



Half-yearly Economic Report 2003

Government of the Hong Kong
Special Administrative Region

***HALF-YEARLY
ECONOMIC REPORT 2003***

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

August 2003

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CHAPTER 1 : OVERALL VIEW

Overall situation

1.1 The spread of Severe Acute Respiratory Syndrome (SARS) in Hong Kong since mid-March had dealt a heavy blow to the economy in the second quarter of 2003. Particularly in April and May, inbound tourism and the travel-related sectors were hard hit. Visitor arrivals plunged by two-thirds in those two months combined as compared to a year earlier, while passenger load of the two local airlines plummeted by almost three-quarters. The average hotel room occupancy rate fell to only around 20%. The nascent recovery in domestic demand felt at the beginning of this year was also derailed. Local consumer spending fell off abruptly for most of the second quarter, as consumer sentiment was severely curbed by the SARS threat. Investment spending likewise slackened markedly in the second quarter, as the business outlook for many sectors in the shorter term was dimmed.

1.2 Nevertheless, the overall situation began to bottom out towards the end of May, and turned progressively better in June and July. A notable relative improvement was seen in inbound tourism and the travel-related sectors, upon lifting of the travel advisory against non-essential travel to Hong Kong by the World Health Organisation (WHO) on 23 May and then removal of Hong Kong from the list of SARS-affected areas by WHO on 23 June. Visitor arrivals and passenger load of the two local airlines declined less, by less than two-fifths and three-fifths respectively in June as compared to a year earlier, while the average hotel room occupancy rate turned up to around 35%. Local consumer sentiment likewise improved, with retail business showing a much lesser decline in June than in April and May, as the SARS situation was brought under control and as strong promotion by the affected trades and relaunch by the Government helped resurrect consumers' inclination to spend. The two packages of relief measures introduced by the Government in April and then in June also helped the community and the affected businesses tide over the SARS impact⁽¹⁾.

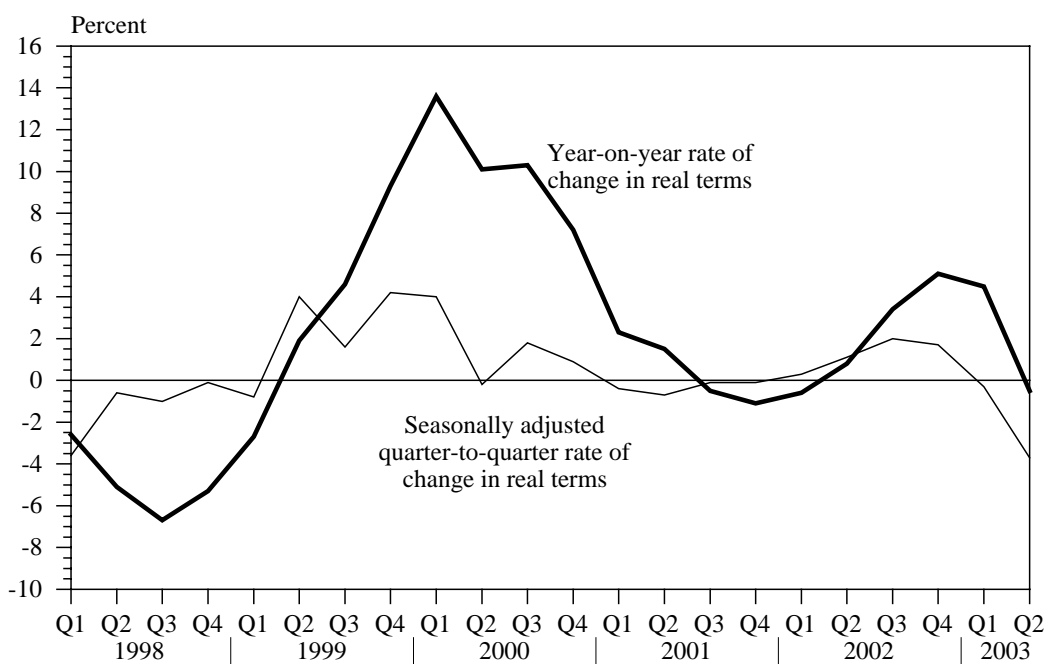
1.3 Meanwhile, exports of goods were strongly sustained, with double-digit year-on-year increase through the more recent months. Offshore trade also continued to grow apace. The robust external trade thus rendered considerable cushion to overall performance of the economy in the second quarter.

/1.4

1.4 For the second quarter of 2003 as a whole, the *Gross Domestic Product (GDP)*⁽²⁾ fell only modestly, by 0.5% in real terms over a year earlier, though distinctly down from the solid growth of 4.5% in the first quarter (latter figure unchanged from the estimate put out earlier). On a seasonally adjusted quarter-to-quarter comparison⁽³⁾, GDP fell more visibly, by 3.7% in real terms in the second quarter of 2003, following a 0.3% decline in the first quarter (latter figure also unchanged from the estimate put out earlier).

Diagram 1.1

Gross Domestic Product



/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>2001[#]</u>	<u>2002[#]</u>	<u>Q1[#]</u>	<u>2002</u>			<u>2003</u>	
				<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	1.6	-1.3	-0.1	-2.2	-1.2	-1.8	-2.0	-2.2
Government consumption expenditure	6.1	2.4	2.3	3.0	3.5	0.8	1.3	0.6
Gross domestic fixed capital formation	2.7	-4.3	-11.8	-0.2	-4.3	-0.7	3.5	-5.3
<i>of which :</i>								
Building and construction	-1.1	1.2	-3.2	7.6	8.2	-6.2	-3.5	-7.2
Machinery, equipment and computer software	6.2	-9.1	-19.8	-6.7	-12.2	3.2	11.9	-2.4
Total exports of goods	-3.3	8.7	-2.4	5.9	11.5	18.4	19.1	14.3
Re-exports	-2.4	11.0	-1.4	8.4	13.7	22.2	22.3	17.0
Domestic exports	-10.2	-11.2	-11.1	-13.6	-7.5	-12.9	-12.0	-12.6
Imports of goods ^(a)	-1.9	7.9	-4.0	6.0	10.8	18.2	18.8	10.9
Exports of services	6.9	11.7	6.0	7.7	13.9	18.1	12.6	-14.7
Imports of services	2.0	0.2	-0.7	-3.8	2.0	3.4	-3.9	-19.6
Gross Domestic Product	0.5	2.3	-0.6	0.8	3.4	5.1	4.5	-0.5
<i>Change in the main price indicators (%)</i>								
GDP deflator	-1.9	-3.0	-2.3	-2.2	-3.1	-4.1	-4.6	-5.5
Composite Consumer Price Index^(b)	-1.6	-3.0	-2.6	-3.2	-3.5	-2.9	-2.0	-2.5
Consumer Price Index (A) ^(b)	-1.7	-3.2	-2.8	-3.6	-4.1	-2.4	-1.8	-1.8
<u>Change in nominal GDP (%)</u>	-1.4	-0.8	-3.0	-1.4	0.2	0.8	-0.2	-6.0
<u>GDP at current market prices (\$ billion)</u>	1,270	1,260	298	306	325	331	298	288
<u>GDP at constant (2000) market prices (\$ billion)</u>	1,294	1,324	310	318	343	353	324	316
<u>Changes in inventories at constant (2000) market prices (\$ billion)</u>	-5	3	-3	1	1	3	3	2

Notes : (#) 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 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>2002</u>				<u>2003</u>	
	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>						
Private consumption expenditure	0.5	-0.7	-0.3	-0.9	-0.2	-0.7
Government consumption expenditure	0.4	-0.2	2.3	-1.2	0.1	-0.1
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	4.6	5.7	4.1	3.9	3.1	2.4
Re-exports	5.8	6.6	4.6	4.7	3.9	2.7
Domestic exports	-5.5	-2.0	-0.6	-4.3	-6.3	-1.8
Imports of goods ^(a)	4.6	5.9	4.6	3.0	3.7	-0.9
Exports of services	1.9	4.3	6.1	5.1	-3.4	-21.1
Imports of services	0.4	-1.6	3.8	1.1	-6.9	-17.7
Gross Domestic Product^(b)	0.3	1.1	2.0	1.7	-0.3	-3.7
<i>Change in the main price indicators (%)</i>						
GDP deflator	-0.7	-0.8	-0.9	-1.6	-1.4	-1.7
Composite Consumer Price Index^(c)	-1.1	-0.6	-0.7	-0.6	-0.1	-1.1
Consumer Price Index (A) ^(c)	-0.6	-0.6	-0.7	-0.6	*	-0.5

Notes : (#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

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.

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

(b) 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.

(c) Final figures.

/1.5

1.5 The *labour market* slackened distinctly further in the second quarter of 2003, mainly affected by the spread of SARS. The impact was felt almost across-the-board. The consumption and travel-related sectors faced particularly visible increases in unemployment. Also, as many employees were temporarily suspended from work or asked to take no-pay leave, it lifted underemployment. The seasonally adjusted unemployment rate and the underemployment rate thus rose to new highs, at 8.6% and 4.3% respectively in the second quarter of 2003, from 7.5% and 2.9% in the first quarter. Overall labour income in money terms continued to drift lower, with earnings falling by 2.0% in the first quarter of 2003 over a year earlier, and with wages down by 1.5% in March 2003 over a year earlier.

1.6 The *property market* remained generally sluggish in the second quarter of 2003. The spread of SARS since mid-March aggravated the already subdued situation. On residential property, market activity quietened distinctly amidst the SARS impact. Flat prices came down further by 6% in the second quarter of 2003 over the preceding quarter, after a 4% drop in the first quarter. Flat rentals also declined further, by 5% in the second quarter, following a 3% decrease in the first quarter. On commercial property, both the rental and sales markets for office space weakened further as business conditions faltered upon the SARS impact. For the rental and sales markets for shopping space, conditions were likewise bleak. Landlords faced a widespread plea from tenant operators to grant temporary rental concessions in order to help tide over the difficulties. The market for industrial property remained in the doldrums.

1.7 In the *financial market*, the spot exchange rate of the Hong Kong dollar against the US dollar stayed very close to the linked rate during the second quarter of 2003. The spread of the twelve-month Hong Kong dollar/US dollar forward rate over the spot rate shot up to 355 pips (each pip equivalent to HK\$0.0001) in late April, amidst concern over the impact of SARS on the economy. Yet it fell back to 120 pips at end-June as the SARS situation was brought under control, even lower than 136 pips at end-March and 169 pips at end-2002. Local inter-bank interest rates likewise picked up briefly in April upon the impact of SARS, but soon eased back to re-align broadly with their US dollar counterparts. With a further decline in Hong Kong dollar loans but a modest increase in Hong Kong dollar deposits, the Hong Kong dollar loan-to-deposit ratio fell again during the second quarter. The local stock market was on a downslide in most of April as concern over SARS weighed heavily on market

/sentiment

sentiment, pushing the Hang Seng Index to a 4½-year low of 8 409 on 25 April. Yet the market rebounded visibly thereafter, largely upon the improving local SARS situation. The Hang Seng Index reached 9 577 at end-June 2003, 10.9% higher than the level at end-March and 2.7% higher than the level at end-2002. Transactions turned more active, with the average daily turnover rising to \$8.1 billion in the second quarter of 2003, from \$6.1 billion in the first quarter.

1.8 On *consumer prices*, the Composite Consumer Price Index continued to drift lower, with the year-on-year rate of decline enlarging to 2.5% in the second quarter of 2003, from 2.0% in the first quarter. Domestic costs and prices came down even more upon the spread of SARS since mid-March, with local retailers and service providers generally offering larger price discounts and other attractions in a move to induce sales. A one-off rebate of electricity charges by a power company in June and new fare concessions granted by some public transport operators also dampened the CPI. These together more than offset the effects of the recent pick-up in prices of retained imports upon a weaker US dollar and continued rise in world commodity prices.

1.9 Statistics on the *Gross National Product (GNP)*⁽⁴⁾ are available up to the first quarter of 2003. Both external factor income inflow and outflow registered modest decline in the first quarter of 2003 over a year earlier. This was mainly caused by a fall-off in interest income into and out of Hong Kong amidst a low interest environment worldwide. There was a sharper decline in interest income inflow than in the corresponding outflow within other investment. Yet with income inflow on direct investment rising to a larger extent than the corresponding income outflow, and with income inflow on portfolio investment again exceeding the corresponding income outflow, overall net external factor income inflow still posted a marked increase, to 5.4% of GDP in the first quarter of 2003. GNP thus grew at a faster rate than GDP, by 4.9% in real terms as against 4.5% in real terms in the first quarter of 2003 over a year earlier.

1.10 Within the net external factor income flow, net direct investment income outflow fell in the first quarter of 2003 over a year earlier, mainly due to increased investment earnings by some prominent local enterprises from investment abroad. Net portfolio investment income inflow was distinctly larger in the first quarter, mainly on account of increased income from holding of non-resident equity securities and reduced dividend pay-outs by resident

/companies

companies. On the other hand, net income inflow on other investment fell in the first quarter, owing to reduced interest income from loans and deposits placed abroad by local banks.

Table 1.3

Gross National Product and external factor income flows

	<u>2001</u>	<u>2002</u>		<u>2002</u>			<u>2003</u>
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<i>Year-on-year rate of change in money terms (%)</i>							
Total external factor income flow ^(a)							
Inflow	-7.7	-15.7	-17.0	-28.4	-9.5	-4.2	-1.5
Outflow	-13.1	-13.6	-21.1	-26.8	-3.0	2.2	-3.5
Net external factor income flow at current market prices (\$ billion)	41	27	15	2	8	2	16
GDP at current market prices (\$ billion)	1,270 (-1.4)	1,260 (-0.8)	298 (-3.0)	306 (-1.4)	325 (0.2)	331 (0.8)	298 (-0.2)
GNP at current market prices (\$ billion) ^(b)	1,311 (0.1)	1,287 (-1.8)	313 (-2.5)	308 (-2.4)	333 (-1.8)	333 (-0.7)	314 (0.2)
<i>Year-on-year rate of change in real terms (%)</i>							
Gross National Product	2.0	1.2	*	-0.2	1.3	3.6	4.9

Notes : (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.

(*) Change of less than 0.05%.

The external sector

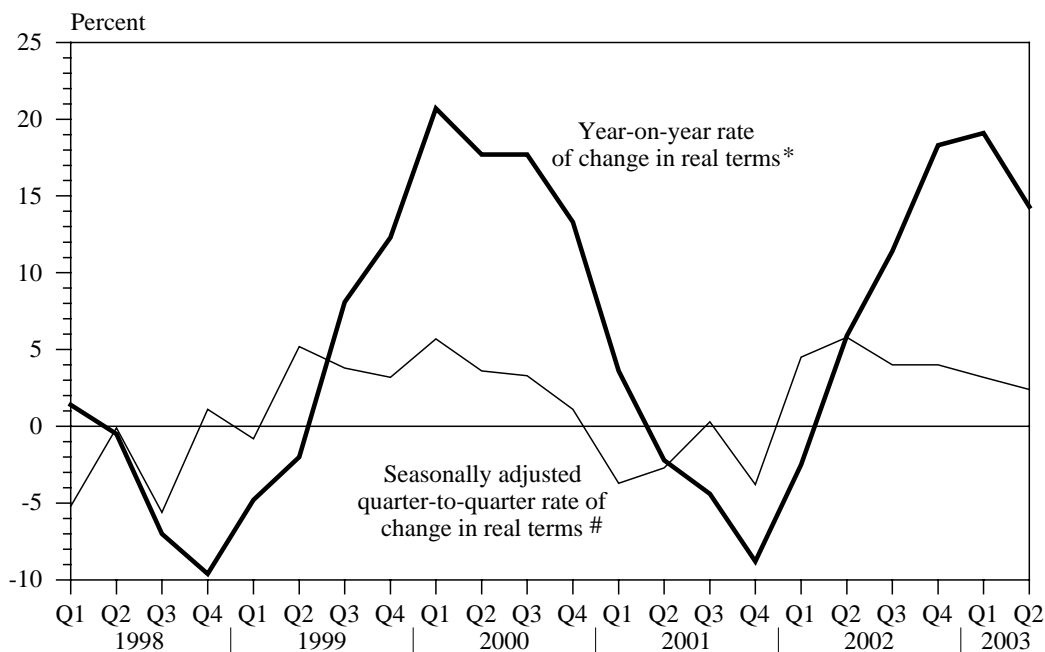
1.11 According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) registered double-digit increase for the fourth quarter in a row, at 14.3% in real terms in the second quarter of 2003 over a year earlier. Together with a 19.1% leap in the first quarter, total exports

/of

of goods surged by 16.5% in real terms in the first half of 2003 over a year earlier, up further from a 14.7% rise in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods increased further, by 2.4% in real terms in the second quarter of 2003, after a 3.2% leap in the first quarter (paragraph 2.5).

Diagram 1.2

Total exports of goods



Notes : (*) 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.

(#) 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.

1.12 Within total exports of goods, *re-exports* continued to show robust growth, surging by 17.0% in real terms in the second quarter of 2003 over a year earlier, as against a 22.3% surge in the first quarter. For the first half of 2003 as a

/whole

whole, re-exports increased distinctly by 19.4% in real terms over a year earlier, following a 17.7% surge in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose further, by 2.7% in real terms in the second quarter of 2003, following a 4.0% increase in the first quarter. In contrast, *domestic exports* plunged further, by 12.6% in real terms in the second quarter of 2003 over a year earlier, following a 12.0% fall in the first quarter. For the first half of 2003 as a whole, domestic exports shrank further by 12.3% in real terms over a year earlier, enlarged from the 10.2% dip in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, domestic exports declined further, by 1.8% in real terms in the second quarter of 2003, following a 6.3% fall in the first quarter (paragraphs 2.6 and 2.7).

1.13 The region remained the key driver of Hong Kong's export growth in the first half of 2003. Total exports of goods to *East Asia* as a whole surged by 20.9% in real terms in the second quarter of 2003 over a year earlier. Together with a 23.6% rise in the first quarter, total exports of goods to the region leaped by 22.2% in real terms for the first half of 2003 as a whole over a year earlier. This was further up from the already robust growth of 19.2% in the second half of 2002. In the second quarter, exports to Japan, the Republic of Korea and Singapore picked up further to distinct growth, while exports to the mainland of China (the Mainland), Taiwan and Indonesia continued to grow strongly, albeit relatively not so fast as in the first quarter. By contrast, exports to Thailand and Malaysia moderated considerably in growth. Total exports of goods to *North America* however slackened markedly, to a 3.3% decline in real terms in the second quarter of 2003 over a year earlier, from a 9.1% rise in the first quarter. Apparently, the earlier war tension had led to some cut-back in export orders particularly from the United States. For the first half of 2003 as a whole, total exports of goods to this area eased distinctly to a 2.2% increase in real terms over a year earlier, from a robust growth of 10.8% in the second half of 2002. Yet total exports of goods to the *European Union* continued to soar, by 19.4% in real terms in the second quarter of 2003 over a year earlier. Together with a 17.8% surge in the first quarter, there was a strong rise of 18.6% for the first half of 2003 as a whole, representing a further significant pick-up from the 6.6% rise in the second half of 2002. This could have much to do with the relative strength of the euro, which enhanced considerably the price attractiveness of Hong Kong's exports in the EU market (paragraphs 2.15 to 2.17).

/1.14

1.14 *Imports of goods* likewise rose further, by 10.6% in real terms in the second quarter of 2003 over a year earlier, after an 18.7% leap in the first quarter. *Retained imports* were however slack throughout the second quarter, as imports for local use were cut back sharply upon the spread of SARS in Hong Kong during the period. They recorded a 1.9% decline in real terms in the second quarter of 2003 over a year earlier, sharply down from the 11.5% increase in the first quarter. For the first half of 2003 as a whole, imports of goods had significant growth at 14.3% in real terms over a year earlier, while retained imports still rose by 4.3%. These compared with the respective increases by 14.3% and 7.5% in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of goods and retained imports both fell back distinctly, by 1.1% and 9.6% respectively in real terms in the second quarter of 2003, following increases by 3.6% and 2.9% in the first quarter (paragraph 2.8).

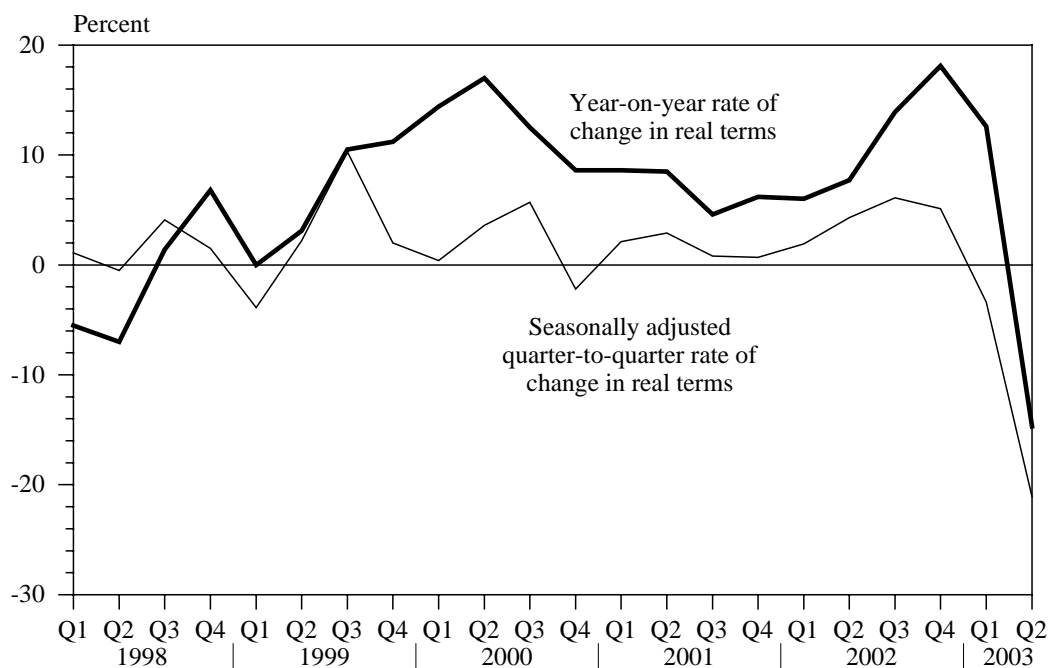
1.15 With a faster growth in total exports of goods than in imports of goods in value, the *visible trade deficit* reckoned on a GDP basis narrowed to \$9.8 billion or 2.3% of the value of imports of goods in the second quarter of 2003, from \$16.4 billion or 4.2% in the same quarter in 2002. In the first half of 2003, the visible trade deficit also narrowed, to \$25.8 billion or 3.1% of the value of imports of goods, from \$28.8 billion or 4.0% in the same period in 2002 (paragraph 2.9).

1.16 On invisible trade, *exports of services* plummeted by 14.7% in real terms in the second quarter of 2003 over a year earlier, in stark contrast to a 12.6% rise in the first quarter. The abrupt fall-off in exports of services was caused entirely by the shock impact of SARS, with inbound tourism and exports of transportation services both considerably down in the second quarter. Continued robust growth in offshore trade rendered only a partial offset. For the first half of 2003 as a whole, exports of services fell by 1.4% in real terms over a year earlier, sharply reversing the 16.1% surge in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, exports of services were markedly down by 21.1% in real terms in the second quarter of 2003, having fallen by 3.4% in the first quarter (paragraph 2.10).

/Diagram 1.3

Diagram 1.3

Exports of services



1.17 *Imports of services* plunged even more, by 19.6% in real terms in the second quarter of 2003 over a year earlier, distinctly enlarged from the 3.9% decrease in the first quarter. Outbound travel and related spending, which accounted for over half of imports of services, had been severely deterred by the SARS situation elsewhere in the region and the arrival restrictions and post-arrival quarantine imposed in some of the destinations on people travelling from Hong Kong. For the first half of 2003 as a whole, imports of services slumped by 11.5% in real terms over a year earlier, as against a 2.7% rise in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of services fell significantly, by 17.7% in real terms in the second quarter of 2003, enlarged from the 6.9% decrease in the first quarter (paragraph 2.11).

1.18 Taking exports and imports of services together, the *invisible trade surplus* reckoned on a GDP basis declined to \$31.5 billion or 84.6% of the value of imports of services in the second quarter of 2003, from \$37.8 billion or 83.0% in the same quarter in 2002. For the first half of 2003 as a whole, the invisible trade surplus still enlarged, to \$72.1 billion or 85.9% of the value of imports of services, from \$69.0 billion or 74.5% in the same period in 2002 (paragraph 2.12).

/1.19

1.19 With the reduction in the invisible trade surplus offset by the reduction in the visible trade deficit, the combined surplus reckoned on a GDP basis was broadly unchanged in the second quarter of 2003, at \$21.7 billion or 4.6% of the total value of imports of goods and services, as against \$21.4 billion or 4.9% in the same quarter in 2002. For the first half of 2003 as a whole, the combined surplus rose to \$46.3 billion or 5.1% of the total value of imports of goods and services, from \$40.1 billion or 4.9% in the same period in 2002 (paragraph 2.13).

Domestic demand

1.20 Local consumer spending receded abruptly upon the spread of SARS in mid-March, as local people shunned the more crowded shopping areas to avoid being contracted. Coupled with a concurrent plunge in visitor arrivals and hence in tourist spending, the volume of *retail sales* shrank by 12.2% in April 2003 over a year earlier. There were extensive fall-offs in sales amongst nearly all types of commodities. Yet sales of Chinese drugs and herbs and of health and sanitary products were exceptions, as demand for these products rose amidst the SARS threat. Local consumer sentiment began to improve in May, as the SARS situation was progressively being brought under control and as WHO's travel advisory against Hong Kong was lifted later in that month. It improved further in June, upon intensive promotion by the affected trades complemented with relaunch by the Government. The decline in the volume of retail sales narrowed to 7.5% in May, and further to 3.2% in June. For the second quarter of 2003 as a whole, the volume of retail sales went down by 7.7% over a year earlier, considerably widened from the 0.8% decline in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales fell by 7.5% in the second quarter of 2003, as against a 1.0% increase in the first quarter.

1.21 *Private consumption expenditure (PCE)* fell by 2.2% in real terms in the second quarter of 2003 over a year earlier, slightly further down from the 2.0% decline in the first quarter. The setback in the second quarter was mostly concentrated in residents' spending abroad, as local people avoided visits to the SARS-affected places and as some of the neighbouring places imposed arrival restrictions and post-arrival quarantine amidst the spread of SARS. Residents' spending locally also dipped in April, yet turned up steadily in May and June as local sentiment improved. On a seasonally adjusted quarter-to-quarter comparison, PCE dropped by 0.7% in real terms in the second quarter of 2003, having fallen by 0.2% in the first quarter.

/Table 1.4

Table 1.4

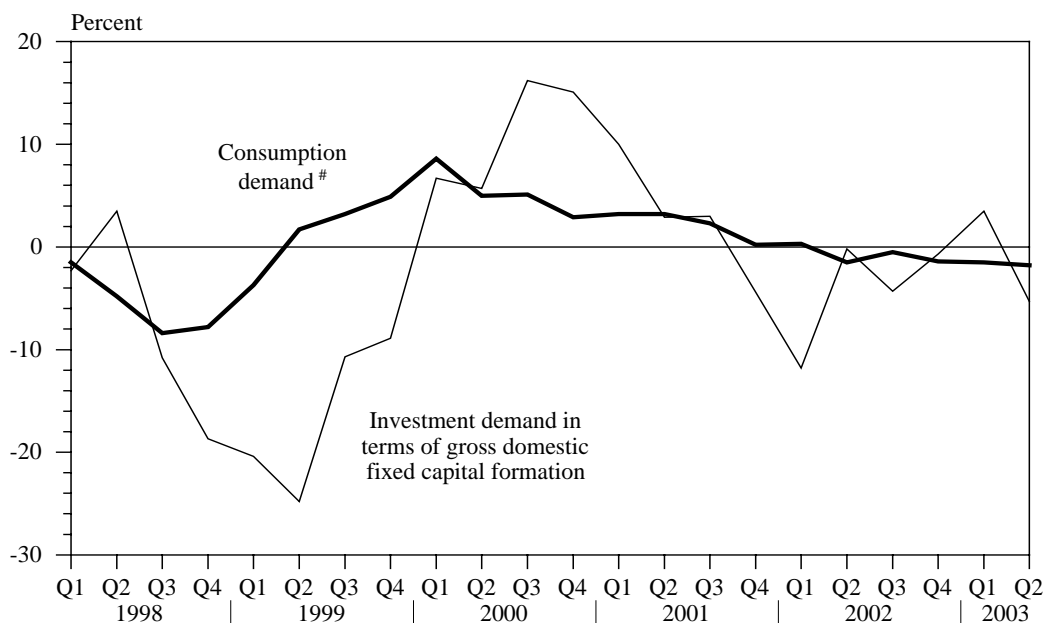
**Local consumer and visitor spending in the domestic market
(year-on-year rate of change in real terms (%))**

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>					<u>Visitor spending^(b)</u>	
			Food	Durables	Non-durables	Services	Residents' expenditure abroad	Total	
2002	Annual	-2.6	*	*	-5	3	-2	*	21
	Q1	-1.8 (2.1)	1	*	-2	2	-3	1	8
	Q2	-4.5 (-1.5)	*	-4	-8	3	-5	-1	14
	Q3	-3.0 (-1.4)	-1	*	-7	4	*	1	24
	Q4	-1.1 (0.1)	*	5	-4	3	-1	1	35
2003	Q1	-0.8 (1.0)	1	5	-5	1	-8	*	18
	Q2	-7.7 (-7.5)	*	-1	-17	-5	-29	-8	-61

- Notes : (a) Retail sales and consumer spending by major component include both local consumer and visitor spending, which are not separable from the survey data.
- (b) This is a broad estimate of spending by non-residents in the domestic market, as a deduction item within private consumption expenditure amongst the expenditure components of GDP.
- () Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.
- (*) Change of less than 0.5%.

Diagram 1.4

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



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

/1.22

1.22 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁵⁾ registered a further modest increase, by 0.6% in real terms in the second quarter of 2003 over a year earlier, after a 1.3% rise in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE dipped by 0.1% in real terms in the second quarter of 2003, after a meagre 0.1% rise in the first quarter.

1.23 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, fell back by 5.3% in real terms in the second quarter of 2003 over a year earlier, following a 3.5% rise in the first quarter. *Expenditure on building and construction* had an enlarged decline, by 7.2% in real terms in the second quarter of 2003 over a year earlier, further down from a 3.5% fall in the first quarter. Private sector building activity continued to be held back by the subdued property market. Concurrently, private sector civil engineering works shrank markedly, upon near completion of the first berth of Container Terminal 9 and a dearth of new projects. Public sector expenditure on building and construction recorded a further modest decline, as work on the KCR West Rail was near completion while work on the Ma On Shan Rail and the Tsim Sha Tsui Extension had subsided from their peaks. Meanwhile, *expenditure on machinery, equipment and computer software* slackened into decline, falling by 2.4% in real terms in the second quarter of 2003 over a year earlier, having risen markedly by 11.9% in the first quarter. Conceivably, the dimmer business outlook in the shorter term upon the spread of SARS had curbed investment intentions.

1.24 *Inventories* continued to rise in the second quarter of 2003. However, the stock accumulation by and large was likely to be involuntary, as both domestic demand and inbound tourism faltered abruptly upon the outbreak of SARS.

The Government account

1.25 In the first quarter of the financial year 2003/04 (April to June 2003), *government revenue* amounted to \$30.1 billion, broadly unchanged in money terms from the outturn in the first quarter of the financial year 2002/03. While there was a rise-back in revenue from general rates owing to dissipation of the effect of the rates concession granted in 2002, revenue from most of the other major sources, including profits tax, salaries tax, stamp duties and land sales, continued to decline.

/1.26

1.26 *Government spending* in the first quarter of the financial year 2003/04 amounted to \$59.0 billion, and was up by 4.6% in money terms over the outturn of \$56.4 billion in the same quarter of the financial year 2002/03. Within this total, there was a 40.1% surge in capital expenditure, to \$11.2 billion, more than offsetting a 1.2% decline in recurrent spending, to \$47.8 billion.

1.27 The *fiscal balance* recorded a deficit of \$28.9 billion in the first quarter of the financial year 2003/04, as compared to a deficit of \$26.3 billion in the same quarter of the financial year 2002/03.

The property market

1.28 The sales market for *residential property* remained sluggish during most of the first half of 2003. After a relatively more active start early in the year, acquisition interest was curtailed further during the period from mid-March to early June, amidst the severe impact from the spread of SARS in Hong Kong. Apart from dwindled demand under the poor sentiment, the ample supply of new flats in the mass market continued to pose a drag. Faced with such an austere situation, developers either withheld sales or else staged more intensive promotion, by offering larger price discounts and more sweeteners to prospective flat buyers. Then, with the impact of SARS fading away since early June, there were signs of improvement in sentiment, lifting demand mostly in the primary market. Meanwhile, the luxurious end of the market turned slightly more active during the first half of this year, stimulated in part by the Government's new policy measure announced in February to attract investment immigrants to Hong Kong. As to the rental market for residential property, performance likewise remained lacklustre in overall terms, given the still subdued user demand and increased supply of flats for lease (paragraph 3.7).

1.29 On a quarter-to-quarter comparison, flat prices fell further, on average by 6% in the second quarter of 2003, after a 4% drop in the first quarter. For the first half of 2003 as a whole, flat prices went down on average by 10%. Flat rentals also declined further, on average by 5% in the second quarter of 2003, following a 3% fall in the first quarter. For the first half of 2003 as a whole, flat rentals were on average lower by 8%. Compared with the respective peak levels in the third quarter of 1997, flat prices and rentals in the second quarter of 2003 were down substantially, by an average of 65% and 48% respectively (paragraph 3.8).

/1.30

1.30 On *commercial property*, both the sales and rental markets for *office space* remained weak in the first half of 2003, upon further consolidation and downsizing in the corporate sector amidst an uncertain business outlook, especially under the impact of SARS. The market for Grade A office space, particularly that in the central business district, continued to be pulled down by abundant supply with the completion of some new projects, as well as by reduced demand with the relocation of more companies to the secondary districts for saving costs. The sales and rental markets for *shopping space* also remained bleak in the first half of 2003, especially during the period from mid-March to early June when both inbound tourism and local consumption were hit severely by the spread of SARS in Hong Kong. Landlords of such premises were under a widespread plea to grant temporary rental concessions to help ease the difficulties facing tenant operators. On *industrial property*, the rental and sales markets remained stagnant in overall terms in the first half of 2003, on the back of a continued downtrend in local manufacturing activity (paragraphs 3.9 to 3.11).

1.31 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, went up by 28% in the first half of 2003 over a year earlier. This followed a 34% increase in the second half of 2002. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property soared by 90% in terms of units or by 31% in terms of total usable floor area in the first half of 2003 from a low base a year earlier. This was in stark contrast to the corresponding decreases of 30% and 18% in the second half of 2002. On the other hand, planned developments of commercial property plummeted, by 64% in the first half of 2003, after a 186% surge in the second half of 2002. There were no new planned developments of industrial property in the first half of 2003, such developments having risen sharply by 117% in the second half of 2002 from a low base. Planned developments of property in the “others” category continued to surge, by 483% in the first half of 2003, following a 539% leap in the second half of 2002, both from a low base. Comparing the twelve months ending June 2003 with the preceding twelve-month period, planned developments of all types of property increased by 31%. Planned developments of private residential property rose by 25% in terms of units or by 8% in terms of total usable floor area. Planned developments of property in the “others” category, commercial property and industrial property were also up, by 498%, 33% and 13% respectively (paragraph 3.16).

/The

The labour market

1.32 The labour market, which was already slack in the first quarter of 2003, weakened visibly further in the second quarter. Total employment contracted between the two quarters, as the outbreak of SARS curtailed business activity and dampened labour demand. Coupled with a pick-up in labour supply, this led to a distinct further loosening in the overall manpower resource balance (paragraph 5.1).

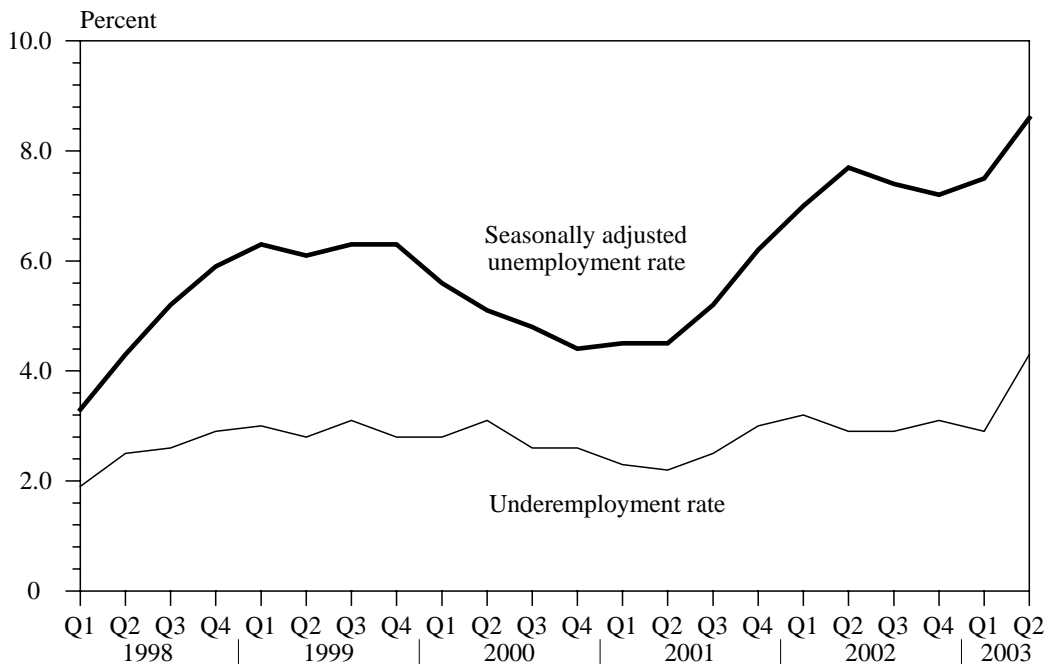
1.33 The *seasonally adjusted unemployment rate* went sharply higher, to 8.6% in the second quarter of 2003 (and further to 8.7% in May - July), from 7.5% in the first quarter. The number of unemployed persons (not seasonally adjusted) showed a marked increase, to 300 000 in the second quarter of 2003, from 259 800 in the first quarter. The surge in unemployment, whilst occurring almost across-the-board, was particularly pronounced in the tourism and consumption-related sectors. Meanwhile, there was little change in the proportion of persons unemployed for less than three months, at 54% in the second quarter, as well as in the median duration of unemployment, at 82 days in the second quarter (paragraph 5.2).

1.34 The *underemployment rate* had an even steeper rise, to 4.3% in the second quarter of 2003 (though fell back slightly to 4.2% in May - July), from 2.9% in the first quarter, as many employees were temporarily suspended from work or asked to take no-pay leave after the SARS outbreak. The number of underemployed persons rose from 100 700 to 151 000 between the two quarters (paragraph 5.3).

/Diagram 1.5

Diagram 1.5

Unemployment and underemployment rates

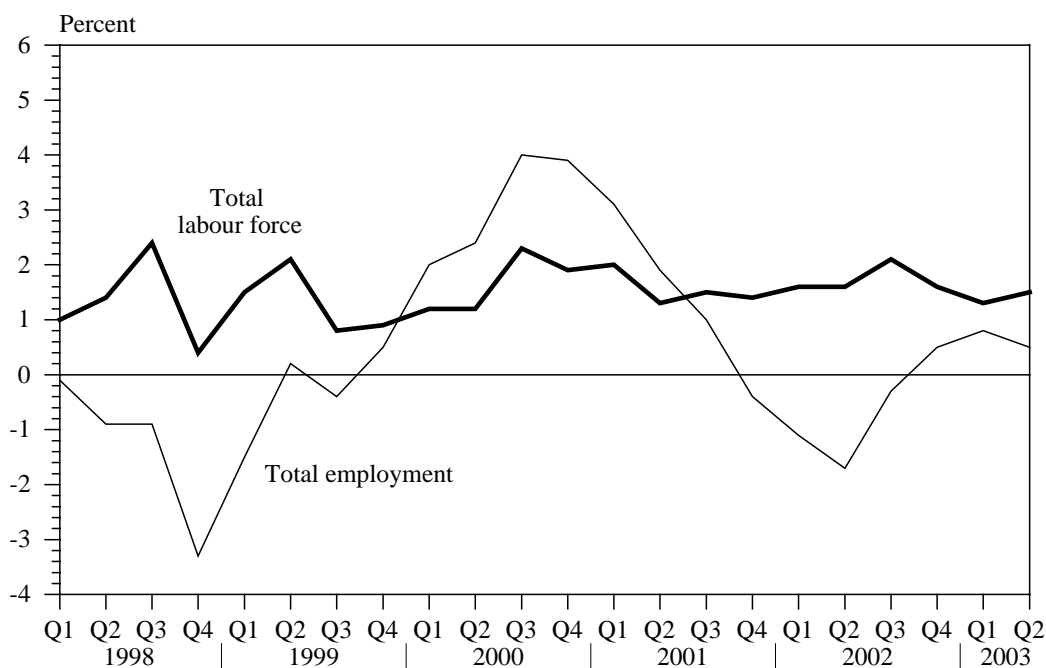


1.35 On a quarter-to-quarter comparison, *total employment* as enumerated from households was reduced by 0.7% in the second quarter of 2003, further to a 0.4% fall in the first quarter. Yet *total labour force* expanded by 0.5% in the second quarter, reversing the 0.1% drop in the first quarter. This growth differential aggravated the labour demand and supply imbalance, thereby leading to a leap in unemployment rate in the more recent periods. On reduction in employment, service workers and shop sales workers engaged in restaurants and the retail trade were affected most. As to expansion in labour force, it was entirely attributable to a 0.5% rise in the population of working age, with nil change in the overall labour force participation rate. On a year-on-year comparison, employment growth, though still positive in the second quarter of 2003, was distinctly slower than labour force growth, at 0.5% as against 1.5%. A roughly similar picture was observed in the first quarter, yet with a smaller difference between the two growth rates, at 0.8% as against 1.3% (paragraph 5.5).

/Diagram 1.6

Diagram 1.6

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



1.36 Overall labour income in money terms continued on a downtrend. Specifically, overall *labour earnings* were 2.0% lower in money terms in the first quarter of 2003 than a year earlier, exceeding the 1.2% fall in the fourth quarter of 2002. After adjusting for the decrease in the Composite CPI, labour earnings were static in real terms in the first quarter of 2003 as compared to a year earlier, as against a 1.8% rise in the fourth quarter of 2002. Likewise, overall *labour wages* fell more in March 2003 than in December 2002, by 1.5% and 0.8% respectively in money terms over a year earlier. Netting out the decline in the CPI(A), labour wages nevertheless edged up by 0.3% in real terms in March 2003 over a year earlier, following a 1.8% dip in December 2002 (paragraph 5.6).

Prices

1.37 Overall consumer prices continued to decline in the second quarter of 2003. By June 2003, the downtrend had lasted for 56 months. There was an accentuated decrease in May and June, mainly reflecting the impact of SARS on domestic demand and hence on consumer prices. In face of an austere business

/situation

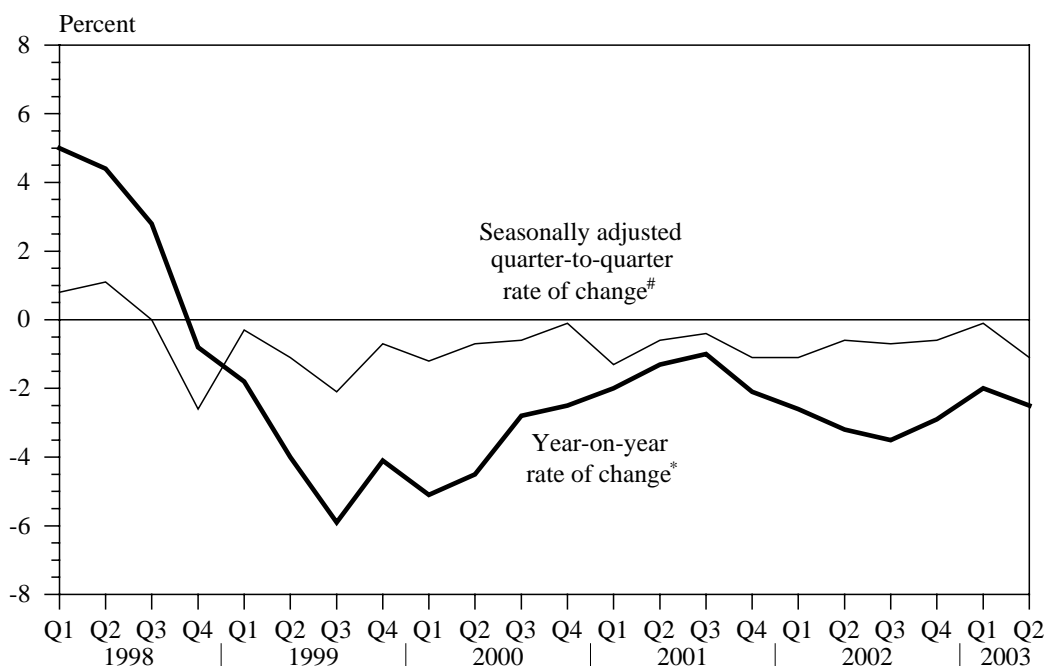
situation under the SARS impact, local retailers and service providers generally offered larger price discounts and other attractions in a move to induce sales. There was a one-off rebate of electricity charges from a power company in June. Also, new fare concessions were granted by some public transport operators. These, coupled with lower labour wages and continued softening in property rentals, more than offset the effect of the recent pick-up in prices of retained imports brought about by a weaker US dollar and higher world commodity prices (paragraph 6.1).

1.38 The *Composite Consumer Price Index* went down by 2.5% in the second quarter of 2003 from a year earlier (and further by 4.0% in July), larger than the 2.0% fall in the first quarter. Clothing and footwear, durable goods, transport, private housing and miscellaneous services were the categories with accentuated price declines. For the first half of 2003 as a whole, the Composite CPI fell by 2.2% over a year earlier, which was smaller than the 3.2% decrease in the second half of 2002. Yet this was entirely due to dissipation of the downward effect of the special relief measures implemented by the Government in the earlier periods, including the rates concession in 2002 and the waiver of water and sewage charges over the twelve months ending March 2003. After adjusting for these special factors as well as for the difference in base of comparison caused by the waiver of public housing rentals in December 2001, the decline in the Composite CPI actually widened, by around 0.7 of a percentage point between the two half-yearly periods (paragraph 6.2).

/Diagram 1.7

Diagram 1.7

Composite Consumer Price Index



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

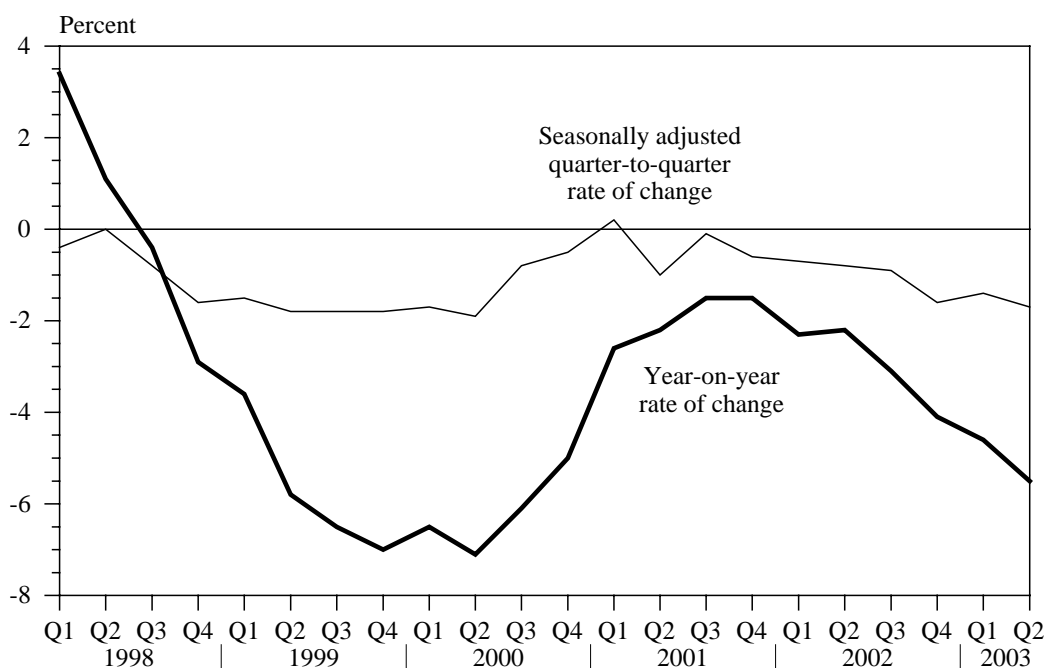
(#) From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Composite CPI are computed from the new 1999/2000-based series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based series. Splicing has been applied to the indices to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

1.39 The *GDP deflator*, as a broad measure of overall price change in the economy, declined by 5.5% in the second quarter of 2003 from a year earlier, larger than the 4.6% drop in the first quarter. This was mainly due to enlarged declines in the terms of trade in goods and services, in the price deflator for private consumption expenditure, and in the price deflator for government consumption expenditure. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* likewise showed accentuated declines, by 4.1% and 2.8% respectively in the second quarter of 2003 from a year earlier, as compared to the corresponding decreases of 3.9% and 2.1% in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went down further by 1.7% in the second quarter of 2003, following a 1.4% decrease in the first quarter (paragraph 6.17).

/Diagram 1.8

Diagram 1.8

GDP deflator



The financial sector

1.40 The spot *exchange rate of the Hong Kong dollar* against the US dollar moved within a narrow range of 7.798 to 7.800 during the first half of 2003. The premium of the twelve-month forward rate over the spot rate held steady for most of the period. There was a brief upsurge to 355 pips (each pip equivalent to HK\$0.0001) in late April, amidst worries about the impact of SARS on the economy. But as SARS was being progressively brought under control, the premium narrowed back to 120 pips at end-June 2003, even less than 169 pips at end-2002 (paragraph 4.2).

1.41 Under the linked exchange rate system, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those of the US dollar. During the first half of 2003, the US dollar depreciated against most of the other major currencies. This was triggered by uncertainties surrounding the US-led war on Iraq and concern over the pace of recovery in the US economy. In particular, the dollar - euro rate surged by 14.2%, from a monthly average of 1.022 in December 2002 to that of 1.167 in June 2003. Also, the dollar - pound sterling rate rose by 4.5% from a monthly average of 1.589 in

/December

December 2002 to that of 1.661 in June 2003, and the yen - dollar rate fell by 2.8% from a monthly average of 121.8 in December 2002 to that of 118.3 in June 2003. Likewise, the US dollar eased against many of the East Asian currencies. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* declined by 2.0%, from a monthly average of 102.7 in December 2002 to that of 100.6 in June 2003. After adjusting for changes in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* had a larger decrease, by 3.5% from 93.3 to 90.0 over the same period (paragraphs 4.3 and 4.4).

1.42 Affected by movements in the Hong Kong dollar forward rate premium over the spot rate, local inter-bank *interest rates* moved up briefly in April, and then fell back in the ensuing two months. At end-June 2003, the three-month HIBOR closed at 1.0%, down from 1.4% at end-2002. Over the same period, the spread of the three-month HIBOR over the corresponding Euro-dollar deposit rate reversed from a premium of 9 basis points to a discount of 6 basis points. Following the movement in the US Fed Funds target rate, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority was reduced by 25 basis points to 2.5% in late June 2003. Yet the best lending rate and savings deposit rate offered by the major commercial banks were kept at 5.00% and 0.03% respectively throughout the first half of 2003. Meanwhile, the spread of the best lending rate over the three-month time deposit rate widened modestly, from an average of 4.78 percentage points in the second half of 2002 to that of 4.91 percentage points in the first half of 2003 (paragraphs 4.5 and 4.6).

1.43 *Hong Kong dollar deposits* rose by 2.1% during the second quarter of 2003, following a 1.2% drop during the first quarter. *Hong Kong dollar loans* were reduced by 0.8% during the second quarter, after a 0.4% decline during the first quarter. As Hong Kong dollar loans declined further while Hong Kong dollar deposits resumed increase during the first half of 2003, the Hong Kong dollar loan-to-deposit ratio went down appreciably, from 88.5% at end-2002 to 86.7% at end-June 2003 (paragraphs 4.8, 4.15 and 4.16).

1.44 The local *stock market* staged a distinct rebound during the second quarter of 2003. After falling to a 4½-year low of 8 409 on 25 April, the Hang Seng Index showed a significant upturn in the ensuing two months. This was aided by rallies in the major stock markets overseas upon the end of the US-led

/war

war on Iraq. Also, market sentiment was buoyed by SARS being progressively brought under control in Hong Kong, leading to withdrawal by WHO of its travel advisory against non-essential travel to Hong Kong on 23 May. The Hang Seng Index surged to a six-month high of 10 030 on 17 June. Removal of Hong Kong from the list of SARS-affected areas by WHO on 23 June, coupled with expectation for signing of the Closer Economic Partnership Arrangement (CEPA) by the end of June, rendered additional support to share prices. Yet towards the end of the month, profit taking amidst renewed concern about the US economic outlook reduced some of the earlier price gains. The Hang Seng Index stood at 9 577 at end-June 2003, 10.9% above the level at end-March and 2.7% above the level at end-2002. (The Hang Seng Index rose progressively further, to a high of 10 761 on 22 August.) Trading turned more active, with the average daily turnover rising to \$8.1 billion in the second quarter of 2003, from \$6.1 billion in the first quarter. For the first half of 2003 as a whole, the average daily turnover at \$7.1 billion was 22% higher than in the second half of 2002 (paragraphs 4.30 and 4.31).

Notes :

- (1) On 23 April 2003, the Government announced a package of relief measures amounting to \$11.8 billion, in order to help the community tide over the difficulties brought about by the outbreak of SARS and to revive the economy after SARS. The measures include rates concession, waiver of water and sewage charges, waiver of licence fees, salaries tax rebate, rent reduction at public sector commercial premises, job creation schemes, a bank loan guarantee plan for the hard-hit industries, etc.

On 15 June 2003, the Government put out an enhanced package of employment and training initiatives, in a move to alleviate further the impact of SARS on the labour market. This package costs \$715 million, and will create over 32 000 additional short-term jobs and training places. Of these, 19 050 are short-term jobs and 13 000 are training places. Most of the short-term jobs will last for six months. These new jobs will help to enhance environmental hygiene; promote culture, arts, recreation and sports activities as well as community and personal hygiene; and foster community building and improve the ecological environment.

/(2)

- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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, 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.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The swift end to the war on Iraq in April 2003 removed a major geopolitical uncertainty in the global economy, which should help steer a better course of recovery in the remainder of the year after a largely subdued performance in the first quarter. Yet notwithstanding a generally improved sentiment, there were few signs that the global economy had gathered pace in the second quarter. In particular, the slack in the US and EU economies continued to cause concern. In East Asia, the outbreak of SARS dealt a severe blow to some of the economies in the second quarter. Although more recently SARS had been contained, any of its impact on the earlier export orders, and henceforth on the ensuing export performance in the region, might yet be fully revealed.

2.2 In the US economy, both consumer and business sentiment improved considerably after the war on Iraq ended. Consumer spending held firm and remained the key driver of growth for the economy. Yet industrial output stayed subdued. The primary focus was on the worsened labour market, with the unemployment rate having risen to successive new highs before edging down only lately. As to the EU economy, activity on the whole stayed sluggish. While domestic conditions remained bleak amidst an also worsened labour market, exports continued to be curbed by a relatively strong euro.

2.3 In East Asia, Japan's domestic economy remained flat. Despite some improvement in consumer confidence, retail sales were still in the doldrums. But both industrial output and exports still held up rather well, thereby lifting its overall performance. The Mainland economy slowed distinctly in growth in the second quarter, as consumer demand faltered upon the outbreak of SARS. But the external sector was still buoyant and there was a continuous influx of foreign direct investment. For the other economies in the region hit by SARS, their domestic demand was likewise sharply down. Their export performance in the second quarter was also weaker than in the first quarter, due in large part to slow-down in export orders from the United States.

/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>
2002	Annual	2.4	1.0	8.0	0.2	3.6	2.2	6.3
	H1	1.8	0.8	7.8	-1.7	2.3	1.1	6.4
	H2	3.1	1.3	8.2	2.0	4.9	3.4	6.3
	Q1	1.4 (1.2)	0.6 (0.4)	7.6	-3.1 (0.1)	0.9	-1.5 (1.7)	6.2 (2.5)
	Q2	2.2 (0.3)	1.0 (0.5)	8.0	-0.3 (1.3)	3.7	3.8 (2.9)	6.6 (1.3)
	Q3	3.3 (1.0)	1.2 (0.4)	8.1	1.7 (0.7)	5.2	3.8 (-1.7)	5.8 (1.0)
	Q4	2.9 (0.3)	1.4 (0.1)	8.3	2.3 (0.5)	4.5	3.0 (0.1)	6.8 (2.0)
2003	H1	2.2	0.8	8.2	2.5	1.7	-1.3	2.7
	Q1	2.0 (0.4)	1.1 (0.1)	9.9	2.9 (0.3)	3.5	1.7 (0.4)	3.7 (-0.4)
	Q2	2.3 (0.6)	0.6 (*)	6.7	2.1 (0.6)	-0.1	-4.2 (-3.0)	1.9 (-0.7)

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.

(*) Change of less than 0.05%.

Table 2.2**Total exports of goods of selected major economies
(year-on-year rate of change in local currency 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>
2002	Annual	-5.1	1.2	22.4	6.4	8.9	1.9	8.0
	H1	-11.0	0.5	14.1	1.3	4.6	-7.9	-3.3
	H2	1.5	1.9	29.6	11.8	13.3	12.8	20.3
	Q1	-15.1	-2.1	10.0	-3.0	-1.0	-15.0	-11.1
	Q2	-6.7	2.9	17.8	5.7	10.1	-0.4	4.9
	Q3	1.0	3.2	28.7	7.4	16.0	16.1	15.9
	Q4	1.9	0.7	30.5	16.2	10.9	9.7	24.6
2003	H1	3.0	-4.1	34.0	3.9	7.0	15.1	17.6
	Q1	4.5	-2.2	33.6	5.1	10.3	20.6	20.8
	Q2	1.5	-5.8	34.3	2.8	4.0	10.1	14.7

Notes : (#) Non-oil domestic exports.

(*) Data on exports in the mainland of China and the Republic of Korea are in US dollar terms.

/Table 2.3

Table 2.3

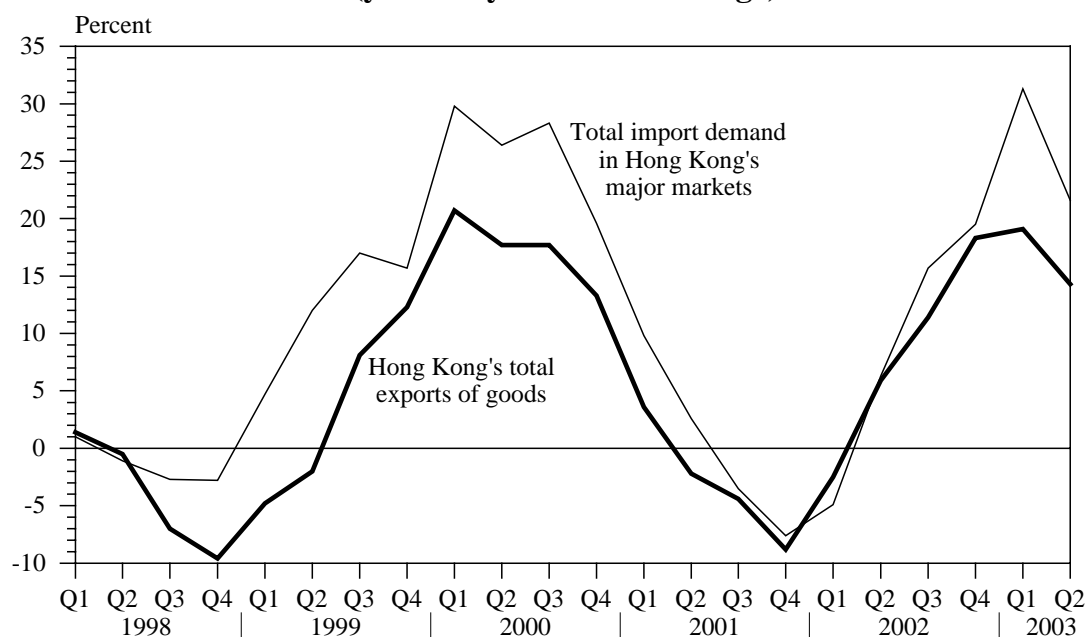
**Imports of goods of selected major economies
(year-on-year rate of change in local currency terms (%))**

		<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>
2002	Annual	1.6	-4.1	21.2	-0.4	7.6	0.4	7.8
	H1	-6.2	-6.8	10.4	-6.3	-1.0	-4.8	-2.2
	H2	10.0	-1.1	31.1	5.8	16.7	5.8	18.5
	Q1	-12.7	-9.1	5.1	-8.2	-8.9	-12.2	-11.4
	Q2	0.5	-4.5	15.0	-4.4	6.8	3.0	7.8
	Q3	7.7	-2.7	29.2	2.1	20.0	5.3	13.8
	Q4	12.3	0.3	33.0	9.4	13.5	6.3	23.1
2003	H1	10.2	-0.4	44.5	7.2	11.5	4.5	21.0
	Q1	14.4	2.7	52.3	8.2	18.7	9.5	30.9
	Q2	6.6	-3.3	38.3	6.3	5.4	-0.1	12.1

Note : (*) Data on imports in the mainland of China and the Republic of Korea are in US dollar terms.

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)**



Note : 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.

