



First Quarter Economic Report 2004

Government of the Hong Kong
Special Administrative Region

***FIRST QUARTER
ECONOMIC REPORT 2004***

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

May 2004

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CHAPTER 1 : OVERALL VIEW

Overall situation

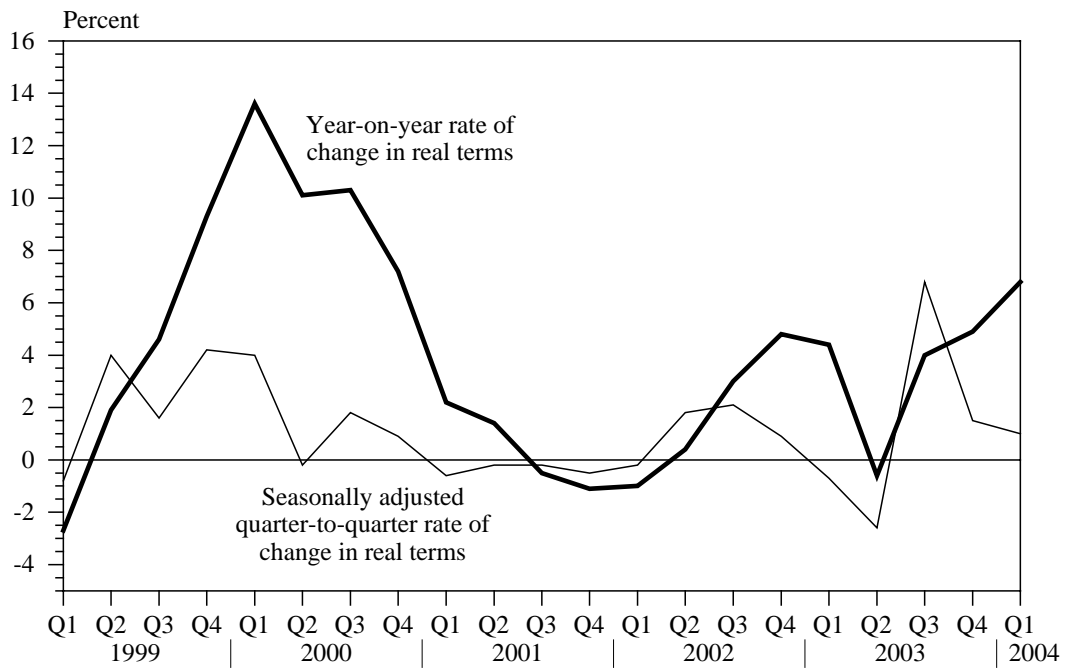
1.1 The Hong Kong economy gathered further momentum in the first quarter of 2004, riding on the robust and broad-based recovery in the second half of 2003. Externally, exports of goods recorded a significant double-digit growth in the first quarter, on the back of brisk global and regional demand, as well as enhanced competitiveness from the earlier weakness of the US dollar. Exports of services stayed vibrant, underpinned by thriving offshore trade and further growth in inbound tourism. In the domestic sector, consumer spending picked up visibly further, buoyed by improved employment and recovery in the property market. As to investment, acquisition of machinery and equipment continued to surge amidst a better business situation, but overall building and construction output was still weak.

1.2 In the first quarter of 2004, the *Gross Domestic Product (GDP)*⁽¹⁾ leaped by 6.8% in real terms over a year earlier, further up from the 4.9% growth in the fourth quarter of 2003 (latter figure revised from the estimate of 5.0% released earlier). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP grew by 1.0% in real terms in the first quarter of 2004, after the 1.5% growth in the fourth quarter of 2003 (latter figure unchanged from the estimate released earlier).

/Diagram 1.1

Diagram 1.1

Gross Domestic Product



/Table 1.1

Table 1.1

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

	<u>2002[#]</u>	<u>2003[#]</u>	<u>2003</u>				<u>2004</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	-1.2	-0.2	-2.5	-3.6	1.5	3.6	5.0
Government consumption expenditure	2.5	1.9	1.0	0.5	0.5	5.5	5.1
Gross domestic fixed capital formation	-4.5	0.1	4.2	-5.3	*	1.9	5.8
<i>of which :</i>							
Building and construction	-1.1	-7.0	-3.2	-8.5	-6.6	-9.9	-10.5
Machinery, equipment and computer software	-7.6	6.5	12.8	-1.1	5.6	9.3	15.9
Total exports of goods	8.7	14.2	19.1	14.3	10.0	14.7	15.0
Re-exports	11.0	16.3	22.3	17.0	11.5	16.0	16.1
Domestic exports	-11.2	-7.3	-12.0	-12.6	-5.2	-0.2	0.8
Imports of goods ^(a)	7.9	13.1	18.8	10.9	8.2	15.7	16.3
Exports of services	11.7	5.7	12.6	-10.8	7.6	12.0	13.7
Imports of services	3.7	-4.6	-5.4	-16.8	-0.3	3.1	4.0
Gross Domestic Product	1.9	3.2	4.4	-0.6	4.0	4.9	6.8
<i>Change in the main price indicators (%)</i>							
GDP deflator	-3.6	-5.3	-4.4	-5.8	-6.1	-4.8	-4.3
Composite Consumer Price Index^(b)	-3.0	-2.6	-2.0	-2.5	-3.6	-2.3	-1.8
Consumer Price Index (A) ^(b)	-3.2	-2.1	-1.8	-1.8	-3.3	-1.7	-1.2
<i>Change in nominal GDP (%)</i>							
GDP at current market prices (\$ billion)	1,247	1,220	295	284	314	327	302
GDP at constant (2000) market prices (\$ billion)	1,319	1,361	322	315	355	369	344
Changes in inventories at constant (2000) market prices (\$ billion)	7	11	3	2	-2	7	8

Notes : (#) Revised figures.

(+) Preliminary figures.

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

(b) Final figures.

(*) Change of less than 0.05%.

/Table 1.2

Table 1.2

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

	<u>2003</u>				<u>2004</u>
	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>					
Private consumption expenditure	-0.5	-1.0	3.6	1.4	0.9
Government consumption expenditure	0.6	0.5	1.2	3.0	0.3
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	3.4	1.9	1.7	6.5	3.3
Re-exports	4.0	2.3	1.4	7.0	3.8
Domestic exports	-3.0	-2.5	5.8	-0.3	-2.7
Imports of goods ^(a)	3.0	1.1	2.4	7.5	3.4
Exports of services	0.7	-18.4	32.4	1.8	3.4
Imports of services	-5.8	-14.3	23.2	3.4	-4.9
Gross Domestic Product^(b)	-0.7	-2.6	6.8	1.5	1.0
<i>Change in the main price indicators (%)</i>					
GDP deflator	-1.0	-2.2	-1.4	-0.3	-0.3
Composite Consumer Price Index^(c)	-0.1	-1.1	-1.9	0.8	0.3
Consumer Price Index (A) ^(c)	*	-0.5	-2.3	1.1	0.4

Notes : (#) Revised figures.

(+) Preliminary figures.

(*) Change of less than 0.05%.

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

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

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

(c) Final figures.

/1.3

1.3 In the *labour market*, labour demand in the service sectors showed a broad-based strengthening, along with the upturn in overall economic activity. Yet with the total labour force resuming growth, the seasonally adjusted unemployment rate fell only marginally, to 7.2% in the first quarter of 2004, from 7.3% in the fourth quarter of 2003. Meanwhile, the underemployment rate edged up from 3.3% to 3.4% over these two quarters, partly on account of increased temporary and casual jobs in construction. Labour earnings eased by 1.0% in money terms in the fourth quarter of 2003 over a year earlier, narrowed from the 1.8% fall in the third quarter.

1.4 The *property market* picked up distinctly further in the first quarter of 2004. Trading activity was brisk, with the volume of property transactions bouncing up to the highest quarterly level in five years. On residential property, keen acquisition interest was seen in both the primary market and the secondary market, particularly so at the luxury end of the market. Flat prices rose for the eighth consecutive month in March 2004, cumulating to a 30% rebound from the trough in July 2003. Flat rentals also edged up during the first quarter. On commercial property, both investment and leasing demand for office space strengthened visibly amidst a better business situation. Likewise, the market for shopping space was lifted by continued buoyancy in inbound tourism and further pick-up in local consumer spending. As to the market for industrial property, trading activity for modern industrial-cum-commercial premises also turned more active in recent months.

1.5 In the *financial market*, the spot exchange rate of the Hong Kong dollar against the US dollar stayed on the strong side of the linked rate throughout the first quarter of 2004, notwithstanding a modest easing during March amidst a strong rebound in the US dollar against other major currencies. The discount of the twelve-month Hong Kong dollar forward rate against the spot rate hovered within a range of 478-765 pips (each pip equivalent to HK\$0.0001) during the first quarter of 2004. Amidst ample liquidity, the three-month HIBOR stayed below the corresponding Euro-dollar deposit rate throughout the first quarter. As the decline in Hong Kong dollar loans was much smaller than that in Hong Kong dollar deposits, the loan-to-deposit ratio notched up noticeably during the first quarter of 2004.

/1.6

1.6 The local *stock market* advanced sharply in the first two months of 2004, buoyed by further fund inflow into Hong Kong and rallies in the major overseas stock markets. Yet local share prices receded considerably during March. Apart from profit-taking, market sentiment was hit by heightened global security concern after the terrorist attack in Madrid on 11 March and then by the political row in Taiwan after its presidential election on 20 March. Having soared to a 35-month peak at 13 928 on 18 February, the Hang Seng Index eased back to close the month of March 2004 at 12 682, still marginally up by 0.8% over end-2003. The average daily turnover in the local stock market nevertheless went up significantly further, from \$15.3 billion in the fourth quarter of 2003 to \$19.7 billion in the first quarter of 2004.

1.7 On *consumer prices*, the year-on-year decline in the Composite Consumer Price Index narrowed noticeably further to 1.8% in the first quarter of 2004, from 2.3% in the fourth quarter of 2003. In parallel with the upturn in local demand, there were generally lesser price discounts and other concessions on consumer items in the retail market. There were even upward adjustments in some of the retail prices and service charges, in part due to higher prices of retained imports amidst a weaker US dollar and a sharp escalation in world commodity prices.

1.8 The *GDP deflator*, as a broad measure of overall price change in the economy, fell by 4.3% in the first quarter of 2004 over a year earlier, smaller than the 4.8% decrease in the fourth quarter of 2003. This was mainly attributable to a narrowed decline in the price deflator for local consumer spending and a renewed increase in the price deflator for investment spending, amidst continued revival in domestic demand. As the GDP growth in real terms outweighed the decline in the GDP deflator, *nominal GDP* bounced back to a 2.2% growth in the first quarter of 2004 over a year earlier, from the 0.2% decrease in the fourth quarter of 2003.

/1.9

1.9 Statistics on the *Gross National Product (GNP)*⁽³⁾ are available up to the fourth quarter of 2003. External factor income inflow and outflow both recorded significant increases in the fourth quarter of 2003 over a year earlier, reversing the declines in the preceding three quarters. The rebound was primarily propelled by a surge in direct investment income both from Hong Kong and overseas, amidst robust recovery in the local economy and improved global economic performance since mid-2003. Balancing these flows, there was a net inflow of external factor income amounting to 3.4% of GDP in the fourth quarter of 2003. Adding this net inflow to GDP gives GNP, which picked up visibly further to a 6.6% growth in real terms in the fourth quarter of 2003 over a year earlier, up from the 4.3% rise in the third quarter. Thanks to a larger net inflow of external factor income, the GNP growth in real terms in the fourth quarter of 2003, as well as for the year as a whole, was faster than the corresponding GDP growth in real terms. For 2003 as a whole, GNP grew by 4.7% in real terms, having held stable in 2002.

1.10 Within external factor income, net direct investment income outflow fell visibly in the fourth quarter of 2003 over a year earlier, along with a vivid rise in earnings of some prominent local enterprises from investment abroad. Net portfolio investment income inflow went up noticeably, largely attributable to increased dividend pay-outs made by some non-resident companies to local investors. Net income inflow on other investment nevertheless shrank further, upon a further marked reduction in interest income from loans and deposits placed abroad by local banks, in face of a continued low interest rate environment globally.

/Table 1.3

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

	<u>2002[#]</u>	<u>2003[#]</u>	<u>2002</u>				<u>2003</u>			
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>
<i>Year-on-year rate of change in money terms (%)</i>										
Total external factor income flow ^(a)										
Inflow	-12.4	-2.5	-16.5	-23.7	-7.7	3.0	-2.1	-9.0	-11.8	14.4
Outflow	-6.7	-8.1	-12.4	-18.8	3.5	5.9	-13.1	-11.9	-13.6	7.8
Net external factor income flow at current market prices (\$ billion)	17	34	8	-1	5	5	16	2	6	11
GDP at current market prices (\$ billion)	1,247 (-1.8)	1,220 (-2.2)	296 (-3.8)	303 (-2.4)	321 (-0.9)	327 (-0.2)	295 (-0.1)	284 (-6.3)	314 (-2.3)	327 (-0.2)
GNP at current market prices (\$ billion) ^(b)	1,264 (-3.6)	1,254 (-0.8)	304 (-5.4)	302 (4.4)	326 (-3.9)	333 (-0.7)	311 (2.5)	285 (-5.5)	319 (-1.9)	338 (1.5)
<i>Year-on-year rate of change in real terms (%)</i>										
Gross National Product	*	4.7	-2.6	-1.6	-0.2	4.2	7.2	0.3	4.3	6.6

Notes : (#) Revised figures.

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

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

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

(*) Change of less than 0.05%.

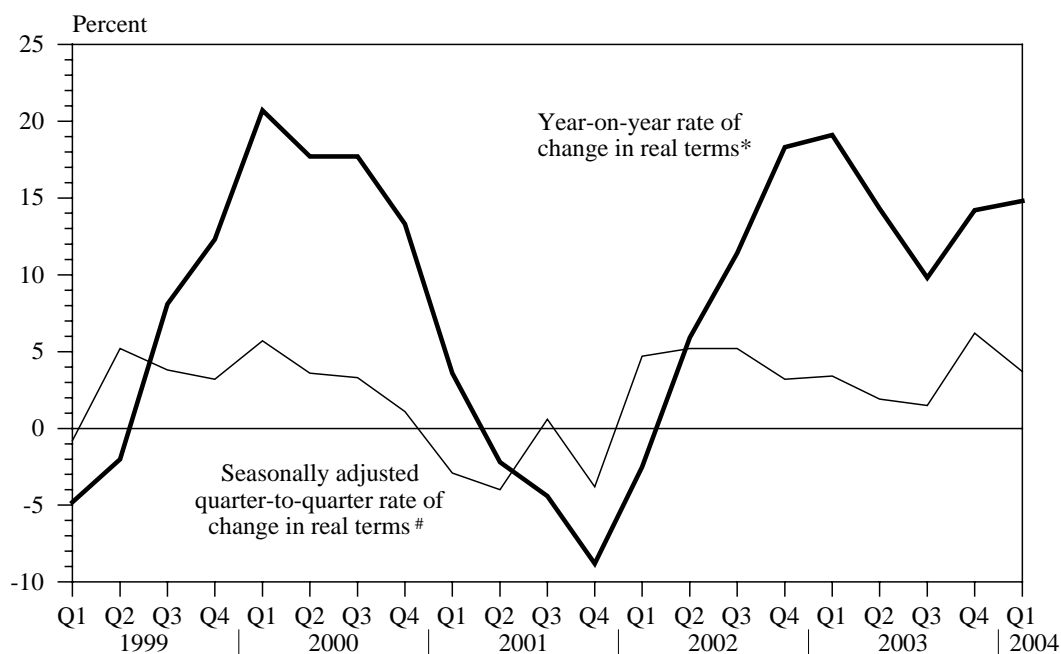
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The external sector

1.11 According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) remained buoyant in the first quarter of 2004, surging by 14.8% in real terms over a year earlier, amidst a broad-based revival in global demand and the additional support from a soft US dollar. This was further up from the already robust growth of 14.2% in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods continued to rise, for the ninth consecutive quarter in a row, by 3.7% in real terms in the first quarter of 2004, following a 6.2% leap in the fourth quarter of 2003 (paragraph 2.5).

Diagram 1.2

Total exports of goods



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

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

/1.12

1.12 *Re-exports* were still the key growth component within total exports of goods, surging by 15.9% in real terms in the first quarter of 2004 over a year earlier, also further up from the 15.4% surge in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, re-exports rose for the ninth quarter in a row, by 4.2% in real terms in the first quarter of 2004, after a 6.7% increase in the fourth quarter of 2003. Meanwhile, notwithstanding the on-going structural shift towards re-exports and offshore trade, *domestic exports* reverted to increase, albeit slightly, by 0.7% in real terms in the first quarter of 2004 over a year earlier, from a 0.4% decline in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further by 2.6% in real terms in the first quarter of 2004, following a 0.2% decline in the fourth quarter of 2003 (paragraphs 2.6 and 2.7).

1.13 The robust export performance in the first quarter of 2004 was characterised by an across-the-board surge in exports to *East Asia* alongside the export boom in the region, a further double-digit growth in exports to the *European Union* amidst a strong euro and firmer demand there, and resumed growth in exports to *North America*. However, compared to East Asia and European Union, the growth in exports to North America was much less distinct, conceivably weighed down by the on-going shift away from re-exports to offshore trade (paragraph 2.14).

1.14 *Imports of goods* continued to grow strongly in the first quarter of 2004, by 15.5% in real terms over a year earlier, up from an already distinct rise of 15.0% in the fourth quarter of 2003. As to import intake for local use, *retained imports* continued to pick up along with the recovery in domestic demand, surging by 14.8% in real terms in the first quarter of 2004 over a year earlier, after a 14.1% leap in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, both imports of goods and retained imports rose further, by 3.2% and 0.9% respectively in real terms in the first quarter of 2004, after increases of 7.0% and 7.9% in the fourth quarter of 2003 (paragraph 2.8).

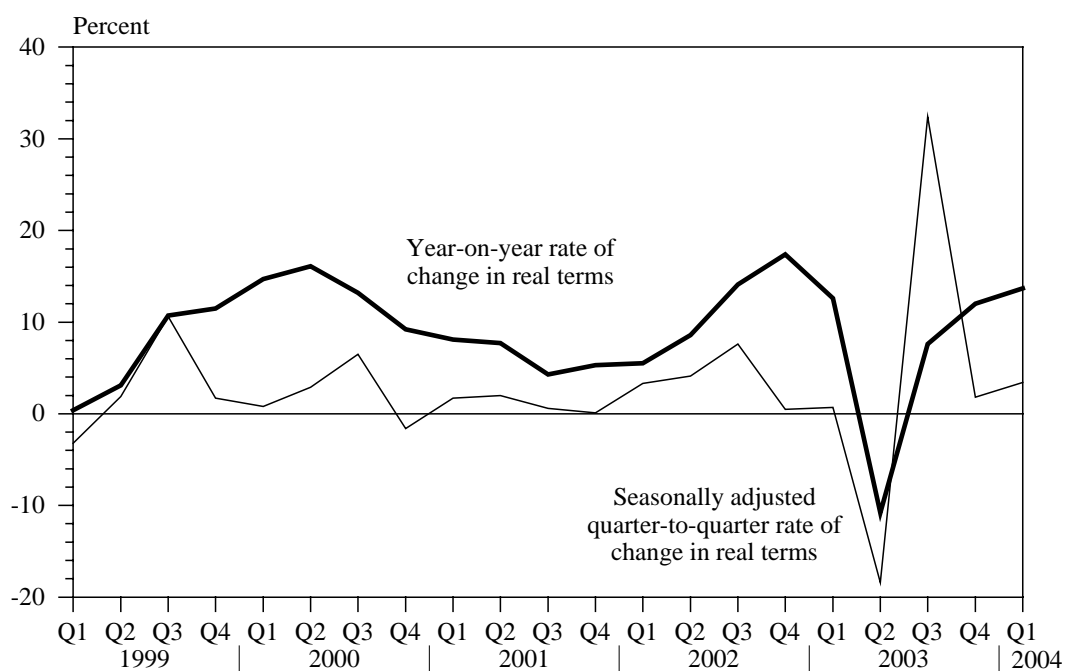
1.15 With the value of imports of goods registering a larger increase than that of total exports of goods, the *visible trade deficit* reckoned on a GDP basis widened to \$32.8 billion or 7.0% of the value of imports of goods in the first quarter of 2004, from \$16.0 billion or 4.0% in the same quarter in 2003 (paragraph 2.9).

/1.16

1.16 On invisible trade, *exports of services* attained a distinct growth of 13.7% in real terms in the first quarter of 2004 over a year earlier, faster than the 12.0% increase in the fourth quarter of 2003. The continued strong growth in the first quarter of 2004 was marked by robust increases across all the components in exports of services. While offshore trade remained on an uptrend, inbound tourism continued to prosper on the back of surging visitor arrivals from the mainland of China (the Mainland). Also, exports of transportation services accelerated in growth, in tandem with the buoyant tourism and export performance. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose further, by 3.4% in real terms in the first quarter of 2004, following a 1.8% increase in the fourth quarter of 2003 (paragraph 2.10).

Diagram 1.3

Exports of services



1.17 *Imports of services* went up by 4.0% in real terms in the first quarter of 2004 over a year earlier, slightly up from a 3.1% rise in the fourth quarter of 2003. Imports of trade-related services and transportation services registered particularly sharp increases in the first quarter, bolstered by surging trade flows

/within

within the region. Imports of travel services likewise showed a lesser decline in the first quarter, as outbound tourism continued to recover from the earlier setback caused by Severe Acute Respiratory Syndrome (SARS). On a seasonally adjusted quarter-to-quarter comparison, imports of services fell back by 4.9% in real terms in the first quarter of 2004, after a 3.4% increase in the fourth quarter of 2003 (paragraph 2.11).

1.18 As the increase in value of exports of services was larger than that in value of imports of services, the *invisible trade surplus* reckoned on a GDP basis expanded further to \$41.7 billion or 81.1% of the value of imports of services in the first quarter of 2004, from \$33.9 billion or 71.0% in the same quarter in 2003. This partly offset the enlarged visible trade deficit to yield a combined surplus of \$8.8 billion in the first quarter of 2004, equivalent to 1.7% of the total value of imports of goods and services. These were down from the respective figures of \$18.0 billion and 4.0% in the same quarter in 2003 (paragraph 2.12).

Domestic demand

1.19 The recovery in local consumer demand gathered further momentum in the first quarter of 2004, as consumer confidence strengthened amidst brighter economic outlook, improved employment and a steadily reviving property market. Coupled with continued buoyancy in inbound tourism, the volume of *retail sales* leaped by 7.3% in the first quarter of 2004 over a year earlier, further up from the 5.2% increase in the fourth quarter of 2003. This was also the largest quarterly increase since the second quarter of 2000. Analysed within the total and on a year-on-year comparison, sales of high-value consumer items such as electrical goods and photographic equipment, and furniture and fixtures recorded further robust double-digit increase in the first quarter, while sales of motor vehicles reverted to a strong growth towards the end of the quarter. Concurrently, sales of clothing and footwear and of commodities in department stores accelerated in growth. As to sales of lower-value items such as food, alcoholic drinks and tobacco as well as commodities in supermarkets, they also recorded small increases. On a seasonally adjusted quarter-to-quarter comparison, the volume of retail sales went up by 3.6% in the first quarter of 2004, also up from the 2.8% growth in the fourth quarter of 2003.

