



2004

Economic Prospects

Government of the Hong Kong
Special Administrative Region

2004 ECONOMIC PROSPECTS

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

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CHAPTER 1 : OVERVIEW OF THE 2004 ECONOMIC FORECAST

Background

1.1 Continuing the improvement in late 2002, the Hong Kong economy displayed solid growth at the beginning of 2003. There was then an abrupt setback in the second quarter, upon the spread of Severe Acute Respiratory Syndrome (SARS)⁽¹⁾ in the local community since around mid-March. Yet as the SARS impact waned, a speedy recovery ensued in the second half of the year. The pick-up was aided by a more sanguine global and regional economic environment, as well as by improved asset market conditions locally. Notwithstanding the intervening SARS impact, the Gross Domestic Product (GDP)⁽²⁾ still expanded by 3.3% in real terms⁽³⁾ for 2003 as a whole, even faster than that of 2.3% in 2002.

1.2 Exports of goods sustained strong growth throughout 2003. Apart from stronger global and regional demand, better price competitiveness of Hong Kong's exports, consequential to the down-drift in domestic costs and along with a weaker US dollar, was another supportive factor. Exports of services, having undergone a sharp plunge owing to SARS in the second quarter, bounced back to double-digit growth by the fourth quarter, and still managed to attain an appreciable growth for 2003 as a whole. There was a swift and strong revival in inbound tourism in the latter part of the year, which was bolstered further by launch of the Individual Visit Scheme for Mainland visitors⁽⁴⁾ coming to Hong Kong since late July. Also, offshore trade was robust all through.

1.3 The domestic sector, though also severely held back under the shock of SARS, likewise picked up visibly as the epidemic was brought under control. Consumer spending exhibited a broad-based rebound in the third quarter of 2003 and went up further in the fourth quarter, amidst improving labour market conditions and better sentiment in the local asset markets. Similarly, overall investment spending bottomed out in the third quarter of 2003 and resumed growth in the fourth quarter, as machinery and equipment intake rebounded along with a more positive business outlook. However, building and construction activity remained slack in overall terms.

/1.4

1.4 The labour market slackened distinctly further in the early part of 2003, yet improved visibly in the latter part of the year along with progressive upturn in the economy. The seasonally adjusted unemployment rate, having risen to a record high of 8.7% in the three months ending July 2003, came down successively thereafter, to 7.3% in the three months ending January 2004. The underemployment rate likewise declined appreciably, from 4.2% to 3.3% between these two periods.

1.5 Also along with progressive upturn in the economy, the year-on-year rate of decline in the Composite Consumer Price Index narrowed considerably after July 2003, reversing the earlier widening due to the SARS impact. For 2003 as a whole, the Composite CPI fell by an average of 2.6%, lesser than the 3.0% decline in 2002.

1.6 All in all, the rebound in activity from the setback caused by SARS has been quicker and stronger than could have been envisaged earlier. Concurrently, liquidity in the local banking sector has accentuated further, upon sustained inflow of funds. The stock market has more than recouped the earlier fall-off owing to SARS, surging to a 28-month high towards the year-end. The property market has turned around by the fourth quarter, with flat prices having rebounded distinctly by on average around 10% between July and December 2003. Thus, 2004 has started in a generally upbeat mood.

Economic forecast for 2004

1.7 On current indications, the revival in the Hong Kong economy is well on track, and should become more entrenched in the coming months. Growth in 2004 looks likely to be the fastest after the particularly strong surge in 2000.

1.8 Externally, following the distinct improvement in the latter part of last year, the global economy is expected to continue on an upturn this year. The US economy should maintain a strong growth momentum in 2004, supported by continued strength in consumer spending, better corporate profitability, and further tax reliefs in the pipeline. The EU economy is also envisaged to improve in 2004, aided by a more sanguine global economic environment.

/1.9

1.9 In East Asia, the economy of the mainland of China (the Mainland) is poised for further robust growth in 2004, amidst vibrant domestic demand and rising competitive edge in its exports. As to the Japanese economy, the recovery process seems likely to continue in 2004, amidst a more upbeat business sentiment and a more sanguine global economy. The other export-dependent East Asian economies should likewise benefit from the global economic upturn, and assuming that the economic impact of avian flu⁽⁵⁾ is only limited and confined, should be able to attain a faster and more broad-based growth in 2004.

1.10 On Hong Kong's external price competitiveness, the weakness of the US dollar, coupled with the down-drift in local costs and prices in the earlier period, will bode well for Hong Kong's exports in the near term. Implementation of the Closer Economic Partnership Arrangement (CEPA)⁽⁶⁾ between Hong Kong and the Mainland as from the beginning of this year will accord Hong Kong products with an added competitive edge in the Mainland market. Together with the favourable global demand conditions, Hong Kong's exports of goods are set for a further distinct growth in 2004.

1.11 Hong Kong's exports of services also look good in 2004. In particular, inbound tourism is expected to continue to surge. Visitor arrivals from the Mainland should remain as the key source of growth this year, more so with further extension of the Individual Visit Scheme. Visitor arrivals from other major sources may also recover further from the earlier decline due to SARS, though perhaps with a brief drag owing to the spread of avian flu across the region. Offshore trade should stay robust, on the back of the Mainland's vibrant trade flows and further structural shift from re-exports towards offshore trade.

1.12 Locally, with the unemployment rate coming down visibly in tandem with the economic upturn, and with recent positive developments in the asset markets also lifting consumers' inclination to spend, private consumption expenditure looks set for a stronger rebound in 2004. As to government consumption expenditure, growth is expected to remain modest in 2004, in face of tight fiscal restraint.

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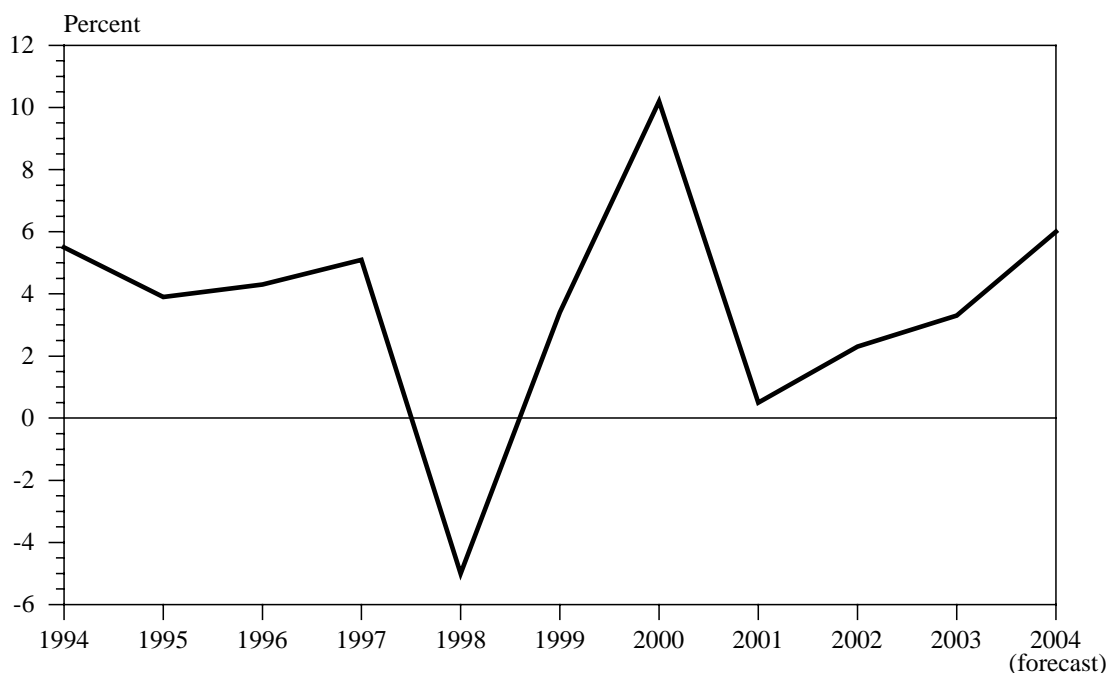
1.13 Overall investment spending, after two years of setback, is also poised for a pick-up in 2004. Within this total, acquisition of machinery, equipment and computer software should go for a faster increase this year, as brighter business outlook and improved corporate profitability should re-activate the need for capacity expansion. On building and construction activity, the distinct rebound in building consents last year can be expected to translate into greater building output in the private sector in due course. But construction work in the public sector is likely to remain subdued, on account of lesser workload from infrastructural projects in the near term.

1.14 With the external and local economic environment both generally upbeat, Hong Kong's GDP is forecast to pick up notably further, to a 6% growth in 2004, from a 3.3% growth in 2003.

1.15 There are however certain caution factors to watch over. The spread of avian flu in the region, if to worsen significantly, may begin to induce threat on broader economic activity. Also, unease about geo-political volatility and terrorist activities continues to cast a shadow on the global climate. Moreover, there continues to be attention on China-US trade relations, as well as on the tracks in US dollar exchange rate and interest rates influencing the global financial and economic scene.

Diagram 1.1

**Gross Domestic Product
(rate of change in real terms)**



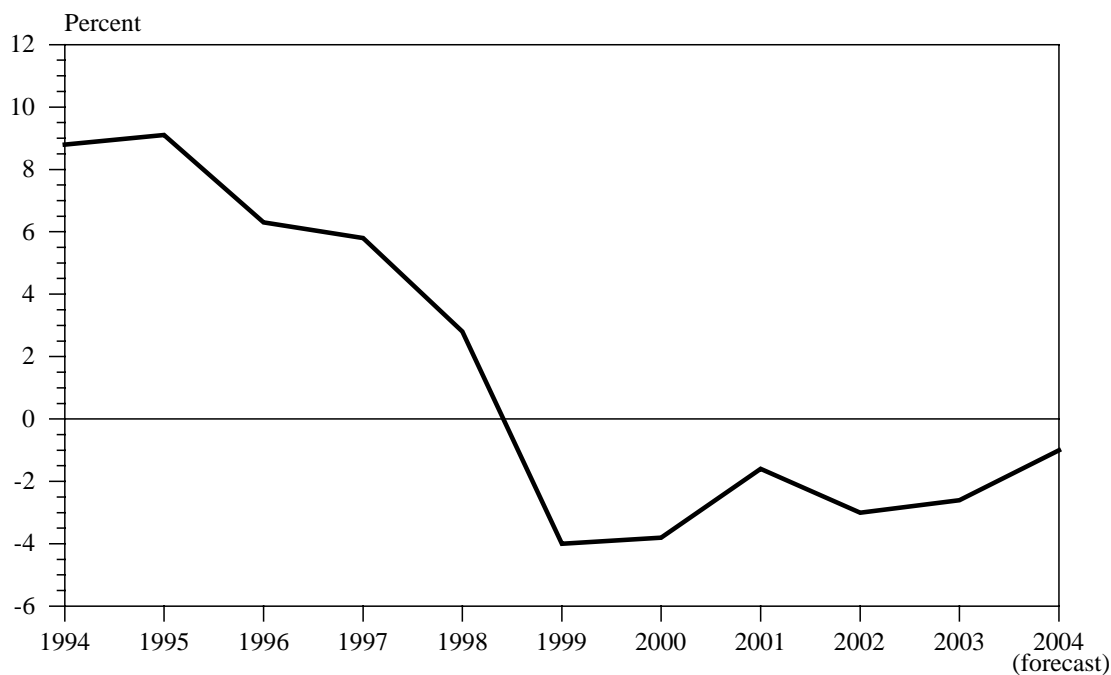
/1.16

1.16 The Consumer Price Index may still be on a decline in the near term. This is chiefly because the lagged effect from the marked fall-off in private housing rentals earlier on continues to feed through into the housing cost component of the CPI. Yet the decline in housing rentals in the market has by and large been arrested towards the end of last year. Also, the downward pressure on labour wages may recede sooner, as the employment conditions improve further. Amidst strengthening demand, local retailers and service providers are likely to continue to reduce the price discounts and other concessions on their goods and services, and some of them may proceed to make modest upward adjustment to the prices. Moreover, there is going to be greater price pressure from the external front, stemming from the weaker US dollar and firmer world commodity prices, and this is likely to gradually feed through to the local economy in the coming months.

1.17 Taking these factors together, the year-on-year rate of decline in the Composite CPI seems likely to taper quite distinctly further over the course of this year. For 2004 as a whole, the Composite CPI is forecast to decline by an average of 1%, much narrowed from the 2.6% fall in 2003.

Diagram 1.2

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



/1.18

1.18 A summary of the performance of the economy in 2003 is given in Chapter 2. A more detailed analysis of the performance is provided in the **2003 Economic Background**. This is combined, through a process of appraisal and judgement, with the results of an econometric model application⁽⁷⁾ and with the findings of two business outlook enquiries⁽⁸⁾, to produce a forecast of economic performance in 2004. The forecast itself is discussed in Chapter 3, and its implications for the economy are set out in Chapter 4. The *Statistical Appendix* to this report contains details of the forecast, along with a variety of economic indicators over the past ten years. Statistics on the GDP and its components are published in the **2003 Gross Domestic Product**, which includes a description of the sources and methods for the compilation.

Notes:

- (1) SARS broke out in Hong Kong in around the second week of March 2003. On 2 April 2003, the World Health Organisation (WHO) issued a travel advisory against non-essential travel to Hong Kong. On 23 May, with SARS brought under control in Hong Kong, WHO lifted the travel advisory against Hong Kong. Then on 23 June, WHO removed Hong Kong from the list of SARS-affected areas, confirming that Hong Kong had been free from the SARS threat.

On 23 April 2003, in a move to help the community tide over the difficulties brought about by the outbreak of SARS and to revive the economy after SARS, the Government announced a package of relief measures amounting to \$11.8 billion. The measures included 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, in a move to alleviate further the impact of SARS on the labour market, the Government announced an enhanced package of employment and training initiatives. This involved a total cost of \$715 million, to create over 32 000 additional short-term jobs and training places.

- (2) The Gross Domestic Product (GDP) is an overall measure of the value of net output produced within the economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is the sum of private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports less imports of goods and services.
- (3) All percentage changes quoted in this report are in real terms unless indicated otherwise or unless they relate to changes in prices. They are all on a year-on-year comparison unless indicated otherwise.

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- (4) The Individual Visit Scheme was first launched to residents of four cities in Guangdong, including Dongguan, Zhongshan, Jiangmen and Foshan, on 28 July 2003. The scheme was then extended to residents of Guangzhou, Shenzhen, Zhuhai and Huizhou on 20 August 2003, and further to residents of Beijing and Shanghai on 1 September 2003. The scheme was extended still further to residents of six more cities in Guangdong, including Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan and Yunfu, on 1 January 2004, and will cover the entire Guangdong Province by May 2004.

Under this scheme, Mainland residents in these cities can apply for travel documents which allow them to make up to two visits to Hong Kong within a period of three months, and to stay in Hong Kong each time for up to seven days. There is no restriction on the number of times that the residents may apply for renewal of the travel documents.

- (5) Avian influenza caused by H5N1 first broke out in the Republic of Korea in mid-December 2003, and soon spread to many other Asian countries, including Japan, Vietnam, Thailand, Indonesia, mainland of China, Laos and Cambodia by early 2004. The spread of avian flu in the region, which is not yet fully contained and is still evolving, remains a potential threat to certain segments of the regional economy, conceivably tourism and restaurants as the more relevant, apart from the already heavy hit poultry sector. Nevertheless, the World Health Organisation up to end-February 2004 has not issued travel advisory against any of the infected places.

As Hong Kong has basically remained an H5N1-free place up to end-February 2004, the impact on the local economy is mainly limited to the poultry trade and the restaurants, following suspension of importation of live poultry and poultry meat from the Mainland and other infected places.

- (6) The main parts of CEPA were signed on 29 June 2003, and the six Annexes setting out the implementation details were signed on 29 September 2003. CEPA has three main parts, namely (1) zero-tariff treatment for exports from Hong Kong meeting the rules of origin requirement, with the first batch covering 374 Mainland product codes taking effect as from 1 January 2004; (2) liberalisation of market access in 18 services sectors; and (3) promotion of co-operation in seven areas of trade and investment facilitation, such as customs clearance, small and medium-sized enterprises, Chinese medicine and medical products, and e-commerce.
- (7) An integrated econometric model is used to forecast the GDP and its major expenditure components, including the trade aggregates, as well as the main price indicators. The model consists of 51 structural equations and 15 identities.

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- (8) Two business outlook enquiries were conducted in December 2003 and January 2004. First, there was a business tendency survey to gather views regarding short-term business outlook from about 500 firms in the major economic sectors, including manufacturing; construction; the wholesale, retail and import/export trades; restaurants and hotels; and banks, financing and insurance. Also, there was a consultation exercise with prominent firms and organisations knowledgeable in Hong Kong-Mainland trade to solicit views on the outlook for Hong Kong's exports to the Mainland in 2004.

CHAPTER 2 : ECONOMIC DEVELOPMENTS IN 2003

Overall situation

2.1 The Hong Kong economy went through a sharp gyration during the course of 2003. Continuing the revival impetus in late 2002, the economy grew quite strongly at the beginning of 2003. The growth was abruptly derailed by the spread of SARS in the second quarter. Yet overall economic activity staged a speedy and broad-based recovery in the third quarter after the waning of SARS, and the upswing spilled well into the fourth quarter upon a further lift in local sentiment. Thus, even with the profound setback caused by SARS during the year, the Hong Kong economy still attained an appreciable growth for 2003 as a whole, which was better than that in 2002.

2.2 In the external sector, inbound tourism and the travel-related sectors were badly shattered by the spread of SARS in the second quarter of 2003, yet bounced back swiftly in the third quarter and distinctly more in the fourth quarter. The remarkable turnaround was driven by a strong pick-up in visitor arrivals from the Mainland, especially after the launch of the Individual Visit Scheme in late July. As to merchandise exports and offshore trade, they both displayed highly robust growth throughout 2003, bolstered by continued hectic growth in the Mainland economy, a visible pick-up in the global economy following the end of the war on Iraq, as well as a surge in intra-regional trade. Enhanced competitiveness of Hong Kong's exports, underpinned by distinct weakening in the US dollar and further domestic cost adjustments, as well as deriving from increasing competitiveness of Mainland products in the world market, rendered an additional boost to the export performance.

2.3 In the domestic sector, consumer spending was likewise severely hit by SARS in the second quarter of 2003, but was progressively resurrected in the third and fourth quarters. Consumer sentiment appeared especially upbeat towards the end of the year, boosted by the rally in the local stock market, a more active property market, and steady improvement in the overall employment situation. Investment spending on machinery and equipment bounced back to a notable growth in the latter part of 2003, on the back of improved economic conditions and brighter business outlook especially after the signing of CEPA between Hong Kong and the Mainland. Building and construction output however was weak all through.

/2.4

2.4 For 2003 as a whole, the *Gross Domestic Product (GDP)* grew by 3.3%, up from the 2.3% growth in 2002. On a year-on-year comparison, GDP leaped by 4.5% in the first quarter of 2003, before relapsing to a 0.5% decline in the second quarter upon the spread of SARS. Yet GDP bounced up strongly to a 4.0% growth in the third quarter, and further to a 5.0% growth in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP fell by 0.5% and 2.6% respectively in the first and second quarters of 2003, yet rebounded sharply to increases by 6.6% in the third quarter and 1.5% in the fourth quarter.

Table 2.1

Gross Domestic Product (year-on-year rate of change (%))			
2002	Annual [#]	2.3	
	Q1 [#]	-0.6	(0.1)
	Q2 [#]	0.8	(1.9)
	Q3 [#]	3.4	(2.1)
	Q4 [#]	5.1	(0.9)
2003	Annual ⁺	3.3	
	Q1 [#]	4.5	(-0.5)
	Q2 [#]	-0.5	(-2.6)
	Q3 [#]	4.0	(6.6)
	Q4 ⁺	5.0	(1.5)

Notes : (#) Revised figures.

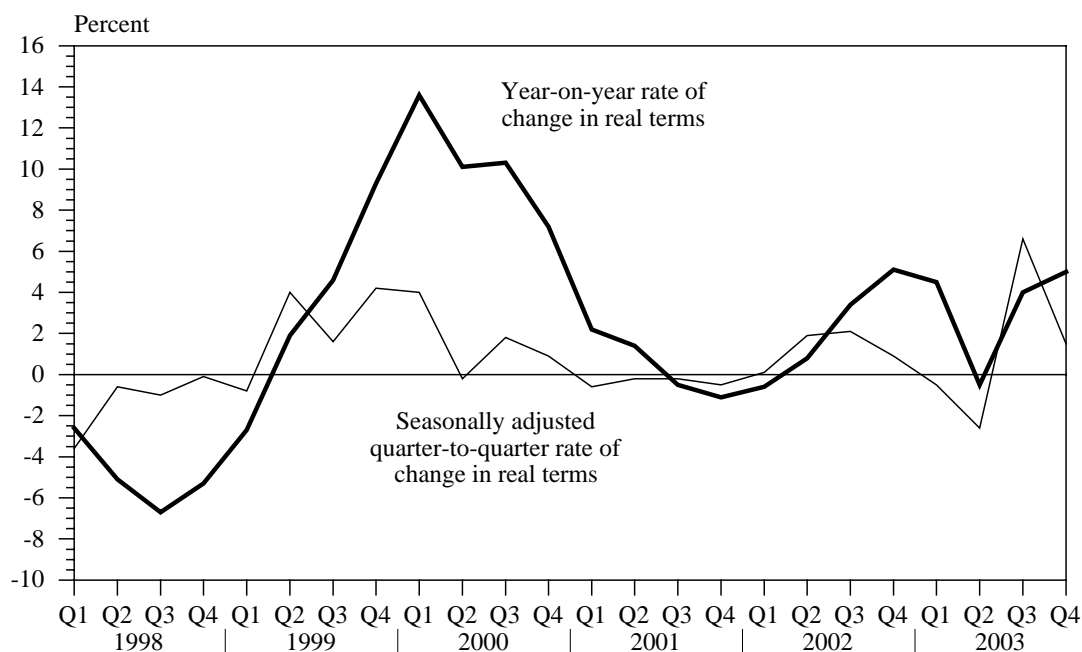
(+) Preliminary figures.

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

/Diagram 2.1

Diagram 2.1

Gross Domestic Product



2.5 The *labour market* slackened distinctly along with the abrupt fall-off in economic activity caused by SARS during the first half of 2003, with deterioration in the employment situation being most distinct in the consumption and tourism-related sectors. Then, as the economy turned up again, employment and vacancies also revived steadily in the second half of the year. The seasonally adjusted unemployment rate, having leaped from 7.2% in the fourth quarter of 2002 to a high of 8.7% in May-July 2003, fell back visibly to 7.3% in the fourth quarter. The underemployment rate surged from 3.1% in the fourth quarter of 2002 to a high of 4.3% in the second quarter of 2003, as many employees in the SARS-affected sectors were temporarily suspended from work at that time. Yet it also fell back visibly, to 3.3% in the fourth quarter, as these employees generally resumed work and as the work intensity rose along with economic upturn. Labour earnings remained soft, falling by 1.8% in money terms in the third quarter of 2003.

/2.6

2.6 The *property market* had manifestly turned around in late 2003, after the languish performance earlier in the year. On residential property, trading activity plunged in the second quarter, but rebounded visibly in the latter part of the year amidst growing optimism for the economy. Flat prices showed a distinct upturn in the fourth quarter, while flat rentals seemed to have ceased to decline towards the end of the year. On commercial property, leasing of office space likewise rose back towards the year-end, along with a distinct pick-up in the prices for office space and a lesser decline in office rentals. As to the market for shopping space, amidst the bounce in both inbound tourism and local consumer spending, the pick-up later in the year was even more distinct, with prices lifted visibly and rentals bottoming out. On industrial property, demand remained generally weak, yet with keener interest in converting some of the existing industrial sites into hotel use.

2.7 In the *financial market*, the spot exchange rate of the Hong Kong dollar against the US dollar persistently stayed on the strong side of the linked rate after September 2003, amidst strong fund inflow and keener demand for Hong Kong dollar. The spread of the twelve-month Hong Kong dollar forward rate against the spot rate also switched from premium to discount towards end-September 2003, and the discount widened in the fourth quarter. With ample liquidity in the local banking sector, the spread of the three-month HIBOR against the corresponding Euro-dollar deposit rate reversed from premium in the early part of 2003 to discount in the latter part of the year. As Hong Kong dollar loans fell while Hong Kong dollar deposits went up, there was a further marked decline in the loan-to-deposit ratio during the year.

2.8 The local *stock market* went through sharp swings during 2003. The Hang Seng Index, amidst the profound shock of SARS, plunged severely to a 4½-year low at 8 409 on 25 April. It bounced back visibly after mid-May, as the epidemic was progressively brought under control. Then it surged further to successive two-year highs towards the year-end. The upbeat market sentiment was boosted by the signing of CEPA, launch of the Individual Visit Scheme for Mainland visitors coming to Hong Kong, and rally in the US and regional stock markets. The Hang Seng Index reached a 28-month peak at 12 594 on 12 December, before closing 2003 at 12 576, up by 34.9% over end-2002. The average daily turnover in the local stock market also went markedly higher, from \$6.7 billion in 2002 to \$10.4 billion in 2003.

/2.9

2.9 On *consumer prices*, the decline in the Composite Consumer Price Index continued in 2003, as local prices were kept down by the slack demand and profit margin squeeze especially during the course of the SARS threat, as well as by lower wages and rentals. The rates concession and waiver of water and sewage charges as the Government's relief measures also dragged down the CPI in the latter period. Yet as the downward effect from the relief measures was lessened, and as price discounts and other concessions on many of the consumer items were reduced along with steadily improving demand, the year-on-year decline in the Composite CPI narrowed appreciably to 2.3% in the fourth quarter of 2003, having widened from 2.0% in the first quarter to 2.5% and 3.6% respectively in the second and third quarters. Also relevant to the narrowed decline was firmer prices of retained imports amidst a weaker US dollar and uptrend in world commodity prices. For 2003 as a whole, the Composite CPI fell by 2.6%, modestly smaller than the 3.0% decline in 2002.

2.10 Yet the *GDP deflator*, as a broad measure of overall price change in the economy, had a more pronounced decline, by 5.1% in 2003, as against a 3.0% decrease in 2002. This was due in large part to a continued drag from deterioration in the terms of trade upon further weakening in the US dollar, aside from downward price pressure in the domestic sector especially amidst the SARS impact. The respective year-on-year declines in the four quarters of 2003 were 4.6%, 5.4%, 5.7% and 4.8%. Taking the GDP growth in real terms and the decline in the GDP deflator together, *nominal GDP* still had a 2.0% decline for 2003 as a whole, after a 0.8% slip in 2002.

External trade⁽¹⁾

2.11 According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) picked up distinctly further to a 14.0% surge in 2003, further up from the already notable growth of 8.6% in 2002. Total exports of goods were buoyant all through the year, with year-on-year increases by 19.1%, 14.3%, 9.8% and 14.2% respectively in the four quarters. The strong export performance had benefited much from the generally improved global economic environment during the year, enhanced price attractiveness of Hong Kong's exports stemming from the exchange rate movements and the domestic cost adjustments, as well as ascending competitiveness of Mainland products as the main source of Hong Kong's re-exports to the overseas markets. The war on Iraq and the outbreak of SARS

/had

had inflicted only brief and limited impact on Hong Kong's exports. The growth in exports in the third and fourth quarters remained distinct even upon a higher base of comparison in the same period a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rose further by 3.4%, 1.9% and 1.5% respectively in the first three quarters of 2003, and then picked up more sharply to a 6.2% increase in the fourth quarter.

