



2002 Economic Prospects

Government of the Hong Kong
Special Administrative Region

2002 ECONOMIC PROSPECTS

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

March 2002

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CHAPTER 1 : OVERVIEW OF THE 2002 ECONOMIC FORECAST

Background

1.1 2001 was a difficult year for the global economy, as the slow-down that started in the United States at the beginning of the year soon extended into a global downturn. By the third quarter, the three leading industrialised economies, viz. the United States, Japan and Germany, were in or on the brink of recession, a situation not seen since the oil crisis in the early 1970s. The export-dependent East Asian economies were severely hit, with Singapore and Taiwan falling into recession, a situation not altogether seen even during the Asian financial crisis. Hong Kong, with its high degree of external orientation, inevitably faced the blow. Exports of goods fell off distinctly in the third quarter and even more so in the fourth quarter, upon the impact of the tragic event in the United States on 11 September. Exports of services likewise slowed considerably during the period.

1.2 As the adverse impact on the external trade front spread, the domestic sector also turned more sluggish over the course of 2001. Investment spending faltered as the business outlook deteriorated. Intake of capital equipment eased back abruptly after the first quarter and took a sharp decline by the fourth quarter. Construction activity was weak all through. Consumer spending also slowed down after mid-year, affected by rising unemployment and dip in asset prices. In the last few months of the year, local sentiment was further depressed by the repercussions of the 911 incident, and particularly amidst more widespread worry about job security.

1.3 With the external trade and the domestic sector both coming down, the Gross Domestic Product (GDP)⁽¹⁾ went into a decline in the third and fourth quarters of 2001, having already decelerated markedly in growth in the first and second quarters. For 2001 as a whole, GDP had only a marginal growth of 0.1% in real terms⁽²⁾, in stark contrast to the double-digit growth at 10.5% in 2000.

1.4 The labour market slackened visibly in tandem with the economic downturn, with total employment falling by the end of the year, and with vacancies sharply reduced in all the major sectors. There were more incidents of corporate downsizing and pay cuts, while for those still in employment, the

/workload

workload had generally become tougher. The seasonally adjusted unemployment rate went up to 6.7% in the three months ending January 2002. The underemployment rate also rose, to 3.2% in that period.

1.5 As downward pressure on local costs re-emerged, and as import prices went down further upon a stronger US dollar, the decline in consumer prices widened again in the more recent months, having been narrowing during the first seven months of last year. For 2001 as a whole, the Composite Consumer Price Index fell by an average of 1.6%, signifying negative inflation for three consecutive years.

Economic forecast for 2002

1.6 The outlook for the Hong Kong economy in 2002 hinges crucially on the timing and pace of revival in the industrialised economies, the United States in particular. Lately, there are signs that the US economy is about to bottom out. If so, this should also help improve the economic situation in Europe and East Asia generally. The Japanese economy could still be in recession this year. The economy of the mainland of China (the Mainland) nevertheless should continue to grow robustly. It is generally believed that the austere external environment carried over from last year may gradually turn better over the course of this year. Henceforth, the Hong Kong economy may have better hope for a rebound within this year.

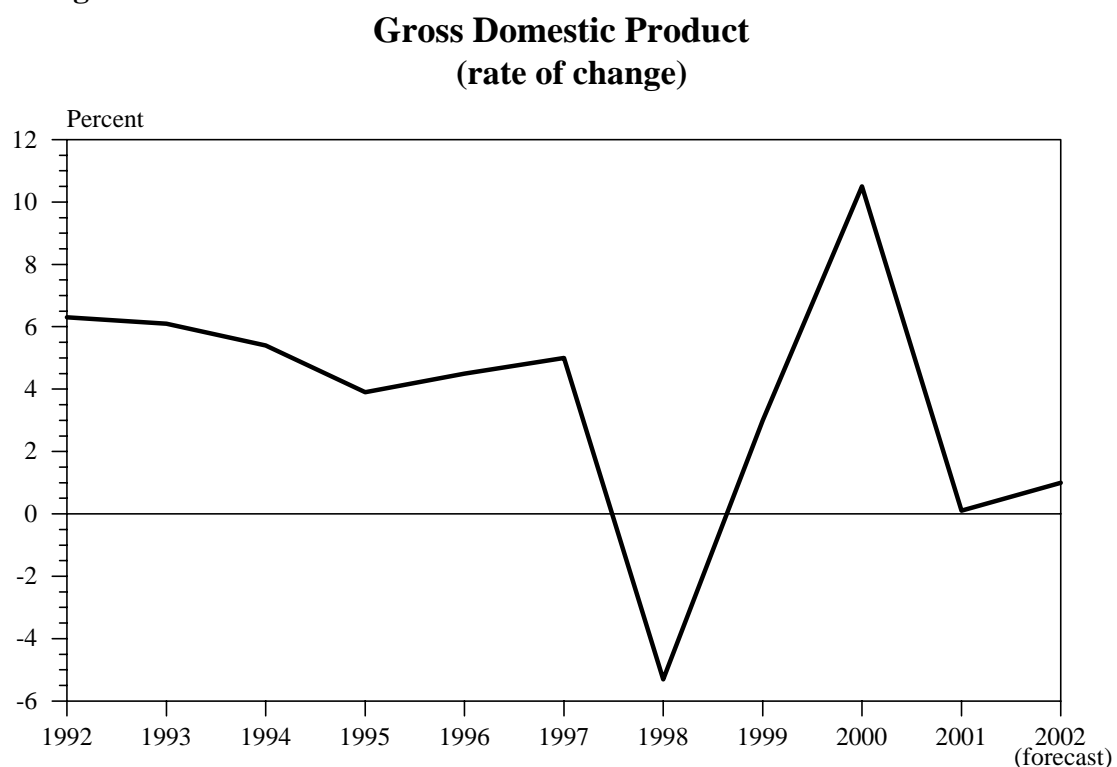
1.7 Hong Kong's exports of goods may still undergo a decline in the early part of 2002. But with the envisaged improvement in global demand, they may pick up progressively in the latter part of the year. Hong Kong's exports of services have been faring better than exports of goods in 2001, and should continue to be so in 2002, given the on-going structural shift from re-exports towards offshore trade, as well as the boost to inbound tourism brought about by removal of the quota on Mainland visitors as from 1 January 2002.

1.8 Locally, consumer demand will continue to come under the restraint of reduced pay and higher unemployment, while the marked decline in asset values during the course of last year has carried forth a noticeable negative wealth effect. Having regard to the trend and pattern of performance of retail sales in recent months, consumer spending seems likely to be subdued in 2002. Yet government consumption expenditure should have a fairly steady growth in

2002, in line with community needs. Investment spending would remain slack in 2002. Machinery and equipment acquisition may continue to be held back by the tardy business outlook, the surplus operating capacity, and the worsened corporate profits position consequential to the economic downturn. Building and construction activity may stay low, as the residential property market is still adjusting to the large overhang of supply, as public housing production continues to come down, and as the Priority Railway Projects have already passed their construction peaks.

1.9 Overall, Hong Kong's GDP is likely to stay on a decline in the early part of 2002, yet with a visible pick-up in the latter part of the year. For 2002 as a whole, *GDP* is forecast at a small growth of 1%, after a marginal increase of 0.1% in 2001.

Diagram 1.1



1.10 Much of the downside risks in the forecast are from the external front, including a possible relapse in the US economy and hence in the global economy, and a further distinct strengthening in the US dollar impinging on Hong Kong's external competitiveness. On the domestic front, continually

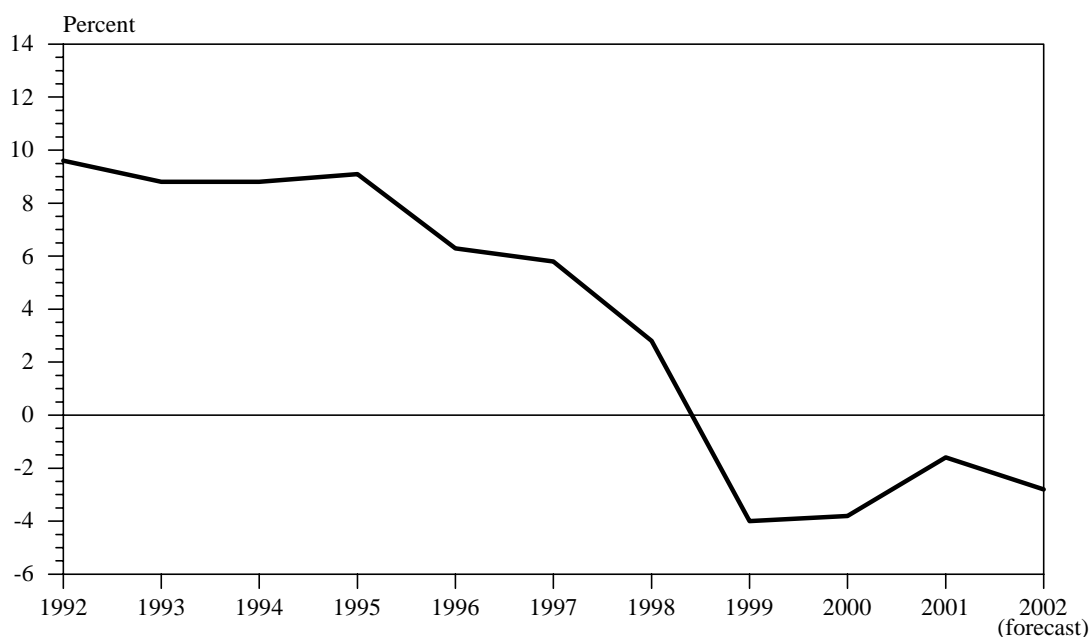
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depressed demand and sentiment amongst consumers and businesses will tend to undermine the recovery process. Nevertheless, there may be upside potential from a sooner recovery in the US economy and from a stronger surge in Mainland visitors to Hong Kong.

1.11 The outlook for consumer prices in 2002 is for a further down-drift, being part and parcel of the adjustment process in the economy to weather the current setback. In the domestic sector, downward pressure on costs has accentuated again, with office rentals down by 7% and shop rentals down by 4% during last year, and also with wages softening in recent months. This is expected to filter through to dampen local retail prices. Moreover, competition through price cuts and other means in the local retail market is keen. Meanwhile, the rates concession from the 2001 Policy Address and other known developments will bring down the CPI more. On the external front, the decline in import prices has also been enlarging in the recent period, amidst the relative strength of the US dollar as well as deflation in Japan and the Mainland, the two leading suppliers of Hong Kong's imports. Moreover, the prices of imported foodstuffs from the Mainland on average can be expected to come down during the year, upon removal of the quota on export of chilled meat and chicken from the Mainland. The *Composite CPI* is thus forecast for a larger decline of 2.8% in 2002, following a 1.6% decrease in 2001.

Diagram 1.2

**Composite Consumer Price Index
(rate of change)**



1.12 A summary of the performance of the economy in 2001 is given in Chapter 2. A more detailed analysis of the performance is provided in the **2001 Economic Background**. This is combined, through a process of appraisal and judgement, with the results of an econometric model application⁽³⁾ and with the findings of two business outlook enquiries⁽⁴⁾, to produce a forecast of economic performance in 2002. The forecast itself is discussed in Chapter 3, and its implications for the economy are set out in Chapter 4. The *Statistical Appendix* to this report contains details of the forecast, along with a variety of economic indicators over the past ten years. Statistics on the GDP and its components are published in the **2001 Gross Domestic Product**, which includes a description of the sources and methods for the compilation.

Notes:

- (1) The Gross Domestic Product (GDP) is an overall measure of the value of net output produced within the 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, change in inventories, and exports less imports of goods and services.
- (2) All percentage changes quoted in this report are in real terms unless indicated otherwise or unless they relate to changes in prices. They are all on a year-on-year comparison unless indicated otherwise.
- (3) An integrated econometric model is used to forecast the GDP and its major expenditure components, including the trade aggregates, as well as the main price indicators. The model consists of 46 structural equations and 15 identities.
- (4) Two business outlook enquiries were conducted in December 2001 and January 2002. These included a business prospects survey to gather views from about 250 firms in the manufacturing, import/export trade, banking and construction sectors regarding the outlook of the respective sectors in the short term, and a consultation exercise with prominent firms and organisations knowledgeable in Hong Kong-Mainland trade to solicit views on the outlook for Hong Kong's exports to the Mainland in 2002.

CHAPTER 2 : ECONOMIC DEVELOPMENTS IN 2001

Overall situation

2.1 The economy underwent a distinct slow-down over the course of 2001, amidst a worsening external environment prompted by the downturn in the US economy, and with the situation aggravated by the tragic event in the United States on 11 September. In the external sector, total exports of goods still maintained some growth in the early part of the year. But as the slump in global demand deepened, exports of goods to all the major markets successively receded. Exports of services fared better in the first half of the year, bolstered by sustained growth in offshore trade and inbound tourism. But with the 911 incident hitting severely the travel industry worldwide and the demand for trade-related and other business services in the region, exports of services likewise moderated towards the year-end. As imports of both goods and services came down in tandem with the setback in exports of goods and services, the combined visible and invisible trade account still yielded a further sizeable surplus for 2001 as a whole.

2.2 In the domestic sector, consumer spending grew steadily further in the first half of 2001, upon increased household income on account of the robust economic performance in 2000. Yet the rise in unemployment began to dampen consumer spending in July, and with the shock from the 911 incident, consumer spending moderated distinctly in the third quarter and more so in the fourth quarter. Investment spending slackened off abruptly after the first quarter of 2001, as the dim business outlook deterred machinery and equipment intake, and as building and construction output stayed weak amidst the subdued property market and the large cut-back in public housing production.

2.3 Overall, the *Gross Domestic Product* (GDP) decelerated sharply in growth, from 10.5% in 2000 to a mere 0.1% in 2001. GDP still registered increases by 2.2% and 0.8% respectively in the first and second quarters of 2001, before receding to declines of 0.4% in the third quarter and 1.6% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP was down by 0.5% and 1.4% respectively in the first and second quarters of 2001, then rose back by 0.3% in the third quarter, but dropped again by 0.2% in the fourth quarter.

/Table 2.1

Table 2.1

Gross Domestic Product
(year-on-year rate of change (%))

2000	Annual [#]	10.5	
	Q1 [#]	14.1	(4.2)
	Q2 [#]	10.7	(-0.2)
	Q3 [#]	10.7	(1.8)
	Q4 [#]	7.0	(1.0)
2001	Annual ⁺	0.1	
	Q1 [#]	2.2	(-0.5)
	Q2 [#]	0.8	(-1.4)
	Q3 [#]	-0.4	(0.3)
	Q4 ⁺	-1.6	(-0.2)

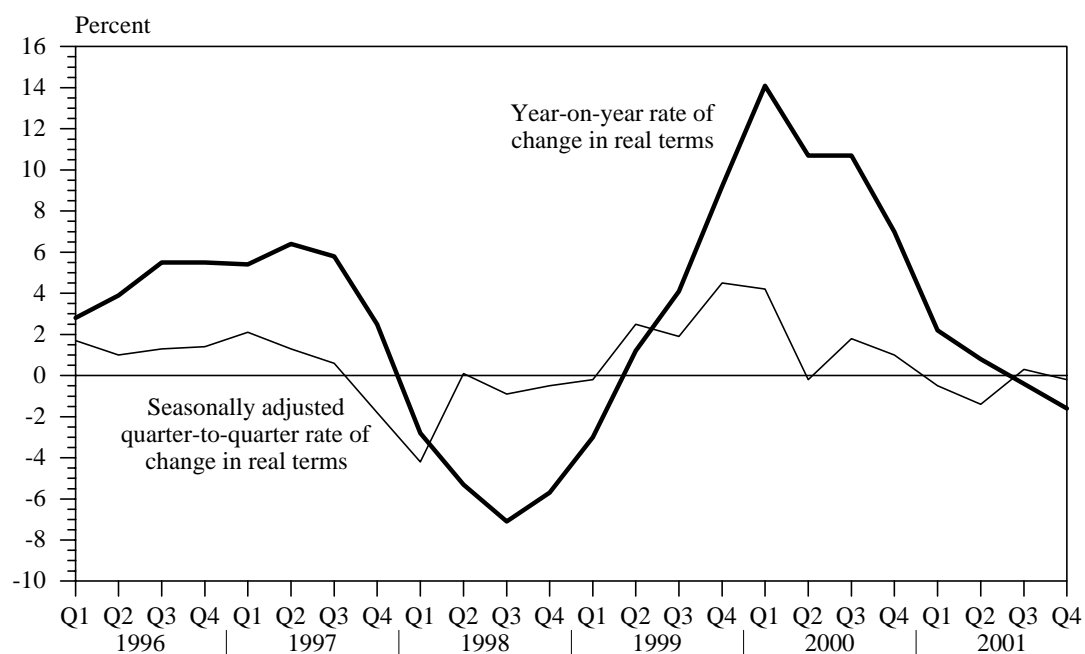
Notes : (#) Revised figures.

(+) Preliminary figures.

() Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change in GDP.

Diagram 2.1

Gross Domestic Product



/2.4

2.4 Along with the economic slow-down, *labour market* conditions slackened considerably over the course of 2001. As employment was unable to match the growth in labour supply amidst more widespread corporate downsizing and lay-offs, the seasonally adjusted unemployment rate surged from 4.5% in both the first and second quarters to 5.3% in the third quarter and 6.1% in the fourth quarter. The underemployment rate likewise rose distinctly, to 3.0% in the fourth quarter.

2.5 In the *residential property market*, sentiment was generally weak during most of 2001. Notwithstanding substantially reduced mortgage rate and improved affordability, buying interests were restrained by concern over job security and income instability, and by the ample supply of new flats in the pipeline. Then towards the end of the third quarter, sentiment was hit further by the shock from the 911 incident. In a move to boost sales, property developers stepped up their promotion and offered more flexible financing packages together with more attractive purchase terms. Trading in the primary market turned more active towards the year-end, but the secondary market largely remained quiet.

2.6 In the *financial market*, local interest rates came down markedly during 2001, matching closely the aggressive US interest rate cuts. The Hong Kong dollar held remarkably stable under the linked exchange rate system, despite volatilities in the global financial markets immediately after the 911 incident. But the local stock market showed more gyrations, along with generally reduced trading volume. The Hang Seng Index plunged to a near three-year low of 8 934 on 21 September, yet rebounded swiftly to above the 10 000 mark by 4 October. The Index closed 2001 at 11 397, 24% below the level at the end of 2000.

2.7 On *consumer prices*, there was a continued fall in the Composite Consumer Price Index, averaging at 1.6% in 2001, although it was somewhat lessened from the 3.8% drop in 2000. Some resurrection of domestic price pressure was apparent in the early part of the year. But as the local resource balance loosened again amidst the economic slow-down, the price pressure subsided thereafter. External price pressure concurrently eased, with import prices showing an enlarged decline over the course of the year. Together with the relief from the waiver of public housing rentals in December, the rate of decline in the Composite CPI, having relatively improved at 2.0%, 1.3% and 1.0% respectively in the first three quarters of 2001, widened again to 2.1% in the fourth quarter.

/External

External trade⁽¹⁾

2.8 With a significant worsening in the external economic environment hitting Hong Kong's merchandise exports, *total exports of goods* (comprising re-exports and domestic exports) fell by 3.0% in 2001, in contrast to a highly robust growth of 17.1% in 2000. Total exports of goods, which already slowed to a growth of only 4.2% in the first quarter of 2001, began to fall by 1.9% in the second quarter. The decline enlarged to 4.0% in the third quarter, and further to 8.8% in the fourth quarter, as the impact of the 911 incident filtered through. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods fell by 2.4% and 2.8% respectively in the first and second quarters of 2001, yet rose back by 1.5% in the third quarter, before coming down by 6.4% in the fourth quarter.

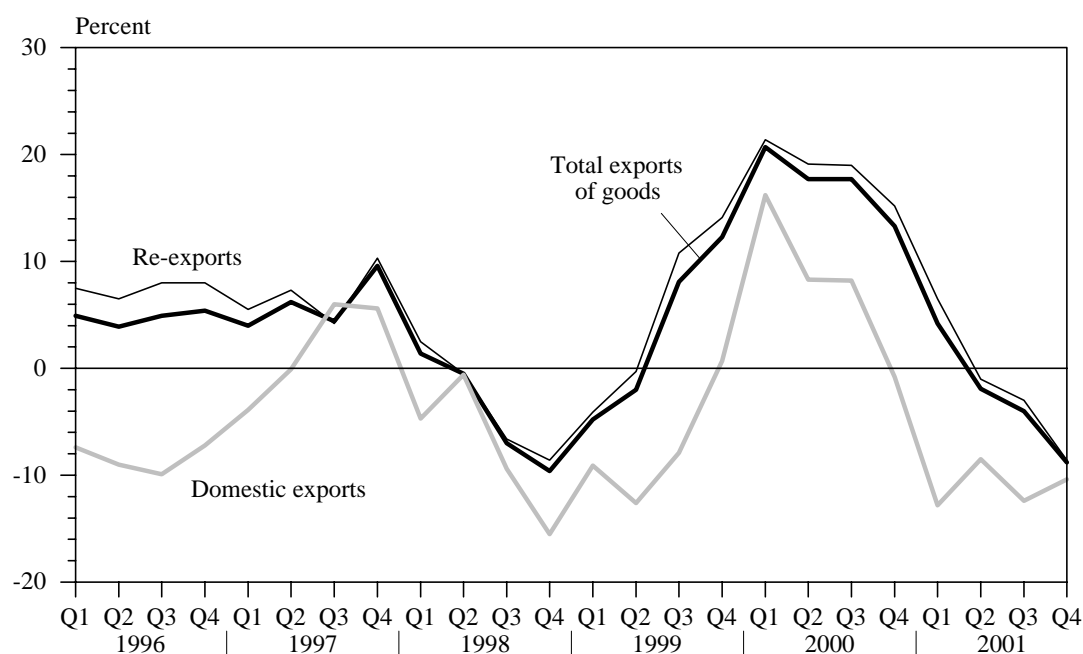
2.9 Within total exports of goods, *re-exports* fell by 2.0% in 2001, also markedly down from the 18.5% growth in 2000. Re-exports still had a 6.5% increase in the first quarter of 2001, but this was followed by enlarging declines of 1.0%, 3.0% and 8.6% respectively in the ensuing three quarters. On a seasonally adjusted quarter-to-quarter comparison, re-exports fell by 2.4% and 2.9% respectively in the first and second quarters of 2001, then rebounded to a 2.1% rise in the third quarter, but slackened again to a 6.7% fall in the fourth quarter.

2.10 *Domestic exports* plummeted more sharply, by 11.0% in 2001, the largest annual decline recorded since the respective statistical series was available from 1962. This contrasted sharply with a 7.5% increase in 2000. Domestic exports registered declines throughout the four quarters of 2001, at 12.8%, 8.5%, 12.4% and 10.4% respectively. Apart from the slump in global demand, the plunge in domestic exports could have also been caused by the continued structural shift towards re-exports trade. The share of domestic exports in the total value of exports of goods shrank further, to 10% in 2001, from 12% in 2000 and 30% a decade ago. On a seasonally adjusted quarter-to-quarter comparison, domestic exports were on a downtrend throughout the four quarters of 2001, with declines of 2.8%, 1.5%, 3.3% and 4.1% respectively.