/1.20

1.20 *Private consumption expenditure (PCE)* likewise accelerated to a 5.0% growth in real terms in the first quarter of 2004 over a year earlier, from the 3.6% increase in the fourth quarter of 2003. This was the fastest quarterly growth since the third quarter of 2000. The pick-up was manifested in almost all broad categories of consumer spending, with a particularly distinct increase in spending on consumer durables. On a seasonally adjusted quarter-to-quarter comparison, PCE rose by 0.9% in real terms in the first quarter of 2004, after the 1.4% growth in the fourth quarter of 2003.

Table 1.4

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

		<u>Retail sales^(a)</u>	<u>Consumer spending by major component^(a)</u>						<u>Visitor spending^(b)</u>
			<u>Food</u>	<u>Durables</u>	<u>Non-durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Total</u>	
2003	Annual	-0.6	1	6	-4	1	-13	1	-5
	Q1	-0.8 (0.9)	1	5	-5	1	-14	-1	21
	Q2	-7.7 (-5.1)	*	-1	-17	-4	-31	-8	-60
	Q3	1.2 (6.7)	1	6	1	3	-3	2	10
	Q4	5.2 (2.8)	2	13	4	5	-4	5	14
2004	Q1	7.3 (3.6)	1	17	6	5	-2	6	14

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

(b) This is a broad estimate of spending by non-residents in the domestic market, as a deduction item within private consumption expenditure amongst the expenditure components of GDP.

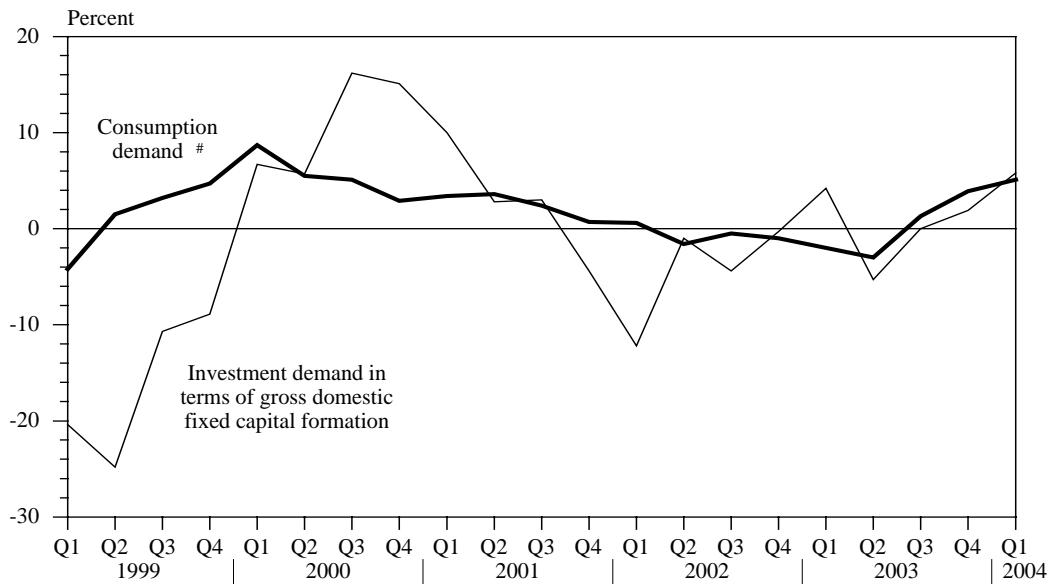
() Figures in brackets represent the seasonally adjusted quarter-to-quarter % changes in real terms.

(*) Change of less than 0.5%.

/Diagram 1.4

Diagram 1.4

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



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

1.21 *Government consumption expenditure (GCE)* reckoned on a national accounts basis⁽⁴⁾ rose by 5.1% in real terms in the first quarter of 2004 over a year earlier, after the 5.5% increase in the fourth quarter of 2003. While fiscal restraint continued, there was some one-off compensatory payments made to those Civil Servants retiring under the Second Voluntary Retirement Scheme in early 2004. On a seasonally adjusted quarter-to-quarter comparison, GCE went up by only 0.3% in real terms in the first quarter of 2004, down from the 3.0% growth in the fourth quarter of 2003.

/1.22

1.22 Overall investment spending, as represented by *gross domestic fixed capital formation (GDFCF)*, leaped by 5.8% in real terms in the first quarter of 2004 over a year earlier, up from the 1.9% growth in the fourth quarter of 2003. The strong growth momentum in the first quarter was largely propelled by hectic acquisition of machinery and equipment amidst a better business situation. *Expenditure on machinery, equipment and computer software* surged by 15.9% in real terms in the first quarter of 2004 over a year earlier, further up from the already strong growth of 9.3% in the fourth quarter of 2003. Yet *expenditure on building and construction* remained weak, falling by 10.5% in real terms in the first quarter of 2004 over a year earlier, after the 9.9% decline in the fourth quarter of 2003. This mainly reflected the continued subdued building activity in the private sector, notwithstanding a more active property market lately. Yet against this, there was a further growth in public sector output, upon the intensification of work on the Deep Bay Link, Route 9 and the Hong Kong Section of Hong Kong-Shenzhen Western Corridor.

1.23 *Inventories* increased significantly further in the first quarter of 2004, following a strong rebound in the fourth quarter of 2003. This was concurrent with a strong intake of imports to meet the robust recovery in domestic demand over the past few months.

The Government account

1.24 According to the provisional cash-based Consolidated Government Accounts⁽⁵⁾, *government revenue* leaped by 24.9% in money terms over a year earlier to \$96.3 billion in the final quarter of the financial year 2003/04 (January to March 2004). This went along with a strong surge in investment income, as well as a distinct rebound in revenue from profits tax upon improved business profitability in 2002/03 and a higher tax rate applied to provisional profits tax for 2003/04. Revenue from stamp duties leaped appreciably, upon hectic activity in both the stock and property markets in early 2004. Concurrently, revenue from bets and sweeps tax, estate duty and business registration also increased visibly in January-March 2004 over a year earlier. These more than offset the mild decrease in revenue from salaries tax.

/1.25

1.25 *Government spending* went up by 6.4% in money terms over a year earlier to \$65.5 billion in the final quarter of the financial year 2003/04. Within this total, operating expenditure increased by 5.1% to \$52.6 billion. Capital spending rose more noticeably by 12.2% to \$12.9 billion over the same period, predominantly due to increased spending in the Capital Works Reserve Fund and Capital Investment Fund.

1.26 As government revenue increased at a faster pace than total government spending, the surplus in the *fiscal balance* widened to \$30.8 billion in the final quarter of the financial year 2003/04, from that of \$16.1 billion in the same quarter of the financial year 2002/03.

1.27 For the financial year 2003/04 as a whole, government revenue stood at \$207.3 billion, while government spending amounted to \$247.5 billion. Taken together, there was a fiscal deficit of \$40.1 billion in the financial year 2003/04, equivalent to 3.3% of GDP in 2003, appreciably smaller than the corresponding deficit figures of \$61.7 billion and 4.9% in the financial year 2002/03. To a considerable extent, the improvement was attributable to the sharp upturn in the economy and the asset markets in late 2003/04, as well as a significant gain in investment income in the year. This more than offset the additional cost arising from the relief and support measures announced in 2003 to tide over the SARS impact.

/The

The property market

1.28 The sales market for *residential property* turned even more upbeat in the first quarter of 2004, having picked up strongly in the latter part of last year. Trading activities in both the primary and secondary markets increased markedly. There were also further distinct increases in prices, particularly in the luxury end of the market. The strengthened local economy, amidst better global economic outlook and continued low interest rates, lifted confidence of both home buyers and investors. There were reportedly more transactions involving short-term resale with profits. As to the rental market for residential property, the situation was relatively steady with rentals showing some mild increases in overall terms (paragraph 3.10).

1.29 On a quarter-to-quarter comparison, flat prices increased significantly further, on average by 13% in the first quarter of 2004, after a 9% increase in the fourth quarter of 2003. Flat rentals increased less rapidly, on average by 2% in the first quarter of 2004, having stabilised to show zero change in the fourth quarter of 2003. Compared with the peaks in the third quarter of 1997, flat prices and rentals in the first quarter of 2004 were still down substantially, by an average of 57% and 47% respectively (paragraph 3.11).

1.30 On *commercial property*, the sales market for office space showed a strong performance in the first quarter of 2004, supported by a marked revival in investor interest. The rental market also improved further in the first quarter of 2004, along with the pick-up in business activity. Also, many landlords cut back on the rent-free periods and other lease concessions offered earlier. The sales and rental markets for *shopping space* likewise revived further in the first quarter of 2004. The pick-up in retail business, amidst stronger local consumption and vibrant inbound tourism, provided the major impetus. Yet the increases in prices and rentals were more noticeable for retail premises in popular locations and in better-managed shopping malls. On *industrial property*, the rental and sales markets were relatively quiet in overall terms in the first quarter of 2004, yet both rentals and prices showed further increases (paragraphs 3.12 to 3.14).

/1.31

1.31 *Planned developments* of all types of property in the private sector, as indicated by the total usable floor area on building plans with consent to commence work, rose by 3% in the first quarter of 2004 over a year earlier. This came after a 14% increase in the fourth quarter of 2003. Comparing the twelve months ending March 2004 with the preceding twelve-month period, planned developments of all types of property increased by 4%. Within this total, planned developments of private residential property fell by 7% in terms of units or by 16% in terms of total usable floor area, while those of commercial property and industrial property fell by 39% and 99% respectively. Yet planned developments of property in the “others” category went up by 287% (paragraph 3.18).

The labour market

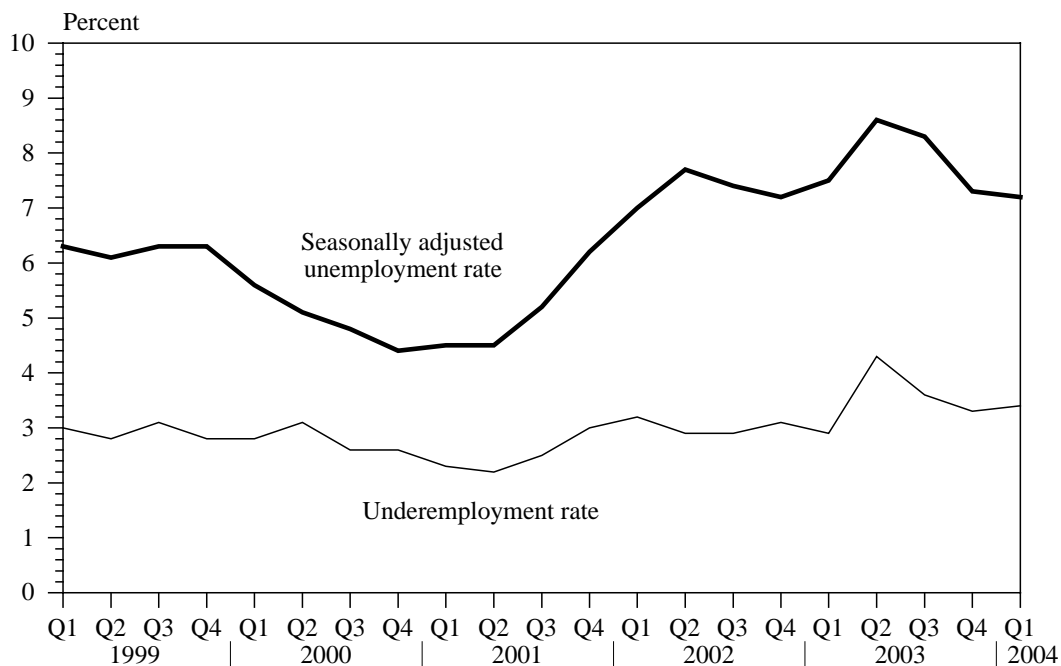
1.32 After a year of wide gyrations in 2003, the labour market held broadly stable in the first quarter of 2004. The *seasonally adjusted unemployment rate* edged lower, from 7.3% in the fourth quarter of 2003 to 7.2% in the first quarter of 2004, as did the total number of unemployed persons, from 253 200 to 249 500. While total employment continued on an uptrend alongside the recovery in economic activity, this was largely offset by a concurrent expansion in total labour supply with more people entering the labour market to find jobs. Meanwhile, the median duration of unemployment shortened somewhat, from 109 days to 106 days between the two quarters. While the proportion of persons unemployed for less than three months rose slightly, from 46% to 47%, the proportion of persons unemployed for three to less than six months declined marginally, from 18% to 17%. (In February - April 2004, the seasonally adjusted unemployment rate and the total numbers unemployed were 7.1% and 249 000 respectively.) (paragraph 5.1)

1.33 The *underemployment rate*, at 3.4% in the first quarter of 2004, went slightly above that of 3.3% in the fourth quarter of 2003. The number of underemployed persons likewise went up, from 115 700 to 118 700. The increase occurred mainly amongst manual workers at building and construction sites, where conceivably more casual and temporary jobs became available in tandem with the pick-up in the property market. (In February - April 2004, the underemployment rate and the total numbers underemployed were 3.4% and 120 000 respectively.) (paragraph 5.2)

/Diagram 1.5

Diagram 1.5

Unemployment and underemployment rates

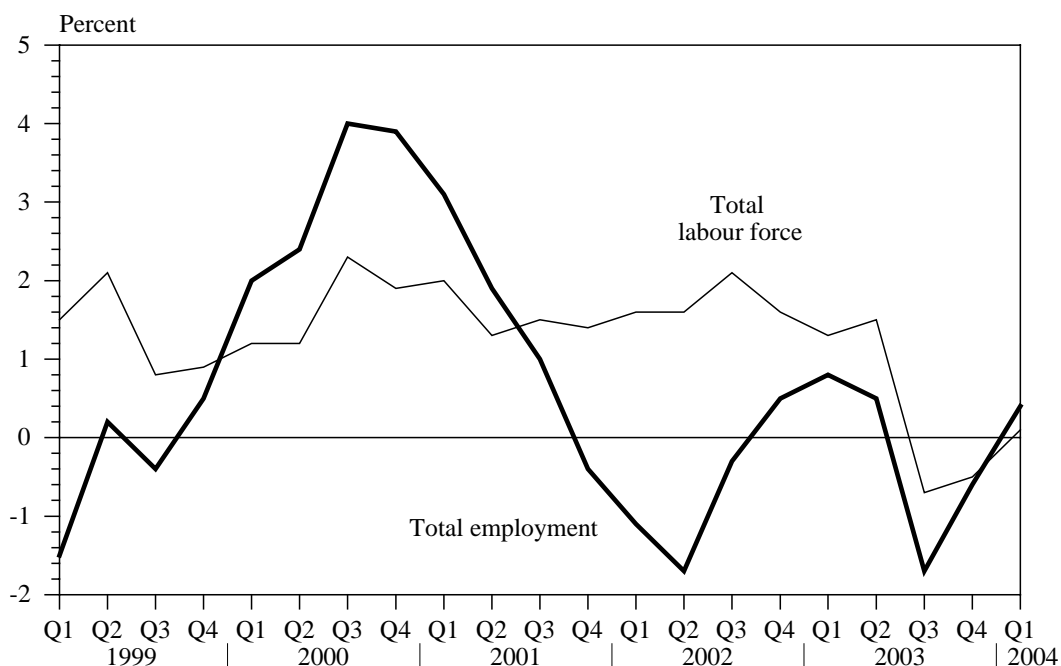


1.34 On a quarter-to-quarter comparison, *total employment* as enumerated from households rose by 0.7% in the first quarter of 2004, further to a 1.3% gain in the fourth quarter of 2003. The increase was most apparent amongst persons aged 40-59, those with upper secondary education and above, and those serving as managers and administrators, associate professionals, clerks, and service workers and shop sales workers. A significant proportion of them was engaged in the distributive and catering trades, finance, insurance, and amusement and recreational services sectors. Yet *total labour force*, having contracted by 0.1% in the fourth quarter of 2003, expanded again by 0.5% in the first quarter of 2004. This was mainly due to a rise in the female labour force participation rate, particularly that for married women aged 40-59. Most of these new entrants were seeking employment as associate professionals, clerks, and service workers and shop sale workers. As total employment grew just slightly faster than total labour force, the unemployment rate exhibited a marginal decline between the two quarters. On a year-on-year comparison, total employment went up by 0.4% in the first quarter of 2004, reversing the 0.6% fall in the fourth quarter of 2003. Total labour supply likewise edged up, albeit to a smaller extent, from a decrease of 0.5% to a slight increase of 0.1% (paragraph 5.4).

/Diagram 1.6

Diagram 1.6

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



1.35 Labour income, though still soft, showed a more moderate decrease recently. On a year-on-year comparison, *labour earnings* were down by 1.0% in money terms in the fourth quarter of 2003, lesser than the 1.8% drop in the third quarter. Discounting the fall in consumer prices as measured by the Composite CPI, labour earnings nevertheless were still higher, by 1.9% and 1.4% respectively in real terms in the third and fourth quarters. *Labour wages* came down by 1.5% in money terms in December 2003 from a year earlier, also narrowed from the 2.1% fall in September. Discounting the decline in the CPI(A), labour wages edged lower by 0.3% in real terms in December 2003, after a 0.7% increase in September (paragraph 5.5).

/Prices

Prices

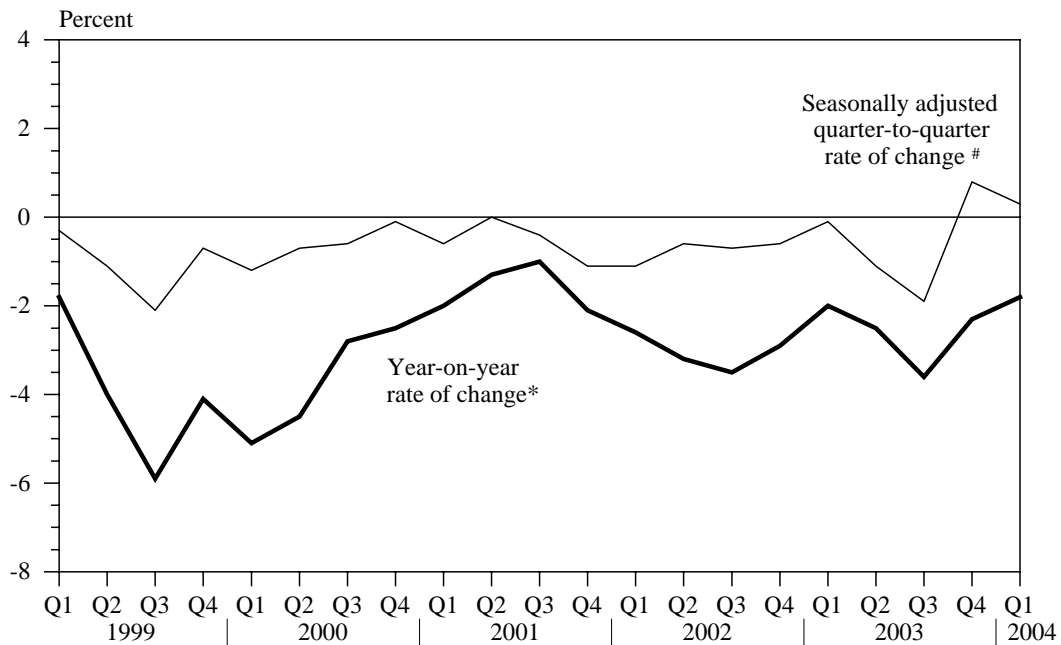
1.36 The decline in overall consumer prices moderated quite substantially in the first quarter of 2004. This was attributable to the stronger demand brought about by the sustained pick-up in local consumer spending and vibrant inbound tourism. In response, more retailers and service providers have cut back earlier price discounts and other concessions on their goods and services. Some have even adjusted prices up modestly. Higher input costs were another contributory factor. Within the local economy, the downtrend in labour wages and property rentals appeared to have tapered or turned around in the more recent months, along with improvement in the labour market and rebound in the property market. Externally, the prices of retained imports kept moving higher, under the combined influence of a weaker US dollar and surge in world commodity prices (paragraph 6.1).

1.37 On a year-on-year comparison, the *Composite Consumer Price Index* was down by 1.8% in the first quarter of 2004, distinctly narrowed from the 2.3% drop in the fourth quarter of 2003. While the prices of many commodity items exhibited moderated declines, the prices of some other items, such as clothing and footwear, and miscellaneous consumer goods, went up further. Also, there was a sharp rise in the charges for electricity, gas and water, yet this was attributable almost entirely to a low base of comparison brought about by the waiver of water and sewage charges granted by the Government for April 2002 - March 2003 and by the rebate of electricity charge granted by a power company for January and February 2003 (paragraph 6.2).

/Diagram 1.7

Diagram 1.7

Composite Consumer Price Index



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

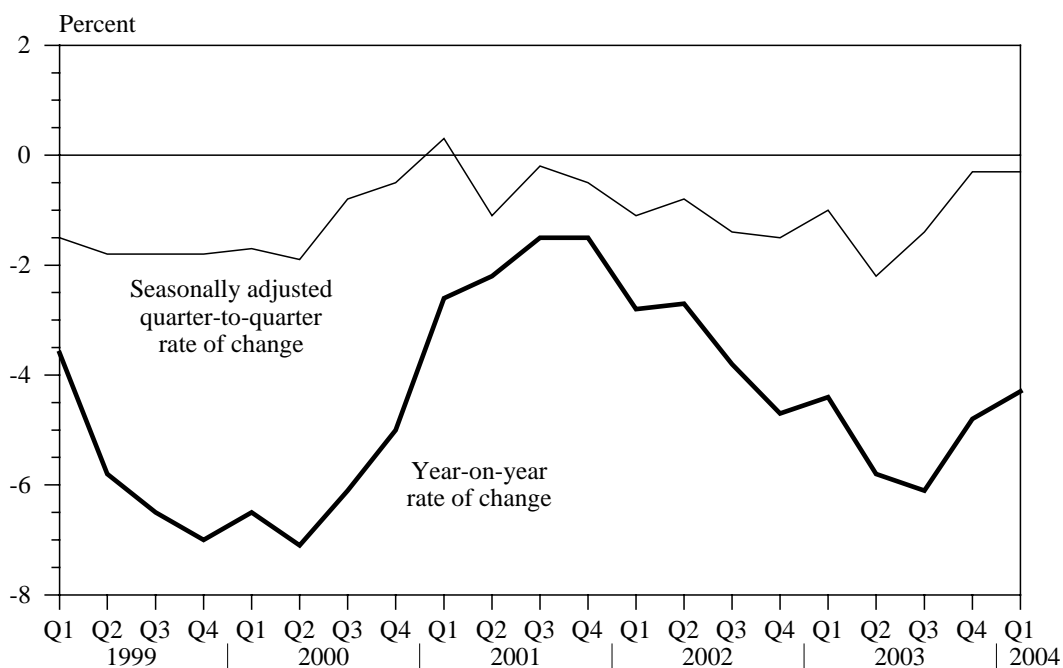
(#) From the first quarter of 2000 onwards, the quarter-to-quarter changes in the seasonally adjusted Composite CPI are computed from the new 1999/2000-based series. Before then, the quarter-to-quarter changes are computed from the old 1994/95-based series. Splicing has been applied to the indices to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

/1.38

1.38 The *GDP deflator*, as a broad measure of overall price change in the economy, showed a moderated decline in the first quarter of 2004. On a year-on-year comparison, the GDP deflator fell by 4.3% in the first quarter of 2004, narrower than the 4.8% decrease in the fourth quarter of 2003. Notwithstanding a deterioration in the terms of trade in goods and an enlarged decline in the price deflator for government consumption expenditure, this was outweighed by the combined effect of a renewed rise in the price deflator for gross domestic fixed capital formation, a reduced fall in the price deflator for private consumption expenditure, and improved terms of trade in services. Within the GDP deflator, both the *domestic demand deflator* and the *total final demand deflator* had lesser decreases, by 1.0% and 1.1% respectively in the first quarter of 2004, as against the declines of 2.3% and 2.0% in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator edged lower by 0.3% in the first quarter of 2004, the same as that in the fourth quarter of 2003 (paragraph 6.16).