2.12 *Re-exports* remained the key driver of growth, surging by 16.1% in 2003, considerably up from the already distinct growth at 10.9% in 2002. There was double-digit growth in all four quarters of 2003, with increases by 22.3%, 17.0%, 11.3% and 15.4% respectively. On a seasonally adjusted quarter-to-quarter comparison, re-exports likewise rose further, by 4.0%, 2.3% and 1.2% respectively in the first three quarters of 2003, and then likewise picked up more sharply, to a 6.7% increase in the fourth quarter.

2.13 On the other hand, the on-going structural shift towards re-exports and offshore trade continued to hold down *domestic exports*, which plunged further by 7.4% in 2003, though narrowed from the 11.3% shrinkage in 2002. The year-on-year declines were particularly marked in the first and second quarters of 2003, by 12.0% and 12.6% respectively, then narrowed to 5.4% and 0.4% in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further by 3.0% and 2.5% respectively in the first and second quarters of 2003, before turning up to increase by 5.6% in the third quarter, and then falling back slightly by 0.2% in the fourth quarter.

/Diagram 2.2

Diagram 2.2

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

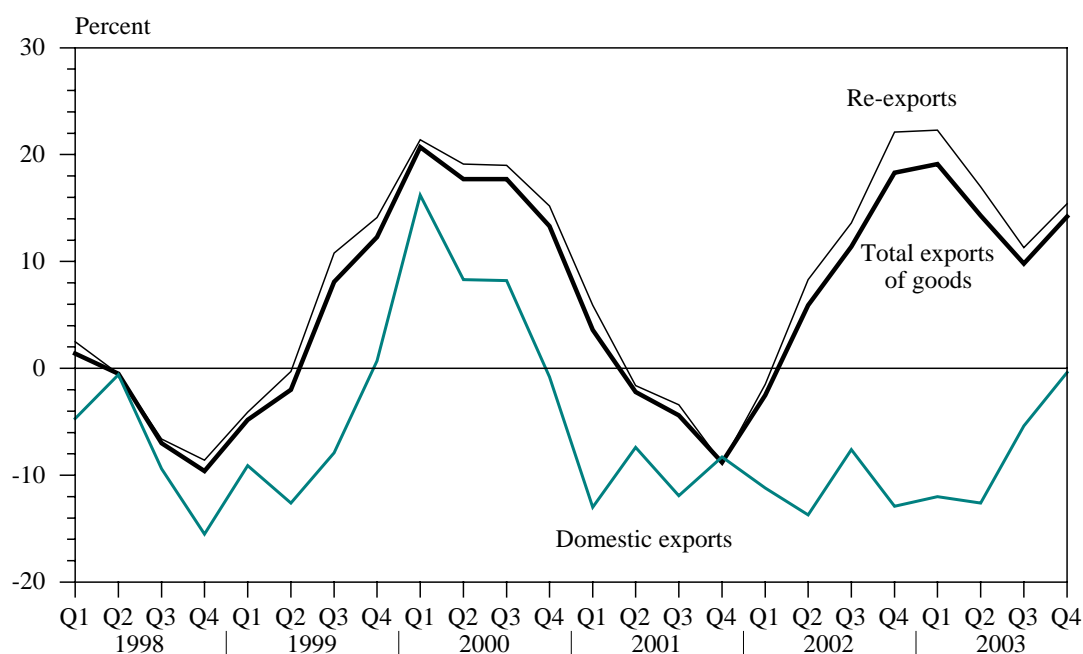


Table 2.2

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

		<u>Total exports of goods</u>	<u>Re-exports</u>	<u>Domestic exports</u>
2002	Annual	8.6	10.9	-11.3
	H1	1.8	3.5	-12.5
	H2	14.7	17.7	-10.2
	Q1	-2.5	-1.5	-11.2
	Q2	5.9	8.3	-13.7
	Q3	11.4	13.6	-7.6
	Q4	18.3	22.1	-12.9
	2003	Annual	14.0	16.1
H1		16.5	19.4	-12.3
H2		12.0	13.3	-3.1
Q1		19.1	22.3	-12.0
Q2		14.3	17.0	-12.6
Q3		9.8	11.3	-5.4
Q4		14.2	15.4	-0.4

/Table 2.3

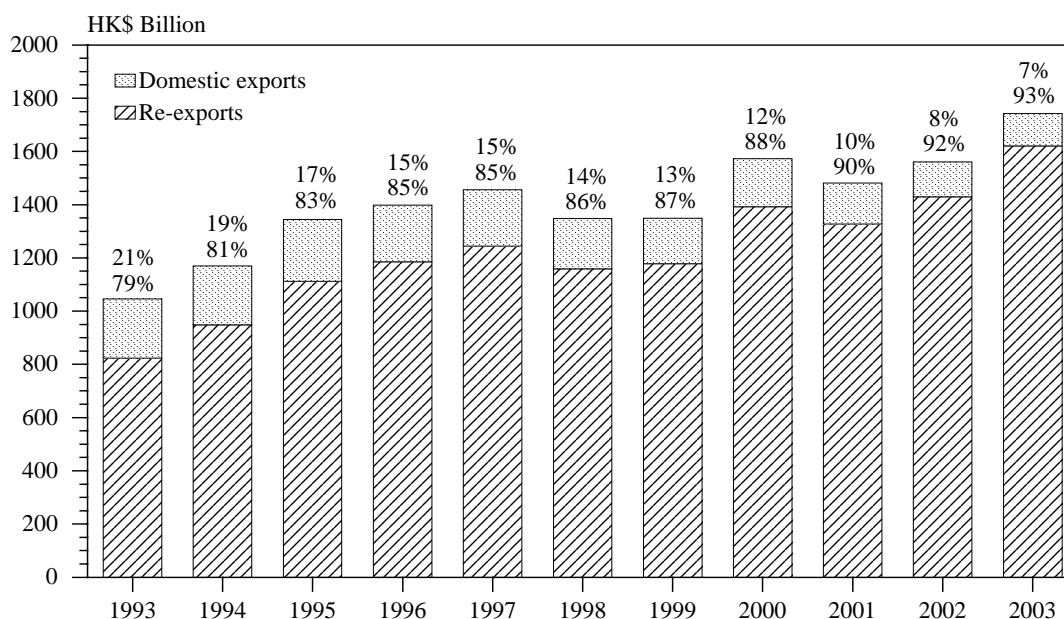
Table 2.3

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

		Total exports of goods	Re-exports	Domestic exports
2002	Q1	4.7	5.7	-3.3
	Q2	5.2	6.0	-2.7
	Q3	5.2	6.0	-2.5
	Q4	3.2	3.9	-4.5
2003	Q1	3.4	4.0	-3.0
	Q2	1.9	2.3	-2.5
	Q3	1.5	1.2	5.6
	Q4	6.2	6.7	-0.2

Diagram 2.3

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



2.14 Total exports of goods to *East Asia* as a whole were buoyant throughout the year, picking up further to pronounced growth at 20.9% in 2003, from a 13.4% growth in 2002. The strong growth impetus was again led by vibrant exports to the Mainland, which maintained highly robust growth all through the year. Exports to Japan, the Republic of Korea, Singapore, Taiwan and Indonesia registered double-digit growth of various magnitudes. On the other hand, exports to Malaysia and Thailand eased back in growth, after the

/sharp

sharp increases in the preceding year. Total exports of goods to *North America* fell by 1.4% in 2003, having risen moderately by 3.9% in 2002. Exports to North America were also robust early in the year, but the growth momentum ran out of steam after the first quarter, along with a distinct deceleration in US import intake in around the middle of the year. Conceivably, there was some cut-back in orders at a time when the war tension in Iraq loomed high. In addition, the increasing tendency for finished products to be shipped out directly from the Shenzhen ports after outward processing in South China also weighed down Hong Kong's exports to this region. Total exports of goods to the *European Union* surged by 14.1% in 2003, in contrast to the 0.4% decline in 2002. Enhanced price attractiveness of Hong Kong's exports brought about by the strength of the euro seemed to have outweighed the sluggishness in domestic demand in this region.

Table 2.4

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

		<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	Annual	20.9	-1.4
H1		22.2	2.2	18.6
H2		19.8	-4.0	10.6
Q1		23.6	9.1	17.8
Q2		20.9	-3.3	19.4
Q3		17.9	-6.3	10.6
Q4		21.7	-1.6	10.6

Notes : (a) For the coverage of East Asia, see Note (2).

(b) For the coverage of North America, see Note (3).

(c) For the coverage of the European Union, see Note (4).

(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.

/2.15

2.15 *Imports of goods* were likewise robust, leaping by 12.8% in 2003, also distinctly up from the 7.8% increase in 2002. Imports of goods had the most distinct growth in the first quarter of 2003, at 18.7%. Growth was still robust in the second quarter, at 10.6%, upon the continued strength in re-export trade and even with the spread of SARS severely dampening import intake for local use. With the moderation in re-export growth in the third quarter partly offset by a revival in import intake for local use, imports of goods grew by 7.9% in the third quarter. This was followed by a much faster growth at 15.0% in the fourth quarter, as re-exports re-accelerated while import intake for local use picked up sharply. As to the growth profile in imports for local use, *retained imports* surged by 11.5% in the first quarter of 2003, but tumbled to a 1.9% decline in the second quarter upon the profound impact of SARS. Then, along with the progressive recovery in domestic demand, retained imports turned up mildly to a 0.6% increase in the third quarter and surged further by 14.1% in the fourth quarter. For 2003 as a whole, retained imports attained a 5.8% growth, up from the 1.8% increase in 2002. On a seasonally adjusted quarter-to-quarter comparison, imports of goods rose by 2.9% in the first quarter of 2003, yet moderating to a 0.9% increase in the second quarter, before picking up again to increases by 2.6% and 7.0% respectively in the third and fourth quarters. Retained imports had a broadly parallel profile during the year, initially rising by 0.4% in the first quarter of 2003, then falling back by 2.1% in the second quarter, before surging by 6.0% and 7.9% respectively in the third and fourth quarters.

2.16 Analysed by *end-use category*, retained imports of consumer goods had modest growth at 1.5% in 2003, having increased by 5.7% in 2002. Such retained imports grew visibly in the first quarter of 2003, underpinned by the upsurge in incoming visitors and generally improved local consumer spending in most of the quarter. There was a temporary yet profound setback in the second quarter upon the spread of SARS. Yet a prompt pick-up ensued, upon a steady recovery in local demand and more notably a strong influx in incoming visitors. Retained imports of foodstuffs had a distinct setback in the earlier months of 2003, conceivably also affected much by the outbreak of SARS. Yet with a strong rebound towards the year-end more than offsetting the earlier setback, such retained imports rose by 1.7% for 2003 as a whole, albeit slower than the 5.3% increase in 2002. Retained imports of capital goods reversed from a 13.6% plunge in 2002 to an appreciable growth at 6.0% in 2003. Such retained imports had a strong start in the first quarter of 2003, helped in part by a low base of comparison a year earlier. There was then a dip in the second

/quarter

quarter upon the impact of SARS. A turnaround occurred in the third quarter, albeit aided in part by the intake of aircraft ordered earlier. Growth accentuated distinctly further in the fourth quarter, upon improved business outlook and also with the delivery of several more aircraft. Analysed by broad type, intake of capital goods in the “others” category had the most distinct rebound in 2003, due to the intake of some aircraft in the latter part of the year. Intake of telecommunications equipment and of office equipment also reverted to increase. On the other hand, intake of construction machinery had a heavy slump, while intake of industrial machinery fell further. Retained imports of raw materials and semi-manufactures rose visibly further, by 8.5% in 2003, following a 9.8% leap in 2002. Retained imports of fuels however fell back by 1.4% in 2003, after a 4.8% rise in 2002.

Table 2.5

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

		<u>Imports of goods</u>	<u>Retained imports</u> ^(a)	
2002	Annual	7.8	1.8	
	H1	0.9	-3.9	
	H2	14.3	7.5	
	Q1	-4.1	-8.9	
	Q2	5.7	0.8	
	Q3	10.8	5.2	
	Q4	18.1	10.0	
	2003	Annual	12.8	5.8
		H1	14.3	4.3
		H2	11.4	7.2
Q1		18.7	11.5	
Q2		10.6	-1.9	
Q3		7.9	0.6	
Q4		15.0	14.1	

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

/Table 2.6

Table 2.6

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

		<u>Imports of goods</u>	<u>Retained imports^(a)</u>
2002	Q1	3.8	*
	Q2	7.6	11.0
	Q3	5.1	3.2
	Q4	1.7	-2.9
2003	Q1	2.9	0.4
	Q2	0.9	-2.1
	Q3	2.6	6.0
	Q4	7.0	7.9

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

(*) Change of less than 0.05%.

Table 2.7

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

		<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	Annual	1.5	1.7	6.0	8.5
H1		-2.2	-5.4	3.5	11.2	-2.7
H2		4.9	8.7	8.1	6.0	-0.3
Q1		7.7	-4.6	10.6	18.0	9.1
Q2		-10.3	-6.2	-2.8	5.9	-12.8
Q3		3.2	1.5	5.1	-6.7	0.6
Q4		6.7	15.4	11.1	19.6	-1.2

Note : See Note (a) to Table 2.5.

/2.17

2.17 With the increase in value of imports of goods exceeding that of total exports of goods, the *visible trade deficit* reckoned on a GDP basis widened in absolute terms, to \$45.0 billion or 2.5% of the value of imports of goods in 2003, from \$39.4 billion or 2.5% in 2002.

2.18 On invisible trade, the strong growth momentum in *exports of services* in the first quarter of 2003 was dented severely by the spread of SARS in Hong Kong in the second quarter. Yet with a swift rebound in the third quarter and a further pick-up in the fourth quarter, exports of services still attained appreciable growth at 5.5% in 2003, albeit milder than the 12.2% surge in 2002. On a year-on-year comparison, exports of services soared by 12.7% in the first quarter of 2003, before falling abruptly by 12.0% in the second quarter as inbound tourism and related business plummeted upon the SARS impact. As such business rebounded strongly thereafter, exports of services resumed growth, rising by 7.8% in the third quarter, and then distinctly more by 11.8% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, exports of services still rose by 0.9% in the first quarter of 2003, before plummeting by 19.7% in the second quarter. A sharp turnaround ensued, with a 33.5% surge in the third quarter and a further 2.2% increase in the fourth quarter.

2.19 *Imports of services* were likewise severely affected by SARS in the second quarter. Even with the subsequent rebound, imports of services still fell by 4.4% in 2003, following a meagre 0.2% rise in 2002. On a year-on-year comparison, imports of services shrank by 3.9% and 19.6% respectively in the first and second quarters of 2003, before turning up to increase by 0.5% and 4.2% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, imports of services slipped by 3.8% in the first quarter of 2003 and then slumped by 17.8% in the second quarter, before rebounding strongly by 27.8% in the third quarter and rising further by 2.9% in the fourth quarter.

/Table 2.8

Table 2.8

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

		<u>Exports of services[^]</u>	<u>Imports of services</u>
2002	Annual	12.2	0.2
	H1	7.7	-2.2
	H2	16.1	2.7
	Q1	6.3	-0.7
	Q2	9.1	-3.8
	Q3	14.0	2.0
	Q4	18.1	3.4
2003	Annual	5.5	-4.4
	H1	0.1	-11.5
	H2	9.9	2.3
	Q1	12.7	-3.9
	Q2	-12.0	-19.6
	Q3	7.8	0.5
	Q4	11.8	4.2

Note : (^) Revised series after incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

Table 2.9

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

		<u>Exports of services[^]</u>	<u>Imports of services</u>
2002	Q1	4.1	2.8
	Q2	3.8	-1.8
	Q3	7.0	2.6
	Q4	1.3	-0.4
2003	Q1	0.9	-3.8
	Q2	-19.7	-17.8
	Q3	33.5	27.8
	Q4	2.2	2.9

Note : (^) See the footnote to Table 2.8.

/Table 2.10

Table 2.10

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services[^]</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services[^]</u>	<u>Combined</u>
2002	Annual	1,562.1	337.9	1,601.5	193.4	-39.4	144.5	105.1
	H1	699.8	152.4	728.6	92.6	-28.8	59.8	30.9
	H2	862.3	185.6	872.9	100.8	-10.6	84.8	74.2
	Q1	326.1	73.9	338.5	47.1	-12.4	26.9	14.4
	Q2	373.7	78.4	390.1	45.5	-16.4	32.9	16.5
	Q3	435.5	90.5	440.5	52.1	-5.0	38.4	33.4
	Q4	426.8	95.1	432.4	48.7	-5.6	46.4	40.8
2003	Annual	1,749.1	350.3	1,794.1	189.2	-45.0	161.1	116.1
	H1	802.8	149.5	828.6	84.0	-25.8	65.6	39.8
	H2	946.3	200.8	965.5	105.2	-19.2	95.5	76.4
	Q1	383.4	82.6	399.4	46.8	-16.0	35.8	19.8
	Q2	419.3	67.0	429.1	37.2	-9.8	29.8	20.0
	Q3	467.5	95.4	468.9	53.0	-1.4	42.4	41.0
	Q4	478.8	105.3	496.6	52.2	-17.8	53.1	35.3

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 the on-going practice for the merchandise trade statistics.

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

([^]) See the footnote to Table 2.8.

2.20 As exports of services rose while imports of services declined, the *invisible trade surplus* reckoned on a GDP basis rose further to \$161.1 billion or 85.1% of the value of imports of services in 2003, from \$144.5 billion or 74.7% in 2002. This more than offset the enlarged visible trade deficit to yield a combined surplus of \$116.1 billion in 2003, equivalent to 5.9% of the total value of imports of goods and services in that year, as compared to \$105.1 billion or 5.9% in 2002.

/Domestic

Domestic demand

2.21 Local consumer spending suffered a severe blow in the second quarter of 2003 upon the spread of SARS, as many people avoided going to the busy shopping areas for fear of being contracted. Then, with the epidemic brought under control, local consumer spending revived progressively in the third quarter, followed by an even more visible pick-up in the fourth quarter. Coupling this revival with the strong resurgence in inbound tourism, the volume of *retail sales* turned up to increase by 1.2% in the third quarter of 2003, and rose more distinctly by 5.2% in the fourth quarter, in contrast to the decreases by 0.8% and 7.7% in the first and second quarters. For 2003 as a whole, the volume of retail sales still went down marginally by 0.6%, yet this already represented a noticeable improvement from the 2.6% decrease in 2002. The rebound in retail sales towards the year-end was rather broad-based, with significant double-digit increases in sales of high-value items such as electrical goods and photographic equipment, and furniture. This apart, sales of the more regular items such as food, alcoholic drinks and tobacco, and clothing and footwear also turned up. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales increased by 1.0% in the first quarter of 2003, slipped to a 7.5% plunge in the second quarter, and then bounced back to notable increases by 8.4% and 3.9% respectively in the third and fourth quarters.

2.22 *Private consumption expenditure (PCE)* likewise exhibited a distinct turnaround after the waning of SARS. On a year-on-year comparison, PCE fell by 1.8% and 3.5% respectively in the first two quarters of 2003, but rebounded to growth at 1.6% in the third quarter, the first increase since the fourth quarter of 2001. As consumer sentiment improved further in tandem with the upturn in the economy, rally in the local stock market and turnaround in the property market, growth in PCE accentuated to 3.6% in the fourth quarter. For 2003 as a whole, PCE showed virtually no change, having declined by 1.2% in 2002. The pick-up in consumer spending in late last year was manifested in all major consumer goods and services. On a seasonally adjusted quarter-to-quarter comparison, PCE fell by 0.1% and 1.4% respectively in the first two quarters of 2003, and then turned up to increases by 3.9% and 1.2% respectively in the third and fourth quarters.

/Table 2.11

Table 2.11**Local consumer and visitor spending in the domestic market
(year-on-year rate of change (%))**

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>					<u>Visitor spending^(b)</u>	
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2002	Annual	-2.6	*	*	-5	3	-2	*	27
	H1	-3.1	1	-2	-5	3	-4	*	18
	H2	-2.0	*	2	-5	4	*	1	35
	Q1	-1.8 (2.1)	1	*	-2	2	-3	1	10
	Q2	-4.5 (-1.5)	*	-4	-8	3	-5	-1	26
	Q3	-3.0 (-1.4)	-1	*	-7	4	*	1	28
	Q4	-1.1 (0.1)	*	5	-4	3	-1	1	41
2003	Annual	-0.6	1	6	-4	1	-9	*	-5
	H1	-4.2	1	2	-11	-2	-18	-4	-25
	H2	3.2	1	10	3	3	*	3	12
	Q1	-0.8 (1.0)	1	5	-5	1	-8	*	20
	Q2	-7.7 (-7.5)	*	-1	-17	-4	-29	-8	-60
	Q3	1.2 (8.4)	*	6	1	3	-1	2	10
	Q4	5.2 (3.9)	2	13	4	4	*	4	13

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. The series has been revised, incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

() Figures in brackets represent the seasonally adjusted quarter-to-quarter % change.

(*) Change of less than 0.5%.

2.23 Amidst the fiscal restraint, *government consumption expenditure (GCE)* reckoned on a national accounts basis registered only modest growth in the first three quarters of 2003, by 1.3%, 0.4% and 0.5% respectively. The growth then picked up to 5.6% in the fourth quarter. Yet this was partly due to lower base of comparison a year earlier. Also contributed were the one-off compensatory payments made to those Civil Servants retiring under the Second Voluntary Retirement Scheme. For 2003 as a whole, GCE grew by 1.9%, still slower than the 2.4% growth in 2002. On a seasonally adjusted quarter-to-quarter comparison, GCE rose throughout the four quarters of 2003, by 1.0%, 0.1%, 1.3% and 3.0% respectively.

/2.24

2.24 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, regained some strength in the latter part of last year, after the setback amidst the SARS impact in the earlier months. GDFCF still grew by 3.5% in the first quarter of 2003, but relapsed to a sharp decline by 5.7% in the second quarter as business conditions faltered upon the spread of SARS. Then, with the ensuing pick-up in economic activity, GDFCF had only a 0.6% fall in the third quarter, and rebounded to a 2.5% rise in the fourth quarter. For 2003 as a whole, GDFCF declined only marginally by 0.1%, visibly improved from the 4.3% dip in 2002.

2.25 There was renewed interest in acquisition of machinery and equipment during the year, except for a temporary relapse in the second quarter. On a year-on-year comparison, *expenditure on machinery, equipment and computer software* surged by 11.9% in the first quarter of 2003, fell by 2.0% in the second quarter, and then bounced back to distinct growth at 4.9% in the third quarter and 10.2% in the fourth quarter as business outlook brightened. Intake of several aircraft in the second half of the year had also helped. For 2003 as a whole, expenditure on machinery, equipment and computer software had an increase of 6.1%, in stark contrast to the 9.1% decrease in 2002.

2.26 On the other hand, building and construction output in overall terms remained subdued throughout the year. *Expenditure on building and construction* fell back by 6.9% in 2003, after a small increase by 1.2% in 2002. On a year-on-year comparison, the decreases were 3.5%, 8.4%, 6.7% and 9.3% respectively in the four quarters of 2003. The slump was mostly due to a distinct fall-off in private sector building work, despite a rise in consents for new building projects during the year. The increase in private sector civil engineering work during the year rendered only a marginal offset. Public sector expenditure on building and construction was also slack in the first half of the year, upon the winding down of work on the KCR West Rail and Ma On Shan Extension. Nevertheless, it regained some momentum in the second half of the year, upon commencement of several new infrastructural projects including the Hong Kong Section of Hong Kong-Shenzhen Western Corridor and Deep Bay Link.

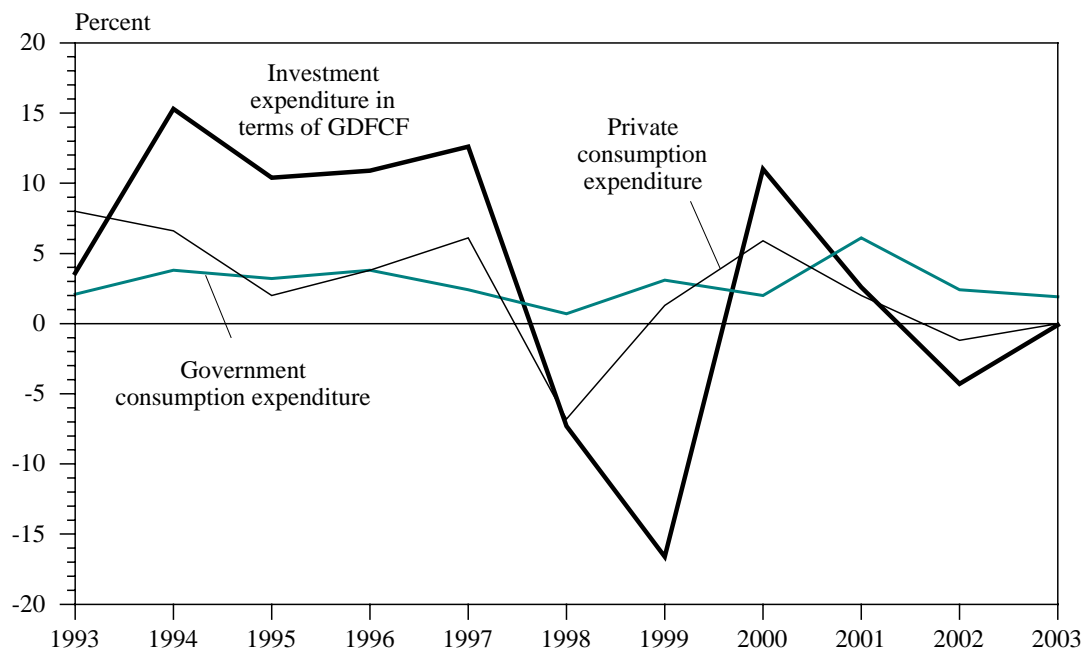
2.27 *Inventories* went up further in the first and second quarters of 2003. Yet this was manifestly involuntary particularly for the second quarter, in face of an abrupt fall-off in demand upon the SARS impact. Following a moderate depletion in the third quarter, inventories were replenished distinctly in the

/fourth

fourth quarter, concurrent with a surge in import intake to meet the reviving demand. For 2003 as a whole, there was a net accumulation of inventories equivalent to 0.6% of GDP, up from that of 0.2% in 2002.

Diagram 2.4

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



Property market⁽⁵⁾

2.28 The property market as a whole showed a significant turnaround in the later months of 2003. The markets for residential property and shopping space improved distinctly in the second half of the year. This occurred in tandem with better performance of the overall economy and rally in the stock market. The signing of CEPA in June and implementation of the Individual Visit Scheme for Mainland visitors to Hong Kong in July provided further support. The market for office space also showed some improvement towards the end of the year.

