



Third Quarter Economic Report 2002

Government of the Hong Kong
Special Administrative Region

***THIRD QUARTER
ECONOMIC REPORT 2002***

ECONOMIC ANALYSIS DIVISION
FINANCIAL SERVICES AND THE TREASURY BUREAU
GOVERNMENT OF THE
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CHAPTER 1 : OVERALL VIEW

Overall situation

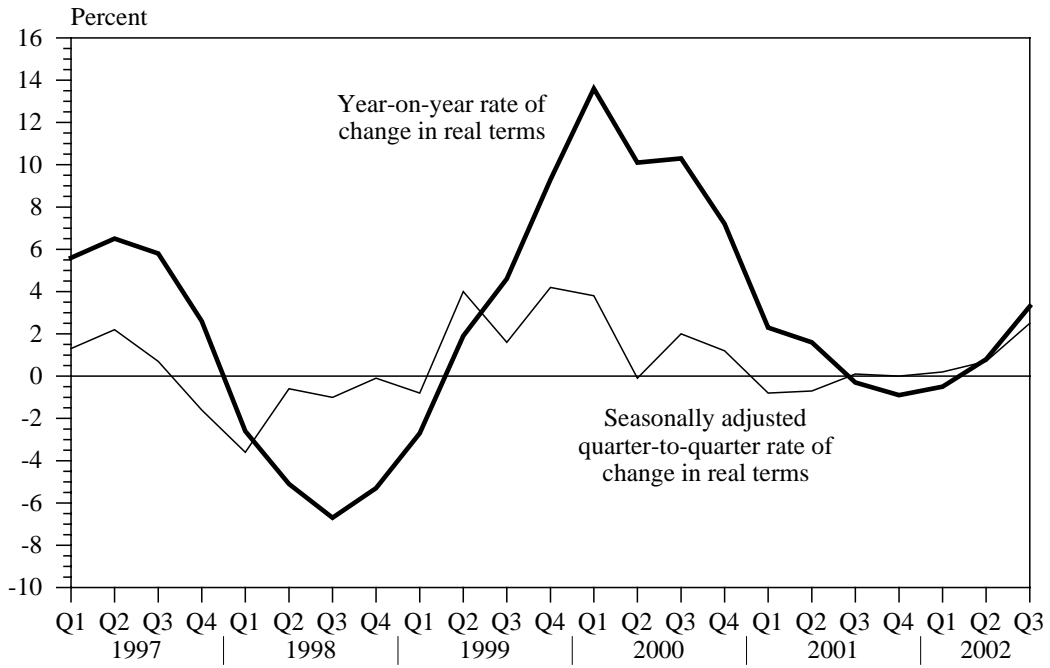
1.1 The Hong Kong economy, after turning around to a modest increase in the second quarter, picked up visibly further in the third quarter of 2002. The growth impetus continued to come from the external sector. Total exports of goods accelerated distinctly further, to a double-digit growth in the third quarter, the first time since the fourth quarter of 2000. Exports to East Asia had robust gain almost across the board, exports to the United States rose appreciably, and exports to Europe also improved. Exports of services, which were already buoyant in the second quarter, attained even stronger growth in the third quarter. There was an extensive surge in inbound tourism, offshore trade and outward transportation services. As to the domestic sector, while consumer spending had a narrowed decline in the third quarter, investment spending fell more, with the increase in building and construction output more than offset by a sharper decrease in machinery and equipment intake.

1.2 On a year-on-year comparison, the *Gross Domestic Product (GDP)*⁽¹⁾ accentuated to a 3.3% growth in real terms in the third quarter of 2002, from a 0.8% growth in the second quarter (latter revised up from the 0.5% growth put out earlier). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP rose for the third quarter in a row, by 2.5% in real terms in the third quarter of 2002, following a 0.7% rise in the second quarter (latter also revised up from the 0.4% rise put out earlier).

/Diagram 1.1

Diagram 1.1

Gross Domestic Product*



Note : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

/Table 1.1

Table 1.1

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

	<u>2000</u>	<u>2001</u>		<u>2001</u>				<u>2002</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>	<u>Q3⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	5.9	1.4	2.8	2.8	1.3	-1.1	-0.3	-2.4	-1.5
Government consumption expenditure	2.0	6.0	4.9	4.8	7.3	7.0	2.2	2.7	3.6
Gross domestic fixed capital formation	11.0	2.9	10.2	3.0	3.2	-4.2	-12.3	-0.6	-5.0
<i>of which :</i>									
Buildings and construction	-6.8	-2.2	-1.4	1.8	-6.4	-2.5	-6.5	5.9	4.7
Real estate developers' margin	-9.7	-1.0	-5.8	3.9	-5.6	3.7	5.3	11.0	17.0
Machinery, equipment and computer software	27.0	7.3	24.5	3.2	10.7	-5.8	-20.1	-7.0	-12.9
Total exports of goods	17.1	-3.3	3.6	-2.2	-4.4	-8.8	-2.4	5.9	11.4
Domestic exports	7.5	-10.2	-13.0	-7.4	-11.9	-8.3	-11.1	-13.6	-7.6
Re-exports	18.5	-2.4	5.9	-1.6	-3.4	-8.9	-1.4	8.4	13.6
Imports of goods ^(a)	18.2	-1.9	5.7	-0.5	-2.8	-8.7	-4.0	6.0	10.8
Exports of services	12.9	5.9	7.4	7.6	3.7	5.3	7.7	8.6	14.1
Imports of services	4.2	-0.2	3.3	1.5	-2.4	-2.8	-1.3	-4.0	1.0
Gross Domestic Product	10.2	0.6	2.3	1.6	-0.3	-0.9	-0.5	0.8	3.3
GDP at current market prices (\$ billion)	1,288	1,279	310	312	326	331	301	308	326
GDP at constant (2000) market prices (\$ billion)	1,288	1,297	312	316	332	337	310	318	343
Changes in inventories at constant (2000) market prices (\$ billion)	14	-3	1	2	-3	-4	-3	2	3
<i>Change in the main price indicators (%)</i>									
GDP deflator	-6.2	-1.4	-2.0	-1.7	-1.2	-0.8	-2.1	-2.1	-3.0
Composite Consumer Price Index^(b)	-3.8	-1.6	-2.0	-1.3	-1.0	-2.1	-2.6	-3.2	-3.5
Consumer Price Index (A) ^(b)	-3.0	-1.7	-2.0	-1.1	-0.7	-2.8	-2.8	-3.6	-4.1

Notes : (**) The GDP figures in this table are based on the revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(#) Revised figures.

(+) Preliminary figures.

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

(b) Final figures.

/Table 1.2

Table 1.2

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

	<u>2001</u>				<u>2002</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>	<u>Q3⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	1.1	0.4	-0.9	-1.1	0.5	-1.0	0.2
Government consumption expenditure	5.4	-1.1	2.2	0.5	0.5	0.1	2.8
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	-2.8	-2.7	1.5	-6.4	6.7	5.2	4.0
Domestic exports	-2.5	-0.4	-3.1	-3.3	-3.7	-3.6	1.3
Re-exports	-2.8	-3.0	2.1	-6.7	8.0	6.2	4.2
Imports of goods ^(a)	-1.3	-3.8	3.0	-8.0	6.0	6.3	4.6
Exports of services	*	3.2	1.5	0.4	2.5	3.7	6.5
Imports of services	-1.0	1.2	-1.4	-1.5	0.6	-1.8	3.6
Gross Domestic Product[^]	-0.8	-0.7	0.1	*	0.2	0.7	2.5
<i>Change in the main price indicators (%)</i>							
GDP deflator	1.2	-1.5	-0.3	-0.2	-0.2	-1.4	-1.1
Composite Consumer Price Index^(b)	-0.6	*	-0.4	-1.1	-1.1	-0.6	-0.7
Consumer Price Index (A) ^(b)	-0.8	0.3	-0.2	-2.2	-0.6	-0.6	-0.7

Notes : (***) The GDP figures in this table are based on the revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(#) Revised figures.

(+) Preliminary figures.

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

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

(*) Change of less than 0.05%.

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

(b) Final figures.

/1.3

1.3 The *labour market* showed some relative improvement more recently, along with the pick-up in overall economic activity. The seasonally adjusted unemployment rate, having risen to a peak of 7.8% in May - July 2002, edged down to 7.4% in the third quarter. Yet the underemployment rate edged higher, from 2.8% to 2.9% between these two periods. While total labour force continued to rise, total employment turned up to a small increase in the third quarter over the preceding quarter, for the first time in more than a year. Labour earnings and wages continued on a decline in nominal terms, though still with some gain in real terms after netting out the fall in consumer prices.

1.4 The *residential property market* turned more subdued in the third quarter of 2002, after some pick-up in trading activity in the second quarter. Transactions were particularly moderate in July and August, as buyers generally stayed on the sideline amidst high unemployment, stock market volatility, and a large overhang of new flat supply. Transactions were nevertheless re-activated somewhat in September, as developers stepped up promotion by offering further price discounts and other more generous concessions for their new projects. For the third quarter of 2002 as a whole, flat prices came down by an average of 5% and flat rentals by an average of 3% from the preceding quarter.

1.5 In the *financial market*, the spot exchange rate of the Hong Kong dollar against the US dollar continued to stay close to the linked rate during the third quarter of 2002. As to the twelve-month forward rate, the premium against the spot rate remained low during most of the quarter, yet widened distinctly in the latter part of September upon greater market concern about the protracted fiscal deficit. Local money market interest rates held steady in July, and then eased somewhat in August. Yet they rose back in September, with the three-month HIBOR rising above its US counterpart after the middle of the month, conceivably upon the same market concern. The local stock market went through considerable gyrations during the third quarter, affected by the downslide in the US stock market. The Hang Seng Index dropped below 10 000 towards the end of July, hovered around the 10 000 mark in August, and then tumbled sharply further in September, in face of possibly imminent military action on Iraq. The Index slid to a 12-month low of 9 072 at end-September, 14.4% lower than the level at end-June.

/1.6

1.6 On *consumer prices*, the Composite Consumer Price Index fell by 3.5% in the third quarter of 2002 over a year earlier, further enlarged from the 3.2% decline in the second quarter. Local costs and prices continued to ease, amidst subdued demand conditions and intensified market competition. Also, the package of relief measures as announced in the 2002-03 Budget still carried a downward effect. Import prices fell further yet at a lesser pace. It was apparent that the enlarged decline in consumer prices in the recent period was more domestically oriented.

1.7 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the second quarter of 2002. Both external factor income inflow and outflow fell considerably in the second quarter of 2002 over a year earlier, affected by more modest performance of the major overseas economies and the marked easing in interest rates over the course of last year. Yet taken together, there was still a net external factor income inflow amounting to 0.7% of GDP in the second quarter. GNP grew by 0.9% in real terms in the second quarter of 2002 over a year earlier, slightly faster than the 0.6% increase in the first quarter.

1.8 Within the net external factor income flow, net direct investment income (DII) outflow shrank distinctly in the second quarter of 2002 over a year earlier, due to a sharper fall in DII outflow than in DII inflow in that quarter. Yet net portfolio investment income (PII) inflow surged, although this was mainly due to reduction or prior advancement in dividend pay-outs by some locally listed companies in the second quarter. Net other investment income (OII) inflow however contracted markedly, as interest income from offshore loans and deposits by the local banking sector plummeted on account of decrease in these balances and lower interest rates.

/Table 1.3

Table 1.3**Gross National Product and external factor income flows**

	<u>2000</u>	<u>2001</u>	<u>2001</u>				<u>2002</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<i>Year-on-year rate of change in money terms (%)</i>								
Total external factor income flow ^(a)								
Inflow	14.2	-10.2	-7.0	-3.3	-3.8	-27.5	-16.0	-25.5
Outflow	19.7	-14.4	-11.8	4.3	-12.0	-37.5	-21.5	-26.1
Net external factor income flow at current market prices (\$ billion)	22	36	12	2	12	10	15	2
GDP at current market prices (\$ billion) [#]	1,288 (3.4)	1,279 (-0.7)	310 (0.4)	312 (-0.1)	326 (-1.5)	331 (-1.6)	301 (-2.6)	308 (-1.3)
GNP at current market prices (\$ billion) ^{#(b)}	1,310 (2.3)	1,315 (0.4)	322 (1.7)	315 (-2.5)	338 (1.0)	341 (1.4)	316 (-1.6)	311 (-1.3)
<i>Year-on-year rate of change in real terms (%)</i>								
Gross National Product[#]	9.0	1.8	3.7	-0.9	2.2	2.2	0.6	0.9

Notes : (#) Figures are revised, consequential to a technical revision to GDP as announced on 1 August 2002.

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

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

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

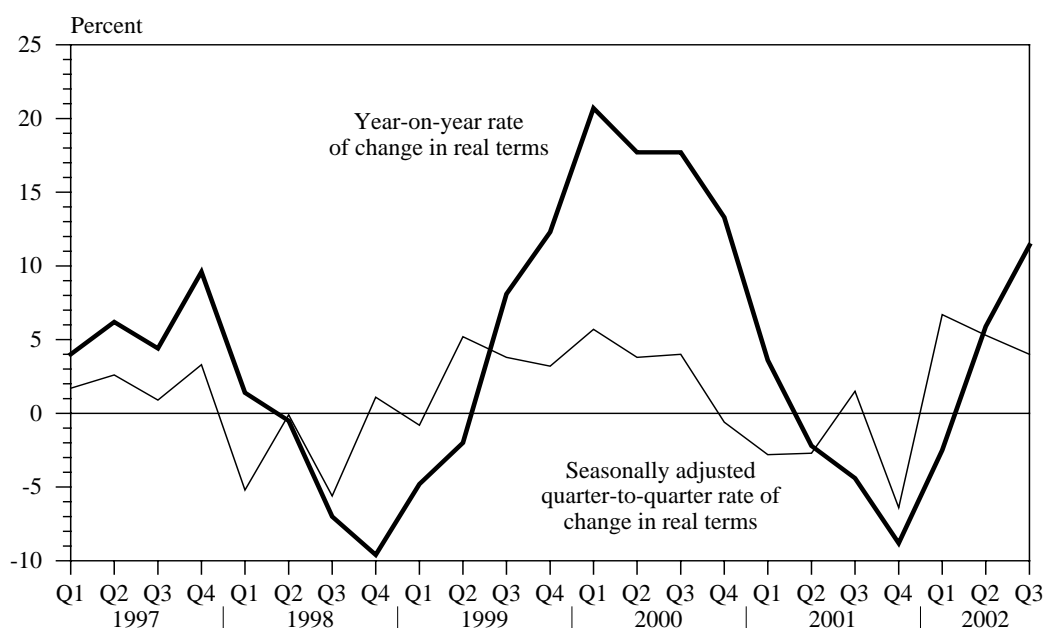
/The

The external sector

1.9 On visible trade, Hong Kong's merchandise exports continued to benefit from sustained strong demand in the mainland of China (the Mainland), generally increased import intake in the region, and a further gain in external price competitiveness. According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) picked up further to a notable growth of 11.4% in real terms in the third quarter of 2002 over a year earlier, the first double-digit growth recorded since the fourth quarter of 2000. Export growth in real terms was robust throughout the third quarter, at 12.9% in July, 8.2% in August and 12.9% in September. Together with a 1.8% rise in the first half of the year, total exports of goods grew by 5.3% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods leaped for the third consecutive quarter, by 4.0% in real terms in the third quarter of 2002, after increases of 6.7% in the first quarter and 5.3% in the second quarter (paragraph 2.4).

Diagram 1.2

Total exports of goods*



Note : (*) From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

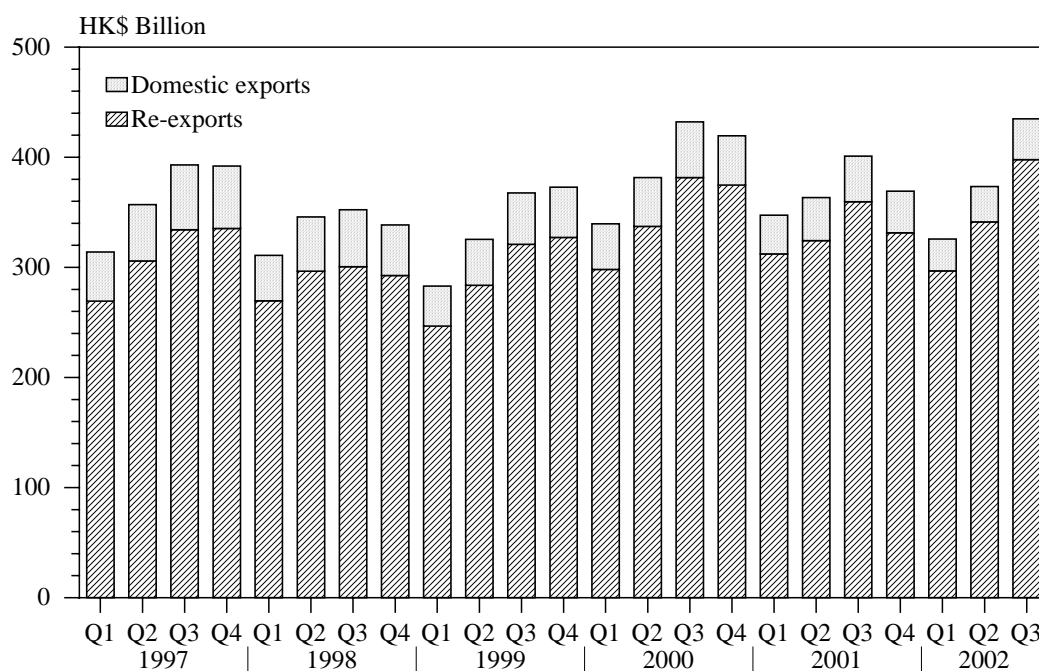
/1.10

1.10 *Re-exports* remained the main driver of growth within total exports of goods, with a 13.6% rise in real terms in the third quarter of 2002 over a year earlier, markedly up from a relatively modest growth of 3.5% in the first half of the year. There was double-digit growth in real terms for each month in the third quarter, at 15.3%, 10.4% and 15.1% respectively. For the first nine months of 2002, re-exports rose by 7.2% in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, re-exports also surged, by 4.3% in real terms in the third quarter of 2002, having gone up by 7.9% in the first quarter and 6.2% in the second quarter (paragraph 2.5).

1.11 The on-going structural shift towards re-exports and offshore trade continued to drag down *domestic exports*. In the third quarter of 2002, domestic exports shrank further by 7.6% in real terms over a year earlier, with declines by 6.1% in July, 10.1% in August, and 6.6% in September. Together with a 12.5% slump in the first half of the year, domestic exports plummeted by 10.7% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, domestic exports rose back by 1.3% in real terms in the third quarter of 2002, having declined by 3.8% and 3.6% respectively in the first and the second quarters (paragraph 2.6).

Diagram 1.3

Composition of total exports of goods



/1.12

1.12 Exports to the region continued to play a prominent role in driving the growth in merchandise exports. Total exports of goods to *East Asia* as a whole picked up distinctly further to a double-digit growth in real terms in the third quarter of 2002 over a year earlier. This robust growth, whilst almost across-the-board, was particularly marked in exports to the Republic of Korea, Malaysia, Thailand and the Philippines. Exports to the Mainland and Singapore continued to leap. Exports to Japan and Taiwan, having been on a sustained decline over the past few quarters, reverted to positive growth by the third quarter. Total exports of goods to *North America* improved further over the past few months, along with increased import intake in the United States and Canada, and further helped by improved relative price competitiveness of Hong Kong's exports. The downtrend in total exports of goods to the *European Union* likewise seemed to have been arrested in the third quarter of 2002, helped by steadier import demand in the EU economy lately and a generally stronger euro after April (paragraphs 2.13 to 2.15).

1.13 *Imports of goods* likewise picked up further in the third quarter of 2002, with a marked increase of 10.8% in real terms over a year earlier. This was underpinned by the notable performance of re-exports and also by a faster rise in imports for local use. The increase in real terms was robust all through the third quarter, by 12.0%, 10.1% and 10.3% respectively in July, August and September. Together with a 0.9% increase in the first half of the year, imports of goods rose by 4.4% in real terms in the first nine months of 2002 over a year earlier. Within total imports, *retained imports* firmed up to a growth of 5.2% in real terms in the third quarter of 2002 over a year earlier, with increases of 5.8%, 9.5% and 0.6% respectively in July, August and September. But with a 3.9% decline in the first half of the year, retained imports still fell by 0.8% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of goods continued to rise strongly, by 4.7% in real terms in the third quarter of 2002, following increases of 6.0% in the first quarter and 6.2% in the second quarter. Retained imports also had a further solid increase, by 5.6% in real terms in the third quarter of 2002, having risen by 2.0% in the first quarter and 6.3% in the second quarter (paragraph 2.7).

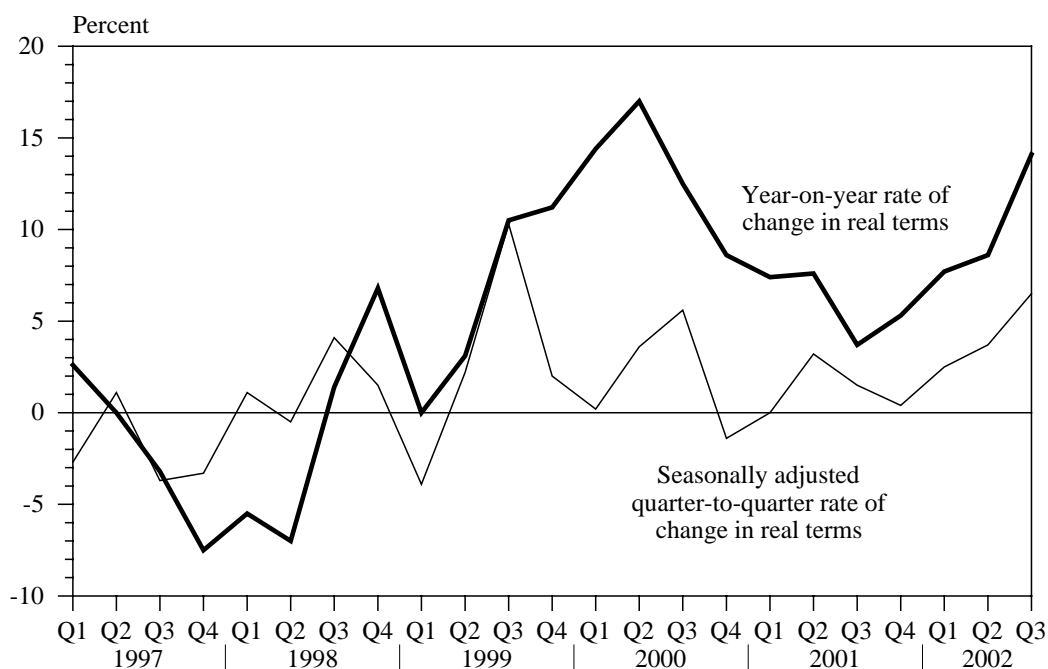
/1.14

1.14 With the value of exports of goods increasing distinctly faster than the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis instead of on a merchandise trade basis dwindled markedly further, to \$5.6 billion or 1.3% of the value of imports of goods in the third quarter of 2002, from \$11.4 billion or 2.8% in the same quarter in 2001. For the first nine months of 2002 as a whole, the visible trade deficit narrowed significantly to \$34.4 billion or 2.9% of the value of imports, from \$60.0 billion or 5.1% in the same period in 2001 (paragraph 2.8).

1.15 On invisible trade, *exports of services* remained buoyant, rising by 14.1% in real terms in the third quarter of 2002 over a year earlier, further up from an already rather robust growth of 8.2% in the first half of the year. For the first three quarters of 2002 as a whole, exports of services leaped by 10.3% in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services continued on the rise, by 6.5% in real terms in the third quarter of 2002, after increases of 2.5% in the first quarter and 3.7% in the second quarter (paragraph 2.9).

Diagram 1.4

Exports of services*



Note : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

/1.16

1.16 *Imports of services* had a much more moderate rise, by 1.0% in real terms in the third quarter of 2002 over a year earlier. Taken together with a 2.6% fall in the first half of the year, imports of services still had a decline of 1.4% in real terms in the first three quarters of 2002 as a whole over a year earlier. Yet on a seasonally adjusted quarter-to-quarter comparison, imports of services went up by 3.6% in real terms in the third quarter of 2002, following an increase of 0.6% in the first quarter and a decrease of 1.8% in the second quarter (paragraph 2.10).

1.17 With exports of services rising much faster than imports of services in value, the *invisible trade surplus* reckoned on a BoP basis rose markedly further, to \$41.4 billion or 81.6% of the value of imports of services in the third quarter of 2002, from \$33.3 billion or 67.1% in the same quarter in 2001. For the first three quarters of 2002 as a whole, the invisible trade surplus stood at \$110.5 billion or 77.8% of the value of imports of services, also distinctly up from \$93.4 billion or 64.7% in the same period in 2001. Together with a much narrowed visible trade deficit, the combined surplus reckoned on a BoP basis surged to \$76.1 billion or 5.8% of the total value of imports of goods and services in the first three quarters of 2002, as compared to \$33.4 billion or 2.5% in the same period in 2001 (paragraph 2.11).

Domestic demand

1.18 Local consumer spending continued to be affected by moderated income and weakness in the asset markets. Thus, notwithstanding an even sharper growth in inbound tourism, the volume of *retail sales* still had a 3.0% decline in the third quarter of 2002 over a year earlier. Yet this was relatively improved from the 4.5% fall in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales however had a larger fall, by 3.1% in the third quarter of 2002, after a 2.4% decline in the second quarter.

/Table 1.4

Table 1.4

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

		<u>Retail sales^(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>	
2001	Annual	1.2	3	4	-1	2	1	2	8
	Q1	2.5 (3.5)	3	8	*	3	3	3	5
	Q2	4.8 (1.1)	3	12	2	3	1	3	10
	Q3	0.5 (-5.1)	3	4	-2	2	*	1	4
	Q4	-3.0 (-1.8)	2	-5	-4	2	1	*	11
2002	Q1	-1.8 (4.6)	1	*	-3	2	-4	*	8
	Q2	-4.5 (-2.4)	*	-4	-8	3	-6	-1	14
	Q3	-3.0 (-3.1)	-1	*	-7	4	-3	1	24

Notes : (#) Local consumer and visitor spending in the local market has incorporated the results of a technical revision to GDP as announced on 1 August 2002.

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

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

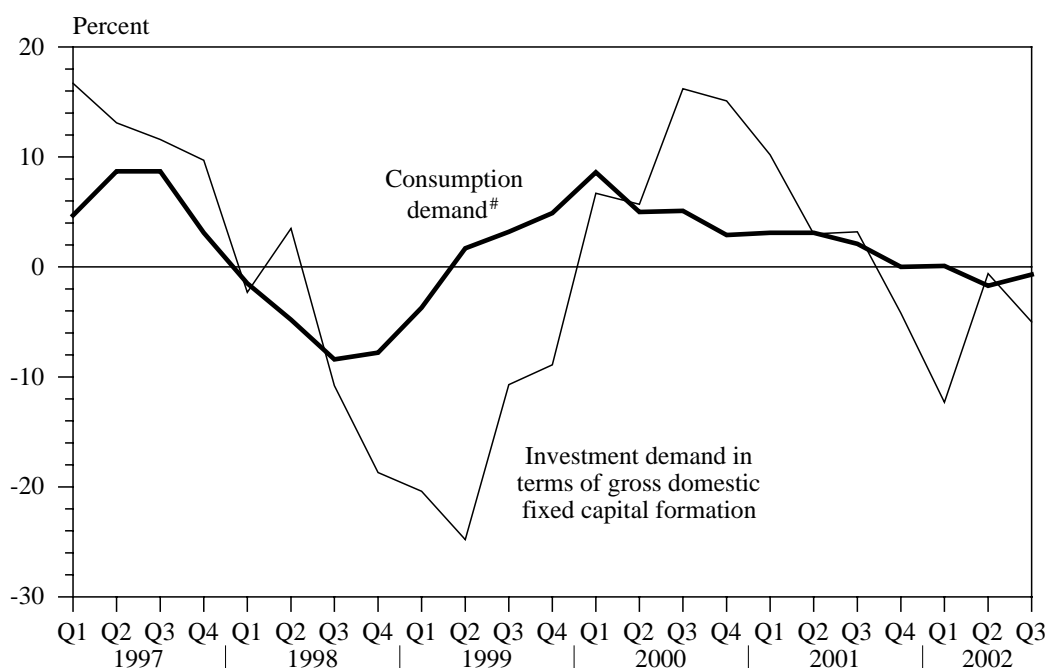
(*) Change of less than 0.5%.

1.19 With the sustained rise in spending on consumer services rendering a partial offset to the decline in spending on goods, *private consumption expenditure (PCE)* fell by 1.5% in real terms in the third quarter of 2002 over a year earlier, narrowed from the decline of 2.4% in the second quarter. Spending on non-durable goods remained on a decline in the third quarter, but spending on durable goods tended to bottom out. Spending by Hong Kong residents travelling abroad continued to fall, yet at a much lesser pace. On a seasonally adjusted quarter-to-quarter comparison, PCE rose back by 0.2% in real terms in the third quarter of 2002, after a 1.0% decrease in the second quarter.

/Diagram 1.5

Diagram 1.5

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



Notes : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(#) Comprising private consumption expenditure and government consumption expenditure.

1.20 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ rose by 3.6% in real terms in the third quarter of 2002 over a year earlier, after a 2.7% rise in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE went up further by 2.8% in real terms in the third quarter of 2002, having risen marginally by 0.1% in the second quarter.

1.21 *Gross domestic fixed capital formation*, as representing overall investment spending, remained sluggish. The 5.0% decline in real terms in the third quarter of 2002 over a year earlier was much enlarged from the 0.6% fall in the second quarter. Analysed by major component, *expenditure on machinery, equipment and computer software* plummeted by 12.9% in real terms in the third quarter of 2002 over a year earlier, further down from the 7.0% decline in the second quarter. This was mostly affected by the bleak business outlook and an overhang of excess capacity, while a high base last year was also relevant.

/Expenditure

Expenditure on buildings and construction nevertheless rose further, by 4.7% in real terms in the third quarter of 2002 over a year earlier, having turned up to a 5.9% growth in the second quarter. This was supported largely by a further increase in private sector building activity, as work on several major projects continued to gather momentum in recent months. In tandem with larger building output from the private sector, *real estate developers' margin*⁽⁵⁾ leaped further, by 17.0% in real terms in the third quarter of 2002 over a year earlier, having risen by 11.0% in the second quarter.

1.22 There was a more visible build-up of *inventories* in the third quarter of 2002, along with the pick-up in overall economic activity.

The Government account

1.23 In the first half of the Financial Year 2002-03 (April to September), *government revenue*, at \$48.6 billion, had a distinct decline of 10.9% in money terms over a year earlier. The fall-off was particularly marked in general rates, mainly upon the two rates concessions announced in the 2001 Policy Address and the 2002-03 Budget. *Government expenditure*, at \$119.4 billion in the first half of the Financial Year 2002-03, continued to grow, by 3.6% in money terms over a year earlier.

1.24 Taking the revenue and expenditure together, the *fiscal deficit* enlarged to \$70.8 billion in the first half of the Financial Year 2002-03, from that of \$60.7 billion in the first half of the Financial Year 2001-02. It should be noted that the fiscal deficit for the early part of the financial year is influenced by seasonal factors, as the major tax revenue including those from profits tax and salaries tax are mostly received towards the end of the financial year.

The property market

1.25 The sales market for *residential property* turned more subdued in the third quarter of 2002, following some pick-up in trading activity in the first half of the year, more in the second quarter than in the first quarter. The slow-down in transactions occurred mostly in July and August, when market sentiment was dented by high unemployment, a further plunge in share prices, and a large overhang of new flat supply. In the primary market, developers held off sales of

/new

new development projects. In the secondary market, activity slackened even more. Yet by September, there was some resurrection in transactions, as the major developers went for a fresh round of sales promotion with further price discounts and other more generous concessions to arouse buying interest. This rebound in the primary market was however much at the expense of the secondary market. As to the rental market for residential property, performance remained weak in overall terms (paragraph 3.6).

1.26 On a quarter-to-quarter comparison, flat prices plummeted further, on average by 5% in the third quarter of 2002, after a 2% decline in the second quarter. Flat rentals also continued to drift lower, on average by 3% in the third quarter of 2002, same as the decrease in the second quarter. For the first three quarters of 2002 as a whole, flat prices on average went down by 7% and flat rentals even more by 9%, implying a further deterioration in rental yield over the period. Against the respective peak levels in the third quarter of 1997, flat prices and rentals had both fallen substantially, by an average of 60% and 40% in the third quarter of 2002. Due to the further distinct decline in flat prices and lower mortgage rate, and notwithstanding reduced household income, affordability of home purchase improved even further in recent quarters. Concurrently as flat rentals fell further, lease affordability improved likewise (paragraph 3.7).

1.27 On *commercial property*, the rental market for *office space* stayed sluggish in the third quarter of 2002, as demand shrank amidst more extensive downsizing and rationalisation in the corporate sector. Grade A office space in prime locations was impinged more, owing to a more abundant supply of both new space and existing space. The sales market for office space was likewise weak, in the light of the unattractive rental yield against the risk involved. The rental market for *shopping space* was also slack in the third quarter of 2002, being dampened by the continued setback in retail trade. The sales market for shopping space remained subdued. Acquisitions were scant, given the heavy capital commitment for a purchase. On *industrial property*, the rental market stayed quiet in the third quarter of 2002. Demand for conventional factory space was curbed by the persistent fall-off in local manufacturing activity, while demand for industrial premises as back-up service centres had also waned. The sales market for industrial property remained in the doldrums (paragraphs 3.8 to 3.10).

/1.28

1.28 Comparing the first nine months of 2002 with a year earlier, *planned developments* of all types of property showed virtually nil change, as compared to a 25% drop in 2001. Within this total, planned developments of private residential property were reduced by 27% in terms of units or by 11% in terms of total usable floor area. On the other hand, planned developments of industrial property were sharply more, leaping by 184%, due to a very low base last year. Planned developments of commercial property and of property in the “others” category also increased, by 20% and 12% respectively (paragraph 3.15).

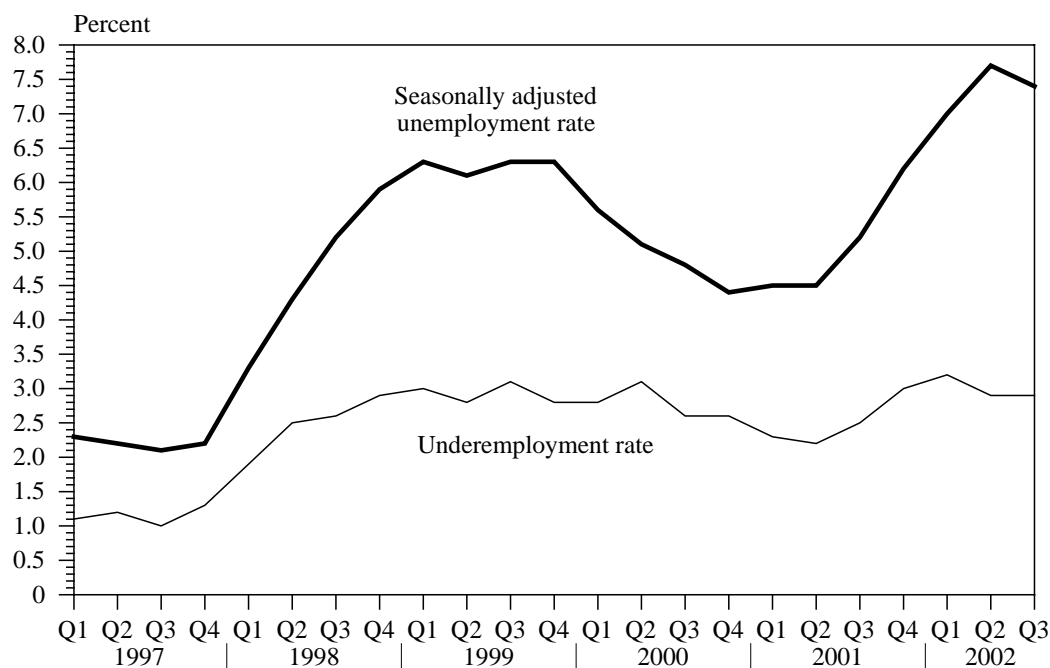
The labour market

1.29 The labour market, though still slack, showed some relative improvement in the third quarter of 2002, as employment rose from the preceding quarter to catch up with the increasing labour force. The *seasonally adjusted unemployment rate*, at 7.4% in the third quarter of 2002, came down from 7.7% in the second quarter, and slightly more from the peak of 7.8% in May - July. The total number of unemployed persons (not seasonally adjusted), at 267 200 in the third quarter of 2002, was also reduced from the peak of 275 000 in May - July, though still slightly larger than that of 263 400 in the second quarter. Moreover, the median duration of unemployment was shortened to 82 days in the third quarter of 2002, from 89 days in the second quarter. The proportion of persons unemployed for six months or more also fell, to 28% from 30%. On the other hand, the *underemployment rate* held steady, at 2.9% in both the second and third quarters of 2002. The total numbers underemployed likewise showed little change, at around 101 400. For the employed persons, high intensity of work still prevailed in the third quarter of 2002. The proportion of employed persons working for 50 hours or more per week went up further, to 40% in the third quarter of 2002, from 36% in the second quarter. The median hours of work stayed high, at 48 hours per week in the two quarters (paragraphs 5.1 to 5.3).

/Diagram 1.6

Diagram 1.6

Unemployment and underemployment rates

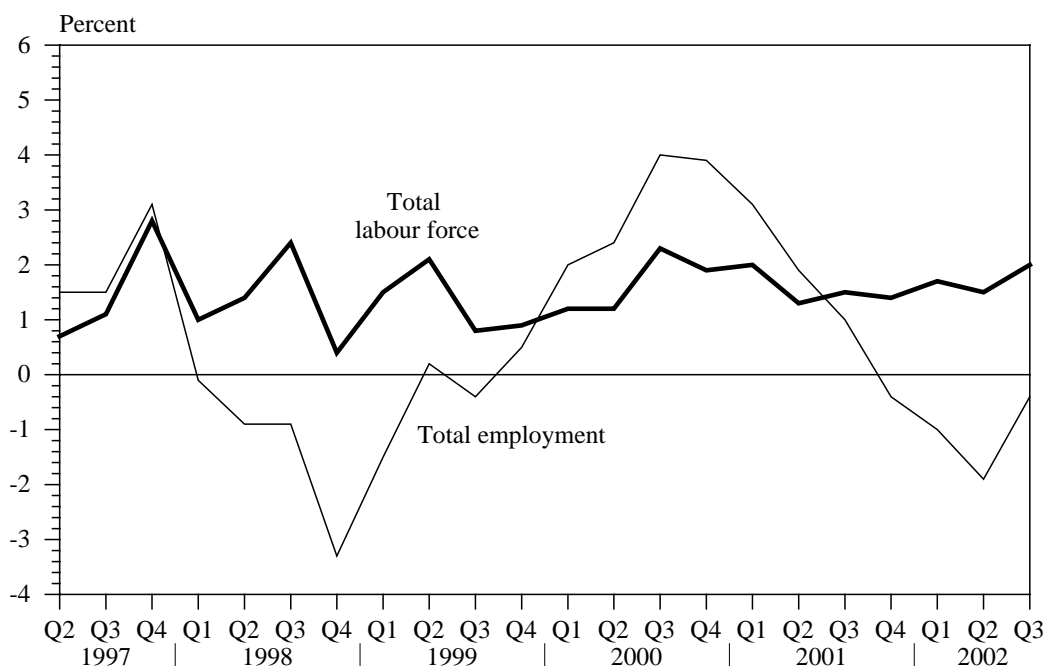


1.30 On a year-on-year comparison, *total employment* as enumerated from households contracted slightly, by 0.4% in the third quarter of 2002, distinctly narrowed from the 1.9% drop in the second quarter. Within this total, the number of self-employed persons continued to surge, by 8.4% in the third quarter of 2002, largely offsetting the decreases in the number of employers and employees, by 7.0% and 0.7% respectively. Reduced job opportunities in the corporate sector largely contributed to these differential changes. As to *total labour force*, the growth rate picked up somewhat, to 2.0% in the third quarter of 2002, from 1.5% in the second quarter. This was attributable to higher labour force participation rates for females and for younger persons aged 15-19. On a quarter-to-quarter comparison and bearing in mind the influence of seasonality, total employment reverted to increase, by 1.5% in the third quarter of 2002, from a decrease of 0.7% in the second quarter. Total labour force rose also by 1.5% in the third quarter of 2002, following virtually nil change in the second quarter (paragraph 5.4).

/Diagram 1.7

Diagram 1.7

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



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

1.31 Labour income fell further in the second quarter of 2002. Specifically, *labour earnings* had a slightly larger decline, by 1.0% in money terms in the second quarter of 2002 over a year earlier, having decreased by 0.6% in the first quarter. Yet netting out the fall in consumer prices as reflected by the Composite CPI, labour earnings still went up, by 2.2% in real terms in the second quarter of 2002, similar to the 2.1% rise in the first quarter. *Labour wages* likewise decreased, by 0.9% in money terms in June 2002 over a year earlier, after a 0.8% decline in March. Netting out the fall in consumer prices as reflected by the CPI(A), labour wages also increased, by 3.1% in real terms in June 2002 over a year earlier, even enlarged from the 1.2% rise in March. This was attributable to a larger decline in the CPI(A), and also by more than that for the Composite CPI, in June than in March (paragraph 5.5).

/Prices

Prices

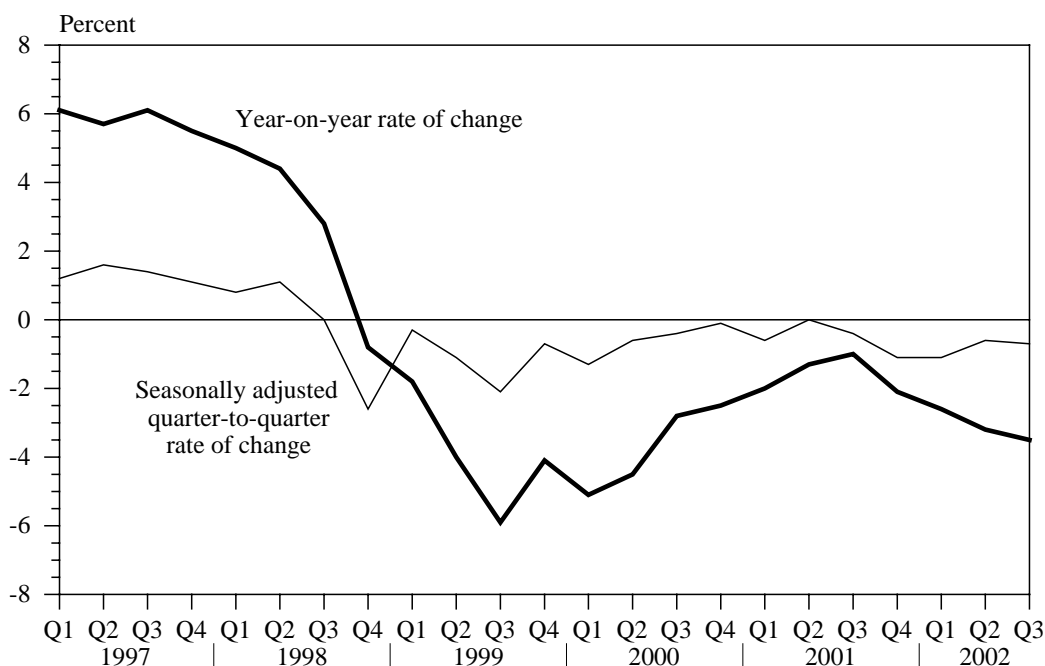
1.32 By the third quarter of 2002, overall consumer prices had stayed on a downtrend for almost four years, and the decline had also widened for four quarters in a row. Domestically, subdued demand conditions and intensified market competition led retailers into larger price cuts and other concessions on their goods and services in order to promote sales. Also relevant in keeping local prices down were further falls in property rentals and labour wages. Meanwhile, the downward effect from the relief measures as announced in the 2002-03 Budget remained. Yet externally, import prices showed a narrowed decrease, in tandem with a rebound in world commodity prices and possibly also with some lagged effect emerging from the earlier weakening in the US dollar. This suggested that the recent accentuated decline in consumer prices was more domestically oriented (paragraph 6.1).

1.33 On a year-on-year comparison, the *Composite Consumer Price Index* went down by 3.5% in the third quarter of 2002, further enlarged from the 3.2% fall in the second quarter. To a large extent, this was attributable to further softening in private housing rentals, as well as in the prices of foodstuffs such as fresh meat and vegetables and of miscellaneous services such as mobile phone and other telecommunications services. Also, the additional rates concession and the waiver of water and sewage charges implemented by the Government as from April continued to carry downward effect. For the first nine months of 2002 as a whole, the Composite CPI was lower by 3.1%, nearly double the 1.6% decline in 2001. Nevertheless, after netting out the special effects of the Government's relief measures, the year-on-year decrease in the Composite CPI widened only modestly between the two periods. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI moved lower by 0.7% in the third quarter of 2002, slightly larger than the 0.6% decline in the second quarter (paragraphs 6.2 and 6.4).

/Diagram 1.8

Diagram 1.8

Composite Consumer Price Index*



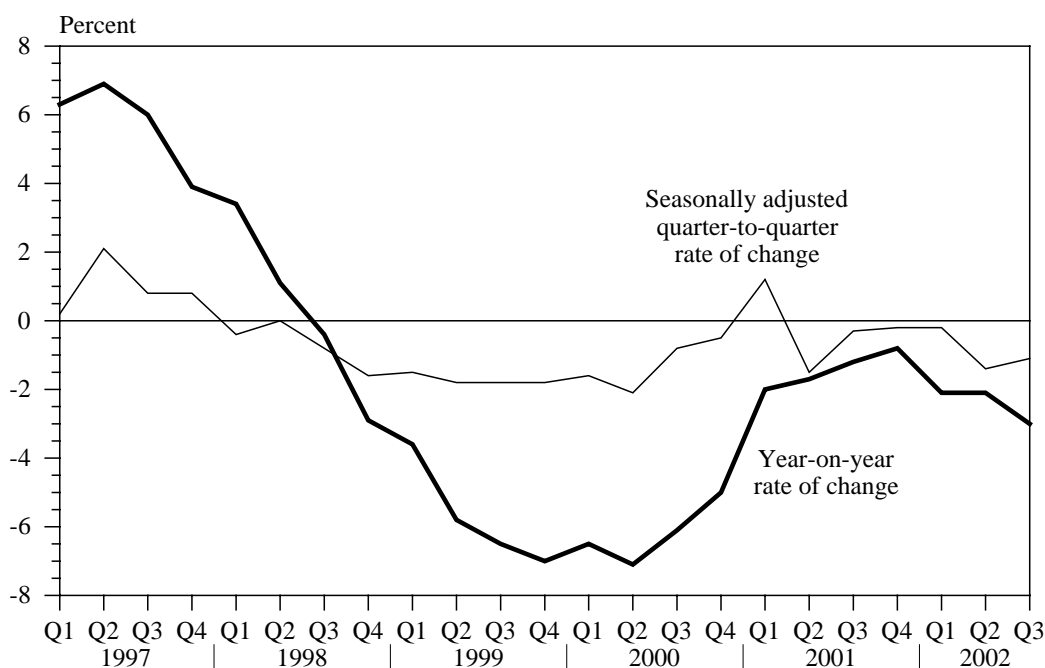
Note : (*) From the fourth quarter of 2000 onwards, the rates of change are computed from the 1999/2000-based Composite CPI series. Before then, the rates of change are computed from the 1994/95-based Composite CPI series. Splicing has been applied to the index series to maintain continuity.

1.34 The *GDP deflator*, as a broad measure of overall price change in the economy, had a widened decline, by 3.0% in the third quarter of 2002 over a year earlier, after a 2.1% decrease in the second quarter. Within the *GDP deflator*, the *domestic demand deflator* had an enlarged year-on-year decline of 4.4% in the third quarter of 2002. This was attributable to a larger fall in the price deflators for private consumption expenditure, for gross domestic fixed capital formation, and for government consumption expenditure. Yet the *total final demand deflator* had a lesser year-on-year decline in the third quarter of 2002, by 3.3%. This was due to a smaller decrease in the price deflators for exports of goods and services. On a seasonally adjusted quarter-to-quarter comparison, the *GDP deflator* fell by 1.1% in the third quarter of 2002, after a decrease of 1.4% in the second quarter (paragraph 6.15).

/Diagram 1.9

Diagram 1.9

GDP deflator*



Note : (*) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

The financial sector

1.35 The Hong Kong dollar exchange market remained broadly stable in the third quarter of 2002. The spot *exchange rate* of the Hong Kong dollar against the US dollar continued to stay close to the linked rate, moving within a narrow range of 7.798 to 7.800. As to the twelve-month forward rate, the premium held stable during most of the quarter, yet rose sharply since mid-September, amidst market concern over the protracted fiscal deficit. It surged to 134 pips (each pip equivalent to HK\$0.0001) at end-September 2002, distinctly up from 23 pips at end-June (paragraphs 4.1 and 4.2).

1.36 Under the linked exchange rate system, the movements in the exchange rates of the Hong Kong dollar against the other major currencies follow closely those in the US dollar. The US dollar and hence the Hong Kong dollar weakened against the major currencies during the third quarter of 2002, amidst increased uncertainty over sustainability of the US economic recovery. On the other hand,

/other

other major East Asian currencies, apart from the Renminbi, generally eased back against the Hong Kong dollar during the quarter. Comparing September 2002 with June 2002, the Hong Kong dollar on month-average was lower by 4.6% against the pound sterling, 2.6% against the euro, and 2.2% against the Japanese yen, but was higher by 4.5% against the Philippine peso, 1.6% against the Thai baht, and 0.9% against the New Taiwan dollar. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* on month-average fell by 0.5% during the third quarter of 2002, to 103.0 in September, from 103.5 in June (paragraphs 4.3 and 4.4).

1.37 Local inter-bank *interest rates* eased in August and then rose back in September, following broadly the movements in US interest rates. But the firming in local interest rates in September exceeded that of their US counterparts, reflecting market concern about the fiscal deficit situation. As the US Fed Funds target rate was kept unchanged in the third quarter of 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) was maintained at 3.25% during the quarter. The best lending rate of the major commercial banks stayed at 5.13%. Savings deposit rate offered by the major banks was also unchanged, at an average of 0.16%. The average spread of the best lending rate over the three-month time deposit rate widened slightly, from 4.68 percentage points in the second quarter of 2002 to 4.76 percentage points in the third quarter (paragraphs 4.5 and 4.6).

1.38 *Hong Kong dollar deposits* fell by 1.5% during the third quarter of 2002, following a 1.0% rise during the second quarter. Concurrently, *Hong Kong dollar loans* declined by 1.2% during the third quarter, after a 0.8% decrease during the second quarter. As a result, the Hong Kong dollar loan-to-deposit ratio rose marginally, to 89.3% at end-September, from 89.1% at end-June (paragraphs 4.8, 4.14 and 4.15).

1.39 The local *stock market* went through further gyrations in the third quarter of 2002, having already undergone significant ups and downs in the second quarter. While movements in the US stock market continued to exert a heavy influence on the local stock market, the lacklustre corporate performance and uncertain business outlook also posed a drag. The Hang Seng Index dipped below 10 000 towards the end of July, along with the plunge in US share prices amidst accentuated concern over US corporate frauds and a bumpier US economic recovery. It hovered around the 10 000 mark during August. Then it

/tumbled

tumbled sharply in September, affected by the war pressure on Iraq as well as a spate of adverse US corporate news and US economic data. The Index plummeted to a 12-month low of 9 072 on 30 September, 14.4% lower than the closing at end-June. Against the closing at end-2001, it lost 20.4%. Share prices in the major stock markets overseas likewise took a plunge in the third quarter of 2002, with many of the indices losing more than 10% from the closing in the second quarter. (The local stock market remained volatile since then. The Hang Seng Index tumbled to 8 859 on 10 October, and then bounced up to a high of 10 065 on 22 November.) (paragraph 4.28)

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The Gross National Product (GNP) is obtained by adding net external factor income flow, being the income inflow minus the corresponding income outflow, to GDP. External factor income inflow refers to income earned by residents from abroad, while external factor income outflow refers to income earned by non-residents from within the domestic territory. Hence GNP is an overall measure of income earned by the residents of an economy in a specified period, both domestically and from elsewhere. It distinguishes from GDP in that GDP is an overall measure of income earned by both residents and non-residents, from within the domestic territory in a specified period. Factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.

/(4)

- (4) Government consumption expenditure reckoned on a national accounts basis covers the recurrent expenditure on goods and services incurred by government departments. It also covers the recurrent expenditure of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board (formerly Hong Kong Tourist Association), Consumer Council and Hospital Authority. On the other hand, it does not include the expenditure of those government departments and statutory entities engaged in the production of goods and services principally for sale to the public, such as the Housing Department, Post Office and Water Supplies Department, and such as the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong. Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditure is in the nature of transfer payments and not direct consumption of economic resources.
- (5) Real estate developers' margin measures the services rendered by developers through acquiring land, co-ordinating the work of architects, building contractors, engineers etc for project development, arranging finance for the project, and marketing the building units. It is not the same as developers' profits, which include not only the reward for the services rendered but also land value appreciation, if any, that is realised in their development projects.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 In the third quarter of 2002, the global economic environment was overshadowed by much uncertainties. The oil price hike brought about by war pressure on Iraq and tumbling stock worldwide spilled gloom. In the US economy, there were increasing signs of stalling recovery, marked by a relapse in industrial activity and fall-back in the various leading indicators. Business investment was dented by falling corporate profits, risen corporate debt, and a myriad of accounting and governance problems. Yet consumer spending, as a key support to the overall economic growth, still held up quite well in the recent period. Concurrently, the EU economy was barely growing, as industrial activity continued to fall, investment sentiment remained fragile, and consumer spending stayed generally weak.

2.2 Yet the East Asian economies continued to benefit from the earlier improvement in global demand for IT products and also from the earlier rebound in export orders from the United States. The Mainland economy remained the prominent bright spot in the region, with its exports, domestic demand, and inward foreign direct investment all surging ahead. The Japanese economy also picked up somewhat, on the back of its improved export performance, although its domestic demand remained weak. In general, the resurgence in exports of these economies at least helped spur intra-regional trade, in turn giving renewed impetus to their import intake.

/Table 2.1

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

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	0.3	1.5	7.3	-0.2	-2.2	-2.0	3.0
	H1	0.7	2.0	7.9	0.9	-1.3	2.2	3.3
	H2	-0.1	1.0	6.7	-2.1	-3.0	-6.0	2.8
	Q1	1.5 (-0.2)	2.4 (0.5)	8.1	1.2 (1.0)	0.6	5.0 (-3.0)	3.7 (1.2)
	Q2	-0.1 (-0.4)	1.6 (0.1)	7.8	0.7 (-1.5)	-3.3	-0.5 (-2.2)	2.9 (0.3)
	Q3	-0.4 (-0.1)	1.4 (0.2)	7.0	-1.2 (-1.4)	-4.4	-5.4 (-2.7)	1.9 (1.3)
	Q4	0.1 (0.7)	0.6 (-0.2)	6.5	-2.9 (-0.5)	-1.6	-6.6 (1.4)	3.7 (1.6)
2002	H1	1.8	0.6	7.8	-2.0	2.6	1.1	6.1
	Q1-Q3	2.2	N.A.	7.9	-0.8	3.3	2.0	6.0
	Q1	1.4 (1.2)	0.5 (0.4)	7.6	-3.5 (0.2)	1.2	-1.5 (2.0)	5.8 (1.9)
	Q2	2.2 (0.3)	0.8 (0.4)	8.0	-0.5 (1.0)	4.0	3.8 (3.2)	6.4 (1.4)
	Q3	3.0 (0.8)	N.A.	8.1	1.7 (0.7)	4.8	3.9 (-2.6)	5.8 (1.3)

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.
For the mainland of China and Taiwan, seasonally adjusted series are not available.

N.A. Not yet available.

/Table 2.2

Table 2.2

**Total exports of goods of selected major economies
(year-on-year rate of change in US dollar terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore[#]</u>	<u>Republic of Korea</u>
2001	Annual	-6.9	0.6	6.8	-15.8	-17.2	-17.7	-12.5
	H1	0.5	2.2	8.7	-11.4	-10.8	-7.0	-5.1
	H2	-14.0	-1.1	5.1	-20.1	-22.9	-26.8	-19.7
	Q1	4.3	5.1	13.8	-6.6	-3.6	0.4	2.2
	Q2	-3.1	-0.7	4.6	-16.0	-17.1	-14.0	-11.6
	Q3	-13.5	0.3	3.8	-19.2	-28.7	-30.2	-19.8
	Q4	-14.5	-2.4	6.5	-20.9	-17.0	-23.4	-19.6
2002	H1	-10.9	-1.5	14.1	-5.8	-1.1	-9.8	-3.2
	Q1-Q3	-7.2	1.4 ^(a)	19.4	-0.9	5.1	-1.6	2.9
	Q1	-15.1	-7.4	10.0	-13.3	-7.9	-18.8	-11.1
	Q2	-6.6	4.8	17.8	2.3	5.8	0.1	5.0
	Q3	1.2	10.1 ^(a)	28.8	9.3	18.9	17.5	16.6

Notes : (#) Non-oil domestic exports.

(a) Crude estimate only, as data on exports in the European Union are available only up to August 2002.

Table 2.3

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

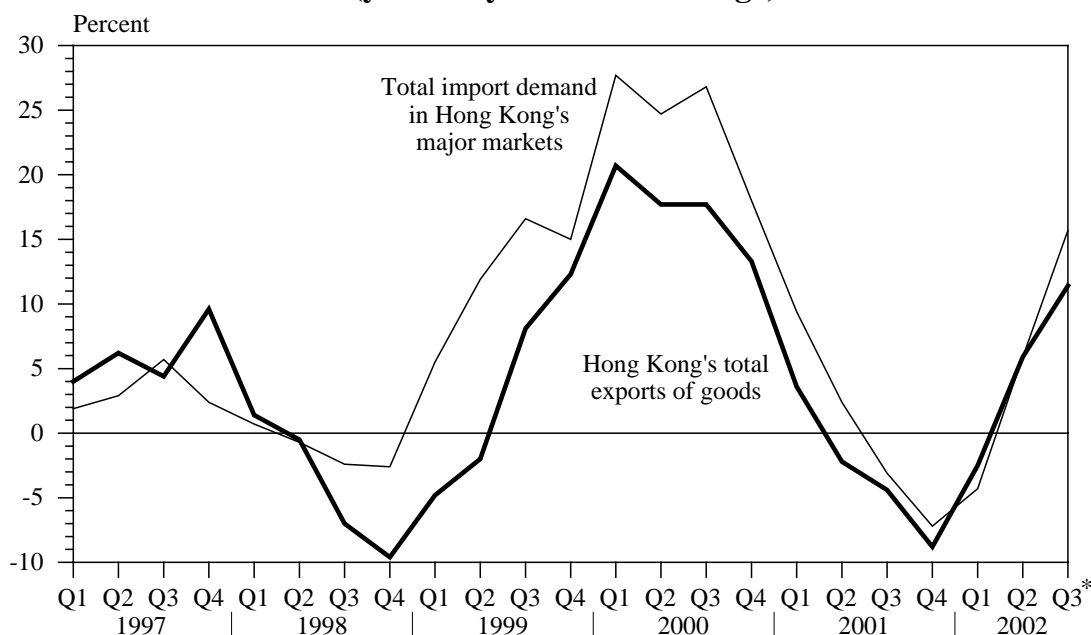
		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	-6.4	-1.9	8.2	-8.1	-23.4	-13.9	-12.1
	H1	0.5	1.3	14.1	0.2	-17.0	-3.8	-7.7
	H2	-12.8	-5.0	3.3	-15.4	-29.5	-22.4	-16.3
	Q1	5.0	4.0	17.3	4.8	-10.2	5.8	-1.8
	Q2	-3.7	-1.5	11.4	-4.3	-22.9	-12.4	-13.4
	Q3	-11.4	-3.4	6.5	-11.8	-34.1	-20.4	-15.5
	Q4	-14.1	-6.6	0.2	-18.9	-24.6	-24.4	-17.1
2002	H1	-6.0	-5.5	10.4	-13.1	-6.4	-6.7	-2.3
	Q1-Q3	-1.5	-2.5 ^(a)	17.2	-7.7	2.6	-2.4	2.7
	Q1	-12.6	-10.6	5.1	-18.3	-15.2	-16.2	-11.5
	Q2	0.8	-0.1	15.0	-7.6	2.5	3.5	7.8
	Q3	7.9	6.9 ^(a)	29.3	4.1	23.1	6.6	13.5

Note : (a) Crude estimate only, as data on imports in the European Union are available only up to August 2002.

/Diagram 2.1

Diagram 2.1

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



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

(*) Total import demand for the third quarter of 2002 is only a crude estimate, as data on imports in the European Union are available only up to August 2002.

2.3 On exchange rate movements, the US dollar had been on a weakening trend against other major currencies since mid-April 2002. Comparing the average level in the third quarter of 2002 with that in the second quarter, the US dollar was further down by 6.0% against the Japanese yen, by 6.6% against the euro, and by 5.7% against the pound sterling. With the movements in the Hong Kong dollar tracking closely those in the US dollar, and also along with larger price decline in Hong Kong as against places abroad, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell by an average of 3.2% in the third quarter of 2002 over the preceding quarter, following a 1.4% fall in the second quarter. This signified that Hong Kong's export price competitiveness had improved further in the more recent period.

/Table 2.4

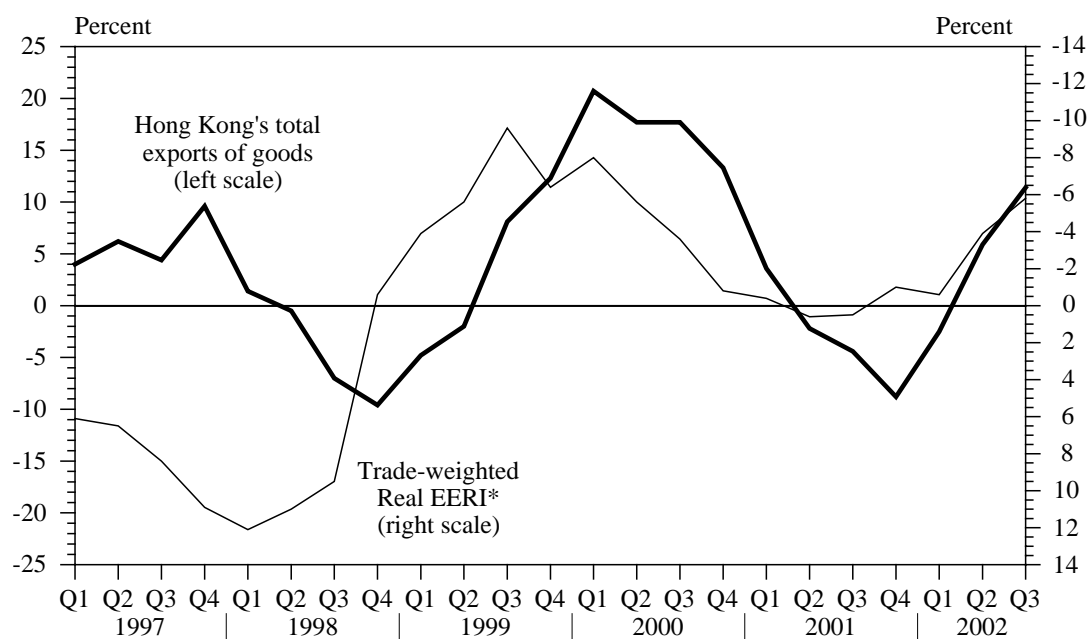
Table 2.4

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

% change in terms of average in the quarter over the preceding quarter		Japanese <u>yen</u>	<u>Euro</u>	Pound <u>sterling</u>	New Taiwan <u>dollar</u>	Singapore <u>dollar</u>	Korean <u>won</u>
2001	Q1	-7.0	6.1	0.9	-0.3	-0.3	-8.3
	Q2	-3.6	-5.4	-2.6	-2.7	-3.5	-2.6
	Q3	0.8	2.0	1.1	-3.5	2.0	0.9
	Q4	-1.7	0.5	0.4	0.2	-2.6	0.1
2002	Q1	-6.6	-2.0	-1.1	-1.3	-0.4	-2.1
	Q2	4.3	4.7	2.5	1.7	1.6	4.0
	Q3	6.4	7.1	6.0	1.4	2.6	6.0

Diagram 2.2

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



Note : (*) The Real Effective Exchange Rate Index of the Hong Kong dollar (Real EERI), as compiled by the Hong Kong Monetary Authority, is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of 14 major trading partners after adjusting for relative movements in the respective seasonally adjusted consumer price indices, with the weights adopted being the shares of these 14 trading partners in the overall value of Hong Kong's merchandise trade.