Diagram 1.8

GDP deflator



/The

The financial sector

1.39 The spot *exchange rate of the Hong Kong dollar* against the US dollar eased back closer to the linked rate during the first quarter of 2004, from 7.763 to 7.796. Yet amidst strong inflow of funds and upward pressure from strengthening of the regional currencies, the discount of the twelve-month Hong Kong dollar forward rate over the spot rate narrowed only slightly from 595 pips (each pip equivalent to HK\$0.0001) at end-2003 to 560 pips at end-March 2004 (paragraph 4.2).

1.40 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. In the first two months of 2004, the US dollar weakened further against most of the other major currencies but then regained some ground in March. For the first quarter as a whole, the US dollar was little changed against the euro and the yen. Specifically, the dollar-euro rate edged lower by only 0.4% from 1.231 in December 2003 to 1.227 in March 2004, whereas the yen-dollar rate moved up modestly by 0.8% from 107.7 to 108.5. The pound sterling appreciated more against the US dollar, with the dollar-pound sterling rate rising by 4.2% from 1.753 to 1.828. Likewise, most of the major East Asian currencies rose against the US dollar. Taking the various currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell by 0.5% from an average of 99.0 in December 2003 to that of 98.5 in March 2004. After adjusting for changes in the respective consumer price indices, the trade-weighted *Real Effective Exchange Rate Index of the Hong Kong dollar* went down by about 1.3% from an average of 86.4 to that of 85.3 over the same period (paragraphs 4.3 and 4.4).

1.41 The local inter-bank *interest rates* remained low, with the three-month HIBOR staying below 0.1% almost throughout the first quarter of 2004, amidst ample liquidity in the banking system. At end-March 2004, the three-month HIBOR was at a discount of 99 basis points against the corresponding Euro-dollar deposit rate, compared to that of 104 basis points at end-2003. The other key interest rates displayed little movement during the first quarter of 2004. The Base Rate under the Discount Window operated by the Hong Kong Monetary Authority remained intact at 2.5%, as did the best lending rate at 5.00%. The savings deposit rate offered by the major commercial banks edged down to almost zero at the end of the quarter, from an already meagre 0.01% at end-2003.

/The

The spread of the best lending rate over the three-month time deposit rate thus widened marginally, from an average of 4.98 percentage points in the fourth quarter of 2003 to that of 4.99 percentage points in the first quarter of 2004 (paragraphs 4.5 and 4.6).

1.42 *Hong Kong dollar deposits* shrank by 2.3% during the first quarter of 2004, having expanded for three quarters in a row. This partly reflected a shift out of Hong Kong dollar related to the IPO-proceeds. *Hong Kong dollar loans* went down marginally, by 0.1% during the first quarter of 2004, after the 0.3% rise during the fourth quarter of 2003. With Hong Kong dollar loans having a smaller decrease than Hong Kong dollar deposits during the first quarter, the Hong Kong dollar loan-to-deposit ratio moved up from 81.5% at end-2003 to 83.3% at end-March 2004 (paragraphs 4.8, 4.15 and 4.16).

1.43 The local *stock market* continued on a strong rally at the beginning of 2004. Share prices were bolstered by continued inflow of funds, growing optimism about Hong Kong's economic performance and near-term outlook, and a more active property market. The generally robust performance of the major stock market overseas rendered additional support. Consequently, the Hang Seng Index soared to a 35-month high at 13 928 on 18 February, and stayed above the 13 000 level up to early March. It however receded afterwards, amidst renewed concern about global security following the terrorist attack in Madrid on 11 March, cross-strait tension after Taiwan's presidential election in late March, and increased likelihood of an interest rate hike in the United States in the second half of the year. The Hang Seng Index closed at 12 682 at end-March 2004, only 0.8% above the level at end-2003. The daily turnover averaged \$19.7 billion in the first quarter of 2004, up from \$15.3 billion in the fourth quarter of 2003. Trading was particularly active in January, with a daily average of \$23.5 billion, the highest since August 1997 (paragraphs 4.30 and 4.31).

/Notes

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The Gross National Product (GNP) is obtained by adding net external factor income flow, being the income inflow minus the corresponding income outflow, to GDP. External factor income inflow refers to income earned by residents from abroad, while external factor income outflow refers to income earned by non-residents from within the domestic territory. Hence GNP is an overall measure of income earned by the residents of an economy in a specified period, both domestically and from elsewhere. It distinguishes from GDP in that GDP is an overall measure of income earned by both residents and non-residents, from within the domestic territory in a specified period. Factor income comprises direct investment income, portfolio investment income, other investment income, and compensation of employees.
- (4) Government consumption expenditure reckoned on a national accounts basis covers the recurrent expenditure on goods and services incurred by government departments. It also covers the recurrent expenditure of quasi-government non-profit bodies, such as the Hong Kong Trade Development Council, Hong Kong Productivity Council, Hong Kong Tourism Board, Consumer Council and Hospital Authority. On the other hand, it does not include the expenditure of those government departments and statutory entities engaged in the production of goods and services principally for sale to the public, such as the Housing Department, Post Office and Water Supplies Department, and such as the Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation and Airport Authority Hong Kong. Government subventions to the various organisations providing community and welfare services are also excluded, because such expenditure is in the nature of transfer payments and not direct consumption of economic resources.
- (5) The Lotteries Fund has been incorporated into the Consolidated Accounts of the Government with effect from 1 April 2003. Figures for 2002/03 have been correspondingly adjusted for a valid comparison with those for 2003/04.

CHAPTER 2 : THE EXTERNAL SECTOR

Major external influences

2.1 The global economic recovery gathered strength in early 2004. Pick-up in activity was seen in many regions, with industrial production sustaining momentum, external trade booming, and investment regaining strength upon improved corporate profitability and brighter outlook. The loose monetary conditions and generally expansionary fiscal stance continued to support the global recovery process. Geo-political uncertainties, manifested as renewed threat of terrorist attacks, apparently had not inflicted much impact on the overall economic sentiment so far.

2.2 The strong growth momentum in the US economy since late 2003 was marked by an almost across-the-board pick-up in activity, amidst upbeat business and consumer confidence. In the European Union, the recovery process continued into the first quarter, with exports picking up and consumer spending also regaining some strength.

2.3 In East Asia, the upswing in economic activity was even more vivid, marked by the export boom and the broad-based improvement in domestic demand in the region. The Mainland economy remained the bright spot in the region, thriving upon a further surge in fixed asset investment, robust domestic demand, and continued buoyant export performance. The upturn in the Japanese economy was also impressive, as exports stayed vibrant, business investment picked up further, and consumer spending also showed some improvement after a prolonged setback. The other East Asian economies likewise exhibited strong growth momentum, bolstered mainly by vibrant intra-regional trade flows and improving domestic demand.

/Table 2.1.....

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

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2003	Annual	3.1	0.7	9.1	2.5	3.2	1.1	3.1
	H1	2.3	0.6	8.2	2.5	1.7	-1.1	2.9
	H2	4.0	0.8	9.8	2.6	4.7	3.3	3.2
	Q1	2.1 (0.5)	0.8 (*)	9.9	2.7 (0.2)	3.5	1.7 (0.2)	3.7 (-0.3)
	Q2	2.4 (0.8)	0.4 (*)	6.7	2.2 (0.8)	-0.1	-3.9 (-1.8)	2.2 (-0.1)
	Q3	3.6 (2.0)	0.6 (0.5)	9.6	2.0 (0.8)	4.2	1.7 (3.8)	2.4 (1.6)
	Q4	4.3 (1.0)	1.0 (0.5)	9.9	3.2 (1.7)	5.2	4.9 (2.7)	3.9 (2.7)
2004	Q1	4.9 (1.0)	1.5 (0.6)	9.8	5.4 (1.4)	6.3	7.5 (2.7)	5.3 (0.8)

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

(*) Change of less than 0.05%.

Table 2.2**Imports of goods of selected major economies
(year-on-year rate of change in local currency terms (%))**

		<u>United States</u>	<u>European Union</u>	<u>Mainland of China[#]</u>	<u>Japan</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea[#]</u>
2003	Annual	8.4	*	39.9	5.1	12.6	7.0	17.6
	H1	10.3	-0.3	44.4	7.4	11.5	4.5	21.1
	H2	6.7	0.2	36.3	2.9	13.6	9.2	14.5
	Q1	14.4	3.3	52.2	8.3	18.7	9.5	30.9
	Q2	6.7	-3.7	38.2	6.4	5.4	-0.1	12.2
	Q3	5.4	-1.0	34.3	6.6	6.4	4.6	10.5
	Q4	8.0	1.3	38.3	-0.5	20.8	13.9	18.1
2004	Q1	11.7	1.0	42.3	4.3	26.8	19.3	18.9

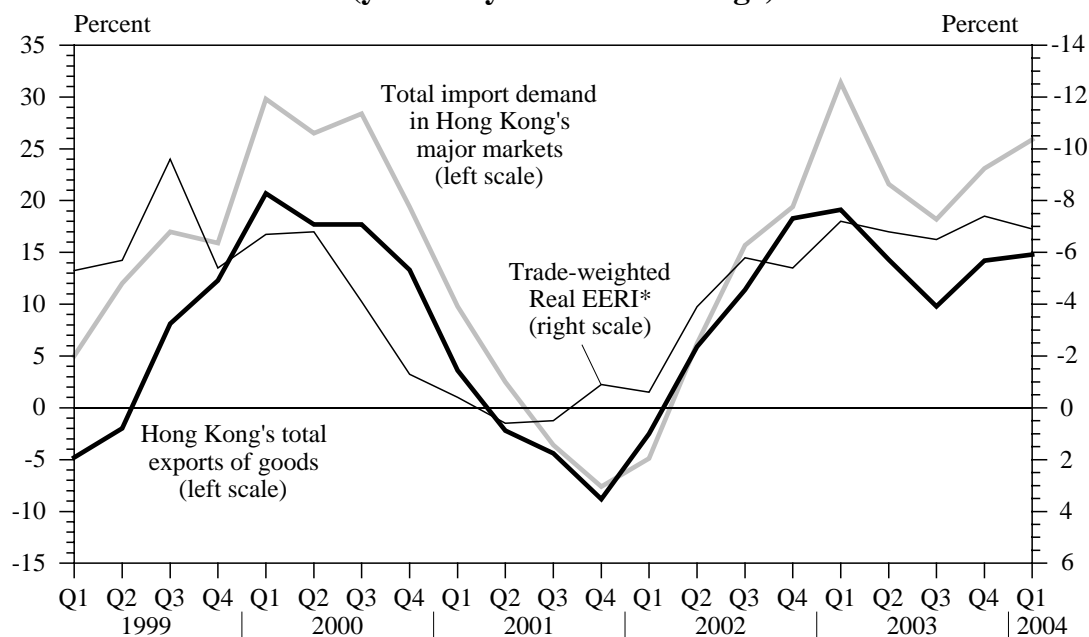
Notes : (#) Data on imports in the mainland of China and the Republic of Korea are in US dollar.

(*) Change of less than 0.05%.

/Diagram 2.1

Diagram 2.1

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



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

(*) The Real Effective Exchange Rate Index of the Hong Kong dollar (Real EERI) is compiled by the Hong Kong Monetary Authority. For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented here upside down, so that positive changes denoting real appreciation of the Hong Kong dollar appear at the lower part and negative changes denoting real depreciation at the upper part of the diagram.

/2.4

2.4 On exchange rate movements, the US dollar remained weak against the major currencies in the first two months of 2004, hitting fresh record lows against the euro and 11-year lows against the pound sterling. Notwithstanding some firming up in March, the exchange rate of the US dollar on average still plunged by 4.7% and 7.1% respectively against the euro and the pound sterling during the first quarter of 2004. It fell to a smaller extent against the Japanese yen, by 1.4% over the period, amidst interventions by the Japanese government. Similarly, the US dollar softened against some of the major East Asian currencies during the first quarter. With the movement of the Hong Kong dollar tracking closely that of the US dollar under the linked exchange rate system, and also with the continued price decline in Hong Kong, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar fell further, by an average of 1.5% in the first quarter of 2004 over the preceding quarter. Hong Kong's external price competitiveness should have enhanced further, rendering a continuing boost to Hong Kong's export performance in recent months.

Table 2.3

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

		Japanese yen		Euro		Pound sterling		New Taiwan dollar		Singapore dollar		Korean won	
2003	Q1	2.9	7.2	2.0	0.4	1.3	1.5						
	Q2	0.4	5.9	1.0	-0.1	-0.2	-0.6						
	Q3	0.9	-0.9	-0.5	1.4	-0.1	2.9						
	Q4	8.0	5.8	6.0	0.8	1.6	-0.6						
2004	Q1	1.5	4.9	7.6	1.9	1.8	0.8						

/Overall

Overall visible and invisible trade situation

2.5 Amidst a broad-based revival in global demand and the additional support from a soft US dollar, *total exports of goods* (comprising re-exports and domestic exports) remained buoyant, surging by 13.0% in value terms over a year earlier to \$433.0 billion in the first quarter of 2004. After netting out the decrease in prices, the increase in real terms⁽¹⁾ was 14.8%, further up from the already robust growth of 14.2% in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods continued to rise, for the ninth consecutive quarter in a row, by 3.7% in real terms in the first quarter of 2004, following a 6.2% leap in the fourth quarter of 2003.

2.6 *Re-exports*⁽²⁾ were still the key growth component within total exports of goods, surging by 14.0% in value terms over a year earlier to \$407.2 billion in the first quarter of 2004. After netting out the decrease in prices, there was a 15.9% leap in real terms, also further up from the 15.4% surge in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, re-exports likewise rose for the ninth quarter in a row, by 4.2% in real terms in the first quarter of 2004, after a 6.7% increase in the fourth quarter of 2003.

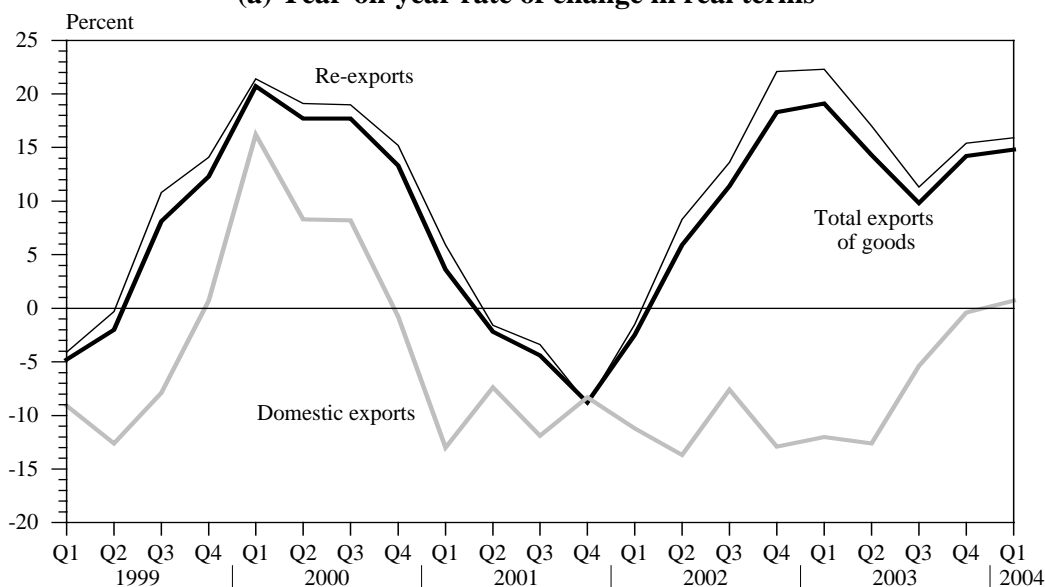
2.7 On the other hand, *domestic exports* remained affected by the on-going structural shift towards re-exports and offshore trade⁽³⁾, edging down by 0.6% in value terms over a year earlier to \$25.8 billion in the first quarter of 2004. Yet this already represented a relative improvement from the distinct plunge in most of 2003. After netting out the decrease in prices, domestic exports actually reverted to increase, albeit slightly, by 0.7% in real terms in the first quarter of 2004 over a year earlier, from a 0.4% decline in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, domestic exports fell further by 2.6% in real terms in the first quarter of 2004, following a 0.2% decline in the fourth quarter of 2003.

/Table 2.4

Table 2.4**Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

		<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2003	Annual	11.7	14.0	-1.4	13.4	16.1	-1.5	-7.1	-7.4	0.2
	H1	14.7	16.5	-1.1	17.2	19.4	-1.3	-11.0	-12.3	0.8
	H2	9.2	12.0	-1.6	10.3	13.3	-1.8	-3.6	-3.1	-0.2
	Q1	17.6	19.1(3.4)	-0.9	20.3	22.3(4.0)	-1.1	-10.4	-12.0(-3.0)	0.8
	Q2	12.2	14.3(1.9)	-1.4	14.4	17.0(2.3)	-1.6	-11.4	-12.6(-2.5)	0.7
	Q3	7.1	9.8(1.5)	-1.8	8.2	11.3(1.2)	-2.0	-5.4	-5.4 (5.6)	0.3
	Q4	11.4	14.2(6.2)	-1.5	12.4	15.4(6.7)	-1.5	-1.7	-0.4(-0.2)	-0.8
2004	Q1	13.0	14.8(3.7)	-0.7	14.0	15.9(4.2)	-0.8	-0.6	0.7(-2.6)	-0.6
	Jan	0.2	2.7	-1.1	1.3	3.9	-1.2	-13.8	-12.2	-0.7
	Feb	28.2	28.6	-0.6	29.5	29.9	-0.6	10.5	11.1	-0.2
	Mar	13.9	16.1	-0.6	14.5	16.8	-0.6	4.5	5.9	-0.8

Note : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

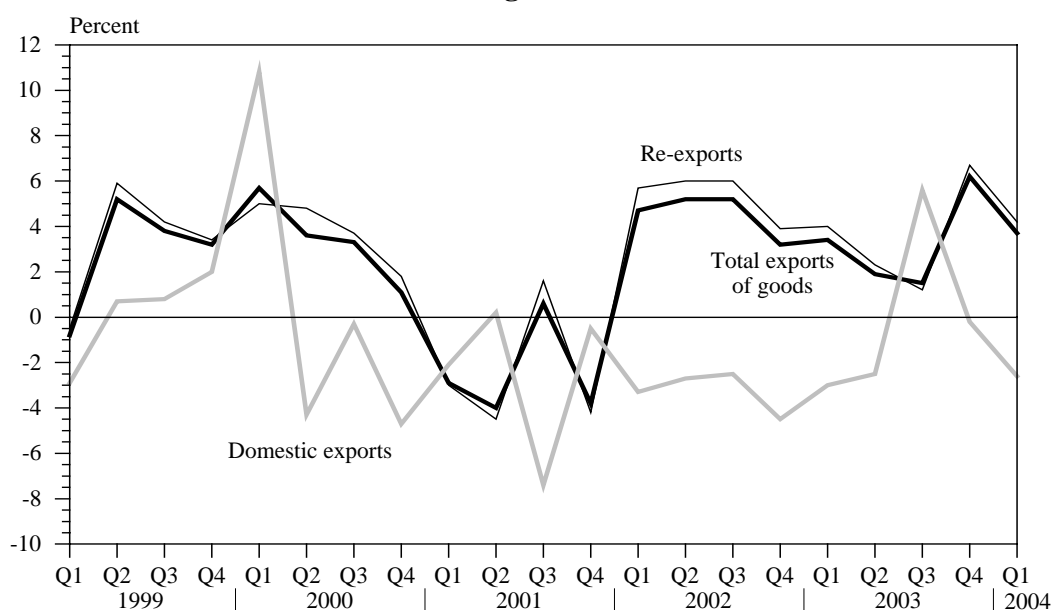
Diagram 2.2**Total exports of goods, re-exports and domestic exports****(a) Year-on-year rate of change in real terms**

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

/Diagram 2.2 (cont'd)

Diagram 2.2 (cont'd)

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



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

2.8 *Imports of goods* continued to grow strongly, by 15.7% in value terms over a year earlier to \$466.7 billion in the first quarter of 2004. After netting out the change in prices, there was a 15.5% leap in real terms, up from an already distinct rise of 15.0% in the fourth quarter of 2003. As to import intake for local use, *retained imports* continued to pick up along with the recovery in domestic demand, surging by 14.8% in real terms in the first quarter of 2004 over a year earlier, after a 14.1% leap in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, both imports of goods and retained imports rose further, by 3.2% and 0.9% respectively in real terms in the first quarter of 2004, after increases of 7.0% and 7.9% in the fourth quarter of 2003.