2.29 The sales market for *residential property* picked up in the second half of 2003, having remained sluggish in the first half of the year. This was supported by a distinct improvement in the outlook for the economy, following the signing of CEPA and implementation of the Individual Visit Scheme, and

/amidst

amidst a more sanguine global economic environment. Developers actively resumed sales in the primary market as the SARS impact waned, and the sales were generally met with a good response. Hence many developers had proceeded to reduce or withdraw the price discounts and other concessions offered earlier. Moreover, there was a notable revival in activity in the secondary market. Flat prices bottomed out in the third quarter, and rebounded visibly in the fourth quarter. In the luxury end of the market, strong buying interest emerged in the latter part of the year, leading to a more pronounced rebound. Purportedly, the Government's new policy measure to attract investment immigrants to Hong Kong rendered some lift to this segment.

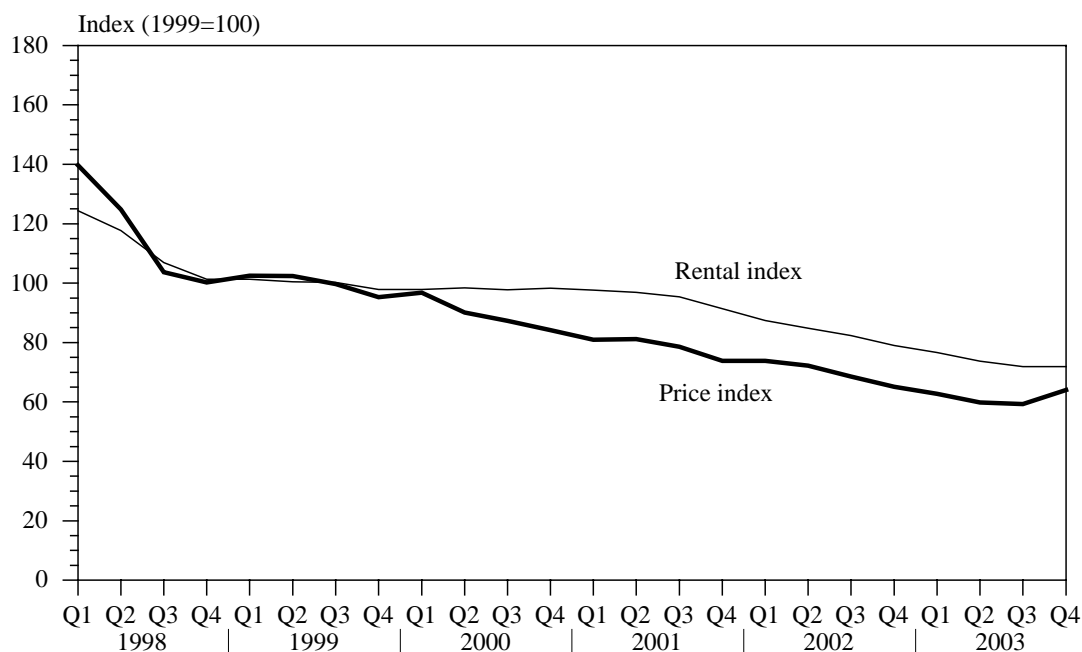
2.30 On a quarter-to-quarter comparison, flat prices on average decreased by 4%, 5% and 1% respectively in the first three quarters of 2003, before increasing distinctly by 8% in the fourth quarter. For 2003 as a whole, flat prices on average fell by 2%, much narrowed from the 12% fall in 2002. Compared with the peak level in the third quarter of 1997, flat prices in the fourth quarter of 2003 remained substantially lower, by an average of 62%. In the first half of 2003, with flat prices still falling and with the mortgage rate staying at a low level, and notwithstanding reduced household income, home purchase affordability improved further, after the substantial improvement over the past several years. Yet in the second half of the year, the distinct rebound in flat prices led to some reduction in home purchase affordability.

2.31 As to the rental market for residential property, leasing activity likewise turned more active in the second half of 2003, after remaining quiet in the first half of the year. Flat rentals had tended to stabilise in the fourth quarter. On a quarter-to-quarter comparison, private housing rentals on average declined by 3%, 4% and 2% respectively in the first three quarters of 2003, yet showed little change in the fourth quarter. For the year as a whole, there was on average a fall of 9%, also narrowed from the 14% fall in 2002. Against the peak level in the third quarter of 1997, private housing rentals were significantly down in the fourth quarter of 2003, by an average of 48%. Mainly as a result of the marked decline in flat rentals, lease affordability likewise improved over the past few years.

/Diagram 2.5

Diagram 2.5

Residential flat prices and rentals



2.32 On *commercial property*, the rental market for *office space* weakened further during most of 2003, yet turned more active in the rest of the year. The abundant supply of new and existing office space, coupled with the SARS impact, exerted much downward pressure on rentals in the first half of the year. Yet after the waning of SARS, such downward pressure on rentals tended to lessen in the second half. With rentals for Grade A office space having fallen to a more attractive level and with an upturn in business sentiment, leasing demand for office space strengthened somewhat more recently. As to the sales market, investor interest was rekindled markedly in the second half of the year, stimulated in part by the signing of CEPA in June and perhaps more so by the better economic outlook. The rental market for *shopping space*, having been hard hit by the spread of SARS in the second quarter of 2003, generally revived in the second half of the year. This was supported by the pick-up in local consumer demand, as well as in inbound tourism following initiation of the Individual Visit Scheme in July. The sales market showed a more distinct improvement, as investor interest became much keener in the second half of the year. There were reportedly a number of transactions involving short-term re-sale with profits. On *industrial property*, the rental market remained generally weak in 2003. Demand for conventional factory space continued to be undermined by the further contraction in local manufacturing activity.

/Modern

Modern industrial premises that could be used as back-up service centres also faced competition from office space in the fringe areas, as rentals for such office space fell to an even lower level. As to the sales market, support came mainly from projects involving the conversion of industrial sites to hotel use, amidst the rebound in inbound tourism.

2.33 *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 23% in 2003, after a marginal decrease by 1% in 2002. Analysed by main type of property, planned developments of private residential property surged by 69% in terms of units or by 31% in terms of total usable floor area in 2003, reversing the corresponding decreases of 35% and 21% in 2002. On the other hand, planned developments of commercial property plummeted by 45% in 2003, after a 38% increase in 2002. Planned developments of industrial property plunged by 99% in 2003, having risen by 134% in 2002 over a low base. Planned developments of property in the “others” category soared by 306% in 2003, following a 46% increase in 2002, mainly due to a surge in hotel projects.

Labour market⁽⁶⁾

2.34 Though still slack in overall terms towards the year-end, the labour market showed a progressive turnaround in the second half of 2003, from the distinct setback in the first half of the year, mostly in the second quarter. Indicating this, the *seasonally adjusted unemployment rate* rose from 7.2% in the fourth quarter of 2002 to 7.5% in the first quarter of 2003, and sharply further to 8.6% in the second quarter and then to a peak of 8.7% in May - July, consequential to an abrupt downturn in the economy under the impact of SARS. Nevertheless, as overall economic activity and in particular inbound tourism and local consumer spending bounced up after SARS waned, the seasonally adjusted unemployment rate fell back to 8.3% in the third quarter and markedly further to 7.3% in the fourth quarter. For 2003 as a whole, the unemployment rate averaged at 7.9%, which however was still appreciably above that in 2002, at 7.3%. Furthermore, there was a clear lengthening in the median duration of unemployment, from 90 days in the fourth quarter of 2002 to 109 days in the fourth quarter of 2003, as well as a surge in the proportion of persons unemployed for six months or more, from 30% to 36%.

/2.35

2.35 The *underemployment rate* exhibited a broadly parallel profile. It soared to a peak of 4.3% in the second quarter of 2003, after a modest decline from 3.1% in the fourth quarter of 2002 to 2.9% in the first quarter of 2003. Conceivably, this was due to a considerable proportion of employees having been temporarily suspended from work or asked to take no-pay leave during the SARS period. Yet as SARS waned and the affected employees gradually returned to their jobs, the underemployment rate came down again, to 3.6% in the third quarter and further to 3.3% in the fourth quarter. For 2003 as a whole, the underemployment rate averaged at 3.5%, which however was also appreciably higher than that in 2002, at 3.0%.

Table 2.12

Unemployment and underemployment rates

		<u>Seasonally adjusted 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	Annual	7.9	3.5
	Q1	7.5	2.9
	Q2	8.6	4.3
	Q3	8.3	3.6
	Q4	7.3	3.3

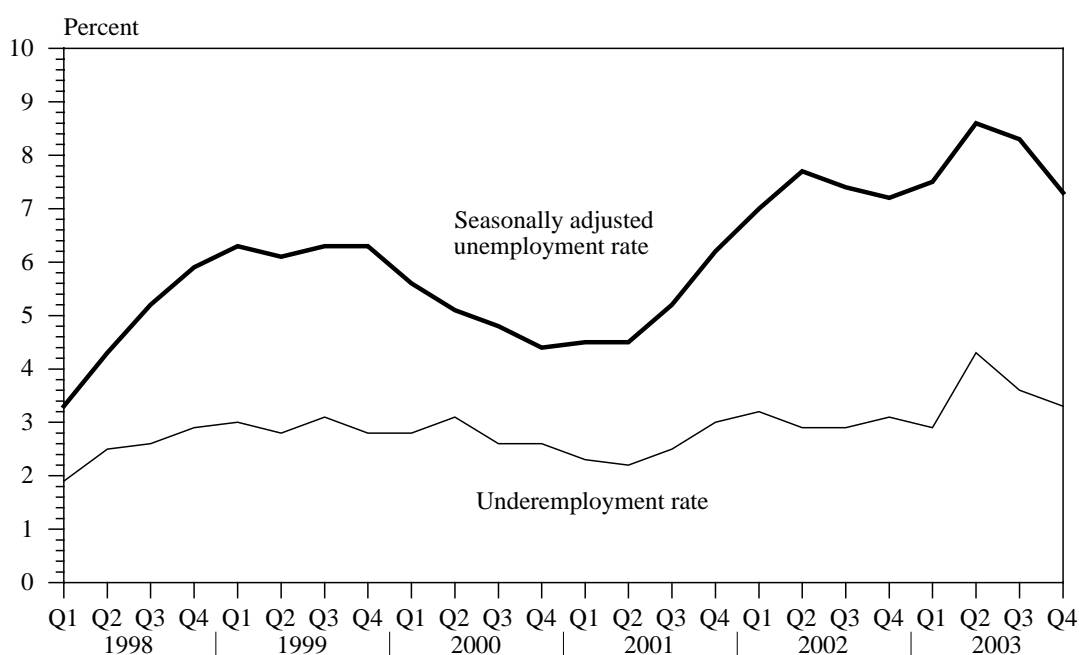
Note : Labour force statistics for 2002 have been slightly revised, upon finalisation of the end-2002 population estimates in August 2003. The revised statistics have been incorporated into Table 2.12 and Diagram 2.6.

Source : General Household Survey, Census and Statistics Department.

/Diagram 2.6

Diagram 2.6

Unemployment and underemployment rate



2.36 On a quarter-to-quarter comparison, *total employment* as enumerated from households went up by 1.3% in the fourth quarter of 2003, reversing the downtrend seen earlier in the year. Employment gain was most appreciable in the import/export trade, backed by the robust performance of external trade. More appreciable increases in employment were also observed in the retail trade, restaurants, hotels, transport, and amusement and recreational services, along with the surge in inbound tourism and revival in local consumer spending, as well as in real estate and in decoration and maintenance, in line with a more active property market. On the other hand, *total labour force* shrank for most of the year. On a quarter-to-quarter comparison, there was a slight decrease by 0.1% in the fourth quarter of 2003. This was attributable entirely to a fall in the labour force participation rate, especially that for younger persons aged 15-29 and middle-aged males at 40-49. As the gain in total employment went together with a contraction in total labour force, this led to an improvement in the overall manpower resource balance and hence a drop in unemployment rate towards the end of the year. On a year-on-year comparison, total employment and total labour force had broadly similar decreases, by 0.6% and 0.5% respectively in the fourth quarter of 2003. This contrasted with the situation in the preceding three quarters, when total employment either rose more slowly than or fell by more than total labour force, by 0.8%, 0.5% and -1.7% as against 1.3%, 1.5% and -0.7%.

/2.37

2.37 Labour income in money terms continued to ease. On a year-on-year comparison, *labour earnings* fell by an average of 2.1% in money terms in the first three quarters of 2003, with a more distinct fall in the second quarter under the SARS impact. This came after the 1.1% decline in 2002. Yet netting out the decrease in consumer prices as measured by the Composite CPI, labour earnings still registered a modest gain by an average of 0.6% in real terms in the first three quarters of 2003. This however was less than the 2.0% gain in 2002. On a year-on-year comparison, *labour wages* were also reduced by an average of 2.1% in money terms in the first nine months of 2003, with a more distinct fall towards mid-year under the SARS impact. This followed a 1.0% decline in 2002. Netting out the fall in consumer prices as measured by the CPI(A), labour wages likewise edged up, by an average of 0.3% in real terms in the first nine months of 2003. Yet this was likewise less than the 1.3% increase in 2002.

Prices⁽⁷⁾

2.38 Overall consumer prices, whilst kept coming down for the fifth consecutive year since late 1998, had a smaller decrease in 2003 than in 2002. The moderation in price decline took place in the first and fourth quarters of 2003, outweighing the accentuated falls in the second and third quarters, which were mainly brought about by first, the severe blow of SARS on consumer demand, and then, by the special relief measures granted by the Government to alleviate the SARS impact. The moderation was more appreciable towards the year-end, when both property rentals and labour wages tended to stabilise amidst the generally improved economic conditions. Also, in face of the surge in inbound tourism and revival in local consumer spending, some of the local retailers and service providers reduced the price discounts and other concessions on their goods and services, and some others even raised the prices modestly. A rebound in the prices of retained imports over the past year, amidst a weaker US dollar and uptrend in world commodity prices, should have contributed as well.

2.39 For 2003 as a whole, the *Composite Consumer Price Index* went down by 2.6%, smaller than the 3.0% decline in 2002. The year-on-year decrease actually narrowed to 2.0% in the first quarter of 2003, from 2.9% in the fourth quarter of 2002, although this was largely attributable to a low base of comparison owing to the rates concession by the Government in 2002. The decrease then widened to 2.5% in the second quarter under the impact of SARS,

/and

and further to 3.6% in the third quarter on account of the new rates concession as well as the waiver of water and sewage charges granted as relief measures by the Government. The decrease narrowed again, to 2.3% in the fourth quarter, upon firming up in retail prices of some of the goods and services, and lapse of the special relief measures.

Table 2.13

**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 ^(a)	-2.6	-2.8	-2.7	-2.5
	Q2	-3.2	-3.6	-3.1	-2.9
	Q3	-3.5	-4.1	-3.4	-2.8
	Q4 ^(b)	-2.9	-2.4	-3.2	-3.0
2003	Annual	-2.6	-2.1	-2.7	-2.9
	H1	-2.2	-1.8	-2.3	-2.3
	H2	-3.0	-2.5	-3.1	-3.5
	Q1 ^(c)	-2.0	-1.8	-2.1	-1.7
	Q2	-2.5	-1.8	-2.6	-2.9
	Q3	-3.6	-3.3	-3.7	-4.1
	Q4	-2.3	-1.7	-2.4	-2.9

- Notes: (a) The widening in year-on-year decline in the CPIs in the second quarter of 2002 from the first quarter was related 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 from the third quarter 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. This was irrelevant to the CPI(C).
- (c) The further narrowing in year-on-year decline in the CPIs in the first quarter of 2003 from the fourth quarter of 2002 was mainly attributable to a lower base of comparison brought about by the rates concession by the Government in 2002.

/Table 2.14

Table 2.14

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

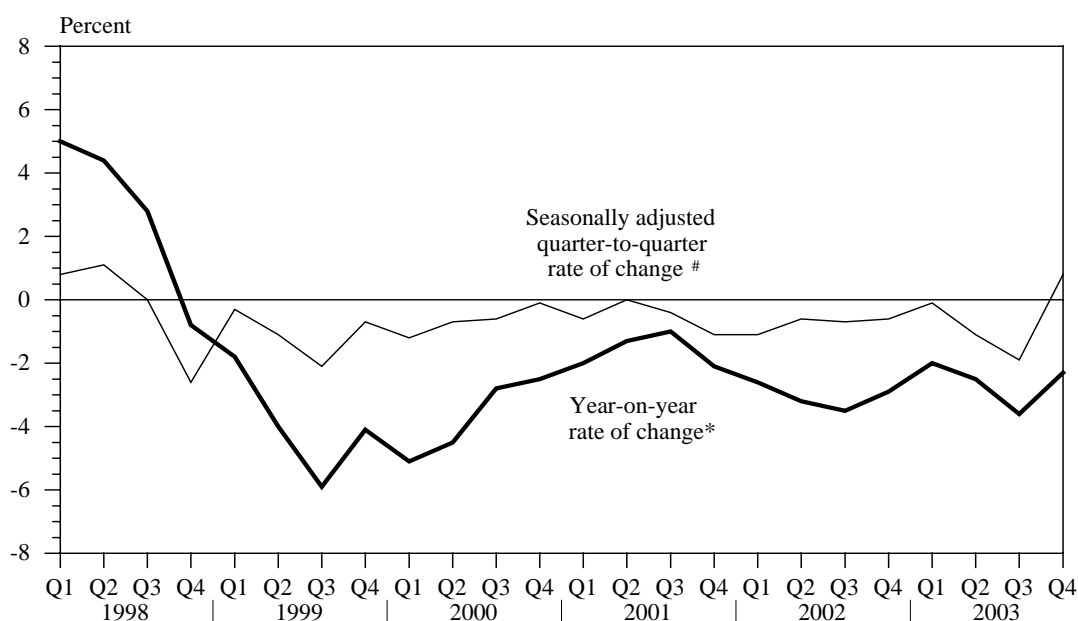
		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2002	Q1	-1.1	-0.6	-1.4	-1.3
	Q2 ^(a)	-0.6	-0.6	-0.6	-0.7
	Q3	-0.7	-0.7	-0.7	-0.5
	Q4	-0.6	-0.6	-0.6	-0.6
2003	Q1 ^(b)	-0.1	*	-0.2	*
	Q2 ^(c)	-1.1	-0.5	-1.1	-1.8
	Q3 ^(d)	-1.9	-2.3	-1.8	-1.6
	Q4 ^(e)	0.8	1.1	0.7	0.6

- Notes: (a) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly narrowed in the second quarter of 2002 from the first quarter. There was little additional dampening effect from the rates concession by the Government 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 special one-off rebate of electricity charges 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 granted by the Government for one year from April 2002 to March 2003.
- (b) The quarter-to-quarter decline in the seasonally adjusted CPIs narrowed distinctly further in the first quarter of 2003 from the fourth quarter of 2002. This was mainly attributable to a low base of comparison brought about by the rates concession by the Government in 2002, which outweighed the downward effect of the special one-off rebate of electricity charges granted by a power company in January and February 2003.
- (c) The quarter-to-quarter decline in the seasonally adjusted CPIs widened considerably in the second quarter of 2003 from the first quarter, mainly reflecting the impact of SARS on consumer demand and hence on consumer prices.
- (d) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly enlarged further in the third quarter of 2003 from the second quarter, mainly reflecting the dampening effects from the rates concession and the waiver of water and sewage charges granted by the Government for the periods July - September and August - November respectively.
- (e) The seasonally adjusted CPIs turned up to increase in the fourth quarter of 2003 from the third quarter, mainly due to dissipation of the dampening effect from the rates concession and levelling of that from the waiver of water and sewage charges, but also due to firming in some of the consumer prices.
- (*) Change of less than 0.05%.

/Diagram 2.7

Diagram 2.7

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.

2.40 The *GDP deflator*, as a broad measure of overall price change in the economy, dipped by 5.1% in 2003, larger than the 3.0% decrease in 2002. Yet the year-on-year decline in the fourth quarter of 2003, by 4.8%, was narrowed from the widening declines in the second and third quarters, by 5.4% and 5.7% respectively. The larger fall in the GDP deflator in 2003 than in 2002 was mainly attributable to a worsening in the terms of trade in goods and services as well as accentuated decline in the price deflator for government consumption expenditure, which more than offset moderated decline in the price deflators for gross domestic fixed capital formation and private consumption expenditure. Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* nevertheless had lesser decreases in 2003 than in 2002, by 3.8% and 2.4% respectively as against 4.5% and 3.5%. On a seasonally adjusted quarter-to-quarter comparison, the decline in the GDP deflator moderated in the latter part of the year, to 1.3% in the third quarter of 2003 and further to 0.8% in the fourth quarter, having accentuated from 1.3% in the first quarter to 1.5% in the second quarter.

/Table 2.15

Table 2.15

**GDP deflator
(year-on-year rate of change (%))**

2002	Annual [#]	-3.0	
	Q1 [#]	-2.3	(-0.6)
	Q2 [#]	-2.2	(-0.8)
	Q3 [#]	-3.1	(-1.1)
	Q4 [#]	-4.1	(-1.6)
2003	Annual ⁺	-5.1	
	Q1 [#]	-4.6	(-1.3)
	Q2 [#]	-5.4	(-1.5)
	Q3 [#]	-5.7	(-1.3)
	Q4 ⁺	-4.8	(-0.8)

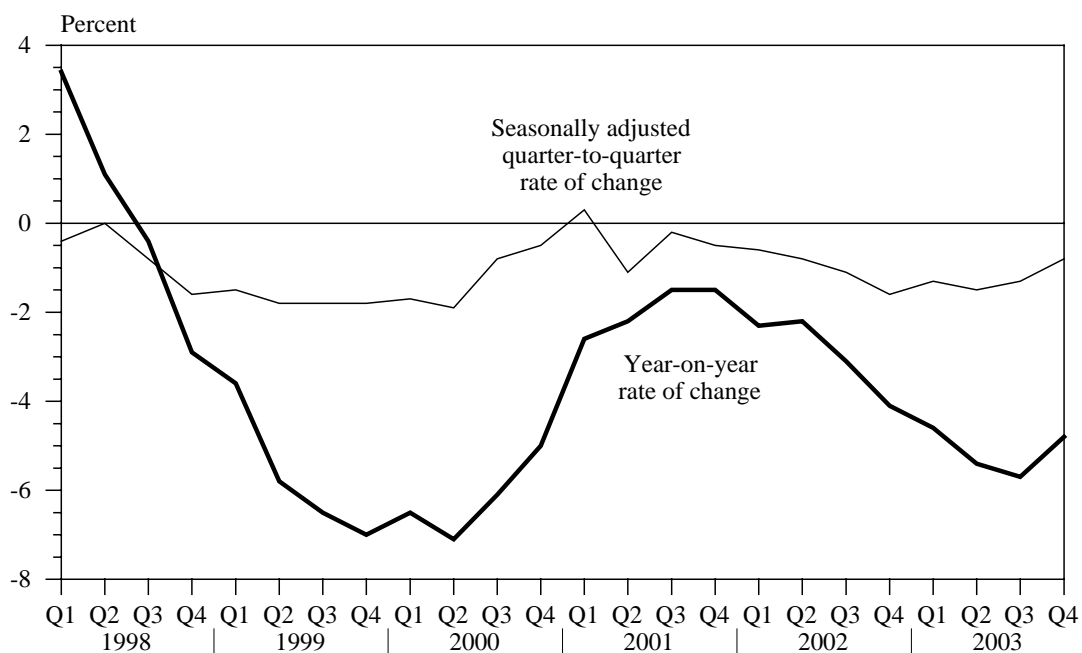
Notes : (#) Revised figures.

(+) Preliminary figures.

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

Diagram 2.8

GDP deflator



Financial sector⁽⁸⁾

2.41 The *spot exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate up to late September 2003, but strengthened visibly since then. It reached a high of 7.712 on 7 October, before easing back to 7.763 at the end of the year. The spread of the twelve-month Hong Kong dollar forward rate above the spot rate widened briefly to 355 pips (each pip equivalent to HK\$0.0001) in late April, amidst concern about the adverse impact of SARS on the economy, but soon narrowed back as SARS was brought under control. The premium switched into a discount as from late September, initially being influenced by increased speculation for revaluation of the renminbi and later under strong inflow of funds. The discount widened to 595 pips at end-2003, in contrast to a premium of 169 pips at end-2002.

2.42 Under the linked exchange rate system, movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. During 2003, the US dollar weakened against most of the other major currencies. This was initially triggered by uncertainties surrounding the US-led war on Iraq and concern about the pace of US economic recovery, and subsequently aroused by increasing market attention on the much enlarged US current account and fiscal deficits despite the clearer US economic upturn. The burden of adjustment in the US dollar was largely borne by the euro, with the dollar-euro rate weakening by 16.5% to an average of 1.132 in 2003, from that of 0.946 in 2002 (the rate moved to 1.259 at end-2003, from 1.050 at end-2002). Other major currencies also appreciated against the US dollar, albeit to a lesser extent. The dollar-pound sterling rate, at an average of 1.635 in 2003, weakened by 8.1% from that of 1.503 in 2002 (the rate moved to 1.786 at end-2003, from 1.612 at end-2002). The yen-dollar rate, at an average of 115.9 in 2003, strengthened by 7.4% from that of 125.2 in 2002 (the rate moved to 107.4 at end-2003, from 118.8 at end-2002). Most of the major East Asian currencies, except the Hong Kong dollar and renminbi, likewise appreciated against the US dollar in 2003. Taking the various currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell by 3.2% to an average of 100.7 in 2003, from that of 104.0 in 2002 (the Nominal Index moved to 98.8 at end-2003, from 102.0 at end-2002). After adjusting for changes in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* was down by 7.0% to an average of 89.4 in 2003, from that of 96.1 in 2002 (the Real Index moved to 86.4 in December 2003, from 93.2 in December 2002).

/2.43

2.43 Affected by changes in the spread between the Hong Kong dollar spot rate and forward rate, local inter-bank *interest rates* rose briefly in April 2003, but fell progressively during the rest of the year. At end-2003, the three-month HIBOR was at a discount of 104 basis points against the corresponding Euro-dollar deposit rate, in contrast to a premium of 9 basis points at end-2002. Following the movements 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, and stayed at that level since then. The best lending rate remained unchanged at 5.00% throughout 2003, while the savings deposit rate offered by the major commercial banks was lowered to 0.02% in October and further to 0.01% in December. The spread of the best lending rate over the three-month time deposit rate widened, from an average of 4.71 percentage points in 2002 to that of 4.93 percentage points in 2003.

2.44 *Hong Kong dollar deposits*, having shrunk by 1.6% during 2002, turned up to increase by 5.8% during 2003. Yet *Hong Kong dollar loans* had an enlarged decrease, from 1.9% to 2.6%. As Hong Kong dollar loans continued to contract while Hong Kong dollar deposits expanded during 2003, the Hong Kong dollar loan-to-deposit ratio moved down much more, to 81.5% at end-2003, from 88.5% at end-2002.