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

/Overall

Overall visible and invisible trade situation

2.4 On visible trade, Hong Kong's merchandise exports continued to benefit from sustained strong demand in the Mainland, generally increased import intake in the region, and a further gain in external price competitiveness. *Total exports of goods* (comprising re-exports and domestic exports) picked up further to a notable growth of 8.5% in value terms over a year earlier to \$434.9 billion in the third quarter of 2002. After netting out the decrease in prices, the growth was 11.4% in real terms⁽¹⁾. This was the first double-digit growth recorded since the fourth quarter of 2000. Export growth in real terms was robust throughout the third quarter, at 12.9% in July, 8.2% in August and 12.9% in September. Together with a 1.8% rise in the first half of the year, total exports of goods grew by 5.3% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods leaped for the third consecutive quarter, by 4.0% in real terms in the third quarter of 2002, after increases of 6.7% in the first quarter and 5.3% in the second quarter.

2.5 *Re-exports*⁽²⁾ remained the main driver of growth within total exports of goods, with a 10.6% increase in value terms over a year earlier to \$397.8 billion in the third quarter of 2002. After netting out the decrease in prices, there was a 13.6% rise in real terms, markedly up from a relatively modest growth of 3.5% in the first half of the year. There was double-digit growth in real terms for each month in the third quarter, at 15.3%, 10.4% and 15.1% respectively. For the first nine months of 2002, re-exports rose by 7.2% in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, re-exports also surged, by 4.3% in real terms in the third quarter of 2002, having gone up by 7.9% in the first quarter and 6.2% in the second quarter.

/2.6

2.6 The on-going structural shift towards re-exports and offshore trade⁽³⁾ continued to drag down *domestic exports*. In the third quarter of 2002, domestic exports shrank further by 10.4% in value terms over a year earlier to \$37.1 billion. After netting out the decrease in prices, there was a 7.6% fall in real terms, with declines by 6.1% in July, 10.1% in August, and 6.6% in September. Together with a 12.5% slump in the first half of the year, domestic exports plummeted by 10.7% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, domestic exports rose back by 1.3% in real terms in the third quarter of 2002, having declined by 3.8% and 3.6% respectively in the first and the second quarters.

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

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2001	Annual	-5.8	-3.3	-2.3	-4.6	-2.4	-2.0	-15.2	-10.2	-4.7
	H1	-1.4	0.5	-1.7	0.2	1.9	-1.5	-13.3	-10.1	-3.2
	H2	-9.6	-6.6	-2.8	-8.6	-6.1	-2.4	-16.8	-10.2	-6.1
	Q1	2.3	3.6	-1.1	4.8	5.9	-0.9	-15.3	-13.0	-2.5
	Q2	-4.7	-2.2	-2.3	-3.9	-1.6	-2.1	-11.4	-7.4	-3.8
	Q3	-7.2	-4.4	-2.6	-5.8	-3.4	-2.2	-17.9	-11.9	-5.8
	Q4	-12.0	-8.8	-3.0	-11.6	-8.9	-2.6	-15.6	-8.3	-6.5
2002	H1	-1.6	1.8	-3.1	0.2	3.5	-2.9	-17.7	-12.5	-4.4
	Q1-Q3	2.0	5.3	-2.8	4.0	7.2	-2.7	-15.1	-10.7	-3.9
	Q1	-6.2	-2.5	-3.4	-5.0	-1.5	-3.2	-17.5	-11.2	-5.4
	Q2	2.8	5.9	-2.7	5.3	8.3	-2.6	-17.8	-13.7	-3.6
	Q3	8.5	11.4	-2.4	10.6	13.6	-2.3	-10.4	-7.6	-3.1
	Jul	9.8	12.9	-2.5	12.1	15.3	-2.5	-9.1	-6.1	-3.0
	Aug	5.7	8.2	-2.2	7.9	10.4	-2.1	-12.9	-10.1	-3.1
	Sep	10.0	12.9	-2.5	12.0	15.1	-2.4	-8.9	-6.6	-3.1

Note : New series of unit value indices and quantum indices using 2000 as the updated base are released as from June 2002 to replace the old 1990-based series. For the period prior to 2000, the unit value indices and quantum indices are obtained by re-scaling the previously released 1990-based series, using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000. There may be minor differences in some of the rates of change in the unit value indices and quantum indices for the period from the first quarter of 2001 to the first quarter of 2002.

/Table 2.6

Table 2.6

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

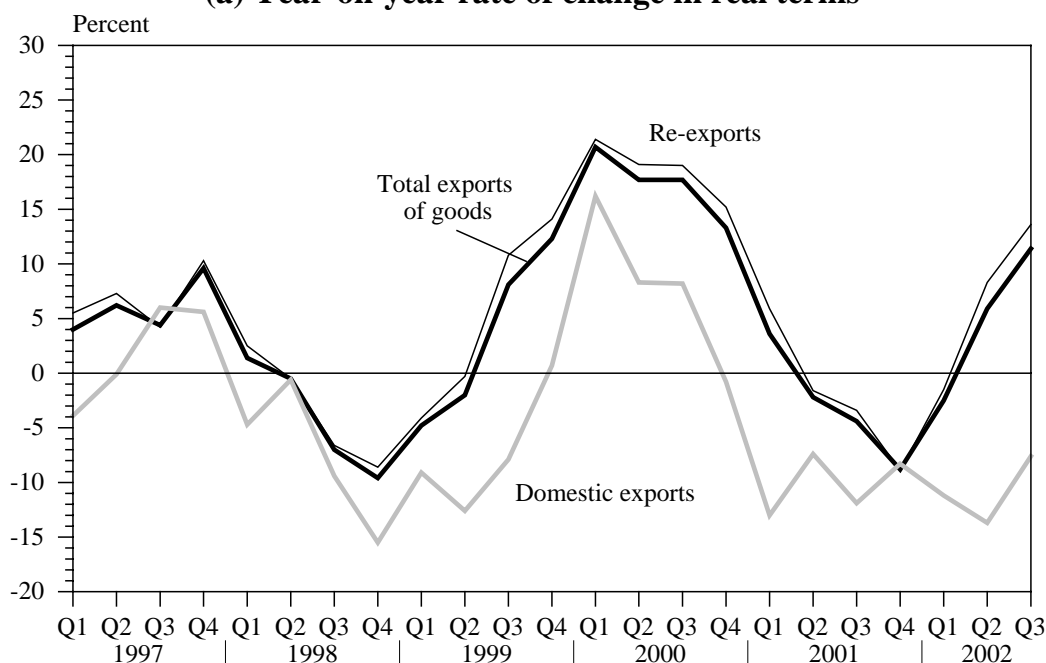
		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2001	Q1	-2.8	-2.8	-2.5
	Q2	-2.7	-3.0	-0.4
	Q3	1.5	2.1	-3.1
	Q4	-6.4	-6.7	-3.3
2002	Q1	6.7	7.9	-3.8
	Q2	5.3	6.2	-3.6
	Q3	4.0	4.3	1.3

Note : See the footnote to Table 2.5.

Diagram 2.3

Total exports of goods, re-exports and domestic exports

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

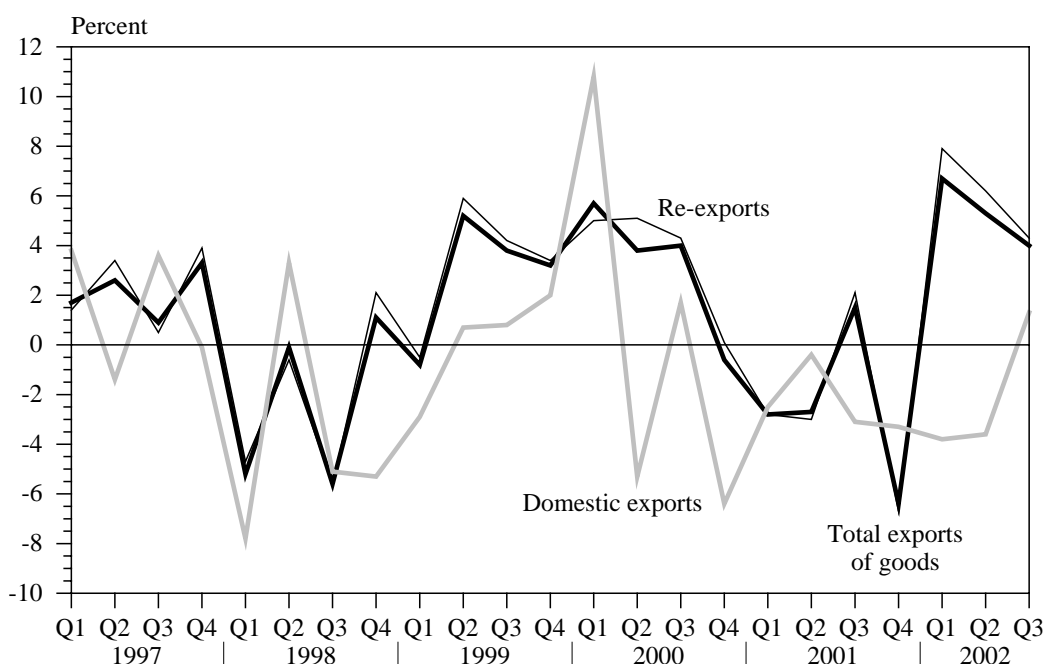


Note : From the first quarter of 2001 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

/Diagram 2.3 (cont'd)

Diagram 2.3 (cont'd)

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



Note : From the second quarter of 2000 onwards, the rates of change are computed from the new 2000-based trade index series. Before then, the rates of change are computed from the old 1990-based series. Re-scaling using conversion factors as derived from the levels of the old and the new series in their overlapping period of 2000 has been applied to the indices to maintain continuity.

2.7 *Imports of goods* likewise picked up further in the third quarter of 2002, with an increase of 6.5% in value terms over a year earlier to \$445.8 billion. After netting out the decrease in prices, imports of goods grew markedly, by 10.8% in real terms. This was underpinned by the notable performance of re-exports and also by a faster rise in imports for local use. The increase in real terms was robust all through the third quarter, by 12.0%, 10.1% and 10.3% respectively in July, August and September. Together with a 0.9% increase in the first half of the year, imports of goods rose by 4.4% in real terms in the first nine months of 2002 over a year earlier. Within total imports, *retained imports* firmed up to a growth of 5.2% in real terms in the third quarter of 2002 over a year earlier, with increases of 5.8%, 9.5% and 0.6% respectively in July, August and September. But with a 3.9% decline in the first half of the year, retained imports still fell by 0.8% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of goods continued to rise strongly, by 4.7% in real terms

/in

in the third quarter of 2002, following increases of 6.0% in the first quarter and 6.2% in the second quarter. Retained imports also had a further solid increase, by 5.6% in real terms in the third quarter of 2002, having risen by 2.0% in the first quarter and 6.3% in the second quarter.

Table 2.7

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2001	Annual	-5.4	-2.0	-3.1	-9.1	-1.1	-7.6
	H1	-0.1	2.4	-2.1	-2.8	3.2	-5.2
	H2	-10.0	-5.8	-4.1	-14.9	-5.1	-9.9
	Q1	3.6	5.6	-1.6	-0.8	5.0	-5.0
	Q2	-3.4	-0.5	-2.5	-4.6	1.5	-5.4
	Q3	-6.6	-2.9	-3.5	-10.5	-1.8	-8.4
	Q4	-13.5	-8.7	-4.8	-19.4	-8.4	-11.6
	2002	H1	-4.2	0.9	-4.8	-12.9	-3.9
	Q1-Q3	-0.5	4.4	-4.4	-9.5	-0.8	-8.0
	Q1	-9.1	-4.1	-4.9	-17.2	-8.9	-8.8
	Q2	0.4	5.7	-4.6	-8.9	0.8	-8.9
	Q3	6.5	10.8	-3.6	-2.6	5.2	-6.4
	Jul	7.3	12.0	-3.9	-2.6	5.8	-7.2
	Aug	5.8	10.1	-3.6	0.9	9.5	-6.7
	Sep	6.2	10.3	-3.2	-6.3	0.6	-5.2

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

Also see the footnote to Table 2.5.

/Table 2.8

Table 2.8

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

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2001	Q1	-1.3	1.9
	Q2	-3.7	-5.1
	Q3	2.9	4.3
	Q4	-8.1	-10.6
2002	Q1	6.0	2.0
	Q2	6.2	6.3
	Q3	4.7	5.6

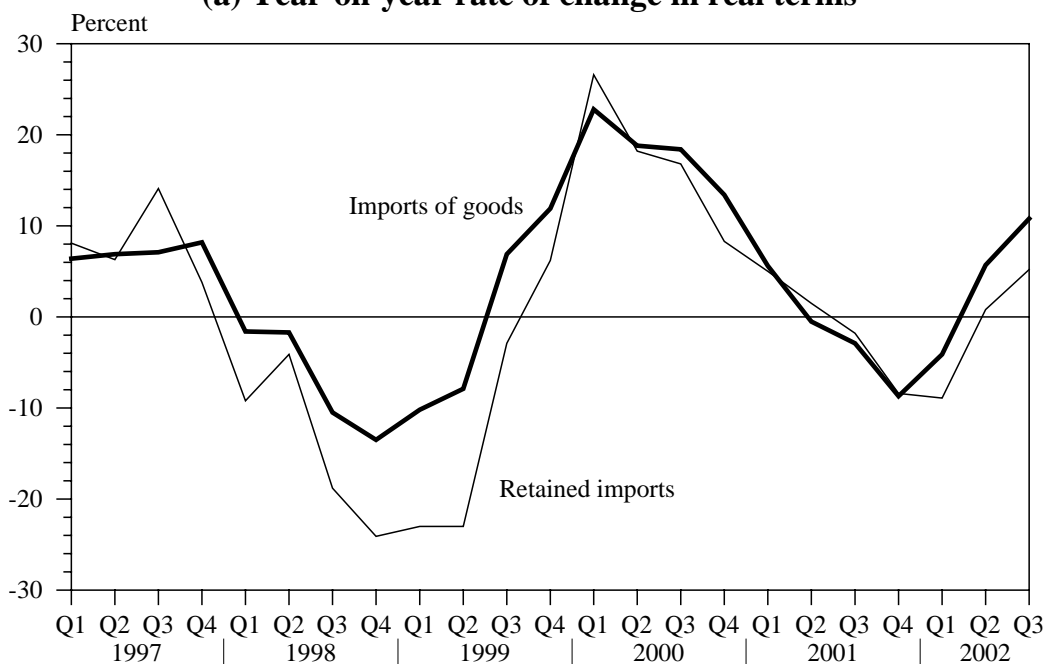
Notes : (a) See Note (a) to Table 2.7.

Also see the footnote to Table 2.5.

Diagram 2.4

Imports of goods and retained imports

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

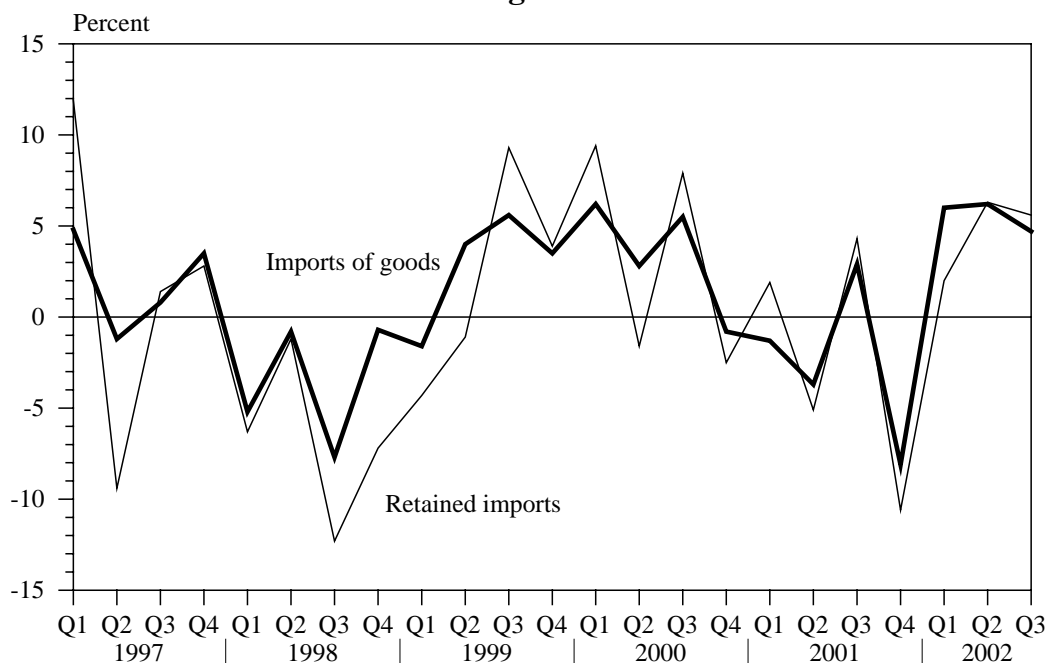


Note : See the footnote to Diagram 2.3 (a).

/Diagram 2.4 (cont'd)

Diagram 2.4 (cont'd)

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



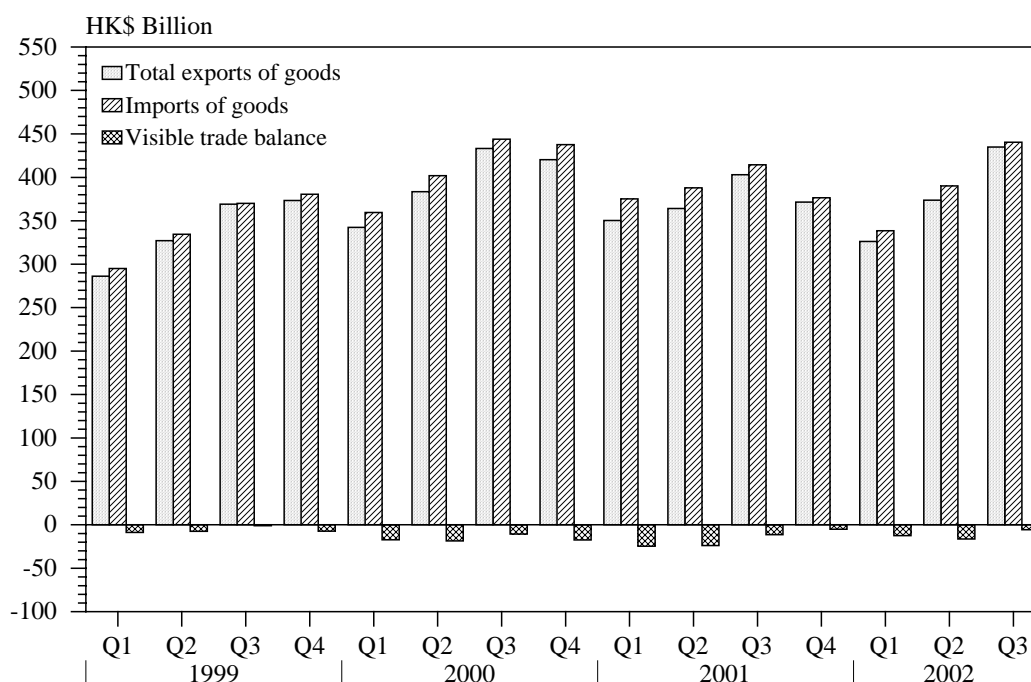
Note : See the footnote to Diagram 2.3 (b).

2.8 With the value of exports of goods increasing distinctly faster than the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis instead of on a merchandise trade basis⁽⁴⁾ dwindled markedly further, to \$5.6 billion or 1.3% of the value of imports of goods in the third quarter of 2002, from \$11.4 billion or 2.8% in the same quarter in 2001. For the first nine months of 2002 as a whole, the visible trade deficit narrowed significantly to \$34.4 billion or 2.9% of the value of imports, from \$60.0 billion or 5.1% in the same period in 2001.

/Diagram 2.5

Diagram 2.5

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



2.9 On invisible trade, *exports of services* remained buoyant, rising by 11.3% in value terms over a year earlier to \$92.2 billion in the third quarter of 2002. After netting out the decline in prices, there was double-digit growth at 14.1% in real terms in the third quarter, further up from an already rather robust growth of 8.2% in the first half of the year. For the first three quarters of 2002 as a whole, exports of services leaped by 10.3% in real terms over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services continued on the rise, by 6.5% in real terms in the third quarter of 2002, after increases of 2.5% in the first quarter and 3.7% in the second quarter.

2.10 *Imports of services* had a much more moderate rise, by 2.4% in value terms over a year earlier to \$50.7 billion in the third quarter of 2002. With a slight increase in prices, the increase in real terms was only 1.0%. Taken together with a 2.6% fall in the first half of the year, imports of services still had a decline of 1.4% in real terms in the first three quarters of 2002 as a whole over a year earlier. Yet on a seasonally adjusted quarter-to-quarter comparison, imports of services went up by 3.6% in real terms in the third quarter of 2002, following an increase of 0.6% in the first quarter and a decrease of 1.8% in the second quarter.

/Table 2.9

Table 2.9

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

		<u>Exports of services</u>			<u>Imports of services</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2001	Annual	1.7	5.9	-3.9	-1.0	-0.2	-0.8
	H1	5.2	7.5	-2.1	1.9	2.4	-0.5
	H2	-1.3	4.5	-5.6	-3.8	-2.6	-1.2
	Q1	6.4	7.4	-0.9	3.0	3.3	-0.3
	Q2	4.2	7.6	-3.1	0.8	1.5	-0.7
	Q3	-1.4	3.7	-4.8	-3.4	-2.4	-1.0
	Q4	-1.2	5.3	-6.3	-4.2	-2.8	-1.4
	2002	H1	3.6	8.2	-4.2	-3.6	-2.6
	Q1-Q3	6.2	10.3	-3.7	-1.6	-1.4	-0.2
	Q1	2.5	7.7	-5.0	-3.3	-1.3	-2.0
	Q2	4.6	8.6	-3.7	-4.0	-4.0	-0.1
	Q3	11.3	14.1	-2.5	2.4	1.0	1.4

Note : Figures in this table are based on the revised GDP series, incorporating the results of a technical revision to GDP in August 2002.

Table 2.10

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

		<u>Exports of services</u>	<u>Imports of services</u>
2001	Q1	*	-1.0
	Q2	3.2	1.2
	Q3	1.5	-1.4
	Q4	0.4	-1.5
2002	Q1	2.5	0.6
	Q2	3.7	-1.8
	Q3	6.5	3.6

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

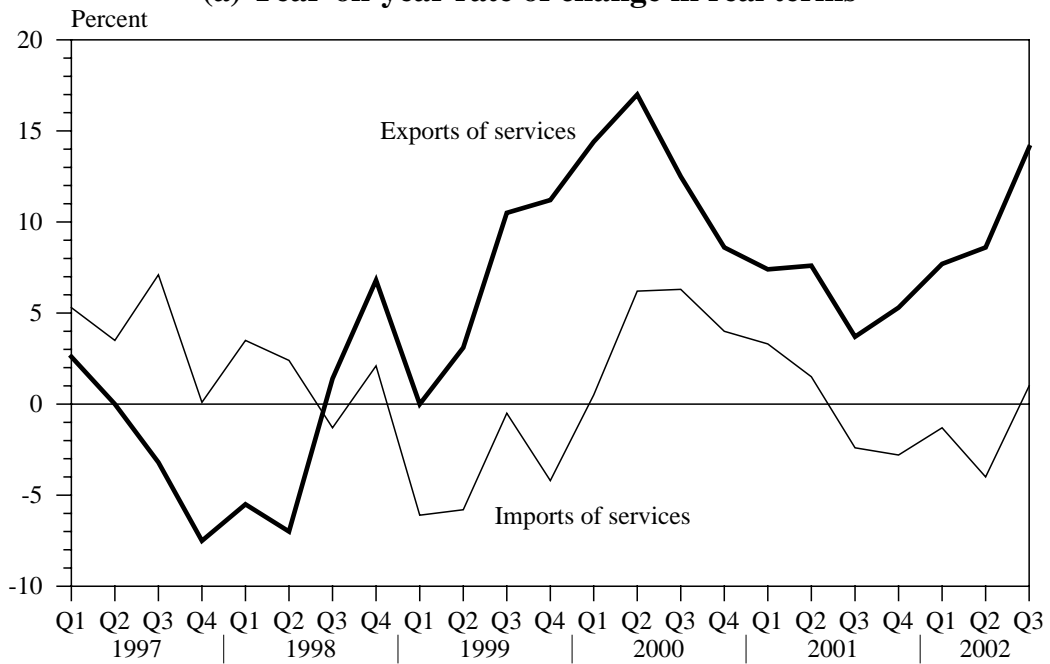
Also see the footnote to Table 2.9.

/Diagram 2.6

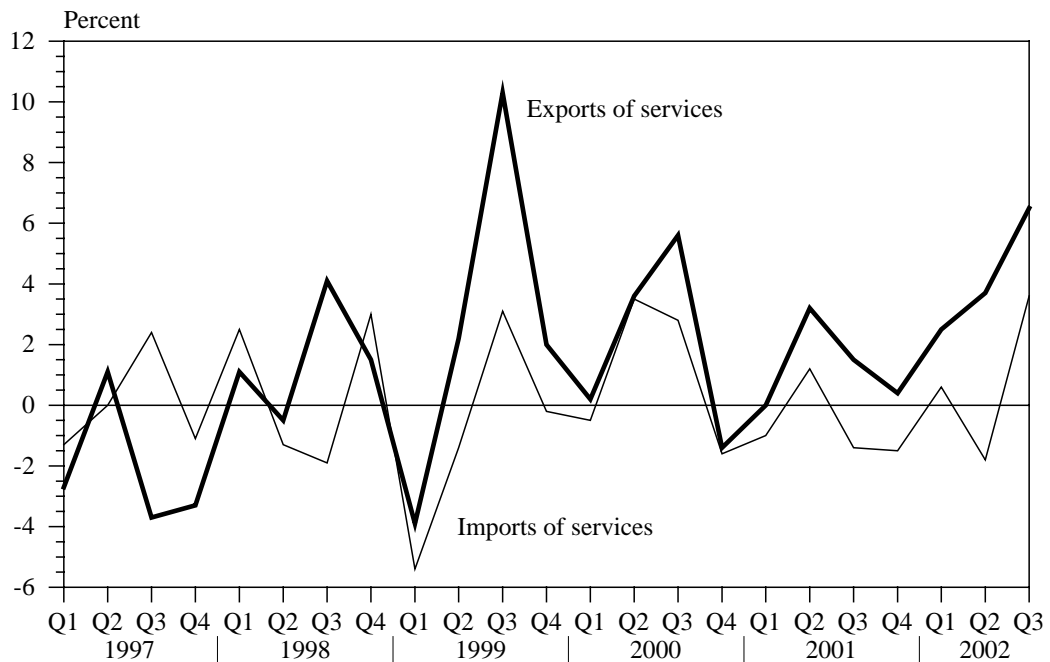
Diagram 2.6

Exports and imports of services

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



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

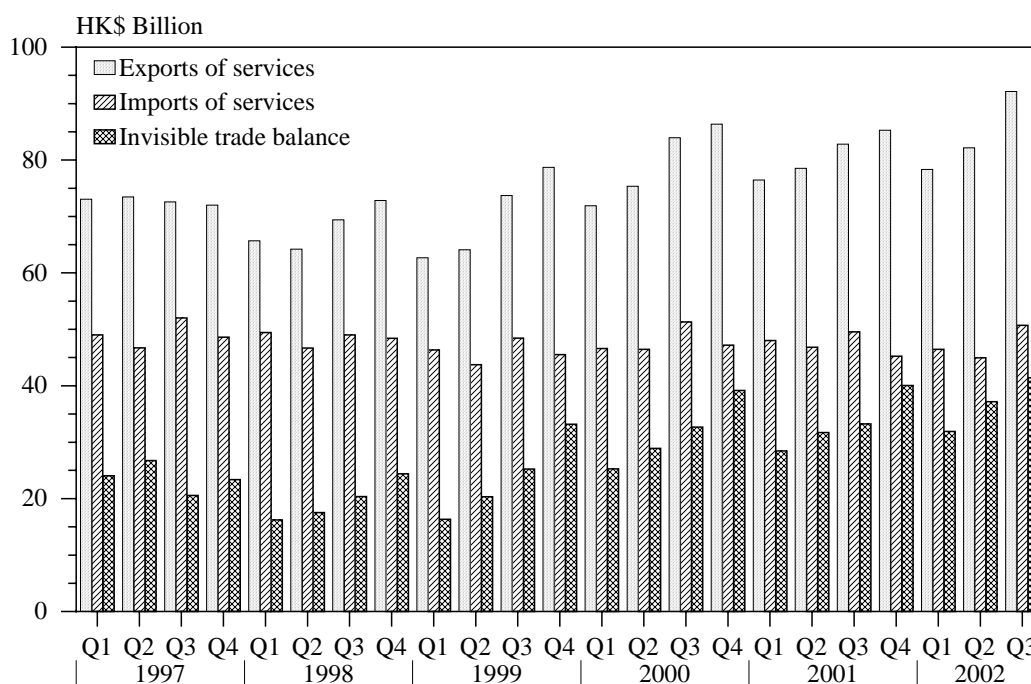


Note : See the footnote to Table 2.9.

/Diagram 2.7

Diagram 2.7

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



2.11 With exports of services rising much faster than imports of services in value, the *invisible trade surplus*⁽⁵⁾ reckoned on a BoP basis rose markedly further, to \$41.4 billion or 81.6% of the value of imports of services in the third quarter of 2002, from \$33.3 billion or 67.1% in the same quarter in 2001. For the first three quarters of 2002 as a whole, the invisible trade surplus stood at \$110.5 billion or 77.8% of the value of imports of services, also distinctly up from \$93.4 billion or 64.7% in the same period in 2001. Together with a much narrowed visible trade deficit, the combined surplus reckoned on a BoP basis surged to \$76.1 billion or 5.8% of the total value of imports of goods and services in the first three quarters of 2002, as compared to \$33.4 billion or 2.5% in the same period in 2001.

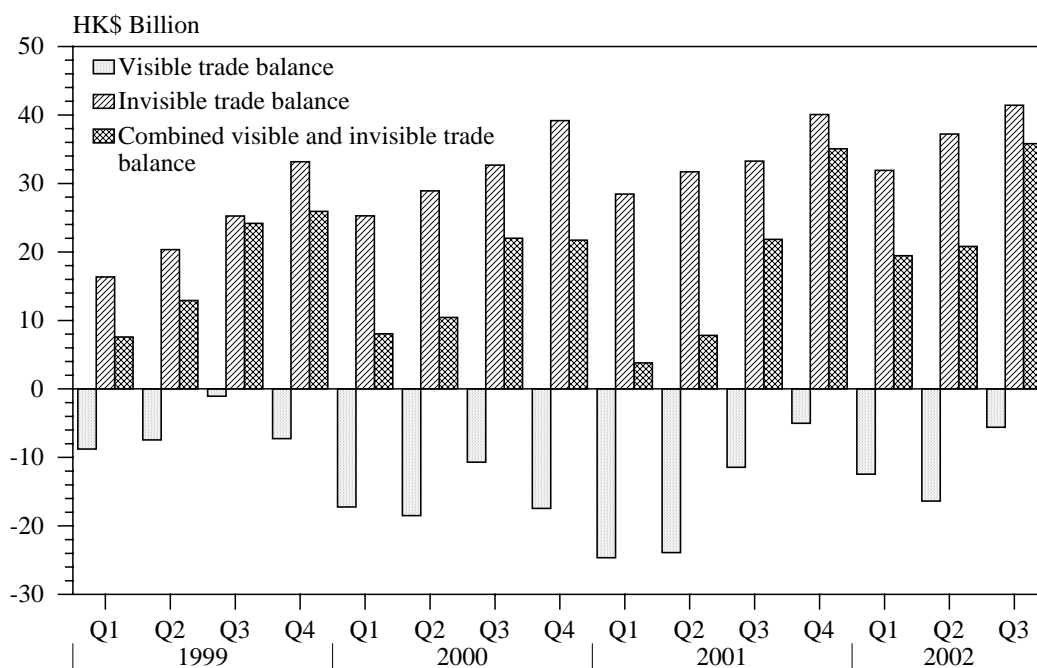
/Table 2.11

Table 2.11**Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2001	Annual	1,489.0	323.1	1,554.0	189.6	-65.0	133.5	68.5
	H1	714.5	155.0	763.0	94.8	-48.5	60.1	11.6
	H2	774.5	168.1	790.9	94.8	-16.4	73.3	56.9
	Q1	350.4	76.5	375.1	48.0	-24.6	28.4	3.8
	Q2	364.1	78.5	388.0	46.8	-23.9	31.7	7.8
	Q3	403.0	82.8	414.4	49.6	-11.4	33.3	21.8
	Q4	371.5	85.3	376.5	45.2	-5.0	40.1	35.1
2002	H1	699.8	160.5	728.6	91.4	-28.8	69.1	40.3
	Q1-Q3	1,134.7	252.6	1,169.1	142.1	-34.4	110.5	76.1
	Q1	326.1	78.3	338.5	46.4	-12.4	31.9	19.5
	Q2	373.7	82.2	390.1	44.9	-16.4	37.2	20.8
	Q3	434.9	92.2	440.5	50.7	-5.6	41.4	35.8

Notes : Figures in this table are reckoned on a BoP basis. Specifically, imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is still the on-going practice for the merchandise trade statistics.

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

Diagram 2.8**Visible and invisible trade balance**

Note : See the first footnote to Table 2.11.

/Visible

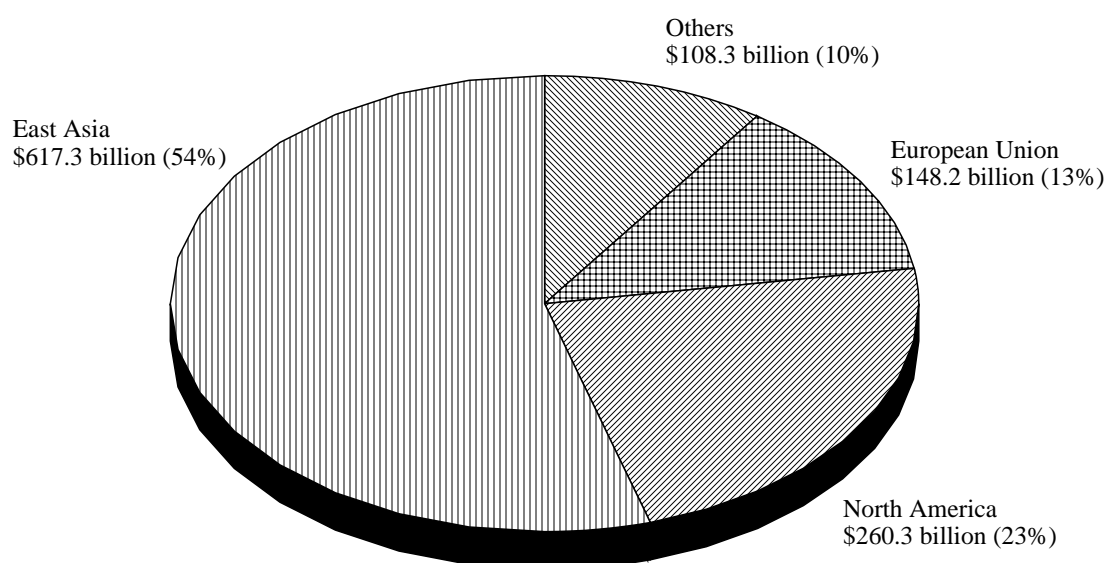
Visible trade

Total exports of goods

2.12 Reflecting an intimate trade linkage between Hong Kong and the region, East Asia⁽⁶⁾ continued to account for the largest share in Hong Kong's total exports of goods, at 54% by value in the first nine months of 2002. This was followed by North America⁽⁷⁾ (with a share of 23%), and the European Union⁽⁸⁾ (13%).

Diagram 2.9

Total exports of goods by major region in the first nine months of 2002



Total exports of goods in the first nine months of 2002 : \$1,134.1 billion

2.13 Exports to the region continued to play a prominent role in driving the growth in merchandise exports. Total exports of goods to *East Asia* as a whole, having risen by 9.3% in the second quarter, picked up distinctly further to a 14.7% increase in real terms in the third quarter of 2002 over a year earlier. This robust growth, whilst almost across-the-board, was particularly marked in exports to the Republic of Korea, Malaysia, Thailand and the Philippines. Exports to the Mainland and Singapore continued to leap. Exports to Japan and Taiwan, having been on a sustained decline over the past few quarters, reverted to positive growth by the third quarter. Together with a 7.1% rise in the first half of the year, exports to the region had a further notable growth of 9.8% in real terms in the first nine months of 2002 over a year earlier.

/Table 2.12

Table 2.12

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

		<u>East Asia</u> ^{(a)(d)}	<u>North America</u> ^(b)	<u>European Union</u> ^(c)
2001	Annual	1.8	-8.8	-8.5
	H1	5.4	-5.1	-4.7
	H2	-1.3	-11.7	-11.7
	Q1	8.0	-1.0	-1.4
	Q2	3.1	-8.7	-7.9
	Q3	2.0	-10.5	-11.3
	Q4	-4.7	-12.9	-12.1
	2002	H1	7.1	-4.1
Q1-Q3		9.8	1.0	-3.9
Q1		4.8	-12.4	-12.1
Q2		9.3	3.5	-3.9
Q3		14.7	9.5	3.6

Notes : (a) For the coverage of East Asia, see Note (6).

(b) For the coverage of North America, see Note (7).

(c) For the coverage of the European Union, see Note (8).

(d) For those constituent markets where separate quantum indices are not compiled, their levels of total exports of goods in real terms are estimated from an aggregate implicit price deflator covering all those export markets in the Asia-Pacific region for which separate unit value indices are not available.

Also see the footnote to Table 2.5.

2.14 Total exports of goods to *North America* improved further over the past few months, along with increased import intake in the United States and Canada, and further helped by improved relative price competitiveness of Hong Kong's exports. Exports to the North American region had a notable growth of 9.5% in real terms in the third quarter of 2002 over a year earlier. But with a 4.1% drop in the first half of the year, these exports had a slight increase of only 1.0% in real terms in the first nine months of 2002 over a year earlier.

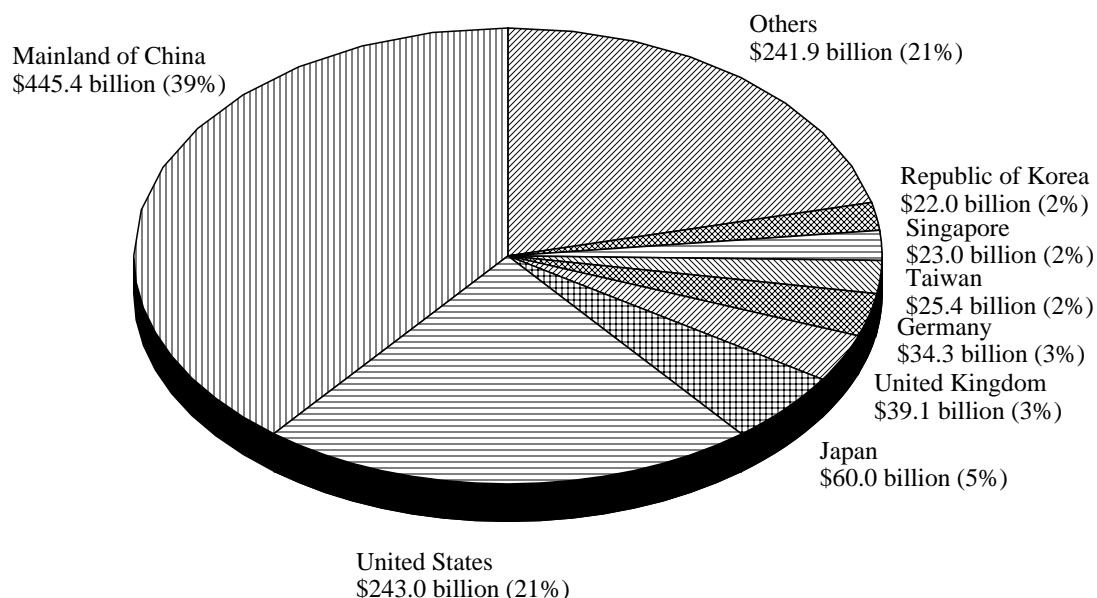
/2.15

2.15 The downtrend in total exports of goods to the *European Union* seemed to have been arrested in the third quarter of 2002, helped by steadier import demand in the EU economy lately and a generally stronger euro after April. These exports, after falling for six straight quarters, rebounded to a modest growth at 3.6% in real terms in the third quarter of 2002 over a year earlier. But with a distinct decline of 8.1% in the first half of the year, there was still a 3.9% fall in exports to the European Union in the first nine months of 2002 over a year earlier.

2.16 The Mainland continued to be the largest single *market* for Hong Kong's total exports of goods, accounting for 39% of the total value in the first nine months of 2002. Following the Mainland were the United States (with a share of 21%), Japan (5%), the United Kingdom (3%), Germany (3%), Taiwan (2%), Singapore (2%), and the Republic of Korea (2%).

Diagram 2.10

**Total exports of goods by major market
in the first nine months of 2002**



Total exports of goods in the first nine months of 2002 : \$1,134.1 billion

/Table 2.13

Table 2.13**Value of total exports of goods by market**

	<u>2001</u>			<u>Jan-Sep 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,481.0	100	-5.8	1,134.1	100	2.0
Mainland of China	546.1	37	0.6	445.4	39	8.1
United States	329.8	22	-9.8	243.0	21	-1.7
Japan	87.6	6	0.5	60.0	5	-8.3
United Kingdom	55.3	4	-12.2	39.1	3	-4.6
Germany	51.6	3	-13.9	34.3	3	-8.6
Taiwan	35.4	2	-11.1	25.4	2	-2.3
Singapore	29.6	2	-19.5	23.0	2	4.6
Republic of Korea	25.9	2	-9.4	22.0	2	14.5
Rest of the world	319.7	22	-8.4	241.9	21	0.2

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

		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>Japan</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>
2001	Annual	4.2	-9.1	2.4	-10.1	-11.9	-6.9	-16.1
	H1	7.0	-5.5	10.4	-7.4	-11.3	-3.3	-13.0
	H2	1.8	-12.0	-4.3	-12.3	-12.5	-10.1	-18.8
	Q1	9.3	-0.9	14.9	-3.8	-3.4	-1.3	-7.0
	Q2	5.1	-9.3	5.9	-10.6	-18.8	-5.2	-18.5
	Q3	7.1	-10.9	-1.4	-11.3	-15.4	-16.1	-22.0
	Q4	-3.6	-13.2	-7.0	-13.4	-9.6	-4.1	-15.2
2002	H1	9.5	-4.5	-8.4	-6.0	-11.2	-3.7	8.5
	Q1-Q3	11.5	1.0	-5.0	-1.7	-5.9	2.3	9.5
	Q1	7.5	-13.1	-10.4	-10.7	-16.2	-5.2	3.4
	Q2	11.4	3.6	-6.1	-1.4	-5.4	-2.2	14.0
	Q3	14.8	9.9	1.6	5.2	3.9	14.9	11.4
	Jul	14.8	12.6	1.7	6.9	-0.1	26.9	14.1
	Aug	13.6	3.9	4.2	0.7	-6.0	10.5	7.7
	Sep	16.1	13.1	-1.0	8.2	18.5	8.2	12.5

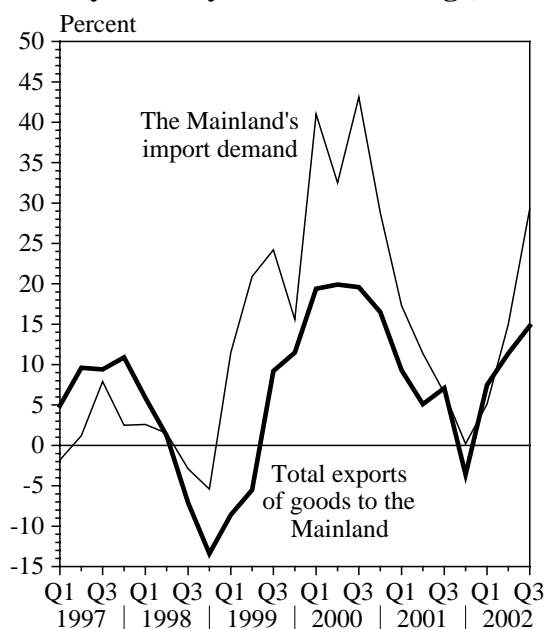
Note : See the footnote to Table 2.5.

/2.17

2.17 Total exports of goods to the *Mainland* continued to soar. There was a 14.8% leap in real terms in the third quarter of 2002 over a year earlier, with double-digit increases by 14.8%, 13.6% and 16.1% respectively in July, August and September. Together with an already sharp rise of 9.5% in the first half of the year, total exports to the Mainland surged by 11.5% in real terms in the first nine months of 2002 over a year earlier. Growth was mainly driven by the Mainland's strong import intake of material inputs, in turn propelled by its buoyant export performance. Adding to this was its strong absorption of capital goods, on account of its fixed asset investment boom.

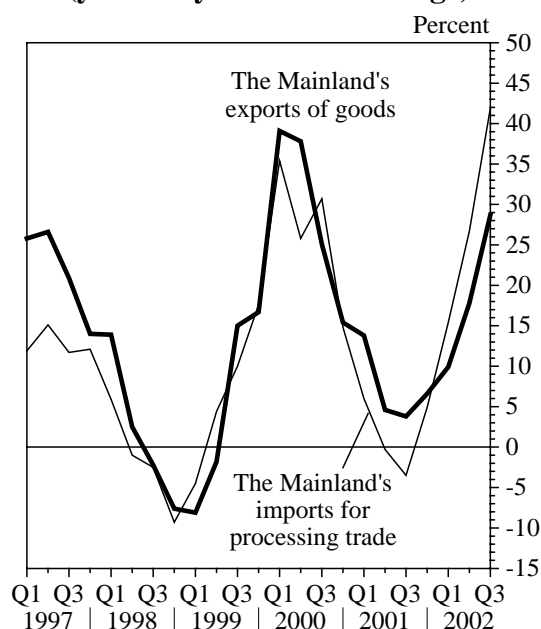
Diagram 2.11

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



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

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

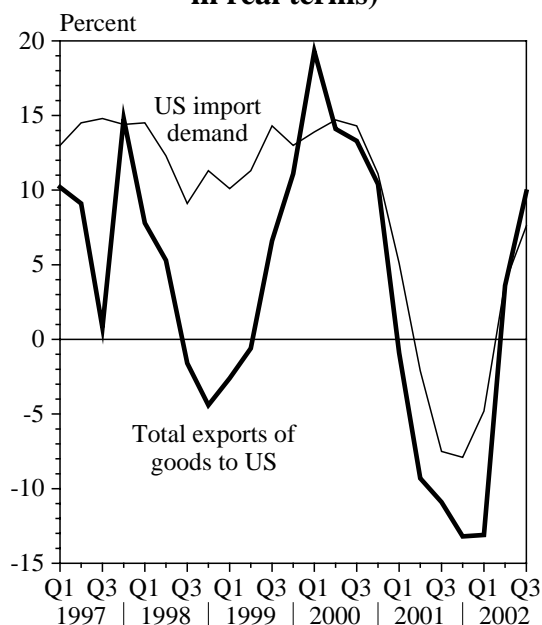


Note : Both refer to the year-on-year rate of change in US dollar terms.

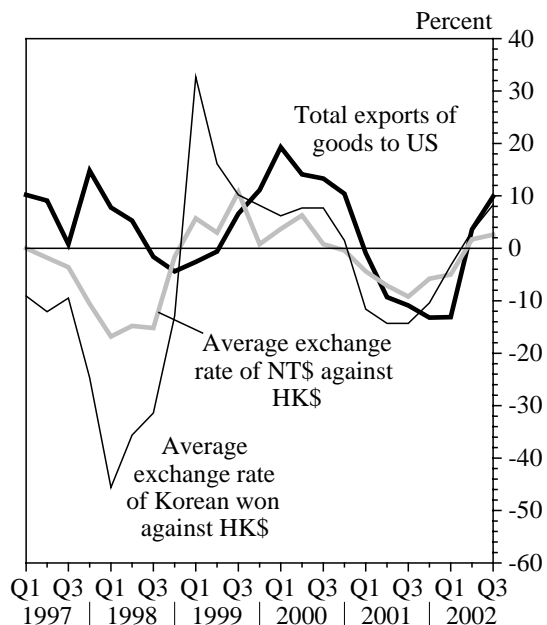
2.18 Total exports of goods to the *United States* picked up further to a 9.9% growth in real terms in the third quarter of 2002 over a year earlier, with increases by 12.6%, 3.9% and 13.1% respectively in July, August and September. Revival of US import demand and improvement in Hong Kong's export price competitiveness were the main conducive factors. Exports of capital goods performed particularly well, while exports of consumer goods also had a faster rise. But with a 4.5% decline in the first half of the year, total exports to the United States had only a meagre increase of 1.0% in real terms in the first nine months of 2002 over a year earlier.

Diagram 2.12

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



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



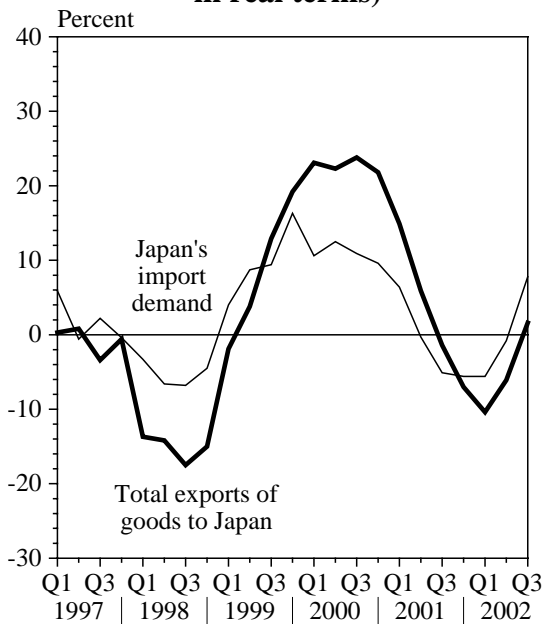
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.19

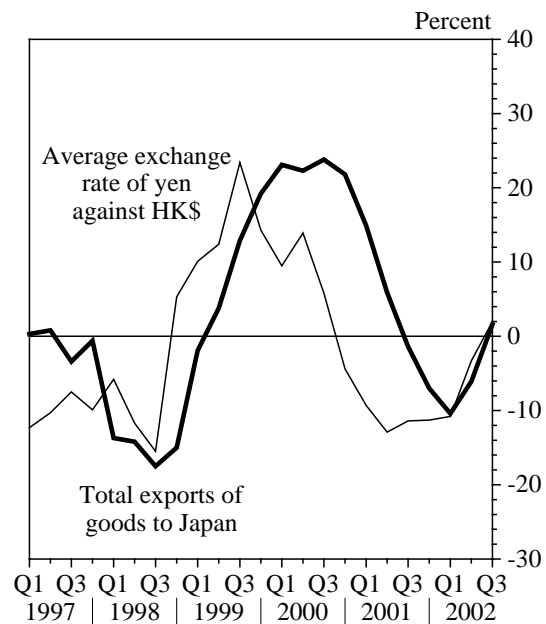
2.19 Total exports of goods to *Japan* also showed some improvement, rebounding to a small increase of 1.6% in real terms in the third quarter of 2002 over a year earlier. The rebound was mainly seen in exports of material inputs, and to a lesser extent, also in exports of capital goods, in parallel with the gradual revival in Japan's exports. The decline in exports of consumer goods to Japan also moderated in the third quarter. Together with an 8.4% decline in the first half of the year, exports to Japan recorded a decline of 5.0% in real terms in the first nine months of 2002 over a year earlier.

Diagram 2.13

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



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



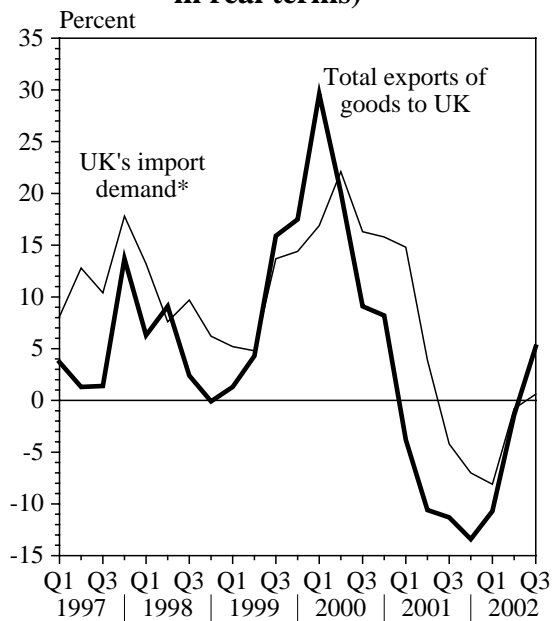
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.20

2.20 Total exports of goods to the *United Kingdom* revived to an appreciable growth at 5.2% in real terms in the third quarter of 2002 over a year earlier. Exports of consumer goods had a particularly visible pick-up, while exports of capital goods also tended to bottom out. A steadier import demand in the UK economy, coupled with a stronger pound sterling, contributed to the turnaround in exports to this market. Yet these exports still fell by 1.7% in real terms in the first nine months of 2002 over a year earlier, on the back of a 6.0% decline in the first half of the year.

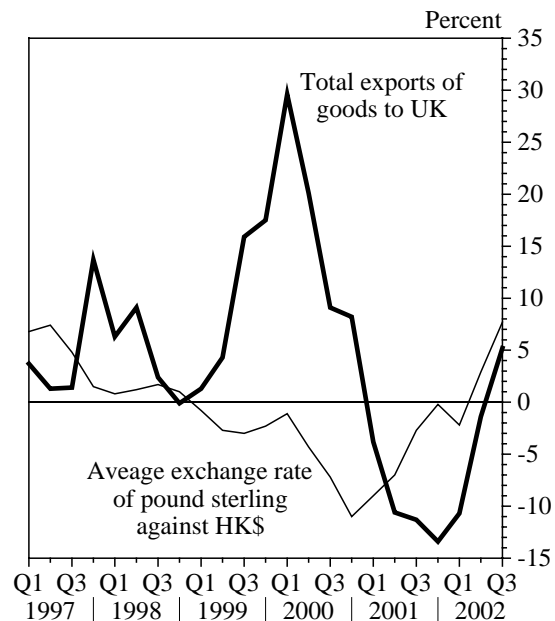
Diagram 2.14

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



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

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



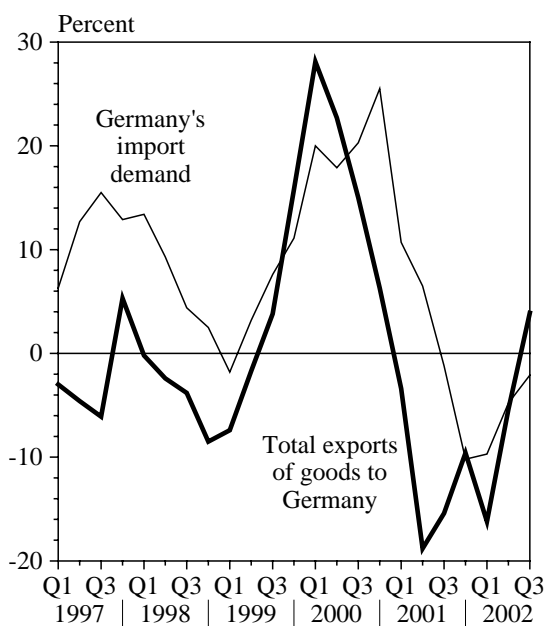
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.21

2.21 Total exports of goods to *Germany* turned up to a moderate increase, by 3.9% in real terms in the third quarter of 2002 over a year earlier. But with an 11.2% decrease in the first half of the year, these exports still had a decline of 5.9% in real terms in the first nine months of 2002 over a year earlier. The turnaround in export performance was largely attributable to a relative improvement in import demand in this market, yet a stronger euro should have also contributed to some extent.

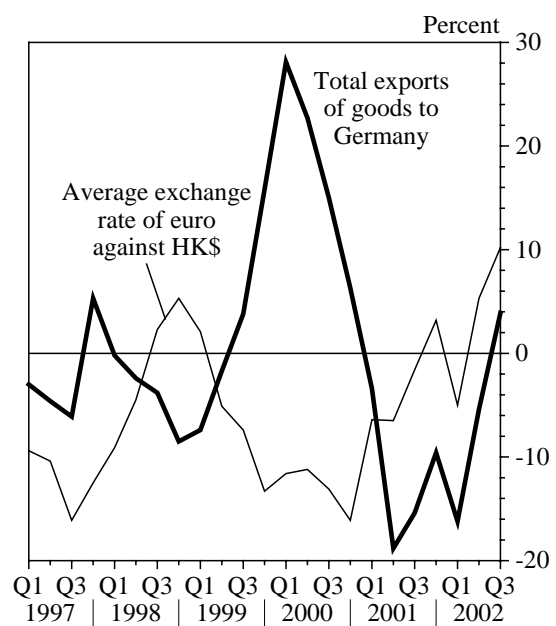
Diagram 2.15

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



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

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



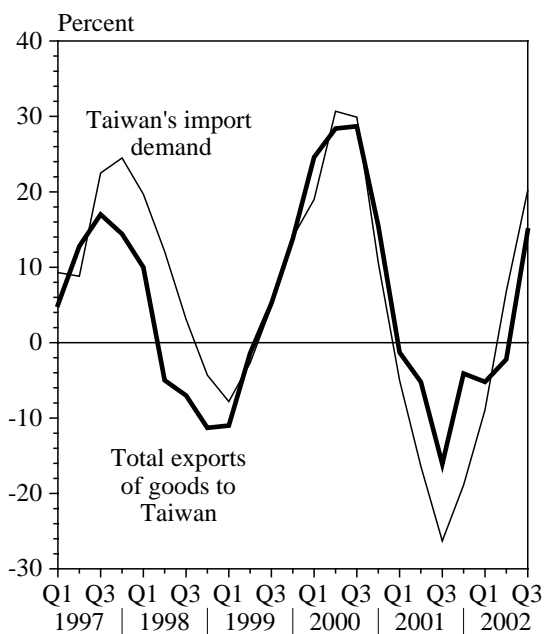
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.22

2.22 Total exports of goods to *Taiwan* picked up sharply to a double-digit rise of 14.9% in real terms in the third quarter of 2002 over a year earlier, reversing the 3.7% drop in the first half of the year. For the first nine months of 2002 taken together, there was a modest growth of 2.3% in real terms. There was pronounced growth in exports of material inputs and capital goods in the third quarter, in line with a resurgence in exports, particularly those of IT products, from Taiwan.

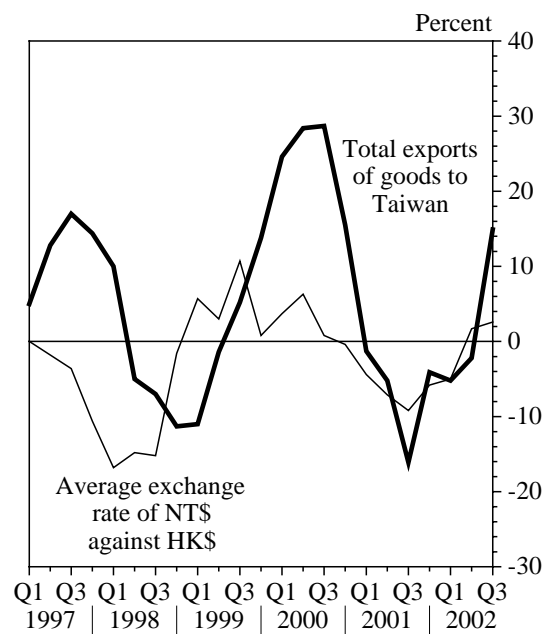
Diagram 2.16

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



Note : See the footnote to Diagram 2.15.

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



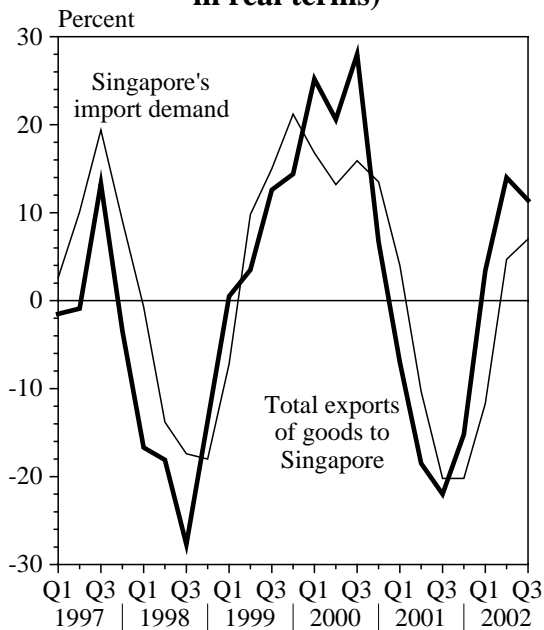
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.23

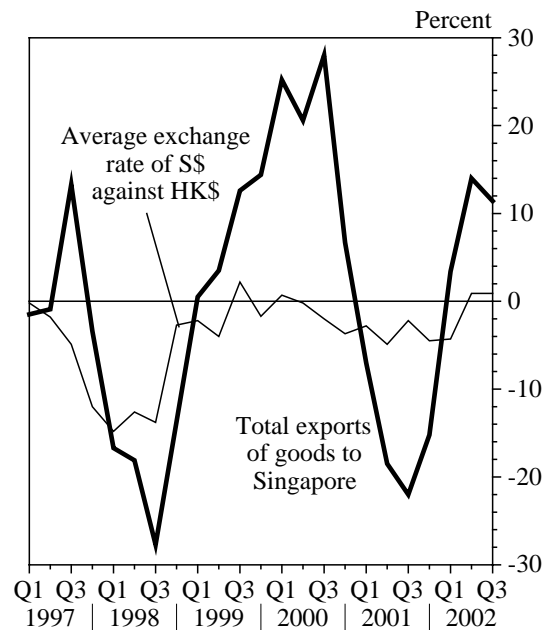
2.23 Total exports of goods to *Singapore* continued to hold up well, increasing by 11.4% in real terms in the third quarter of 2002 over a year earlier. Together with an 8.5% growth in the first half of the year, these exports rose by 9.5% in real terms in the first nine months of 2002 over a year earlier. Exports of consumer goods and capital goods to Singapore posted significant growth, in turn buoyed by its thriving exports.