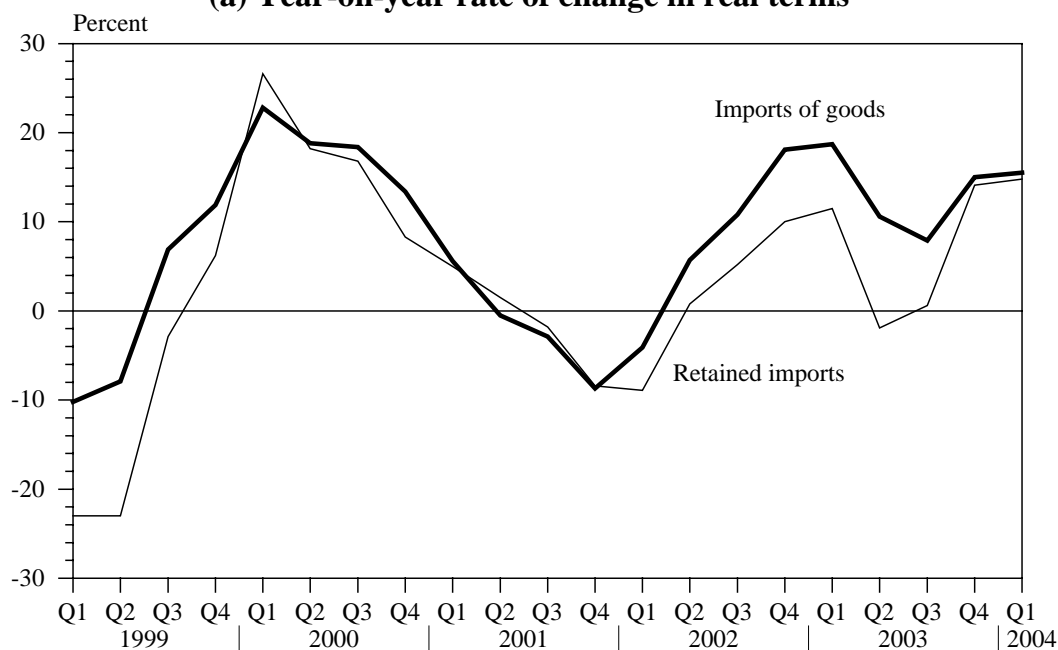
/Table 2.5

Table 2.5**Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2003	Annual	11.5	12.8	-0.4	6.8	5.8	2.9
	H1	13.4	14.3	-0.2	4.7	4.3	2.4
	H2	9.9	11.4	-0.5	8.8	7.2	3.4
	Q1	17.8	18.7 (2.9)	-0.1	11.8	11.5 (0.4)	1.9
	Q2	9.6	10.6 (0.9)	-0.3	-1.5	-1.9(-2.1)	2.8
	Q3	6.1	7.9 (2.6)	-0.9	0.7	0.6 (6.0)	2.7
	Q4	13.8	15.0 (7.0)	-0.2	17.4	14.1 (7.9)	4.1
2004	Q1	15.7	15.5 (3.2)	0.7	20.1	14.8 (0.9)	4.7
	Jan	0.9	1.7	0.3	-0.2	-4.2	4.5
	Feb	33.3	32.4	0.7	41.7	37.2	4.1
	Mar	15.4	14.7	1.0	17.6	10.5	5.4

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

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

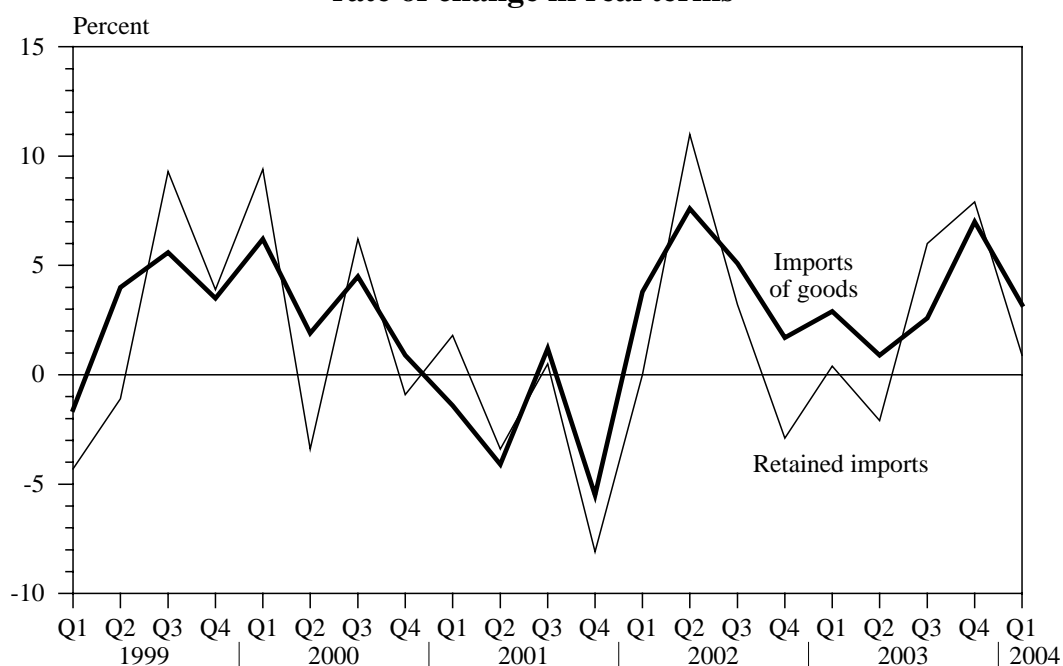
Diagram 2.3**Imports of goods and retained imports****(a) Year-on-year rate of change in real terms**

Note : See the footnote to Diagram 2.2 (a).

/Diagram 2.3 (cont'd)

Diagram 2.3 (cont'd)

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



Note : See the footnote to Diagram 2.2 (b).

2.9 With the value of imports of goods registering a larger increase than that of total exports of goods, the *visible trade deficit* reckoned on a GDP basis⁽⁴⁾ widened to \$32.8 billion or 7.0% of the value of imports of goods in the first quarter of 2004, from \$16.0 billion or 4.0% in the same quarter in 2003.

2.10 On invisible trade, *exports of services* attained a distinct growth of 13.8% in value terms over a year earlier to \$93.0 billion in the first quarter of 2004. After netting out the changes in prices, there was a 13.7% leap in real terms, faster than the 12.0% increase in the fourth quarter of 2003. The continued strong growth in the first quarter of 2004 was marked by robust increases across all the components in exports of services. While offshore trade remained on an uptrend, inbound tourism continued to prosper on the back of surging visitor arrivals from the Mainland. Also, exports of transportation services accelerated in growth, in tandem with the buoyant tourism and export performance. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose further, by 3.4% in real terms in the first quarter of 2004, following a 1.8% increase in the fourth quarter of 2003.

/2.11

2.11 *Imports of services* also had a notable growth, up by 7.5% in value terms over a year earlier to \$51.3 billion in the first quarter of 2004. With a relatively large increase in prices owing to a weak Hong Kong dollar, the increase in real terms was 4.0%, slightly up from a 3.1% rise in the fourth quarter of 2003. Imports of trade-related services and transportation services registered particularly sharp increases in the first quarter, bolstered by surging trade flows within the region. Imports of travel services likewise showed a lesser decline in the first quarter, as outbound tourism continued to recover from the earlier setback caused by SARS. On a seasonally adjusted quarter-to-quarter comparison, imports of services fell back by 4.9% in real terms in the first quarter of 2004, after a 3.4% increase in the fourth quarter of 2003.

Table 2.6

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

		<u>Exports of services</u>			<u>Imports of services</u>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2003	Annual	3.6	5.7	-2.0	-1.8	-4.6	2.8
	H1	-1.7	0.6	-2.2	-8.1	-10.9	3.1
	H2	7.9	9.8	-1.8	3.9	1.4	2.5
	Q1	11.6	12.6 (0.7)	-0.9	-1.9	-5.4 (-5.8)	3.8
	Q2	-14.2	-10.8 (-18.4)	-3.7	-14.5	-16.8 (-14.3)	2.7
	Q3	4.8	7.6 (32.4)	-2.7	1.0	-0.3 (23.2)	1.2
	Q4	10.8	12.0 (1.8)	-1.1	7.1	3.1 (3.4)	3.8
2004	Q1	13.8	13.7 (3.4)	0.1	7.5	4.0 (-4.9)	3.2

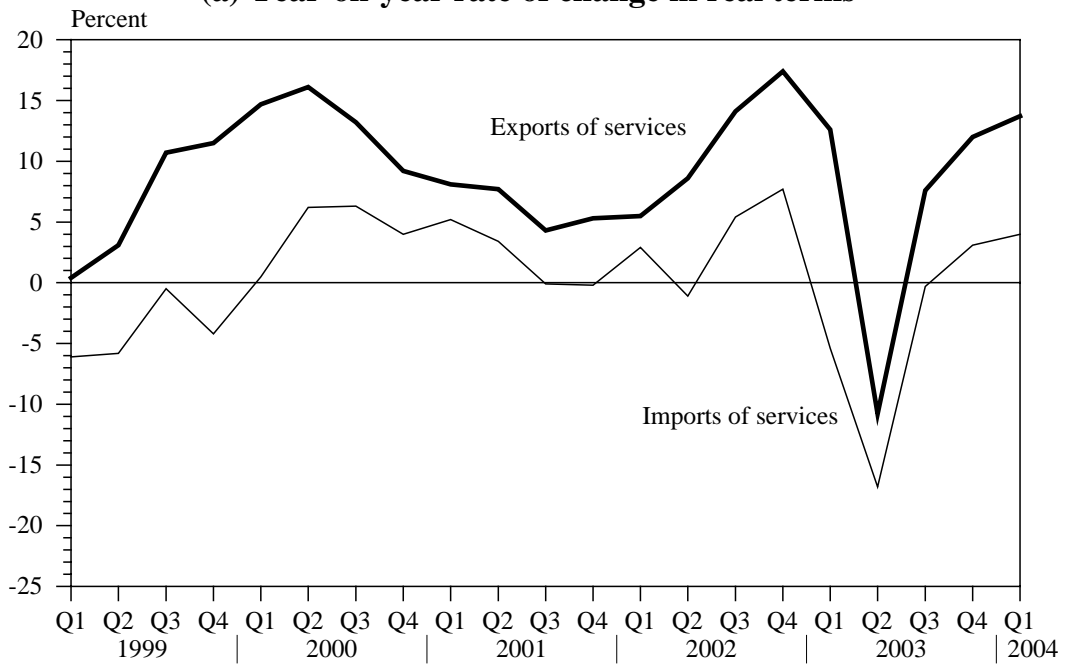
Note : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

/Diagram 2.4

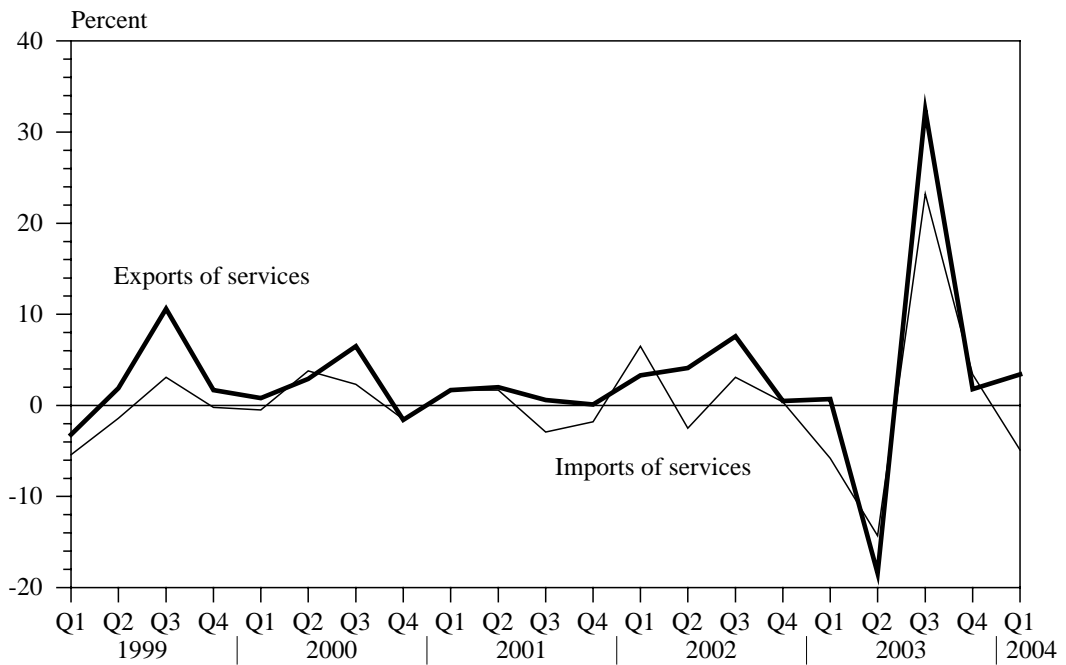
Diagram 2.4

Exports and imports of services

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



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



/2.12

2.12 As the increase in the value of exports of services was larger than that in the value of imports of services, the *invisible trade surplus*⁽⁵⁾ reckoned on a GDP basis expanded further to \$41.7 billion or 81.1% of the value of imports of services in the first quarter of 2004, from \$33.9 billion or 71.0% in the same quarter in 2003. This partly offset the enlarged visible trade deficit to yield a combined surplus of \$8.8 billion in the first quarter of 2004, equivalent to 1.7% of the total value of imports of goods and services. These were down from the respective figures of \$18.0 billion and 4.0% in the same quarter in 2003.

Table 2.7

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2003	Annual	1,749.1	347.4	1,794.1	196.1	-45.0	151.3	106.3
	H1	802.8	148.6	828.6	87.7	-25.8	60.9	35.1
	H2	946.3	198.8	965.5	108.4	-19.2	90.4	71.2
	Q1	383.4	81.7	399.4	47.8	-16.0	33.9	18.0
	Q2	419.3	66.9	429.1	39.9	-9.8	27.0	17.2
	Q3	467.5	94.2	468.9	54.2	-1.4	39.9	38.5
	Q4	478.8	104.6	496.6	54.2	-17.8	50.4	32.7
2004	Q1	434.4	93.0	467.2	51.3	-32.8	41.7	8.8

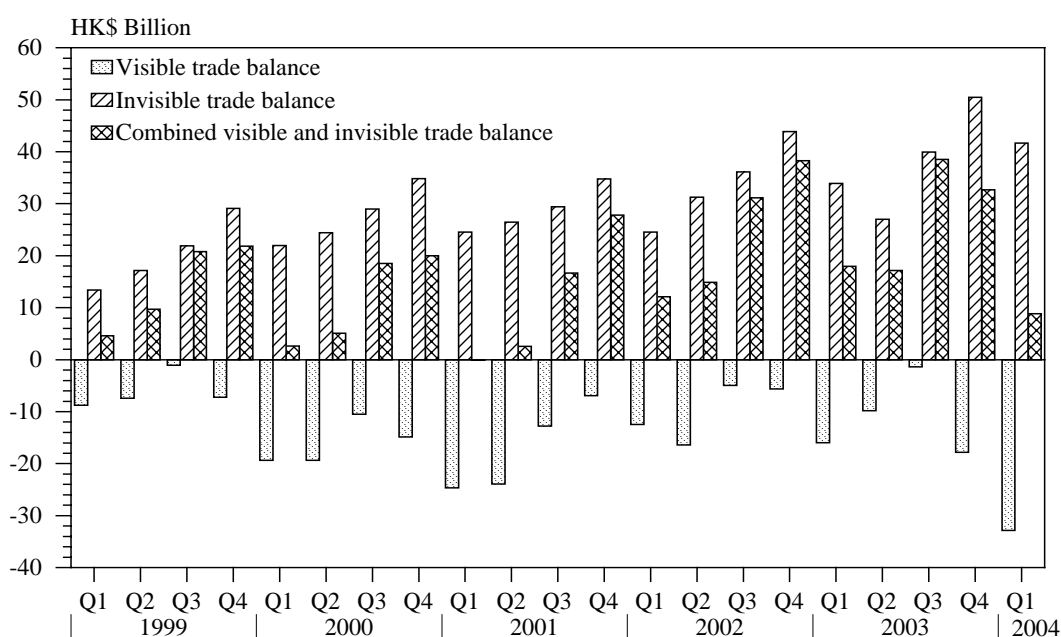
Notes : Figures in this table are reckoned on a GDP basis. Specifically, imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is the on-going practice for the merchandise trade statistics.

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

/Diagram 2.5

Diagram 2.5

Visible and invisible trade balance



Note : See the first footnote to Table 2.7.

Visible trade

Total exports of goods

2.13 Reflecting the intimate trade relations between Hong Kong and the region, East Asia⁽⁶⁾ continued to take up the largest share in Hong Kong's total exports of goods, at 60% by value in the first quarter of 2004. This was followed by North America⁽⁷⁾ (with a share of 17%) and the European Union⁽⁸⁾ (13%).

2.14 The robust export performance in the first quarter of 2004 was characterised by an across-the-board surge in exports to *East Asia* alongside the export boom in the region, a further double-digit growth in exports to the *European Union* amidst a strong euro and firmer demand there, and resumed growth in exports to *North America*. However, compared to East Asia and European Union, the growth in exports to North America was much less distinct, conceivably weighed down by the on-going shift away from re-exports to offshore trade.

/Table 2.8

Table 2.8

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

		<u>East Asia</u> ^{(a)(d)}	<u>North America</u> ^(b)	<u>European Union</u> ^(c)
2003	Annual	20.9	-1.4	14.1
	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
2004	Q1	18.6	4.3	14.4

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

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

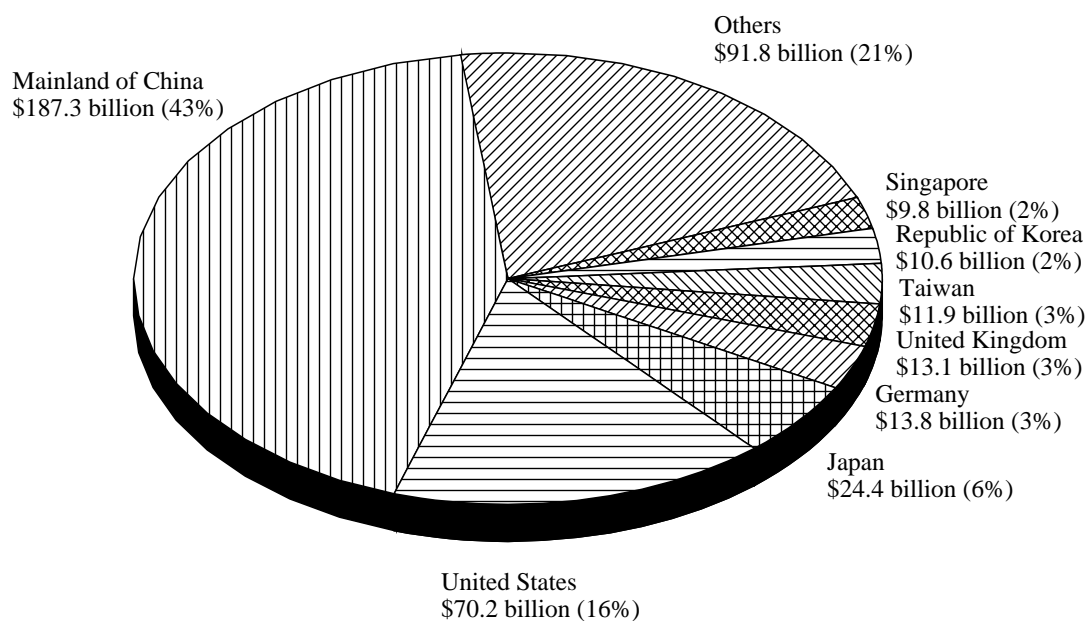
(c) For the coverage of the European Union, see Note (8).

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

2.15 The Mainland was still the largest single *market* for Hong Kong's total exports of goods, taking up 43% of the total value in the first quarter of 2004. This was followed by the United States (with a share of 16%), Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (3%), the Republic of Korea (2%), and Singapore (2%).

/Diagram 2.6

Diagram 2.6
Total exports of goods by major market in the first quarter of 2004



Total exports of goods in the first quarter of 2004 : \$433.0 billion

Table 2.9

Value of total exports of goods by market

	<u>2003</u>			<u>First quarter of 2004</u>		
	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Rate</u> <u>of change</u> (%)	<u>Value</u> (\$Bn)	<u>Share</u> <u>in total</u> (%)	<u>Year-on-year</u> <u>rate of change</u> (%)
All markets	1,742.4	100	11.7	433.0	100	13.0
Mainland of China	742.5	43	21.1	187.3	43	16.0
United States	324.2	19	-2.6	70.2	16	3.7
Japan	94.0	5	12.3	24.4	6	9.6
Germany	56.2	3	15.1	13.8	3	6.6
United Kingdom	57.4	3	5.8	13.1	3	12.4
Taiwan	42.3	2	22.2	11.9	3	20.1
Republic of Korea	35.5	2	16.9	10.6	2	29.1
Singapore	35.7	2	13.0	9.8	2	25.0
Rest of the world	354.6	20	7.1	91.8	21	13.3

/Table 2.10

Table 2.10

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

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2003	Annual	23.1	-1.4	14.2	8.1	18.6	25.4	16.4	20.7
	H1	24.8	2.0	16.8	8.7	26.1	23.2	9.9	19.8
	H2	21.7	-3.9	12.0	7.7	13.0	27.5	22.2	21.5
	Q1	27.5	9.4	15.0	8.5	26.5	26.9	7.4	12.4
	Q2	22.5	-3.7	18.6	8.9	25.8	19.7	12.3	27.7
	Q3	19.6	-6.3	13.5	6.9	14.0	19.1	22.5	22.5
	Q4	23.7	-1.3	10.6	8.5	12.0	35.9	21.9	20.5
2004	Q1	17.0	4.6	10.9	13.8	7.9	26.2	31.1	33.2
	Jan	1.2	-5.9	*	12.2	3.2	-5.5	21.8	17.5
	Feb	36.0	16.1	29.7	11.7	17.3	59.4	39.7	43.5
	Mar	17.0	7.2	7.2	17.2	5.7	35.0	33.2	38.6

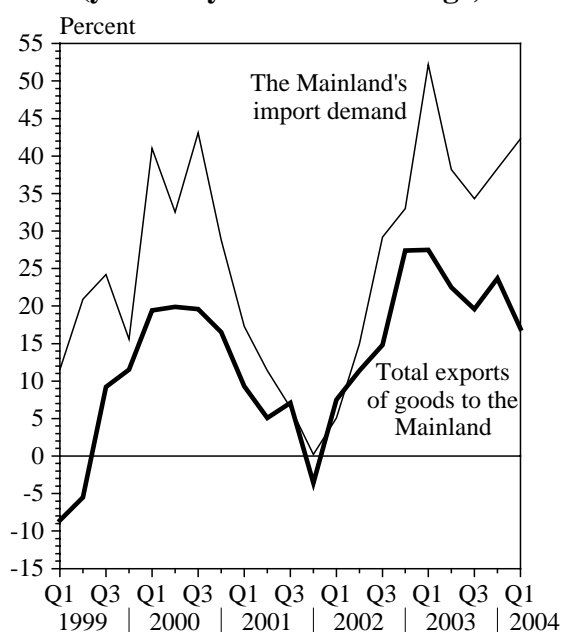
Note: (*) Change of less than 0.05%.

/2.16

2.16 Total exports of goods to the *Mainland* soared further, rising strongly by 17.0% in real terms in the first quarter of 2004 over a year earlier, further to a 23.7% surge in the fourth quarter of 2003. Growth in exports of raw materials and semi-manufactures was particularly buoyant, on the back of the Mainland's continued vibrant export performance. Exports of capital goods to the Mainland for production use registered a further appreciable increase after a distinct surge last year. Yet exports of consumer goods had only a modest growth.

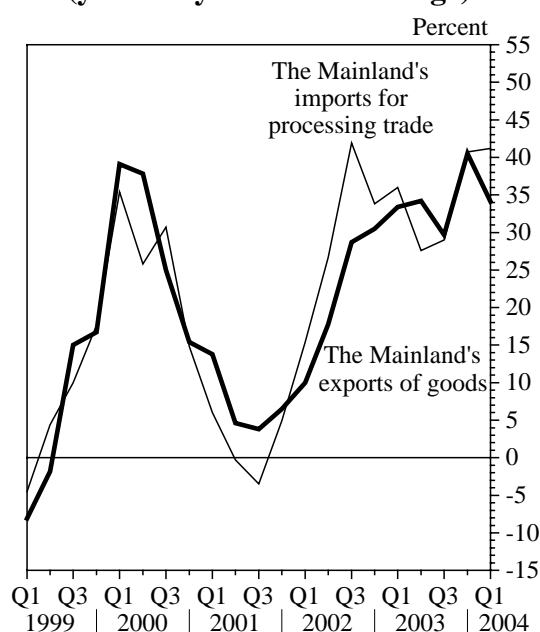
Diagram 2.7

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



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

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



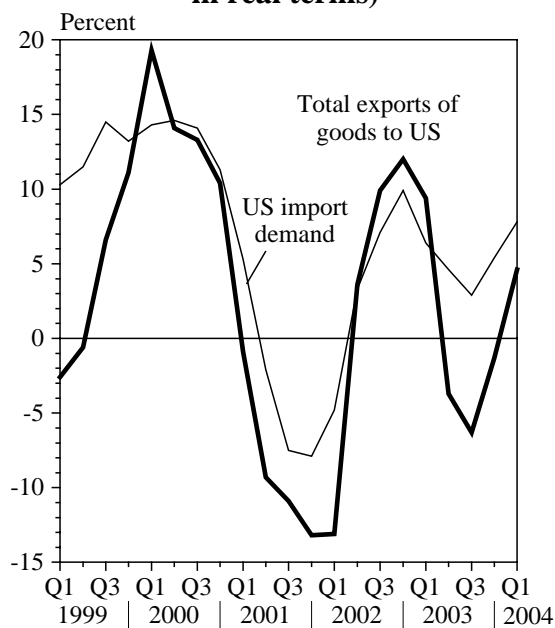
Note : Both refer to the year-on-year rate of change in US dollar terms.