2.45 The local *stock market*, having consolidated in the early part of last year, staged a strong rally in the remainder of the year. In the early months of 2003, market sentiment was dampened by concern over the US-led war on Iraq, uncertain outlook for the US economy, and poor performance of the major stock markets overseas. The outbreak of SARS in March dealt another blow to investor confidence. In consequence, the Hang Seng Index plummeted to a 4½-year low at 8 409 on 25 April, representing a 9.8% fall from the level at end-2002. Yet as SARS was brought under control, and as the performance and near-term outlook of the major overseas economies improved after the war on Iraq fairly quickly ended, local share prices rebounded appreciably in May. Additional boost came from the signing of CEPA with the Mainland in late June. Further lifting sentiment was a series of positive developments occurring in the second half of the year, including launch of the Individual Visit Scheme for Mainland visitors to Hong Kong thereby bolstering inbound tourism, rebound in the property market, and influx of funds. The rally in the US stock market fuelled the market upturn. As a result, the Hang Seng Index surpassed the 11 000 mark in September and then the 12 000 mark in October, to reach a

/28-month

28-month high at 12 594 on 12 December. It closed 2003 at 12 576, up substantially by 34.9% over the level of 9 321 at the end of 2002. (The Hang Seng Index broke the 13 000 mark in early January 2004, and reached another high at 13 928 on 18 February, amidst growing optimism about the near-term outlook for the economy generally and the property market in particular. It closed at 13 907 on 27 February.)

Notes :

- (1) See Chapter 2, *2003 Economic Background* for more details.
- (2) 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.
- (3) North America here comprises the United States and Canada.
- (4) 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.
- (5) See Chapter 3, paragraphs 3.9 to 3.22, *2003 Economic Background* for more details.
- (6) See Chapter 5, *2003 Economic Background* for more details.
- (7) See Chapter 6, *2003 Economic Background* for more details.
- (8) See Chapter 4, *2003 Economic Background* for more details.

CHAPTER 3 : FORECAST OF ECONOMIC PERFORMANCE IN 2004

Major external influences

(A) *Global economic environment*

3.1 Following a fickle recovery over the course of 2002, the global economy remained lacklustre in the early part of 2003, amidst heightened geo-political tension and subdued business investment against an overhang of excess capacity. Yet with the war on Iraq ending fairly quickly, and with further easing in fiscal and monetary policies generally, the global economic environment turned more sanguine since. In East Asia, the impact of SARS on the affected economies earlier in the year, though severe, turned out to be only short-lived, and a broad-based upturn emerged after mid-year. For 2003 as a whole, the global economy should have attained growth at appreciably above 3%, further to that of 3.0% in 2002.

3.2 The global economy is expected to accelerate even further in 2004. The United States is currently on a strong economic upswing, amidst a very low interest rate environment, stimulus from the earlier tax cuts with more cuts to come soon, and much improved corporate profitability along with strong productivity gains. Moreover, with inflation staying mild, monetary policy seems likely to remain accommodative in the meantime. In Europe, economic activity seems to have revived slightly in the more recent period, amidst stronger global demand and better sentiment. The near-term prospect is for a continuing pick-up in activity, though perhaps still at a modest and lagging pace. In East Asia, the Mainland economy looks set for another year of strong surge, underpinned by buoyancy in both domestic demand and external trade, as well as sustained inflow of foreign direct investment. The other East Asian economies should likewise benefit from the sanguine external environment. Assuming that the recent spread of avian flu across the region would not inflict any appreciable damage in overall terms, these East Asian economies should be able to attain further solid growth this year. The Japanese economy after a long lull has staged a distinct rebound through last year, and the revival is being carried over well into the current year.

/Table 3.1

Table 3.1

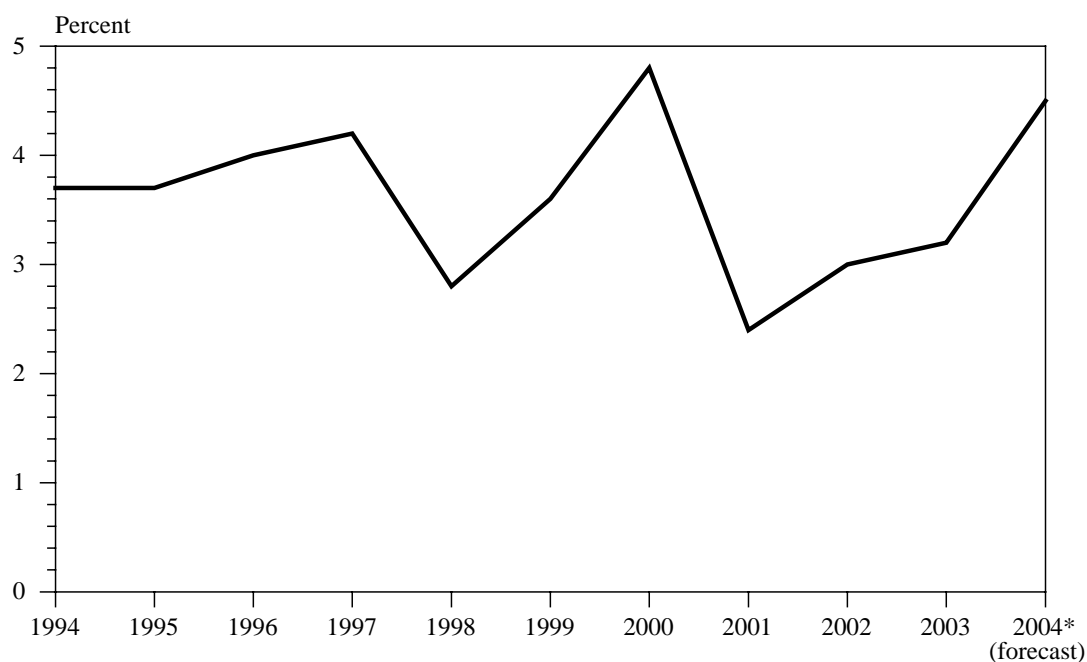
**Growth forecasts
for the world economy in 2004**

		<u>GDP growth</u> (%)
IMF	(Feb 2004)	4.5
NIESR	(Jan 2004)	4.1
World Bank	(Oct 2003)	3.0
OECD ^(a)	(Dec 2003)	3.0

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

Diagram 3.1

**Global economic growth
(rate of change)**



Note : (*) IMF's latest forecast.

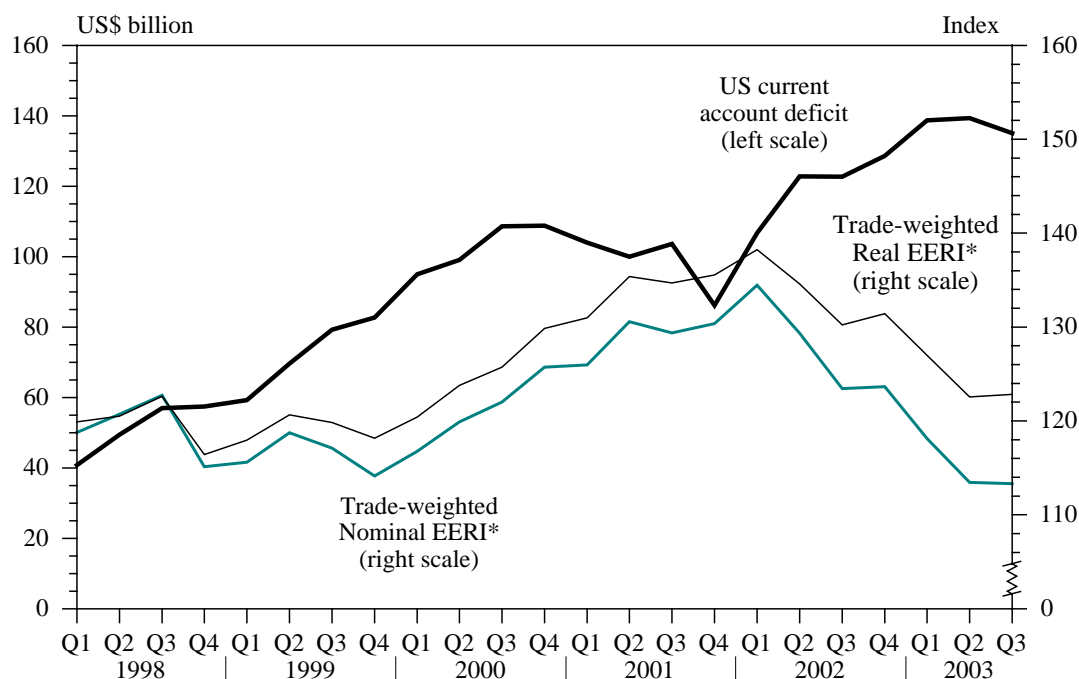
3.3 Amidst a clear upswing in the global economy, there are still certain caution factors to watch over. Within the region, the rapid spread of avian flu, if to worsen significantly, may begin to induce threat on broader economic activity. Also, there continues to be attention over China-US trade relations, and the emergence of further friction could induce impact on the regional trade

/flows

flows. On a wider front, unease about geo-political volatility and terrorist activities continues to cast a shadow on the global climate. Also, the tracks in US dollar exchange rate and interest rates are of high significance in influencing the global financial and economic scene, including the asset markets and external trade.

Diagram 3.2

US current account deficit and exchange rate movements



Note : (*) Upward movements in the Real/Nominal EERI denote real/nominal appreciation of the US dollar, and downward movements denote real/nominal depreciation.

(B) Exchange rates and price competitiveness

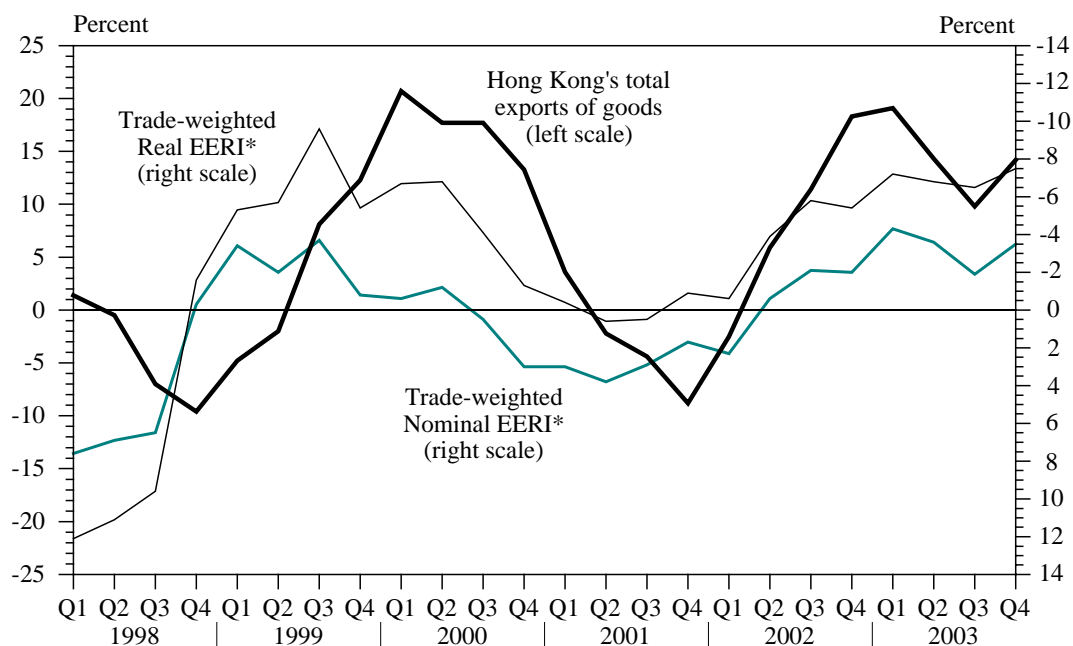
3.4 The US dollar was on a general downtrend since early 2002, though with brief rebounds against the euro and the pound sterling during July and August 2003. The downslide turned more pronounced towards the end of last year, sparked by G7's urge for greater currency flexibility in the East Asian economies, and more by concern over the mounting US current account and fiscal deficits. The Hong Kong dollar depreciated along with the US dollar under the linked exchange rate system. Coupled with the continued decline in local consumer prices, the trade-weighted Real Effective Exchange Rate Index

/of

of the Hong Kong dollar in 2003 was on average 7.0% lower than in 2002. This signified a distinct enhancement in Hong Kong's external price competitiveness, which, together with the ascending competitiveness of Mainland products in the overseas markets, had contributed to the robust performance of Hong Kong's exports throughout 2003.

Diagram 3.3

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



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/Nominal EERI denote real/nominal appreciation of the Hong Kong dollar, and negative changes denote real/nominal depreciation. For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real/Nominal 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.

3.5 The US dollar weakened distinctly further in January and early February this year, slipping to successive record lows against the euro and 11-year lows against the pound sterling, though to a lesser extent against the Japanese yen. Despite some rebound seen lately, and even with the visible

/upturn

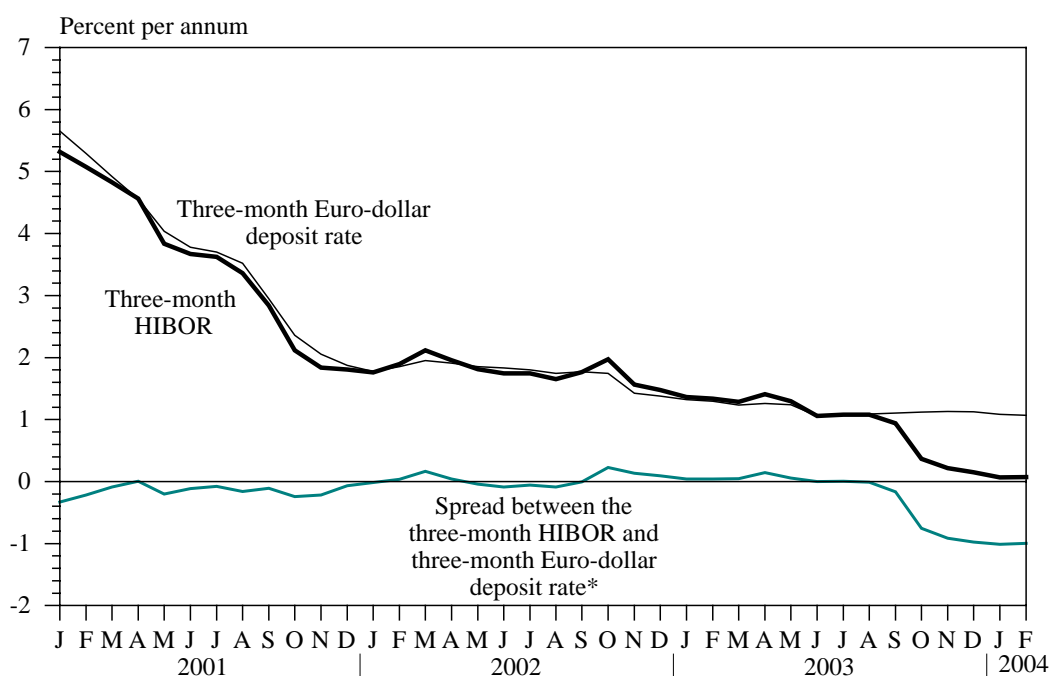
upturn in the US economy, the market appears to expect the relative weakness in the US dollar to stay for some time. If this is the case, so would the Hong Kong dollar. On the cost front, while inflation in the Mainland seems to have re-surfaced lately, domestic costs in Hong Kong may stay generally soft for some time. Taking the exchange rate and cost situations together, there could be further enhancement in Hong Kong's external price competitiveness in 2004.

(C) Interest rate movements

3.6 In 2003, the US Federal Reserve slashed the Fed Funds target rate once, by 25 basis points in June to a 45-year low of 1%, in a move to add strength to the economic recovery and to avert a down-drift in inflation in the country. In Hong Kong, the best lending rate was nevertheless kept unchanged at 5% throughout the year. Reflecting substantial inflow of funds as Hong Kong's economic outlook brightened, local inter-bank interest rates sank below their US counterparts after early August. Also, the yield of Exchange Fund bills turned negative, and switched into discount against that of the US Treasuries counterpart. Abundant liquidity in the local banking sector and persistently low interest rates are rendering support for a further pick-up in the Hong Kong economy.

Diagram 3.4

Three-month HIBOR and Euro-dollar deposit rate



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

/(D)

(D) *Economic integration between Hong Kong and the Mainland*

3.7 Proximity to the Mainland as a huge and dynamic economic hinterland is a key edge that Hong Kong possesses over its neighbouring economies. In order to reap more fully the enormous opportunities being accorded by rapid growth and further liberalisation in the Mainland economy, Hong Kong will do well by clinching to the growth impetus in the Mainland, whilst making effective use of its international business perspective to meet the Mainland's development needs. Thus, it is essential to foster as much as possible the multitude of inter-flows, more specifically those of people, goods, capital, information and services, between the two places.

3.8 The signing of CEPA signifies a major milestone towards advancing the economic interface between Hong Kong and the Mainland. On trade in goods, the zero tariff concession on Hong Kong's domestic exports, which has become substantially effective since 1 January 2004, is expected to lift the competitiveness of Hong Kong's products in the Mainland market, as compared to products imported from other places. On trade in services, by giving Hong Kong companies a "first mover" advantage in a large number of sectors, it should facilitate expansion of Hong Kong's services across the boundary and open up more opportunities for business in the Mainland. As to trade and investment facilitation, it will help promote and streamline trade, investment and other business flows between the two places.

3.9 The launch and progressive extension of the Individual Visit Scheme for Mainland residents coming to Hong Kong has been adding fuel to the already strong upturn in Mainland visitor inflow. Between 28 July and 31 December 2003, there were over 667 000 Mainland visitor arrivals to Hong Kong under this scheme, contributing around 17 percentage points to the growth in overall visitor arrivals from this source in that period. This renders a key re-invigorating force to Hong Kong's inbound tourism. Further extension of the scheme to cover the entire Guangdong Province, which is likely to come about by May 2004, will render a yet further boost.

3.10 The initiation of personal renminbi business by the banks in Hong Kong, covering deposit-taking, exchange, remittances and renminbi credit cards, marks the opening of a new venue towards further enhancing the role of Hong Kong as a key financial centre for the Mainland. The expectation is for the scope of renminbi business in Hong Kong to be broadened in the future.

/Economic

Economic outlook for Hong Kong's major trading partners in 2004⁽¹⁾

(A) *United States*

3.11 Amidst rising geo-political uncertainties in the run-up to the war on Iraq, the US economy was in a relatively weak state in the first quarter of 2003, with GDP posting only a modest 2.0% growth on an annualised basis. Yet its recovery process soon gathered more strength after the end of the war. GDP growth picked up to 3.1% in the second quarter, and sharply further to 8.2% in the third quarter, the latter growth being the fastest in almost two decades. GDP growth remained robust at 4.1% in the fourth quarter. For 2003 as a whole, the US economy grew by 3.1%, distinctly faster than the 2.2% growth in 2002. Consumer spending stayed robust throughout the year, partly helped by the strong rally in the US stock market since mid-March, but also by the substantial tax cuts in the year. Business investment, which had been a laggard for quite some time, picked up visibly after the first quarter, along with improved corporate profitability and business confidence. Industrial activity resumed a strong momentum towards the year-end. Labour market conditions also improved considerably, with the unemployment rate coming down to 5.6% by January 2004 from its nine-year high at 6.3% in June last year.

3.12 Almost all of the recently released US economic data are upbeat, suggesting continuing upturn for the near term. The Index of Leading Indicators has risen for ten straight months. The Purchasing Managers Indices for both the manufacturing sector and the service sectors stayed persistently above the boom-bust line more recently, signalling continuing expansion in activity in the months ahead. With a strong uptrend in productivity, and with only mild inflation thereby allowing the monetary policy stance to remain accommodative in the meantime, the US economy looks set for a full-fledged upswing in 2004. Moreover, the fiscal policy stance, as judged from the recent tax cuts and the enlarged fiscal deficit, continues to be supportive to growth.

3.13 Most forecasters, including IMF and OECD, therefore envisage a broad-based upturn in the US economy in 2004, with business investment finally taking a more significant role in the revival and with consumer spending sustaining strength. Their growth forecasts for 2004, which have been marked up successively over the past few months, are now mostly in the range of 4.5-5%, up from the actual growth of 3.1% in 2003 and also well above the trend growth of 2.8% over the past five years.

/Table 3.2

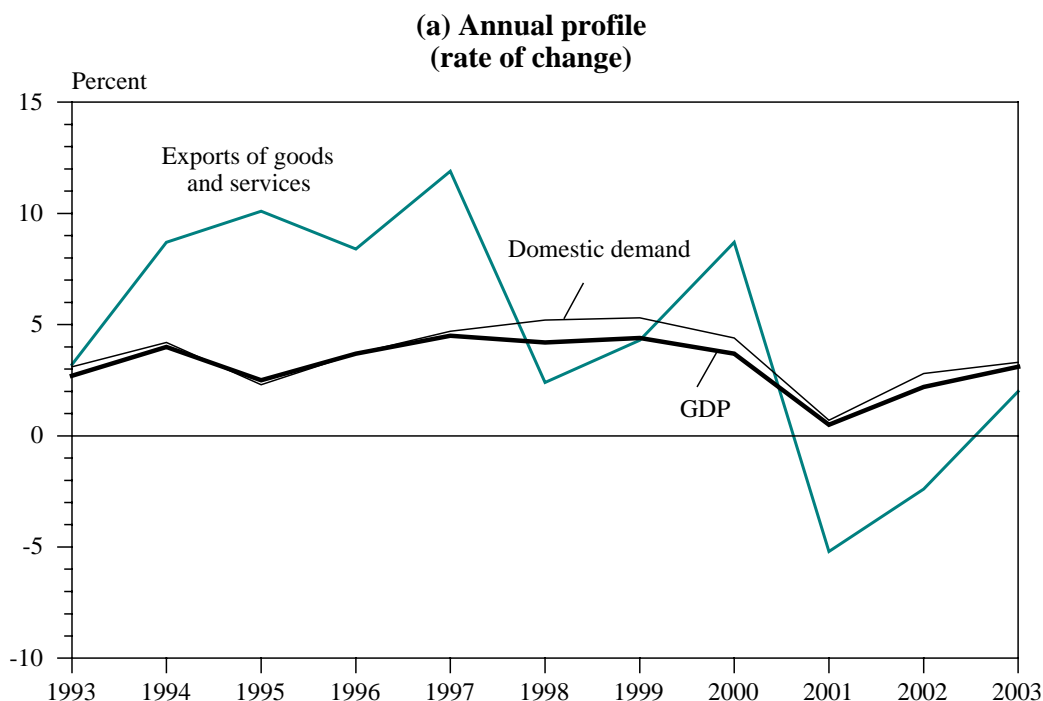
Table 3.2

**Economic growth forecasts
for the United States in 2004**

		<u>GDP growth</u> (%)
US Federal Reserve	(Feb 2004)	4.5 – 5.0*
US Administration	(Feb 2004)	4.0*
NIESR	(Jan 2004)	3.9
World Bank	(Oct 2003)	3.9
IMF	(Feb 2004)	4.6
OECD	(Dec 2003)	4.2
The Economist	(Feb 2004)	4.6
Various private sector forecasters	(Feb 2004)	4.3 – 5.1

Note : (*) Forecast GDP growth rate in the fourth quarter of 2004 over a year earlier.

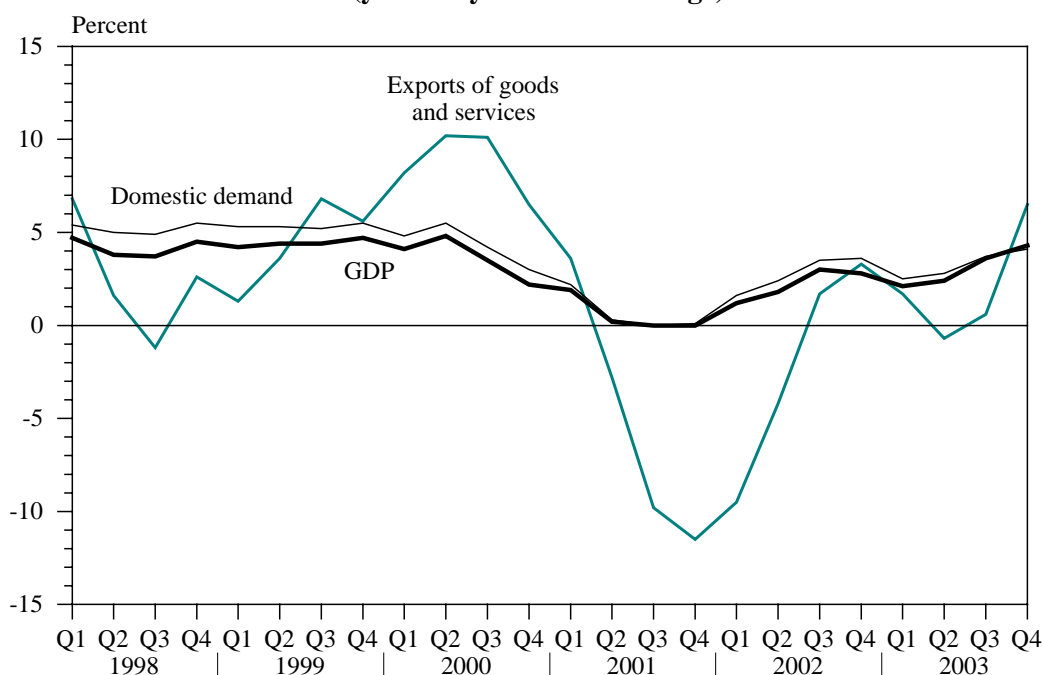
Diagram 3.5
GDP, domestic demand and exports in the United States



/Diagram 3.5 (cont'd)

Diagram 3.5 (cont'd)

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



(B) *East Asia*

Mainland of China

3.14 Despite the setback caused by SARS during the year, the Mainland economy still turned out a remarkable performance in 2003. GDP growth accelerated to 9.9% in the first quarter, but slackened markedly to 6.7% in the second quarter amidst the SARS impact. GDP growth then promptly bounced up, to 9.6% and 9.9% respectively in the third and fourth quarters. For 2003 as a whole, it attained a 9.1% growth. This represented a further pick-up from the 8.0% growth in 2002, and also exceeded the 7% official growth target set at the beginning of 2003. The growth in 2003 was broadly based, with a particularly distinct surge in fixed asset investment and with consumer spending also holding up well except for a brief relapse due to SARS. On the external front, both exports and imports of goods leaped by more than 30% last year, the former reflecting in part the ascending competitiveness of Mainland products in the world market, and the latter reflecting the substantial intake associated with strong domestic demand and continuing inward foreign direct investment.

/3.15

3.15 The Mainland economy is poised for another year of notable growth in 2004, though perhaps not as rapid as in the latter part of 2003. Fixed asset investment by business enterprises may slow somewhat after the spree last year, in face of a relative tightening in bank liquidity to dampen money supply growth and investment intensity in the heated sectors. Yet the stepping up of large-scale infrastructure projects, including those for development of the West, should still render impetus. Consumer spending is expected to stay buoyant, on the back of rising household income, increasing availability of consumer credit, and the effect of a 30% rise in civil service pay in December 2003. Externally, exports should receive support from a weak US dollar and robust global demand, but there may be some curtailment from the reduction in VAT rebate on exports as from January this year. As to inward foreign direct investment, it should continue apace, as the Mainland economy liberalises and opens up further in accordance with China's commitments under WTO. Assuming that the economic impact of avian flu is only limited and confined, the Mainland economy should be able to attain further robust growth at around 8% in 2004.