2.4 As to exchange rate movements, the US dollar, having turned up briefly upon start of the war on Iraq in mid-March, resumed the weakening trend against the other major currencies for most part of the second quarter of 2003. Conceivably, the weakness was sustained by market concern over the slack performance of the US economy and the huge and enlarging US current account deficit. Comparing the average level in the second quarter of 2003 with that in the first quarter, the US dollar was down further by 5.5% against the euro, by 1.0% against the pound sterling, and by 0.4% against the Japanese yen. With the movement of the Hong Kong dollar tracking closely that of the US dollar under the linked exchange rate system, and also with a larger price decline in Hong Kong than in most of its trading partners, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell further by an average of 0.7% in the second quarter of 2003 over the first quarter. Conceivably, this helped enhance Hong Kong's external price competitiveness further, and rendered support to Hong Kong's robust export performance in recent months.

Table 2.4

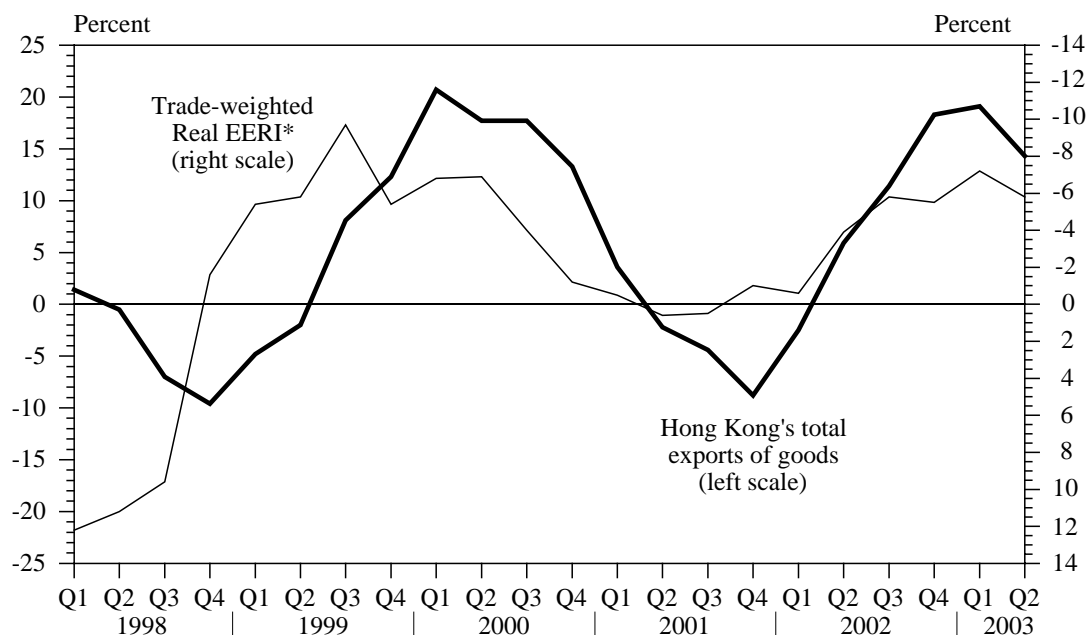
**Exchange rates of the major currencies
and of selected East Asian currencies against the US dollar**

		% change in terms of average in the quarter over the preceding quarter					Korean won
		Japanese yen	Euro	Pound sterling	New Taiwan dollar	Singapore dollar	
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
	Q4	-2.6	1.7	1.5	-2.5	-0.5	-1.9
2003	Q1	2.9	7.2	2.0	0.4	1.3	1.5
	Q2	0.4	5.9	1.0	-0.1	-0.2	-0.6

/Diagram 2.2

Diagram 2.2

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



Note : (*) The Real Effective Exchange Rate Index of the Hong Kong dollar (Real EERI), as compiled by the Hong Kong Monetary Authority, is a weighted average of the exchange rates of the Hong Kong dollar against the currencies of 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 real appreciation of the Hong Kong dollar, and negative changes denote real 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 visible and invisible trade situation

2.5 *Total exports of goods* (comprising re-exports and domestic exports) remained buoyant, surging by 12.2% in value terms over a year earlier to \$418.9 billion in the second quarter of 2003. After netting out the decrease in prices, total exports of goods registered double-digit increase for the fourth quarter in a row, at 14.3% in real terms⁽¹⁾ in the second quarter. Together with a 19.1% leap in the first quarter, total exports of goods surged by 16.5% in real terms in the first half of 2003 over a year earlier, up further from a 14.7% rise

/in

in the second half of 2002. On the monthly profile, there was a slight moderation in export growth in April, to 10.6% in real terms over a year earlier, due to the earlier cut-back in orders at a time when the tension before the war on Iraq loomed high. But exports gathered momentum again in May and June, to growth at 15.4% and 16.7% respectively in real terms. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods increased further, by 2.4% in real terms in the second quarter of 2003, after a 3.2% leap in the first quarter.

2.6 Within total exports of goods, *re-exports*⁽²⁾ continued to show robust growth, surging by 14.4% in value terms over a year earlier to \$390.3 billion in the second quarter of 2003. After netting out the decrease in prices, there was a 17.0% increase in real terms, as against a 22.3% surge in the first quarter. On a year-on-year comparison, the growth in re-exports in real terms likewise had a brief moderation in April, to 13.3%, before picking up again in May and June, to 17.8% and 19.7% respectively. For the first half of 2003 as a whole, re-exports increased distinctly by 19.4% in real terms over a year earlier, following a 17.7% surge in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose further, by 2.7% in real terms in the second quarter of 2003, following a 4.0% increase in the first quarter.

2.7 In contrast, *domestic exports* plunged further, by 11.4% in value terms over a year earlier to \$28.5 billion in the second quarter of 2003, under the influence of an on-going structural shift towards re-exports and offshore trade⁽³⁾. After netting out the increase in prices, domestic exports plummeted even more, by 12.6% in real terms, following a 12.0% fall in the first quarter. Domestic exports declined throughout the three months of the second quarter, with the most significant year-on-year decrease in April, by 18.1% in real terms, and then with lesser declines by 8.9% and 11.2% respectively in May and June. For the first half of 2003 as a whole, domestic exports shrank further by 12.3% in real terms over a year earlier, enlarged from the 10.2% dip in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, domestic exports declined further, by 1.8% in real terms in the second quarter of 2003, following a 6.3% fall in the first quarter.

/Table 2.5

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

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2002	Annual	5.4	8.6	-2.7	7.7	10.9	-2.7	-14.7	-11.3	-3.3
	H1	-1.6	1.8	-3.1	0.2	3.5	-2.9	-17.7	-12.5	-4.4
	H2	11.8	14.7	-2.4	14.6	17.7	-2.4	-11.9	-10.2	-2.2
	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
	Q4	15.5	18.3	-2.3	18.8	22.1	-2.4	-13.6	-12.9	-1.2
2003	H1	14.7	16.5	-1.1	17.2	19.4	-1.3	-11.0	-12.3	0.8
	Q1	17.6	19.1	-0.9	20.3	22.3	-1.1	-10.4	-12.0	0.8
	Q2	12.2	14.3	-1.4	14.4	17.0	-1.6	-11.4	-12.6	0.7
	Apr	9.0	10.6	-1.1	11.3	13.3	-1.3	-16.9	-18.1	0.8
	May	13.6	15.4	-1.2	15.6	17.8	-1.4	-7.8	-8.9	0.7
	Jun	14.0	16.7	-1.8	16.5	19.7	-2.0	-10.4	-11.2	0.7

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

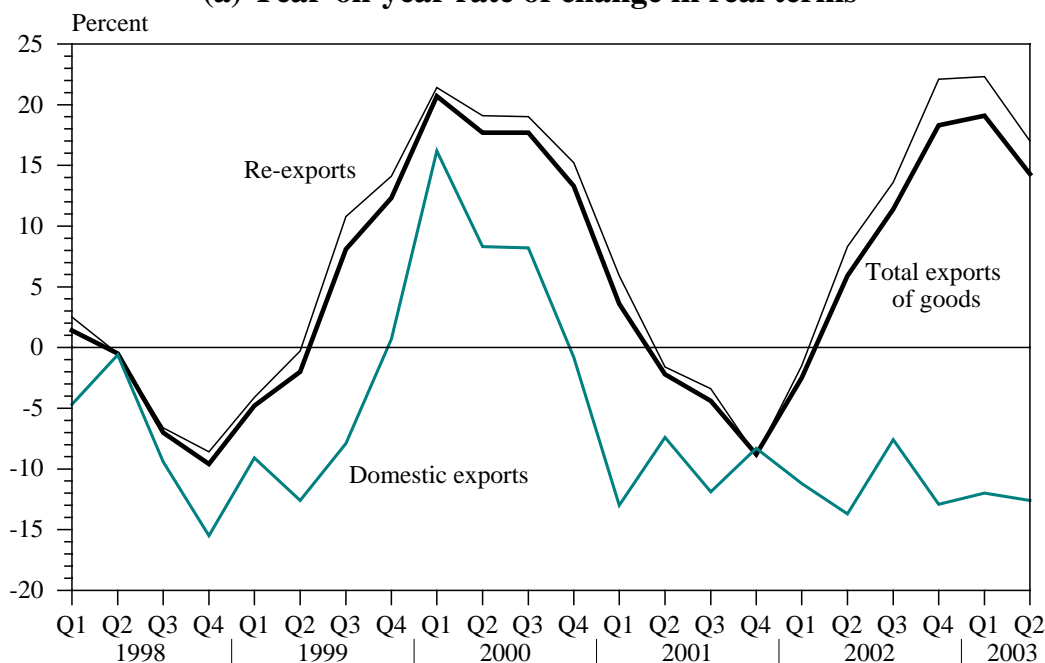
		<u>Total exports of goods</u>		<u>Re-exports</u>		<u>Domestic exports</u>	
2002	Q1		4.5		5.7		-5.6
	Q2		5.8		6.6		-2.0
	Q3		4.0		4.5		-0.7
	Q4		4.0		4.7		-4.3
2003	Q1		3.2		4.0		-6.3
	Q2		2.4		2.7		-1.8

/Diagram 2.3

Diagram 2.3

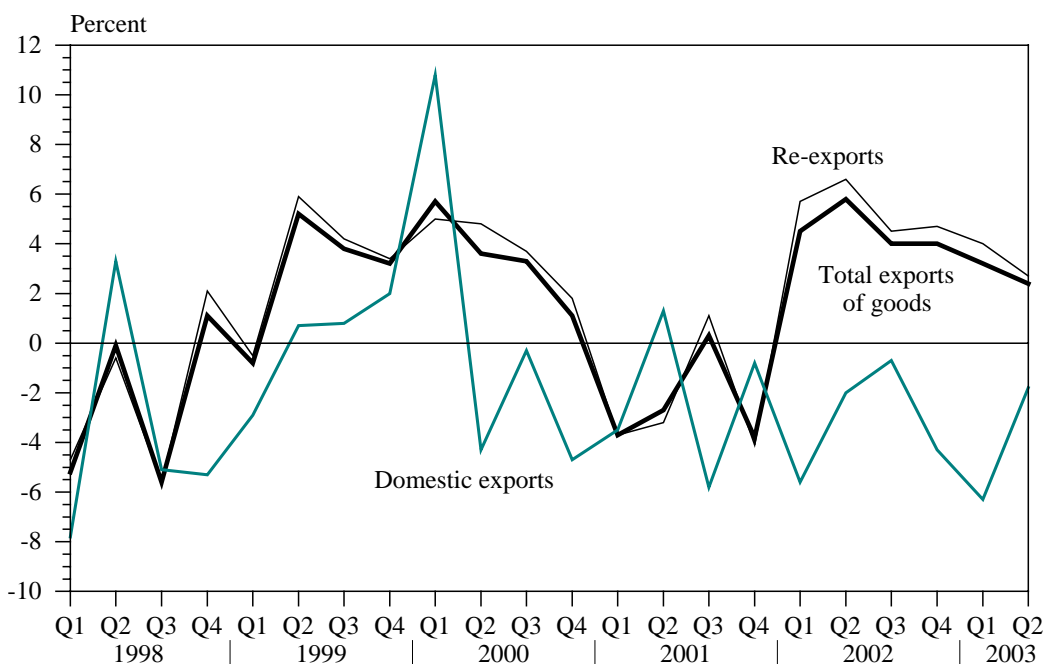
Total exports of goods, re-exports and domestic exports

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



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.

(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.

2.8 *Imports of goods* likewise rose further, by 9.6% in value terms over a year earlier to \$432.2 billion in the second quarter of 2003. After netting out a marginal decline in prices, the increase was 10.6% in real terms, after an 18.7% leap in the first quarter. Mirroring closely the trend in re-exports, imports of goods eased to an 8.8% growth in real terms in April over a year earlier, and then accentuated to growth at 10.0% and 12.9% respectively in May and June. *Retained imports* were however slack throughout the second quarter, as imports for local use were cut back sharply upon the spread of SARS in Hong Kong during the period. Retained imports recorded declines in real terms at 0.1%, 5.2% and 0.3% respectively in April, May and June over a year earlier, bringing the decline for the second quarter as a whole to 1.9%, sharply down from the 11.5% increase in the first quarter. For the first half of 2003 as a whole, imports of goods had significant growth at 14.3% in real terms over a year earlier, while retained imports still rose by 4.3%. These compared with the respective increases by 14.3% and 7.5% in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of goods and retained imports both fell back distinctly, by 1.1% and 9.6% respectively in real terms in the second quarter of 2003, following increases by 3.6% and 2.9% in the first 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>
2002	Annual	3.3	7.8	-3.9	-9.0	1.8	-9.7
	H1	-4.2	0.9	-4.8	-15.6	-3.9	-11.7
	H2	10.5	14.3	-3.0	-2.1	7.5	-7.6
	Q1	-9.1	-4.1	-4.9	-19.7	-8.9	-11.6
	Q2	0.4	5.7	-4.6	-11.7	0.8	-11.7
	Q3	6.5	10.8	-3.6	-6.0	5.2	-9.6
	Q4	14.9	18.1	-2.3	2.2	10.0	-5.5
	2003	H1	13.4	14.3	-0.2	4.7	4.3
Q1		17.8	18.7	-0.1	11.8	11.5	1.9
Q2		9.6	10.6	-0.3	-1.5	-1.9	2.8
Apr		8.4	8.8	0.1	1.5	-0.1	3.2
May		9.4	10.0	-0.2	-5.1	-5.2	2.3
Jun		11.5	12.9	-0.6	0.1	-0.3	2.6

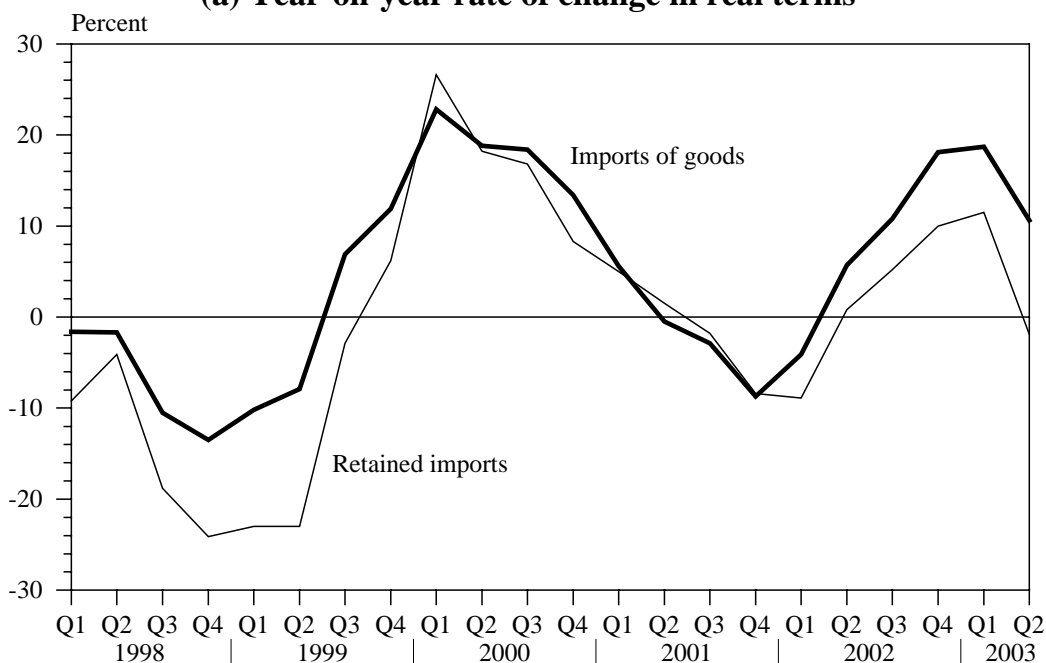
Note : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

/Diagram 2.4

Diagram 2.4

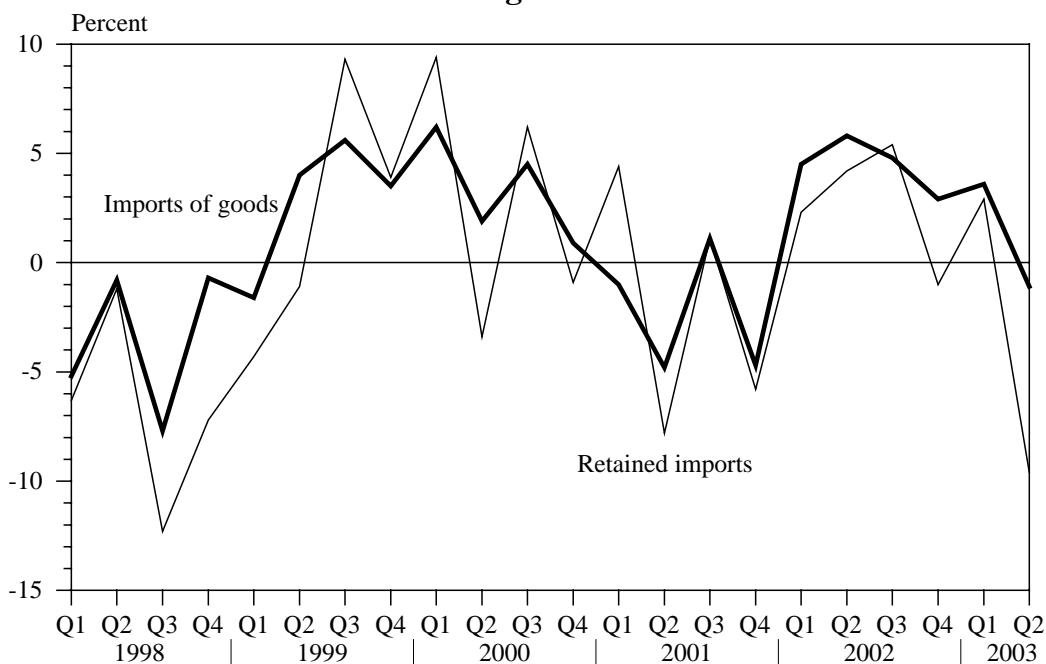
Imports of goods and retained imports

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



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

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



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

/Table 2.8

Table 2.8

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

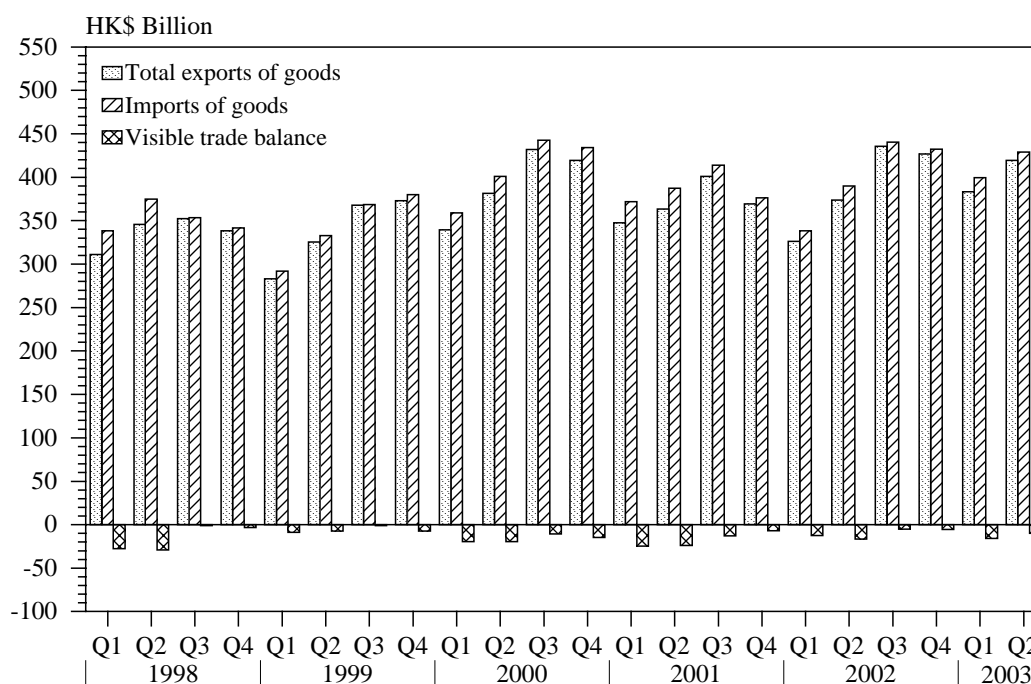
		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)
2002	Q1	4.5	2.3
	Q2	5.8	4.2
	Q3	4.8	5.4
	Q4	2.9	-1.0
2003	Q1	3.6	2.9
	Q2	-1.1	-9.6

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

2.9 With a faster growth in total exports of goods than in imports of goods in value, the *visible trade deficit* reckoned on a GDP basis⁽⁴⁾ narrowed to \$9.8 billion or 2.3% of the value of imports of goods in the second quarter of 2003, from \$16.4 billion or 4.2% in the same quarter in 2002. In the first half of 2003, the visible trade deficit also narrowed, to \$25.8 billion or 3.1% of the value of imports of goods, from \$28.8 billion or 4.0% in the same period in 2002.

Diagram 2.5

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



/2.10

2.10 On invisible trade, *exports of services* plummeted by 17.6% in value terms over a year earlier to \$68.7 billion in the second quarter of 2003. After netting out the decline in prices, there was still a significant decrease by 14.7% in real terms, in stark contrast to a 12.6% rise in the first quarter. The abrupt fall-off in exports of services was caused entirely by the shock impact of SARS, with inbound tourism and exports of transportation services both considerably down in the second quarter. Continued robust growth in offshore trade rendered only a partial offset. For the first half of 2003 as a whole, exports of services fell by 1.4% in real terms over a year earlier, sharply reversing the 16.1% surge in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, exports of services were markedly down by 21.1% in real terms in the second quarter of 2003, having fallen by 3.4% in the first quarter.

2.11 *Imports of services* plunged even more, by 18.3% in value terms over a year earlier to \$37.2 billion in the second quarter of 2003. After netting out the increase in prices, imports of services fell by 19.6% in real terms, distinctly enlarged from the 3.9% decrease in the first quarter. Outbound travel and related spending, which accounted for over half of imports of services, had been severely deterred by the SARS situation elsewhere in the region and the arrival restrictions and post-arrival quarantine imposed in some of the destinations on people travelling from Hong Kong. For the first half of 2003 as a whole, imports of services slumped by 11.5% in real terms over a year earlier, as against a 2.7% rise in the second half of 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of services fell significantly, by 17.7% in real terms in the second quarter of 2003, enlarged from the 6.9% decrease in the first 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>
2002	Annual	9.6	11.7	-1.9	0.5	0.2	0.2
	H1	3.3	6.8	-3.3	-3.5	-2.2	-1.3
	H2	15.4	16.1	-0.6	4.5	2.7	1.7
	Q1	1.4	6.0	-4.3	-3.2	-0.7	-2.4
	Q2	5.2	7.7	-2.4	-3.8	-3.8	*
	Q3	13.2	13.9	-0.6	3.5	2.0	1.4
	Q4	17.5	18.1	-0.5	5.5	3.4	2.0
2003	H1	-3.4	-1.4	-2.0	-9.3	-11.5	2.5
	Q1	11.8	12.6	-0.7	-0.6	-3.9	3.4
	Q2	-17.6	-14.7	-3.4	-18.3	-19.6	1.6

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

Table 2.10

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

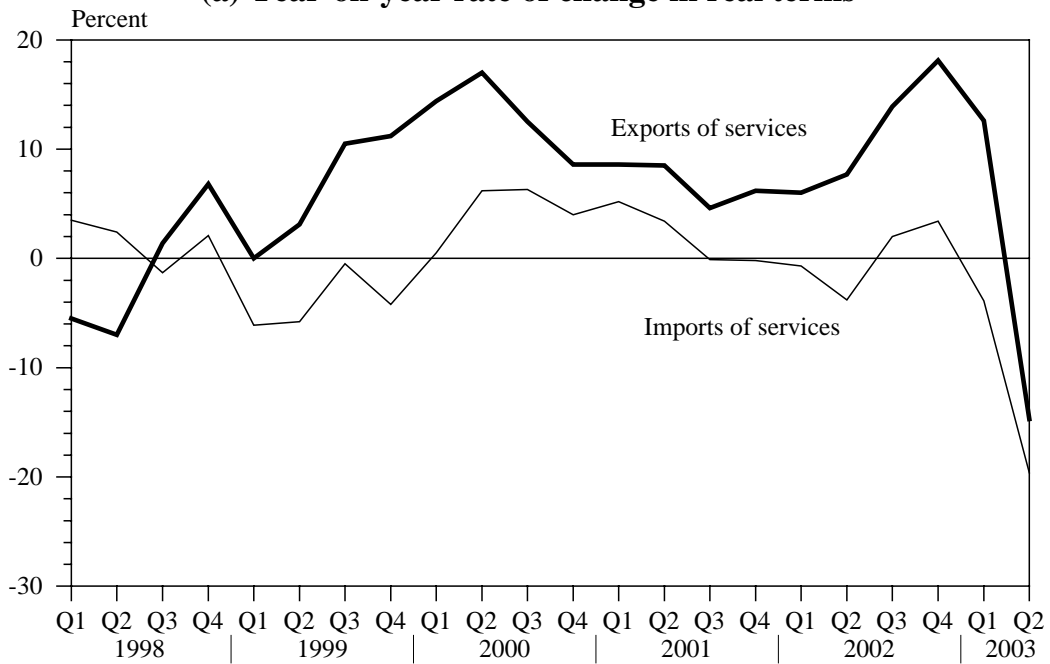
		<u>Exports of services</u>	<u>Imports of services</u>
2002	Q1	1.9	0.4
	Q2	4.3	-1.6
	Q3	6.1	3.8
	Q4	5.1	1.1
2003	Q1	-3.4	-6.9
	Q2	-21.1	-17.7

/Diagram 2.6

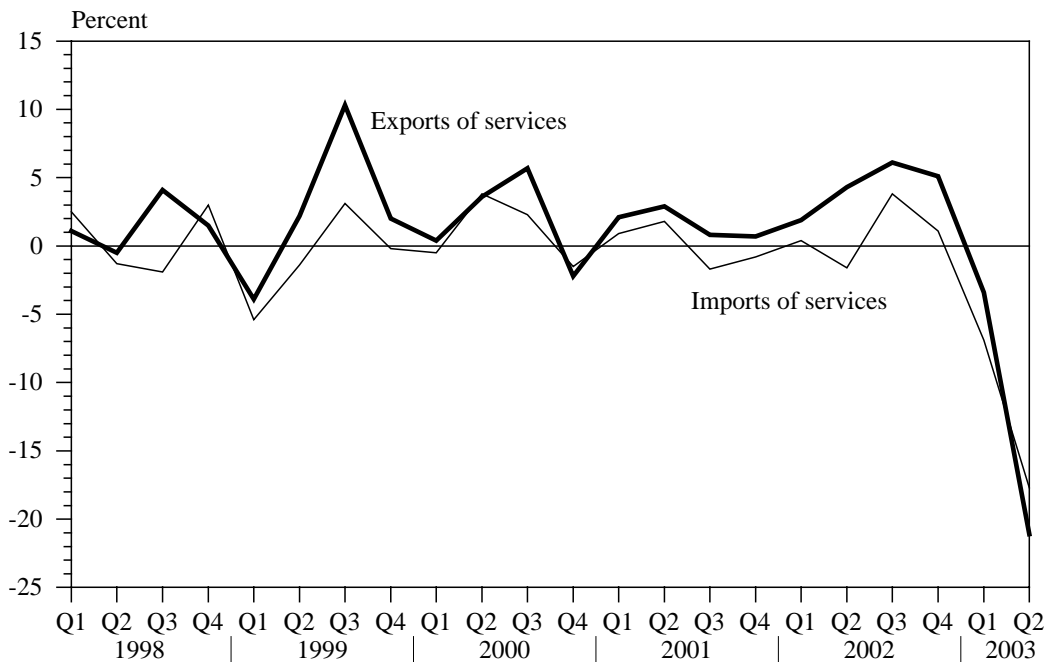
Diagram 2.6

Exports and imports of services

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



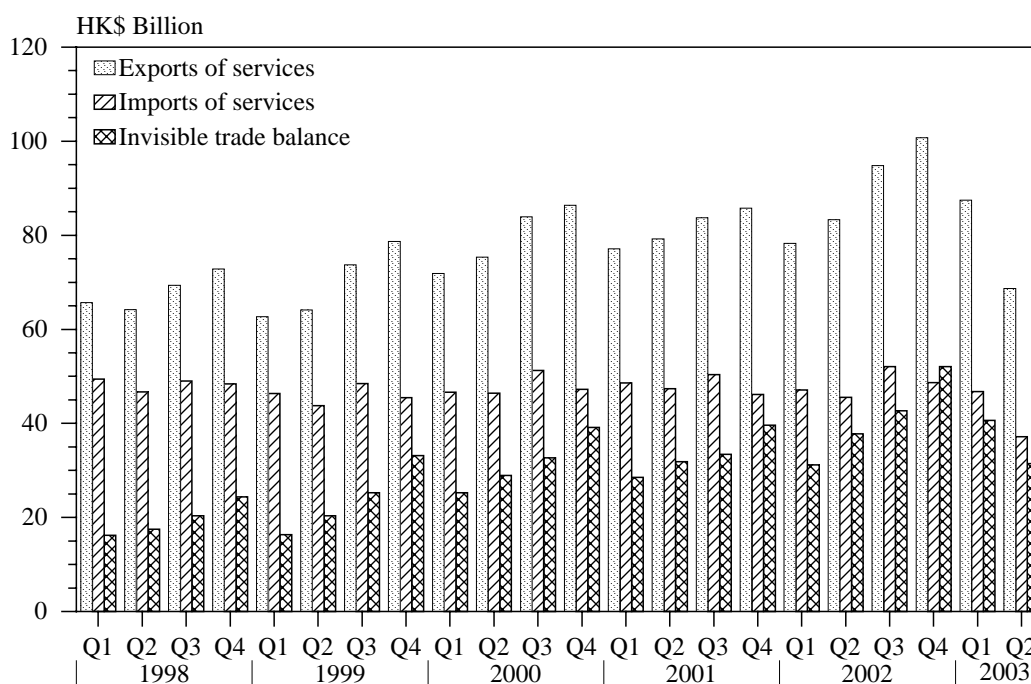
(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



/Diagram 2.7

Diagram 2.7

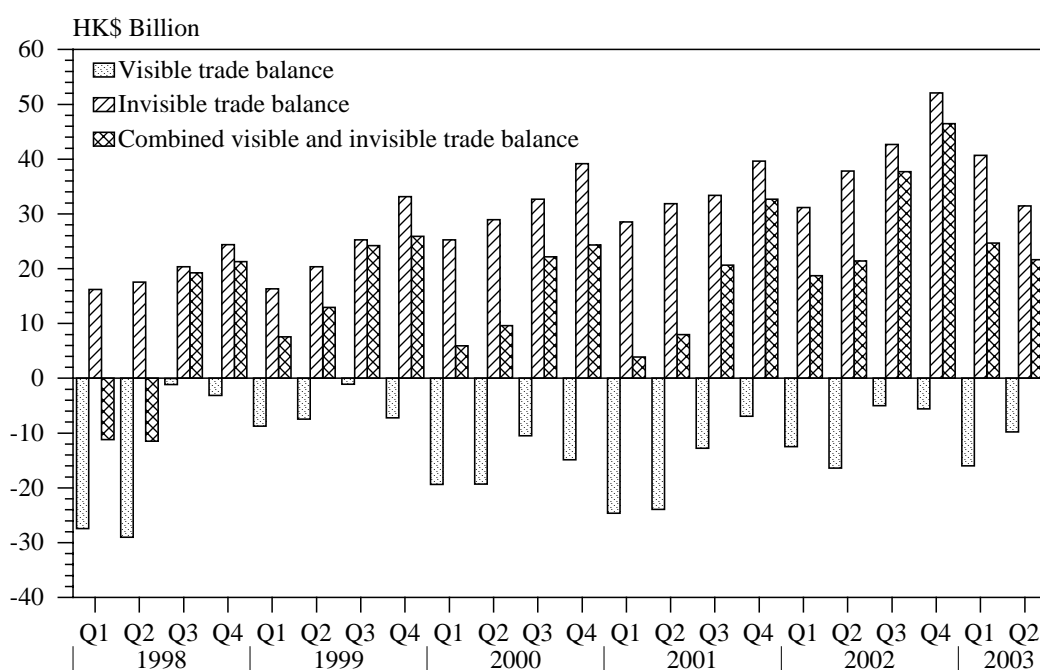
Value of Hong Kong's invisible trade and the invisible trade balance



2.12 Taking exports and imports of services together, the *invisible trade surplus*⁽⁵⁾ reckoned on a GDP basis declined to \$31.5 billion or 84.6% of the value of imports of services in the second quarter of 2003, from \$37.8 billion or 83.0% in the same quarter in 2002. For the first half of 2003 as a whole, the invisible trade surplus still enlarged, to \$72.1 billion or 85.9% of the value of imports of services, from \$69.0 billion or 74.5% in the same period in 2002.

2.13 With the reduction in the invisible trade surplus offset by the reduction in the visible trade deficit, the combined surplus reckoned on a GDP basis was broadly unchanged in the second quarter of 2003, at \$21.7 billion or 4.6% of the total value of imports of goods and services, as against \$21.4 billion or 4.9% in the same quarter in 2002. For the first half of 2003 as a whole, the combined surplus rose to \$46.3 billion or 5.1% of the total value of imports of goods and services, from \$40.1 billion or 4.9% in the same period in 2002.

/Diagram 2.8

Diagram 2.8**Visible and invisible trade balance**

Note : See the first footnote to 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>
2002	Annual	1,562.1	357.1	1,601.5	193.4	-39.4	163.7	124.3
	H1	699.8	161.6	728.6	92.6	-28.8	69.0	40.1
	H2	862.3	195.6	872.9	100.8	-10.6	94.8	84.2
	Q1	326.1	78.2	338.5	47.1	-12.4	31.2	18.7
	Q2	373.7	83.3	390.1	45.5	-16.4	37.8	21.4
	Q3	435.5	94.8	440.5	52.1	-5.0	42.7	37.7
	Q4	426.8	100.8	432.4	48.7	-5.6	52.1	46.5
2003	H1	802.8	156.1	828.6	84.0	-25.8	72.1	46.3
	Q1	383.4	87.4	399.4	46.8	-16.0	40.7	24.7
	Q2	419.3	68.7	429.1	37.2	-9.8	31.5	21.7

Notes : Figures in this table are reckoned on a GDP 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.

/Visible

Visible trade

Total exports of goods

2.14 Reflecting the intimate trade relations 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 58% by value in the first half of 2003. This was followed by North America⁽⁷⁾ (with a share of 19%), and the European Union⁽⁸⁾ (13%).

2.15 The region remained the key driver of Hong Kong's export growth in the first half of 2003. Total exports of goods to *East Asia* as a whole surged by 20.9% in real terms in the second quarter of 2003 over a year earlier. Together with a 23.6% rise in the first quarter, total exports of goods to the region leaped by 22.2% in real terms for the first half of 2003 as a whole over a year earlier. This was further up from the already robust growth of 19.2% in the second half of 2002. In the second quarter, exports to Japan, the Republic of Korea and Singapore picked up further to distinct growth, while exports to the Mainland, Taiwan and Indonesia continued to grow strongly, albeit relatively not so fast as in the first quarter. By contrast, exports to Thailand and Malaysia moderated considerably in growth.

2.16 Total exports of goods to *North America* however slackened markedly, to a 3.3% decline in real terms in the second quarter of 2003 over a year earlier, from a 9.1% rise in the first quarter. Apparently, the earlier war tension had led to some cut-back in export orders particularly from the United States. For the first half of 2003 as a whole, total exports of goods to this area eased distinctly to a 2.2% increase in real terms over a year earlier, from a robust growth of 10.8% in the second half of 2002.

2.17 Yet total exports of goods to the *European Union* continued to soar, by 19.4% in real terms in the second quarter of 2003 over a year earlier. Together with a 17.8% surge in the first quarter, there was a strong rise of 18.6% for the first half of 2003 as a whole, representing a further significant pick-up from the 6.6% rise in the second half of 2002. This could have much to do with the relative strength of the euro, which enhanced considerably the price attractiveness of Hong Kong's exports in the EU market.

/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)
2002	Annual	13.4	3.9	-0.4
	H1	7.1	-4.1	-8.1
	H2	19.2	10.8	6.6
	Q1	4.8	-12.4	-12.1
	Q2	9.3	3.5	-3.9
	Q3	14.7	9.5	3.6
	Q4	23.9	12.3	9.7
2003	H1	22.2	2.2	18.6
	Q1	23.6	9.1	17.8
	Q2	20.9	-3.3	19.4

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

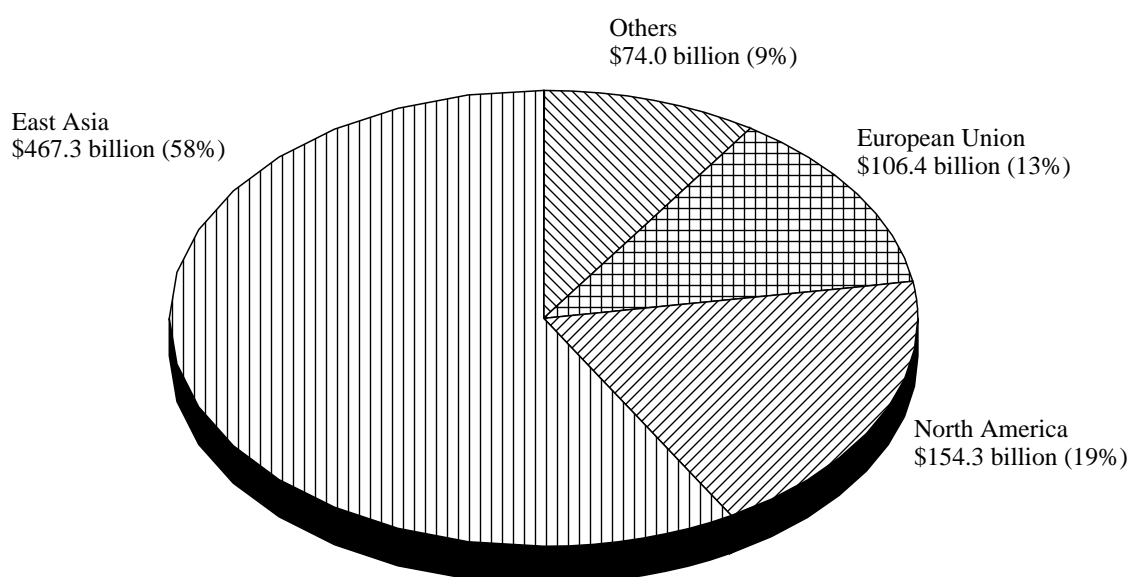
(b) For the coverage of North America, see Note (7).

(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.

Diagram 2.9

Total exports of goods by major region in the first half of 2003

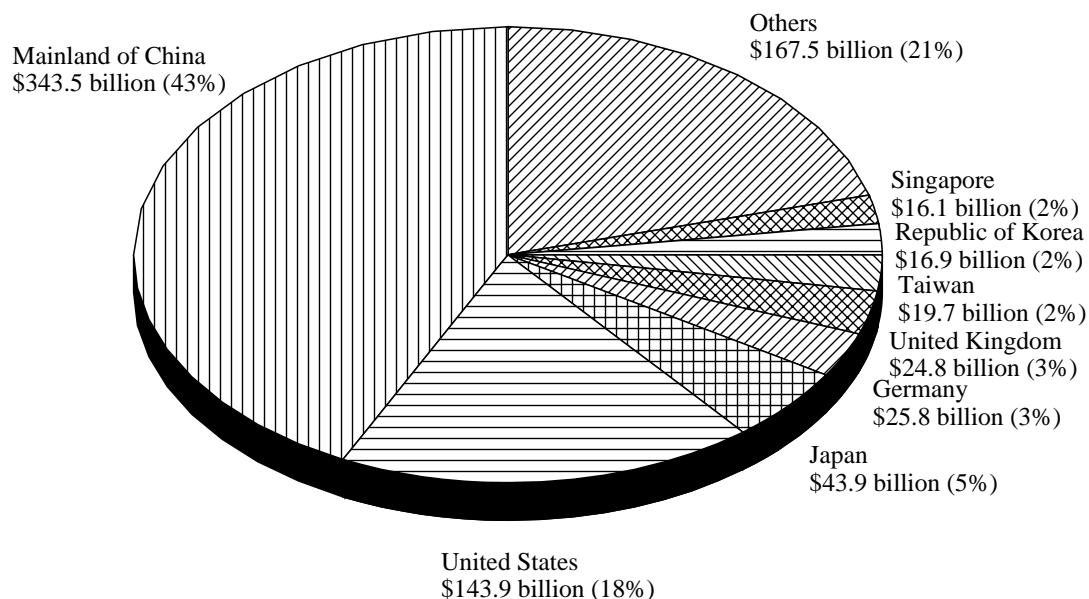


Total exports of goods in the first half of 2003 : \$802.0 billion

2.18 The Mainland remained the largest single *market* for Hong Kong's total exports of goods, taking up 43% of the total value in the first half of 2003. This was followed by the United States (with a share of 18%), Japan (5%), Germany (3%), the United Kingdom (3%), Taiwan (2%), the Republic of Korea (2%), and Singapore (2%).

Diagram 2.10

Total exports of goods by major market in the first half of 2003



Total exports of goods in the first half of 2003 : \$802.0 billion

/Table 2.13

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

	<u>2002</u>			<u>First half of 2003</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	1,560.5	100	5.4	802.0	100	14.7
Mainland of China	613.2	39	12.3	343.5	43	23.7
United States	333.0	21	1.0	143.9	18	0.4
Japan	83.7	5	-4.5	43.9	5	15.1
Germany	48.8	3	-5.3	25.8	3	22.6
United Kingdom	54.2	3	-2.0	24.8	3	6.8
Taiwan	34.6	2	-2.2	19.7	2	20.9
Republic of Korea	30.4	2	17.2	16.9	2	17.1
Singapore	31.6	2	6.8	16.1	2	7.9
Rest of the world	331.0	21	3.5	167.5	21	11.4

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

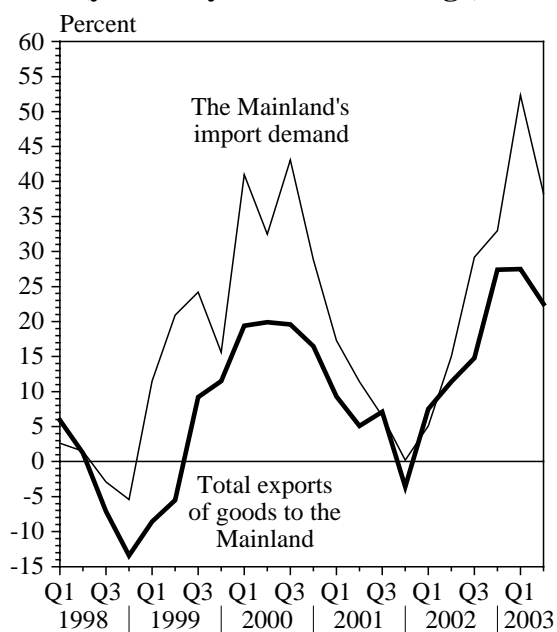
		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>Japan</u>	<u>Germany</u>	<u>United</u> <u>Kingdom</u>	<u>Taiwan</u>	<u>Republic</u> <u>of Korea</u>	<u>Singapore</u>
2002	Annual	15.5	3.7	-1.0	-2.4	0.7	2.1	20.8	11.7
	H1	9.5	-4.5	-8.4	-11.2	-6.0	-3.7	16.0	8.5
	H2	20.8	10.8	6.0	5.3	6.4	7.8	25.5	14.7
	Q1	7.5	-13.1	-10.4	-16.2	-10.7	-5.2	16.7	3.4
	Q2	11.4	3.6	-6.1	-5.4	-1.4	-2.2	15.3	14.0
	Q3	14.8	9.9	1.6	3.9	5.2	14.9	22.4	11.4
	Q4	27.4	12.0	10.5	6.7	7.7	1.6	28.3	18.0
2003	H1	24.8	2.0	16.8	26.1	8.7	23.2	19.8	9.9
	Q1	27.5	9.4	15.0	26.5	8.5	26.9	12.4	7.4
	Q2	22.5	-3.7	18.6	25.8	8.9	19.7	27.7	12.3
	Apr	20.7	-7.6	11.5	24.8	6.1	23.3	26.2	-3.7
	May	20.9	-0.8	21.3	27.2	7.4	9.8	21.5	18.7
	Jun	26.0	-2.8	23.3	25.5	12.9	27.1	36.1	22.7

/2.19

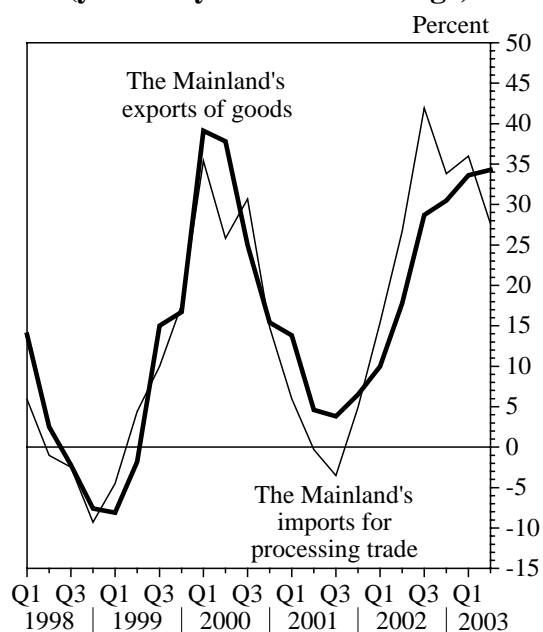
2.19 Total exports of goods to the *Mainland* continued to register vibrant growth, with a 22.5% surge in real terms in the second quarter of 2003 over a year earlier, following a 27.5% growth in the first quarter. For the first half of 2003 as a whole, total exports to the Mainland picked up further to a considerable growth of 24.8% in real terms over a year earlier, further accentuated from an already strong growth of 20.8% in the second half of 2002. Growth in real terms in exports to this market remained at over 20% throughout the second quarter, as the Mainland's highly robust performance of its own exports should have continued to boost the intake of materials for export processing as well as intake of machinery for production use. Intake of goods for meeting its own demand should have also held up.

Diagram 2.11

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



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



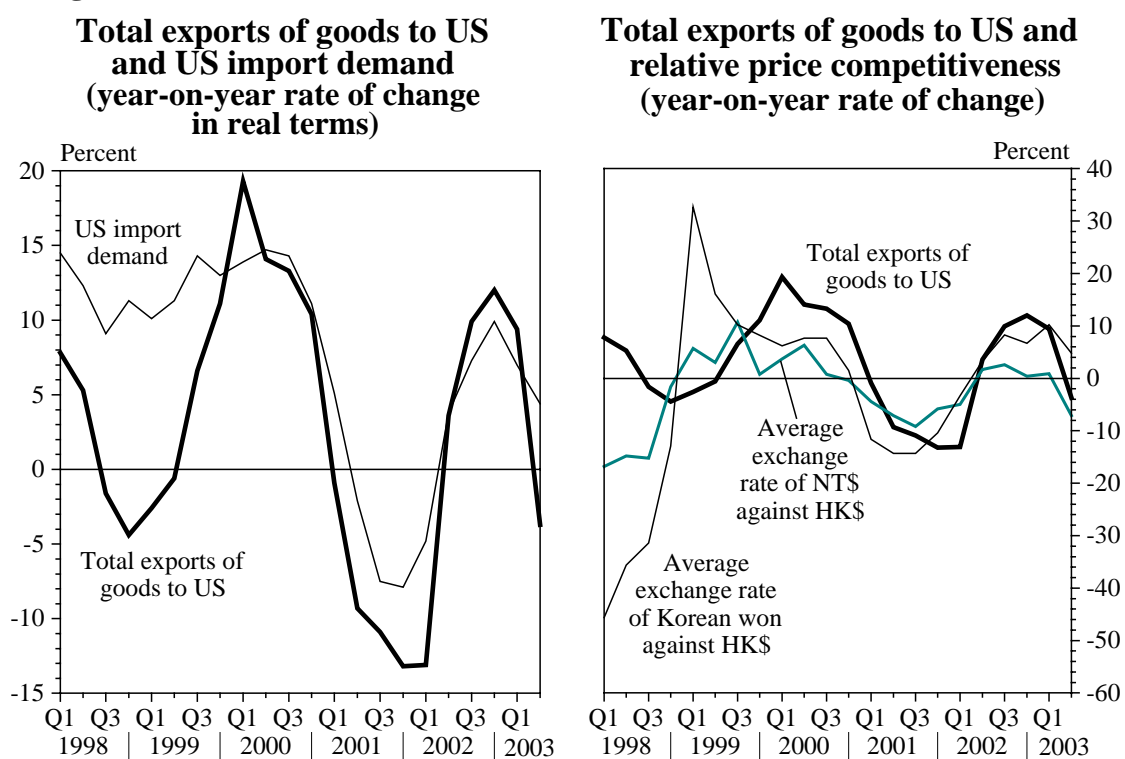
Note : Total exports of goods to this market as depicted refer to the year-on-year rate of change in real terms, while import demand in this market refers to the year-on-year rate of change in US dollar terms.

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

/2.20

2.20 On the other hand, total exports of goods to the *United States*, after leaping by 9.4% in the first quarter, switched back to decline by 3.7% in real terms in the second quarter of 2003 over a year earlier. This gave only a mild increase by 2.0% in real terms for the first half of 2003 as a whole over a year earlier, markedly down from the 10.8% surge in the second half of 2002. The fall-off in the second quarter was particularly distinct for exports of consumer goods and of raw materials and semi-manufactures. It was mainly due to an easing in the respective import intake in this market, as some shipments might have been advanced amidst the heightened war tension in Iraq, and also as companies there were more cautious in placing orders in face of the war.

Diagram 2.12



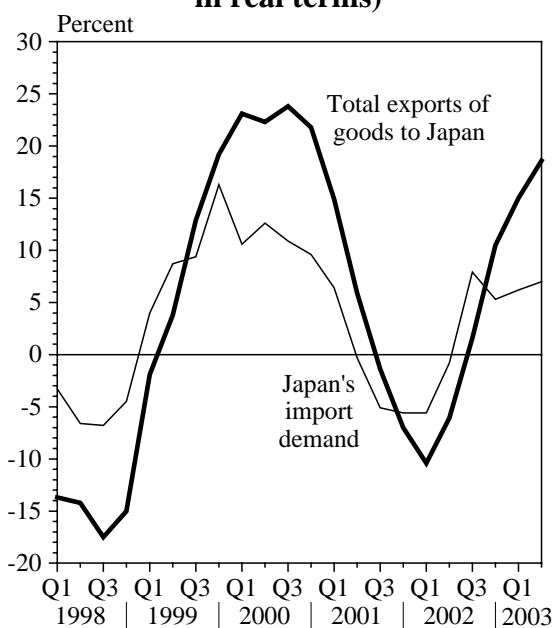
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.21

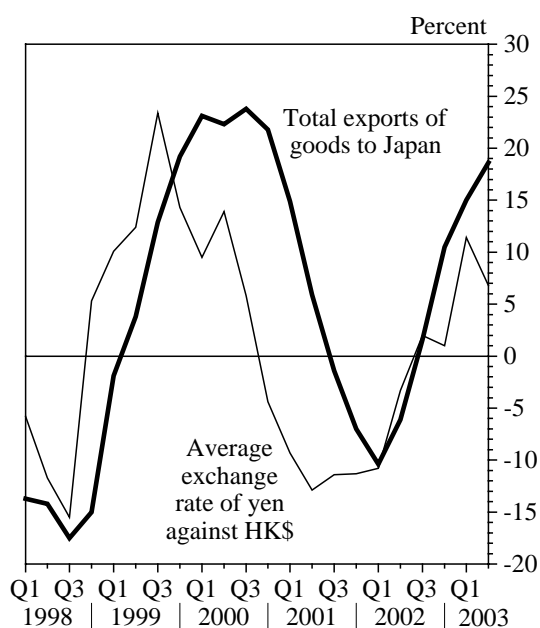
2.21 After an already significant growth of 15.0% in the first quarter, total exports of goods to *Japan* picked up further to an 18.6% surge in real terms in the second quarter of 2003 over a year earlier. This gave a distinct rise of 16.8% in real terms for the first half of 2003 as a whole over a year earlier, markedly up from the 6.0% increase in the second half of 2002. The resilient export production activity in Japan, coupled with a relatively stronger yen, should have continued to render support to Hong Kong's exports to this market.

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)



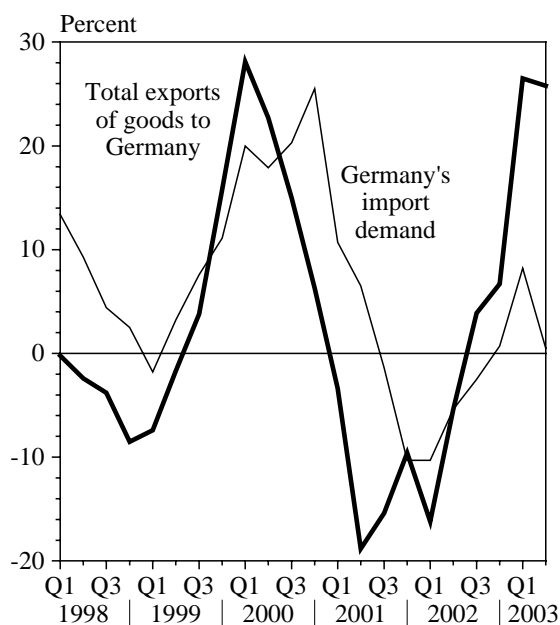
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.22

2.22 Total exports of goods to *Germany* continued with a robust performance since the early part of this year, with growth at 25.8% in real terms in the second quarter of 2003 over a year earlier. Together with a 26.5% leap in the first quarter, total exports of goods to Germany surged by 26.1% in real terms for the first half of 2003 as a whole over a year earlier, significantly up from the 5.3% rise in the second half of 2002. While import demand in Germany remained on the rise in the second quarter, the relative strength of the euro should have also accorded a boost to Hong Kong's exports to this market.

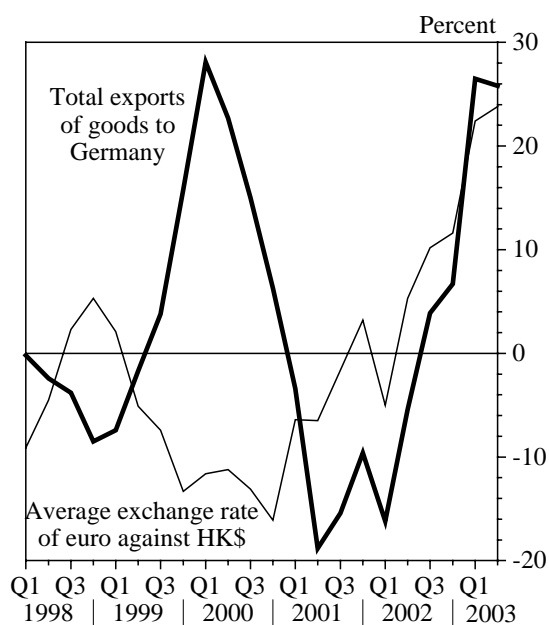
Diagram 2.14

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)



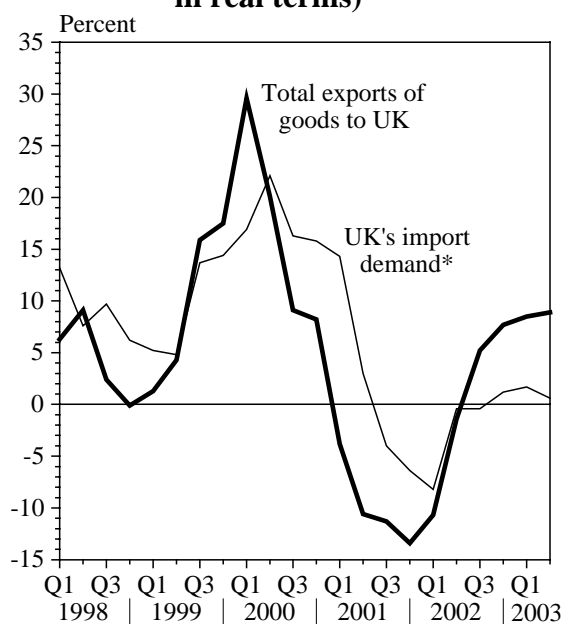
Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

/2.23

2.23 Total exports of goods to the *United Kingdom* remained on the rise. There was a further growth of 8.9% in real terms in the second quarter of 2003 over a year earlier, after an 8.5% leap in the first quarter. For the first half of 2003 as a whole, total exports of goods to this market grew by 8.7% in real terms over a year earlier, following a 6.4% rise in the second half of 2002. UK's import demand actually decelerated slightly in growth in the second quarter, partly due to an advancement in shipments to the first quarter, and conceivably also due to a cut-back in orders during the war period. Yet against these, the further strengthening in the pound sterling should have given support to Hong Kong's exports to this market.

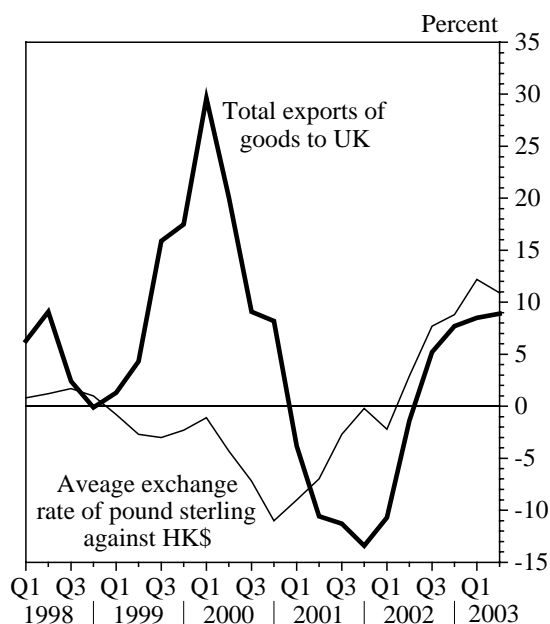
Diagram 2.15

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)

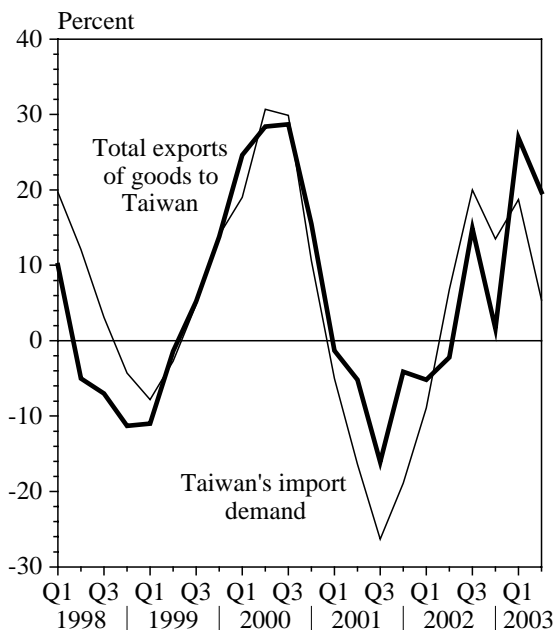


Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

2.24 Total exports of goods to *Taiwan* held up well in the second quarter of 2003, growing by 19.7% in real terms over a year earlier, notwithstanding a rather erratic profile within that quarter. Together with an even more distinct surge by 26.9% in the first quarter, total exports of goods to Taiwan rose sharply by 23.2% in real terms for the first half of 2003 as a whole over a year earlier, after a milder growth at 7.8% in the second half of 2002. The much accentuated increase in the first half of this year was mainly underpinned by an upsurge in exports of material inputs and a further leap in exports of capital goods to this market. Exports of consumer goods also rebounded distinctly, after the dip last year.

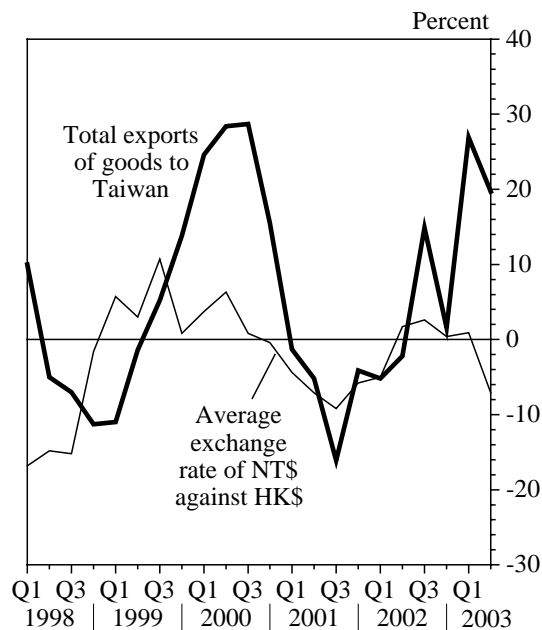
Diagram 2.16

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



Note : See the footnote to Diagram 2.14.