/2.17

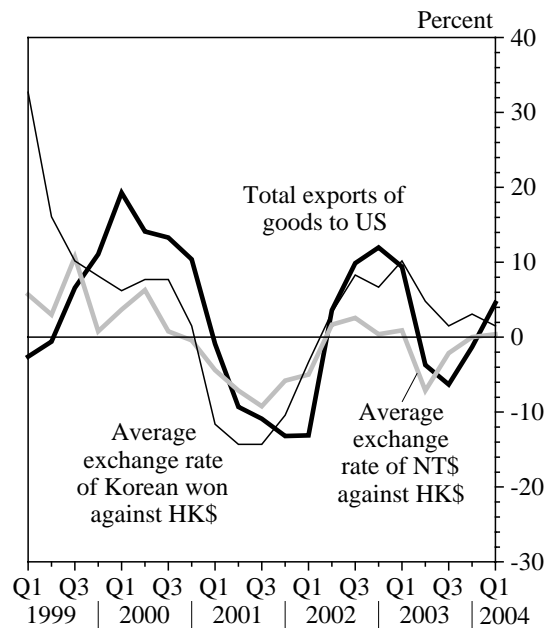
2.17 Total exports of goods to the *United States*, after three consecutive quarters of decline, resumed increase in the first quarter of 2004, up 4.6% in real terms over a year earlier. It represented a further improvement from the already significantly narrowed decline of 1.3% in the fourth quarter of 2003. While this improvement mirrored closely the trend of pick-up in the US import intake since late 2003, growth in Hong Kong's exports of goods to US in the first quarter was still below that of overall US imports. Conceivably, exports to this market continued to be weighed down by an accelerated shift towards offshore trade, upon the further enhancement in port capacity in Shenzhen last year.

Diagram 2.8

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



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



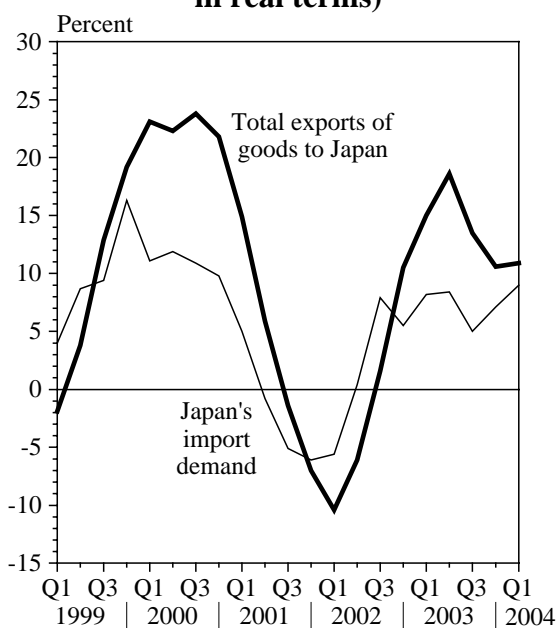
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ and Korean won against HK\$.

/2.18

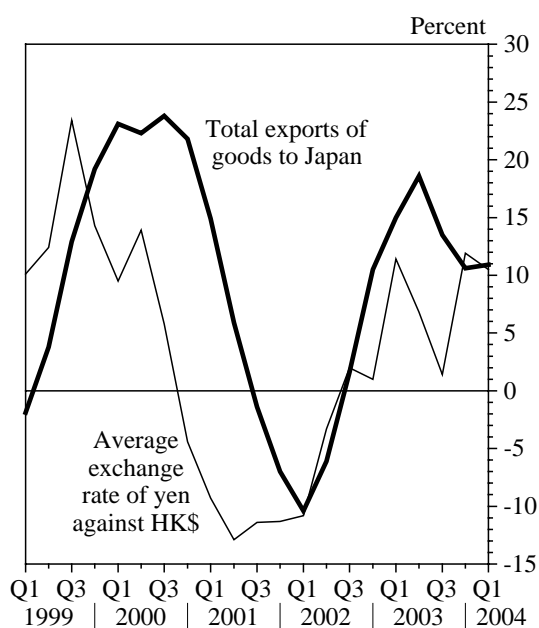
2.18 Total exports of goods to *Japan* continued to surge in the first quarter of 2004, by 10.9% in real terms over a year earlier. This was broadly on par with a 10.6% leap in the fourth quarter of 2003, and was also the sixth consecutive quarter of double-digit growth in Hong Kong's exports to this market. The key underlying factors supporting such a strong performance were the distinct revival in the Japanese economy over the past year, as well as the sustained strength of the yen.

Diagram 2.9

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



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



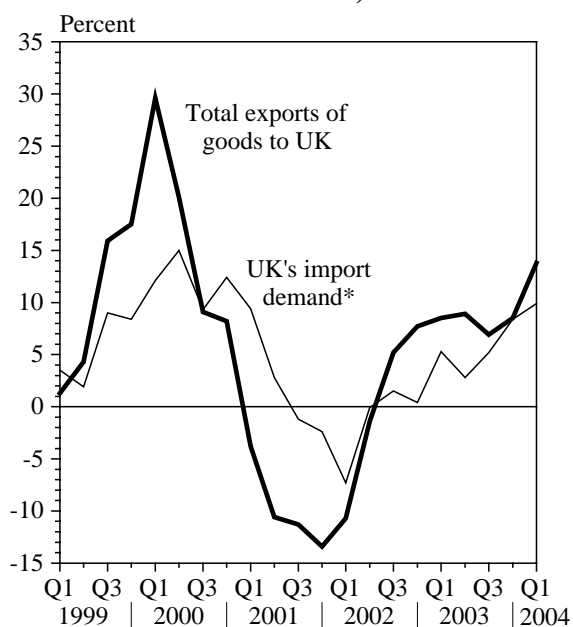
Note : (+) represents appreciation and (-) represents depreciation of the yen against HK\$.

/2.19

2.19 In the first quarter of 2004, total exports of goods to the *United Kingdom* picked up further to a 13.8% growth in real terms over a year earlier, from an already notable growth of 8.5% in the fourth quarter of 2003. Exports of capital goods to the United Kingdom performed particularly well, on the back of the upbeat investment climate in this market. Exports of consumer goods were also strong. Apart from the strength of UK's import demand, the further appreciation of the pound sterling against the Hong Kong dollar in early 2004 also rendered a boost to Hong Kong's exports to this market.

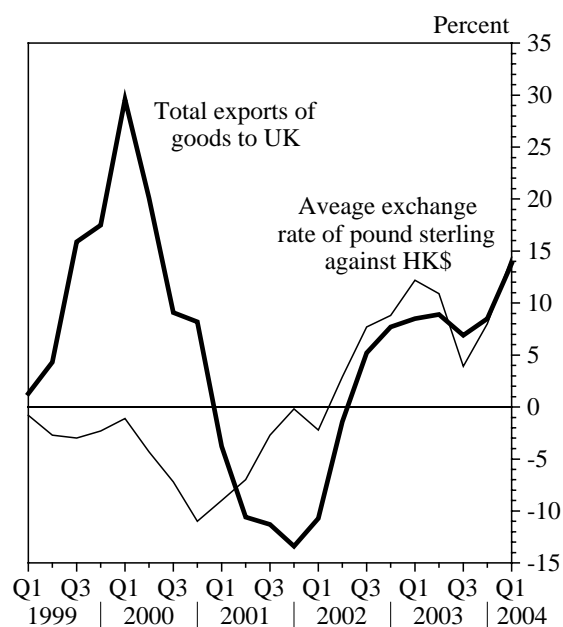
Diagram 2.10

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



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

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



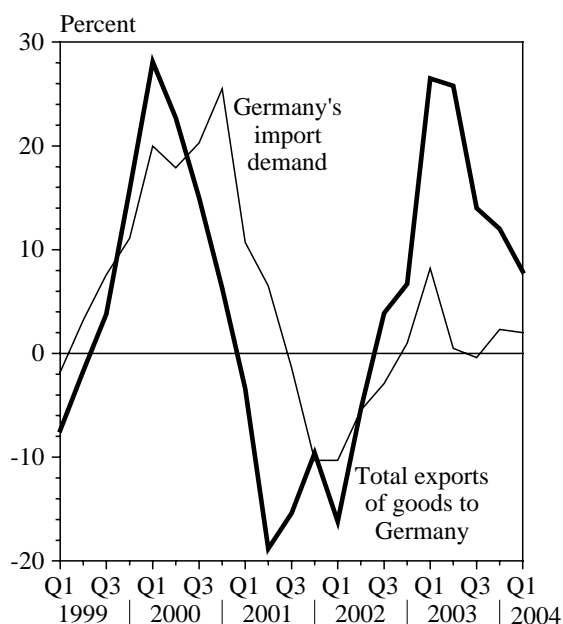
Note : (+) represents appreciation and (-) represents depreciation of the pound sterling against HK\$.

/2.20

2.20 Total exports of goods to *Germany* attained a solid growth at 7.9% in real terms in the first quarter of 2004 over a year earlier, after a 12.0% surge in the fourth quarter of 2003. Exports of capital goods to this market accelerated distinctly in the first quarter, as Germany's investment spending gathered further momentum after the rebound in late 2003. Exports of consumer goods also registered solid growth. Exports of raw materials and semi-manufactures fell back somewhat. The setback occurred in the first two months of the quarter, due to the significant cut-back in material imports by Germany at that time. By March, exports of raw materials to this market already resumed growth, on the back of improved export performance in Germany.

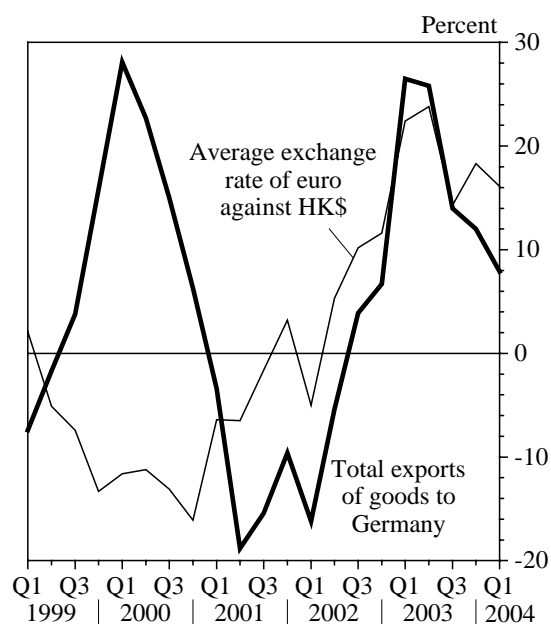
Diagram 2.11

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



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

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

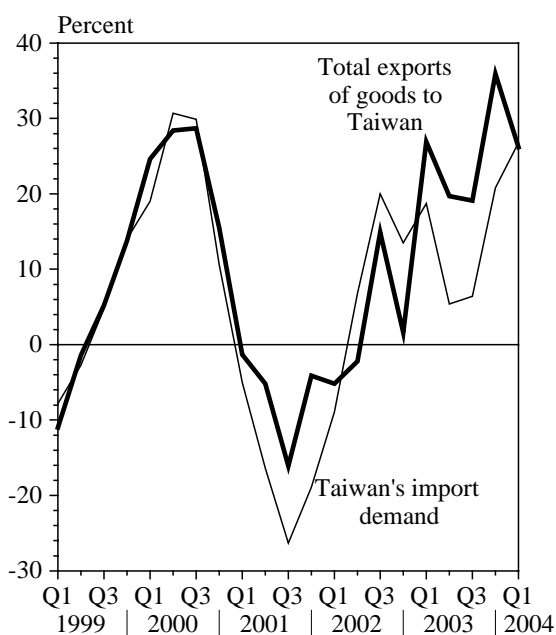


Note : (+) represents appreciation and (-) represents depreciation of the euro against HK\$.

2.21 Total exports of goods to *Taiwan* stayed buoyant, up markedly by 26.2% in real terms in the first quarter of 2004 over a year earlier, after a 35.9% surge in the fourth quarter of 2003. Along with the export boom in Taiwan, Hong Kong's exports of raw materials and semi-manufactures to this market soared. Meanwhile, exports of capital goods and consumer goods attained further marked increases.

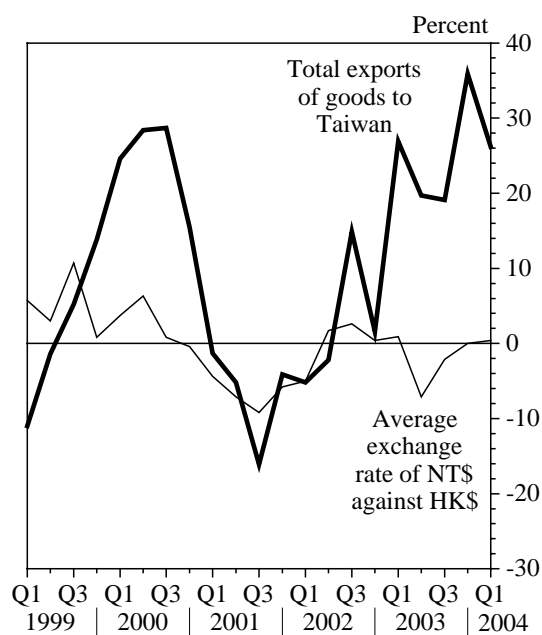
Diagram 2.12

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



Note : See the footnote to Diagram 2.11.

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



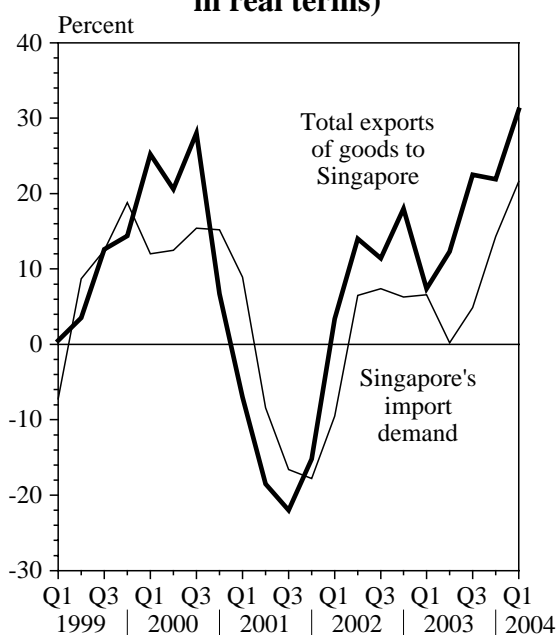
Note : (+) represents appreciation and (-) represents depreciation of the NT\$ against HK\$.

/2.22

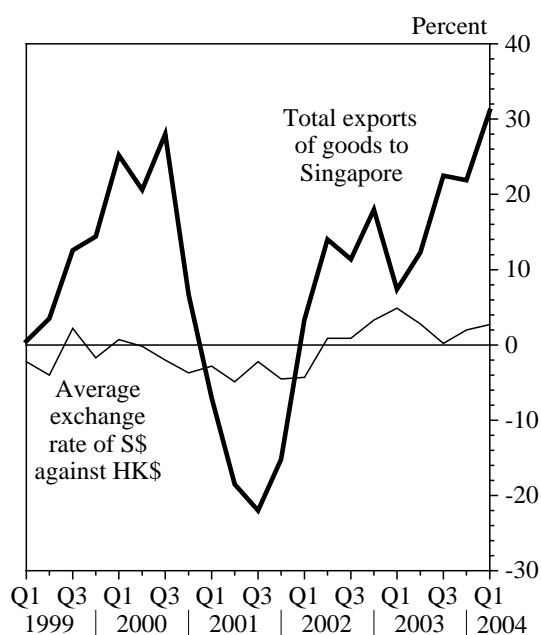
2.22 Supported by buoyant import demand in *Singapore*, total exports of goods to this market soared further in the first quarter of 2004, by 31.1% in real terms over a year earlier, up from an already highly distinct growth of 21.9% in the fourth quarter of 2003. The surge in exports to this market in the first quarter was across-the-board, marked by a sharp rise in exports of raw materials and semi-manufactures, a distinct pick-up in exports of consumer goods, and sustained strong growth in exports of capital goods.

Diagram 2.13

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



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

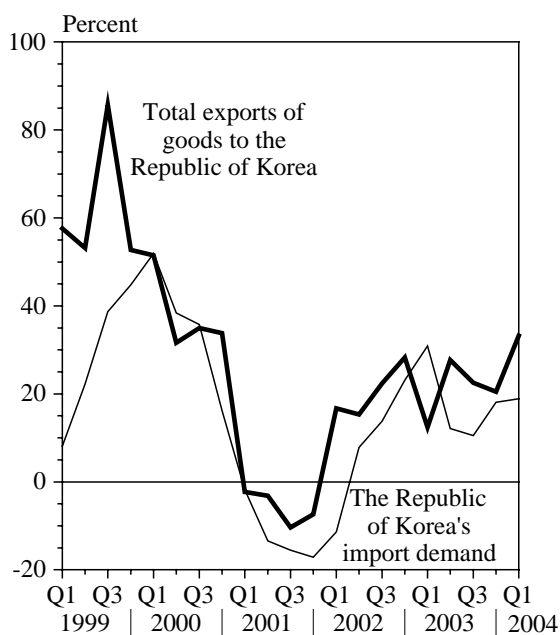


Note : (+) represents appreciation and (-) represents depreciation of the S\$ against HK\$.

/2.23

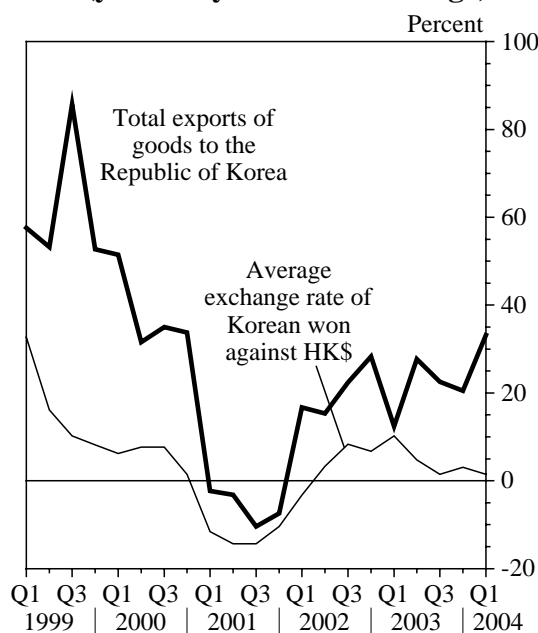
2.23 Total exports of goods to the *Republic of Korea* likewise maintained vibrant growth, surging by 33.2% in real terms in the first quarter of 2004 over a year earlier, following a marked increase of 20.5% in the fourth quarter of 2003. As with Singapore, there was a broad-based increase in exports to this market in the first quarter, with the growth in both materials and capital goods well in excess of 30%, thanks again to the very buoyant trade performance in this market.

Diagram 2.14
Total exports of goods to the Republic of Korea and the Republic of Korea's import demand
(year-on-year rate of change)



Note : See the footnote to Diagram 2.7.

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



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

2.24

2.24 Analysed by major *commodity group*, the strong export performance in the first quarter of 2004 was broadly based across the major commodity groups. Specifically, exports of electronic components and of telecommunications products continued to register double-digit growth. Exports of textiles recorded modest growth. Exports of both clothing and office machines and equipment reverted to increase in the first quarter of 2004, after a brief relapse in the fourth quarter of 2003.

Table 2.11
Total exports of goods by major commodity group
(year-on-year rate of change in real terms (%))

		<u>Electronic components</u>	<u>Telecom -munications and sound recording and reproducing equipment</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Toys</u>	<u>Office machines and equipment</u>
2003	Annual	39.8	27.2	2.5	3.4	2.3	-5.7
	H1	39.3	33.7	5.5	7.1	7.9	-4.6
	H2	40.2	22.8	0.4	0.1	-1.3	-6.7
	Q1	37.2	37.2	9.6	16.2	10.0	-5.9
	Q2	41.2	30.4	1.9	0.8	6.3	-3.2
	Q3	39.2	18.3	1.3	-5.6	-3.1	2.0
	Q4	41.1	27.2	-0.7	5.7	0.9	-14.4
2004	Q1	36.2	16.0	4.9	2.6	-2.1	8.0

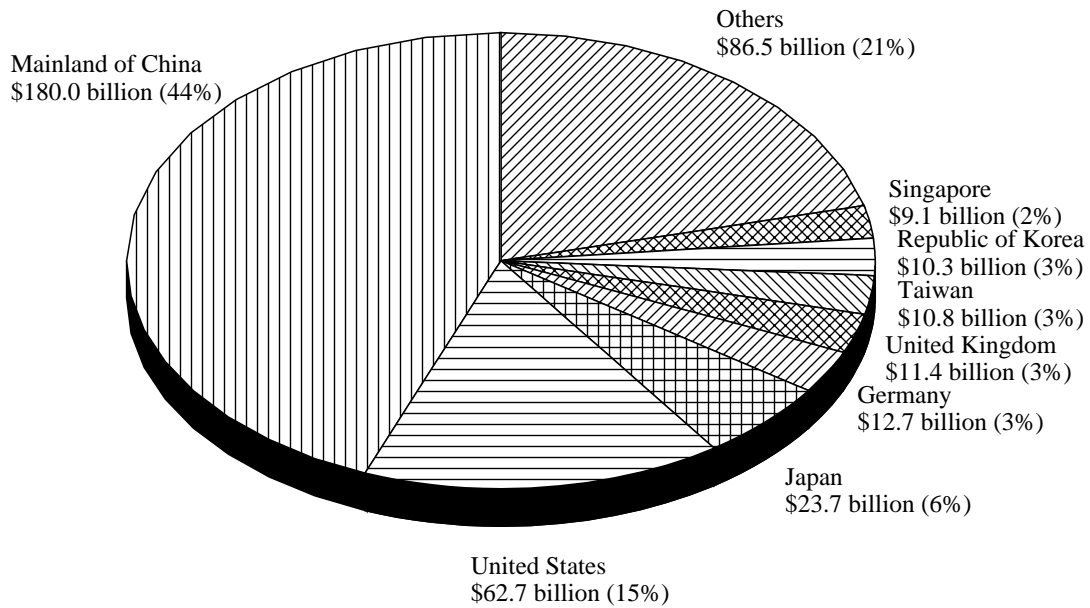
Re-exports

2.25 Re-exports continued to account for the predominant share of total exports of goods, at 94% by value in the first quarter of 2004, up further slightly from 93% in the fourth quarter of 2003. Analysed by major *market*, the Mainland remained the largest market for Hong Kong's re-exports, accounting for 44% of the total value in the first quarter of 2004. This was followed by the United States (with a share of 15%), Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (3%), the Republic of Korea (3%), and Singapore (2%). Except for the United States and Germany, re-exports to all the other major markets recorded further double-digit growth in real terms in the first quarter of 2004 over a year earlier.