Table 3.3

**Economic growth forecasts
for the mainland of China in 2004**

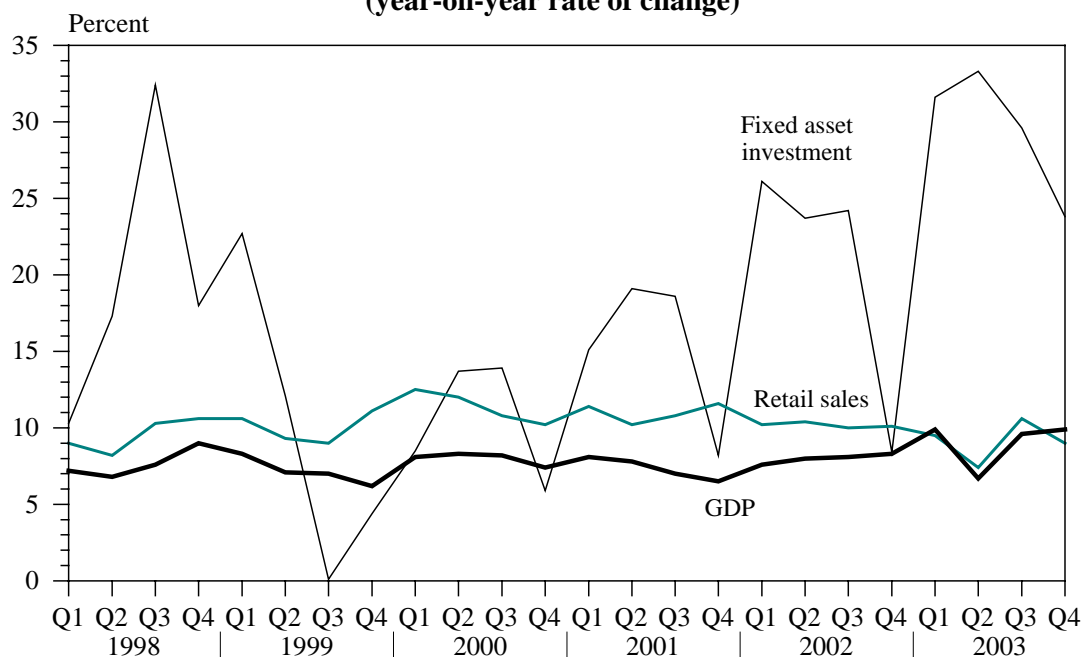
		<u>GDP growth</u> (%)
CASS ^(a)	(Oct 2003)	8.0
OECD	(Dec 2003)	7.8
ADB	(Sep 2003)	7.9
IMF	(Feb 2004)	8.5
Various private sector forecasters	(Feb 2004)	7.7 - 9.5

Note : (a) Chinese Academy of Social Sciences.

/Diagram 3.6

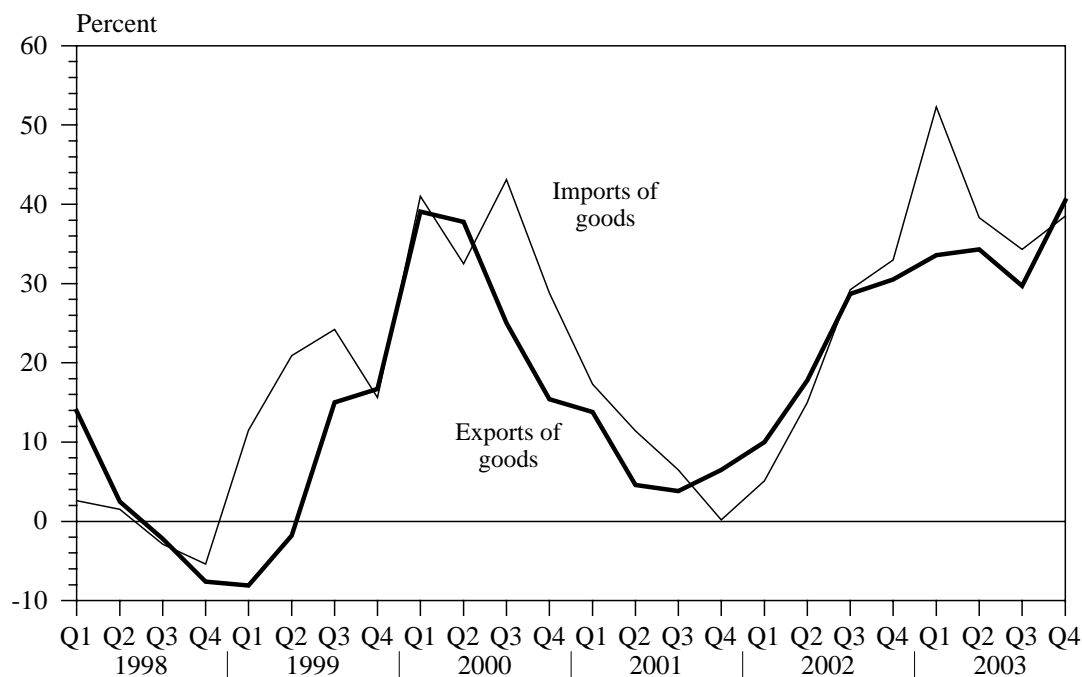
Diagram 3.6 Key economic indicators for the mainland of China

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



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

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



/Japan

Japan

3.16 The Japanese economy staged a marked turnaround in 2003, led by strong exports and resurgence in business investment. On a seasonally adjusted quarter-to-quarter comparison, GDP maintained steady growth in the first three quarters of 2003, at 0.6%, 0.8%, 0.6% respectively, and then accelerated markedly to a 1.7% growth in the fourth quarter, the fastest growth in a quarter for more than 13 years. For 2003 as a whole, GDP grew by 2.7%, the fastest since 2000 and in stark contrast to the 0.4% contraction in 2002. Improved corporate profitability, as well as greater business confidence brought about by some progress in restructuring of the corporate sector, underpinned the distinct rebound in business investment. Merchandise exports stayed robust throughout the year, notwithstanding the strength of the yen, thanks to strong overseas demand particularly in the United States and the Mainland. But consumer spending was still weak, amidst continued deflation and only a modest gain in disposable income, albeit also with some relative improvement towards the year-end. The unemployment rate stayed near its historical high in the early part of last year, yet edged down successively since, as the economic revival gathered strength.

3.17 The revival process looks likely to sustain into 2004. On the external front, stronger global and regional demand should bode well for export performance this year, barring any further distinct appreciation of the yen curbing export price competitiveness. Business investment should be upheld by a brighter business outlook and generally improved corporate profitability. On the other hand, after the tax cuts last year and in face of the on-going need for fiscal consolidation, the fiscal stance is envisaged for some tightening this year. Also, consumer spending may take more time to revive. Moreover, entrenched deflation and the still fragile banking sector could continue to restrain upturn. The prevailing forecasts of Japan's economic growth in 2004 are mostly at around 1.5-2.5%.

/Table 3.4

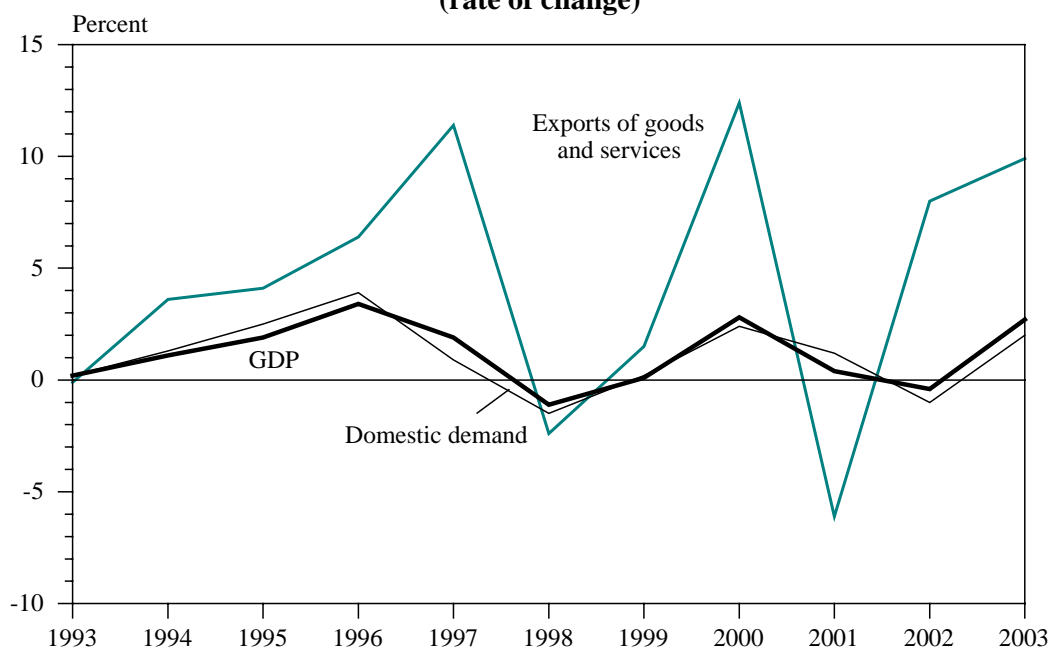
Table 3.4**Economic growth forecasts
for Japan in 2004**

		<u>GDP growth</u> (%)
Japan's Administration	(Dec 2003)	1.8 [#]
Bank of Japan	(Oct 2003)	2.3 – 2.6 [#]
NIESR	(Jan 2004)	1.9
The Economist	(Feb 2004)	2.1
OECD	(Dec 2003)	1.8
IMF	(Feb 2004)	2.2
Various private sector forecasters	(Feb 2004)	1.5 – 3.0

Note : (#) Forecast GDP growth rate in respect of the fiscal year 2004-05.

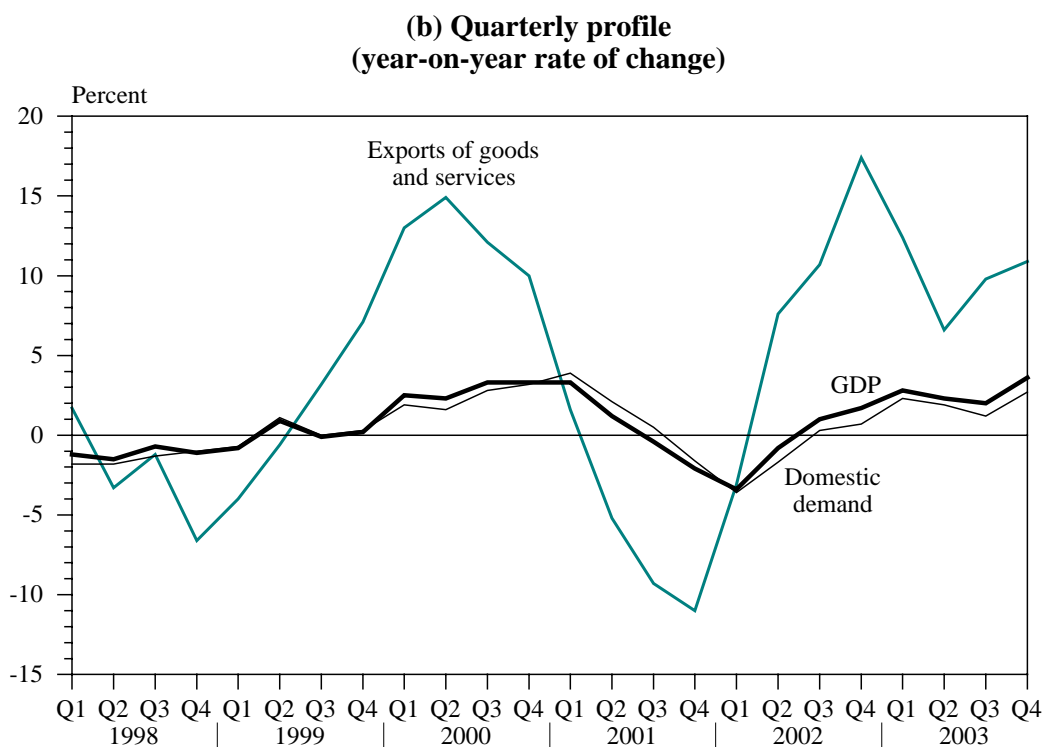
Diagram 3.7**GDP, domestic demand and exports in Japan**

(a) Annual profile
(rate of change)



/Diagram 3.7 (cont'd)

Diagram 3.7 (cont'd)



Other East Asian economies

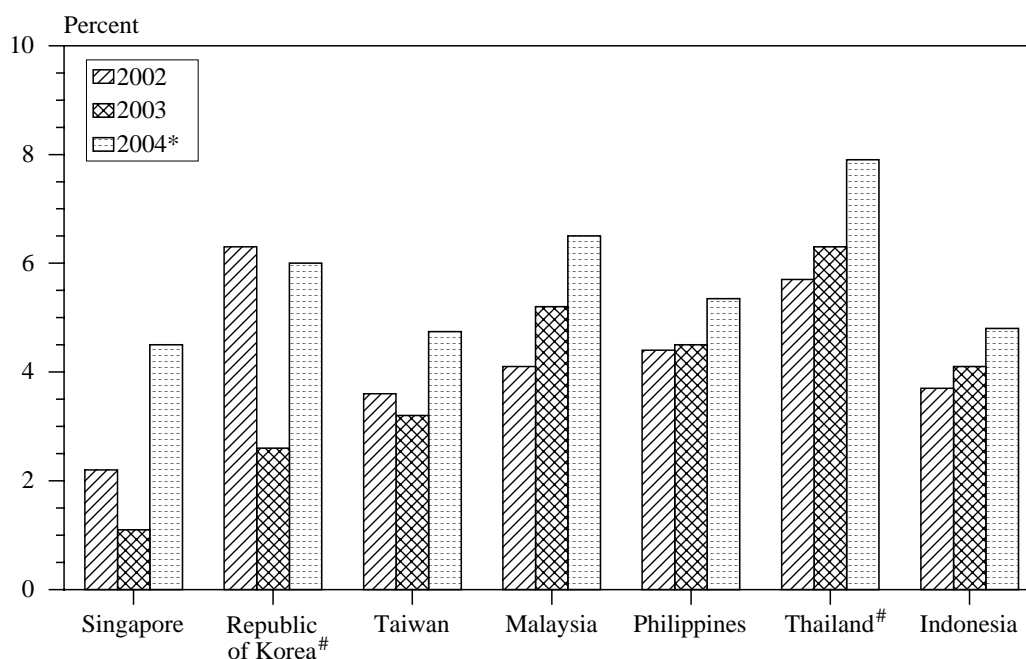
3.18 The spread of SARS in the second quarter of 2003 interrupted the recovery process in some of the East Asian economies, particularly Singapore and Taiwan. Yet these economies rebounded promptly after the epidemic was brought under control, upon a swift revival in domestic demand and supported further by vibrant merchandise exports. Fixed asset investment in these economies continued to be mixed in 2003, yet a more widespread improvement was seen in the latter part of the year. Private consumption also improved in general, except in the Republic of Korea where spending was deterred by household debt burden. Amongst the various East Asian economies excluding the Mainland, Thailand attained robust GDP growth at 6.3% for the first three quarters of 2003 taken together, further up from the 5.7% growth in 2002. Malaysia also picked up in growth, to 5.2% in 2003, from 4.1% in 2002. Indonesia maintained solid growth at 4.1% in 2003, after a 3.7% growth in 2002. On the other hand, both Singapore and Taiwan recorded slower GDP growth in 2003, at 1.1% and 3.2% respectively, as against 2.2% and 3.6% in 2002, mainly due to the more profound impact of SARS on them.

/3.19

3.19 These export-dependent East Asian economies can be expected to gather further momentum in 2004, as their exports stand to benefit from a brighter global economic outlook and upturn in the global electronic cycle. Further leap in intra-regional trade as spurred by continued robust growth in the Mainland economy should lend additional support. The domestic sector is also likely to improve, as the export boom works through to lift income and profits in the course of time. Assuming again that the economic impact of avian flu is only limited and confined, these East Asian economies look set for a further and more broad-based growth in 2004.

Diagram 3.8

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



Notes : (*) Official forecasts.

(#) Figures for 2003 refer to the year-on-year growth rates for the first three quarters of 2003 taken together, as the annual growth rates are not yet available.

/Table 3.5

Table 3.5**Economic growth forecasts for
selected East Asian economies in 2004**

	<u>GDP growth*</u> (%)
Republic of Korea	6.0
Indonesia	4.8
Malaysia	6.0 - 7.0
Thailand	7.7 - 8.1
Taiwan	4.74
Singapore	3.5 - 5.5
Philippines	4.9 - 5.8

Note : (*) Official forecasts.

(C) *European Union*

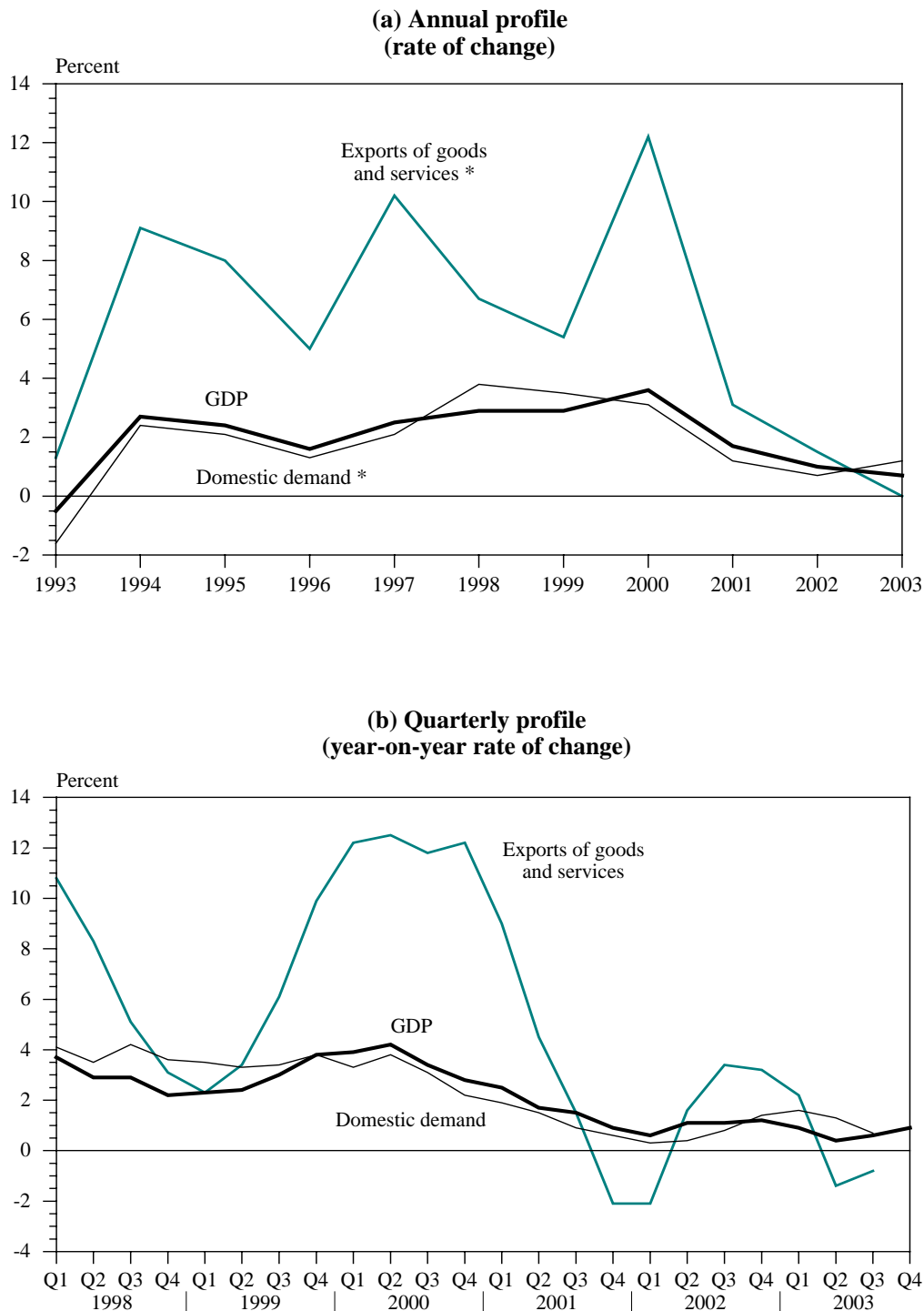
3.20 Having already slowed to a 1.0% growth in 2002, the EU economy moderated further in the first half of 2003, largely dragged down by continued decline in investment spending, and also by a slump in exports amidst a stronger euro. It rose back modestly in the second half of the year, as exports improved in tandem with the pick-up in global demand. But the domestic sector was still weak, with consumer spending, business investment and industrial activity remaining subdued all through the year. On a seasonally adjusted quarter-to-quarter comparison, EU's GDP was static in both the first and second quarters of 2003, before turning up to a 0.4% rise in both the third and fourth quarters. On a year-on-year comparison, EU's GDP growth in the four quarters were 0.9%, 0.4%, 0.6% and 0.9% respectively, giving a meagre growth of 0.7% for 2003 as a whole.

3.21 The recovery process in EU may take a firmer hold in 2004, with support from a sanguine global economic environment. Also, with inflationary pressure waning, the current supportive monetary policy stance will probably be maintained for a while. Moreover, with many of the companies in Europe now striving hard to uphold competitiveness, the corporate sector should be better placed than before to benefit from the global economic upturn. Yet, broadly as in the case of Japan, the domestic sector may still be stuck by

/sluggishness

sluggishness, more with consumer spending. Also, the further appreciation of the euro against the US dollar could pose a drag. The major forecasters thus envisage only a modest pick-up in the EU economy, to growth at around 1.5-2% in 2004.

Diagram 3.9
GDP, domestic demand and exports in the European Union



Note : (*) Figures for 2003 refer to the year-on-year growth rates for the first three quarters of 2003 taken together, as the annual growth rates are not yet available.

/Table 3.6

Table 3.6**Economic growth forecasts
for the European Union in 2004**

		<u>GDP growth</u> (%)
ECB	(Dec 2003)	1.1 - 2.1*
NIESR	(Jan 2004)	2.0
OECD	(Dec 2003)	1.9
IMF	(Sep 2003)	2.0
The Economist	(Feb 2004)	1.9*

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

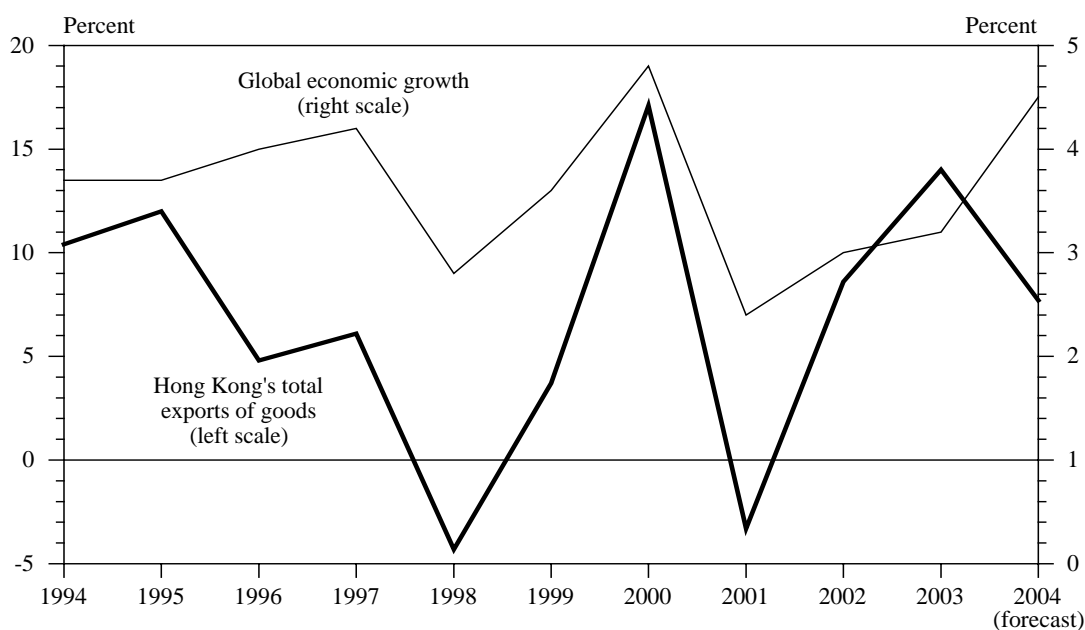
Outlook for the Hong Kong economy in 2004**(A) External sector****Exports of goods and services**

3.22 With the global economy going for a further upturn this year, with the Mainland economy sustaining robust growth, and with the weakness in the US dollar lifting the price competitiveness of Hong Kong's exports, the outlook for exports in 2004 should be rather favourable. *Total exports of goods* are thus forecast for a further distinct growth at 7.7% in 2004, having already soared by 14.2% in 2003. Within this total, *re-exports* are forecast to leap by 8.5% in 2004, following a 16.3% surge in 2003, but *domestic exports* are forecast to decline by 2% in 2004, following a 7.3% fall in 2003. Even with some possible positive effect from the implementation of CEPA, domestic exports are still reckoned for a further decline, mainly in the light of the on-going structural shift to re-exports and offshore trade.

/Diagram 3.10

Diagram 3.10

**Total exports of goods and global economic growth
(rate of change)**



3.23 Analysed by major region, exports of goods to *East Asia* should remain a key driving force for Hong Kong's total exports of goods in 2004. The *Mainland* economy will continue to be the bright spot this year, with its domestic demand remaining vibrant, external trade sustaining strong growth, and inward foreign direct investment continuing apace. Hong Kong's exports to the Mainland for meeting its own demand are poised to benefit from the strong demand there. At the same time, Hong Kong's exports to the Mainland for outward processing are to be buoyed by the global economic upswing. Progressive trade liberalisation in the Mainland in accordance with China's commitments under WTO, coupled with implementation of CEPA, should render a further boost to Hong Kong's trade involving the Mainland. The major firms and organisations engaged in China trade that have been consulted are all upbeat about the outlook for Hong Kong's exports of goods to the Mainland in 2004.

3.24 Exports of goods to *Japan* look set for further notable growth in 2004. There should be support from continued growth and sustained import demand in the Japanese economy, as well as from the relative strength of the yen. Also of relevance is the ascending prominence of Mainland products in the Japanese market, which should in turn lift Hong Kong's re-exports of Mainland origin to this market. The outlook for exports of goods to the *other East Asian*

/economies

economies is expected to be underpinned by the further pick-up in regional economic growth and continued surge in intra-regional trade, barring any noticeable impact to emerge from avian flu on broader economic activity.