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

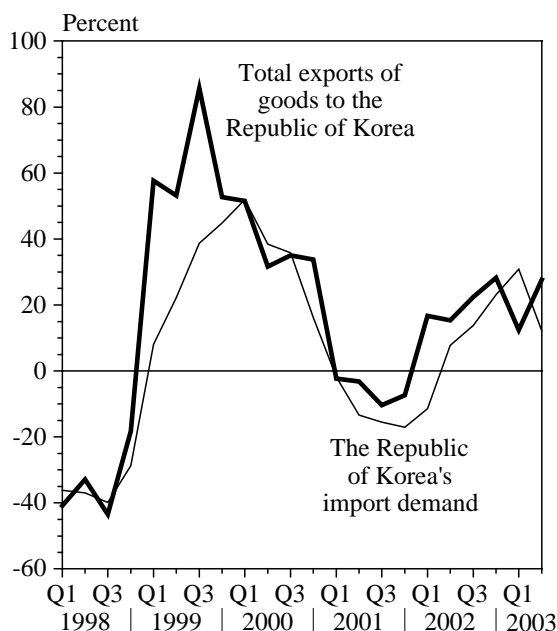


Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.25

2.25 Total exports of goods to the *Republic of Korea* picked up again to a highly robust growth at 27.7% in real terms in the second quarter of 2003 over a year earlier, having moderated to a 12.4% growth in the first quarter from the much faster increases in the latter part of 2002. Taken together, total exports of goods to this market grew significantly by 19.8% in real terms for the first half of 2003 as a whole over a year earlier, following a 25.5% surge in the second half of 2002. The conspicuous pick-up in the second quarter was mainly contributed by an upsurge in exports of capital goods, and to a lesser extent also by a faster growth in exports of material inputs.

Diagram 2.17
Total exports of goods to the Republic of Korea and the Republic of Korea's import demand
 (year-on-year rate of change)



Note : See the footnote to Diagram 2.11.

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



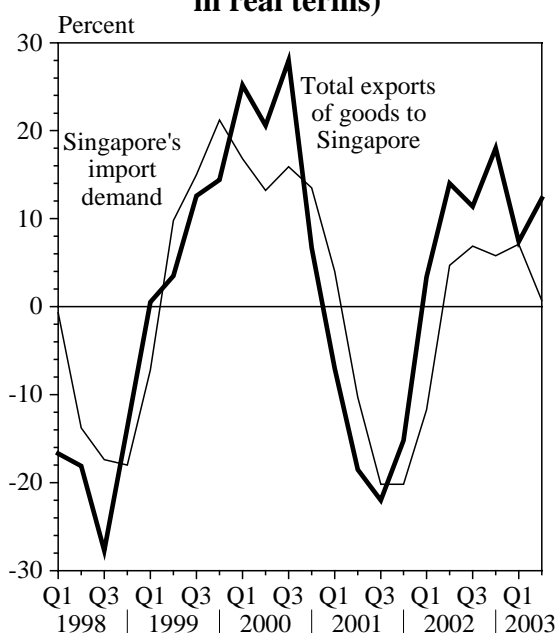
Note : (+) represents appreciation and (-) represents depreciation of the Korean won against HK\$.

/2.26

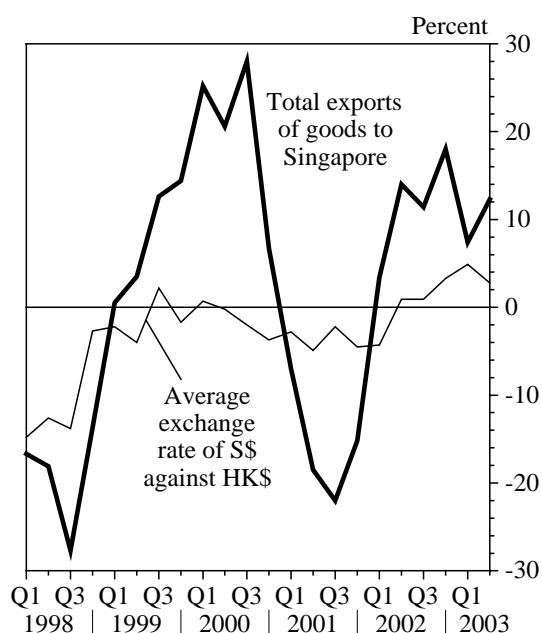
2.26 Total exports of goods to *Singapore*, having decelerated much to a 7.4% rise in the first quarter, picked up again to a 12.3% growth in real terms in the second quarter of 2003 over a year earlier. This gave a 9.9% rise in real terms for the first half of 2003 as a whole over a year earlier, moderated considerably from the 14.7% growth in the second half of 2002. The overall growth was mainly driven by exports of capital goods, whereas exports in other end-use categories to this market were generally slack.

Diagram 2.18

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)



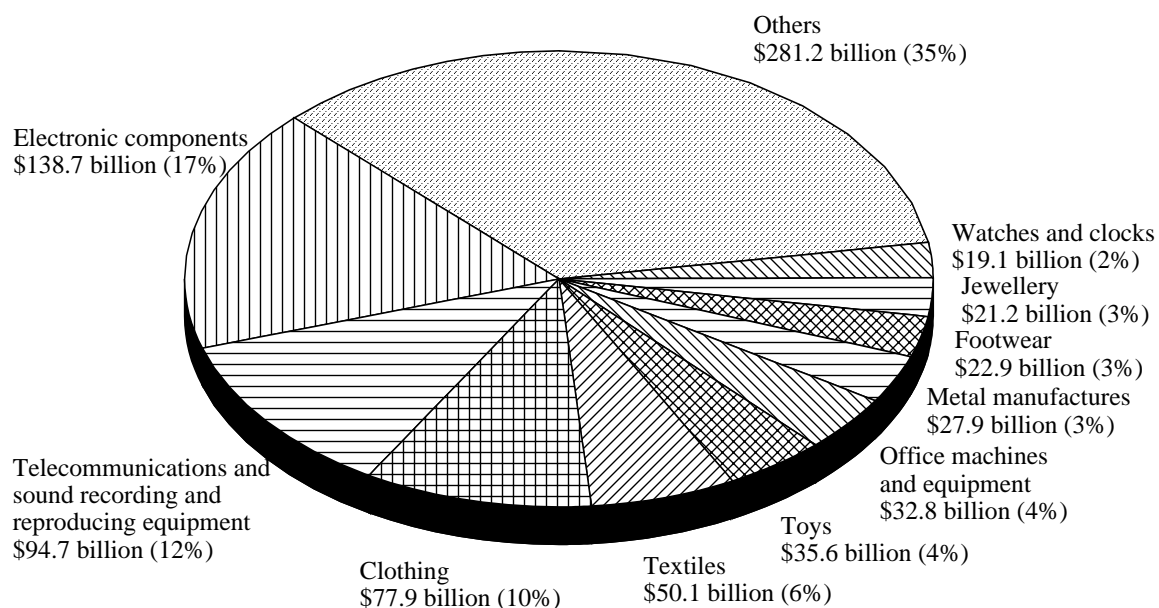
Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.27

2.27 Analysed by major *commodity group*, electronic components continued to account for the largest share in Hong Kong's total exports of goods, at 17% of the total value in the first half of 2003. Telecommunications and sound recording and reproducing equipment came next (with a share of 12%), followed by clothing (10%), textiles (6%), toys (4%), and office machines and equipment (4%). Exports of electronic components and of telecommunications products continued to register highly distinct growth in the first half of this year. Yet exports of clothing, textiles and toys moderated in growth in the second quarter, weighing down the relatively faster growth in the first quarter to yield more modest increases for the first half of this year. Exports of office machines and equipment fell further in both the first and second quarters of this year.

Diagram 2.19

**Total exports of goods by major commodity group
in the first half of 2003**



Total exports of goods in the first half of 2003 : \$802.0 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>Telecom -munications and sound recording and reproducing equipment</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Toys</u>	<u>Office machines and equipment</u>
2002	Annual	20.4	24.6	-1.1	5.5	1.4	31.1
	H1	9.4	10.7	-5.5	2.3	-5.2	36.4
	H2	30.9	36.3	2.4	8.6	6.0	26.4
	Q1	5.1	6.6	-7.7	-7.3	-12.6	37.8
	Q2	13.6	14.7	-3.6	10.3	1.5	35.0
	Q3	22.8	40.1	5.4	5.5	-1.8	18.7
	Q4	39.0	32.7	-0.9	11.9	17.5	33.9
2003	H1	39.3	33.7	5.5	7.1	7.9	-4.6
	Q1	37.2	37.2	9.6	16.2	10.0	-5.9
	Q2	41.2	30.4	1.9	0.8	6.3	-3.2

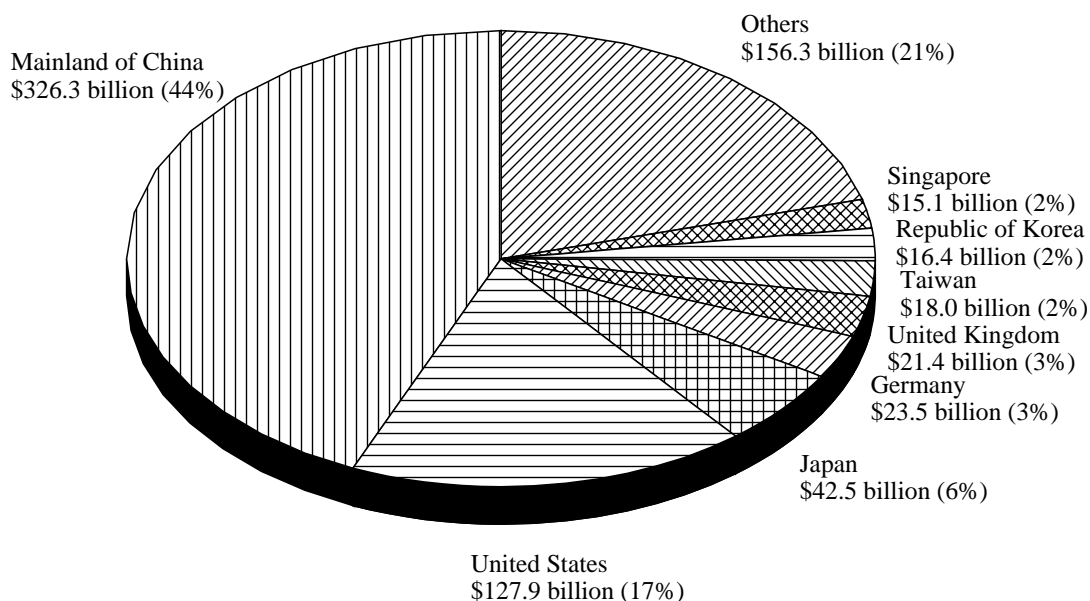
Re-exports

2.28 Re-exports continued to dominate over domestic exports, with their portion in total exports of goods rising further to 93% by value in the first half of 2003, from 91% in the same period in 2002. Analysed by major *market*, the Mainland accounted for the largest share in Hong Kong's re-exports, at 44% by value in the first half of 2003. This was followed by the United States (with a share of 17%), Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (2%), the Republic of Korea (2%), and Singapore (2%).

/Diagram 2.20

Diagram 2.20

Re-exports by major market in the first half of 2003



Total re-exports in the first half of 2003 : \$747.5 billion

Table 2.16

Value of re-exports by market

	<u>2002</u>			<u>First half of 2003</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	1,429.6	100	7.7	747.5	100	17.2
Mainland of China	571.9	40	15.2	326.3	44	27.2
United States	291.0	20	3.1	127.9	17	2.1
Japan	80.7	6	-3.4	42.5	6	16.3
Germany	44.6	3	-2.6	23.5	3	23.8
United Kingdom	46.6	3	-0.3	21.4	3	6.5
Taiwan	30.2	2	0.6	18.0	2	28.9
Republic of Korea	29.3	2	18.8	16.4	2	18.3
Singapore	29.4	2	9.3	15.1	2	8.7
Rest of the world	305.8	21	5.1	156.3	21	12.7

2.29 Re-exports had a varied performance amongst the various major markets. Re-exports to East Asia as a whole remained generally strong in the first half of this year, with re-exports to Japan, the Republic of Korea and Singapore picking up in the second quarter after the first quarter, and with re-exports to the Mainland and Taiwan sustaining distinct double-digit growth. Re-exports to Germany registered highly robust growth in both the first and second quarters, while re-exports to the United Kingdom maintained a solid rise. On the other hand, re-exports to the United States receded to decline in the second quarter.

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>Germany</u>	<u>United Kingdom</u>	<u>Taiwan</u>	<u>Republic of Korea</u>	<u>Singapore</u>
2002	Annual	18.5	6.0	*	0.7	2.8	4.7	22.5	13.8
	H1	11.1	-2.6	-7.9	-8.4	-2.7	-3.8	18.2	12.0
	H2	25.1	13.5	7.6	8.6	7.4	13.2	26.7	15.4
	Q1	7.8	-12.2	-10.3	-13.7	-8.4	-6.0	19.5	7.1
	Q2	14.0	6.5	-5.3	-2.5	2.9	-1.7	16.8	17.2
	Q3	18.4	11.2	3.1	6.6	6.2	18.8	23.6	12.5
	Q4	32.5	16.1	12.1	10.4	8.7	8.2	29.7	18.1
2003	H1	28.6	4.6	17.6	27.6	8.6	33.4	21.0	10.4
	Q1	32.3	12.2	16.0	28.4	8.2	37.3	13.4	8.2
	Q2	25.5	-1.2	19.2	26.9	8.8	29.8	29.0	12.5

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

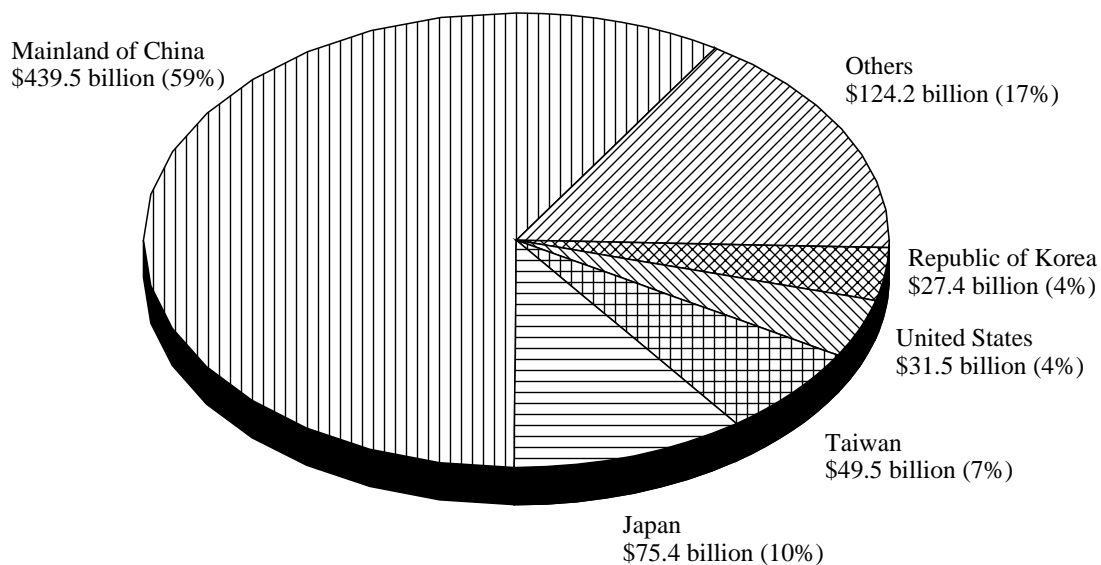
2.30 The Mainland remained the largest *source* of Hong Kong's re-exports, supplying 59% by value of the goods re-exported through Hong Kong in the first half of 2003. This was followed by Japan (with a share of 10%), Taiwan (7%), the United States (4%), and the Republic of Korea (4%).

2.31 Re-exports sourced from most major suppliers attained further distinct growth in the first half of this year. The surge in re-exports sourced from Singapore, Germany and the United Kingdom was particularly pronounced. But re-exports sourced from the United States only had a mild growth.

/Diagram 2.21

Diagram 2.21

Re-exports by major source in the first half of 2003



Total re-exports in the first half of 2003 : \$747.5 billion

Table 2.18

Value of re-exports by source

	<u>2002</u>			<u>First half of 2003</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	1,429.6	100	7.7	747.5	100	17.2
Mainland of China	864.0	60	6.9	439.5	59	15.7
Japan	135.8	9	8.1	75.4	10	23.7
Taiwan	94.3	7	17.4	49.5	7	17.8
United States	62.9	4	-3.5	31.5	4	3.7
Republic of Korea	47.2	3	18.7	27.4	4	27.5
Rest of the world	225.4	16	8.3	124.2	17	20.1

/Domestic

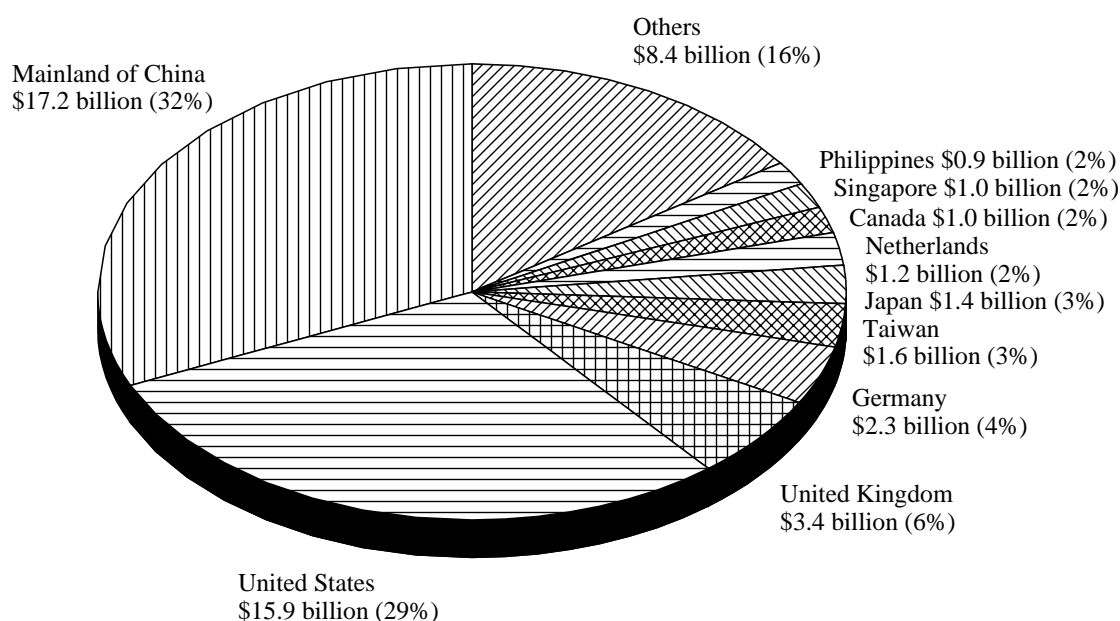
Domestic exports

2.32 The Mainland was also the largest *market* for Hong Kong's domestic exports, taking up 32% of the total value in the first half of 2003. Other major markets included the United States (with a share of 29%), the United Kingdom (6%), Germany (4%), Taiwan (3%), Japan (3%), the Netherlands (2%), Canada (2%), Singapore (2%), and the Philippines (2%).

2.33 The performance of domestic exports differed amongst the various major markets in the first half of this year. Domestic exports to Germany reversed sharply the earlier decline, while domestic exports to the United Kingdom picked up distinctly further. Domestic exports to Japan also improved. On the other hand, double-digit decreases were recorded for domestic exports to the Mainland, the United States and Taiwan.

Diagram 2.22

Domestic exports by major market in the first half of 2003



Total domestic exports in the first half of 2003 : \$54.5 billion

/Table 2.19

Table 2.19**Value of domestic exports by market**

	<u>2002</u>			<u>First half of 2003</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	130.9	100	-14.7	54.5	100	-11.0
Mainland of China	41.4	32	-16.5	17.2	32	-18.4
United States	41.9	32	-11.9	15.9	29	-11.1
United Kingdom	7.6	6	-11.5	3.4	6	9.3
Germany	4.3	3	-26.6	2.3	4	11.7
Taiwan	4.4	3	-17.9	1.6	3	-28.5
Japan	3.0	2	-26.9	1.4	3	-11.0
Netherlands	3.5	3	-24.9	1.2	2	-35.5
Canada	2.4	2	-22.0	1.0	2	1.6
Singapore	2.2	2	-18.4	1.0	2	-3.0
Philippines	1.7	1	-7.0	0.9	2	11.9
Rest of the world	18.7	14	-8.4	8.4	16	0.8

Table 2.20**Domestic exports by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland</u> <u>of China</u>	<u>United</u> <u>States</u>	<u>United</u> <u>Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Japan</u>	<u>Netherlands</u>	<u>Canada</u>
2002	Annual	-13.5	-9.5	-10.2	-25.7	-11.4	-22.0	-4.5	-19.9
	H1	-5.9	-15.2	-22.8	-29.7	-3.1	-17.1	7.0	-28.9
	H2	-20.3	-4.5	1.0	-21.4	-19.1	-26.5	-16.2	-12.1
	Q1	3.5	-18.1	-22.8	-33.3	-0.8	-12.9	14.0	-24.7
	Q2	-13.3	-12.7	-22.7	-25.6	-5.3	-21.4	2.4	-32.4
	Q3	-19.1	1.5	-0.5	-17.6	-5.8	-27.2	-0.3	-22.5
	Q4	-21.7	-10.9	2.5	-25.0	-29.6	-25.7	-30.9	3.8
2003	H1	-18.8	-15.3	9.8	13.3	-32.3	-2.1	-45.0	6.3
	Q1	-23.2	-9.1	10.4	10.2	-27.7	-6.4	-34.2	6.3
	Q2	-14.6	-20.3	9.2	16.5	-36.9	2.7	-53.0	6.2

/Outward

Outward processing trade

2.34 Outward processing trade⁽⁹⁾ remained an integral component in Hong Kong's overall merchandise trade, but its prominence has been diminishing in recent years along with the on-going structural shift from re-exports towards offshore trade and direct shipment from the Mainland. In the first quarter of 2003, the proportion of Hong Kong's total exports of goods to the Mainland for outward processing fell further, to 41%, from the corresponding proportion of 46% in the same quarter in 2002. The proportion of re-exports after outward processing in Hong Kong's re-exports of Mainland origin likewise fell, to 78% in the first quarter of 2003, from 87% in the same quarter in 2002. Imports after outward processing in Hong Kong's imports of goods from the Mainland also fell in relative significance, to 68% in the first quarter of 2003, from 74% in the same quarter in 2002. Apart from the structural shift to offshore trade and direct shipment, the fall in the proportion of Hong Kong's trade involving outward processing in the first quarter was also due to the sharp upsurge in Hong Kong's exports for meeting the Mainland's own demand.

2.35 Despite the fall in relative significance, total exports of goods to the Mainland for outward processing still had notable growth, at 13.6% in value terms over a year earlier to \$66.0 billion in the first quarter of 2003, buoyed by the continued surge in the Mainland's exports. This followed a marked increase of 24.7% in the fourth quarter of 2002. Total exports of goods to the Mainland for meeting its own demand soared even more, on the back of the buoyant domestic demand there, with a 39.0% rise in value terms over a year earlier to \$95.4 billion in the first quarter of 2003. This was even faster than the already marked growth of 25.6% in the fourth quarter of 2002.

/Diagram 2.23

Diagram 2.23

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

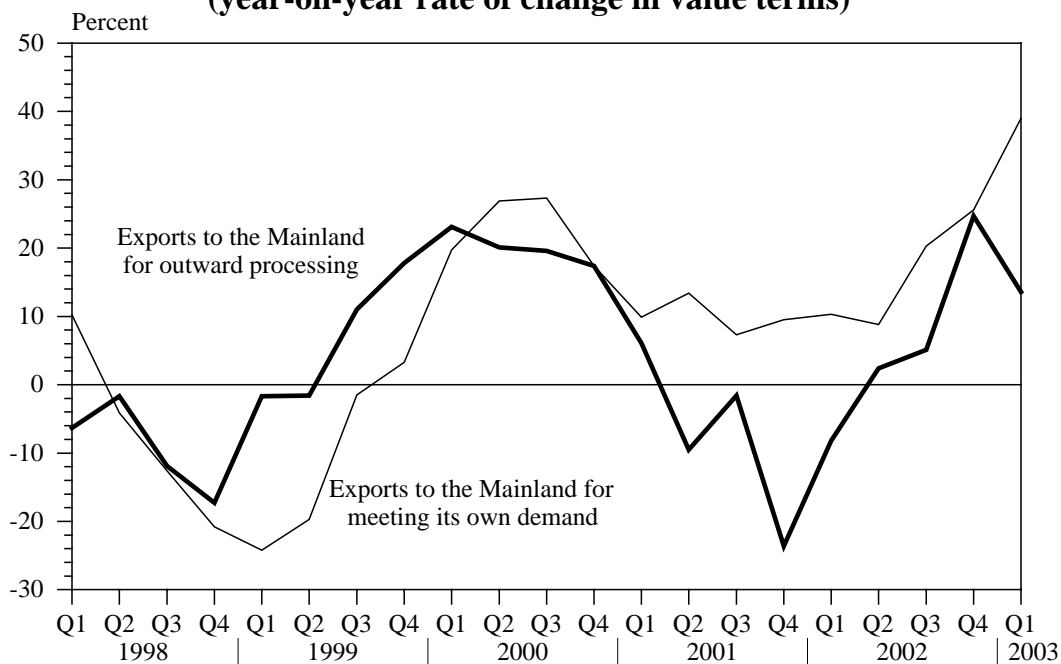


Table 2.21

**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 (%))**

Of which :

		<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>
2002	Annual	12.3	7.0	17.1
	H1	5.4	-0.1	10.6
	H2	18.7	13.8	23.0
	Q1	2.6	-6.0	11.2
	Q2	7.9	5.4	10.2
	Q3	12.8	5.1	20.3
	Q4	25.2	24.7	25.6
2003	Q1	27.3	13.6	39.0

/2.36

2.36 On the other hand, imports of goods from the Mainland after outward processing eased to a 5.4% increase in value terms over a year earlier to \$114.6 billion in the first quarter of 2003, from a 7.8% increase in the fourth quarter of 2002. Re-exports of Mainland origin after outward processing retarded in growth to an even larger extent, to a meagre 0.1% rise in value terms over a year earlier to \$130.4 billion in the first quarter of 2003, in contrast to the distinct growth at 17.2% in the fourth quarter of 2002.

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 (%))**

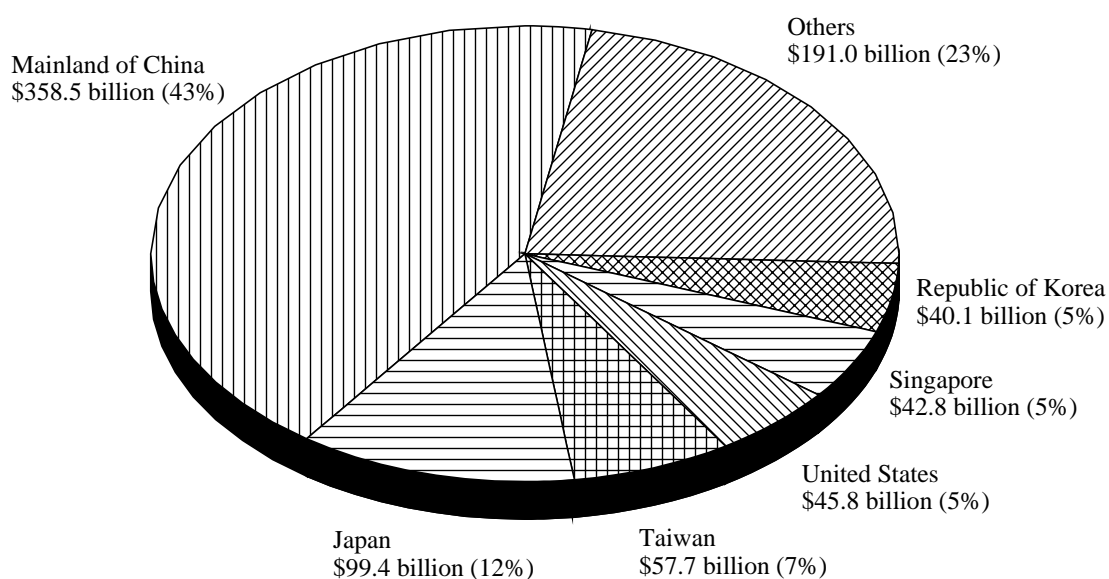
		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2002	Annual	-0.2	2.8
	H1	-8.1	-5.2
	H2	7.0	10.4
	Q1	-9.0	-5.3
	Q2	-7.3	-5.0
	Q3	6.3	4.3
	Q4	7.8	17.2
2003	Q1	5.4	0.1

Imports of goods

2.37 The Mainland continued to be the largest *source* of Hong Kong's imports of goods, accounting for 43% of the total value in the first half of 2003. This was followed by Japan (with a share of 12%), Taiwan (7%), the United States (5%), Singapore (5%), and the Republic of Korea (5%).

2.38 In tandem with the uptrend in re-exports, imports from all sources continued to register notable growth in the first half of this year, yet the extent of increase varied amongst economies.

/Diagram 2.24

Diagram 2.24**Imports of goods by major source in the first half of 2003**

Total imports of goods in the first half of 2003 : \$835.4 billion

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

	<u>2002</u>			<u>First half of 2003</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 sources	1,619.4	100	3.3	835.4	100	13.4
Mainland of China	717.1	44	5.1	358.5	43	12.2
Japan	182.6	11	3.4	99.4	12	20.2
Taiwan	115.9	7	7.4	57.7	7	7.8
United States	91.5	6	-12.8	45.8	5	4.4
Singapore	75.7	5	3.9	42.8	5	24.5
Republic of Korea	76.0	5	7.3	40.1	5	15.0
Rest of the world	360.7	22	2.2	191.0	23	14.0

/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>Singapore</u>	<u>Republic of Korea</u>
2002	Annual	9.0	7.7	12.0	-7.9	10.0	12.5
	H1	3.1	-3.0	3.3	-14.4	1.3	1.1
	H2	14.2	18.8	20.8	-1.2	18.5	24.3
	Q1	-2.7	-7.4	1.0	-16.4	-1.0	-3.1
	Q2	8.6	1.2	5.4	-12.5	3.4	5.2
	Q3	11.9	12.7	16.9	-8.0	9.8	24.6
	Q4	16.7	25.2	25.0	6.7	27.9	24.1
2003	H1	12.8	16.5	7.7	8.2	27.8	18.1
	Q1	15.9	23.1	11.7	10.7	31.0	18.7
	Q2	10.3	10.8	4.3	6.0	24.8	17.5

Retained imports

2.39 Japan was still the largest *source* of Hong Kong's retained imports, accounting for about 16% of the total value in the first half of 2003. Other major suppliers of retained imports included the Republic of Korea (with a share of 9%), the Mainland (8%), Singapore (8%), the United States (7%), and Taiwan (5%).

2.40 Analysed by *end-use category*, retained imports of consumer goods plummeted by 10.3% in real terms in the second quarter of 2003 over a year earlier, as demand for these goods faltered along with the fall-off in both local consumer spending and incoming visitors upon the spread of SARS in Hong Kong. Even with a 7.7% rise in the first quarter, retained imports of consumer goods still fell by 2.2% in real terms for the first half of 2003 as a whole over a year earlier, sharply reversing the 10.7% rise in the second half of 2002. The setback was particularly pronounced in May and June, as the fuller impact of SARS set in. Retained imports of foodstuffs likewise fell, by 6.2% in real terms in the second quarter of 2003 over a year earlier. Together with a 4.6% decline in the first quarter, such imports were down by 5.4% in real terms for the first half of 2003 as a whole over a year earlier, as against a 1.2% rise in the second half of 2002.

/2.41

2.41 Retained imports of capital goods, having reverted to increase notably by 10.6% in the first quarter, receded to decline by 2.8% in real terms in the second quarter of 2003 over a year earlier. For the first half of 2003 as a whole, retained imports of capital goods still rose by 3.5% in real terms over a year earlier, after a 10.9% plunge in the second half of 2002. The slackening in machinery intake in the second quarter was almost across-the-board. Analysed by broad type, intake of construction machinery turned even more subdued, with an enlarged decline in the second quarter after the first quarter. Intake of industrial machinery and of office equipment also fell back in the second quarter. Intake of capital goods in the “others” category still recorded an increase, though much moderated from that in the first quarter. Intake of telecommunications equipment reverted to a slight increase in the second quarter, yet this was partly due to a distinctly lower base a year earlier.

2.42 Retained imports of raw materials and semi-manufactures showed markedly slower growth, at 5.9% in real terms in the second quarter of 2003 over a year earlier, down from the 18.0% surge in the first quarter. Taken together, there was still distinct growth at 11.2% in real terms for the first half of 2003 as a whole over a year earlier, though less robust than the 23.1% leap in the second half of 2002. Retained imports of fuels also fell back, by 12.8% in real terms in the second quarter of 2003 over a year earlier, after a build-up in oil inventories leading to a 9.1% increase in the first quarter. For the first half of 2003 as a whole, retained imports of fuel reverted to decline by 2.7% in real terms over a year earlier, following an 8.8% increase in the second half of 2002.

/Table 2.25

Table 2.25

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2002	Annual	5.7	5.3	-13.6	9.8	4.8
	H1	0.7	9.7	-16.6	-2.1	0.7
	H2	10.7	1.2	-10.9	23.1	8.8
	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
	Q4	9.3	12.7	-2.3	19.1	9.7
2003	H1	-2.2	-5.4	3.5	11.2	-2.7
	Q1	7.7	-4.6	10.6	18.0	9.1
	Q2	-10.3	-6.2	-2.8	5.9	-12.8

Note : See Note (a) to Table 2.7.

Table 2.26

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

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Tele-communications equipment</u>	<u>Other capital goods</u>
2002	Annual	-1.5	11.1	-12.3	-2.5	-38.9
	H1	-6.0	14.7	-22.9	-10.5	-30.9
	H2	3.0	7.7	-2.4	6.1	-44.9
	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
	Q4	12.1	-3.3	21.0	-0.5	-38.2
2003	H1	-2.3	-16.6	19.6	-6.5	8.7
	Q1	3.9	-9.4	52.9	-12.9	16.0
	Q2	-7.6	-21.6	-2.0	1.1	2.1

Note : See Note (a) to Table 2.7.

/Invisible

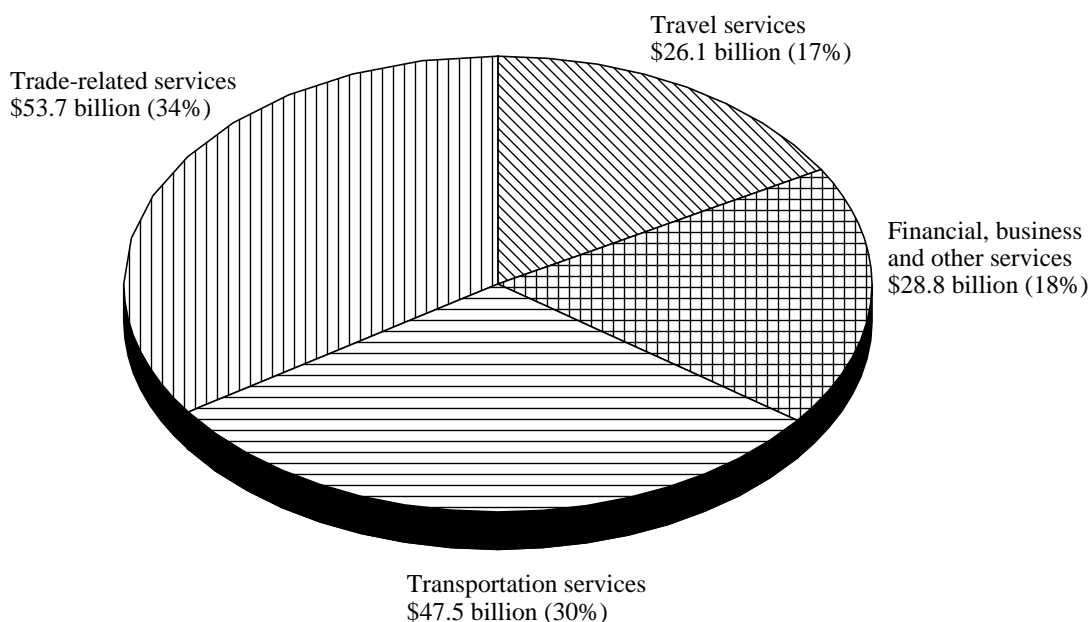
Invisible trade

Exports of services

2.43 Trade-related services (comprising mainly offshore trade) continued to account for the largest share in Hong Kong's exports of services, at 34% by value in the first half of 2003. This was followed by exports of transportation services (with a share of 30%), travel services (17%), and financial, business and other services (18%).

Diagram 2.25

Exports of services by major service group in the first half of 2003



Exports of services in the first half of 2003 : \$156.1 billion

2.44 Exports of services, having undergone an uninterrupted growth trend since the second quarter of 1999, fell off abruptly after mid-March under the adverse impact of SARS. The decline was 14.7% in real terms in the second quarter of 2003 over a year earlier, in stark contrast to a 12.6% surge in the first quarter. For the first half of 2003 as a whole, exports of services were down marginally by 1.4% in real terms over a year earlier, sharply reversing the 16.1% leap in the second half of 2002.

2.45 The setback in the second quarter was caused by an across-the-board plunge in inbound tourism amidst the influence of SARS. Exports of travel

/services

services went down sharply, by 61.1% in real terms in the second quarter of 2003 over a year earlier. This contrasted with a 17.9% surge in the first quarter, and was even more drastic than the declines seen during the Asian financial crisis. Exports of transportation services concurrently dipped, by 14.6% in real terms in the second quarter of 2003 over a year earlier, reversing from the 8.7% increase in the first quarter. The plunge in incoming visitors, and in turn that in air passenger movements, was again the main reason. The decline in cargo transportation services was much more moderate.

2.46 Exports of financial, business and other services also slackened, receding to decline by 1.7% in real terms in the second quarter of 2003 over a year earlier, as against a 1.5% rise in the first quarter. But offshore trade continued to be resilient on the back of a further strong surge in the Mainland's trade, thereby rendering some offset to the setback in the other components of exports of services. Exports of trade-related services registered further distinct growth, at 15.0% in real terms in the second quarter of 2003 over a year earlier, after a 20.1% surge in the first quarter.

Table 2.27

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

Of which :

		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	Financial, business and other services
2002	Annual	11.7	13.5	11.5	21.1	-0.7
	H1	6.8	7.9	6.6	11.5	0.9
	H2	16.1	17.7	16.3	30.5	-2.2
	Q1	6.0	7.1	6.7	8.0	1.4
	Q2	7.7	8.7	6.5	14.4	0.3
	Q3	13.9	16.5	15.4	24.6	-3.5
	Q4	18.1	18.8	17.2	35.6	-0.9
2003	H1	-1.4	17.6	-3.4	-25.9	-0.1
	Q1	12.6	20.1	8.7	17.9	1.5
	Q2	-14.7	15.0	-14.6	-61.1	-1.7

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

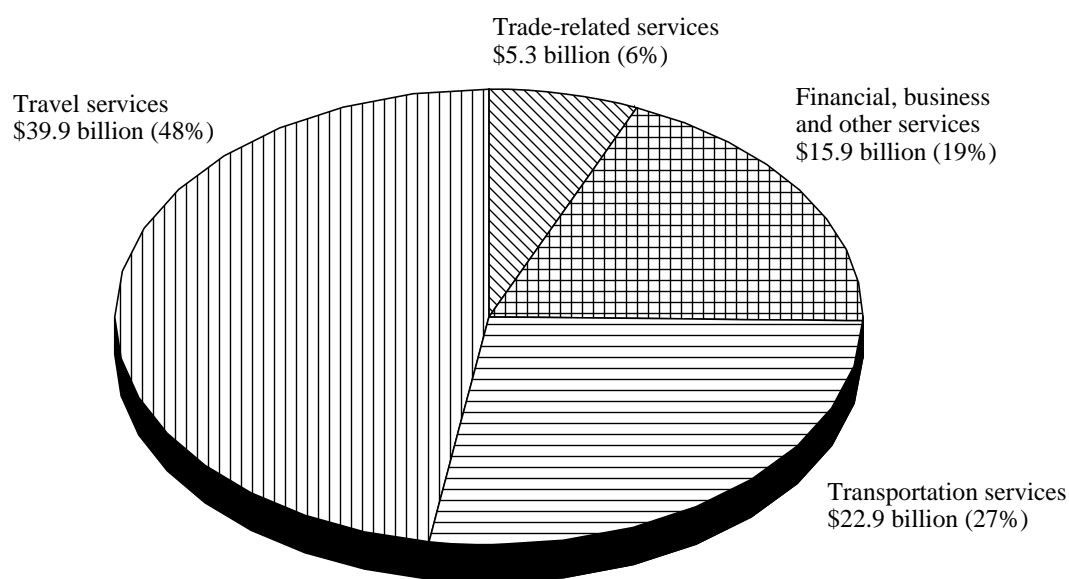
/Imports

Imports of services

2.47 Travel services continued to account for the largest share in Hong Kong's imports of services, at 48% by value in the first half of 2003. This was followed by imports of transportation services (with a share of 27%), financial, business and other services (19%), and trade-related services (6%).

Diagram 2.26

Imports of services by major service group in the first half of 2003



Imports of services in the first half of 2003 : \$84.0 billion

2.48 Imports of services suffered an even sharper downturn under the adverse impact of SARS, with a 19.6% decline in real terms in the second quarter of 2003 over a year earlier, much enlarged from the 3.9% fall in the first quarter. For the first half of 2003 as a whole, imports of services fell markedly by 11.5% in real terms over a year earlier, in stark contrast to a 2.7% increase in the second half of 2002.

/2.49

2.49 The setback in imports of services in the second quarter was predominantly due to the plunge in travel services, as local people avoided visiting the SARS-affected countries and territories and as the imposition of arrival restrictions and post-arrival quarantine by some neighbouring places also deterred their interest in travel. As a result, Hong Kong residents' spending abroad was markedly curbed, plummeting by 29.1% in real terms in the second quarter of 2003 over a year earlier, further down from the 10.1% fall in the first quarter. As air passenger movements slumped, and as imports for local use and hence cargo inflows were reduced upon the shrinkage in domestic demand, imports of transportation services fell back distinctly, by 17.6% in real terms in the second quarter of 2003 over a year earlier, as against a 3.7% increase in the first quarter.

2.50 Imports of financial, business and other services also declined, by 4.6% in real terms in the second quarter of 2003 over a year earlier, having remained flat in the first quarter. Yet imports of trade-related services were affected not so much by SARS, and still grew by 8.1% in real terms in the second quarter of 2003 over a year earlier, though also slower than the 12.9% increase in the first quarter.

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>	
2002	Annual	0.2	-0.5	2.8	6.8	-3.7
	H1	-2.2	-1.9	-3.4	1.4	-2.6
	H2	2.7	0.9	9.1	10.6	-4.6
	Q1	-0.7	0.1	-2.0	0.7	-1.8
	Q2	-3.8	-4.1	-4.7	2.2	-3.3
	Q3	2.0	1.0	6.8	9.5	-5.4
	Q4	3.4	0.8	11.7	11.7	-3.9
	2003	H1	-11.5	-18.9	-7.4	10.5
	Q1	-3.9	-10.1	3.7	12.9	*
	Q2	-19.6	-29.1	-17.6	8.1	-4.6

Notes : (a) Comprising mainly outbound travel spending.

(*) Change of less than 0.05%.

/Overall

Overall balance of payments⁽¹⁰⁾

2.51 The current account remained in sizeable surplus in the first quarter of 2003, at \$36.5 billion, equivalent to 12.3% of GDP in that quarter. Yet this was smaller than the surplus of \$45.3 billion in the fourth quarter of 2002, equivalent to 13.7% of GDP in that quarter. The reduction in surplus was largely attributable to a decrease in surplus in the combined visible and invisible trade account, which was partly offset by an increase in net inflow of external factor income.

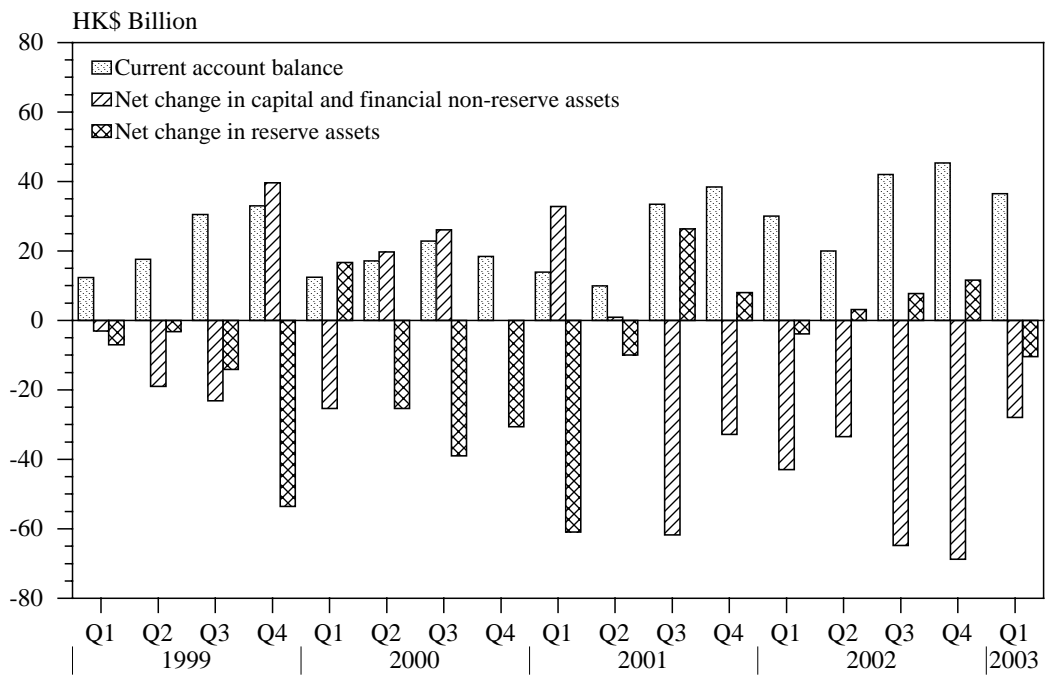
2.52 Within the capital and financial account, there was a distinct reduction in net outflow from the portfolio investment account, to \$54.8 billion in the first quarter of 2003. This was due to decreased purchase of overseas debt securities by Hong Kong residents as well as renewed purchase of local debt securities by overseas investors. Also, both net cash settlement of financial derivatives and the direct investment account reverted from net outflows to net inflows, at \$12.1 billion and \$3.0 billion respectively in the first quarter of 2003. Yet the other investment account had a reduced net inflow, at \$13.6 billion in the first quarter of 2003, owing to decreased inter-bank placements by resident banks to non-resident banks. Taken together, financial non-reserve assets recorded a net outflow of \$26.0 billion in the first quarter of 2003, equivalent to 8.7% of GDP in that quarter. This was much smaller than the corresponding net outflow of \$65.5 billion in the fourth quarter of 2002, equivalent to 19.8% of GDP in that quarter.

2.53 Overall, the balance of payments account switched back to surplus at \$10.4 billion in the first quarter of 2003, equivalent to 3.5% of GDP in that quarter, having been in deficit in the preceding three quarters. Hence, there was a corresponding increase in reserve assets by the same amount in that quarter. This compared with the deficit figures of \$11.6 billion and 3.5% in the fourth quarter of 2002.

/Diagram 2.27

Diagram 2.27

Major balances in Hong Kong's balance of payments



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

/Table 2.29

Table 2.29

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

	<u>2001[#]</u>	<u>2002[#]</u>	<u>2002</u>				<u>2003</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>
Current account^(a)	95.8	137.3	30.0	19.9	42.0	45.3	36.5
Trade in goods	-65.0	-39.4	-12.4	-16.4	-5.0	-5.6	-16.0
Trade in services	133.4	163.7	31.2	37.8	42.7	52.1	40.7
External factor income flows	41.2	27.4	14.8	2.1	8.1	2.4	15.9
Current transfers	-13.9	-14.5	-3.5	-3.6	-3.8	-3.6	-4.1
Capital and financial account	-97.4	-191.4	-46.8	-30.4	-57.1	-57.2	-38.4
Net change in capital transfers	-9.2	-15.7	-3.0	-7.6	-1.9	-3.2	-1.9
Net change in financial non-reserve assets	-51.7	-194.2	-39.9	-25.9	-62.8	-65.5	-26.0
<i>of which :</i>							
Direct investment	96.9	-31.0	-10.1	15.3	-32.7	-3.4	3.0
Portfolio investment	-322.0	-290.7	7.1	-117.8	-82.5	-97.6	-54.8
Financial derivatives	39.6	10.6	12.3	6.1	-5.7	-2.0	12.1
Other investment	133.8	116.9	-49.2	70.6	58.1	37.5	13.6
Net change in reserve assets ^(b)	-36.5	18.5	-3.9	3.1	7.7	11.6	-10.4
Net errors and omissions	1.6	54.1	16.8	10.4	15.1	11.9	1.9
Overall balance of payments	36.5	-18.5	3.9	-3.1	-7.7	-11.6	10.4

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) Here 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 reflected in quarterly GDP by economic activity at constant prices⁽¹⁾, net output or value added for all the *service sectors* taken together⁽²⁾ rose further, by 5.6% in real terms in the first quarter of 2003 over a year earlier, after increases of 6.4% in the fourth quarter of 2002 and 3.1% for 2002 as a whole. Analysed by constituent sector and in real terms, net output in the wholesale, retail and import/export trades, restaurants and hotels surged by 14.4% in the first quarter of 2003 over a year earlier, mainly attributable to the robust performance of external trade in that quarter and relative improvement in retail sales volume in the first two months of this year. Net output in transport, storage and communications went up by 3.8%, as buoyancy in external trade underpinned growth in transport and storage services, and as expansion in the telecommunications market lifted output in communications services. Net output in financing, insurance, real estate and business services was higher by 2.7%, mainly due to better performance of banking services upon a significant increase in income from commissions and service fees, and also with the further growth in both life insurance and general insurance. On the other hand, net output in community, social and personal services fell slightly, by 0.4%.

3.2 Net output in the local *manufacturing sector* shrank further, by 8.8% in real terms in the first quarter of 2003 over a year earlier, after decreases of 9.2% in the fourth quarter of 2002 and 9.8% for 2002 as a whole. This was in line with the continued fall in domestic exports in the first quarter over the period. As to the *construction sector*, net output declined by 3.2% in real terms in the first quarter of 2003 over a year earlier, following decreases of 6.4% in the fourth quarter of 2002 and 1.0% for 2002 as a whole. This was mainly due to completion or winding down of some major public sector infrastructure projects, continued scale-back in the Public Housing Programme, and slackening in private sector building activity.

/Table 3.1

Table 3.1

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

	<u>Annual</u>	<u>2002[#]</u>				<u>2003[#]</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-9.8	-11.6	-11.2	-7.3	-9.2	-8.8
Construction	-1.0	-1.7	3.2	2.4	-6.4	-3.2
Services ^(b)	3.1	*	1.5	4.3	6.4	5.6
<i>Of which :</i>						
Wholesale, retail and import/export trades, restaurants and hotels	5.1	-2.8	0.5	6.9	14.5	14.4
Transport, storage and communications	4.0	0.2	3.6	5.5	6.2	3.8
Financing, insurance, real estate and business services	0.9	-1.5	0.9	1.6	2.5	2.7
Community, social and personal services	0.7	1.0	0.3	1.1	0.5	-0.4

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. For details, 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.

(#) Revised figures.

(*) Change of less than 0.05%.

/Local

Local manufacturing output

3.3 The Index of Industrial Production⁽³⁾, as also reflecting output in the local manufacturing sector, declined further by 8.8% in the first quarter of 2003 over a year earlier, following declines of 9.2% in the fourth quarter of 2002 and 9.8% for 2002 as a whole. Analysed by major constituent industry and in volume, output of the consumer electrical and electronic products, the fabricated metal products, and the machinery and equipment industries plummeted by 30.1%, 27.5% and 25.4% respectively in the first quarter of 2003 over a year earlier. Output of the plastic products industry declined more moderately, by 6.0%, while output of the wearing apparel and the textiles industries went down only slightly, by 0.1% and 0.8% respectively. On the other hand, output of the paper products and printing industry continued to rise distinctly, by 11.7%. On a seasonally adjusted quarter-to-quarter comparison, the Index shrank further, by 2.2% in volume in the first quarter of 2003, after a 3.9% decrease in the fourth quarter of 2002.

Table 3.2

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

Industry group	2002					2003
	Annual	Q1	Q2	Q3	Q4	Q1 [#]
Wearing apparel	-6.6	-13.4	-10.5	4.0	-7.2	-0.1
Textiles	-7.2	-10.6	-7.3	-5.9	-6.4	-0.8
Plastic products	-10.8	-13.1	-7.4	-15.5	-7.0	-6.0
Consumer electrical and electronic products	-23.6	-0.8	-29.6	-28.2	-35.4	-30.1
Machinery and equipment	-16.8	-17.4	-19.7	-11.4	-18.8	-25.4
Fabricated metal products	-29.4	-27.4	-30.7	-30.6	-28.8	-27.5
Paper products and printing	-0.2	-10.5	1.0	0.1	8.3	11.7
Overall manufacturing	-9.8	-11.6	-11.2	-7.3	-9.2	-8.8
		<-2.4>	<-1.3>	<-0.7>	<-3.9>	<-2.2>

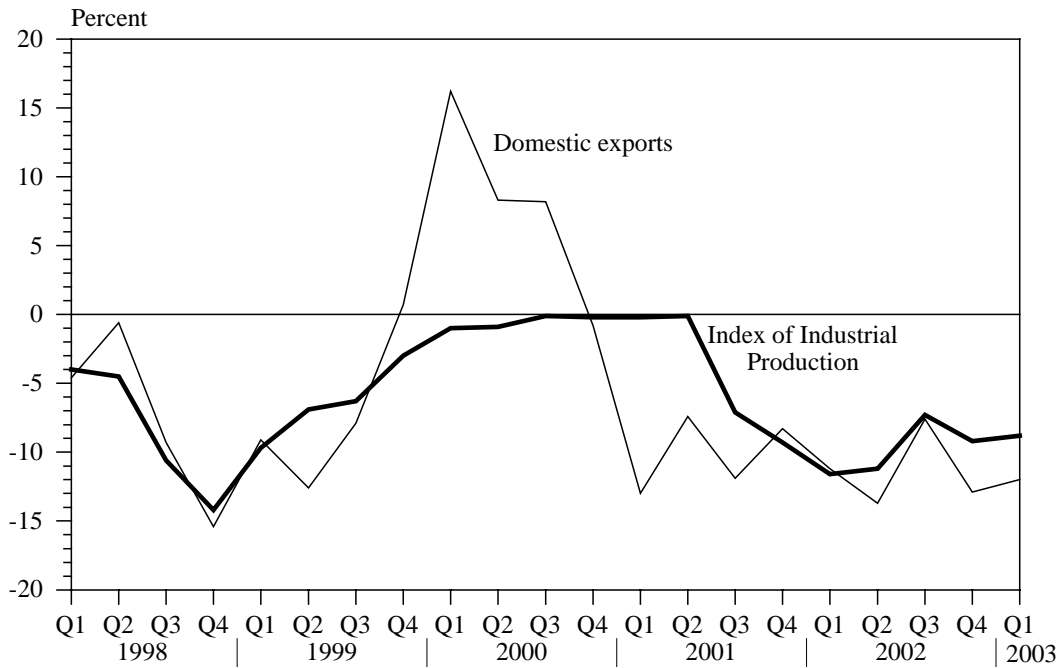
Notes : (#) Provisional figures.

< > 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 second quarter of 2003, domestic exports went further lower in real terms from a year earlier, as did orders-on-hand in the local manufacturing sector⁽⁴⁾. These pointed to a further decrease 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)**

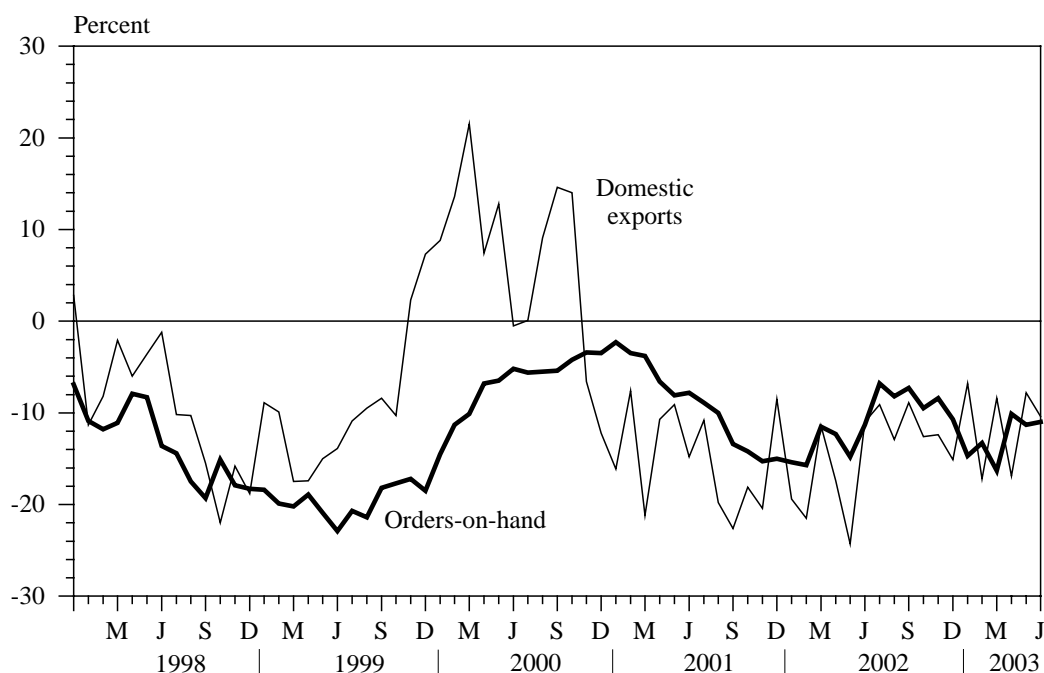


Table 3.3

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> (%)
2002	Mar	54.1	-11.5
	Jun	55.6	-11.3
	Sep	49.2	-7.3
	Dec	42.4	-10.7
2003	Mar	45.3	-16.3
	Jun [#]	49.5	-11.0

Note : (#) Provisional figures.

/Service

Service sector receipts

3.5 Business receipts in most of the service sectors surveyed declined in the first quarter of this year. Analysed by constituent sector and in value terms, business receipts in restaurants showed the largest decline, by 8.6% in the first quarter of 2003 over a year earlier. Business receipts in hotels also fell, by 2.7%. The performance of these two sectors was partly affected by the spread of SARS in Hong Kong since mid-March. Business receipts in real estate declined by 4.3%, mainly caused by reduced transactions in the property market. Business receipts in storage fell by 7.8%, owing to lower rental charges for storage space. Business receipts in financing (except banking) dipped by 5.7%, mainly reflecting reduced trading and fund-raising activities in the stock market. Business receipts in the wholesale trade, the retail trade and film entertainment went down by 3.5%, 2.6% and 1.0% respectively, affected by subdued consumer spending and the offer of greater price discounts upon the SARS impact. Business receipts in banking dropped slightly by 1.3%, as commercial activities generally moderated upon the SARS impact.

3.6 On the other hand, business receipts in insurance surged by 22.4% in the first quarter of 2003 over a year earlier, amidst expansion in both general insurance and life insurance. Business receipts in transport also rose, by 5.6%, on account of further growth in cargo throughput. Business receipts in the import/export trade went up more moderately, by 2.4%, affected by the war on Iraq and keen competition in the trade. Business receipts in communications and business services increased slightly, by 1.6% and 0.2% respectively.

/Table 3.4

Table 3.4

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

<u>Service sector</u>	<u>2002</u>					<u>2003</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade	-2.8	-15.4	-2.6	1.8	5.3	2.4
Wholesale trade	-10.7	-14.7	-12.8	-8.9	-6.2	-3.5
Retail trade	-4.1	-3.7	-5.8	-4.3	-2.4	-2.6
Restaurants	-5.4	-5.4	-6.0	-4.5	-5.9	-8.6
Hotels	-2.3	-12.5	-6.6	-2.5	12.5	-2.7
Banking	-0.8	-7.2	0.3	-4.2	7.4	-1.3
Financing (except banking)	-14.3	-25.2	-11.4	-6.9	-11.1	-5.7
Insurance	10.3	10.0	6.0	9.8	15.0	22.4
Real estate	-2.5	-0.1	3.5	-8.4	-5.2	-4.3
Business services	-5.8	-10.4	-4.0	-5.0	-3.5	0.2
Transport	2.3	-8.2	0.3	6.1	10.6	5.6
Storage	-19.6	-21.7	-27.4	-20.4	-6.8	-7.8
Communications	-2.6	-5.2	-4.3	-1.4	0.5	1.6
Film entertainment	-9.1	2.6	-15.5	-18.9	-1.8	-1.0

Property

3.7 The sales market for *residential property* remained sluggish during most of the first half of 2003. After a relatively more active start early in the year, acquisition interest was curtailed further during the period from mid-March to early June, amidst the severe impact from the spread of SARS in Hong Kong. Apart from dwindled demand under the poor sentiment, the ample supply of new flats in the mass market continued to pose a drag. Faced with such an austere situation, developers either withheld sales or else staged more

/intensive

intensive promotion, by offering larger price discounts and more sweeteners to prospective flat buyers⁽⁵⁾. Then, with the impact of SARS fading away since early June, there were signs of improvement in sentiment, lifting demand mostly in the primary market. Meanwhile, the luxurious end of the market turned slightly more active during the first half of this year, stimulated in part by the Government's new policy measure announced in February to attract investment immigrants to Hong Kong⁽⁶⁾. As to the rental market for residential property, performance likewise remained lacklustre in overall terms, given the still subdued user demand and increased supply of flats for lease.

3.8 On a quarter-to-quarter comparison, flat prices fell further, on average by 6% in the second quarter of 2003, after a 4% drop in the first quarter. For the first half of 2003 as a whole, flat prices went down on average by 10%. Flat rentals also declined further, on average by 5% in the second quarter of 2003, following a 3% fall in the first quarter. For the first half of 2003 as a whole, flat rentals were on average lower by 8%. Compared with the respective peak levels in the third quarter of 1997, flat prices and rentals in the second quarter of 2003 were down substantially, by an average of 65% and 48% respectively.

