
Re-exports		95.9	-0.4	-2.7
<i>to :</i> Mainland of China		92.6	-0.8	-3.4
United States		109.0	0.4	-1.2
Japan		92.6	1.3	-1.3
Germany		102.0	0.5	-2.0
United Kingdom		103.2	-0.2	-2.6
Domestic exports		94.2	0.2	-5.4
<i>to :</i> Mainland of China		86.2	-1.8	-9.4
United States		107.5	1.7	-3.4
Germany		89.5	1.4	-9.8
Japan		103.8	*	-1.3
United Kingdom		88.6	2.3	-6.4
Imports of goods		95.7	-0.5	-3.9
<i>from :</i> Mainland of China		102.3	0.8	-1.8
Japan		95.9	-1.5	-5.4
Taiwan		91.2	-1.3	-7.1
United States		96.3	-1.5	-3.0
United Kingdom		89.5	1.4	-1.4
<i>of :</i> Raw materials and semi-manufactures		85.9	-1.9	-6.1
Consumer goods		105.0	0.8	-1.5
Capital goods		96.2	0.1	-2.5
Foodstuffs		91.6	-1.3	-3.3
Fuels		89.2	-4.9	-18.2

Notes : Figures may not add up exactly to the totals due to rounding.

(--) Not applicable.

(*) Change of less than 0.05%.

**Table 5 Major economic indicators in the external sector
for the third quarter of 2001 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (1990 = 100)	100.6	0.2	0.9
<u>Quantum indices</u> (1990 = 100)			
Re-exports	370.0	10.3	-3.0
<i>to :</i> Mainland of China	547.5	7.5	7.3
United States	343.2	18.3	-10.1
Japan	390.9	5.6	-0.2
Germany	205.8	18.4	-9.4
United Kingdom	434.6	22.1	-9.4
Domestic exports	78.3	4.7	-12.4
<i>to :</i> Mainland of China	133.8	5.5	3.1
United States	74.5	9.0	-14.8
Germany	38.6	0.1	-41.0
Japan	35.6	8.9	-18.9
United Kingdom	79.2	9.8	-17.3
<i>of :</i> Textiles and clothing	104.9	13.3	-6.6
Products other than textiles and clothing	61.1	-3.5	-18.0
Imports of goods	272.6	6.7	-3.4
<i>from :</i> Mainland of China	314.9	13.4	-5.8
Japan	185.2	-4.1	-10.0
Taiwan	199.1	-1.8	-10.1
United States	227.4	1.5	-3.5
United Kingdom	253.2	3.5	2.6
<i>of :</i> Raw materials and semi-manufactures	238.3	-2.9	-10.7
Consumer goods	235.8	12.8	-1.9
Capital goods	496.6	12.1	3.9
Foodstuffs	187.4	17.0	4.9
Fuels	219.8	1.9	-2.4

Table 6 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Manufacturing sector</u> (2nd Qtr 2001)				
Index of Industrial Production (1986 = 100)		103.0	14.8	-0.1
<u>Property</u> (3rd Qtr 2001)				
Completions of new property				
<i>for</i> : Residential	no. of units	5 068	-18.0	15.5
Commercial	'000 sq. m	76	31.1	87.5
<i>of which</i> :				
Office space	'000 sq. m	24	17.5	2.1
Other commercial Premises	'000 sq. m	52	38.6	206.5
Industrial	'000 sq. m	29	109.5	90.1
<i>of which</i> :				
Industrial-cum-office Premises	'000 sq. m	0	-100.0	-100.0
Flatted factory Space	'000 sq. m	12	--	--
Storage premises	'000 sq. m	17	--	1169.2
Floor area of building consents				
<i>for</i> : Residential	'000 sq. m	122	-34.9	-53.4
Commercial	'000 sq. m	39	-73.8	-74.7
Industrial	'000 sq. m	*	-88.3	-99.4
Others	'000 sq. m	8	-45.3	-86.0
Total	'000 sq. m	170	-52.2	-67.8
<u>Building and construction</u>				
Labour and Material Cost Index (Jul 2001) (mid-Feb 1970 = 100)		1 758	0.3	0.9
Tender Price Indices (2nd Qtr 2001) (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		842	-2.3	-3.6
Public housing projects		626	2.3	-11.6
<u>Electricity consumption</u> (3rd Qtr 2001)				
<i>for</i> : Industrial	Mn KWh	1 277	5.1	-6.6
Commercial	Mn KWh	6 763	12.8	3.5
Domestic	Mn KWh	3 458	64.8	1.6

Notes : Figures may not add up exactly to the totals due to rounding.

(--) Not applicable.

(*) Less than 500 sq. m.