/Diagram 2.2

Diagram 2.2

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

**Table 2.2**

**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>
2000	Annual	17.1	18.5	7.5
	H1	19.1	20.1	12.0
	H2	15.5	17.1	3.7
	Q1	20.7	21.4	16.2
	Q2	17.7	19.1	8.3
	Q3	17.7	19.0	8.2
	Q4	13.3	15.2	-0.8
2001	Annual	-3.0	-2.0	-11.0
	H1	1.0	2.5	-10.5
	H2	-6.4	-5.8	-11.5
	Q1	4.2	6.5	-12.8
	Q2	-1.9	-1.0	-8.5
	Q3	-4.0	-3.0	-12.4
	Q4	-8.8	-8.6	-10.4

/Table 2.3

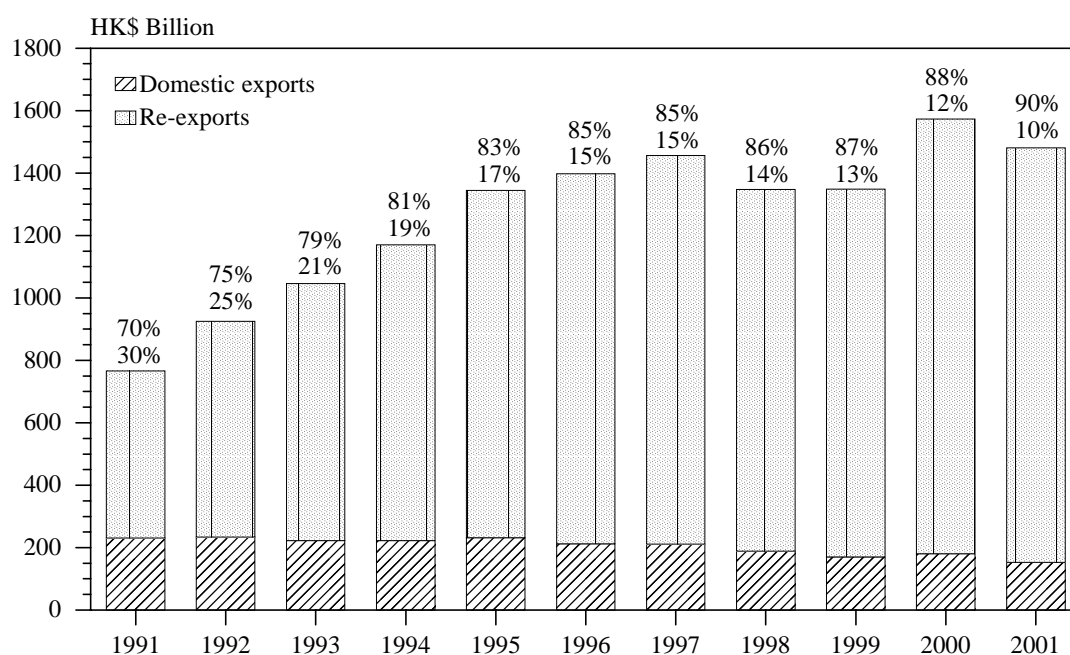
Table 2.3

**Total exports of goods, re-exports and domestic exports
(seasonally adjusted quarter-to-quarter rate of change (%))**

		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2000	Q1	5.7	5.0	10.8
	Q2	4.2	5.5	-5.3
	Q3	4.0	4.5	0.7
	Q4	-0.8	-0.3	-5.1
2001	Q1	-2.4	-2.4	-2.8
	Q2	-2.8	-2.9	-1.5
	Q3	1.5	2.1	-3.3
	Q4	-6.4	-6.7	-4.1

Diagram 2.3

**Domestic exports and re-exports
(share in the value of total exports of goods)**



/2.11

2.11 Analysed by *region*, the slackening in merchandise exports in 2001 was most distinct in the US and EU markets, while the East Asian market held up better in overall terms. Exports of goods to *East Asia* as a whole still had a 2% growth in 2001, though sharply down from the 20% surge in 2000. Performance varied widely amongst the constituent markets, with exports to Japan and the Mainland still having modest increases, but with exports to Singapore, Taiwan and most of the other East Asian economies all falling markedly. Exports of goods to the *United States* fell by 9% in 2001, being the first decline since the respective series in real terms was available in 1991, and in stark contrast to the 14% increase in 2000. This largely mirrored the fall-off in US import demand during the year, amidst the significant downturn in the US economy. Exports of goods to the *European Union* were much dampened by waning import demand in the EU area as well as the weak euro. In 2001, these exports fell by 8%, reversing sharply the 13% rise in 2000.

Table 2.4

**Total exports of goods by major region
(year-on-year rate of change (%))**

	<u>East Asia</u> ^(a)	<u>United States</u>	<u>European Union</u> ^(a)
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 Annual	2	-9	-8
H1	5	-5	-4
H2	-2	-12	-11
Q1	8	*	-1
Q2	3	-9	-8
Q3	2	-11	-11
Q4	-5	-13	-12

Notes : (a) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods 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%.

/2.12

2.12 *Imports of goods* likewise shrank, by 2.3% in 2001. This was markedly down from the 18.1% growth in 2000. The trend of slackening was evident over the course of the year, with growth already moderated to 5.3% in the first quarter of 2001, before going into enlarging declines of 0.7%, 3.4% and 9.1% respectively in the ensuing three quarters. The setback in imports of goods mirrored the downturn in both re-export trade and imports for local use. Specifically, retained imports had a 3.2% decline in 2001, in stark contrast to the 17.0% rise in 2000. Again reflecting the trend of slackening during the year, *retained imports* still had a 2.3% increase in the first quarter of 2001, before coming down to a 0.1% growth in the second quarter and further to declines of 4.5% and 10.5% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of goods fell by 1.2% and 3.7% respectively in the first and second quarters of 2001, followed by a brief rebound to a 2.5% rise in the third quarter and then a relapse to an 8.0% decline in the fourth quarter. As to retained imports, they rose by 1.9% and 3.6% respectively in the first and third quarters of 2001, but dropped by 6.0% and 11.7% respectively in the second and fourth quarters.

2.13 Analysed by *end-use category*, retained imports of consumer goods grew markedly, by 12.7% in 2001, having already risen by 14.8% in 2000. The robust growth was mainly underpinned by a surge in intake of certain durable goods including motor cars and electrical appliances, as their retail sales were bolstered by large price discounts and strong promotion by the respective dealers before the dip towards the year-end. Intake of ordinary consumer goods was however distinctly weaker, amidst the generally subdued local consumer demand. Retained imports of foodstuffs recorded a much more modest growth of 0.9% in 2001, after a 7.4% increase in 2000. Retained imports of capital goods, having soared by 38.1% in 2000, increased further by 5.0% in 2001. The growth in 2001 was however concentrated in the first quarter when the business environment was still relatively upbeat, and to a lesser extent, also in the third quarter when some aircraft ordered earlier arrived. In tandem with the plunge in domestic exports, retained imports of raw materials and semi-manufactures plummeted by 15.9% in 2001, sharply reversing the 16.6% surge in 2000. Yet retained imports of fuels, having fallen markedly by 18.0% in 2000, recorded a small rise of 3.7% in 2001.

/Table 2.5

Table 2.5

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

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2000	Annual	18.1	17.0
	H1	20.7	22.1
	H2	15.9	12.5
	Q1	22.8	26.6
	Q2	18.8	18.2
	Q3	18.4	16.8
	Q4	13.4	8.3
2001	Annual	-2.3	-3.2
	H1	2.1	1.2
	H2	-6.2	-7.4
	Q1	5.3	2.3
	Q2	-0.7	0.1
	Q3	-3.4	-4.5
	Q4	-9.1	-10.5

Note : (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.

Table 2.6

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

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2000	Q1	6.2	9.4
	Q2	2.7	-4.4
	Q3	5.3	7.8
	Q4	-0.9	-2.6
2001	Q1	-1.2	1.9
	Q2	-3.7	-6.0
	Q3	2.5	3.6
	Q4	-8.0	-11.7

Note : (a) See Note (a) to Table 2.5.

/Table 2.7

Table 2.7

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

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2000	Annual	14.8	7.4	38.1	16.6	-18.0
	H1	21.5	19.3	42.5	21.7	-18.5
	H2	7.8	-2.3	34.5	12.1	-17.4
	Q1	22.0	10.9	51.2	29.0	-7.0
	Q2	21.0	28.3	36.3	15.3	-26.7
	Q3	21.8	-0.1	38.2	16.4	-23.8
	Q4	-4.3	-4.3	30.6	8.1	-9.0
2001	Annual	12.7	0.9	5.0	-15.9	3.7
	H1	8.9	-2.7	11.4	-7.2	3.3
	H2	17.2	4.6	-0.7	-24.1	4.1
	Q1	0.3	3.6	27.9	-10.5	4.9
	Q2	17.5	-8.6	-1.6	-4.0	1.8
	Q3	16.8	14.7	8.8	-24.6	-2.0
	Q4	17.7	-5.3	-11.1	-23.5	10.7

Note : Also see Note (a) to Table 2.5.

2.14 As the value of total exports of goods fell slightly faster than the value of imports of goods, the *visible trade deficit* widened somewhat, to \$87.2 billion or 5.6% of the value of imports of goods in 2001, from \$85.3 billion or 5.1% in 2000.

2.15 On invisible trade, *exports of services* similarly slowed, but still recorded a modest increase of 3.5% in 2001. While this was markedly down from the double-digit growth of 14.1% in 2000, exports of services had generally held up better than exports of goods during the year. In particular, exports of services still had a notable growth at 6.3% in both the first and second quarters of 2001, though also decelerating distinctly to growth of only 1.6% in the third quarter and 0.5% in the fourth quarter. Amidst the slump in global trade, there was a setback in both regional business demand and exports

/of

of transportation services. The fall-off in inbound tourism after the 911 incident worsened the situation. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose by 0.4%, 2.1% and 1.6% respectively in the first three quarters of 2001, before turning to a 2.0% decline in the fourth quarter.

2.16 *Imports of services* recorded a marginal growth of 0.1% in 2001, as against a 2.1% rise in 2000. Following increases of 3.9% and 1.0% respectively in the first and second quarters of 2001, imports of services receded to declines of 2.0% and 2.3% respectively in the third and fourth quarters. In tandem with the fall-off in merchandise trade, imports of trade-related services came down visibly. Imports of travel services showed a distinctly weaker performance in the latter part of the year, upon the impact of the 911 incident. On a seasonally adjusted quarter-to-quarter comparison, imports of services rose by 0.4% in the first quarter of 2001, stayed flat in the second quarter, and then fell by 2.4% and 0.6% respectively in the third and fourth quarters.

Table 2.8

**Visible and invisible trade balance
(in \$ 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	328.6	1,661.4	179.4	-88.7	149.3	60.6
	H1	721.1	152.6	771.6	87.4	-50.5	65.2	14.8
	H2	851.5	176.0	889.8	92.0	-38.3	84.0	45.8
	Q1	339.6	74.3	364.4	44.2	-24.8	30.1	5.3
	Q2	381.6	78.3	407.2	43.2	-25.7	35.1	9.5
	Q3	432.1	87.6	449.4	47.8	-17.3	39.8	22.5
	Q4	419.5	88.4	440.4	44.1	-21.0	44.2	23.3
2001	Annual	1,481.0	335.8	1,570.8	178.9	-89.8	156.8	67.1
	H1	710.8	161.6	770.5	89.4	-59.6	72.2	12.6
	H2	770.2	174.2	800.3	89.5	-30.1	84.6	54.5
	Q1	347.4	79.1	377.2	45.8	-29.8	33.3	3.5
	Q2	363.4	82.5	393.3	43.6	-29.8	38.9	9.1
	Q3	401.0	87.5	419.4	46.7	-18.4	40.7	22.4
	Q4	369.2	86.7	380.9	42.8	-11.8	43.9	32.1

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.

/2.17

2.17 As exports of services rose slightly while imports of services were virtually flat in value, the *invisible trade surplus* increased further, to \$156.8 billion or 87.6% of the value of imports of services in 2001, from \$149.3 billion or 83.2% in 2000. This more than offset the widened visible trade deficit, thus giving a combined surplus (including an estimate of imports of gold for industrial use) of \$67.1 billion, equivalent to 3.8% of the total value of imports of goods and services, in 2001, up from \$60.6 billion or 3.3% in 2000.

Domestic demand

2.18 Retail business still held up quite well in the first half of 2001, supported by higher household income in the local economy as well as sustained robust growth in inbound tourism. But faced with a worsening global economic downturn, local consumer spending eased off thereafter. Then upon the impact of the 911 incident, local consumer spending moderated even more, while inbound tourism was severely hit. Reflecting these adversities, *retail sales*, which still rose appreciably by 2.5% and 4.8% in the first and second quarters of 2001, slowed markedly to only a 0.5% increase in the third quarter and further to a 2.9% decline in the fourth quarter. For 2001 as a whole, retail sales were up by 1.2%, much more modest than the 8.3% rise in 2000. On a seasonally adjusted quarter-to-quarter comparison, retail sales went up by 4.1% and 2.3% respectively in the first and second quarters of 2001, but came down visibly by 5.9% in the third quarter and further by 2.8% in the fourth quarter.

2.19 Mirroring closely the quarterly profile of retail sales, *private consumption expenditure (PCE)* still registered appreciable growth at 3.0% and 3.5% respectively in the first and second quarters of 2001. The growth then slowed distinctly to 1.2% in the third quarter, and further to 0.3% in the fourth quarter. For 2001 as a whole, PCE with a 2.0% rise was much moderated from the 5.4% increase in 2000. On a seasonally adjusted quarter-to-quarter comparison, PCE went up by 2.3% in the first quarter of 2001 and further by 0.5% in the second quarter, before falling by 1.0% and 0.8% respectively in the third and fourth quarters.

2.20 Analysed by broad category of consumer spending, expenditure on durable goods posted the fastest increase in 2001, on the back of the large purchases of motor vehicles and electrical appliances in the early part of the

/year....

year. Spending on both foodstuffs and services also rose further. Yet spending on non-durable goods had a modest decline. Spending by Hong Kong residents abroad picked up to a small growth.

Table 2.9

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

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>						<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
	H1	12.4	8	25	9	5	-6	8	15
	H2	4.5	2	14	2	4	*	4	6
	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	Annual	1.2	3	7	-1	2	2	2	5
	H1	3.6	3	12	1	2	4	4	8
	H2	-1.2	2	3	-3	2	*	1	2
	Q1	2.5 (4.1)	4	10	*	1	6	3	6
	Q2	4.8 (2.3)	3	14	2	3	1	4	11
	Q3	0.5 (-5.9)	3	7	-2	2	-1	1	3
	Q4	-2.9 (-2.8)	2	-1	-4	2	2	*	*

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 % change.

(*) Change of less than 0.5%.

2.21 *Government consumption expenditure (GCE)* reckoned on a national accounts basis showed faster growth at 6.2% and 6.1% respectively in the third and fourth quarters of 2001, as compared to the growth of 3.9% and 4.1% in the first and second quarters. For 2001 as a whole, the growth at 5.1% was up from that of 2.1% in 2000. This pick-up was partly associated with the payments made for voluntary retirement of civil servants. On a seasonally adjusted quarter-to-quarter comparison, GCE, after surging by 5.4% in the first quarter of 2001, fell back by 1.7% in the second quarter, and then resumed growth at 2.0% and 0.4% respectively in the third and fourth quarters.

/2.22

2.22 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, had a mere 2.1% growth in 2001, after a 9.8% leap in 2000. Continuing the upsurge in 2000, GDFCF sustained double-digit growth at 11.5% in the first quarter of 2001. But it eased sharply to increases of 1.2% and 3.2% respectively in the second and third quarters. It then weakened further to a decline of 6.4% in the fourth quarter.

2.23 The distinct weakening in overall investment spending during 2001 was largely driven by the fall-off in *expenditure on machinery and equipment*. It posted a further robust growth in the first quarter, upon the delivery of capital goods ordered earlier. It then slackened markedly thereafter, as the business outlook worsened along with the global economic downturn. The intake of aircraft rendered only a temporary lift in the third quarter. For 2001 as a whole, expenditure on machinery and equipment, whilst still up by 5.2%, fared distinctly less well than the 25.8% surge in 2000.

2.24 As to *expenditure on building and construction*, it continued to shrink in 2001, signifying the fourth consecutive year of decline. The slump was much related to the protracted downturn in the residential property market, causing a dearth of new projects in the private sector. In addition, there was a heavy scale-back in the Public Housing Programme. These more than offset the sustained strong increase in output from the Priority Railway Projects and also the pick-up in output from other Government projects. With activity in both the public and the private sector contracting further, expenditure on building and construction fell further by 2.5% for 2001 as a whole, following a 7.7% fall in 2000.

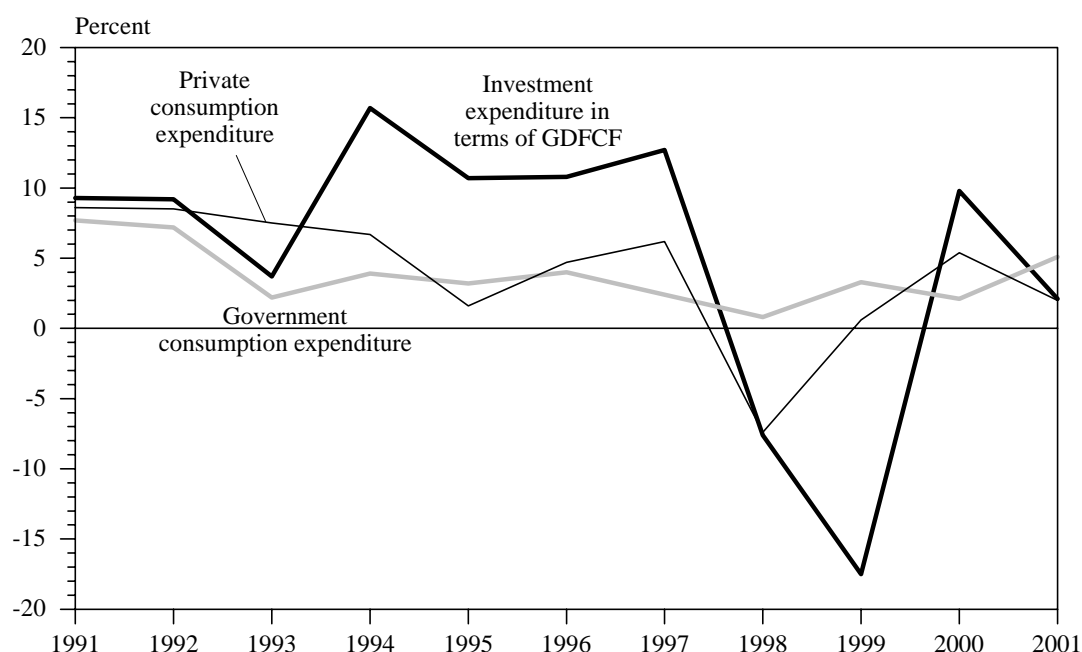
2.25 Along with the sluggish private sector building activity, *real estate developers' margin* likewise came down further, by 1.9% in 2001, though much less than the 9.4% decline in 2000.

2.26 Following the substantial build-up in 2000, there was a further accumulation of *inventories* in the first half of 2001. Yet the run-down in inventories in the second half of the year resulted in a reduction for 2001 as a whole, reflecting the slackening overall demand in the economy.

/Diagram 2.4

Diagram 2.4

**Main components of domestic demand
(rate of change)**



Property market⁽²⁾

2.27 During 2001, the sales market for *residential property* was characterised by a sustained decline in flat prices, but a pick-up in transaction volume towards the year-end. In the first four months of the year, market sentiment was affected by a host of negative factors, including in particular the slow-down in economic activity, sharp correction in share prices, and abundant supply of new flats coming on stream. Trading was subdued, as potential home buyers mostly stayed on the sideline. In May and June, some renewed acquisition interest emerged, upon the successive and sizeable cuts in local interest rates (by a total of 2.5 percentage points in the first half of the year), as well as the more intense sales promotion pursued by property developers. Trading activity however tapered again in the ensuing few months, amidst greater worries about the worsening economic situation and larger increase in unemployment. The 911 incident dampened buyer confidence even further, bringing the sales market nearly to a standstill in late September and early October. This far outweighed the effects of an announcement in early September for suspension of flat sales under the Home Ownership Scheme/Private Sector Participation Scheme up to mid-2002, and of further cuts in local interest rates (by another 1.5 percentage points up to end-October). In response, property developers stepped up their sales promotion further, by

/offering

offering heavier discounts on flat prices and more attractive financing arrangements to buyers. This helped stimulate a distinct rebound in sales in the primary market towards the year-end. Yet activity in the secondary market remained subdued.

2.28 On a quarter-to-quarter comparison, flat prices largely followed a downtrend in 2001. Apart from nil change in the second quarter, flat prices went lower in the first, third and fourth quarters, on average by 4%, 3% and 7% respectively. For 2001 as a whole, flat prices on average fell by 13%.

2.29 The rental market for private residential flats, having held broadly stable in the first three quarters of 2001, weakened noticeably in the fourth quarter upon a fall-off in lease demand amidst the economic downturn, concurrent with an increased supply of flats for lease from those hitherto for sale. On a quarter-to-quarter comparison, flat rentals on average fell by 1% each in the first three quarters of 2001, and then by 4% in the fourth quarter, giving a cumulative decline of 7% for the whole year.

2.30 On *commercial property*, the rental market for *office space* slackened visibly in 2001, amidst more extensive corporate downsizing and restructuring upon the impact of the economic downturn. Further dampening demand was continued consolidation of the information technology sector. Trading activity quietened particularly after the 911 incident. This had prompted many landlords to lower rent and extend the rent-free period in a move to improve occupancy. The sales market for office space was weak for most of the year, as acquisition interest waned amidst the economic downturn and an uncertain business outlook. The rental market for *shopping space* was subdued throughout 2001, amidst the moderation in retail business especially in the wake of the 911 incident. In order to boost occupancy, landlords were generally inclined to grant greater rental concessions and more flexible lease terms. On the sales market for shopping space, activity remained rather limited during the year, with acquisition interest concentrated in well-managed shopping arcades in more popular locations. On *industrial property*, the rental market stayed in the doldrums for most of 2001, amidst the weak performance of external trade and continued relocation of manufacturing processes outside the territory. Also relevant was the dissipated demand for modern industrial premises to be used as data centres and back-up service centres, upon further consolidation of the information technology sector. The sales market for industrial property was likewise quiet.

/2.31

2.31 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, fell substantially further by 25% in 2001, after a 16% drop in 2000. Decreases of varying magnitudes were observed in all types of property. Specifically, planned developments of residential property dipped by 12% both in terms of units and in terms of total usable floor area in 2001, after decreases of 30% and 32% respectively in 2000. Planned developments of commercial property, industrial property, and property in the “others” category also plummeted, by 21%, 65% and 69% respectively in terms of total usable floor area in 2001. Yet this was partly due to a higher base of comparison in 2000, when planned developments of these three types of property surged by 17%, 52% and 91%.

Labour market⁽³⁾

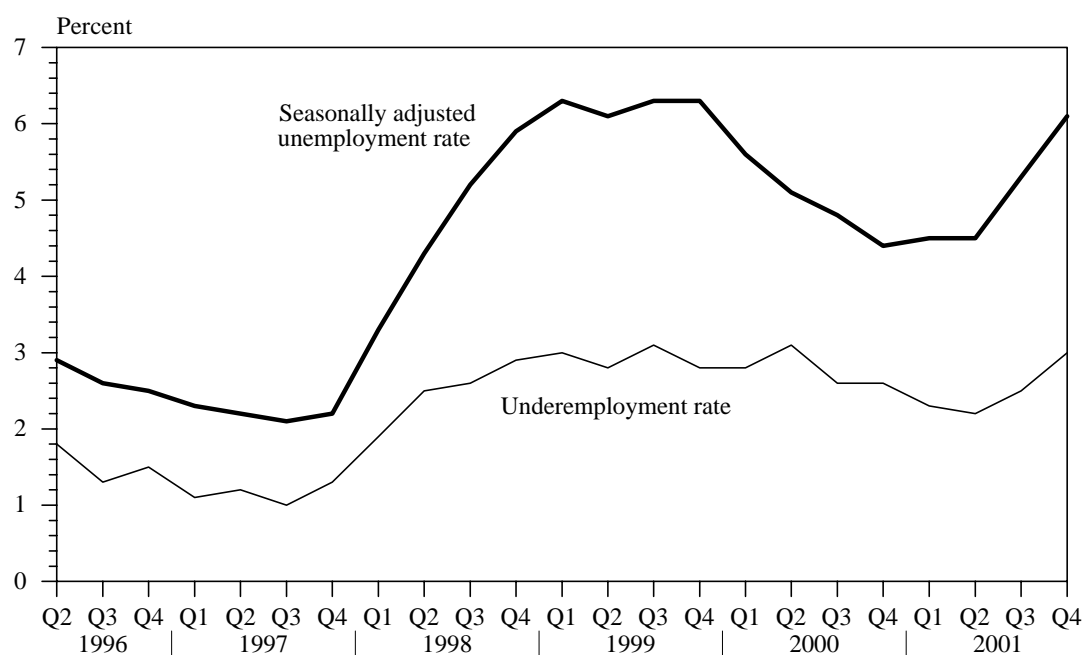
2.32 After a year of relative tightening in 2000, the local labour market slackened distinctly in 2001. Consequential to the economic setback and increased corporate downsizing, labour demand moderated markedly over the course of the year, especially in the wake of the 911 incident. Yet labour supply continued to rise. The *seasonally adjusted unemployment rate*, having edged higher from 4.4% in the fourth quarter of 2000 to 4.5% in both the first and second quarters of 2001, surged to 5.3% in the third quarter and further to 6.1% in the fourth quarter. Furthermore, the median duration of unemployment lengthened from 78 days to 82 days, while the proportion of persons unemployed for three months or more went up from 42% to 45%. The *underemployment rate* also rose appreciably, from 2.6% in the fourth quarter of 2000 to 3.0% in the fourth quarter of 2001. The increase again occurred predominantly in the latter part of the year, upon the impact of the 911 incident. For persons still in employment, work effort generally accentuated. The proportion of employed persons working for 50 hours or more per week went up further, from 34% in the fourth quarter of 2000 to 35% in the fourth quarter of 2001. For those working for 60 hours or more per week, the proportion showed a slightly larger rise, from 19% to 21%. The median hours of work stayed high during the year, mostly at 48 hours per week.

/Table 2.10

Table 2.10**Unemployment and underemployment rates**

		<u>Seasonally adjusted unemployment rate^(a)</u> (%)	<u>Underemployment rate</u> (%)
2000	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
	Q4	6.1	3.0

Note : (a) 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 2.5**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.