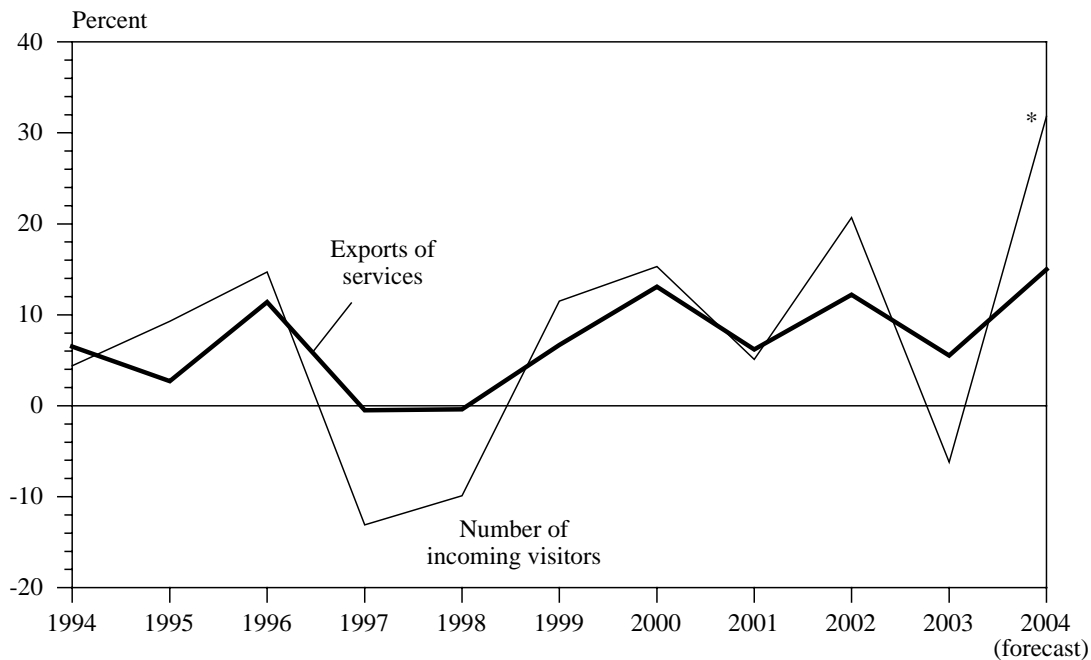
3.25 As to the conventional overseas markets, exports of goods to the *United States* fell off after the first quarter of 2003. Despite its improved import intake later in the year, exports to this market remained weak to the year-end. Conceivably, this was due to a more pronounced structural shift towards offshore trade destined for the country, upon the further expansion of port capacity in South China more recently. Such structural shift continuing apace is likely to further dampen exports to this market. On the other hand, US import demand is expected to pick up more along with its economic upswing. Also, the relative strength in the East Asian currencies against the US dollar will tend to make Hong Kong's exports more attractive in price terms in the US market. On the whole, exports of goods to the United States are still expected to stage a mild rebound during 2004. On exports of goods to the *European Union*, the outlook for 2004 looks quite positive, in the light of the prevailing strength of the euro and the envisaged better economic recovery in the area.

3.26 *Exports of services*, after a much retarded growth in 2003, should again outperform exports of goods in 2004. The growth is forecast at 15% in 2004, markedly up from the 5.5% rise in 2003. In particular, inbound tourism is expected to continue with a strong momentum in 2004. Mainland visitors should remain as the key source of growth, underpinned by strong income increase in the Mainland, keen desire for outward travel amongst Mainland residents, and further extension of the Individual Visit Scheme. Visitor arrivals from other major sources should also recover further from the earlier decline due to SARS, though perhaps with a brief drag owing to the spread of avian flu across the region. Exports of transportation services are set to bounce back visibly in 2004, in tandem with continued notable growth in cargo movements and resurgence in air passenger movements from the distinct trough last year. Offshore trade should stay robust, on the back of the Mainland's vibrant trade flows and further structural shift from re-exports towards offshore trade. Exports of financial, business and other services are also expected to rise further in 2004, along with thriving regional business demand. Moreover, the implementation of CEPA in respect of trade in services should render an added boost.

/Diagram 3.11

Diagram 3.11

**Exports of services and number of incoming visitors
(rate of change)**



Note : (*) Latest forecast by the Hong Kong Tourism Board.

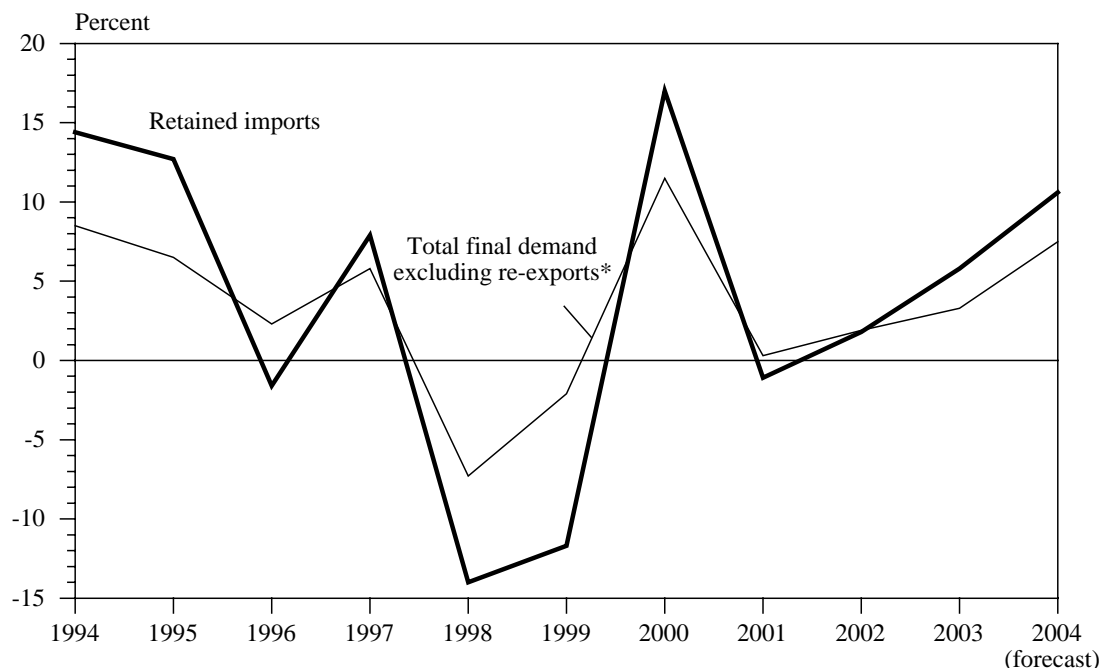
Imports of goods and services

3.27 *Retained imports* are forecast to pick up distinctly further, to an increase of 10.6% in 2004, after a 6.2% rise in 2003. This is in line with the envisaged further recovery in domestic demand and further build-up in inventories. Amongst the major end-use categories, retained imports of consumer goods should increase visibly further, in tandem with greater spending from both the local consumption and inbound tourism fronts. Retained imports of capital goods should also expand, along with extended growth in machinery and equipment investment. Retained imports of material inputs may likewise fare better, in line with an envisaged lesser decline in domestic exports and further upturn in domestic economic activity. Together with the forecast increase in re-exports, *total imports of goods*⁽²⁾ are forecast for a further notable growth at 9.1% in 2004, following a 13.1% increase in 2003.

/Diagram 3.12

Diagram 3.12

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



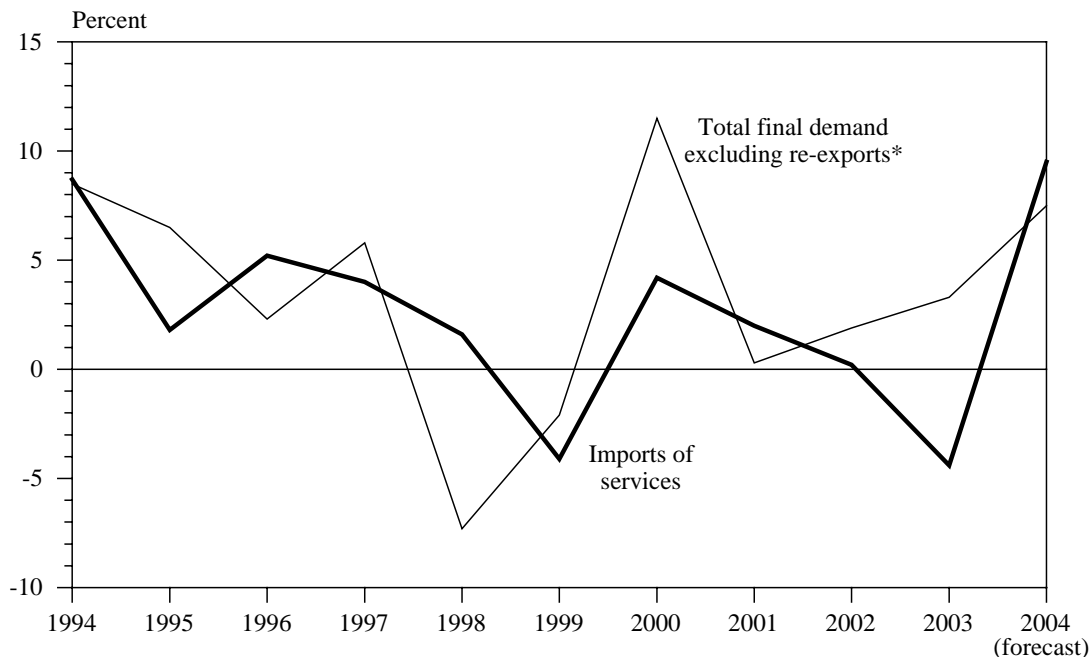
Note : (*) Re-export margin is nevertheless retained in the total final demand.

3.28 *Imports of services* are forecast to rebound distinctly to a 9.5% rise in 2004, after a 4.4% decline in 2003. This is expected to be underpinned by a pick-up in outward travel of local residents, particularly when set against the trough last year due to SARS. There should be more support from the steadier employment and income conditions. Imports of transportation services should likewise bounce up, on the back of the envisaged upturn in outbound tourism and notable growth in merchandise trade. Imports of trade-related services should also rise further, in tandem with a further leap in offshore trade.

/Diagram 3.13

Diagram 3.13

**Imports of services and total final demand excluding re-exports
(rate of change)**



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

(B) Domestic sector

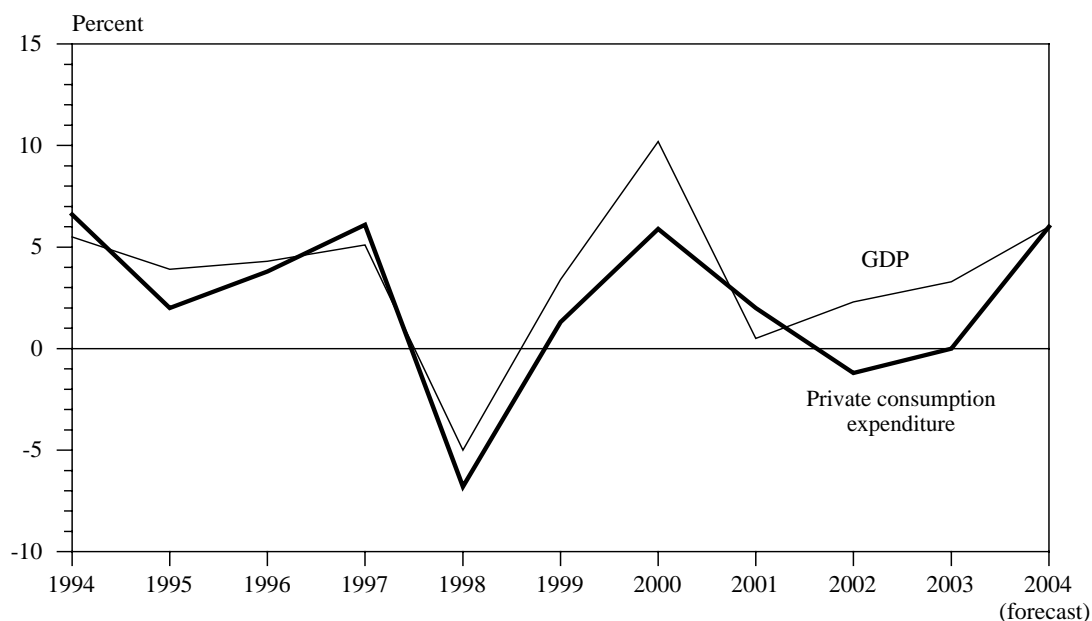
Private consumption expenditure

3.29 Consumer demand has embarked on a steady revival after mid-2003 and looks set for a more solid growth during 2004. Amidst a much improved consumer sentiment and steadier employment conditions, there has been an across-the-board rebound in spending on consumer goods and services in the latter part of last year. The pick-up in spending on durable goods such as electrical appliances and furniture, and in spending on luxury items such as jewellery and watches, was particularly distinct. The overall economic upturn, coupled with the sentiment lift from the more active stock and property markets giving resurrected asset prices, should support a stronger rebound in consumer spending this year. Overall, *private consumption expenditure* is forecast for a notable growth at 6% in 2004, up from virtually no change in 2003.

/Diagram 3.14

Diagram 3.14

**Private consumption expenditure and Gross Domestic Product
(rate of change)**



Government consumption expenditure

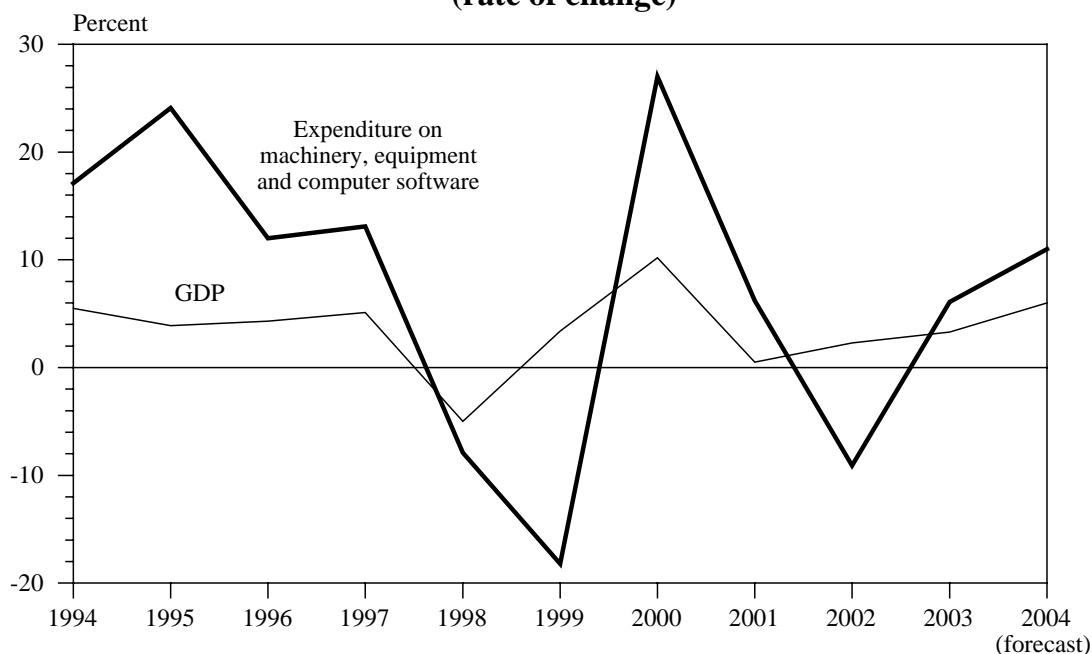
3.30 On the basis of information contained in the Government's revised estimates of expenditure for the financial year 2003/04 and the draft estimates of expenditure for the financial year 2004/05, *government consumption expenditure* in national accounts terms is forecast to increase modestly, by 1.5% in 2004, after a 1.9% rise in 2003.

Gross domestic fixed capital formation

3.31 With the business outlook turning brighter and with corporate profitability improved, investment intentions are likely to be activated more over the course of this year. Expenditure on machinery, equipment and computer software by the private sector should go for a faster increase in 2004, having already resumed growth in 2003. Expenditure on machinery, equipment and computer software by the public sector is however expected to fall further in 2004, largely due to completion of equipment intake for the KCR West Rail last year. Yet given the predominance of the private sector expenditure, *total expenditure on machinery, equipment and computer software* is still forecast for a distinct further pick-up, to an 11% increase in 2004, after turning up to a 6.1% rise in 2003.

/Diagram 3.15

Diagram 3.15
Expenditure on machinery, equipment and computer software
and Gross Domestic Product
(rate of change)



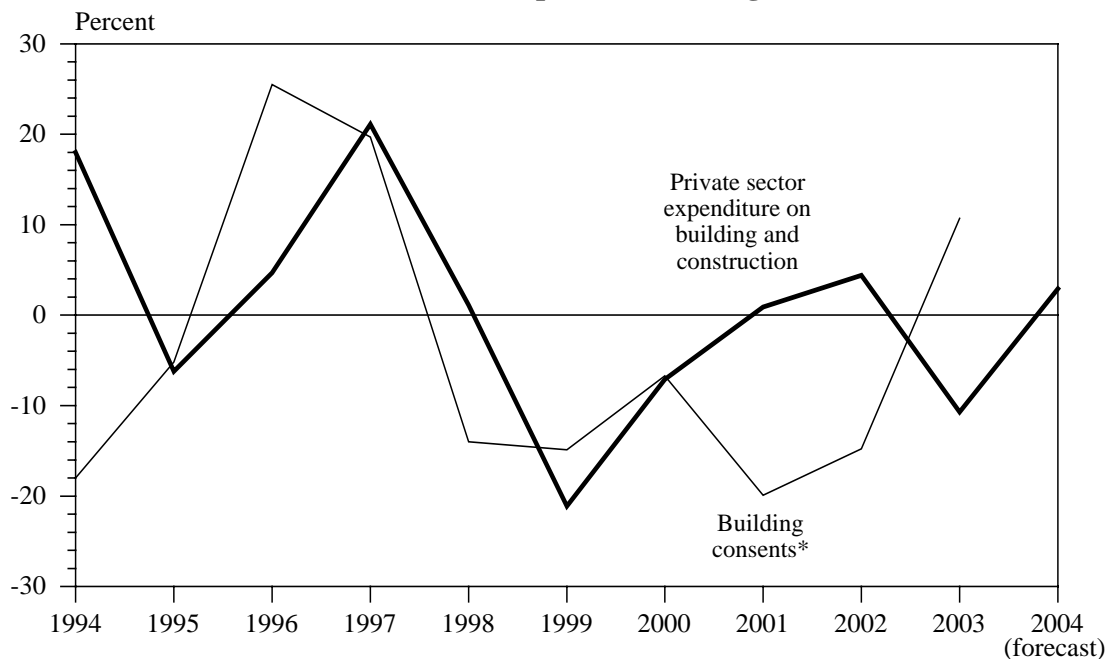
3.32 Affected by the earlier setback in the property market, private sector building output was on a distinct down-drift throughout 2003. Nevertheless, there was a distinct rebound in building consents by 23% last year, which reversed the downtrend since late 1999 and was also the first annual double-digit increase since 1996. Major projects by private developers that are due to start or intensify in the current year include Residence Oasis, Yoho Town, The Pacifica, Parc Palais, The Cairnhill, hotel development in Hung Hom, and other residential and commercial developments in West Kowloon, Kennedy Town, Sheung Shui and Sai Kung. Induced by a more active property market, private sector expenditure on building and construction is expected to bottom out and resume growth in 2004.

/Diagram 3.16

Diagram 3.16

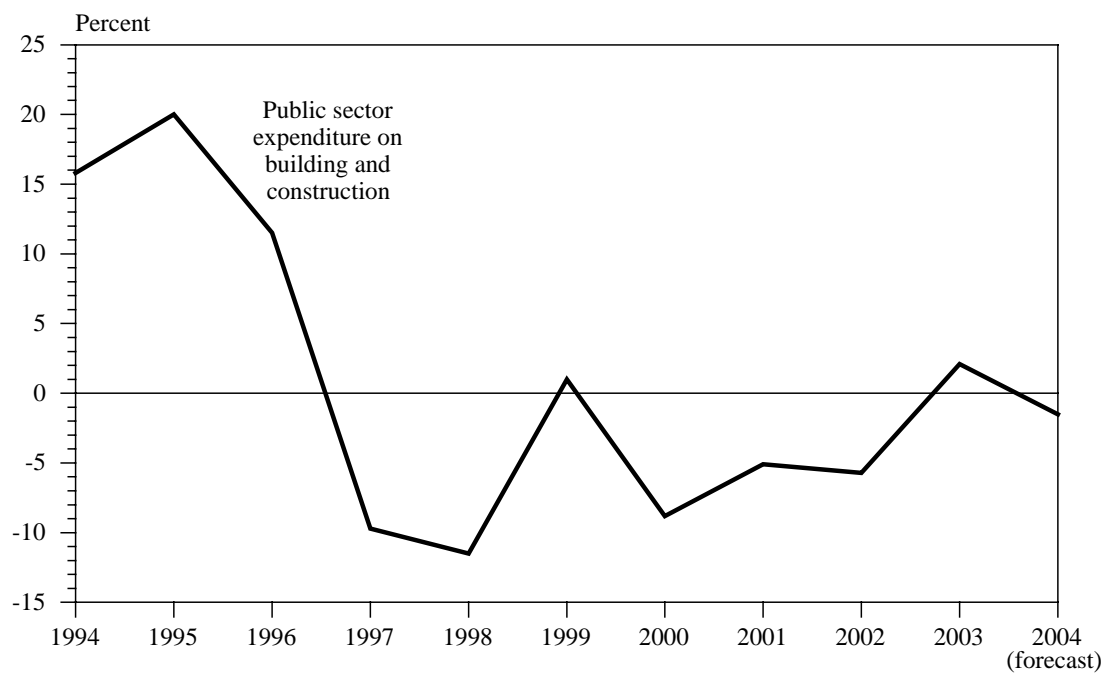
**Expenditure on building and construction and building consents
(rate of change)**

(a) Private sector output and building consents



Note : (*) Two-year moving average.

(b) Public sector output



/3.33

3.33 As to building and construction output in the public sector, the slack is likely to continue in the near term, following the scale-back in public housing erection and with few predominant civil engineering projects under construction, though with still many architectural projects in progress. Output from newly commenced infrastructural projects like the Hong Kong Section of Hong Kong-Shenzhen Western Corridor and the Deep Bay Link could provide only a partial offset. The KCR Sha Tin to Central Link and Kowloon Southern Link are scheduled to commence work in this year, yet the output tends to be small at the early stage of work.

3.34 Taking the private and the public sectors together, *total expenditure on building and construction* is still forecast to turn up to a small increase by 1.5% in 2004, from a 6.9% decline in 2003.

3.35 Combining the forecasts for the individual components of investment expenditure, *gross domestic fixed capital formation* is forecast to pick up distinctly to an increase of 7.1% in 2004, after a marginal decline by 0.1% in 2003.

Change in inventories

3.36 Along with the envisaged upturn in the economy, there should be a further build-up in inventories in 2004.

(C) GDP at constant prices

3.37 Taking all the expenditure components together, the *Gross Domestic Product* is forecast to ascend to a 6% growth in 2004, from the 3.3% growth in 2003. The prevailing forecasts of Hong Kong's GDP growth for 2004 by the private sector, whilst quite diverse, are commonly upbeat, ranging mostly from 4.5% to 7%, averaging at slightly below 6%.

(D) Prices

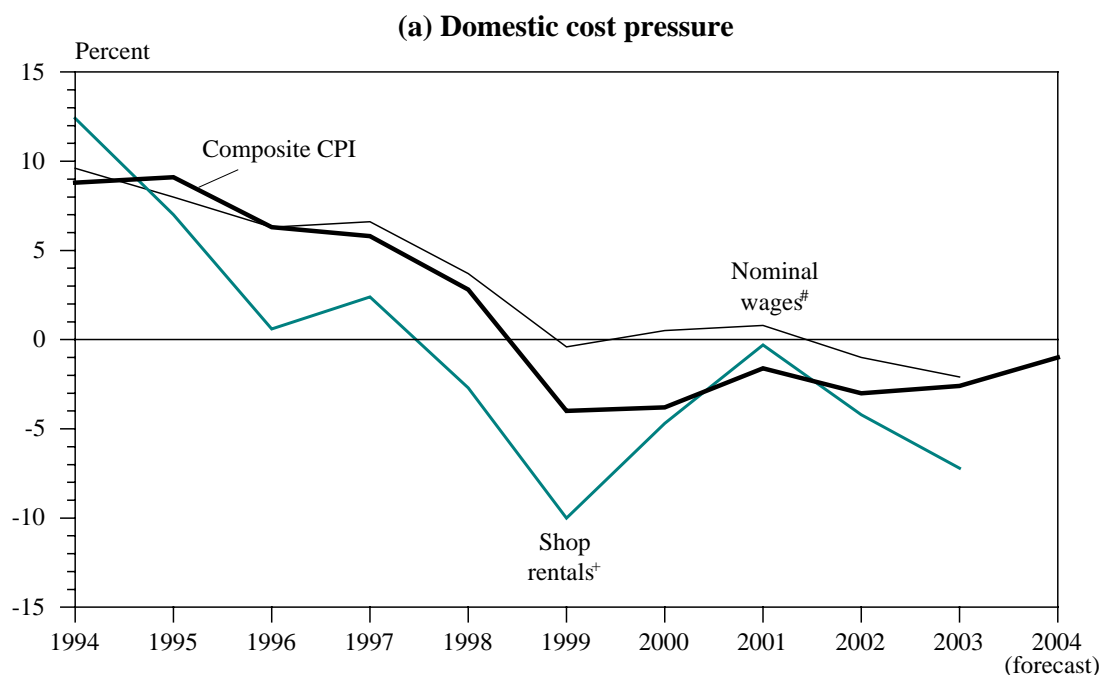
3.38 The Consumer Price Index may still be on a decline in the near term. This is chiefly because the lagged effect from the marked fall-off in private housing rentals earlier on continues to feed through into the housing cost component of the CPI. Yet the decline in housing rentals in the market has by

/and

and large been arrested towards the end of last year. Also, the downward pressure on labour wages may recede sooner, as the employment conditions improve further. Amidst strengthening demand, local retailers and service providers are likely to continue to reduce the price discounts and other concessions on their goods and services, and some of them may proceed to make modest upward adjustment to the prices. Moreover, there is going to be greater price pressure from the external front, stemming from the weaker US dollar and firmer world commodity prices, and this is likely to gradually feed through to the local economy in the coming months.

3.39 Taking these factors together, the year-on-year rate of decline in the *Composite CPI* seems likely to taper quite distinctly further over the course of this year. For 2004 as a whole, the Composite CPI is forecast to decline by an average of 1%, much narrowed from the 2.6% fall in 2003.