3.9 On *commercial property*, both the sales and rental markets for *office space* remained weak in the first half of 2003, upon further consolidation and downsizing in the corporate sector amidst an uncertain business outlook, especially under the impact of SARS. The market for Grade A office space, particularly that in the central business district, continued to be pulled down by abundant supply with the completion of some new projects, as well as by reduced demand with the relocation of more companies to the secondary districts for saving costs. On a quarter-to-quarter comparison, prices for office space on average fell further by 7% in the second quarter of 2003, having dropped by 4% in the first quarter. For the first half of 2003 as a whole, there was on average a 11% decrease. Office rentals on average declined by 4% in the second quarter of 2003, following a 3% fall in the first quarter. For the first half of 2003 as a whole, the decrease on average amounted to 7%. The effective rentals could have fallen more, given the longer rent-free periods and other lease concessions offered by many landlords in order to improve occupancy. Against their respective peak levels in 1994, prices and rentals of office space in the second quarter of 2003 were drastically lower, by an average of 76% and 60% respectively.

/3.10

3.10 The sales and rental markets for *shopping space* also remained bleak in the first half of 2003, especially during the period from mid-March to early June when both inbound tourism and local consumption were hit severely by the spread of SARS in Hong Kong. Landlords of such premises were under a widespread plea to grant temporary rental concessions to help ease the difficulties facing tenant operators. On a quarter-to-quarter comparison, rentals for shopping space fell on average by 5% in the second quarter of 2003, after a 2% fall in the first quarter. For the first half of 2003 as a whole, there was on average a 8% decline. Prices for shopping space were on average down by 1% in the second quarter of 2003, after a 3% decrease in the first quarter. For the first half of 2003 as a whole, there was on average a 5% decline. Compared with the peak levels in the third quarter of 1997, prices and rentals for shopping space in the second quarter of 2003 plummeted by an average of 59% and 32% respectively.

3.11 On *industrial property*, the rental and sales markets remained stagnant in overall terms in the first half of 2003, on the back of a continued downtrend in local manufacturing activity. On a quarter-to-quarter comparison, rentals of industrial space on average went down by 6% in the second quarter of 2003, following a 1% decline in the first quarter. For the first half of 2003 as a whole, rentals of industrial space on average slid by 7%. Prices of industrial space on average went down by 4% in the second quarter of 2003, after zero change in the first quarter. For the first half of 2003 as a whole, prices of industrial space on average fell by 5%. Against their respective peak levels in 1994, prices and rentals of industrial space in the second quarter of 2003 slumped by an average of 70% and 50% respectively.

3.12 Property transactions, as measured by agreements for sale and purchase of property registered with the Land Registry, fell by 26% in number and by 32% in total value in the first half of 2003 over a year earlier, considerably larger than the corresponding declines of 14% and 18% in the second half of 2002. Analysed by main type of property and on a year-on-year comparison, transactions in residential property declined by 30% in number and by 37% in total value in the first half of 2003, much exceeding the corresponding declines of 6% and 5% in transactions in non-residential property. On a quarter-to-quarter comparison, overall property transactions went down further in the second quarter of 2003, by 1% in number and 9% in total value, as

/against

against a decline of 5% and zero change respectively in the first quarter. Within this total, transactions in residential property remained unchanged in number but fell by 10% in total value in the second quarter of 2003, after declines of 10% and 7% respectively in the first quarter. Transactions in non-residential property were lower by 5% in number and 3% in total value in the second quarter of 2003, reversing leaps of 19% and 46% respectively in the first quarter.

3.13 Property transfer assignments, being a lagging indicator of property transactions, went down by 15% in number and by 13% in total value in the first half of 2003 over a year earlier, after decreasing by 14% and 17% respectively in the second half of 2002. On a quarter-to-quarter comparison, property transfer assignments fell by 17% in number and by 6% in total value in the second quarter of 2003, following an increase of 4% in number yet a decrease of 7% in total value in the first quarter. As to mortgage arrangements in the first half of 2003, there was a decrease of 23% in number over a year earlier, somewhat smaller than the 26% decline in the second half of 2002. On a quarter-to-quarter comparison, the number of mortgage arrangements went down by 16% in the second quarter of 2003, reversing the 1% rise in the first quarter.

3.14 On Government-subsidised flats, there were no new sales of flats under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) in the first half of 2003, following the announcement in mid-November 2002 to cease the production and sale of HOS flats and also to halt the sale of public rental flats under TPS.

/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)
2002 Q1	73.8 (*)	87.4 (-4)	71.2 (*)	89.6 (-6)	84.4 (*)	94.0 (-3)	75.4 (-3)	85.5 (-2)
Q2	72.2 (-2)	84.8 (-3)	68.8 (-3)	85.4 (-5)	86.6 (3)	92.6 (-1)	76.9 (2)	83.0 (-3)
Q3	68.6 (-5)	82.4 (-3)	68.6 (*)	84.0 (-2)	86.1 (-1)	92.8 (*)	74.4 (-3)	81.1 (-2)
Q4	65.1 (-5)	79.0 (-4)	64.9 (-5)	82.7 (-2)	83.0 (-4)	92.1 (-1)	72.6 (-2)	81.2 (*)
2003 Q1 [^]	62.5 (-4)	76.5 (-3)	62.0 (-4)	80.2 (-3)	80.1 (-3)	89.8 (-2)	72.4 (*)	80.2 (-1)
Q2 [^]	58.7 (-6)	72.9 (-5)	57.5 (-7)	76.8 (-4)	79.1 (-1)	84.9 (-5)	69.3 (-4)	75.7 (-6)

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 not 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.

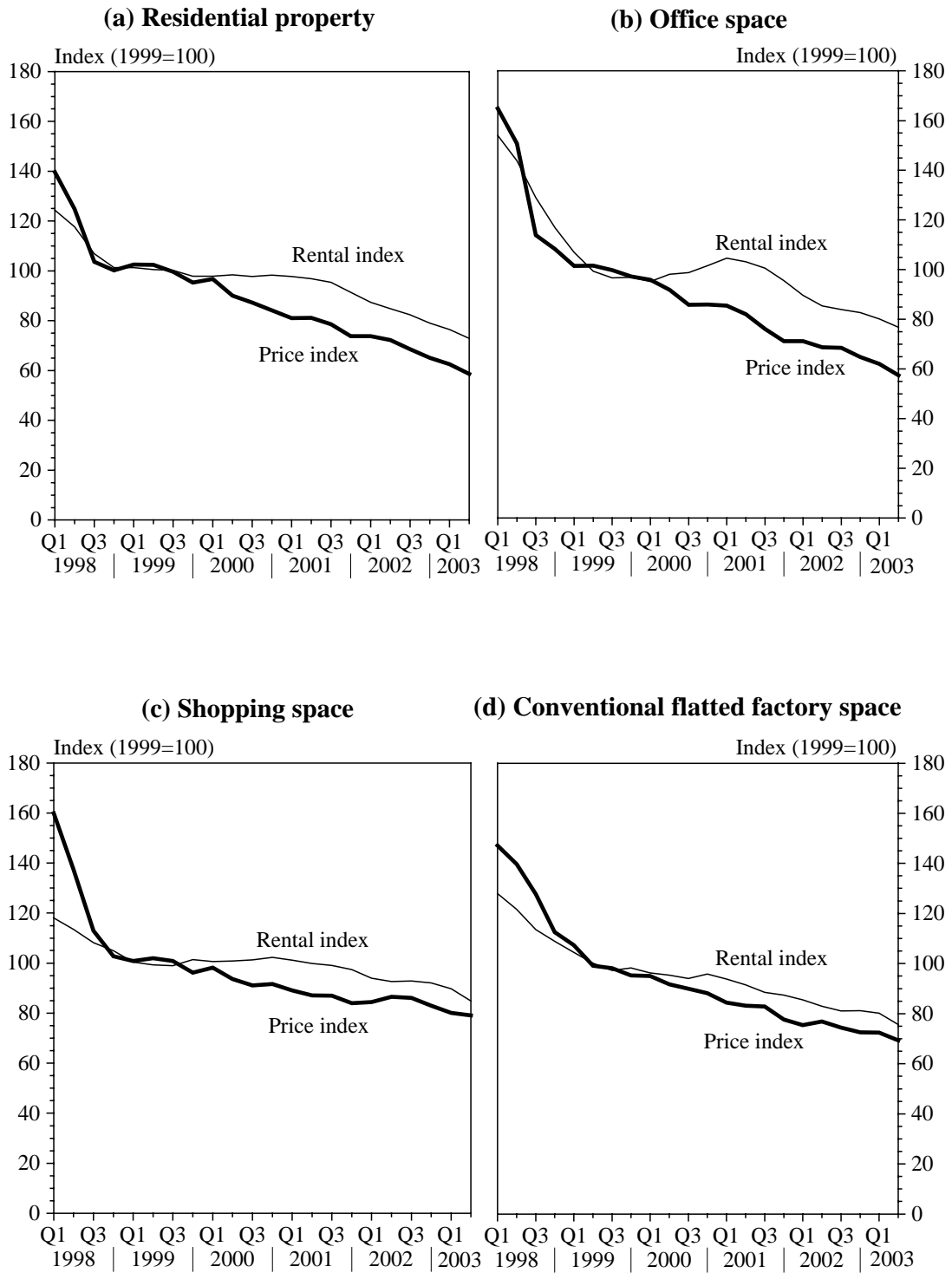
(*) Change of less than 0.5%.

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)		
				10 years	15 years	20 years
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
	Q4	5.07	2.55	945	669	533
2003	Q1	5.00	2.50	943	667	530
	Q2	5.00	2.50	943	667	530
	Jan	5.00	2.50	943	667	530
	Feb	5.00	2.50	943	667	530
	Mar	5.00	2.50	943	667	530
	Apr	5.00	2.50	943	667	530
	May	5.00	2.50	943	667	530
	Jun	5.00	2.50	943	667	530

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.

3.15 Tracking the supply of new property on a year-on-year comparison, *completions* of private residential flats increased distinctly further, by 19% in the first half of 2003, after an 80% jump in the second half of 2002. Completions of office space rose sharply further, by 82% in the first half of 2003, yet not as large as the 119% surge in the second half of 2002. Completions of other commercial premises leaped even more, by 86% in the first half of 2003, having soared by 64% in the second half of 2002. As to industrial property, completions bounced up by 474% in the first half of 2003 from a very low base a year earlier, after a decrease of 12% in the second half of

/2002

2002. Comparing the twelve months ending June 2003 with the preceding twelve-month period, completions of private residential flats, office space, other commercial premises and industrial property all went up markedly, by 55%, 90%, 72% and 27% respectively.

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>	
2002	Annual	72 974	(5)	12 947	(-30)	85 921	(-3)	154.3	(2)	31.1	(-26)	185.4	(-4)
	H1	40 921	(25)	6 877	(-37)	47 798	(9)	89.9	(27)	14.4	(-38)	104.3	(11)
	H2	32 053	(-13)	6 070	(-19)	38 123	(-14)	64.4	(-19)	16.7	(-11)	81.1	(-18)
	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)
	Q4	15 933	(-15)	2 793	(-26)	18 726	(-17)	32.1	(-17)	4.8	(-52)	36.9	(-24)
2003	H1	28 722	(-30)	6 478	(-6)	35 200	(-26)	56.9	(-37)	13.7	(-5)	70.6	(-32)
	Q1	14 386	(-24)	3 329	(-7)	17 715	(-21)	29.9	(-28)	7.0	(14)	36.9	(-23)
	Q2	14 336	(-35)	3 149	(-5)	17 485	(-31)	27.0	(-44)	6.8	(-19)	33.7	(-40)
			<*>		<-5>		<-1>		<-10>		<-3>		<-9>
	Jan	6 187	(-21)	1 106	(-20)	7 293	(-21)	12.0	(-34)	2.6	(5)	14.6	(-29)
	Feb	3 649	(-36)	973	(-14)	4 622	(-32)	6.4	(-48)	1.6	(-4)	8.0	(-43)
	Mar	4 550	(-17)	1 250	(19)	5 800	(-11)	11.5	(5)	2.8	(40)	14.3	(10)
	Apr	5 373	(-27)	1 009	(-4)	6 382	(-25)	10.5	(-31)	2.3	(16)	12.8	(-26)
	May	4 130	(-44)	960	(-16)	5 090	(-40)	7.5	(-56)	1.9	(-44)	9.4	(-54)
	Jun	4 833	(-33)	1 180	(6)	6 013	(-28)	9.0	(-44)	2.5	(-13)	11.5	(-40)

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.

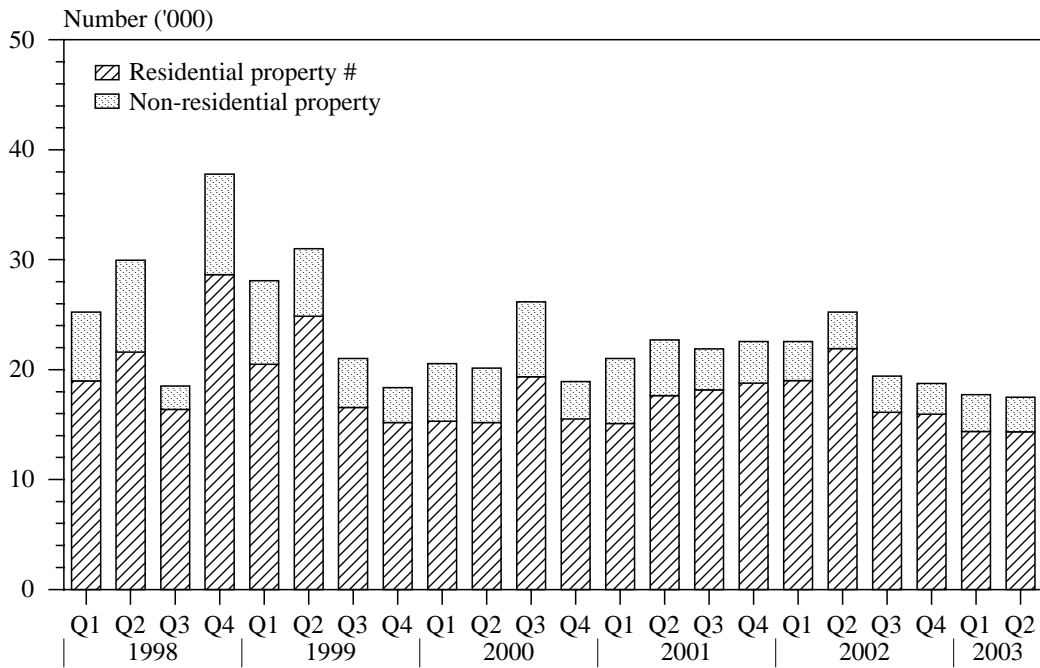
(*) Change of less than 0.5%.

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**

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
2002	Annual	119 734	(-17)	198.1	(-19)	121 791	(-22)
	H1	61 350	(-19)	100.5	(-20)	64 384	(-19)
	H2	58 384	(-14)	97.6	(-17)	57 407	(-26)
	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)
	Q4	27 386	(*)	48.5	(18)	26 686	(-14)
2003	H1	52 175	(-15)	87.3	(-13)	49 698	(-23)
	Q1	28 557	(-9)	45.0	(-7)	26 941	(-20)
	Q2	23 618	(-21)	42.3	(-19)	22 757	(-26)
			<-17>		<-6>		<-16>
	Jan	10 895	(-10)	16.2	(-25)	10 294	(-23)
	Feb	9 283	(11)	16.2	(29)	9 097	(-2)
	Mar	8 379	(-25)	12.6	(-12)	7 550	(-32)
	Apr	8 748	(-5)	16.1	(-5)	8 288	(-11)
	May	8 597	(-4)	14.9	(7)	8 481	(-6)
	Jun	6 273	(-47)	11.2	(-47)	5 988	(-52)

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.

/Table 3.9

Table 3.9**Completions of new property by the private sector
('000m² of internal floor area)**

<u>Usage</u>	<u>First half of 2002</u>	<u>First half of 2003[^]</u>	<u>Year- on-year rate of change (%)</u>	<u>Twelve months ending June 2002</u>	<u>Twelve months ending June 2003[^]</u>	<u>Year- on-year rate of change (%)</u>
Residential ^(a)	9 628	11 433	19	23 156	35 840	55
Commercial	144	264	83	232	423	82
<i>Of which:</i>						
Office space	105	191	82	133	251	90
Other commercial premises (mainly shopping space) ^(b)	40	73	86	100	172	72
Industrial ^(c)	3	16	474	33	42	27
<i>Of which:</i>						
Industrial-cum-office premises	0	16	--	0	16	--
Flatted factory space	3	0	-100	33	0	-100
Storage premises ^(d)	0	0	--	0	27	--

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

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

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

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

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

([^]) Provisional figures.

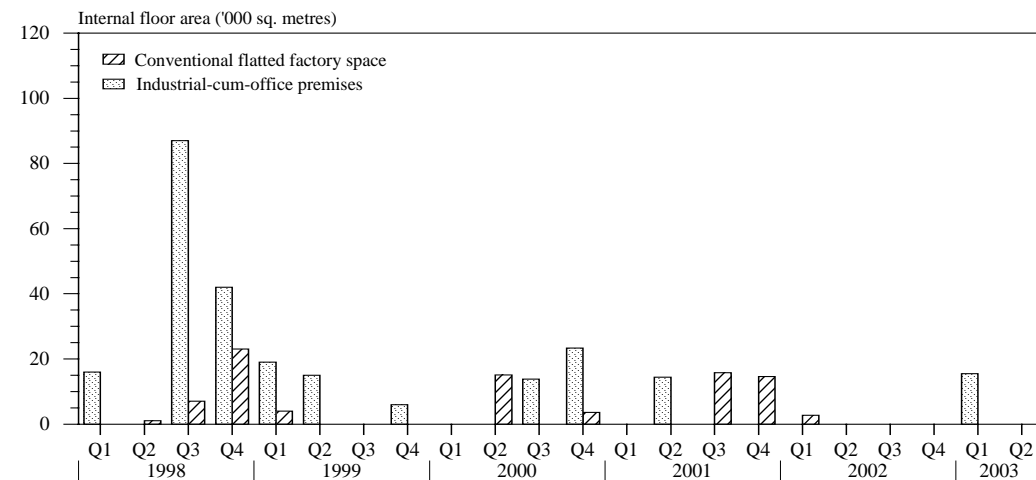
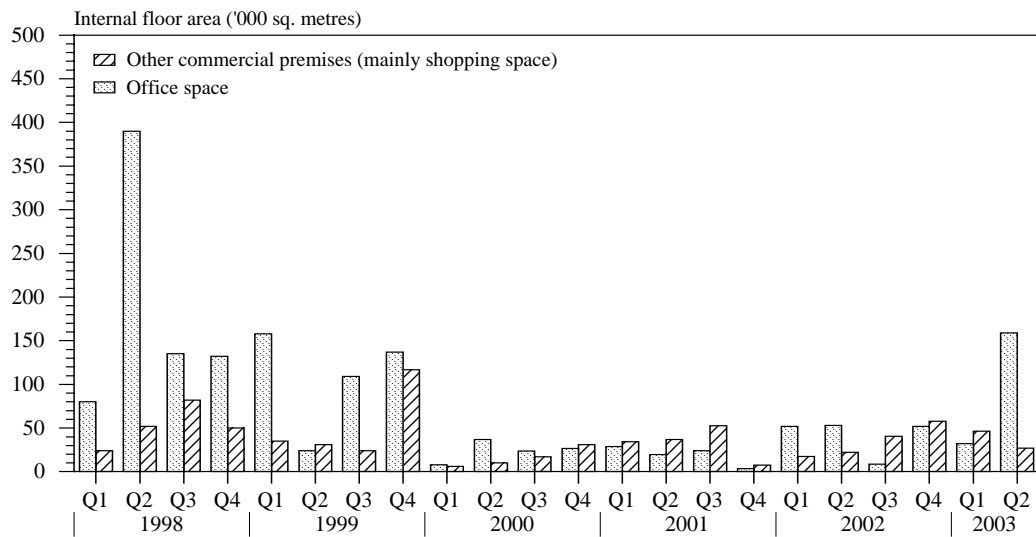
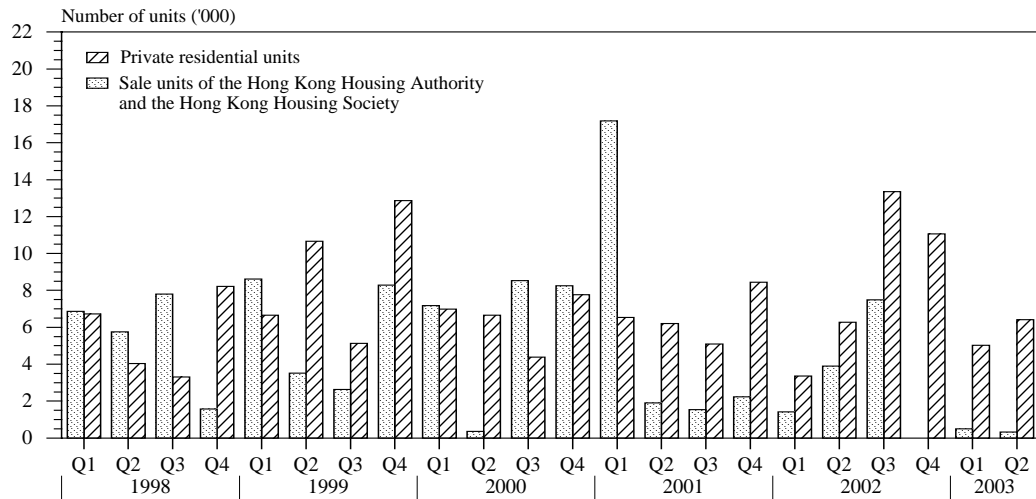
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.5

Diagram 3.5

Completions of new property by major category



Note : See the footnotes to Table 3.9.

3.16 *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, went up by 28% in the first half of 2003 over a year earlier. This followed a 34% increase in the second half of 2002. Analysed by main type of property and on a year-on-year comparison, planned developments of private residential property soared by 90% in terms of units or by 31% in terms of total usable floor area in the first half of 2003 from a low base a year earlier. This was in stark contrast to the corresponding decreases of 30% and 18% in the second half of 2002. On the other hand, planned developments of commercial property plummeted, by 64% in the first half of 2003, after a 186% surge in the second half of 2002. There were no new planned developments of industrial property in the first half of 2003, such developments having risen sharply by 117% in the second half of 2002 from a low base. Planned developments of property in the “others” category continued to surge, by 483% in the first half of 2003, following a 539% leap in the second half of 2002, both from a low base. Comparing the twelve months ending June 2003 with the preceding twelve-month period, planned developments of all types of property increased by 31%. Planned developments of private residential property rose by 25% in terms of units or by 8% in terms of total usable floor area. Planned developments of property in the “others” category, commercial property and industrial property were also up, by 498%, 33% and 13% respectively.

/Table 3.10

Table 3.10

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

<u>Usage</u>	<u>First half of 2002</u>	<u>First half of 2003</u>	<u>Year-on-year rate of change (%)</u>	<u>Twelve months ending June 2002</u>	<u>Twelve months ending June 2003</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a)	453 (9 450)	594 (17 971)	31 (90)	863 (20 672)	931 (25 813)	8 (25)
Commercial	130	48	-64	213	282	33
Industrial ^(b)	32	0	-100	67	75	13
Others	32	186	483	44	264	498
Total	647	828	28	1 187	1 553	31

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

Developers are required to re-apply for issue of consent to commence work on every major revision of their development projects. The figures reported here may include re-application cases and hence are subject to a certain degree of double-counting. Figures for June 2003 are provisional.

(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 the Private Sector Participation Scheme of the Hong Kong Housing Authority.

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

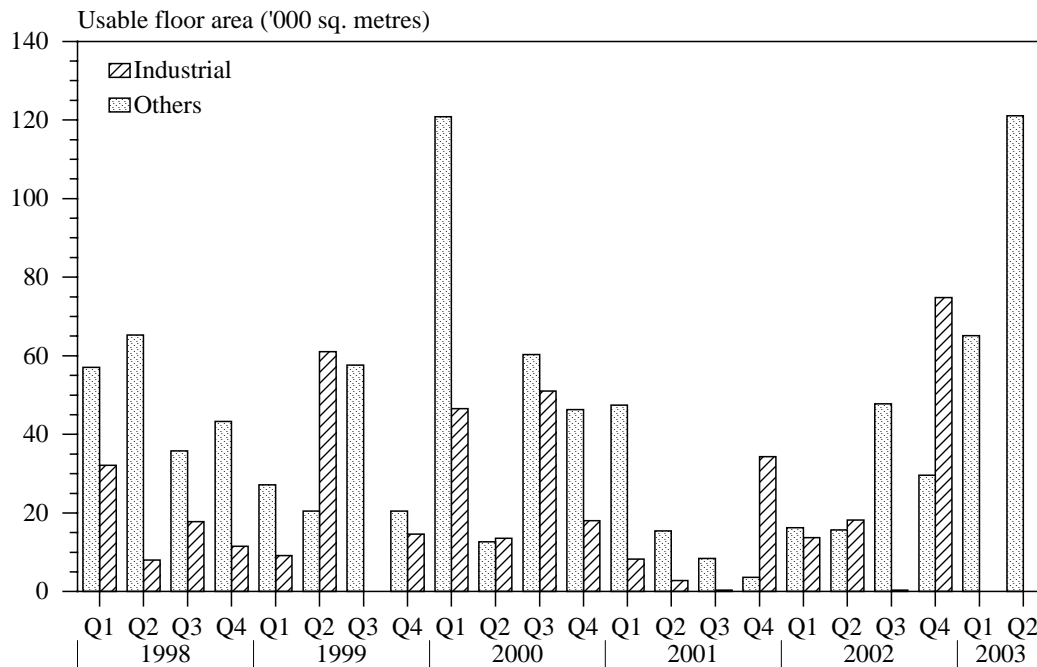
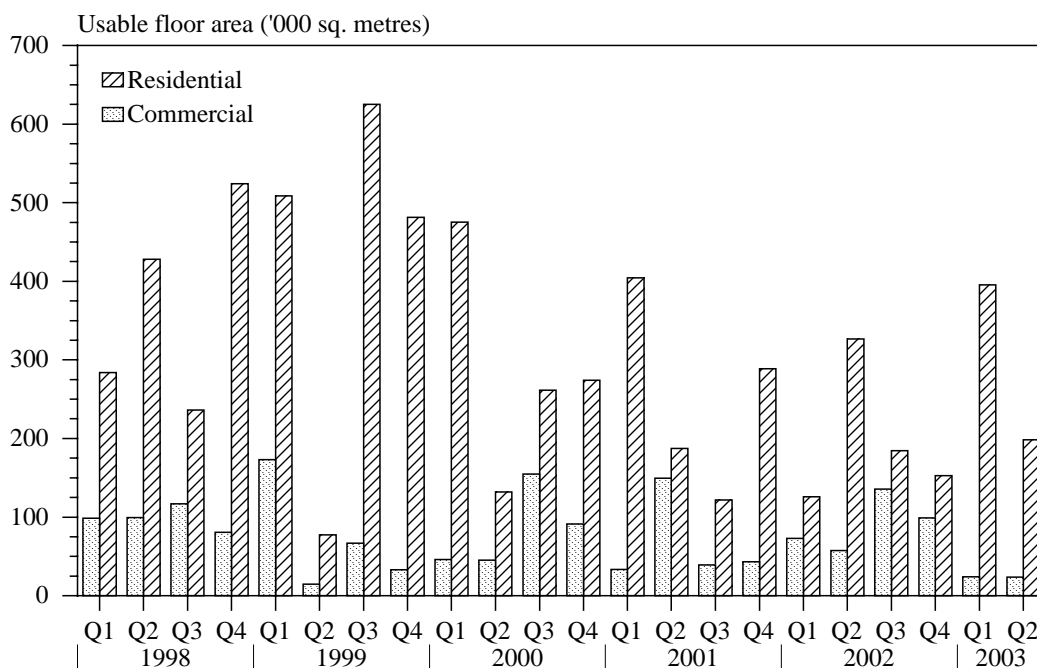
() Number of units.

Source : Buildings Department.

/Diagram 3.6

Diagram 3.6

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



Note : See the footnotes to Table 3.10.

Building and construction

3.17 Building and construction activity slackened appreciably further in overall terms. Reflecting this, overall expenditure on building and construction contracted more, by 7% in real terms in the second quarter of 2003 over a year earlier, following a 4% fall in the first quarter. For the first half of 2003 as a whole, there was a decrease of 5%, reversing the increase of 1% in the second half of 2002.

3.18 Expenditure on building and construction by the public sector edged down further, by 1% in real terms in the second quarter of 2003 over a year earlier, after a 4% drop in the first quarter. Thus there was a modest decrease of 2% for the first half of 2003 as a whole. This mainly reflected the winding down of civil engineering works on several KCR railway projects, including the West Rail, the Ma On Shan Extension and the Tsim Sha Tsui Extension, as well as continued scale-back in the Public Housing Programme. Yet other public sector building works, including such projects as redevelopment of the Police Headquarters in Wan Chai and erection of Government quarters in Kwun Tong, remained intensive to provide a partial offset. It was likewise with commencement of construction of the KCR Lok Ma Chau Spur Line.

3.19 Expenditure on building and construction by the private sector had a larger decline, by 10% in real terms in the second quarter of 2003 over a year earlier, having fallen by 4% in the first quarter. Thus there was a 7% decline for the first half of 2003 as a whole. The subdued property market continued to dampen private sector building activity. It had tended to ease off since late 2002, after a more distinct increase earlier in that year.

/Table 3.11

Table 3.11

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

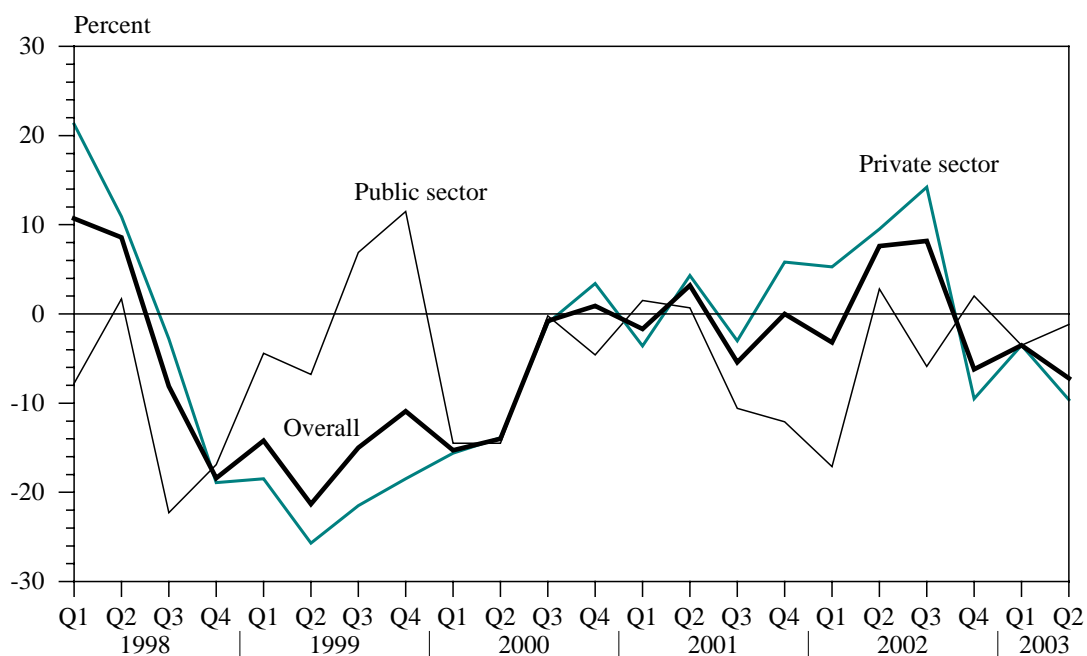
		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2002	Annual [#]	4	-6	1
	Q1 [#]	5	-17	-3
	Q2 [#]	10	3	8
	Q3 [#]	14	-6	8
	Q4 [#]	-10	2	-6
2003	H1 ⁺	-7	-2	-5
	Q1 [#]	-4	-4	-4
	Q2 ⁺	-10	-1	-7

Notes : (#) Revised figures.

(+) Preliminary figures.

Diagram 3.7

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



/3.20

3.20 Retained imports of construction machinery went down significantly further, by 22% in real terms in the second quarter of 2003 over a year earlier, after a decline of 9% in the first quarter. For the first half of 2003 as a whole, retained imports of construction machinery dipped by 17% in real terms over a year earlier, in contrast to an increase of 8% in the second half of 2002. This was in line with the slow-down in activity within the entire building and construction sector in the same period.

3.21 On the other hand, retained imports of general construction materials increased further by 23% in real terms in the second quarter of 2003 over a year earlier, following a surge of 42% in the first quarter. Yet these increases were affected by a low base of comparison a year earlier. For the first half of 2003 as a whole, retained imports of construction materials increased markedly by 32% over a year earlier, after an increase of 10% in the second half of 2002.

3.22 Labour cost in the building and construction sector, as measured by the Labour Cost Index, was virtually unchanged in the first quarter of 2003 from a year earlier, having likewise remained stable in the fourth quarter of 2002 and for 2002 as a whole. Building material cost, as measured by the Material Cost Index, increased by 1% in the first quarter of 2003 over a year earlier, having remained stable in the fourth quarter of 2002 and declined by 1% for 2002 as a whole. Taken together, the combined Labour and Material Cost Index was static in the first quarter of 2003 from a year earlier, after nil change in the fourth quarter of 2002 and also being virtually flat for 2002 as a whole.

/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>
2002 Annual	3 575 (*)	754 (-1)	1 752 (*)
Q1	3 570 (-1)	752 (-1)	1 749 (-1)
Q2	3 588 (*)	753 (-1)	1 756 (*)
Q3	3 583 (*)	755 (*)	1 755 (*)
Q4	3 561 (*)	756 (*)	1 748 (*)
2003 Q1	3 574 (*) <*>	759 (1) <*>	1 754 (*) <*>

Notes : () % change over a year earlier.

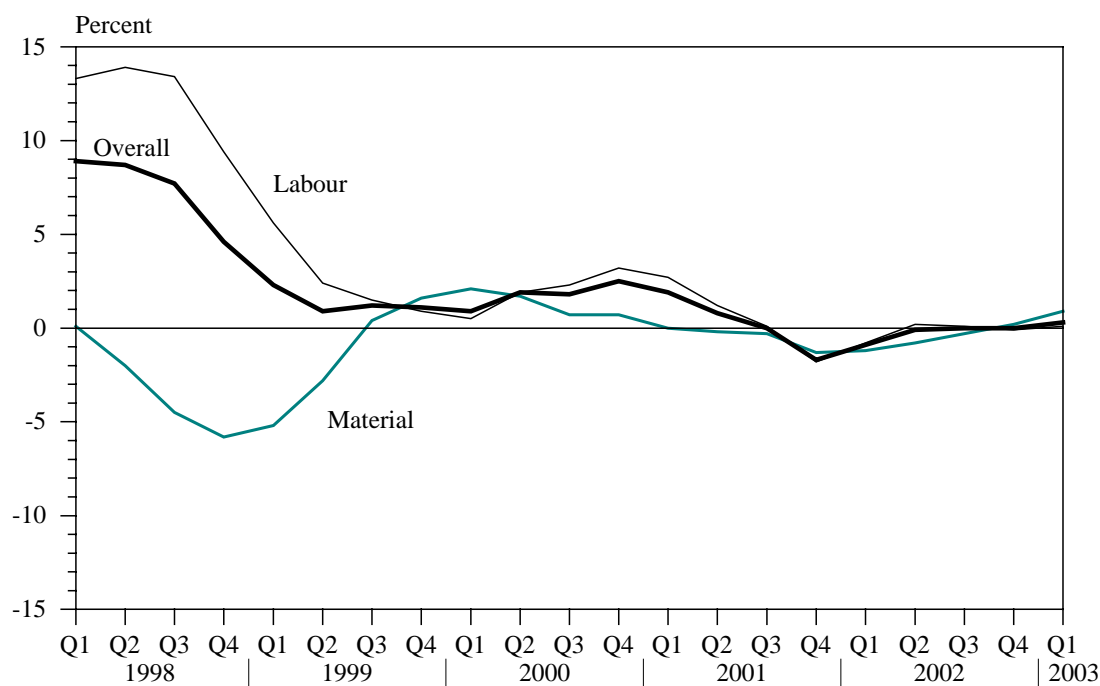
< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

Diagram 3.8

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



/3.23

3.23 Tender prices were still under downward pressure in the first quarter of this year. The Tender Price Index (TPI) for public housing projects compiled by the Housing Department fell further, by 14% in the first quarter of 2003 over a year earlier, after a 10% decline in the fourth quarter of 2002 and also a 10% decline for 2002 as a whole. Continued keen competition for a much reduced volume of public housing projects forced contractors to submit lower tender bids. Meanwhile, the TPI for public sector building projects compiled by the Architectural Services Department rose by 5% in the first quarter of 2003 over a year earlier, after a 2% increase in the fourth quarter of 2002 yet a 12% decline for 2002 as a whole. This was partly due to a low base in the same quarter last year and partly supported by sustained Government building activity. Compared with the fourth quarter of last year, the latter TPI showed a 2% decline in the first quarter of this year.

Table 3.13

Tender Price Indices (TPI) for public sector projects

		TPI for public housing projects ^(a) (Jan 1970=100)		TPI for public sector building projects ^(b) (Jan 1970=100)	
2002	Annual	527	(-10)	714	(-12)
	Q1	556	(-9)	687	(-20)
	Q2	533	(-13)	742	(-12)
	Q3	525	(-6)	692	(-14)
	Q4	495	(-10)	733	(2)
2003	Q1	476	(-14) <-4>	720	(5) <-2>

Notes : (a) Compiled by the Housing Department.

(b) Compiled by the Architectural Services Department.

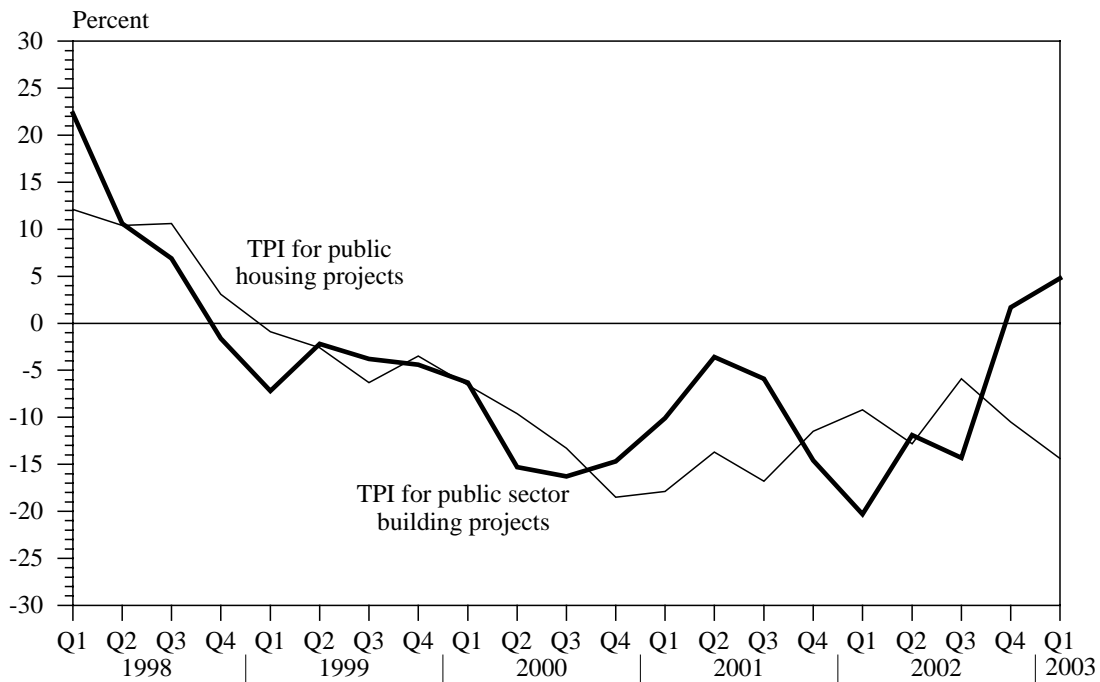
() % change over a year earlier.

< > % change over the preceding quarter.

/Diagram 3.9

Diagram 3.9

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



Land

3.24 In the first half of 2003, there was no land sale at auction by the Government, following announcement in November 2002 of the decision to cancel the two scheduled land auctions in the remainder of the financial year 2002/03 and to suspend the Application List⁽⁷⁾ until December 2003, as part of the package of measures to stabilise the housing market. In May, the site of the former Marine Police Headquarters in Tsim Sha Tsui, with an area of 1.2 hectares, was sold through tender. This represented the first attempt to engage the private sector to preserve and develop buildings of historic significance into a heritage tourism facility.

/Table 3.14

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

<u>Usage</u>	<u>2002</u>	<u>First half of 2003</u>
Residential	6.4	-
Residential/commercial	0.1	-
Commercial	-	1.2
Industrial	-	-
Others	-	-
Total	<u>6.4</u>	<u>1.2</u>

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

Source : Lands Department.

3.25 On modification of lease on existing developed and developable land in the private sector domain⁽⁸⁾, 52 applications were approved by the Government in the first half of 2003. Of this total, 19 applications were for residential development, and 6 for residential-cum-commercial development, 2 for commercial development, 1 for industrial development, and 6 for education and community facilities. The remaining 18 were for other miscellaneous purposes.

3.26 In the first half of 2003, one site of 0.35 hectare was taken up in the Tai Po Industrial Estate. There was no new take-up of sites in the other two industrial estates at Yuen Long and Tseung Kwan O. Meanwhile, one site of 0.35 hectare in the Tai Po Industrial Estate and one site of 0.49 hectare in the Yuen Long Industrial Estate were surrendered. As at end-June 2003, the take-up rates in these three industrial estates were 94.7%, 91.3% and 47.9% respectively.

/3.27

3.27 As to the Science Park at Pak Shek Kok, approvals for admission were granted to 6 technology companies in the first half of 2003. This followed 22 admissions in 2002 since the official commencement of operation of the Science Park in June last year, upon completion of Phase 1a of the development project. Most of the companies admitted 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. Planning for Phase 2 was underway.

Electricity and gas

3.28 *Local electricity consumption* went down by 3% over a year earlier to 9 615 million kWh in the second quarter of 2003, reversing the 3% increase in the first quarter. Conceivably, this decline was related to the widespread slackening in local activity under the SARS impact from mid-March to June. For the first half of 2003 as a whole, local electricity consumption showed little change over a year earlier, as against a 2% increase in the second half of 2002. Analysed by main user type, domestic consumption, commercial consumption and industrial consumption decreased by 1%, 3% and 8% respectively in the second quarter of 2003 over a year earlier. Electricity exports to the Mainland, which accounted for 6% of the total electricity generated in Hong Kong, also decreased, by 12% in the second quarter of 2003 over a year earlier, again due to the SARS impact. This reversed the 8% increase in the first quarter.

3.29 *Towngas consumption* in the second quarter of 2003, at 7 057 terajoules, showed little change over a year earlier, following an increase of 4% in the first quarter. Conceivably, the SARS impact also mattered. For the first half of 2003 as a whole, there was still a 2% increase over a year earlier, having remained virtually unchanged in the second half of 2002. Analysed by main user type, domestic consumption increased by 7% in the second quarter of 2003 over a year earlier, more than offsetting the decreases by 10% and 6% respectively in commercial consumption and industrial consumption. The relative shift towards domestic consumption from commercial consumption could have been induced by the SARS threat.

/Internal

Internal transport

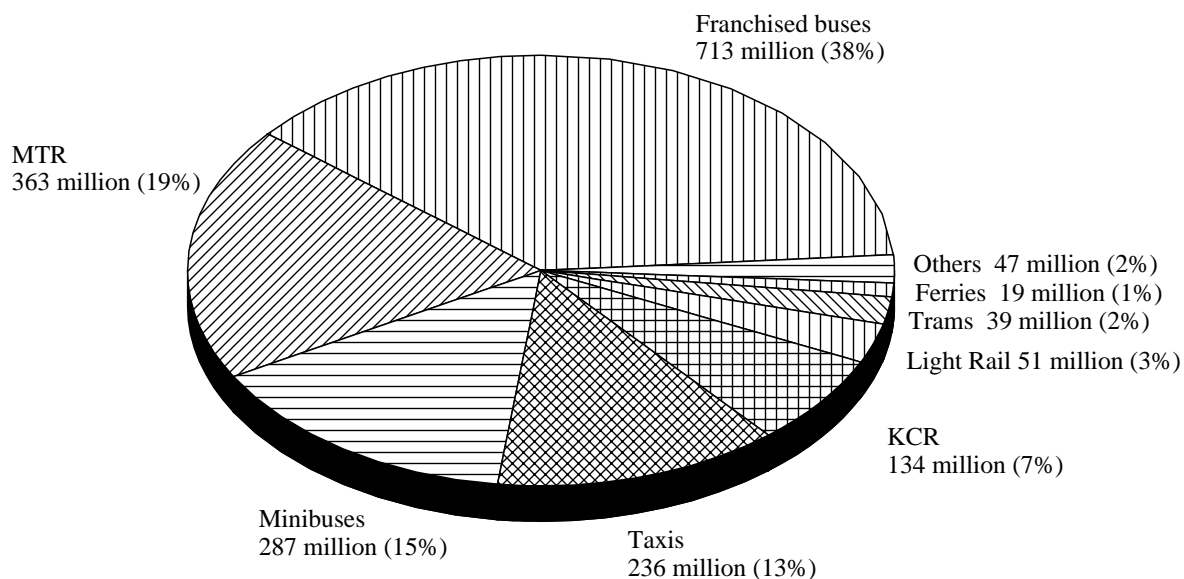
3.30 Total patronage on *public transport* declined significantly, by 11% over a year earlier to 896 million in the second quarter of 2003, much larger than the 1% decline in the first quarter. For the first half of 2003 as a whole, the decline over a year earlier averaged at 6%, reversing the 1% rise in the second half of 2002. The outbreak of SARS and the ensuing suspension of classes in most schools was the main reason for this decline. Analysed by mode of transport, patronage on the Light Rail, the Kowloon-Canton Railway and ferries plummeted the most, by 18%, 17% and 16% respectively in the second quarter of 2003 over a year earlier. Patronage on franchised buses and trams both fell by 15%, and patronage on the Mass Transit Railway and mini-buses went down to a lesser extent, by 10% and 8% respectively. On the other hand, patronage on taxis was relatively stable, with a decrease of only 0.3%.

3.31 On *private transport*, the total number of newly registered private cars declined markedly further, by 40% over a year earlier to 4 700 in the second quarter of 2003, following a 9% decline in the first quarter. For the first half of 2003 as a whole, there was a decrease of 26% over a year earlier, widened from that of 11% in the second half of 2002. The total number of registered private cars, at 383 600 at end-June 2003, was similar to that a year earlier, while the total number of licensed private cars, at 338 500 at end-June 2003, decreased by 1% over the year.

/Diagram 3.10

Diagram 3.10

**Passenger journeys by mode of public transport
in the first half of 2003**



Total passenger journeys in the first half of 2003 : 1 890 million

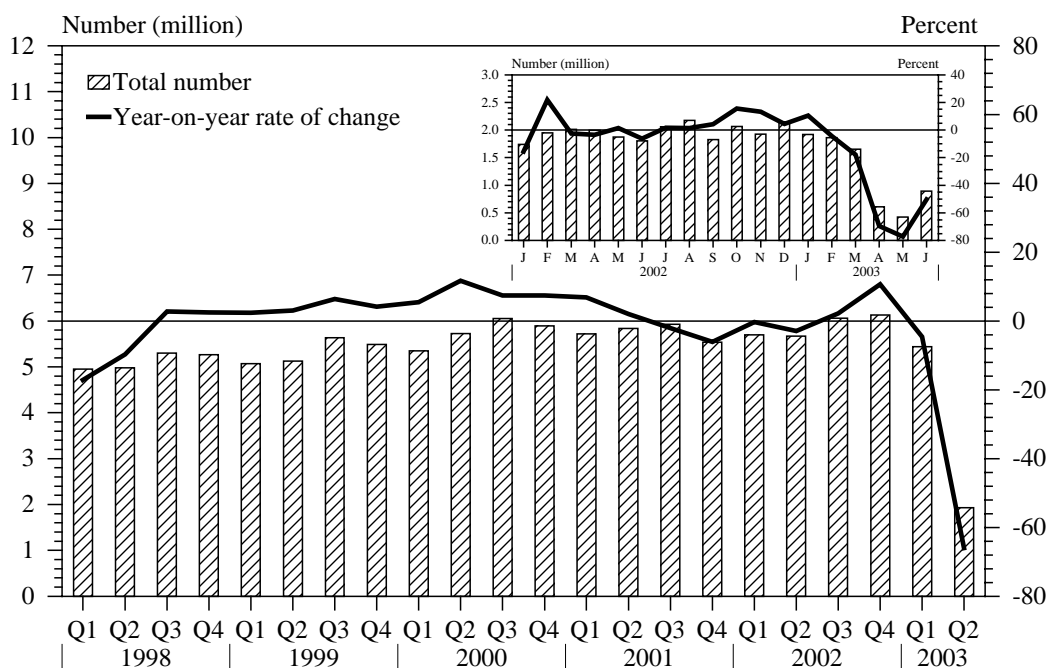
External transport

3.32 On air transport, total air passenger movements declined drastically by 66% over a year earlier to 1.9 million in the second quarter of 2003, significantly worsened from the 5% decline in the first quarter. The issuance of travel advisory against non-essential travel to Hong Kong by the World Health Organisation (WHO) following the spread of SARS in Hong Kong since mid-March had a severe deterring effect on air travel. Within this total for the second quarter, air passenger arrivals and departures decreased by 67% and 64% respectively to 935 800 and 993 900. Air passengers coming from and going to the Mainland plunged even more, by 79% and 76% respectively. For the first half of 2003 as a whole, total air passenger movements fell markedly by 35% from a year earlier, with air passenger arrivals and departures falling by 36% and 35% respectively. This compared with a 6% rise in the second half of 2002. Aircraft movements (including passenger and cargo flights) also recorded a marked decrease, by 40% over a year earlier to 30 200 in the second quarter of 2003, in contrast to a 10% increase in the first quarter. For the first half of 2003 as a whole, aircraft movements dropped by 15% over a year earlier, reversing the 9% rise in the second half of 2002.

/Diagram 3.11

Diagram 3.11

Number of air passenger movements

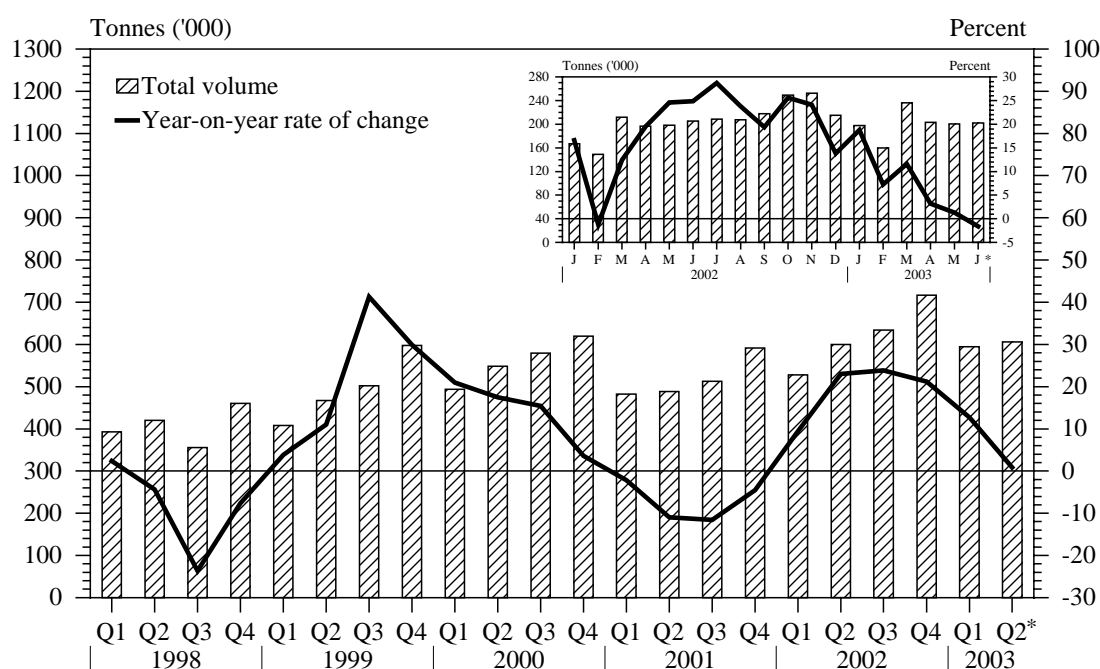


3.33 Total *air cargo movements* went up only slightly, by 1% over a year earlier to 605 900 tonnes in the second quarter of 2003, much less than the 13% leap in the first quarter. Within the total for the second quarter, inward air cargo decreased by 3% to 245 700 tonnes, while outward air cargo increased by 4% to 360 300 tonnes. The decrease in inward air cargo was probably attributable to reduced local demand upon the SARS impact. For the first half of 2003 as a whole, total air cargo movements rose by 6% over a year earlier, comprising increases of 3% and 9% respectively for inward and outward cargo. These were much slower than the corresponding increases of 22%, 16% and 27% in the second half of 2002.

/Diagram 3.12

Diagram 3.12

Cargo carried by air



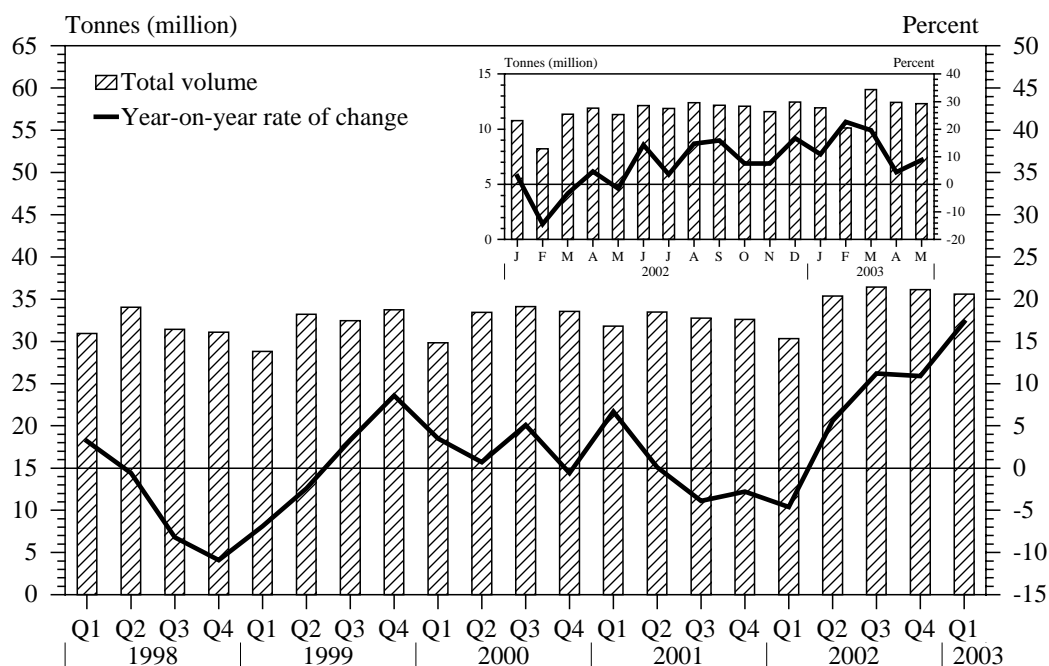
Note : (*) Provisional figures.

3.34 On *ocean transport*, total *ocean cargo movements* amounted to 24.7 million tonnes in April-May 2003, up by 7% over a year earlier, much slower than the 17% surge in the first quarter. While transshipment cargo rose by 21%, direct shipment cargo fell by 2%. Within the total for April-May, inward and outward ocean cargo increased by 2% and 16% respectively to 16.4 million tonnes and 8.3 million tonnes. For the first five months of 2003 as a whole, these two particular streams of cargo movement rose by 11% and 16% respectively over a year earlier, leading to a 13% rise for total ocean cargo movements. In the second half of 2002, the corresponding increases were 10%, 13% and 11%.

/Diagram 3.13

Diagram 3.13

Cargo carried by sea

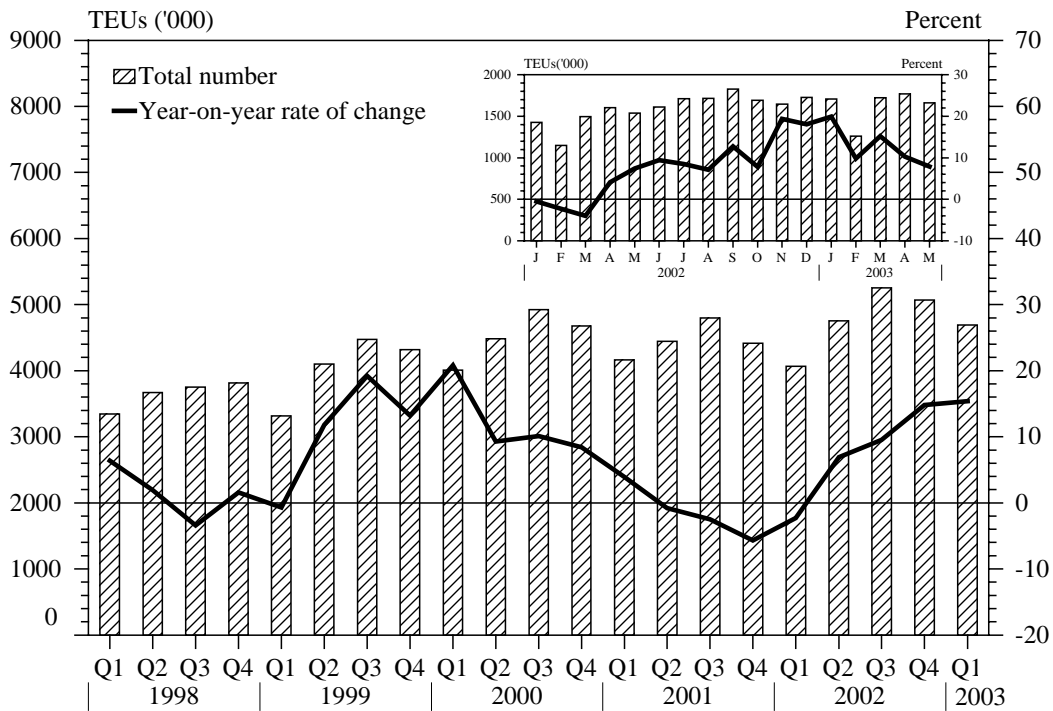


3.35 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) went up by 9% over a year earlier to 3.4 million TEUs in April-May 2003, moderately down from the 15% surge in the first quarter. Within the total for April-May, inward and outward container throughput, both at 1.7 million TEUs, rose by 10% and 9% respectively over a year earlier. Concurrently, 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 soared by 33% in the first half of 2003 over a year earlier.

/Diagram 3.14

Diagram 3.14

Container throughput



Tourism

3.36 Inbound tourism was depressed in the second quarter of 2003, due to the SARS impact since mid-March. The issuance of travel advisory against non-essential travel to Hong Kong by WHO on 2 April, though subsequently lifted on 23 May, worsened the situation. The total number of *incoming visitors* fell drastically by 58% over a year earlier to only 1.6 million in the second quarter of 2003, in stark contrast to a 20% surge in the first quarter. For the first half of 2003 as a whole, the total number of incoming visitors declined by 21% over a year earlier, reversing the 28% rise in the second half of 2002.

3.37 Analysed by major source, visitors from the Mainland dipped the least, by 26% in the second quarter of 2003 over a year earlier. Visitors from Taiwan, the United Kingdom, South and Southeast Asia, the United States and Japan plunged much more, by 74%, 78%, 81%, 84% and 86% respectively.