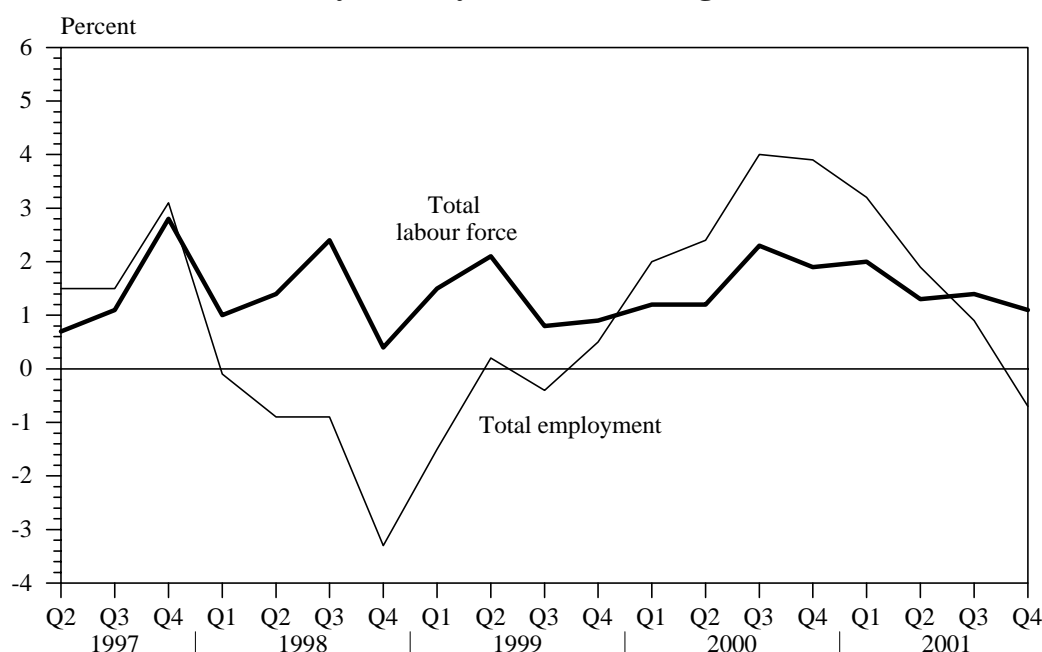
The seasonally adjusted unemployment rate is now computed on the basis of the X-11 ARIMA method, which adjusts for the influences of all seasonal factors, as distinct from the former series which adjusts only for variations in the proportion of first-time job-seekers.

/2.33

2.33 On the overall manpower resource balance, *total employment* as enumerated from households had a marked slow-down, with the growth rate moderating from 3.2% in the first quarter of 2001 to -0.7% in the fourth quarter. Meanwhile, a moderation yet to a lesser extent was observed in the growth rate of *total labour force*, from 2.0% to 1.1%. These differential growth rates likewise reflected a clear slackening in the labour market.

Diagram 2.6

**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.

2.34 Labour income was slightly higher in the first three quarters of 2001 than a year earlier. Yet this was attributable to the pay increase effected in the early part of 2001, on the basis of improved business conditions in 2000. Overall *earnings* rose by 2% in money terms in the third quarter of 2001, and overall *wages* slightly less, by 1% in money terms in September 2001. Netting out the decline in consumer prices, earnings and wages gained by 3% and 2% respectively. These more recent increases were smaller than those seen at the beginning of the year.

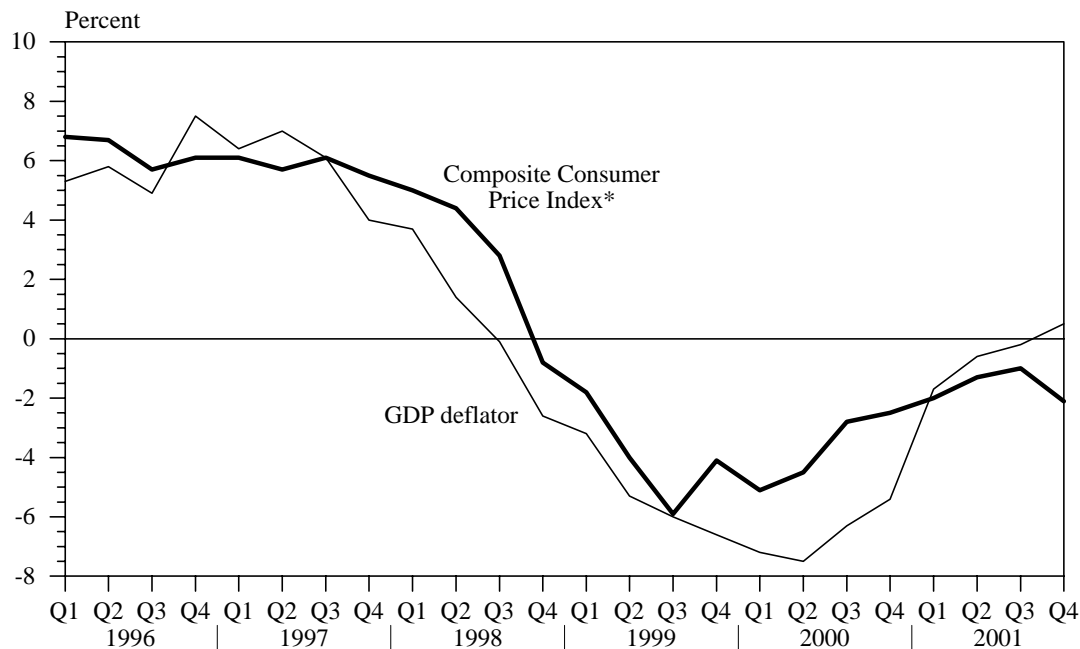
/Prices

Prices⁽⁴⁾

2.35 Overall consumer prices fell for the third consecutive year in 2001, though to a distinctly smaller degree than in the preceding two years. A narrowing rate of decline was observed in the first seven months of 2001, when there was some resurrection in domestically generated price pressure along with a modest increase in labour wages and earnings as well as upward adjustments in certain Government fees and public utility charges, partly offsetting the effect of lower import prices. But the rate of decline widened again in the rest of the year, as local price pressure subsided amidst more instances of pay freeze or pay cuts as well as further easing in property rentals. Concurrently, import prices went even lower, due to the US dollar strengthening against the currencies of most of the major supplier economies and world commodity prices plummeting after the 911 incident. Furthermore, in face of moderated consumer spending, local retailers generally offered greater price discounts in order to promote sales. Certain public transport operators also began to grant concessions on their fares. Thus the negative inflation persisted.

Diagram 2.7

Main inflation indicators (year-on-year rate of change)



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. Splicing has been applied to the indices to maintain continuity.

/2.36

2.36 For 2001 as a whole, the *Composite Consumer Price Index* was lower by 1.6%, considerably reduced from the 3.8% fall in 2000. The decrease narrowed progressively, from 2.0% in the first quarter of 2001 to 1.3% in the second quarter and further to 1.0% in the third quarter, along with lesser declines in food prices and housing cost. Yet the decrease widened again, to 2.1% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI fell by 0.6% in the first quarter of 2001, held steady in the second quarter, but went down again in the third and fourth quarters, by 0.4% and 1.1% respectively. The distinctly larger decline in the fourth quarter on both comparisons was primarily due to the waiver of public housing rentals in December.

Table 2.11

**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	Annual	-1.6	-1.7	-1.6	-1.5
	H1	-1.7	-1.6	-1.7	-1.6
	H2	-1.5	-1.8	-1.5	-1.4
	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
	Q4	-2.1	-2.8	-1.9	-1.5

Notes : From the fourth quarter of 2000 onwards, the rates of change are computed from the 1999/2000-based CPI series. Before then, the rates of change are computed from the 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 the 50% cut in the rates payable for that quarter.

/Table 2.12

Table 2.12

**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
	Q4	-1.1	-2.2	-0.8	-0.4

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%.

2.37 The *GDP deflator*, as a broad measure of overall price change in the economy, rebounded to a 0.5% rise in the fourth quarter of 2001, after declining at a narrowing rate by 1.7%, 0.6% and 0.2% respectively in the first three quarters. This small rebound was almost entirely due to an improvement in the terms of trade. For 2001 as a whole, the GDP deflator fell by 0.5%, much reduced from the 6.5% decrease in 2000. This was mainly attributable to moderated decline in the price deflator for private consumption expenditure and rebound in the price deflator for government consumption expenditure. While the price deflator for exports of goods and services registered a widening decline over the course of the year, this was more than offset by an even larger decline in the price deflator for imports of goods and services. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* fell by 1.7% and 1.1% respectively in 2001, also reduced from the decreases of 3.1% and 5.6% in 2000. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator bounced back with a 2.9% rise in the first quarter of 2001, yet resumed decline in the ensuing three quarters, at 2.1%, 0.1% and 0.1% respectively.

/Financial

Financial sector⁽⁵⁾

2.38 In 2001, the Hong Kong dollar exchange and money markets held broadly stable, notwithstanding the marked deterioration in the global and regional economic environment during the year. The spot *exchange rate of the Hong Kong dollar* against the US dollar remained close to the linked rate throughout 2001, moving within a narrow range of 7.796 to 7.800 during the year. However, the spread between the twelve-month Hong Kong dollar forward rate and the spot rate against the US dollar reversed from a discount of 167 pips (each pip equivalent to HK\$0.0001) at end-2000 to a premium of 235 pips at end-2001, amidst deepening financial crisis in Argentina and a significant depreciation of the Japanese yen towards the year-end.

2.39 Tracking closely the movements in the US dollar under the linked exchange rate system, the Hong Kong dollar appreciated against almost all the major currencies during 2001. The US dollar was still taken as a favoured currency amidst the synchronised global economic downturn. Specifically, the Hong Kong dollar rose by 2.9% against the pound sterling, 6.2% against the euro, and more significantly by 14.8% against the Japanese yen during 2001. Overall, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* rose from 102.9 at end-2000 to 105.9 at end-2001.

2.40 In the money market, local *interest rates* eased markedly along with the successive cuts in US interest rates, with the three-month HIBOR falling from 5.8% at end-2000 to 1.9% at end-2001. Upon the full interest rate deregulation on 3 July 2001, individual banks are free to set the savings deposit rate and indeed all the deposit interest rates. Nevertheless, interest rates in the local banking sector still followed the US interest rate cuts rather closely. The average savings deposit rate was reduced from 4.75% at end-2000 to 0.15% at end-2001, while the best lending rate offered by the major banks came down from 9.50% to 5.13%. The relatively larger decline in the savings deposit rate than in the best lending rate reflected ample liquidity in the local banking sector.

2.41 *Hong Kong dollar deposits* rose marginally by 0.2% during 2001, with time deposits falling throughout the four quarters whilst savings and demand deposits generally rising. On the other hand, *Hong Kong dollar loans* reverted to a slight decline of 0.3% during 2001, amidst the setback in business. Thus the Hong Kong dollar loan-to-deposit ratio fell to a record low of 89.0% at end-2001, from 89.4% at end-2000.

/2.42

2.42 The local *stock market* underwent wide fluctuations during 2001, being affected much by the movements in the US stock market. The local stock market rallied at the beginning of the year, upon an unexpected cut in US interest rates on 3 January. Expectations for further interest rate cuts then pushed the *Hang Seng Index* to a high of 16 164 on 1 February. But as prices of telecom and technology shares worldwide plunged in March, share prices in the local stock market also tumbled. Sentiment in the local stock market improved during April and May, with inflow of funds pushing up the prices of Mainland-related shares. Then, with the deeper-than-expected US economic downturn increasingly overshadowing the global economic outlook, share prices in all the major stock markets resumed a downtrend in the summer months. The local stock market was likewise hit. Widespread anxieties in the global financial markets immediately after the 911 incident pushed down the Hang Seng Index further, to a near three-year low of 8 934 on 21 September, 14% lower than the pre-911 closing. It then swiftly recovered to above the 10 000 mark in early October and rose further towards the year-end, as the gyrations overseas gradually settled and as the US stock market regained some strength. Resurrection of some buying interest in the local residential property market also rendered support to the prices of property-related shares in the local stock market. The Hang Seng Index closed 2001 at 11 397, still 24% below the level of 15 096 at end-2000. Average daily turnover in the local stock market, at \$8.2 billion in 2001, was distinctly below that of \$12.7 billion in 2000.

Notes :

- (1) See Chapter 2, *2001 Economic Background* for more details.
- (2) See Chapter 3, paragraphs 3.8 to 3.18, *2001 Economic Background* for more details.
- (3) See Chapter 5, *2001 Economic Background* for more details.
- (4) See Chapter 6, *2001 Economic Background* for more details.
- (5) See Chapter 4, *2001 Economic Background* for more details.

CHAPTER 3 : FORECAST OF ECONOMIC PERFORMANCE IN 2002

Major external influences

(A) *Global economic environment*

3.1 After a period of profound robustness in 2000, the global economic environment deteriorated markedly over the course of 2001. This was triggered initially by the downturn in the US economy. The slack then spread over to Asia and Europe. The shock impact of the tragic event in the United States on 11 September aggravated the situation. With the United States, Germany and Japan as leading industrialised economies in or on the brink of recession in the second half of the year, global economic growth faltered to an eight-year low of around 2% in real terms in 2001, in stark contrast to that of 5% in 2000.

3.2 The weak global economic conditions are likely to extend into the early part of 2002. The short-term outlook for the US economy is still being overshadowed by higher unemployment and reduced corporate earnings. While some positive signs from the US economic indicators have emerged lately, the timing and pace of recovery is yet uncertain. The European economies are still displaying much sluggishness. In East Asia, Japan's economy is now suffering the third recession in the past decade, and its near-term outlook is dimmed by weak sentiment and on-going structural problems in the financial and corporate sectors. Many of the other East Asian economies remain in the doldrums, with the prospect of recovery hinging crucially on a rebound in US demand and on a turnaround in the electronic product cycle. The Mainland economy with its sustained strong growth is the only major bright spot.

/Table 3.1

Table 3.1**Growth forecasts
for the world economy in 2002**

		<u>GDP growth</u> (%)
IMF	(Dec 2001)	2.4
NIESR	(Jan 2002)	2.3
World Bank	(Oct 2001)	1.6
OECD ^(a)	(Dec 2001)	1.0

Note : (a) The forecast is in respect of the OECD region. Developing economies are all not included.

3.3 While the situation in the imminent future is hence subject to much uncertainty, the world economy should hopefully improve over the course of 2002, in view of the following positive developments. *First*, monetary authorities worldwide have acted well to ease interest rates and loosen liquidity in the aftermath of the 911 incident, the effect of which should increasingly work through to help resurrect growth. *Secondly*, China's accession to WTO should help bolster regional trade and investment flows and hence render a greater driving force for the region. *Thirdly*, the global electronic product down-cycle, having resulted in a large inventory depletion over the past year or so, seems plausible to bottom out and then gradually reverse course, thereby giving renewed impetus for the region. *Fourthly*, the marked easing in international oil prices and in world commodity prices generally is favourable for global demand. The more recent forecasts of global economic growth are mostly around 2% for 2002, on the back of an estimated growth of also around 2% in 2001.

/Diagram 3.1

Diagram 3.1

**Global sales of semi-conductors
(rate of change in US dollar terms)**

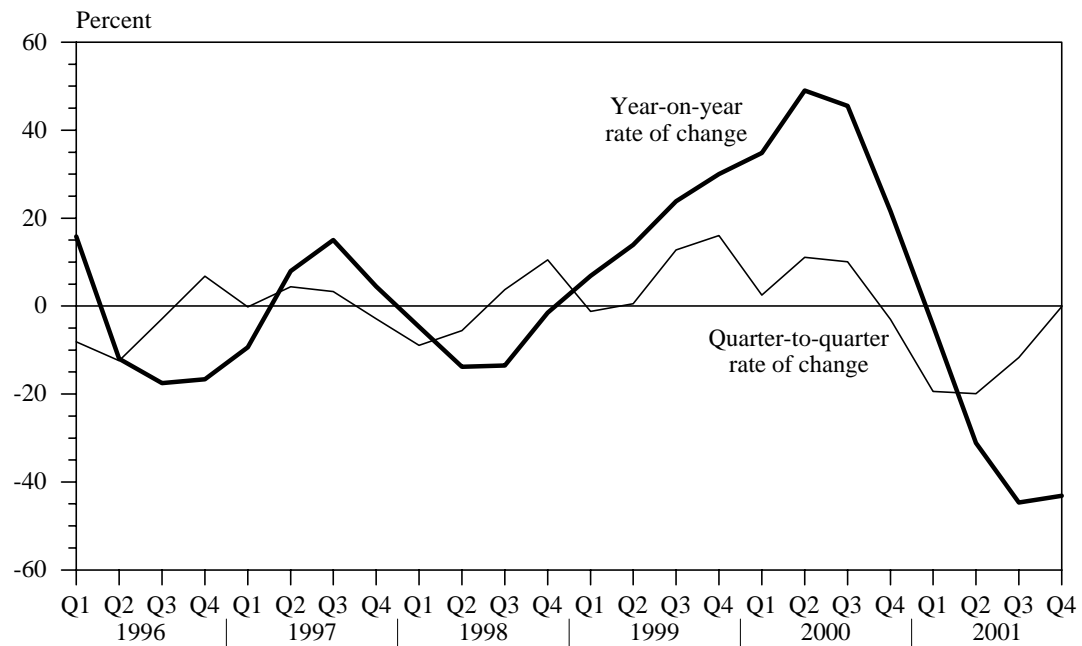
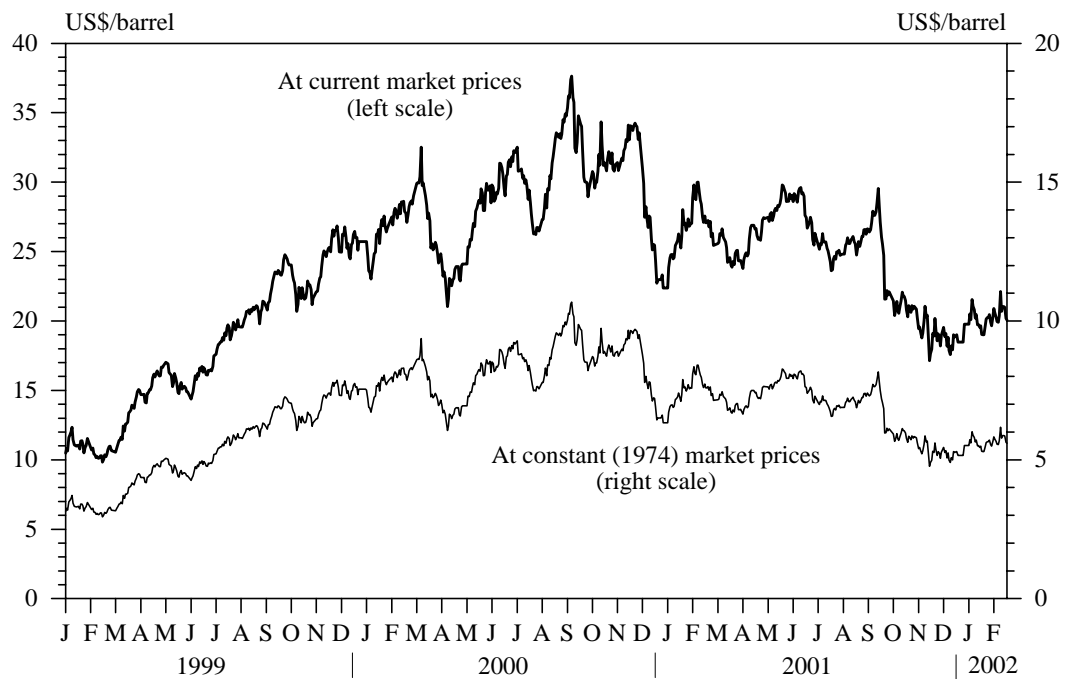


Diagram 3.2

Price of Brent



/(B)

(B) *Exchange rates and price competitiveness*

3.4 Over the past few months, the US dollar has gone up further upon market expectations for a sooner US economic recovery. Comparing the average level in 2001 with that in 2000, the US dollar was higher by 12.7% against the Japanese yen, by 3.2% against the euro, and by 5.2% against the pound sterling. The Hong Kong dollar strengthened along with the US dollar under the linked exchange rate system. Yet broadening to more currencies and after adjusting for relative changes in prices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar actually had a marginal decline, by 0.1% in 2001 over 2000. In general, flexible adjustments in Hong Kong's domestic costs and prices have helped cushion the effect of a stronger US dollar on Hong Kong's external price competitiveness during the past year.

3.5 The US dollar is expected to stay strong in the near term. The euro had a slight pick-up upon the smooth circulation of its notes and coins, before softening again lately. Amidst a mixed outlook for the EU economies, the euro seems likely to remain weak in the near term. The yen may continue to come under downward pressure on the back of the ailing Japanese economy. Potential instability in the yen in turn is seen as a source of volatility for the other East Asian currencies. Experience shows that a strong US dollar would not bode well for Hong Kong's external price competitiveness, notwithstanding the offset from flexible cost/price adjustments in the local economy.

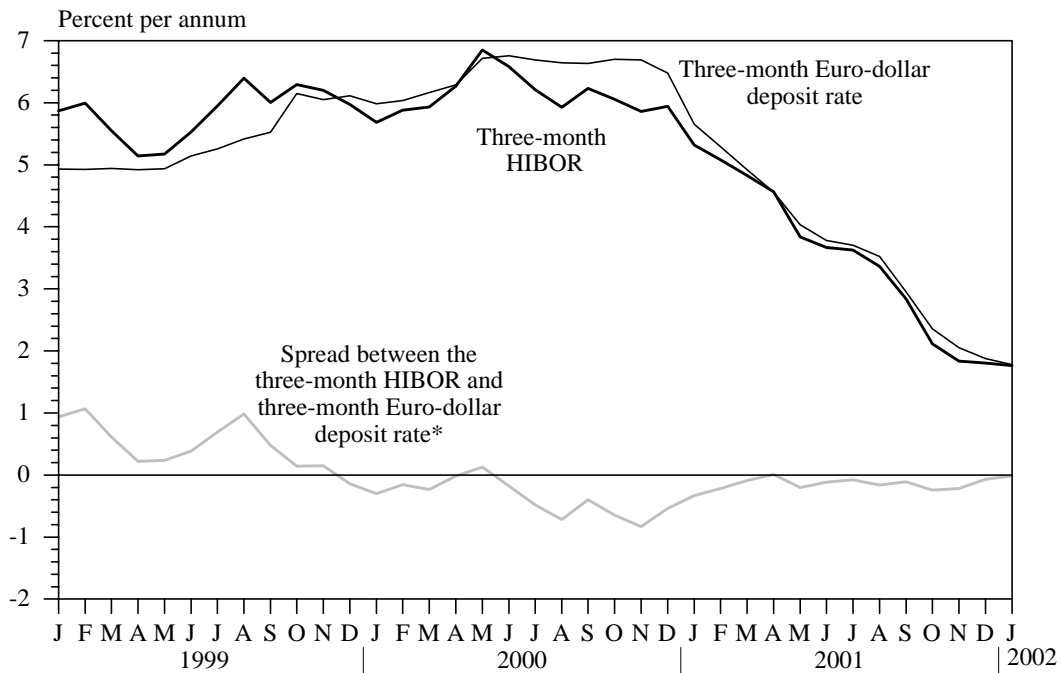
(C) *Interest rate movements*

3.6 The abrupt downturn in the US economy since the beginning of 2001 led the US Federal Reserve to slash the Fed Funds target rate 11 times by a total of 475 basis points last year, making US interest rates now at their 40-year low. The best lending rate in Hong Kong was correspondingly reduced, by a total of 438 basis points since early 2001. It is now at a 15-year low of 5.13%. The distinct easing in interest rates has been a positive factor for domestic demand and the local asset markets in 2001, and the effect is expected to filter through further over the course of 2002.

/Diagram 3.3

Diagram 3.3

Three-month HIBOR and Euro-dollar deposit rate



Note : (*) Positive value denotes a spread in favour of the Hong Kong dollar; and negative value denotes a spread in favour of the US dollar.

(D) *China's accession to WTO*

3.7 After 15 years of protracted negotiations, China became a member of WTO on 11 December 2001. The progressive integration of China into the global economy by this means will have significant ramifications for the entire world. There will be fuller realisation of comparative advantage amongst the world trading entities. The consequential expansion in trade and gain in efficiency will promote a broad re-alignment of output composition, change in trade pattern, and shift in investment flows.

/3.8

3.8 In accordance with its WTO commitment, China has begun to implement a number of new rules and regulations as from 1 January 2002 for opening up the economy further for foreign participation, particularly in the service sectors. For instance, foreign companies are allowed to form joint venture with domestic enterprises to provide services in the Mainland in the telecommunications, land transport, automobile repair and maintenance, and travel and tourism industries. On the trade front, the average import tariff is lowered from 15.3% to around 12% also as from 1 January 2002. Import tariffs of 5 332 items out of the 7 316 items under tariff are reduced to various extent. After the tariff cut, average tariff for industrial products and agricultural products are lowered to 11.6% and 15.8% respectively⁽¹⁾.

3.9 Hong Kong, being the most important entrepôt as well as the largest source of foreign direct investment for the Mainland, will have much to gain from the spurring effect of China's WTO membership. The resultant surge in the Mainland's trade and investment flows will help boost Hong Kong's external trade in both goods and services. Moreover, the opening up of the Mainland's service sectors, including trading and logistics, retail, distribution, telecommunications, finance, professional services, and travel and tourism, will also provide ample new business opportunities for Hong Kong.

Economic outlook for Hong Kong's major trading partners in 2002⁽²⁾

(A) *United States*

3.10 The US economy slowed distinctly over the course of 2001, with GDP growth decelerating sharply to an annualised rate of 1.3% in the first quarter, and further to merely 0.3% in the second quarter. GDP growth then dipped into negative territory, at -1.3% in the third quarter, before rising back slightly by 0.2% in the fourth quarter. For 2001 as a whole, US GDP grew by only 1.1%, markedly down from the robust growth of 4.1% in 2000. At the beginning of 2001, slowing demand and piling inventories triggered a sharp cutback in production and a distinct fall-off in business investment. Then since the second quarter, the spill-over of the slack onto the world economy fed back to dampen the US economy further, with US exports likewise falling off distinctly. Consumer spending, which still held up well in the earlier months of the year, also faltered, upon the initial impact of the 911 incident and the leap in unemployment, so causing the US economy to slacken even further in the latter part of the year.