Diagram 3.17
Factors affecting the trend in local consumer prices
(rate of change)



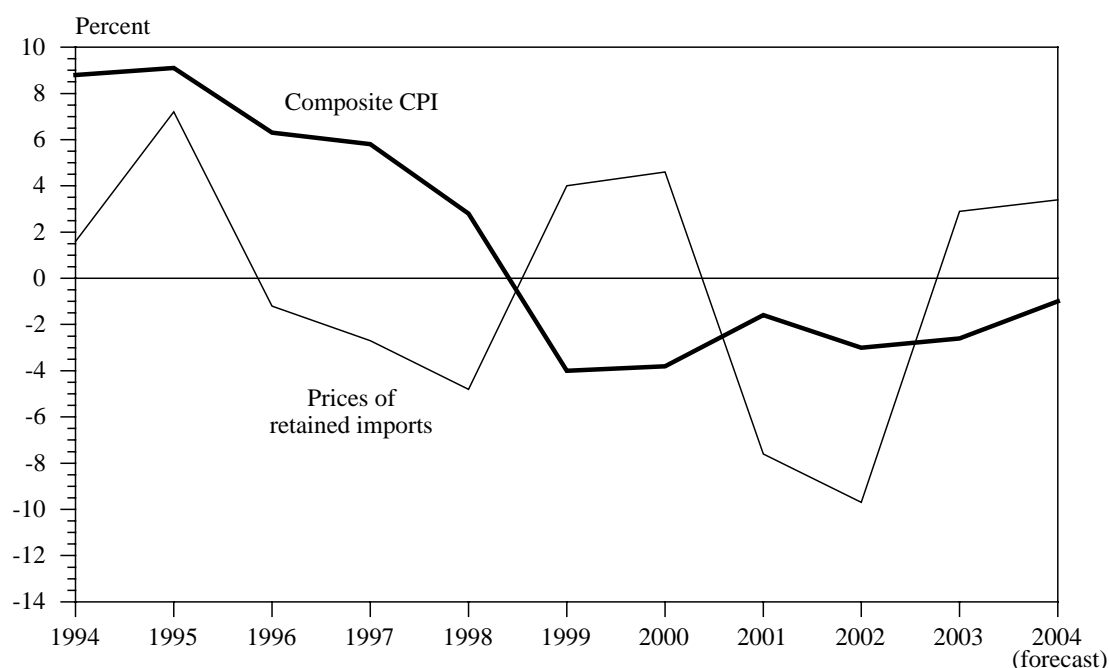
Notes : (#) The rate of change in nominal wages in 2003 refers to the year-on-year change for the first three quarters of the year combined.

(+) Two-year moving average.

/Diagram 3.17 (cont'd)

Diagram 3.17 (cont'd)

(b) External price pressure



3.40 The movement in the GDP deflator depends on those in the price deflators for the individual GDP components. Domestically, the private consumption expenditure deflator is forecast for a decline of around 1.5% in 2004, lesser than the 3.0% fall in 2003, as is broadly in line with the expected movements in consumer prices. The government consumption expenditure deflator is forecast for a 2.5% decline in 2004, after a 2.8% decrease in 2003, mainly in the light of the Civil Service pay cut implemented since January this year. As to the investment components, the deflator for expenditure on building and construction is forecast to be broadly unchanged in 2004, having fallen by 5.4% in 2003. The deflator for expenditure on machinery, equipment and computer software is also forecast for nil change in 2004, following a 5.9% fall in 2003, as the prices of retained imports of capital goods are expected to pick up amidst the relative strength in the yen and the euro.

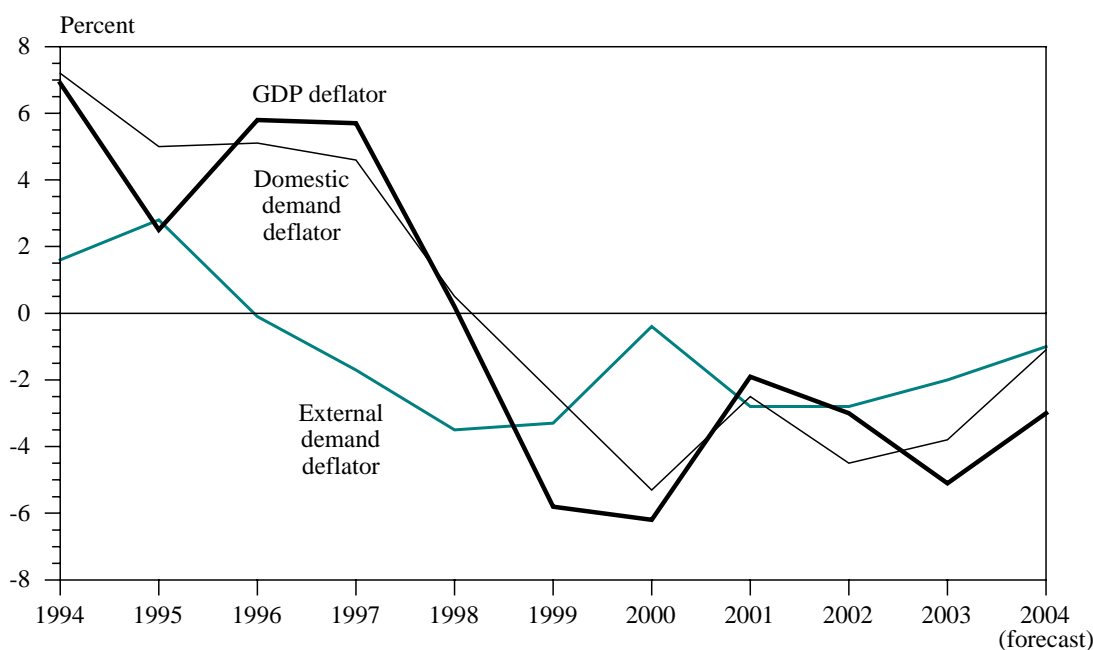
3.41 Externally, the prices of exports of goods are forecast to decline modestly further by 1.5% in 2004, having narrowed to a 2.0% decrease in 2003. The prices of imports of goods are forecast to bottom out to virtually no change in 2004, after a 0.9% decline in 2003, amidst a weak US dollar and higher world commodity prices. The prices of exports of services are forecast to rise back by 1% in 2004, following three consecutive years of decline and a 1.8% decrease in 2003. The prices of imports of services are forecast to increase further by 3% in 2004, after a 2.4% rise in 2003.

/3.42

3.42 Putting the forecasts for all these price deflators together, the *GDP deflator* is forecast to decline by 3% in 2004, much lessened from the 5.1% fall in 2003. The *domestic demand deflator* is forecast for a 1.1% decline in 2004, also distinctly smaller than the 3.8% decrease in 2003.

Diagram 3.18

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



(E) GDP at current market prices

3.43 With the distinctly faster growth expected for real GDP and also with the smaller decline envisaged for the GDP deflator, *nominal GDP* is forecast to resume growth, at 2.8% in 2004, having been down for three consecutive years and fallen by 2.0% in 2003. Taking into account the projected overall population growth for this year, *per capita GDP* is forecast to increase by 1.6% in money terms in 2004, after a 2.2% decline in 2003. GDP at current market prices in 2004 is forecast at HK\$1,270 billion, and the corresponding per capita GDP at HK\$184,500 or US\$23,700.

(F) Summary of forecast

3.44 The forecasts are given in greater detail in Table (11) of the *Statistical Appendix* and are summarised in the table below:

/Table 3.7

Table 3.7

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

	Preliminary figures <u>for 2003</u> (%)	Forecast <u>for 2004</u> (%)
<i>Rate of change in real terms :</i>		
Private Consumption Expenditure	*	6
Government Consumption Expenditure	1.9	1.5
Gross Domestic Fixed Capital Formation	-0.1	7.1
<i>of which:</i>		
Building and construction	-6.9	1.5
Machinery, equipment and computer software	6.1	11
Total Exports of Goods	14.2	7.7
Imports of Goods	13.1	9.1
Exports of Services	5.5	15
Imports of Services	-4.4	9.5
Gross Domestic Product (GDP)	3.3	6
Per Capita GDP	3.1	4.7
<i>Rate of change in money terms :</i>		
GDP	-2.0	2.8
Per Capita GDP	-2.2	1.6
<i>Rate of change in :</i>		
GDP Deflator	-5.1	-3
Domestic Demand Deflator	-3.8	-1.1
Composite Consumer Price Index	-2.6^(a)	-1

Notes : (a) Final figure.

(*) Change of less than 0.05%.

/Notes

Notes :

- (1) The economic forecasts for Hong Kong's major markets cited in this report are mainly for the purpose of illustration and are not purported to be exhaustive. Economic forecasts from a variety of sources, including the central banks and government departments in the respective economies and certain private sector forecasting agencies, have been taken into account in deriving the forecasts for Hong Kong's exports.
- (2) 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.

CHAPTER 4 : IMPLICATIONS OF THE FORECAST FOR THE ECONOMY

4.1 A number of implications can be drawn from a more detailed examination of the GDP forecast. *First*, aggregate demand in terms of total final demand⁽¹⁾ is forecast to have a further notable growth at 7.9% in 2004, after an 8.1% leap in 2003. After excluding re-exports but with re-exports margin retained, total final demand is forecast to go up by 7.5% in 2004, representing a significant pick-up from the 3.3% growth in 2003. The leap in aggregate demand this year is expected to be matched on the aggregate supply side by an accelerated rise in local output on the one hand, and by a pronounced growth in retained imports of goods and a strong rebound in imports of services on the other.

Table 4.1
Growth rates of aggregate demand and supply

	<u>2003[^]</u> (%)	<u>2004</u> <u>(forecast)</u> (%)
Aggregate demand		
Total final demand	8.1	7.9
Total final demand excluding re-exports ^(a)	3.3	7.5
Aggregate supply		
Local output in terms of GDP	3.3	6
Imports of goods ^(b)	13.1	9.1
Retained imports of goods ^(b)	6.2	10.6
Imports of services	-4.4	9.5

Notes : (^) Preliminary figures.

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

(b) 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.

/4.2

4.2 *Secondly*, the growth in total final demand in 2004 is expected to be more broad-based. Sustaining the strong recovery since the second half of last year, domestic demand⁽²⁾ is forecast to rise by 6.0% in 2004, visibly up from a mere 0.6% increase in 2003. Concurrently, external demand is likely to stay strong, with a further distinct growth at 8.9% in 2004, after a 12.7% surge in 2003. Thus, compared with the situation in 2003 when the main driver of growth came from external trade, domestic demand is expected to resume a more important role in driving overall growth in 2004.

Table 4.2
Growth rates of total final demand by component

	<u>2003[^]</u> (%)	<u>2004</u> (forecast) (%)
Domestic demand ^(a)	0.6	6.0
<i>of which :</i>		
Consumption demand ^(a)	0.3	5.3
Investment demand in terms of GDFCF	-0.1	7.1
Domestic demand excluding changes in inventories ^(a)	0.2	5.8
External demand ^(a)	12.7	8.9
<i>of which :</i>		
Total exports of goods	14.2	7.7
Domestic exports	-7.3	-2
Re-exports	16.3	8.5
Exports of services ^(a)	5.5	15

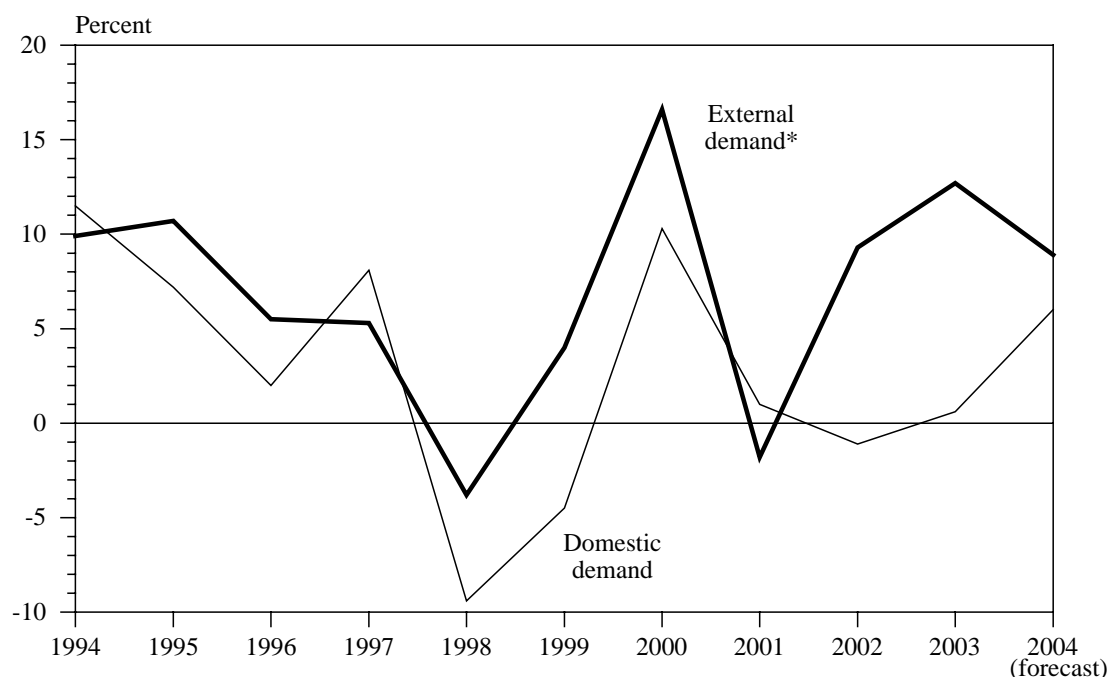
Notes : (^) Preliminary figures.

(a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

/Diagram 4.1

Diagram 4.1

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



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

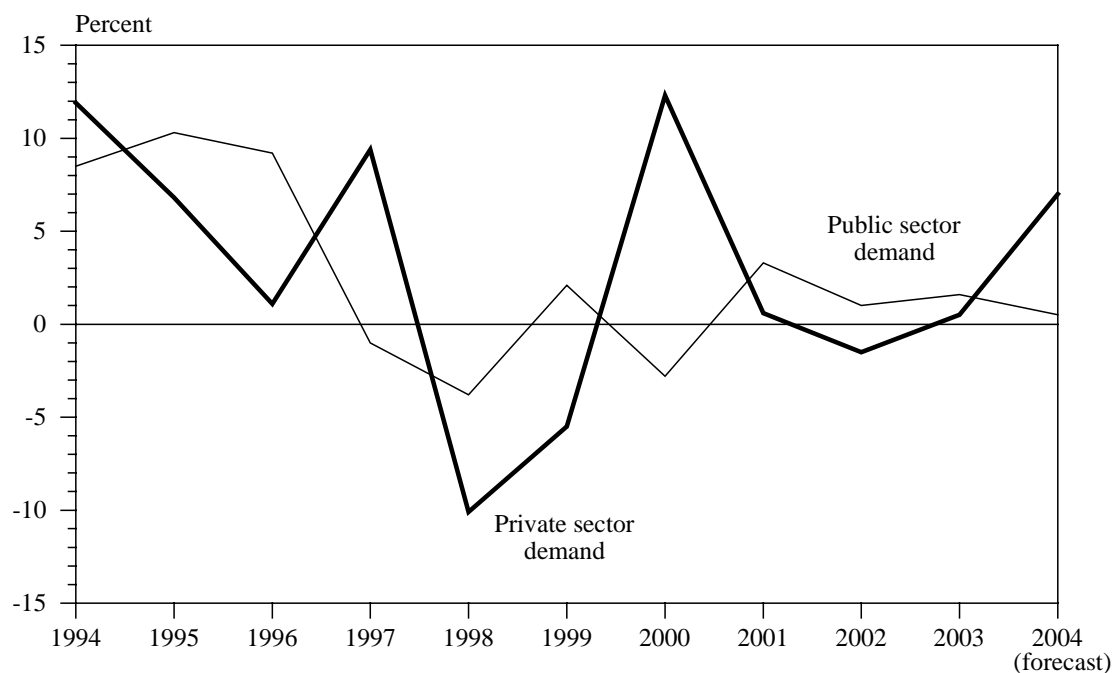
4.3 *Thirdly*, within external demand, total exports of goods, after soaring by 14.2% in 2003, are forecast to leap further by 7.7% in 2004. This is supported by a more vibrant global economy, thriving intra-regional trade, as well as continued robust demand in the Mainland. The weakness of the US dollar also bodes well for Hong Kong's external price competitiveness. Exports of services are forecast for an even more significant growth, at 15% in 2004, as against a 5.5% growth in 2003. Thus for 2004, exports of services should again out-perform exports of goods, as the shift from goods to services in Hong Kong's export composition continues, and as inbound tourism is poised for a further significant surge.

4.4 *Fourthly*, the envisaged strong growth in domestic demand this year is likely to be driven mainly by private sector demand, which is forecast to increase by 7.0% in 2004, much faster than the meagre 0.5% rise in 2003. More specifically, private sector investment spending is expected to pick up markedly, as a brighter business outlook should re-activate the need for capacity expansion. Consumer spending should also turn up visibly, as employment conditions look likely to continue to improve along with further revival in the economy.

/4.5

4.5 Yet public sector demand⁽³⁾ is forecast to go up only marginally, by 0.5% in 2004, reflecting continued stringency in government spending. This follows a modest increase by 1.6% in 2003. Within this total, government consumption expenditure is projected to rise by 1.5% in 2004, smaller than the 1.9% increase in 2003. Public sector investment spending is projected to fall by 1.8% in 2004, down from the 0.7% rise in 2003.

Diagram 4.2
Private sector and public sector demand within domestic demand
(rate of change)



/Table 4.3

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

	<u>2003[^]</u> (%)	<u>2004</u> (forecast) (%)
Private sector domestic demand ^(a)	0.5	7.0
<i>of which :</i>		
Consumption ^(a)	*	6
Investment	-0.3	8.9
Public sector domestic demand	1.6	0.5
<i>of which :</i>		
Consumption	1.9	1.5
Investment	0.7	-1.8
Public sector demand as a % of GDP ^(b)	14.7	14.1

Notes : (^) Preliminary figures.

(a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(b) Calculated at current market prices.

(*) Change of less than 0.05%.

4.6 *Fifthly*, the declines in both the Composite CPI and the GDP deflator are expected to taper noticeably further over the course of this year. Locally, wages and rentals seemed to have stabilised recently, in tandem with the economic upturn. Externally, there is likely to be more cost pressure from the import front, in face of a weak US dollar, uptrend in world commodity prices, and re-emergence of modest inflation in the Mainland.

/Table 4.4

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

	<u>2003[^]</u> (%)	<u>2004</u> <u>(forecast)</u> (%)
Domestic demand deflator	-3.8	-1.1
Price deflator for exports of goods and services	-2.0	-1.0
Price deflator for imports of goods and services ^(a)	-0.8	0
GDP deflator	-5.1	-3
Composite CPI	-2.6 [#]	-1

Notes : (^) 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.

(#) Final figure.

4.7 *Finally*, as the pick-up in the value of imports of goods in this year is expected to be faster than that in the value of exports of goods, the visible trade deficit reckoned on a GDP basis⁽⁴⁾ is forecast to widen to around \$96 billion or to 5% of the forecast value of imports of goods in 2004, from the corresponding deficit figures of \$45.0 billion and 2.5% in 2003. On the other hand, the invisible trade surplus is forecast to expand further to around \$193 billion in 2004, from \$161.1 billion in 2003. Taken together, the combined visible and invisible trade surplus is forecast at around \$97 billion or at 4% of the forecast total value of imports of goods and services in 2004, modestly smaller than the corresponding surplus figures of \$116.1 billion and 5.9% in 2003.

/Notes

Notes :

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

STATISTICAL APPENDIX

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Table 1**Gross Domestic Product (GDP) by expenditure component
at current market prices 1993 to 2003 (\$Mn)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Private Consumption Expenditure ^(a)	534,326	616,975	683,362	748,196	825,130
Government Consumption Expenditure	72,271	83,135	93,608	103,532	112,741
Gross Domestic Fixed Capital Formation	249,443	305,757	334,363	378,486	451,891
<i>of which:</i>					
Building and construction	130,034	164,916	158,898	185,648	223,264
Machinery, equipment and computer software	99,536	119,521	161,562	170,652	190,760
Changes in Inventories	2,299	21,263	45,656	9,762	12,313
Total Exports of Goods	1,046,250	1,170,013	1,344,127	1,397,917	1,455,949
Domestic exports	223,027	222,092	231,657	212,160	211,410
Re-exports	823,224	947,921	1,112,470	1,185,758	1,244,539
Imports of Goods ^(b)	1,052,962	1,229,041	1,466,759	1,511,365	1,589,876
Exports of Services ^(a)	199,683	222,239	240,584	272,183	272,760
Imports of Services	138,501	160,568	178,678	187,786	196,362
GDP	912,809	1,029,773	1,096,263	1,210,925	1,344,546
<i>Per Capita GDP (\$)</i>	<i>154,687</i>	<i>170,622</i>	<i>178,078</i>	<i>188,163</i>	<i>207,194</i>
Total Final Demand	2,104,272	2,419,382	2,741,700	2,910,076	3,130,784
Total Final Demand Excluding Re-exports ^(c)	1,431,698	1,629,764	1,812,788	1,929,454	2,107,773
Domestic Demand ^(a)	858,339	1,027,130	1,156,989	1,239,976	1,402,075
Private ^(a)	752,505	903,208	1,009,750	1,071,349	1,225,108
Public	105,834	123,922	147,239	168,627	176,967
External Demand ^(a)	1,245,933	1,392,252	1,584,711	1,670,100	1,728,709

Definitions of Terms:

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

Table 1 (cont'd)

**Gross Domestic Product (GDP) by expenditure component
at current market prices 1993 to 2003 (\$Mn)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001[#]</u>	<u>2002[#]</u>	<u>2003⁺</u>
Private Consumption Expenditure ^(a)	787,043	754,450	760,168	765,105	728,429	705,690
Government Consumption Expenditure	116,539	119,984	120,148	128,846	131,199	130,079
Gross Domestic Fixed Capital Formation	388,731	325,328	347,375	333,036	292,595	275,133
<i>of which:</i>						
Building and construction	208,235	171,930	155,441	142,651	135,361	119,258
Machinery, equipment and computer software	165,177	141,349	180,204	180,011	147,798	147,464
Changes in Inventories	-15,651	-10,612	14,399	-4,060	2,417	7,914
Total Exports of Goods	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089
Domestic exports	188,454	170,600	180,967	153,520	131,079	122,126
Re-exports	1,159,195	1,178,400	1,391,722	1,327,467	1,431,041	1,626,964
Imports of Goods ^(b)	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059
Exports of Services ^(a)	257,416	265,536	301,813	307,657	337,949	350,315
Imports of Services	193,560	184,052	191,543	192,453	193,412	189,217
GDP	1,279,850	1,246,134	1,288,338	1,269,896	1,259,771	1,234,944
<i>Per Capita GDP (\$)</i>	<i>195,585</i>	<i>188,622</i>	<i>193,299</i>	<i>188,835</i>	<i>185,615</i>	<i>181,527</i>
Total Final Demand	2,881,727	2,803,686	3,116,592	3,011,571	3,054,710	3,218,220
Total Final Demand Excluding Re-exports ^(c)	1,939,301	1,864,501	2,018,523	1,952,252	1,896,998	1,902,006
Domestic Demand ^(a)	1,276,662	1,189,150	1,242,090	1,222,927	1,154,640	1,118,816
Private ^(a)	1,098,911	1,003,515	1,061,542	1,036,086	969,903	937,020
Public	177,751	185,635	180,548	186,641	184,737	181,796
External Demand ^(a)	1,605,065	1,614,536	1,874,502	1,788,644	1,900,070	2,099,404

Notes: (a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(b) 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.

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

(#) Revised figures.

(+) Preliminary figures.

Table 2**Rates of change in real terms in the Gross Domestic Product (GDP) by expenditure component 1993 to 2003 (%)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Private Consumption Expenditure ^(a)	8.0	6.6	2.0	3.8	6.1	-6.8
Government Consumption Expenditure	2.1	3.8	3.2	3.8	2.4	0.7
Gross Domestic Fixed Capital Formation	3.6	15.3	10.4	10.9	12.6	-7.3
<i>of which:</i>						
Building and construction	6.0	17.4	1.1	7.0	10.5	-2.4
Machinery, equipment and computer software	2.6	17.1	24.1	12.0	13.1	-7.9
Total Exports of Goods	13.5	10.4	12.0	4.8	6.1	-4.3
Domestic exports	-4.5	-2.3	2.0	-8.4	2.1	-7.9
Re-exports	19.6	13.8	14.3	7.5	6.8	-3.7
Imports of Goods ^(b)	12.9	14.2	13.9	4.3	7.3	-7.3
Exports of Services ^(a)	7.4	6.5	2.7	11.4	-0.5	-0.4
Imports of Services	5.6	8.7	1.8	5.2	4.0	1.6
GDP	6.3	5.5	3.9	4.3	5.1	-5.0
<i>Per Capita GDP</i>	<i>4.5</i>	<i>3.1</i>	<i>1.8</i>	<i>-0.2</i>	<i>4.2</i>	<i>-5.8</i>
Total Final Demand	9.8	10.5	9.5	4.3	6.2	-5.8
Total Final Demand Excluding Re-exports ^(c)	4.8	8.5	6.5	2.3	5.8	-7.3
Domestic Demand ^(a)	5.2	11.5	7.2	2.0	8.1	-9.4
Private ^(a)	4.3	11.9	6.8	1.1	9.4	-10.1
Public	12.4	8.5	10.3	9.2	-1.0	-3.8
External Demand ^(a)	12.6	9.9	10.7	5.5	5.3	-3.8

Definitions of Terms:

See Table 1.

Table 2 (cont'd)

**Rates of change in real terms in the Gross Domestic Product (GDP) by
expenditure component 1993 to 2003 (%)**

	1999	2000	2001 [#]	2002 [#]	2003 ⁺	Average annual rate of change :	
						10 years 1993 to 2003 ⁺	5 years 1998 to 2003 ⁺
Private Consumption Expenditure ^(a)	1.3	5.9	2.0	-1.2	*	1.9	1.6
Government Consumption Expenditure	3.1	2.0	6.1	2.4	1.9	2.9	3.1
Gross Domestic Fixed Capital Formation	-16.6	11.0	2.6	-4.3	-0.1	3.0	-1.9
<i>of which:</i>							
Building and construction	-15.5	-7.6	-1.1	1.2	-6.9	*	-6.2
Machinery, equipment and computer software	-18.2	27.0	6.2	-9.1	6.1	6.1	1.2
Total Exports of Goods	3.7	17.1	-3.3	8.7	14.2	6.7	7.8
Domestic exports	-7.2	7.5	-10.2	-11.2	-7.3	-4.5	-5.9
Re-exports	5.4	18.5	-2.4	11.0	16.3	8.5	9.5
Imports of Goods ^(b)	*	18.2	-1.9	7.9	13.1	6.7	7.2
Exports of Services ^(a)	6.7	13.1	6.2	12.2	5.5	6.2	8.7
Imports of Services	-4.1	4.2	2.0	0.2	-4.4	1.8	-0.5
GDP	3.4	10.2	0.5	2.3	3.3	3.3	3.9
<i>Per Capita GDP</i>	2.4	9.2	-0.4	1.3	3.1	1.8	3.1
Total Final Demand	1.1	14.5	-0.7	5.1	8.1	5.1	5.5
Total Final Demand Excluding Re-exports ^(c)	-2.1	11.5	0.3	1.9	3.3	2.9	2.9
Domestic Demand ^(a)	-4.5	10.3	1.0	-1.1	0.6	2.4	1.1
Private ^(a)	-5.5	12.3	0.6	-1.5	0.5	2.3	1.1
Public	2.1	-2.8	3.3	1.0	1.6	2.7	1.0
External Demand ^(a)	4.0	16.6	-1.8	9.3	12.7	6.7	8.0

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

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

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

(#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

Table 3

**Gross National Product (GNP) and
external factor income flows (EFIF) by income component and
by type of transactor at current market prices 1997 to 2002 (\$Mn)**

<u>Type of Income Component</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001[#]</u>	<u>2002^{#@}</u>
Direct Investment Income						
Inflow	193,093	124,999	136,454	153,848	168,497	179,008
Banking	9,556	13,352	6,983	8,381	8,152	8,697
Others	183,537	111,647	129,471	145,466	160,345	170,311
Outflow	244,884	136,350	197,094	266,324	244,838	254,730
Banking	52,689	51,934	64,881	73,111	63,156	57,657
Others	192,195	84,416	132,213	193,214	181,681	197,073
Portfolio Investment Income						
Inflow	96,494	74,444	86,291	95,086	96,338	92,208
Banking	26,567	17,926	16,652	23,910	27,077	25,726
Others	69,927	56,518	69,639	71,176	69,261	66,482
Outflow	40,646	24,696	25,410	26,900	26,835	26,981
Banking	10,643	4,988	4,082	3,800	4,569	4,087
Others	30,003	19,708	21,328	23,100	22,266	22,894
Other Investment Income						
Inflow	178,790	162,913	142,008	167,787	119,730	65,868
Banking	164,467	153,528	129,509	147,781	102,384	55,860
Others	14,323	9,385	12,499	20,006	17,347	10,009
Outflow	172,373	172,548	107,472	101,729	71,718	38,675
Banking	160,055	158,525	100,039	94,458	63,934	32,818
Others	12,318	14,023	7,433	7,271	7,784	5,857
Compensation of Employees						
Inflow	657	363	110	53	30	13
Outflow	657	363	110	53	30	13
Total EFIF						
Inflow	469,034	362,719	364,863	416,774	384,595	337,097
Outflow	458,560	333,957	330,086	395,006	343,420	320,399
Net flow	10,475	28,762	34,777	21,768	41,174	16,698
GDP	1,344,546	1,279,850	1,246,134	1,288,338	1,269,896	1,259,771
<i>Per Capita GDP (\$)</i>	<i>207,194</i>	<i>195,585</i>	<i>188,622</i>	<i>193,299</i>	<i>188,835</i>	<i>185,615</i>
GNP	1,355,021	1,308,612	1,280,911	1,310,106	1,311,070	1,276,469
<i>Per Capita GNP (\$)</i>	<i>208,809</i>	<i>199,980</i>	<i>193,886</i>	<i>196,565</i>	<i>194,958</i>	<i>188,076</i>

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

(#) Revised figures.