/Diagram 3.15

Diagram 3.15

Number of incoming visitors

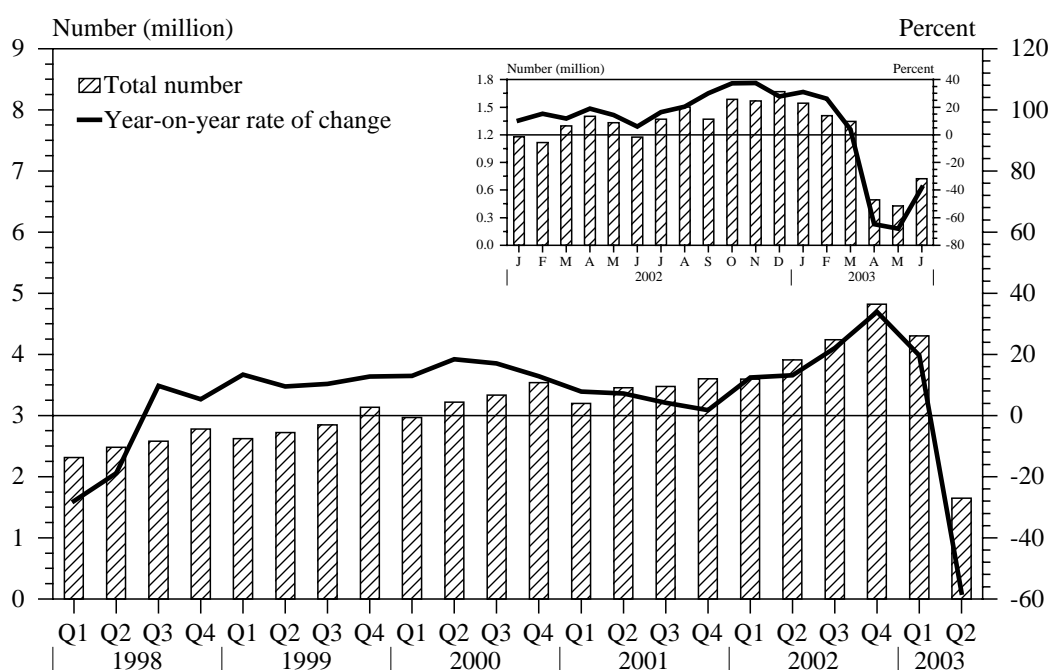


Table 3.15

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

	<u>2002</u>				<u>2003</u>			
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>H1</u>	<u>Q1</u>	<u>Q2</u>
All sources	21	12	13	22	34	-21	20	-58
Mainland of China	53	42	44	55	68	12	53	-26
Taiwan	*	-1	-7	4	6	-39	-3	-74
South and Southeast Asia	9	-2	5	12	18	-46	*	-81
Japan	4	-8	-1	4	26	-44	-2	-86
United States	7	*	-1	5	25	-48	-7	-84
United Kingdom	5	2	*	4	14	-36	2	-78
Others	6	4	3	3	14	-37	1	-72

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

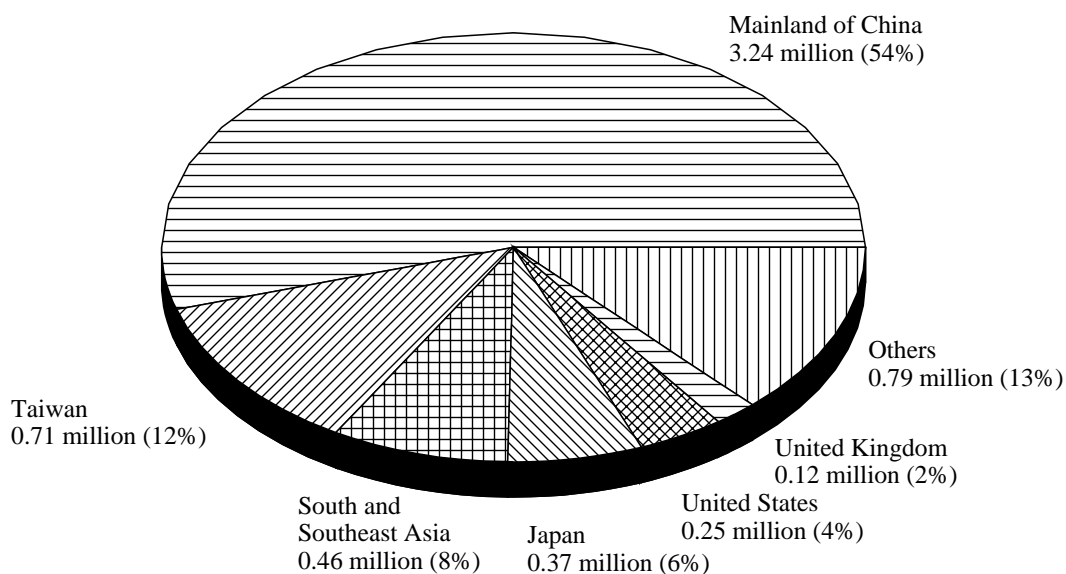
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.38 The Mainland remained the largest source of visitors to Hong Kong, with a share of 54% in the first half of 2003. Taiwan came next (with a share of 12%), followed by South and Southeast Asia (8%), Japan (6%), the United States (4%), and the United Kingdom (2%).

Diagram 3.16

Number of incoming visitors by source in the first half of 2003



Total number of incoming visitors in the first half of 2003 : 5.95 million

3.39 As at end-June 2003, there were 41 987 *hotel rooms* in Hong Kong, down from 43 634 at end-December 2002, owing to the closure of several hotels in the second quarter. The *average hotel room occupancy rate*, down to only 25% in the second quarter of 2003 due to the SARS impact, was way below that of 83% in the same quarter in 2002.

/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 (%)
2002	Annual	43 634	(--)	84
	Q1	41 829	(--)	81
	Q2	42 747	(--)	83
	Q3	42 758	(--)	83
	Q4	43 634	(--)	89
2003	Q1	42 792	(2)	81
	Q2	41 987	(-2)	25
	Apr	41 976	(-2)	22
	May	41 979	(-2)	18
	Jun	41 987	(-2)	34

Notes : (*) As from the first quarter of 2002, this data series has a wider coverage, including all hotels and tourist guest houses on the record of the Office of the Licensing Authority in the Home Affairs Department. As such, the data for the first quarter of 2002 onwards are not directly comparable to those in the earlier periods.

() % change over a year earlier.

(--) Not applicable.

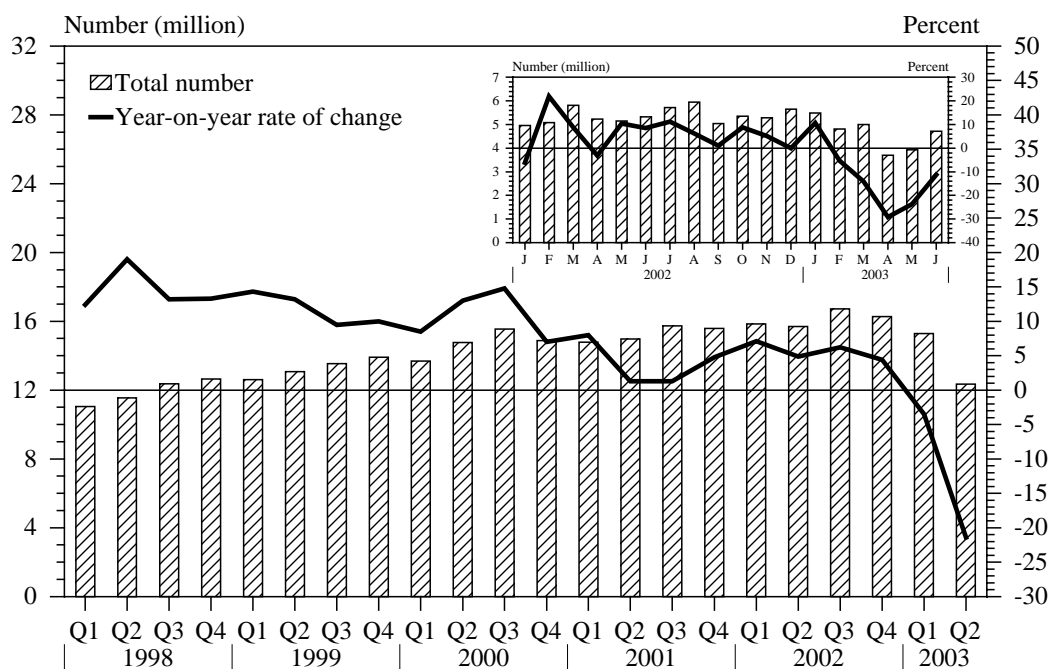
Source : Hong Kong Tourism Board.

3.40 On *Hong Kong residents travelling abroad*, the total number of resident departures decreased markedly by 21% over a year earlier to 12.3 million in the second quarter of 2003, significantly enlarged from the 4% decrease in the first quarter. For the first half of 2003 as a whole, the total number of resident departures fell by 12% over a year earlier, reversed the 5% rise in the second half of 2002. The SARS threat had led many Hong Kong residents to cancel or defer their trips abroad. Analysed by major destination and on year-on-year comparison, resident departures to Taiwan and Americas

/declined

declined the most, by 76% and 54% respectively in the second quarter of 2003 over a year earlier. Resident departures to Europe plunged by 30%, while resident departures to North Asia and the Mainland both dipped by 21%. Resident departures to Macau, South and Southeast Asia, and Australia and New Zealand went down to a lesser extent, by 15%, 14% and 8% respectively.

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>2002</u>					<u>2003</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>H1</u>	<u>Q1</u>	<u>Q2</u>
All destinations	6	7	5	6	4	-12	-4	-21
Mainland of China	7	9	7	7	5	-12	-3	-21
Macau	-3	-3	-5	*	-2	-11	-7	-15
South and Southeast Asia	-3	-2	-11	1	-1	-12	-10	-14
North Asia	2	5	-7	3	6	-19	-18	-21
Americas ^(a)	-8	-14	-20	-6	18	-30	-7	-54
Taiwan	2	20	-10	-3	5	-37	-4	-76
Europe	7	10	*	8	13	-20	-11	-30
Australia and New Zealand	-6	-8	-16	-2	2	-8	-7	-8
Others	-16	-40	-24	-2	35	-20	-21	-20

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

(*) Change of less than 0.5%.

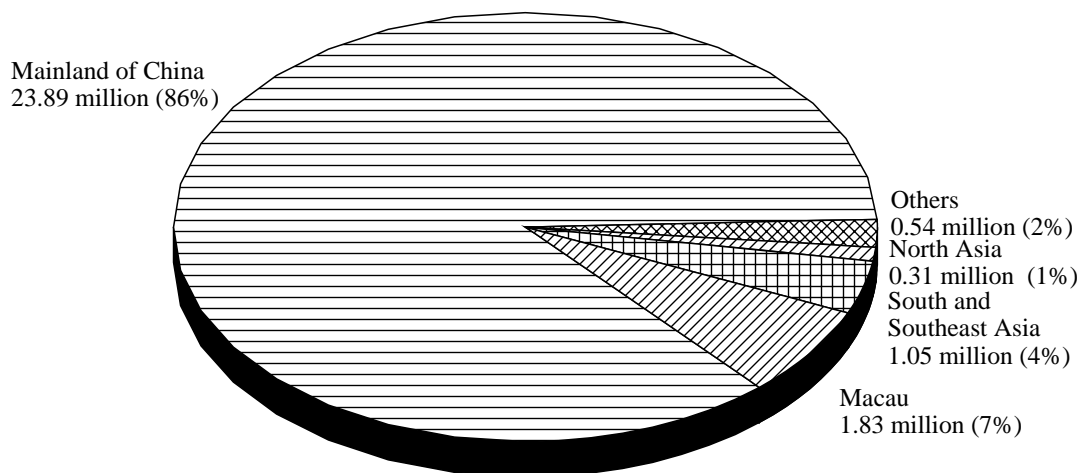
Source : Hong Kong Tourism Board.

3.41 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 half of 2003. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 7%), followed by South and Southeast Asia (4%), North Asia (1%), and Taiwan (1%).

/Diagram 3.18

Diagram 3.18

**Number of Hong Kong resident departures by destination
in the first half of 2003**



Total number of resident departures in the first half of 2003 : 27.63 million

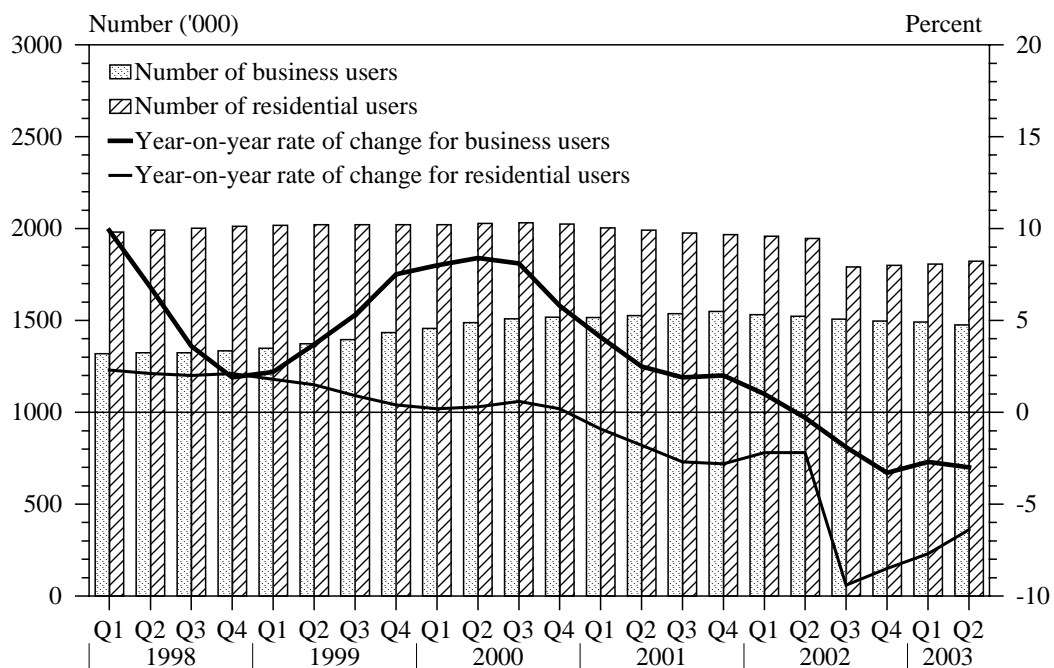
Telecommunications

3.42 On *wireline services*, the total number of direct exchange lines continued to fall, by 1.6% over a year earlier to 3.81 million at end-June 2003. Within the total, the number of fixed telephone lines went down by 5% over a year earlier to 3.30 million at end-June 2003. It comprised decreases in the number of lines for business customers and for residential customers, by 3% and 6% respectively over a year earlier to 1.48 million and 1.82 million at end-June 2003. These two particular groups of customers accounted for 45% and 55% respectively of all the fixed telephone lines installed at end-June 2003. At 49 fixed telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was amongst the highest in Asia. As regards the number of facsimile lines, it leaped by 26% over a year earlier to 514 800 at end-June 2003. At 35 facsimile lines per 100 business exchange lines, Hong Kong again ranked amongst the highest in Asia. On external telecommunications, external telephone traffic volume⁽⁹⁾ went up by 2% over a year earlier to 1 452 million minutes in the second quarter of 2003, following a 1% increase in the first

/quarter

quarter. As to Internet usage, broadband services continued on a sharp uptrend, with the traffic volume soaring by 315% over a year earlier to 182 900 terabits in the second quarter of 2003. This came after a 177% leap the first quarter. There was a further profound shift in Internet usage away from the public switch telephone network, where the traffic volume plummeted by 25% to 1 086 million minutes in the second quarter of 2003. The corresponding decline in the first quarter was 41%.

Diagram 3.19
Number of fixed telephone lines* by main user category
(as at end of quarter)

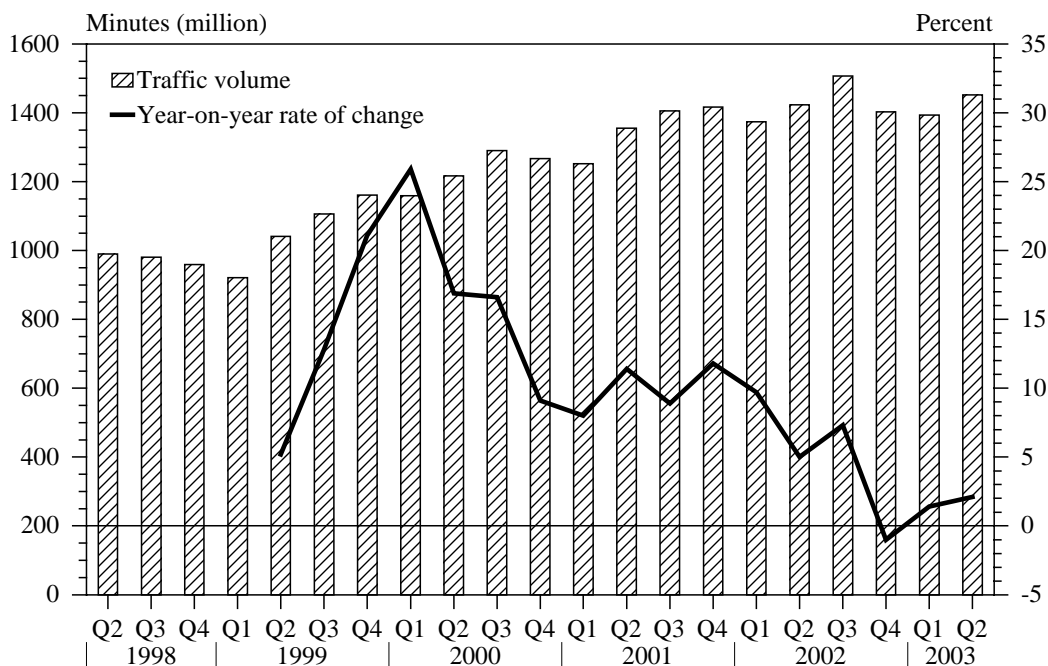


Note : (*) Not including facsimile lines.

/Diagram 3.20

Diagram 3.20

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



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

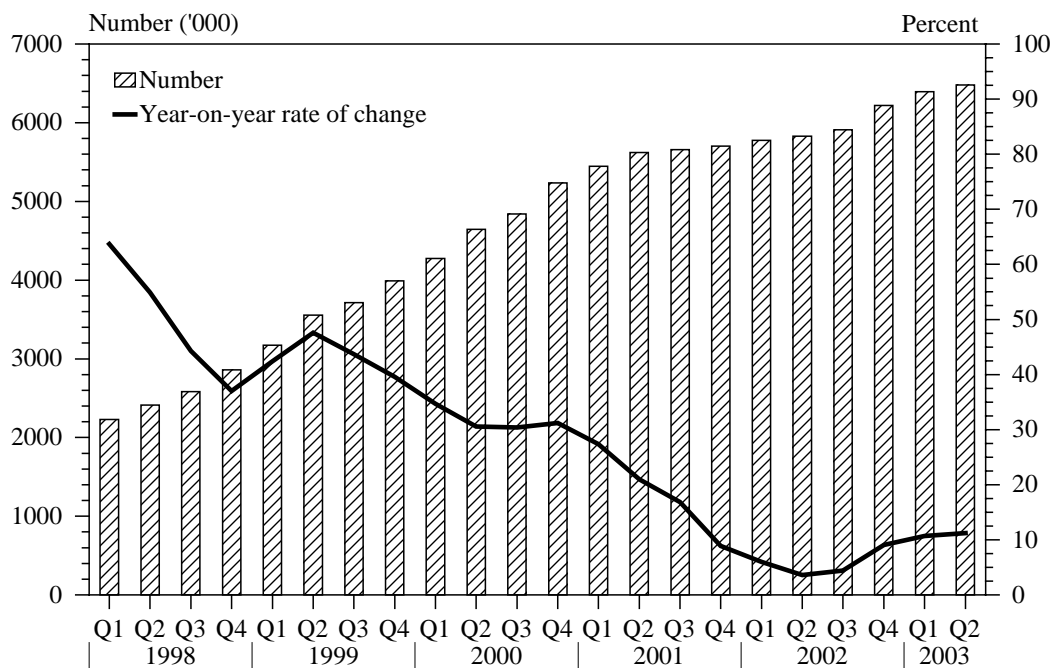
(*) Including access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.

3.43 On *wireless services*, the mobile phone segment continued to expand. The number of mobile phone customers went up by 11% from a year earlier to 6.5 million at end-June 2003⁽¹⁰⁾. This corresponded to a mobile phone penetration rate of 95%, amongst the highest in the world. Meanwhile, the paging segment continued to shrink, with the number of paging customers declining further by 23% from a year earlier to 172 400 at end-June 2003.

/Diagram 3.21

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 trend 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 to be met by outward processing 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 could opt for different combinations of these privileges, or else seek a direct price discount. In effect, the acquisition cost initially and/or the mortgage cost in the ensuing few years would be reduced for the flat buyers.
- (6) As part of the population policy announced on 26 February 2003, persons with net assets under their control and disposal for investment of no less than \$6.5 million in permissible investment assets, including real estate and specified financial assets, will be eligible for admission into Hong Kong as capital investment entrants. This new policy will be applied to all foreign nationals, Macao SAR residents and Taiwan residents, but not Mainland residents. Acceptance of applications for entry is expected to start later in the year.
- (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)

- (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 modification 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) This includes access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.
- (10) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.

CHAPTER 4 : THE FINANCIAL SECTOR*

Overall financial market situation

4.1 The Hong Kong dollar exchange and money markets held broadly stable in the first half of 2003. The spot exchange rate of the Hong Kong dollar against the US dollar stayed very close to the linked rate. In April, the twelve-month forward rate premium over the spot rate exhibited a brief upsurge, amidst concern over the impact of SARS on the economy. But as SARS was progressively being brought under control, the premium soon settled back. The growth profiles of narrow and broad money supply continued to diverge, along with the on-going compositional shift more for higher liquidity under the prevailing low interest rate environment. The Hong Kong dollar loan-to-deposit ratio went lower, as Hong Kong dollar loans declined further while Hong Kong dollar deposits resumed increase during the first half of this year. As to the local stock market, share prices staged a distinct rebound during the second quarter. Market sentiment was lifted by the strong rallies in many stock markets overseas and SARS being brought under control in Hong Kong. At end-June 2003, the Hang Seng Index closed at 9 577, up by 10.9% over end-March 2003 and 2.7% over end-2002.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar moved within a narrow range of 7.798 to 7.800 during the first half of 2003. The premium of the twelve-month forward rate over the spot rate held steady for most of the period. There was a brief upsurge to 355 pips (each pip equivalent to HK\$0.0001) in late April, amidst worries about the impact of SARS on the economy. But as SARS was being progressively brought under control, the premium narrowed back to 120 pips at end-June 2003, even less than 169 pips at end-2002.

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

4.3 Under the linked exchange rate system⁽¹⁾, the movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those of the US dollar. During the first half of 2003, the US dollar depreciated against most of the other major currencies. This was triggered by uncertainties surrounding the US-led war on Iraq and concern over the pace of recovery in the US economy. In particular, the dollar - euro rate surged by 14.2%, from a monthly average of 1.022 in December 2002 to that of 1.167 in June 2003. Also, the dollar - pound sterling rate rose by 4.5% from a monthly average of 1.589 in December 2002 to that of 1.661 in June 2003, and the yen - dollar rate fell by 2.8% from a monthly average of 121.8 in December 2002 to that of 118.3 in June 2003. Likewise, the US dollar eased against many of the East Asian currencies.

4.4 Taking these currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar declined by 2.0%, from a monthly average of 102.7 in December 2002 to that of 100.6 in June 2003. After adjusting for changes in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar had a larger decrease, by 3.5% from 93.3 to 90.0 over the same period.

/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>	
2002 Mar	105.9	(0.5)	99.3	(1.2)
Jun	103.5	(-2.3)	95.5	(-3.8)
Sep	103.0	(-0.5)	94.4	(-1.1)
Dec	102.7	(-0.3)	93.3	(-1.2)
2003 Mar	101.8	(-0.9)	92.1	(-1.2)
Jun	100.6	(-1.2)	90.0	(-2.3)

Notes : (a) The Nominal Effective Exchange Rate Index (EERI) 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.

Positive change in the EERI denotes appreciation of the Hong Kong dollar; negative change in the EERI denotes depreciation.

/Diagram 4.1

Diagram 4.1

**Exchange rate of the Hong Kong dollar against the US dollar
(average for the month)**

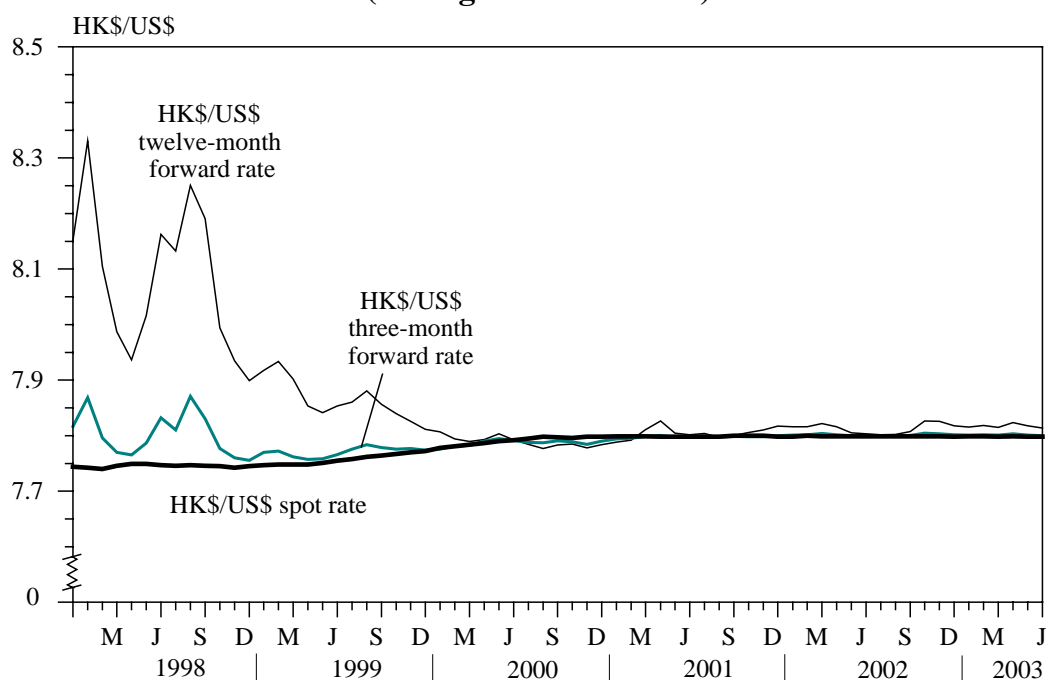
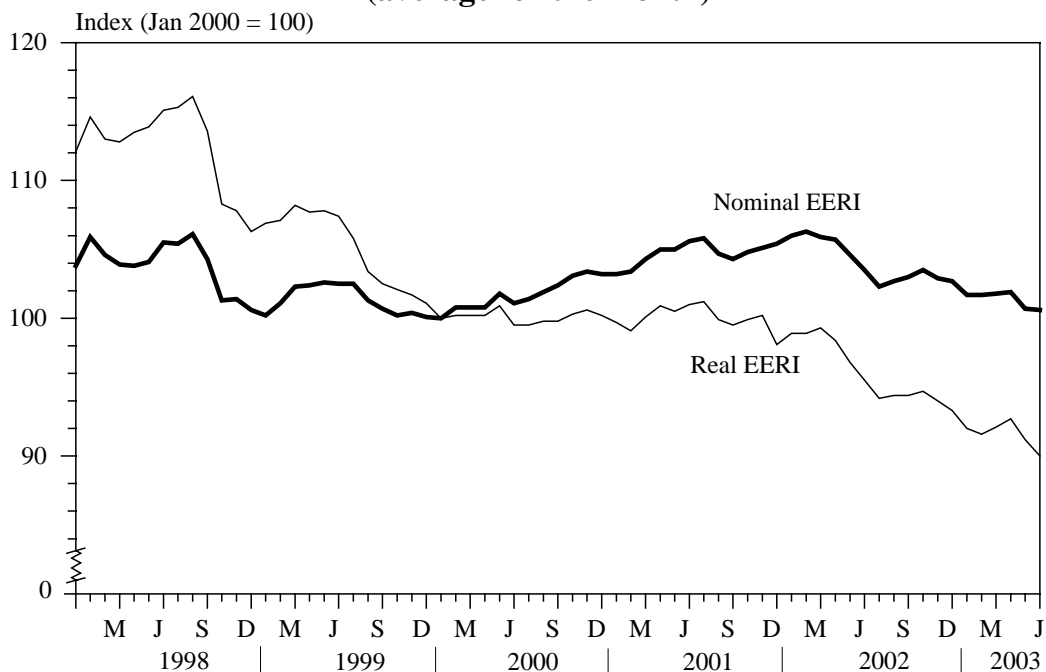


Diagram 4.2

**Trade-weighted Effective Exchange Rate Index
of the Hong Kong dollar
(average for the month)**



Note : See the footnotes to Table 4.1.

/Interest

Interest rates

4.5 Affected by movements in the Hong Kong dollar forward rate premium over the spot rate, local inter-bank interest rates moved up briefly in April, and then fell back in the ensuing two months. At end-June 2003, the three-month HIBOR closed at 1.0%, down from 1.4% at end-2002. Over the same period, the spread of the three-month HIBOR over the corresponding Euro-dollar deposit rate reversed from a premium of 9 basis points to a discount of 6 basis points.

4.6 Following the movement in the US Fed Funds target rate, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) was reduced by 25 basis points to 2.5% in late June 2003. Yet the best lending rate and savings deposit rate offered by the major commercial banks were kept at 5.00% and 0.03% respectively throughout the first half of 2003. Meanwhile, the spread of the best lending rate over the three-month time deposit rate widened modestly, from an average of 4.78 percentage points in the second half of 2002 to that of 4.91 percentage points in the first half of 2003.

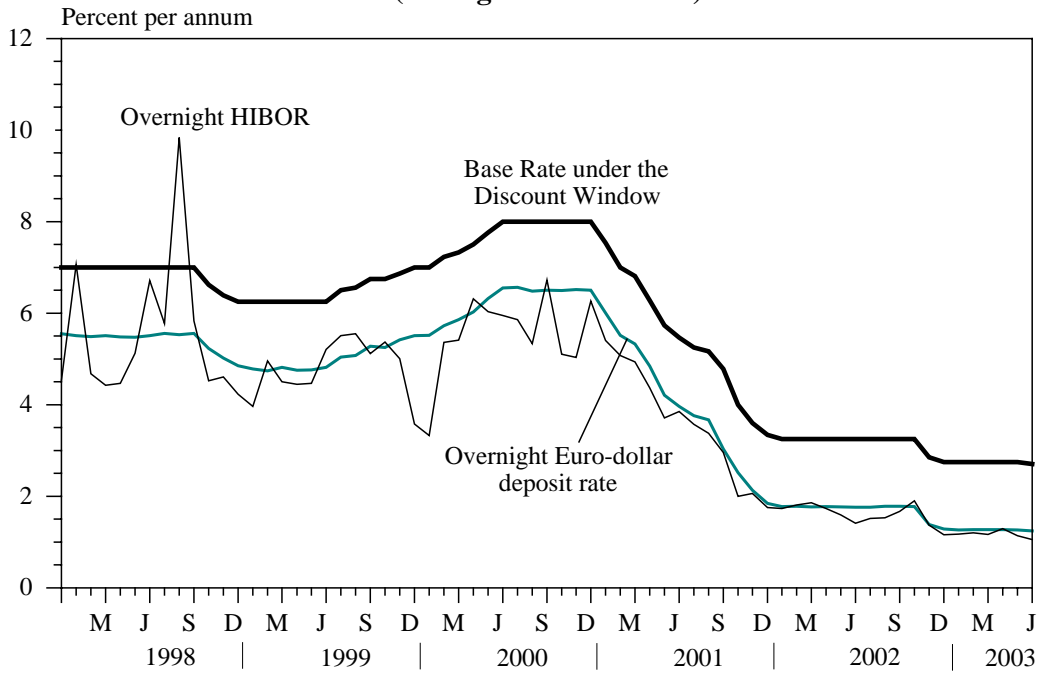
4.7 Competition amongst the banks for residential mortgage business remained intense, particularly on flats sold in the primary market. In June 2003, 92.0% of the new residential mortgages were granted at more than two percentage points below the best lending rate, up from 90.9% in December 2002⁽³⁾.

/Diagram 4.3

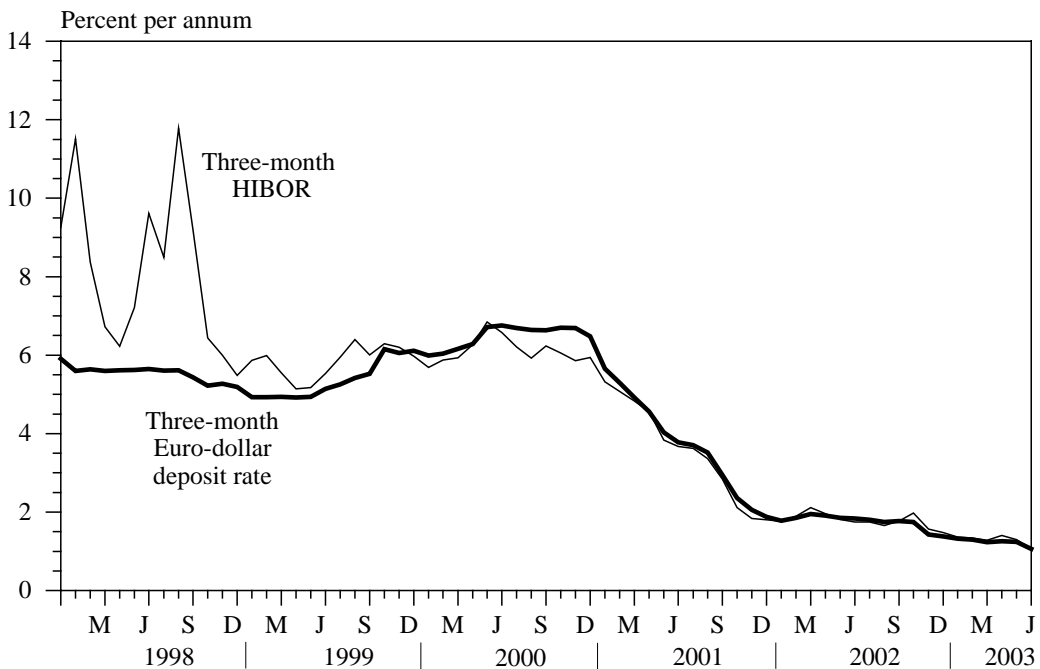
Diagram 4.3

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)**

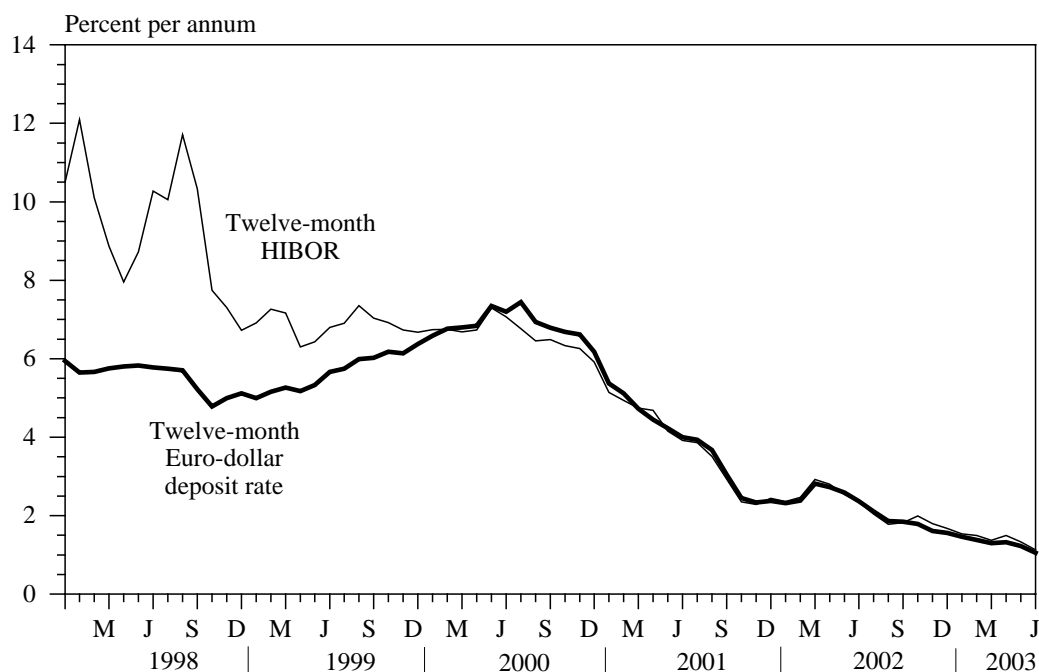


Table 4.2

**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>	
2002	Mar	1.86	(9)	2.12	(17)	2.93	(11)
	Jun	1.41	(-35)	1.75	(-9)	2.34	(-4)
	Sep	1.67	(-11)	1.77	(*)	1.82	(-3)
	Dec	1.16	(-13)	1.48	(10)	1.68	(12)
2003	Jan	1.18	(-9)	1.36	(4)	1.54	(7)
	Feb	1.20	(-7)	1.34	(4)	1.50	(12)
	Mar	1.17	(-11)	1.28	(5)	1.37	(7)
	Apr	1.29	(1)	1.41	(15)	1.50	(18)
	May	1.14	(-12)	1.30	(6)	1.33	(11)
	Jun	1.06	(-18)	1.06	(1)	1.13	(8)

Notes : () Figures in brackets represent the spread between the HIBOR and the corresponding Euro-dollar deposit rate in basis point. 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)

		<u>Interest rates on time deposits below HK\$100,000</u>					<u>Savings deposit rate</u>	<u>Best lending rate</u>
<u>Average for the month</u>		<u>One-week</u>	<u>One-month</u>	<u>Three-month</u>	<u>Six-month</u>	<u>Twelve-month</u>		
2002	Mar	0.21	0.55	0.62	0.84	1.39	0.16	5.13
	Jun	0.17	0.29	0.36	0.46	0.74	0.16	5.13
	Sep	0.16	0.33	0.38	0.40	0.43	0.16	5.13
	Dec	0.09	0.13	0.15	0.19	0.25	0.03	5.00
2003	Jan	0.08	0.10	0.11	0.16	0.21	0.03	5.00
	Feb	0.08	0.08	0.09	0.14	0.19	0.03	5.00
	Mar	0.08	0.09	0.09	0.12	0.17	0.03	5.00
	Apr	0.08	0.09	0.10	0.13	0.17	0.03	5.00
	May	0.08	0.08	0.09	0.12	0.14	0.03	5.00
	Jun	0.08	0.08	0.08	0.09	0.10	0.03	5.00

Deposits and money supply

4.8 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)⁽⁴⁾ rose by 2.1% during the second quarter of 2003 to \$1,842 billion at end-June, following a 1.2% drop during the first quarter. At end-June 2003, the share of Hong Kong dollar deposits in total deposits, at 55.0%, was virtually unchanged from that at end-2002. On a year-on-year comparison, Hong Kong dollar deposits fell slightly, by 0.3% at end-June 2003.

4.9 Within Hong Kong dollar deposits, demand deposits turned up to an increase of 10.7% during the second quarter of 2003, from a decrease of 2.9% during the first quarter. Savings deposits rose during the first two quarters, by 2.2% and 6.6% respectively, whereas time deposits shrank during both quarters, by 3.2% and 2.3%. These indicated a continued shift towards deposits with higher liquidity under the prevailing low interest rate environment. This tendency was even more apparent from a year-on-year comparison, with increases of 24.4% and 14.7% respectively for demand and savings deposits yet a decrease of 12.1% for time deposits at end-June 2003.

/Table 4.4

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

	<u>% change during the quarter</u>	<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total Hong Kong dollar deposits</u> ^(a)
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
	Q4	10.5	6.2	-4.7	0.2
2003	Q1	-2.9	2.2	-3.2	-1.2
	Q2	10.7	6.6	-2.3	2.1
Total amount at the end of June 2003 (HK\$Bn)		157	735	950	1,842
% change over a year earlier		24.4	14.7	-12.1	-0.3

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) expanded by 1.9% during the second quarter of 2003 to \$1,509 billion at end-June, reversing a 0.9% dip during the first quarter. This was attributable entirely to a pick-up in US dollar deposits, by 4.0% during the second quarter, more than offsetting a decline in non-US dollar deposits, by 2.1%. Yet on a year-on-year comparison, both US dollar deposits and non-US dollar deposits rose, by 1.8% and 2.0% respectively at end-June 2003. Taken together, total foreign currency deposits increased by 1.9% at end-June 2003.

/Table 4.5

Table 4.5

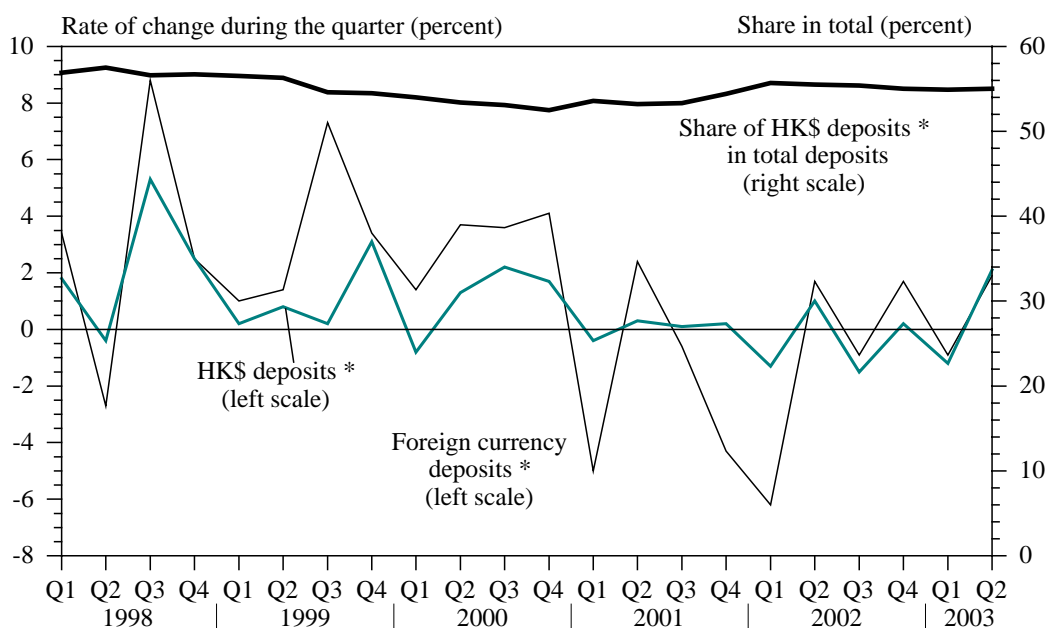
Foreign currency deposits with authorized institutions

% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)	Foreign currency swap deposits
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
	Q4	3.4	-1.6	1.7	-8.6
2003	Q1	-2.1	1.7	-0.9	-8.4
	Q2	4.0	-2.1	1.9	-7.2
Total amount at the end of June 2003 (HK\$Bn)		1,031	477	1,509	2
% change over a year earlier		1.8	2.0	1.9	-28.2

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

Diagram 4.4

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



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

4.11 Total deposits with authorized institutions in Hong Kong moved up by 2.0% during the second quarter of 2003 to \$3,351 billion at end-June, having declined by 1.0% during the first quarter. This was influenced predominantly by the growth profile of deposits with licensed banks, which turned up to a 2.0% rise during the second quarter, from a 1.0% fall during the first quarter. Such deposits constituted 98.8% of total deposits with authorized institutions at end-June 2003. As to deposits with restricted licence banks and with deposit-taking companies, they also rose back, by 4.6% and 0.9% respectively during the second quarter, following decreases of 5.5% and 7.0% during the first quarter. On a year-on-year comparison, deposits with these three types of authorized institutions had respective changes of 0.7%, -1.0% and -5.2% at end-June 2003. Taken together, there was an increase of 0.6% at end-June 2003.

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>
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
	Q4	10.9	6.1	-1.9	1.0	-6.9	3.3	0.9
2003	Q1	-0.6	3.3	-2.9	-1.0	-5.5	-7.0	-1.0
	Q2	11.0	5.5	-0.4	2.0	4.6	0.9	2.0
Total amount at the end of June 2003 (HK\$Bn)		201	1,032	2,077	3,310	35	6	3,351
% change over a year earlier		25.1	15.9	-7.2	0.7	-1.0	-5.2	0.6

/4.12

4.12 At end-June 2003, narrow money supply, HK\$M1⁽⁵⁾, amounted to \$277 billion, representing a 6.4% rise during the second quarter. This was faster than the 0.4% increase during the first quarter. On a seasonally adjusted basis, HK\$M1 rose more, by 2.7% during the first quarter and 8.7% during the second quarter⁽⁶⁾. Broader money supply, HK\$M2 and HK\$M3 (adjusted to include foreign currency swap deposits), went up by 2.2% and 2.1% respectively during the second quarter, to \$2,012 billion and \$2,031 billion respectively at end-June 2003. These reversed a decrease of 0.8% in both monetary aggregates during the first quarter. On a year-on-year comparison, HK\$M1 surged by 18.7%, while both HK\$M2 and HK\$M3 rose slightly by 0.5% at end-June 2003. Subdued domestic economic activity and low return from interest-bearing deposits relative to other financial assets, including in particular debt securities, were the major factors underlying the slower growth in broader money supply.

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	
2002	Q1	-0.1	(0.5)	1.5	-1.0	-3.1	-1.0	-3.1
	Q2	1.7	(5.4)	2.4	1.2	1.7	1.2	1.7
	Q3	3.5	(2.9)	2.1	-1.4	-0.8	-1.3	-0.7
	Q4	7.3	(3.4)	8.0	0.4	1.4	0.5	1.3
2003	Q1	0.4	(2.7)	1.4	-0.8	-0.3	-0.8	-0.4
	Q2	6.4	(8.7)	7.1	2.2	2.2	2.1	2.2
Total amount at the end of June 2003 (HK\$Bn)		277	(282)	321	2,012	3,584	2,031	3,626
% change over a year earlier		18.7	(18.8)	19.8	0.5	2.4	0.5	2.4

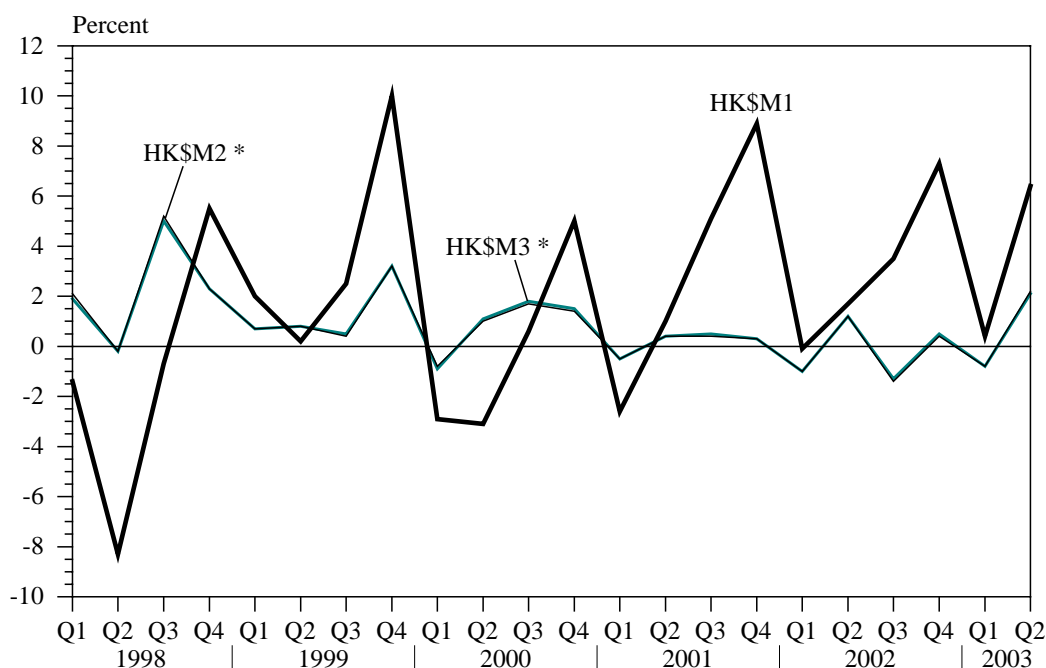
Notes : () Figures in brackets represent percentage changes on the basis of the seasonally adjusted series of HK\$M1. Seasonality is not apparent for the other monetary aggregates.

(a) Adjusted to include foreign currency swap deposits.

/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.

Hong Kong dollar external claims and liabilities of authorized institutions

4.13 Comparing end-May 2003 with end-2002, Hong Kong dollar claims held by Hong Kong's authorized institutions on banks outside Hong Kong rose by 19.9% to \$222.5 billion. On a year-on-year comparison, the increase was 19.1% at end-May 2003. This was partly due to increased placements with banks in Europe and the Mainland. By contrast, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks outside Hong Kong contracted by 15.4% from \$161.2 billion at end-2002 to \$136.3 billion at end-May 2003. On a year-on-year comparison, there was a decrease of 10.1% at end-May 2003. Taken together, Hong Kong's authorized institutions maintained net claims against banks abroad, at \$86.1 billion at end-May 2003, much exceeding those of \$24.4 billion at end-2002.

/4.14

4.14 On the external position vis-à-vis banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland continued to be prominent, accounting for 41% of total Hong Kong dollar liabilities owed to banks abroad at end-May 2003. Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland had a smaller share in total Hong Kong dollar claims held on banks abroad, at 10% at end-May 2003. Owing to less deposits from banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland fell considerably, by 24.6% during the first five months of 2003 to \$55.5 billion at end-May. On a year-on-year comparison, the decrease was 22.7% at end-May 2003. On the other hand, with more lending and placement to banks in the Mainland, Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland went up by 9.0% during the first five months of 2003 to \$22.5 billion at end-May. On a year-on-year comparison, there was a surge of 19.5% at end-May 2003. Taken together, Hong Kong's authorized institutions had net Hong Kong dollar liabilities to banks in the Mainland, amounting to \$33.0 billion at end-May 2003, which was reduced from \$52.9 billion at end-2002.

Table 4.8

**Hong Kong dollar external claims and liabilities
held by Hong Kong's authorized institutions**

As at the <u>end of</u>	<u>Claims on banks outside Hong Kong</u> (HK\$Bn)				<u>Liabilities to banks outside Hong Kong</u> (HK\$Bn)				<u>Net liabilities to banks outside Hong Kong</u> (HK\$Bn)	
	<u>Overall</u>	<u>Involving banks in the Mainland</u>			<u>Overall</u>	<u>Involving banks in the Mainland</u>			<u>Overall</u>	<u>Involving banks in the Mainland</u>
2002 Q1	171.8	(1.1)	19.1	(3.2)	147.0	(-16.2)	68.4	(-28.7)	-24.9	49.3
Q2	190.1	(10.6)	19.8	(3.4)	151.2	(2.9)	67.4	(-1.4)	-38.9	47.6
Q3	192.3	(1.2)	21.5	(8.7)	154.3	(2.1)	70.6	(4.6)	-38.0	49.0
Q4	185.6	(-3.5)	20.6	(-4.2)	161.2	(4.5)	73.6	(4.3)	-24.4	52.9
2003 Q1	202.4	(9.0)	21.9	(6.4)	149.8	(-7.1)	62.2	(-15.4)	-52.5	40.3
Apr	200.0	(-1.2)	23.2	(5.6)	135.7	(-9.4)	53.7	(-13.7)	-64.2	30.5
May	222.5	(11.2)	22.5	(-3.0)	136.3	(0.5)	55.5	(3.3)	-86.1	33.0
		<19.1>		<19.5>		<-10.1>		<-22.7>		

Notes : () % change during the period.

<> % change over a year earlier.

/Loans

Loans and advances

4.15 Total loans and advances contracted further, by 0.3% during the second quarter of 2003 to \$2,053 billion at end-June, after a 0.8% decrease during the first quarter. Within this total, Hong Kong dollar loans were reduced by 0.8% during the second quarter to \$1,597 billion at end-June, while foreign currency dollar loans rose by 1.4% to \$456 billion. This followed corresponding reductions of 0.4% and 2.3% during the first quarter. The share of Hong Kong dollar loans in total loans and advances stood at 77.8% at end-June 2003, little changed from that at end-2002. On a year-on-year comparison, both Hong Kong dollar loans and foreign currency loans went down, by 3.0% and 8.7% respectively, giving a decrease of 4.3% in total loans and advances at end-June 2003.

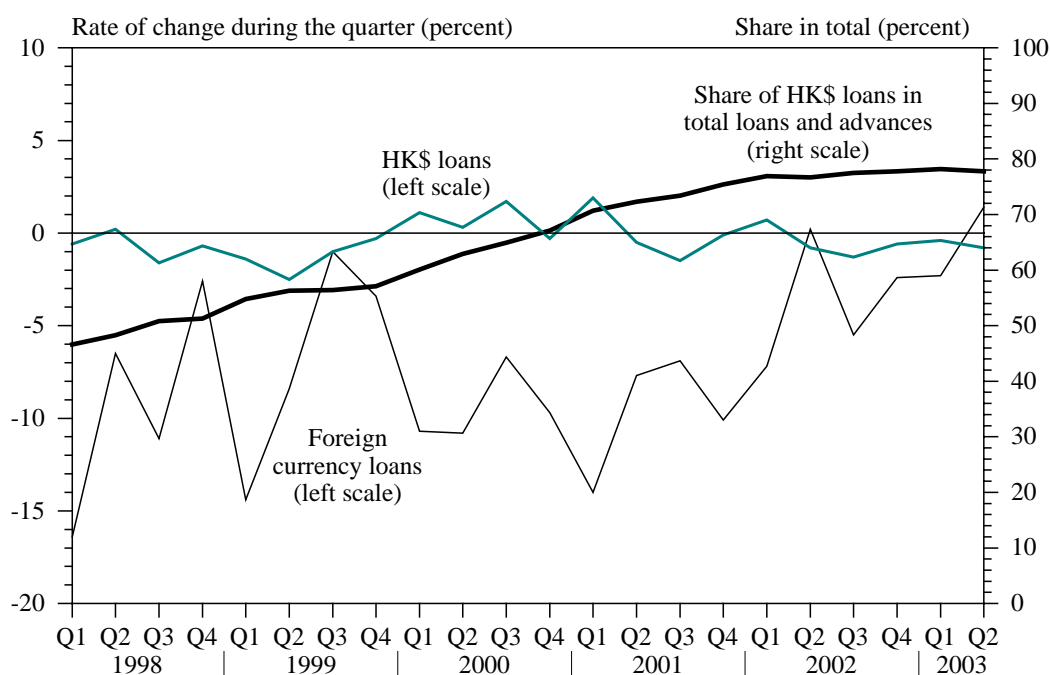
Table 4.9

Loans and advances by currency denomination

<u>% change during the quarter</u>		<u>Hong Kong dollar loans</u>	<u>Foreign currency loans</u>	<u>Total loans and advances</u>
2002	Q1	0.7	-7.2	-1.2
	Q2	-0.8	0.2	-0.5
	Q3	-1.3	-5.5	-2.2
	Q4	-0.6	-2.4	-1.0
2003	Q1	-0.4	-2.3	-0.8
	Q2	-0.8	1.4	-0.3
Total amount at the end of June 2003 (HK\$Bn)		1,597	456	2,053
% change over a year earlier		-3.0	-8.7	-4.3

/Diagram 4.6

Diagram 4.6
Loans and advances by currency denomination
and share of Hong Kong dollar loans in total loans and advances



4.16 As Hong Kong dollar loans declined further while Hong Kong dollar deposits resumed increase during the first half of 2003, the Hong Kong dollar loan-to-deposit ratio went down appreciably, from 88.5% at end-2002 to 86.7% at end-June 2003.

Table 4.10

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

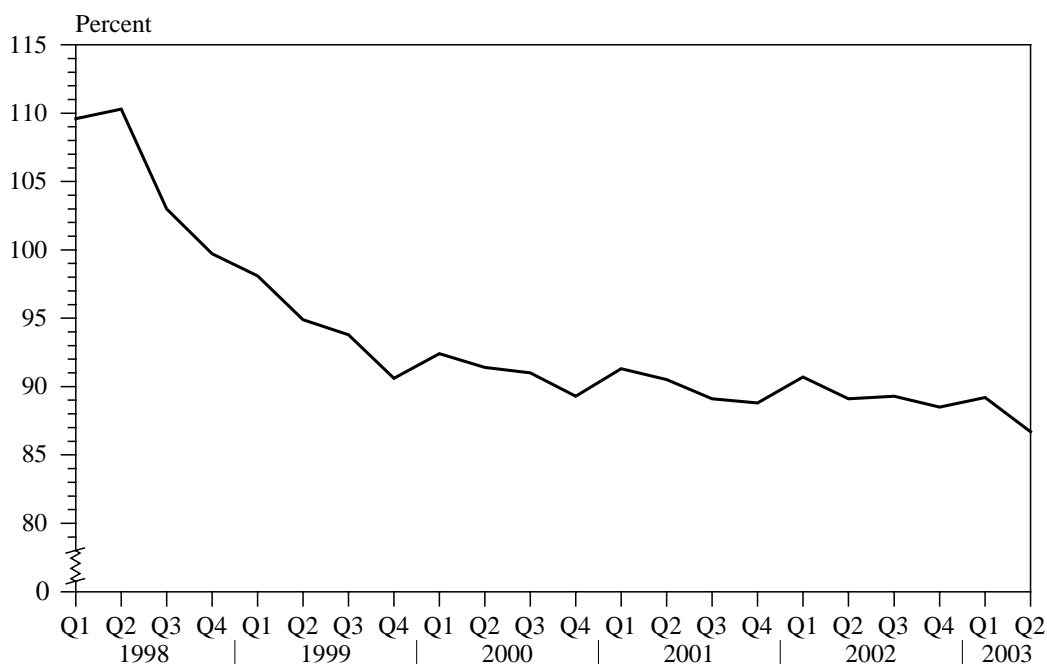
<u>As at the end of</u>	<u>%</u>
2002 Q1	90.7
2002 Q2	89.1
2002 Q3	89.3
2002 Q4	88.5
2003 Q1	89.2
2003 Q2	86.7

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

/Diagram 4.7

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



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

4.17 Analysed by place of usage, loans for use in Hong Kong, at \$1,819 billion at end-June 2003, continued to decrease, by 0.3% during the second quarter, following a 0.5% fall during the first quarter. Loans for use outside Hong Kong also declined, by 3.4% during the first quarter and further by 0.2% during the second quarter, to \$234 billion at end-June, upon continued cut-backs in Euro-yen Impact Loans⁽⁷⁾. On a year-on-year comparison, loans for use in Hong Kong and outside Hong Kong fell by 2.8% and 14.8% respectively at end-June 2003.

/Table 4.11

Table 4.11

Loans and advances by place of usage

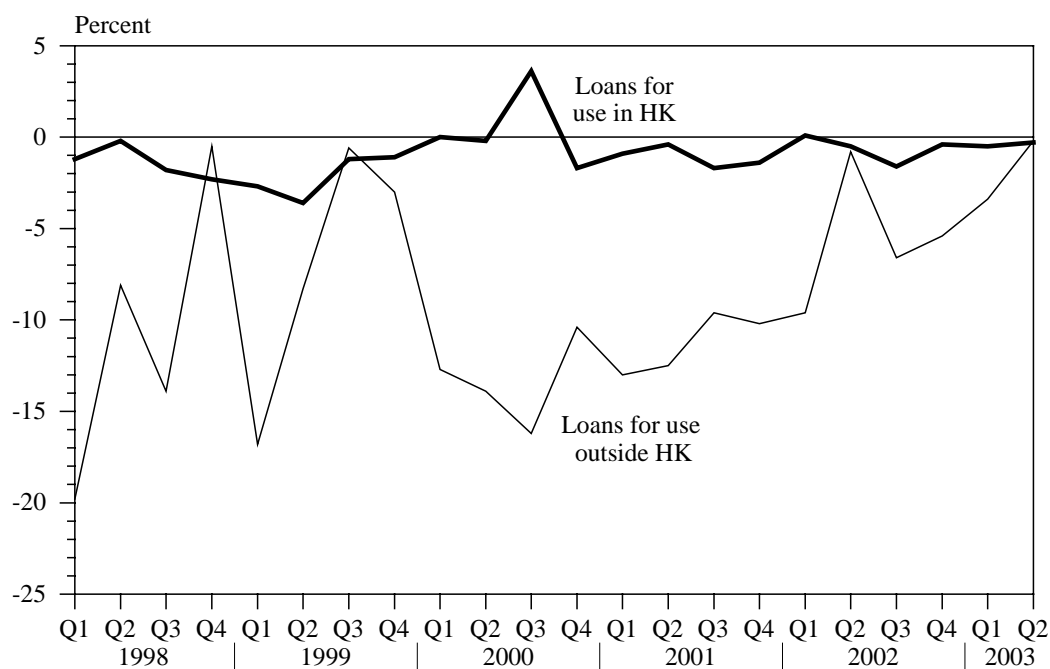
% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2002	Q1	0.1	-9.6
	Q2	-0.5	-0.8
	Q3	-1.6	-6.6
	Q4	-0.4	-5.4
2003	Q1	-0.5	-3.4
	Q2	-0.3	-0.2
Total amount at the end of June 2003 (HK\$Bn)		1,819	234
% change over a year earlier		-2.8	-14.8

Notes : (a) Including trade financing loans.

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

Diagram 4.8

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



/4.18

4.18 Analysed by major usage, domestic loans continued to show a mixed performance. Loans for trade financing expanded by 6.2% during the second quarter of 2003, larger than the 2.2% increase during the first quarter. Continued robust performance of external trade was the major contributory factor. Loans to the manufacturing sector and for financial concerns also went up faster, by 4.9% and 2.8% respectively during the second quarter, as compared to the increases of 1.7% and 0.1% during the first quarter. On the other hand, loans to stockbrokers reverted to decline, by 5.5% during the second quarter of 2003, after a brief rise by 4.2% during the first quarter. So did loans for the wholesale and retail trade, to a 0.6% decrease during the second quarter, from a 2.3% increase during the first quarter, as local retail business was hit by SARS. As to loans for residential mortgages and for building, construction, property development and property investment, both shrank by 1.4% during the second quarter, as the subdued property market continued to weigh down on such lending. This followed respective declines of 1.3% and 0.3% during the first quarter.

Table 4.12

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

		Loans to :							
		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
% change during the quarter									
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	1.9	-4.9	-0.9	-2.4	-0.7	-3.2	-22.2	-1.5
	Q4	-3.7	1.2	-2.6	1.0	-0.7	0.3	-5.3	-0.3
2003	Q1	2.2	1.7	2.3	-0.3	-1.3	0.1	4.2	-1.2
	Q2	6.2	4.9	-0.6	-1.4	-1.4	2.8	-5.5	-0.9
Total amount at the end of June 2003 (HK\$Bn)		99	75	102	373	624	129	8	409
% change over a year earlier		6.5	2.6	-1.8	-3.0	-4.1	-0.1	-27.5	-3.9

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%.

/4.19

4.19 The quality of assets held by the local banking sector showed some signs of deterioration, amidst the subdued local business environment. Specifically, the ratio of non-performing loans to total loans increased, from 3.94% at end-2002 to 4.03% at end-March 2003, as did the ratio of overdue and rescheduled loans to total loans, from 3.59% to 3.64%⁽⁸⁾. This was notwithstanding a slight decline in the ratio of classified loans to total loans, from 5.04% to 5.03%. Amongst different types of loans, arrears for over three months in mortgage repayment rose from 1.06% at end-2002 to 1.11% at end-March 2003, whereas arrears for over three months in credit card repayment fell from 1.28% to 1.25%. Nevertheless, the local banks remained well capitalised in overall terms, with their consolidated capital adequacy ratio averaging at 15.9% at end-March 2003, still far higher than the standard set by the Bank for International Settlements.