/Diagram 2.15

Diagram 2.15

Re-exports by major market in the first quarter of 2004



Total re-exports in the first quarter of 2004 : \$407.2 billion

Table 2.12

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

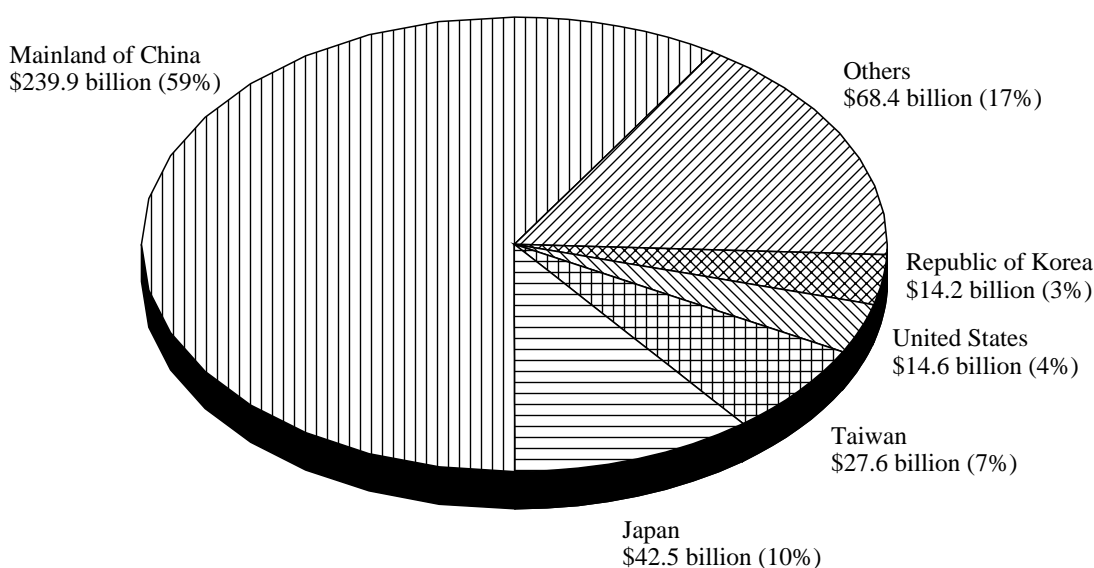
		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Taiwan</u>	<u>Republic of Korea</u>	<u>Singapore</u>
2003	Annual	25.6	-0.1	14.6	18.9	8.9	32.7	21.2	17.1
	H1	28.6	4.6	17.6	27.6	8.6	33.4	21.0	10.4
	H2	23.2	-3.7	12.1	12.5	9.2	32.0	21.3	23.1
	Q1	32.3	12.2	16.0	28.4	8.2	37.3	13.4	8.2
	Q2	25.5	-1.2	19.2	26.9	8.8	29.8	29.0	12.5
	Q3	21.3	-6.1	13.7	13.8	8.0	25.0	22.1	24.3
	Q4	25.2	-1.0	10.5	11.3	10.4	38.9	20.6	21.9
2004	Q1	18.4	4.8	11.2	8.7	15.1	26.4	32.9	29.4

/2.26

2.26 The Mainland was the largest *source* of Hong Kong's re-exports, supplying 59% by value of the goods re-exported through Hong Kong in the first quarter of 2004. The significance of the Mainland both as a market and as a source of Hong Kong's re-exports reflected the prominent role of Hong Kong as the trade conduit between the Mainland and the rest of the world. The other major sources included Japan (with a share of 10%), Taiwan (7%), the United States (4%), and the Republic of Korea (3%).

Diagram 2.16

Re-exports by major source in the first quarter of 2004



Total re-exports in the first quarter of 2004 : \$407.2 billion

Domestic exports

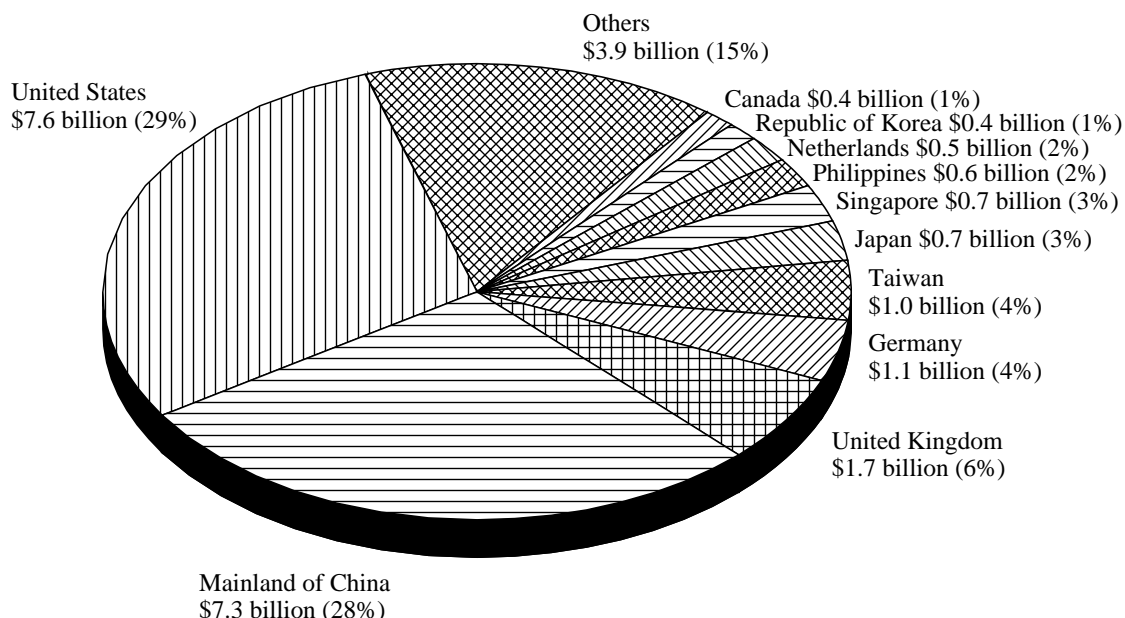
2.27 The United States was the largest *market* for Hong Kong's domestic exports, accounting for 29% of the total value in the first quarter of 2004, followed closely by the Mainland (with a share of 28%), then by the United Kingdom (6%), Germany (4%), Taiwan (4%), Japan (3%), and Singapore (3%). The performance of domestic exports varied quite widely amongst different major markets. Domestic exports to Singapore and Taiwan picked up distinctly further in growth. Domestic exports to both the United Kingdom and the United States reverted to increase, with the turnaround in the latter particularly

/prominent

prominent after five consecutive quarters of decline. On the other hand, domestic exports to Germany and Japan eased back markedly in growth, while domestic exports to the Mainland remained on a distinct decline.

Diagram 2.17

Domestic exports by major market in the first quarter of 2004



Total domestic exports in the first quarter of 2004 : \$25.8 billion

Table 2.13

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

		<u>United States</u>	<u>Mainland of China</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Japan</u>	<u>Singapore</u>
2003	Annual	-9.6	-10.5	3.4	15.8	-19.1	3.5	8.2
	H1	-15.3	-18.8	9.8	13.3	-32.3	-2.1	3.5
	H2	-5.2	-1.8	-0.9	18.1	-4.4	9.5	12.1
	Q1	-9.1	-23.2	10.4	10.2	-27.7	-6.4	-2.9
	Q2	-20.3	-14.6	9.2	16.5	-36.9	2.7	9.5
	Q3	-7.1	-2.9	0.7	15.6	-21.3	5.7	1.4
	Q4	-2.9	-0.6	-2.5	20.7	13.5	13.6	22.5
2004	Q1	2.2	-9.9	5.9	0.2	23.3	2.4	55.4

/Outward

Outward processing trade

2.28 Outward processing trade⁽⁹⁾ involving the Mainland remained an integral component in Hong Kong's overall merchandise trade. In 2003, some 44% of Hong Kong's exports to the Mainland were for outward processing, as against 45% in 2002. Of Hong Kong's imports of goods from the Mainland, some 72% were products after outward processing there, as against 74% in 2002. The proportion of Hong Kong's re-exports of Mainland origin involving outward processing was likewise significant, at 79% in 2003, as against 83% in 2002.

2.29 Benefiting from the sustained surge in exports from the Mainland, total exports of goods to the Mainland for outward processing rose distinctly, by 17.5% in value terms to \$326.1 billion in 2003, much higher than the 7.0% increase in 2002. Total exports of goods to the Mainland for meeting its own demand surged even more sharply, by 24.0% in value terms to \$416.6 billion in 2003, having already risen markedly by 17.1% in 2002.

/Table 2.14

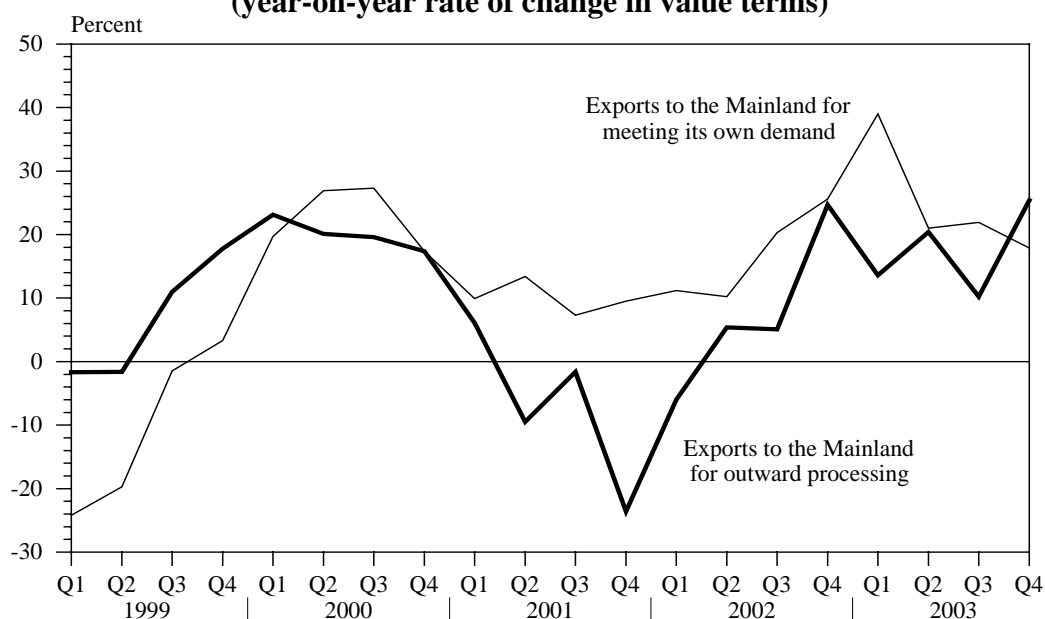
Table 2.14

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

		<i>Of which :</i>		
		<u>Total exports of goods to the Mainland</u>	<u>Total exports of goods to the Mainland for outward processing</u>	<u>Total exports of goods to the Mainland for meeting its own demand</u>
2002	Annual	12.3	7.0	17.1
	H1	5.4	-0.1	10.6
	H2	18.7	13.8	23.0
	Q1	2.6	-6.0	11.2
	Q2	7.9	5.4	10.2
	Q3	12.8	5.1	20.3
	Q4	25.2	24.7	25.6
	2003	Annual	21.1	17.5
H1		23.8	17.3	29.2
H2		18.8	17.6	19.8
Q1		27.3	13.6	39.0
Q2		20.8	20.4	21.0
Q3		16.5	10.2	21.9
Q4		21.2	25.4	17.9

Diagram 2.18

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



/2.30

2.30 Imports of goods from the Mainland after outward processing turned around to rise by 6.4% in value terms to \$564.9 billion in 2003, reversing a 0.2% decline in 2002. Re-exports of Mainland origin after outward processing rose mildly, by 1.5% in value terms to \$603.5 billion in 2003, after a 2.8% rise in 2002.

Table 2.15

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

		<u>Imports of goods from the Mainland after outward processing</u>	<u>Re-exports of Mainland origin after outward processing</u>
2002	Annual	-0.2	2.8
	H1	-8.1	-5.2
	H2	7.0	10.4
	Q1	-9.0	-5.3
	Q2	-7.3	-5.0
	Q3	6.3	4.3
	Q4	7.8	17.2
2003	Annual	6.4	1.5
	H1	6.3	4.0
	H2	6.4	-0.5
	Q1	5.4	0.1
	Q2	7.1	7.6
	Q3	3.1	-2.3
	Q4	9.9	1.2

Imports of goods

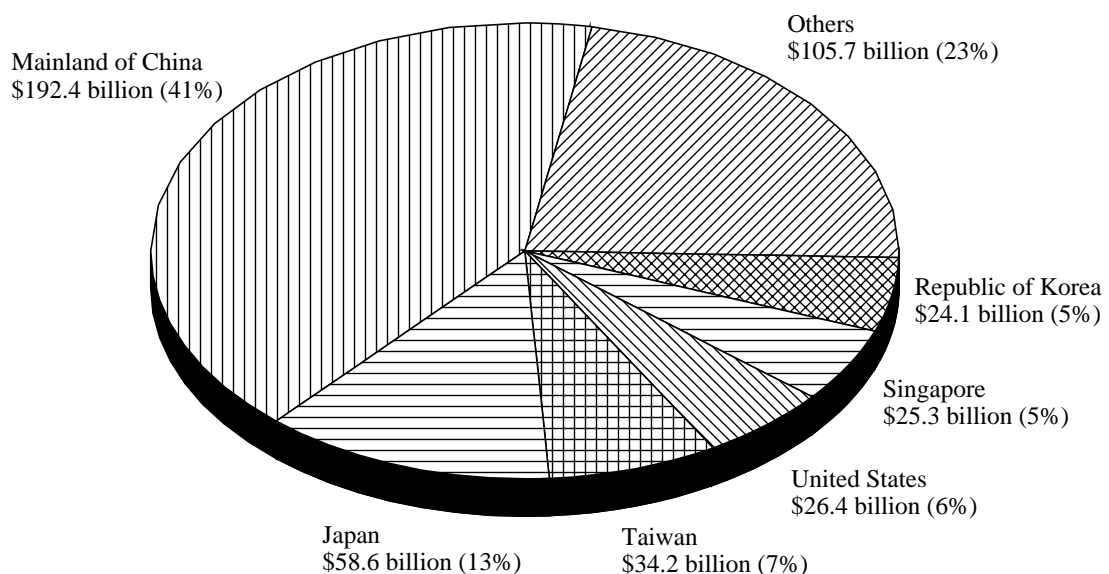
2.31 The Mainland was also the largest *source* of Hong Kong's imports of goods, taking up 41% of the total value in the first quarter of 2004. Other major sources of imports were Japan (with a share of 13%), Taiwan (7%), the United States (6%), Singapore (5%), and the Republic of Korea (5%).

/2.32

2.32 Mirroring the robust re-export performance, imports from many of the East Asian sources picked up further in growth, with imports from the Republic of Korea, Singapore and Taiwan displaying the most distinct increases in the first quarter of 2004. Imports from the Mainland and Japan picked up further. Imports from the United States also held up well.

Diagram 2.19

Imports of goods by major source in the first quarter of 2004



Total imports of goods in the first quarter of 2004 : \$466.7 billion

Table 2.16

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

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2003	Annual	10.3	14.4	9.0	11.1	24.3	21.6
	H1	12.8	16.5	7.7	8.2	27.8	18.1
	H2	8.2	12.6	10.0	13.6	21.4	24.6
	Q1	15.9	23.1	11.7	10.7	31.0	18.7
	Q2	10.3	10.8	4.3	6.0	24.8	17.5
	Q3	6.5	11.0	4.8	2.8	23.9	22.8
	Q4	9.9	14.1	15.3	24.6	19.2	26.4
2004	Q1	14.0	17.9	23.9	19.9	19.8	30.1

/Retained

Retained imports

2.33 Japan continued to be the largest *source* of Hong Kong's retained imports, taking up around 17% of the total value in the first quarter of 2004. Other major suppliers of retained imports were the Republic of Korea (with a share of around 11%), Singapore (9%), the United States (8%), Taiwan (7%), and the Mainland (6%).

2.34 Analysed by *end-use category*, retained imports of consumer goods rose further, by 2.2% in real terms in the first quarter of 2004 over a year earlier, after a 6.7% increase in the fourth quarter of 2003. This was supported by the improvement in retail business in tandem with the steady recovery in local demand, as well as by the continued surge in visitor arrivals. Retained imports of foodstuffs likewise grew, by 7.1% in real terms in the first quarter of 2004 over a year earlier, albeit not as marked as the sharp increase of 15.4% in the fourth quarter of 2003.

2.35 Retained imports of capital goods soared by 17.8% in real terms in the first quarter of 2004 over a year earlier, further to an 11.1% increase in the fourth quarter of 2003. The robust performance was broadly based across most components in retained imports of capital goods. Intake of telecommunications equipment accentuated to highly distinct growth in the first quarter of 2004, having risen significantly in the second half of 2003. The intake of office equipment and industrial machinery bounced up markedly in the first quarter, while the intake of construction machinery also turned around to a small increase.

2.36 Retained imports of raw materials and semi-manufactures remained vibrant, soaring by 22.1% in real terms in the first quarter of 2004 over a year earlier, further to a 19.6% surge in the fourth quarter of 2003. Retained imports of fuels reverted to a 9.1% increase in real terms in the first quarter of 2004 over a year earlier, from a 1.2% decline in the fourth quarter of 2003.

/Table 2.17

Table 2.17

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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2003	Annual	1.5	1.7	6.0	8.5	-1.4
	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
2004	Q1	2.2	7.1	17.8	22.1	9.1

Note : See Note (a) to Table 2.5.

Table 2.18

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

		<u>Industrial machinery for manufacturing use</u>	<u>Construction machinery</u>	<u>Office equipment</u>	<u>Tele-communications equipment</u>	<u>Other capital goods</u>
2003	Annual	-7.3	-19.1	6.5	12.4	19.8
	H1	-2.3	-16.6	19.6	-6.5	8.7
	H2	-11.8	-21.7	-3.1	29.4	30.3
	Q1	3.9	-9.4	52.9	-12.9	16.0
	Q2	-7.6	-21.6	-2.0	1.1	2.1
	Q3	-7.9	-28.6	2.9	29.3	-5.0
	Q4	-15.4	-14.1	-9.0	29.5	68.4
2004	Q1	17.7	1.5	13.4	37.8	1.6

Note : See Note (a) to Table 2.5.

/Invisible

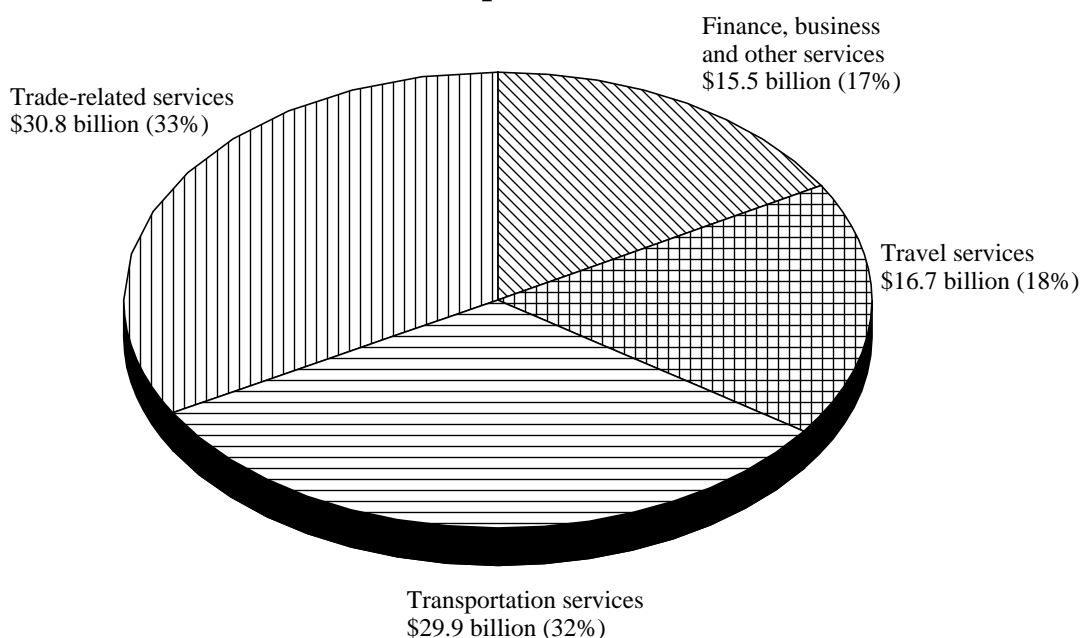
Invisible trade

Exports of services

2.37 Trade-related services (comprising mainly offshore trade) remained the largest component in Hong Kong's exports of services, taking up 33% by value in the first quarter of 2004. This was followed by exports of transportation services (with a share of 32%), exports of travel services (18%), and exports of finance, business and other services (17%).

Diagram 2.20

Exports of services by major service group in the first quarter of 2004



Exports of services in the first quarter of 2004 : \$93.0 billion

2.38 Exports of services sustained the strong growth momentum seen in the latter part of 2003, surging by 13.7% in real terms in the first quarter of 2004 over a year earlier, up further from a 12.0% increase in the fourth quarter of 2003.

2.39 The strong growth momentum in the first quarter was in large part driven by continued buoyancy in exports of trade-related services comprising mainly offshore trade, which surged by 18.3% in real terms in the first quarter of 2004 over a year earlier. This was after an already significant rise of 17.5%

/in

in the fourth quarter of 2003. Such robust performance tied in well with the concurrent vibrant external trade in the Mainland. Exports of travel services picked up distinctly further, to a strong growth of 14.5% in real terms in the first quarter of 2004 over a year earlier, following a 13.7% leap in the fourth quarter of 2003. This was in turn bolstered by a further surge in visitor arrivals from the Mainland. Visitor arrivals from other major sources such as the United States and Europe also resumed modest growth in the first quarter.

2.40 Exports of transportation services picked up further to grow at 11.9% in real terms in the first quarter of 2004 over a year earlier, after a 5.7% increase in the fourth quarter of 2003. The gain was well supported by a strong rebound in passenger movements amidst the buoyant inbound tourism, and also by a further acceleration in cargo flows bolstered by robust external trade. Exports of finance, business and other services attained a solid growth of 7.6% in real terms in the first quarter of 2004 over a year earlier, same as the increase in the fourth quarter of 2003.

Table 2.19

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

Of which :

		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Finance, business and other services</u>
2003	Annual	5.7	16.7	*	-4.6	3.6
	H1	0.6	18.1	-2.6	-24.7	0.5
	H2	9.8	15.8	2.3	12.2	6.7
	Q1	12.6	20.1	8.0	20.8	1.5
	Q2	-10.8	16.0	-12.6	-60.7	-0.5
	Q3	7.6	14.1	-0.9	10.4	5.7
	Q4	12.0	17.5	5.7	13.7	7.6
2004	Q1	13.7	18.3	11.9	14.5	7.6

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

(*) Change of less than 0.05%.