Diagram 2.17

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



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



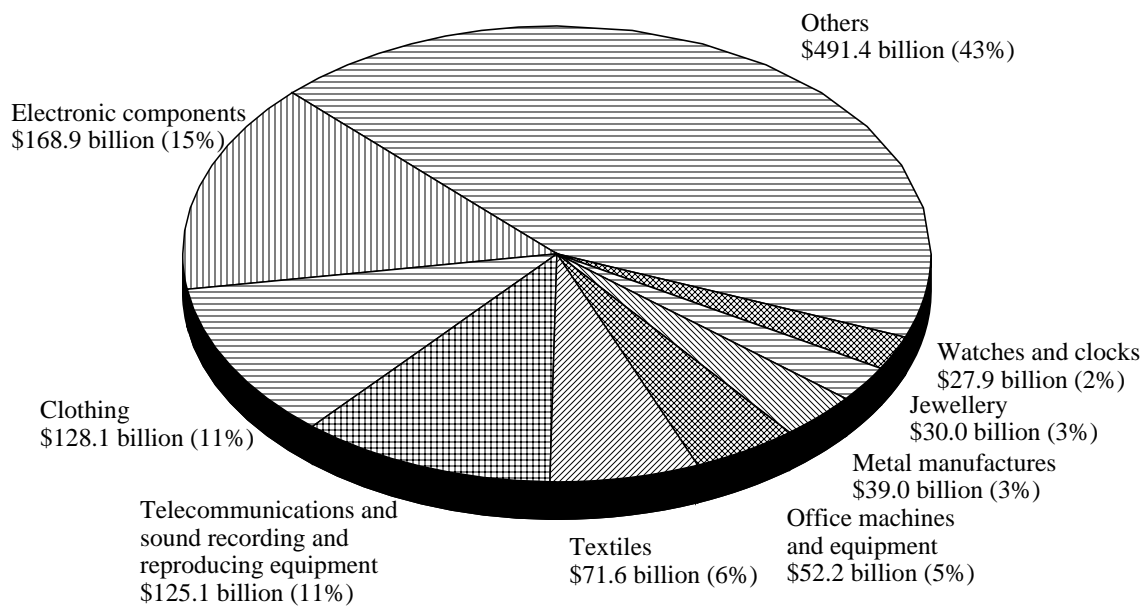
Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.24

2.24 Analysed by major *commodity group*, electronic components continued to take up the largest share in Hong Kong's total exports of goods, at 15% of the total value in the first nine months of 2002. This was followed by clothing (with a share of 11%), telecommunications and sound recording and reproducing equipment (11%), textiles (6%), and office machines and equipment (5%). Exports of office equipment maintained highly robust growth in the third quarter of 2002. Exports of electronic components and telecommunications and sound recording and reproducing equipment picked up further in growth. Exports of clothing likewise turned up to a mild growth in the third quarter, having fallen for four consecutive quarters. Exports of textiles also had a modest growth.

Diagram 2.18

Total exports of goods by major commodity group in the first nine months of 2002



Total exports of goods in the first nine months of 2002 : \$1,134.1 billion

/Table 2.15

Table 2.15**Total exports of goods by major commodity group
(year-on-year rate of change in real terms (%))**

		<u>Electronic components</u>	<u>Clothing</u>	<u>Telecom -munications and sound recording and reproducing equipment</u>	<u>Textiles</u>	<u>Office machines and equipment</u>
2001	Annual	4.7	0.1	-2.3	-7.0	14.6
	H1	11.5	3.7	3.5	-5.2	18.0
	H2	-1.0	-2.6	-6.6	-8.7	11.8
	Q1	13.3	0.2	12.4	2.3	16.8
	Q2	9.8	7.2	-4.1	-10.6	19.2
	Q3	-0.3	-3.5	-11.1	-8.2	16.8
	Q4	-1.8	-1.6	-2.1	-9.2	7.2
2002	H1	9.4	-5.5	10.7	2.3	36.4
	Q1-Q3	14.0	-1.2	21.4	3.4	30.0
	Q1	5.1	-7.7	6.6	-7.3	37.8
	Q2	13.6	-3.6	14.7	10.3	35.0
	Q3	22.8	5.4	40.1	5.5	18.7

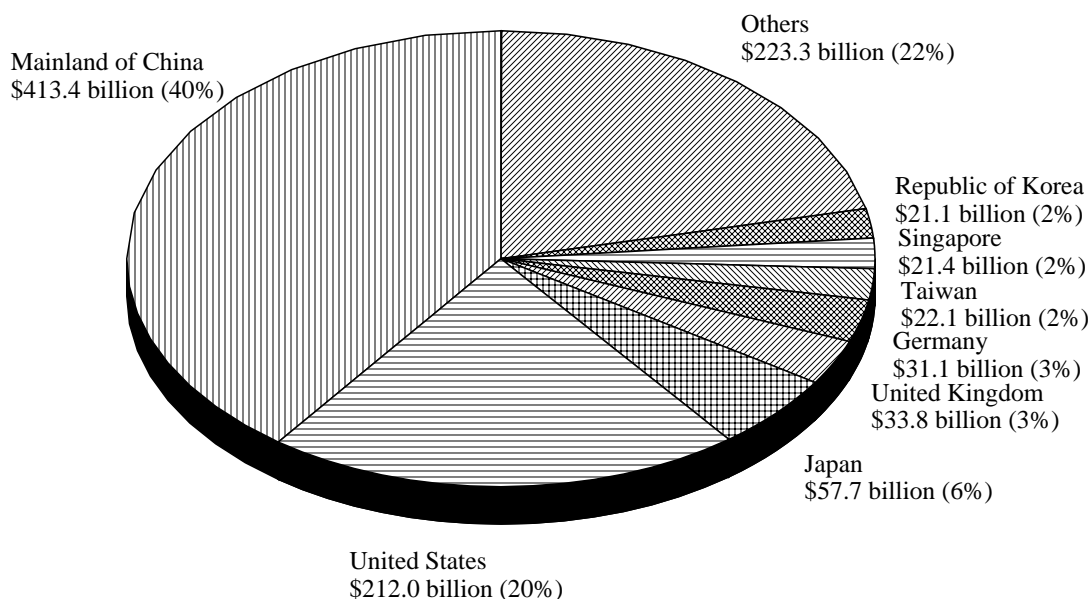
Re-exports

2.25 Re-exports continued to be predominant in total exports of goods, with a share of 91% by value in the first nine months of 2002, further up from 90% in the same period in 2001. Analysed by major *market*, the Mainland took up the largest share in Hong Kong's re-exports, at 40% by value in the first nine months of 2002. This was followed by the United States (with a share of 20%), Japan (6%), the United Kingdom (3%), Germany (3%), Taiwan (2%), Singapore (2%), and the Republic of Korea (2%).

/Diagram 2.19

Diagram 2.19

Re-exports by major market in the first nine months of 2002



Total re-exports in the first nine months of 2002 : \$1,035.8 billion

Table 2.16

Value of re-exports by market

	<u>2001</u>			<u>Jan-Sep 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Rate</u> of change (%)	<u>Value</u> (\$Bn)	<u>Share</u> in total (%)	<u>Year-on-year</u> rate of change (%)
All markets	1,327.5	100	-4.6	1,035.8	100	4.0
Mainland of China	496.6	37	1.6	413.4	40	10.4
United States	282.2	21	-9.3	212.0	20	0.2
Japan	83.6	6	1.8	57.7	6	-7.5
United Kingdom	46.8	4	-10.7	33.8	3	-2.5
Germany	45.8	3	-9.5	31.1	3	-6.1
Taiwan	30.0	2	-10.9	22.1	2	-0.6
Singapore	26.9	2	-15.9	21.4	2	7.6
Republic of Korea	24.6	2	-8.7	21.1	2	16.2
Rest of the world	291.0	22	-7.4	223.3	22	1.7

/2.26

2.26 The further pick-up in re-exports in the third quarter of 2002 spanned across nearly all the major markets. Re-exports to the Mainland and the Republic of Korea, which already recorded double-digit growth in the second quarter, grew even more markedly in the third quarter. Re-exports to Singapore maintained double-digit growth. Re-exports to the United States and the United Kingdom, after resuming some increase in the second quarter, gathered more growth momentum in the third quarter. Re-exports to Japan, Germany and Taiwan also reverted to positive growth in the third quarter, after declining continuously for several quarters, with the rebound in re-exports to Taiwan being particularly sharp.

Table 2.17

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

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2001	Annual	4.8	-8.9	3.7	-9.0	-8.1	-7.7	-12.6	-5.4
	H1	8.3	-5.0	12.4	-5.5	-7.0	-3.3	-9.6	-2.0
	H2	1.9	-12.1	-3.5	-11.7	-9.0	-11.6	-15.3	-8.4
	Q1	11.1	1.3	17.4	0.6	1.7	-2.4	-3.1	-1.4
	Q2	6.0	-10.2	7.5	-10.9	-15.2	-4.2	-15.6	-2.6
	Q3	7.8	-10.2	-0.3	-9.8	-11.4	-17.0	-18.9	-10.3
	Q4	-3.9	-14.2	-6.4	-13.6	-6.7	-6.1	-11.3	-6.6
2002	H1	11.1	-2.6	-7.9	-2.7	-8.4	-3.8	12.0	18.2
	Q1-Q3	13.8	2.7	-4.2	0.7	-3.1	3.5	12.2	20.0
	Q1	7.8	-12.2	-10.3	-8.4	-13.7	-6.0	7.1	19.5
	Q2	14.0	6.5	-5.3	2.9	-2.5	-1.7	17.2	16.8
	Q3	18.4	11.2	3.1	6.2	6.6	18.8	12.5	23.6

Note : See the footnote to Table 2.5.

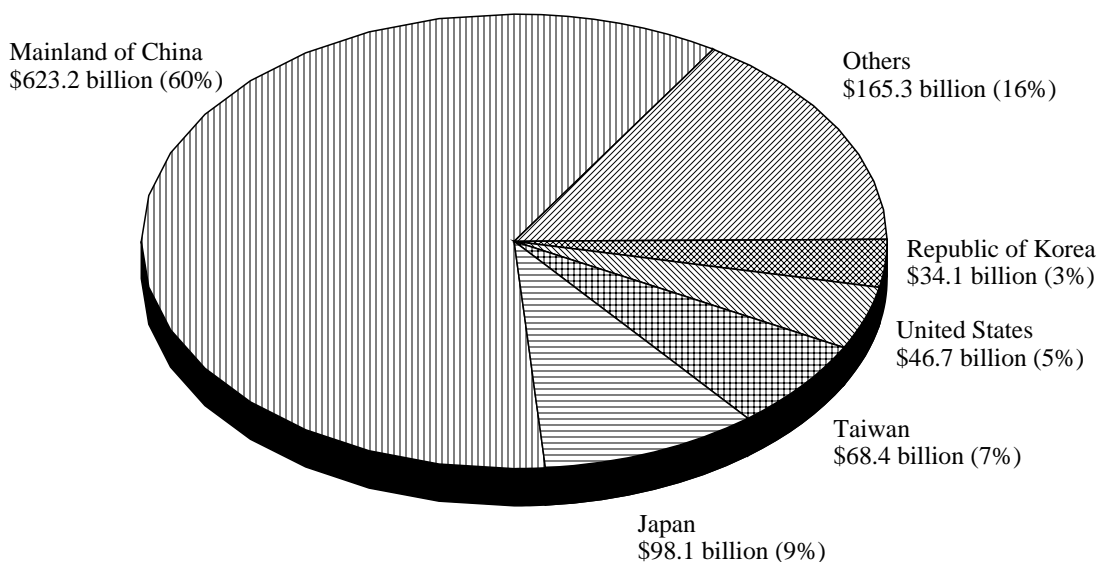
/2.27

2.27 The Mainland continued to be the largest *source* of Hong Kong's re-exports, supplying 60% by value of the goods re-exported through Hong Kong in the first nine months of 2002. Other more significant sources included Japan (with a share of 9%), Taiwan (7%), the United States (5%), and the Republic of Korea (3%).

2.28 Re-exports from most of the major sources rose modestly in value terms in the third quarter of 2002 over a year earlier, with those sourced from Taiwan and the Republic of Korea recording the most distinct growth. But re-exports sourced from the United States were still on a decline.

Diagram 2.20

Re-exports by major source in the first nine months of 2002



Total re-exports in the first nine months of 2002 : \$1,035.8 billion

/Table 2.18

Table 2.18**Value of re-exports by source**

	<u>2001</u>			<u>Jan-Sep 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,327.5	100	-4.6	1,035.8	100	4.0
Mainland of China	808.4	61	-4.8	623.2	60	3.3
Japan	125.6	9	-8.5	98.1	9	2.6
Taiwan	80.3	6	-8.7	68.4	7	13.2
United States	65.2	5	-0.4	46.7	5	-7.1
Republic of Korea	39.8	3	-13.6	34.1	3	13.1
Rest of the world	208.2	16	1.3	165.3	16	5.5

Domestic exports

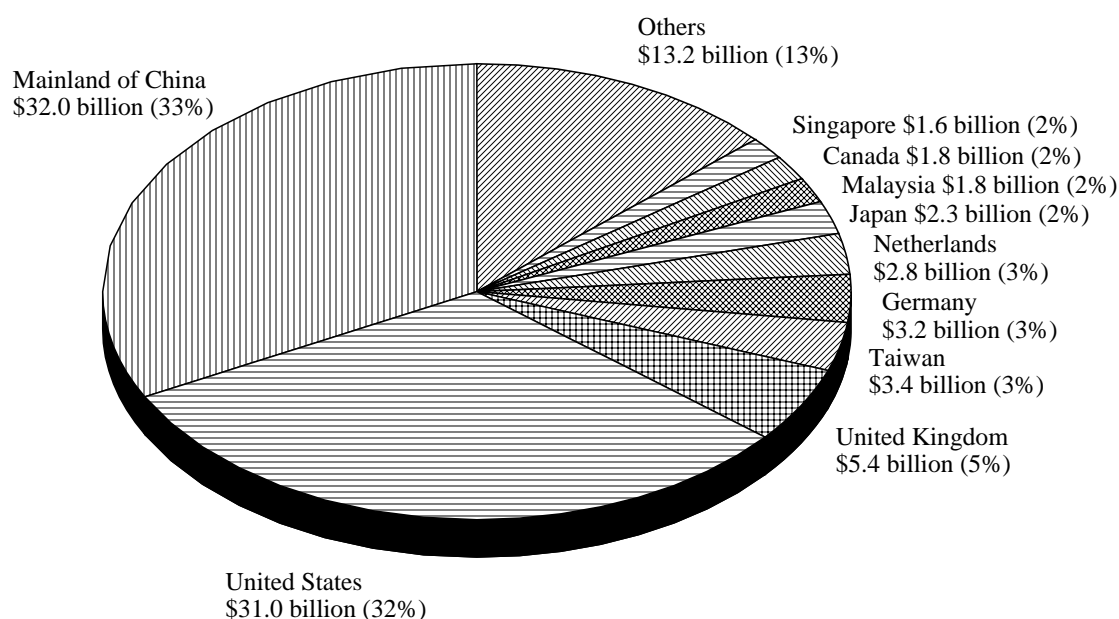
2.29 The Mainland and the United States were the two largest *markets* for Hong Kong's domestic exports, accounting for 33% and 32% respectively of the total value in the first nine months of 2002. These were followed by the United Kingdom (with a share of 5%), Taiwan (3%), Germany (3%), the Netherlands (3%), Japan (2%), Malaysia (2%), Canada (2%), and Singapore (2%).

2.30 Domestic exports to most of the major markets continued to fall in the third quarter of 2002, reflecting in large part the shift in export composition towards re-exports. Yet performance was mixed amongst different markets in that quarter. Domestic exports to the United States and Singapore both reverted to slight positive growth in real terms, while domestic exports to the United Kingdom had a much lesser decline, though partly due to a low base of comparison. But domestic exports to the Mainland and Japan remained distinctly weak.

/Diagram 2.21

Diagram 2.21

Domestic exports by major market in the first nine months of 2002



Total domestic exports in the first nine months of 2002 : \$98.3 billion

Table 2.19

Value of domestic exports by market

	<u>2001</u>			<u>Jan-Sep 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	153.5	100	-15.2	98.3	100	-15.1
Mainland of China	49.5	32	-8.5	32.0	33	-14.6
United States	47.6	31	-12.6	31.0	32	-12.8
United Kingdom	8.6	6	-19.7	5.4	5	-16.0
Taiwan	5.3	3	-12.4	3.4	3	-12.4
Germany	5.8	4	-37.4	3.2	3	-27.1
Netherlands	4.6	3	18.1	2.8	3	-20.8
Japan	4.1	3	-20.1	2.3	2	-25.5
Malaysia	1.7	1	-35.7	1.8	2	31.3
Canada	3.1	2	-3.7	1.8	2	-28.1
Singapore	2.7	2	-43.8	1.6	2	-23.6
Rest of the world	20.5	13	-23.2	13.2	13	-15.9

/Table 2.20

Table 2.20

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

		<u>Mainland of China</u>	<u>United States</u>	<u>United Kingdom</u>	<u>Taiwan</u>	<u>Germany</u>	<u>Netherlands</u>	<u>Japan</u>	<u>Singapore</u>
2001	Annual	-1.6	-9.8	-15.7	-2.4	-32.8	36.3	-19.2	-39.3
	H1	-4.1	-8.2	-15.8	-3.3	-32.3	39.1	-19.6	-34.4
	H2	0.8	-11.1	-15.7	-1.5	-33.3	33.6	-19.0	-44.2
	Q1	-5.9	-12.8	-22.1	5.4	-27.8	3.4	-21.0	-30.9
	Q2	-2.5	-3.8	-9.2	-10.3	-36.8	79.6	-18.0	-37.9
	Q3	1.7	-14.8	-18.7	-10.5	-38.1	24.5	-18.6	-44.1
	Q4	-0.3	-6.8	-12.3	7.0	-27.9	43.4	-19.4	-44.3
2002	H1	-5.9	-15.2	-22.8	-3.1	-29.7	7.0	-17.1	-21.9
	Q1-Q3	-10.8	-9.0	-14.6	-4.0	-25.9	4.6	-20.8	-14.9
	Q1	3.5	-18.1	-22.8	-0.8	-33.3	14.0	-12.9	-28.3
	Q2	-13.3	-12.7	-22.7	-5.3	-25.6	2.4	-21.4	-14.6
	Q3	-19.1	1.5	-0.5	-5.8	-17.6	-0.3	-27.2	0.1

Note : See the footnote to Table 2.5.

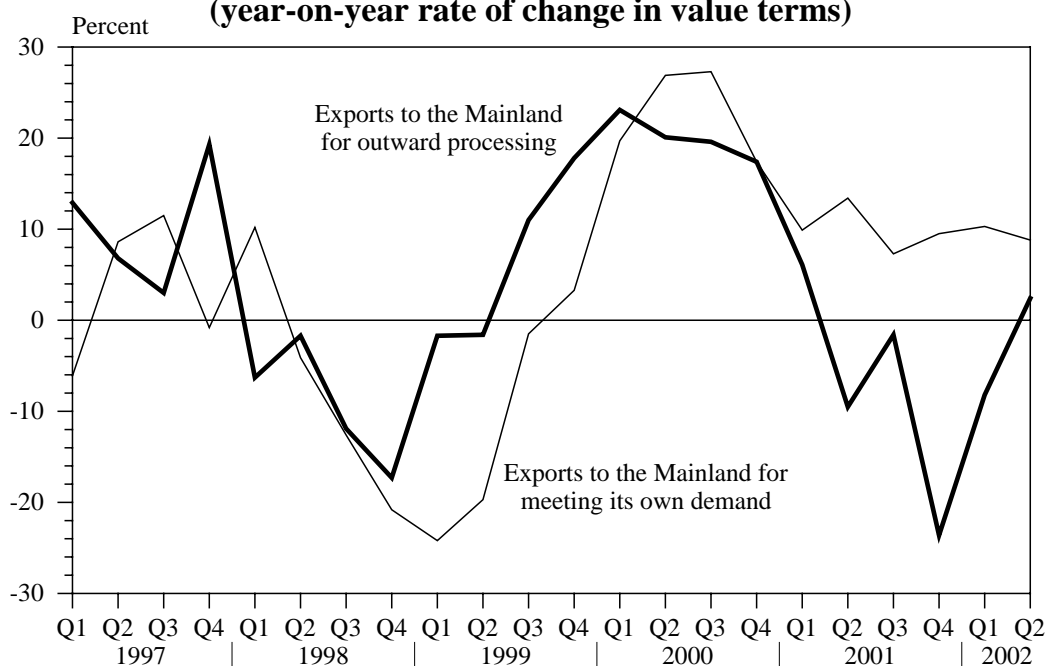
Outward processing trade

2.31 While outward processing trade⁽⁹⁾ is still an integral part of Hong Kong's overall external trade, the on-going structural shift from re-exports towards offshore trade and direct shipment from the Mainland has tended to reduce its prominence in Hong Kong's total trade in goods in the recent period. The proportion of exports for outward processing in Hong Kong's total exports of goods to the Mainland fell to 45% in the first half of 2002, from 48% in the same period in 2001. The proportion of imports after outward processing in Hong Kong's imports of goods from the Mainland also fell distinctly, to 72% in the first half of 2002, from 78% in the same period in 2001. Yet the proportion of re-exports after outward processing in Hong Kong's re-exports of Mainland origin stayed broadly unchanged, at 83% in the first half of 2002, as compared to 84% in the same period in 2001.

/2.32

2.32 In parallel with the improvement in overall trade performance, total exports of goods to the Mainland for outward processing reverted to increase, at 2.4% in value terms in the second quarter of 2002 over a year earlier, having fallen for several quarters and down by 8.2% in the first quarter. But for the first half of 2002 as a whole, these exports still went down by 2.7% in value terms over a year earlier to \$123.6 billion, after a decline of 12.8% in the second half of 2001. Meanwhile, total exports of goods to the Mainland for meeting its own demand continued to show robust growth, rising by 8.8% in value terms in the second quarter of 2002 over a year earlier, after a 10.3% increase in the first quarter. For the first half of 2002 as a whole, these exports went up by 9.5% in value terms over a year earlier to \$149.2 billion, following an 8.4% rise in the second half of 2001.

Diagram 2.22
Exports to the mainland of China for outward processing and for meeting its own demand
(year-on-year rate of change in value terms)



/Table 2.21

Table 2.21

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

		<i>of which :</i>		
		<u>Total exports of goods to the Mainland</u>	<u>Total exports of goods to the Mainland for outward processing</u>	<u>Total exports of goods to the Mainland for meeting its own demand</u>
2001	Annual	0.6	-8.0	10.0
	H1	4.4	-2.5	11.8
	H2	-2.7	-12.8	8.4
	Q1	8.0	6.1	9.9
	Q2	1.4	-9.5	13.4
	Q3	2.7	-1.6	7.3
	Q4	-8.0	-23.6	9.5
2002	H1	3.6	-2.7	9.5
	Q1	1.1	-8.2	10.3
	Q2	5.8	2.4	8.8

2.33 Imports of goods from the Mainland after outward processing remained distinctly slack, with a 9.9% fall in value terms in the second quarter of 2002 over a year earlier, after a 10.9% decline in the first quarter. For the first half of 2002 as a whole, these imports fell further by 10.4% in value terms over a year earlier to \$226.3 billion, following an 11.0% decline in the second half of 2001. Re-exports of Mainland origin after outward processing likewise stayed weak, falling by 6.7% in value terms in the second quarter of 2002 over a year earlier, after a broadly similar decline of 6.4% in the first quarter. For the first half of 2002 as a whole, these re-exports went down further by 6.5% in value terms over a year earlier to \$262.4 billion, having plummeted by 16.0% in the second half of 2001.

/Table 2.22

Table 2.22

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

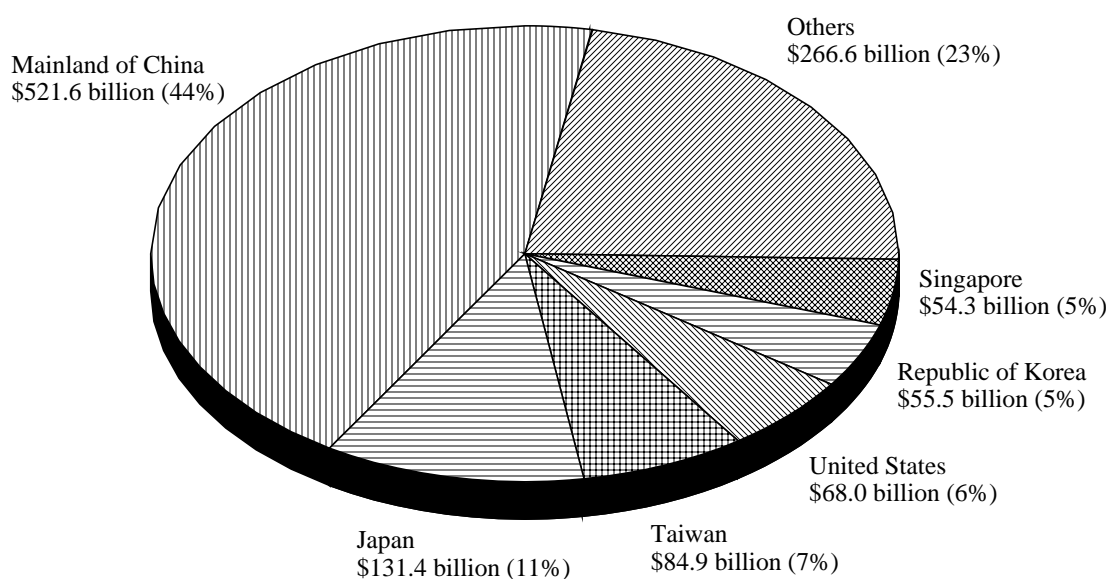
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2001	Annual	-6.2	-10.7
	H1	-0.2	-4.3
	H2	-11.0	-16.0
	Q1	4.6	0.8
	Q2	-4.1	-8.6
	Q3	-11.4	-11.2
	Q4	-10.6	-20.8
2002	H1	-10.4	-6.5
	Q1	-10.9	-6.4
	Q2	-9.9	-6.7

Imports of goods

2.34 The Mainland remained the largest *source* of Hong Kong's imports of goods, accounting for 44% of the total value in the first nine months of 2002. Other more significant sources of imports included Japan (with a share of 11%), Taiwan (7%), the United States (6%), the Republic of Korea (5%), and Singapore (5%).

2.35 Buoyed by the resurgence in intra-regional trade, imports from most of the East Asian economies picked up further to double-digit increases in real terms in the third quarter of 2002 over a year earlier, with particularly distinct growth recorded for imports from the Republic of Korea and Taiwan. Imports from the United States had a lesser decline.

/Diagram 2.23

Diagram 2.23**Imports of goods by major source
in the first nine months of 2002**

Total imports of goods in the first nine months of 2002 : \$1,182.4 billion

Table 2.23**Value of imports of goods by source**

	<u>2001</u>			<u>Jan-Sep 2002</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All sources	1,568.2	100	-5.4	1,182.4	100	-0.5
Mainland of China	682.0	43	-4.6	521.6	44	2.4
Japan	176.6	11	-11.2	131.4	11	-3.0
Taiwan	107.9	7	-13.1	84.9	7	2.5
United States	104.9	7	-7.0	68.0	6	-16.8
Republic of Korea	70.8	5	-12.2	55.5	5	2.3
Singapore	72.9	5	-2.8	54.3	5	-2.5
Rest of the world	353.1	23	0.5	266.6	23	-0.8

/Table 2.24

Table 2.24

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

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>Republic of Korea</u>	<u>Singapore</u>
2001	Annual	-2.9	-7.1	-7.1	-4.5	-5.3	2.4
	H1	0.7	-0.2	-0.8	3.6	1.6	5.5
	H2	-5.9	-13.2	-12.6	-11.7	-11.6	-0.3
	Q1	6.2	1.1	1.4	3.3	-2.5	11.3
	Q2	-4.0	-1.4	-2.7	3.8	5.9	0.5
	Q3	-5.9	-8.7	-11.0	-2.9	-8.7	0.8
	Q4	-5.9	-17.6	-14.3	-20.1	-14.4	-1.5
2002	H1	3.1	-3.0	3.3	-14.4	1.1	1.3
	Q1-Q3	6.3	2.2	7.9	-12.2	8.8	4.3
	Q1	-2.7	-7.4	1.0	-16.4	-3.1	-1.0
	Q2	8.6	1.2	5.4	-12.5	5.2	3.4
	Q3	11.9	12.7	16.9	-8.0	24.6	9.8

Note : See the footnote to Table 2.5.

Retained imports

2.36 Japan remained the largest *source* of Hong Kong's retained imports, accounting for about 14% of the total value in the first nine months of 2002. Other more significant suppliers of retained imports included the Mainland (with a share of about 13%), the Republic of Korea (9%), Singapore (8%), the United States (7%), and Taiwan (6%).

2.37 Analysed by *end-use category*, retained imports of consumer goods rose distinctly further, by 11.9% in real terms in the third quarter of 2002 over a year earlier, with the growth concentrated mostly in intake of electrical appliances and clothing. Together with a 0.7% rise in the first half of the year, retained imports of consumer goods had a 4.5% growth in real terms in the first nine months of 2002 over a year earlier. But retained imports of foodstuffs fell back, by 8.9% in real terms in the third quarter of 2002 over a year earlier, after a 9.7% rise in the first half of the year. This gave a 2.9% growth in real terms in the first nine months of 2002 over a year earlier.

/2.38

2.38 Weak investment sentiment continued to hold back retained imports of capital goods. There was a further marked shrinkage by 18.0% in real terms in the third quarter of 2002 over a year earlier, having dipped by 16.6% in the first half of the year, thus yielding a 17.1% decline in real terms for the first nine months of 2002 as a whole. Analysed by broad type, intake of office equipment fell sharply in the third quarter, while intake of industrial machinery recorded a further moderate decline. On the other hand, intake of telecommunications equipment revived sharply in the third quarter, while intake of construction machinery maintained robust growth.

2.39 Retained imports of raw materials and semi-manufactures revived markedly, rising by 27.1% in real terms in the third quarter of 2002 over a year earlier, after a 2.1% decline in the first half of the year. Taken together, these retained imports had a 7.0% growth in real terms in the first nine months of 2002 over a year earlier. Retained imports of fuels rose slightly faster, by 7.8% in real terms in the third quarter of 2002 over a year earlier, after a meagre increase of 0.7% in the first half of the year, thus yielding a 3.1% rise for the first nine months of 2002 as a whole.

Table 2.25

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

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2001	Annual	8.4	2.2	8.1	-14.5	0.2
	H1	6.6	-1.6	14.7	-6.2	3.0
	H2	10.2	5.9	2.6	-22.2	-2.3
	Q1	1.3	2.2	28.3	-7.6	4.7
	Q2	11.8	-5.3	3.5	-4.8	1.5
	Q3	12.3	16.3	12.3	-23.2	-8.2
	Q4	8.0	-3.9	-7.0	-21.2	4.1
	2002	H1	0.7	9.7	-16.6	-2.1
Q1-Q3		4.5	2.9	-17.1	7.0	3.1
Q1		-2.3	14.2	-23.0	-9.2	-3.3
Q2		3.3	5.0	-10.1	4.4	4.4
Q3		11.9	-8.9	-18.0	27.1	7.8

Note : See the footnote to Table 2.5 and Note (a) to Table 2.7.

/Table 2.26

Table 2.26**Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))**

		Industrial machinery for <u>manufacturing use</u>	Construction <u>machinery</u>	Office <u>equipment</u>	Tele- communications <u>equipment</u>	Other capital <u>goods</u>
2001	Annual	-4.2	35.0	-10.0	27.7	31.1
	H1	3.7	23.9	-7.7	65.9	21.0
	H2	-11.1	47.9	-12.1	2.6	39.8
	Q1	6.8	36.1	17.3	77.8	30.2
	Q2	1.1	15.2	-26.0	55.3	12.7
	Q3	-15.2	40.6	3.1	23.3	52.3
	Q4	-6.2	55.2	-27.6	-12.0	26.1
2002	H1	-6.0	14.7	-22.9	-10.5	-30.9
	Q1-Q3	-5.8	16.4	-21.2	-3.1	-39.2
	Q1	-7.5	2.2	-43.5	-4.3	-36.2
	Q2	-4.6	25.3	1.0	-16.7	-25.2
	Q3	-5.3	19.8	-18.5	12.7	-50.0

Note : See the footnote to Table 2.5 and Note (a) to Table 2.7.

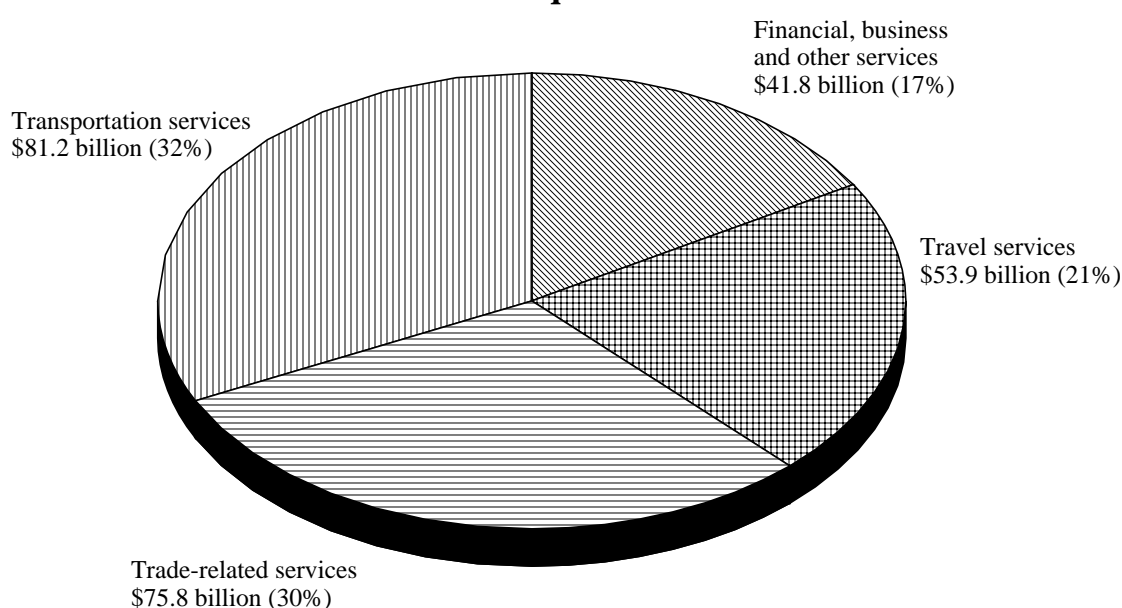
Invisible trade*Exports of services*

2.40 Transportation services continued to account for the largest share in Hong Kong's exports of services, at 32% by value in the first three quarters of 2002. Exports of trade-related services (comprising mainly offshore trade) came next (with a share of 30%), then followed by travel services (21%), and financial, business and other services (17%).

/Diagram 2.24

Diagram 2.24

**Exports of services by major service group
in the first three quarters of 2002**



Exports of services in the first three quarters of 2002 : \$252.6 billion

2.41 Exports of services accelerated markedly further, to a double-digit growth at 14.1% in real terms in the third quarter of 2002 over a year earlier. This followed an already notable rise of 8.2% in the first half of the year. Taken together, exports of services leaped by 10.3% in real terms for the first three quarters of 2002 as a whole over a year earlier. Exports of travel services continued to register the fastest growth, at 24.6% in real terms in the third quarter, as incoming visitors soared even more. Exports of trade-related services picked up markedly to a 15.0% growth in real terms in the third quarter, benefiting from the distinct upsurge in the Mainland's merchandise trade and also reflecting an on-going shift more towards offshore trading activities. Exports of transportation services also had double-digit growth, at 14.8% in real terms in the third quarter, as overall external trade accentuated further. But exports of financial, business and other services were still flat, rising by only 0.2% in real terms in the third quarter.

/Table 2.27

Table 2.27

**Exports of services by major service group
(year-on-year rate of change in real terms (%))**

of which :

		<u>Exports of services</u>	<u>Transportation services</u>	<u>Trade-related services^(a)</u>	<u>Travel services^(b)</u>	<u>Financial, business and other services</u>
2001	Annual	5.9	7.2	5.8	7.5	2.1
	H1	7.5	9.2	8.3	7.5	3.4
	H2	4.5	5.4	4.0	7.5	0.9
	Q1	7.4	9.9	11.3	4.7	0.9
	Q2	7.6	8.6	5.3	10.0	6.2
	Q3	3.7	5.1	3.7	3.4	1.7
	Q4	5.3	5.8	4.4	11.3	*
2002	H1	8.2	10.7	6.8	11.5	2.1
	Q1-Q3	10.3	12.1	10.1	15.7	1.4
	Q1	7.7	12.0	5.4	8.0	3.7
	Q2	8.6	9.4	8.3	14.4	0.3
	Q3	14.1	14.8	15.0	24.6	0.2

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.05%.

Also see the footnote to Table 2.9.

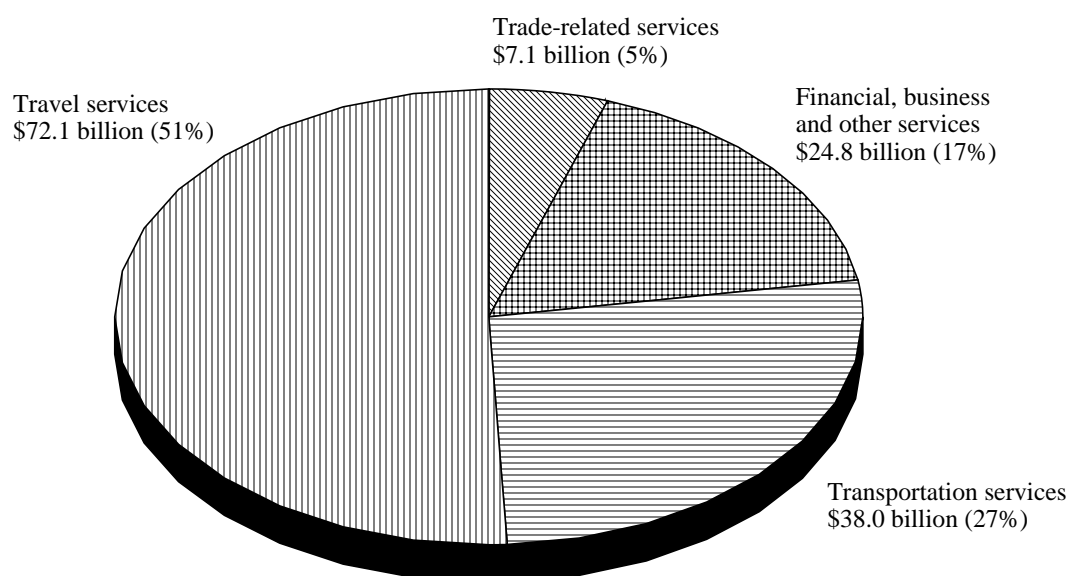
Imports of services

2.42 Travel services continued to take up the largest share in Hong Kong's imports of services, at 51% by value in the first three quarters of 2002. This was followed by imports of transportation services (with a share of 27%), financial, business and other services (17%), and trade-related services (5%).

/Diagram 2.25

Diagram 2.25

**Imports of services by major service group
in the first three quarters of 2002**



Imports of services in the first three quarters of 2002 : \$142.1 billion

2.43 After a 2.6% fall in the first half of the year, imports of services reverted to increase, by 1.0% in real terms in the third quarter of 2002 over a year earlier. This gave a 1.4% decline in real terms for the first three quarters of 2002 as a whole over a year earlier. On the back of the further pick-up in merchandise trade, imports of both transportation services and trade-related services recovered to positive growth in the third quarter, at 6.9% and 3.5% respectively in real terms. But imports of travel services were still slack, falling by 1.5% in real terms in the third quarter. Imports of financial, business and other services also fell further, by 1.3% in real terms in the third quarter.

/Table 2.28

Table 2.28

**Imports of services by major service group
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>				Financial, business and other services
		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial, business and other services</u>
2001	Annual	-0.2	0.9	-2.8	-2.9	1.3
	H1	2.4	2.3	2.6	-0.6	3.2
	H2	-2.6	-0.5	-7.9	-4.5	-0.4
	Q1	3.3	3.2	4.8	2.2	1.9
	Q2	1.5	1.3	0.8	-3.3	4.6
	Q3	-2.4	-0.9	-6.3	-4.8	-0.1
	Q4	-2.8	*	-9.6	-4.1	-0.6
	2002	H1	-2.6	-3.7	-2.9	-1.9
	Q1-Q3	-1.4	-3.0	0.5	0.3	0.2
	Q1	-1.3	-2.0	-2.1	-3.2	2.6
	Q2	-4.0	-5.6	-3.6	-0.6	-0.8
	Q3	1.0	-1.5	6.9	3.5	-1.3

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

Also see the footnote to Table 2.9.

Overall balance of payments⁽¹⁰⁾

2.44 The current account was in lesser albeit still sizeable surplus, at \$19.3 billion in the second quarter of 2002, equivalent to 6.3% of GDP in that quarter. This compared with the surplus of \$30.8 billion in the first quarter of 2002, equivalent to 10.2% of GDP in that quarter.

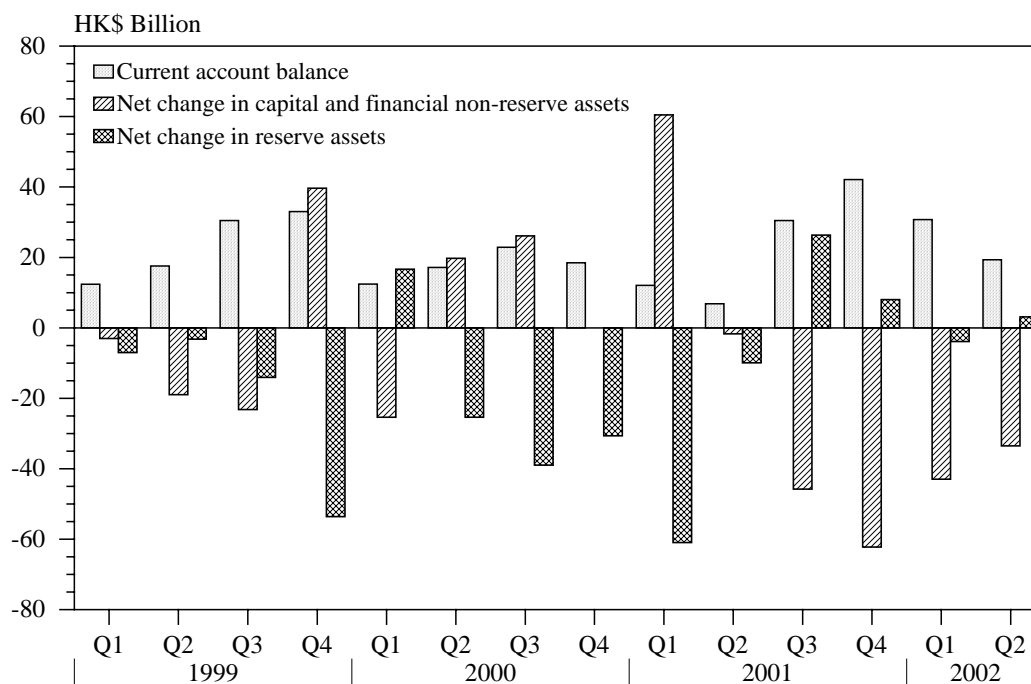
/2.45

2.45 In the capital and financial account, the portfolio investment segment had a substantial net outflow of \$117.8 billion in the second quarter of 2002. This was mainly attributable to a surge in investment in overseas debt securities by Hong Kong residents in a move to gain higher return amidst a low interest rate environment. Yet against this, the direct investment segment had a net inflow of \$15.3 billion. Concurrently, the other investment segment switched to a large net inflow of \$70.6 billion, upon increases in inter-bank placements by non-resident banks to resident banks and in loan liabilities of the non-bank sector. Taken together, financial non-reserve assets still had a net outflow of \$25.9 billion in the second quarter of 2002, equivalent to 8.4% of GDP in that quarter. But this was much reduced from the net outflow of \$40.0 billion in the first quarter of 2002, equivalent to 13.3% of GDP in that quarter.

2.46 Overall, the balance of payments account recorded a small deficit of \$3.1 billion in the second quarter of 2002, equivalent to 1.0% of GDP in that quarter. Thus there was a decrease in reserve assets by the same amount in that quarter. This contrasted with the situation in the first quarter of 2002, when a balance of payments surplus at \$3.9 billion, equivalent to 1.3% of GDP in that quarter, was recorded.

Diagram 2.26

Major balances in Hong Kong's balance of payments



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

/Table 2.29

Table 2.29**Hong Kong's balance of payments account
(\$ billion at current market prices)**

	<u>2000</u> [#]	<u>2001</u> [#]	<u>2001</u>				<u>2002</u>	
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]
Current account ^(a)	71.0	91.5	12.1	6.9	30.5	42.1	30.8	19.3
Trade in goods	-63.8	-65.0	-24.6	-23.9	-11.4	-5.0	-12.4	-16.4
Trade in services	126.0	133.5	28.4	31.7	33.3	40.1	31.9	37.2
External factor income flows	21.8	36.1	12.0	2.1	12.0	10.0	14.8	2.1
Current transfers	-13.0	-13.1	-3.7	-3.1	-3.4	-3.0	-3.5	-3.6
Capital and financial account	-57.9	-85.7	-0.5	-11.6	-19.5	-54.2	-46.8	-30.4
Net change in capital transfers	-12.0	-9.1	-1.4	-3.1	-2.9	-1.6	-3.0	-7.6
Net change in financial non-reserve assets	32.5	-40.1	61.9	1.4	-42.9	-60.6	-40.0	-25.9
<i>of which :</i>								
Direct investment	20.0	108.1	59.1	37.5	5.1	6.4	-10.1	15.3
Portfolio investment	190.8	-309.3	-108.1	-52.3	-71.3	-77.6	7.1	-117.8
Financial derivatives	1.7	39.1	-9.2	21.0	14.9	12.4	12.3	6.1
Other investment	-179.9	122.0	120.1	-4.8	8.5	-1.7	-49.2	70.6
Net change in reserve assets ^(b)	-78.3	-36.5	-61.0	-9.9	26.3	8.0	-3.9	3.1
Net errors and omissions	-13.1	-5.8	-11.6	4.7	-11.0	12.1	16.0	11.0
Overall balance of payments	78.3	36.5	61.0	9.9	-26.3	-8.0	3.9	-3.1

Notes : (#) Revised figures.

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

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

/Notes

Notes :

- (1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.
- (3) Offshore trade is covered in exports of trade-related services within the broader component of exports of services in the Gross Domestic Product. It covers the services of both “merchanting” and “merchandising for offshore transactions”. Merchanting is defined as the services associated with trading of goods which are purchased from a party outside Hong Kong and then sold to another party outside Hong Kong, without the goods ever entering and leaving Hong Kong. Merchandising for offshore transactions is defined as the services of arranging on behalf of buyers/sellers outside Hong Kong the purchase/sale of goods according to their specifications. Earnings from offshore trade include the gross margin from merchanting and the commission from merchandising for offshore transactions.
- (4) Under the BoP account, imports of goods are valued on free-on-board (f.o.b) basis, which is different from the practice for merchandise trade statistics where imports are valued on cost, insurance and freight (c.i.f.) basis. The insurance and freight costs related to merchandise imports are entered as imports of services.
- (5) Exports of financial and banking services in the GDP account include commissions and fees for rendering financial and related ancillary services to non-residents. However, these do not include interest receipts from non-residents, which account for a major part of the external receipts of financial intermediaries in Hong Kong. Interest receipts from non-residents are correctly classified as investment income from abroad under GNP. The same situation applies, in an opposite direction, to interest payments to non-residents. Hence the trade in services component and the invisible trade surplus of Hong Kong would have been larger if such interest receipts and payments were classified to the services account.
- (6) East Asia here covers nine major markets in the region, namely the mainland of China, Japan, Taiwan, Singapore, the Republic of Korea, the Philippines, Thailand, Malaysia and Indonesia.
- (7) North America here comprises the United States and Canada.

/(8)

- (8) There are currently 15 member countries in the European Union, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece and Portugal.
- (9) Outward processing arrangements are made between Hong Kong companies and manufacturing entities in the Mainland under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Mainland entities. Raw materials or semi-manufactures are normally exported to the Mainland for such processing. The Mainland entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment.

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

- (10) A balance of payments (BoP) account is a statistical framework that systematically summarises the external transactions of an economy with the rest of the world in a specific time period.

A complete BoP account comprises the current account and the capital and financial account. The current account records the flows of real resources, including exports and imports of goods and services, factor income received from and paid to abroad, and current transfers from and to abroad. The capital account records external capital transfers, and external acquisitions and disposals of non-produced and non-financial assets. The financial account records transactions in financial assets and liabilities between residents and non-residents, including direct investment, portfolio investment, financial derivatives, and other investment. Also included is net change in reserve assets.

Within the overall BoP account, the current account balance and the net change in capital and financial non-reserve assets taken together, which is deemed to represent the BoP position of the economy, matches exactly the net change in reserve assets, by virtue of the BoP accounting identity.

CHAPTER 3 : THE DOMESTIC ECONOMY

Net output or value added by economic activity

3.1 As indicated by the new data series on quarterly GDP by economic activity at constant prices⁽¹⁾, net output or value added for all the *service sectors*⁽²⁾ taken together turned up to increase, by 1.8% in real terms in the second quarter of 2002 over a year earlier, from virtually zero growth in the first quarter. Analysed by constituent sector in real terms, net output in transport, storage and communications had a larger gain, by 3.3% in the second quarter of 2002 over a year earlier, led by rapid expansion in traffic volume of international telephone and mobile phone services. Also contributed was improved business in cargo handling and related transportation services, in tandem with the rebound in external trade. Net output in financing, insurance, real estate and business services rose by 1.3%, with a pick-up in non-interest income from banking and in commission income from real estate services. Net output in the wholesale, retail and import/export trades, restaurants and hotels was higher, by 1.0%, on the back of faster growth in inbound tourism and rebound in external trade. Net output in community, social and personal services also went higher, by 0.6%, mostly contributed by education and social welfare services.

3.2 On the other hand, net output in the local *manufacturing sector* was kept on a distinct downtrend, plummeting by 11.3% and 11.1% respectively in real terms in the first two quarters of 2002 over a year earlier, as production processes continued to move out. For the *construction sector*, net output nevertheless went up, by 3.2% in real terms in the second quarter of 2002 over a year earlier, reversing the 1.7% fall in the first quarter, as the sector turned more active in overall terms.

/Table 3.1

Table 3.1

GDP by economic activity^(a)
(year-on-year rate of change in real terms (%))

	<u>Annual[#]</u>	<u>2001</u>				<u>2002</u>	
		<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>
Manufacturing	-5.1	-0.3	0.1	-7.9	-11.0	-11.3	-11.1
Construction	-2.8	-5.3	-2.7	-6.7	3.1	-1.7	3.2
Services ^(b)	1.3	3.2	1.8	0.8	-0.4	*	1.8
<i>Of which :</i>							
Wholesale, retail and import/export trades, restaurants and hotels	*	5.6	0.7	-0.3	-4.7	-2.8	1.0
Transport, storage and communications	3.6	9.1	2.8	2.3	0.9	0.1	3.3
Financing, insurance, real estate and business services	-1.3	-4.1	2.5	-2.4	-1.0	-2.0	1.3
Community, social and personal services	3.1	5.9	1.5	3.5	1.8	1.1	0.6

Notes : (a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. See note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity. Also, charges of financial intermediation services are deducted.

(#) Preliminary estimates.

(*) Change of less than 0.05%.

/Local

Local manufacturing output

3.3 Output in the local manufacturing sector, as measured by the Index of Industrial Production⁽³⁾, likewise contracted markedly further, by 11.2% in volume in the second quarter of 2002 over a year earlier, after an 11.6% drop in the first quarter. Analysed by major constituent industry in volume, output of the fabricated metal products, the consumer electrical and electronic products, and the machinery and equipment industries fell sharply, by 30.8%, 29.6% and 19.6% respectively in the second quarter of 2002 over a year earlier. Output of the wearing apparel, the plastic products and the textiles industries also declined visibly, by 10.4%, 7.5% and 7.3% respectively. On the other hand, output of the paper products and printing industry went up, albeit only slightly, by 1.0%. On a seasonally adjusted quarter-to-quarter comparison, output of the local manufacturing sector also shrank further, by 1.3% in volume in the second quarter of 2002, following a 2.4% decrease in the first quarter.

Table 3.2

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

<u>Industry group</u>	<u>2001</u>					<u>2002</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>
Wearing apparel	-0.1	3.1	3.4	-9.8	3.8	-13.4	-10.4
Textiles	-0.3	3.5	1.7	-2.6	-2.0	-10.6	-7.3
Plastic products	-15.2	-12.4	-11.0	-12.0	-25.7	-13.1	-7.5
Consumer electrical and electronic products	*	-0.3	-2.0	-0.5	2.8	-0.8	-29.6
Machinery and equipment	-8.5	5.7	4.3	-13.7	-24.9	-17.4	-19.6
Fabricated metal products	-10.2	-7.0	-9.3	-14.5	-9.4	-27.4	-30.8
Paper products and printing	-1.2	0.2	2.0	-2.9	-4.2	-10.5	1.0
Overall manufacturing	-4.4	-0.2	-0.1	-7.1	-9.3	-11.6	-11.2
		<1.4>	<-0.3>	<-7.3>	<-2.4>	<-2.4>	<-1.3>

Notes : (#) Provisional figures.

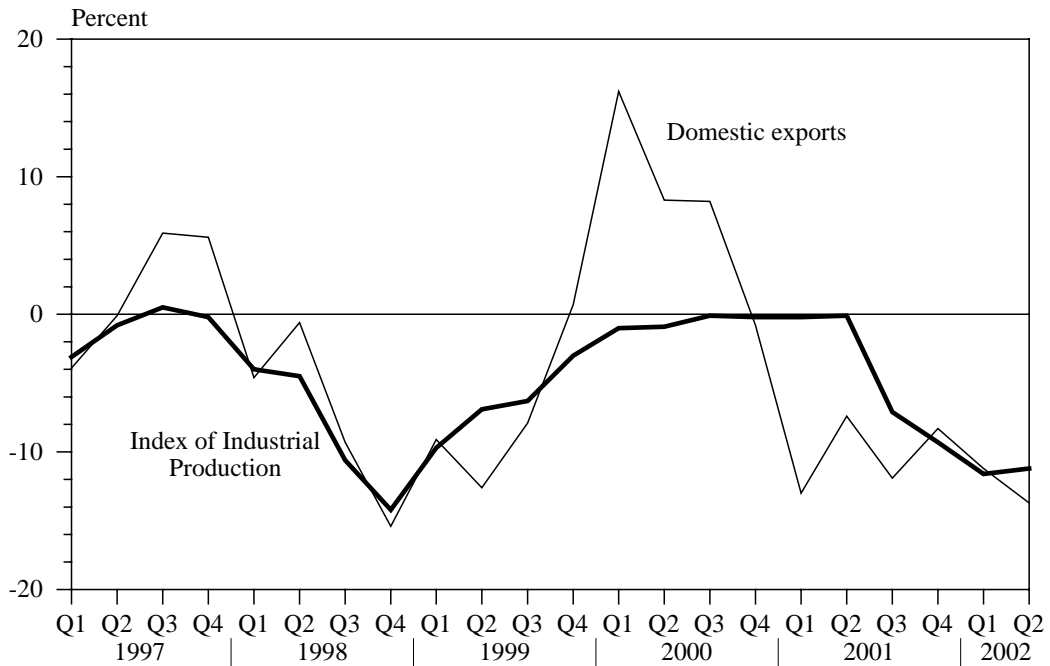
(*) Change of less than 0.05%.

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

/Diagram 3.1

Diagram 3.1

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



3.4 In the third quarter of 2002, domestic exports still went distinctly lower in real terms from a year earlier, as did orders-on-hand in the local manufacturing sector⁽⁴⁾. These pointed to a further contraction in local manufacturing output in that quarter.

/Diagram 3.2

Diagram 3.2

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

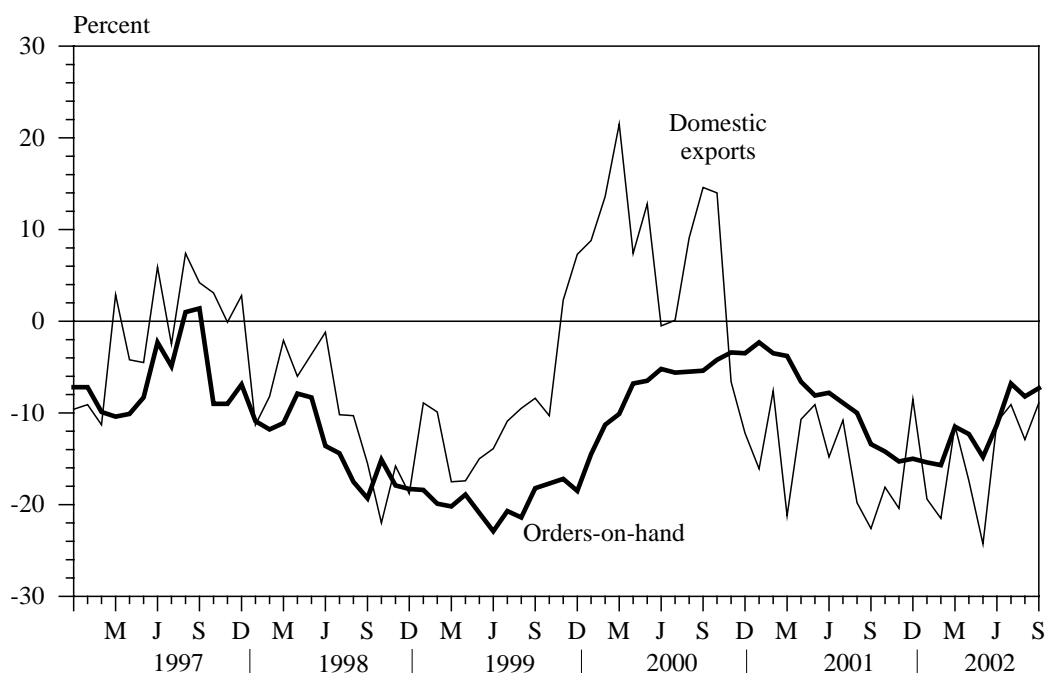


Table 3.3

Orders-on-hand in the local manufacturing sector

		<u>Value index of orders-on-hand</u> (1993=100)	<u>Year-on-year rate of change in value terms</u> (%)
2001	Mar	61.1	-3.8
	Jun	62.7	-7.7
	Sep	53.1	-13.4
	Dec	47.5	-15.0
2002	Mar	54.1	-11.5
	Jun	55.6	-11.3
	Sep [#]	49.2	-7.3

Note : (#) Provisional figures.

/Service

Service sector receipts

3.5 In the second quarter of 2002, business receipts in most of the service sectors surveyed remained on a decline, yet with a few sectors yielding increase. Analysed by constituent sector in value terms, business receipts in storage plunged by 27.4%, attributable in part to the large cut in rental income amidst much vacant storage space. Business receipts in film entertainment dipped by 15.5%, mainly reflecting reduced revenue from film processing and related services. Business receipts in financing (except banking) went down by 11.4%, due to lesser trading and fund-raising activities in the stock market. Business receipts in the wholesale trade diminished by 12.8%, and business receipts in restaurants and the retail trade by 6.0% and 5.8% respectively, on account of weakened consumer demand and steeper price discount at the various retail outlets. Business receipts in hotels shrank by 6.6%, as concessions offered on hotel tariffs outweighed the effect of improved hotel room occupancy. Business receipts in communications slid by 4.3%, owing to downward adjustment in the charges for mobile phone and some other telecommunications services. Business receipts in business services fell by 4.0%, along with a general slow-down in commercial activities. Business receipts in the import/export trade had a more modest decrease, by 2.6%, as external trade turned around. Meanwhile, business receipts in insurance rose further, by 6.0%, with the increase concentrated in general insurance and life insurance. Business receipts in real estate were higher by 3.5%, upon improved transaction volume in the property market. Business receipts in banking had a small gain of 0.3%, as increased income from commissions and service fees more than offset reduced interest income. Business receipts in transport also showed a small rise, by 0.3%, due to a pick-up in air transportation business.

/Table 3.4

Table 3.4

**Index of Business Receipts for individual service sectors
(year-on-year rate of change in value terms (%))**

	<u>2001</u>					<u>2002</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Service sector</u>							
Import/export trade	-14.1	-2.1	-13.7	-18.5	-20.0	-15.4	-2.6
Wholesale trade	-12.0	-8.3	-12.5	-13.5	-13.3	-14.7	-12.8
Retail trade	-1.2	-0.1	2.3	-2.0	-5.3	-3.7	-5.8
Restaurants	-2.5	0.1	-0.7	-4.5	-4.8	-5.4	-6.0
Hotels	-7.6	3.3	1.9	-10.5	-21.3	-12.5	-6.6
Banking	2.7	-1.7	4.5	3.6	4.5	-7.2	0.3
Financing (other than banking)	-12.6	-14.5	1.5	-22.6	-13.5	-25.2	-11.4
Insurance	14.2	4.2	24.9	13.9	13.9	10.0	6.0
Real estate	-16.9	-22.0	-21.4	-18.1	-3.8	-0.1	3.5
Business services	-9.6	-0.7	-6.9	-12.8	-16.5	-10.4	-4.0
Transport	-2.4	11.3	-2.4	-8.2	-7.5	-8.2	0.3
Storage	-14.9	-7.7	-13.1	-16.8	-22.0	-21.7	-27.4
Communications	-13.2	-11.0	-11.7	-16.0	-13.9	-5.2	-4.3
Film entertainment	15.2	3.0	22.2	18.1	17.6	2.6	-15.5

/Property

Property

3.6 The sales market for *residential property* turned more subdued in the third quarter of 2002, following some pick-up in trading activity in the first half of the year, more in the second quarter than in the first quarter. The slow-down in transactions occurred mostly in July and August, when market sentiment was dented by high unemployment, a further plunge in share prices, and a large overhang of new flat supply. In the primary market, developers held off sales of new development projects. In the secondary market, activity slackened even more. Yet by September, there was some resurrection in transactions, as the major developers went for a fresh round of sales promotion with further price discounts and other more generous concessions to arouse buying interest⁽⁵⁾. This rebound in the primary market was however much at the expense of the secondary market. As to the rental market for residential property, performance remained weak in overall terms.

3.7 On a quarter-to-quarter comparison, flat prices plummeted further, on average by 5% in the third quarter of 2002, after a 2% decline in the second quarter. Flat rentals also continued to drift lower, on average by 3% in the third quarter of 2002, same as the decrease in the second quarter. For the first three quarters of 2002 as a whole, flat prices on average went down by 7% and flat rentals even more by 9%, implying a further deterioration in rental yield over the period. Against the respective peak levels in the third quarter of 1997, flat prices and rentals had both fallen substantially, by an average of 60% and 40% in the third quarter of 2002. Due to the further distinct decline in flat prices and lower mortgage rate, and notwithstanding reduced household income, affordability of home purchase improved even further in recent quarters. Concurrently as flat rentals fell further, lease affordability improved likewise.

/3.8

3.8 On *commercial property*, the rental market for *office space* stayed sluggish in the third quarter of 2002, as demand shrank amidst more extensive downsizing and rationalisation in the corporate sector. Grade A office space in prime locations was impinged more, owing to a more abundant supply of both new space and existing space. Moreover, more tenants opted to relocate their business operations to the secondary districts so as to save costs. In a move to contain the decline in occupancy rate, landlords generally offered steeper rental cuts and other concessions to tenants. On a quarter-to-quarter comparison, office rentals on average went down further by 2% in the third quarter of 2002, after a 5% drop in the second quarter. For the first three quarters of 2002 as a whole, the decrease on average amounted to 13%. The sales market for office space was likewise weak, in the light of the unattractive rental yield against the risk involved. On a quarter-to-quarter comparison, prices of office space on average slid further by 4% in the third quarter of 2002, after a similar decrease in the second quarter. For the first three quarters of 2002 as a whole, there was on average a dip of 7%. Against their respective peak levels in 1997, prices and rentals of office space were both sharply down, by an average of 71% and 48% in the third quarter of 2002.