Table 6 Major economic indicators in the domestic economy (cont'd)

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Gas consumption (3rd Qtr 2001)				
<i>for</i> : Industrial	Terajoule	248	-5.3	-0.8
Commercial	Terajoule	2 599	-9.4	-3.2
Domestic	Terajoule	3 032	-23.1	8.5
Transport				
Passenger journeys (3rd Qtr 2001)				
<i>by</i> : KMB	'000	272 694	*	0.1
NWFB	'000	48 835	3.8	2.6
City Bus	'000	54 543	2.5	-0.8
New Lantau Bus	'000	1 921	36.9	42.1
Long Win Bus	'000	5 097	7.5	8.9
MTR	'000	195 912	5.8	-1.4
KCR	'000	73 493	3.9	0.1
LRT	'000	28 897	-0.4	-2.2
Hong Kong Tramways	'000	21 134	-1.2	-0.2
New World First Ferry	'000	3 733	6.7	3.9
Star Ferry	'000	6 869	0.5	-1.3
Private cars licensed				
new registration (3rd Qtr 2001)	no.	9 851	10.7	11.2
total licensed (end-Sep 2001)	no.	339 870	0.8	3.0
Air passenger movements (3rd Qtr 2001)	'000	5 927	1.5	-2.1
Air cargo (3rd Qtr 2001)	'000 tonne	512	4.9	-11.6
Ocean cargo (2nd Qtr 2001)	'000 tonne	33 490	5.3	0.1
Container throughput (2nd Qtr 2001)	'000 TEUs	4 447	6.8	-0.8
Tourism				
Arrivals of incoming visitors (3rd Qtr 2001)	'000	3 474	0.6	4.2
Departures of Hong Kong residents (3rd Qtr 2001)	'000	15 742	5.2	1.3
<i>to</i> : Mainland of China	'000	13 306	4.9	2.0
Macau	'000	1 134	6.2	-4.8
Other countries	'000	1 302	7.1	-0.2
Hotel rooms (end-Sep 2001)	no.	36 591	-1.0	3.6
Hotel room occupancy rate (3rd Qtr 2001)	%	78	-1.3	-6.4
Telecommunications (end-Sep 2001)				
Telephone lines	Mn	3.9	0.1	-0.3
<i>for</i> : Residential users	Mn	2.2	-0.3	-1.8
Business users	Mn	1.8	0.6	1.6
Facsimile lines	'000	412	1.8	3.7
Public mobile radiotelephone services customers	'000	5 659	0.7	16.9

Notes : Figures may not add up exactly to the totals due to rounding.

(*) Change of less than 0.05%.

**Table 7 Major economic indicators in the financial sector
as at end-September 2001**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Exchange rate</u>				
Effective Exchange Rate Indices of the Hong Kong dollar (Nov 1983 = 100)				
trade-weighted		138.4	-1.6	2.6
import-weighted		130.6	-1.8	4.1
export-weighted		147.2	-1.4	1.1
HK\$/US\$ interbank T/T rate	HK\$	7.799	*	*
<u>Interest rate</u>				
3-month HIBOR	%	2.31	--	--
Savings rate	%	1.03	--	--
Best lending rate	%	6.00	--	--
<u>Monetary statistics</u>				
Money supply :				
M1	\$Mn	240,430	5.7	9.2
M2	\$Mn	3,569,304	0.2	1.9
M3	\$Mn	3,614,950	0.3	1.9
Deposits with :				
licensed banks	\$Mn	3,394,742	*	1.5
restricted licence banks	\$Mn	34,085	7.0	18.8
deposit-taking companies	\$Mn	6,592	16.0	8.6
all authorized institutions	\$Mn	3,435,418	*	1.6
Deposits by type :				
demand	\$Mn	142,014	6.7	8.9
savings	\$Mn	784,821	4.3	23.2
time	\$Mn	2,508,584	-1.6	-4.0
total	\$Mn	3,435,418	*	1.6

Notes : Figures may not add up exactly to the totals due to rounding.

(--) Not applicable.

(*) Change of less than 0.05%.

**Table 7 Major economic indicators in the financial sector
as at end-September 2001 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	2,086,951	-3.2	-12.4
restricted licence banks	\$Mn	122,833	-1.8	-1.2
deposit-taking companies	\$Mn	37,429	3.5	-21.0
all authorized institutions	\$Mn	2,247,214	-3.0	-12.0
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	88,398	-4.2	-12.2
to finance merchandising trade not touching Hong Kong	\$Mn	8,856	-4.2	-23.9
other loans for use in Hong Kong	\$Mn	1,808,883	-1.6	-4.1
other loans for use outside Hong Kong	\$Mn	330,445	-9.8	-38.3
other loans where the place of use is not known	\$Mn	10,632	-4.3	-42.7
<u>Stock market</u>				
Hang Seng Index (Jul 1964 = 100)		9 951	-23.7	-36.4
Stock market capitalisation				
Main Board	\$Mn	3,373,478	-24.2	-28.5
Growth Enterprise Market	\$Mn	46,350	-33.7	-42.0
Total	\$Mn	3,419,828	-24.3	-28.8
Stock market turnover (3rd Qtr 2001)				
Main Board	\$Mn	411,809	-30.7	-45.5
Growth Enterprise Market	\$Mn	4,638	-72.3	-80.9
Total	\$Mn	416,448	-31.8	-46.6

Note : Figures may not add up exactly to the totals due to rounding.