/3.11

3.11 Nevertheless, in the most recent period, there are signs that the US economy is about to bottom out. On the domestic front, consumer confidence has rebounded quite quickly after the initial dip brought about by the 911 incident. Business confidence also seems to be gradually recovering. Industrial activity has been stabilising from the earlier decline. The Purchasing Managers' Index for the manufacturing industry is bouncing back swiftly, while the Non-Manufacturing Business Activity Index has already moved up to around the 50% reading, the dividing line for expansion as against contraction in activity.

3.12 Moreover, the heavy monetary easing signified by the successive interest rate cuts last year is expected to help bolster the recovery process. The fiscal measures for the current fiscal year are expected to reinforce the rebound. Major forecasters thus generally envisage the US economy to turn steadily better over the course of the year. Their latest growth forecasts for 2002 are mostly in the 0.5-1% range.

Table 3.2

**Economic growth forecasts
for the United States in 2002**

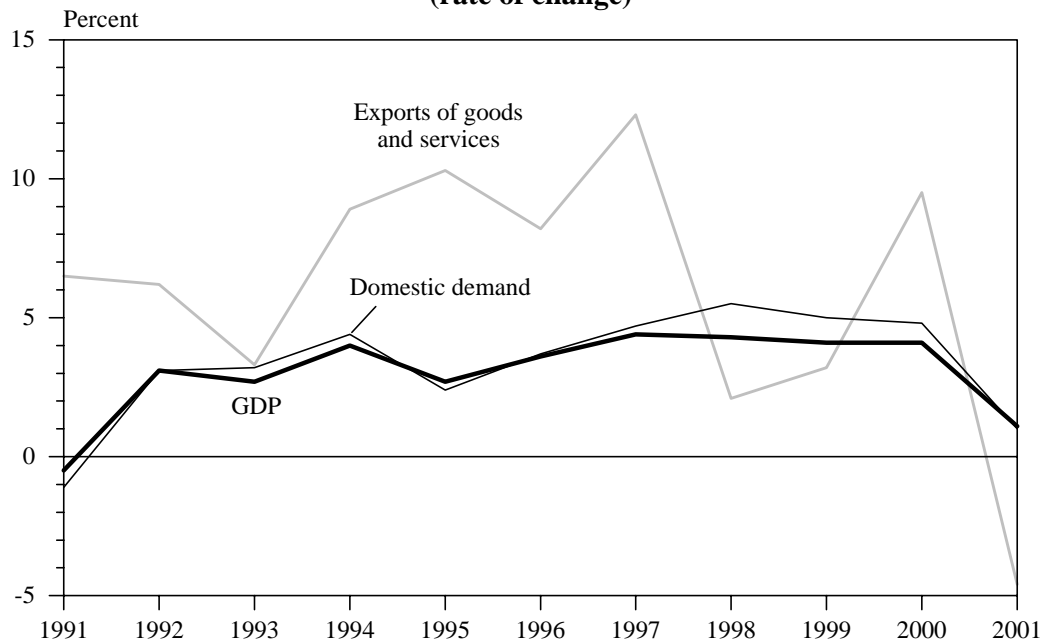
		<u>GDP growth</u> (%)
US Administration	(Feb 2002)	0.7
NIESR	(Jan 2002)	1.2
World Bank	(Oct 2001)	1.0
IMF	(Dec 2001)	0.7
OECD	(Dec 2001)	0.7
The Economist	(Feb 2002)	1.2
Various private sector forecasters	(Feb 2002)	1.0 - 2.4

/Diagram 3.4

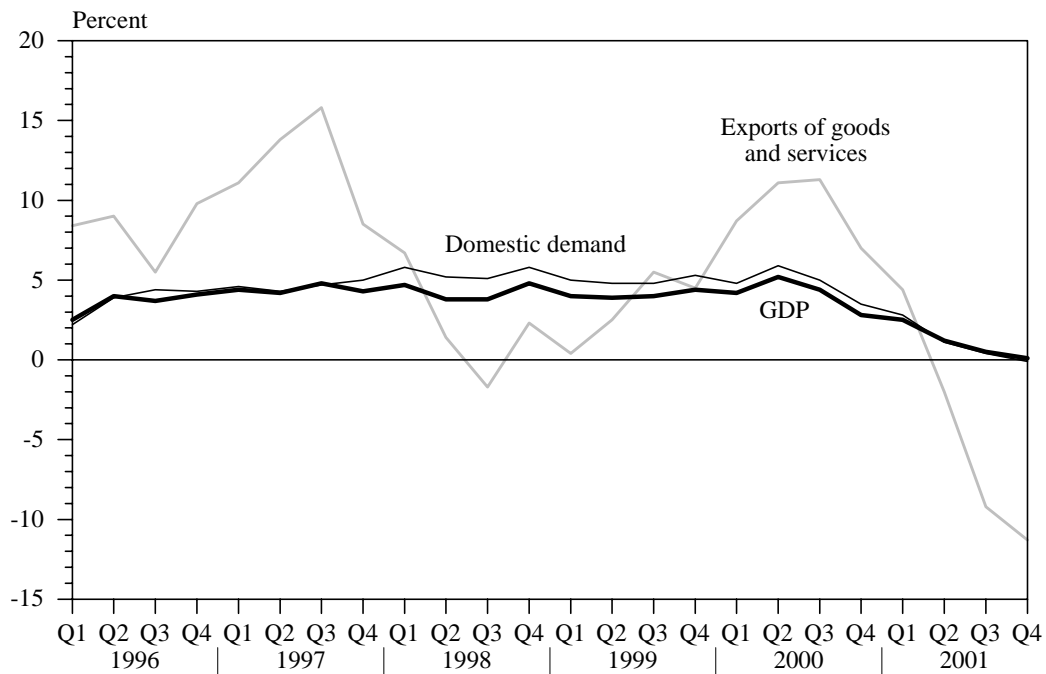
Diagram 3.4

GDP, domestic demand and exports in the United States

**(a) Annual profile
(rate of change)**



**(b) Quarterly profile
(year-on-year rate of change)**



/(B)

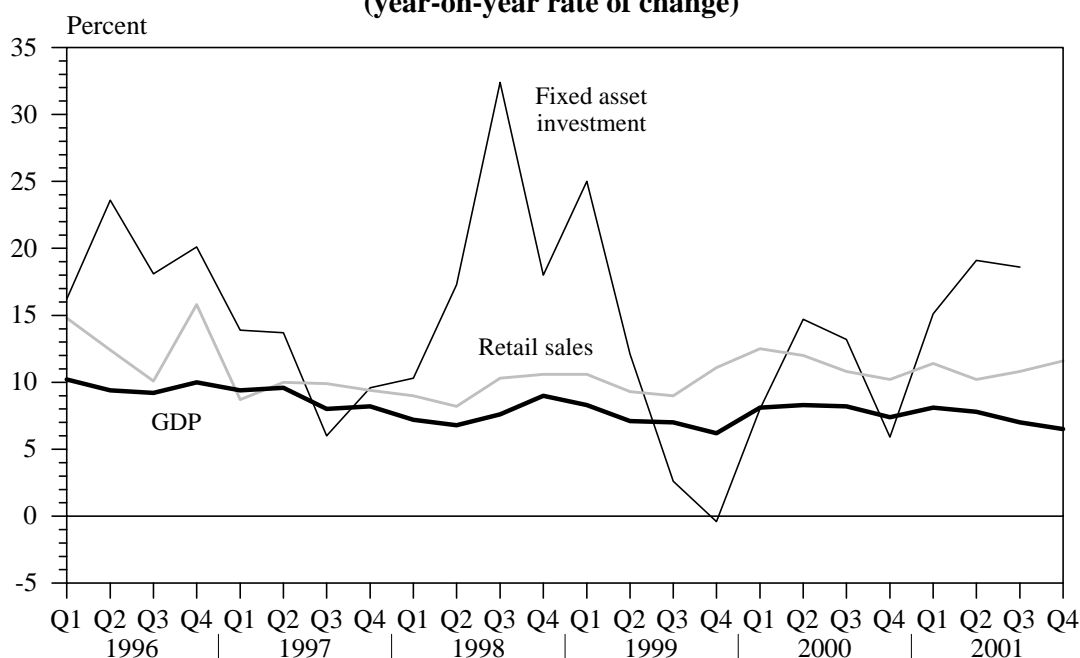
(B) *East Asia*

Mainland of China

3.13 Notwithstanding the global economic downturn, the Mainland economy still maintained a robust growth of 7.3% in 2001, after expanding by 8.0% in 2000. The growth momentum in 2001 came from a further surge in domestic demand, which far outstripped the distinct moderation in export performance.

Diagram 3.5 Key economic indicators for the mainland of China

(a) GDP, retail sales and fixed asset investment
(year-on-year rate of change)

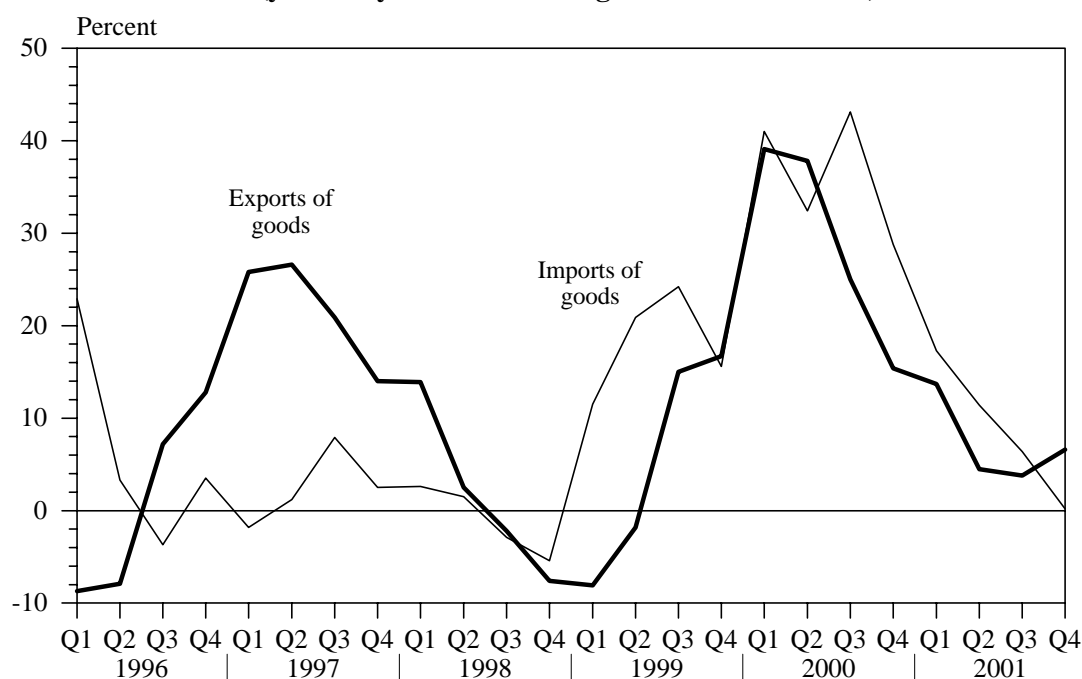


Note : GDP and retail sales as depicted refer to the year-on-year rates of change in real terms, while fixed asset investment refers to the year-on-year rate of change in nominal terms.

/Diagram 3.5 (cont'd)

Diagram 3.5 (cont'd)

(b) Exports and imports of goods
(year-on-year rate of change in US dollar terms)



3.14 The robust growth in the Mainland economy is expected to sustain into 2002. Consumer spending should continue to hold up well, on the back of steady income growth for those in employment and improved social security for the retrenched workers. Investment spending should remain buoyant, bolstered by the heavy investment in real estate, technology upgrading and infrastructural projects, and by the intensive stepping up in development of the west. Moreover, China's accession to WTO is inducing substantially more foreign direct investment inflow. Exports should be able to benefit from the envisaged pick-up in global demand later in the year. Taken together, the Mainland economy is expected to have another year of pronounced growth, at around 7% in 2002.

/Table 3.3

Table 3.3

**Economic growth forecasts
for the mainland of China in 2002**

		<u>GDP growth</u> (%)
CASS ^(a)	(Oct 2001)	7.7
OECD	(Dec 2001)	7.2
ADB	(Nov 2001)	7.0
IMF	(Dec 2001)	6.8
Various private sector forecasters	(Feb 2002)	7.0 - 7.5

Note : (a) Chinese Academy of Social Sciences.

Japan

3.15 Japan's economy slipped back into recession during 2001, with GDP declining at annualised rates of 4.8% and 2.1% respectively in the second and third quarters, having risen by 4.1% in the first quarter. For the first three quarters of 2001 as a whole, Japan's GDP rose only marginally by 0.1%, as compared to a 2.4% growth in 2000. The setback in 2001 was broadly based. While consumer demand remained sluggish upon rising unemployment and persistent deflation, investment spending also slackened markedly amidst an austere business environment and burst of the IT bubble. Moreover, hit by the slump in global demand and the electronic product down-cycle, there was a distinct fall-off in exports over the course of the year.

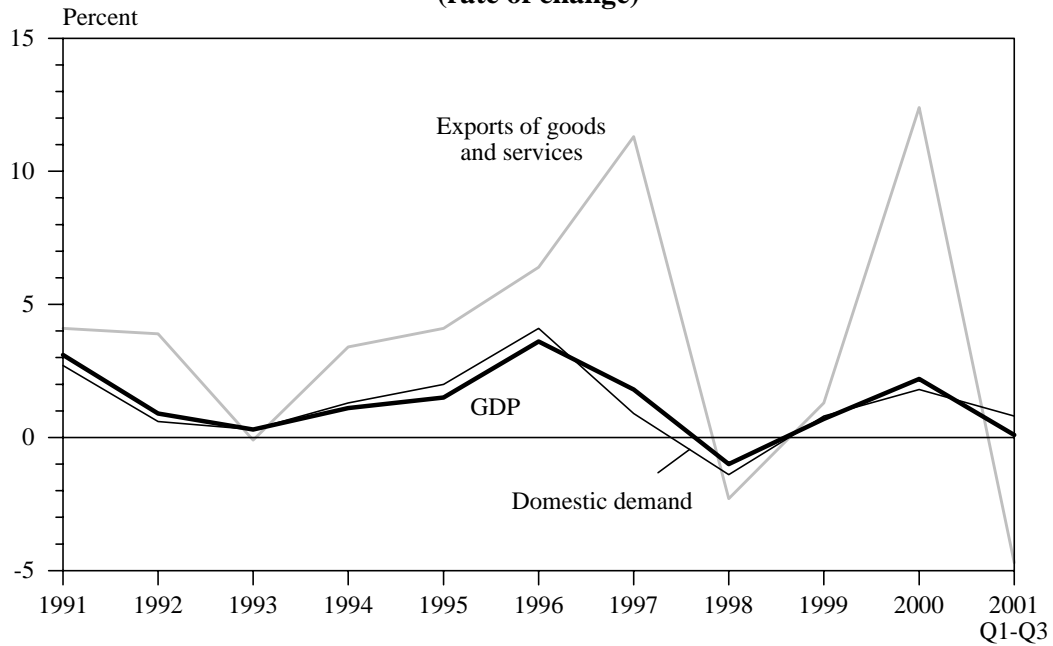
3.16 On current indications, Japan's economy is likely to face another year of contraction in 2002, for the first time in the post-war era. Protracted weakness in the overall economy will continue to affect investment confidence, while the deteriorating labour market conditions are hurting consumer confidence. Adding to the concern are the export performance, the persistent deflation, and the pain caused by the consolidation and revamping of the financial and corporate sectors. Even with a weaker yen rendering some support for its exports, Japan's economy may still recede, with the latest forecasts of decline in GDP mostly at around 1% in 2002.

/Diagram 3.6

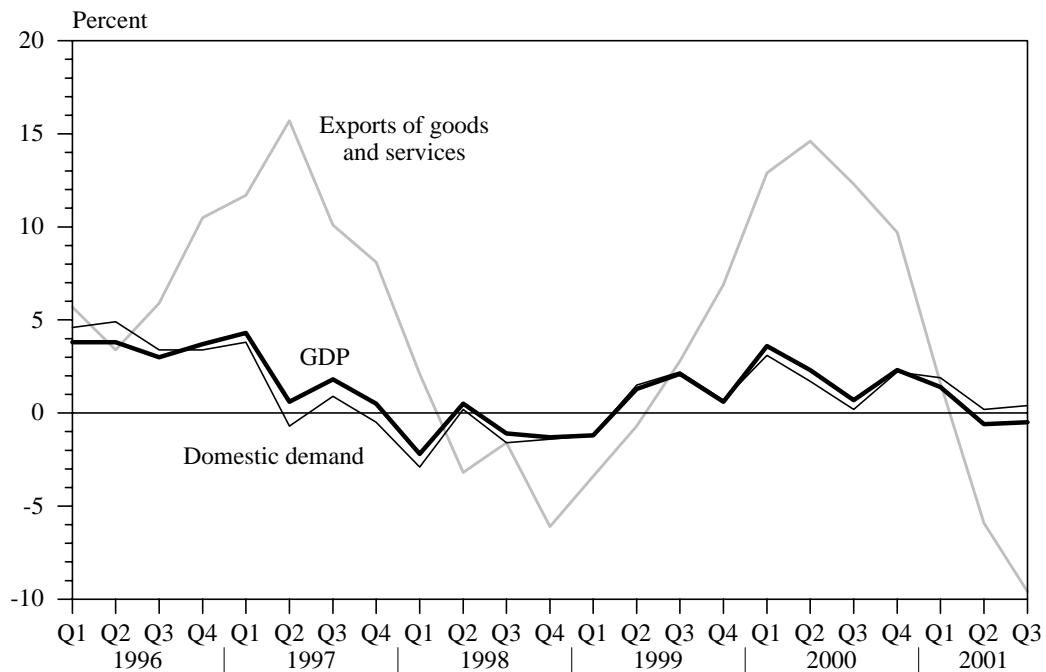
Diagram 3.6

GDP, domestic demand and exports in Japan

**(a) Annual profile
(rate of change)**



**(b) Quarterly profile
(year-on-year rate of change)**



/Table 3.4

Table 3.4

**Economic growth forecasts
for Japan in 2002**

		<u>GDP growth</u> (%)
Bank of Japan	(Oct 2001)	-1.1 - 0.1 [#]
NIESR	(Jan 2002)	-0.8
The Economist	(Feb 2002)	-1.3
OECD	(Dec 2001)	-1.0
IMF	(Dec 2001)	-1.0
Various private sector forecasters	(Feb 2002)	-1.9 - -0.4

Note : (#) Forecast GDP growth rate in respect of the fiscal year 2002-03.

Other East Asian economies

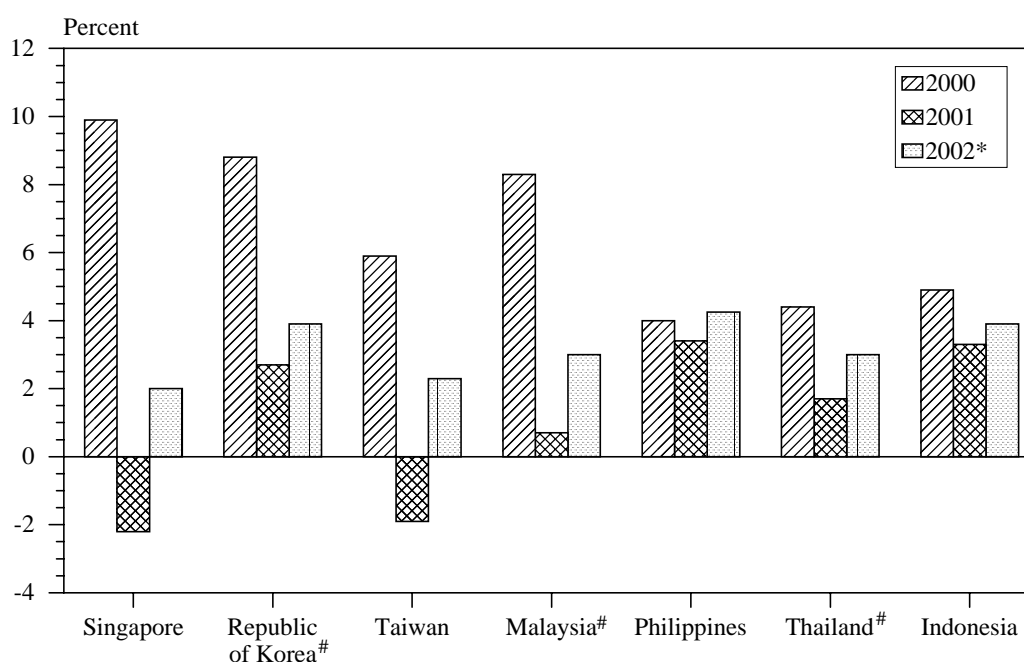
3.17 The other East Asian economies were all hard hit by the global economic downturn, and in many cases, more directly by the global electronic product down-cycle. Concurrently, their domestic demand faltered. Singapore's GDP shrank by 2.2% in 2001, reversing sharply the 9.9% growth in 2000. Taiwan's GDP likewise contracted, by 1.9% in 2001, in contrast to a 5.9% increase in 2000. As to the Republic of Korea, its GDP still attained a moderate growth of 2.7% in the first three quarters of 2001, yet much slower than that of 8.8% in 2000.

3.18 Granting improvement in the global economic environment and demand for electronic products, the regional economies upon the export impetus should be able to resume or maintain positive growth this year. The official growth forecasts for the various East Asian economies are mostly in the order of around 3-4%.

/Diagram 3.7

Diagram 3.7

**GDP in selected East Asian economies
(rate of change)**



Notes : (*) Official forecasts, except that for Indonesia which is sourced from ADB's forecast in November 2001.

(#) Figures for 2001 refer to the year-on-year growth rates for the first three quarters of 2001 taken together, as the annual growth rates are not yet available.

Table 3.5

**Economic growth forecasts for
selected East Asian economies in 2002**

	<u>GDP growth*</u> (%)
Republic of Korea	3.9
Indonesia	3.9 [^]
Malaysia	3.0
Thailand	3.0
Taiwan	2.29
Singapore	1.0 - 3.0
Philippines	4 - 4.5

Notes : (*) Official forecasts.

([^]) Official forecast not available. Figure quoted here is ADB's forecast in November 2001.

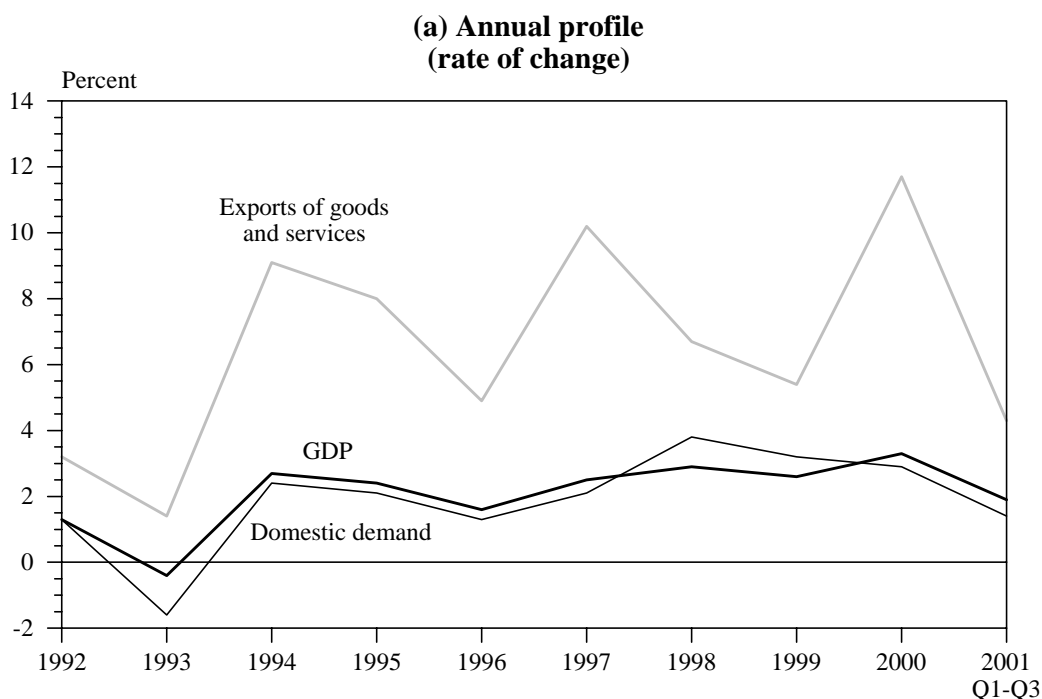
/(C)

(C) European Union

3.19 The EU economy likewise moderated visibly over the course of 2001. Initially, this was caused by the combined effect of the earlier tightening in fiscal and monetary policies and the more progressive structural adjustment policies that were both required for economic convergence in the euro area. Then, the sharp relapse in global demand added to the moderation, with EU's exports also slackening off. For the first three quarters of 2001 as a whole, the EU economy still rose by 1.9%, yet significantly down from the solid growth of 3.3% in 2000.