3.9 The rental market for *shopping space* was also slack in the third quarter of 2002, being dampened by the continued setback in retail trade. Further rental reduction and more flexible leasing terms were commonly offered by landlords with a view to maintaining occupancy. Retail premises of higher quality in more favoured locations with support from tourist business tended to fare better. On a quarter-to-quarter comparison, shop rentals on average eased by 1% in the third quarter of 2002, after a decline of 2% in the second quarter. For the first three quarters of 2002 as a whole, there was on average a 7% drop. The sales market for shopping space remained subdued. Acquisitions were scant, given the heavy capital commitment for a purchase. On a quarter-to-quarter comparison, prices of shopping space on average fell back by 1% in the third quarter of 2002, after a brief rise by 3% in the second quarter. For the first three quarters of 2002 as a whole, there was on average a modest increase by 2%. Against their respective peak levels in the third quarter of 1997, prices and rentals of shopping space both fell significantly, by an average of 56% and 27% in the third quarter of 2002.

/3.10

3.10 On *industrial property*, the rental market stayed quiet in the third quarter of 2002. Demand for conventional factory space was curbed by the persistent fall-off in local manufacturing activity, while demand for industrial premises as back-up service centres had also waned. On a quarter-to-quarter comparison, rentals of industrial space on average came down by 4% in the third quarter of 2002, further to a 3% fall in the second quarter. For the first three quarters of 2002 as a whole, rentals of industrial space on average were 9% lower. The sales market for industrial property remained in the doldrums. On a quarter-to-quarter comparison, prices of industrial space fell back by 3% in the third quarter of 2002, after a brief increase by 1% in the second quarter. For the first three quarters of 2002 as a whole, prices of industrial space on average dropped by 5%. Against their respective peak levels in 1994, prices and rentals of industrial space both plunged markedly, by an average of 68% and 47% in the third quarter of 2002.

/Table 3.5

Table 3.5**Indices of Property Prices and Rentals**

	<u>Residential flats</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index^(a)</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999 =100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)	
2001 Q1	81.0	(-4)	97.7	(-1)	85.5	(-1)	104.6	(3)	89.1	(-3)	101.2	(-1)	84.4	(-4)	93.8	(-2)
Q2	81.2	(*)	96.9	(-1)	82.1	(-4)	103.2	(-1)	87.1	(-2)	99.9	(-1)	83.2	(-1)	91.5	(-2)
Q3	78.6	(-3)	95.4	(-2)	76.1	(-7)	100.6	(-3)	87.0	(*)	99.1	(-1)	82.8	(*)	88.5	(-3)
Q4	73.8	(-6)	91.4	(-4)	71.2	(-6)	95.6	(-5)	84.0	(-3)	97.4	(-2)	77.7	(-6)	87.4	(-1)
2002 Q1	73.8	(*)	87.4	(-4)	71.2	(*)	89.6	(-6)	84.4	(*)	94.0	(-3)	75.4	(-3)	85.5	(-2)
Q2 [^]	72.0	(-2)	85.0	(-3)	68.7	(-4)	85.2	(-5)	86.7	(3)	92.2	(-2)	75.9	(1)	83.2	(-3)
Q3 [^]	68.3	(-5)	82.8	(-3)	66.0	(-4)	83.4	(-2)	85.7	(-1)	91.0	(-1)	73.7	(-3)	79.8	(-4)

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

(a) Prices for residential property in this table cover existing flats traded in the secondary market, but exclude new flats sold in the primary market.

(b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property in this table cover also lease renewals upon which rentals may be revised.

() % change over the preceding quarter.

([^]) Provisional figures.

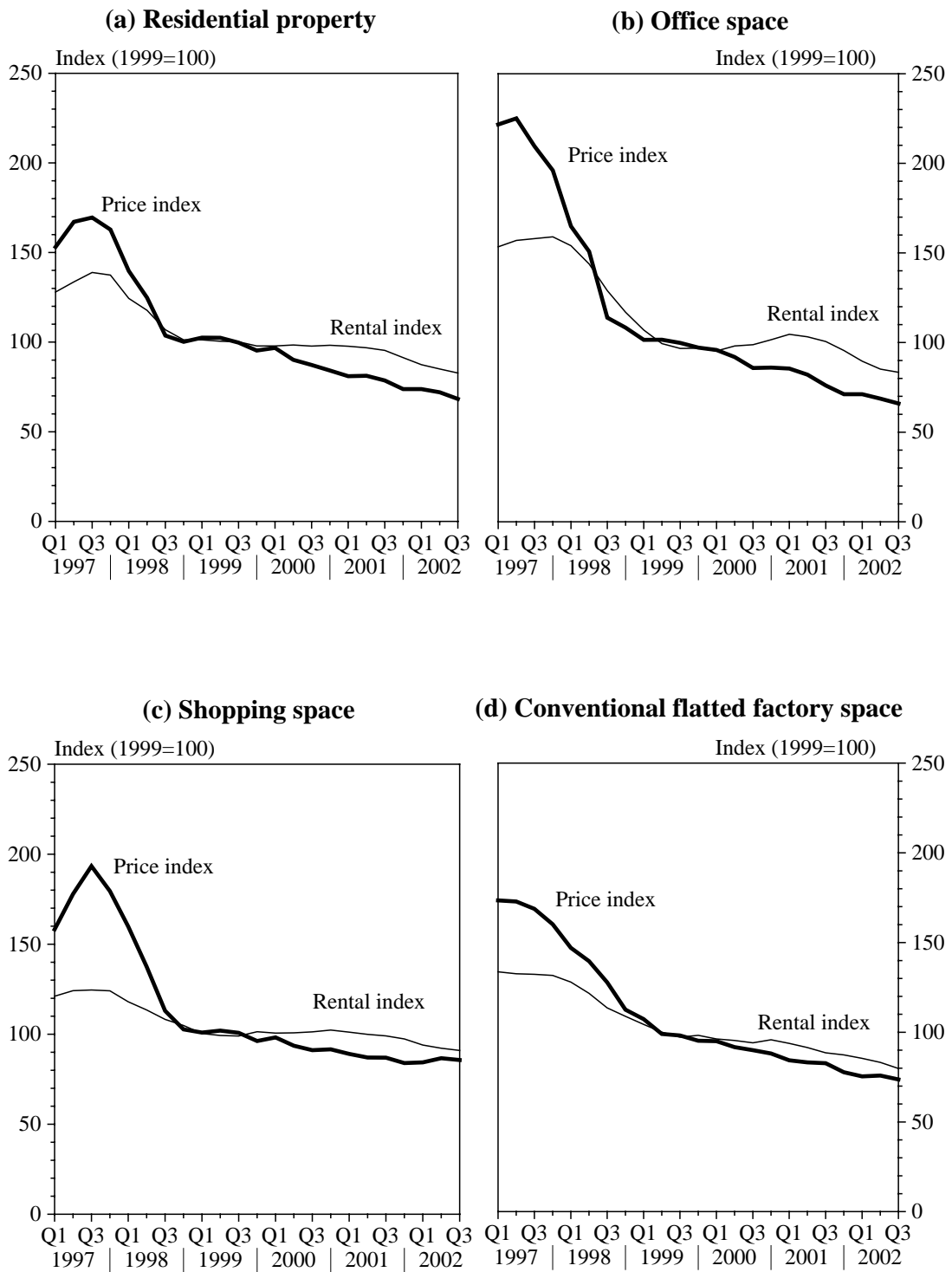
(*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.3

Diagram 3.3

Property prices and rentals



Note : See the footnotes to Table 3.5.

/Table 3.6

Table 3.6**Relationship between mortgage rate and monthly instalment payment**

		Average of the best lending rates quoted by the principal banks in Hong Kong (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks in Hong Kong ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b) (\$)		
				<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
2001	Q1	8.70	6.44	1,133	868	742
	Q2	7.40	5.15	1,068	798	668
	Q3	6.59	4.34	1,029	757	624
	Q4	5.34	2.93	962	687	551
2002	Q1	5.13	2.63	949	673	536
	Q2	5.13	2.63	949	673	536
	Q3	5.13	2.63	949	673	536
	Jan	5.13	2.63	949	673	536
	Feb	5.13	2.63	949	673	536
	Mar	5.13	2.63	949	673	536
	Apr	5.13	2.63	949	673	536
	May	5.13	2.63	949	673	536
	Jun	5.13	2.63	949	673	536
	Jul	5.13	2.63	949	673	536
	Aug	5.13	2.63	949	673	536
	Sep	5.13	2.63	949	673	536

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

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

/3.11

3.11 Property transactions, as measured by agreements for sale and purchase of property registered with the Land Registry, decreased by 11% both in number and in total value in the third quarter of 2002 over a year earlier, reversing the corresponding increases of 11% and 16% in the second quarter. Within these, transactions in residential property shrank by 11% in number and 22% in total value in the third quarter of 2002 over a year earlier. Transactions in non-residential property, though reduced by 12% in number, soared by 37% in total value, reflecting relatively more deals in higher-value premises in that quarter as compared to a year earlier. For the first nine months of 2002 as a whole, overall property transactions picked up by 2% in number and 3% in total value over a year earlier. Within these, transactions in residential property rose by 12% in number and 9% in total value, but transactions in non-residential property plummeted by 31% in number and 17% in total value. On a quarter-to-quarter comparison, overall property transactions fell markedly, by 23% in number and 22% in total value in the third quarter of 2002, in contrast to the distinct increases of 12% and 19% in the second quarter. This was attributable entirely to a sharp reduction in transactions in residential property by 26% in number and 33% in total value, outrunning the 1% fall in number yet 43% surge in total value in transactions in non-residential property.

3.12 Property transfer assignments, being a lagging indicator of property transactions, dropped by 24% in number and 36% in total value in the third quarter of 2002 from a year earlier, much exceeding the declines of 19% and 17% respectively in the second quarter. For the first nine months of 2002 as a whole, the corresponding falls were 21% and 26% over a year earlier. On a quarter-to-quarter comparison, property transfer assignments went up by 4% in number but reduced by 5% in total value in the third quarter of 2002, as against a 5% fall in number yet a 7% gain in total value in the second quarter. As to mortgage arrangements, there was a further significant contraction, with the number declining by 21% and 33% respectively in the second and third quarters of 2002 over a year earlier. For the first nine months of 2002 as a whole, the decrease was 25% over a year earlier. Reduced re-financing arrangements for existing property over the past year partly contributed. Yet on a quarter-to-quarter comparison, mortgage arrangements were virtually unchanged in number in the third quarter of 2002, after a 9% fall in the second quarter.

/3.13.....

3.13 On government-subsidised flats, upon expiry of the ten-month moratorium on sale of subsidised sale flats at end-June 2002⁽⁶⁾, a total of 2 451 flats were put out for disposal under the Home Ownership Scheme (HOS) Phase 24A launched in July. By the end of September, 56% of these flats had been sold. For the third quarter of 2002 as a whole, the Housing Authority sold 1 852 flats under the HOS Scheme, including new sales, resales, and left-overs from the previous launches, which were 69% less than a year earlier. As regards the Tenants Purchase Scheme (TPS) for designated units in the public rental estates, 5 276 TPS flats were sold to sitting tenants in the third quarter of 2002, representing an increase of 19% over a year earlier.

/Table 3.7

Table 3.7**Agreements for sale and purchase of property**

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		<u>Residential property^(a)</u>		<u>Non-residential property</u>		<u>Total</u>		<u>Residential property^(a)</u>		<u>Non-residential property</u>		<u>Total</u>	
2001	Annual	69 667	(7)	18 523	(-9)	88 190	(3)	150.9	(-10)	41.9	(-23)	192.8	(-13)
	H1	32 730	(7)	10 995	(8)	43 725	(7)	71.0	(-9)	23.2	(-18)	94.1	(-11)
	H2	36 937	(6)	7 528	(-26)	44 465	(-1)	79.9	(-12)	18.7	(-28)	98.7	(-15)
	Q1	15 105	(-1)	5 913	(13)	21 018	(2)	34.3	(-16)	11.0	(-22)	45.2	(-18)
	Q2	17 625	(16)	5 082	(3)	22 707	(13)	36.7	(*)	12.2	(-13)	48.9	(-4)
	Q3	18 164	(-6)	3 733	(-45)	21 897	(-16)	41.2	(-11)	8.7	(-48)	49.9	(-21)
	Q4	18 773	(21)	3 795	(11)	22 568	(19)	38.8	(-13)	10.0	(8)	48.7	(-9)
2002	H1	40 921	(25)	6 877	(-37)	47 798	(9)	89.9	(27)	14.4	(-38)	104.3	(11)
	Q1-Q3	57 041	(12)	10 154	(-31)	67 195	(2)	122.1	(9)	26.4	(-17)	148.5	(3)
	Q1	18 992	(26)	3 569	(-40)	22 561	(7)	41.5	(21)	6.1	(-44)	47.7	(5)
	Q2	21 929	(24)	3 308	(-35)	25 237	(11)	48.3	(32)	8.3	(-32)	56.6	(16)
	Q3	16 120	(-11)	3 277	(-12)	19 397	(-11)	32.3	(-22)	11.9	(37)	44.2	(-11)
			<-26>		<-1>		<-23 >		<-33>		<43>		<-22>
	Jan	7 847	(103)	1 381	(76)	9 228	(99)	18.2	(91)	2.5	(-21)	20.7	(63)
	Feb	5 695	(42)	1 135	(20)	6 830	(38)	12.4	(39)	1.6	(-30)	14.0	(25)
	Mar	5 450	(-25)	1 053	(-75)	6 503	(-43)	11.0	(-31)	2.0	(-64)	13.0	(-39)
	Apr	7 409	(48)	1 047	(-63)	8 456	(8)	15.3	(40)	2.0	(-72)	17.3	(-4)
	May	7 325	(16)	1 145	(10)	8 470	(15)	16.9	(39)	3.4	(53)	20.3	(41)
	Jun	7 195	(14)	1 116	(-6)	8 311	(11)	16.1	(19)	2.9	(2)	19.0	(16)
	Jul	4 961	(-20)	1 205	(7)	6 166	(-16)	10.3	(-34)	5.5	(54)	15.8	(-17)
	Aug	4 881	(-25)	1 172	(-12)	6 053	(-23)	9.9	(-31)	3.6	(31)	13.4	(-21)
	Sep	6 278	(15)	900	(-29)	7 178	(7)	12.1	(7)	2.9	(19)	15.0	(9)

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

(a) 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 column on residential property, yet they are included in the column on non-residential property, and thus also in the total column.

() % change over a year earlier.

< > % change over the preceding quarter.

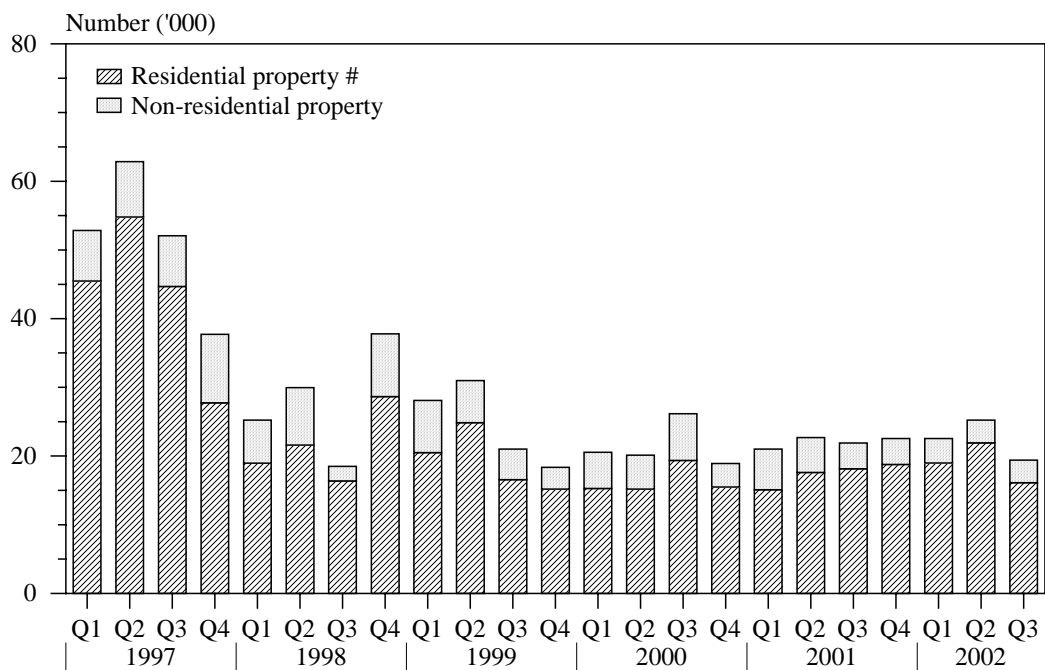
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.4

Diagram 3.4

Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.7.

/Table 3.8

Table 3.8**Property transfer assignments and mortgage arrangements**

		<u>Property transfer assignments^(a)</u>				<u>Mortgages other than building mortgages^(b)</u>	
		<u>Number</u>		<u>Total value (\$Bn)</u>		<u>Number</u>	
2001	Annual	144 037	(-5)	243.5	(-11)	157 064	(-14)
	H1	75 756	(-8)	125.7	(-13)	79 953	(-19)
	H2	68 281	(-3)	117.8	(-8)	77 111	(-9)
	Q1	39 135	(1)	63.5	(-12)	41 132	(-17)
	Q2	36 621	(-15)	62.2	(-14)	38 821	(-21)
	Q3	40 968	(8)	76.7	(11)	46 181	(-5)
	Q4	27 313	(-15)	41.1	(-31)	30 930	(-14)
	2002	H1	61 350	(-19)	100.5	(-20)	64 384
Q1-Q3		92 348	(-21)	149.6	(-26)	95 105	(-25)
Q1		31 512	(-19)	48.5	(-24)	33 650	(-18)
Q2		29 838	(-19)	52.0	(-17)	30 734	(-21)
Q3		30 998	(-24)	49.1	(-36)	30 721	(-33)
			<4>		<-5>		<*>
Jan		12 048	(-8)	21.7	(-8)	13 332	(-3)
Feb		8 346	(-40)	12.6	(-41)	9 282	(-36)
Mar		11 118	(-9)	14.2	(-23)	11 036	(-15)
Apr		9 190	(13)	16.9	(-6)	9 347	(6)
May		8 932	(-42)	14.0	(-45)	8 982	(-46)
Jun		11 716	(-10)	21.1	(13)	12 405	(-8)
Jul		12 660	(5)	22.1	(-20)	13 194	(-7)
Aug		10 361	(-33)	15.2	(-46)	9 932	(-42)
Sep		7 977	(-40)	11.8	(-44)	7 595	(-49)

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

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

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

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Land Registry.

3.14 On supply of new property, *completions* of private residential flats leaped by 162% in the third quarter of 2002 over a year earlier, having risen by only 1% in the second quarter. By contrast, completions of office space were down by 64% in the third quarter of 2002 over a year earlier, reversing the 121% surge in the second quarter. As to completions of other commercial premises, decreases were observed in both the second and third quarters, by 41% and 23% respectively over a year earlier. There were nil completions of industrial property in both quarters. Comparing the first three quarters of 2002 with a year earlier, completions of office space and private residential flats went up distinctly, by 42% and 29% respectively, whereas completions of industrial property and other commercial premises shrank sharply, by 91% and 36%.

/Table 3.9

Table 3.9

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

<u>Usage</u>	<u>Third quarter of 2001</u>	<u>Third quarter of 2002[^]</u>	<u>Year- on-year rate of change (%)</u>	<u>Jan-Sep of 2001</u>	<u>Jan-Sep of 2002[^]</u>	<u>Year- on-year rate of change (%)</u>
Residential ^(a) (in number of units)	5 090	13 340	162	17 824	22 938	29
Commercial	77	50	-36	197	183	-7
<i>Of which:</i>						
Office space	24	9	-64	73	103	42
Other commercial premises (mainly shopping space) ^(b)	53	41	-23	124	80	-36
Industrial ^(c)	16	0	-100	30	3	-91
<i>Of which:</i>						
Industrial-cum-office premises	0	0	--	14	0	-100
Flatted factory space	16	0	-100	16	3	-83
Storage premises ^(d)	0	0	--	0	0	--

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

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

([^]) Provisional figures.

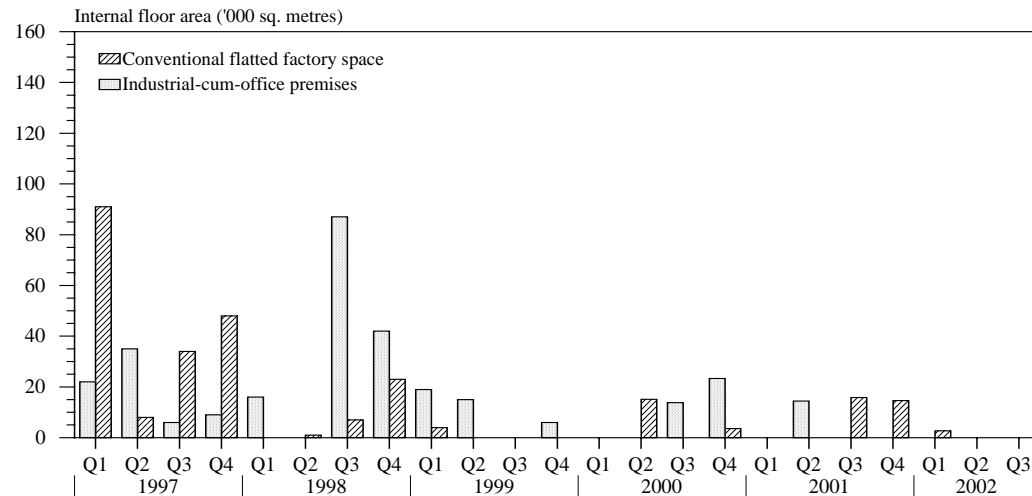
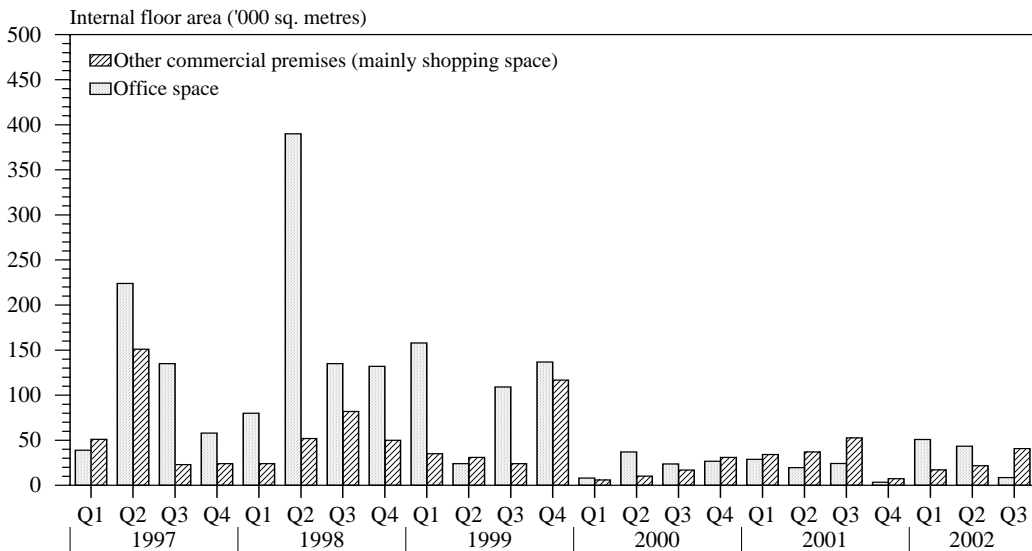
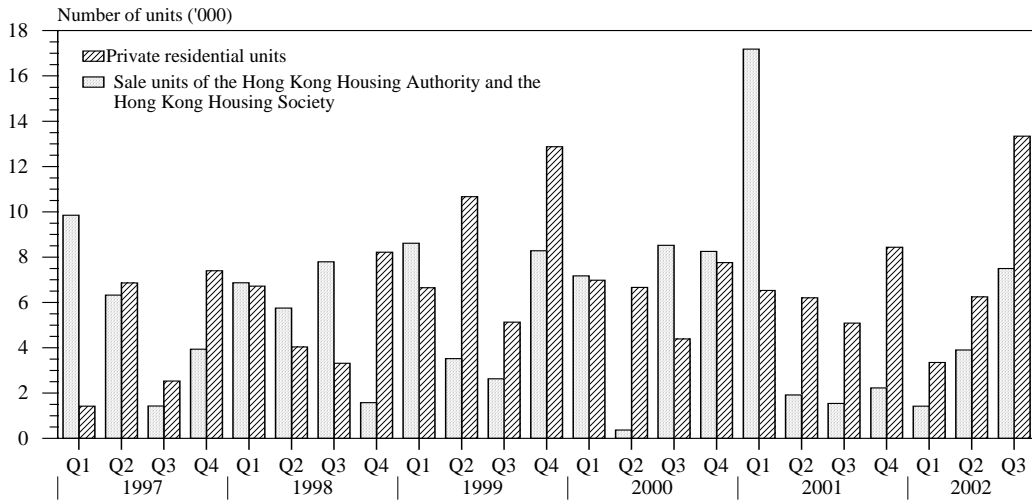
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.5

Diagram 3.5

Completions of new property by major category



3.15 *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, leaped by 117% in the third quarter of 2002 over a year earlier, much above the 18% rise in the second quarter. Yet this was mainly due to a low base last year, particularly for planned developments of non-residential property. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property rose by 20% in terms of units or by 51% in terms of total usable floor area in the third quarter of 2002, following increases of 31% and 74% respectively in the second quarter. On non-residential property, planned developments of commercial property surged by 247% in the third quarter of 2002, representing a sharp turnaround from the 62% drop in the second quarter. Planned developments of property in the “others” category soared by 466% in the third quarter of 2002, after a meagre 2% rise in the second quarter. As to planned developments of industrial property, there was a 9% increase in the third quarter of 2002. The 550% jump in the second quarter merely stemmed from a very low base last year. Comparing the first nine months of 2002 with a year earlier, planned developments of all types of property showed virtually nil change, as compared to a 25% drop in 2001. Within this total, planned developments of private residential property were reduced by 27% in terms of units or by 11% in terms of total usable floor area. On the other hand, planned developments of industrial property were sharply more, leaping by 184%, again due to a very low base last year. Planned developments of commercial property and of property in the “others” category also increased, by 20% and 12% respectively.

/Table 3.10

Table 3.10

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

<u>Usage</u>	<u>Third quarter of 2001</u>	<u>Third quarter of 2002</u>	<u>Year-on-year rate of change (%)</u>	<u>Jan-Sep of 2001</u>	<u>Jan-Sep of 2002</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a) (number of units in brackets)	122 (3 449)	185 (4 150)	51 (20)	714 (18 688)	637 (13 600)	-11 (-27)
Commercial	39	136	247	222	266	20
Industrial ^(b)	#	#	9	11	32	184
Others	8	48	466	71	80	12
Total	170	368	117	1 018	1 015	*

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

(a) Here the classification of residential property includes developments under the Urban Improvement Scheme of the Hong Kong Housing Society, but excludes developments under the Home Ownership Scheme and Private Sector Participation Scheme of the Hong Kong Housing Authority.

(b) Including multi-purpose industrial premises designed also for office use.

(#) Usable floor area of less than 500 m².

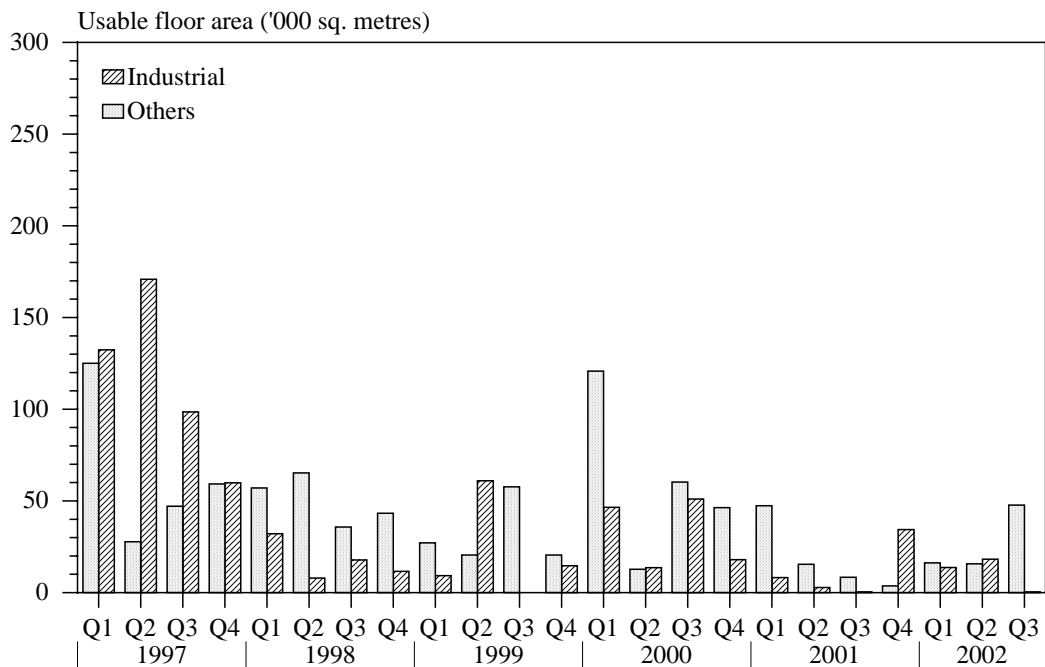
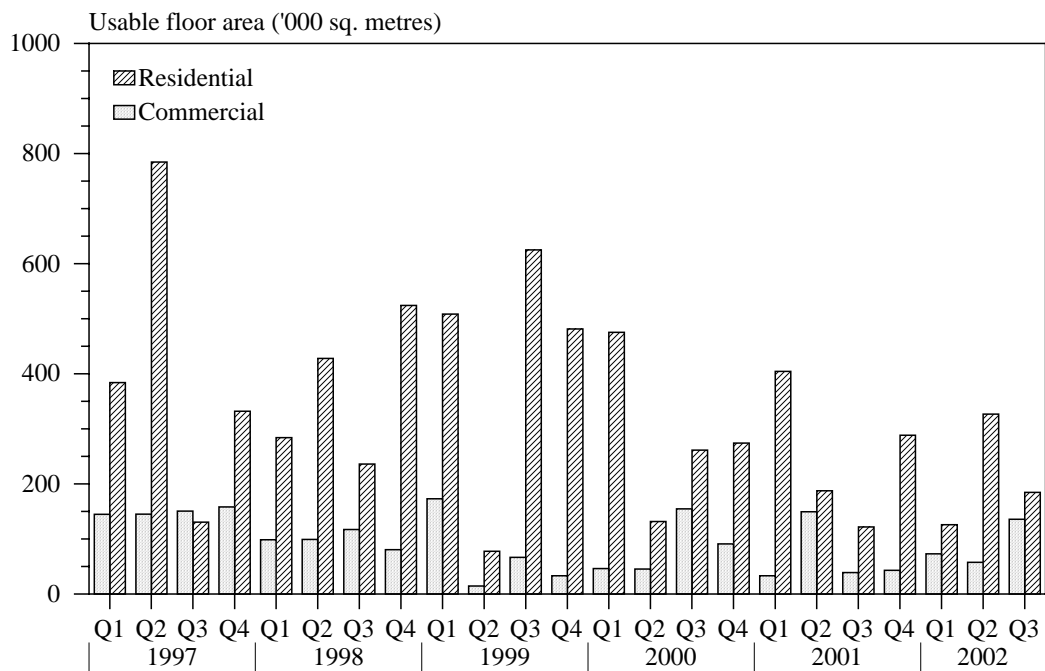
(*) Change of less than 0.5%.

Source : Buildings Department.

/Diagram 3.6

Diagram 3.6

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



Building and construction

3.16 Building and construction activity maintained a moderate growth in overall terms in the past two quarters. Total expenditure on building and construction went up by 5% in real terms in the third quarter of 2002 over a year earlier, further to a 6% rise in the second quarter. For the first three quarters of 2002 as a whole, there was a slight increase of 1% in real terms from a year earlier, as against a 2% fall in 2001.

3.17 The growth in building and construction activity was concentrated in the private sector. Compared with a year earlier, expenditure on building and construction in the private sector rose distinctly further, by 12% in real terms in the third quarter of 2002, following a 9% rise in the second quarter. This was mainly due to intensified work on a number of major residential and commercial building projects.

3.18 Compared with a year earlier, expenditure on building and construction in the public sector receded, falling by 6% in real terms in the third quarter of 2002, after a 2% rise in the second quarter. This was mainly due to tapering of work on the KCR West Rail and completion of the MTR Tseung Kwan O Extension. Also relevant was completion or winding down of the public housing projects in Tin Shui Wai, Yau Tong and Ma On Shan. On the other hand, work on several major public sector projects, including superstructure for the Science Park in Pak Shek Kok and site formation for the Hong Kong Disneyland and related projects in Penny's Bay, continued apace.

/Table 3.11

Table 3.11

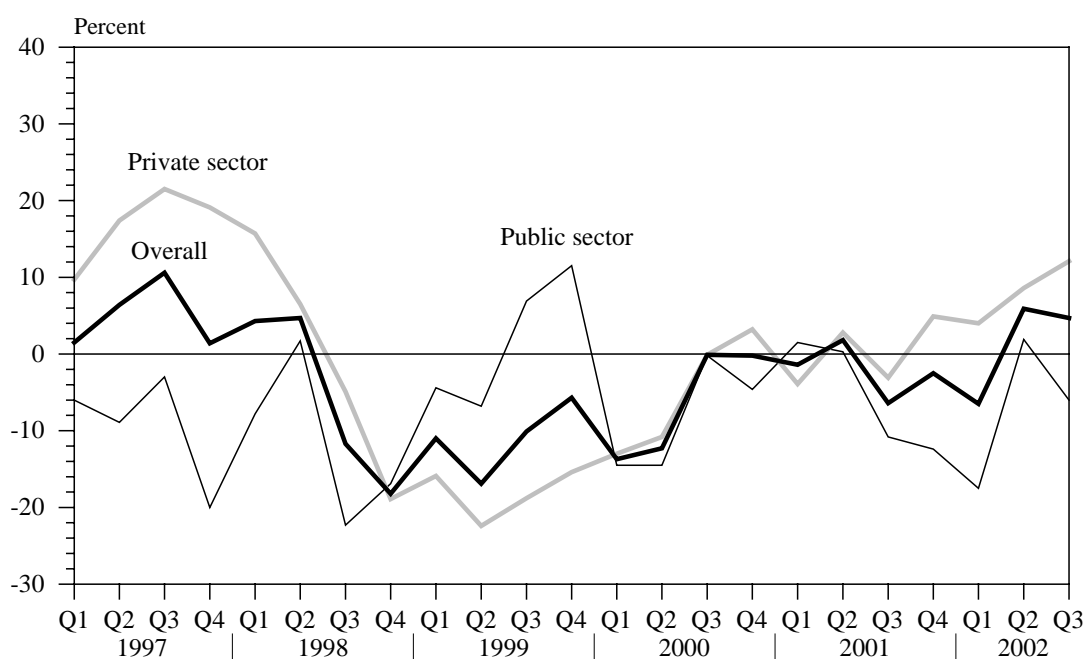
**Expenditure on building and construction
(year-on-year rate of change in real terms (%))**

		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2001	Annual [#]	*	-5	-2
	H1 [#]	-1	1	*
	H2 [#]	1	-12	-4
	Q1 [#]	-4	1	-1
	Q2 [#]	3	*	2
	Q3 [#]	-3	-11	-6
	Q4 [#]	5	-12	-3
2002	H1 ⁺	6	-10	-1
	Q1-Q3 ⁺	8	-9	1
	Q1 [#]	4	-18	-7
	Q2 [#]	9	2	6
	Q3 ⁺	12	-6	5

Notes : (#) Revised figures.
 (+) Preliminary figures.
 (*) Change of less than 0.5%.

Diagram 3.7

**Expenditure on building and construction
(year-on-year rate of change in real terms)**



/3.19

3.19 Retained imports of construction machinery continued to increase strongly, by 20% in real terms in the third quarter of 2002 over a year earlier, following the 25% leap in the second quarter. Distinct rises were observed in retained imports of mechanical shovels, shovel loaders and excavators for certain civil engineering projects. For the first three quarters of 2002 as a whole, the increase averaged at 16%, further to a 35% surge in 2001.

3.20 Retained imports of construction materials contracted by 8% in real terms in the third quarter of 2002 over a year earlier, yet this was much narrowed from the 35% dip in the second quarter. For the first nine months of 2002 as a whole, these retained imports went down by 17% in real terms over a year earlier, still exceeding the 6% drop in 2001.

3.21 Labour cost in the building and construction sector, as measured by the Labour Cost Index, was unchanged in the second quarter of 2002 from a year earlier, having eased by 1% in the first quarter. Building material cost, as measured by the Material Cost Index, went slightly lower, by 1% in both quarters. Taken together, the combined Labour and Material Cost Index was almost static in the second quarter of 2002 as compared to a year earlier, after declining by 1% in the first quarter. Compared with the preceding quarter, the Labour Cost Index edged up by 1% in the third quarter of 2002, while the Material Cost Index was virtually flat. Taken together, the combined Labour and Material Cost Index in the third quarter of 2002 was virtually unchanged from the preceding quarter.

/Table 3.12

Table 3.12

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

		<u>Labour Index</u>		<u>Material Index</u>		<u>Combined Index</u>
2001	Annual	3 581	(1)	758	(*)	1 756 (*)
	Q1	3 600	(3)	762	(*)	1 765 (2)
	Q2	3 581	(1)	759	(*)	1 757 (1)
	Q3	3 579	(*)	757	(*)	1 755 (*)
	Q4	3 564	(-2)	754	(-1)	1 748 (-2)
2002	Q1	3 570	(-1)	752	(-1)	1 749 (-1)
	Q2	3 588	(*)	753	(-1)	1 756 (*)
			<1>		<*>	<*>

Notes : () % change over a year earlier.

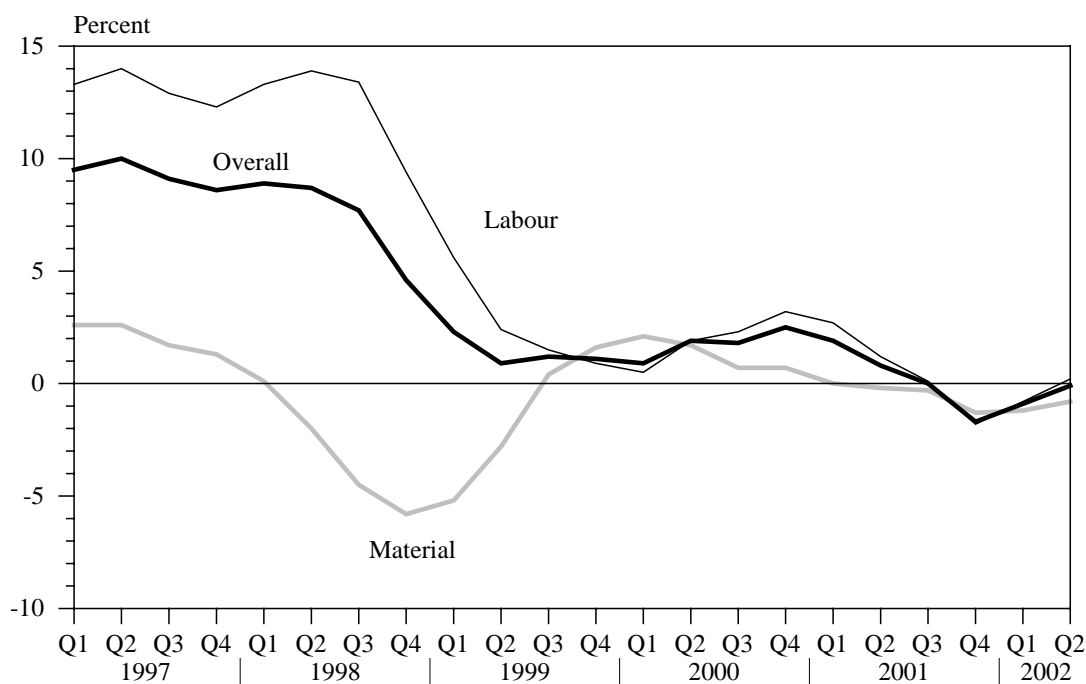
< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

Diagram 3.8

**Labour and Material Cost Index
(year-on-year rate of change)**



/3.22

3.22 Tender prices remained soft, yet with some varied movements in the more recent periods. Comparing the second quarter of 2002 with a year earlier, the Tender Price Index (TPI) for public housing projects compiled by the Housing Department and that for public sector building projects compiled by the Architectural Services Department moved down further, by 13% and 12% respectively, after declines of 9% and 20% in the first quarter. Yet comparing the second quarter of 2002 with the preceding quarter, while the TPI for public housing projects was lower by 4%, the TPI for public building projects bounced up by 8%.

Table 3.13

Tender Price Indices (TPI) for public sector projects

		<u>TPI for public housing projects^(a)</u> (Jan 1970=100)		<u>TPI for public sector building projects^(b)</u> (Jan 1970=100)	
2001	Annual	584	(-15)	808	(-9)
	Q1	612	(-18)	862	(-10)
	Q2	611	(-14)	842	(-4)
	Q3	558	(-17)	807	(-6)
	Q4	553	(-12)	721	(-15)
2002	Q1	556	(-9)	687	(-20)
	Q2	533	(-13)	742	(-12)
			<-4>		<8>

Notes : (a) Compiled by the Housing Department.

(b) Compiled by the Architectural Services Department.

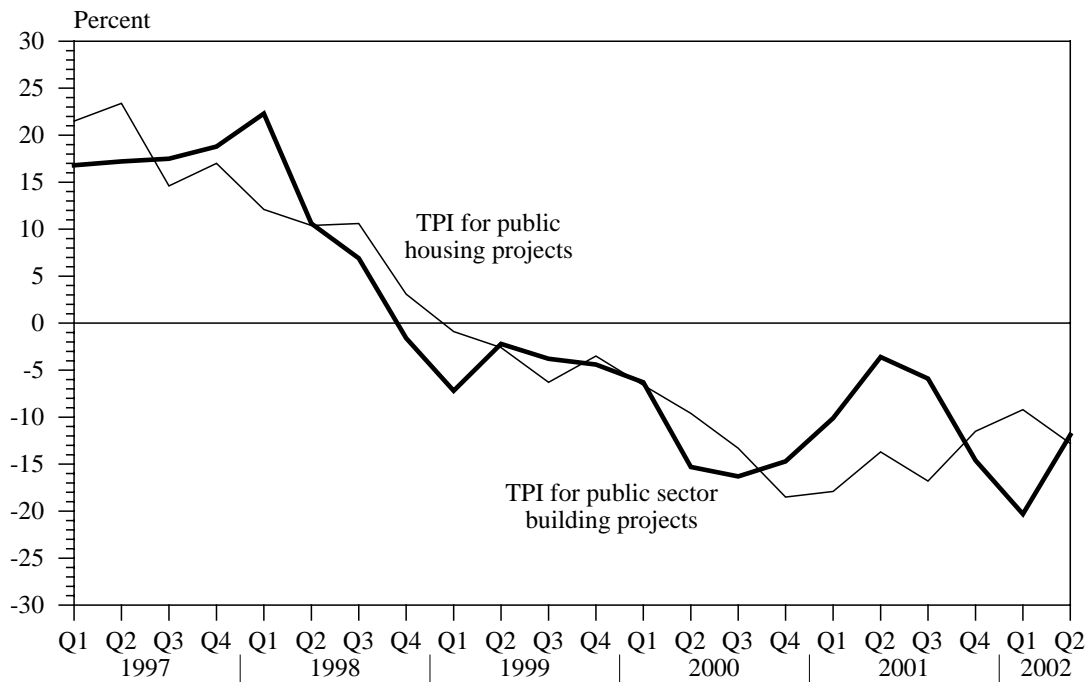
() % change over a year earlier.

< > % change over the preceding quarter.

/Diagram 3.9

Diagram 3.9

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



Land

3.23 In the third quarter of 2002, the Government held only one land auction, at which a residential site and a residential-cum-commercial site totalling 0.3 hectare were sold. There was no disposal of site through tender or through applications by developers for the Government’s Application List⁽⁷⁾. The prices fetched for these two sites were broadly in line with market expectations. For the first nine months of 2002 as a whole, nine residential sites and a residential-cum-commercial site totalling 6.4 hectares were sold at the Government’s land auctions, of which two sites were released from the Government’s Application List. There was again no disposal of site through tender.

/Table 3.14

Table 3.14**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>Third quarter of 2002</u>	<u>Jan-Sep of 2002</u>
Residential	0.2	6.4
Commercial/residential	0.1	0.1
Commercial	-	-
Industrial	-	-
Others	-	-
Total	<u>0.3</u>	<u>6.4</u>

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

Source : Lands Department.

3.24 On modification of lease on existing developed and developable land in the private sector domain⁽⁸⁾, 29 applications were approved by the Government in the third quarter of 2002. Of this total, 14 applications were for residential development, three for commercial development, and two each for residential-cum-commercial development and industrial development. As to the remaining eight applications, seven were related to development of education and community facilities, and one was related to development of godown. For the first nine months of 2002 as a whole, 144 applications for modification of lease were approved, with most of them in the first half of the year.

3.25 On the three industrial estates at Tai Po, Yuen Long and Tseung Kwan O, there was no new take-up of sites in the third quarter of 2002. But two sites totalling 3.2 hectares in the Tai Po Industrial Estate, one site of 2.4 hectares in the Yuen Long Industrial Estate, and one site of 0.6 hectare in the Tseung Kwan O Industrial Estate were surrendered. As a result, the take-up rates in these three industrial estates fell from 99.0%, 95.8% and 48.6% respectively at the end of June to 94.7%, 92.1% and 47.9% at the end of September.

/3.26

3.26 In the third quarter of 2002, approvals were granted to four more technology companies for admission into the Science Park in Pak Shek Kok, which was officially opened in June upon completion of Phase 1a of its development. By end-September 2002, the total number of technology companies admitted amounted to 18. Most of them were engaged in the electronics, biotechnology, information technology and telecommunications, and precision engineering fields. The remainder of Phase 1 would be completed by mid-2004. As to Phase 2, construction work would commence in mid-2003.

Electricity and gas

3.27 *Local electricity consumption* went up by 3% over a year earlier to 42 600 terajoules in the third quarter of 2002, having gone higher by 6% in the second quarter. For the first three quarters of 2002 as a whole, the increase averaged at 3%, similar to that in 2001. Analysed by main user type and on a year-on-year comparison, domestic consumption and commercial consumption rose by 3% and 4% respectively in the third quarter of 2002, while industrial consumption dropped by 2%. Electricity exports to the Mainland, which accounted for 5% of the total electricity generated in Hong Kong, increased further by 9% in the third quarter of 2002 over a year earlier, after a 78% leap in the first half of the year. For the first nine months of 2002 as a whole, electricity exports to the Mainland rose markedly by 46%. This was attributable to a sustained surge in electricity demand in the Pearl River Delta region, in tandem with the rapid expansion in economic activities there.

/3.28

3.28 *Towngas consumption* fell slightly, by 1% over a year earlier to 5 800 terajoules in the third quarter of 2002, after a similar decrease in the second quarter. For the first three quarters of 2002 as a whole, towngas consumption recorded virtually zero growth from a year earlier, after increasing by 2% in 2001. Analysed by main user type and on a year-on-year comparison, domestic consumption and industrial consumption were down by 2% and 1% respectively in the third quarter of 2002, whereas commercial consumption edged up by 1%.

Internal transport

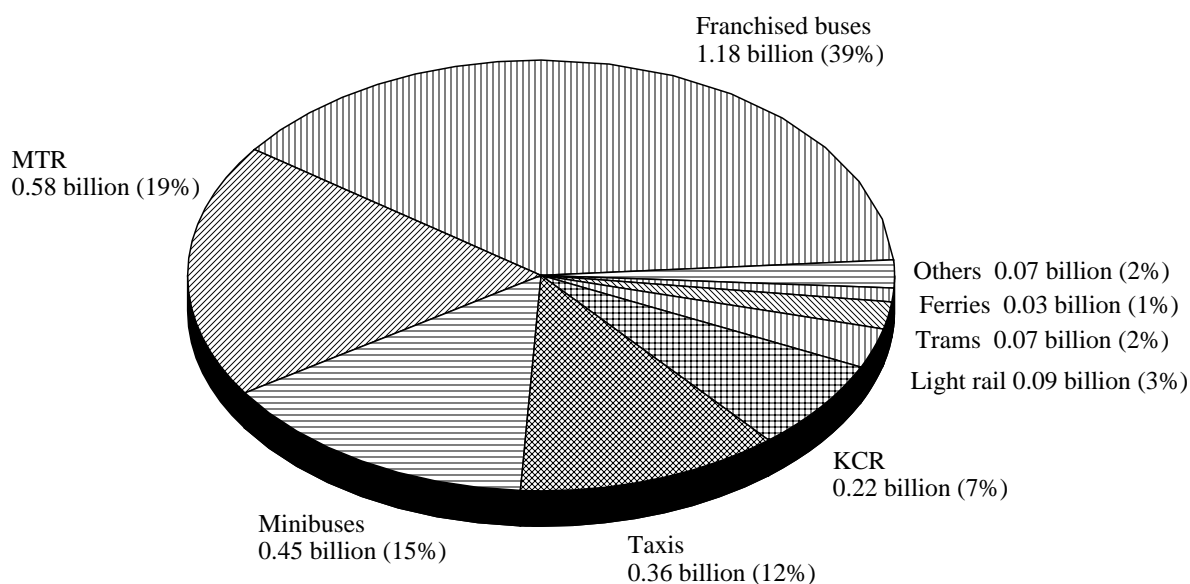
3.29 Total patronage on *public transport* went up by 2% over a year earlier to 1.0 billion in the third quarter of 2002, after a 3% increase in the second quarter. There might have been some boosting effects from the opening of the MTR Tseung Kwan O Line in August and the granting of additional fare concessions by some of the public transport operators. For the first nine months of 2002 as a whole, the increase averaged at 2% over a year earlier, larger than that of 1% in 2001. Analysed by mode of transport and on a year-on-year comparison, patronage on the Mass Transit Railway was higher by 3% in the third quarter of 2002. Patronage on franchised buses was also up by 3%, while patronage on the Kowloon-Canton Railway and ferries both rose slightly by 1%. On the other hand, patronage on the Light Rail and mini-buses dropped by 3% and 1% respectively. Meanwhile, patronage on trams and taxis were broadly stable.

3.30 On *private transport*, the total number of newly registered private cars fell markedly further, by 14% over a year earlier to 8 500 in the third quarter of 2002, after an 11% decline in the second quarter. This reflected mainly the lagged effect of the distinct setback in car sales earlier in the year. For the first nine months of 2002 as a whole, the total number of newly registered private cars fell by 13% over a year earlier, as against a 1% rise in 2001. At end-September 2002, the total number of registered private cars and licensed private cars stood at 384 200 and 340 400 respectively, representing an increase of 1% and nil change from a year earlier.

/Diagram 3.10

Diagram 3.10

**Passenger journeys by mode of public transport
in the first nine months of 2002**



Total passenger journeys in the first nine months of 2002 : 3.04 billion

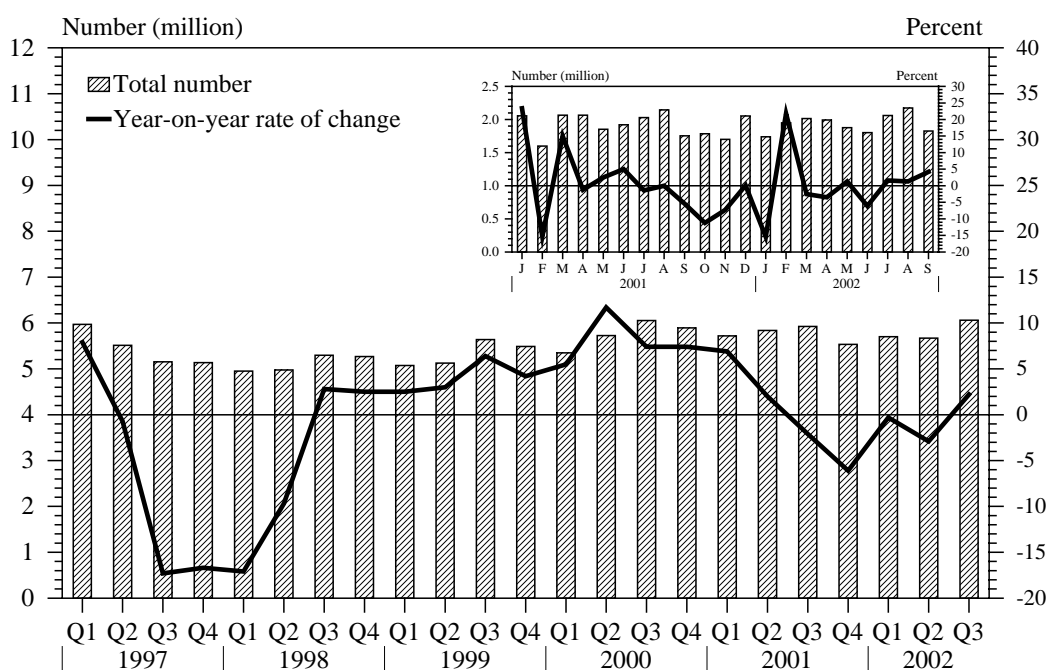
External transport

3.31 On *air transport*, total *air passenger movements* rebounded to a 2% rise over a year earlier to 6.1 million in the third quarter of 2002, following a decrease of 3% in the second quarter. Within this total, air passenger arrivals rose by 3% to 3.0 million, while air passenger departures increased less, by 1% to 3.0 million. Air passengers coming from the Mainland also went up by 3%, but air passengers going to the Mainland were reduced by 5%. For the first nine months of 2002 as a whole, total air passenger movements were virtually static as against a year earlier, with almost nil change in arrivals and a 1% fall in departures. In 2001, these passenger flows all exhibited zero growth. As to aircraft movements (including passenger and cargo flights), there was a 6% increase over a year earlier to 53 500 in the third quarter of 2002, much faster than the 1% rise in the second quarter. For the first nine months of 2002 as a whole, aircraft movements were 3% up from a year earlier. In 2001, there was a larger increase of 8%.

/Diagram 3.11

Diagram 3.11

Number of air passenger movement

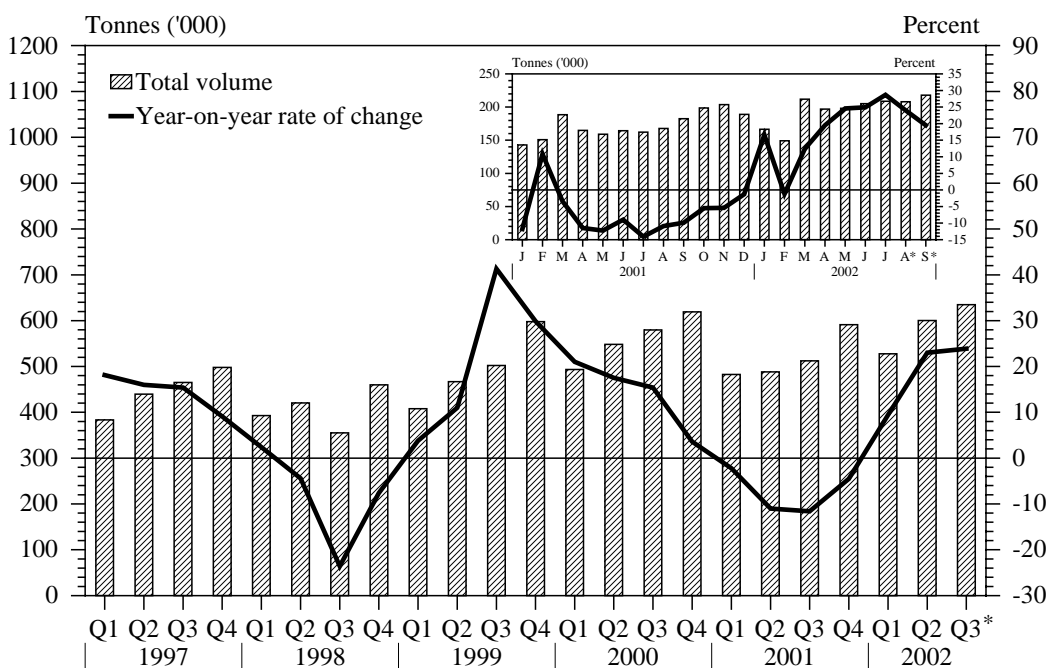


3.32 Total *air cargo movements* leaped by 24% over a year earlier to 635 000 tonnes in the third quarter of 2002, even exceeding the 23% surge in the second quarter. This was underpinned by the better performance of external trade in the more recent months. Also contributed was the greater need for prompt delivery of goods in response to quick orders. Within the total for the third quarter, inward air cargo rose by 15% to 253 000 tonnes, and outward cargo even faster by 31% to 382 000 tonnes. For the first nine months of 2002 as a whole, total air cargo movements went up distinctly, by 19% over a year earlier, comprising increases of 11% and 26% respectively for inward and outward cargo. These represented a significant turnaround from the corresponding decreases of 7%, 6% and 8% in 2001.

/Diagram 3.12

Diagram 3.12

Cargo carried by air



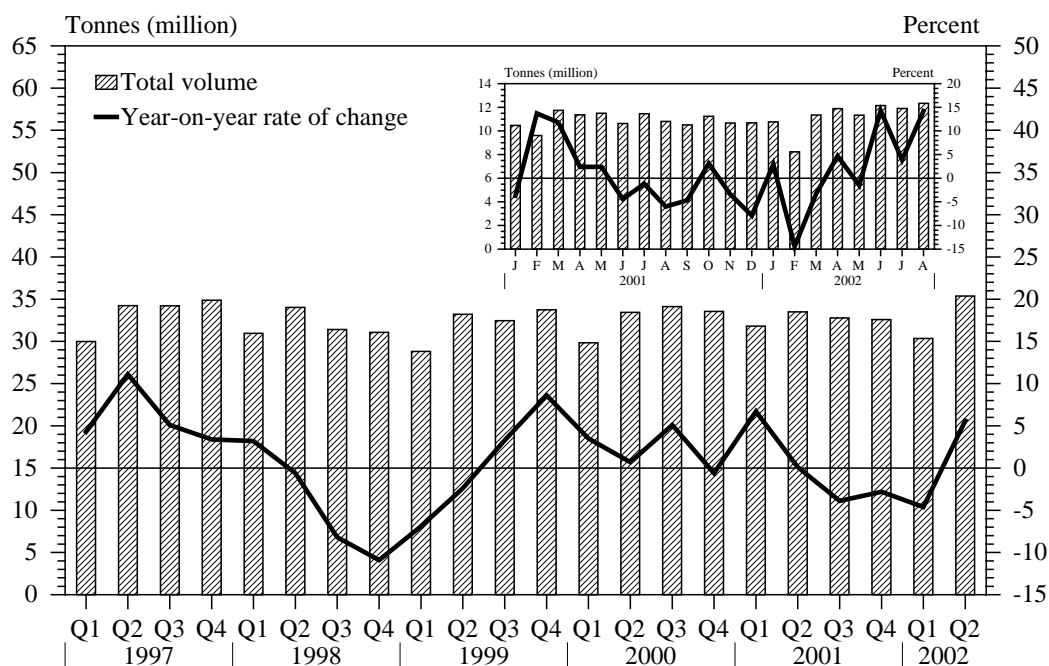
Note : (*) Provisional figures.

3.33 On *ocean transport*, total *ocean cargo movements* rose further, by 9% over a year earlier to 24.3 million tonnes in July-August 2002, following a 6% increase in the second quarter. Transshipment cargo continued to fare strongly, while direct shipment cargo also picked up. Within the total for July-August, inward and outward ocean cargo both went up by 9% over a year earlier, to 16.1 million tonnes and 8.1 million tonnes respectively. For the first eight months of 2002 as a whole, these two particular streams of cargo movement were higher by 3% and 2% respectively over a year earlier, giving a 3% gain for overall ocean cargo movements. In 2001, they also exhibited minor changes, at 1%, -2% and zero growth respectively.

/Diagram 3.13

Diagram 3.13

Cargo carried by sea

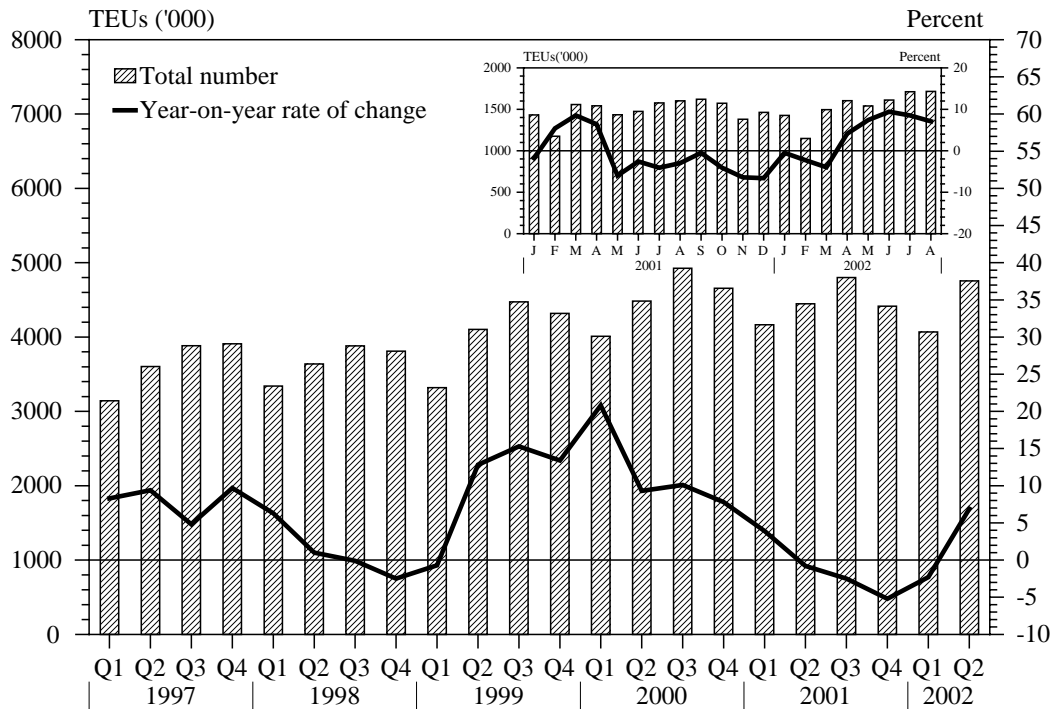


3.34 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) rose by 8% over a year earlier to 3.4 million TEUs in July-August 2002, further accelerated from the 7% rise in the second quarter. Within the total for July-August, inward and outward container throughput went up by 7% and 8% respectively to 1.7 million TEUs and 1.8 million TEUs. For the first eight months of 2002 as a whole, total container throughput grew by 4% over a year earlier, with the same increase observed for both inward and outward container throughput. These fared distinctly better than the decreases of 2%, 2% and 1% respectively in 2001. There was an on-going trend of manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port. Reflecting this, container throughput at the Yantian port continued to soar, by 62% in the third quarter of 2002 over a year earlier, after a 69% leap in the second quarter.

/Diagram 3.14

Diagram 3.14

Container throughput



Tourism

3.35 Inbound tourism continued on a strong increase. The total number of *incoming visitors* jumped by 22% over a year earlier to 4.2 million in the third quarter of 2002, much exceeding even the 13% surge in the second quarter. The growth impetus came primarily from a sharp rise in visitors from the Mainland, following abolition of the quota under the Hong Kong Group Tour Scheme in January 2002⁽⁹⁾. The weakening in the US dollar and hence the Hong Kong dollar earlier in the year should have rendered additional support. For the first nine months of 2002 as a whole, the total number of incoming visitors leaped by 16% over a year earlier, considerably faster than the 5% increase in 2001.

3.36 Analysed by major source and on a year-on-year comparison, visitors from the Mainland went up substantially, by 55% in the third quarter of 2002. Visitors from South and Southeast Asia also rose significantly, by 12%. Visitors from the United States were up by 5%, while visitors from the United Kingdom, Japan and Taiwan were all up by 4%.