Banks and other deposit-taking institutions

4.20 During the first half of 2003, the number of licensed banks increased by three to 136 at end-June. On the other hand, the number of restricted licence banks fell by four to 42, and the number of deposit-taking companies by five to 40. Altogether, 218 authorized institutions (excluding representative offices) from 33 countries and territories had a presence in Hong Kong at end-June 2003. Taking all the authorized institutions in Hong Kong together, their total assets went up by 0.8% during the first half of 2003 to \$6,049 billion at end-June.

4.21 On enhancing deposit protection in Hong Kong, opinions obtained from an earlier public consultation by HKMA indicated broad support for introduction of a deposit protection scheme in Hong Kong. After further studies and another round of public consultation by HKMA on the details of the proposed scheme, the bill for establishment of the deposit protection scheme in Hong Kong was drawn up and introduced into the Legislative Council on 30 April 2003. In order to prevent moral hazard and ensure financial viability of the scheme, it is proposed that the amount of protection for each eligible claim be capped at a specified level, and that a system of differential contributions from the depository institutions according to their regulatory ratings be introduced. It is expected to take at least 18 months after the passage of the bill for the scheme to commence operation.

4.22 To help address the issues of increases in consumer credit defaults and personal bankruptcies, the revised Code of Practice on Consumer Credit Data became effective as from 2 June 2003. Designed to provide practical guidance to data users in the handling of consumer credit data, the revised Code of Practice covers the collection, accuracy, use, security, access and correction issues, as they relate to the personal data of those individuals who are or have been applicants for consumer credit. It covers, on the one hand, credit reference agencies, and on the other hand, credit providers in their dealing with credit reference agencies and debt collection agencies.

4.23 As another initiative to facilitate credit assessment and maintain soundness of the local banking sector, HKMA, the Hong Kong Association of Banks and the Deposit Taking Companies Association jointly announced on 16 June 2003 the plan to establish a commercial credit reference agency (CCRA) in Hong Kong in the third quarter of 2004. CCRA is expected to collect credit data of small and medium-sized enterprises and make such data available to the authorized institutions. To safeguard confidentiality of the data held by CCRA, HKMA will issue a supervisory guideline to set out the minimum standards that authorized institutions have to observe in respect of sharing and use of commercial credit data.

Insurance

4.24 During the first half of 2003, the total number of insurance companies decreased by five to 190 at end-June. Within this total, 46 were engaged in long-term business, 125 in general business, and 19 in composite business. Taken together, insurance companies from 25 countries and territories maintained a presence in Hong Kong at end-June 2003. Benefiting from strong expansion in both life insurance and general insurance, the value of business receipts in the insurance industry surged, by 22% in the first quarter of 2003 over a year earlier, even exceeding the 15% leap in the fourth quarter of 2002.

/The

The debt market

4.25 In the first half of 2003, a total of 55 issues of Exchange Fund paper were launched by HKMA to replace the maturing issues⁽⁹⁾. The total market value of Exchange Fund paper outstanding rose by 1.3% during the period to \$119.0 billion at end-June 2003. Market response to the tenders of Exchange Fund paper remained favourable, with the average over-subscription rate moving higher to 6.7 times in the first half of 2003, from 5.5 times in the second half of 2002. Trading in Exchange Fund paper also turned more active, with the average daily turnover increasing to \$25.8 billion in the first half of 2003, from \$22.2 billion in the second half of 2002. Comparing end-June 2003 with end-2002, the yield spread of five-year Exchange Fund Notes over the corresponding US Treasuries narrowed from 48 basis points to 28 basis points.

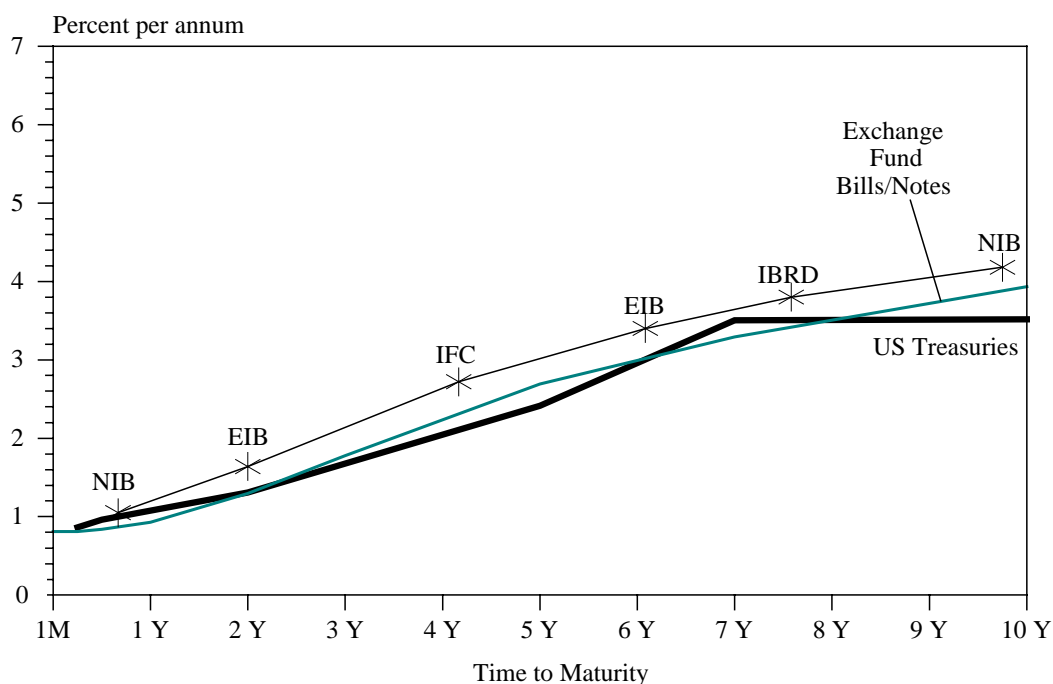
Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		<u>Amount outstanding</u> <u>as at the end of the quarter</u> (HK\$Bn)	<u>Average daily turnover</u> <u>in the quarter</u> (HK\$Bn)
2002	Q1	114.7	22.3
	Q2	115.7	22.7
	Q3	116.6	23.4
	Q4	117.5	21.0
2003	Q1	118.2	27.8
	Q2	119.0	23.8

/Diagram 4.9

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of June 2003)



Note : AAA Hong Kong dollar debt issuers

EIB	European Investment Bank
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
NIB	Nordic Investment Bank

4.26 At present, the Hong Kong Mortgage Corporation (HKMC) is one of the major issuers of debt securities in Hong Kong. In the first half of 2003, \$5.0 billion worth of HKMC debt paper was launched. By end-June, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$4.5 billion, and that under its Debt Issuance Programme reached \$22.0 billion. In addition, retail bonds were issued by HKMC, with the outstanding value totalling \$5.4 billion at end-June.

/4.27

4.27 In the first half of 2003, \$49.0 billion worth of new negotiable certificates of deposit (NCDs) was launched, less than \$52.7 billion in the second half of 2002. Of the new issuance of NCDs in the first half of 2003, \$27.9 billion was denominated in Hong Kong dollars, also down from \$31.1 billion in the second half of 2002. The total value of NCDs outstanding nevertheless went up, to \$234.7 billion at end-June 2003, from \$211.2 billion at end-2002. Within the total, \$139.5 billion was denominated in Hong Kong dollars at end-June 2003, above that of \$138.4 billion at end-2002. Yet the proportion of Hong Kong dollar denominated NCDs held by the local banking sector fell, from 52.3% at end-2002 to 50.6% at end-June 2003.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

As at the <u>end of</u>		<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>
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
	Q4	138.4	211.2	72.4	80.2	66.1	131.1
2003	Q1	140.6	229.5	74.0	83.1	66.6	146.5
	Q2	139.5	234.7	70.6	79.2	69.0	155.5

/4.28

4.28 In the first half of 2003, 363 new issues of other Hong Kong dollar debt instruments, worth \$61.2 billion, were launched by the private sector. These were more than the 275 new issues worth \$38.8 billion in the second half of 2002. Partly reflecting risk aversion by debt issuers against potential interest rate volatility, the issuance of fixed rate bonds by the private sector, at \$46.5 billion in the first half of 2003, was still considerably higher than that of floating rate notes, at \$14.7 billion in the same period. At end-June 2003, the total outstanding value of Hong Kong dollar fixed rate bonds and floating rate notes issued by the private sector amounted to \$206.1 billion and \$85.0 billion respectively, adding up to a total of \$291.1 billion⁽¹⁰⁾. These exceeded the corresponding figures of \$193.9 billion, \$76.2 billion and \$270.1 billion at end-2002. Furthermore, there were three new issues of Hong Kong dollar debt paper by multilateral agencies in the first half of 2003, raising a total of \$1.6 billion, as against four issues for \$1.0 billion in the second half of 2002.

4.29 Taking the public and private sectors together, the total value of Hong Kong dollar debt paper outstanding thus amounted to \$552.8 billion at end-June 2003⁽¹¹⁾, up from \$532.9 billion at end-2002. The size of the Hong Kong dollar debt market was equivalent to 27.2% of HK\$M3, or 20.5% of the Hong Kong dollar denominated assets of the entire banking sector.

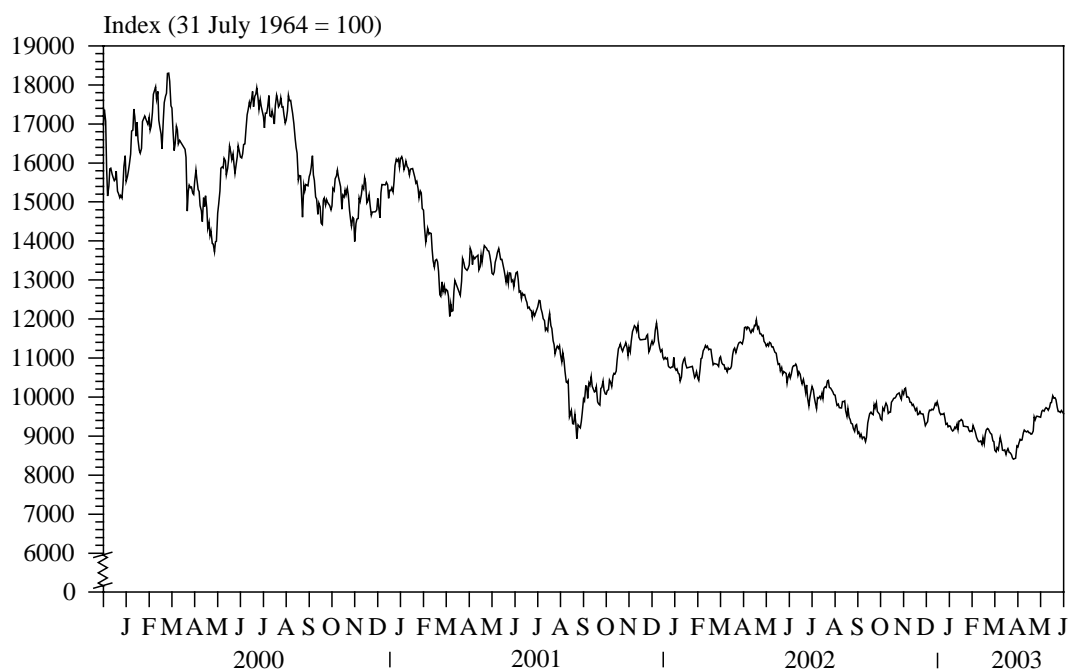
/The

The stock, futures and gold markets

4.30 The local stock market staged a distinct rebound during the second quarter of 2003. After falling to a 4½-year low of 8 409 on 25 April, the Hang Seng Index showed a significant upturn in the ensuing two months. This was aided by rallies in the major stock markets overseas upon the end of the US-led war on Iraq. Also, market sentiment was buoyed by SARS being progressively brought under control in Hong Kong, leading to withdrawal by the World Health Organisation (WHO) of its travel advisory against non-essential travel to Hong Kong on 23 May. The Hang Seng Index surged to a six-month high of 10 030 on 17 June. Removal of Hong Kong from the list of SARS-affected areas by WHO on 23 June, coupled with expectation for signing of the Closer Economic Partnership Arrangement (CEPA) by the end of June, rendered additional support to share prices. Yet towards the end of the month, profit taking amidst renewed concern about the US economic outlook reduced some of the earlier price gains. The Hang Seng Index stood at 9 577 at end-June 2003, 10.9% above the level at end-March and 2.7% above the level at end-2002. (The Hang Seng Index rose progressively further, to a high of 10 761 on 22 August.)

Diagram 4.10

Hang Seng Index



/Table 4.15

Table 4.15

**Movements in the Hang Seng Index and
in the share price indices in selected 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 FTSE 100 Index	Frankfurt DAX 30 Index	Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
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
	Q4	9 321	8 342	8 579	3 940	2 893	3 064	2 976	1 341
2003	Q1	8 634	7 992	7 973	3 613	2 424	2 618	2 849	1 268
	Q2	9 577	8 985	9 083	4 031	3 221	3 084	3 000	1 448
	% change during the first quarter of 2003	-7.4	-4.2	-7.1	-8.3	-16.2	-14.5	-4.3	-5.5
	% change during the second quarter of 2003	10.9	12.4	13.9	11.6	32.9	17.8	5.3	14.2
	% change during the first half of 2003	2.7	7.7	5.9	2.3	11.3	0.7	0.8	8.0
	% change at end-June 2003 over a year earlier	-9.6	-2.8	-14.5	-13.4	-26.5	-20.9	-5.2	-6.8

4.31 Consequential to the pick-up in share prices, total stock market capitalisation, including the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, rose by 10% during the first half of 2003 to \$3,968 billion at end-June. Trading turned more active, with the average daily turnover rising to \$8.1 billion in the second quarter of 2003, from \$6.1 billion in the first quarter. For the first half of 2003 as a whole, the average daily turnover at \$7.1 billion was 22% higher than in the second half of 2002.

/Table 4.16

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>
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
	Q4	5.6	0.1	5.6	3,559	52	3,611
2003	Q1	6.0	0.1	6.1	3,378	51	3,429
	Q2	7.9	0.1	8.1	3,907	61	3,968

4.32 In the first half of 2003, 28 new share flotations were launched on the Stock Exchange of Hong Kong, raising a total equity capital of \$7.1 billion. Of these, 16 were listed on the Main Board and 12 on GEM, raising equity capital of \$6.5 billion and \$0.6 billion respectively. Amongst these new issues, six pertained to H shares, including four listed on the Main Board and two on GEM, raising equity capital of \$5.8 billion and \$0.2 billion respectively. In addition to new flotations, \$1.6 billion was raised through private placements by 38 companies, and another \$0.8 billion through rights issues by 15 companies.

4.33 As to trading in derivatives on the market of the Hong Kong Exchanges and Clearing Limited, the average daily turnover of Hang Seng Index futures contracts rose by 19% over the second half of 2002 to 24 761 contracts in the first half of 2003, while the average daily turnover of Hang Seng Index options contracts had an even larger increase, by 69% to 9 185 contracts. In stark contrast, trading in MSCI China Free Index futures contracts⁽¹³⁾ remained very thin, with an average daily turnover of only one contract in the first half of 2003, further reduced from five contracts in the second half of 2002.

/Table 4.17

Table 4.17**Average daily turnover of Hang Seng Index futures and options contracts in the Hong Kong derivatives 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)
2002 Q1	17 956	3 338
Q2	18 739	3 185
Q3	21 053	4 652
Q4	20 508	6 242
2003 Q1	22 408	8 633
Q2	27 152	9 746

4.34 At end-June 2003, there were 34 classes of stock options contracts and 33 classes of stock futures contracts. The average daily turnover of stock options contracts amounted to 14 614 contracts in the first half of 2003, 7% less than in the second half of 2002. The average daily turnover of stock futures contracts fell more, by 24% to 66 contracts in the first half of 2003.

4.35 Comparing the first half of 2003 with the second half of 2002, the average daily turnover of three-month HIBOR futures contracts dropped by 42% to 204 contracts, whereas the average daily turnover of three-year Exchange Fund Note futures contracts rose by six contracts to nine contracts.

4.36 At end-June 2003, 348 issues of warrants were listed on the Main Board, comprising 52 issues of equity warrants and 296 issues of derivative warrants. The average daily turnover of equity warrants amounted to \$1.6 million in the first half of 2003, down by 44% from the second half of 2002. By contrast, the average daily turnover of derivative warrants, at \$619.7 million in the first half of 2003, soared by 29% over the second half of 2002. On GEM, only three issues of warrants were listed at end-June 2003. Trading in them remained thin throughout the first half of 2003.

/4.37

4.37 Gold price regained part of its strength in the second quarter of 2003, having undergone some consolidation in the first quarter. While the end of the US-led war on Iraq had dampened buying interest, growing expectation for further cut in US dollar and euro interest rates increased the relative attractiveness of holding non-interest bearing assets such as gold. The weaker US dollar also boosted the demand for gold, as it being denominated in US dollar became cheaper in terms of other major currencies. The price of loco-London gold touched a high of US\$371.8 per troy ounce on 27 May. But profit taking brought the price down subsequently to close at US\$345.2 per troy ounce at end-June 2003, only slightly above that of US\$344.0 at end-2002. Gold price at the Chinese Gold and Silver Exchange Society exhibited a similar profile, with its level at \$3,204 per tael at end-June 2003 being also marginally above that of \$3,199 at end-2002. Turnover on the Exchange amounted to 1.8 million taels in the first half of 2003, higher than that of 1.7 million taels in the second half of 2002.

Unit trusts and mutual funds

4.38 At end-June 2003, the total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 986, up from 942 at end-2002. Gross sales of mutual funds amounted to US\$9.3 billion in the first half of 2003, representing a marked increase of 55% over the second half of 2002. After deducting redemptions, net sales amounted to US\$2.5 billion in the first half of this year, up by 46% over the second half of last year. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 55% of the total value of funds at end-June 2003. This was followed by bond funds, asset allocation funds and money market funds, with respective shares of 29%, 8% and 7%⁽¹⁴⁾.

/4.39

4.39 The Mandatory Provident Fund (MPF) System⁽¹⁵⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should add impetus to further development of the local capital market. At end-June 2003, the aggregate net asset value of the approved constituent funds of MPF schemes rose further to \$69.2 billion, from \$55.1 billion at end-2002. This was mainly attributable to continued contributions from the enrolled population. By end-June 2003, there were 20 approved corporate trustees. On MPF products, 44 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 216 000 employers, 1.73 million employees and 300 000 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 94%, 96% and 79% 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 Philippine 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) Euro-yen Impact Loans (EYIL) are loans made to customers in Japan by a domestic branch of a Japanese bank but booked in an overseas branch of the bank. Loans booked in this way generally have tax and funding cost advantages for customers. Reflecting a more cautious lending stance by the Japanese banks and the need to reduce the size of their balance sheets, EYIL has declined substantially since the second half of 1997.

/(8)

- (8) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. 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.
- (9) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (10) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (11) 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.
- (12) 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. Though open to companies in all industries and of all sizes, the market provides an efficient venue for fund raising especially by small to medium-sized enterprises.
- (13) 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-chip and H share markets in Hong Kong. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001.
- (14) These figures are sourced from the sales and redemptions and performance survey conducted by the Hong Kong Investment Funds Association on their members, and as such cover only the active authorized funds that have responded to the survey.

/(15)

- (15) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged 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 raised from \$4,000 per month to \$5,000, yet the maximum income level is kept 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 invest in some other types of financial products, such as index-tracking collective investment schemes, subject to MPFA's prior approval.

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation

5.1 The labour market, which was already slack in the first quarter of 2003, weakened visibly further in the second quarter. Total employment contracted between the two quarters, as the outbreak of SARS curtailed business activity and dampened labour demand. Coupled with a pick-up in labour supply, this led to a distinct further loosening in the overall manpower resource balance.

5.2 The *seasonally adjusted unemployment rate*⁽¹⁾ went sharply higher, to 8.6% in the second quarter of 2003 (and further to 8.7% in May - July), from 7.5% in the first quarter. The number of unemployed persons (not seasonally adjusted) showed a marked increase, to 300 000 in the second quarter of 2003, from 259 800 in the first quarter. The surge in unemployment, whilst occurring almost across-the-board, was particularly pronounced in the tourism and consumption-related sectors. Meanwhile, there was little change in the proportion of persons unemployed for less than three months, at 54% in the second quarter, as well as in the median duration of unemployment, at 82 days in the second quarter.

5.3 The *underemployment rate*⁽²⁾ had an even steeper rise, to 4.3% in the second quarter of 2003 (though fell back slightly to 4.2% in May - July), from 2.9% in the first quarter, as many employees were temporarily suspended from work or asked to take no-pay leave after the SARS outbreak. The number of underemployed persons rose from 100 700 to 151 000 between the two quarters.

5.4 Concurrent with the upsurge in unemployment and underemployment, there was a noticeable decline in work intensity in overall terms. Reflecting this, the proportion of employed persons working for 50 hours or more per week dropped to 36% in the second quarter of 2003, from 38% in the first quarter. The proportion of persons working for 60 hours or more per week likewise decreased, from 23% to 22%. On the other hand, the proportion of persons working for 35 - 49 hours per week moved up from 46% to 49%. For all the employed persons taken together, the median hours of work fell from 48 hours per week in the first quarter of 2003 to 45 hours per week in the second quarter.

/Table 5.1

Table 5.1

Unemployment and underemployment rates

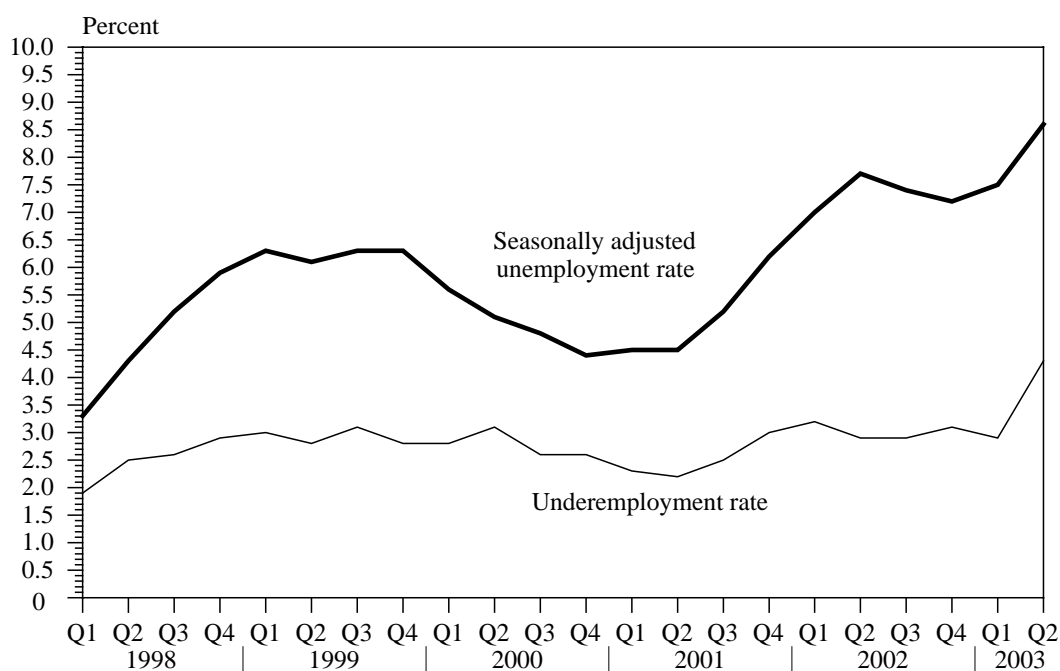
		Seasonally adjusted <u>unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
2002	Annual	7.3	3.0
	Q1	7.0	3.2
	Q2	7.7	2.9
	Q3	7.4	2.9
	Q4	7.2	3.1
2003	Q1	7.5	2.9
	Q2	8.6	4.3
	Feb - Apr	7.8	3.2
	Mar - May	8.3	3.8
	Apr - Jun	8.6	4.3

Note : Labour force statistics for 2002 have been slightly revised, upon finalisation of the end-2002 population estimates in August 2003. The revised statistics have been incorporated into Tables 5.1 - 5.16 and Diagrams 5.1 - 5.5 and 5.10.

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>
2002 Annual	3 487 100 (1.8)	3 231 600 (-0.6)	255 500	105 200
Q1	3 457 600 (1.6)	3 219 000 (-1.1)	238 600	109 200
Q2	3 466 500 (1.6)	3 203 100 (-1.7)	263 400	100 600
Q3	3 517 000 (2.1)	3 249 000 (-0.3)	268 000	101 500
Q4	3 507 400 (1.6)	3 255 300 (0.5)	252 100	109 400
2003 Q1	3 503 500 (1.3)	3 243 700 (0.8)	259 800	100 700
Q2	3 519 500 (1.5) <0.5>	3 219 400 (0.5) <-0.7>	300 000	151 000
Feb - Apr	3 505 500 (1.6)	3 231 800 (0.8)	273 700	112 700
Mar - May	3 516 500 (1.8)	3 229 200 (0.8)	287 300	135 000
Apr - Jun	3 519 500 (1.5) <0.5>	3 219 400 (0.5) <-0.7>	300 000	151 000

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

() % change over a year earlier.

< > % change over the preceding quarter.

Source : General Household Survey, Census and Statistics Department.

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> (%)
2002 Annual	87	52	19	29
Q1	86	53	20	27
Q2	89	51	19	30
Q3	82	55	17	28
Q4	90	51	19	30
2003 Q1	82	54	17	29
Q2	82	54	18	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

Table 5.4

**Median hours of work per week and
proportion of the employed population
by hours of work per week**

		Median hours of work per week for all employed persons (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>35 - 49 hours per week</u> (%)	<u>50 hours or more per week</u> (%)	<u>60 hours or more per week</u> (%)
2002	Annual	48	51	38	22
	Q1	46	52	34	20
	Q2	48	52	36	21
	Q3	48	50	40	22
	Q4	48	50	40	24
2003	Q1	48	46	38	23
	Q2	45	49	36	22

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

Source : General Household Survey, Census and Statistics Department.

5.5 On a quarter-to-quarter comparison, *total employment*⁽³⁾ as enumerated from households was reduced by 0.7% in the second quarter of 2003, further to a 0.4% fall in the first quarter. Yet *total labour force*⁽⁴⁾ expanded by 0.5% in the second quarter, reversing the 0.1% drop in the first quarter. This growth differential aggravated the labour demand and supply imbalance, thereby leading to a leap in unemployment rate in the more recent periods. On reduction in employment, service workers and shop sales workers engaged in restaurants and the retail trade were affected most. As to expansion in labour force, it was entirely attributable to a 0.5% rise in the population of working age, with nil change in the overall labour force participation rate⁽⁵⁾. On a year-on-year comparison, employment growth, though still positive in the second quarter of 2003, was distinctly slower than labour force growth, at 0.5% as against 1.5%. A roughly similar picture was observed in the first quarter, yet with a smaller difference between the two growth rates, at 0.8% as against 1.3%.

/Diagram 5.2

Diagram 5.2

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

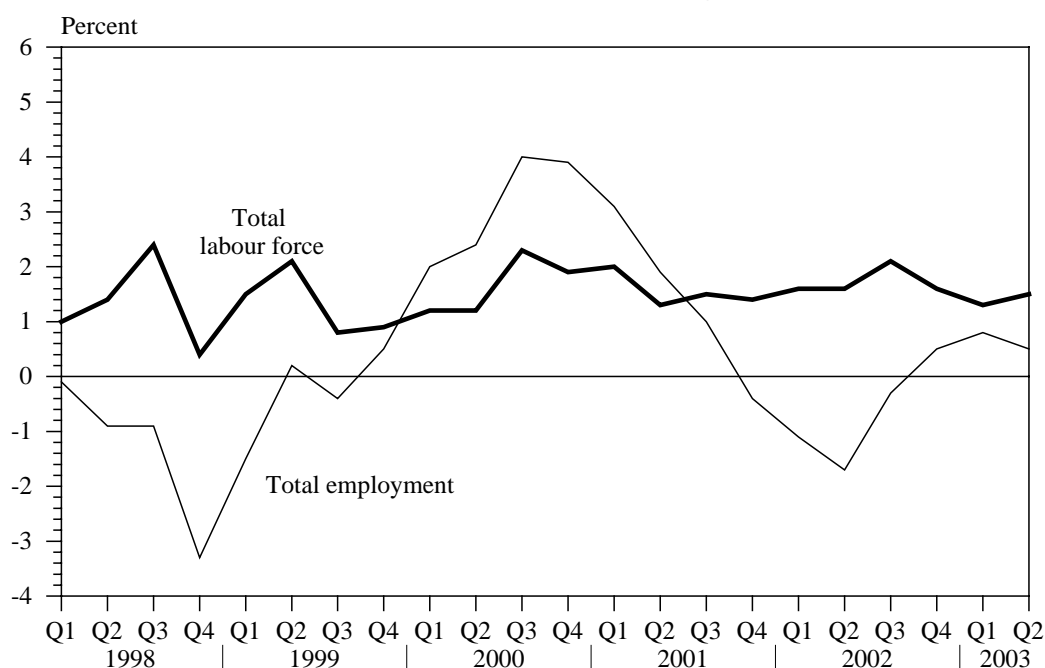


Table 5.5

Labour force participation rates by sex (%)

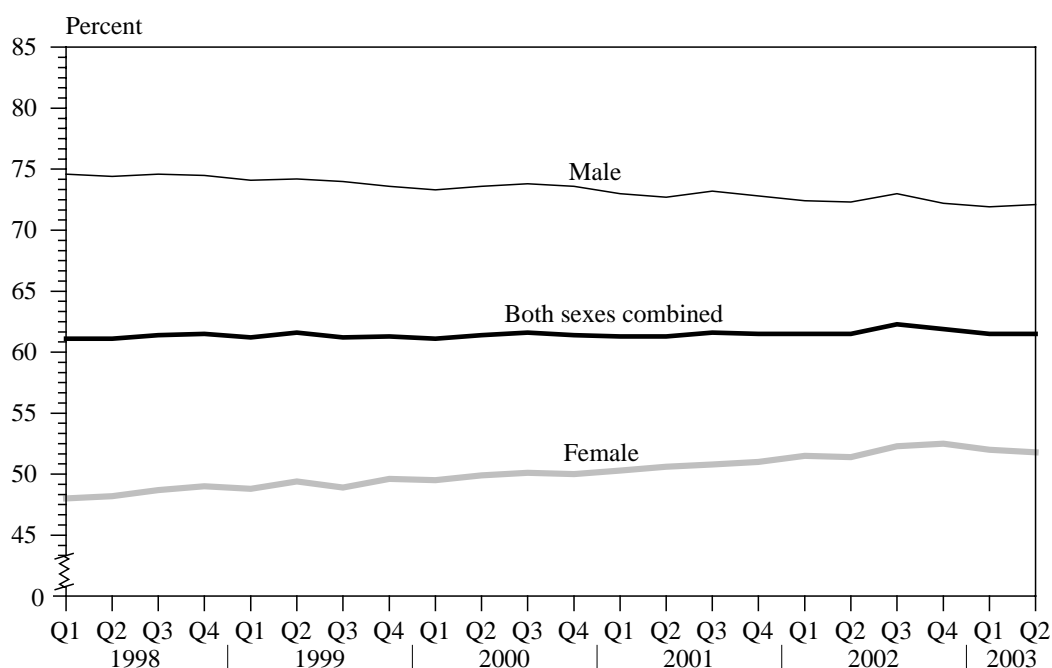
	<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2002 Annual	72.5	51.9	61.8
Q1	72.4	51.5	61.5
Q2	72.3	51.4	61.5
Q3	73.0	52.3	62.3
Q4	72.2	52.5	61.9
2003 Q1	71.9	52.0	61.5
Q2	72.1	51.8	61.5

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.3

Diagram 5.3

Labour force participation rates by sex



5.6 Overall labour income in money terms continued on a downtrend. Specifically, overall *labour earnings*⁽⁶⁾ were 2.0% lower in money terms in the first quarter of 2003 than a year earlier, exceeding the 1.2% fall in the fourth quarter of 2002. After adjusting for the decrease in the Composite CPI, labour earnings were static in real terms in the first quarter of 2003 as compared to a year earlier, as against a 1.8% rise in the fourth quarter of 2002. Likewise, overall *labour wages*⁽⁷⁾ fell more in March 2003 than in December 2002, by 1.5% and 0.8% respectively in money terms over a year earlier. Netting out the decline in the CPI(A), labour wages nevertheless edged up by 0.3% in real terms in March 2003 over a year earlier, following a 1.8% dip in December 2002.

/Profile

Profile of unemployment and underemployment

5.7 Analysed by *economic sector*, there was an extensive leap in unemployment rate across almost all the major sectors between the first two quarters of 2003. The increase was particularly visible in restaurants, hotels, the retail trade, transport, amusement and recreational services, business services and real estate, which had all been severely hit by the outbreak of SARS. Likewise, the underemployment rate exhibited sharper increases in the SARS-affected sectors, including in particular hotels, restaurants, transport and the retail trade, although distinct rises were also observed in construction and manufacturing.

Table 5.6

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

	<u>2002</u>					<u>2003</u>	
	<u>Annual</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, restaurants and hotels	7.8	7.4	8.3	7.7	7.9	7.9	9.1
Transport, storage and communications	5.4	5.6	5.3	5.3	5.4	6.1	7.6
Financing, insurance, real estate and business services	4.7	4.9	4.5	4.6	4.7	4.5	5.6
Community, social and personal services	3.2	2.7	3.3	3.5	3.1	2.9	3.7
Manufacturing	7.3	7.2	8.2	7.1	6.6	7.3	8.4
Construction ^(b)	15.8	15.7	16.8	15.6	15.2	18.9	19.7

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>2002</u>					<u>2003</u>	
	<u>Annual</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, restaurants and hotels	1.8	1.8	1.6	1.8	1.7	1.9	3.2
Transport, storage and communications	3.0	3.1	3.0	2.5	3.4	3.3	6.2
Financing, insurance, real estate and business services	0.6	0.7	0.5	0.6	0.5	0.7	0.9
Community, social and personal services	2.1	2.3	1.8	2.1	2.0	2.3	2.8
Manufacturing	2.5	2.4	2.6	2.3	2.6	1.8	3.6
Construction ^(a)	13.8	14.2	13.7	12.8	14.6	11.2	15.8

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 second quarter of 2003**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	9.1	98 300	3.2	34 400
Wholesale/retail trade	10.0	36 600	3.4	12 600
Import/export trade	4.1	17 800	0.5	2 300
Restaurants and hotels	15.7	43 800	7.0	19 500
Transport, storage and communications	7.6	28 800	6.2	23 600
Transport	7.7	24 200	7.1	22 600
Storage	11.0	600	1.7	100
Communications	7.1	4 000	1.7	900
Financing, insurance, real estate and business services	5.6	27 700	0.9	4 500
Financing	3.6	4 800	0.1	200
Insurance	3.8	1 600	0.9	400
Real estate	6.9	8 100	0.8	1 000
Business services	6.5	13 300	1.5	3 000
Community, social and personal services	3.7	33 100	2.8	24 900
Public administration	1.4	1 900	0.3	500
Education, medical and other health and welfare services	2.5	8 200	2.0	6 700
Other services	5.4	23 000	4.2	17 700
Manufacturing	8.4	25 500	3.6	11 100
Food and beverages	7.3	1 800	2.8	700
Clothing and footwear	9.1	7 400	5.8	4 700
Paper and printing	7.2	4 100	2.8	1 600
Plastic products	5.3	1 000	4.6	900
Metal products	4.7	900	2.0	400
Electrical and electronic products	11.0	6 900	1.7	1 100
Other manufacturing industries	8.1	3 500	4.3	1 900
Construction	19.7	64 200	15.8	51 600
Foundation and superstructure	17.2	42 600	13.7	33 800
Decoration and maintenance	27.2	21 600	22.5	17 800

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.

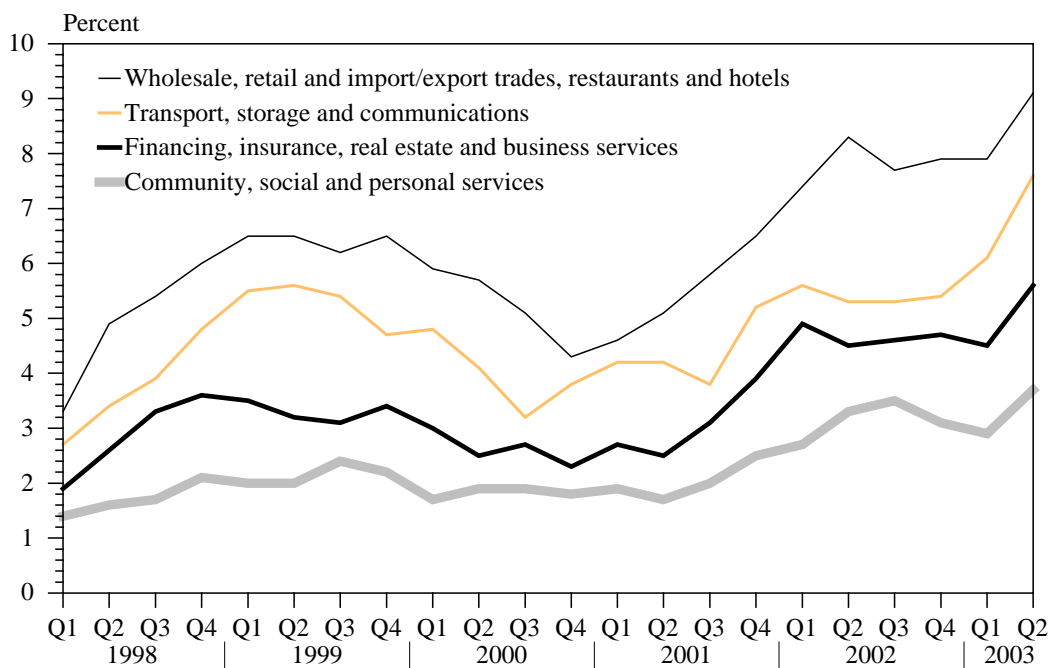
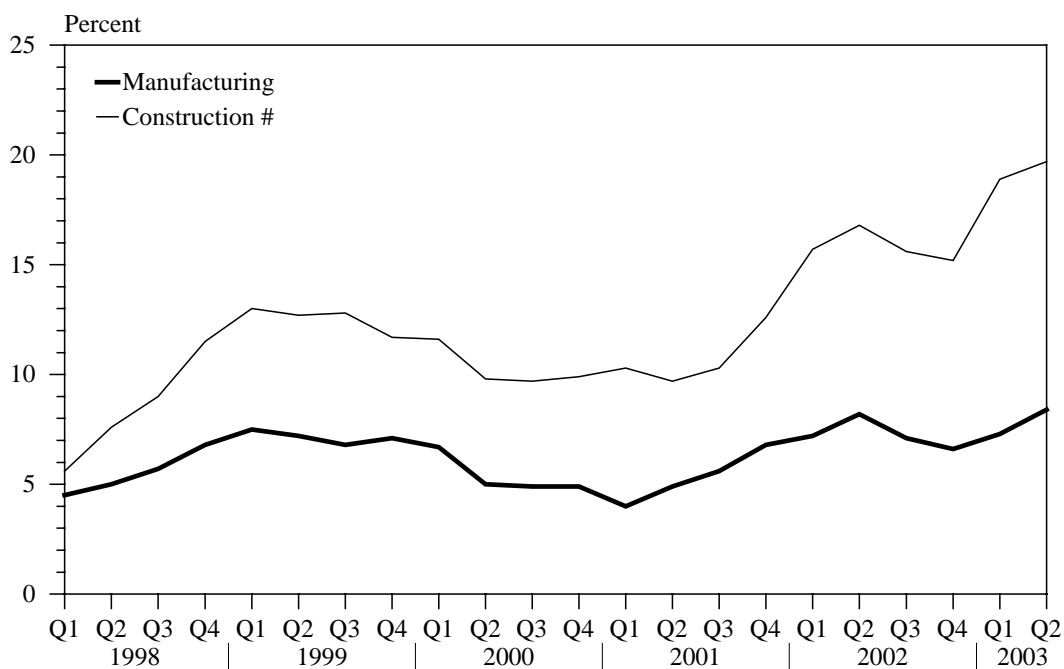
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



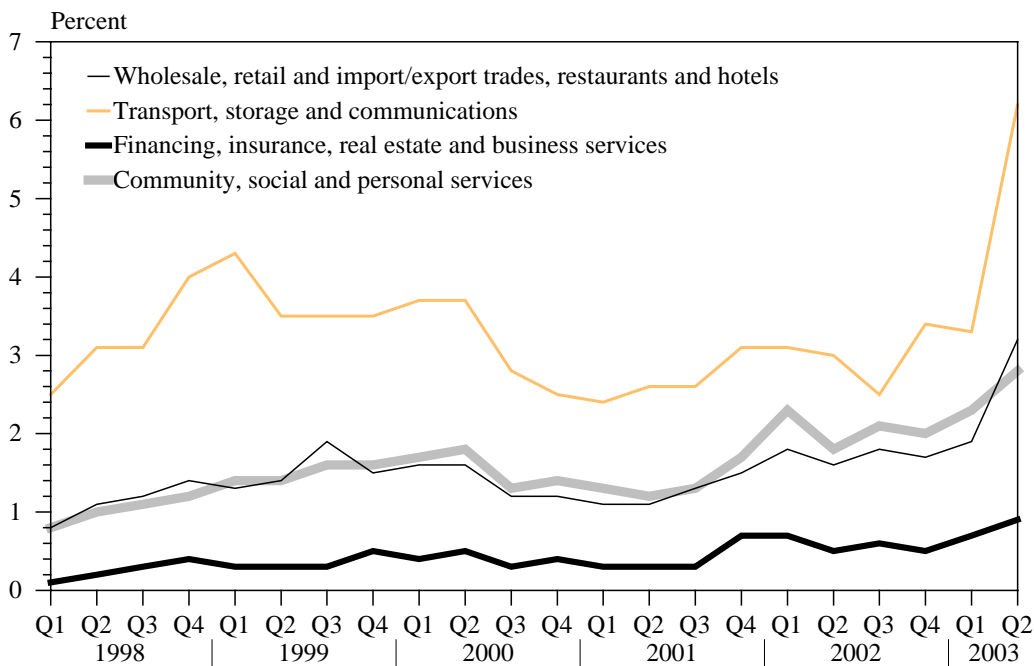
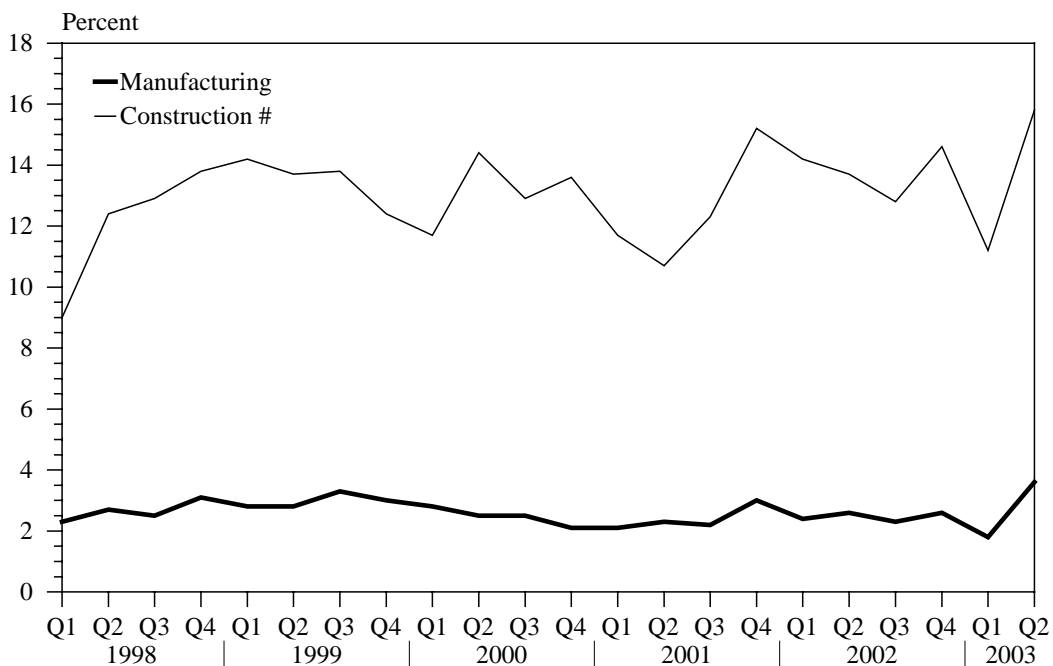
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

(#) 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.

/5.8

5.8 Analysed by *occupation category*, the leap in unemployment rate between the first two quarters of 2003 affected workers at all levels. At the middle to lower segments, service workers and shop sales workers, and workers in elementary occupations faced the largest rise in unemployment rate. At the upper segment, the increase was more apparent amongst professionals and associate professionals. As to the underemployment rate, while the increase was likewise widespread across occupation categories, it was more visible amongst workers at the middle to lower segments, including craft and related workers, plant and machine operators and assemblers, service workers and shop sales workers, and workers in elementary occupations.

Table 5.9

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

	<u>Annual</u>	<u>2002</u>				<u>2003</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Managers and administrators	2.7	3.5	3.1	2.3	1.9	2.1	2.2
Professionals	2.4	2.6	2.5	2.3	2.1	2.2	2.8
Associate professionals ^(b)	4.3	4.2	4.3	4.5	4.3	4.3	4.9
Clerks	5.3	5.2	5.5	5.4	5.2	5.0	5.4
Service workers and shop sales workers	9.1	8.4	9.5	9.1	9.4	9.4	12.3
Craft and related workers	14.0	12.6	15.7	14.2	13.5	16.2	16.3
Plant and machine operators and assemblers	5.9	6.4	6.6	5.4	5.2	6.8	7.3
Elementary occupations	7.7	7.4	7.7	7.8	7.9	8.0	9.6
Others	3.4	2.4	2.9	4.7	3.8	4.6	1.6

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

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.10

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

	<u>Annual</u>	<u>2002</u>				<u>2003</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Managers and administrators	*	*	0	0.2	0	0.1	0.3
Professionals	0.3	0.4	0.3	0.3	0.2	0.3	0.6
Associate professionals ^(a)	0.8	0.8	1.0	0.8	0.7	0.9	1.6
Clerks	1.1	1.1	0.9	1.2	1.2	1.1	1.5
Service workers and shop sales workers	2.5	2.6	2.3	2.8	2.4	2.8	5.0
Craft and related workers	11.3	11.2	11.0	10.6	12.5	9.4	13.6
Plant and machine operators and assemblers	3.8	4.3	3.8	3.0	3.9	3.6	7.2
Elementary occupations	4.8	5.2	4.5	4.6	5.0	4.7	5.7
Others	3.5	0.8	6.8	5.8	0	1.0	10.1

Notes : (a) Including technicians and supervisors.

(*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

/5.9

5.9 Analysed by *sex*, the unemployment rate for males went up significantly, by 1.4 percentage points to 10.1% in the second quarter of 2003, from 8.7% in the first quarter. The unemployment rate for females also surged, though to a lesser extent, by 0.7 of a percentage point from 5.8% to 6.5% between the two quarters. In consequence, the difference between these two unemployment rates widened further, from 2.9 percentage points in the first quarter to 3.6 percentage points in the second quarter. In a similar vein, the underemployment rate for males had a much larger increase than that for females, from 3.4% to 5.1% as compared to 2.2% to 3.3% between the two quarters. This again led to a widening in difference between the two rates, from 1.2 percentage points in the first quarter to 1.8 percentage points in the second quarter.

Table 5.11

Unemployment rates by sex (%)^(a)

	<u>Male</u>	<u>Female</u>
2002 Annual	8.4	6.0
Q1	8.1	5.3
Q2	8.8	6.1
Q3	8.5	6.5
Q4	8.2	5.9
2003 Q1	8.7	5.8
Q2	10.1	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.

/Table 5.12

Table 5.12**Underemployment rates by sex (%)**

	<u>Male</u>	<u>Female</u>
2002 Annual	3.7	2.1
Q1	3.8	2.3
Q2	3.6	2.0
Q3	3.5	2.0
Q4	3.8	2.2
2003 Q1	3.4	2.2
Q2	5.1	3.3

Source : General Household Survey, Census and Statistics Department.

5.10 Analysed by *age group*, the surge in unemployment rate in the second quarter of 2003 over the first quarter was more visible amongst persons at both ends of the age spectrum than those in the middle. Specifically, persons aged 15-24 and aged 60 and above were the ones having the largest increase in unemployment rate. Within the former group, a considerable proportion comprised first-time job-seekers, who were mainly fresh graduates and school leavers entering the labour force. On the underemployment rate, steeper increases were seen mainly amongst persons aged 15-19 and aged 40-59.

/Table 5.13

Table 5.13**Unemployment rates by age group (%)^(a)**

	<u>2002</u>					<u>2003</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
15-19	30.7	27.2	30.1	35.2	29.4	26.9	32.8
20-24	11.3	9.8	11.3	13.5	10.5	10.1	12.4
25-29	6.1	6.2	6.5	6.1	5.5	6.2	7.6
30-39	5.4	5.6	5.5	5.1	5.6	5.7	6.5
40-49	6.7	6.3	7.2	6.6	6.5	7.2	8.0
50-59	8.2	7.3	8.5	8.7	8.5	8.7	9.4
60 and above	5.0	5.3	6.0	4.6	4.2	3.6	5.3

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.

Table 5.14**Underemployment rates by age group (%)**

	<u>2002</u>					<u>2003</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
15-19	4.8	4.3	4.4	5.4	5.1	5.4	8.6
20-24	2.7	2.7	2.2	2.8	3.0	3.1	3.6
25-29	1.5	1.6	1.4	1.4	1.8	1.5	2.7
30-39	2.1	2.0	2.2	2.0	2.0	2.0	3.0
40-49	4.1	4.4	4.0	3.8	4.2	3.4	5.6
50-59	4.2	4.6	3.9	4.0	4.5	4.2	5.8
60 and above	3.1	3.6	3.0	2.8	2.8	3.3	3.1

Source : General Household Survey, Census and Statistics Department.

5.11 Analysed by *educational attainment*, the rise in unemployment rate between the first and second quarters of 2003, whilst occurring virtually across-the-board, impinged more seriously upon persons with primary education and with lower secondary education. As to the underemployment rate, the increase was seen mostly amongst persons with matriculation education and below.

Table 5.15

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

	<u>Annual</u>	<u>2002</u>				<u>2003</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
No schooling/kindergarten	8.7	8.4	8.9	8.4	9.1	10.2	10.7
Primary	9.8	8.6	10.0	10.4	10.4	10.6	12.5
Lower secondary	10.9	10.4	11.4	10.5	11.1	11.5	13.2
Upper secondary ^(b)	6.9	6.6	7.3	7.2	6.5	7.0	7.9
Matriculation	5.2	5.1	5.4	5.1	5.3	5.1	5.9
Tertiary	4.3	3.9	4.2	5.1	4.0	3.8	4.4
<i>of which :</i>							
Non-degree	5.5	5.1	5.2	6.1	5.4	4.9	5.5
Degree	3.6	3.3	3.6	4.4	3.2	3.1	3.8

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.

/Table 5.16

Table 5.16**Underemployment rates by educational attainment (%)**

	<u>Annual</u>	<u>2002</u>				<u>2003</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
No schooling/kindergarten	7.1	7.8	7.2	6.8	6.4	8.3	11.2
Primary	6.4	6.9	6.5	5.9	6.5	6.2	7.9
Lower secondary	5.5	5.8	5.0	5.4	5.7	4.9	7.3
Upper secondary ^(a)	2.2	2.2	2.0	2.1	2.3	2.0	3.5
Matriculation	1.2	0.7	1.0	1.7	1.2	1.0	3.0
Tertiary	0.6	0.5	0.6	0.6	0.8	0.8	1.2
<i>of which :</i>							
Non-degree	0.9	0.5	1.0	0.9	1.3	1.2	1.7
Degree	0.4	0.5	0.4	0.4	0.4	0.6	0.9

Note : (a) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

Profile of employment

5.12 Total employment as enumerated from private sector establishments shrank by 2.5% in March 2003 over a year earlier, extending the downtrend since mid-2001. Moreover, this decline exceeded those of 1.0% in December 2002 and 1.6% for 2002 as a whole. On a seasonally adjusted quarter-to-quarter comparison, total employment decreased by 1.6% in March 2003, following nil change in December 2002. This, together with reduced vacancies from business establishments, indicated continued slack labour demand in the corporate sector.

/5.13

5.13 Taking all the *service sectors* surveyed together⁽⁸⁾, employment contracted by 1.4% in March 2003 over a year earlier, reversing the 0.2% rise in December 2002. Analysed by constituent sector and on a year-on-year comparison, employment in storage and communications fell the most, by 19.5% in March 2003, amidst on-going rationalisation in the telecommunications sector. Employment in restaurants and hotels and in the retail trade dropped by 7.2% and 3.1% respectively, possibly with much of the decrease occurring in late March upon the impact of SARS. Employment in water transport, air transport and services allied to transport, in the wholesale and import/export trades, and in financing, insurance, real estate and business services had much lesser declines, by 0.6%, 0.4% and 0.2% respectively. On the other hand, employment in community, social and personal services went up by 1.5%, underpinned by larger labour demand from welfare, education, and medical and dental services.

5.14 Employment in the local *manufacturing sector* kept on shrinking, by 9.4% in March 2003 over a year earlier, similar to the 9.1% dip in December 2002. Labour demand in this sector continued to be restrained by the setback in domestic exports and on-going relocation of production processes outside Hong Kong.

5.15 Employment of manual workers at *building and construction sites* was 13.3% fewer in March 2003 than a year earlier, following a decrease of the same magnitude in December 2002. Employment at private sector sites diminished more, by 14.2%. While a modest rise in employment was observed at commercial developments along the MTR Tung Chung Line, this was outweighed by a reduction in employment at some residential developments at Hung Hom, Tai Po and Kwai Shing. Employment at public sector sites was also reduced, by 12.1%. This was attributable to the winding down/completion of public housing re-development projects at Yau Tong, Upper Ngau Tau Kok Estate Phase 1 and Kwai Fong Estate Phase 7, as well as a further scale-back in the Public Housing Programme. Also partly contributed was a relatively higher base of comparison a year earlier, caused by intensive work on the KCR West Rail at that time. Analysed by type of project, employment at civil engineering sites was slashed by 9.6%, and that at building sites even more by 14.7%. Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector⁽⁹⁾ declined by 3.5% in the first quarter of 2003 over a year earlier, after a 2.7% rise in the fourth quarter of 2002.

/5.16

5.16 In line with the Government's move to reduce operating expenditure and contain the size of the *Civil Service*, employment in the Civil Service contracted by 2.3% in March 2003 from a year earlier, further to a 2.8% fall in December 2002. As stated in the Chief Executive's Policy Address on 8 January 2003, the Government plans to downsize the Civil Service establishment further to around 160 000 by 2006/07 through natural wastage and normal retirement. As from 1 April 2003, recruitment to the Civil Service is frozen. The Second Voluntary Retirement Scheme is another measure for downsizing. Applications for the Scheme started on 21 March 2003 and closed on 20 May 2003. Result of the applications was announced on 24 July 2003.

/Table 5.17

Table 5.17**Employment by major economic sector**

	Annual <u>average</u>	<u>2002</u>				<u>2003</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Wholesale and import/export trades	567 000 (-1.8)	566 100 (-2.6)	556 000 (-4.4)	580 400 (0.2)	565 300 (-0.3)	563 900 (-0.4)
Retail trade	216 800 (-1.3)	216 300 (0.4)	218 400 (-4.3)	221 300 (-1.7)	211 100 (0.4)	209 700 (-3.1)
Restaurants and hotels	211 500 (-4.8)	213 600 (-3.2)	213 700 (-5.1)	212 300 (-4.8)	206 500 (-6.1)	198 200 (-7.2)
Water transport, air transport and services allied to transport	101 000 (1.2)	100 800 (2.6)	102 300 (1.8)	101 000 (-0.6)	100 000 (0.9)	100 200 (-0.6)
Storage and communications	40 100 (-9.8)	41 300 (-7.2)	41 600 (-9.7)	40 500 (-7.3)	36 900 (-14.9)	33 300 (-19.5)
Financing, insurance, real estate and business services	429 900 (-1.3)	423 400 (-1.3)	430 300 (-2.8)	424 500 (-2.9)	441 300 (1.7)	422 500 (-0.2)
Community, social and personal services	396 000 (5.9)	392 100 (8.8)	390 800 (4.9)	398 300 (5.7)	402 600 (4.5)	398 100 (1.5)
Manufacturing	193 000 (-9.0)	197 400 (-9.0)	200 100 (-8.5)	190 100 (-9.2)	184 500 (-9.1)	178 900 (-9.4)
Building and construction sites	73 200 (-8.8)	76 900 (-12.4)	79 200 (-1.3)	70 400 (-8.0)	66 400 (-13.3)	66 700 (-13.3)
<i>All establishments surveyed in the private sector^(a)</i>	2 275 900 (-1.6)	2 275 500 (-1.1)	2 280 100 (-2.7)	2 286 100 (-1.5)	2 261 900 (-1.0)	2 219 000 (-2.5)
		<-0.3>	<-0.7>	<-0.1>	<*>	<-1.6>
<i>Civil Service^(b)</i>	171 200 (-3.7)	173 000 (-4.4)	171 700 (-3.9)	170 500 (-3.5)	169 600 (-2.8)	169 100 (-2.3)

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in 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, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, and other Government employees such as non-Civil Service contract staff are not included.

() % change over a year earlier.

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

(*) Change of less than 0.05%.

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

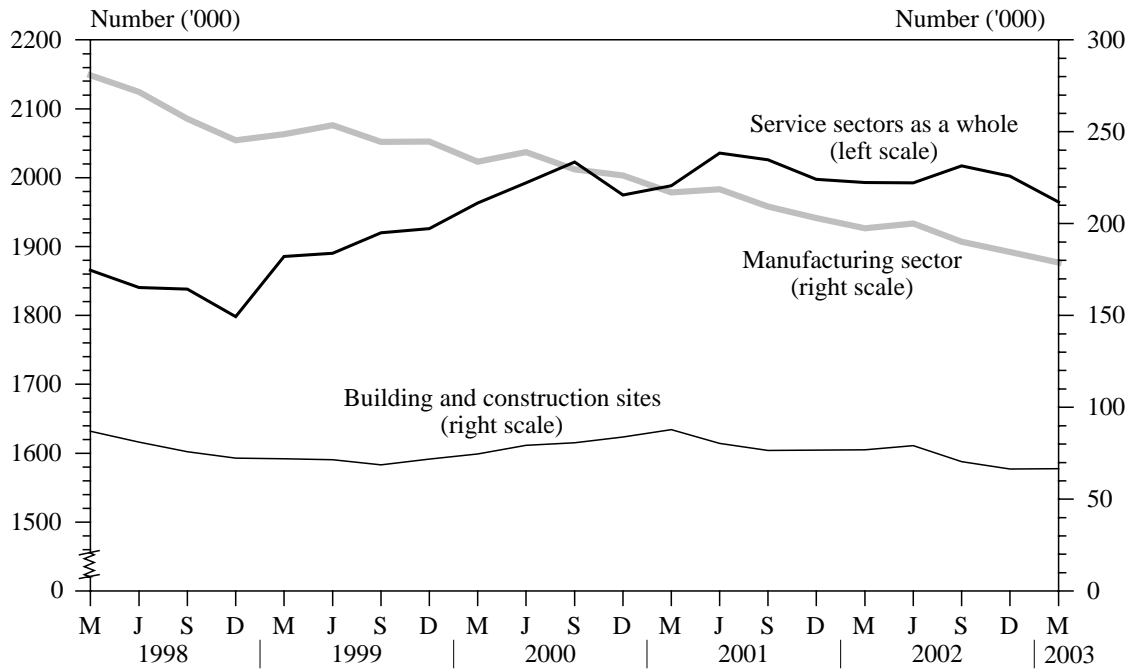
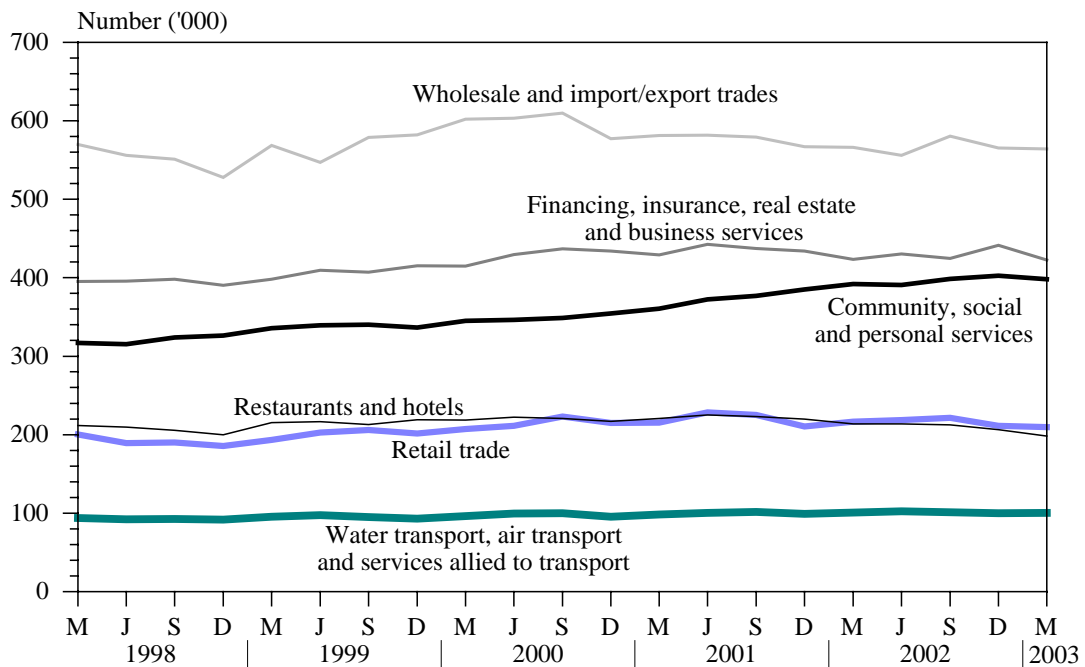


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.17 Vacancies in the private sector showed an accentuated decline. Taking all the private sector establishments surveyed together, vacancies were 23.4% less in March 2003 than a year earlier, much larger than the decreases of 5.5% in December 2002 and 17.5% for 2002 as a whole. On a seasonally adjusted quarter-to-quarter comparison, vacancies also plummeted, by 20.7% in March 2003, having held broadly stable in December 2002. Although the overall vacancy rate in the private sector in March 2003, at 0.7%, was virtually unchanged from that in December 2002, it was lower than that of 0.8% for 2002 as a whole.