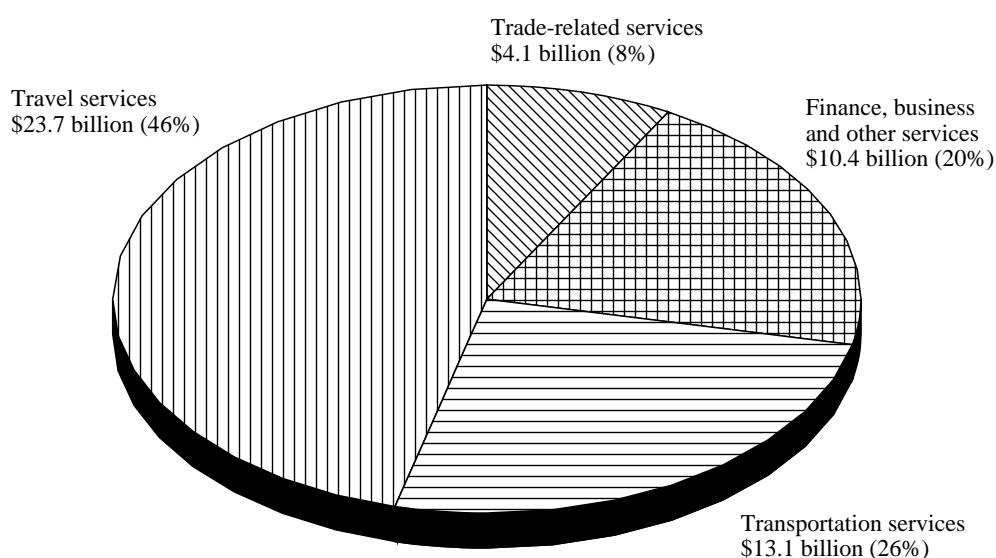
/Imports

Imports of services

2.41 Travel services continued to account for the largest share in Hong Kong's imports of services, at 46% by value in the first quarter of 2004. This was followed by imports of transportation services (with a share of 26%), imports of finance, business and other services (20%), and imports of trade-related services (8%).

Diagram 2.21

Imports of services by major service group in the first quarter of 2004



Imports of services in the first quarter of 2004 : \$51.3 billion

2.42 Imports of services likewise picked up further, rising by 4.0% in real terms in the first quarter of 2004 over a year earlier, following a 3.1% rise in the fourth quarter of 2003.

2.43 Within the total, imports of travel services registered a smaller decline of 0.7% in real terms in the first quarter of 2004 over a year earlier, after a 2.6% decrease in the fourth quarter of 2003. This represented a distinct relative improvement from the sharp plunge in the early part of 2003, when residents' spending abroad was hard hit by the spread of SARS. As to imports of transportation services, the gradual revival in outbound tourism had underpinned a further upturn in air passenger movements, while concurrently, incoming cargo freight services stayed robust amidst the continuing strong import intake. Taken together, imports of transportation services held up well,

/with

with a further marked increase of 10.5% in real terms in the first quarter of 2004 over a year earlier, following a 7.8% growth in the fourth quarter of 2003.

2.44 Imports of trade-related services remained strong, up by 16.6% in real terms in the first quarter of 2004 over a year earlier, further to a 15.9% leap in the fourth quarter of 2003. Imports of finance, business and other services rose further by 3.1% in real terms in the first quarter of 2004 over a year earlier, after a 4.1% increase in the fourth quarter of 2003.

Table 2.20

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

		<i>Of which :</i>				Finance, business and other services
		<u>Imports of services</u>	<u>Travel services^(a)</u>	<u>Transportation services</u>	<u>Trade-related services</u>	
2003	Annual	-4.6	-10.6	-3.0	15.1	0.3
	H1	-10.9	-19.0	-8.7	16.4	-2.0
	H2	1.4	-2.0	2.2	14.3	2.5
	Q1	-5.4	-12.5	0.9	18.4	-1.1
	Q2	-16.8	-26.6	-17.6	14.4	-3.0
	Q3	-0.3	-1.5	-3.0	12.5	0.8
	Q4	3.1	-2.6	7.8	15.9	4.1
	2004	Q1	4.0	-0.7	10.5	16.6

Note : (a) Comprising mainly outbound travel spending.

Overall balance of payments⁽¹⁰⁾

2.45 In the fourth quarter of 2003, the current account surplus remained sizable at \$40.3 billion, equivalent to 12.3% of GDP in that quarter. This was slightly smaller than that of \$40.5 billion in the third quarter, equivalent to 12.9% of GDP in that quarter. The continued hefty current account surplus in the fourth quarter owed much to the further increases in invisible trade surplus and in net external factor income inflow, which largely offset the widening in visible trade deficit.

2.46 In the capital and financial account, there was a much smaller net outflow of financial non-reserve assets in the fourth quarter of 2003, at \$23.6 billion, equivalent to 7.2% of GDP in that quarter, as compared to the

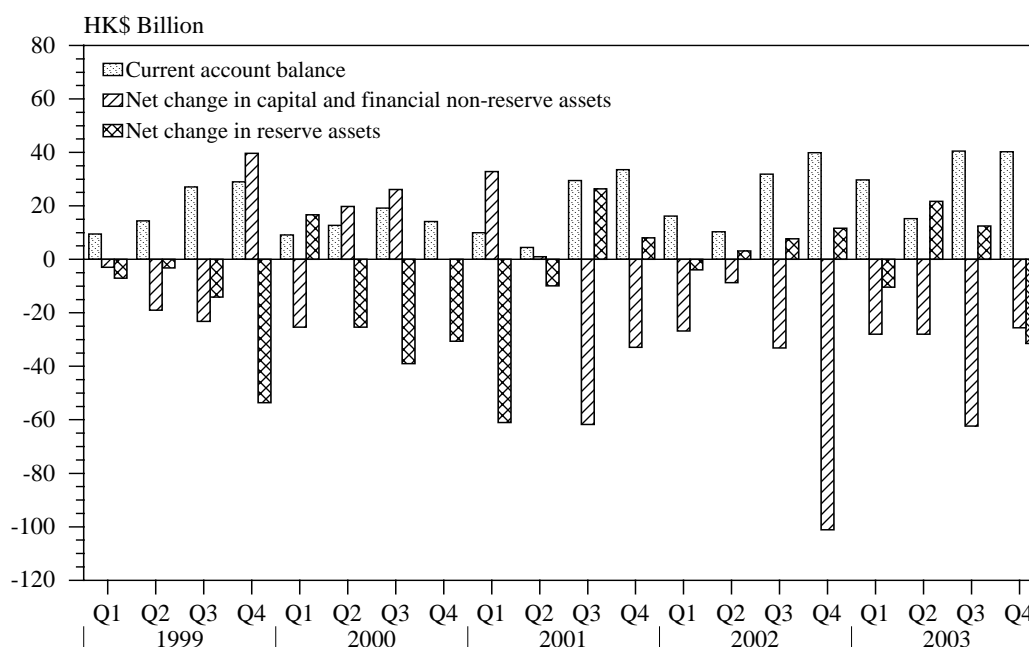
/respective

respective net outflow figures of \$61.1 billion and 19.5% in the third quarter. The decline in net funds outflow in the fourth quarter was mainly underpinned by a sharp reversal to net inflow in the other investment account, at \$26.2 billion, on the back of a strong inflow of funds into the banking sector alongside improved prospects in the local economy. Also, there were continued net inflows in the direct investment account and in cash settlement of financial derivatives, at \$18.1 billion and \$7.6 billion respectively. On the other hand, the portfolio investment account continued to register a large outflow, at \$75.5 billion in the fourth quarter, partly due to increased purchase of foreign debt securities by local residents in the quarter.

2.47 Overall, the balance of payments account, having been in deficit for two consecutive quarters, switched back to surplus in the fourth quarter of 2003, at \$31.4 billion, equivalent to 9.6% of GDP, mirroring a corresponding increase in reserve assets in that quarter. This contrasted sharply with the situation in the third quarter, when a balance of payments deficit of \$12.5 billion, equivalent to 4.0% of GDP, was recorded. For 2003 as a whole, there was a balance of payments surplus of \$7.6 billion, equivalent to 0.6% of GDP in that year. The corresponding deficit figures were \$18.5 billion and 1.5% in 2002.

Diagram 2.22

Major balances in Hong Kong's balance of payments



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

/Table 2.21

Table 2.21**Hong Kong's balance of payments account
(\$ billion at current market prices)**

	<u>2002[#]</u>	<u>2003[#]</u>	<u>2002</u>				<u>2003</u>			
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>
Current account^(a)	98.2	125.7	16.2	10.3	31.9	39.9	29.8	15.2	40.5	40.3
Trade in goods	-39.4	-45.0	-12.4	-16.4	-5.0	-5.6	-16.0	-9.8	-1.4	-17.8
Trade in services	135.7	151.3	24.5	31.2	36.1	43.9	33.9	27.0	39.9	50.4
External factor income flows	16.7	34.1	7.9	-1.0	4.5	5.4	15.9	1.5	5.6	11.1
Current transfers	-14.8	-14.7	-3.8	-3.6	-3.8	-3.7	-4.1	-3.5	-3.7	-3.5
Capital and financial account	-151.2	-151.5	-30.6	-5.6	-25.5	-89.5	-38.4	-6.3	-49.8	-57.1
Net change in capital transfers	-15.7	-7.9	-2.9	-7.6	-1.9	-3.2	-1.9	-2.8	-1.2	-2.0
Net change in financial non-reserve assets	-154.0	-135.9	-23.9	-1.1	-31.2	-97.8	-26.0	-25.2	-61.1	-23.6
<i>of which :</i>										
Direct investment	-60.7	76.2	-12.9	39.7	-37.2	-50.3	3.0	34.8	20.3	18.1
Portfolio investment	-302.5	-237.1	-4.1	-113.2	-87.8	-97.4	-54.8	-25.9	-81.0	-75.5
Financial derivatives	51.6	79.6	2.8	24.4	6.5	17.9	12.1	22.0	37.8	7.6
Other investment	157.6	-54.6	-9.6	48.0	87.3	31.9	13.6	-56.2	-38.2	26.2
Net change in reserve assets ^(b)	18.5	-7.6	-3.9	3.1	7.7	11.6	-10.4	21.7	12.5	-31.4
Net errors and omissions	52.9	25.7	14.4	-4.7	-6.4	49.6	8.6	-9.0	9.3	16.8
Overall balance of payments	-18.5	7.6	3.9	-3.1	-7.7	-11.6	10.4	-21.7	-12.5	31.4

Notes : (#) Revised figures.

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

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

/Notes

Notes :

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

/(8)

- (8) The European Union here covers fifteen member countries, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece and Portugal. As from 1 May 2004, the number of member countries in the European Union will be increased by ten to include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
- (9) Outward processing arrangements are made between Hong Kong companies and manufacturing entities in the Mainland under which the companies concerned sub-contract the whole or part of the production processes relating to their products to the Mainland entities. Raw materials or semi-manufactures are normally exported to the Mainland for such processing. The Mainland entity involved can be a local enterprise, a joint venture, or some other forms of business involving foreign investment.

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

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

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

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

CHAPTER 3 : THE DOMESTIC ECONOMY

Net output or value added by major economic sector

3.1 As reflected in quarterly GDP by major economic sector at constant prices⁽¹⁾, net output or value added for all the *service sectors* taken together⁽²⁾ rose by 6.4% in real terms in the fourth quarter of 2003 over a year earlier, accelerated further from the 4.9% increase in the third quarter. Analysed by constituent sector and by year-on-year comparison in real terms, net output in the wholesale, retail and import/export trades, restaurants and hotels surged by 11.2%, mainly attributable to the robust performance of Hong Kong's external trade as well as the visible pick-up in retail trade, upon a notable growth in inbound tourism and improved local consumption. Net output in finance, insurance, real estate and business services went up by 8.6%, mainly underpinned by the revival of the property market and the upsurge in stock market turnover. Net output in transport, storage and communications increased moderately, by 5.3%, while net output in community, social and personal services increased slightly, by 1.0%.

3.2 As to the net output in the local *manufacturing sector*, it shrank further, by 6.1% in real terms in the fourth quarter of 2003 over a year earlier, yet narrowed from the 9.1% decrease in the third quarter. This was largely due to the on-going relocation of production process outside Hong Kong. For the *construction sector*, net output declined by 6.9% in real terms in the fourth quarter of 2003 over a year earlier, after a 3.0% drop in the third quarter. This was mainly attributable to the continued slackening building activity in both the private and public sectors.

3.3 For 2003 as a whole, there was an increase of 4.5% in net output for all the services sectors taken together, further up from the 3.0% rise in 2002. On the other hand, net output in the local manufacturing and construction sectors shrank further, by 9.1% and 5.0% respectively in 2003, having diminished by 9.8% and 1.5% respectively in 2002.

/Table 3.1

Table 3.1

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

	<u>2002[#]</u>					<u>2003[#]</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-9.8	-11.6	-11.2	-7.3	-9.2	-9.1	-8.8	-12.5	-9.1	-6.1
Construction	-1.5	-7.2	4.7	3.3	-5.9	-5.0	-2.9	-7.0	-3.0	-6.9
Services ^(b)	3.0	-0.2	1.3	4.1	6.4	4.5	5.8	0.7	4.9	6.4
<i>Of which :</i>										
Wholesale, retail and import/export trades, restaurants and hotels	4.2	-3.7	-0.3	5.9	13.4	10.0	14.8	5.9	8.3	11.2
Transport, storage and communications	6.2	2.3	6.0	8.1	8.2	1.2	3.8	-6.2	1.5	5.3
Finance, insurance, real estate and business services	1.3	-1.0	1.7	2.1	2.4	4.9	2.7	1.6	6.6	8.6
Community, social and personal services	-0.7	-0.7	-1.9	-0.7	0.5	*	0.3	-3.1	1.9	1.0

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

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

(#) Revised figures.

(*) Change of less than 0.05%.

/Service

Service sector receipts

3.4 Business receipts in most of the service sectors surveyed rose in the fourth quarter of 2003 over a year earlier. Analysed by constituent sector and in value terms, business receipts in finance (except banking) grew sharply, by 53.4% in the fourth quarter of 2003 over a year earlier, fuelled by the brisk trading activities in the stock market. Business receipts in real estate also grew markedly, by 25.5%, supported by the turnaround of the property market. Business receipts in insurance and the import/export trade rose significantly, by 15.5% and 12.1% respectively. Business receipts in transport, the retail trade, business services, film entertainment, the wholesale trade and storage increased by 6.6%, 5.4%, 4.8%, 3.9%, 1.7% and 1.7% respectively, along with the strong recovery of the economy.

3.5 On the other hand, business receipts in restaurants, hotels and communications declined by 4.2%, 3.3% and 3.0% respectively in the fourth quarter of 2003 over a year earlier. Business receipts in banking fell by 5.9% in the fourth quarter in 2003 over a year earlier, reversing the increases in the preceding two quarters.

3.6 For 2003 as a whole, business receipts showed a mixed performance in the service sectors surveyed. Business receipts in insurance and finance (except banking) showed the largest increases, followed by those in the import/export trade, real estate and film entertainment. Business receipts in transport, business services and banking showed little change. On the other hand, business receipts in hotels and restaurants declined markedly, while those in the wholesale trade, storage, the retail trade and communications declined moderately.

/Table 3.2

Table 3.2**Index of Business Receipts for individual service sectors
(year-on-year rate of change in value terms (%))**

<u>Service sector</u>	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Import/export trade	-2.8	-15.4	-2.6	1.8	5.3	6.5	2.4	4.3	6.5	12.1
Wholesale trade	-10.7	-14.7	-12.8	-8.9	-6.2	-5.0	-3.5	-13.7	-4.5	1.7
Retail trade	-4.1	-3.7	-5.8	-4.3	-2.4	-2.3	-2.6	-11.0	-0.4	5.4
Restaurants	-5.4	-5.4	-6.0	-4.5	-5.9	-9.7	-8.6	-19.2	-7.1	-4.2
Hotels	-2.3	-12.5	-6.6	-2.5	12.5	-19.7	-2.7	-64.3	-9.5	-3.3
Banking	-0.8	-7.2	0.3	-4.2	7.4	*	-1.3	2.3	5.8	-5.9
Finance (except banking)	-14.3	-25.2	-11.4	-6.9	-11.1	17.3	-5.7	-5.5	30.9	53.4
Insurance	10.3	10.0	6.0	9.8	15.0	19.1	22.4	14.4	25.4	15.5
Real estate	-2.5	-0.1	3.5	-8.4	-5.2	6.2	-4.3	-12.1	18.3	25.5
Business services	-5.8	-10.4	-4.0	-5.0	-3.5	0.5	0.2	-3.7	0.8	4.8
Transport	2.3	-8.2	0.3	6.1	10.6	0.5	5.6	-10.9	0.3	6.6
Storage	-19.6	-21.7	-27.4	-20.4	-6.8	-4.5	-7.8	-8.3	-3.7	1.7
Communications	-2.6	-5.2	-4.3	-1.4	0.5	-2.4	1.6	-4.9	-3.1	-3.0
Film entertainment	-9.1	2.6	-15.5	-18.9	-1.8	2.3	-1.0	-5.6	12.1	3.9

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

Local manufacturing output

3.7 The volume of local manufacturing output, as measured by the Index of Industrial Production⁽³⁾, shrank by 6.1% in the fourth quarter of 2003 over a year earlier, after a 9.1% decline in the third quarter. Analysed by major constituent industry and by year-on-year comparison in volume, output of the fabricated metal products, the consumer electrical and electronic products, and the textiles industries plunged by 23.1%, 22.7% and 14.4% respectively in the

/fourth

fourth quarter of 2003. Output of the plastic products and the wearing apparel industries also went down considerably, by 8.6% and 6.0% respectively. Output of the machinery and equipment industry fell moderately, by 4.2%. On the other hand, output of the paper products and printing industry rose by 1.8%. On a seasonally adjusted quarter-to-quarter comparison, the Index increased by 0.3% in the fourth quarter of 2003, moderated from the 2.7% growth in the third quarter.

3.8 For 2003 as a whole, the volume of local manufacturing output dropped by 9.2%, following a 9.8% decrease in 2002. In 2003, the fall in volume of output was most notable in the fabricated metal products, the machinery and equipment, and the consumer electrical and electronic products industries, by 23.8%, 22.6% and 13.8% respectively.

3.9 In the fourth quarter of 2003, domestic exports fell slightly further in real terms from a year earlier, by 0.4%. This might point to a further mild shrinkage in local manufacturing output in that quarter.

Table 3.3

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

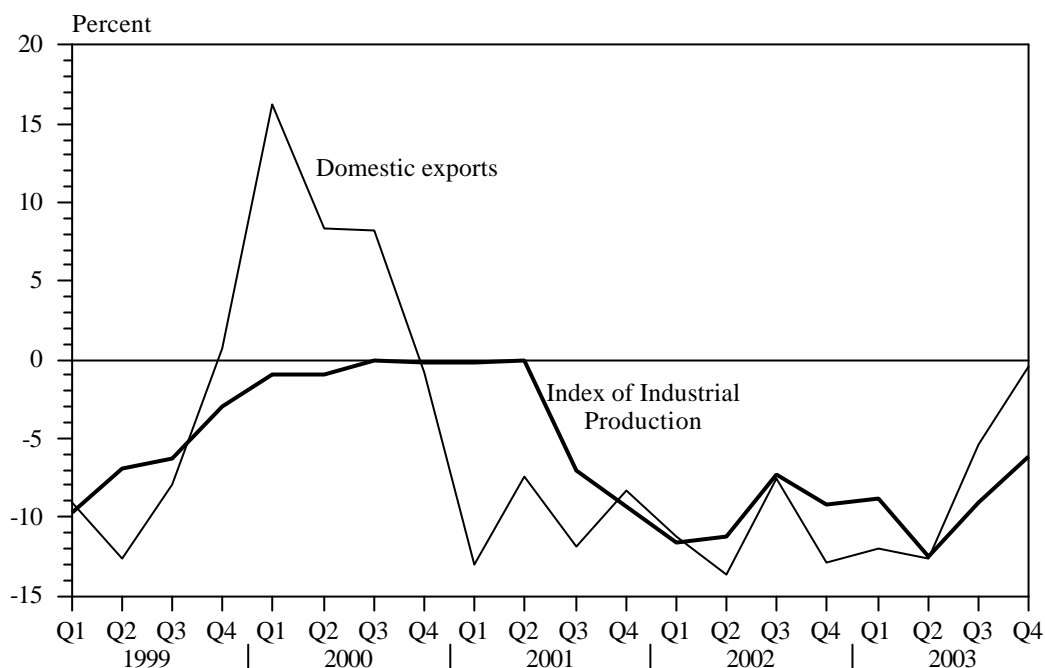
<u>Industry group</u>	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Wearing apparel	-6.6	-13.4	-10.5	4.0	-7.2	1.9	-0.1	-5.0	17.9	-6.0
Textiles	-7.2	-10.6	-7.3	-5.9	-6.4	-10.7	-0.8	-11.3	-12.6	-14.4
Plastic products	-10.8	-13.1	-7.4	-15.5	-7.0	-8.0	-6.0	-7.2	-10.3	-8.6
Consumer electrical and electronic products	-23.6	-0.8	-29.6	-28.2	-35.4	-13.8	-30.0	-14.8	16.3	-22.7
Machinery and equipment	-16.8	-17.4	-19.7	-11.4	-18.8	-22.6	-25.4	-30.4	-27.6	-4.2
Fabricated metal products	-29.4	-27.4	-30.7	-30.6	-28.8	-23.8	-27.5	-21.5	-23.2	-23.1
Paper products and printing	-0.2	-10.5	1.0	0.1	8.3	-0.4	11.7	-3.4	-9.3	1.8
Overall manufacturing	-9.8	-11.6	-11.2	-7.3	-9.2	-9.2	-8.8	-12.5	-9.1	-6.1
		<-2.4>	<-1.3>	<-0.7>	<-3.9>		<-2.2>	<-6.5>	<2.7>	<0.3>

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

/Diagram 3.1

Diagram 3.1

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



Property

3.10 The sales market for *residential property* turned even more upbeat in the first quarter of 2004, having picked up strongly in the latter part of last year. Trading activities in both the primary and secondary markets increased markedly. There were also further distinct increases in prices, particularly in the luxury end of the market. The strengthened local economy, amidst better global economic outlook and continued low interest rates, lifted confidence of both home buyers and investors. There were reportedly more transactions involving short-term resale with profits. As to the rental market for residential property, the situation was relatively steady with rentals showing some mild increases in overall terms.

3.11 On a quarter-to-quarter comparison, flat prices increased significantly further, on average by 13% in the first quarter of 2004, after a 9% increase in the fourth quarter of 2003. Flat rentals increased less rapidly, on average by 2% in the first quarter of 2004, having stabilised to show zero change in the fourth quarter of 2003. Compared with the peaks in the third quarter of 1997, flat prices and rentals in the first quarter of 2004 were still down substantially, by an average of 57% and 47% respectively.