/Diagram 3.15

Diagram 3.15

Number of incoming visitors

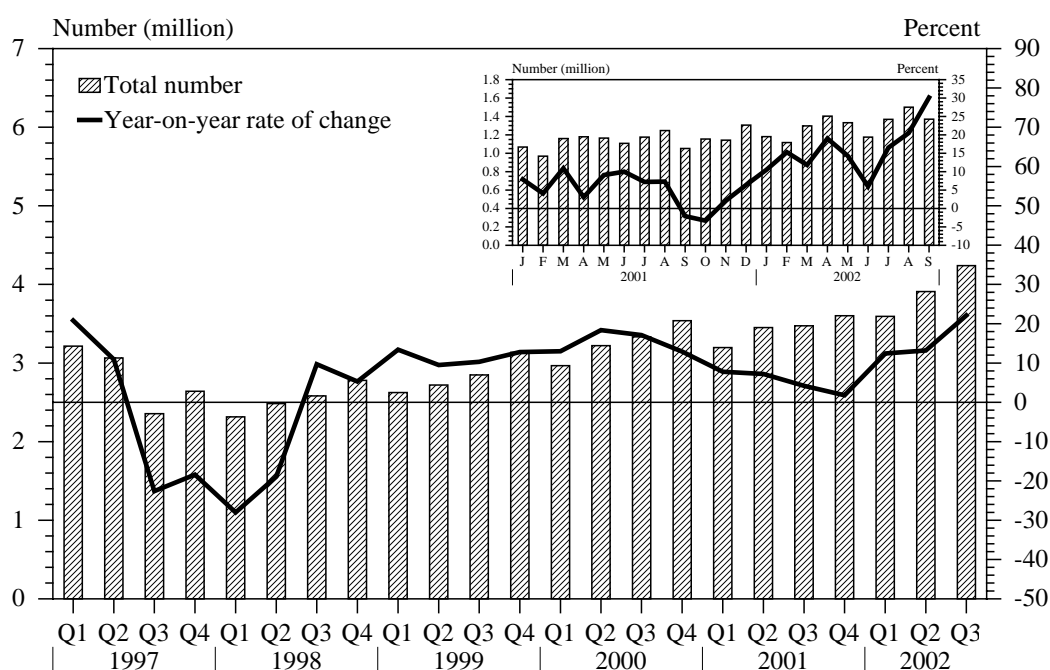


Table 3.15

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

	<u>Annual</u>	<u>2001</u>				<u>2002</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
All sources	5	8	7	4	2	12	13	22
Mainland of China	18	10	13	17	29	42	44	55
Taiwan	1	8	6	-2	-5	-1	-7	4
South and Southeast Asia	*	3	2	-3	-2	-2	5	12
Japan	-3	8	7	-5	-21	-8	-1	4
United States	-3	9	5	-2	-20	*	-1	5
United Kingdom	-2	6	-4	-1	-7	2	*	4
Others	2	8	7	2	-6	4	3	3

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

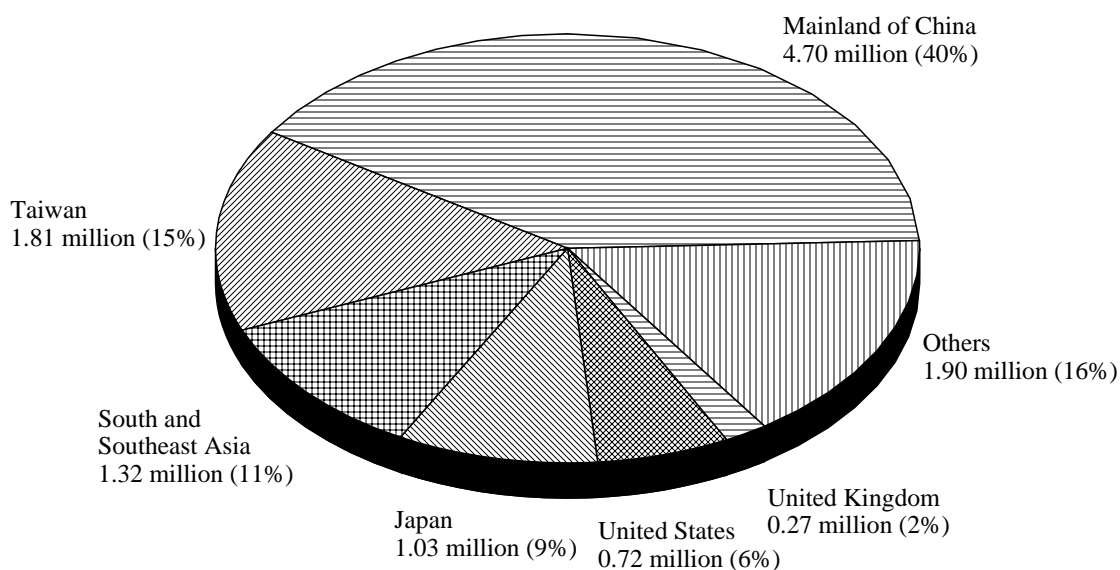
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.37 Visitors from the Mainland remained the largest source group, with the share rising further to 40% in the first nine months of 2002. Visitors from Taiwan came next (with a share of 15%), followed by visitors from South and Southeast Asia (11%), Japan (9%), the United States (6%), and the United Kingdom (2%).

Diagram 3.16

**Number of incoming visitors by source
in the first nine months of 2002**



Total number of incoming visitors in the first nine months of 2002 : 11.74 million

3.38 As at end-September 2002, there were 42 758 *hotel rooms* in Hong Kong. In line with the surge in incoming visitors, the *average hotel room occupancy rate* improved distinctly further, to 83% in the third quarter of 2002, from 78% a year earlier.

/Table 3.16

Table 3.16**Stock of hotel rooms and occupancy rate**

		Number of hotel rooms as at end of period*		Average hotel room occupancy rate during the period (%)
2001	Annual	35 999	(2)	79
	Q1	36 712	(4)	78
	Q2	36 971	(4)	79
	Q3	36 591	(4)	78
	Q4	35 999	(2)	80
2002	Q1	41 829	(--)	81
	Q2	42 747	(--)	83
	Q3	42 758	(--)	83

Notes : (*) For 2001, this covers only high-tariff hotels, medium-tariff hotels, hostels and guest houses which were members of the former Hong Kong Tourist Association (which is renamed as Hong Kong Tourism Board as from April 2001). As from the first quarter of 2002, this has a wider coverage, including all hotels and tourist guest houses on the record of the Office of the Licensing Authority, Home Affairs Department. As such, the data for the first quarter of 2002 and thereafter are not directly comparable to those in the earlier periods.

() % change over a year earlier.

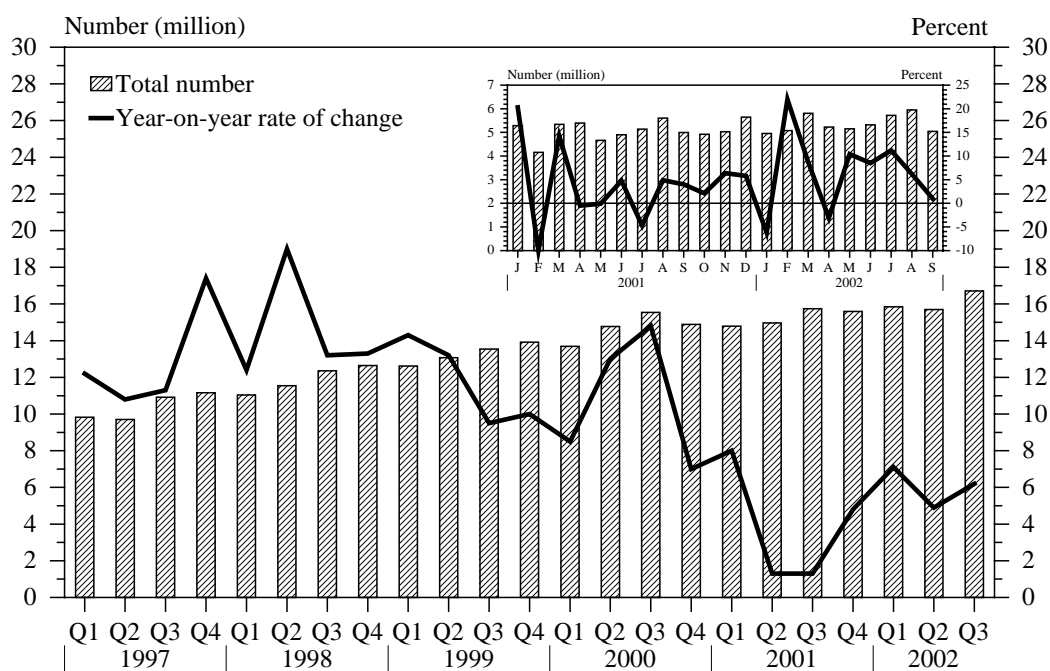
(--) Not applicable.

Source : Hong Kong Tourism Board.

/3.39

3.39 On *Hong Kong residents travelling abroad*, the total number of resident departures rose by 6% over a year earlier to 16.7 million in the third quarter of 2002, after a 5% increase in the second quarter. For the first nine months of 2002 as a whole, the total number of resident departures went up by 6% over a year earlier, following a 4% rise in 2001. Analysed by major destination and on a year-on-year comparison, resident departures to Europe and the Mainland had faster increases, by 8% and 7% respectively in the third quarter of 2002. Resident departures to North Asia and to South and Southeast Asia rose less, by 3% and 1% respectively. Resident departures to Macau were little changed. Resident departures to Americas, Taiwan, and Australia and New Zealand continued to fall, by 6%, 3% and 2% respectively, though these were all smaller than the corresponding decreases in the preceding quarter.

Diagram 3.17
Number of Hong Kong resident departures



/Table 3.17

Table 3.17**Number of Hong Kong resident departures by destination
(year-on-year rate of change (%))**

	<u>2001</u>					<u>2002</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
All destinations	4	8	1	1	5	7	5	6
Mainland of China	4	8	*	2	6	9	7	7
Macau	2	7	8	-5	-1	-3	-5	*
South and Southeast Asia	5	16	8	1	-5	-2	-11	1
North Asia	3	13	-3	-3	6	5	-7	3
Americas ^(a)	-6	7	5	-13	-21	-14	-20	-6
Taiwan	12	8	9	12	19	20	-10	-3
Europe	*	4	3	-4	-2	10	*	8
Australia and New Zealand	3	4	3	6	-3	-8	-16	-2
Others	17	84	28	-3	-32	-40	-24	-2

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

(*) Change of less than 0.5%.

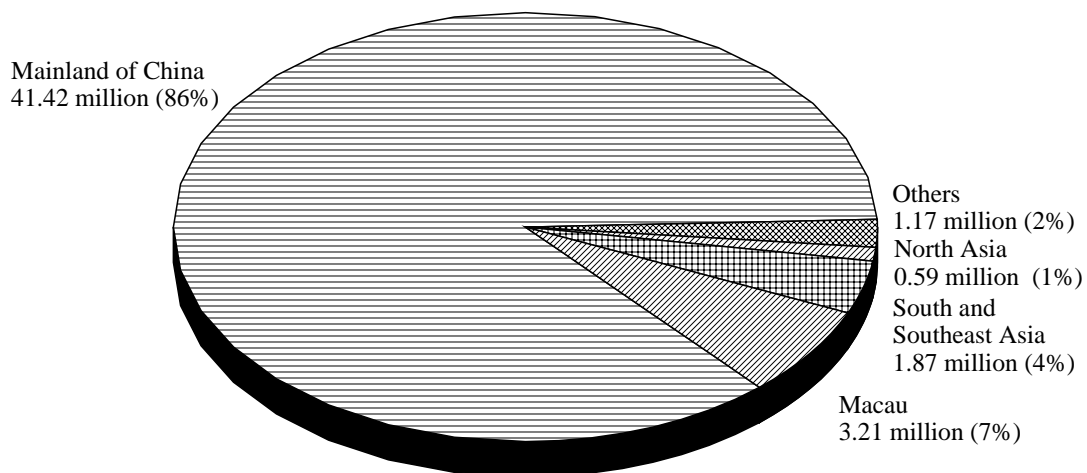
Source : Hong Kong Tourism Board.

3.40 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 86% of the total outbound trips in the first nine months of 2002. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 7%), followed by South and Southeast Asia (4%), and North Asia (1%).

/Diagram 3.18

Diagram 3.18

**Number of Hong Kong resident departures by destination
in the first nine months of 2002**



Total number of resident departures in the first nine months of 2002 : 48.26 million

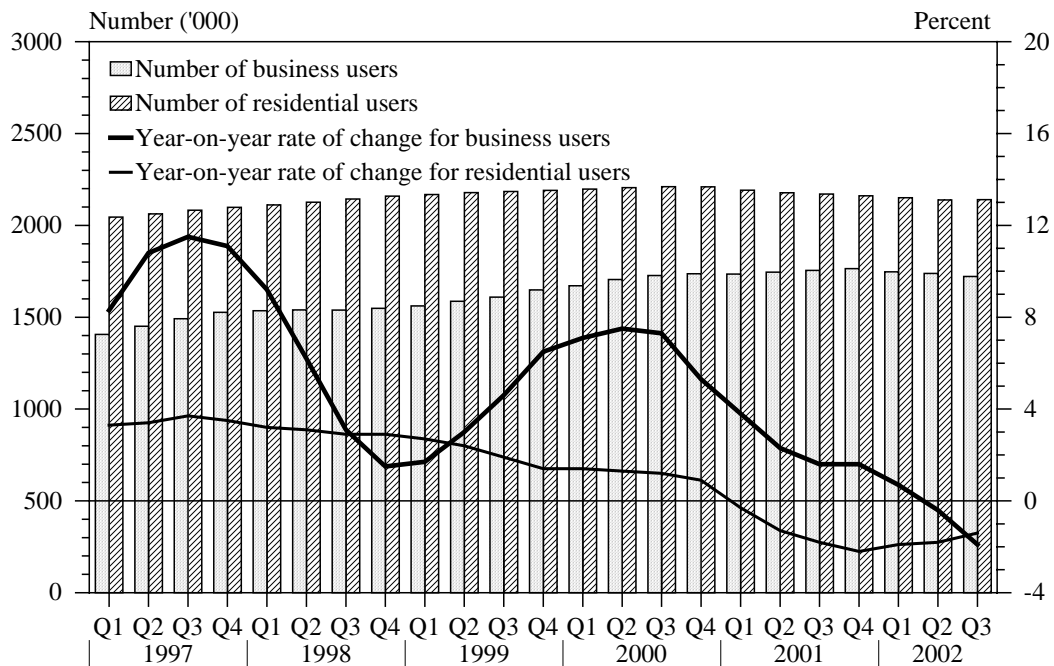
Telecommunications

3.41 On *wireline services*, the number of fixed telephone lines had receded to a downtrend, falling by 2% over a year earlier to 3.86 million at end-September 2002. Within this total, the number of lines for residential customers decreased by 1%, and the number of lines for business customers by 2%. These two particular groups of customer accounted for 55% and 45% respectively of all the telephone lines installed at end-September. At 57 telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was amongst the highest in Asia. As to facsimile lines, the number went up markedly by 37% over a year earlier to 564 100 at end-September 2002, upon active promotion by a major telephone operator in recent months. This gave 33 facsimile lines per 100 business telephone lines, again amongst the highest in Asia. On external telecommunications, external telephone traffic volume⁽¹⁰⁾ rose further, by 7% over a year earlier to 507 million minutes in September 2002. On Internet usage, broadband services continued to be the major growth segment, with the traffic volume through broadband networks soaring by 158% over a year earlier to 21 000 terabits in September 2002. There was a profound diversion in Internet usage away from the public switch telephone network, in which the traffic volume contracted substantially by 51% over a year earlier to 393 million minutes in September 2002.

/Diagram 3.19

Diagram 3.19

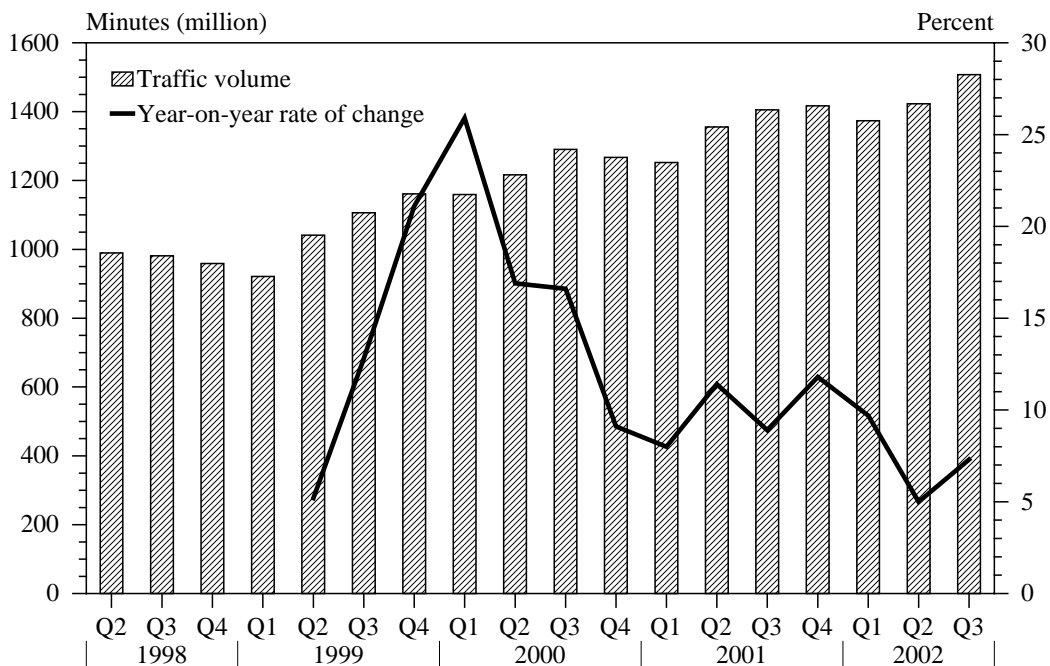
**Number of direct exchange lines* by main user category
(as at end of quarter)**



Note : (*) Including facsimile lines.

Diagram 3.20

**External telephone traffic volume*
(in the quarter)**



Notes : Data prior to the second quarter of 1998 are not available.

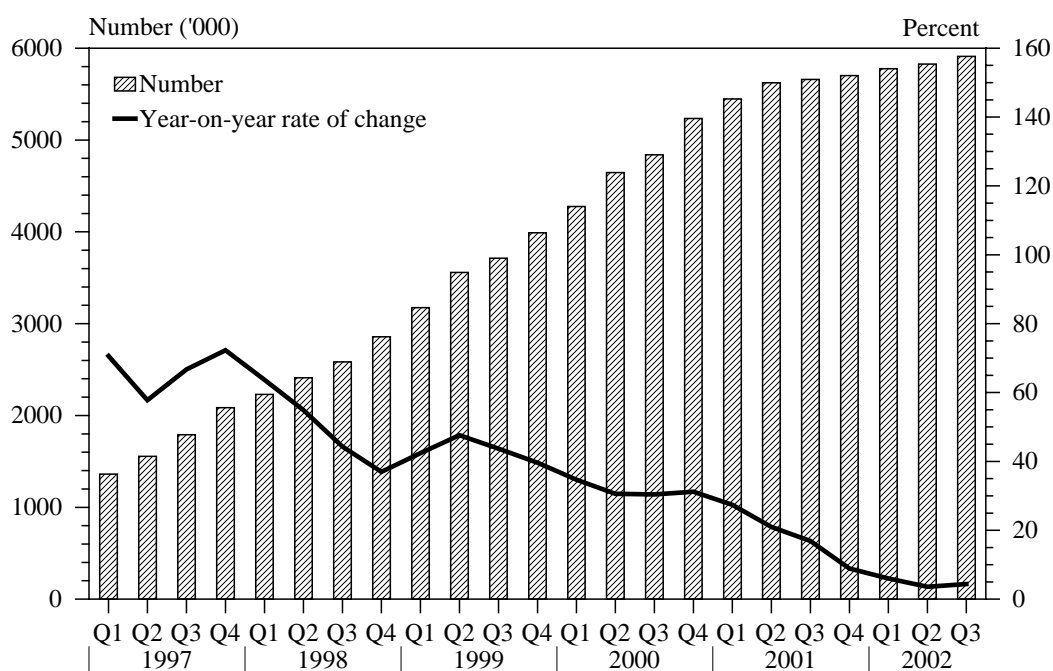
(*) Including access by international direct dialing (IDD) through telephone lines, facsimile lines and datel lines.

3.42 On *wireless services*, the mobile phone segment had settled to a more moderate growth pace, following the sharp surge in the preceding years. At end-September 2002, the number of mobile phone customers rose by only 4% over a year earlier to 5.9 million⁽¹¹⁾. This corresponded to a mobile phone penetration rate of 87%, which was one of the highest in the world. Meanwhile, the paging segment continued to shrink. At end-September 2002, the number of paging customers was reduced further, by 24% over a year earlier to 209 500.

3.43 On 11 October 2002, the Government decided to waive the required submission of performance bonds by the four licensees of the third generation (3G) mobile services for one year. This should help ease the burden on the licensees, amidst the currently less sanguine market conditions.

Diagram 3.21

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



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

/Notes

Notes :

- (1) On 1 August 2002, the Census and Statistics Department introduced a technical revision to the existing GDP series, as compiled from the expenditure approach. At the same time, a new data series on quarterly GDP by economic activity at constant prices, backdated to the first quarter of 2000, was released. This new GDP series, as compiled from the production approach, enables analysis to be done of the value-added contributions of the various economic sectors in real terms, in regard to their trend and relative significance.
- (2) The service sectors comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. Charges of financial intermediation are however deducted.
- (3) The Index of Industrial Production is intended to reflect the recent of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the boundary is not included.
- (4) The Monthly Survey of Orders-on-hand covers manufacturing firms engaging 50 or more workers. Its main purpose is to provide a broad indicator of the orders position in value terms in the local manufacturing sector at monthly intervals. Orders for outward processing operations across the boundary are not included.
- (5) Developers were offering a variety of inducements including flexible payment terms, top-up loans, cash rebates, and mortgage subsidies in the early part of the repayment period. Flat buyers might opt for different combinations of these privileges, or else might seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years for the flat buyers could be reduced considerably.
- (6) On 5 June 2002, the Chief Secretary for Administration announced that the ten-month moratorium on the sale of subsidised sale flats would cease to apply upon its expiry at end-June 2002, and that their sale would resume in a cautious and considered manner thereafter. Two tranches of new subsidised sale flats totalling about 4 900 units would be put up for sale by the end of the financial year 2002/03, in compliance with the pre-set annual ceiling of 9 000 units up to the financial year 2005/06. He also announced that from the financial year 2006/07 onwards, the Government would move towards a sales level of no more than 2 000 units a year as far as possible, with the cut-back in supply of flats being matched by additional number of home ownership loans to the eligible families.

/(7)

- (7) The Government operates an Application System under the Land Sale Programme as from April 1999, whereby additional sites are set aside on an Application List for open application by property developers. Provided that the minimum price offered by the applicant is acceptable to the Government, the site involved can be released from the Application List for open auction or tender. This helps ensure a flexible supply of Government land in response to market demand.
- (8) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with the town planning and urban renewal objectives, modification of usage (including modifications by way of land exchange) may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the difference in land value between the old and the new usage, is normally required for granting of the modification.
- (9) As from 1 January 2002, the quota of 1 500 a day set under the Hong Kong Group Tour Scheme is abolished, so as to facilitate more Mainland visitors coming for tours in Hong Kong. Also, the number of Mainland travel agencies licensed to organise group tours to Hong Kong has henceforth been increased substantially, from 4 to 528. Tour visitors apart, Mainland visitors coming to Hong Kong for business are also inconvenienced further.
- (10) This includes access by international direct dialing (IDD) through telephone lines, facsimile lines and datel lines.
- (11) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4 : THE FINANCIAL SECTOR*

Overall financial market situation

4.1 The Hong Kong dollar exchange market remained broadly stable in the third quarter of 2002. The spot exchange rate of the Hong Kong dollar against the US dollar continued to stay close to the linked rate. As to the twelve-month forward rate, the premium against the spot rate also stayed low during most of the quarter, but increased distinctly since mid-September upon greater market concern over the protracted fiscal deficit. In the money market, local inter-bank interest rates held steady in July, and then eased somewhat in August. Yet they rose above their US counterparts after the middle of September, conceivably upon the same market concern. Narrow money supply continued to rise, but broad money supply fell slightly. As Hong Kong dollar deposits fell slightly more than Hong Kong dollar loans during the quarter, the Hong Kong dollar loan-to-deposit ratio rose marginally. The local stock market went through considerable gyrations during the third quarter, affected by the downslide in the US stock market. The Hang Seng Index dropped below 10 000 towards the end of July, hovered around the 10 000 mark in August, and then tumbled sharply further in September, in face of possibly imminent military action on Iraq. The Index slid to a 12-month low of 9 072 at end-September, 14.4% lower than the level at end-June.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar stayed close to the linked rate during the third quarter of 2002, moving within a narrow range of 7.798 to 7.800. As to the twelve-month forward rate, the premium held stable during most of the quarter, yet rose sharply since mid-September, amidst market concern over the protracted fiscal deficit. It surged to 134 pips (each pip equivalent to HK\$0.0001) at end-September 2002, distinctly up from 23 pips at end-June.

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

4.3 Under the linked exchange rate system⁽¹⁾, the movements in the exchange rates of the Hong Kong dollar against the other major currencies follow closely those in the US dollar. The US dollar weakened against the major currencies during the third quarter of 2002, amidst increased uncertainty over sustainability of the US economic recovery. On month-average, the dollar-euro exchange rate rose by 2.5% during the quarter, from 0.957 in June to 0.981 in September. The pound sterling to US dollar exchange rate appreciated by 4.8%, from 1.484 in June to 1.556 in September. The yen-dollar exchange rate went up by 1.9%, from 123.2 in June to 120.9 in September. On the other hand, other major East Asian currencies, apart from the Renminbi, generally eased back against the US dollar during the quarter.

4.4 Taking these currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar on month-average fell by 0.5% during the third quarter of 2002, to 103.0 in September, from 103.5 in June. After adjusting for relative movements in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar on month-average fell by 1.5% during the quarter to 94.6 in September, from 96.1 in June.

/Table 4.1

Table 4.1

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

<u>Average for the month</u>	<u>Trade-weighted Nominal EERI^(a) (Jan 2000 = 100)</u>		<u>Trade-weighted Real EERI^(b) (Jan 2000 = 100)</u>	
2001 Mar	104.3	(1.0)	100.0	(-0.1)
Jun	105.6	(1.2)	101.6	(1.6)
Sep	104.3	(-1.2)	99.7	(-1.9)
Dec	105.4	(1.1)	98.0	(-1.6)
2002 Mar	105.9	(0.5)	99.3	(1.3)
Jun	103.5	(-2.3)	96.1	(-3.2)
Sep	103.0	(-0.5)	94.6	(-1.5)

Notes : (a) The Nominal Effective Exchange Rate Index of the Hong Kong dollar is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong.

As from 2 January 2002, a new series of nominal EERI replaces the old series, with the weights updated to reflect the average pattern of merchandise trade during 1999 and 2000, and with the base period brought up to January 2000.

The currency basket of the new series has also been updated to include the euro and the Philippine peso, and to exclude the five currencies pertaining to the participating countries of the euro.

(b) The Real Effective Exchange Rate Index of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

() % change over three months earlier.

/Diagram 4.1

Diagram 4.1

Exchange rate of the Hong Kong dollar against the US dollar

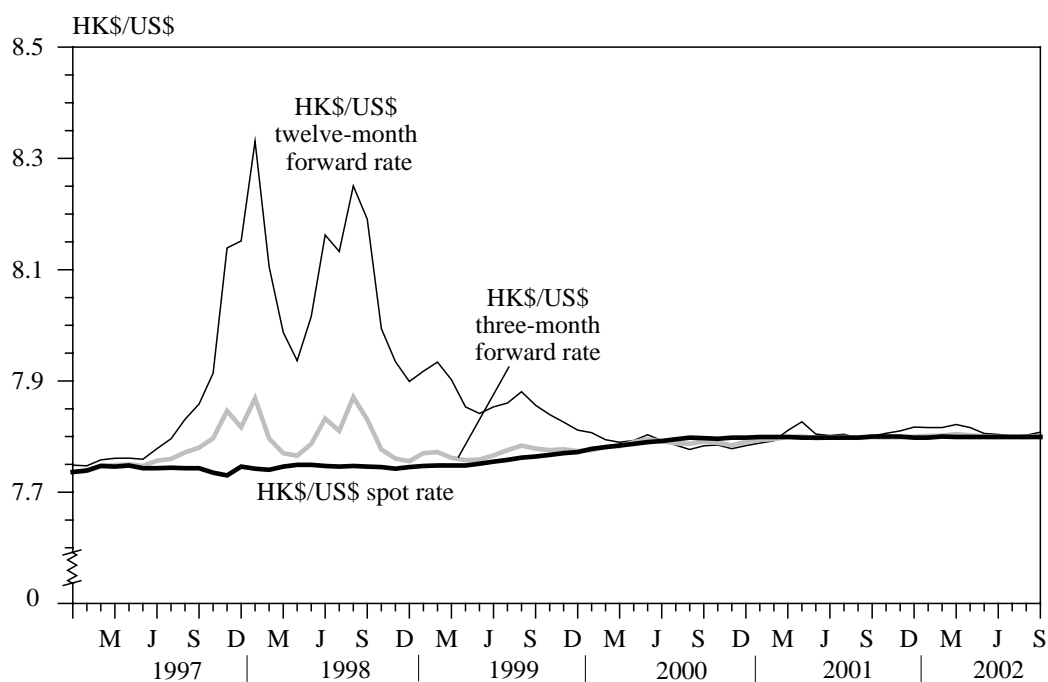
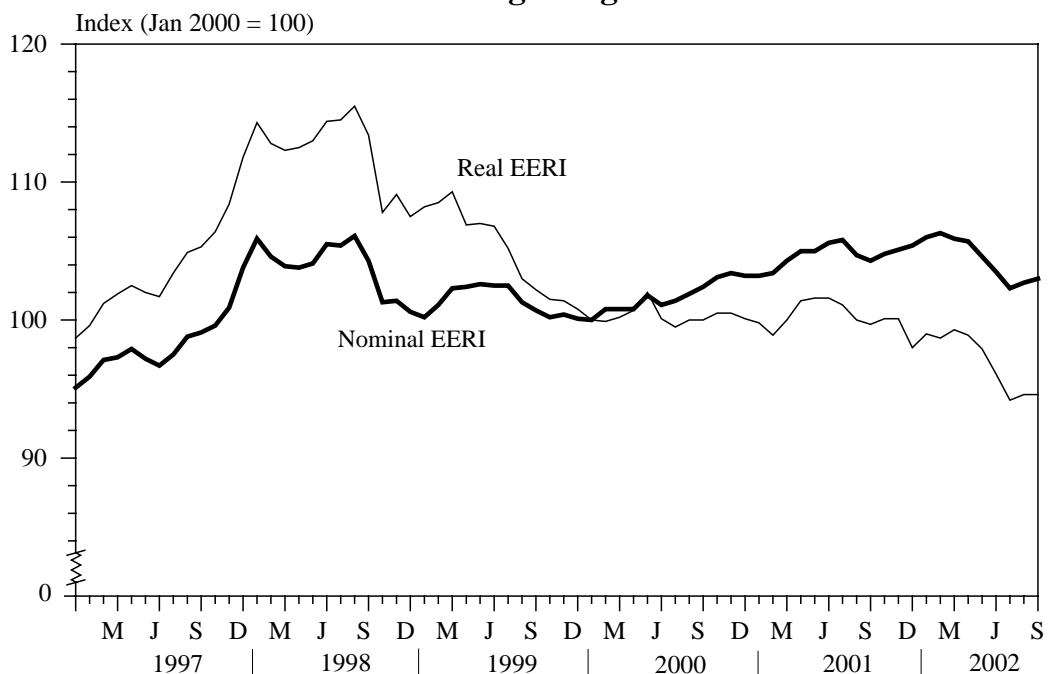


Diagram 4.2

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



Note : See Notes (a) and (b) to Table 4.1.

/Interest

Interest rates

4.5 Short-term interest rates in the United States eased somewhat in July and August, before firming up slightly in September. Following broadly the movements in US interest rates, local inter-bank interest rates also eased in August and then rose back in September. But the firming in local interest rates in September exceeded that of their US counterparts, reflecting market concern about the fiscal deficit situation. The average spread between the three-month HIBOR and the corresponding Euro-dollar deposit rate turned from a discount of 9 basis points in June to virtually zero in September. The average spread between the overnight HIBOR and the corresponding Euro-dollar deposit rate also narrowed, from a discount of 35 basis points in June to a discount of 11 basis points in September.

4.6 As the US Fed Funds target rate was kept unchanged in the third quarter of 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) was maintained at 3.25% during the quarter. The best lending rate of the major commercial banks stayed at 5.13%. Savings deposit rate offered by the major banks was also unchanged, at an average of 0.16%. The average spread of the best lending rate over the three-month time deposit rate widened slightly, from 4.68 percentage points in the second quarter of 2002 to 4.76 percentage points in the third quarter.

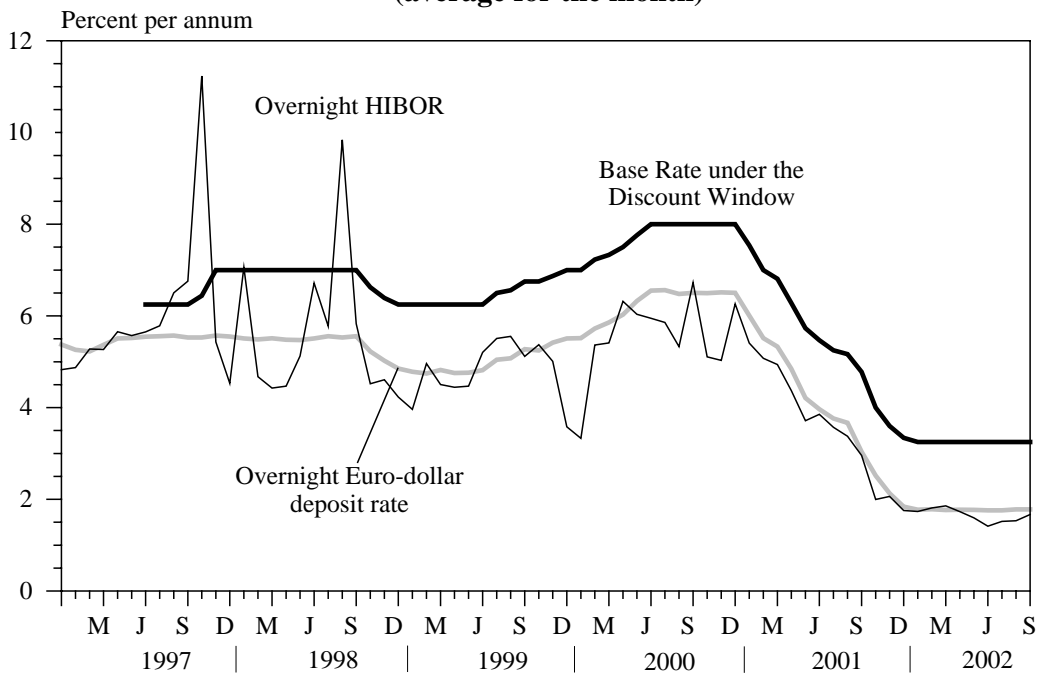
4.7 Competition among the banks for residential mortgage business continued to be keen. The proportion of new residential mortgages granted at more than 2.5 percentage points below the best lending rate rose significantly, from 19.8% at end-June 2002 to 43.2% at end-September⁽³⁾.

/Diagram 4.3

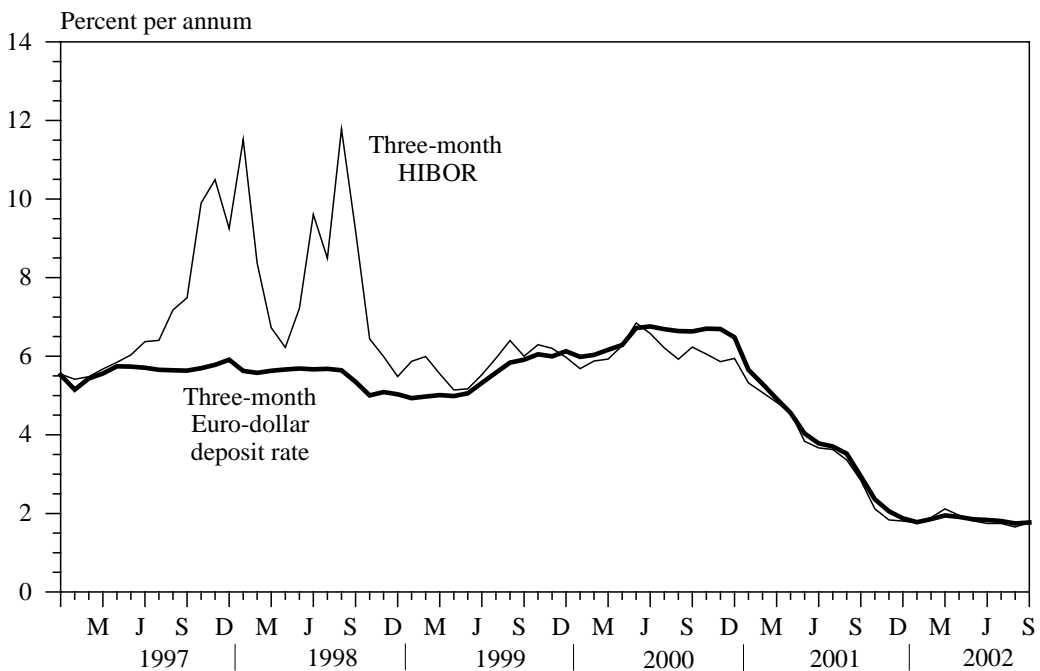
Diagram 4.3

Interest rates

(a) Base Rate under the Discount Window, and overnight HIBOR and Euro-dollar deposit rate (average for the month)



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



/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

**(c) Twelve-month HIBOR and Euro-dollar deposit rate
(average for the month)**

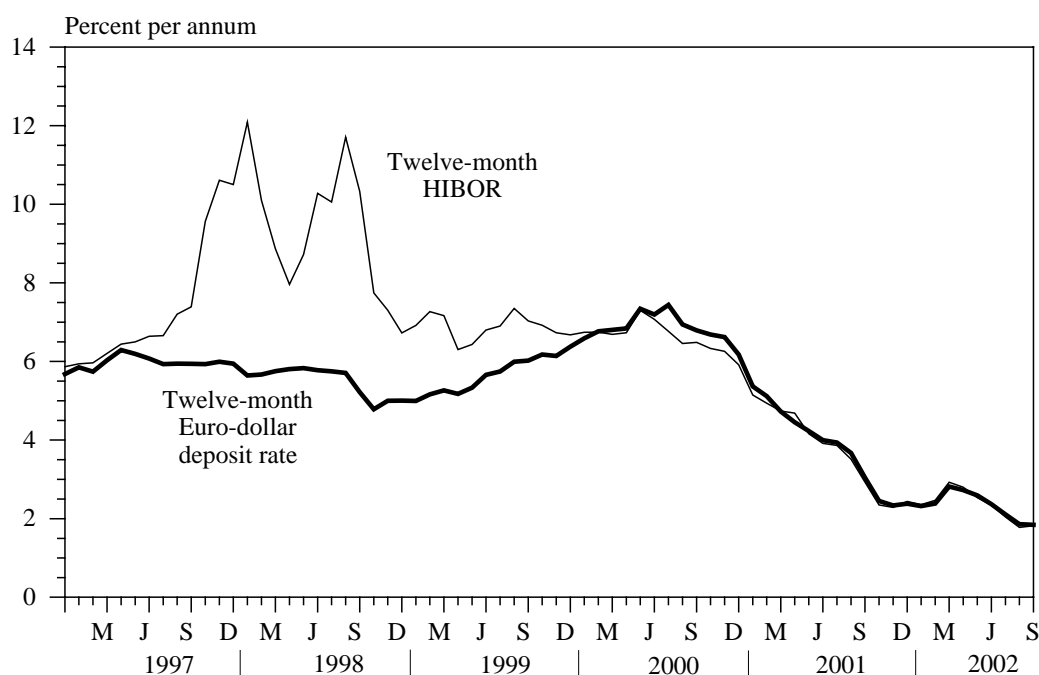


Table 4.2

**Hong Kong dollar inter-bank offer rates (HIBORs)
(% per annum)**

<u>Average for the month</u>		<u>Overnight HIBOR</u>		<u>Three-month HIBOR</u>		<u>Twelve-month HIBOR</u>	
2001	Mar	4.94	(-39)	4.83	(-9)	4.74	(1)
	Jun	3.85	(-11)	3.67	(-12)	3.92	(-9)
	Sep	2.96	(-15)	2.84	(-11)	2.93	(-11)
	Dec	1.75	(-9)	1.81	(-6)	2.44	(6)
2002	Jan	1.74	(-3)	1.76	(-1)	2.36	(5)
	Feb	1.81	(3)	1.90	(4)	2.47	(9)
	Mar	1.86	(9)	2.12	(17)	2.93	(11)
	Apr	1.73	(-4)	1.95	(5)	2.80	(8)
	May	1.60	(-17)	1.81	(-4)	2.54	(-5)
	Jun	1.41	(-35)	1.75	(-9)	2.34	(-4)
	Jul	1.52	(-23)	1.75	(-6)	2.04	(-6)
	Aug	1.53	(-25)	1.65	(-9)	1.78	(-8)
	Sep	1.67	(-11)	1.77	(*)	1.82	(-3)

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

(*) Spread of less than one basis point.

/Table 4.3

Table 4.3

Hong Kong dollar deposit and lending rates
 (% per annum, as average of the rates
 quoted by the major banks)

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

Average for the month	One- week	One- month	Three- month	Six- month	Twelve- month	Savings deposit rate	Best lending rate
2001 Mar	3.53	3.74	3.73	3.71	3.71	3.65	8.40
Jun	2.22	2.41	2.46	2.52	2.73	2.25	7.00
Sep	1.36	1.59	1.58	1.63	1.73	1.33	6.30
Dec	0.22	0.51	0.51	0.63	1.04	0.20	5.17
2002 Jan	0.17	0.41	0.46	0.57	0.92	0.16	5.13
Feb	0.18	0.48	0.55	0.71	1.08	0.16	5.13
Mar	0.21	0.55	0.62	0.84	1.39	0.16	5.13
Apr	0.17	0.45	0.56	0.82	1.41	0.16	5.13
May	0.17	0.34	0.43	0.58	1.02	0.16	5.13
Jun	0.17	0.29	0.36	0.46	0.74	0.16	5.13
Jul	0.17	0.31	0.37	0.41	0.56	0.16	5.13
Aug	0.16	0.32	0.36	0.39	0.44	0.16	5.13
Sep	0.16	0.33	0.38	0.40	0.43	0.16	5.13

Deposits and money supply

4.8 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits⁽⁴⁾) fell by 1.5% during the third quarter of 2002 to \$1,821 billion at end-September, following a 1.0% rise during the second quarter. On a year-on-year comparison, Hong Kong dollar deposits were down by 1.7% at end-September 2002. The share of Hong Kong dollar deposits in total deposits edged slightly lower, to 55.4% at end-September 2002, from 55.5% at end-June.

4.9 Within the Hong Kong dollar deposits, demand deposits rose further, by 4.7% during the third quarter of 2002, after a 3.6% increase during the second quarter. The continued rise was attributable to the low opportunity cost of holding liquid balances amidst a low interest rate environment. Savings deposits fell modestly, by 0.9% during the third quarter of 2002, having risen for seven consecutive quarters. Time deposits dropped further for the eighth

/quarter

quarter in a row, by 2.5% in the third quarter of 2002. On a year-on-year comparison, time deposits shrank by 10.2% at end-September 2002, while savings deposits and demand deposits rose by 12.4% and 17.4% respectively.

Table 4.4

Hong Kong dollar deposits with authorized institutions

% change during the quarter		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total Hong Kong dollar deposits</u> ^(a)
2001	Q1	-6.1	1.4	-0.6	-0.4
	Q2	0.9	8.3	-2.9	0.3
	Q3	5.9	4.4	-2.4	0.1
	Q4	13.9	8.7	-5.2	0.2
2002	Q1	-4.9	0.5	-1.9	-1.3
	Q2	3.6	3.9	-1.0	1.0
	Q3	4.7	-0.9	-2.5	-1.5
Total amount at the end of September 2002 (HK\$Bn)		132	635	1,054	1,821
% change over a year earlier		17.4	12.4	-10.2	-1.7

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

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

4.10 Total foreign currency deposits (adjusted to exclude foreign currency swap deposits) also fell, by 0.9% during the third quarter of 2002 to \$1,467 billion at end-September, after a 1.7% rise during the second quarter. On a year-on-year comparison, total foreign currency deposits dropped by 9.5% at end-September 2002. Within the foreign currency deposits, US dollar deposits fell by 3.3% during the third quarter of 2002, after a 1.1% rise during the second quarter. Non-US dollar deposits continued to rise, by 4.2% during

/the

the third quarter of 2002, following a 3.2% increase during the second quarter. On a year-on-year comparison, both US dollar deposits and non-US dollar deposits declined, by 7.8% and 12.7% respectively at end-September 2002.

Table 4.5

Foreign currency deposits with authorized institutions

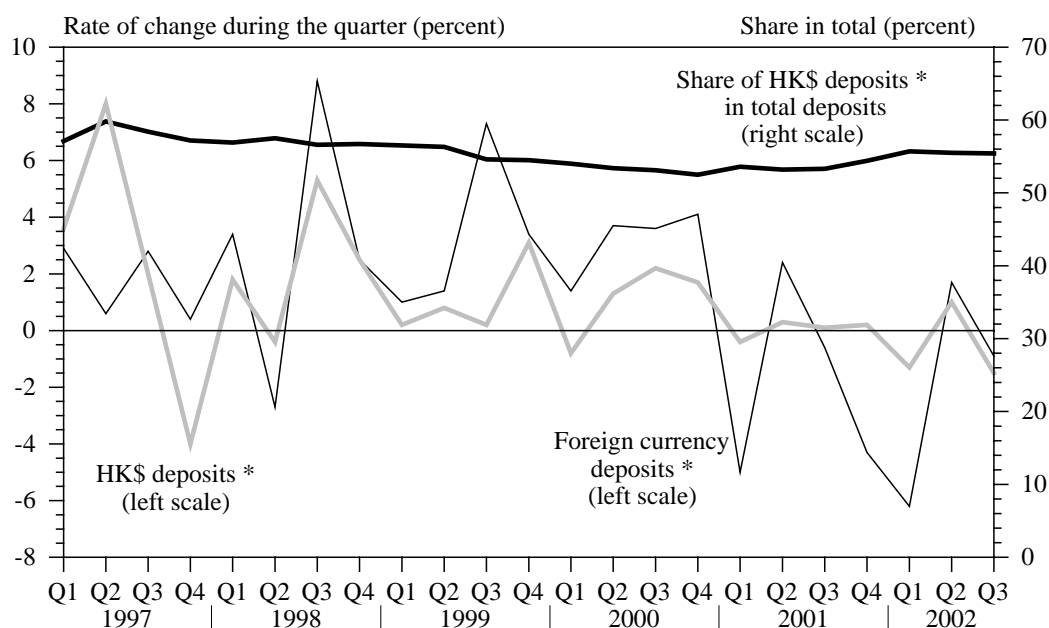
% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
2001	Q1	-3.9	-7.1	-5.0	-10.3
	Q2	2.1	2.8	2.4	-20.4
	Q3	-0.9	0.1	-0.6	-7.5
	Q4	-2.9	-6.9	-4.3	-7.8
2002	Q1	-2.9	-12.7	-6.2	-6.9
	Q2	1.1	3.2	1.7	-8.0
	Q3	-3.3	4.2	-0.9	-7.5
Total amount at the end of September 2002 (HK\$Bn)		980	487	1,467	2
% change over a year earlier		-7.8	-12.7	-9.5	-27.0

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

/Diagram 4.4

Diagram 4.4

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



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

4.11 Total deposits with all authorized institutions in Hong Kong thus fell back by 1.2% during the third quarter of 2002 to \$3,288 billion at end-September, after a 1.3% increase during the second quarter. With licensed banks taking up 98.7% of the total deposits with all authorized institutions at end-September, the drop in total deposits mainly reflected a fall of 1.3% in deposits with licensed banks. Deposits with deposit-taking companies also went down, by 2.2% during the third quarter, which gave four quarters of decline in a row. Yet deposits with restricted licence banks continued to rise, by 7.7% during the third quarter.

/Table 4.6

Table 4.6**Total deposits by major type of authorized institution**

		<u>With licensed banks</u>			<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>		
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	<u>Total</u>
2001	Q1	-13.0	0.8	-3.0	-2.7	4.7	5.5	-2.6
	Q2	0.6	7.3	-0.2	1.3	-3.2	-6.5	1.3
	Q3	6.7	4.3	-2.0	-0.3	7.0	16.0	-0.2
	Q4	10.2	8.5	-5.8	-1.9	-2.0	-1.9	-1.9
2002	Q1	-1.5	0.2	-5.0	-3.5	-3.0	-7.0	-3.5
	Q2	4.4	4.4	-0.2	1.2	10.6	-3.0	1.3
	Q3	2.2	0.3	-2.2	-1.3	7.7	-2.2	-1.2
Total amount at the end of September 2002 (HK\$Bn)		164	892	2,187	3,244	39	6	3,288
% change over a year earlier		15.8	13.7	-12.7	-5.5	13.2	-13.4	-5.3

4.12 Narrow money supply, HK\$M1⁽⁵⁾ continued to expand, rising by 3.5% during the third quarter of 2002 to \$242 billion at end-September. On a seasonally adjusted basis, HK\$M1 also rose, by 3.2%⁽⁶⁾. The broader definitions of money supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits), at \$1,975 billion and \$1,994 billion respectively at end-September, were however down by 1.4% and 1.3% respectively during the third quarter of 2002. These compared with increases of 1.7%, 1.2% and 1.2% respectively during the second quarter. On a year-on-year comparison, HK\$M1 rose markedly, by 14.5% at end-September 2002, but HK\$M2 and HK\$M3 came down, by 0.9% and 0.8% respectively. The further growth in narrow money supply reflected the low cost of holding cash as well as savings and demand deposits, and conceivably also a greater demand for cash amidst the continued surge in visitors from the Mainland.

/Table 4.7

Table 4.7**Hong Kong dollar money supply and total money supply**

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>		
		HK\$	Total	HK\$ ^(a)	Total	HK\$ ^(a)	Total	
2001	Q1	-2.6	(0.1)	-7.5	-0.5	-2.6	-0.5	-2.5
	Q2	1.0	(1.8)	0.9	0.4	1.5	0.4	1.4
	Q3	5.1	(4.8)	5.7	0.4	*	0.5	0.1
	Q4	8.9	(5.4)	7.3	0.3	-1.6	0.3	-1.6
2002	Q1	-0.1	(1.1)	1.5	-1.0	-3.1	-1.0	-3.1
	Q2	1.7	(4.3)	2.4	1.2	1.7	1.2	1.7
	Q3	3.5	(3.2)	2.1	-1.4	-0.8	-1.3	-0.7
Total amount at the end of September 2002 (HK\$Bn)		242	(245)	274	1,975	3,471	1,994	3,517
% change over a year earlier		14.5	(14.6)	13.9	-0.9	-3.8	-0.8	-3.7

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

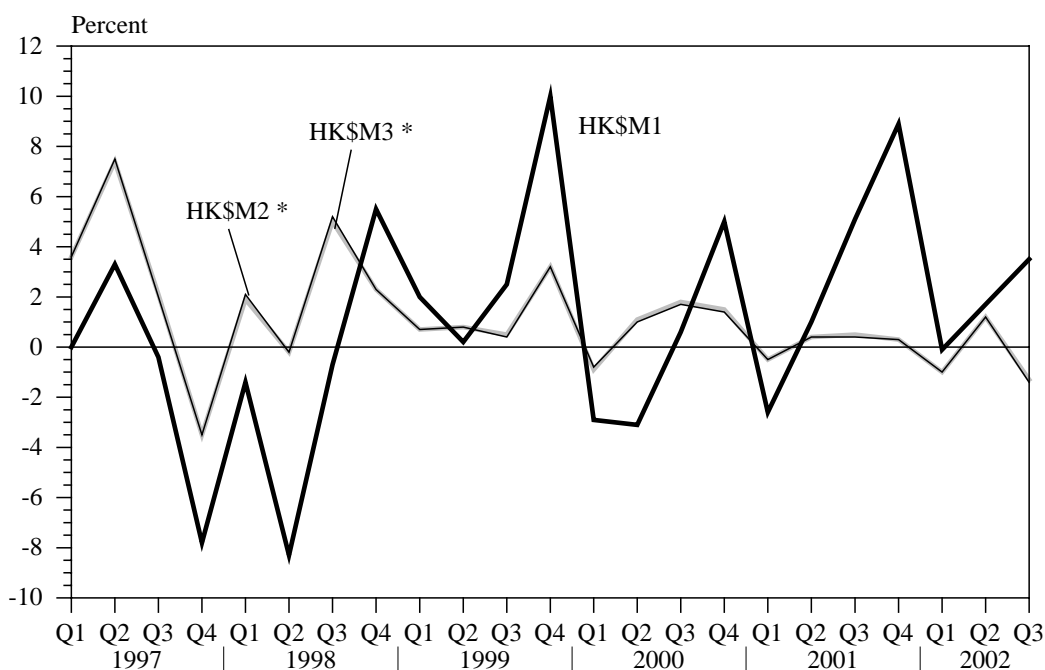
(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

/Diagram 4.5

Diagram 4.5

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



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

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

4.13 The close economic relations between the Mainland and Hong Kong have led to the accumulation of a substantial amount of Hong Kong dollar funds from trading activities and inward investment in the Mainland. These funds are then placed with banks in the Mainland and subsequently channelled back to Hong Kong through the inter-bank market. As deposits from banks in the Mainland declined, Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell, by 28.0% over a year earlier to \$77.7 billion at end-August 2002. On the other hand, Hong Kong dollar claims of Hong Kong's authorized institutions on banks in the Mainland rose further, by 7.3% over a year earlier to \$20.0 billion at end-August. Taken together, net Hong Kong dollar liabilities of Hong Kong's authorized institutions to banks in the Mainland fell to \$57.7 billion at end-August, from \$77.4 billion at end-2001.

/Table 4.8

Table 4.8

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

<u>As at the end of</u>		<u>Claims on banks in the Mainland</u> (HK\$Bn)		<u>Liabilities to banks in the Mainland</u> (HK\$Bn)		<u>Net liabilities to banks in the Mainland</u> (HK\$Bn)	
2001	Q1	42.5	(-0.3)	141.1	(-10.3)	98.6	
	Q2	19.0	(-55.4)	115.6	(-18.1)	96.6	
	Q3	18.8	(-1.1)	111.5	(-3.5)	92.7	
	Q4	18.5	(-1.2)	96.0	(-13.9)	77.4	
2002	Q1	19.1	(3.2)	68.4	(-28.7)	49.3	
	Q2	19.8	(3.4)	67.4	(-1.4)	47.6	
	Jul	19.9	(0.4)	84.1	(24.7)	64.2	
	Aug	20.0	(0.7)	77.7	(-7.6)	57.7	
		<7.3>		<-28.0>			

Notes : () % change during the period.

< > % change over a year earlier.

Loans and advances

4.14 Total loans and advances continued to contract, by 2.2% during the third quarter of 2002 to \$2,098 billion at end-September, having fallen by 0.5% during the second quarter. Within this total, Hong Kong dollar loans declined by 1.2% during the third quarter to \$1,626 billion, after a 0.8% decrease during the second quarter. Foreign currency loans fell back by 5.5% during the third quarter to \$472 billion, from a 0.2% rise during the second quarter. The share of Hong Kong dollar loans in total loans and advances stood at 77.5% at end-September 2002, higher than that of 76.7% at end-June. On a year-on-year comparison, foreign currency loans plunged by 21.1% at end-September 2002, while Hong Kong dollar loans fell much more modestly, by 1.4%. Overall, total loans and advances went down by 6.6%.

/Table 4.9

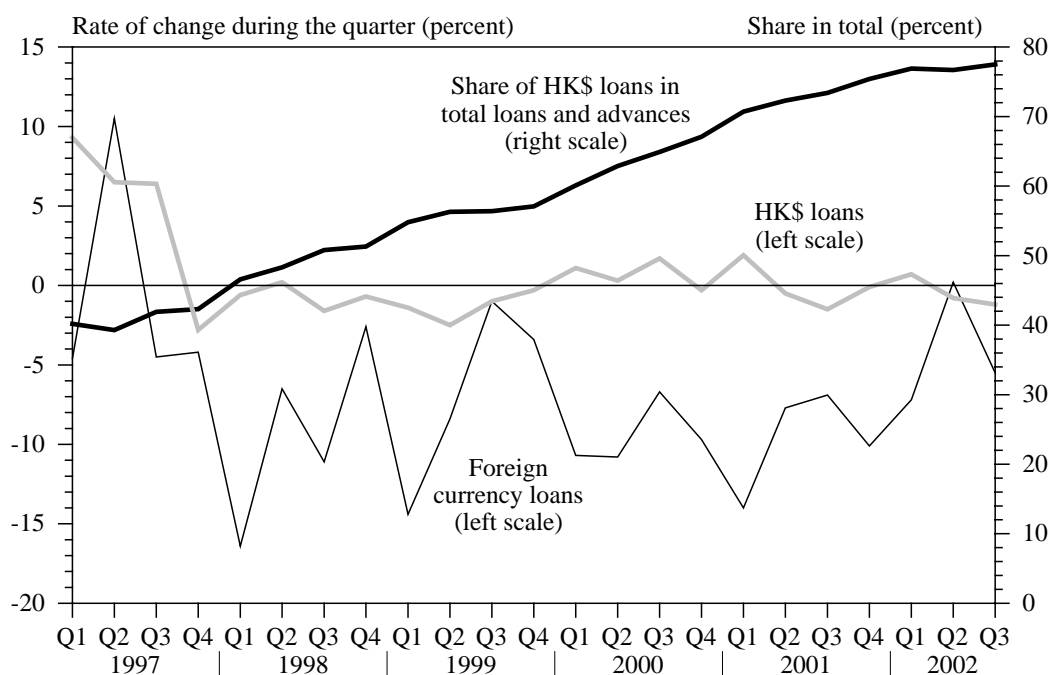
Table 4.9

Loans and advances by currency denomination

% change during the quarter		Hong Kong dollar loans	Foreign currency loans	Total loans and advances
2001	Q1	1.9	-14.0	-3.4
	Q2	-0.5	-7.7	-2.6
	Q3	-1.5	-6.9	-3.0
	Q4	-0.1	-10.1	-2.8
2002	Q1	0.7	-7.2	-1.2
	Q2	-0.8	0.2	-0.5
	Q3	-1.2	-5.5	-2.2
Total amount at the end of September 2002 (HK\$Bn)		1,626	472	2,098
% change over a year earlier		-1.4	-21.1	-6.6

Diagram 4.6

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



/4.15

4.15 As Hong Kong dollar deposits declined slightly more than Hong Kong dollar loans during the third quarter of 2002, the Hong Kong dollar loan-to-deposit ratio rose marginally, to 89.3% at end-September, from 89.1% at end-June.

Table 4.10

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

<u>As at the end of</u>		<u>%</u>
2001	Q1	91.3
	Q2	90.5
	Q3	89.1
	Q4	88.8
2002	Q1	90.7
	Q2	89.1
	Q3	89.3

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

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



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

4.16 Analysed by place of usage, loans for use in Hong Kong, at \$1,842 billion at end-September 2002, fell by 1.6% during the third quarter, after a decline of 0.5% during the second quarter. Loans for use outside Hong Kong contracted even more, by 6.7% during the third quarter of 2002 to \$256 billion at end-September, having fallen by 0.8% during the second quarter. On a year-on-year comparison, loans for use outside Hong Kong plummeted by 24.9% at end-September 2002, while loans for use in Hong Kong fell more moderately, by 3.4%.

Table 4.11

Loans and advances by place of usage

% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2001	Q1	-0.9	-13.0
	Q2	-0.4	-12.5
	Q3	-1.7	-9.6
	Q4	-1.4	-10.2
2002	Q1	0.1	-9.6
	Q2	-0.5	-0.8
	Q3	-1.6	-6.7
Total amount at the end of September 2002 (HK\$Bn)		1,842	256
% change over a year earlier		-3.4	-24.9

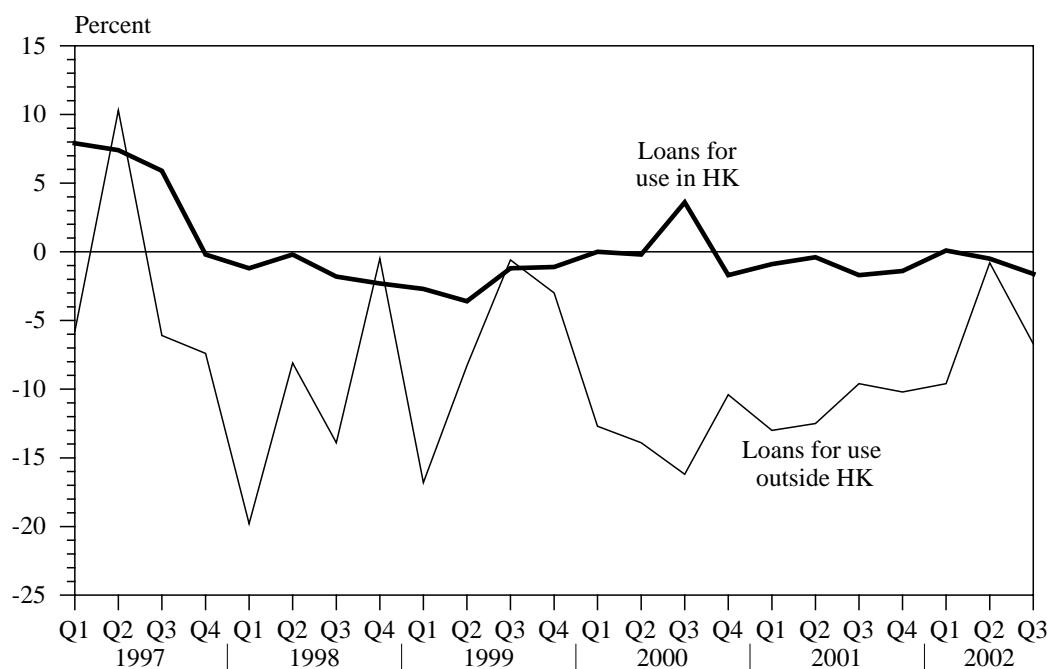
Notes : (a) Including trade financing loans.

(b) Including loans where the place of usage is unknown.

/Diagram 4.8

Diagram 4.8

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



4.17 Analysed by major usage, the decline in loans was almost across-the-board. Loans to stockbrokers fell back sharply, by 22.2% during the third quarter of 2002, in stark contrast to a 23.9% surge during the second quarter, as the local stock market weakened. Loans to the manufacturing sector also fell back, by 4.9% during the third quarter, after a 1.3% increase during the second quarter. Loans to financial concerns likewise came down, by 3.1% during the third quarter, having already dropped by 8.2% during the second quarter. Loans for building, construction, property development and property investment declined by a further 2.3% during the third quarter, following a 1.9% fall during the second quarter. Loans for residential mortgages also fell, by 0.7% during the third quarter, having risen by 0.6% during the second quarter. Loans for the wholesale and retail trades fell further by 0.9% during the third quarter, after a marginal decline of 0.1% during the second quarter, as retail business remained slack. But loans for trade financing went up further, by 1.7% during the third quarter, having bounced back sharply by 7.3% during the second quarter, in line with improved export performance in the more recent months.