Table 8 Major economic indicators in the labour sector

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Labour force characteristics</u> (3rd Qtr 2001)				
Labour force	'000	3 440	0.9	1.4
Unemployed	'000	186	21.7	11.0
Underemployed	'000	84	12.3	-4.0
Employed	'000	3 255	-0.1	0.9
Labour force participation rate	%	61.6	--	--
Seasonally adjusted unemployment rate	%	5.3	--	--
Underemployment rate	%	2.5	--	--
<u>Employment</u> (Jun 2001)				
Manufacturing	'000	219	0.8	-8.4
Services	'000	2 036	2.4	2.2
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	810	1.7	-0.6
Restaurants and hotels	'000	225	2.0	1.4
Transport, storage and Communications	'000	186	2.2	2.9
Financing, insurance, real estate and business services	'000	442	3.2	3.1
Community, social and personal services	'000	373	3.4	7.6
Building and construction sites	'000	80	-8.6	1.3
Civil service	'000	179	-1.3	-3.3
<u>Vacancies</u> (Jun 2001)				
Manufacturing	'000	2	0.5	-34.0
Services	'000	24	-15.1	-24.9
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	7	-32.3	-43.6
Restaurants and hotels	'000	1	-38.1	-29.8
Transport, storage and Communications	'000	1	-25.7	-36.5
Financing, insurance, real estate and business services	'000	8	-5.6	-22.2
Community, social and personal services	'000	6	12.8	16.0
Building and construction sites	'000	*	-55.2	-75.3
Civil Service	'000	3	16.0	37.0

Notes : Figures may not add up exactly to the totals due to rounding.

(--) Not applicable.

(*) Less than 500.

Table 8 Major economic indicators in the labour sector (cont'd)

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Earnings</u> (2nd Qtr 2001)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	89.7	-12.8 (-13.0)	2.2 (3.5)
<i>for</i> : Manufacturing	88.9	-14.2 (-14.4)	2.5 (3.8)
Services	88.9	-13.0 (-13.2)	2.0 (3.3)
<i>of which</i> :			
Wholesale, retail and Import/export trades	84.2	-18.9 (-19.1)	2.4 (3.7)
Restaurants and hotels	85.3	-10.9 (-11.1)	1.4 (2.7)
Transport, storage and Communications	87.6	-13.6 (-13.8)	1.4 (2.8)
Financing, insurance, real Estate and business services	88.2	-13.8 (-14.0)	1.7 (3.0)
Community, social and Personal services	94.7	-5.1 (-5.3)	-0.8 (0.5)
<u>Wages</u> (Jun 2001)			
Nominal wage index (Sep 1992 = 100)	152.3	0.6 (-0.3)	0.9 (1.7)
<i>for</i> : Manufacturing	148.6	-1.0 (-1.9)	1.6 (2.4)
Services			
<i>of which</i> :			
Wholesale, retail and Import/export trades	161.0	0.6 (-0.3)	1.7 (2.4)
Restaurants and hotels	139.4	1.1 (0.2)	0.6 (1.4)
Transport services	149.8	0.2 (-0.7)	0.1 (0.9)
Financing, insurance, real Estate and business services	159.7	1.8 (0.9)	-0.1 (0.6)
Personal services	154.3	-1.7 (-2.5)	1.0 (1.7)
Nominal index of construction wage rate (Jan 1970 = 100) (Aug 2001)	3 595.8	0.2 (0.8)	-0.3 (0.8)

Note : Figures in brackets represent percentage changes in real terms.

Table 9 Various price indices for the third quarter of 2001

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Consumer Price Indices</u> (Oct 1999 - Sep 2000 = 100)			
Composite CPI	97.9	-0.4 [#]	-1.0
CPI(A)	98.4	-0.2 [#]	-0.7
CPI(B)	97.7	-0.4 [#]	-1.2
CPI(C)	97.6	-0.5 [#]	-1.3
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	77.7	-3.8	-11.0
Office space	75.2	-7.7	-12.4
Shopping space	85.7	-1.5	-5.9
Conventional flatted factory space	81.2	-2.4	-9.8
<u>GDP deflator</u> (1990 = 100)	138.7	* [#]	-0.3

Notes : (#) Seasonally adjusted series.

(*) Change of less than 0.05%.