(@) A number of data items for 2002 have been adjusted to incorporate the necessary changes as revealed from a data quality review conducted in January 2004.

Table 4

Rates of change in value terms in the Gross National Product (GNP) and external factor income flows (EFIF) by income component and by type of transactor 1997 to 2002 (%)

<u>Type of Income Component</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001[#]</u>	<u>2002^{#@}</u>	Average annual rate of change :
							<u>5 years 1997 to 2002</u>
Direct Investment Income							
Inflow	53.8	-35.3	9.2	12.7	9.5	6.2	-1.5
Banking	5.2	39.7	-47.7	20.0	-2.7	6.7	-1.9
Others	57.6	-39.2	16.0	12.4	10.2	6.2	-1.5
Outflow	21.7	-44.3	44.5	35.1	-8.1	4.0	0.8
Banking	-11.5	-1.4	24.9	12.7	-13.6	-8.7	1.8
Others	35.6	-56.1	56.6	46.1	-6.0	8.5	0.5
Portfolio Investment Income							
Inflow	14.1	-22.9	15.9	10.2	1.3	-4.3	-0.9
Banking	11.5	-32.5	-7.1	43.6	13.2	-5.0	-0.6
Others	15.1	-19.2	23.2	2.2	-2.7	-4.0	-1.0
Outflow	43.5	-39.2	2.9	5.9	-0.2	0.5	-7.9
Banking	78.5	-53.1	-18.2	-6.9	20.2	-10.5	-17.4
Others	34.1	-34.3	8.2	8.3	-3.6	2.8	-5.3
Other Investment Income							
Inflow	-1.8	-8.9	-12.8	18.2	-28.6	-45.0	-18.1
Banking	-4.4	-6.7	-15.6	14.1	-30.7	-45.4	-19.4
Others	44.3	-34.5	33.2	60.1	-13.3	-42.3	-6.9
Outflow	6.2	0.1	-37.7	-5.3	-29.5	-46.1	-25.8
Banking	6.1	-1.0	-36.9	-5.6	-32.3	-48.7	-27.2
Others	7.1	13.8	-47.0	-2.2	7.1	-24.8	-13.8
Compensation of Employees							
Inflow	19.7	-44.7	-69.7	-51.8	-43.4	-56.7	-54.4
Outflow	19.7	-44.7	-69.7	-51.8	-43.4	-56.7	-54.4
Total EFIF							
Inflow	19.4	-22.7	0.6	14.2	-7.7	-12.4	-6.4
Outflow	16.8	-27.2	-1.2	19.7	-13.1	-6.7	-6.9
GDP	11.0	-4.8	-2.6	3.4	-1.4	-0.8	-1.3
<i>Per Capita GDP</i>	<i>10.1</i>	<i>-5.6</i>	<i>-3.6</i>	<i>2.5</i>	<i>-2.3</i>	<i>-1.7</i>	<i>-2.2</i>
GNP	11.9	-3.4	-2.1	2.3	0.1	-2.6	-1.2
<i>Per Capita GNP</i>	<i>11.0</i>	<i>-4.2</i>	<i>-3.0</i>	<i>1.4</i>	<i>-0.8</i>	<i>-3.5</i>	<i>-2.1</i>

Notes: (#) Revised figures.

(@) A number of data items for 2002 have been adjusted to incorporate the necessary changes as revealed from a data quality review conducted in January 2004.

Table 5**Visible and invisible trade account 1998 to 2003 (\$Mn)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u> [#]	<u>2002</u> [#]	<u>2003</u> ⁺
<u>Visible Trade</u>						
Total Exports of Goods	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089
Imports of Goods ^(a)	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059
Visible Trade Balance:						
Amount	-60,668	-24,500	-64,022	-68,235	-39,406	-44,970
% against imports of goods	-4.3	-1.8	-3.9	-4.4	-2.5	-2.5
<u>Invisible Trade</u>						
Exports of Services ^(b)	257,416	265,536	301,813	307,657	337,949	350,315
Imports of Services	193,560	184,052	191,543	192,453	193,412	189,217
Invisible Trade Balance ^(b)	63,856	81,484	110,270	115,204	144,537	161,098
<u>Visible and Invisible Trade</u>						
Exports of Goods and Services ^(b)	1,605,065	1,614,536	1,874,502	1,788,644	1,900,070	2,099,404
Imports of Goods and Services	1,601,877	1,557,552	1,828,254	1,741,675	1,794,939	1,983,276
Visible and Invisible Trade Balance ^(b) :						
Amount	3,188	56,984	46,248	46,969	105,131	116,128
% against imports of goods and services	0.2	3.7	2.5	2.7	5.9	5.9

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

(a) 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) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

(#) Revised figures.

(+) Preliminary figures.

Table 6**Balance of payments account by major component 1998 to 2002 (\$Mn)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u> [#]	<u>2002</u> ^{#@}
Current Account ^{(a) (c)}	19,587	79,816	55,193	77,531	107,042
Goods	-60,667	-24,501	-63,832	-64,970	-39,406
Services ^(c)	63,856	81,484	110,270	115,204	144,537
Income	28,762	34,777	21,768	41,174	16,698
Current transfers	-12,364	-11,943	-13,013	-13,878	-14,787
Capital and Financial Account ^(a)	-31,514	-83,374	-57,863	-97,359	-151,179
Capital and financial non-reserve assets (net change)	-84,094	-5,507	20,459	-60,829	-169,720
Capital transfers	-18,445	-13,812	-12,044	-9,155	-15,686
Financial non-reserve assets (net change)	-65,649	8,305	32,503	-51,674	-154,033
Direct investment	-17,192	40,511	19,976	96,948	-60,685
Portfolio investment	171,052	256,812	190,782	-322,045	-302,484
Financial derivatives	25,550	79,225	1,661	39,640	51,563
Other investment	-245,059	-368,243	-179,917	133,783	157,573
Reserve assets (net change) ^(b)	52,581	-77,867	-78,321	-36,530	18,541
Net Errors and Omissions ^(c)	11,926	3,557	2,670	19,829	44,137
Overall Balance of Payments	-52,581	77,867	78,321	36,530	-18,541

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

- (a) In accordance with the balance of payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value for the balance figure indicates a net inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for net change in reserve assets represents a net increase and a positive value represents a net decrease.
- (b) The estimates on net change in reserve assets under the balance of payments framework are transaction figures. Effects from valuation changes (including price changes and exchange rate changes) and reclassifications are excluded.
- (c) Revised figures incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.
- (#) Revised figures.
- (@) A number of data items for 2002 have been adjusted to incorporate the necessary changes as revealed from a data quality review conducted in January 2004.

Table 7

Property market 1993 to 2003

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Completions of new property by the private sector</u> (‘000 m ² of internal floor area)					
Residential property ^(a) (in units)	27 673	34 173	22 621	19 875	18 202
Commercial property	686	742	562	390	705
<i>of which :</i>					
Office space	413	502	355	269	456
Other commercial premises ^(b)	273	240	207	121	249
Industrial property ^(c)	414	493	375	440	343
<i>of which :</i>					
Industrial-cum-office premises	0	24	77	115	72
Conventional flatted factory space	311	266	249	242	181
Storage premises ^(d)	103	203	49	83	90
<u>Completion of public housing</u> (in units)					
Public rental	31 533	17 098	17 349	18 358	16 046
HOS/PSPS	33 109	4 440	14 472	10 325	18 257
Sandwich Class Housing	0	0	1 024	0	0
<u>Building plans with consent to commence work in the private sector</u> (‘000 m ² of usable floor area)					
Residential property ^(e)	804.7	599.3	688.2	1 058.2	1 631.4
Commercial property	712.3	415.6	674.0	1 005.7	599.0
Industrial property ^(f)	425.0	751.5	457.4	530.5	461.6
Other property	318.9	258.6	159.0	375.8	259.2
Total	2 260.9	2 025.0	1 978.6	2 970.2	2 951.2
<u>Agreements for sale and purchase of property</u>					
Number :					
Residential property ^(g)	98 951	93 360	76 633	129 484	172 711
Non-residential property	34 109	21 532	21 016	17 939	32 750
Total	133 060	114 892	97 649	147 423	205 461
Total value (\$Bn) :					
Residential property ^(g)	N.A.	N.A.	200.3	381.7	690.3
Non-residential property	N.A.	N.A.	65.5	92.9	177.7
Total	349.0	423.9	265.8	474.7	868.0

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

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

Including village-type housing units.

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

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

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

Table 7 (cont'd)

Property market 1993 to 2003

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Completions of new property by the private sector</u>						
('000 m ² of internal floor area)						
Residential property ^(a) (in units)	22 278	35 322	25 790	26 262	34 035	29 115
Commercial property	945	634	160	208	304	417
<i>of which :</i>						
Office space	737	428	96	76	166	299
Other commercial premises ^(b)	208	206	64	132	138	118
Industrial property ^(c)	300	191	62	45	29	15
<i>of which :</i>						
Industrial-cum-office premises	145	40	37	14	0	15
Conventional flatted factory space	31	4	19	30	3	0
Storage premises ^(d)	124	147	6	0	27	0
<u>Completion of public housing</u>						
(in units)						
Public rental	14 123	29 382	35 820	49 386	20 154	11 605
HOS/PSPS	18 015	16 891	21 172	22 390	11 658	4 270
Sandwich Class Housing	2 294	5 602	0	0	0	0
<u>Building plans with consent to commence work in the private sector</u>						
('000 m ² of usable floor area)						
Residential property ^(e)	1 472.0	1 692.8	1 142.7	1 002.5	790.0	1 038.4
Commercial property	395.7	287.5	337.5	265.0	365.3	200.0
Industrial property ^(f)	69.5	84.9	129.2	45.7	107.1	0.8
Other property	201.5	125.8	240.2	75.0	109.3	444.2
Total	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3
<u>Agreements for sale and purchase of property</u>						
Number :						
Residential property ^(g)	85 616	77 087	65 340	69 667	72 974	71 576
Non-residential property	25 873	21 379	20 404	18 523	12 947	15 733
Total	111 489	98 466	85 744	88 190	85 921	87 309
Total value (\$Bn) :						
Residential property ^(g)	278.5	212.0	168.4	150.9	154.3	153.6
Non-residential property	62.4	44.6	54.1	41.9	31.1	35.8
Total	340.9	256.6	222.5	192.8	185.4	189.4

Notes (cont'd):

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

N.A. Not available.

Table 8

Monetary aggregates 1993 to 2003

<u>As at End of Year</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Hong Kong Dollar Money Supply (\$Mn):					
M1	168,440	167,922	171,642	198,311	188,135
M2 ^(a)	922,417	1,094,715	1,260,427	1,503,603	1,666,419
M3 ^(a)	939,491	1,112,146	1,278,288	1,520,461	1,684,325
Total Money Supply (\$Mn):					
M1	187,608	185,334	190,471	217,460	208,093
M2	1,764,416	1,992,351	2,282,849	2,532,236	2,788,808
M3	1,823,108	2,070,831	2,363,963	2,611,636	2,871,425
Loans and Advances for use in Hong Kong (\$Mn)	1,190,239	1,403,931	1,571,808	1,822,194	2,230,228
Nominal Effective Exchange Rate Indices (Jan 2000 = 100)^{(b)(c)}:					
Trade-weighted	85.2	95.4	91.6	94.0	98.0
Import-weighted	85.0	93.6	89.6	93.0	97.9
Export-weighted	85.3	97.2	93.7	95.1	98.1
<u>Rate of Change (%)</u>					
Hong Kong Dollar Money Supply:					
M1	20.8	-0.3	2.2	15.5	-5.1
M2 ^(a)	26.9	18.7	15.1	19.3	N.A.
M3 ^(a)	25.2	18.4	14.9	18.9	N.A.
Total Money Supply:					
M1	20.6	-1.2	2.8	14.2	-4.3
M2	16.2	12.9	14.6	10.9	N.A.
M3	15.8	13.6	14.2	10.5	N.A.
Loans and Advances for use in Hong Kong	17.7	18.0	12.0	15.9	22.4
Nominal Effective Exchange Rate Indices^{(b)(c)}:					
Trade-weighted	2.0	12.0	-4.0	2.6	4.3
Import-weighted	1.0	10.1	-4.3	3.8	5.3
Export-weighted	3.0	14.0	-3.6	1.5	3.2

Definitions of Terms:

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placement of less than one month in the monetary aggregates. As such, figures after 1997 cannot be compared with those in the previous period.

Total Money Supply:

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

Table 8 (cont'd)

Monetary aggregates 1993 to 2003

<u>As at End of Year</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Hong Kong Dollar Money Supply (\$Mn):						
M1	178,260	205,339	203,966	229,841	259,411	354,738
M2 ^(a)	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049	2,107,255
M3 ^(a)	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225	2,122,847
Total Money Supply (\$Mn):						
M1	197,666	225,156	243,847	258,056	295,650	413,404
M2	3,111,942	3,386,196	3,649,492	3,550,060	3,518,326	3,812,848
M3	3,168,199	3,434,467	3,692,753	3,594,130	3,561,852	3,857,450
Loans and Advances for use in Hong Kong (\$Mn)	2,109,589	1,933,391	1,965,289	1,878,679	1,833,744	1,808,718
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) ^{(b)(c)} :						
Trade-weighted	103.4	100.9	101.7	104.7	104.0	100.7
Import-weighted	105.5	101.4	101.5	105.1	104.7	101.6
Export-weighted	101.3	100.4	101.9	104.3	103.3	99.8
<u>Rate of Change (%)</u>						
Hong Kong Dollar Money Supply:						
M1	-5.2	15.2	-0.7	12.7	12.9	36.7
M2 ^(a)	9.7	5.2	3.4	0.5	-0.7	6.2
M3 ^(a)	9.3	5.1	3.5	0.7	-0.6	5.9
Total Money Supply:						
M1	-5.0	13.9	8.3	5.8	14.6	39.8
M2	11.6	8.8	7.8	-2.7	-0.9	8.4
M3	10.3	8.4	7.5	-2.7	-0.9	8.3
Loans and Advances for use in Hong Kong	-5.4	-8.4	1.6	-4.4	-2.4	-1.4
Nominal Effective Exchange Rate Indices ^{(b)(c)} :						
Trade-weighted	5.5	-2.4	0.8	2.9	-0.7	-3.2
Import-weighted	7.8	-3.9	0.1	3.5	-0.4	-3.0
Export-weighted	3.3	-0.9	1.5	2.4	-1.0	-3.4

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

(b) Average of the year.

(c) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.

N.A. Not available.

Table 9**Labour force, employment, wages and earnings 1997 to 2003**

	Mar 1997	Sep 1997	Mar 1998	Sep 1998	Mar 1999	Sep 1999	Mar 2000
Labour Force ^(a) ('000)	3 216	3 213	3 247	3 290	3 297	3 316	3 337
Employed ^(a) ('000)	3 145	3 144	3 141	3 114	3 093	3 101	3 154
Unemployed ^(a) ('000)	71	70	106	176	204	214	183
Unemployment Rate, Seasonally Adjusted ^{(a)(b)} (%)	2.3	2.1	3.3	5.2	6.3	6.3	5.6
Underemployment Rate ^(a) (%)	1.1	1.0	1.9	2.6	3.0	3.1	2.8
Labour Force Participation Rate ^(a) (%)	61.3	60.9	61.1	61.4	61.2	61.2	61.1
Employment ('000) in:							
Wholesale and import/export trades	608	592	570	551	568	579	602
Retail trade	209	214	200	190	193	206	207
Restaurants and hotels	229	221	212	206	215	213	219
Water transport, air transport and services allied to transport	104	100	94	93	95	95	96
Storage and communications	44	42	42	39	41	42	41
Financing, insurance, real estates and business services	408	416	395	398	398	407	415
Community, social and personal services	324	314	317	324	336	340	345
Manufacturing	313	309	281	257	249	245	234
Building and construction sites	84	78	87	76	72	69	75
Index of Payroll per Person Engaged ^(c) (Q1 1999 = 100):							
Nominal	93	85	98	88	100	87	100
Real ^(d)	96	85	97	85	100	89	105
Wage Index (Sep 1992 = 100):							
Nominal	142	147	150	151	150	149	149
Real ^(e)	104	104	104	104	107	109	111
Index of Construction Wage Rates (Jan 1970 = 100)	2 921	3 089	3 378	3 438	3 488	3 505	3 517

Definitions of Terms:

The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the seven days before enumeration, or would otherwise have been engaged in productive work but were unemployed.

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

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

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

The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working for less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Table 9 (cont'd)

Labour force, employment, wages and earnings 1997 to 2003

	Sep 2000	Mar 2001	Sep 2001	Mar 2002	Sep 2002	Mar 2003	Sep 2003
Labour Force ^(a) ('000)	3 392	3 403	3 443	3 458	3 517	3 503	3 492
Employed ^(a) ('000)	3 224	3 254	3 257	3 219	3 249	3 244	3 195
Unemployed ^(a) ('000)	167	150	186	239	268	260	297
Unemployment Rate, Seasonally Adjusted ^{(a)(b)} (%)	4.8	4.5	5.2	7.0	7.4	7.5	8.3
Underemployment Rate ^(a) (%)	2.6	2.3	2.5	3.2	2.9	2.9	3.6
Labour Force Participation Rate ^(a) (%)	61.6	61.3	61.6	61.5	62.3	61.5	61.2
Employment ('000) in:							
Wholesale and import/export trades	610	581	579	566	580	564	556
Retail trade	223	215	225	216	221	210	207
Restaurants and hotels	221	221	223	214	212	198	194
Water transport, air transport and services allied to transport	100	98	102	101	101	100	97
Storage and communications	45	45	44	41	40	33	35
Financing, insurance, real estates and business services	437	429	437	423	424	423	422
Community, social and personal services	349	360	377	392	398	398	414
Manufacturing	229	217	209	197	190	179	173
Building and construction sites	81	88	77	77	70	67	64
Index of Payroll per Person Engaged ^(c) (Q1 1999 = 100):							
Nominal	88	103	90	102	88	100	87
Real ^(d)	94	110	97	113	99	113	100
Wage Index (Sep 1992 = 100):							
Nominal	151	151	152	150	150	148	147
Real ^(e)	113	115	115	116	118	117	119
Index of Construction Wage Rates (Jan 1970 = 100)	3 612	3 547	3 613	3 551	3 567	3 548	3 501

Definitions of Terms (cont'd)

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

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

- (a) Quarterly average.
- (b) The seasonal adjustment is done on the basis of the X-11 ARIMA method, which adjusts for the influences of all seasonal factors.
- (c) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, payroll also covers overtime pay and other non-guaranteed or irregular bonuses and allowances. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in payroll per person engaged do not necessarily match closely with those in wage rates.
- (d) The real index is obtained by deflating the nominal index with the Composite Consumer Price Index.
- (e) The real index is obtained by deflating the nominal index with the Consumer Price Index (A).

Table 10**Rates of change in prices 1993 to 2003 (%)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
GDP Deflator	8.5	6.9	2.5	5.8	5.7
Domestic Demand Deflator ^(a)	7.8	7.2	5.0	5.1	4.6
Consumer Price Indices ^(b) :					
Composite CPI	8.8	8.8	9.1	6.3	5.8
CPI(A)	8.5	8.1	8.7	6.0	5.7
CPI(B)	8.7	8.6	9.2	6.4	5.8
CPI(C)	9.5	10.0	9.6	6.6	6.1
Unit Value Indices:					
Domestic exports	0.3	1.5	2.4	0.3	-2.4
Re-exports	-0.6	1.5	3.5	-0.5	-1.5
Total exports of goods	-0.3	1.5	3.3	-0.3	-1.6
Imports of goods	-0.5	2.7	5.0	-1.3	-2.3
Terms of Trade Index	0.2	-1.2	-1.6	1.0	0.7
Producer Price Index for all manufacturing industries	0.7	2.1	2.8	-0.1	-0.3
Construction Labour and Material Cost Index	12.3	6.5	5.2	6.8	9.3
Tender Price Indices:					
Public sector building projects	2.0	14.0	17.8	14.4	17.6
Public housing projects	2.6	7.3	18.3	11.4	18.9
Property Price Indices:					
Residential flats ^(c)	9.2	23.5	-6.6	8.9	39.5
Office space	20.1	39.9	-15.5	-3.2	13.1
Shopping space	21.4	17.8	-2.8	3.3	32.3
Flatted factory space	19.3	6.6	-11.2	-13.7	-1.5
Property Rental Indices ^(d) :					
Residential flats	7.7	21.3	2.2	-1.4	13.0
Office space	9.6	21.3	-1.8	-14.7	3.0
Shopping space	10.9	13.8	1.1	*	4.8
Flatted factory space	10.2	3.3	-1.7	-9.9	0.1

Notes: (a) Revised series incorporating a new set of visitor expenditure figures as released by the Hong Kong Tourism Board on 28 November 2003.

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

(c) Figures refer to changes in the prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(d) For residential property, their changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, their changes in rentals cover also lease renewals upon which rentals may be revised.

Table 10 (cont'd)**Rates of change in prices 1993 to 2003 (%)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
GDP Deflator	0.2	-5.8	-6.2	-1.9 [#]	-3.0 [#]	-5.1 ⁺
Domestic Demand Deflator ^(a)	0.5	-2.4	-5.3	-2.5 [#]	-4.5 [#]	-3.8 ⁺
Consumer Price Indices ^(b) :						
Composite CPI	2.8	-4.0	-3.8	-1.6	-3.0	-2.6
CPI(A)	2.6	-3.3	-3.0	-1.7	-3.2	-2.1
CPI(B)	2.8	-4.7	-3.9	-1.6	-3.1	-2.7
CPI(C)	3.2	-3.7	-4.5	-1.5	-2.8	-2.9
Unit Value Indices:						
Domestic exports	-2.8	-2.4	-1.0	-4.7	-3.3	0.2
Re-exports	-3.9	-2.8	-0.1	-2.0	-2.7	-1.5
Total exports of goods	-3.8	-2.7	-0.2	-2.3	-2.7	-1.4
Imports of goods	-4.9	-2.0	0.8	-3.1	-3.9	-0.4
Terms of Trade Index	1.2	-0.7	-1.0	0.9	1.2	-1.0
Producer Price Index for all manufacturing industries	-1.8	-1.7	0.2	-1.6	-2.7	-0.7 [^]
Construction Labour and Material Cost Index	7.5	1.4	1.8	0.3	-0.3	-0.7 [^]
Tender Price Indices:						
Public sector building projects	9.1	-4.4	-13.1	-8.5	-11.7	1.0 [~]
Public housing projects	9.0	-3.3	-11.9	-15.1	-9.6	-12.8 [~]
Property Price Indices:						
Residential flats ^(c)	-28.2	-14.6	-10.4	-12.2	-11.2	-12.0 ⁺
Office space	-36.9	-25.7	-10.1	-12.5	-13.1	-9.6 ⁺
Shopping space	-27.6	-22.1	-6.4	-7.3	-2.1	-1.5 ⁺
Flatted factory space	-22.0	-24.1	-8.8	-10.1	-8.8	-4.9 ⁺
Property Rental Indices ^(d) :						
Residential flats	-16.3	-11.2	-1.9	-2.8	-12.6	-11.9 ⁺
Office space	-13.3	-26.4	-1.5	2.5	-15.4	-13.7 ⁺
Shopping space	-10.0	-10.1	1.3	-1.9	-6.5	-7.9 ⁺
Flatted factory space	-10.9	-15.3	-4.6	-5.3	-8.4	-10.3 ⁺

Notes (cont'd): (#) Revised figures.
 (+) Preliminary figures.
 (~) Q1-Q2 2003.
 (^) January to September 2003.
 (*) Change of less than 0.05%.

Table 11

Forecast of expenditure on the Gross Domestic Product (GDP) in 2004

	<u>At Current Market Prices</u>		Forecast rates of change in real terms for 2004
	<u>Preliminary figures for 2003</u> (\$Bn)	<u>Forecast for 2004</u> (\$Bn)	(%)
Private Consumption Expenditure	705.7	737.5	6
Government Consumption Expenditure	130.1	128.7	1.5
Gross Domestic Fixed Capital Formation	275.1	294.8	7.1
<i>of which:</i>			
Building and construction	119.3	120.7	1.5
Machinery, equipment and computer software	147.5	163.7	11
Changes in Inventories	7.9	11.2	--
Total Exports of Goods	1,749.1	1,856.6	7.7
Domestic exports	122.1	118.5	-2
Re-exports	1,627.0	1,738.1	8.5
Imports of Goods ^(a)	1,794.1	1,952.6	9.1
Exports of Services	350.3	406.7	15
Imports of Services	189.2	213.3	9.5
GDP	1,234.9	1,269.7	6
<i>Per Capita GDP (\$)</i>	<i>181,527</i>	<i>184,500</i>	<i>4.7</i>
Total Final Demand	3,218.2	3,435.6	7.9
Total Final Demand Excluding Re-exports ^(b)	1,902.0	2,029.5	7.5
Domestic Demand	1,118.8	1,172.3	6
Private	937.0	993.9	7
Public	181.8	178.5	0.5
External Demand	2,099.4	2,263.3	8.9
<u>Rates of Change (%)</u>			
GDP Deflator	-5.1	-3	
Domestic Demand Deflator	-3.8	-1.1	
Composite CPI	-2.6	-1	
<u>Growth rate in nominal GDP (%)</u>	-2.0	2.8	

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

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

(--) Not applicable.