/Table 4.12

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

		Loans to :							
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trades	Building, construction, property develop- ment and property investment	Purchase resi- dential property ^(b)	Financial concerns	Stock- brokers	Others
2001	Q1	-4.1	0.8	-2.5	2.0	0.7	-1.8	-12.0	-4.3
	Q2	2.0	2.9	-0.9	-3.2	1.0	-5.7	27.2	0.7
	Q3	-4.2	-5.7	-6.0	-2.2	0.8	-8.0	-2.0	-0.3
	Q4	-8.9	-0.4	-7.1	0.9	0.5	-0.8	-11.3	-3.4
2002	Q1	-2.6	1.2	1.0	-0.5	*	0.9	2.1	0.7
	Q2	7.3	1.3	-0.1	-1.9	0.6	-8.2	23.9	-0.8
	Q3	1.7	-4.9	-0.9	-2.3	-0.7	-3.1	-22.2	-1.5
Total amount at the end of September 2002 (HK\$Bn)		94	69	101	371	646	125	9	425
% change over a year earlier		-3.2	-2.8	-7.0	-3.9	0.4	-11.0	-12.7	-4.9

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

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

(*) Change of less than 0.05%.

4.18 Asset quality of the banks in Hong Kong continued to improve in overall terms. The ratio of non-performing loans to total loans fell to 4.41% at end-June 2002, from 5.03% at end-March. The ratio of classified loans to total loans also decreased, to 5.46% at end-June, from 6.37% at end-March. The ratio of overdue and rescheduled loans to total loans went down to 3.98% at end-June, from 4.69% at end-March⁽⁷⁾. Arrears for over three months in mortgage repayments declined further, to 1.10% at end-June, from 1.18% at end-March. Notably, arrears for over three months in credit card repayments fell for the first time in two years, to 1.73% at end-June, from 1.90% at

/end-March

end-March. Local banks remained well capitalised, with their consolidated capital adequacy ratio averaging at 16.2% at end-June, well above the standard set by the Bank for International Settlements.

4.19 For enhancing the capability of the banks in their credit assessment, the Hong Kong Association of Banks and the Privacy Commissioner had reached broad agreement on the scope of positive consumer credit data to be shared amongst the banks. A public consultation was just completed in October. The consultation results are being analysed, with a view to revising the respective code of practice. With such additional customer information for the banks, consumers could also benefit from credit availability possibly at a lower cost.

Banks and other deposit-taking institutions

4.20 During the third quarter of 2002, the number of licensed banks increased by two to 135 at end-September. The number of restricted licence banks remained at 48, but the number of deposit-taking companies decreased by three to 45. Altogether, 228 authorized institutions (excluding representative offices) from 31 countries and territories maintained a presence in Hong Kong at end-September 2002. Total assets of all the authorized institutions in Hong Kong declined by 2.0% during the third quarter of 2002, to \$5,964 billion at end-September.

4.21 For reinforcing deposit protection in Hong Kong, the Administration had approved in principle the proposal to introduce a deposit insurance scheme in Hong Kong. After completing consideration on how the deposit insurance scheme should be structured, HKMA issued a further consultation paper in March 2002 setting out the detailed proposals for the scheme. This consultation was completed in May. The detailed design features for the scheme are being finalised, and the requisite legislation is being prepared.

/Insurance

Insurance

4.22 The total number of insurance companies decreased by four during the third quarter of 2002 to 199 at end-September. Within this total, 48 were engaged wholly in long-term business, 132 wholly in general business, and 19 in composite business. Taken together, insurance companies from 27 countries and territories maintained a presence in Hong Kong at end-September 2002. Reflecting the continued robust growth of the insurance industry, the value of its business receipts rose for ten quarters in a row, by 6% in the second quarter of 2002 over a year earlier, after a 10% increase in the first quarter.

The debt market

4.23 In the third quarter of 2002, HKMA launched a total of 27 issues of Exchange Fund paper to replace the maturing issues⁽⁸⁾. The total market value of Exchange Fund paper outstanding rose by \$0.9 billion during the quarter, to \$116.6 billion at end-September. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 5.9 times in the quarter. Trading in Exchange Fund paper went up, with the average daily turnover at \$23.4 billion in the third quarter, higher than that at \$22.7 billion in the second quarter. The yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries widened, from 35 basis points at end-June, to 58 basis points at end-September.

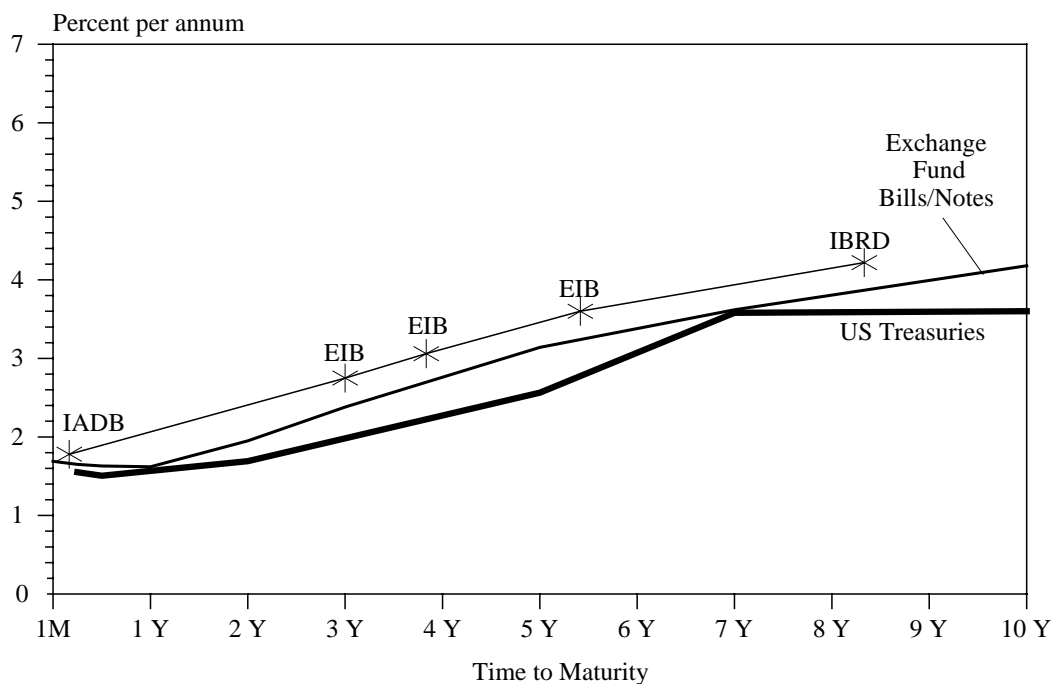
/Table 4.13

Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		Amount outstanding as at the end of the quarter (HK\$Bn)	Average daily turnover in the quarter (HK\$Bn)
2001	Q1	110.1	21.5
	Q2	111.5	20.7
	Q3	112.7	19.7
	Q4	113.8	22.9
2002	Q1	114.7	22.3
	Q2	115.7	22.7
	Q3	116.6	23.4

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of September 2002)



Note : AAA Hong Kong dollar debt issuers

EIB European Investment Bank
 IBRD International Bank for Reconstruction and Development
 IADB Inter-American Development Bank

4.24 The Hong Kong Mortgage Corporation (HKMC) has become one of the major issuers of debt securities in Hong Kong. \$1.3 billion worth of HKMC debt paper was launched in the third quarter of 2002, as against \$2.5 billion issued in the second quarter. The total outstanding value of debt securities issued by HKMC under its Note Issuance Programme stood at \$5.5 billion at end-September 2002, down from \$7.0 billion at end-June, while that under its Debt Issuance Programme was \$15.0 billion at end-September, up from \$14.2 billion at end-June. There were also retail bonds issued by HKMC, with the outstanding value totalling \$4.4 billion at end-September, same as that at end-June.

4.25 In the third quarter of 2002, \$30.4 billion worth of new negotiable certificates of deposit (NCDs) was launched, much reduced from that of \$38.4 billion in the second quarter. Of the new issuance of NCDs in the third quarter of 2002, \$19.2 billion was denominated in Hong Kong dollars, also much lower than that of \$26.6 billion in the second quarter. The total value of NCDs outstanding, at \$201.0 billion at end-September 2002, were slightly up from \$192.3 billion at end-June. Within this total, \$136.8 billion was denominated in Hong Kong dollars at end-September, down from that of \$142.0 billion at end-June. The proportion of Hong Kong dollar denominated NCDs held by the local banking sector declined modestly, to 53.3% at end-September 2002, from 54.4% at end-June.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

		<u>Issued and outstanding</u> (HK\$Bn)		<u>Held by authorized institutions</u> (HK\$Bn)		<u>Held outside the local banking sector</u> (HK\$Bn)	
		<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>
<u>As at the end of</u>							
2001	Q1	146.7	172.8	90.4	102.9	56.2	69.9
	Q2	148.6	180.1	91.5	104.8	57.1	75.2
	Q3	147.4	179.7	86.0	98.6	61.4	81.1
	Q4	134.9	172.3	74.6	86.3	60.4	86.0
2002	Q1	132.1	173.3	73.5	85.0	58.6	88.2
	Q2	142.0	192.3	77.2	86.2	64.8	106.1
	Q3	136.8	201.0	72.9	82.0	63.9	118.9

/4.26

4.26 137 new issues of other Hong Kong dollar debt instruments, totalling \$19.8 billion, were launched by the private sector in the third quarter of 2002. This was less than the 239 new issues for \$30.5 billion in the second quarter. Partly reflecting risk aversion by the debt issuers against interest rate volatility, issuance of fixed rate bonds by the private sector, at \$12.8 billion in the third quarter of 2002, continued to exceed considerably that of floating rate notes, at \$7.0 billion. At end-September 2002, outstanding Hong Kong dollar fixed rate bonds and floating rate notes from the private sector amounted to \$195.3 billion and \$71.4 billion respectively, giving a total of \$266.8 billion⁽⁹⁾. These compared with the corresponding figures of \$199.8 billion, \$68.5 billion and \$268.3 billion at end-June. There was no new issuance of Hong Kong dollar debt paper by multilateral agencies in the third quarter of 2002, while in the second quarter there was one issue amounting to \$0.2 billion.

4.27 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding amounted to \$525.1 billion at end-September 2002⁽¹⁰⁾, lower than that of \$531.6 billion at end-June. The size of the Hong Kong dollar debt market was equivalent to 26.3% of HK\$M3, or 19.2% of the Hong Kong dollar denominated assets of the entire banking sector.

The stock, futures and gold markets

4.28 The local stock market went through further gyrations in the third quarter of 2002, having already undergone significant ups and downs in the second quarter. While movements in the US stock market continued to exert a heavy influence on the local stock market, the lacklustre corporate performance and uncertain business outlook also posed a drag. The Hang Seng Index dipped below 10 000 towards the end of July, along with the plunge in US share prices amidst accentuated concern over US corporate frauds and a bumpier US economic recovery. It hovered around the 10 000 mark during August. Then it tumbled sharply in September, affected by the war pressure on Iraq as well as a spate of adverse US corporate news and US economic data. The Index plummeted to a 12-month low of 9 072 on 30 September, 14.4% lower than the closing at end-June. Against the closing at end-2001, it lost 20.4%. Share prices in the major stock markets overseas likewise took a plunge in the third quarter of 2002, with many of the indices losing more than 10% from the closing in the second quarter. (The local stock market remained volatile since then. The Hang Seng Index tumbled to 8 859 on 10 October, and then bounced up to a high of 10 065 on 22 November.)

/Diagram 4.10

Diagram 4.10

Hang Seng Index

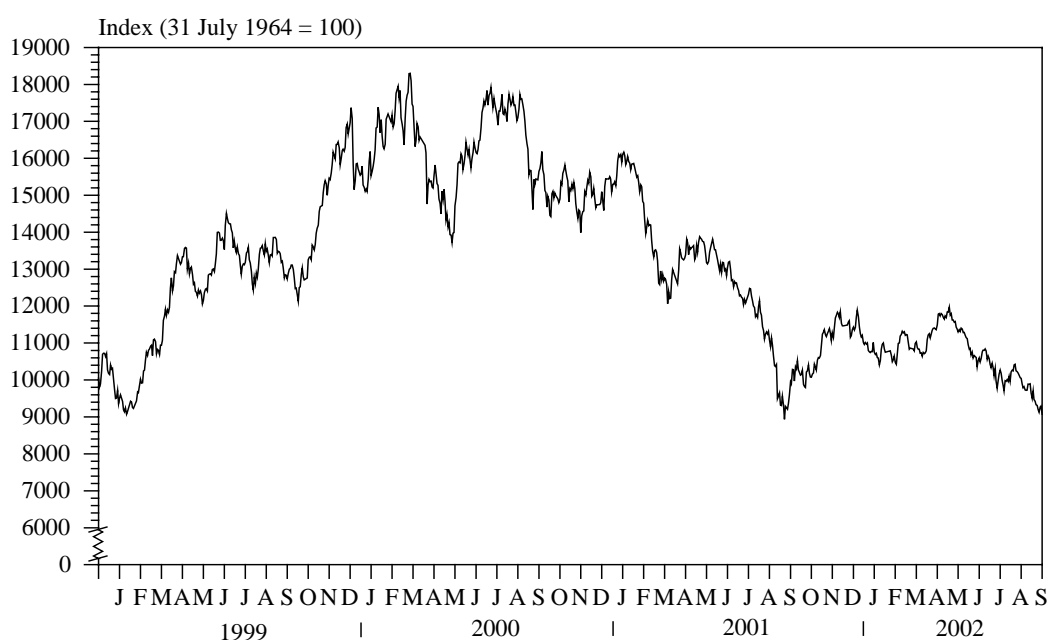


Table 4.15

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

		Hang Seng Index	New York Dow Jones Industrial Average	Tokyo Nikkei Average	London Financial Times Index	Frankfurt DAX 30 Index	Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
		-	-	-	-	-	-	-	-
2001	Q1	12 761	9 879	13 000	5 634	5 830	5 180	3 097	1 674
	Q2	13 043	10 502	12 969	5 643	6 058	5 225	3 425	1 727
	Q3	9 951	8 848	9 775	4 903	4 308	4 079	2 988	1 320
	Q4	11 397	10 022	10 543	5 217	5 160	4 625	3 360	1 624
2002	Q1	11 033	10 404	11 025	5 272	5 397	4 688	3 363	1 803
	Q2	10 599	9 243	10 622	4 656	4 383	3 898	3 163	1 553
	Q3	9 072	7 592	9 383	3 722	2 769	2 777	2 928	1 352
	% change during the third quarter of 2002	-14.4	-17.9	-11.7	-20.1	-36.8	-28.7	-7.4	-12.9
	% change during the first three quarters of 2002	-20.4	-24.2	-11.0	-28.7	-46.3	-39.9	-12.8	-16.7
	% change at end-September 2002 over a year earlier	-8.8	-14.2	-4.0	-24.1	-35.7	-31.9	-2.0	2.5

/4.29

4.29 Along with the fallen share prices, total stock market capitalisation, including the Main Board and the Growth Enterprise Market (GEM)⁽¹¹⁾, shrank by 12% during the third quarter of 2002 to \$3,381 billion at end-September 2002. The average daily turnover in the local stock market also declined considerably, to \$5.9 billion in the third quarter of 2002, from \$8.0 billion in the second quarter.

Table 4.16

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

		<u>Average daily turnover in the quarter</u> (HK\$Bn)			<u>Total market capitalisation as at the end of the quarter</u> (HK\$Bn)		
		<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>	<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>
2001	Q1	8.9	0.1	9.0	4,179	61	4,240
	Q2	9.7	0.3	10.0	4,450	70	4,520
	Q3	6.6	0.1	6.7	3,373	46	3,420
	Q4	6.9	0.2	7.1	3,885	61	3,946
2002	Q1	6.9	0.3	7.1	3,855	69	3,924
	Q2	7.8	0.2	8.0	3,792	61	3,852
	Q3	5.8	0.2	5.9	3,327	53	3,381

4.30 In the third quarter of 2002, 28 new share flotations were launched on the Hong Kong Stock Exchange, raising a total equity capital of \$26.6 billion. Of these, 12 were listed on the Main Board and 16 on GEM. Amongst these new issues, three pertained to H shares and were listed on GEM, raising a total equity capital of \$1.8 billion. In addition to the new flotations, around \$2.3 billion was raised through private placements by 36 companies, and around \$0.9 billion through rights issues by 11 companies.

4.31 As to trading in derivatives on the Hong Kong Exchanges and Clearing Ltd, the average daily turnover of Hang Seng Index futures contracts increased by 12% over the preceding quarter to 21 053 contracts in the third quarter of 2002, and the average daily turnover of Hang Seng Index options contracts rose by 46% to 4 652 contracts. Meanwhile, the average daily turnover of MSCI China Free Index futures contracts⁽¹²⁾ remained modest, at only five contracts in the third quarter of 2002.

/Table 4.17

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

<u>During the quarter</u>	<u>Hang Seng Index futures contracts</u> (no. of contracts)	<u>Hang Seng Index options contracts</u> (no. of contracts)
2001 Q1	17 443	2 763
Q2	17 447	2 480
Q3	18 758	2 992
Q4	19 206	3 619
2002 Q1	17 956	3 338
Q2	18 739	3 185
Q3	21 053	4 652

4.32 At end-September 2002, there were 33 classes of stock options contracts. The average daily turnover of these stock options contracts increased by 10% over the preceding quarter to 17 226 contracts in the third quarter of 2002. Meanwhile, the average daily turnover of stock futures contracts, at 75 contracts in the third quarter of 2002, was 3% higher than in the preceding quarter.

4.33 Comparing the third quarter of 2002 with the second quarter, the average daily turnover of three-month HIBOR futures contracts decreased by 78% to 399 contracts. Trading in three-year Exchange Fund Note futures contracts commenced in late 2001, with an average daily turnover of four contracts in the third quarter of 2002.

4.34 At end-September 2002, 446 issues of warrants were listed on the Main Board, comprising 71 issues of equity warrants and 375 issues of derivative warrants. The average daily turnover of equity warrants fell by 66% over the preceding quarter to \$3.6 million in the third quarter of 2002, while the average daily turnover of derivative warrants decreased more moderately, by 5% to \$515 million. Only four issues of warrants were listed on GEM at end-September 2002. Trading in warrants there remained negligible.

/4.35

4.35 Gold prices held firm in July, as gold was regarded as a safe haven investment alternative amidst a weakened US dollar and jittery stock markets worldwide. Profit-taking in the gold market and a relatively firmer US stock market led to some ease-back in gold prices in August. Then, in face of intensified war pressure on Iraq, gold prices were lifted again. The price of loco-London gold closed the third quarter at US\$322.4, 2% higher than at end-June. Gold price at the Chinese Gold and Silver Exchange Society also rose by 2% during the quarter, to \$2,993 per tael at end-September. Turnover on the Exchange was 0.88 million taels in the third quarter of 2002, higher than that of 0.81 million taels in the second quarter.

Unit trusts and mutual funds

4.36 At end-September 2002, the total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong decreased to 1 823, from 1 899 at end-June. Gross sales of mutual funds totalled US\$3.1 billion in the third quarter of 2002, 18% more than in the second quarter. After deducting redemptions, net sales amounted to US\$1.1 billion in the third quarter of 2002, 36% less than in the second quarter. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 62% of the total value of funds at end-September 2002. This was followed by bond funds, money market funds and asset allocation funds, with shares of 18%, 11% and 8% respectively.

4.37 The Mandatory Provident Fund (MPF) System⁽¹³⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should add impetus to further development of the local financial market. At end-September 2002, the aggregate net asset value of the approved constituent funds of MPF schemes rose to \$48.6 billion, from \$36.0 billion at end-2001. The rise in net asset value was mainly attributable to continuing contributions from the enrolled population. By end-September 2002, there were 20 approved corporate trustees. On MPF products, 47 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 317 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. About 214 000 employers, 1.70 million employees and 296 000 self-employed persons had enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons standing at 93%, 96% and 81% respectively.

/Notes

Notes :

- (1) Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay US dollars to the Hong Kong Monetary Authority (HKMA) for the account of the Exchange Fund at the fixed rate of HK\$7.8 to US\$1.0 in return for non-interest-bearing Certificates of Indebtedness (CIs), as backing for the issue of their Hong Kong dollar banknotes. As from 7 September 1998, HKMA also provides an explicit undertaking to convert the Hong Kong dollar balances held in the clearing accounts maintained by the banks with HKMA at the Convertibility Undertaking Rate. This was set at the then market exchange rate of 7.750 when the convertibility undertaking was introduced. From 1 April 1999, the Convertibility Undertaking Rate for the Aggregate Balance was raised from 7.750 by 1 pip per calendar day, reaching 7.800 on 12 August 2000, where it has stayed.
- (2) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. These currencies are selected on account of their importance in Hong Kong's trade, and the weights reflect their relative importance in Hong Kong's merchandise trade.

As from 2 January 2002, a new series of nominal Effective Exchange Rate Index replaces the old series. The weights adopted for the new EERI series are based on the average pattern of Hong Kong's merchandise trade during 1999 and 2000, as against that during 1991 to 1993 for the old series. The currency basket for the new series has also been updated to include the euro and the Philipino peso, and to exclude the five currencies pertaining to the participating countries of the euro. Thus the currency basket for the new series contains 14 currencies, instead of 17 currencies for the old series. The base period is changed from October 1983 to January 2000.

The corresponding Real EERI, which takes into account the relative movements in the seasonally adjusted consumer price indices of the respective economies, is revised accordingly, in line with the updated weights and the new base period of the nominal EERI.

It is important to note that the EERIs thus compiled adopt constant weights on the respective currencies, while the pattern of merchandise trade changes over time. In particular, Hong Kong's trade with the Mainland has shifted more towards re-exports, from domestic exports and retained imports. Also, with the Mainland being the largest source of Hong Kong's re-exports, movements in the exchange rate of the Renminbi could have somewhat different implications for Hong Kong's export competitiveness, as against movements in the other currencies.

/(3)

- (3) In the light of the changing market shares of individual authorized institutions (AIs) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by HKMA has been expanded as from May 2001, in order to increase the proportion of business covered by the survey. Altogether 38 AIs were so included immediately after the coverage expansion. The number of AIs has since fallen to 28 due to banking sector consolidation. The AIs currently covered together account for around 96% of the total business, as compared to 92% for the 32 AIs formerly covered. The outstanding amount of mortgage loans covered by the survey is hence lifted, by 8.8%.
- (4) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.
- (5) The various definitions of the money supply are as follows:
- M1 : notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.
- As from June 2002, short-term Exchange Fund placements of less than one month are included under time deposits as part of the monetary aggregates. The data series on time deposits and M2 are backdated to April 1997 using this revised definition.
- M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.
- (6) Amongst the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series back-dated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.

/(7)

- (7) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Non-performing loans are those on which interest has been placed in suspense or on which interest accrual has ceased. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to certain extent with overdue and rescheduled loans.
- (8) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (9) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (10) Due to different sources for NCD data, the total value of Hong Kong dollar debt paper outstanding may not equal the sum of the outstanding values of Exchange Fund paper, HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector.
- (11) The Growth Enterprise Market was launched by the then Stock Exchange of Hong Kong Ltd in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Although it is open to companies in all industries and of all sizes, it is expected to provide an efficient venue for fund raising by small and medium-sized enterprises, particularly those engaged in technology-related businesses.
- (12) The MSCI China Free Index is a market-capitalisation-weighted stocks index, covering Red-chip shares and H shares listed in Hong Kong, B shares listed in Shanghai and Shenzhen, and N shares listed in New York. The Index thus represents the universe of Chinese stocks open to investors outside the Mainland, and complements the Red-clip and H share markets in Hong Kong. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001.

Trading in Red-clip options contracts and in Red-chip futures contracts have been suspended as from 31 July 2001 and 31 August 2001 respectively.

/(13)

- (13) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged between 18 and 65, subject to certain exceptions. It provides for joint contributions by the employer and the employee, each at 5% of the employee's relevant income, to a registered MPF scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. As from February 2003, the minimum income level for MPF contribution purpose is expected to be raised from \$4,000 per month at present to \$5,000, yet the maximum income level will remain at \$20,000 per month. The accrued MPF benefits are fully vested in the scheme, and members can be transferred from scheme to scheme when there is a change in employment.

The Mandatory Provident Fund Schemes Authority (MPFA) is the statutory body tasked with the responsibility for regulation and supervision of the MPF System and for ensuring compliance with the Mandatory Provident Fund Schemes Ordinance.

An MPF scheme may consist of one or more constituent funds each with its own investment policy. A constituent fund may maintain a portfolio of direct investment in equities, bonds or other debt instruments, or may invest in approved pooled investment funds which may be in the form of unit trusts authorized by the Securities and Futures Commission or insurance policies issued by authorized insurers. Both constituent funds and pooled investment funds have to be approved by MPFA, and be subject to investment standards applicable to MPF investment funds. Following a recent legislative amendment, a constituent fund may also be invested in some other types of financial products, such as an index-tracking collective investment scheme, subject to MPFA's prior approval.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation⁽¹⁾

5.1 The labour market, though still slack, showed some relative improvement in the third quarter of 2002, as employment rose from the preceding quarter to catch up with the increasing labour force. The *seasonally adjusted unemployment rate*⁽²⁾, at 7.4% in the third quarter of 2002, came down from 7.7% in the second quarter, and slightly more from the peak of 7.8% in May - July. The total number of unemployed persons (not seasonally adjusted), at 267 200 in the third quarter of 2002, was also reduced from the peak of 275 000 in May - July, though still slightly larger than that of 263 400 in the second quarter. Moreover, the median duration of unemployment was shortened to 82 days in the third quarter of 2002, from 89 days in the second quarter. The proportion of persons unemployed for six months or more also fell, to 28% from 30%.

5.2 The *underemployment rate*⁽³⁾ held steady, at 2.9% in both the second and third quarters of 2002. The total numbers underemployed likewise showed little change, at around 101 400.

5.3 For the employed persons, high intensity of work still prevailed in the third quarter of 2002. The proportion of employed persons working for 50 hours or more per week went up further, to 40% in the third quarter of 2002, from 36% in the second quarter. The median hours of work stayed high, at 48 hours per week in the two quarters.

/Table 5.1

Table 5.1

Unemployment and underemployment rates

		Seasonally adjusted <u>unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
2001	Annual	5.1	2.5
	Q1	4.5	2.3
	Q2	4.5	2.2
	Q3	5.2	2.5
	Q4	6.2	3.0
2002	Q1	7.0	3.2
	Q2	7.7	2.9
	Q3	7.4	2.9
	Jul*	7.8	2.8
	Aug*	7.6	2.9
	Sep*	7.4	2.9

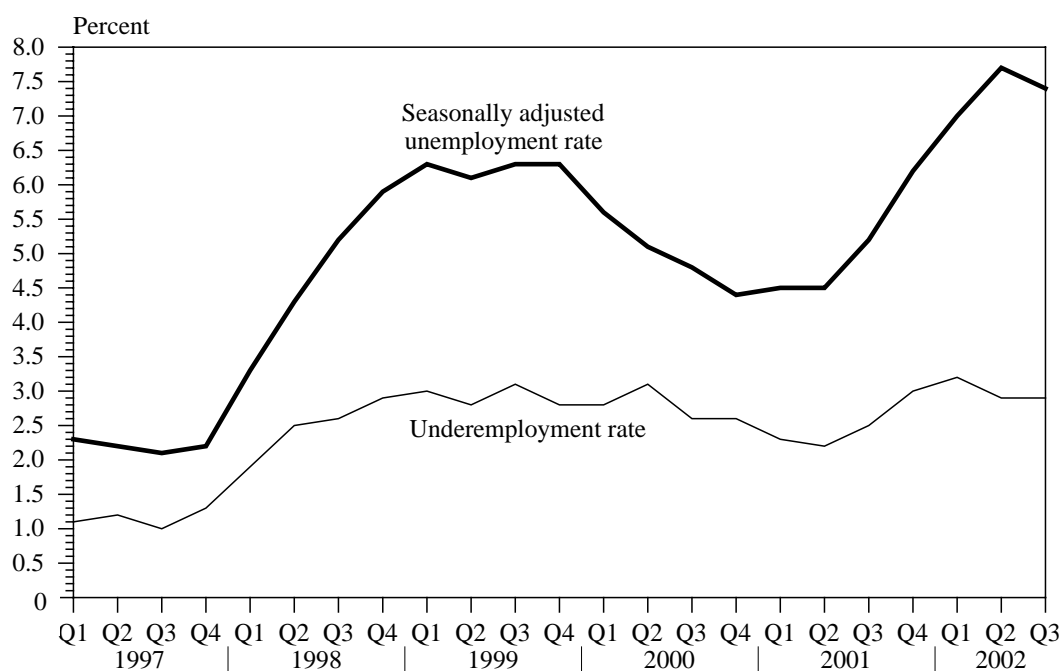
Notes : Labour force statistics for 2001 have been slightly revised upon finalisation of the end-2001 population estimates in August 2002.

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

Source : General Household Survey, Census and Statistics Department.

Diagram 5.1

Unemployment and underemployment rates



/Table 5.2

Table 5.2

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2001	Annual	3 427 100	(1.6)	3 252 300	(1.4)	174 800	85 500
	Q1	3 403 400	(2.0)	3 253 700	(3.1)	149 600	77 700
	Q2	3 410 300	(1.3)	3 257 700	(1.9)	152 600	75 200
	Q3	3 443 400	(1.5)	3 257 300	(1.0)	186 100	84 500
	Q4	3 451 200	(1.4)	3 240 500	(-0.4)	210 700	104 500
2002	Q1	3 459 600	(1.7)	3 220 700	(-1.0)	238 900	109 300
	Q2	3 460 100	(1.5)	3 196 700	(-1.9)	263 400	100 500
	Q3	3 512 900	(2.0)	3 245 700	(-0.4)	267 200	101 400
			<1.5>		<1.5>		
	Jul*	3 495 600	(2.3)	3 220 600	(-1.1)	275 000	98 100
			<1.3>		<0.5>		
	Aug*	3 506 800	(2.3)	3 232 800	(-0.7)	274 000	100 700
			<1.7>		<1.1>		
	Sep*	3 512 900	(2.0)	3 245 700	(-0.4)	267 200	101 400
			<1.5>		<1.5>		

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

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

() % change over a year earlier.

< > % change over the preceding three-month period.

Source : General Household Survey, Census and Statistics Department.

/Table 5.3

Table 5.3

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

		Median duration of <u>unemployment</u> (Days)	<u>Proportion unemployed for :</u>		
			<u>Less than 3 months</u> (%)	<u>3 months to less than 6 months</u> (%)	<u>6 months or more</u> (%)
2001	Annual	75	59	19	22
	Q1	75	58	20	22
	Q2	68	62	18	21
	Q3	72	61	16	23
	Q4	82	55	21	24
2002	Q1	87	53	20	27
	Q2	89	51	19	30
	Q3	82	55	17	28

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

Source : General Household Survey, Census and Statistics Department.

Table 5.4

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

		Median hours of work per week for all <u>employed</u> <u>persons</u> (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>50-59 hours per week</u> (%)	<u>60 hours or more per week</u> (%)	<u>50 hours or more per week</u> (%)
2001	Annual	48	14	20	34
	Q1	48	14	19	33
	Q2	45	14	18	32
	Q3	48	15	20	36
	Q4	48	14	21	35
2002	Q1	45	14	20	34
	Q2	48	15	21	36
	Q3	48	17	22	40

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

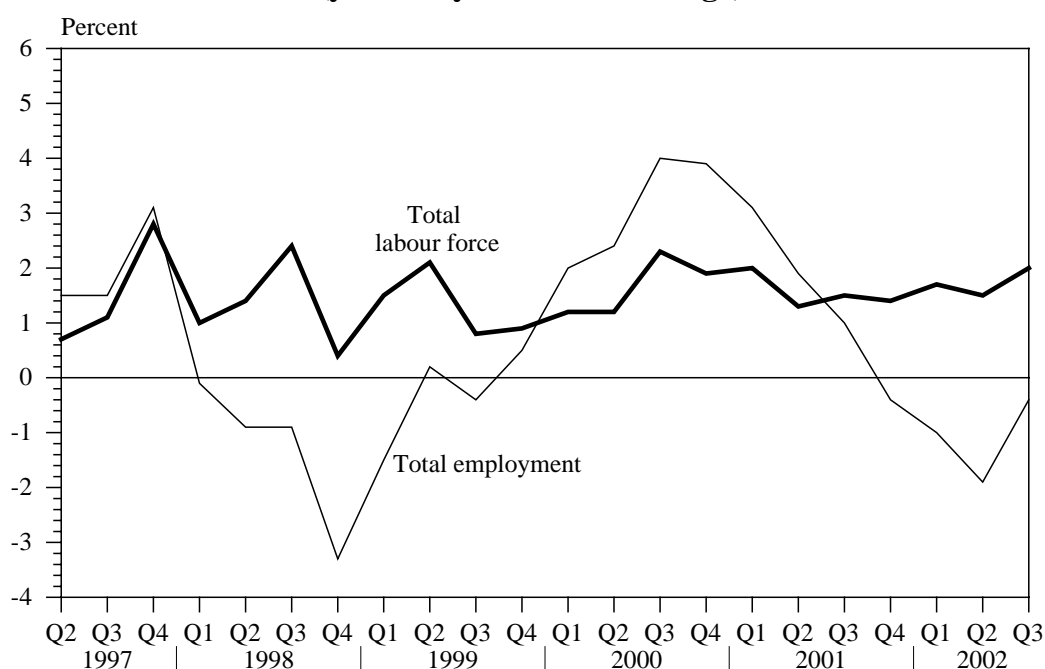
Source : General Household Survey, Census and Statistics Department.

/5.4

5.4 On a year-on-year comparison, *total employment*⁽⁴⁾ as enumerated from households contracted slightly, by 0.4% in the third quarter of 2002, distinctly narrowed from the 1.9% drop in the second quarter. Within this total, the number of self-employed persons continued to surge, by 8.4% in the third quarter of 2002, largely offsetting the decreases in the number of employers and employees, by 7.0% and 0.7% respectively. Reduced job opportunities in the corporate sector largely contributed to these differential changes. As to *total labour force*⁽⁵⁾, the growth rate picked up somewhat, to 2.0% in the third quarter of 2002, from 1.5% in the second quarter. This was attributable to higher labour force participation rates⁽⁶⁾ for females and for younger persons aged 15-19. On a quarter-to-quarter comparison and bearing in mind the influence of seasonality, total employment reverted to increase, by 1.5% in the third quarter of 2002, from a decrease of 0.7% in the second quarter. Total labour force rose also by 1.5% in the third quarter of 2002, following virtually nil change in the second quarter.

Diagram 5.2

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



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

/Table 5.5

Table 5.5

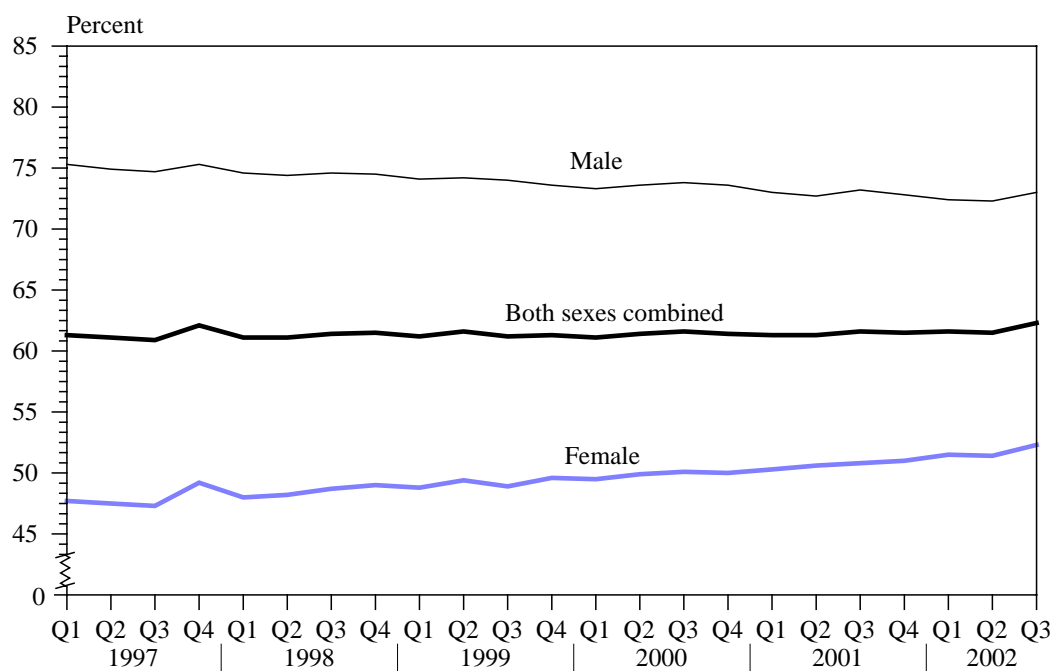
Labour force participation rates by sex (%)

		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2001	Annual	72.9	50.7	61.4
	Q1	73.0	50.3	61.3
	Q2	72.7	50.6	61.3
	Q3	73.2	50.8	61.6
	Q4	72.8	51.0	61.5
2002	Q1	72.4	51.5	61.6
	Q2	72.3	51.4	61.5
	Q3	73.0	52.3	62.3

Source : General Household Survey, Census and Statistics Department.

Diagram 5.3

Labour force participation rates by sex



/5.5

5.5 Labour income fell further in the second quarter of 2002. Specifically, *labour earnings*⁽⁷⁾ had a slightly larger decline, by 1.0% in money terms in the second quarter of 2002 over a year earlier, having decreased by 0.6% in the first quarter. Yet netting out the fall in consumer prices as reflected by the Composite CPI, labour earnings still went up, by 2.2% in real terms in the second quarter of 2002, similar to the 2.1% rise in the first quarter. *Labour wages*⁽⁸⁾ likewise decreased, by 0.9% in money terms in June 2002 over a year earlier, after a 0.8% decline in March. Netting out the fall in consumer prices as reflected by the CPI(A), labour wages also increased, by 3.1% in real terms in June 2002 over a year earlier, even enlarged from the 1.2% rise in March. This was attributable to a larger decline in the CPI(A), and also by more than that for the Composite CPI, in June than in March.

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, the decrease in unemployment rate between the second and third quarters of 2002 was concentrated in construction, real estate, manufacturing, and the distributive and catering trades. In particular, the decline seen in decoration and maintenance was partly associated with more refurbishment and renovation activities. The decline seen in real estate was attributable to increased employment of security guards and real estate management staff. The declines seen in restaurants and the retail trade were due in part to the robust growth in inbound tourism. As to the declines seen in manufacturing, the import/export trade and transport, this was underpinned by the recent strong pick-up in export trade. These decreases outweighed the increases seen in communications and in financing. On the underemployment rate, while increases were seen in restaurants and hotels, in the retail trade, and in community, social and personal services, decreases were seen in construction, transport and manufacturing.

/Table 5.6

Table 5.6**Unemployment rates by major economic sector (%)^(a)**

	<u>2001</u>					<u>2002</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Wholesale, retail and import/export trades, restaurants and hotels	5.5	4.6	5.1	5.8	6.5	7.4	8.3	7.7
Transport, storage and communications	4.4	4.2	4.2	3.8	5.2	5.7	5.3	5.3
Financing, insurance, real estate and business services	3.0	2.7	2.5	3.1	3.9	4.9	4.5	4.5
Community, social and personal services	2.0	1.9	1.7	2.0	2.5	2.7	3.3	3.5
Manufacturing	5.3	4.0	4.9	5.6	6.8	7.2	8.2	7.1
Construction ^(b)	10.7	10.3	9.7	10.3	12.6	15.7	16.9	15.6

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

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

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

	<u>2001</u>					<u>2002</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Wholesale, retail and import/export trades, restaurants and hotels	1.3	1.1	1.1	1.3	1.5	1.8	1.6	1.8
Transport, storage and communications	2.7	2.4	2.6	2.6	3.1	3.1	3.0	2.5
Financing, insurance, real estate and business services	0.4	0.3	0.3	0.3	0.7	0.7	0.5	0.6
Community, social and personal services	1.4	1.3	1.2	1.3	1.7	2.3	1.8	2.1
Manufacturing	2.4	2.1	2.3	2.2	3.0	2.4	2.6	2.3
Construction ^(a)	12.5	11.7	10.7	12.3	15.2	14.2	13.7	12.8

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.8

Table 5.8

**Unemployment and underemployment rates
by detailed economic sub-sector in the third quarter of 2002**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	7.7	81 400	1.8	19 500
Wholesale/retail trade	8.7	31 300	2.3	8 200
Import/export trade	5.0	21 200	0.4	1 900
Restaurants and hotels	10.6	28 800	3.4	9 400
Transport, storage and communications	5.3	19 700	2.5	9 400
Transport	4.7	14 400	2.7	8 300
Storage	17.0	800	3.9	200
Communications	7.5	4 400	1.5	900
Financing, insurance, real estate and business services	4.5	22 700	0.6	2 900
Financing	3.9	5 200	0.2	300
Insurance	3.9	1 700	0.4	200
Real estate	4.5	5 300	0.8	1 000
Business services	5.1	10 500	0.7	1 500
Community, social and personal services	3.5	30 100	2.1	17 700
Public administration	0.8	1 100	0.2	200
Education, medical and other health and welfare services	2.7	8 800	1.4	4 500
Other services	5.0	20 200	3.2	13 000
Manufacturing	7.1	22 400	2.3	7 400
Food and beverages	6.4	1 500	3.1	700
Clothing and footwear	7.6	6 500	3.5	3 000
Paper and printing	6.7	4 000	1.8	1 100
Plastic products	7.0	1 400	3.6	700
Metal products	7.3	1 500	2.7	600
Electrical and electronic products	6.9	4 600	0.7	500
Other manufacturing industries	7.4	2 900	1.9	800
Construction	15.6	53 100	12.8	43 800
Foundation and superstructure	14.9	37 600	10.8	27 200
Decoration and maintenance	17.3	15 500	18.4	16 500

Notes : As the above figures are based on a sample survey, they are subject to sampling errors, more so for the finer breakdowns.

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

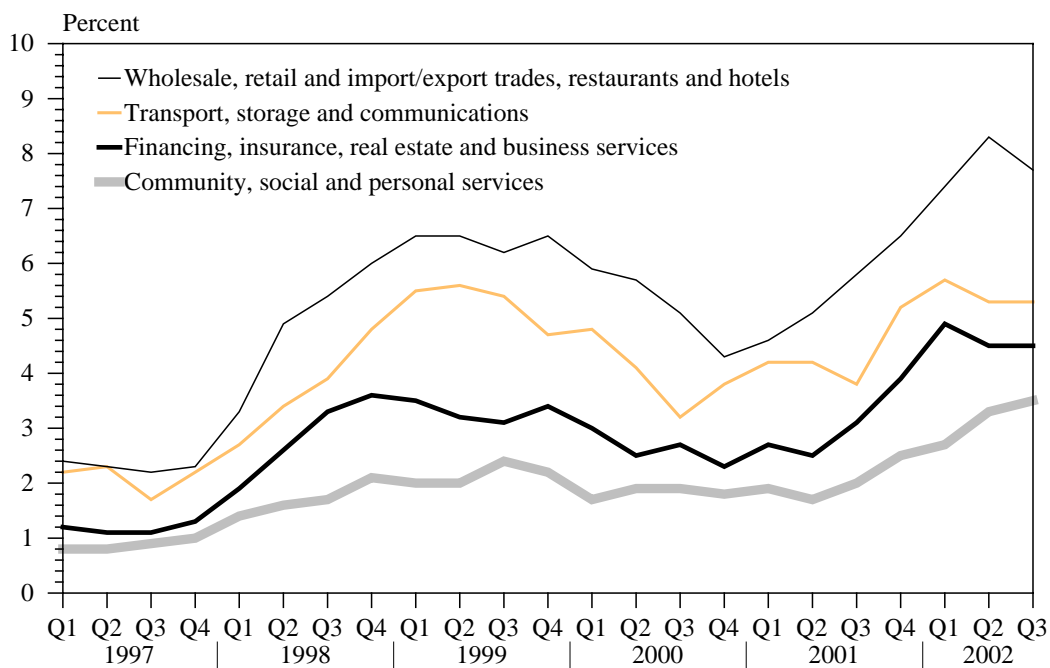
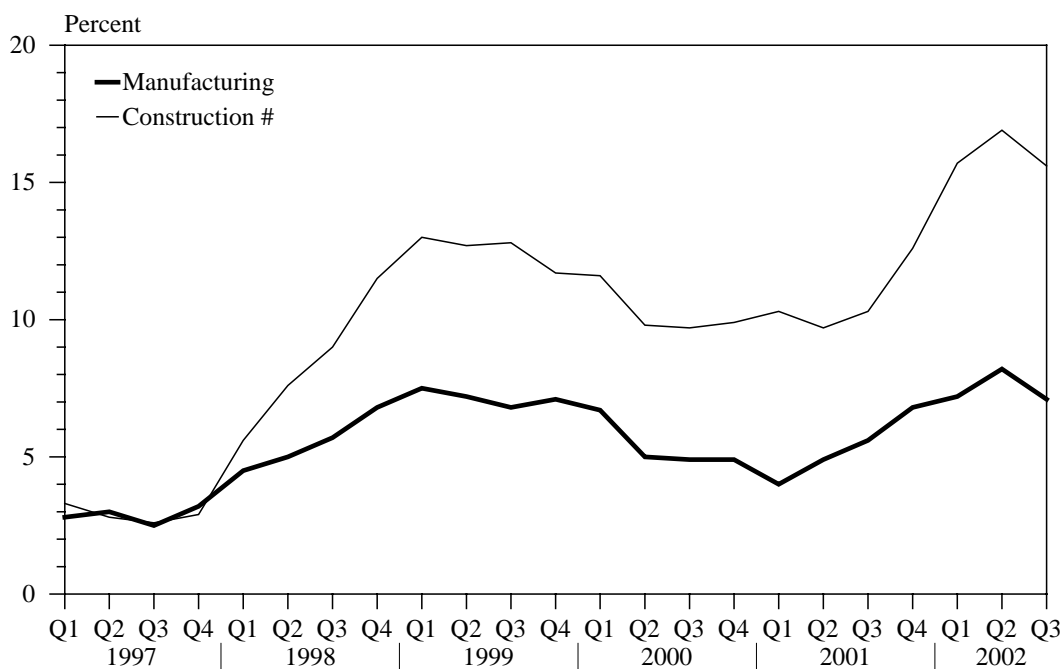
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



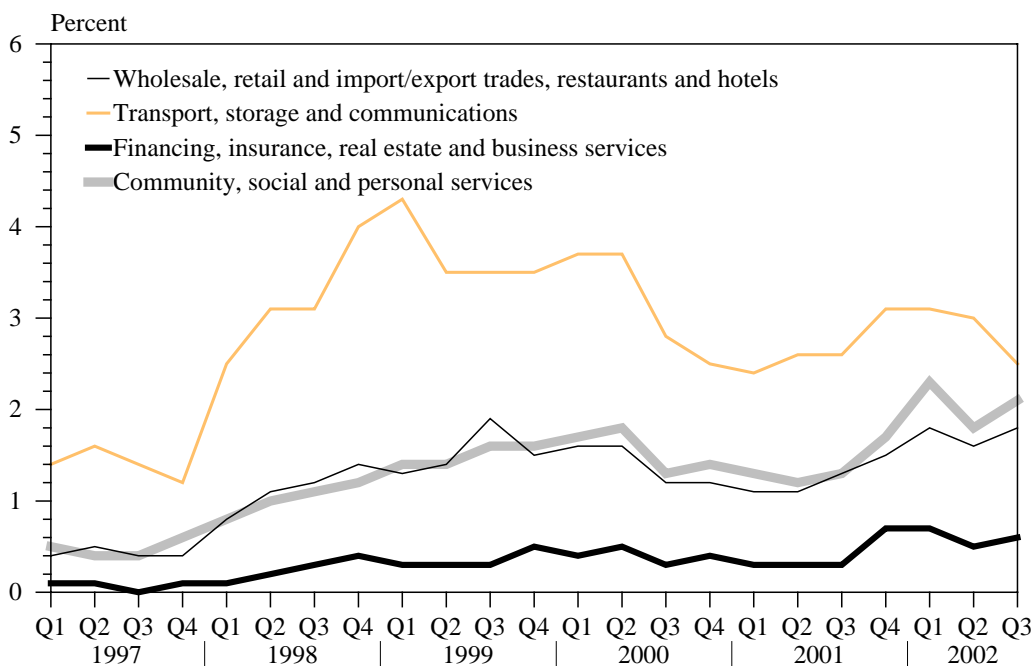
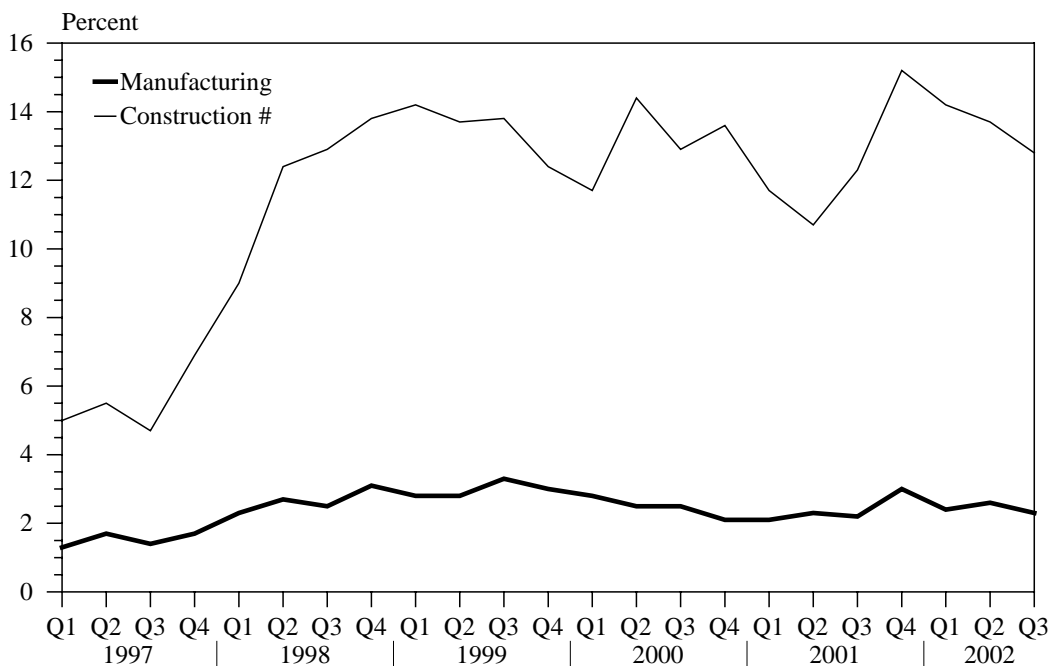
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

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

/Diagram 5.5

Diagram 5.5

Underemployment rates by major economic sector



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

5.7 Analysed by *occupation category*, the decrease in unemployment rate between the second and third quarters of 2002 occurred more amongst managers and administrators, service workers and shop sales workers, craft and related workers, plant and machine operators and assemblers, and professionals. On the underemployment rate, decreases were observed amongst plant and machine operators and assemblers and amongst craft and related workers, whereas increases occurred amongst service workers and shop sales workers, clerks, and managers and administrators.

Table 5.9

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

	<u>2001</u>					<u>2002</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Managers and administrators	1.9	1.4	1.6	2.0	2.4	3.5	3.1	2.3
Professionals	1.9	1.2	1.5	2.2	2.6	2.6	2.5	2.3
Associate professionals ^(b)	2.9	2.6	2.6	3.0	3.4	4.2	4.3	4.5
Clerks	3.7	3.1	3.2	3.7	4.9	5.2	5.5	5.4
Service workers and shop sales workers	6.5	5.6	6.1	6.9	7.5	8.5	9.6	9.1
Craft and related workers	9.3	8.9	8.1	9.3	10.7	12.6	15.7	14.3
Plant and machine operators and assemblers	4.6	4.0	3.9	4.8	5.9	6.4	6.6	5.4
Elementary occupations	5.2	4.8	5.0	4.8	6.2	7.4	7.7	7.8
Others	3.1	1.2	8.0	1.6	1.3	2.4	2.9	4.7

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

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.10

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

	<u>Annual</u>	<u>2001</u>				<u>2002</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Managers and administrators	0.1	0.1	*	0.1	0.1	*	0	0.2
Professionals	0.2	0.1	0.3	0.1	0.3	0.4	0.3	0.3
Associate professionals ^(a)	0.5	0.5	0.5	0.5	0.5	0.8	1.0	0.8
Clerks	0.7	0.6	0.6	0.8	0.9	1.1	0.9	1.2
Service workers and shop sales workers	1.7	1.5	1.7	1.7	2.1	2.6	2.3	2.8
Craft and related workers	9.3	9.1	8.0	8.8	11.5	11.2	11.0	10.6
Plant and machine operators and assemblers	3.4	2.8	3.4	3.2	4.2	4.3	3.8	3.1
Elementary occupations	4.3	3.8	3.7	4.5	5.2	5.2	4.5	4.6
Others	3.4	0	3.8	8.9	1.3	0.8	6.7	5.8

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.8

5.8 Analysed by *sex*, the unemployment rate for males went down by 0.3 of a percentage point between the second and third quarters of 2002, yet the unemployment rate for females went up by 0.4 of a percentage point. As a result, the difference between the two unemployment rates narrowed markedly, from 2.7 percentage points to 2.0 percentage points.

Table 5.11

Unemployment rates by sex (%)^(a)

	<u>Male</u>	<u>Female</u>
2001 Annual	6.0	3.9
Q1	5.3	3.1
Q2	5.3	3.4
Q3	6.3	4.1
Q4	7.1	4.8
2002 Q1	8.1	5.3
Q2	8.8	6.1
Q3	8.5	6.5

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

Source : General Household Survey, Census and Statistics Department.

/5.9

5.9 Analysed by *age group*, the unemployment rates for persons aged 25-49 and aged 60 and above declined between the second and third quarters of 2002. On the other hand, the unemployment rate for younger persons aged 15-24 continued to leap, as the new batch of fresh graduates and school leavers had yet to be absorbed more substantially into employment.

Table 5.12

Unemployment rates by age group (%)^(a)

	<u>2001</u>					<u>2002</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
15-19	23.4	21.0	21.2	25.1	26.1	27.2	30.1	35.1
20-24	8.7	7.1	6.5	11.4	9.7	9.8	11.3	13.5
25-29	4.4	3.9	4.0	4.5	5.4	6.2	6.5	6.1
30-39	3.5	3.1	3.2	3.4	4.5	5.6	5.5	5.1
40-49	4.6	3.8	4.1	4.8	5.8	6.3	7.2	6.6
50-59	5.4	5.1	5.1	5.2	6.0	7.3	8.5	8.7
60 and above	2.7	2.7	2.3	2.5	3.1	5.3	6.0	4.6

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

Source : General Household Survey, Census and Statistics Department.

/5.10

5.10 Analysed by *educational attainment*, the decrease in unemployment rate between the second and third quarters of 2002 took place mainly amongst persons with no schooling/kindergarten education, with lower secondary education and with matriculation education. By contrast, for persons with primary education and more so for persons with tertiary education, the unemployment rate went up. There was also a distinct increase in the number of first-time job-seekers predominantly at the secondary to tertiary levels, upon the entry of fresh graduates and school leavers into the labour market.

Table 5.13

Unemployment rates by educational attainment (%)^(a)

	<u>2001</u>					<u>2002</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
No schooling/kindergarten	5.6	2.8	5.3	4.7	9.6	8.4	8.9	8.4
Primary	6.4	5.9	5.9	6.2	7.6	8.6	10.0	10.4
Lower secondary	7.5	7.1	6.7	7.6	8.7	10.4	11.5	10.5
Upper secondary ^(b)	4.7	4.1	4.1	5.1	5.7	6.6	7.3	7.2
Matriculation	3.6	2.6	3.0	4.7	4.1	5.2	5.4	5.1
Tertiary	3.2	2.3	2.7	3.9	4.0	3.9	4.2	5.0
<i>of which :</i>								
Non-degree	3.9	2.6	3.5	4.7	4.8	5.1	5.3	6.1
Degree	2.8	2.0	2.2	3.5	3.5	3.3	3.6	4.4

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

(b) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

Profile of employment

5.11 Employment as enumerated from business establishments remained on a downtrend, amidst continued downsizing and lay-offs in the corporate sector. For all the private sector establishments surveyed taken together, total employment contracted by 2.7% in June 2002 over a year earlier, exceeding the 1.1% reduction in March. On a seasonally adjusted quarter-to-quarter comparison, the decrease in June 2002, at 0.6%, was broadly similar to that in March, at 0.7%.

5.12 Taking all the *service sectors* surveyed taken together⁽⁹⁾, employment was down by 2.1% in June 2002 from a year earlier, reversing the 0.2% increase in March. Decreases were seen across most of the constituent sectors. Employment in storage and communications was reduced most visibly, by 9.7% in June 2002 over a year earlier, mainly upon continued consolidation in the telecommunications sector. Employment in restaurants and hotels and in the retail trade shrank by 5.1% and 4.3% respectively, as business remained subdued amidst the weak consumer spending. Employment in the wholesale and import/export trades continued to fall, by 4.4%, as the job effect from the upturn in export trade only began to be felt more recently. Employment in financing, insurance, real estate and business services was down by 2.8%, partly due to the weak performance of the stock market. On the other hand, employment in community, social and personal services went up by 4.9% in June 2002 over a year earlier, conceivably to meet greater demand for education, medical and health, welfare, sanitary and recreational services. Employment in water transport, air transport and services allied to transport also rose, albeit more modestly by 1.8%.

5.13 Employment in the local *manufacturing sector* extended its decline, along with further contraction in domestic exports upon on-going relocation of production processes outside Hong Kong. The decrease in June 2002, by 8.5% over a year earlier, was slightly smaller than that in March, by 9.0%.

/5.14

5.14 Employment of manual workers at *building and construction sites* had a much lesser decline, by 1.3% in June 2002 over a year earlier, as against a 12.4% drop in March. This was partly attributable to a lower base of comparison a year earlier. There was an enlarged increase in employment at private sector sites, by 8.6% in June 2002 over a year earlier, along with intensified construction work at Container Terminal No. 9 and commencement of work on some new building projects. This offset substantially the further reduction in employment at public sector sites, by 13.2% in June 2002 over a year earlier, upon progressive scale-back of the Public Housing Programme and also winding down of the MTR Tseung Kwan O Extension and KCR West Rail. By type of project, employment at building sites shrank by 2.3% whereas employment at civil engineering sites expanded by 1.3% in June 2002 over a year earlier. Taking into account the decline in employment of off-site workers and related professional and support staff, employment for the entire building and construction sector⁽¹⁰⁾ was down by 4.4% in the second quarter of 2002 over a year earlier, following a 2.3% fall in the first quarter.

5.15 In line with the Government's endeavour to contain recurrent expenditure and reduce Civil Service establishment⁽¹¹⁾, employment in the *Civil Service* was slashed by 3.9% in June 2002 from a year earlier, after a 4.4% decrease in March.

/Table 5.14

Table 5.14**Employment by major economic sector**

	Annual average	2001				2002	
		Mar	Jun	Sep	Dec	Mar	Jun
Wholesale and import/export trades	577 200 (-3.5)	581 100 (-3.5)	581 500 (-3.6)	579 300 (-5.0)	566 800 (-1.8)	566 100 (-2.6)	556 000 (-4.4)
Retail trade	219 700 (2.6)	215 400 (3.9)	228 300 (8.1)	225 000 (0.9)	210 200 (-2.2)	216 300 (0.4)	218 400 (-4.3)
Restaurants and hotels	222 200 (1.2)	220 600 (0.9)	225 100 (1.4)	223 000 (1.1)	219 900 (1.3)	213 600 (-3.2)	213 700 (-5.1)
Water transport, air transport and services allied to transport	99 900 (2.1)	98 200 (2.1)	100 500 (1.1)	101 600 (1.5)	99 100 (3.6)	100 800 (2.6)	102 300 (1.8)
Storage and communications	44 400 (2.8)	44 600 (8.2)	46 000 (6.2)	43 700 (-3.0)	43 400 (0.3)	41 300 (-7.2)	41 600 (-9.7)
Financing, insurance, real estate and business services	435 600 (1.6)	428 900 (3.4)	442 500 (3.1)	437 300 (0.1)	433 900 (-0.1)	423 400 (-1.3)	430 300 (-2.8)
Community, social and personal services	373 800 (7.2)	360 500 (4.5)	372 500 (7.6)	377 000 (8.1)	385 100 (8.6)	392 100 (8.8)	390 800 (4.9)
Manufacturing	212 000 (-8.6)	217 000 (-7.2)	218 700 (-8.4)	209 300 (-8.8)	203 000 (-10.3)	197 400 (-9.0)	200 100 (-8.5)
Building and construction sites	80 300 (0.9)	87 800 (17.8)	80 300 (1.3)	76 500 (-5.2)	76 600 (-8.7)	76 900 (-12.4)	79 200 (-1.3)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 312 600 (0.2)</i>	<i>2 301 600 (0.9)</i>	<i>2 343 200 (1.0)</i>	<i>2 319 900 (-0.9)</i>	<i>2 285 500 (-0.3)</i>	<i>2 275 500 (-1.1)</i>	<i>2 280 100 (-2.7)</i>
		<i><0.1></i>	<i><1.0></i>	<i><-1.2></i>	<i><-0.2></i>	<i><-0.7></i>	<i><-0.6></i>
<i>Civil Service^(b)</i>	<i>177 700 (-3.5)</i>	<i>181 000 (-2.6)</i>	<i>178 700 (-3.3)</i>	<i>176 700 (-3.7)</i>	<i>174 500 (-4.4)</i>	<i>173 000 (-4.4)</i>	<i>171 700 (-3.9)</i>

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

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

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

() % change over a year earlier.