5.18 Analysed by *economic sector*, vacancies for all the *service sectors* surveyed taken together were slashed by 23.0% in March 2003 over a year earlier, distinctly exceeding the 4.4% fall in December 2002. Analysed by constituent sector and on a year-on-year comparison, the decrease was most pronounced in restaurants and hotels and in the retail trade, by 47.0% and 35.1% respectively in March 2003, as employers generally became even more stringent about staffing after the SARS outbreak. Vacancies in storage and communications, in community, social and personal services, and in financing, insurance, real estate and business services were also substantially trimmed, by 25.6%, 23.8% and 22.1% respectively. Vacancies in the wholesale and import/export trades and in water transport, air transport and services allied to transport were reduced to a lesser extent, by 12.2% and 9.7% respectively. As to the local *manufacturing sector*, vacancies went down by 23.5% in March 2003 over a year earlier, also enlarged from the decrease of 17.9% in December 2002. On *building and construction sites*, vacancies were sharply cut by 81.7% in March 2003 over a year earlier, after an already steep decline of 62.7% in December 2002. By comparison, vacancies in the *Civil Service* had a more modest decrease, by 3.8% in March 2003 over a year earlier, following an 11.2% dip in December 2002.

/Table 5.18

Table 5.18**Vacancies by major economic sector**

	<u>No. of vacancies</u>						<u>Vacancy rate in Mar 2003 (%)</u>
	<u>Annual average</u>	<u>2002</u>				<u>2003</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Wholesale and import/export trades	4 400 (-7.1)	5 000 (-32.2)	5 000 (9.5)	4 200 (3.5)	3 500 (15.0)	4 400 (-12.2)	0.8
Retail trade	1 800 (-14.3)	1 700 (-31.4)	2 500 (20.0)	1 600 (-33.1)	1 500 (-4.0)	1 100 (-35.1)	0.5
Restaurants and hotels	1 300 (-13.8)	1 600 (-28.5)	1 400 (4.7)	1 400 (-10.8)	1 100 (-11.9)	800 (-47.0)	0.4
Water transport, air transport and services allied to transport	500 (-24.3)	500 (-48.3)	600 (-21.6)	500 (17.2)	400 (-17.7)	400 (-9.7)	0.4
Storage and communications	400 (-26.1)	400 (-31.0)	400 (-15.7)	400 (-11.3)	300 (-42.9)	300 (-25.6)	1.0
Financing, insurance, real estate and business services	5 200 (-18.6)	5 400 (-34.6)	6 000 (-22.3)	4 800 (-8.4)	4 600 (6.3)	4 200 (-22.1)	1.0
Community, social and personal services	4 100 (-26.5)	4 400 (-23.5)	4 200 (-35.4)	4 200 (-23.8)	3 700 (-20.9)	3 300 (-23.8)	0.8
Manufacturing	1 300 (-16.6)	1 400 (-25.0)	1 500 (-22.0)	1 400 (3.9)	900 (-17.9)	1 100 (-23.5)	0.6
Building and construction sites	100 (-43.5)	100 (-42.7)	100 (-48.6)	100 (-19.7)	# (-62.7)	# (-81.7)	*
<i>All establishments surveyed in the private sector^(a)</i>	<i>19 400 (-17.5)</i>	<i>20 800 (-30.8)</i>	<i>21 900 (-14.9)</i>	<i>18 800 (-11.6)</i>	<i>16 200 (-5.5)</i>	<i>15 900 (-23.4)</i>	<i>0.7</i>
		<i><-2.5></i>	<i><10.4></i>	<i><-12.1></i>	<i><*></i>	<i><-20.7></i>	
<i>Civil Service^(b)</i>	<i>1 800 (3.3)</i>	<i>1 700 (9.0)</i>	<i>1 900 (16.0)</i>	<i>1 700 (1.9)</i>	<i>1 700 (-11.2)</i>	<i>1 600 (-3.8)</i>	<i>0.9</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.

(*) Less than 0.05%.

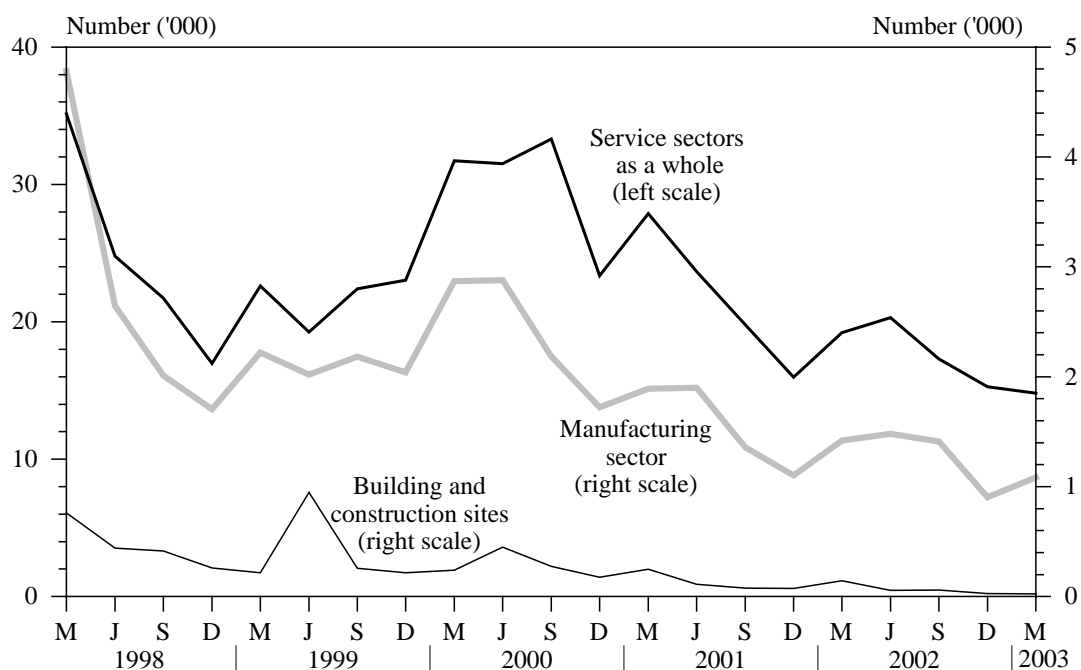
(#) Less than 50.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.19 Analysed by *occupation category*, vacancies showed a broad-based decrease across nearly all the major segments of the occupational hierarchy. On the middle and lower segments, vacancies for plant and machine operators and assemblers, service workers and shop sales workers, workers in elementary occupations, clerks, and craft and related workers all fell, by 54.4%, 41.9%, 16.0%, 11.9% and 4.9% respectively in March 2003 over a year earlier. As to the upper segment, vacancies for associate professionals and professionals also dropped, by 24.5% and 12.9% respectively. Managers and administrators were the only category with an increase in vacancies, by 25.5%.

/Table 5.19

Table 5.19**Vacancies by major occupation category**

	<u>No. of vacancies</u>					
	<u>Annual average</u>	<u>2002</u>				<u>2003</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Managers and administrators	400 (-21.5)	400 (-48.7)	500 (-31.0)	500 (23.2)	400 (1.5)	500 (25.5)
Professionals	1 100 (-39.1)	1 300 (-52.0)	1 100 (-53.5)	900 (-26.5)	1 100 (10.3)	1 100 (-12.9)
Associate professionals	6 900 (-5.8)	7 500 (-21.8)	8 300 (7.2)	6 400 (-4.1)	5 500 (1.7)	5 600 (-24.5)
Clerks	3 800 (-32.4)	4 100 (-42.7)	4 200 (-37.9)	3 400 (-26.7)	3 400 (-9.7)	3 600 (-11.9)
Service workers and shop sales workers	3 700 (-8.1)	3 900 (-20.1)	3 900 (7.3)	3 800 (-4.4)	3 000 (-11.7)	2 300 (-41.9)
Craft and related workers	500 (-27.8)	600 (-37.8)	600 (-13.9)	400 (-40.9)	500 (-9.0)	600 (-4.9)
Plant and machine operators and assemblers	800 (-6.3)	900 (3.0)	700 (-31.9)	900 (22.5)	500 (-8.3)	400 (-54.4)
Elementary occupations	2 300 (-17.8)	2 200 (-32.4)	2 700 (-8.0)	2 400 (-13.8)	1 800 (-13.7)	1 900 (-16.0)

Note : () % change over a year earlier.

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

/Earnings

Earnings and wages

5.20 With worsening in the employment situation, labour income also came under greater downward pressure. Overall *labour earnings* in the private sector, as measured by payroll per person engaged, fell by 2.0% in money terms in the first quarter of 2003 over a year earlier, larger than the declines of 1.2% in the fourth quarter of 2002 and 1.1% for 2002 as a whole. Amongst the business establishments surveyed in the first quarter of 2003, 45% reported a reduction in average labour earnings over a year earlier, while 18% reported virtually nil change. The remaining 37% reported a rise in average labour earnings, but this was partly due to a higher proportion of higher-skill and better-paid workers in place upon retrenchment of workers at the lower level. Netting out the decline in consumer prices as reflected by the Composite CPI, overall labour earnings were almost unchanged in real terms in the first quarter of 2003 from a year earlier, as against increases of 1.8% in the fourth quarter of 2002 and 2.0% for 2002 as a whole. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings went down by 0.9% both in money terms and in real terms in the first quarter of 2003. In the fourth quarter of 2002, there was a decrease of 0.3% in money terms, yet an increase of 0.2% in real terms.

5.21 Analysed by *economic sector*, labour earnings in money terms showed a broad-based decline. Taking all the *service sectors* surveyed together, earnings fell by 2.1% in money terms in the first quarter of 2003 over a year earlier, further to a 1.6% dip in the fourth quarter of 2002. Yet in real terms, earnings moved down only marginally by 0.1% in the first quarter of 2003, having risen by 1.4% in the fourth quarter of 2002. Amongst the various constituent sectors, earnings in restaurants and hotels had the largest drop, by 6.6% in money terms or 4.7% in real terms in the first quarter of 2003 over a year earlier. Earnings in community, social and personal services and in financing, insurance, real estate and business services decreased by 4.2% and 2.7% respectively in money terms, or by 2.2% and 0.7% in real terms. Earnings in the wholesale, retail and import/export trades and in transport, storage and communications declined by 1.3% and 0.3% respectively in money terms, but still rose by 0.7% and 1.7% in real terms. As to the local *manufacturing sector*, earnings were 5.1% lower in money terms in the first quarter of 2003 than a year earlier, enlarged from a 2.2% fall in the fourth quarter of 2002. In real terms, earnings decreased by 3.2% in the first quarter of 2003, after a 0.7% rise in the fourth quarter of 2002.

/Table 5.20

Table 5.20

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

	<u>Payroll per person engaged</u>						Average amount in Q1 2003 (\$)
	<u>Annual</u>	<u>2002</u>				<u>2003</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	
Wholesale, retail and import/export trades	-1.6 (1.4)	-1.0 (1.6)	-1.6 (1.7)	-2.1 (1.5)	-2.0 (1.0)	-1.3 (0.7)	14,200
Restaurants and hotels	-4.2 (-1.1)	-4.9 (-2.3)	-5.5 (-2.4)	-3.0 (0.5)	-3.1 (-0.1)	-6.6 (-4.7)	8,800
Transport, storage and communications	-0.2 (2.9)	-1.9 (0.7)	1.5 (4.9)	-2.5 (1.0)	2.0 (5.1)	-0.3 (1.7)	19,900
Financing, insurance, real estate and business services	-2.2 (0.8)	-2.0 (0.6)	-2.6 (0.6)	-1.4 (2.2)	-2.9 (*)	-2.7 (-0.7)	20,300
Community, social and personal services	-1.3 (1.9)	* (2.7)	0.1 (3.4)	-2.4 (1.2)	-2.7 (0.3)	-4.2 (-2.2)	19,500
Manufacturing	-1.2 (1.9)	-0.8 (1.8)	-0.6 (2.7)	-1.1 (2.6)	-2.2 (0.7)	-5.1 (-3.2)	12,400
All sectors surveyed in the private sector	-1.1 (2.0)	-0.6 (2.1)	-1.0 (2.2)	-1.5 (2.1)	-1.2 (1.8)	-2.0 (*)	16,400
		<*> {0.9}	<-0.4> {0.3}	<-0.4> {0.4}	<-0.3> {0.2}	<-0.9> {-0.9}	

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.

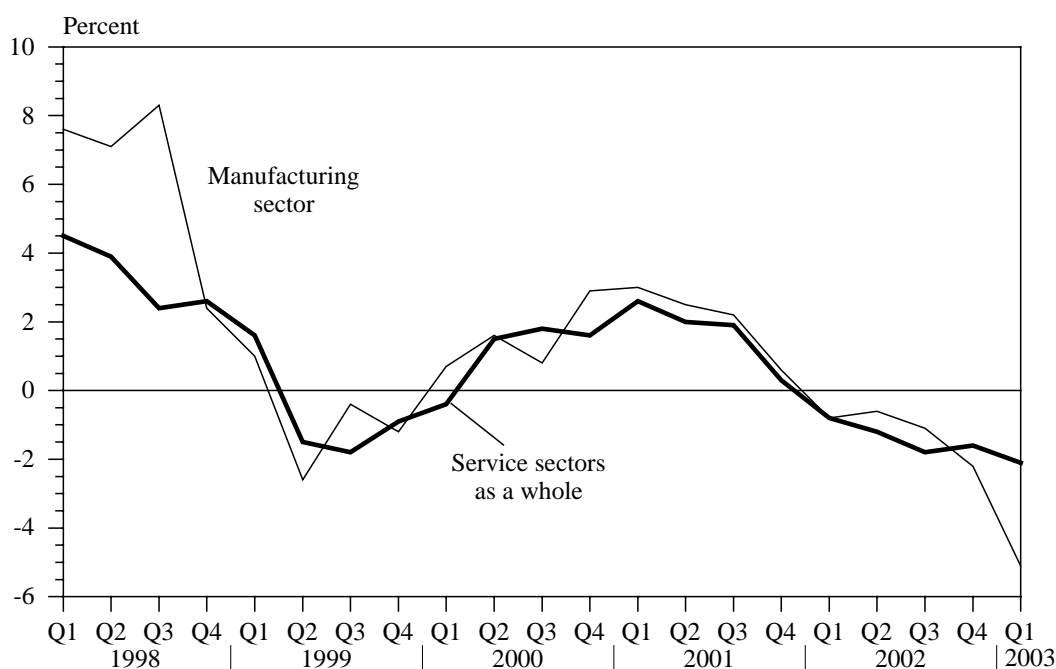
(*) Change of less than 0.05%.

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)**



5.22 Overall *labour wages* in the private sector likewise had a larger decrease in March 2003, by 1.5% in money terms over a year earlier, than those in December 2002 and for 2002 as a whole, by 0.8% and 1.0% respectively. Amongst the business establishments surveyed in March 2003, 50% reported some downward adjustment in average wage rate over a year earlier, partly reflecting a cut in guaranteed bonuses and allowances. Another 14% reported nil change. The remaining 36% reported an increase in average wage rate, which again was partly attributable to a shift in employment composition towards better-paid workers upon retrenchment of the lower-paid clerical staff and operatives. Yet discounting the decline in consumer prices as measured by the CPI(A)⁽¹⁰⁾, overall labour wages were still higher by 0.3% in real terms in March 2003 than a year earlier. This followed a decline of 1.8% in December 2002⁽¹¹⁾, but a rise of 1.3% for 2002 as a whole.

/5.23

5.23 Analysed by *economic sector*, wages in personal services and in restaurants and hotels fell more visibly, by 3.4% and 3.2% respectively in money terms or by 1.6% and 1.4% in real terms in March 2003 over a year earlier. Wages in transport services and in the wholesale, retail and import/export trades were down by 1.4% and 1.2% respectively in money terms, but up by 0.4% and 0.7% in real terms. Wages in financing, insurance, real estate and business services registered increase both in money terms and in real terms, by 0.3% and 2.2% respectively. As to the local manufacturing sector, wages were reduced by 2.6% in money terms, or by 0.7% in real terms.

Table 5.21

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

	<u>By reference to the wage index</u>					
	<u>Annual</u>	<u>2002</u>				<u>2003</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Mar</u>
Wholesale, retail and import/export trades	-0.6 (1.7)	* (2.1)	0.3 (4.4)	-2.0 (2.4)	-0.7 (-1.7)	-1.2 (0.7)
Restaurants and hotels	-2.6 (-0.3)	-1.4 (0.6)	-3.3 (0.6)	-2.7 (1.6)	-3.0 (-4.0)	-3.2 (-1.4)
Transport services	0.6 (2.9)	1.1 (3.1)	0.8 (4.9)	* (4.4)	0.5 (-0.5)	-1.4 (0.4)
Financing, insurance, real estate and business services	-0.8 (1.5)	-1.7 (0.3)	-1.8 (2.2)	* (4.4)	0.3 (-0.8)	0.3 (2.2)
Personal services	-1.5 (0.8)	-0.9 (1.1)	-2.0 (2.0)	-3.0 (1.3)	-0.1 (-1.1)	-3.4 (-1.6)
Manufacturing	-1.4 (0.8)	-2.1 (-0.2)	-0.7 (3.4)	-1.5 (2.8)	-1.4 (-2.5)	-2.6 (-0.7)
All selected sectors surveyed in the private sector	-1.0 (1.3)	-0.8 (1.2)	-0.9 (3.1)	-1.5 (2.8)	-0.8 (-1.8)	-1.5 (0.3)

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

(a) Because of a low base of comparison in December 2001, due to the waiver of public housing rentals in that month, the CPI(A) had an upswing in December 2002, and this dampened the change in wages to decline in real terms across-the-board in December 2002 over a year earlier.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/5.24

5.24 Analysed by *occupation category*, wages for miscellaneous non-production workers, operatives, service workers, and clerical and secretarial workers all came down, by 2.2 - 2.8% in money terms or by 0.4 - 1.0% in real terms in March 2003 over a year earlier. Wages for craftsmen fell by 1.5% in money terms, but rose by 0.3% in real terms. Wages for supervisory and technical workers declined less, by 0.2% in money terms, with an increase of 1.7% in real terms.

Table 5.22

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

	<u>By reference to the wage index</u>					
	<u>Annual</u>	<u>2002</u>				<u>2003</u>
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Mar</u>
Supervisory and technical workers	-0.2 (2.1)	-0.2 (1.8)	0.1 (4.2)	-0.7 (3.7)	* (-1.0)	-0.2 (1.7)
Clerical and secretarial workers	-1.1 (1.2)	-0.2 (1.8)	-0.8 (3.2)	-1.8 (2.5)	-1.7 (-2.7)	-2.2 (-0.4)
Craftsmen	-0.9 (1.4)	-0.6 (1.4)	-1.6 (2.4)	-1.5 (2.9)	0.2 (-0.8)	-1.5 (0.3)
Operatives	-0.9 (1.4)	-1.0 (1.0)	0.1 (4.2)	-1.3 (3.0)	-1.3 (-2.3)	-2.7 (-0.9)
Service workers	-3.0 (-0.8)	-3.0 (-1.0)	-3.6 (0.3)	-3.4 (0.9)	-2.1 (-3.2)	-2.3 (-0.4)
Miscellaneous non-production workers	-1.3 (1.0)	-0.9 (1.1)	-1.4 (2.6)	-1.8 (2.6)	-1.0 (-2.1)	-2.8 (-1.0)

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 5.21.

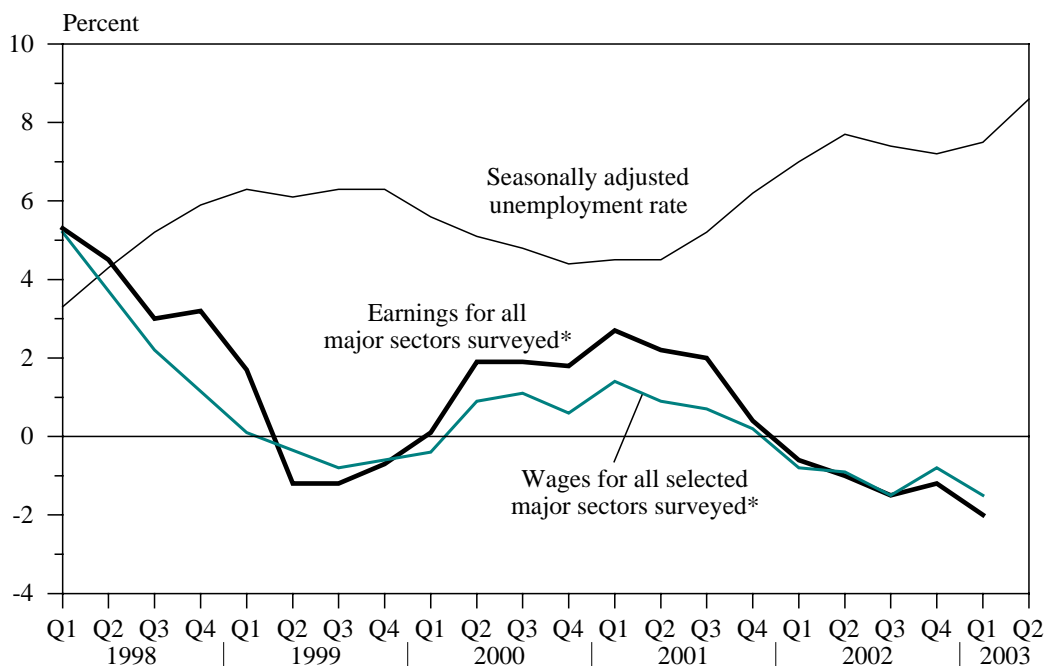
(*) Change of less than 0.05%.

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.

5.25 Overall wages in the *construction sector* were unchanged in money terms in the first quarter of 2003 from a year earlier. This followed a 0.9% decline in the fourth quarter of 2002 and nil change for 2002 as a whole. Netting out the fall in consumer prices as reflected by the CPI(A), construction wages went up by 1.8% in real terms in the first quarter of 2003 over a year earlier. This was broadly similar to the 1.6% rise in the fourth quarter of 2002, but smaller than the 3.3% increase for 2002 as a whole.

5.26 Wages for the various constituent job categories moved differently. Specifically, wages for truck drivers, plasterers, plant operators and steelbenders fell by 0.1 - 2.0% in money terms in the first quarter of 2003 over a year earlier. Wages for concretors/bricklayers/drainlayers were almost static in money terms. On the other hand, wages for carpenters and joiners, painters, electricians (wiremen), plumbers and fitters moved up by 0.7 - 2.6% in money terms.

/Table 5.23

Table 5.23**Construction wage rates by selected job category
(year-on-year rate of change (%))**

	<u>Annual</u>	<u>2002</u>				<u>2003</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Concretors/bricklayers/ drainlayers	0.4	-0.2	3.0	1.1	-2.0	*
Steelbenders	2.2	1.0	3.1	3.4	1.4	-0.1
Carpenters and joiners	3.0	-1.5	5.2	5.6	3.0	2.6
Plumbers	-1.9	-3.8	-2.1	-2.3	0.6	1.1
Fitters	-0.8	2.6	-0.7	-2.4	-2.5	0.7
Plasterers	-1.8	-3.6	-1.9	-1.3	-0.3	-1.3
Painters	-3.0	-2.1	-3.6	-4.5	-1.5	2.1
Electricians (wiremen)	1.9	3.3	2.7	0.3	1.4	1.4
Plant operators	1.2	3.3	2.8	0.2	-1.4	-1.1
Truck drivers	-0.3	2.5	1.3	-1.9	-2.8	-2.0
All job categories in the construction sector ^(a)	* (3.3)	-0.2 (2.6)	1.6 (5.3)	-0.4 (3.8)	-0.9 (1.6)	* (1.8)

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.

/5.27

5.27 Following enactment of the Public Officers Pay Adjustment Ordinance on 19 July 2002, Civil Service pay at the directorate level and the upper salary band was adjusted downwards by 4.42%, and those at the middle and the lower salary bands by 1.64% and 1.58% respectively, as from 1 October 2002.

5.28 On 25 February 2003, the Government announced its decision to restore the dollar value of all Civil Service pay points below Directorate Pay Scale 3 (D3) or equivalent to the levels as at 30 June 1997 in cash terms by two adjustments of broadly equal amount to be implemented on 1 January 2004 and 1 January 2005 respectively, and to restore the dollar value of all Civil Service pay points at D3 and above or equivalent to the levels as at 30 June 1997 in cash terms from 1 January 2004. This pay reduction will be implemented by legislation. Following consultation with staff representatives on the draft legislation, the Government gazetted the Public Officers Pay Adjustments (2004/2005) Bill on 16 May 2003 and introduced the Bill into the Legislative Council on 21 May 2003. It plans to have the Bill enacted before the end of 2003 so that the first stage of the Civil Service pay reduction can be implemented on 1 January 2004 as scheduled.

5.29 The Government has embarked on an exercise to develop, in consultation with staff, an improved Civil Service pay adjustment mechanism on the basis of the existing one. The improved mechanism will comprise the conduct of periodic pay level surveys to compare the Civil Service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology, and an effective means for implementing both upward and downward adjustments. To take forward the exercise, a steering committee has been established to tender advice in the process. Staff feedback is gauged through a consultative group comprising staff representatives. The aim is to complete the exercise, including the conduct of a pay level survey, by end-2004.

/Notes

Notes :

- (1) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

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

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

In April 2001, the Census and Statistics Department 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.

- (2) 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.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (3) 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).
- (4) 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.

/(5)

- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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 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 wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (11) The decrease in real wages in December 2002 was entirely attributable to an upswing in the CPI(A) in that month, owing to a low base of comparison in December 2001 upon the waiver of public housing rentals at that time.

CHAPTER 6 : PRICES

Consumer prices

6.1 Overall consumer prices continued to decline in the second quarter of 2003. By June 2003, the downtrend had lasted for 56 months. There was an accentuated decrease in May and June, mainly reflecting the impact of SARS on domestic demand and hence on consumer prices. In face of an austere business situation under the SARS impact, local retailers and service providers generally offered larger price discounts and other attractions in a move to induce sales. There was a one-off rebate of electricity charges from a power company in June. Also, new fare concessions were granted by some public transport operators. These, coupled with lower labour wages and continued softening in property rentals, more than offset the effect of the recent pick-up in prices of retained imports brought about by a weaker US dollar and higher world commodity prices.

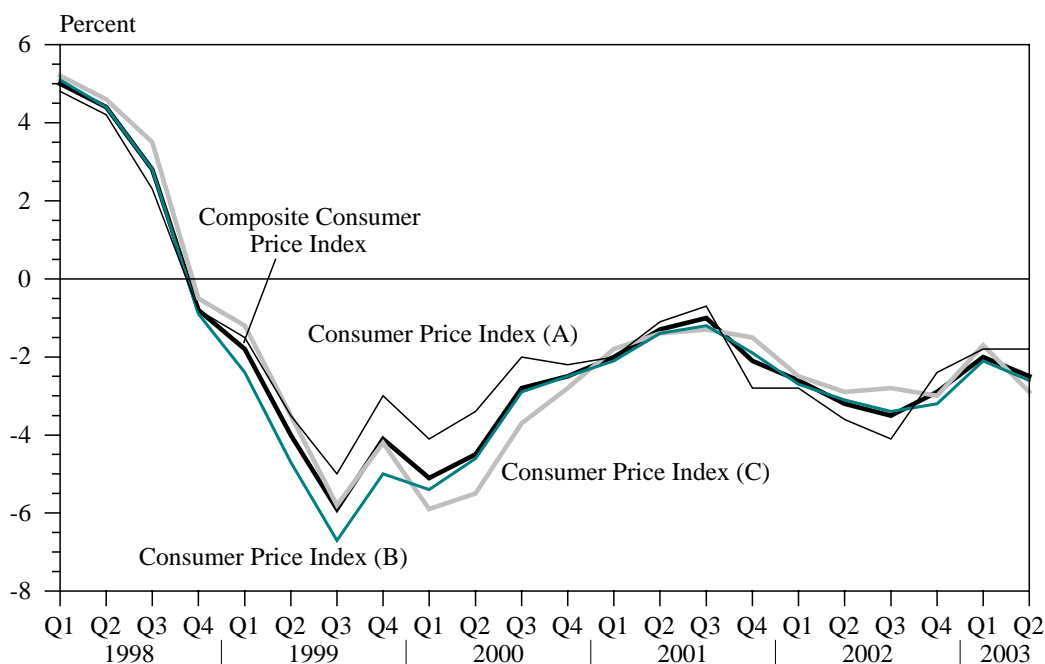
6.2 The *Composite Consumer Price Index*⁽¹⁾ went down by 2.5% in the second quarter of 2003 from a year earlier (and further by 4.0% in July), larger than the 2.0% fall in the first quarter. Clothing and footwear, durable goods, transport, private housing and miscellaneous services were the categories with accentuated price declines. For the first half of 2003 as a whole, the Composite CPI fell by 2.2% over a year earlier, which was smaller than the 3.2% decrease in the second half of 2002. Yet this was entirely due to dissipation of the downward effect of the special relief measures implemented by the Government in the earlier periods, including the rates concession in 2002⁽²⁾ and the waiver of water and sewage charges over the twelve months ending March 2003⁽³⁾. After adjusting for these special factors as well as for the difference in base of comparison caused by the waiver of public housing rentals in December 2001, the decline in the Composite CPI actually widened, by around 0.7 of a percentage point between the two half-yearly periods.

/6.3

6.3 Analysed by sub-index and on a year-on-year comparison, the CPI(B) and CPI(C) dropped by 2.6% and 2.9% respectively in the second quarter of 2003, enlarged from the decreases of 2.1% and 1.7% in the first quarter. Yet the CPI(A) had the same magnitude of decrease, by 1.8% in both quarters. As against the other two sub-indices, this sub-index was influenced much more by the low base effect arising from the waiver of water and sewage charges between April 2002 and March 2003. For the first half of 2003 as a whole, the CPI(A), CPI(B) and CPI(C) all moved lower, by 1.8%, 2.3% and 2.3% respectively over a year earlier. These were smaller than the decreases of 3.3%, 3.3% and 2.9% in the second half of 2002. However, after discounting the effects of the special relief measures implemented earlier by the Government and the lower base of comparison a year earlier, the CPI(A), CPI(B) and CPI(C) all showed larger declines between the two half-yearly periods, by around 0.5 of a percentage point, 0.8 of a percentage point, and 0.7 of a percentage point respectively.

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 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>
2002	Annual	-3.0	-3.2	-3.1	-2.8
	H1	-2.9	-3.2	-2.9	-2.7
	H2	-3.2	-3.3	-3.3	-2.9
	Q1	-2.6	-2.8	-2.7	-2.5
	Q2 ^(a)	-3.2	-3.6	-3.1	-2.9
	Q3	-3.5	-4.1	-3.4	-2.8
	Q4 ^(b)	-2.9	-2.4	-3.2	-3.0
2003	H1	-2.2	-1.8	-2.3	-2.3
	Q1 ^(c)	-2.0	-1.8	-2.1	-1.7
	Q2	-2.5	-1.8	-2.6	-2.9
	Jan	-1.6	-1.6	-1.7	-1.4
	Feb ^(d)	-2.0	-2.0	-2.2	-1.9
	Mar	-2.1	-1.9	-2.3	-1.9
	Apr ^(e)	-1.8	-1.2	-2.0	-2.1
	May	-2.5	-1.7	-2.7	-3.0
	Jun ^(f)	-3.1	-2.4	-3.2	-3.7

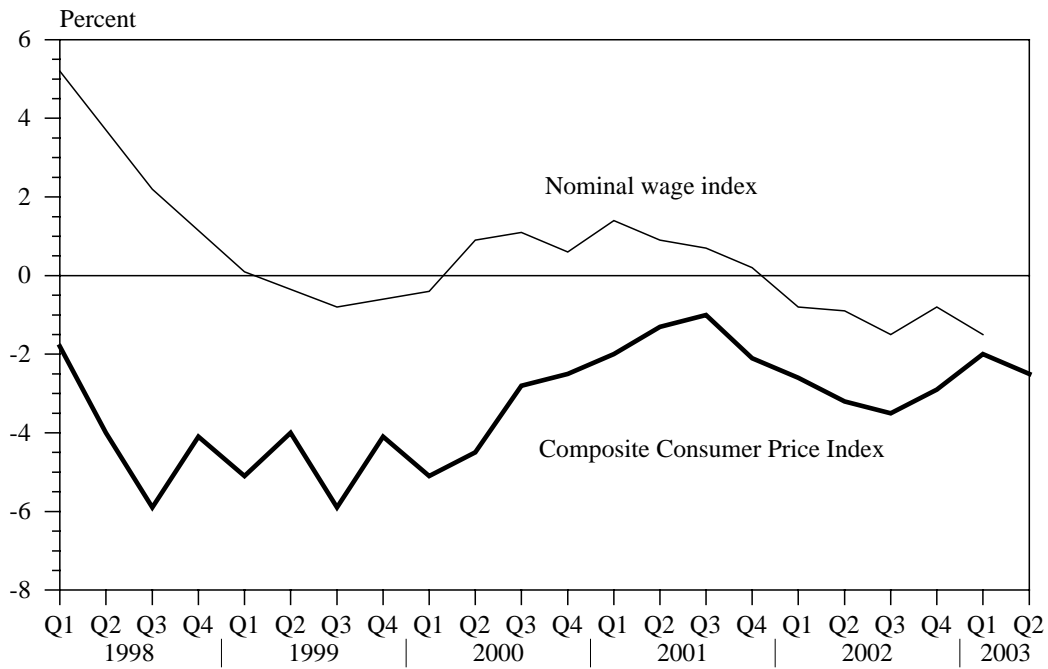
- Notes :
- (a) The widening in year-on-year decline in the CPIs in the second quarter of 2002 was due in part to the waiver of water and sewage charges as well as the additional rates concession granted by the Government as from April 2002.
 - (b) The narrowing in year-on-year decline in the Composite CPI, CPI(A) and CPI(B) in the fourth quarter of 2002 was mostly attributable to a lower base of comparison a year earlier, caused by the waiver of public housing rentals by the Housing Authority and Housing Society in December 2001. The CPI(C) was unaffected by such a measure, as public housing cost was irrelevant to this sub-index.
 - (c) The further narrowing in year-on-year decline in the CPIs in the first quarter of 2003 was mainly attributable to a lower base of comparison brought about by the rates concession by the Government in 2002.
 - (d) The larger year-on-year decline in the CPIs in February than in January 2003 was attributable in part to the difference in timing of the Lunar New Year Festival, which occurred in the beginning of February this year but around mid-February last year. As festive purchases at higher seasonal prices took place in late January this year but in the early part of February last year, the difference in timing of the Festival had led to a smaller year-on-year decline in consumer prices in January 2003, but a larger year-on-year decline in February 2003.
 - (e) The smaller year-on-year decline in the Composite CPI, CPI(A) and CPI(B) in April than in March 2003 was mainly attributable to a lower base of comparison brought about by the waiver of water and sewage charges from April 2002 to March 2003. The CPI(C) was affected much less by such a measure.
 - (f) The larger year-on-year decline in the CPIs in June than in May 2003 was partly due to a special one-off rebate of electricity charges granted by a power company in June 2003.

/Diagram 6.2

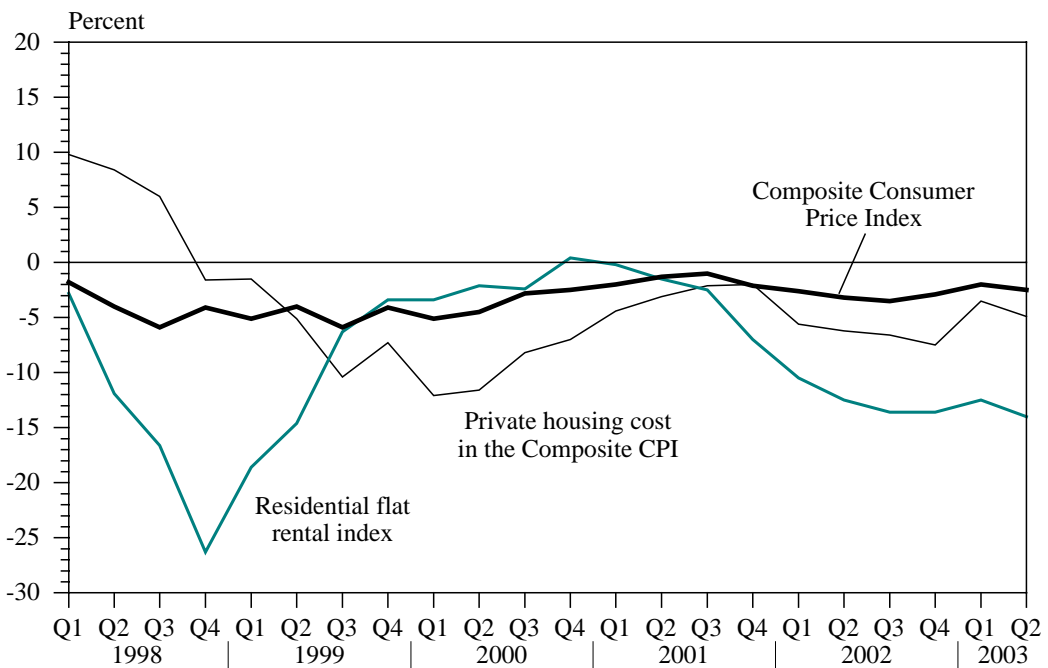
Diagram 6.2

**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



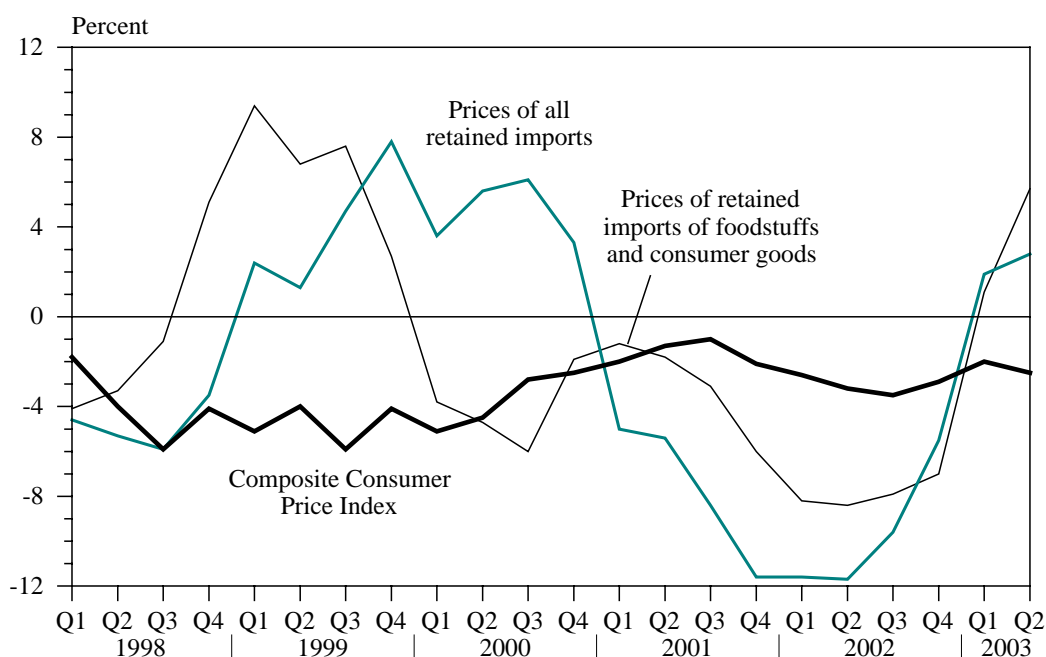
(b) Compared with residential flat rentals



/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 quarter-to-quarter comparison, the seasonally adjusted Composite CPI fell considerably more in the second quarter of 2003 than in the first quarter, by 1.1% as against 0.1%. Reflecting the SARS impact, enlarged declines were recorded in charges for meals at restaurants and prices of clothing and footwear, while renewed falls were seen in private housing cost, prices of miscellaneous goods, and charges for miscellaneous services. These decreases outweighed the effect of a rebound in charges for electricity, gas and water taken as a whole, upon expiry of the waiver of water and sewage charges at end-March 2003. A broadly parallel pattern of movement was observed for the three sub-indices. The seasonally adjusted CPI(A), CPI(B) and CPI(C) went down by 0.5%, 1.1% and 1.8% respectively in the second quarter of 2003, following nil change, -0.2% and nil change in the first 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>
2002 Q1 ^(a)	-1.1	-0.6	-1.4	-1.3
Q2 ^(b)	-0.6	-0.6	-0.6	-0.7
Q3	-0.7	-0.7	-0.7	-0.5
Q4	-0.6	-0.6	-0.6	-0.6
2003 Q1 ^(c)	-0.1	*	-0.2	*
Q2 ^(d)	-1.1	-0.5	-1.1	-1.8

Notes : (a) The relatively larger quarter-to-quarter decline in most of the seasonally adjusted CPIs in the first quarter of 2002 was mainly due to the rates concession for 2002 as well as the one-off rebate of electricity charges granted by a power company in January and February 2002.

(b) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly narrowed in the second quarter of 2002. There was little additional dampening effect from the rates concession in the second quarter, 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. These outweighed the new dampening effect from the waiver of water and sewage charges for one year as from April 2002.

(c) The quarter-to-quarter decline in the seasonally adjusted CPIs narrowed distinctly further in the first quarter of 2003. This was mainly attributable to dissipation of the downward effect of the rates concession granted by the Government in 2002, which outweighed the downward effect of the one-off rebate of electricity charges granted by a power company in January and February 2003.

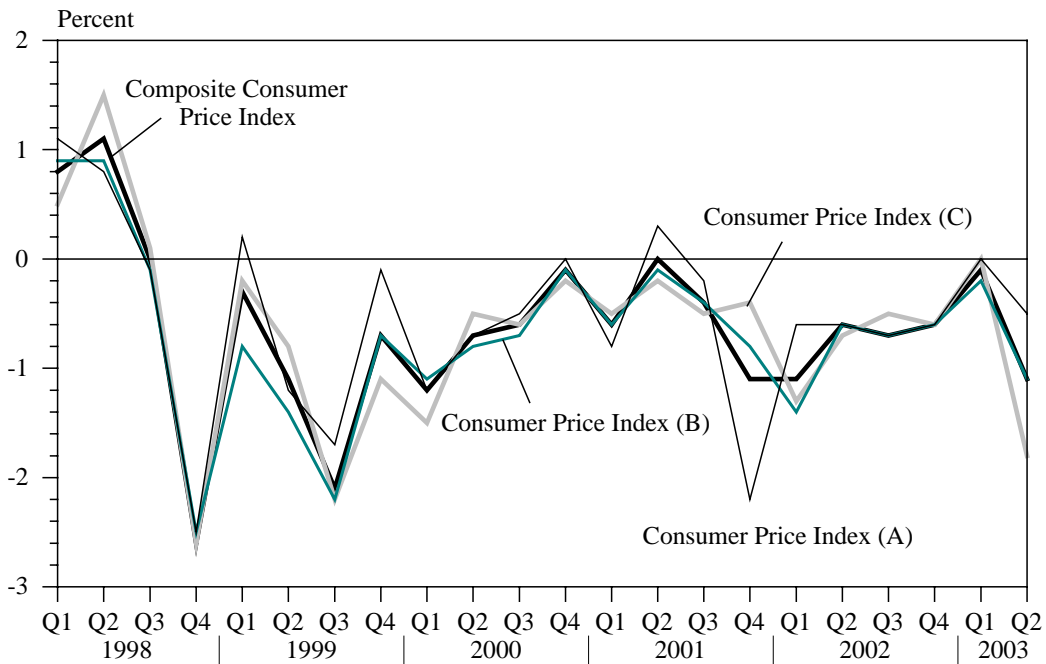
(d) The quarter-to-quarter declines in the seasonally adjusted CPIs widened considerably in the second quarter of 2003, mainly reflecting the impact of SARS on consumer demand and hence consumer prices.

(*) 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 durable goods were slashed by 7.7% in the second quarter of 2003, exceeding the 6.0% dip in the first quarter. This was mainly due to further reduction in the prices of watches, cameras, computer products and telecommunications equipment. The prices of clothing and footwear also had a widened decline, from 3.5% in the first quarter to 6.3% in the second quarter, largely attributable to an accentuated fall in the prices of outerclothing. The charges for miscellaneous services likewise showed a steeper decrease, from 1.6% to 3.7%, mainly reflecting larger price discounts on telecommunications services and renewed decline in the charges for package tours. The cost of transport sank by 0.6% in the second quarter, on account of downward adjustments in inbound and outbound transport fares as well as fare concessions by some of the public transport operators. This followed a slight decline of 0.1% in the first quarter. The prices of basic foodstuffs slipped by 1.3% in the second quarter, narrowed from the 2.5% drop in the first quarter. A pick-up in the prices of fresh fruits and vegetables was the major contributory factor. The charges for meals at restaurants fell by 1.6% in both quarters, amidst sustained downward pressure from lower food cost and slack demand conditions. On the other hand, the charges for electricity, gas and water bounced up by 7.6% in the second quarter of 2003, reversing a 6.5% decline in the first quarter. But this was mainly due to dissipation of the waiver of water and sewage charges by March 2003, outweighing the dampening effect from a special one-off rebate of electricity charges granted by a power company for June 2003⁽⁴⁾. The prices of miscellaneous goods went higher by 0.5% in the second quarter, yet smaller than the 3.3% rise in the first quarter, along with moderated increase in the prices of jewellery. The prices of alcoholic drinks and tobacco, having risen by 0.5% in the first quarter, edged up further by 0.2% in the second quarter, mainly because of higher retail prices of wine. As to private housing cost, there was a larger drop in the second quarter, by 4.9%, than that in the first quarter, by 3.5%. This was in line with the softening in private residential flat rentals in the market over the past year⁽⁵⁾. By contrast, public housing cost leaped by 11.8% in both quarters, as the low base owing to the rates concession in 2002 continued to carry effect.

/6.6

6.6 For the first half of 2003 as a whole as compared to a year earlier, the prices of durable goods and of clothing and footwear had the largest decreases, by 6.9% and 4.9% respectively. These were followed by private housing cost, charges for miscellaneous services, prices of basic foodstuffs, charges for meals at restaurants, and cost of transport, with declines of 4.2%, 2.7%, 1.9%, 1.6% and 0.4% respectively. On the other hand, public housing cost was distinctly higher by 11.8%, due to the low base effect. Concurrently, the prices of miscellaneous goods, charges for electricity, gas and water, and prices of alcoholic drinks and tobacco registered modest increases, by 1.9%, 0.7% and 0.4% respectively.

/Table 6.3

Table 6.3**Consumer Price Indices by component
(year-on-year rate of change (%))****(a) In the first and second quarters of 2003**

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2003 Q1	2003 Q2	2003 Q1	2003 Q2	2003 Q1	2003 Q2	2003 Q1	2003 Q2
Food	-1.9	-1.5	-2.2	-1.6	-2.1	-1.7	-1.1	-0.8
<i>Meals bought away from home</i>	-1.6	-1.6	-1.8	-1.7	-2.1	-1.9	-0.3	-0.8
<i>Other foodstuffs</i>	-2.5	-1.3	-2.6	-1.5	-2.5	-1.4	-2.6	-0.8
Housing [#]	-2.3	-3.4	-0.6	-1.6	-2.5	-3.7	-3.9	-5.1
<i>Private dwellings</i>	-3.5	-4.9	-3.3	-4.6	-3.2	-4.6	-3.9	-5.4
<i>Public dwellings</i>	11.8	11.8	11.8	11.8	11.8	11.9	--	--
Electricity, gas and water	-6.5	7.6	-8.3	8.4	-5.8	7.4	-4.4	6.6
Alcoholic drinks and tobacco	0.5	0.2	0.3	0.2	0.5	0.2	1.5	0.8
Clothing and footwear	-3.5	-6.3	-3.6	-5.5	-3.2	-5.5	-3.7	-8.4
Durable goods	-6.0	-7.7	-6.4	-7.6	-6.2	-7.9	-5.5	-7.4
Miscellaneous goods	3.3	0.5	1.5	0.1	3.0	0.5	5.3	1.0
Transport	-0.1	-0.6	-0.6	-1.3	-0.2	-0.8	0.6	0.4
Miscellaneous services	-1.6	-3.7	-2.4	-4.3	-1.7	-3.4	-1.0	-3.6
All items	-2.0	-2.5	-1.8	-1.8	-2.1	-2.6	-1.7	-2.9

(b) In the second half of 2002 and first half of 2003

Expenditure component	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	2002 H2	2003 H1	2002 H2	2003 H1	2002 H2	2003 H1	2002 H2	2003 H1
Food	-2.3	-1.7	-2.6	-1.9	-2.5	-1.9	-1.6	-0.9
<i>Meals bought away from home</i>	-1.8	-1.6	-2.0	-1.8	-2.2	-2.0	-0.4	-0.5
<i>Other foodstuffs</i>	-3.3	-1.9	-3.3	-2.1	-2.9	-1.9	-3.7	-1.7
Housing [#]	-5.6	-2.8	-4.7	-1.1	-6.1	-3.1	-5.9	-4.5
<i>Private dwellings</i>	-7.1	-4.2	-7.5	-4.0	-7.1	-3.9	-6.4	-4.6
<i>Public dwellings</i>	6.7	11.8	6.7	11.8	6.7	11.8	--	--
Electricity, gas and water	-7.8	0.7	-9.1	0.3	-7.5	0.9	-5.8	1.1
Alcoholic drinks and tobacco	1.6	0.4	1.4	0.2	1.6	0.3	2.3	1.1
Clothing and footwear	0.1	-4.9	1.4	-4.6	1.1	-4.4	-2.5	-6.2
Durable goods	-5.8	-6.9	-5.7	-7.0	-5.9	-7.0	-5.8	-6.5
Miscellaneous goods	2.0	1.9	1.0	0.8	1.7	1.7	3.6	3.1
Transport	-0.8	-0.4	-0.7	-1.0	-0.6	-0.5	-1.1	0.5
Miscellaneous services	-2.9	-2.7	-4.1	-3.4	-2.9	-2.6	-1.7	-2.3
All items	-3.2	-2.2	-3.3	-1.8	-3.3	-2.3	-2.9	-2.3

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.

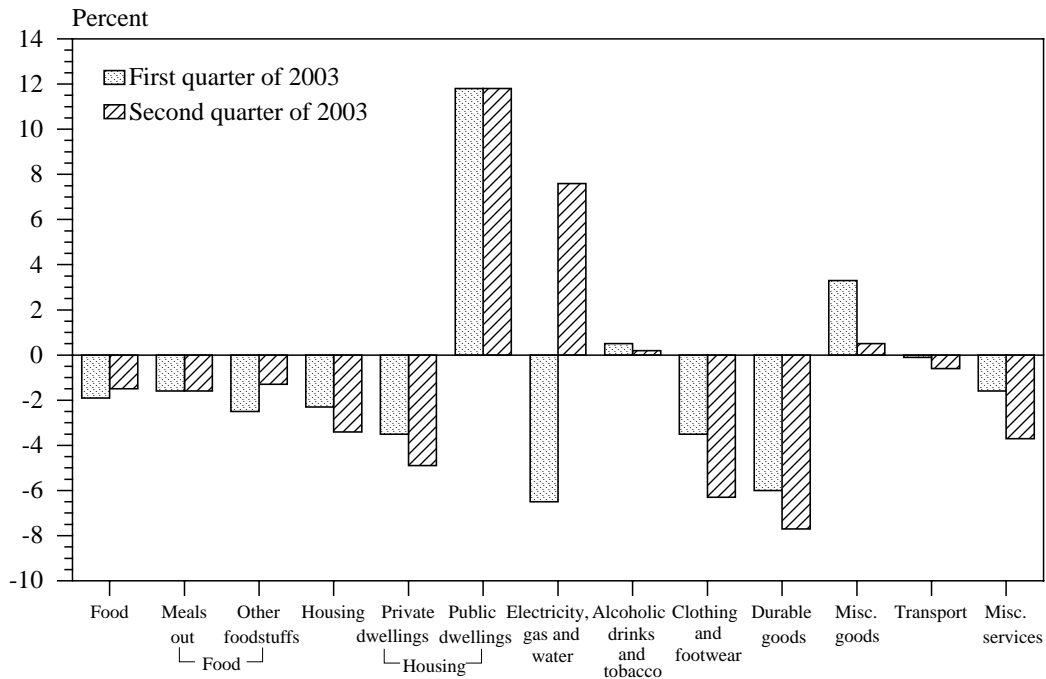
(--) Not applicable.

/Diagram 6.4

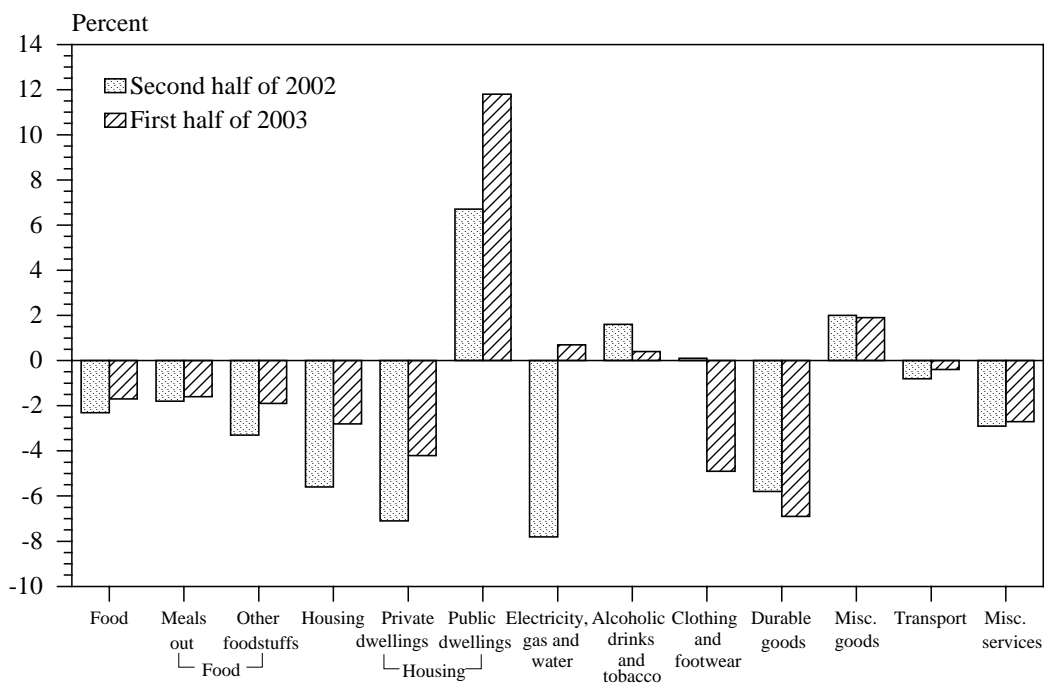
Diagram 6.4

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

(a) In the first and second quarters of 2003



(b) In the second half of 2002 and first half of 2003

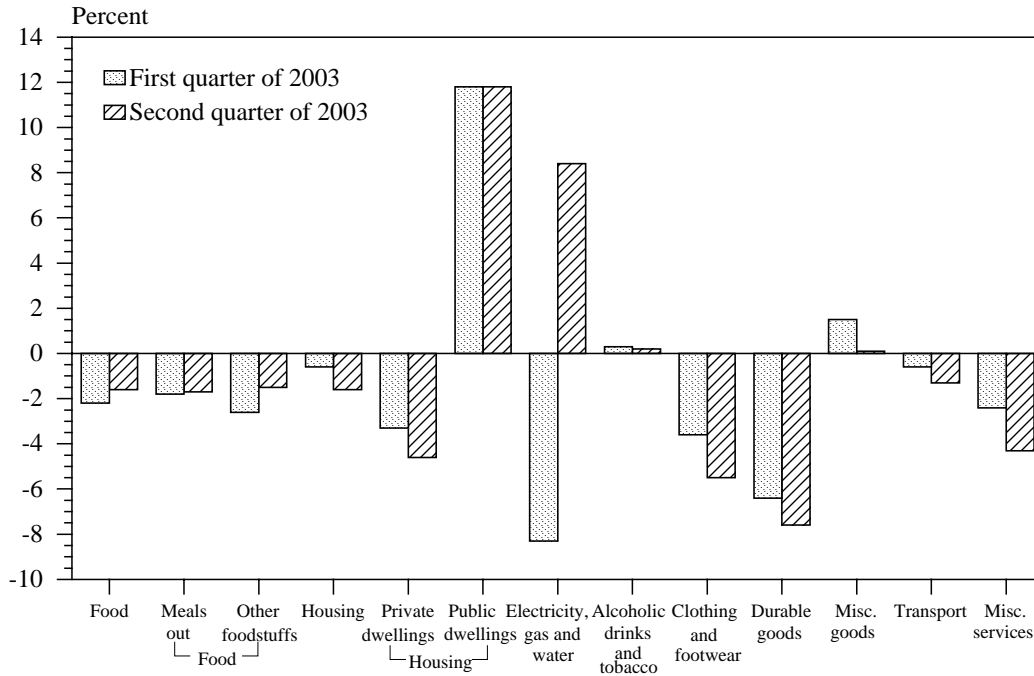


/Diagram 6.5

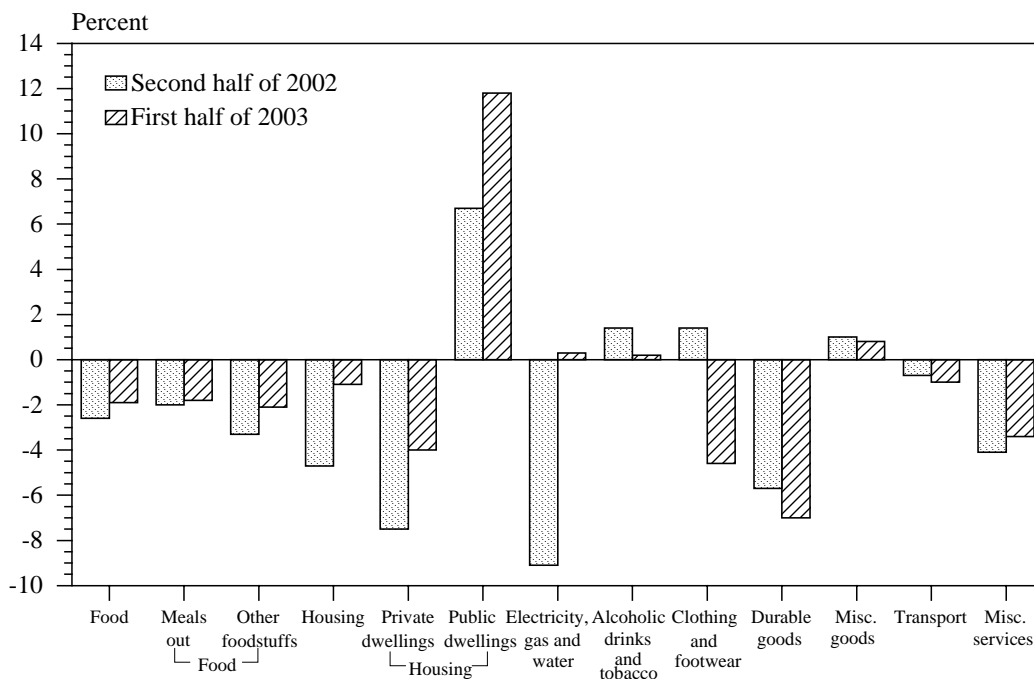
Diagram 6.5

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

(a) In the first and second quarters of 2003



(b) In the second half of 2002 and first half of 2003



/Import

Import prices

6.7 The *prices of imports of goods*, as measured by the unit value index of imports of goods, fell by 0.3% in the second quarter of 2003 from a year earlier, after a decline of 0.1% in the first quarter. For the first half of 2003 as a whole, there was a decrease of 0.2%. This was distinctly narrowed from the 3.0% fall in the second half of 2002. To a large extent, import prices were boosted by the weaker US dollar and higher world commodity prices in recent months.