3.20 The domestic sector in the EU economy is likely to remain weak in the near term, as business confidence was still low and may continue to be subdued in the months ahead. On the external front, the EU economy is similarly clouded by the adverse external environment. The timing of rebound in the US economy will be of influence, given its substantial trade and investment linkages with the United States. Yet by and large, the EU economy still looks plausible for a modest expansion this year, more so if there are further measures for supporting growth, and if the relatively weak euro is able to help exports. The growth forecasts for the EU economy as a whole are generally put at around 1-2% in 2002.

Diagram 3.8
GDP, domestic demand and exports in the European Union



/Diagram 3.8 (cont'd)

Diagram 3.8 (cont'd)

**(b) Quarterly profile
(year-on-year rate of change)**

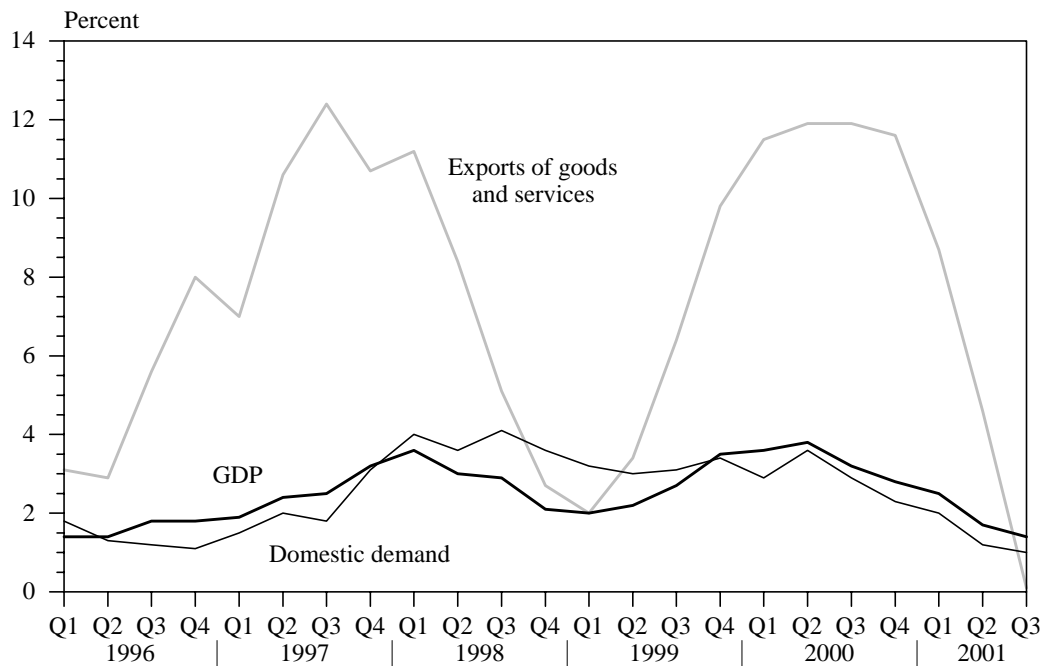


Table 3.6

**Economic growth forecasts
for the European Union in 2002**

		<u>GDP growth</u> (%)
ECB	(Dec 2001)	0.7 - 1.7*
NIESR	(Jan 2002)	1.5
OECD	(Dec 2001)	1.5
IMF	(Dec 2001)	1.3
The Economist	(Feb 2002)	1.1*

Note : (*) Forecast GDP growth rate for the euro area.

/Major

Major uncertainties for the global economy in 2002

3.21 While most of the forecasters envisage a progressive recovery in global demand over the course of 2002, the timing and speed of rebound is still rather uncertain at this juncture. A number of downside risks are relevant. *First*, the international financial markets appear to have already priced in an earlier rebound in the US economy and the global economy, which if turned out to be later and slower than expected, could cause upset and instability, thereby undermining the recovery process. *Secondly*, a more distinct strengthening in the US dollar along with a further distinct weakening in the Japanese yen would tend to hamper Hong Kong's export performance. *Thirdly*, if a turnaround in the global electronic product cycle does not come about sooner, the regional economies would have to face more prolonged slack, with inevitable spill-over onto the Hong Kong economy.

Outlook for the Hong Kong economy in 2002

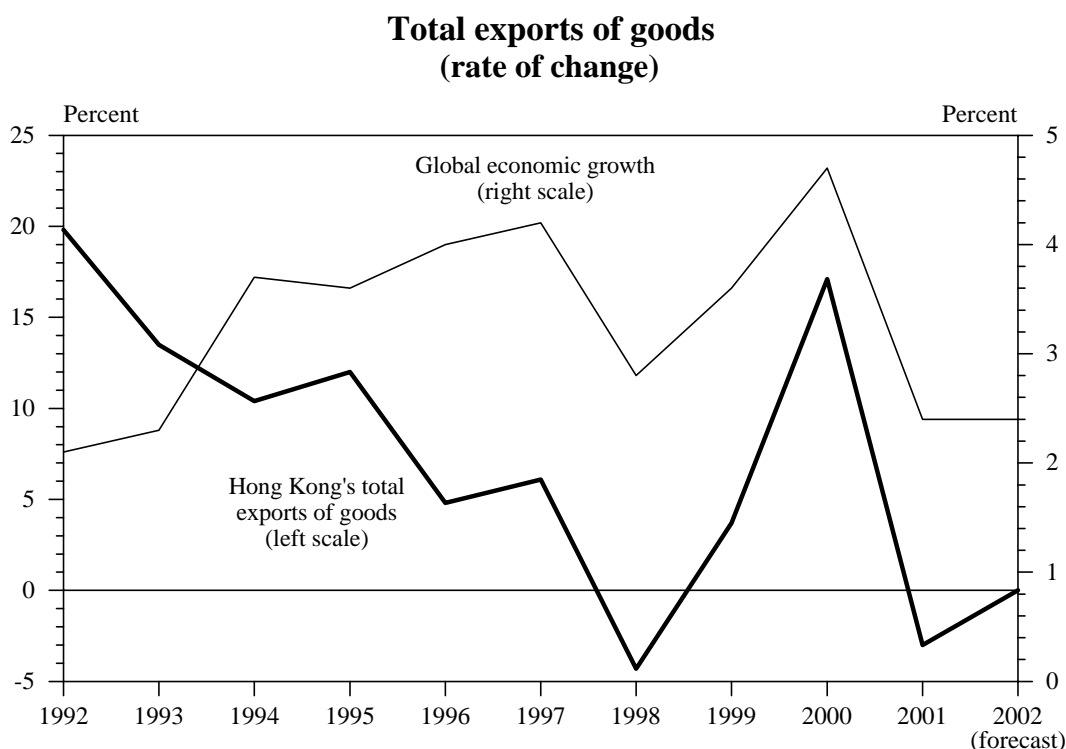
(A) *External sector*

Exports of goods and services

3.22 In view of the weak state of the world economy at present, Hong Kong's exports may still face a decline in the early part of 2002. But with the envisaged improvement in global demand, a progressive pick-up may come about in the latter part of the year. The relative strength of the US dollar may however restrain the export performance. For 2002 as a whole, Hong Kong's *total exports of goods* are forecast at zero growth, yet this would already represent a relative improvement from the 3.0% fall in 2001. Within this total, the trends of re-exports and domestic exports are influenced respectively by the further structural shift towards offshore trade, and by the further relocation of production processes outside the territory. *Re-exports* are expected to have a small growth of 0.5% in 2002, up from a 2.0% decline in 2001. *Domestic exports* are expected to show a further decline of 4% in 2002, albeit considerably smaller than the 11.0% plunge in 2001.

/Diagram 3.9

Diagram 3.9



3.23 Analysed by major region, exports of goods to the *United States* are likely to remain on a distinct decline in the early part of 2002, as US imports continued to contract through the process of inventory adjustment. Exports to this market may also be undercut by the weakness in the Japanese yen and in many of the other East Asian currencies. Nevertheless, along with the envisaged revival in the US economy, exports to this market should progressively pick up in the latter part of the year. The outlook for exports of goods to the *European Union* is still rather dim in the early part of 2002, in face of the current slack in the EU economy. Yet these exports are also expected to fare better in the latter part of the year, as demand in the euro area gradually recovers.

/3.24

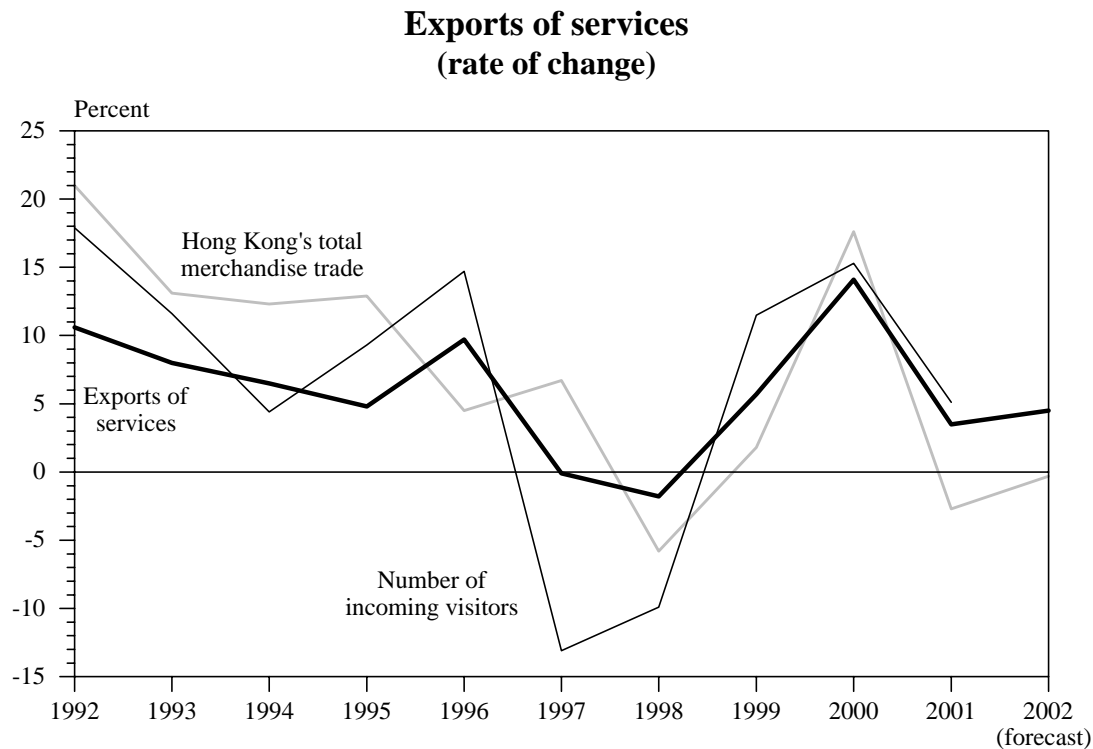
3.24 In *East Asia*, the *Mainland* should continue to underpin Hong Kong's exports of goods in 2002. Exports to the Mainland for outward processing, whilst still slack in the near term, look set to improve once the global economic environment turns for the better. Exports to the Mainland for meeting its own demand are expected to be buoyed by the sustained domestic demand there, with added boost from further opening up of the Mainland market and lower import tariff upon China's accession to WTO. The major firms and organisations engaged in China trade⁽³⁾ are of the view that on the whole, Hong Kong's exports of goods to the Mainland should yield a further modest growth in 2002.

3.25 On the other hand, exports of goods to *Japan* are perceived to slacken further in 2002, continuing the downtrend in the latter part of 2001. The bleak outlook for exports to this market goes along with a further fall-off in Japan's import demand, given the recession now in the economy and the weakening of the Japanese yen. As to Hong Kong's exports of goods to the *other East Asian economies*, these exports are generally expected to pick up somewhat in due course, after a weak start in the early part of 2002.

3.26 *Exports of services* have persistently held up better than exports of goods in 2001, and should continue to be so in 2002, given the on-going structural shift from re-exports towards offshore trade, as well as the boost to inbound tourism brought about by the removal of quota on Mainland visitors as from 1 January 2002. With Mainland visitors now accounting for around one-third of Hong Kong's total visitor arrivals, and with their per capita visitor spending being higher than average, a freer entry of Mainland visitors will render a significant boost to tourist receipts. Also, visitors from other sources may gradually return to aid tourist receipts, as the impact of the 911 incident continues to diminish. On exports of trade-related services and transportation services, performance will hinge on improvement in global and regional demand. As to exports of financial, professional and other business services, support should come from advances in service demand in the Mainland and elsewhere in the region. Overall, exports of services are forecast to grow by 4.5% in 2002, following a 3.5% increase in 2001.

/Diagram 3.10

Diagram 3.10



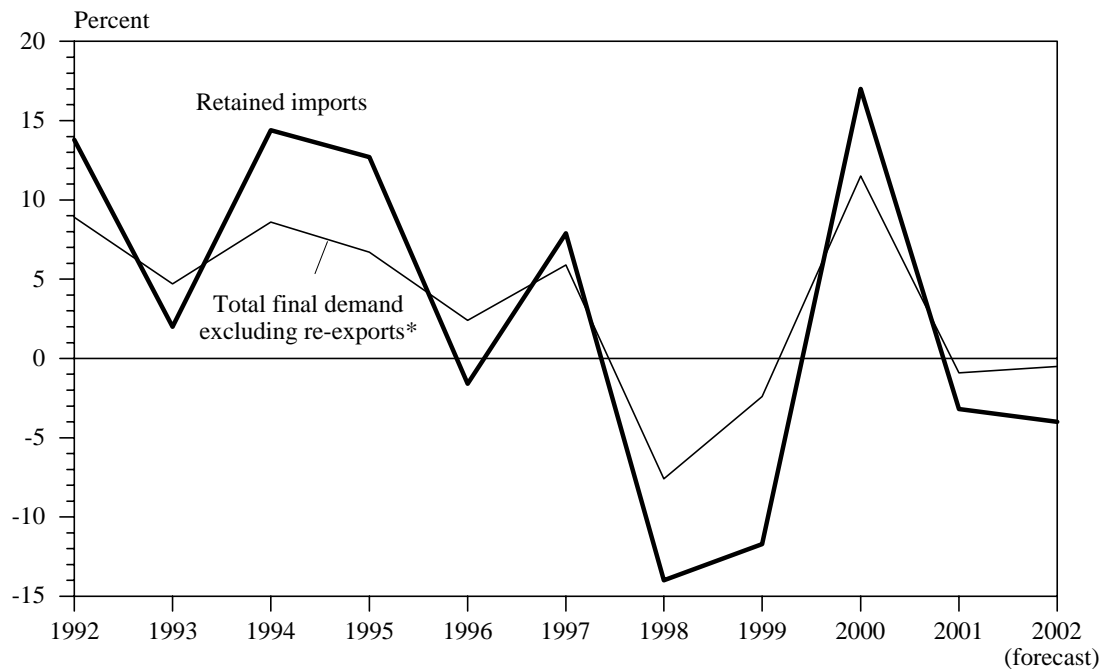
Imports of goods and services

3.27 *Retained imports* are forecast to decrease further, by around 4% in 2002, after a 3.4% decline in 2001. This mainly reflects the adjustment going on in the economy to restore external balance upon the recent downturn, and is also consistent with the continuing weakness envisaged in domestic demand. Analysed by end-use category, intake of material inputs will continue to be held back by the shrinkage in domestic exports. Intake of consumer goods seems likely to be curbed for some time, on account of falling retail sales and also after the substantial import last year. Intake of capital goods may ease more, amidst a dim business outlook in the near term. Together with the forecast for re-exports, *total imports of goods*⁽⁴⁾ are expected to fall by 0.7% in 2002, having dropped by 2.4% in 2001.

/Diagram 3.11

Diagram 3.11

**Retained imports and total final demand excluding re-exports
(rate of change)**

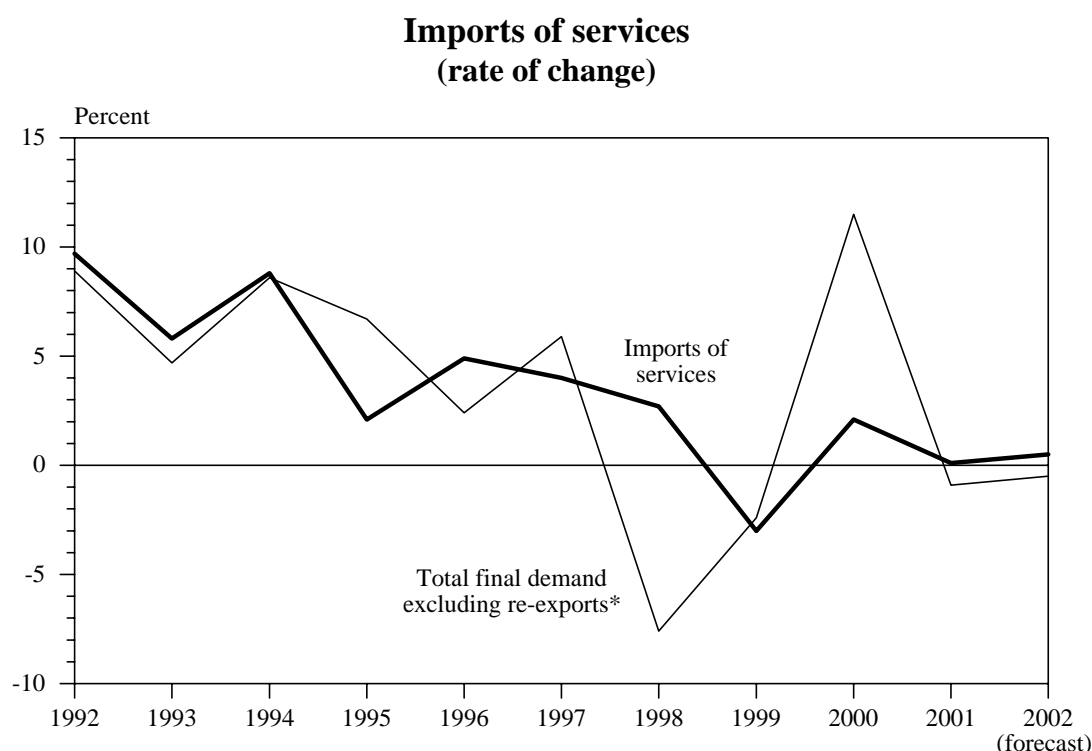


Note : (*) Re-export margin is nevertheless retained in the total final demand.

3.28 *Imports of services* are likewise perceived to remain modest in 2002, in line with the weak domestic demand. Expenditure of Hong Kong residents travelling abroad may come down further in the near term, as consumer spending slackens further along with the worsening employment situation. Imports of trade-related services and transportation services will continue to be curtailed by the weakness in merchandise trade, though with some possible improvement in the later months. Overall, imports of services are forecast to increase only slightly, by 0.5% for 2002, having recorded a 0.1% growth in 2001.

/Diagram 3.12

Diagram 3.12



Note : (*) Re-export margin is nevertheless retained in the total final demand.

(B) Domestic sector

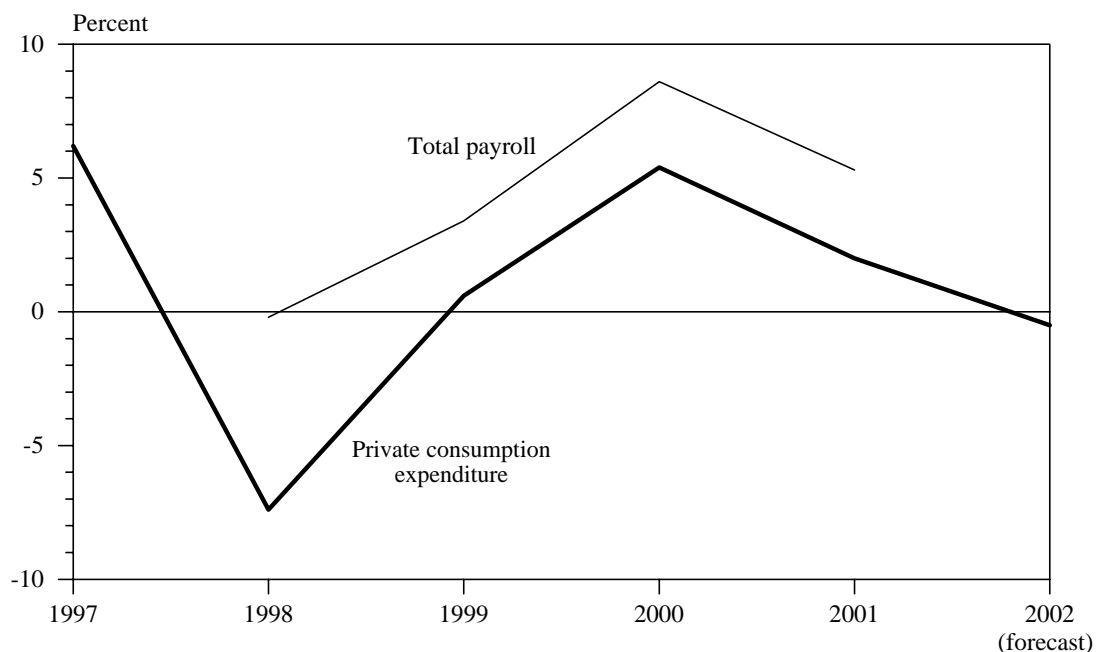
Private consumption expenditure

3.29 The near-term outlook for local consumer spending will continue to depend on interplay of the employment, income and consumer confidence factors. The surge in unemployment as from the latter part of last year, marked by more frequent lay-offs and retrenchment, is already acting to restrain consumer spending in recent months. For many of those still in employment, their willingness to spend is likely to be curbed by wage cut, anticipated if not already realised, and by concern over job security. The distinct decline in asset value, with both local share prices and flat prices now more than 10% down from a year earlier, carries forth a noticeable negative wealth effect depressing consumer demand further. Amidst a downbeat sentiment, the earlier interest rate cuts may leave only a rather limited stimulus. *Private consumption expenditure* is thus forecast to decline marginally, by 0.5% in 2002, representing a further slow-down from the already modest growth of 2.0% in 2001.

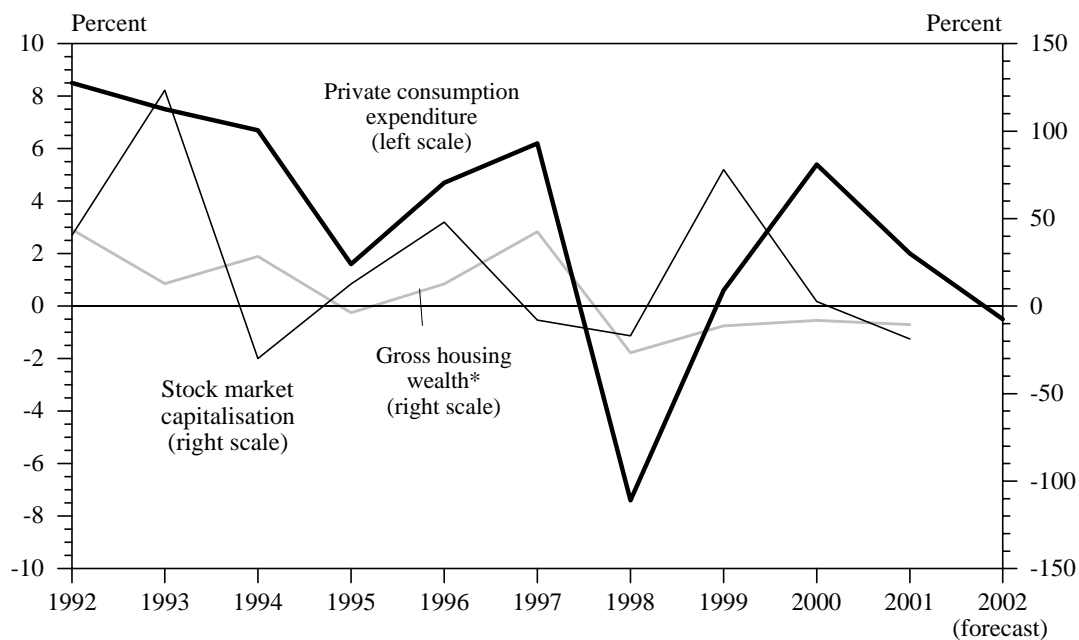
/Diagram 3.13

Diagram 3.13

**(a) Private consumption expenditure and total payroll
(rate of change)**



**(b) Private consumption expenditure and the wealth effect
(rate of change)**



Note : (*) As proxied by the stock of residential units and residential property prices, mainly in regard to their changes.