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

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

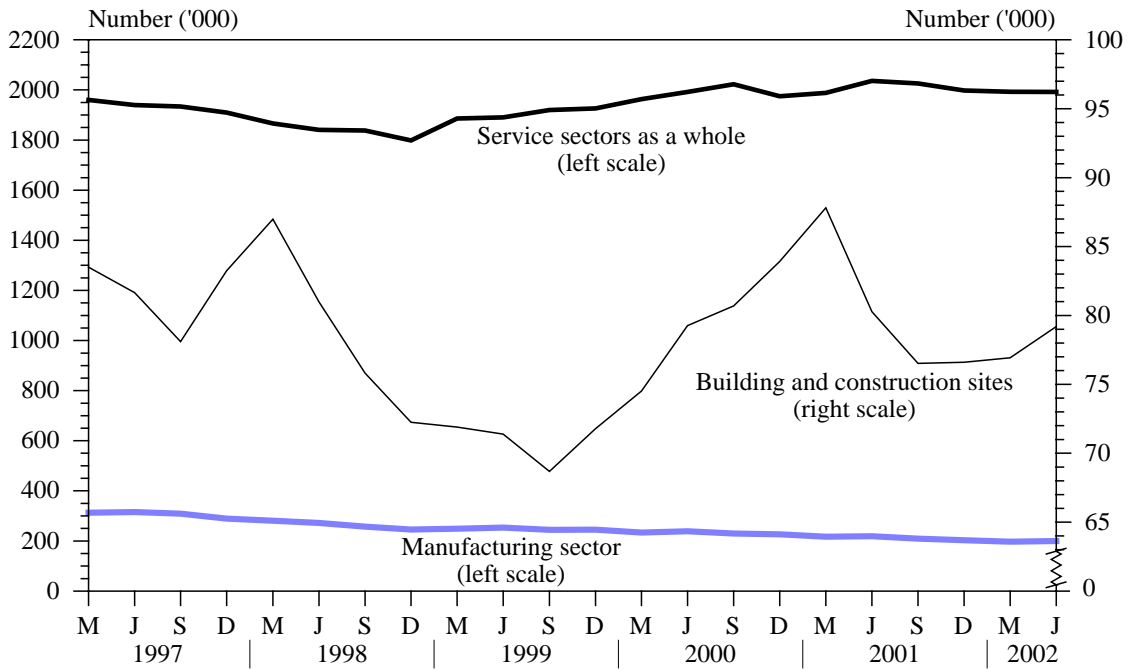
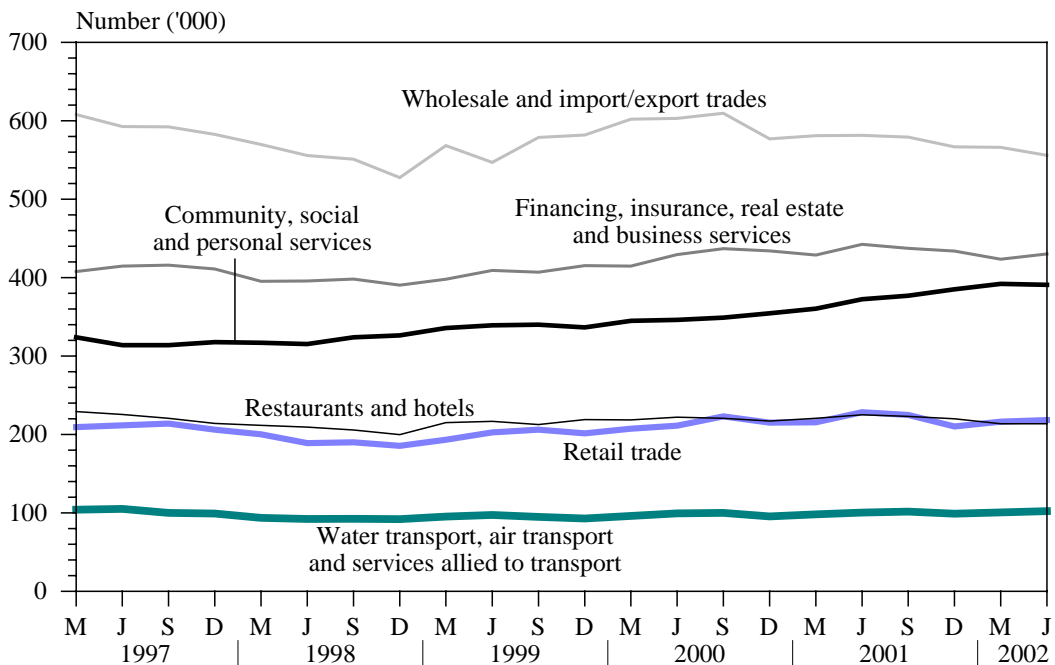


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.16 Though still on a distinct downtrend on a year-on-year comparison, vacancies showed a smaller decrease more recently. To some extent, this was attributable to more vacancies put up for hiring people on commission basis. For all the private sector establishments surveyed taken together, vacancies were reduced by 14.9% in June 2002 over a year earlier, much narrowed from the 30.8% drop in March. On a seasonally adjusted quarter-to-quarter basis, these vacancies went up by 12.2% in June 2002, reversing the 2.8% decrease in March. While the overall vacancy rate in the private sector held steady at 0.9% in March and June 2002, it was below that of 1.1% in June 2001.

5.17 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed taken together were 14.2% fewer in June 2002 than a year earlier, yet markedly narrowed from the 31.1% dip in March. Amongst the constituent sectors and on a year-on-year comparison, vacancies in the retail trade, in the wholesale and import/export trades, and in restaurants and hotels reverted to increase, by 20.0%, 9.5% and 4.7% respectively in June 2002 over a year earlier. Vacancies in financing, insurance, real estate and business services, in water transport, air transport and services allied to transport, and in storage and communications had moderated decreases, by 22.3%, 21.6% and 15.7% respectively. Vacancies in community, social and personal services however had a further plunge of 35.4%. As to the local *manufacturing sector*, vacancies were down by 22.0% in June 2002 over a year earlier, smaller than the 25.0% fall in March. Vacancies for manual workers at *building and construction sites* plummeted more, by 48.6% in June 2002 over a year earlier, following a slash of 42.7% in March. On the other hand, vacancies in the *Civil Service* went up by 16.0% in June 2002 over a year earlier, further to a 9.0% rise in March, attributable in part to increased service needs in the social welfare, education and security fields.

/Table 5.15

Table 5.15**Vacancies by major economic sector**

	<u>No. of vacancies</u>								Vacancy rate in Jun 2002 (%)
	Annual average	<u>2001</u>					<u>2002</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>		
Wholesale and import/export trades	4 700 (-45.0)	7 400 (-29.0)	4 600 (-50.2)	4 000 (-56.5)	3 000 (-46.8)	5 000 (-32.2)	5 000 (9.5)	0.9	
Retail trade	2 100 (-20.5)	2 400 (-3.2)	2 100 (-20.3)	2 400 (-20.1)	1 500 (-38.7)	1 700 (-31.4)	2 500 (20.0)	1.1	
Restaurants and hotels	1 600 (-21.0)	2 200 (7.0)	1 300 (-29.8)	1 500 (-35.9)	1 200 (-24.1)	1 600 (-28.5)	1 400 (4.7)	0.7	
Water transport, air transport and services allied to transport	700 (-33.2)	900 (6.1)	800 (-24.4)	400 (-68.8)	500 (-30.1)	500 (-48.3)	600 (-21.6)	0.6	
Storage and communications	500 (-25.6)	600 (-29.2)	500 (-50.4)	500 (-23.2)	500 (38.0)	400 (-31.0)	400 (-15.7)	0.9	
Financing, insurance, real estate and business services	6 400 (-30.5)	8 200 (-12.9)	7 800 (-22.2)	5 300 (-48.8)	4 300 (-39.3)	5 400 (-34.6)	6 000 (-22.3)	1.4	
Community, social and personal services	5 600 (0.5)	5 700 (5.5)	6 500 (16.0)	5 500 (-11.1)	4 700 (-8.0)	4 400 (-23.5)	4 200 (-35.4)	1.1	
Manufacturing	1 600 (-35.2)	1 900 (-34.1)	1 900 (-34.0)	1 400 (-37.8)	1 100 (-36.1)	1 400 (-25.0)	1 500 (-22.0)	0.7	
Building and construction sites	100 (-55.3)	200 (3.3)	100 (-75.3)	100 (-72.4)	100 (-57.6)	100 (-42.7)	100 (-48.6)	0.1	
<i>All establishments surveyed in the private sector^(a)</i>	<i>23 500 (-28.0)</i>	<i>30 000 (-13.8)</i>	<i>25 700 (-26.4)</i>	<i>21 200 (-40.6)</i>	<i>17 200 (-32.1)</i>	<i>20 800 (-30.8)</i>	<i>21 900 (-14.9)</i>	<i>0.9</i>	
<i>Civil Service^(b)</i>	<i>1 700 (-12.3)</i>	<i>1 500 (-31.8)</i>	<i>1 700 (-19.7)</i>	<i>1 700 (-8.1)</i>	<i>1 900 (19.8)</i>	<i>1 700 (9.0)</i>	<i>1 900 (16.0)</i>	<i>1.1</i>	

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

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

(b) These figures cover only vacancies for those staff to be employed on Civil Service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Scheme.

() % change over a year earlier.

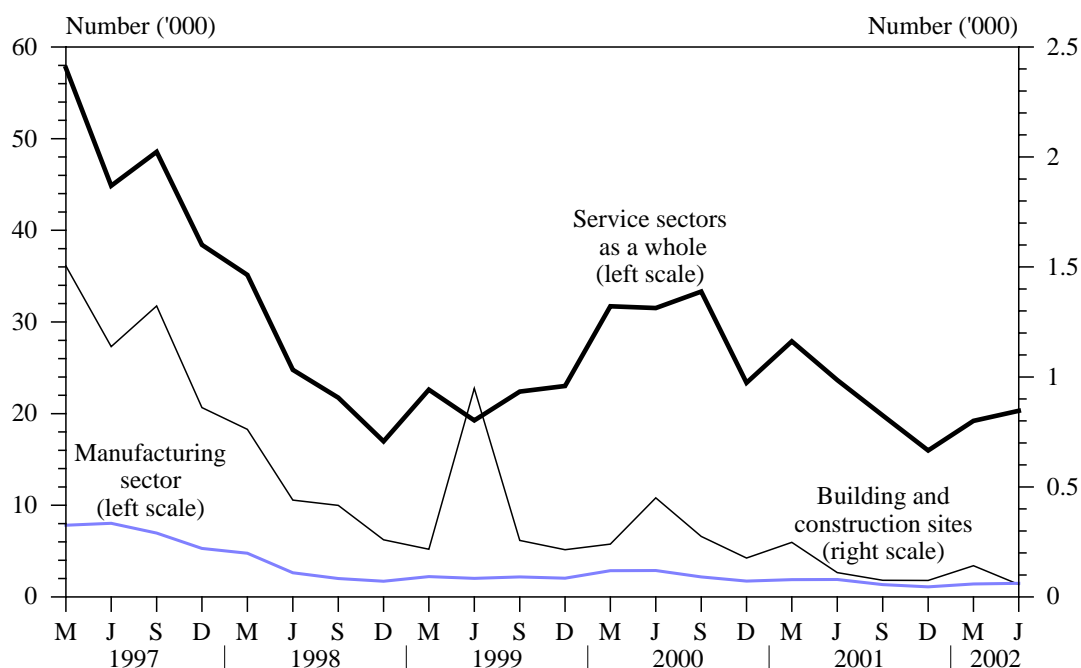
< > Seasonally adjusted quarter-to-quarter % change.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.18 Analysed by *occupation category*, a relative improvement in vacancy position was observed across many of the job categories. Vacancies for service workers and shop sales workers and for associate professionals had renewed increases, by 7.3% and 7.2% respectively in June 2002 over a year earlier, reversing the downtrend since December 2000. Vacancies for workers in elementary occupations, for craft and related workers, for managers and administrators, and for clerks showed narrowed decreases, by 8.0%, 13.9%, 31.0% and 37.9% respectively. But vacancies for professionals and for plant and machine operators and assemblers exhibited enlarged declines, by 53.5% and 31.9% respectively.

/Table 5.16

Table 5.16**Vacancies by major occupation category**

	<u>No. of vacancies</u>						
	<u>Annual average</u>	<u>2001</u>				<u>2002</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Managers and administrators	600 (-3.2)	800 (35.1)	700 (4.6)	400 (-33.1)	400 (-20.5)	400 (-48.7)	500 (-31.0)
Professionals	1 800 (-41.8)	2 600 (-17.8)	2 300 (-30.4)	1 200 (-64.6)	1 000 (-56.4)	1 300 (-52.0)	1 100 (-53.5)
Associate professionals	7 300 (-37.5)	9 600 (-25.0)	7 700 (-40.6)	6 700 (-46.9)	5 400 (-37.7)	7 500 (-21.8)	8 300 (7.2)
Clerks	5 600 (-10.3)	7 100 (5.2)	6 700 (8.2)	4 700 (-26.0)	3 700 (-32.4)	4 100 (-42.7)	4 200 (-37.9)
Service workers and shop sales workers	4 000 (-17.8)	4 900 (-1.7)	3 600 (-24.0)	4 000 (-30.2)	3 400 (-12.0)	3 900 (-20.1)	3 900 (7.3)
Craft and related workers	700 (-43.8)	900 (-26.0)	700 (-56.6)	700 (-43.3)	500 (-46.8)	600 (-37.8)	600 (-13.9)
Plant and machine operators and assemblers	800 (-33.3)	800 (-41.1)	1 100 (-22.8)	700 (-41.4)	600 (-24.7)	900 (3.0)	700 (-31.9)
Elementary occupations	2 800 (-26.3)	3 300 (-15.3)	2 900 (-27.3)	2 800 (-38.4)	2 100 (-20.5)	2 200 (-32.4)	2 700 (-8.0)

Note : () % change over a year earlier.

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

/Earnings

Earnings and wages

5.19 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, were again on a downtrend, with a 1.0% fall in money terms in the second quarter of 2002 over a year earlier, slightly larger than the 0.6% decline in the first quarter. Amongst the business establishments surveyed in the second quarter of 2002, 47% reported a decrease in average labour earnings over a year earlier, while another 20% reported virtually no change. The remaining 33% reported some increase in average labour earnings, but this was partly attributable to a relative shift in the employment composition towards higher-skill and thus better-paid workers upon retrenchment of workers at the lower level. Netting out the decline in consumer prices as reflected by the Composite CPI, overall labour earnings still went up by 2.2% in real terms in the second quarter of 2002 over a year earlier, similar to the 2.1% rise in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings edged down by 0.2% in money terms in both the first and second quarters of 2002. In real terms, there were nevertheless increases of 0.7% and 0.6% respectively.

5.20 Analysed by *economic sector*, labour earnings fell across many of the major economic sectors. For all the *service sectors* surveyed taken together, earnings fell by 1.2% in money terms in the second quarter of 2002 over a year earlier, but gained by 2.1% in real terms. Within this broad group, earnings in restaurants and hotels were reduced by 5.5% in money terms or 2.4% in real terms. Earnings in financing, insurance, real estate and business services and in the wholesale, retail and import/export trades decreased by 2.6% and 1.6% respectively in money terms, yet increased by 0.6% and 1.7% in real terms. Earnings in community, social and personal services rose slightly by 0.1% in money terms, and more by 3.4% in real terms. Earnings in transport, storage and communications had a relatively larger increase, by 1.5% in money terms or 4.9% in real terms. As to the local *manufacturing sector*, earnings declined by 0.6% in money terms, but rose by 2.7% in real terms.

/Table 5.17

Table 5.17

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

	<u>Payroll per person engaged</u>							Average amount in Q2 2002 (\$)
	<u>Annual</u>	<u>2001</u>				<u>2002</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	
Wholesale, retail and import/export trades	2.0 (3.7)	2.7 (4.8)	2.4 (3.7)	1.5 (2.6)	1.2 (3.3)	-1.0 (1.6)	-1.6 (1.7)	11,600
Restaurants and hotels	0.1 (1.7)	1.6 (3.7)	1.4 (2.7)	-0.8 (0.3)	-2.2 (-0.1)	-4.9 (-2.3)	-5.5 (-2.4)	8,400
Transport, storage and communications	1.3 (3.0)	2.7 (4.8)	1.4 (2.8)	1.6 (2.7)	-0.5 (1.5)	-1.9 (0.7)	1.5 (4.9)	17,800
Financing, insurance, real estate and business services	0.4 (2.0)	2.5 (4.6)	1.7 (3.0)	-0.8 (0.3)	-2.0 (0.1)	-2.0 (0.6)	-2.6 (0.6)	17,800
Community, social and personal services	0.7 (2.3)	0.8 (2.8)	-0.8 (0.5)	3.1 (4.2)	-0.5 (1.6)	* (2.7)	0.1 (3.4)	19,300
Manufacturing	2.1 (3.8)	3.0 (5.1)	2.5 (3.8)	2.2 (3.3)	0.6 (2.7)	-0.8 (1.8)	-0.6 (2.7)	11,300
All sectors surveyed in the private sector	1.8 (3.5)	2.7 (4.8)	2.2 (3.5)	2.0 (3.1)	0.4 (2.5)	-0.6 (2.1)	-1.0 (2.2)	14,500
		<0.9> {1.2}	<0.3> {0.4}	<-0.1> {0.4}	<-0.6> {0.5}	<-0.2> {0.7}	<-0.2> {0.6}	

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

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

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

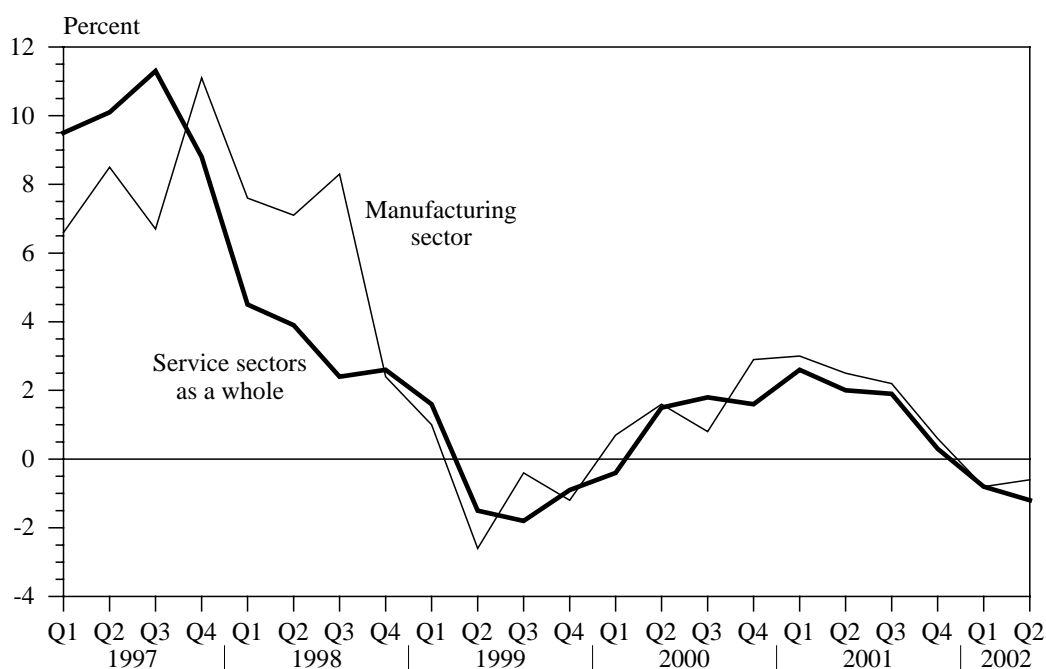
(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

Diagram 5.9

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



5.21 Overall *labour wages* in the private sector exhibited a broadly similar downtrend, falling by 0.9% in money terms in June 2002 over a year earlier, after a 0.8% fall in March. Amongst the business establishments surveyed in June 2002, 54% reported a decrease in average wage rate over a year earlier, while 12% reported almost no change. The remaining 34% reported an increase in average wage rate, but again this was partly attributable to a shift in the employment composition towards higher-skill and thus better-paid workers upon retrenchment of workers at the lower level. Netting out the decline in consumer prices as reflected by the CPI(A)⁽¹²⁾, overall labour wages nevertheless moved up by 3.1% in real terms in June 2002 over a year earlier, enlarged from the 1.2% rise in March. This was due to a larger decline in the CPI(A) in June than in March.

5.22 Analysed by *economic sector*, and within the service sectors surveyed, wages in restaurants and hotels had a larger decrease by 3.3% in money terms in June 2002 over a year earlier, although there continued to be a slight increase by 0.6% in real terms. Wages in financing, insurance, real estate and business services and in personal services were down by 1.8% and 2.0% respectively in money terms, but up by 2.2% and 2.0% in real terms. On the other hand, wages

/in

in transport services and in the wholesale, retail and import/export trades gained by 0.8% and 0.3% respectively in money terms, corresponding to increases of 4.9% and 4.4% in real terms. As to wages in manufacturing, there was a 0.7% decline in money terms in June 2002 over a year earlier, yet a 3.4% rise in real terms.

Table 5.18

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

	<u>By reference to the wage index</u>						
	<u>2001</u>					<u>2002</u>	
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Mar</u>	<u>Jun</u>
Wholesale, retail and import/export trades	1.4 (4.1)	1.8 (4.0)	1.7 (2.4)	1.2 (2.1)	1.1 (7.8)	* (2.1)	0.3 (4.4)
Restaurants and hotels	0.7 (3.3)	0.8 (3.0)	0.6 (1.4)	0.9 (1.9)	0.2 (6.9)	-1.4 (0.6)	-3.3 (0.6)
Transport services	0.7 (3.4)	0.5 (2.7)	0.1 (0.9)	0.3 (1.3)	2.0 (8.7)	1.1 (3.1)	0.8 (4.9)
Financing, insurance, real estate and business services	-0.9 (1.7)	0.8 (3.0)	-0.1 (0.6)	-1.7 (-0.8)	-2.5 (4.0)	-1.7 (0.3)	-1.8 (2.2)
Personal services	0.7 (3.3)	1.4 (3.5)	1.0 (1.7)	1.4 (2.3)	-0.9 (5.7)	-0.9 (1.1)	-2.0 (2.0)
Manufacturing	2.2 (4.8)	3.0 (5.2)	1.6 (2.4)	2.7 (3.6)	1.4 (8.1)	-2.1 (-0.2)	-0.7 (3.4)
All selected sectors surveyed in the private sector	0.8 (3.4)	1.4 (3.6)	0.9 (1.7)	0.7 (1.6)	0.2 (6.9)	-0.8 (1.2)	-0.9 (3.1)

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

(a) The large difference between the nominal and the real changes in wages in December 2001 over a year earlier was caused by an abrupt fall in the CPI(A) in December last year, owing to a waiver of public housing rentals in that month. The CPI(A) instead of the Composite CPI is taken as the price deflator here, on account of its closer relevance to the occupation coverage of the wage series.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

5.23 Analysed by *occupation category*, wages for service workers, craftsmen, and miscellaneous non-production workers fell by 1.4 - 3.6% in money terms in June 2002 over a year earlier, although in real terms they still rose by 0.3 - 2.6%. Wages for clerical and secretarial workers declined by 0.8% in money terms, equivalent to a 3.2% increase in real terms. Wages for supervisory and technical workers and for operatives edged higher, both by 0.1% in money terms or 4.2% in real terms.

Table 5.19

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

	<u>By reference to the wage index</u>						
	<u>Annual</u>	<u>2001</u>				<u>2002</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Mar</u>	<u>Jun</u>
Supervisory and technical workers	0.9 (3.5)	1.8 (4.0)	1.1 (1.8)	0.4 (1.3)	0.1 (6.8)	-0.2 (1.8)	0.1 (4.2)
Clerical and secretarial workers	1.8 (4.4)	2.0 (4.1)	1.7 (2.4)	2.0 (3.0)	1.4 (8.2)	-0.2 (1.8)	-0.8 (3.2)
Craftsmen	1.0 (3.6)	0.8 (3.0)	1.5 (2.2)	0.9 (1.8)	0.9 (7.6)	-0.6 (1.4)	-1.6 (2.4)
Operatives	2.6 (5.2)	4.3 (6.5)	0.6 (1.3)	3.1 (4.0)	2.3 (9.1)	-1.0 (1.0)	0.1 (4.2)
Service workers	-1.8 (0.8)	-0.9 (1.2)	-1.2 (-0.5)	-1.4 (-0.5)	-3.5 (2.9)	-3.0 (-1.0)	-3.6 (0.3)
Miscellaneous non-production workers	1.2 (3.9)	1.3 (3.5)	1.6 (2.3)	0.6 (1.5)	1.5 (8.2)	-0.9 (1.1)	-1.4 (2.6)
All selected occupations surveyed in the private sector	0.8 (3.4)	1.4 (3.6)	0.9 (1.7)	0.7 (1.6)	0.2 (6.9)	-0.8 (1.2)	-0.9 (3.1)

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

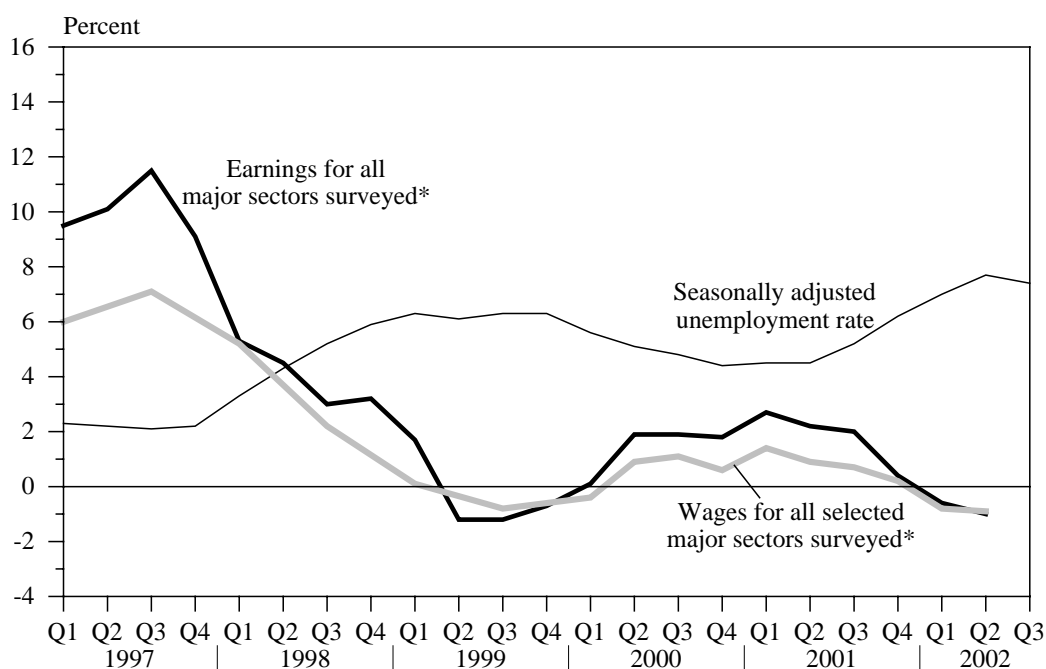
Also see Note (a) to Table 5.18.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



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

5.24 Overall wage rates in the *construction sector* rose by 1.6% in money terms in the second quarter of 2002 over a year earlier, following a decrease of 0.2% in the first quarter. Yet some job categories, including painters, plumbers, plasterers and fitters, still recorded decreases in wage rates, by 0.7 - 3.6% in money terms in the second quarter of 2002 over a year earlier. On the other hand, wages for truck drivers, electricians (wiremen) and plant operators rose by 1.3 - 2.8% in money terms, and wages for concretors/bricklayers/drainlayers, steelbenders, and carpenters and joiners went up even more, by 3.0 - 5.2% in money terms. Netting out the decline in consumer prices as reflected by the CPI(A), overall construction wages were higher by 5.3% in real terms in the second quarter of 2002 than a year earlier, distinctly up from the 2.6% increase in the first quarter.

/Table 5.20

Table 5.20**Construction wage rates by selected job category
(year-on-year rate of change (%))**

	<u>Annual</u>	<u>2001</u>				<u>2002</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Concretors/bricklayers/ drainlayers	-1.1	3.3	-2.7	-2.0	-2.7	-0.2	3.0
Steelbenders	-1.6	0.6	-2.1	-2.8	-2.1	1.0	3.1
Carpenters and joiners	-4.3	-0.7	-6.8	-5.3	-4.2	-1.5	5.2
Plumbers	5.3	11.1	9.2	4.5	-2.8	-3.8	-2.1
Fitters	2.8	1.4	4.0	2.3	3.2	2.6	-0.7
Plasterers	3.7	10.8	9.2	1.1	-5.2	-3.6	-1.9
Painters	4.9	3.8	7.2	6.0	2.8	-2.1	-3.6
Electricians (wiremen)	0.8	-1.3	-0.4	2.9	1.8	3.3	2.7
Plant operators	2.3	2.6	2.2	2.0	2.5	3.3	2.8
Truck drivers	2.1	1.9	0.4	2.6	3.5	2.5	1.3
All job categories in the construction sector ^(a)	-0.1 (1.6)	1.5 (3.6)	-0.7 (0.4)	* (0.7)	-1.0 (1.9)	-0.2 (2.6)	1.6 (5.3)

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

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

(*) Change of less than 0.05%.

Source : Census and Statistics Department.

/5.25

5.25 Following enactment of the Public Officers Pay Adjustment Ordinance on 19 July 2002, Civil Service salaries at the directorate level and the upper pay band are adjusted downwards by 4.42%, and those at the middle and the lower pay bands by 1.64% and 1.58% respectively, as from 1 October 2002. When deciding on this pay cut, the Government has taken into consideration such relevant factors as the results of the 2001 - 02 Pay Trend Survey⁽¹³⁾, the change in the cost of living, the state of the economy and the Government's budgetary situation. As is usual with the pay adjustments, salary increments on the pay scales have been netted out. In September 2002, the Government set up a working group comprising both the official and the staff sides of the Central Consultative Councils and the major service-wide staff unions to discuss the 2003 Civil Service pay adjustment and related issues.

Notes :

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

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

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

/In

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

- (3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.
- (4) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (5) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (6) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.
- (9) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.

/(10)

- (10) Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (11) In his 2002/03 Budget, the Financial Secretary announced that the Government would stringently contain the growth of the Civil Service in all ranks, and should be able to attain the target of reducing the Civil Service establishment to around 181 000 by March 2003. Also, it would review the demand for services and its priorities for deployment of resources, and strive to meet additional service needs with the resources released through streamlining procedures, simplifying structures and economising on manpower.
- (12) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for labour earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for labour wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (13) The results of the 2001 - 02 Pay Trend Survey covering some 91 private sector firms, as conducted for the period 2 April 2001 to 1 April 2002, were released in May 2002. These results indicated that salaries for the upper, middle and lower pay bands fell by 3.39%, 0.60% and 0.79% respectively in money terms over that period.

CHAPTER 6 : PRICES

Consumer prices

6.1 By the third quarter of 2002, overall consumer prices had stayed on a downtrend for almost four years, and the decline had also widened for four quarters in a row. Domestically, subdued demand conditions and intensified market competition led retailers into larger price cuts and other concessions on their goods and services in order to promote sales. Also relevant in keeping local prices down were further falls in property rentals and labour wages. Meanwhile, the downward effect from the relief measures as announced in the 2002-03 Budget remained. Yet externally, import prices showed a narrowed decrease, in tandem with a rebound in world commodity prices and possibly also with some lagged effect emerging from the earlier weakening in the US dollar. This suggested that the recent accentuated decline in consumer prices was more domestically oriented.

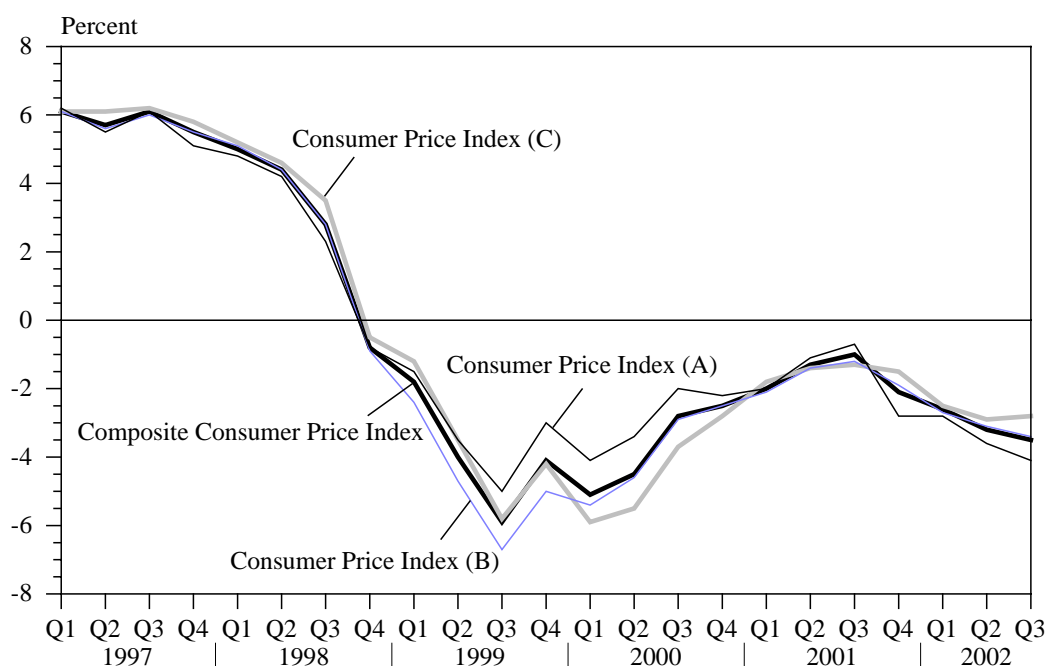
6.2 On a year-on-year comparison, the *Composite Consumer Price Index*⁽¹⁾ went down by 3.5% in the third quarter of 2002, further enlarged from the 3.2% fall in the second quarter. To a large extent, this was attributable to further softening in private housing rentals, as well as in the prices of foodstuffs such as fresh meat and vegetables and of miscellaneous services such as mobile phone and other telecommunications services. Also, the additional rates concession⁽²⁾ and the waiver of water and sewage charges⁽³⁾ implemented by the Government as from April continued to carry downward effect. For the first nine months of 2002 as a whole, the Composite CPI was lower by 3.1%, nearly double the 1.6% decline in 2001. Nevertheless, after netting out the special effects of the Government's relief measures, the year-on-year decrease in the Composite CPI widened only modestly between the two periods.

/6.3

6.3 Analysed by sub-index and on a year-on-year comparison, the CPI(A) and CPI(B) slid by 4.1% and 3.4% respectively in the third quarter of 2002, exceeding the declines of 3.6% and 3.1% in the second quarter. Yet for the CPI(C), the decrease narrowed slightly, to 2.8% in the third quarter of 2002, from 2.9% in the second quarter. For the first nine months of 2002 as a whole, these three sub-indices dropped by 3.5%, 3.1% and 2.7% respectively, again larger than the falls of 1.7%, 1.6% and 1.5% in 2001. Nevertheless, after discounting the special effects of the Government's relief measures, there was likewise a lesser widening in the year-on-year decreases in these three sub-indices between the two periods.

Diagram 6.1

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



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

/Table 6.1

Table 6.1

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

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
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
2002	H1	-2.9	-3.2	-2.9	-2.7
	Q1-Q3	-3.1	-3.5	-3.1	-2.7
	Q1*	-2.6	-2.8	-2.7	-2.5
	Q2 [#]	-3.2	-3.6	-3.1	-2.9
	Q3	-3.5	-4.1	-3.4	-2.8
	Jan	-3.5	-3.9	-3.4	-3.2
	Feb ⁺	-2.3	-2.4	-2.3	-2.0
	Mar	-2.2	-2.0	-2.3	-2.5
	Apr	-3.1	-3.3	-3.0	-2.9
	May	-3.1	-3.5	-3.0	-2.9
	Jun	-3.3	-3.9	-3.2	-2.8
	Jul	-3.4	-4.1	-3.3	-2.7
	Aug	-3.3	-3.7	-3.2	-2.8
	Sep	-3.7	-4.2	-3.7	-3.0

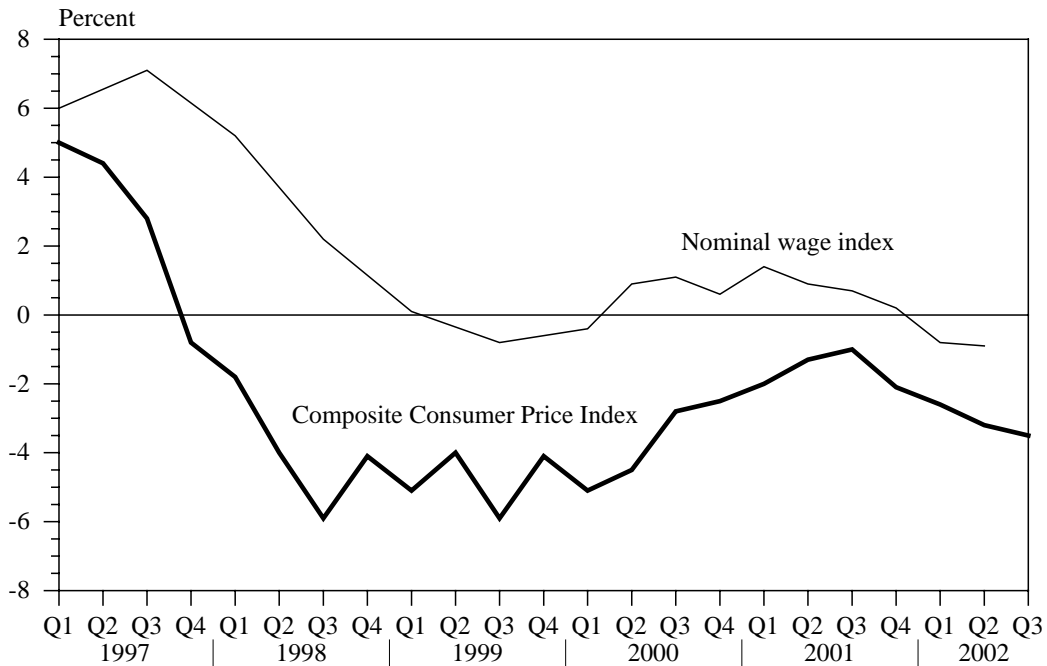
- Notes : (*) The enlarged year-on-year decline observed for most of the CPIs in the first quarter of 2002 was primarily due to the rates concession granted by the Government as from January 2002. This measure had the effect of lowering the Composite CPI by 0.9 of a percentage point in that quarter. The corresponding dampening effects were 1.2 percentage points for the CPI(A), 1.0 percentage point for the CPI(B), and 0.7 of a percentage point for the CPI(C). The one-off rebate of electricity charges granted by a power company in January and February 2002 had only minor downward effect on the year-on-year comparison, due to the offsetting influence of a similar rebate in February and March 2001.
- (#) The further widening in year-on-year declines in the CPIs in the second quarter of 2002 was due in part to the waiver of water and sewage charges as well as the additional rates concession granted by the Government as from April 2002. These measures had the effect of lowering the Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.4, 0.5, 0.4 and 0.5 of a percentage point respectively.
- (+) The narrowed decline in the CPIs in February than in January 2002 was attributable in part to the difference in timing of the Lunar New Year Festival, which occurred in February this year but in January last year. As consumer prices tended to be boosted in the sales period near the Festival and eased shortly afterwards, this difference in timing had led to a larger year-on-year decline in consumer prices in January 2002, but a smaller year-on-year decline in February 2002.

/Diagram 6.2

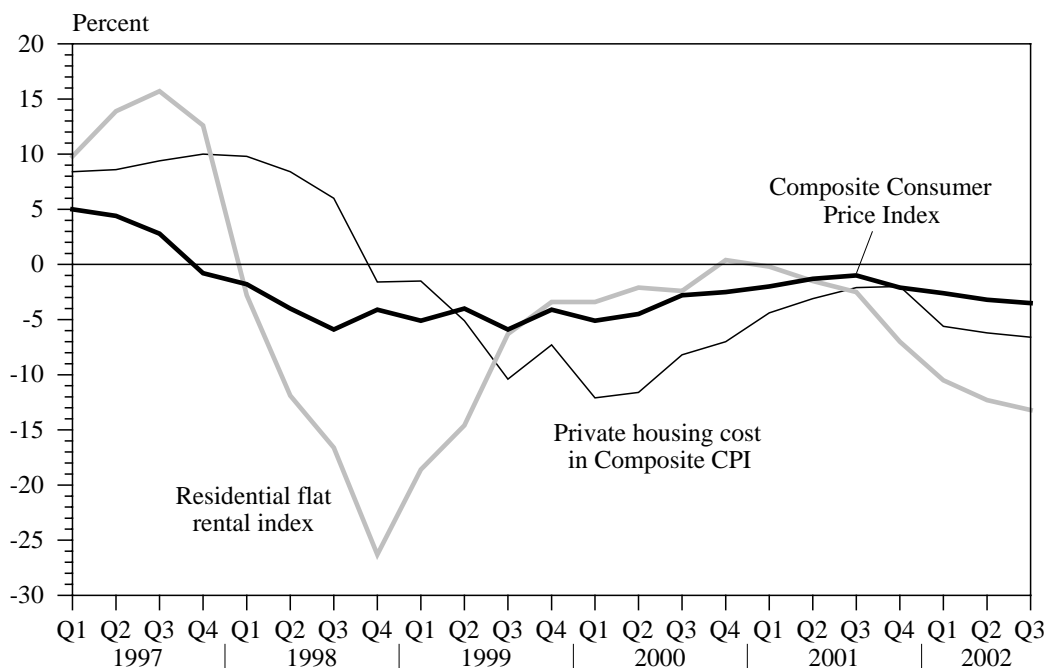
Diagram 6.2

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

(a) Compared with labour wages



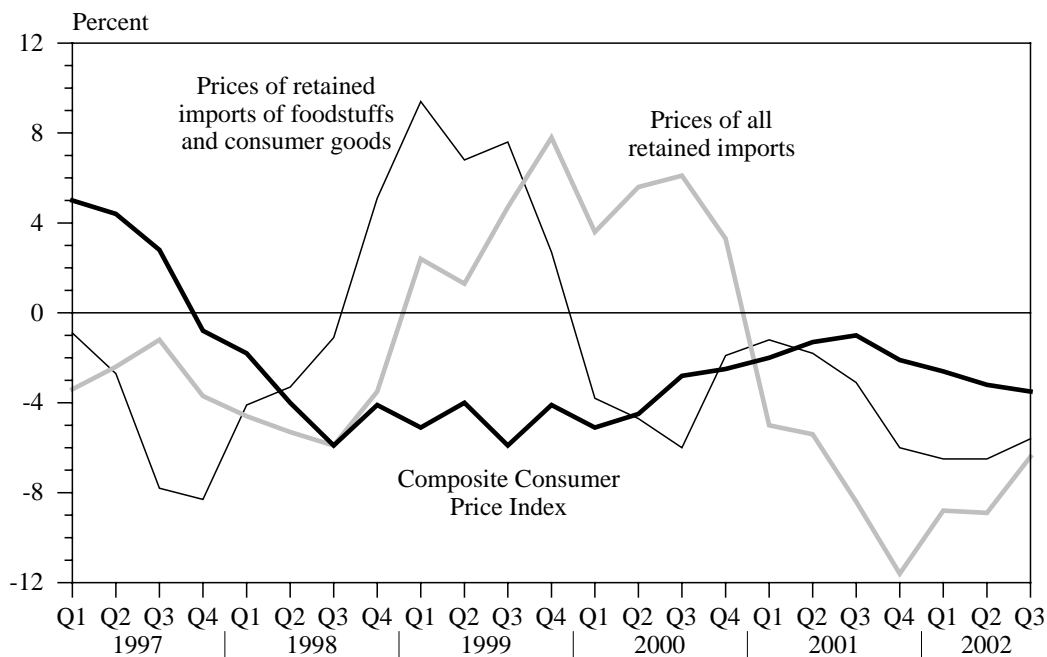
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with prices of retained imports



Note : See the footnote to Diagram 6.1.

6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI moved lower by 0.7% in the third quarter of 2002, slightly larger than the 0.6% decline in the second quarter. The same movement was observed for both the seasonally adjusted CPI(A) and CPI(B) in these two quarters. As to the seasonally adjusted CPI(C), there was some narrowing in decrease, to 0.5% in the third quarter, from 0.7% in the second quarter.

/Table 6.2

Table 6.2

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

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
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
2002	Q1 ⁺	-1.1	-0.6	-1.4	-1.3
	Q2 [@]	-0.6	-0.6	-0.6	-0.7
	Q3	-0.7	-0.7	-0.7	-0.5

Notes : (#) The enlarged quarter-to-quarter declines in the seasonally adjusted Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2001 were mainly due to the waiver of public housing rentals in December 2001. This had the effect of lowering the seasonally adjusted Composite CPI, CPI(A) and CPI(B) by 0.7 of a percentage point, 1.7 percentage points, and 0.3 of a percentage point respectively in the fourth quarter of 2001. Yet the seasonally adjusted CPI(C) was unaffected by such a measure.

(+) The further quarter-to-quarter declines in the seasonally adjusted CPIs in the first quarter of 2002 occurred notwithstanding dissipation of the effect of waiver of public housing rentals. This was mainly due to the rates concession for 2002, and the one-off rebate of electricity charges granted by a power company in January and February 2002. The former factor had the effect of lowering the seasonally adjusted Composite CPI, CPI(A), CPI(B) and CPI(C) by 0.9 of a percentage point, 1.2 percentage points, 0.9 of a percentage point and 0.7 of a percentage point respectively in the first quarter of 2002. For the latter factor, the corresponding dampening effects were 0.3, 0.5, 0.2 and 0.1 of a percentage point in the same quarter.

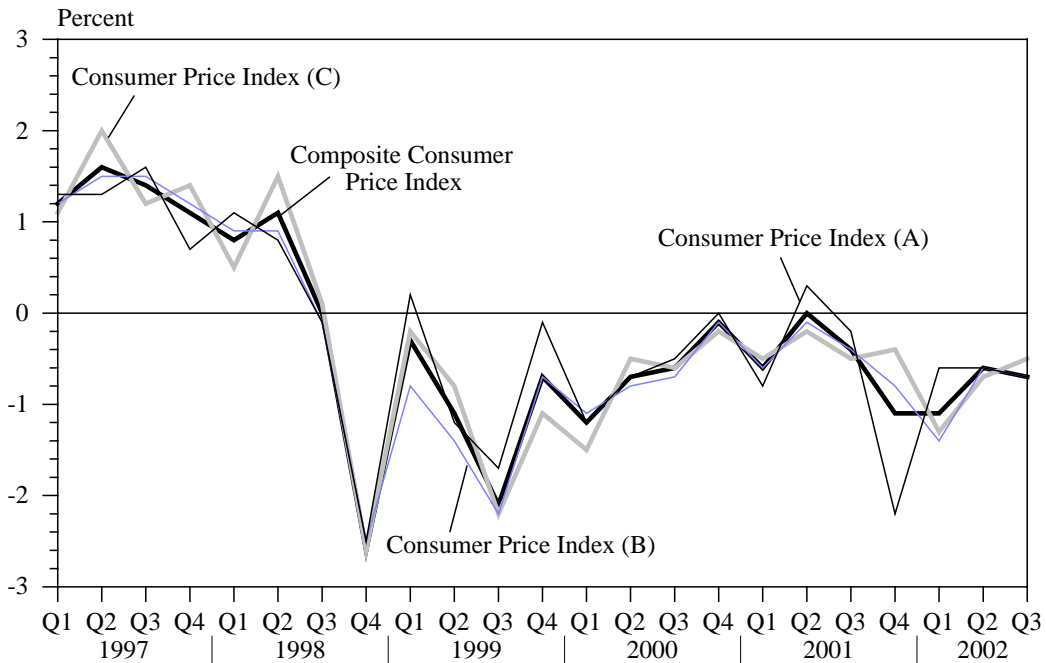
(@) The quarter-to-quarter declines in the seasonally adjusted CPIs narrowed in the second quarter of 2002, as there was little further dampening effect from the rates concession given that the base of comparison in the first quarter was already lowered by that measure. Also, the effect of the one-off rebate of electricity charges granted by a power company in the first two months of 2002 had dissipated.

(*) Change of less than 0.05%.

/Diagram 6.3

Diagram 6.3

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



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

/6.5

6.5 Analysed by major *commodity group* in the Composite CPI and on a year-on-year comparison, the prices of basic foodstuffs showed a larger fall, from 3.8% in the second quarter of 2002 to 4.0% in the third quarter. This was partly attributable to a renewed decline in the prices of live poultry. Also relevant was a slash in the prices of fresh meat at some of the major supermarkets. Charges for meals at restaurants also had a larger decline, from 1.4% to 1.8%, amidst keen competition in the business and lower cost of foodstuffs. Private housing cost had its decrease steepened from 6.2% to 6.6%, upon continued easing in rentals for private residential flats⁽⁴⁾. Public housing cost was down by 10.4% in both quarters, reflecting almost entirely the effect of the rates concession. As to the prices of miscellaneous services, the decline widened from 2.2% to 3.0%, largely caused by downward adjustment in the charges for mobile phone and other telecommunications services. On the other hand, electricity, gas and water charges had a moderated fall, from 8.7% to 8.4%, mainly due to a narrowed decline in the prices of liquefied petroleum gas. So did the prices of durable goods, from 6.2% to 5.5%, due to reduced decline in the prices of computers and telecommunications equipment. As to the cost of transport, the decrease narrowed only marginally, from 0.5% to 0.4%. By contrast, the prices of alcoholic drinks and tobacco showed an enlarged rise, from 2.0% in the second quarter of 2002 to 2.7% in the third quarter, owing to a lift in the prices of certain beer and cigarettes. The prices of clothing and footwear and of miscellaneous goods, though also up, had smaller increases, from 2.4% and 2.3% respectively to 1.4% and 2.0%.

6.6 For the first nine months of 2002, private housing cost sank by 6.1% over a year earlier, and public housing cost even more by 10.5%. Both were dragged down by the two rounds of rates concession implemented as from January and April of this year. For private housing cost, there was also dampening effect from the continued softening in rentals for private residential flats. Electricity, gas and water charges dipped by 6.9%, largely attributable to the waiver of water and sewage charges effective from April. The prices of durable goods were down by 6.3%, on account of lower prices of computers and telecommunications equipment. The prices of basic foodstuffs, prices of miscellaneous services, charges for meals at restaurants, and cost of transport also fell, by 3.3%, 2.2%, 1.4% and 0.5% respectively. On the other hand, the prices of alcoholic drinks and tobacco went up by 3.0%, due to higher prices of beer and cigarettes as well as increased duty rate for wine as from March⁽⁵⁾. The prices of miscellaneous goods rose by 1.6%, upon higher prices of jewellery and textbooks. The prices of clothing and footwear were lifted by 1.4%, owing to a rise in the prices of outerclothing.

/Table 6.3

Table 6.3**Consumer Price Indices by component
(year-on-year rate of change (%))****(a) In the second and third quarters of 2002**

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2002 Q2	2002 Q3	2002 Q2	2002 Q3	2002 Q2	2002 Q3	2002 Q2	2002 Q3
Food	-2.3	-2.7	-2.4	-3.0	-2.3	-2.7	-2.4	-2.0
<i>Meals bought away from home</i>	-1.4	-1.8	-1.6	-2.0	-1.8	-2.3	-0.5	-0.4
<i>Other foodstuffs</i>	-3.8	-4.0	-3.5	-4.2	-3.2	-3.6	-5.5	-4.7
Housing [#]	-6.1	-6.3	-6.7	-7.2	-6.0	-6.2	-5.6	-5.6
<i>Private dwellings</i>	-6.2	-6.6	-6.4	-7.1	-6.3	-6.7	-6.0	-6.0
<i>Public dwellings</i>	-10.4	-10.4	-10.4	-10.4	-10.4	-10.4	--	--
Electricity, gas and water	-8.7	-8.4	-10.0	-9.8	-8.3	-8.2	-6.5	-6.4
Alcoholic drinks and tobacco	2.0	2.7	2.1	2.6	2.0	2.7	1.8	2.7
Clothing and footwear	2.4	1.4	4.4	3.0	3.7	2.1	-1.1	-1.2
Durable goods	-6.2	-5.5	-6.0	-5.4	-6.7	-5.7	-5.8	-5.4
Miscellaneous goods	2.3	2.0	1.5	1.1	1.9	1.6	3.6	3.5
Transport	-0.5	-0.4	-0.6	-0.4	-0.4	-0.2	-0.8	-0.8
Miscellaneous services	-2.2	-3.0	-3.2	-4.4	-2.2	-3.0	-1.4	-1.8
All items	-3.2	-3.5	-3.6	-4.1	-3.1	-3.4	-2.9	-2.8

(b) In 2001 and the first nine months of 2002

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2001	2002 Jan-Sep	2001	2002 Jan-Sep	2001	2002 Jan-Sep	2001	2002 Jan-Sep
Food	-0.8	-2.1	-1.0	-2.2	-1.0	-2.1	-0.2	-1.8
<i>Meals bought away from home</i>	-0.3	-1.4	-0.5	-1.5	-0.6	-1.8	0.8	-0.3
<i>Other foodstuffs</i>	-1.7	-3.3	-1.8	-3.1	-1.6	-2.8	-1.9	-4.5
Housing [#]	-3.1	-6.0	-3.6	-6.8	-2.8	-5.9	-2.8	-5.3
<i>Private dwellings</i>	-2.9	-6.1	-2.9	-6.4	-2.9	-6.2	-3.1	-5.7
<i>Public dwellings</i>	-8.3	-10.5	-8.2	-10.5	-8.3	-10.5	--	--
Electricity, gas and water	-1.9	-6.9	-2.7	-8.1	-1.7	-6.6	-0.7	-5.0
Alcoholic drinks and tobacco	3.3	3.0	3.6	3.1	3.4	3.1	1.6	2.4
Clothing and footwear	-4.6	1.4	-4.3	3.6	-4.3	2.6	-5.2	-2.6
Durable goods	-7.1	-6.3	-6.9	-6.0	-7.7	-6.7	-6.5	-6.2
Miscellaneous goods	1.3	1.6	2.7	1.1	1.2	1.3	0.1	2.5
Transport	0.4	-0.5	0.5	-0.4	0.3	-0.3	0.3	-0.8
Miscellaneous services	0.5	-2.2	0.6	-3.2	0.4	-2.2	0.2	-1.3
All items	-1.6	-3.1	-1.7	-3.5	-1.6	-3.1	-1.5	-2.7

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

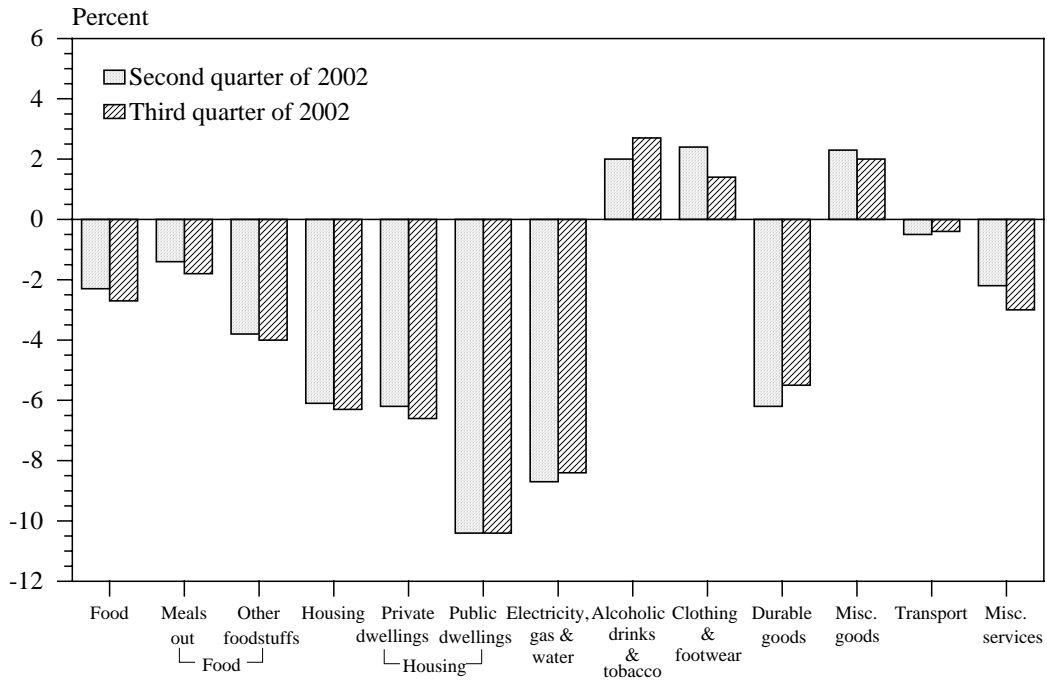
(--) Not applicable.

/Diagram 6.4

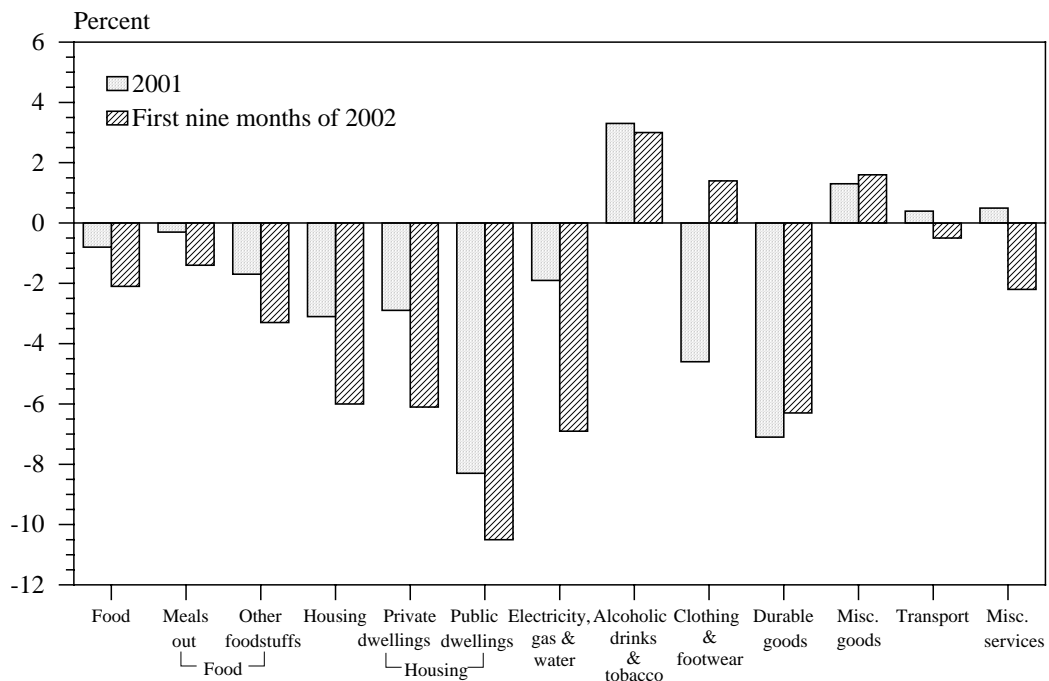
Diagram 6.4

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

(a) In the second and third quarters of 2002



(b) In 2001 and the first nine months of 2002

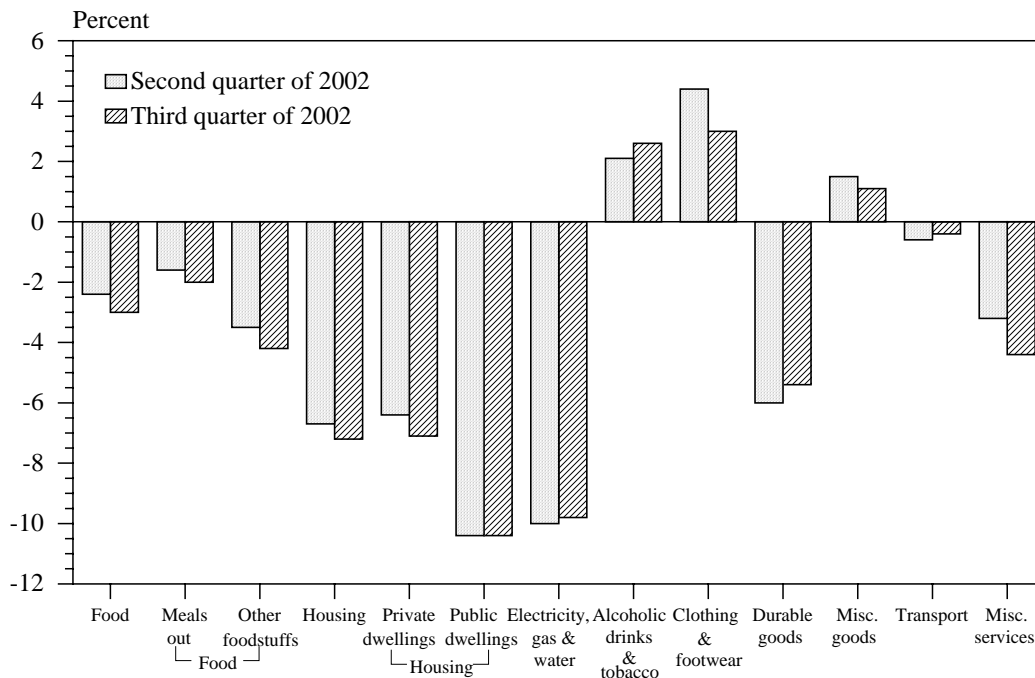


/Diagram 6.5

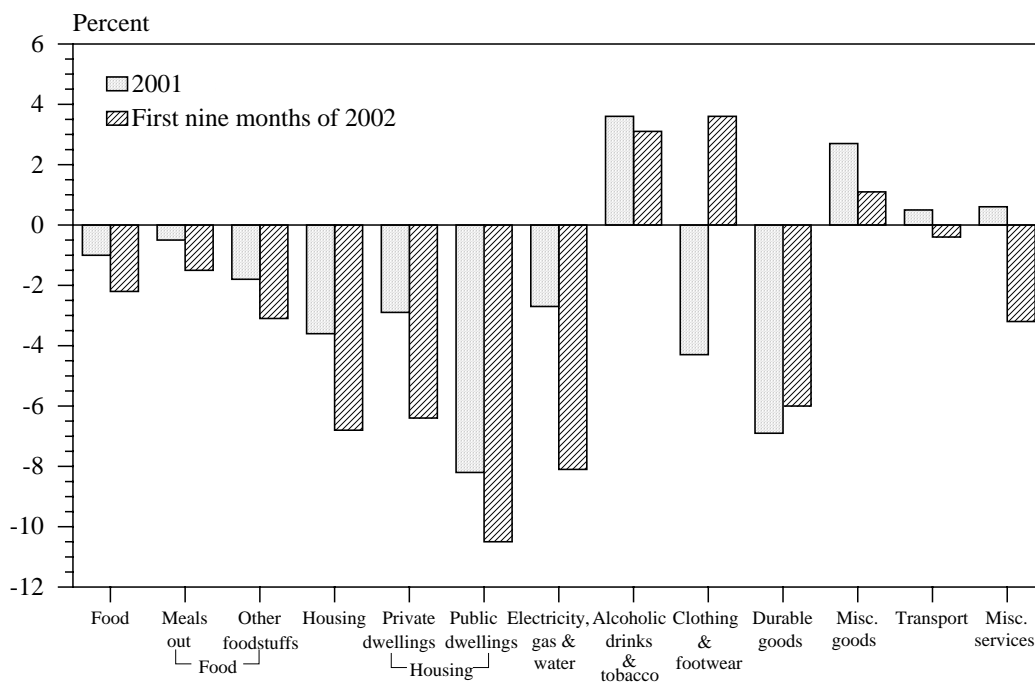
Diagram 6.5

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

(a) In the second and third quarters of 2002



(b) In 2001 and the first nine months of 2002



/Import

Import prices

6.7 The *prices of imports of goods*, as measured by the unit value index of imports of goods⁽⁶⁾, fell by 3.6% in the third quarter of 2002 from a year earlier, smaller than the 4.6% decrease in the second quarter. This was in line with the rebound in world commodity prices in the more recent months. For crude oil price in particular, the price of North Sea Brent soared to a high of around US\$29 per barrel by the end of September, amidst the Iraq war stress. Also, there could be some lifting effect on the import prices emerging from the earlier weakening in the US dollar. Yet for the first nine months of 2002 as a whole, the prices of imports of goods were still down by 4.4% from a year earlier, larger than the 3.1% decrease in 2001.

6.8 Analysed by major *source*, the recent narrowed decline in import prices occurred almost across-the-board. Specifically, the prices of imports of goods from Taiwan and Japan eased by 2.7% and 2.1% respectively in the third quarter of 2002 over a year earlier, representing a further tapering from the decreases of 4.4% and 5.4% in the second quarter. The prices of imports of goods from the United States declined by 4.6% in the third quarter of 2002 over a year earlier, also smaller than the fall of 5.6% in the second quarter. As to the prices of imports of goods from the Mainland, the year-on-year decrease stayed at 3.5% in both the second and third quarters of 2002.