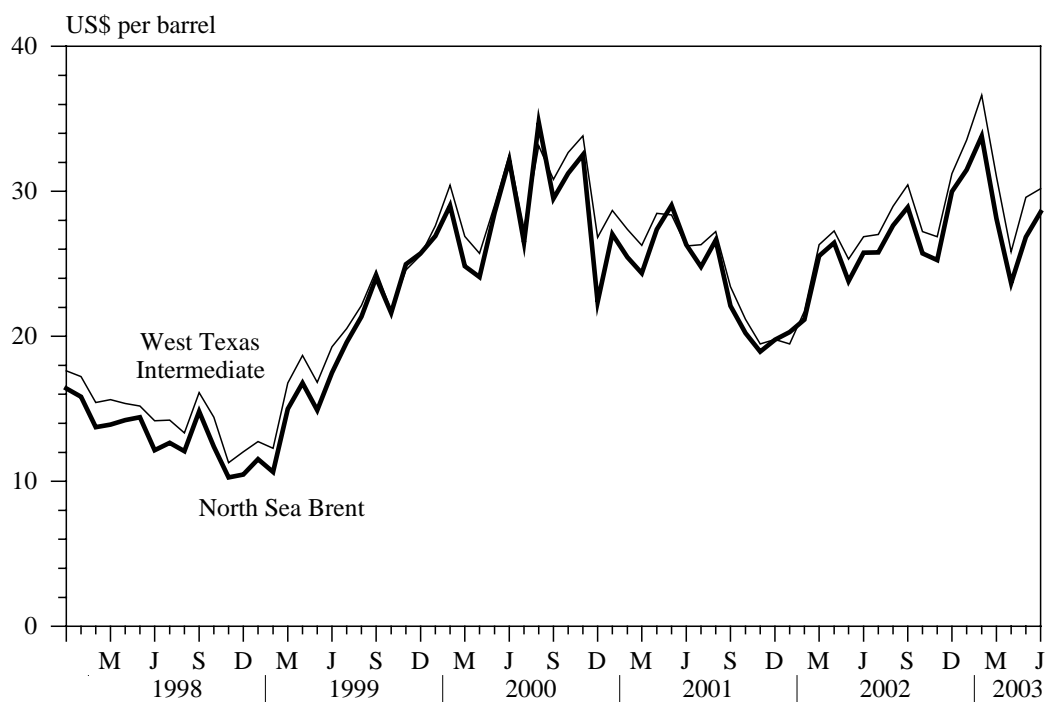
6.8 Analysed by major *source* and on a year-on-year comparison, the prices of goods imported from Japan went up by 2.9% in the second quarter of 2003, following an increase of 3.3% in the first quarter. This was mainly underpinned by a strengthening in the Japanese yen against the US dollar and hence the Hong Kong dollar over the past year or so. The prices of goods imported from the Mainland reverted to increase, by 0.1% in the second quarter of 2003, from a fall of 1.0% in the first quarter. This was mainly attributable to a renewed pick-up in the prices of consumer goods from the Mainland, which constituted about half of the total value of goods imported from there. On the other hand, the prices of goods imported from the United States fell by 1.4% in the second quarter of 2003, with the decrease concentrated in the prices of consumer goods and of raw materials and semi-manufactures. This followed a 2.6% decline in the first quarter. The prices of goods imported from Taiwan edged lower by 0.3% in the second quarter of 2003, reversing the 1.1% increase in the first quarter. Accentuated decline in the prices of foodstuffs and capital equipment imported from Taiwan largely contributed.

/Table 6.4

Table 6.4**World commodity prices
(year-on-year rate of change (%))**

		<i>Of which :</i>				
		<u>Fuels</u>	<u>All non-fuel commodities</u>	<u>Food and beverages</u>	<u>Agricultural raw materials</u>	<u>Metals</u>
2002	Annual	-0.2	0.6	2.2	1.6	-2.7
	H1	-14.8	-5.9	-3.1	-9.5	-7.4
	H2	17.2	7.5	7.4	14.2	2.4
	Q1	-21.4	-7.0	-3.7	-10.7	-9.3
	Q2	-8.3	-4.7	-2.5	-8.5	-5.4
	Q3	4.7	3.1	2.3	9.3	-0.3
	Q4	33.2	12.1	13.0	19.5	5.3
2003	H1	25.2	8.7	11.1	9.5	4.1
	Q1	46.6	10.6	13.0	12.9	4.8
	Q2	7.2	6.9	9.3	6.5	3.4

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 (%))**

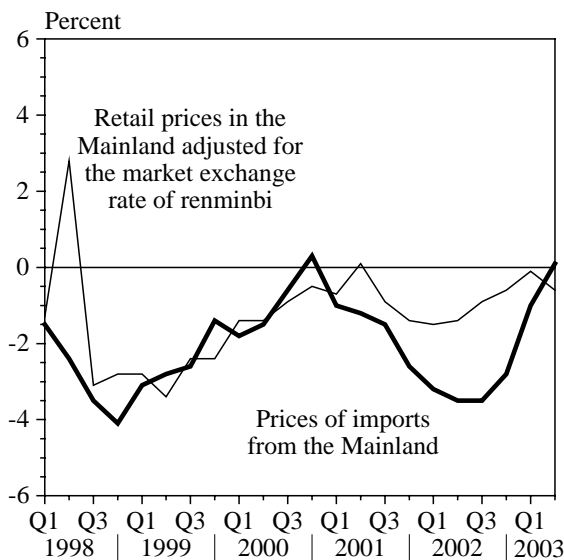
		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2002	Annual	-3.3	-3.7	-3.5	-5.0	-3.9
	H1	-3.4	-6.1	-5.4	-5.3	-4.8
	H2	-3.2	-1.3	-1.7	-4.6	-3.0
	Q1	-3.2	-7.0	-6.4	-5.1	-4.9
	Q2	-3.5	-5.4	-4.4	-5.6	-4.6
	Q3	-3.5	-2.1	-2.7	-4.6	-3.6
	Q4	-2.8	-0.5	-0.6	-4.5	-2.3
2003	H1	-0.4	3.1	0.3	-2.0	-0.2
	Q1	-1.0	3.3	1.1	-2.6	-0.1
	Q2	0.1	2.9	-0.3	-1.4	-0.3

/Diagram 6.7

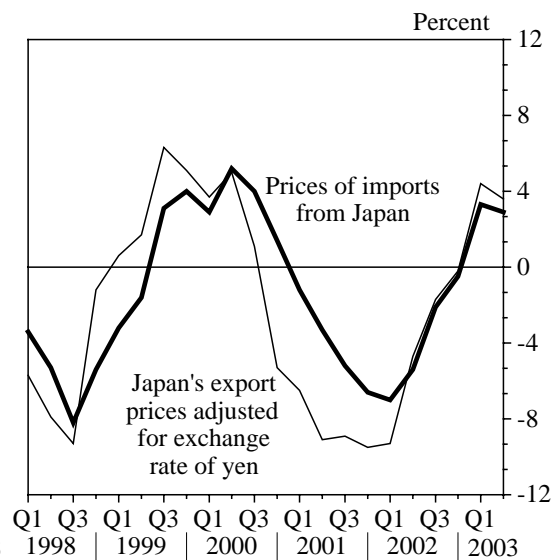
Diagram 6.7

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

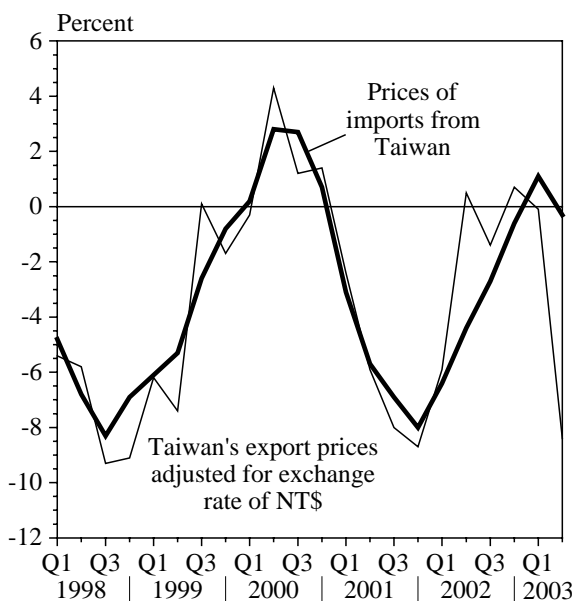
(a) For imports from the mainland of China



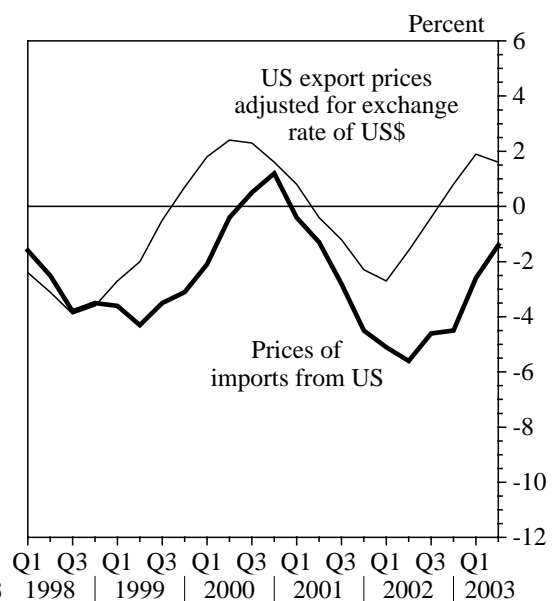
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



6.9 The *prices of retained imports*, as measured by the unit value index of retained imports, moved higher by 2.8% in the second quarter of 2003 over a year earlier, having ascended by 1.9% in the first quarter. For the first half of 2003 as a whole, there was an increase of 2.4%, in contrast to a 7.6% dip in the second half of 2002.

6.10 Analysed by *end-use category* and on a year-on-year comparison, the prices of retained imports of fuels went up by 8.9% in the second quarter of 2003. Yet this was smaller than the surge of 37.3% in the first quarter, along with the moderation in international crude oil price in the more recent months. The prices of retained imports of consumer goods increased by 7.2% in the second quarter, much enlarged from the 2.1% rise in the first quarter, on account of a further pick-up in the prices of imported travel goods, motor vehicles, and watches and clocks. The prices of retained imports of raw materials and semi-manufactures also showed an accelerated increase, to 4.0% in the second quarter, from 2.3% in the first quarter, mainly reflecting an upsurge in the prices of imported textiles and plastic materials. The prices of retained imports of foodstuffs turned up to a 1.3% rise in the second quarter, from a 0.2% fall in the first quarter, partly due to renewed increase in the prices of foodstuffs imported from some major sources other than the Mainland. On the other hand, the prices of retained imports of capital goods went down by 5.1% in the second quarter, further to a 6.1% decrease in the first quarter. This was mainly attributable to a sharp fall in the prices of imported telecommunications equipment.

/Table 6.6

Table 6.6

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

		<u>Food-stuffs</u>	<u>Consumer goods</u>	<u>Fuels</u>	<u>Raw materials and semi-manufactures</u>	<u>Capital goods</u>	<u>All categories</u>
2002	Annual	-4.1	-9.5	0.5	-9.5	-11.4	-9.7
	H1	-5.9	-9.6	-10.7	-12.4	-11.8	-11.7
	H2	-2.4	-9.4	11.8	-6.2	-10.9	-7.6
	Q1	-6.0	-9.6	-15.7	-12.0	-11.0	-11.6
	Q2	-5.8	-9.5	-6.9	-12.6	-12.7	-11.7
	Q3	-3.2	-9.5	0.1	-9.5	-11.4	-9.6
	Q4	-1.6	-9.3	25.6	-2.5	-10.2	-5.5
2003	H1	0.5	4.8	21.5	3.3	-5.5	2.4
	Q1	-0.2	2.1	37.3	2.3	-6.1	1.9
	Q2	1.3	7.2	8.9	4.0	-5.1	2.8

Prices of key inputs

6.11 On *labour cost*, wages and earnings continued to drift lower, by 1.5% in money terms in March 2003 and by 2.0% in money terms in the first quarter of 2003 from a year earlier respectively, amidst a further slackening in labour market conditions. On *property cost*, the prices of office space, shopping space and conventional flatted factory space all went down distinctly, by an average of 11.4%, 4.7% and 4.5% respectively in the second quarter of 2003 over the fourth quarter of 2002. So did the corresponding rentals, by an average of 7.1%, 7.8% and 6.8%. On *capital equipment and material costs*, the prices of retained imports of capital goods were lower by 5.5% in the first half of 2003 from a year earlier, yet the prices of retained imports of raw materials and semi-manufactures turned up to an increase of 3.3%. On the whole, there was a further easing in the overall cost of doing business in Hong Kong.

/Prices

Prices of local manufacturing output

6.12 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁶⁾, remained on a downtrend, falling by 1.3% in the first quarter of 2003 over a year earlier. Yet this was smaller than the 2.4% decrease in the fourth quarter of 2002. Analysed by major *industry group* and on a year-on-year comparison, output prices in the fabricated metal products and the machinery and equipment industries had relatively larger declines, by 3.5% and 3.3% respectively in the first quarter of 2003. This was followed by output prices in the paper products and printing industry (down by 2.1%), the consumer electrical and electronic products industry (1.5%), the wearing apparel industry (0.8%), and the textiles industry (0.8%). On the other hand, output prices in the plastic products industry reverted to a mild increase, by 0.8%.

Table 6.7

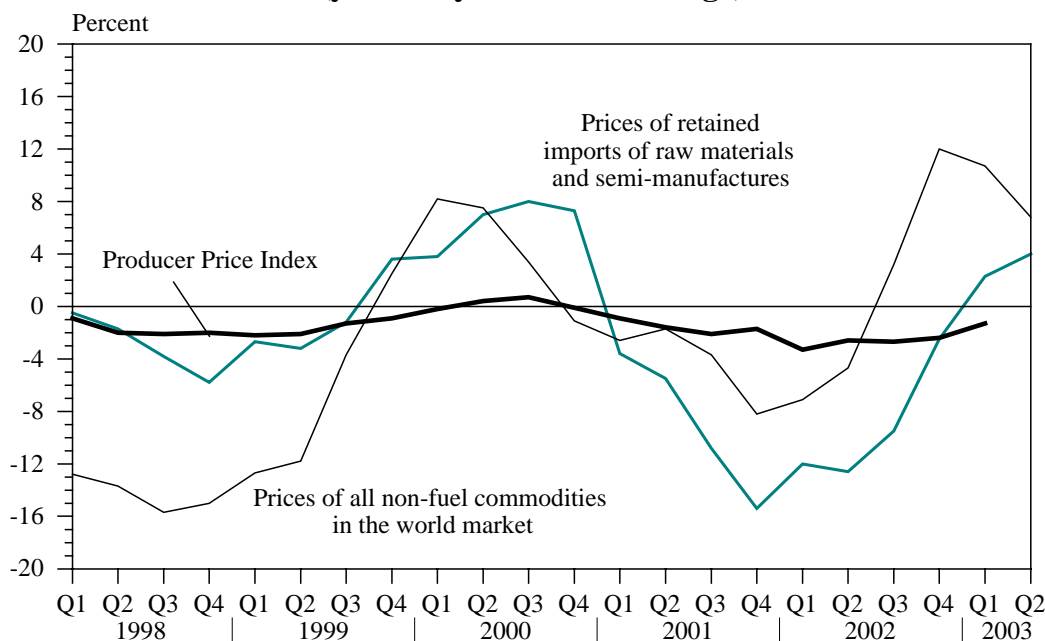
Producer Price Index for the local manufacturing sector (year-on-year rate of change (%))

	<u>2002</u>					<u>2003</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Industry group</u>						
Wearing apparel	-3.5	-3.2	-4.1	-3.6	-2.9	-0.8
Textiles	-1.3	-1.8	-1.8	-1.1	-0.7	-0.8
Plastic products	-2.8	-1.7	-1.5	-4.1	-3.7	0.8
Consumer electrical and electronic products	-4.7	-4.4	-5.7	-4.5	-4.2	-1.5
Machinery and equipment	-5.1	-3.8	-5.2	-5.5	-5.9	-3.3
Fabricated metal products	-2.6	-3.1	-2.5	-2.0	-2.6	-3.5
Paper products and printing	-2.4	-2.6	-1.7	-2.0	-3.2	-2.1
Overall manufacturing	-2.8	-3.3	-2.6	-2.7	-2.4	-1.3

/Diagram 6.8

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 of output in selected service sectors

6.13 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, continued to show mixed movement. Output prices in telecommunications sank further, by 8.9% in the first quarter of 2003 from a year earlier, following an 11.0% drop in the fourth quarter of 2002. Substantial cuts in the charges for international calls and Internet services, as well as in the prices of mobile phone sets and related items, were the major contributory factors. Output prices in land transport eased slightly, by 0.6% in the first quarter of 2003, mainly due to lower charges for freight transport. This followed a decrease of 2.1% in the fourth quarter of 2002. On the other hand, output prices in miscellaneous communications services rose distinctly further, by 7.1% in the first quarter of 2003 over a year earlier, after a 9.8% surge in the fourth quarter of 2002. This was largely attributable to continued upward adjustment in the charges for international courier services. Output prices in maritime transport and air transport also ascended, by 5.5% and 1.8% respectively in the first quarter of 2003, following increases of 0.9% and 7.1% in the fourth quarter of 2002. Robust growth in cargo forwarding services amidst continued buoyancy in external trade largely contributed. Output prices in hotels and boarding houses were lifted by 9.3% in the fourth quarter of 2002 and then by 1.3% in the first quarter of 2003, upon upward adjustment in hotel room tariffs just before the outbreak of SARS in mid-March.

/Table 6.8

Table 6.8

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

<u>Selected service sector</u>	<u>2002</u>					<u>2003</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Hotels and boarding houses	-1.1	-5.8	-4.2	-3.6	9.3	1.3
Land transport	-1.9	-1.4	-2.0	-2.1	-2.1	-0.6
Maritime transport	-3.0	-9.4	-5.5	2.9	0.9	5.5
Air transport	0.3	-5.5	-3.4	3.4	7.1	1.8
Telecommunications	-18.6	-21.7	-24.5	-15.5	-11.0	-8.9
Miscellaneous communications services	3.9	0.4	0.1	5.1	9.8	7.1

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 prices

6.14 Export prices generally remained soft, amidst keen competition in the overseas market. The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, edged lower by 1.4% in the second quarter of 2003 from a year earlier, following a 0.9% fall in the first quarter. For the first half of 2003 as a whole, there was a 1.1% decrease, which was nevertheless smaller than that of 2.4% in the second half of 2002. This narrowed decrease was attributable in part to improved import demand in some of the major overseas markets. Within the total, the prices of domestic exports bounced up, by 0.8% in the first half of 2003 over a year earlier, while the prices of re-exports had a moderated decline, by 1.3%.

/6.15

6.15 Analysed by major *market* and on a year-on-year comparison, the prices of total exports of goods fell virtually across-the-board. Specifically, the prices of total exports of goods to Singapore dropped by 3.1% in the second quarter of 2003, almost doubled the 1.6% decrease in the first quarter. This was mainly due to an accentuated fall in the prices of capital equipment, particularly those of office equipment and construction machinery, exported to that market. The prices of total exports of goods to Germany and the United Kingdom declined by 2.9% and 1.7% respectively in the second quarter, also larger than the decreases of 2.3% and 1.0% in the first quarter. Generally softer prices of capital equipment and of raw materials and semi-manufactures exported to the two markets largely contributed. The prices of total exports of goods to Japan fell by 1.2% in the second quarter, broadly similar to the 1.1% decrease in the first quarter. The prices of total exports of goods to the Mainland reverted to decline, by 1.0% in the second quarter, after a 0.1% rise in the first quarter. As to the prices of total exports of goods to the United States, the decline in the second quarter, at 0.6%, was moderated from that in the first quarter, at 1.3%.

Table 6.9

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

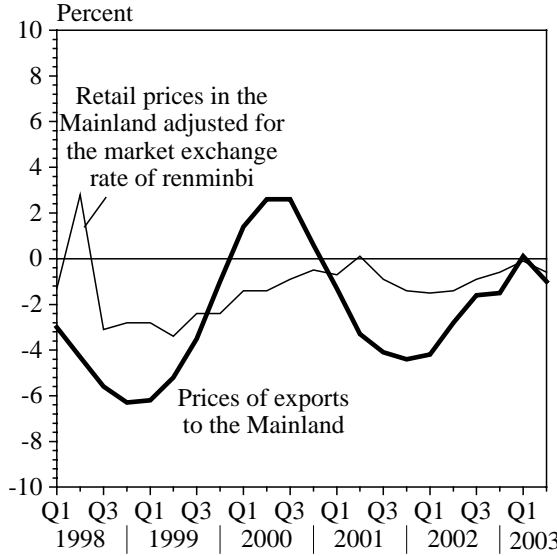
		United States	Mainland of China	Germany	United Kingdom	Japan	Singapore	All markets
2002	Annual	-2.6	-2.5	-3.2	-2.5	-3.2	-3.9	-2.7
	H1	-2.2	-3.5	-3.4	-3.0	-3.5	-4.2	-3.1
	H2	-2.9	-1.6	-2.9	-2.1	-2.9	-3.4	-2.4
	Q1	-1.9	-4.2	-4.0	-3.6	-3.5	-4.8	-3.4
	Q2	-2.4	-2.8	-2.8	-2.3	-3.4	-3.5	-2.7
	Q3	-3.2	-1.6	-2.8	-2.3	-2.7	-3.1	-2.4
	Q4	-2.6	-1.5	-3.0	-1.9	-3.0	-3.6	-2.3
2003	H1	-0.9	-0.5	-2.6	-1.4	-1.1	-2.4	-1.1
	Q1	-1.3	0.1	-2.3	-1.0	-1.1	-1.6	-0.9
	Q2	-0.6	-1.0	-2.9	-1.7	-1.2	-3.1	-1.4

/Diagram 6.9

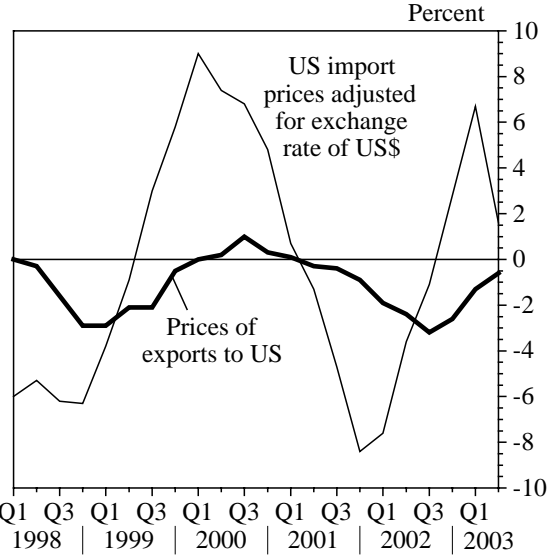
Diagram 6.9

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

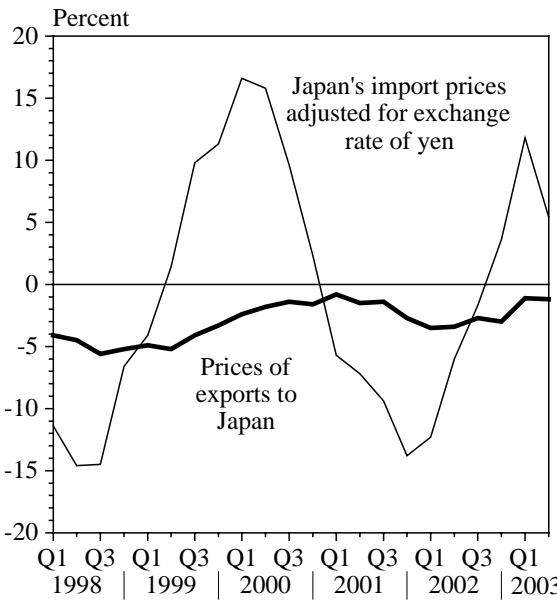
**(a) For exports to the
mainland of China**



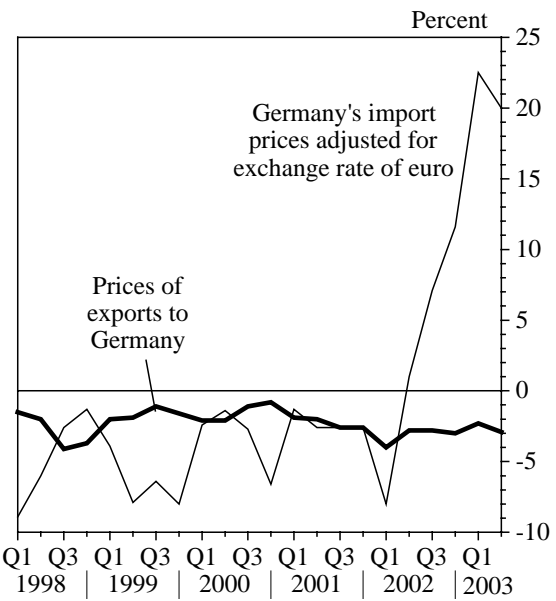
(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



/Terms

Terms of trade

6.16 As the prices of imports of goods fell by less than the prices of total exports of goods, the terms of trade in goods⁽⁷⁾ for Hong Kong went down by 1.1% in the second quarter of 2003 from a year earlier. This followed a decrease of 0.8% in the first quarter, giving a 1.0% decline for the first half of 2003 as a whole.

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> (%)
2002	Annual	102.1	1.2
	H1	102.3	1.8
	H2	101.9	0.7
	Q1	102.2	1.6
	Q2	102.5	2.0
	Q3	102.1	1.2
	Q4	101.7	*
	2003	H1	101.4
Q1		101.4	-0.8
Q2		101.3	-1.1

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

/Diagram 6.10

Diagram 6.10

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

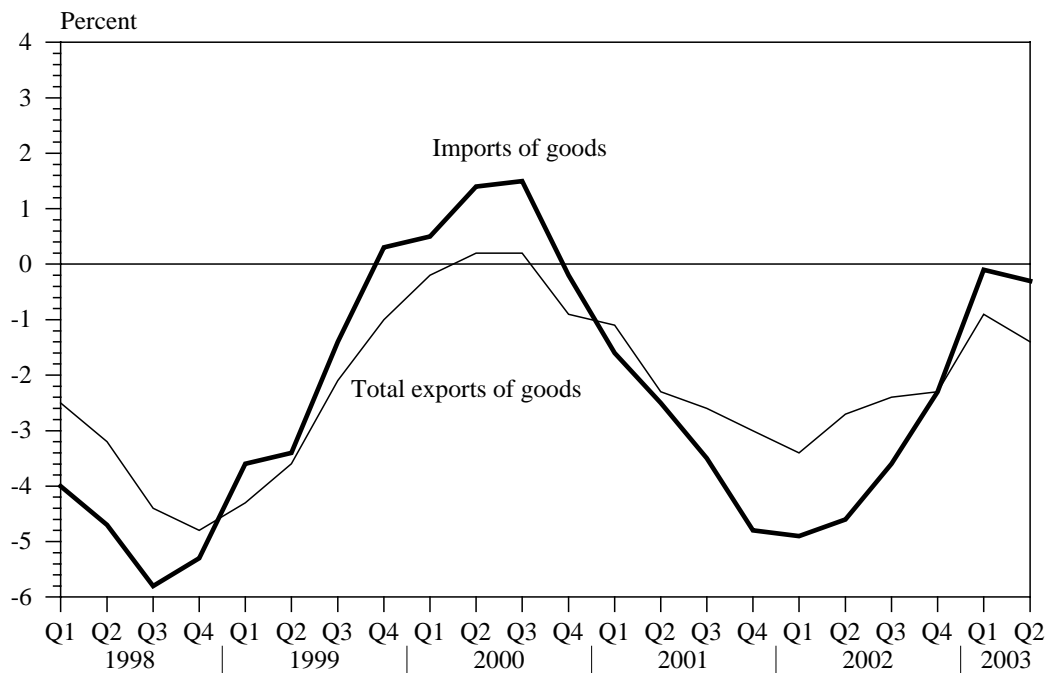
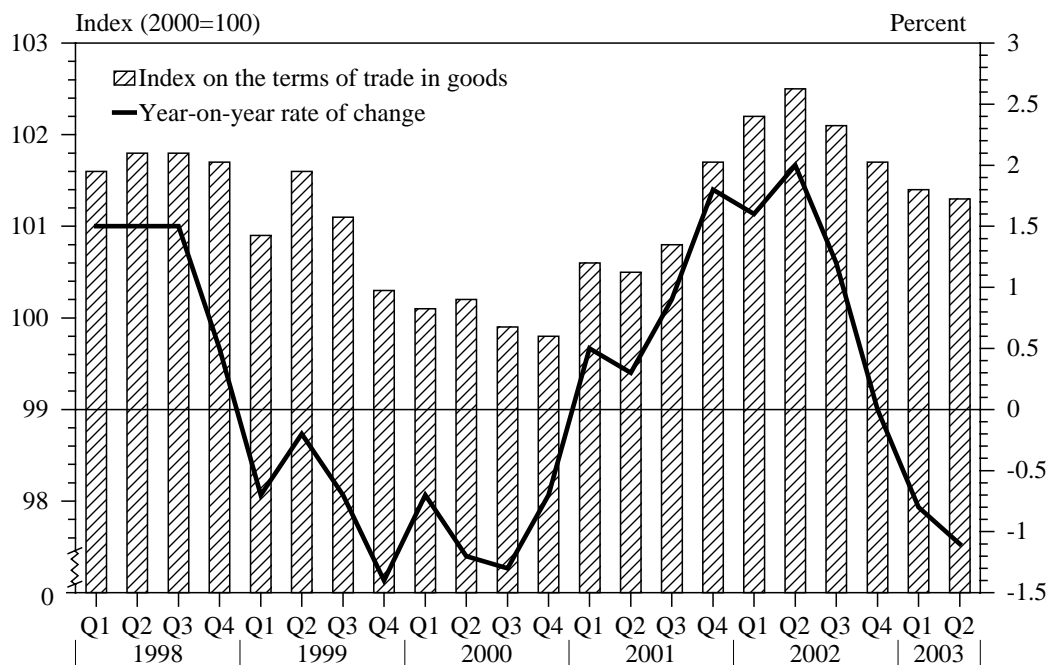


Diagram 6.11

Terms of trade in goods



/GDP

GDP deflator

6.17 The *GDP deflator*⁽⁸⁾, as a broad measure of overall price change in the economy, declined by 5.5% in the second quarter of 2003 from a year earlier, larger than the 4.6% drop in the first quarter. This was mainly due to enlarged declines in the terms of trade in goods and services, in the price deflator for private consumption expenditure, and in the price deflator for government consumption expenditure. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* likewise showed accentuated declines, by 4.1% and 2.8% respectively in the second quarter of 2003 from a year earlier, as compared to the corresponding decreases of 3.9% and 2.1% in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator went down further by 1.7% in the second quarter of 2003, following a 1.4% decrease in the first quarter.

/Table 6.11

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

	<u>2001#</u>	<u>2002#</u>	<u>2002</u>				<u>2003</u>	
			<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>Q2+</u>
Private consumption expenditure	-1.2	-3.8	-3.2	-3.8	-4.0	-4.1	-2.8	-3.2
Government consumption expenditure	1.1	-0.5	1.4	-0.6	-0.7	-2.6	-2.5	-3.5
Gross domestic fixed capital formation	-6.6	-8.1	-7.4	-8.5	-9.2	-7.5	-6.8	-6.5
Total exports of goods	-2.6	-2.9	-3.8	-3.0	-2.7	-2.4	-1.3	-1.8
Imports of goods	-3.5	-4.2	-5.2	-4.9	-3.9	-2.6	-0.8	-0.8
Exports of services	-4.0	-1.9	-4.3	-2.4	-0.6	-0.5	-0.7	-3.4
Imports of services	-1.5	0.2	-2.4	*	1.4	2.0	3.4	1.6
Gross Domestic Product	-1.9	-3.0	-2.3 <-0.7>	-2.2 <-0.8>	-3.1 <-0.9>	-4.1 <-1.6>	-4.6 <-1.4>	-5.5 <-1.7>
Total final demand	-2.7	-3.5	-3.9	-3.6	-3.3	-3.1	-2.1	-2.8
Domestic demand	-2.5	-4.6	-3.6	-4.7	-5.1	-5.1	-3.9	-4.1

Notes : (#) Revised figures.

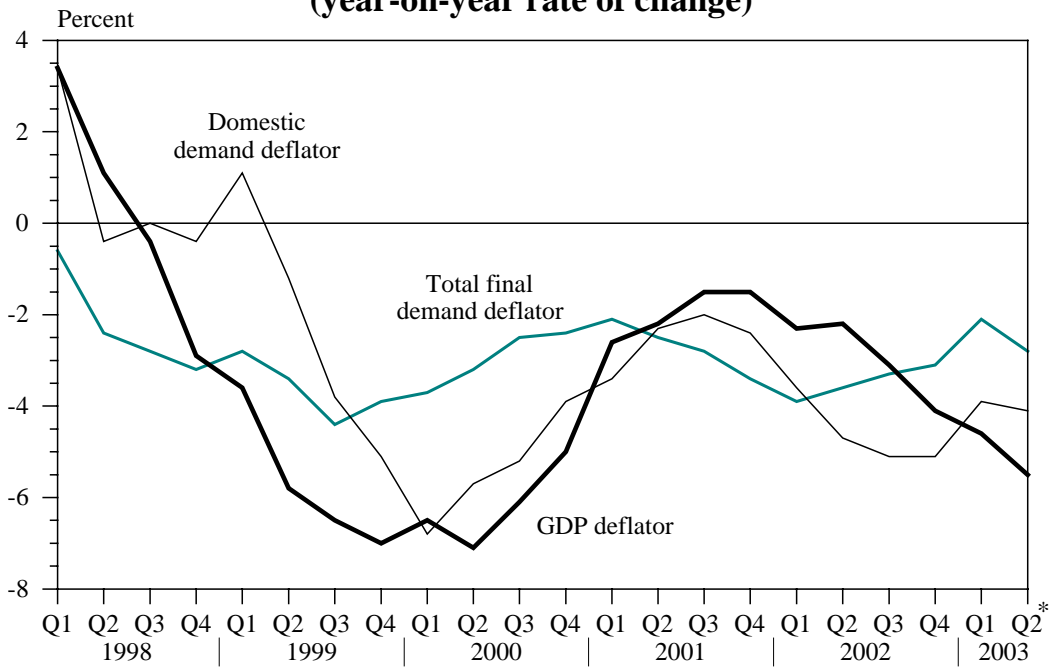
(+) Preliminary figures.

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

(*) Change of less than 0.05%.

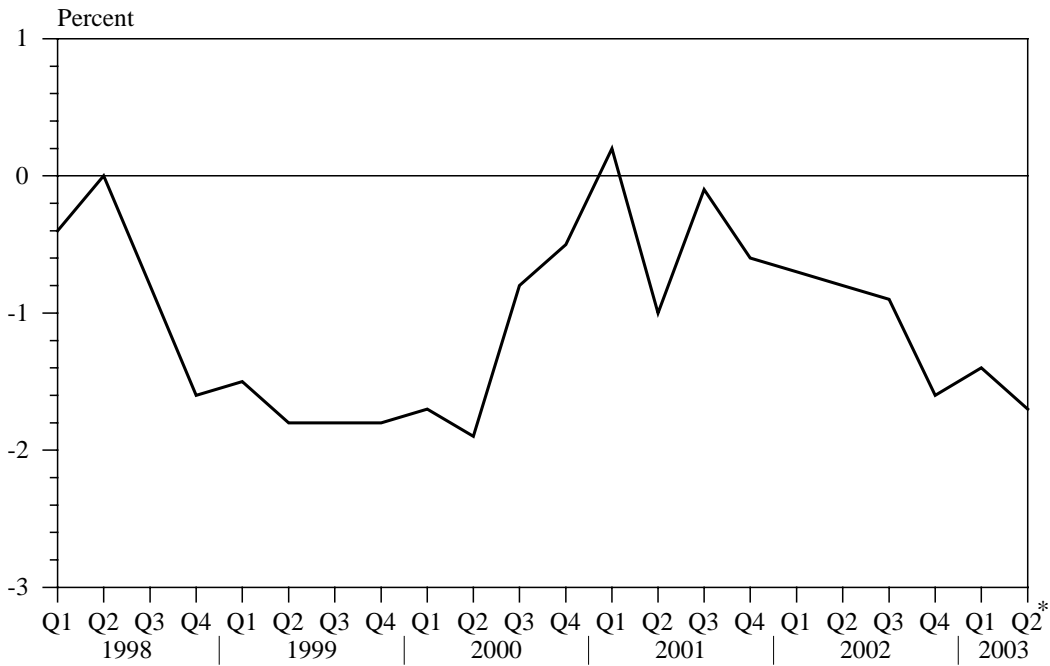
/Diagram 6.12

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



Notes : (*) Preliminary figures.

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



Notes : (*) 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>	<i>16.39</i>	<i>17.94</i>	<i>17.20</i>	<i>13.28</i>
<i>Other foodstuffs</i>	<i>10.28</i>	<i>13.94</i>	<i>8.74</i>	<i>8.10</i>
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	<i>24.59</i>	<i>21.76</i>	<i>25.48</i>	<i>26.67</i>
<i>Public dwellings</i>	<i>2.07</i>	<i>5.08</i>	<i>1.03</i>	<i>--</i>
<i>Maintenance costs and other housing charges</i>	<i>3.25</i>	<i>2.29</i>	<i>3.17</i>	<i>4.55</i>
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) The Chief Executive in his 2001 Policy Address announced that a concession on rates payable for 2002 was to be granted by a maximum of \$2,000 per household. The Financial Secretary in his 2002/03 Budget further announced that the maximum amount of reduction in rates payable for 2002 was to be raised to \$5,000. These two rounds of rates concession taken together had the effect of lowering the Composite CPI by 0.9 of a percentage point in 2002. Owing to different weightings attached to the rates payment and different impacts of these two successive rounds of concessions on households in the various expenditure ranges, the dampening effects on the three sub-indices varied. Specifically, the CPI(A) was lowered by 1.2 percentage points, the CPI(B) by 0.9 of a percentage point, and the CPI(C) by 0.6 of a percentage point.

/(3)

- (3) As announced by the Financial Secretary in the 2002/03 Budget, water and sewage charges for domestic households were to be waived for one year as from April 2002, 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 2002. Reflecting relatively greater effect on the lower income households, the corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.3, 0.2 and 0.1 of a percentage point.
- (4) A special one-off rebate of electricity charges, at half of the electricity consumption in March 2003 with a maximum of \$200 per user account, was granted by a power company in the billing period of June-July 2003.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit prices deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

/The

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 plus imports and 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 imports and exports.

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	
	2001 [#]	2002 [#]	2001 [#]	2002 [#]
Private consumption expenditure	746,856 (0.3)	709,231 (-5.0)	756,266 (1.6)	746,311 (-1.3)
Government consumption expenditure	128,863 (7.3)	131,199 (1.8)	127,432 (6.1)	130,479 (2.4)
Gross domestic fixed capital formation	333,115 (-4.1)	292,595 (-12.2)	356,650 (2.7)	341,189 (-4.3)
<i>of which</i> : Building and construction	142,651 (-8.2)	135,361 (-5.1)	153,720 (-1.1)	155,636 (1.2)
Machinery, equipment and computer software	180,090 (-0.1)	147,798 (-17.9)	191,402 (6.2)	173,993 (-9.1)
Change in inventories	-4,060	2,417	-4,889	2,880
Total exports of goods	1,480,987 (-5.8)	1,562,121 (5.5)	1,520,244 (-3.3)	1,651,945 (8.7)
Domestic exports	153,520 (-15.2)	131,079 (-14.6)	162,588 (-10.2)	144,376 (-11.2)
Re-exports	1,327,467 (-4.6)	1,431,041 (7.8)	1,357,656 (-2.4)	1,507,569 (11.0)
<i>less</i> Imports of goods ^(a)	1,549,222 (-5.3)	1,601,527 (3.4)	1,605,267 (-1.9)	1,732,470 (7.9)
Exports of services	325,889 (2.6)	357,147 (9.6)	339,393 (6.9)	379,199 (11.7)
<i>less</i> Imports of services	192,453 (0.5)	193,412 (0.5)	195,447 (2.0)	195,883 (0.2)
Total expenditure on GDP	1,269,975 (-1.4)	1,259,771 (-0.8)	1,294,382 (0.5)	1,323,650 (2.3)
Per capita GDP ^(b) (\$)	188,847 (-2.3)	185,615 (-1.7)	192,476 (-0.4)	195,027 (1.3)
Implicit Price Deflator (2000=100)	Index for 2001	% change over 2000	Index for 2002	% change over 2001
GDP	98.1	-1.9	95.2	-3.0
Total final demand ^(c)	97.3	-2.7	93.9	-3.5
Domestic demand ^(d)	97.5	-2.5	93.0	-4.6

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 figures.

**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	174	-21.5	-27.8	*	*
Manufacturing	71,655	63,519	6.1	-11.4	5.8	5.2
Electricity, gas and water	38,853	40,126	4.4	3.3	3.2	3.3
Construction	64,026	58,971	-4.8	-7.9	5.2	4.9
Services	1,053,202	1,051,562	4.9	-0.2	85.7	86.5
Wholesale, retail and import/ export trades, restaurants and hotels	324,622	324,654	9.6	*	26.4	26.7
Transport, storage and communications	125,724	124,260	11.6	-1.2	10.2	10.2
Financing, insurance, real estate and business services	291,062	274,030	3.4	-5.9	23.7	22.5
Community, social and personal services	252,435	265,081	2.6	5.0	20.5	21.8
Ownership of premises	155,303	159,118	-4.4	2.5	12.6	13.1
<i>less</i> Adjustment for financial intermediation services indirectly measured	95,945	95,582	1.4	-0.4	7.8	7.9
GDP at factor cost	1,228,897	1,215,354	4.3	-1.1	100.0	100.0
Taxes on production and imports	57,908	53,917	8.3	-6.9		
Statistical discrepancy (%)	0.1	0.1	--	--		
GDP at current market prices	1,288,338	1,269,975	3.4	-1.4		

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

(#) Revised figures.

(*) Less than 0.05%.

(--) Not applicable.

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

Economic activity	(HK\$ million)					
	<u>2002[#]</u>	<u>2002[#]</u>				<u>2003[#]</u>
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Agriculture and fishing	997 (4.1)	246 (3.4)	262 (6.9)	226 (2.7)	264 (3.5)	253 (2.8)
Mining and quarrying	179 (-13.5)	40 (-23.1)	40 (-20.0)	38 (-30.9)	60 (20.0)	43 (7.5)
Manufacturing	59,107 (-9.8)	13,434 (-11.6)	14,967 (-11.2)	15,953 (-7.3)	14,753 (-9.2)	12,252 (-8.8)
Electricity, gas and water	41,030 (3.0)	8,506 (1.2)	10,632 (6.9)	12,157 (2.9)	9,736 (0.7)	8,868 (4.3)
Construction	60,677 (-1.0)	14,876 (-1.7)	14,128 (3.2)	15,156 (2.4)	16,516 (-6.4)	14,400 (-3.2)
Services	1,104,002 (3.1)	257,084 (*)	264,713 (1.5)	286,422 (4.3)	295,783 (6.4)	271,370 (5.6)
Wholesale, retail and import/ export trades, restaurants and hotels	341,835 (5.1)	73,724 (-2.8)	76,012 (0.5)	94,063 (6.9)	98,035 (14.5)	84,331 (14.4)
Transport, storage and communications	133,498 (4.0)	31,263 (0.2)	31,988 (3.6)	35,141 (5.5)	35,106 (6.2)	32,458 (3.8)
Financing, insurance, real estate and business services	292,640 (0.9)	70,361 (-1.5)	73,282 (0.9)	73,417 (1.6)	75,579 (2.5)	72,250 (2.7)
Community, social and personal services	264,266 (0.7)	63,886 (1.0)	66,359 (0.3)	65,450 (1.1)	68,570 (0.5)	63,648 (-0.4)
Ownership of premises	164,468 (2.1)	40,889 (2.8)	40,228 (1.4)	41,535 (2.1)	41,816 (1.9)	41,783 (2.2)
<i>less</i> Adjustment for financial intermediation services indirectly measured	92,705 (-4.1)	23,040 (-5.4)	23,156 (-4.3)	23,184 (-4.8)	23,325 (-1.6)	23,099 (0.3)
Taxes on production and imports	57,768 (0.8)	15,002 (-0.1)	15,403 (1.2)	12,531 (-0.6)	14,833 (2.6)	14,833 (-1.1)
Statistical discrepancy (%)	*	0.1	-0.7	0.1	0.4	0.5
GDP at constant (2000) market prices	1,323,650 (2.3)	309,548 (-0.6)	317,857 (0.8)	342,983 (3.4)	353,262 (5.1)	323,628 (4.5)

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.

(*) Less than 0.05%.

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

(HK\$ million)

Income component	<u>2002</u>		<u>2002</u>				<u>2003</u>
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
(At current market prices)							
Direct investment income							
Inflow total	165,164	(-2.0)	39,744	38,871	49,463	37,086	42,497
Banking	8,539	(4.7)	1,683	2,233	2,315	2,309	1,594
Others ^(a)	156,625	(-2.3)	38,061	36,639	47,148	34,777	40,903
Outflow total	230,854	(-5.7)	52,818	55,775	66,561	55,699	53,510
Banking	61,322	(-2.9)	16,581	16,984	13,560	14,197	12,439
Others ^(a)	169,532	(-6.7)	36,237	38,792	53,001	41,502	41,071
Portfolio investment income							
Inflow total	93,499	(-2.9)	25,160	22,622	24,723	20,995	25,673
Banking	26,394	(-2.5)	5,769	6,626	6,704	7,296	7,156
Others ^(a)	67,105	(-3.1)	19,391	15,996	18,019	13,699	18,516
Outflow total	27,014	(0.7)	4,838	10,215	5,563	6,398	3,652
Banking	4,195	(-8.2)	1,700	749	1,363	382	1,648
Others ^(a)	22,820	(2.5)	3,138	9,466	4,200	6,016	2,004
Other investment income							
Inflow total	65,421	(-45.4)	17,502	16,613	15,638	15,669	13,025
Banking	56,255	(-45.1)	15,142	14,208	13,304	13,602	11,076
Others ^(a)	9,166	(-47.2)	2,360	2,405	2,334	2,067	1,949
Outflow total	38,793	(-45.9)	9,971	9,978	9,600	9,244	8,083
Banking	32,180	(-49.7)	8,748	8,280	8,094	7,058	6,946
Others ^(a)	6,613	(-15.0)	1,223	1,698	1,506	2,186	1,137
Compensation of employees							
Inflow total	15	(-50.0)	6	4	3	2	2
Outflow total	15	(-50.0)	6	4	3	2	2
Total EFIF							
Inflow total	324,099	(-15.7)	82,412	78,110	89,826	73,751	81,196
Outflow total	296,676	(-13.6)	67,633	75,973	81,726	71,344	65,246
Net flow total	27,423		14,779	2,137	8,099	2,408	15,950
(At current market prices)							
GNP (\$ million) [#]	1,287,194	(-1.8)	313,098	308,360	332,776	332,959	313,792
Per capita GNP (\$) [#]	189,656	(-2.7)	--	--	--	--	--
(At constant (2000) market prices)							
GNP (\$ million) [#]	1,353,136	(1.2)	325,294	320,154	351,787	355,901	341,311
Per capita GNP (\$) [#]	199,372	(0.3)	--	--	--	--	--

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

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

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

(#) Revised figures.

(--) Not applicable.

Table 5 Balance of payments account

(HK\$ million)

Standard components						
	<u>2002[#]</u>	<u>2002</u>				<u>2003</u>
		1st Qtr [#]	2nd Qtr [#]	3rd Qtr [#]	4th Qtr [#]	1st Qtr [#]
Current account ⁽¹⁾	137,277	30,034	19,943	41,993	45,306	36,494
Trade in goods	-39,406	-12,444	-16,381	-4,979	-5,603	-15,985
Exports	1,562,121	326,087	373,691	435,519	426,824	383,436
Imports	-1,601,527	-338,531	-390,072	-440,498	-432,427	-399,421
Trade in services	163,735	31,160	37,805	42,695	52,075	40,660
Exports	357,147	78,241	83,343	94,798	100,765	87,441
Imports	-193,412	-47,081	-45,538	-52,103	-48,690	-46,781
External factor income flows	27,423	14,779	2,137	8,099	2,408	15,950
Inflow	324,099	82,412	78,110	89,826	73,751	81,196
Outflow	-296,676	-67,633	-75,973	-81,726	-71,344	-65,246
Current transfers	-14,475	-3,461	-3,618	-3,822	-3,573	-4,131
Inflow	5,357	1,076	2,174	1,031	1,076	1,199
Outflow	-19,831	-4,537	-5,792	-4,853	-4,649	-5,330
Capital and financial account ⁽¹⁾	-191,417	-46,809	-30,363	-57,056	-57,189	-38,356
Capital transfers	-15,725	-2,998	-7,586	-1,912	-3,229	-1,948
Direct investment	-31,007	-10,139	15,254	-32,735	-3,387	3,016
Abroad	-137,993	-40,923	-29,503	-62,429	-5,138	-36,046
In HK	106,986	30,784	44,757	29,694	1,751	39,062
Portfolio investment	-290,749	7,056	-117,765	-82,478	-97,561	-54,803
Assets	-283,684	-13,435	-126,842	-60,200	-83,208	-59,387
Liabilities	-7,065	20,491	9,076	-22,279	-14,353	4,584
Financial derivatives	10,616	12,316	6,054	-5,706	-2,048	12,122
Assets	107,530	42,239	23,266	15,343	26,683	62,992
Liabilities	-96,914	-29,923	-17,212	-21,049	-28,731	-50,871
Other investment	116,906	-49,183	70,560	58,075	37,454	13,649
Assets	324,054	96,784	50,015	126,936	50,318	58,386
Liabilities	-207,147	-145,967	20,545	-68,862	-12,863	-44,738
Net change in reserve assets ⁽²⁾	18,541	-3,861	3,120	7,700	11,582	-10,392
Net errors and omissions	54,140	16,775	10,420	15,063	11,883	1,862
Overall balance of payments	-18,541 (in deficit)	3,861 (in surplus)	-3,120 (in deficit)	-7,700 (in deficit)	-11,582 (in deficit)	10,392 (in surplus)

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

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

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

(#) Revised figures.

**Table 6 Major economic indicators in the external sector
for the second quarter of 2003**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	390,349	9.3	14.4
Domestic exports	\$Mn	28,547	10.0	-11.4
Total exports of goods	\$Mn	418,896	9.3	12.2
Imports of goods	\$Mn	432,161	7.2	9.6
Visible trade balance	\$Mn	-13,265	--	--
<u>Unit value indices (2000 = 100)</u>				
Re-exports		94.1	-0.9	-1.6
<i>to :</i> Mainland of China		94.0	-0.9	-1.0
United States		95.8	-0.5	-1.6
Japan		94.2	-0.9	-0.9
United Kingdom		93.5	-1.1	-2.0
Germany		93.0	-0.7	-3.1
Domestic exports		92.3	-0.1	0.7
<i>to :</i> United States		99.4	1.2	6.2
Mainland of China		88.3	-0.9	-1.2
United Kingdom		95.0	0.6	0.4
Taiwan		82.6	-2.7	-0.5
Germany		88.1	0.3	-1.3
Imports of goods		92.6	-0.7	-0.3
<i>from :</i> Mainland of China		94.9	-0.3	0.1
Japan		94.2	0.1	2.9
Taiwan		90.3	-0.8	-0.3
United States		91.7	0.2	-1.4
Republic of Korea		85.8	-4.1	-4.0
<i>of :</i> Raw materials and semi-manufactures		91.3	*	0.6
Consumer goods		96.2	-0.3	1.0
Capital goods		89.6	-1.8	-3.7
Foodstuffs		91.3	0.7	-1.2
Fuels		98.7	-8.9	9.1

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 second quarter of 2003 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (2000 = 100)	101.3	-0.1	-1.1
<u>Quantum indices</u> (2000 = 100)			
Re-exports	120.6	10.5	17.0
<i>to :</i> Mainland of China	152.1	14.0	25.5
United States	91.6	13.2	-1.2
Japan	109.4	-1.6	19.2
United Kingdom	93.8	14.9	8.8
Germany	99.4	-0.5	26.9
Domestic exports	69.3	10.3	-12.6
<i>to :</i> United States	63.1	9.1	-20.3
Mainland of China	76.9	18.0	-14.6
United Kingdom	71.1	11.3	9.2
Taiwan	57.4	-12.2	-36.9
Germany	56.0	3.4	16.5
<i>of :</i> Textiles and clothing	77.9	14.7	-11.1
Products other than textiles and clothing	61.5	5.7	-14.3
Imports of goods	114.1	8.2	10.6
<i>from :</i> Mainland of China	112.4	12.7	10.3
Japan	109.0	4.4	10.8
Taiwan	108.4	9.6	4.3
United States	93.2	6.7	6.0
Republic of Korea	122.8	14.2	17.5
<i>of :</i> Raw materials and semi-manufactures	122.7	11.3	13.5
Consumer goods	100.8	6.2	3.8
Capital goods	125.6	10.2	19.1
Foodstuffs	88.5	-13.4	-7.4
Fuels	91.5	-5.2	-11.5

Table 7 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
Manufacturing sector (1st Qtr 2003)				
Index of Industrial Production (2000 = 100)		70.5	-18.1	-8.8
Property (2nd Qtr 2003)				
Completions of new property				
<i>for</i> : Residential	no. of units	6 411	27.7	2.2
Commercial	'000 sq. m	186	137.2	146.9
<i>of which</i> :				
Office space	'000 sq. m	159	397.8	199.1
Other commercial premises	'000 sq. m	27	-42.0	21.7
Industrial	'000 sq. m	0	-100.0	--
<i>of which</i> :				
Industrial-cum-office premises	'000 sq. m	0	-100.0	--
Flatted factory space	'000 sq. m	0	--	--
Storage premises	'000 sq. m	0	--	--
Floor area of building consents ^(a)				
<i>for</i> : Residential	'000 sq. m	199	-49.8	-39.2
Commercial	'000 sq. m	24	-1.4	-58.9
Industrial	'000 sq. m	0	--	-100.0
Others	'000 sq. m	121	85.9	670.7
Total	'000 sq. m	343	-29.2	-17.9
Building and construction				
Labour and Material Cost Index (Apr 2003) (mid-Feb 1970 = 100)		1 745	-0.4	-0.3
Tender Price Indices (1st Qtr 2003) (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		720	-1.8	4.8
Public housing projects		476	-3.8	-14.4
Electricity consumption (2nd Qtr 2003)				
<i>for</i> : Industrial	Mn KWh	1 110	23.6	-7.9
Commercial	Mn KWh	6 210	23.2	-2.9
Domestic	Mn KWh	2 271	44.6	-1.3
Gas consumption (2nd Qtr 2003)				
<i>for</i> : Industrial	Terajoule	242	-1.2	-6.2
Commercial	Terajoule	2 507	-14.7	-9.6
Domestic	Terajoule	4 307	-6.5	7.5

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

(a) Figures for June 2003 are based on crude early estimates by Building Department.

(--) Not applicable.

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
Transport				
Passenger journeys (2nd Qtr 2003)				
<i>by</i> : KMB	'000	241 443	-11.2	-15.5
NWFB	'000	41 616	-8.3	-15.9
City Bus	'000	46 392	-12.7	-15.0
New Lantau Bus	'000	2 081	-10.0	-2.1
Long Win Bus	'000	4 042	-17.2	-18.9
MTR	'000	167 715	-14.2	-9.9
KCR	'000	59 912	-16.5	-16.8
LRT	'000	23 739	-11.7	-18.3
Hong Kong Tramways	'000	18 529	-11.2	-14.7
New World First Ferry	'000	3 393	-3.0	-8.3
Star Ferry	'000	5 498	-21.0	-20.2
Private cars licensed				
new registration (2nd Qtr 2003)	no.	4 732	-26.5	-40.5
total licensed (end-Jun 2003)	no.	338 534	-0.5	-0.7
Air passenger movements (2nd Qtr 2003)	'000	1 930	-64.5	-66.0
Air cargo (2nd Qtr 2003)	'000 tonne	606	1.9	0.9
Ocean cargo (1st Qtr 2003)	'000 tonne	35 608	-1.5	17.3
Container throughput (1st Qtr 2003)	'000 TEUs	4 693	-7.4	15.4
Tourism				
Arrivals of incoming visitors (2nd Qtr 2003)	'000	1 646	-61.7	-57.9
Departures of Hong Kong residents (2nd Qtr 2003)	'000	12 346	-19.2	-21.4
<i>to</i> : Mainland of China	'000	10 688	-19.0	-21.4
Macau	'000	856	-12.5	-15.4
Other countries	'000	802	-27.4	-26.3
Hotel rooms (end-Jun 2003)	no.	41 987	-1.9	-1.8
Hotel room occupancy rate (2nd Qtr 2003)	%	25	-69.4	-70.3
Telecommunications (end-Jun 2003)				
Telephone lines	Mn	3.8	-0.5	-1.6
<i>for</i> : Residential users	Mn	2.1	-0.1	-0.5
Business users	Mn	1.7	-1.0	-3.1
Facsimile lines	'000	515	-3.4	26.1
Public mobile radiotelephone services customers	'000	6 480	1.3	11.2

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

**Table 8 Major economic indicators in the financial sector
as at end-June 2003**

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		100.8	-1.1	-1.8
import-weighted		102.0	-0.8	-1.1
export-weighted		99.6	-1.3	-2.4
HK\$/US\$ interbank T/T rate	HK\$	7.797	*	*
<u>Interest rate</u>				
3-month HIBOR	%	1.03	--	--
Savings rate	%	0.03	--	--
Best lending rate	%	5.00	--	--
<u>Monetary statistics</u>				
Money supply :				
M1	\$Mn	321,238	7.1	19.8
M2	\$Mn	3,583,632	2.2	2.4
M3	\$Mn	3,626,141	2.2	2.4
Deposits with :				
licensed banks	\$Mn	3,309,615	2.0	0.7
restricted licence banks	\$Mn	35,465	4.6	-1.0
deposit-taking companies	\$Mn	5,532	0.9	-5.2
all authorized institutions	\$Mn	3,350,612	2.0	0.6
Deposits by type :				
demand	\$Mn	201,230	11.0	25.1
savings	\$Mn	1,031,716	5.5	15.9
time	\$Mn	2,117,666	-0.3	-7.1
total	\$Mn	3,350,612	2.0	0.6

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-June 2003 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	1,924,360	*	-3.6
restricted licence banks	\$Mn	103,096	-5.1	-13.8
deposit-taking companies	\$Mn	25,738	-4.4	-15.6
all authorized institutions	\$Mn	2,053,194	-0.3	-4.3
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	88,263	5.6	5.4
to finance merchandising trade not touching Hong Kong	\$Mn	10,366	11.6	17.1
other loans for use in Hong Kong	\$Mn	1,720,717	-0.7	-3.3
other loans for use outside Hong Kong	\$Mn	217,487	-0.8	-18.0
other loans where the place of use is not known	\$Mn	16,361	9.5	73.0
<u>Stock market</u>				
Hang Seng Index (31 Jul 1964 = 100)		9 577	10.9	-9.6
Stock market capitalisation				
Main Board	\$Mn	3,907,287	15.7	3.0
Growth Enterprise Market	\$Mn	60,965	18.7	0.7
Total	\$Mn	3,968,252	15.7	3.0
Stock market turnover (2nd Qtr 2003)				
Main Board	\$Mn	476,632	30.6	0.1
Growth Enterprise Market	\$Mn	7,638	59.6	-42.1
Total	\$Mn	484,270	31.0	-1.1

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

(*) Change of less than 0.05%.

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> (2nd Qtr 2003)				
Labour force	'000	3 519	0.5	1.5
Unemployed	'000	300	15.5	13.9
Underemployed	'000	151	50.0	50.1
Employed	'000	3 219	-0.7	0.5
Labour force participation rate	%	61.5	--	--
Seasonally adjusted unemployment rate	%	8.6	--	--
Underemployment rate	%	4.3	--	--
<u>Employment</u> (Mar 2003)				
Manufacturing	'000	179	-3.0	-9.4
Services	'000	1 965	-1.9	-1.4
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	774	-0.4	-1.1
Restaurants and hotels	'000	198	-4.0	-7.2
Transport, storage and communications	'000	172	-1.8	-4.9
Financing, insurance, real estate and business services	'000	423	-4.3	-0.2
Community, social and personal services	'000	398	-1.1	1.5
Building and construction sites	'000	67	0.4	-13.3
Civil service	'000	169	-0.3	-2.3
<u>Vacancies</u> (Mar 2003)				
Manufacturing	'000	1	20.1	-23.5
Services	'000	15	-3.1	-23.0
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	5	10.7	-18.0
Restaurants and hotels	'000	1	-23.1	-47.0
Transport, storage and communications	'000	1	-1.3	-20.3
Financing, insurance, real estate and business services	'000	4	-8.1	-22.1
Community, social and personal services	'000	3	-10.2	-23.8
Building and construction sites	'000	#	-7.1	-81.7
Civil Service	'000	2	-5.5	-3.8

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

(--) Not applicable.

(#) 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> (1st Qtr 2003)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	100.2	6.5 (7.0)	-2.0 (*)
<i>for</i> : Manufacturing	97.5	8.0 (8.5)	-5.1 (-3.2)
Services	99.3	6.6 (7.0)	-2.1 (-0.1)
<i>of which</i> :			
Wholesale, retail and import/export trades	101.5	14.4 (14.9)	-1.3 (0.7)
Restaurants and hotels	85.0	5.6 (6.0)	-6.6 (-4.7)
Transport, storage and communications	99.1	-2.2 (-1.8)	-0.3 (1.7)
Financing, insurance, real estate and business services	97.7	5.0 (5.5)	-2.7 (-0.7)
Community, social and personal services	95.7	0.7 (1.2)	-4.2 (-2.2)
<u>Wages</u> (Mar 2003)			
Nominal wage index (Sep 1992 = 100)	148.0	-0.9 (-1.2)	-1.5 (0.3)
<i>for</i> : Manufacturing	143.2	-2.2 (-2.5)	-2.6 (-0.7)
Services			
<i>of which</i> :			
Wholesale, retail and import/export trades	158.1	-0.5 (-0.8)	-1.2 (0.7)
Restaurants and hotels	131.7	-1.4 (-1.7)	-3.2 (-1.4)
Transport services	149.0	-1.1 (-1.4)	-1.4 (0.4)
Financing, insurance, real estate and business services	154.7	-0.2 (-0.6)	0.3 (2.2)
Personal services	150.1	-0.7 (-1.0)	-3.4 (-1.6)
Nominal index of construction wage rate (Jan 1970 = 100) (May 2003)	3 548.9	-1.1 (-0.1)	-1.8 (0.7)

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

(*) Change of less than 0.05%.

Table 10 Various price indices for the second quarter of 2003

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Consumer Price Indices</u> (Oct 1999 - Sep 2000 = 100)			
Composite CPI	92.8	-1.1 [#]	-2.5
CPI(A)	93.3	-0.5 [#]	-1.8
CPI(B)	92.5	-1.1 [#]	-2.6
CPI(C)	92.7	-1.8 [#]	-2.9
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	58.7	-6.1	-18.7
Office space	57.5	-7.3	-16.4
Shopping space	79.1	-1.2	-8.7
Conventional flatted factory space	69.3	-4.3	-9.9
<u>GDP deflator</u> ⁺ (2000 = 100)	91.0	-1.7 [#]	-5.5

Notes : (+) Preliminary figures.

(#) Seasonally adjusted series.