/Government

Government consumption expenditure

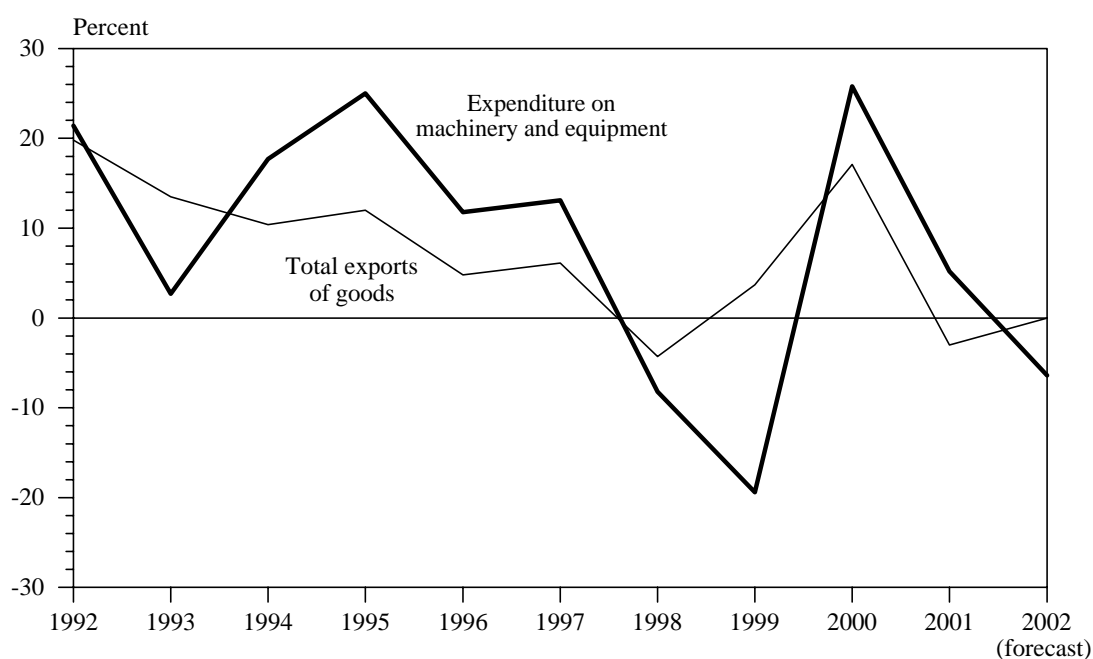
3.30 On the basis of information contained in the Government's revised estimates of expenditure for financial year 2001-02 and the draft estimates of expenditure for financial year 2002-03, *government consumption expenditure* in national accounts terms is forecast at a 4% growth in 2002, following a 5.1% increase in 2001.

Gross domestic fixed capital formation

3.31 Expenditure on machinery and equipment by the private sector is expected to slacken further in 2002, given the tardy business outlook, the surplus operating capacity, and the worsened corporate profits position consequential to the economic downturn. Expenditure on machinery and equipment by the public sector will nevertheless render a further mild growth this year, mainly due to larger spending on computerisation and other equipment from the Government. Yet given the predominance of the private sector expenditure, *total expenditure on machinery and equipment* is still forecast to decline, by 6.4% in 2002, after a 5.2% rise in 2001.

Diagram 3.14

**Expenditure on machinery and equipment and total exports of goods
(rate of change)**



/3.32

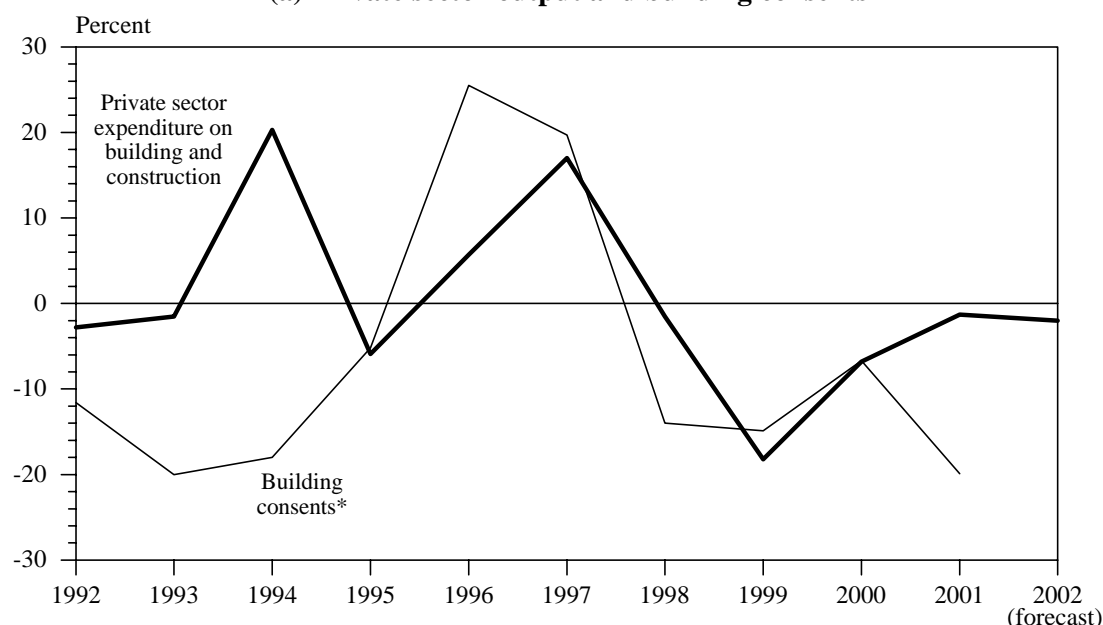
3.32 The sluggishness in private sector building activity in 2001 is likely to protract into 2002. Amidst a large overhang of supply in the property market, building consents have been on a decline since the latter part of 2000. Judging from the dearth of new building projects over the past few quarters, building activity is expected to come down further in the near term. In addition, there is a scale-back in building activity under the Home Ownership Scheme, which is classified as private sector building output in the GDP estimates on the basis of ownership⁽⁵⁾. On the other hand, intensification of work on the Container Terminal No. 9 and the Cyberport will render some offset. Taken together, private sector construction output seems likely to continue to fall in 2002.

3.33 As to the public sector, there will be an on-going downdrag from the sharp scale-back in the Public Housing Programme. Work on the MTR Tseung Kwan O Extension and the KCR West Rail, whilst still heavy in the coming months, have already passed their peak. Thus even with the intensification of work on the East Rail Extension in the period ahead, public sector construction output taken together is expected to shrink further in 2002.

Diagram 3.15

**Expenditure on building and construction and building consents
(rate of change)**

(a) Private sector output and building consents

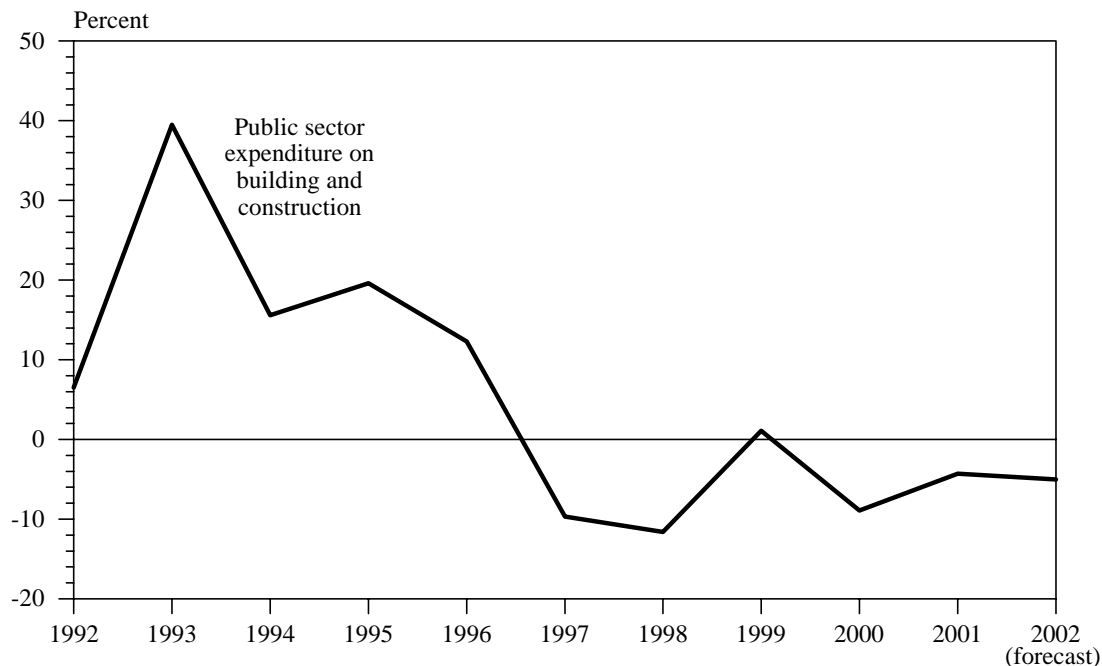


Note: (*) Two-year moving average.

/Diagram 3.15 (cont'd)

Diagram 3.15 (cont'd)

(b) Public sector output



3.34 With subdued activity in both the private and the public sector, *overall expenditure on building and construction* is forecast to fall by 3.2% in 2002, having declined by 2.5% in 2001.

3.35 Consistent with the dwindling private sector building output, services rendered by developers, as represented by *real estate developers' margin*⁽⁶⁾, are forecast at a 4% decline in 2002, following a 1.9% fall in 2001.

3.36 Combining the forecasts for the individual components of investment expenditure, *gross domestic fixed capital formation* is forecast to contract by 5.1% in 2002, further down from the already modest growth of 2.1% in 2001.

Change in inventories

3.37 *Inventories* are expected to undergo a further depletion in 2002, along with the envisaged further slow-down in domestic demand. There should nevertheless be a modest replenishment towards the year-end, upon the envisaged improvement in external trade.

/ (C)

(C) GDP at constant prices

3.38 Taking all the expenditure components together, *GDP* is forecast at a 1% growth in 2002, following a 0.1% increase in 2001. Local analysts in the private sector generally also expect the economy to return to positive growth during the year, with their forecasts of *GDP* growth mostly ranging from 1% to 2%, averaging at around 1.4%.

3.39 This improvement is conditioned upon an upturn in the external economic environment in the coming months. The key downside risks include a relapse in the US economy and hence in the global economy, a further distinct strengthening in the US dollar, and continually depressed demand and sentiment amongst consumers and businesses. Nevertheless, there may be upside potential from a sooner recovery in the US economy and from a stronger surge in Mainland visitors to Hong Kong.

(D) Prices

3.40 The pace of decline in consumer prices has enlarged somewhat in the latter part of 2001, and the outlook for 2002 is for a further down-drift in prices, being part and parcel of the adjustment process in the economy to weather the current setback. In the domestic sector, downward pressure on costs has accentuated again, with office rentals down by 7% and shop rentals down by 4% during last year, and also with wages softening in recent months. This is expected to filter through to dampen local retail prices. Moreover, competition through price cuts and other means in the local retail market is keen. Meanwhile, the rates concession from the 2001 Policy Address and other known developments will bring down the CPI more.

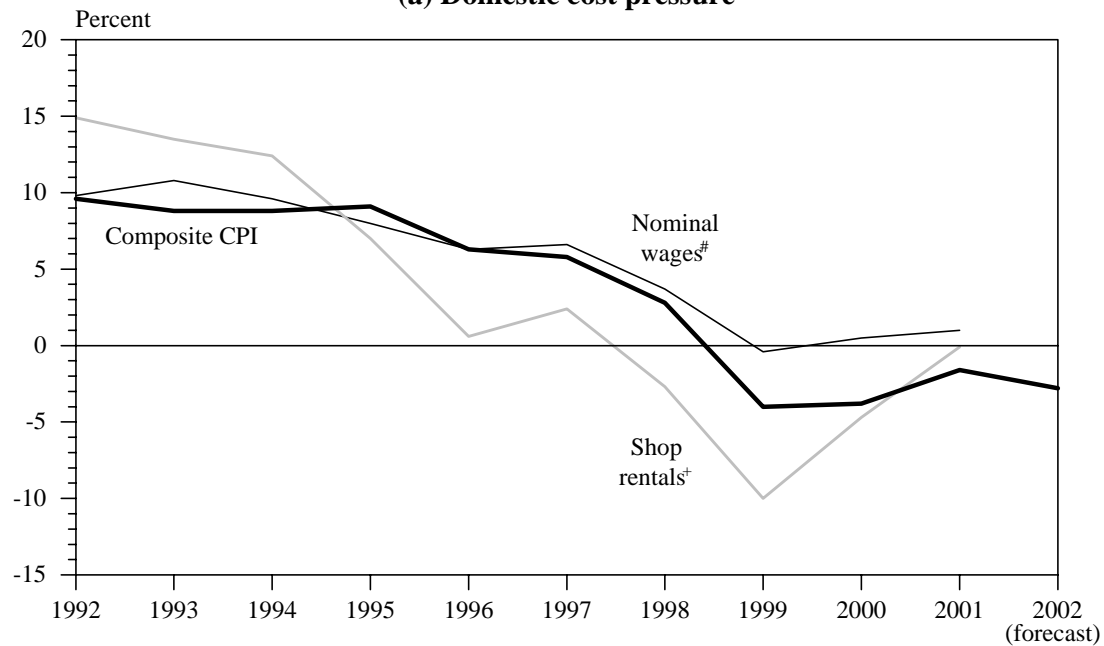
3.41 On the external front, the decline in import prices has also been enlarging in the recent period, amidst the relative strength of the US dollar as well as deflation in Japan and the Mainland, the two leading suppliers of Hong Kong's imports. Moreover, the prices of imported foodstuffs from the Mainland on average can be expected to come down during the year, upon removal of the quota on export of chilled meat and chicken from the Mainland. With both the domestic and the external factors pointing to lower prices, the *Composite Consumer Price Index* is forecast for a larger decline of 2.8% in 2002, following a 1.6% fall in 2001.

/Diagram 3.16

Diagram 3.16

**Factors affecting the trend in consumer prices
(rate of change)**

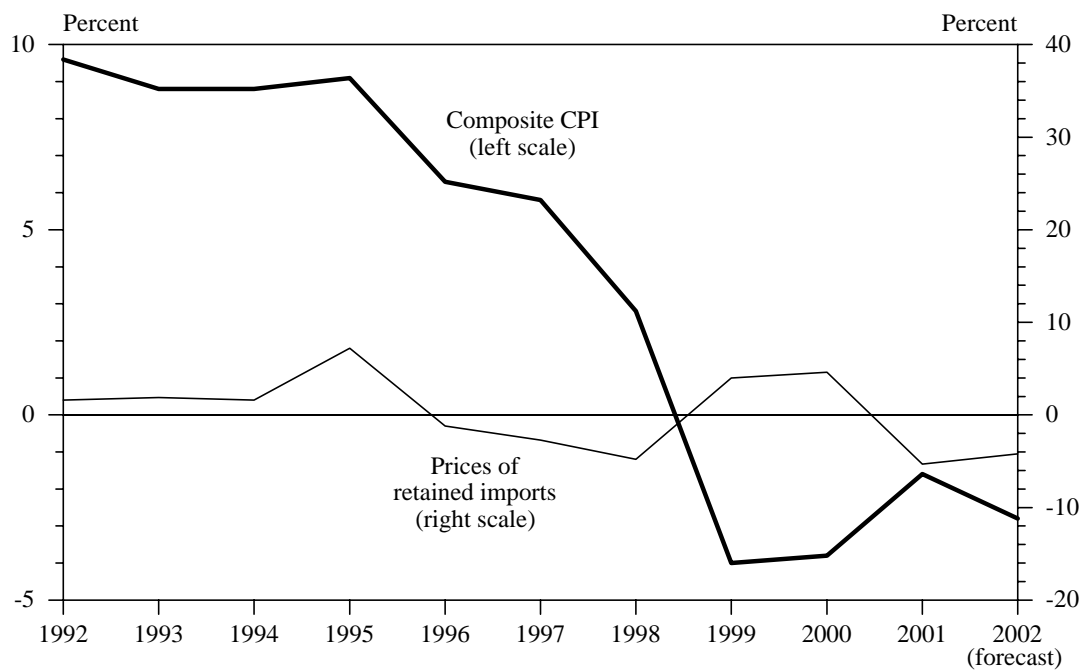
(a) Domestic cost pressure



Notes : (#) The rate of change in nominal wages in 2001 refers to the year-on-year change for the first three quarters of the year only.

(+) Two-year moving average.

(b) External price pressure



/3.42

3.42 The movement in the *GDP deflator* depends on those in the price deflators for the individual GDP components. Domestically, in tandem with the envisaged downtrend in consumer prices, the private consumption expenditure deflator is forecast at a decline of 2.5% in 2002, further down from a 1.4% decrease in 2001. The government consumption expenditure deflator is forecast at a 0.5% decline in 2002, down from a 2.1% increase in 2001. As to the investment expenditure components, given the continued fall in tender prices in the past two years or so, the deflator for expenditure on building and construction is forecast to fall by 1.5% in 2002, having gone down by 2.5% in 2001. In the light of the recent weakening in the Japanese yen and in many of the other East Asian currencies, the deflator for expenditure on machinery and equipment is forecast to be 2% lower in 2002, similar to the 2.2% decrease in 2001.

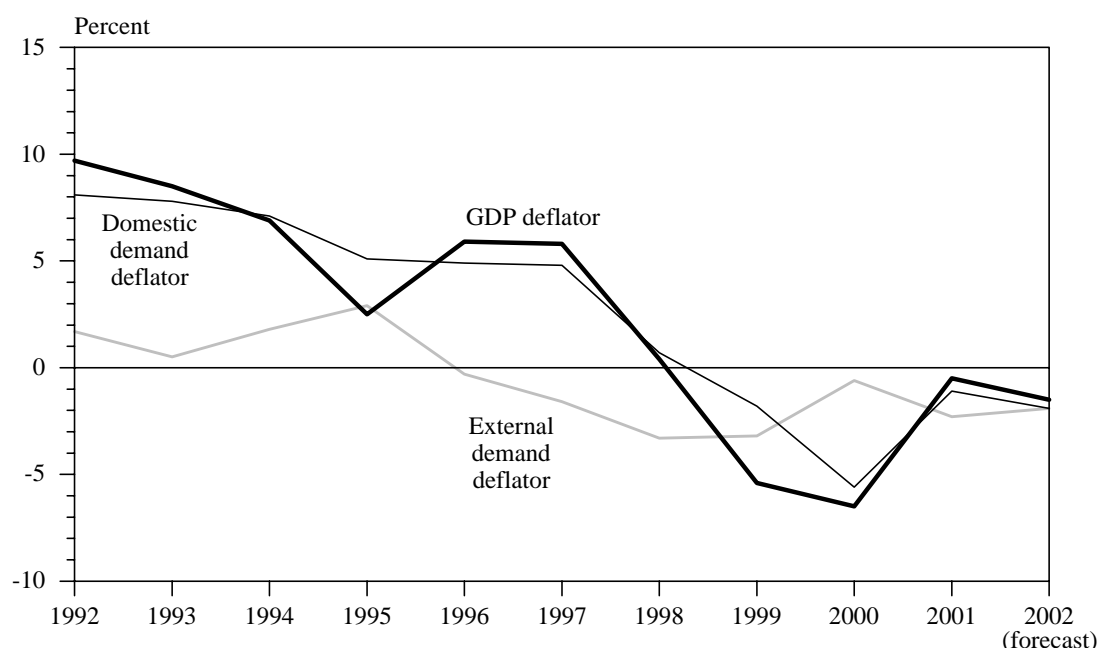
3.43 Externally, in order to uphold competitiveness in the world market, the prices of exports of goods are expected to come down further, by around 2% in 2002, after a 2.9% fall in 2001. The prices of exports of services are also expected to ease further, by 1.5% in 2002, broadly similar to the 1.3% fall in 2001. Concurrently, the prices of imports of goods are envisaged to recede by around 3% in 2002, almost the same as the 3.2% decrease in 2001. The larger decline continuing for this year is mainly on account of the soft world commodity prices and the prevailing strength of the US dollar. The prices of imports of services are also envisaged to drift lower, by 1.0% in 2002, following a 0.3% decrease in 2001.

3.44 Taking the forecasts for these price deflators together, the GDP deflator is forecast for a somewhat larger decline of 1.5% in 2002, after a 0.5% fall in 2001. The *domestic demand deflator* is likewise expected to ease further, by around 2% in 2002, after a 1.1% fall in 2001.

/Diagram 3.17

Diagram 3.17

**GDP deflator, domestic demand deflator
and external demand deflator
(rate of change)**



(E) GDP at current market prices

3.45 Putting the forecasts for real GDP and the GDP deflator together, *nominal GDP* is forecast to decline by 0.5% in 2002, having fallen slightly by 0.3% in 2001. Taking into account the projected overall population growth, *per capita GDP* is forecast to fall by around 2% in money terms in 2002, after a 1.2% decline in 2001. GDP at current market prices in 2002 is forecast at \$1,256 billion, and the corresponding per capita GDP at \$184,800 or US\$23,700.

(F) Summary of forecast

3.46 The forecasts are given in greater detail in Table (12) of the *Statistical Appendix* and are summarised in the table below :

/Table 3.7

Table 3.7

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

	Preliminary figures <u>for 2001</u> (%)	Forecast <u>for 2002</u> (%)
<i>Rate of change in real terms :</i>		
Private Consumption Expenditure	2.0	-0.5
Government Consumption Expenditure	5.1	4
Gross Domestic Fixed Capital Formation	2.1	-5.1
<i>of which:</i>		
Building and construction	-2.5	-3.2
Real estate developers' margin	-1.9	-4
Machinery and equipment	5.2	-6.4
Total Exports of Goods	-3.0	0.0
Domestic exports	-11.0	-4
Re-exports	-2.0	0.5
Imports of Goods	-2.4	-0.7
Exports of Services	3.5	4.5
Imports of Services	0.1	0.5
Gross Domestic Product (GDP)	0.1	1
Per Capita GDP	-0.7	-0.1
<i>Rate of change in money terms :</i>		
GDP	-0.3	-0.5
Per Capita GDP	-1.2	-1.6
<i>Rate of change in :</i>		
GDP Deflator	-0.5	-1.5
Domestic Demand Deflator	-1.1	-1.9
Composite Consumer Price Index	-1.6^(a)	-2.8

Note : (a) Final figure.

/Notes

Notes :

- (1) In accordance with China's commitment to WTO, it will ultimately reduce the industrial tariffs to an average of 8.9%, with the majority of the tariff cuts to be implemented in around 2005-06. The agricultural tariffs will also be reduced to an average of 15%, with the majority of the tariff cuts to be implemented in around 2004-06.
- (2) The economic forecasts for Hong Kong's major markets cited in this report are mainly for the purpose of illustration and are not purported to be exhaustive. Economic forecasts from a variety of sources, including the central banks and government departments in the respective economies and certain private sector forecasting agencies, have been taken into account in deriving the forecasts for Hong Kong's exports.
- (3) In view of the profound importance of the Mainland as a destination for Hong Kong's exports, a consultation exercise covering a number of major firms and organisations knowledgeable in China trade was carried out by the Economic Analysis Division during January 2002. Views were obtained generally on growth in the Mainland economy and developments in Hong Kong-Mainland trade, and more specifically on the outlook for Hong Kong's domestic exports and re-exports to the Mainland in 2002.
- (4) This includes an estimate of imports of gold for industrial use.
- (5) Building and construction expenditure includes the value of work put in place in respect of residential buildings, non-residential buildings and other construction works. The estimates are classified into the public and private sectors. Building expenditure under the Home Ownership Scheme is classified to the private sector. This is because the flats concerned have been sold to households in advance of completion, meaning that ownership of the flats is effectively transferred in stages to the private purchasers as the work proceeds.
- (6) 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 4 : IMPLICATIONS OF THE FORECAST FOR THE ECONOMY

4.1 A number of implications can be drawn from a more detailed examination of the GDP forecast. *First*, aggregate demand in terms of total final demand⁽¹⁾ is forecast at only zero growth in 2002, albeit already representing an improvement from the 1.4% fall in 2001. The forecast becomes a 0.5% decline in 2002 after excluding re-exports but with re-export margin retained, also relatively improved from the 0.9% decrease in 2001. Against the weak final demand, there should be a corresponding reduction in import intake in this year, it being a continuation of the adjustment process already in train in the latter part of last year.

Table 4.1
Growth rates of aggregate demand and supply

	<u>2001[^]</u> (%)	<u>2002</u> (forecast) (%)
Aggregate demand		
Total final demand	-1.4	0.0
Total final demand excluding re-exports ^(a)	-0.9	-0.5
Aggregate supply		
Local output in terms of GDP	0.1	1
Imports of goods ^(b)	-2.4	-0.7
Retained imports of goods ^(b)	-3.4	-4.0
Imports of services	0.1	0.5

Notes : (^) Preliminary figures.

(a) Re-export margin is nevertheless retained in the total final demand.

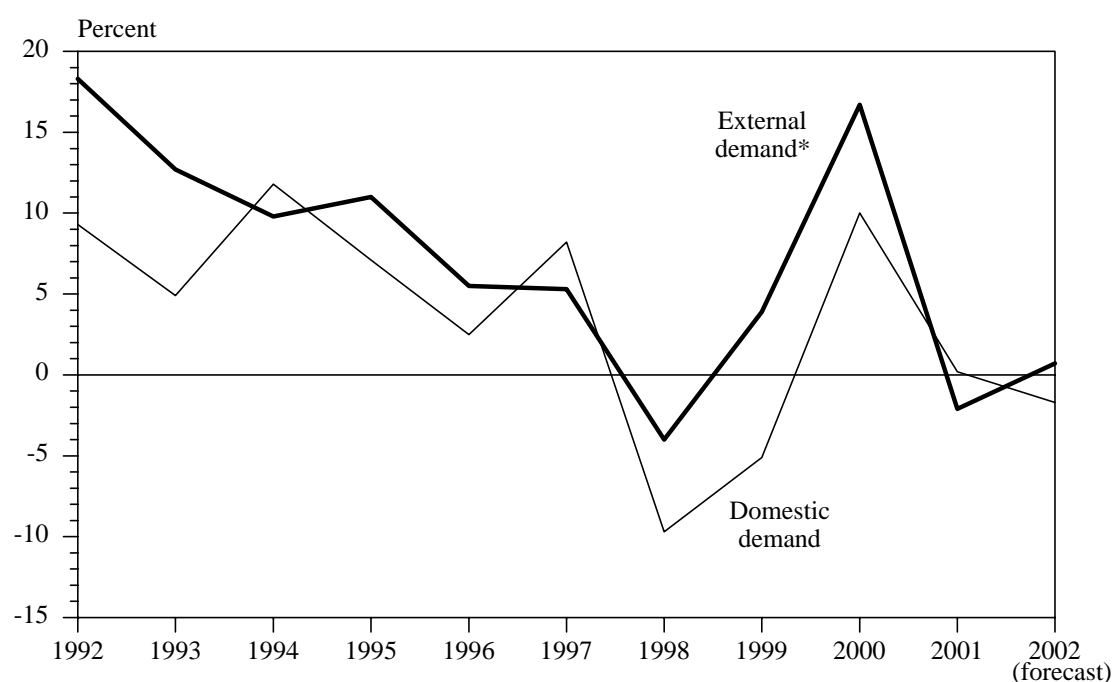
(b) Including an estimate of imports of gold for industrial use.