/Table 6.4

Table 6.4

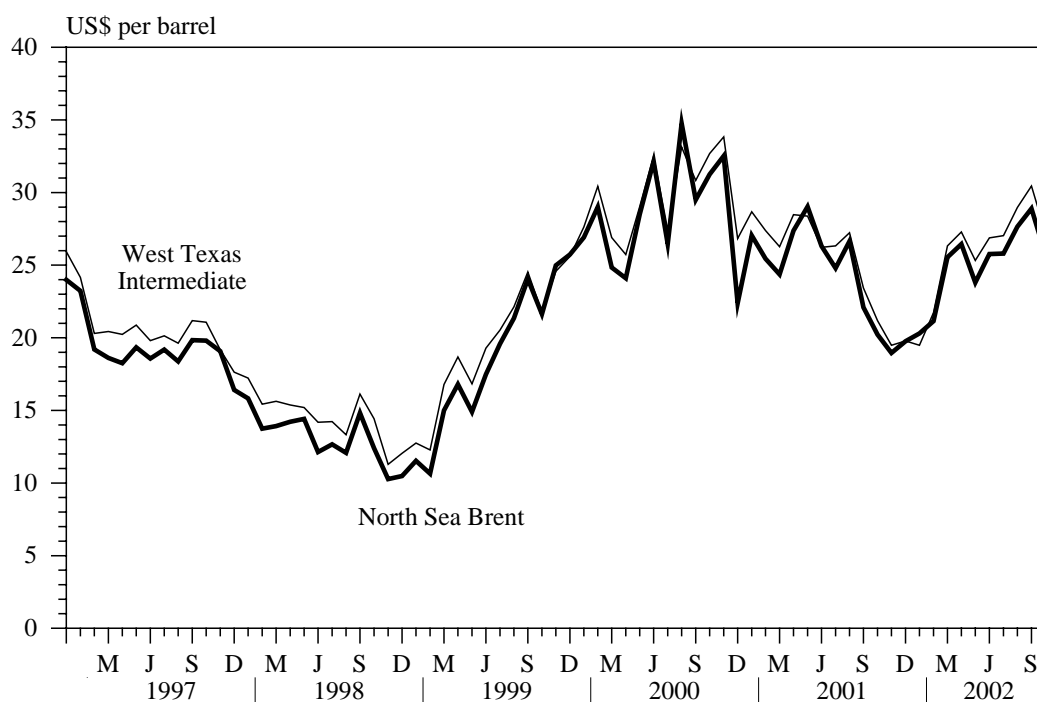
**World commodity prices
(year-on-year rate of change (%))**

		<u>Fuels</u>	<u>All non-fuel commodities</u>	<i>Of which :</i>		
				<u>Food and beverages</u>	<u>Agricultural raw materials</u>	<u>Metals</u>
2001	Annual	-14.0	-5.4	-0.1	-6.9	-9.6
	H1	-1.3	-4.7	-2.3	-6.2	-4.3
	H2	-25.4	-6.1	2.1	-7.7	-14.9
	Q1	-2.4	-4.4	-1.6	-6.1	-5.0
	Q2	-0.3	-4.8	-3.1	-6.3	-3.6
	Q3	-15.9	-4.5	5.8	-6.1	-14.8
	Q4	-35.0	-7.8	-1.4	-9.3	-14.9
2002	H1	-12.5	-3.9	2.9	-7.7	-9.1
	Q1-Q3	-6.0	-0.5	6.5	-4.0	-6.8
	Q1	-19.6	-5.9	0.4	-9.0	-11.2
	Q2	-5.6	-2.0	5.6	-6.4	-7.0
	Q3	7.7	6.6	13.6	3.9	-1.7

Source : IMF International Financial Statistics.

Diagram 6.6

Spot price of crude oil*



Note : (*) Month-end figures.

/Table 6.5

Table 6.5

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

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2001	Annual	-1.6	-4.1	-6.0	-2.2	-3.1
	H1	-1.1	-2.3	-4.5	-0.8	-2.1
	H2	-2.1	-5.9	-7.4	-3.6	-4.1
	Q1	-1.0	-1.2	-3.1	-0.4	-1.6
	Q2	-1.2	-3.3	-5.7	-1.3	-2.5
	Q3	-1.5	-5.2	-6.9	-2.8	-3.5
	Q4	-2.6	-6.6	-8.0	-4.5	-4.8
	2002	H1	-3.4	-6.1	-5.4	-5.3
	Q1-Q3	-3.5	-4.8	-4.4	-5.1	-4.4
	Q1	-3.2	-7.0	-6.4	-5.1	-4.9
	Q2	-3.5	-5.4	-4.4	-5.6	-4.6
	Q3	-3.5	-2.1	-2.7	-4.6	-3.6

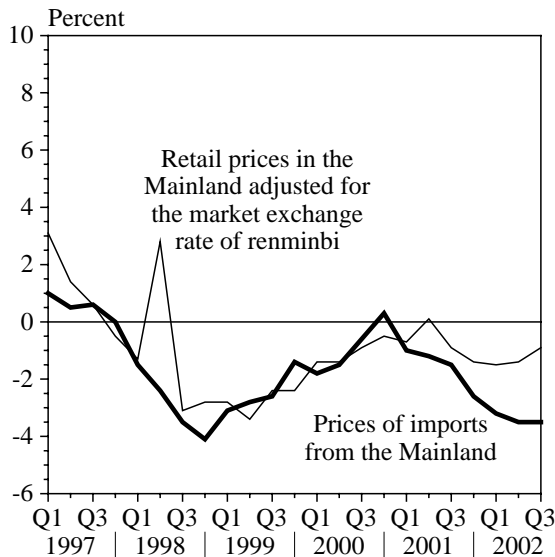
Note : From the first quarter of 2001 onwards, the year-on-year changes in import prices are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.7

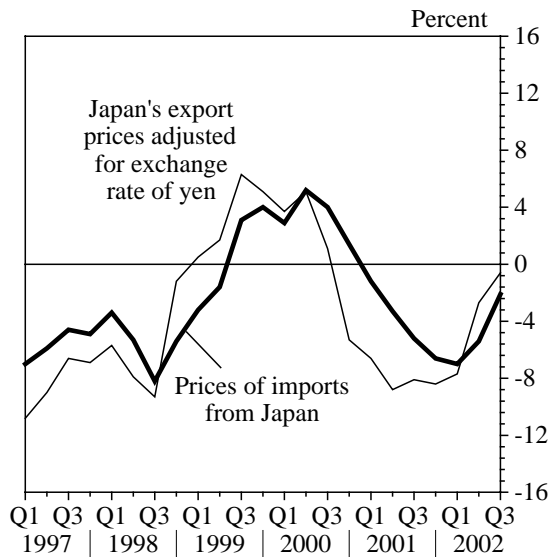
Diagram 6.7

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

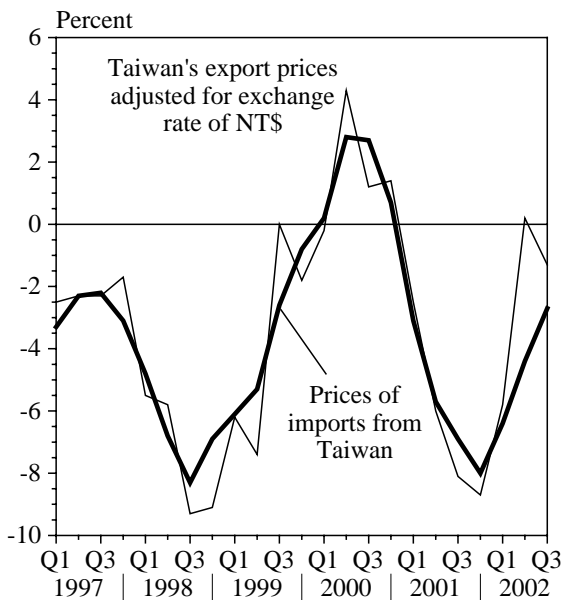
(a) For imports from the mainland of China



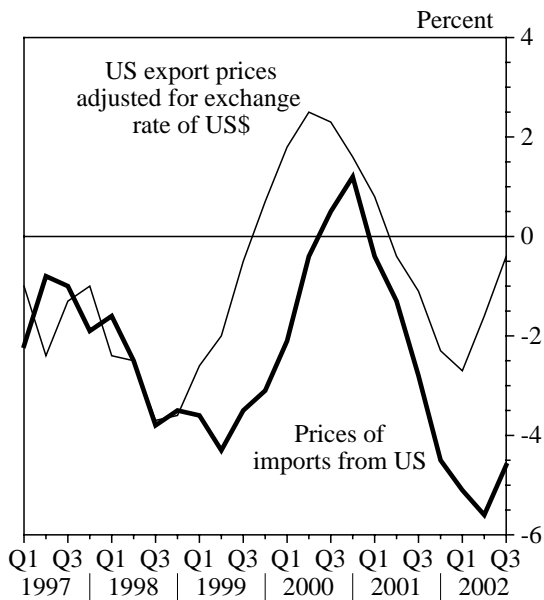
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



Note : See the footnote to Table 6.5.

6.9 The *prices of retained imports*, as measured by the unit value index of retained imports, moved down by 6.4% in the third quarter of 2002 from a year earlier, likewise narrowed from the 8.9% drop in the second quarter. Yet for the first nine months of 2002 as a whole, the decrease at 8.0% from a year earlier was still larger than that in 2001 at 7.6%. Analysed by *end-use category* and on a year-on-year comparison, the prices of retained imports of fuels edged up by 0.1% in the third quarter of 2002 over a year earlier, as against a fall of 6.9% in the second quarter. The recent surge in international crude oil price mainly contributed. The prices of retained imports of consumer goods and foodstuffs recorded decelerated decreases, to 6.1% and 3.6% respectively from 6.6% and 6.2% between these two quarters. While import prices of such commodities from the Mainland showed steady declines, there were moderated falls in import prices of such commodities from most of the other sources. The prices of retained imports of raw materials and semi-manufactures were reduced more visibly, by 7.7% in the third quarter, albeit again smaller than the decrease of 11.0% in the second quarter. The continued fall was mainly due to lower import prices of materials for industrial use, especially those of textile fabric, chemicals, electronic components and paper. The prices of retained imports of capital goods dipped by 8.0% in the third quarter, with the decrease concentrated in import prices of office machinery and telecommunications equipment. This followed a 9.4% drop in the second quarter.

/Table 6.6

Table 6.6

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

		<u>Food-stuffs</u>	<u>Consumer goods</u>	<u>Fuels</u>	<u>Raw materials and semi-manufactures</u>	<u>Capital goods</u>	<u>All categories</u>
2001	Annual	-3.8	-3.1	-10.6	-8.8	-9.3	-7.6
	H1	-2.4	-1.6	1.8	-4.6	-10.7	-5.2
	H2	-5.0	-4.7	-20.6	-13.1	-8.1	-9.9
	Q1	-1.6	-1.3	*	-3.6	-11.6	-5.0
	Q2	-3.2	-1.6	3.5	-5.5	-9.9	-5.4
	Q3	-4.1	-3.1	-13.1	-10.8	-8.3	-8.4
	Q4	-6.1	-6.4	-27.9	-15.4	-8.2	-11.6
2002	H1	-6.3	-6.7	-10.7	-10.7	-8.4	-8.9
	Q1-Q3	-5.4	-6.5	-6.9	-9.9	-8.3	-8.0
	Q1	-6.5	-6.7	-15.7	-10.3	-7.5	-8.8
	Q2	-6.2	-6.6	-6.9	-11.0	-9.4	-8.9
	Q3	-3.6	-6.1	0.1	-7.7	-8.0	-6.4

Notes : See the footnote to Table 6.5.

(*) Change of less than 0.05%.

Prices of local manufacturing output

6.10 The *prices of local manufacturing output*, as measured by the respective Producer Price Index⁽⁷⁾, stayed on a downtrend, falling by 3.3% and 2.6% respectively in the first and second quarters of 2002 over a year earlier. These exceeded the 1.6% fall in 2001. Analysed by major *industry group*, output prices in the consumer electrical and electronic products and the machinery and equipment industries dropped by 5.7% and 5.2% respectively in the second quarter of 2002 over a year earlier. This was followed by output prices in the wearing apparel industry (down by 4.6%), the fabricated metal products industry (2.5%), the textiles industry (1.8%), the paper products and printing industry (1.7%), and the plastic products industry (1.5%).

/Table 6.7

Table 6.7

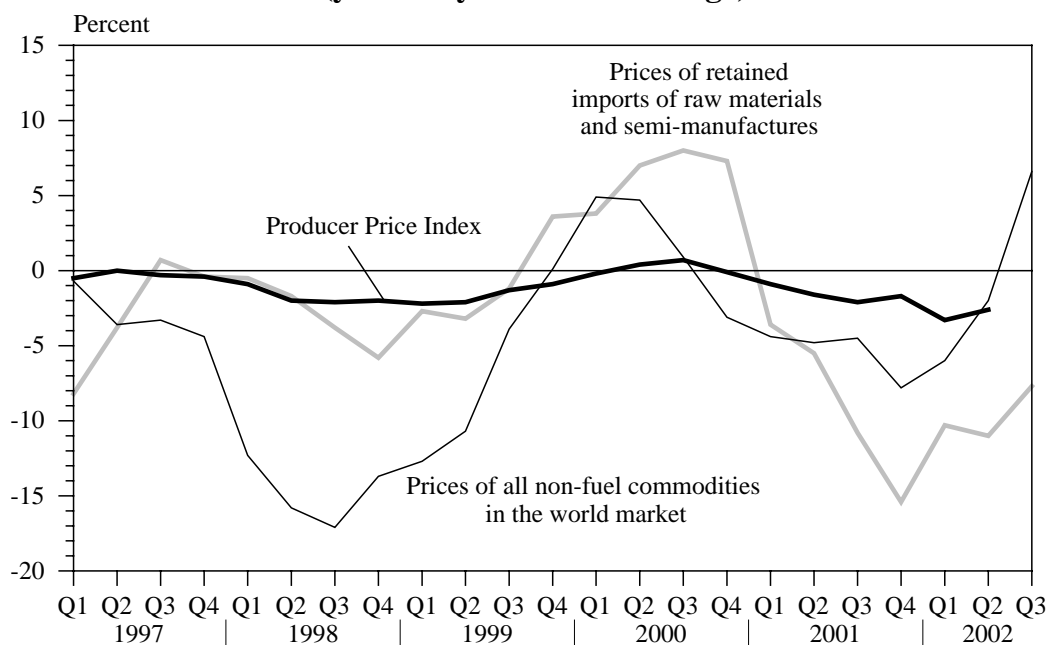
**Producer Price Index for the local manufacturing sector
(year-on-year rate of change (%))**

<u>Industry group</u>	<u>Annual</u>	<u>2001</u>				<u>2002</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Wearing apparel	-0.2	0.4	0.1	-0.5	-1.0	-3.2	-4.6
Textiles	-1.2	*	-1.1	-1.7	-2.1	-1.8	-1.8
Plastic products	-0.3	-0.6	-2.3	0.3	1.6	-1.7	-1.5
Consumer electrical and electronic products	-1.9	-2.1	-2.1	-1.6	-1.6	-4.4	-5.7
Machinery and equipment	-2.8	-3.3	-2.2	-4.2	-1.4	-3.8	-5.2
Fabricated metal products	-1.8	1.0	-0.4	-3.9	-3.8	-3.1	-2.5
Paper products and printing	-0.3	-0.9	-0.3	-0.2	0.1	-2.6	-1.7
Overall manufacturing	-1.6	-0.9	-1.6	-2.1	-1.7	-3.3	-2.6

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

Diagram 6.8

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



/Prices

Prices of output in selected service sectors

6.11 The *prices of output in some selected service sectors*, as measured by the respective Producer Price Indices, continued to show a broad decrease. Output prices in telecommunications plummeted by 24.9% in the second quarter of 2002 over a year earlier, further enlarged from the 21.7% fall in the first quarter. This was mainly attributable to a marked reduction in charges for international calls and Internet services, as well as in the prices of mobile phone sets and related items. Output prices in maritime transport dropped by 5.5% in the second quarter, largely due to lower charges for sea cargo forwarding services. Output prices in hotels and boarding houses dipped by 4.4%, upon a further cut in hotel room tariffs. Output prices in air transport had a further decline by 3.4%, mainly due to lower air passenger fares. Output prices in land transport sank by 2.0%, on account of continued cost concessions by some local freight operators. On the other hand, output prices in miscellaneous communications services edged up by 0.1%.

Table 6.8

Producer Price Indices for selected service sectors⁺ (year-on-year rate of change (%))

	<u>Annual</u>	<u>2001</u>				<u>2002</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>Selected service sector</u>							
Hotels and boarding houses	1.0	5.8	5.2	1.1	-7.1	-5.8	-4.4
Land transport	-0.5	-1.0	-0.3	-0.2	-0.6	-1.4	-2.0
Maritime transport	-5.6	-0.2	-3.3	-9.3	-9.5	-9.4	-5.5
Air transport	-6.0	-2.3	-4.9	-8.8	-7.8	-5.5	-3.4
Telecommunications	-8.4	-5.5	-1.3	-12.9	-14.5	-21.7	-24.9
Miscellaneous communications services	1.3	2.8	1.2	0.7	0.5	0.4	0.1

Note: (+) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the producers often do not charge their customers explicitly.

/Export

Export prices

6.12 Export prices likewise continued on a decline, amidst intensified competition in the overseas markets. The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, were lower by 2.4% in the third quarter of 2002 from a year earlier, after dropping by 2.7% in the second quarter. For the first nine months of 2002 as a whole, there was a fall of 2.8% from a year earlier, larger than the 2.3% decrease in 2001. Within this total, the prices of domestic exports fell by 3.9%, while the prices of re-exports went down by 2.7%.

6.13 Analysed by major *market*, the prices of total exports of goods to the United States were 3.2% lower in the third quarter of 2002 than a year earlier, after a decrease of 2.4% in the second quarter. This was in line with continued softening in the prices of goods imported by the United States. The prices of total exports of goods to Singapore were down by 3.1% in the third quarter, following a 3.5% drop in the second quarter. A further price easing in the exports of semi-conductors and other electronic parts to that destination largely contributed. The prices of total exports of goods to Japan fell by 2.7% in the third quarter, after a 3.4% decrease in the second quarter, owing to the sluggish demand there. The prices of total exports of goods to Germany and the United Kingdom also declined, by 2.8% and 2.3% respectively both in the second and third quarters, while the prices of total exports of goods to the Mainland had narrowed decline, from 2.8% to 1.6% between the two quarters.

/Table 6.9

Table 6.9

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

		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2001	Annual	-0.4	-3.3	-2.3	-2.1	-1.6	-4.0	-2.3
	H1	-0.1	-2.4	-1.9	-1.2	-1.2	-2.9	-1.7
	H2	-0.6	-4.2	-2.6	-2.9	-2.1	-5.1	-2.8
	Q1	0.1	-1.3	-1.9	-0.9	-0.8	-2.0	-1.1
	Q2	-0.3	-3.3	-2.0	-1.6	-1.5	-3.9	-2.3
	Q3	-0.4	-4.1	-2.6	-2.3	-1.4	-4.9	-2.6
	Q4	-0.9	-4.4	-2.6	-3.5	-2.7	-5.4	-3.0
2002	H1	-2.2	-3.5	-3.4	-3.0	-3.5	-4.2	-3.1
	Q1-Q3	-2.6	-2.8	-3.2	-2.7	-3.2	-3.9	-2.8
	Q1	-1.9	-4.2	-4.0	-3.6	-3.5	-4.8	-3.4
	Q2	-2.4	-2.8	-2.8	-2.3	-3.4	-3.5	-2.7
	Q3	-3.2	-1.6	-2.8	-2.3	-2.7	-3.1	-2.4

Note : From the first quarter of 2001 onwards, the year-on-year changes in export prices are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.9

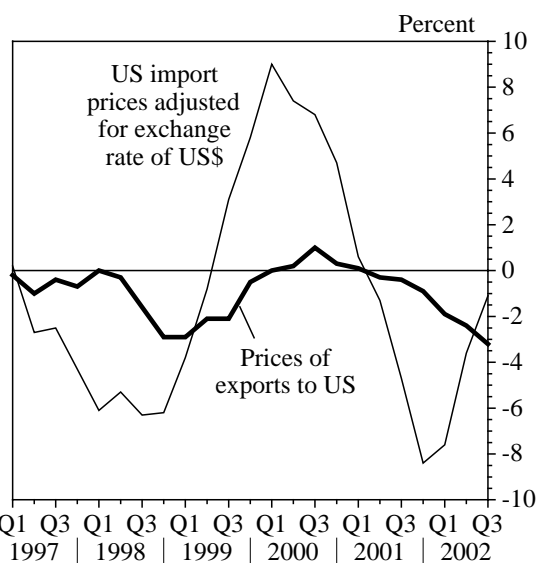
Diagram 6.9

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

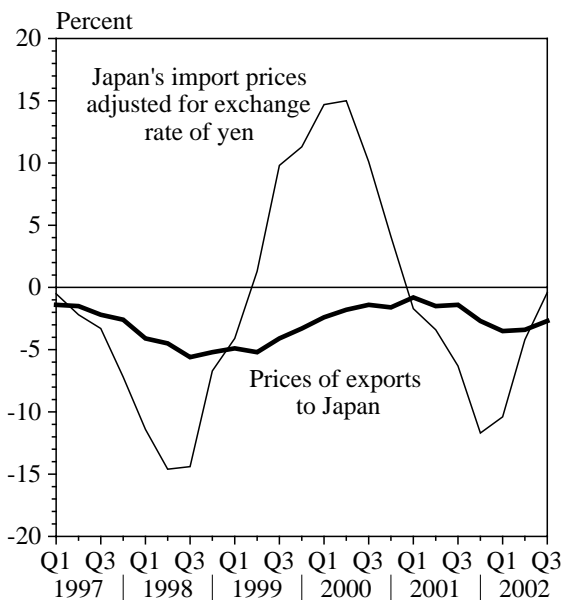
**(a) For exports to the
mainland of China**



(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



Note : See the footnote to Table 6.9.

/Terms

Terms of trade

6.14 As the prices of imports of goods fell by more than the prices of total exports of goods, the terms of trade in goods⁽⁸⁾ for Hong Kong picked up, by 1.2% in the third quarter of 2002 over a year earlier. This followed a rise of 2.0% in the second quarter. For the first nine months of 2002 as a whole, there was an improvement of 1.6% over a year earlier.

Table 6.10

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (2000 = 100)	<u>Year-on-year rate of change</u> (%)
2001	Annual	100.9	0.9
	H1	100.5	0.4
	H2	101.2	1.4
	Q1	100.6	0.5
	Q2	100.5	0.3
	Q3	100.8	0.9
	Q4	101.7	1.8
	2002	H1	102.3
Q1-Q3		102.2	1.6
Q1		102.2	1.6
Q2		102.5	2.0
Q3		102.1	1.2

Note : From the first quarter of 2001 onwards, the year-on-year changes in terms of trade in goods are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/Diagram 6.10

Diagram 6.10

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

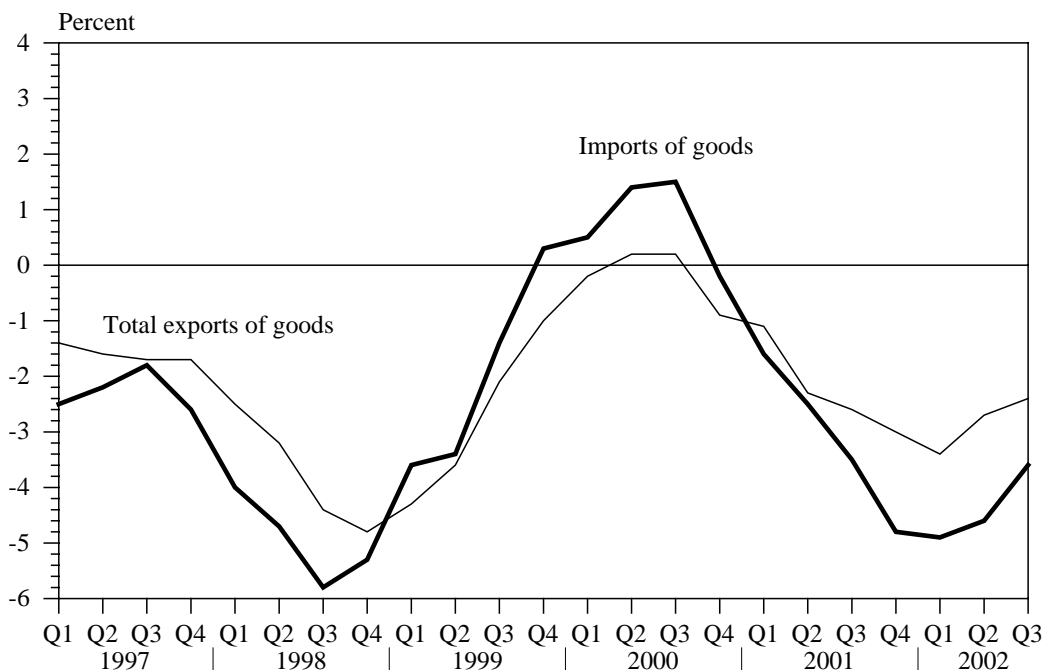
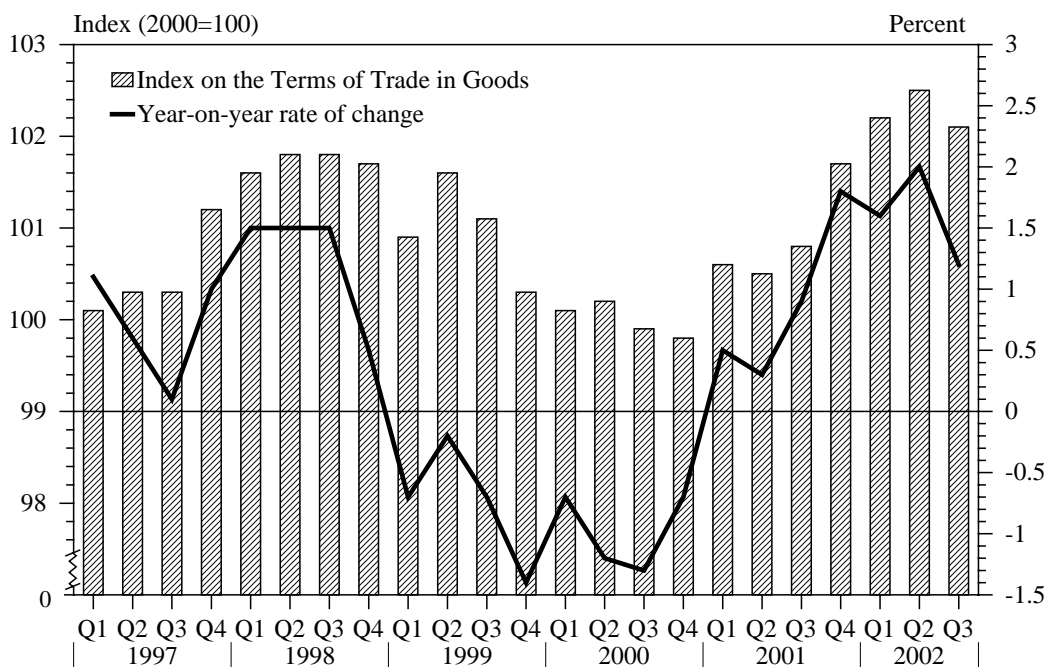


Diagram 6.11

Terms of trade in goods



Note : From the first quarter of 2001 onwards, the year-on-year changes in import prices, export prices and terms of trade in goods are computed from the new 2000-based unit value indices. Before then, the year-on-year changes are computed from the old 1990-based series. Splicing has been applied to the indices to maintain continuity.

/GDP

GDP deflator

6.15 The *GDP deflator*⁽⁹⁾, as a broad measure of overall price change in the economy, had a widened decline, by 3.0% in the third quarter of 2002 over a year earlier, after a 2.1% decrease in the second quarter⁽¹⁰⁾. Within the GDP deflator, the *domestic demand deflator* had an enlarged year-on-year decline of 4.4% in the third quarter of 2002. This was attributable to a larger fall in the price deflators for private consumption expenditure, for gross domestic fixed capital formation, and for government consumption expenditure. Yet the *total final demand deflator* had a lesser year-on-year decline in the third quarter of 2002, by 3.3%. This was due to a smaller decrease in the price deflators for exports of goods and services. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator fell by 1.1% in the third quarter of 2002, after a decrease of 1.4% in the second quarter.

/Table 6.11

Table 6.11**GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>2000</u> [#]	<u>2001</u> [#]	<u>2001</u>				<u>2002</u>		
			<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> ⁺
Private consumption expenditure	-5.1	-1.3	-1.6	-1.1	-0.8	-1.5	-3.0	-3.4	-3.6
Government consumption expenditure	-1.9	1.2	-2.1	2.5	2.3	2.3	1.8	-0.1	-0.7
Gross domestic fixed capital formation	-3.8	-4.3	-5.4	-4.6	-3.9	-3.8	-6.1	-7.5	-7.7
Total exports of goods	-0.5	-2.6	-1.2	-2.6	-2.9	-3.4	-3.8	-3.0	-2.7
Imports of goods	0.8	-3.5	-1.9	-3.0	-3.8	-5.2	-5.2	-4.9	-3.9
Exports of services	0.8	-3.9	-0.9	-3.1	-4.8	-6.3	-5.0	-3.7	-2.5
Imports of services	-0.2	-0.8	-0.3	-0.7	-1.0	-1.4	-2.0	-0.1	1.4
Gross Domestic Product	-6.2	-1.4	-2.0 <1.2>	-1.7 <-1.5>	-1.2 <-0.3>	-0.8 <-0.2>	-2.1 <-0.2>	-2.1 <-1.4>	-3.0 <-1.1>
Total final demand	-2.9	-2.4	-1.9	-2.3	-2.6	-3.1	-3.7	-3.6	-3.3
Domestic demand	-5.4	-1.8	-2.8	-1.7	-1.5	-1.6	-3.1	-4.2	-4.4

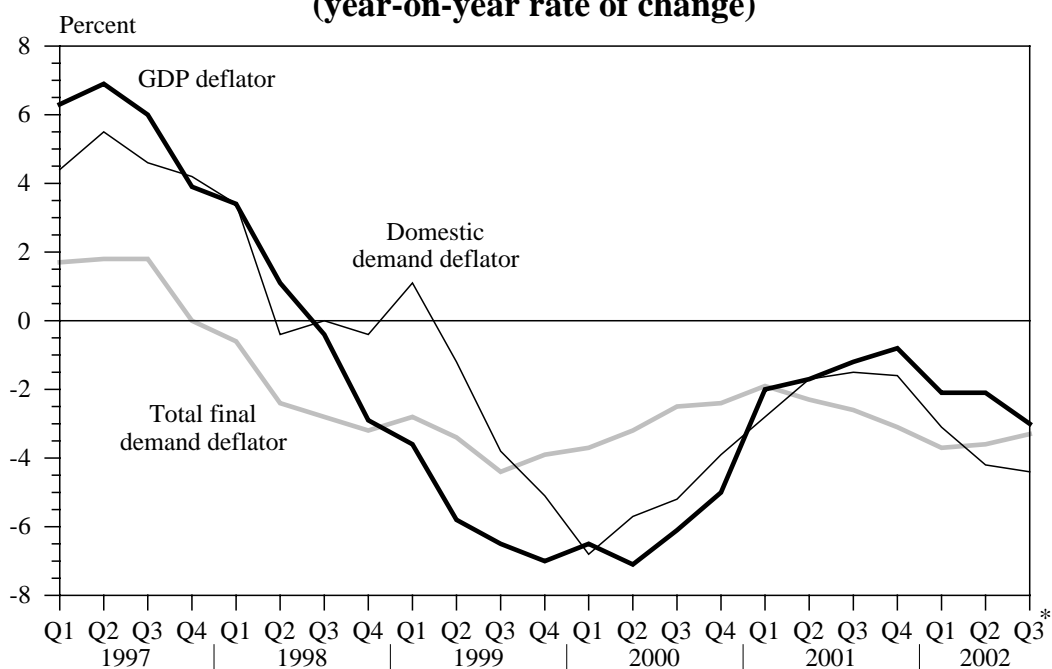
Notes : (#) Revised series incorporating the results of the technical revision to GDP as announced on 1 August 2002.

(+) Preliminary figures.

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

/Diagram 6.12

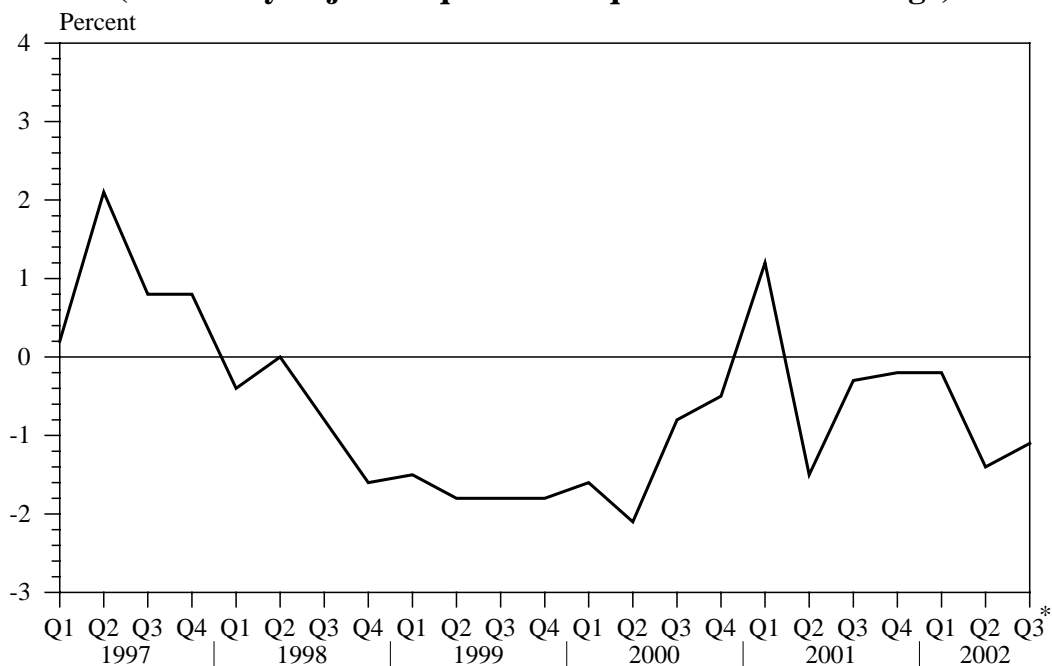
Diagram 6.12
GDP deflator, total final demand deflator
and domestic demand deflator
(year-on-year rate of change)



Notes : See the footnotes to Table 6.11.

(*) Preliminary figures.

Diagram 6.13
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



Notes : See the footnotes to Table 6.11.

(*) Preliminary figure.

/Notes

Notes :

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

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

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

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

<u>Expenditure component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
	(%)	(%)	(%)	(%)
Food	26.67	31.88	25.94	21.38
<i>Meals bought away from home</i>	16.39	17.94	17.20	13.28
<i>Other foodstuffs</i>	10.28	13.94	8.74	8.10
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	24.59	21.76	25.48	26.67
<i>Public dwellings</i>	2.07	5.08	1.03	--
<i>Maintenance costs and other housing charges</i>	3.25	2.29	3.17	4.55
Electricity, gas and water	2.98	3.99	2.81	2.02
Alcoholic drinks and tobacco	0.94	1.50	0.86	0.39
Clothing and footwear	4.13	3.36	4.47	4.55
Durable goods	6.24	4.96	6.93	6.73
Miscellaneous goods	5.70	5.25	5.58	6.43
Transport	9.01	8.23	9.05	9.94
Miscellaneous services	14.42	11.70	14.68	17.34
All items	100.00	100.00	100.00	100.00

- (2) In the 2002/03 Budget, the Financial Secretary announced that the maximum amount of reduction in rates payables for 2002 was to be raised to \$5,000, from that of \$2,000 as was announced by the Chief Executive in his 2001 Policy Address. This additional rates concession led to a lowering of the Composite CPI by 0.4 of a percentage point in the third quarter of 2002. Owing to different weightings attached to the rates payment and the relatively greater effect of this relief measure on the middle to higher income households, the dampening effects on the three sub-indices varied. The CPI(A) was lowered by 0.3 of a percentage point, the CPI(B) by 0.4 of a percentage point, and the CPI(C) by 0.4 of a percentage point.

/(3)

- (3) As announced by the Financial Secretary in the 2002/03 Budget, the water and sewage charges for domestic households were to be waived for one year, subject to maximum amounts of \$800 and \$200 respectively. This had the effect of lowering the Composite CPI by 0.2 of a percentage point in the third quarter of 2002. Reflecting relatively greater effect on the lower income households, the corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.4, 0.2 and 0.2 of a percentage point.
- (4) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost, as indicated in the various CPIs, thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the Rating and Valuation Department's rental index for private residential flats.
- (5) As announced in the 2002/03 Budget, the duty rate on wine was raised from 60% to 80%, as from 6 March 2002. In the 2001/02 Budget, there were upward adjustments in tobacco duty overall by 5%, and in the duty rate on liquors with an alcoholic content of 30% and below from 30% to 40%.
- (6) Rebasings of the trade indices from 1990 to 2000 may have led to minor differences in some of the rates of change during the change-over period from the first quarter of 2001 to the first quarter of 2002.
- (7) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (8) The terms of trade in goods is defined as the ratio of the prices of total exports of goods to the prices of imports of goods.
- (9) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for

/compiling

compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit prices deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

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

- (10) The figures as quoted are based on a revised series of the GDP deflator, in parallel with that for GDP consequential to the technical revision to GDP as announced in August 2002. The results for the GDP deflator are summarised below:

	<u>Level of the GDP deflator</u>		<u>Rate of change in the GDP deflator (%)</u>		
	<u>Previous</u> (1990=100)	<u>Revised</u> (2000=100)	<u>Previous</u>	<u>Revised</u>	<u>Extent of revision in % point</u>
1996	150.9	106.9	5.9	5.8	-0.1
1997	159.7	113.0	5.8	5.7	-0.1
1998	160.4	113.2	0.4	0.2	-0.2
1999	151.7	106.6	-5.4	-5.8	-0.4
2000	141.8	100.0	-6.5	-6.2	0.3
2001	141.1	98.6	-0.5	-1.4	-0.9

Note: Figures for 2000 and 2001 are preliminary figures, being subject to revision when more data become available.

The extent of revision to the rate of change in the GDP deflator is generally not large for 1996 to 2000. The relatively larger revision for 2001 is due in part to downward adjustments in the rates of change in the price deflators for government consumption expenditure and for exports of services.

STATISTICAL APPENDIX

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Table 1 Gross Domestic Product (GDP) by expenditure component

Expenditure component	(HK\$ million)			
	At current market prices		At constant (2000) market prices	
	2000 [#]	2001 [#]	2000 [#]	2001 [#]
Private consumption expenditure	744,401 (0.5)	745,537 (0.2)	744,401 (5.9)	754,979 (1.4)
Government consumption expenditure	120,148 (0.1)	128,844 (7.2)	120,148 (2.0)	127,357 (6.0)
Gross domestic fixed capital formation	347,375 (6.8)	341,847 (-1.6)	347,375 (11.0)	357,305 (2.9)
<i>of which</i> : Buildings and construction	117,681 (-6.4)	111,824 (-5.0)	117,681 (-6.8)	115,073 (-2.2)
Machinery, equipment and computer software	180,204 (27.5)	186,693 (3.6)	180,204 (27.0)	193,332 (7.3)
Change in inventories	14,399	-2,466	14,399	-3,184
Total exports of goods	1,572,689 (16.6)	1,480,987 (-5.8)	1,572,689 (17.1)	1,520,244 (-3.3)
Domestic exports	180,967 (6.1)	153,520 (-15.2)	180,967 (7.5)	162,588 (-10.2)
Re-exports	1,391,722 (18.1)	1,327,467 (-4.6)	1,391,722 (18.5)	1,357,656 (-2.4)
<i>less</i> Imports of goods ^(a)	1,636,711 (19.2)	1,549,222 (-5.3)	1,636,711 (18.2)	1,605,267 (-1.9)
Exports of services	317,580 (13.8)	323,087 (1.7)	317,580 (12.9)	336,295 (5.9)
<i>less</i> Imports of services	191,543 (4.1)	189,619 (-1.0)	191,543 (4.2)	191,217 (-0.2)
Total expenditure on GDP	1,288,338 (3.4)	1,278,995 (-0.7)	1,288,338 (10.2)	1,296,512 (0.6)
Per capita GDP ^(b) (\$)	193,299 (2.5)	190,188 (-1.6)	193,299 (9.2)	192,793 (-0.3)
Implicit Price Deflator (2000=100)	Index for 2000	% change over 1999	Index for 2001	% change over 2000
GDP	100.0	-6.2	98.6	-1.4
Total final demand ^(c)	100.0	-2.9	97.6	-2.4
Domestic demand ^(d)	100.0	-5.4	98.2	-1.8

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

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

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

(b) Per capita GDP is equal to total expenditure on GDP divided by the total mid-year population.

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

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

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

**Table 2 Gross Domestic Product (GDP) by economic activity
(at current prices)**

Economic activity	At current prices (HK\$ million)		Year-on-year % change		% share in GDP	
	2000 [#]	2001 ⁺	2000 [#]	2001 ⁺	2000 [#]	2001 ⁺
Agriculture and fishing	920	1,003	-21.4	9.0	0.1	0.1
Mining and quarrying	241	176	-21.5	-27.0	*	*
Manufacturing	71,655	61,982	6.1	-13.5	5.8	5.1
Electricity, gas and water	38,853	40,159	4.4	3.4	3.2	3.3
Construction	64,026	59,800	-4.8	-6.6	5.2	4.9
Services	1,053,202	1,048,527	4.9	-0.4	85.7	86.5
Wholesale, retail and import/ export trades, restaurants and hotels	324,622	316,052	9.6	-2.6	26.4	26.1
Transport, storage and communications	125,724	127,322	11.6	1.3	10.2	10.5
Financing, insurance, real estate and business services	291,062	272,368	3.4	-6.4	23.7	22.5
Community, social and personal services	252,435	265,052	2.6	5.0	20.5	21.9
Ownership of premises	155,303	161,219	-4.4	3.8	12.6	13.3
<i>less</i> Adjustment for financial intermediation services indirectly measured	95,945	93,486	1.4	-2.6	7.8	7.7
GDP at factor cost	1,228,897	1,211,645	4.3	-1.4	100.0	100.0
Taxes on production and imports	57,908	54,000	8.3	-6.7		
Statistical discrepancy (%)	0.1	1.0	--	--		
GDP at current market prices	1,288,338	1,278,995	3.4	-0.7		

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

(#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002.

(+) Preliminary figures.

(*) Share of less than 0.05%.

(--) Not applicable.

**Table 3 Gross Domestic Product (GDP) by economic activity
(at constant (2000) prices)**

Economic activity	(HK\$ million)					
	<u>2001</u>	2nd Qtr	<u>2001</u>	4th Qtr	<u>2002</u>	2nd Qtr [#]
Agriculture and fishing	896 (-2.6)	230 (-2.1)	204 (-4.7)	235 (2.6)	235 (3.5)	246 (7.0)
Mining and quarrying	207 (-14.1)	50 (-2.0)	55 (-5.2)	50 (-7.4)	40 (-23.1)	40 (-20.0)
Manufacturing	67,983 (-5.1)	17,473 (0.1)	17,948 (-7.9)	16,969 (-11.0)	13,824 (-11.3)	15,530 (-11.1)
Electricity, gas and water	40,065 (3.1)	9,993 (3.2)	11,907 (2.2)	9,738 (2.2)	8,528 (1.2)	10,687 (6.9)
Construction	62,237 (-2.8)	13,887 (-2.7)	15,065 (-6.7)	17,991 (3.1)	15,031 (-1.7)	14,337 (3.2)
Services	1,067,046 (1.3)	259,856 (1.8)	273,801 (0.8)	277,003 (-0.4)	256,362 (*)	264,556 (1.8)
Wholesale, retail and import/ export trades, restaurants and hotels	324,746 (*)	75,481 (0.7)	87,789 (-0.3)	85,752 (-4.7)	73,595 (-2.8)	76,202 (1.0)
Transport, storage and communications	130,283 (3.6)	31,288 (2.8)	33,897 (2.3)	33,619 (0.9)	31,526 (0.1)	32,323 (3.3)
Financing, insurance, real estate and business services	287,251 (-1.3)	72,008 (2.5)	71,592 (-2.4)	72,602 (-1.0)	69,651 (-2.0)	72,921 (1.3)
Community, social and personal services	260,277 (3.1)	65,645 (1.5)	64,180 (3.5)	67,523 (1.8)	63,598 (1.1)	66,008 (0.6)
Ownership of premises	160,117 (3.1)	39,438 (2.1)	40,402 (3.3)	40,705 (3.7)	40,710 (2.9)	40,070 (1.6)
<i>less</i> Adjustment for financial intermediation services indirectly measured	95,628 (-0.3)	24,004 (1.5)	24,059 (-0.2)	23,198 (-4.4)	22,718 (-6.8)	22,968 (-4.3)
Taxes on production and imports	56,854 (-1.8)	15,083 (6.4)	12,515 (-6.8)	14,358 (-2.1)	14,863 (-0.2)	15,318 (1.6)
Statistical discrepancy (%)	0.1	-0.3	0.2	0.2	0.4	-0.8
GDP at constant (2000) market prices	1,296,512 (0.6)	315,622 (1.6)	332,268 (-0.3)	336,922 (-0.9)	310,256 (-0.5)	318,263 (0.8)

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

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

(#) Revised figures.

(*) Change of less than 0.05%.

Table 4 Gross National Product (GNP) and external factor income flows (EFIF)

(HK\$ million)

Income component	2001		2001			2002	
			2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr
(At current market prices)							
Direct investment income							
Inflow total	157,301	(2.2)	46,600	44,284	30,041	39,744	38,871
Banking	7,512	(-10.4)	1,842	1,807	1,832	1,683	2,233
Others ^(a)	149,790	(3.0)	44,758	42,477	28,209	38,061	36,639
Outflow total	239,693	(-10.0)	69,577	63,896	43,900	52,818	55,775
Banking	62,873	(-14.0)	15,486	16,209	14,521	16,581	16,984
Others ^(a)	176,820	(-8.5)	54,091	47,687	29,379	36,237	38,792
Portfolio investment income							
Inflow total	95,727	(0.7)	23,982	24,611	20,787	25,160	22,622
Banking	26,937	(12.7)	7,030	6,778	5,862	5,769	6,626
Others ^(a)	68,790	(-3.4)	16,952	17,832	14,924	19,391	15,996
Outflow total	27,300	(1.5)	13,505	5,195	5,398	4,838	10,215
Banking	4,726	(24.4)	773	1,558	529	1,700	749
Others ^(a)	22,573	(-2.3)	12,732	3,636	4,869	3,138	9,466
Other investment income							
Inflow total	121,354	(-27.7)	34,304	29,910	21,712	17,502	16,613
Banking	103,206	(-30.2)	30,014	24,289	18,779	15,142	14,208
Others ^(a)	18,149	(-9.3)	4,290	5,621	2,933	2,360	2,405
Outflow total	71,253	(-30.0)	19,662	17,686	13,227	9,971	9,978
Banking	63,891	(-32.4)	17,480	15,811	11,697	8,748	8,280
Others ^(a)	7,362	(1.3)	2,181	1,875	1,530	1,223	1,698
Compensation of employees							
Inflow total	36	(-32.1)	11	9	6	6	4
Outflow total	36	(-32.1)	11	9	6	6	4
Total EFIF							
Inflow total	374,419	(-10.2)	104,897	98,814	72,546	82,412	78,110
Outflow total	338,282	(-14.4)	102,754	86,786	62,530	67,633	75,973
Net flow total	36,137		2,142	12,028	10,016	14,779	2,137
(At current market prices)							
GNP (\$ million) [#]	1,315,132	(0.4)	314,602	337,735	341,292	316,261	310,580
Per capita GNP (\$) [#]	195,562	(-0.5)	--	--	--	--	--
(At constant (2000) market prices)							
GNP (\$ million) [#]	1,333,561	(1.8)	317,803	344,602	347,264	325,822	320,534
Per capita GNP (\$) [#]	198,302	(0.9)	--	--	--	--	--

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

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

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

(#) Revised figures.

(--) Not applicable.

Table 5 Balance of payments account

Standard components	(HK\$ million)					
	<u>2001</u> [#]	2nd Qtr [#]	<u>2001</u> 3rd Qtr [#]	4th Qtr [#]	<u>2002</u> 1st Qtr [#]	2nd Qtr [#]
Current account ⁽¹⁾	91,525	6,864	30,497	42,097	30,768	19,340
Trade in goods	-64,970	-23,888	-11,432	-5,004	-12,444	-16,381
Exports	1,488,982	364,089	402,976	371,497	326,087	373,691
Imports	-1,553,952	-387,977	-414,408	-376,501	-338,531	-390,072
Trade in services	133,468	31,702	33,258	40,061	31,895	37,203
Exports	323,087	78,527	82,815	85,288	78,341	82,152
Imports	-189,619	-46,825	-49,557	-45,227	-46,446	-44,949
External factor income flows	36,137	2,142	12,028	10,016	14,779	2,137
Inflow	374,419	104,897	98,814	72,546	82,412	78,110
Outflow	-338,282	-102,754	-86,786	-62,530	-67,633	-75,973
Current transfers	-13,110	-3,092	-3,357	-2,975	-3,461	-3,618
Inflow	6,344	2,338	1,515	1,386	1,076	2,174
Outflow	-19,454	-5,430	-4,872	-4,361	-4,537	-5,792
Capital and financial account ⁽¹⁾	-85,717	-11,597	-19,459	-54,157	-46,809	-30,363
Capital transfers	-9,059	-3,116	-2,927	-1,578	-2,998	-7,586
Direct investment	108,068	37,494	5,098	6,396	-10,139	15,254
Abroad	-70,011	-14,967	-38,257	-9,298	-40,923	-29,503
In HK	178,079	52,461	43,355	15,694	30,784	44,757
Portfolio investment	-309,317	-52,268	-71,339	-77,640	7,056	-117,765
Assets	-305,178	-77,803	-46,306	-105,988	-13,435	-126,842
Liabilities	-4,139	25,535	-25,033	28,348	20,491	9,076
Financial derivatives	39,108	21,025	14,913	12,367	12,316	6,054
Assets	136,525	42,584	49,185	26,680	42,239	23,266
Liabilities	-97,417	-21,559	-34,272	-14,313	-29,923	-17,212
Other investment	122,013	-4,807	8,476	-1,735	-49,183	70,560
Assets	454,220	153,406	129,880	108,246	96,784	50,015
Liabilities	-332,208	-158,213	-121,405	-109,981	-145,967	20,545
Net change in reserve assets ⁽²⁾	-36,530	-9,924	26,320	8,032	-3,861	3,120
Net errors and omissions	-5,808	4,732	-11,038	12,059	16,040	11,023
Overall balance of payments	36,530 (in surplus)	9,924 (in surplus)	-26,320 (in deficit)	-8,032 (in deficit)	3,861 (in surplus)	-3,120 (in deficit)

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

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

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

(#) Revised figures.

**Table 6 Major economic indicators in the external sector
for the third quarter of 2002**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	397,832	16.6	10.6
Domestic exports	\$Mn	37,065	15.0	-10.4
Total exports of goods	\$Mn	434,897	16.4	8.5
Imports of goods	\$Mn	445,805	13.1	6.5
Visible trade balance	\$Mn	-10,908	--	--
<u>Unit value indices (2000 = 100)</u>				
Re-exports		95.5	-0.1	-2.3
<i>to :</i> Mainland of China		95.0	*	-1.4
United States		96.9	-0.4	-3.2
Japan		95.7	0.7	-2.5
Germany		95.6	-0.4	-2.8
United Kingdom		95.8	0.4	-2.5
Domestic exports		92.6	1.0	-3.1
<i>to :</i> Mainland of China		89.2	-0.2	-3.5
United States		96.4	3.0	-3.1
Germany		91.5	2.6	-2.1
Japan		92.5	-2.8	-5.9
United Kingdom		95.9	1.4	-0.6
Imports of goods		93.2	0.4	-3.6
<i>from :</i> Mainland of China		95.1	0.3	-3.5
Japan		93.3	1.9	-2.1
Taiwan		90.9	0.3	-2.7
United States		93.0	0.1	-4.6
United Kingdom		87.3	-1.0	-8.4
<i>of :</i> Raw materials and semi-manufactures		90.7	*	-3.9
Consumer goods		96.2	1.0	-3.1
Capital goods		93.0	-0.1	-4.1
Foodstuffs		92.2	-0.3	-4.6
Fuels		92.9	2.7	0.4

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

(--) Not applicable.

(*) Change of less than 0.05%.

**Table 6 Major economic indicators in the external sector
for the third quarter of 2002 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (2000 = 100)	102.1	-0.4	1.2
<u>Quantum indices</u> (2000 = 100)			
Re-exports	120.5	16.8	13.6
<i>to :</i> Mainland of China	136.0	12.3	18.4
United States	115.6	24.6	11.2
Japan	108.1	17.8	3.1
Germany	100.7	28.6	6.6
United Kingdom	109.1	26.5	6.2
Domestic exports	89.5	12.7	-7.6
<i>to :</i> Mainland of China	88.8	-1.4	-19.1
United States	100.5	26.9	1.5
Germany	52.9	10.1	-17.6
Japan	63.6	2.9	-27.2
United Kingdom	90.8	39.4	-0.5
<i>of :</i> Textiles and clothing	110.2	25.7	-0.9
Products other than textiles and clothing	70.4	-1.9	-15.8
Imports of goods	116.3	12.8	10.8
<i>from :</i> Mainland of China	119.4	17.1	11.9
Japan	105.9	7.6	12.7
Taiwan	112.6	8.4	16.9
United States	93.2	6.0	-8.0
United Kingdom	105.1	17.8	-0.4
<i>of :</i> Raw materials and semi-manufactures	117.6	8.8	23.8
Consumer goods	116.2	19.8	7.5
Capital goods	117.9	11.8	3.1
Foodstuffs	99.3	3.9	-8.1
Fuels	106.3	2.8	6.4

Table 7 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Manufacturing sector</u> (2nd Qtr 2002)				
Index of Industrial Production (1986 = 100)		91.5	15.3	-11.2
<u>Property</u> (3rd Qtr 2002)				
Completions of new property				
<i>for</i> : Residential	no. of units	13 340	113.4	162.1
Commercial	'000 sq. m	50	-24.0	-35.6
<i>of which</i> :				
Office space	'000 sq. m	9	-80.0	-64.0
Other commercial premises	'000 sq. m	41	88.0	-22.6
Industrial	'000 sq. m	0	--	-100.0
<i>of which</i> :				
Industrial-cum-office premises	'000 sq. m	0	--	--
Flatted factory space	'000 sq. m	0	--	-100.0
Storage premises	'000 sq. m	0	--	--
Floor area of building consents				
<i>for</i> : Residential	'000 sq. m	185	-43.5	51.4
Commercial	'000 sq. m	136	136.1	246.6
Industrial	'000 sq. m	#	-98.0	9.1
Others	'000 sq. m	48	203.8	465.9
Total	'000 sq. m	368	-11.9	116.9
<u>Building and construction</u>				
Labour and Material Cost Index (Jul 2002) (mid-Feb 1970 = 100)		1 754	-0.3	-0.2
Tender Price Indices (2nd Qtr 2002) (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		742	8.0	-11.9
Public housing projects		533	-4.1	-12.8
<u>Electricity consumption</u> (3rd Qtr 2002)				
<i>for</i> : Industrial	Mn KWh	1 246	3.4	-2.4
Commercial	Mn KWh	7 019	9.8	3.8
Domestic	Mn KWh	3 547	54.1	2.6
<u>Gas consumption</u> (3rd Qtr 2002)				
<i>for</i> : Industrial	Terajoule	245	-5.0	-1.2
Commercial	Terajoule	2 616	-5.7	0.7
Domestic	Terajoule	2 985	-25.5	-1.6

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

(--) Not applicable.

(#) Less than 500 sq. m.

Table 7 Major economic indicators in the domestic economy (cont'd)

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Transport</u>				
Passenger journeys (3rd Qtr 2002)				
<i>by</i> : KMB	'000	281 553	-1.4	3.2
NWFB	'000	49 196	-0.6	0.7
City Bus	'000	55 613	1.9	2.0
New Lantau Bus	'000	2 349	10.5	22.3
Long Win Bus	'000	5 379	7.9	5.5
MTR	'000	200 926	8.0	2.6
KCR	'000	74 323	3.2	1.1
LRT	'000	28 044	-3.5	-3.0
Hong Kong Tramways	'000	21 172	-2.5	0.2
New World First Ferry	'000	3 709	0.2	-0.6
Star Ferry	'000	7 035	2.1	2.4
Private cars licensed				
new registration (3rd Qtr 2002)	no.	8 455	6.4	-14.2
total licensed (end-Sep 2002)	no.	340 422	-0.1	0.2
Air passenger movements (3rd Qtr 2002)	'000	6 060	6.9	2.2
Air cargo (3rd Qtr 2002)	'000 tonne	635	5.7	23.9
Ocean cargo (2nd Qtr 2002)	'000 tonne	35 370	16.6	5.6
Container throughput (2nd Qtr 2002)	'000 TEUs	4 755	16.9	6.9
<u>Tourism</u>				
Arrivals of incoming visitors (3rd Qtr 2002)	'000	4 240	8.5	22.1
Departures of Hong Kong residents (3rd Qtr 2002)	'000	16 715	6.5	6.2
<i>to</i> : Mainland of China	'000	14 267	4.9	7.2
Macau	'000	1 139	12.6	0.4
Other countries	'000	1 310	20.4	0.6
Hotel rooms ^(a) (end-Sep 2002)	no.	42 758	*	--
Hotel room occupancy rate (3rd Qtr 2002)	%	83	0.4	6.8
<u>Telecommunications (end-Sep 2002)</u>				
Telephone lines	Mn	3.9	-0.4	-1.6
<i>for</i> : Residential users	Mn	2.1	0.1	-1.4
Business users	Mn	1.7	-0.9	-1.9
Facsimile lines	'000	564	38.2	36.8
Public mobile radiotelephone services customers	'000	5 909	1.4	4.4

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

(a) As from the first quarter of 2002, the coverage of hotel rooms is widened to include all hotels and tourist guest houses on the record of the Home Affairs Department. Thus, the data for the first quarter of 2002 and thereafter are not directly comparable to those in the earlier periods.

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 8 Major economic indicators in the financial sector
as at end-September 2002**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Exchange rate</u>				
Effective Exchange Rate Indices of the Hong Kong dollar (Jan 2000 = 100)				
trade-weighted		103.2	0.6	-1.1
import-weighted		103.9	0.8	-1.0
export-weighted		102.5	0.5	-1.3
HK\$/US\$ interbank T/T rate	HK\$	7.800	*	*
<u>Interest rate</u>				
3-month HIBOR	%	1.81	--	--
Savings rate	%	0.16	--	--
Best lending rate	%	5.13	--	--
<u>Monetary statistics</u>				
Money supply : M1	\$Mn	273,872	2.1	13.9
M2	\$Mn	3,470,832	-0.8	-3.8
M3	\$Mn	3,516,745	-0.7	-3.7
Deposits with :				
licensed banks	\$Mn	3,244,109	-1.3	-5.5
restricted licence banks	\$Mn	38,586	7.7	13.2
deposit-taking companies	\$Mn	5,708	-2.2	-13.4
all authorized institutions	\$Mn	3,288,402	-1.2	-5.3
Deposits by type :				
demand	\$Mn	164,443	2.2	15.8
savings	\$Mn	892,356	0.3	13.7
time	\$Mn	2,231,603	-2.1	-12.3
total	\$Mn	3,288,402	-1.2	-5.3

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

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 8 Major economic indicators in the financial sector
as at end-September 2002 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	1,953,781	-2.1	-6.4
restricted licence banks	\$Mn	116,094	-3.0	-5.5
deposit-taking companies	\$Mn	28,212	-7.5	-24.6
all authorized institutions	\$Mn	2,098,087	-2.2	-6.6
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	84,816	1.3	-4.1
to finance merchandising trade not touching Hong Kong	\$Mn	9,351	5.6	5.6
other loans for use in Hong Kong	\$Mn	1,747,623	-1.7	-3.4
other loans for use outside Hong Kong	\$Mn	247,231	-6.8	-25.2
other loans where the place of use is not known	\$Mn	9,066	-4.1	-14.7
<u>Stock market</u>				
Hang Seng Index (31 Jul 1964 = 100)		9 072	-14.4	-8.8
Stock market capitalisation				
Main Board	\$Mn	3,327,121	-12.3	-1.4
Growth Enterprise Market	\$Mn	53,398	-11.8	15.2
Total	\$Mn	3,380,519	-12.2	-1.1
Stock market turnover (3rd Qtr 2002)				
Main Board	\$Mn	373,963	-21.5	-9.2
Growth Enterprise Market	\$Mn	10,031	-24.0	116.3
Total	\$Mn	383,994	-21.6	-7.8

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

Table 9 Major economic indicators in the labour sector

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Labour force characteristics</u> (3rd Qtr 2002)				
Labour force	'000	3 513	1.5	2.0
Unemployed	'000	267	1.4	7.6
Underemployed	'000	101	0.8	2.9
Employed	'000	3 246	1.5	-0.4
Labour force participation rate	%	62.3	--	--
Seasonally adjusted unemployment rate	%	7.4	--	--
Underemployment rate	%	2.9	--	--
<u>Employment</u> (Jun 2002)				
Manufacturing	'000	200	1.4	-8.5
Services	'000	1 992	*	-2.1
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	774	-1.0	-4.4
Restaurants and hotels	'000	214	0.1	-5.1
Transport, storage and communications	'000	183	1.0	-1.5
Financing, insurance, real estate and business services	'000	430	1.6	-2.8
Community, social and personal services	'000	391	-0.3	4.9
Building and construction sites	'000	79	2.9	-1.3
Civil service	'000	172	-0.7	-3.9
<u>Vacancies</u> (Jun 2002)				
Manufacturing	'000	1	4.4	-22.0
Services	'000	20	5.7	-14.2
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	7	12.3	12.8
Restaurants and hotels	'000	1	-9.3	4.7
Transport, storage and communications	'000	1	-2.0	-17.0
Financing, insurance, real estate and business services	'000	6	12.2	-22.3
Community, social and personal services	'000	4	-4.7	-35.4
Building and construction sites	'000	#	-59.9	-48.6
Civil Service	'000	2	15.2	16.0

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

(--) Not applicable.

(*) Change of less than 0.05%.

(#) Less than 500.

Table 9 Major economic indicators in the labour sector (cont'd)

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Earnings</u> (2nd Qtr 2002)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	88.7	-13.2 (-12.8)	-1.0 (2.2)
<i>for</i> : Manufacturing	88.4	-14.0 (-13.7)	-0.6 (2.7)
Services	87.9	-13.3 (-13.0)	-1.2 (2.1)
<i>of which</i> :			
Wholesale, retail and import/export trades	82.9	-19.4 (-19.1)	-1.6 (1.7)
Restaurants and hotels	80.6	-11.5 (-11.1)	-5.5 (-2.4)
Transport, storage and communications	88.9	-10.6 (-10.2)	1.5 (4.9)
Financing, insurance, real estate and business services	85.9	-14.4 (-14.0)	-2.6 (0.6)
Community, social and personal services	94.8	-5.0 (-4.6)	0.1 (3.4)
<u>Wages</u> (Jun 2002)			
Nominal wage index (Sep 1992 = 100)	150.9	0.4 (1.5)	-0.9 (3.1)
<i>for</i> : Manufacturing	147.6	0.5 (1.5)	-0.7 (3.4)
Services			
<i>of which</i> :			
Wholesale, retail and import/export trades	161.5	0.9 (2.0)	0.3 (4.4)
Restaurants and hotels	134.8	-0.9 (0.2)	-3.3 (0.6)
Transport services	151.0	-0.1 (1.0)	0.8 (4.9)
Financing, insurance, real estate and business services	156.8	1.7 (2.8)	-1.8 (2.2)
Personal services	151.3	-2.7 (-1.6)	-2.0 (2.0)
Nominal index of construction wage rate (Jan 1970 = 100) (Aug 2002)	3 569.8	-1.2 (-0.8)	-0.7 (2.6)

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

Table 10 Various price indices for the third quarter of 2002

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Consumer Price Indices</u> (Oct 1999 - Sep 2000 = 100)			
Composite CPI	94.5	-0.7 [#]	-3.5
CPI(A)	94.4	-0.7 [#]	-4.1
CPI(B)	94.4	-0.7 [#]	-3.4
CPI(C)	94.8	-0.5 [#]	-2.8
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	68.3	-5.1	-13.1
Office space	66.0	-3.9	-13.3
Shopping space	85.7	-1.2	-1.5
Conventional flatted factory space	73.7	-2.9	-11.0
<u>GDP deflator</u> ⁺ (2000 = 100)	95.1	-1.1 [#]	-3.0

Notes : (#) Seasonally adjusted series.

(+) Preliminary figures.