/4.2

4.2 *Secondly*, the expected decline in total final demand in this year reflects, in large part, a further setback in domestic demand. It is forecast to fall by 1.7% in 2002, after recording a 0.2% growth in 2001. External demand is envisaged to revive during the year. Yet with a weak start in the early months, it is forecast at only a 0.7% growth for 2002 as a whole, albeit improved from the 2.1% decline in 2001. Thus again, the recovery process in the Hong Kong economy would be typically export-led.

Diagram 4.1

**External and domestic demand within total final demand
(rate of change)**



Note : (*) Comprising exports of goods and services.

/Table 4.2

Table 4.2**Growth rates of total final demand by component**

	<u>2001[^]</u> (%)	<u>2002</u> (forecast) (%)
Domestic demand	0.2	-1.7
<i>of which :</i>		
Consumption demand	2.4	0.0
Investment demand in terms of GDFCF	2.1	-5.1
Domestic demand excluding change in inventories	2.3	-1.6
External demand	-2.1	0.7
<i>of which :</i>		
Exports of goods	-3.0	0.0
Domestic exports	-11.0	-4
Re-exports	-2.0	0.5
Exports of services	3.5	4.5

Note : (^) Preliminary figures.

4.3 *Thirdly*, within external demand, exports of goods are expected to render a relatively improved performance, with zero growth for 2002 as a whole, after a 3.0% decline in 2001. Yet exports of services are expected to fare better, with a faster growth of 4.5% in 2002 after a 3.5% growth in 2001, on the back of continued expansion in offshore trade as well as more robust inbound tourism upon a stronger surge in Mainland visitor arrivals.

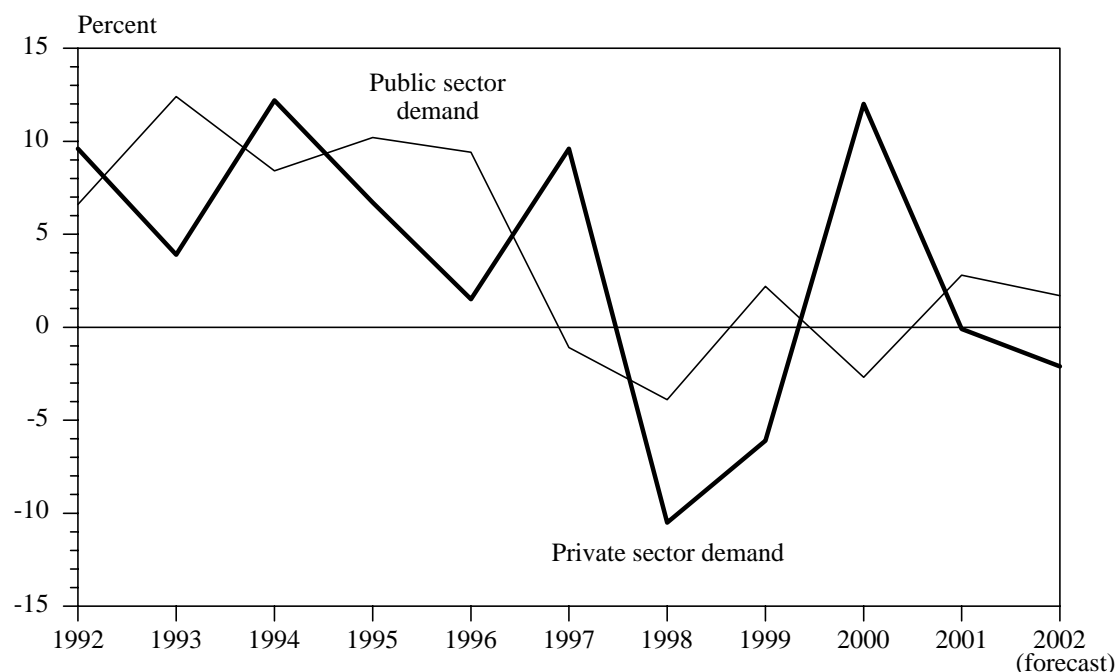
4.4 *Fourthly*, within domestic demand, the setback stems mainly from an envisaged shrinkage in private sector demand, which is forecast to contract by 2.1% in 2002, after falling by 0.1% in 2001. Specifically, private sector investment spending is expected to shrink by 5.5% in 2002, along with reduced machinery and equipment intake and a continued fall-off in building and construction activity. As to consumer spending, it is also expected to fall, albeit marginally, by 0.5% in 2002, having already slackened off for some months.

/4.5

4.5 Public sector demand is forecast at a modest growth of 1.7% in 2002, after a 2.8% increase in 2001. There will be increased government consumption expenditure and greater machinery and equipment intake in the public sector, more than offsetting lesser building and construction output in the public sector.

Diagram 4.2

**Private sector and public sector demand within domestic demand
(rate of change)**



/Table 4.3

Table 4.3**Growth rates of domestic demand by institutional sector**

	<u>2001[^]</u> (%)	<u>2002</u> (forecast) (%)
Private sector domestic demand	-0.1	-2.1
<i>of which :</i>		
Consumption	2.0	-0.5
Investment	2.7	-5.5
Public sector domestic demand	2.8	1.7
<i>of which :</i>		
Consumption	5.1	4
Investment	-1.2	-2.9
Public sector demand as a % of GDP ^(a)	14.8	15.1

Notes : (^) Preliminary figures.

(a) Calculated at current market prices.

4.6 *Fifthly*, both the Composite CPI and the GDP deflator are expected to remain on a decline in 2002, as local costs and prices continue to adjust downward to weather the current economic downturn, and as import prices continue to soften amidst the prevailing strength of the US dollar. With a larger decline envisaged for import prices than for export prices, the terms of trade should nevertheless improve further in 2002, thereby helping to narrow the visible trade deficit.

/Table 4.4

Table 4.4**Rates of change in selected price indicators**

	<u>2001</u> [^] (%)	<u>2002</u> (forecast) (%)
Domestic demand deflator	-1.1	-1.9
Price deflator for exports of goods and services	-2.3	-1.9
Price deflator for imports of goods and services ^(a)	-2.8	-2.8
GDP deflator	-0.5	-1.5
Composite CPI	-1.6 [#]	-2.8

Notes : (^) Preliminary figures.

(a) The respective imports include an estimate of imports of gold for industrial use.

(#) Final figure.

4.7 *Finally*, the visible trade deficit is hence forecast to narrow to \$64 billion in 2002, equivalent to around 4% of the forecast total value of imports of goods (including an estimate of imports of gold for industrial use), from the corresponding deficit figures of \$89.8 billion and 5.7% in 2001. The invisible trade surplus is forecast to increase further, to \$168 billion in 2002, from \$156.8 billion in 2001. Taken together, the combined visible and invisible trade account is forecast for a further surplus of \$104 billion in 2002, representing around 6% of the forecast total value of imports of goods and services, up from the corresponding surplus figures of \$67.1 billion and 3.8% in 2001.

/Notes

Notes :

- (1) Total final demand comprises domestic demand and external demand. It is equal to the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, change in inventories, and exports of goods and services. Alternatively, it is equal to the sum of GDP, which represents overall output in the economy, and imports of goods and services, as these are the two broad sources of supply to meet the final demand.
- (2) Domestic demand covers private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation and change in inventories.
- (3) In the context of GDP estimation and forecasting, the size of the public sector is measured in national accounts terms rather than in consolidated account terms. Here the public sector is defined to include the Government, the quasi-government institutions, and the public corporations. Of the quasi-government bodies, the Hospital Authority, Consumer Council, Hong Kong Tourism Board, Hong Kong Trade Development Council, Hong Kong Productivity Council, Vocational Training Council, Employees Retraining Board and Hong Kong Monetary Authority are included in regard to their consumption as well as investment expenditures. Of the public corporations, the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong are included only to the extent of their investment expenditure. Their consumption expenditure, which in effect is the cost involved in the production of services principally for sale to the public, with such sales being substantively reckoned into private consumption expenditure, is not treated as part of government consumption expenditure.

STATISTICAL APPENDIX

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Table 1

**Gross Domestic Product (GDP) by expenditure component
at current market prices 1991 to 2001 (\$Mn)**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Private Consumption Expenditure	391,098	451,670	514,239	592,665	654,496
Government Consumption Expenditure	51,470	64,070	72,620	83,658	94,236
Gross Domestic Fixed Capital Formation	177,729	213,808	245,182	301,112	329,578
<i>of which:</i>					
Building and construction	61,433	63,056	73,201	90,031	100,989
Real estate developers' margin	32,381	44,610	56,833	74,885	57,909
Machinery and equipment	70,957	88,225	95,275	114,876	156,777
Change in Inventories	4,098	8,187	2,299	21,263	45,656
Total Exports of Goods	765,886	924,952	1,046,250	1,170,013	1,344,127
Domestic exports	231,045	234,124	223,027	222,092	231,657
Re-exports	534,841	690,829	823,223	947,921	1,112,470
Imports of Goods ^(a)	782,042	958,462	1,075,710	1,254,427	1,495,706
Exports of Services	161,087	189,352	215,577	240,668	265,635
Imports of Services	100,814	114,242	122,994	144,067	160,877
GDP	668,512	779,335	897,463	1,010,885	1,077,145
<i>Per Capita GDP^(b) (\$)</i>	<i>116,223</i>	<i>134,357</i>	<i>152,087</i>	<i>167,493</i>	<i>174,972</i>
Total Final Demand	1,551,368	1,852,039	2,096,167	2,409,379	2,733,728
Total Final Demand Excluding Re-exports ^(c)	1,101,781	1,280,033	1,423,594	1,619,761	1,804,816
Domestic Demand	624,395	737,735	834,340	998,698	1,123,966
Private	552,385	651,350	728,656	875,051	977,236
Public	72,010	86,385	105,684	123,647	146,730
External Demand	926,973	1,114,304	1,261,827	1,410,681	1,609,762

Definitions of Terms:

Total final demand	=	private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + change in inventories + total exports of goods + exports of services
Private sector domestic demand	=	private consumption expenditure + gross domestic fixed capital formation by the private sector + change in inventories
Public sector demand	=	government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	=	private sector domestic demand + public sector domestic demand
External demand	=	total exports of goods + exports of services

Table 1 (cont'd)

**Gross Domestic Product (GDP) by expenditure component
at current market prices 1991 to 2001 (\$Mn)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999[#]</u>	<u>2000[#]</u>	<u>2001⁺</u>
Private Consumption Expenditure	722,098	798,450	762,234	732,821	735,072	739,037
Government Consumption Expenditure	104,385	113,749	117,760	121,540	121,834	130,659
Gross Domestic Fixed Capital Formation	372,327	444,963	381,079	316,960	333,003	326,040
<i>of which:</i>						
Building and construction	117,709	134,490	138,056	125,725	115,946	110,203
Real estate developers' margin	67,939	88,774	70,179	46,205	36,855	32,039
Machinery and equipment	164,493	183,832	157,525	132,981	168,472	173,424
Change in Inventories	9,762	12,313	-15,651	-10,612	16,194	-207
Total Exports of Goods	1,397,917	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987
Domestic exports	212,160	211,410	188,454	170,600	180,967	153,520
Re-exports	1,185,758	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467
Imports of Goods ^(a)	1,539,851	1,619,468	1,432,423	1,395,521	1,661,404	1,570,754
Exports of Services	296,188	298,176	280,756	288,609	328,625	335,757
Imports of Services	170,936	180,270	182,098	175,814	179,360	178,934
GDP	1,191,890	1,323,862	1,259,306	1,226,983	1,266,653	1,262,585
<i>Per Capita GDP^(b) (\$)</i>	<i>185,206</i>	<i>204,007</i>	<i>192,446</i>	<i>185,724</i>	<i>190,045</i>	<i>187,748</i>
Total Final Demand	2,902,677	3,123,600	2,873,827	2,798,318	3,107,417	3,012,273
Total Final Demand Excluding Re-exports ^(c)	1,922,055	2,100,589	1,931,401	1,859,133	2,009,348	1,964,902
Domestic Demand	1,208,572	1,369,475	1,245,422	1,160,709	1,206,103	1,195,529
Private	1,040,302	1,193,021	1,068,237	975,534	1,025,709	1,008,235
Public	168,270	176,454	177,185	185,175	180,394	187,294
External Demand	1,694,105	1,754,125	1,628,405	1,637,609	1,901,314	1,816,744

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

(b) As from the second quarter of 1996 onwards, the population figures are compiled on the basis of the "resident population" definition and with the results of the 2001 Population Census incorporated. Per capita GDP figures from 1996 to 2000 have been revised accordingly.

(c) Re-export margin is nevertheless retained in the total final demand.

(#) Revised figures.

(+) Preliminary figures.

Table 2

**Rates of change in the Gross Domestic Product (GDP) in real terms by
expenditure component 1991 to 2001 (%)**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Private Consumption Expenditure	8.6	8.5 [^]	7.5	6.7	1.6	4.7
Government Consumption Expenditure	7.7	7.2 [^]	2.2	3.9	3.2	4.0
Gross Domestic Fixed Capital Formation	9.3	9.2	3.7	15.7	10.7	10.8
<i>of which:</i>						
Building and construction	0.6	*	11.5	18.4	4.0	8.7
Real estate developers' margin	2.4	-4.0	-5.3	14.9	-6.1	2.2
Machinery and equipment	16.8	21.4	2.7	17.7	25.0	11.8
Total Exports of Goods	17.3	19.8	13.5	10.4	12.0	4.8
Domestic exports	0.5	0.2	-4.5	-2.3	2.0	-8.4
Re-exports	26.5	28.3	19.6	13.8	14.3	7.5
Imports of Goods ^(a)	19.0	22.2	12.7	14.0	13.8	4.3
Exports of Services	4.7	10.6	8.0	6.5	4.8	9.7
Imports of Services	11.3	9.7	5.8	8.8	2.1	4.9
GDP	5.1	6.3	6.1	5.4	3.9	4.5
<i>Per Capita GDP</i> ^(b)	4.2	5.4	4.3	3.1	1.9	*
Real Gross Domestic Income	6.6	8.2	7.7	3.8	-0.2	6.2
<i>Per Capita Real Gross Domestic Income</i> ^(b)	5.7	7.3	5.9	1.5	-2.1	1.6
Total Final Demand	12.3	14.8	9.8	10.5	9.6	4.4
Total Final Demand Excluding Re-exports ^(c)	7.1	8.9	4.7	8.6	6.7	2.4
Domestic Demand	8.4	9.3	4.9	11.8	7.1	2.5
Private	8.9	9.6 [^]	3.9	12.2	6.7	1.5
Public	4.3	6.6 [^]	12.4	8.4	10.2	9.4
External Demand	15.0	18.3	12.7	9.8	11.0	5.5

Definitions of Terms:

See Table 1.

Table 2 (cont'd)

**Rates of change in the Gross Domestic Product (GDP) in real terms by
expenditure component 1991 to 2001 (%)**

	1997	1998	1999 [#]	2000 [#]	2001 ⁺	Average Annual Rates of Change : 10 years 5 years 1991 to 1996 to 2001 ⁺ 2001 ⁺	
Private Consumption Expenditure	6.2	-7.4	0.6	5.4	2.0	3.4	1.2
Government Consumption Expenditure	2.4	0.8	3.3	2.1	5.1	4.0	2.7
Gross Domestic Fixed Capital Formation	12.7	-7.6	-17.5	9.8	2.1	4.5	-0.7
<i>of which:</i>							
Building and construction	4.7	-5.6	-11.0	-7.7	-2.5	1.7	-4.6
Real estate developers' margin	27.7	5.1	-25.2	-9.4	-1.9	-1.1	-2.2
Machinery and equipment	13.1	-8.2	-19.4	25.8	5.2	8.6	2.1
Total Exports of Goods	6.1	-4.3	3.7	17.1	-3.0	7.7	3.6
Domestic exports	2.1	-7.9	-7.2	7.5	-11.0	-3.1	-3.5
Re-exports	6.8	-3.7	5.4	18.5	-2.0	10.5	4.7
Imports of Goods ^(a)	7.2	-7.2	0.1	18.1	-2.4	7.9	2.8
Exports of Services	-0.1	-1.8	5.7	14.1	3.5	6.0	4.1
Imports of Services	4.0	2.7	-3.0	2.1	0.1	3.7	1.2
GDP	5.0	-5.3	3.0	10.5	0.1	3.9	2.5
<i>Per Capita GDP^(b)</i>	<i>4.1</i>	<i>-6.1</i>	<i>2.0</i>	<i>9.5</i>	<i>-0.7</i>	<i>2.3</i>	<i>1.6</i>
Real Gross Domestic Income	4.9	-3.5	1.5	8.5	1.2	3.8	2.4
<i>Per Capita Real Gross Domestic Income^(b)</i>	<i>4.1</i>	<i>-4.3</i>	<i>0.5</i>	<i>7.5</i>	<i>0.3</i>	<i>2.2</i>	<i>1.5</i>
Total Final Demand	6.3	-6.0	0.9	14.6	-1.4	6.1	2.6
Total Final Demand Excluding Re-exports ^(c)	5.9	-7.6	-2.4	11.5	-0.9	3.6	1.1
Domestic Demand	8.2	-9.7	-5.0	10.0	0.2	3.7	0.4
Private	9.6	-10.5	-6.1	12.0	-0.1	3.5	0.6
Public	-1.1	-3.9	2.2	-2.7	2.8	4.7	-0.6
External Demand	5.3	-4.0	3.9	16.7	-2.1	7.5	3.7

Notes: (a) See Note (a) to Table 1.

(b) See Note (b) to Table 1.

(c) See Note (c) to Table 1.

(#) Revised figures.

(+) Preliminary figures.

(^) Figures have been adjusted to reflect a reclassification of expenditure pertaining to the Hospital Authority, which for GDP estimation purpose is included in government consumption expenditure.

(*) Change of less than 0.05%.

Table 3

**Gross National Product (GNP) and
external factor income flows (EFIF) by income component
by type of transactor at current market prices 1995 to 2000 (\$Mn)**

<u>Type of Income Component</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999[#]</u>	<u>2000[#]</u>
Direct Investment Income						
Inflow	112,810	125,557	193,093	124,999	136,454	153,848
Banking	7,558	9,082	9,556	13,352	6,983	8,381
Others	105,252	116,474	183,537	111,647	129,471	145,466
Outflow	177,942	201,267	244,884	136,350	197,094	266,324
Banking	61,630	59,530	52,689	51,934	64,881	73,111
Others	116,312	141,737	192,195	84,416	132,213	193,214
Portfolio Investment Income						
Inflow	78,575	84,583	96,494	74,444	86,291	95,086
Banking	24,300	23,828	26,567	17,926	16,652	23,910
Others	54,276	60,755	69,927	56,518	69,639	71,176
Outflow	24,089	28,333	40,646	24,696	25,410	26,900
Banking	4,171	5,961	10,643	4,988	4,082	3,800
Others	19,918	22,372	30,003	19,708	21,328	23,100
Other Investment Income						
Inflow	201,623	182,032	178,790	162,913	142,008	167,787
Banking	192,710	172,104	164,467	153,528	129,509	147,781
Others	8,913	9,928	14,323	9,385	12,499	20,006
Outflow	170,466	162,385	172,373	172,548	107,472	101,729
Banking	162,310	150,885	160,055	158,525	100,039	94,458
Others	8,156	11,500	12,318	14,023	7,433	7,271
Compensation of Employees						
Inflow	270	549	657	363	110	53
Outflow	270	549	657	363	110	53
Total EFIF						
Inflow	393,278	392,721	469,034	362,719	364,863	416,774
Outflow	372,767	392,534	458,560	333,957	330,086	395,006
Net flow	20,511	188	10,475	28,762	34,777	21,768
GDP	1,077,145	1,191,890	1,323,862	1,259,306	1,226,983	1,266,653
<i>Per Capita GDP^(a) (\$)</i>	<i>174,972</i>	<i>185,206</i>	<i>204,007</i>	<i>192,446</i>	<i>185,724</i>	<i>190,045</i>
GNP	1,097,656	1,192,078	1,334,337	1,288,068	1,261,760	1,288,421
<i>Per Capita GNP^(a) (\$)</i>	<i>178,304</i>	<i>185,235</i>	<i>205,621</i>	<i>196,841</i>	<i>190,988</i>	<i>193,311</i>

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

(a) See Note (b) to Table 1.

(#) Revised figures.

Table 4

**Rates of change in the Gross National Product (GNP) and
external factor income flows (EFIF) by income component
by type of transactor at current market prices 1995 to 2000 (%)**

<u>Type of Income Component</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999[#]</u>	<u>2000[#]</u>	<u>Average Annual Rate of Change : 5 years 1995 to 2000[#]</u>
Direct Investment Income							
Inflow	-3.0	11.3	53.8	-35.3	9.2	12.7	6.4
Banking	22.8	20.2	5.2	39.7	-47.7	20.0	2.1
Others	-4.4	10.7	57.6	-39.2	16.0	12.4	6.7
Outflow	5.3	13.1	21.7	-44.3	44.5	35.1	8.4
Banking	10.3	-3.4	-11.5	-1.4	24.9	12.7	3.5
Others	2.8	21.9	35.6	-56.1	56.6	46.1	10.7
Portfolio Investment Income							
Inflow	18.2	7.6	14.1	-22.9	15.9	10.2	3.9
Banking	27.3	-1.9	11.5	-32.5	-7.1	43.6	-0.3
Others	14.5	11.9	15.1	-19.2	23.2	2.2	5.6
Outflow	18.9	17.6	43.5	-39.2	2.9	5.9	2.2
Banking	16.3	42.9	78.5	-53.1	-18.2	-6.9	-1.8
Others	19.5	12.3	34.1	-34.3	8.2	8.3	3.0
Other Investment Income							
Inflow	4.4	-9.7	-1.8	-8.9	-12.8	18.2	-3.6
Banking	2.9	-10.7	-4.4	-6.7	-15.6	14.1	-5.2
Others	50.3	11.4	44.3	-34.5	33.2	60.1	17.6
Outflow	-2.3	-4.7	6.2	0.1	-37.7	-5.3	-9.8
Banking	-4.0	-7.0	6.1	-1.0	-36.9	-5.6	-10.3
Others	48.9	41.0	7.1	13.8	-47.0	-2.2	-2.3
Compensation of Employees							
Inflow	91.5	103.3	19.7	-44.7	-69.7	-51.8	-27.8
Outflow	91.5	103.3	19.7	-44.7	-69.7	-51.8	-27.8
Total EFIF							
Inflow	4.6	-0.1	19.4	-22.7	0.6	14.2	1.2
Outflow	2.4	5.3	16.8	-27.2	-1.2	19.7	1.2
GDP	6.6	10.7	11.1	-4.9	-2.6	3.2	3.3
<i>Per Capita GDP^(a)</i>	4.5	5.8	10.2	-5.7	-3.5	2.3	1.7
GNP	7.3	8.6	11.9	-3.5	-2.0	2.1	3.3
<i>Per Capita GNP^(a)</i>	5.2	3.9	11.0	-4.3	-3.0	1.2	1.6

Notes: (a) See Note (b) to Table 1.

(#) Revised figures.

Table 5**Visible and invisible trade account 1991 to 2001 (\$Mn)**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>Visible Trade</u>					
Domestic Exports	231,045	234,123	223,027	222,092	231,657
Re-exports	534,841	690,829	823,224	947,921	1,112,470
Total Exports of Goods	765,886	924,953	1,046,250	1,170,013	1,344,127
Imports of Goods	778,982	955,295	1,072,597	1,250,709	1,491,121
Visible Trade Balance:					
Amount	-13,096	-30,342	-26,347	-80,695	-146,994
% against imports of goods	-1.7	-3.2	-2.5	-6.5	-9.9
Adjusted Imports of Goods ^(a)	782,042	958,462	1,075,710	1,254,427	1,495,706
Adjusted Visible Trade Balance ^(a) :					
Amount	-16,156	-33,510	-29,460	-84,414	-151,579
% against adjusted imports of goods	-2.1	-3.5	-2.7	-6.7	-10.1
<u>Invisible Trade</u>					
Exports of Services	161,087	189,352	215,577	240,668	265,635
Imports of Services	100,814	114,242	122,994	144,067	160,877
Invisible Trade Balance	60,273	75,110	92,583	96,601	104,758
<u>Visible and Invisible Trade</u>					
Exports of Goods and Services	926,973	1,114,304	1,261,827	1,410,681	1,609,762
Adjusted Imports of Goods and Services ^(a)	882,856	1,072,704	1,198,704	1,398,494	1,656,583
Adjusted Visible and Invisible Trade Balance ^(a) :					
Amount	44,117	41,600	63,123	12,187	-46,821
% against adjusted imports of goods and services	5.0	3.9	5.3	0.9	-2.8

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.

(#) Revised figures.

(+) Preliminary figures.

Table 5 (cont'd)

Visible and invisible trade account 1991 to 2001 (\$Mn)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>Visible Trade</u>						
Domestic Exports	212,160	211,410	188,454	170,600	180,967	153,520
Re-exports	1,185,758	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467
Total Exports of Goods	1,397,917	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987
Imports of Goods	1,535,582	1,615,090	1,429,092	1,392,718	1,657,962	1,568,194
Visible Trade Balance:						
Amount	-137,664	-159,141	-81,443	-43,718	-85,273	-87,208
% against imports of goods	-9.0	-9.9	-5.7	-3.1	-5.1	-5.6
Adjusted Imports of Goods ^(a)	1,539,851	1,619,468	1,432,423	1,395,521	1,661,404	1,570,754
Adjusted Visible Trade Balance ^(a) :						
Amount	-141,934	-163,519	-84,774	-46,521	-88,715	-89,767
% against adjusted imports of goods	-9.2	-10.1	-5.9	-3.3	-5.3	-5.7
<u>Invisible Trade</u>						
Exports of Services	296,188	298,176	280,756	288,609 [#]	328,625 [#]	335,757 ⁺
Imports of Services	170,936	180,270	182,098	175,814 [#]	179,360 [#]	178,934 ⁺
Invisible Trade Balance	125,252	117,906	98,658	112,795 [#]	149,265 [#]	156,823 ⁺
<u>Visible and Invisible Trade</u>						
Exports of Goods and Services	1,694,105	1,754,125	1,628,405	1,637,609 [#]	1,901,314 [#]	1,816,744 ⁺
Adjusted Imports of Goods and Services ^(a)	1,710,787	1,799,738	1,614,521	1,571,335 [#]	1,840,764 [#]	1,749,688 ⁺
Adjusted Visible and Invisible Trade Balance ^(a) :						
Amount	-16,682	-45,613	13,884	66,274 [#]	60,550 [#]	67,056 ⁺
% against adjusted imports of goods and services	-1.0	-2.5	0.9	4.2 [#]	3.3 [#]	3.8 ⁺

Table 6**Travel and tourism 1996 to 2001**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Average Annual Rate of Change: 5 years <u>1996-2001</u>
Incoming Visitors ^(a) ('000)	12 974	11 273	10 160	11 328	13 059	13 725	
Visitor Spending in Hong Kong ^(a) (\$Mn)	91,493	75,698	56,296	54,276	59,283	62,210	
Per Capita Spending by Visitors in Hong Kong ^(a) (\$)	7,052	6,715	5,541	4,791	4,539	4,532	
Hong Kong Residents Travelling Abroad ('000)	37 140	41 605	47 594	53 144	58 901	61 096	
Spending on Travel by Residents (\$Mn)	88,640	98,155	104,361	101,889 [#]	97,229 [#]	97,450 ⁺	
Per Capita Spending on Travel by Residents (\$)	2,387	2,359	2,193	1,917 [#]	1,651 [#]	1,595 ⁺	
<u>Rates of Change (%)</u>							
Incoming Visitors ^(a)	N.A.	-13.1	-9.9	11.5	15.3	5.1	1.1
Visitor Spending in Hong Kong ^(a)	N.A.	-17.3	-25.6	-3.6	9.2	4.9	-7.4
Per Capita Spending by Visitors in Hong Kong ^(a)	N.A.	-4.8	-17.5	-13.5	-5.3	-0.2	-8.5
Hong Kong Residents Travelling Abroad	7.8	12.0	14.4	11.7	10.8	3.7	10.5
Spending on Travel by Residents	9.2	10.7	6.3	-2.4 [#]	-4.6 [#]	0.2 ⁺	1.9 ⁺
Per Capita Spending on Travel by Residents	1.2	-1.2	-7.1	-12.6 [#]	-13.9 [#]	-3.4 ⁺	-7.7 ⁺

Notes: (a) Starting from 1996, statistics on incoming visitors cover those coming via Macao as well. Thus this new series is not strictly comparable to the old series prior to 1996.

(#) Revised figures.

(+) Preliminary figures.

N.A. Not available.

Table 7**Balance of payments account by major component 1998 to 2000 (\$Mn)**

	<u>1998[#]</u>	<u>1999[#]</u>	<u>2000[#]</u>
Current Account ^(a)	30,238	89,088	69,471
Goods	-60,667	-24,501	-63,832
Services	74,507	90,755	124,548
Factor income	28,762	34,777	21,768
Current transfers	-12,364	-11,943	-13,013
Capital and Financial Account ^(a)	-31,514	-83,374	-57,863
Capital transfers	-18,445	-13,812	-12,044
Direct investment	-17,016	40,737	19,767
Portfolio investment	171,052	256,812	190,782
Financial derivatives	25,374	78,999	1,871
Other investment	-245,059	-368,243	-179,917
Reserve assets (net change) ^(b)	52,581	-77,867	-78,321
Net Errors and Omissions	1,276	-5,714	-11,609
Overall Balance of Payments	-52,581	77,867	78,321

Notes: (a) 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.

(b) 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 8

Property market 1991 to 2001

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>Completions of new property by the private sector</u> (’000 m ² of internal floor area)					
Residential property ^(a) (in units)	33 380	26 222	27 673	34 173	22 621
Commercial property	663	729	686	742	562
<i>of which :</i>					
Office space	459	564	413	502	355
Other commercial premises ^(b)	204	165	273	240	207
Industrial property ^(c)	1 059	1 030	414	493	375
<i>of which :</i>					
Industrial-cum-office premises	0	0	0	24	77
Conventional flatted factory space	520	556	311	266	249
Storage premises ^(d)	539	474	103	203	49
<u>Completion of public housing</u> (in units)					
Public rental	24 936	11 039	31 533	17 098	17 349
HOS/PSPS	16 826	5 740	33 109	4 440	14 472
Sandwich Class Housing	0	0	0	0	1 024
<u>Building plans with consent to commence work in the private sector</u> (’000 m ² of usable floor area)					
Residential property ^(e)	1 432.5	1 623.8	804.7	599.3	688.2
Commercial property	805.5	710.2	712.3	415.6	674.0
Industrial property ^(f)	1 011.7	449.6	425.0	751.5	457.4
Other property	318.0	183.4	318.9	258.6	159.0
Total	3 567.6	2 967.1	2 260.9	2 025.0	1 978.6
<u>Agreements for sale and purchase of property</u>					
Number :					
Residential property ^(g)	N.A.	N.A.	98 951	93 360	76 633
Non-residential property	N.A.	N.A.	34 109	21 532	21 016
Total	176 701	135 261	133 060	114 892	97 649
Total value (\$Bn) :					
Residential property ^(g)	N.A.	N.A.	N.A.	N.A.	200.3
Non-residential property	N.A.	N.A.	N.A.	N.A.	65.5
Total	285.2	322.5	349.0	423.9	265.8

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 here relate to completion 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.

Table 8 (cont'd)

Property market 1991 to 2001

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>Completions of new property by the private sector</u>						
('000 m ² of internal floor area)						
Residential property ^(a) (in units)	19 875	18 202	22 278	35 322	25 790	26 262
Commercial property	390	705	945	632	160	208
<i>of which :</i>						
Office space	269	456	737	427	96	76
Other commercial premises ^(b)	121	249	208	205	64	132
Industrial property ^(c)	440	343	300	191	62	45
<i>of which :</i>						
Industrial-cum-office premises	115	72	145	40	37	14
Conventional flattened factory space	242	181	31	4	19	30
Storage premises ^(d)	83	90	124	147	6	0
<u>Completion of public housing</u>						
(in units)						
Public rental	18 358	16 043	14 123	29 382	32 931	49 386
HOS/PSPS	10 325	18 257	18 015	16 891	21 172	22 390
Sandwich Class Housing	0	0	2 294	5 602	3 146	0
<u>Building plans with consent to commence work in the private sector</u>						
('000 m ² of usable floor area)						
Residential property ^(e)	1 058.2	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5
Commercial property	1 005.7	599.0	395.7	287.5	337.5	265.0
Industrial property ^(f)	530.5	461.6	69.5	84.9	129.2	45.7
Other property	375.8	259.2	201.5	125.8	240.2	75.0
Total	2 970.2	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1
<u>Agreements for sale and purchase of property</u>						
Number :						
Residential property ^(g)	129 484	172 711	85 616	77 087	65 340	69 667
Non-residential property	17 939	32 750	25 873	21 379	20 404	18 523
Total	147 423	205 461	111 489	98 466	85 744	88 190
Total value (\$Bn) :						
Residential property ^(g)	381.7	690.3	278.5	212.0	168.4	150.9
Non-residential property	92.9	177.7	62.4	44.6	54.1	41.9
Total	474.7	868.0	340.9	256.6	222.5	192.8

Notes (cont'd):

- (e) As from 1995, the classification of residential property in regard to building consents 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.
- (f) Including multi-purpose industrial premises designed also for office use.
- (g) It should be noted that primary sales of units under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) are not covered in this table, as sale and purchase agreements are commonly not required for these transactions. Also sale and purchase agreements for primary sales of units under the Private Sector Participation Scheme (PSPS) are not included in the row on residential property, yet they are included in the row on non-residential property, and thus also in the row for the total.

N.A. Not available.

Table 9**Monetary aggregates 1991 to 2001**

<u>As at End of Year</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Hong Kong Dollar Money Supply (\$Mn):					
M1	111,769	139,479	168,440	167,922	171,642
M2 ^(a)	636,042	726,992	922,417	1,094,715	1,260,427
M3 ^(a)	660,117	750,276	939,491	1,112,146	1,278,288
Total Money Supply (\$Mn):					
M1	128,497	155,557	187,608	185,334	190,471
M2	1,371,029	1,518,777	1,764,416	1,992,351	2,282,849
M3	1,435,743	1,574,265	1,823,108	2,070,831	2,363,963
Loans and Advances for Use in Hong Kong (\$Mn)	911,838	1,011,059	1,190,239	1,403,931	1,571,808
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) ^{(b)(c)} :					
Trade-weighted	83.8	83.5	85.2	95.4	91.6
Import-weighted	85.1	84.2	85.0	93.6	89.6
Export-weighted	82.5	82.8	85.3	97.2	93.7
<u>Rates of Change (%)</u> :					
Hong Kong Dollar Money Supply:					
M1	21.7	24.8	20.8	-0.3	2.2
M2 ^(a)	17.9	14.3	26.9	18.7	15.1
M3 ^(a)	15.6	13.7	25.2	18.4	14.9
Total Money Supply:					
M1	19.5	21.1	20.6	-1.2	2.8
M2	13.3	10.8	16.2	12.9	14.6
M3	11.5	9.6	15.8	13.6	14.2
Loans and Advances for Use in Hong Kong	18.4	10.9	17.7	18.0	12.0
Nominal Effective Exchange Rate Indices ^(c) :					
Trade-weighted	3.2	-0.4	2.0	12.0	-4.0
Import-weighted	2.5	-1.1	1.0	10.1	-4.3
Export-weighted	4.0	0.4	3.0	14.0	-3.6

Definitions of Terms:

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate.

Total Money Supply:

- M1: Legal tender 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 issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

Table 9 (cont'd)

Monetary aggregates 1991 to 2001

<u>As at End of Year</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Hong Kong Dollar Money Supply (\$Mn):						
M1	198,311	188,135	178,260	205,339	203,966	229,991
M2 ^(a)	1,503,603	1,652,473	1,814,100	1,910,972	1,984,628	1,995,007
M3 ^(a)	1,520,461	1,670,379	1,826,233	1,922,962	1,999,024	2,012,868
Total Money Supply (\$Mn):						
M1	217,460	208,093	197,666	225,156	243,847	258,206
M2	2,532,236	2,742,993	3,066,089	3,313,534	3,604,250	3,500,876
M3	2,611,636	2,825,609	3,122,345	3,361,805	3,647,510	3,544,946
Loans and Advances for Use in Hong Kong (\$Mn)	1,822,194	2,230,228	2,109,589	1,933,391	1,965,289	1,880,701
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) ^{(b)(c)} :						
Trade-weighted	94.0	98.0	103.4	100.9	101.7	104.7
Import-weighted	93.0	97.9	105.5	101.4	101.5	105.1
Export-weighted	95.1	98.1	101.3	100.4	101.9	104.3
<u>Rates of Change (%)</u> :						
Hong Kong Dollar Money Supply:						
M1	15.5	-5.1	-5.2	15.2	-0.7	12.8
M2 ^(a)	19.3	9.9	9.8	5.3	3.9	0.5
M3 ^(a)	18.9	9.9	9.3	5.3	4.0	0.7
Total Money Supply:						
M1	14.2	-4.3	-5.0	13.9	8.3	5.9
M2	10.9	8.3	11.8	8.1	8.8	-2.9
M3	10.5	8.2	10.5	7.7	8.5	-2.8
Loans and Advances for Use in Hong Kong	15.9	22.4	-5.4	-8.4	1.6	-4.3
Nominal Effective Exchange Rate Indices ^(c) :						
Trade-weighted	2.6	4.3	5.5	-2.4	0.8	2.9
Import-weighted	3.8	5.3	7.8	-3.9	0.1	3.5
Export-weighted	1.5	3.2	3.3	-0.9	1.5	2.4

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

(b) Average of the year.

(c) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled based on the average merchandise trade pattern from 1999 to 2000. The EERIs for earlier periods are compiled based on old weights and have been re-scaled to the new base period for linking with the new index series.

Table 10

Labour force, employment, wages and earnings 1995 to 2001

	Mar 1995	Sep 1995	Mar 1996	Sep 1996	Mar 1997	Sep 1997	Mar 1998
Labour Force ^{(a)(b)} ('000)	2 929	3 018	3 065	3 179	3 216	3 213	3 247
Employed ^{(a)(b)} ('000)	2 852	2 907	2 974	3 096	3 145	3 144	3 141
Unemployed ^{(a)(b)} ('000)	77	111	92	83	71	70	106
Unemployment Rate, Seasonally Adjusted ^{(a)(b)(c)} (%)	2.5	3.7	2.9	2.6	2.3	2.1	3.3
Underemployment Rate ^{(a)(b)} (%)	1.4	2.5	2.0	1.3	1.1	1.0	1.9
Labour Force Participation Rate ^{(a)(b)} (%)	61.6	62.2	62.0	61.3	61.3	60.9	61.1
Employment ('000) in:							
Wholesale and import/export trades	587	616	601	616	608	592	570
Retail trade	204	196	202	207	209	214	200
Restaurants and hotels	225	219	224	224	229	221	212
Water transport, air transport and services allied to transport	93	96	99	103	104	100	94
Storage and communications	41	41	44	44	44	42	42
Financing, insurance, real estates and business services	361	375	379	391	408	416	395
Community, social and personal services	297	298	303	315	324	314	317
Manufacturing	395	386	351	327	313	309	281
Building and construction sites	64	66	69	77	84	78	87
Index of Payroll per Person Engaged ^(d) (Q1 1999 = 100):							
Nominal	77	70	85	76	93	85	98
Real ^(e)	90	79	93	81	96	85	97
Wage Index (Sep 1992 = 100):							
Nominal	127	129	134	138	142	147	150
Real ^(f)	104	102	104	103	104	104	104
Index of Construction Wage Rates (Jan 1970 = 100)	2 382	2 490	2 573	2 709	2 921	3 089	3 378

Definitions of Terms:

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 seven days before enumeration, or would otherwise have been engaged in productive work but were unemployed.

The labour force participation rate is defined as the proportion of labour force (i.e. those working or unemployed) in the population aged 15 or above.

For a person aged 15 or above to be classified as unemployed, he or she should : (i) 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 (ii) be available for work during the reference period; and (iii) be seeking work during the 30 days before enumeration.

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

The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working for 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.

Table 10 (cont'd)

Labour force, employment, wages and earnings 1995 to 2001

	Sep 1998	Mar 1999	Sep 1999	Mar 2000	Sep 2000	Mar 2001	Sep 2001
Labour Force ^{(a)(b)} ('000)	3 290	3 297	3 316	3 337	3 392	3 404	3 440
Employed ^{(a)(b)} ('000)	3 114	3 093	3 101	3 154	3 224	3 254	3 255
Unemployed ^{(a)(b)} ('000)	176	204	214	183	167	150	186
Unemployment Rate, Seasonally Adjusted ^{(a)(b)(c)} (%)	5.2	6.3	6.3	5.6	4.8	4.5	5.3
Underemployment Rate ^{(a)(b)} (%)	2.6	3.0	3.1	2.8	2.6	2.3	2.5
Labour Force Participation Rate ^{(a)(b)} (%)	61.4	61.2	61.2	61.1	61.6	61.3	61.6
Employment ('000) in:							
Wholesale and import/export trades	551	568	579	602	610	581	579
Retail trade	190	193	206	207	223	215	225
Restaurants and hotels	206	215	213	219	221	221	223
Water transport, air transport and services allied to transport	93	95	95	96	100	98	102
Storage and communications	39	41	42	41	45	45	44
Financing, insurance, real estates and business services	398	398	407	415	437	429	437
Community, social and personal services	324	336	340	345	349	360	377
Manufacturing	257	249	245	234	229	217	209
Building and construction sites	76	72	69	75	81	88	77
Index of Payroll per Person Engaged ^(d) (Q1 1999 = 100):							
Nominal	88	100	87	100	88	103	90
Real ^(e)	85	100	89	105	94	110	97
Wage Index (Sep 1992 = 100):							
Nominal	151	150	149	149	151	151	152
Real ^(f)	104	107	109	111	113	115	115
Index of Construction Wage Rates (Jan 1970 = 100)	3 438	3 488	3 505	3 517	3 612	3 547	3 613

Definitions of Terms (cont'd)

Unemployment and underemployment rates: the proportions of unemployed and underemployed persons in the labour force.

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

- (a) Quarterly average.
- (b) As from the second quarter of 1996 onwards, the labour force statistics are compiled on the basis of the "resident population" definition and with the results of the 2001 Population Census incorporated.
- (c) The seasonally adjusted unemployment rate is compiled on the basis of the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment.
- (d) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, payroll also covers overtime pay and other non-guaranteed or irregular bonuses and allowances. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in payroll per person engaged do not necessarily match closely with those in wage rates.
- (e) The real index is obtained by deflating the nominal index with the Composite Consumer Price Index.
- (f) The real index is obtained by deflating the nominal index with the Consumer Price Index (A).

Table 11**Rates of change in prices 1991 to 2001 (%)**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
GDP Deflator	9.2	9.7	8.5	6.9	2.5
Domestic Demand Deflator	8.1	8.1	7.8	7.1	5.1
Consumer Price Indices ^(a) :					
Composite CPI	11.6	9.6	8.8	8.8	9.1
CPI(A)	12.0	9.4	8.5	8.1	8.7
CPI(B)	11.6	9.6	8.7	8.6	9.2
CPI(C)	11.1	9.8	9.5	10.0	9.6
Unit Value Indices:					
Domestic exports	1.9	1.0	0.3	1.5	2.4
Re-exports	2.2	0.8	-0.6	1.5	3.5
Total exports of goods	2.6	0.8	-0.3	1.5	3.3
Imports of goods	1.9	0.2	-0.5	2.7	5.0
Terms of Trade Index	0.7	0.7	0.2	-1.2	-1.6
Producer Price Index for all manufacturing industries	3.4	1.9	0.7	2.1	2.8
Construction Labour and Material Cost Index	8.0	7.6	12.3	6.5	5.2
Tender Price Indices:					
Public sector building projects	-1.1	-7.5	2.0	14.0	17.8
Public housing projects	-2.9	-3.8	2.6	7.3	18.3
Property Price Indices:					
Residential flats ^(b)	36.4	39.4	9.2	23.5	-6.6
Office space	1.2	36.7	20.1	39.9	-15.5
Shopping space	26.9	40.3	21.4	17.8	-2.8
Flatted factory space	7.5	28.5	19.3	6.6	-11.2
Property Rental Indices ^(c) :					
Residential flats	7.4	9.7	7.7	21.3	2.2
Office space	-5.7	5.6	9.6	21.3	-1.8
Shopping space	13.0	16.5	10.9	13.8	1.1
Flatted factory space	3.6	7.8	10.2	3.3	-1.7

Notes: (a) As from October 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. For the earlier periods, they are computed from the CPIs with old base period.

(b) Figures refer to changes in the prices of all completed flats, but not pre-completion flats, in the entire residential property sub-sector.

(c) For residential property, their changes in rentals cover only new tenancies which are freshly determined. For non-residential property, their changes in rentals cover, in addition, lease renewals upon which rentals are revised.

Table 11 (cont'd)**Rates of change in prices 1991 to 2001 (%)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
GDP Deflator	5.9	5.8	0.4	-5.4 [#]	-6.5 [#]	-0.5 ⁺
Domestic Demand Deflator	4.9	4.8	0.7	-1.8 [#]	-5.6 [#]	-1.1 ⁺
Consumer Price Indices ^(a) :						
Composite CPI	6.3	5.8	2.8	-4.0	-3.8	-1.6
CPI(A)	6.0	5.7	2.6	-3.3	-3.0	-1.7
CPI(B)	6.4	5.8	2.8	-4.7	-3.9	-1.6
CPI(C)	6.6	6.1	3.2	-3.7	-4.5	-1.5
Unit Value Indices:						
Domestic exports	0.3	-2.4	-2.8	-2.4	-1.0	-4.5
Re-exports	-0.5	-1.5	-3.9	-2.8	-0.1	-2.3
Total exports of goods	-0.3	-1.6	-3.8	-2.7	-0.2	-2.6
Imports of goods	-1.3	-2.3	-4.9	-2.0	0.8	-3.3
Terms of Trade Index	1.0	0.7	1.2	-0.7	-1.0	0.8
Producer Price Index for all manufacturing industries	-0.1	-0.3	-1.8	-1.7	0.2	-1.5 [~]
Construction Labour and Material Cost Index	6.8	9.3	7.5	1.4	1.8	0.4 [^]
Tender Price Indices:						
Public sector building projects	14.4	17.6	9.1	-4.4	-13.1	-6.7 [~]
Public housing projects	11.4	18.9	9.0	-3.3	-11.9	-16.1 [~]
Property Price Indices:						
Residential flats ^(b)	8.9	39.5	-28.2	-14.6	-10.4	-12.5 ⁺
Office space	-3.2	13.1	-36.9	-25.7	-10.1	-12.9 ⁺
Shopping space	3.3	32.3	-27.6	-22.1	-6.4	-8.4 ⁺
Flatted factory space	-13.7	-1.5	-22.0	-24.1	-8.8	-10.6 ⁺
Property Rental Indices ^(c) :						
Residential flats	-1.4	13.0	-16.3	-11.2	-1.9	-2.8 ⁺
Office space	-14.7	3.0	-13.3	-26.4	-1.5	2.8 ⁺
Shopping space	*	4.8	-10.0	-10.1	1.3	-1.6 ⁺
Flatted factory space	-9.9	0.1	-10.9	-15.3	-4.6	-5.2 ⁺

Notes (cont'd): (#) Revised figures.
 (+) Preliminary figures.
 (~) Q1-Q3 2001.
 (^) January to November 2001.
 (*) Change of less than 0.05%.

Table 12

Forecast of expenditure on the Gross Domestic Product (GDP) in 2002

	<u>At Current Market Prices</u>		Forecast Rates of Change in Real Terms for 2002 (%)
	<u>Preliminary Figures for 2001</u> (\$Mn)	<u>Forecast for 2002</u> (\$Mn)	
Private Consumption Expenditure	739,037	717,108	-0.5
Government Consumption Expenditure	130,659	135,257	4
Gross Domestic Fixed Capital Formation	326,040	302,274	-5.1
<i>of which:</i>			
Building and construction	110,203	105,090	-3.2
Real estate developers' margin	32,039	28,459	-4
Machinery and equipment	173,424	159,123	-6.4
Change in Inventories	-207	-2,140	--
Total Exports of Goods	1,480,987	1,449,780	0.0
Domestic exports	153,520	142,213	-4
Re-exports	1,327,467	1,307,567	0.5
Imports of Goods ^(a)	1,570,754	1,513,602	-0.7
Exports of Services	335,757	345,500	4.5
Imports of Services	178,934	177,967	0.5
GDP	1,262,585	1,256,210	1
<i>Per Capita GDP (\$)</i>	<i>187,748</i>	<i>184,767</i>	<i>-0.1</i>
Total Final Demand	3,012,273	2,947,779	0.0
Total Final Demand Excluding Re-exports ^(b)	1,964,902	1,916,109	-0.5
Domestic Demand	1,195,529	1,152,499	-1.7
Private	1,008,235	963,339	-2.1
Public	187,294	189,160	1.7
External Demand	1,816,744	1,795,280	0.7
<u>Rates of Change (%)</u>			
GDP Deflator	-0.5	-1.5	
Domestic Demand Deflator	-1.1	-1.9	
Composite CPI	-1.6	-2.8	

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

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

(b) Re-export margin is nevertheless retained in the total final demand.

(--) Not applicable.