/3.12

3.12 On *commercial property*, the sales market for office space showed a strong performance in the first quarter of 2004, supported by a marked revival in investor interest. The rental market also improved further in the first quarter of 2004, along with the pick-up in business activity. Also, many landlords cut back on the rent-free periods and other lease concessions offered earlier. On a quarter-to-quarter comparison, prices for office space on average surged further, by 28% in the first quarter of 2004, following an 8% increase in the fourth quarter of 2003. The decline in office rentals since early 2001 was arrested in late 2003 and early 2004. There was on average a 2% increase in the first quarter of 2004, after a similar increase in the fourth quarter of 2003. Against their respective peaks in 1994, prices and rentals of office space in the first quarter of 2004 were still drastically lower, by an average of 64% and 61% respectively.

3.13 The sales and rental markets for *shopping space* likewise revived further in the first quarter of 2004. The pick-up in retail business, amidst stronger local consumption and vibrant inbound tourism, provided the major impetus. Yet the increases in prices and rentals were more noticeable for retail premises in popular locations and in better-managed shopping malls. On a quarter-to-quarter comparison, rentals for shopping space rose on average by 1% in the first quarter of 2004, having risen by 3% in the fourth quarter of 2003. Prices for shopping space showed a distinctly faster increase than rentals, on average by 10% in the first quarter of 2004, following a 12% increase in the fourth quarter of 2003. Compared with the peaks in the third quarter of 1997, prices and rentals for shopping space in the first quarter of 2004 still plunged by an average of 46% and 29% respectively.

3.14 On *industrial property*, the sales and rental markets were relatively quiet in overall terms in the first quarter of 2004, yet both prices and rentals showed further increases. On a quarter-to-quarter comparison, prices of industrial space on average went up by 9% in the first quarter of 2004, following a 3% increase in the fourth quarter of 2003. Rentals of industrial space on average rose by 6% in the first quarter of 2004, following a 3% increase in the fourth quarter of 2003. Against their respective peaks in 1994, prices and rentals of industrial space in the first quarter of 2004 still plummeted by an average of 65% and 48% respectively.

/3.15

3.15 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, increased markedly further by 16% in number and 29% in total value in the first quarter of 2004 over the fourth quarter of 2003. Analysed by main type of property, transactions in residential property rose by 19% in number and 27% in total value. As to transactions in non-residential property, there was a 4% increase in number, yet their total value increased much faster by 37%. Compared with a year earlier, overall property transactions rose drastically by 94% in number and by 155% in total value. Transactions in residential property rose by 99% in number and 158% in total value, while transactions in non-residential property rose by 72% in number and 140% in total value. Property transfer assignments, being a lagging indicator of property transactions, went down by 7% in number and 12% in total value in the first quarter of 2004 over the fourth quarter of 2003. Compared with a year earlier, they went up by 9% and 38% respectively. As to mortgage arrangements, also a lagging indicator of property activity, their number in the first quarter of 2004 decreased by 16% over the fourth quarter of 2003 and by 5% over a year earlier.

3.16 On Government-subsidised flats, there were no new sales of flats under the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS) in the first quarter of 2004, as the production and sale of HOS flats and the sale of public rental flats under TPS had both been brought to a halt. On home ownership loans, the Housing Authority closed the application for the Home Assistance Loan Scheme⁽⁴⁾ in November 2003. A comprehensive review of the scheme was being conducted.

/Table 3.4

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

	<u>Residential property</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	<u>Price index^(a)</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999 =100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)		<u>Price index</u> (1999=100)		<u>Rental index^(b)</u> (1999=100)	
2003 Q1	62.7	(-4)	76.6	(-3)	62.1	(-4)	79.4	(-4)	81.0	(-2)	89.1	(-3)	72.5	(*)	79.4	(-2)
Q2	59.8	(-5)	73.7	(-4)	59.0	(-5)	74.3	(-6)	81.5	(1)	84.1	(-6)	70.0	(-3)	73.8	(-7)
Q3 [#]	59.3	(-1)	71.9	(-2)	61.6	(4)	71.7	(-3)	84.1	(3)	84.9	(1)	70.7	(1)	72.2	(-2)
Q4 [#]	64.4	(9)	72.2	(*)	66.8	(8)	73.3	(2)	94.2	(12)	87.7	(3)	72.9	(3)	74.4	(3)
2004 Q1 [^]	72.5	(13)	74.0	(2)	85.2	(28)	74.8	(2)	104.0	(10)	88.9	(1)	79.2	(9)	79.1	(6)

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

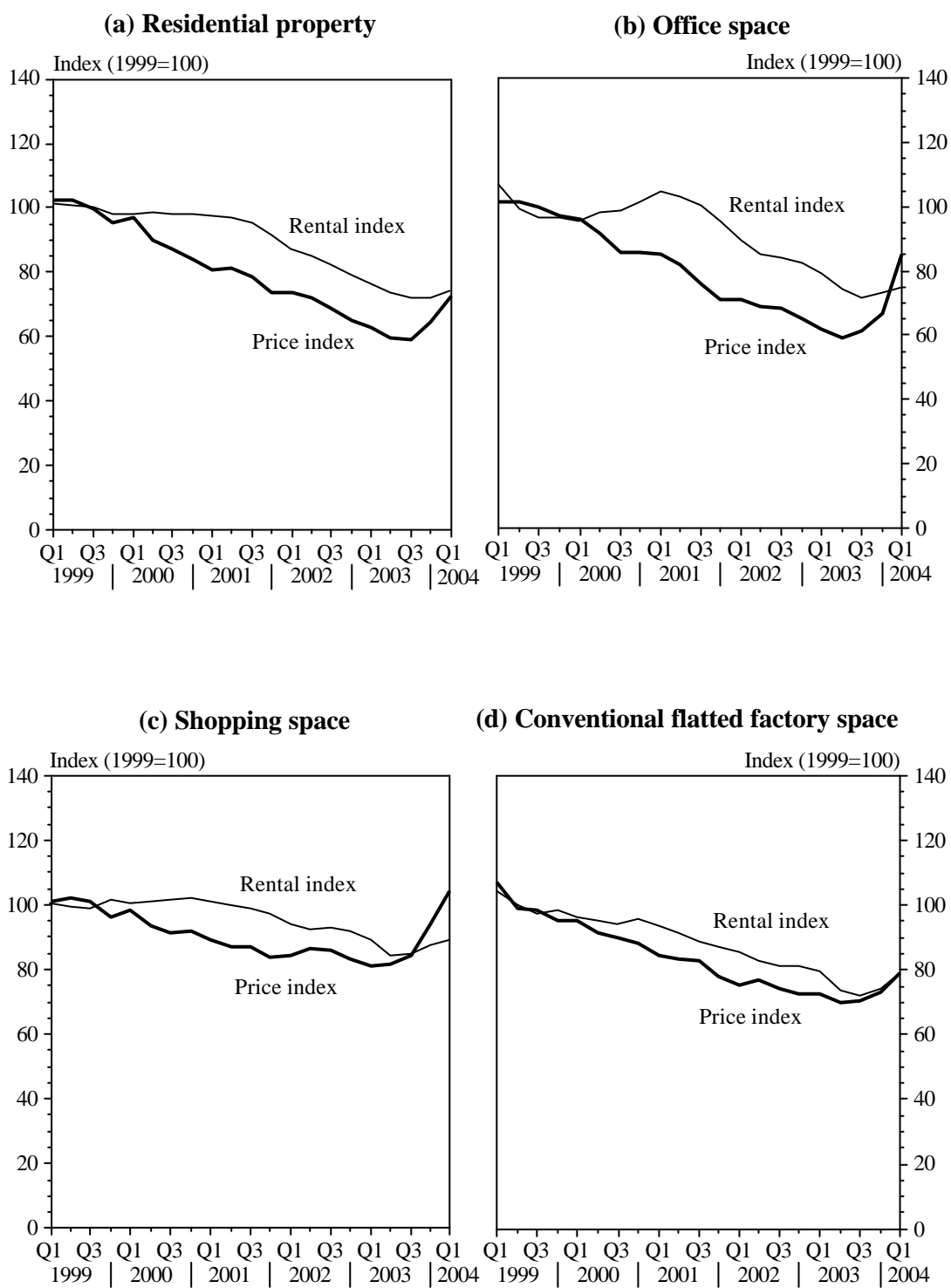
- (a) Prices for residential property in this table cover existing flats traded in the secondary market, but not new flats sold in the primary market.
- (b) Rentals for residential property in this table cover only new tenancies for which rentals are freshly determined, while rentals for non-residential property in this table cover also lease renewals upon which rentals may be revised.
- () % change over the preceding quarter.
- (#) Figures for non-residential property are provisional.
- (^) Provisional figures.
- (*) Change of less than 0.5%.

Source : Rating and Valuation Department.

/Diagram 3.2

Diagram 3.2

Property prices and rentals



Note : See the footnotes to Table 3.4.

/Table 3.5

Table 3.5

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

		Average of the best lending rates quoted by the principal banks <u>in Hong Kong</u> (%)	Average of the effective mortgage rates charged on new mortgages by the principal banks <u>in Hong Kong</u> ^(a) (%)	Monthly instalment on \$100,000 mortgage loan charged according to the average effective mortgage rate with mortgage period of ^(b) (<u>\$</u>)		
				<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
2003	Q1	5.00	2.50	943	667	530
	Q2	5.00	2.50	943	667	530
	Q3	5.00	2.50	943	667	530
	Q4	5.00	2.50	943	667	530
2004	Q1	5.00	2.50	943	667	530
	Jan	5.00	2.50	943	667	530
	Feb	5.00	2.50	943	667	530
	Mar	5.00	2.50	943	667	530

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

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

3.17 On supply of new property, *completions* of private residential flats⁽⁵⁾ increased by 3% in the first quarter of 2004 over a year earlier, following a 30% decrease in the fourth quarter of 2003. On the other hand, completions of other commercial premises fell sharply, by 98% in the first quarter of 2004 over a year earlier, after a 48% decline in the fourth quarter of 2003. Completions of office space also fell markedly, by 70% in the first quarter of 2004 over a year earlier, having soared by 54% in the fourth quarter of 2003. As to industrial property, there were no completions again in the first quarter of 2004, following nil completions in the fourth quarter of 2003. Comparing the twelve months ending March 2004 with the preceding twelve-month period, completions of other commercial premises and private residential flats fell considerably, by 58% and 19% respectively, while completions of office space rose sharply, by 90%. There were no completions of industry property over the past twelve months ending March 2004.

/Table 3.6

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

		<u>Number</u>						<u>Total value (\$Bn)</u>					
		<u>Residential property^(a)</u>		<u>Non-residential Property</u>		<u>Total</u>		<u>Residential property^(a)</u>		<u>Non-residential Property</u>		<u>Total</u>	
2003	Annual	71 576	(-2)	15 733	(22)	87 309	(2)	153.6	(*)	35.8	(15)	189.4	(2)
	H1	28 722	(-30)	6 478	(-6)	35 200	(-26)	56.9	(-37)	13.7	(-5)	70.6	(-32)
	H2	42 854	(34)	9 255	(52)	52 109	(37)	96.7	(50)	22.1	(32)	118.8	(46)
	Q1	14 386	(-24)	3 329	(-7)	17 715	(-21)	29.9	(-28)	7.0	(14)	36.9	(-23)
	Q2	14 336	(-35)	3 149	(-5)	17 485	(-31)	27.0	(-44)	6.8	(-19)	33.8	(-40)
	Q3	18 716	(16)	3 755	(15)	22 471	(16)	35.9	(11)	9.9	(-17)	45.9	(4)
	Q4	24 138	(51)	5 500	(97)	29 638	(58)	60.7	(89)	12.2	(155)	72.9	(98)
2004	Q1	28 624	(99)	5 735	(72)	34 359	(94)	77.3	(158)	16.7	(140)	94.0	(155)
			<19>		<4>		<16>		<27>		<37>		<29>
	Jan	7 726	(25)	1 742	(58)	9 468	(30)	18.0	(50)	4.6	(74)	22.6	(55)
	Feb	9 449	(159)	1 518	(56)	10 967	(137)	26.3	(311)	4.2	(167)	30.5	(283)
	Mar	11 449	(152)	2 475	(98)	13 924	(140)	33.0	(186)	7.9	(186)	40.9	(186)

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

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

() % change over a year earlier.

<> % change over the preceding quarter.

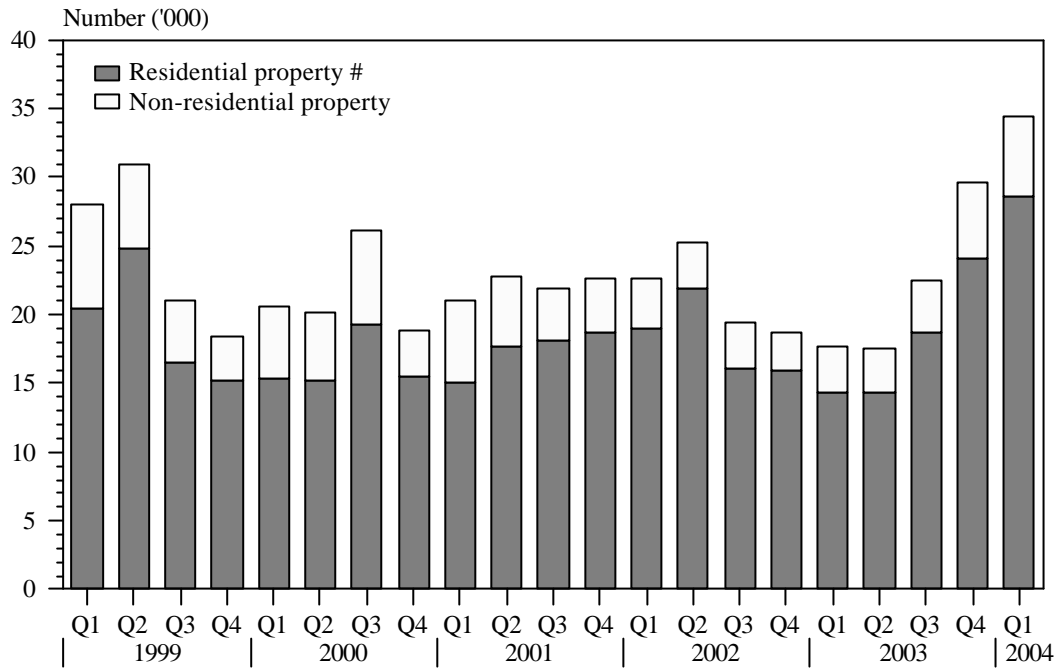
(*) Change of less than 0.5%.

Source : Land Registry.

/Diagram 3.3

Diagram 3.3

Sale and purchase agreements by broad type of property



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

/Table 3.7

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

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		<u>Number</u>		<u>Total value (\$Bn)</u>		<u>Number</u>	
2003	Annual	110 052	(-8)	207.3	(5)	102 210	(-16)
	H1	52 175	(-15)	87.3	(-13)	49 698	(-23)
	H2	57 877	(-1)	120.0	(23)	52 512	(-9)
	Q1	28 557	(-9)	45.0	(-7)	26 941	(-20)
	Q2	23 618	(-21)	42.3	(-19)	22 757	(-26)
	Q3	24 638	(-21)	49.9	(2)	22 080	(-28)
	Q4	33 239	(21)	70.1	(44)	30 432	(14)
2004	Q1	31 060	(9) <-7>	61.9	(38) <-12>	25 712	(-5) <-16>
	Jan	10 920	(*)	19.5	(20)	9 587	(-7)
	Feb	9 212	(-1)	18.5	(15)	7 544	(-17)
	Mar	10 928	(30)	23.9	(91)	8 581	(14)

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

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

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

() % change over a year earlier.

< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Land Registry.

/Table 3.8

Table 3.8

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

<u>Usage</u>	<u>First quarter of 2003</u>	<u>First quarter of 2004[^]</u>	<u>Year-on-year rate of change (%)</u>	<u>Twelve months ending March 2003</u>	<u>Twelve months ending March 2004[^]</u>	<u>Year-on-year rate of change (%)</u>
Residential ^(a)	4 310	4 427	3	32 677	26 514	-19
Commercial	79	10	-87	314	347	11
<i>Of which:</i>						
Office space	32	10	-70	146	277	90
Other commercial premises (mainly shopping space) ^(b)	48	1	-98	169	71	-58
Industrial ^(c)	15	0	-100	41	0	-100
<i>Of which:</i>						
Industrial-cum-office premises	15	0	-100	15	0	-100
Flatted factory space	0	0	--	0	0	--
Storage premises ^(d)	0	0	--	27	0	-100

Notes : (a) The figures shown are the number of private residential units, excluding units completed by the Hong Kong Housing Authority and Hong Kong Housing Society. Also excluded are village-type housing units.

These include all newly completed residential premises to which full Occupation Permits have been granted. Property developments subject to a Consent Scheme will need a Certificate of Compliance or Consent to Assign in addition to an Occupation Permit before the premises can be individually assigned.

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

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

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

([^]) Provisional figures.

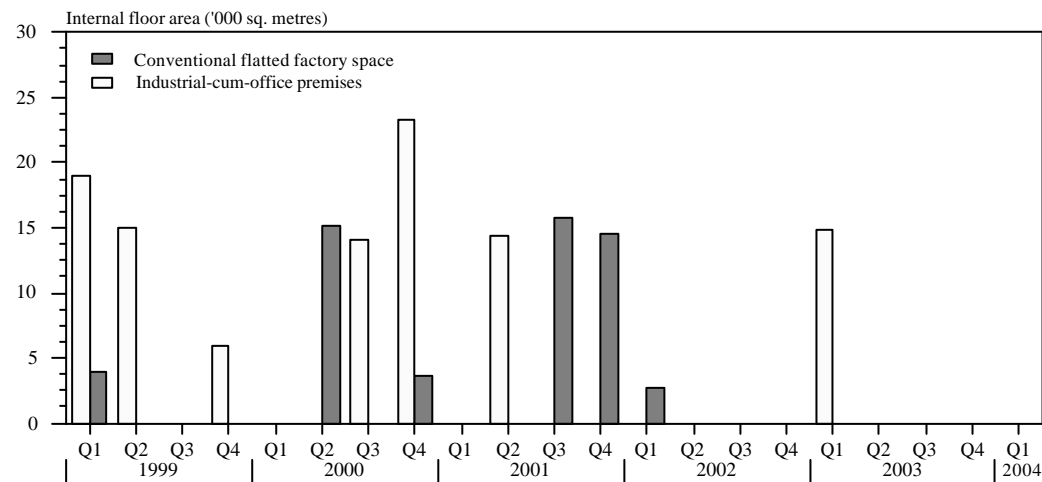
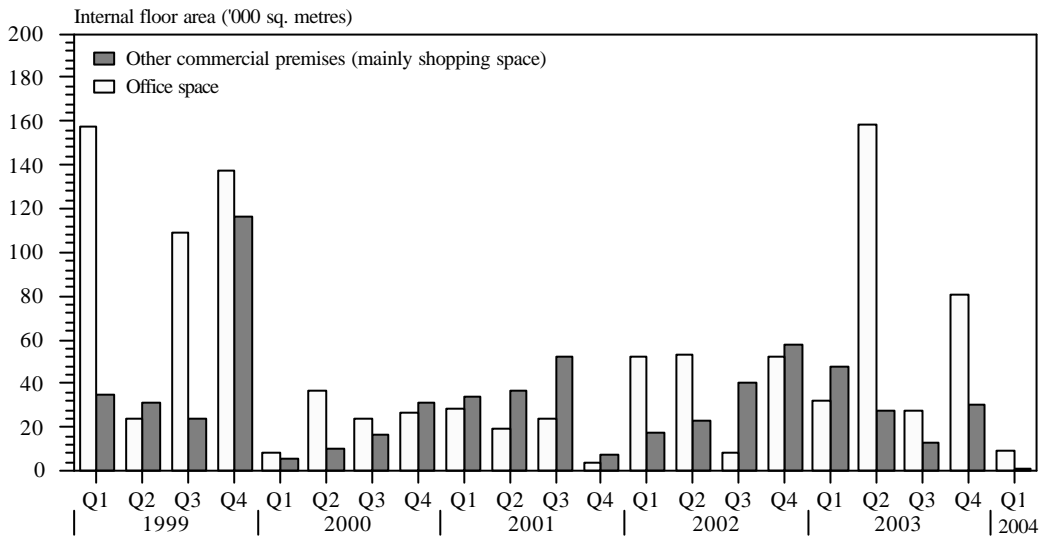
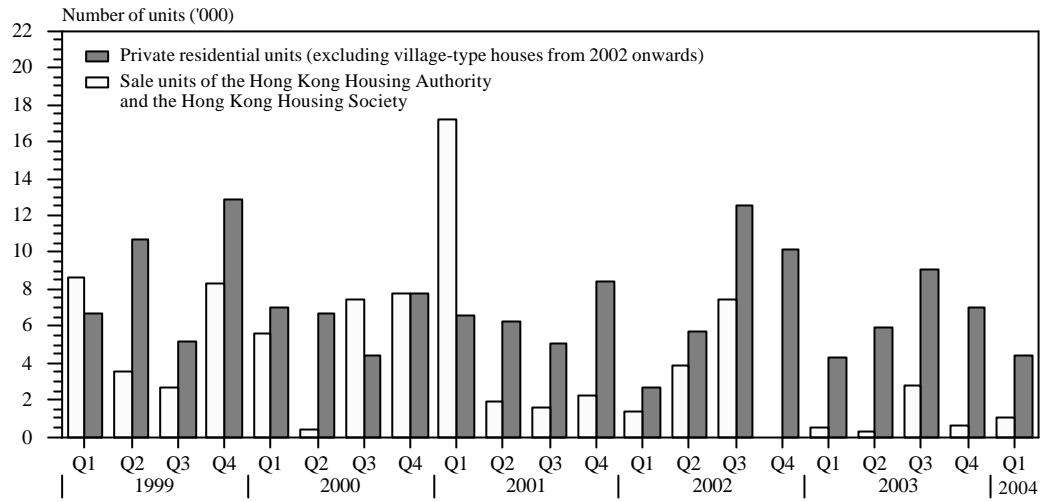
(--) Not applicable.

Source : Rating and Valuation Department.

/Diagram 3.4

Diagram 3.4

Completions of new property by major category



Note : See the footnotes to Table 3.8.

3.18 *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⁽⁶⁾, rose by 3% in the first quarter of 2004 over a year earlier. This came after a 14% increase in the fourth quarter of 2003. Analysed by main type of property and by year-on-year comparison, planned developments of private residential property declined by 37%, both in terms of units and in terms of total usable floor area in the first quarter of 2004 from a high base a year earlier. This was in contrast to the respective increases of 47% and 68% in the fourth quarter of 2003. Planned developments of commercial property decreased by 30% in the first quarter of 2004, following a decline of 18% in the fourth quarter of 2003. There were no new planned developments of industrial property in the first quarter of 2004, following a sharp decline of 99% in the fourth quarter of 2003. On the other hand, planned developments of property in the “others” category continued to surge, by 259% in the first quarter of 2004 over a year earlier, following a 130% leap in the fourth quarter of 2003 against a low base. Comparing the twelve months ending March 2004 with the preceding twelve-month period, planned developments of all types of property increased by 4%. Planned developments of private residential property fell by 7% in terms of units or by 16% in terms of total usable floor area. Planned developments of property in the “others” category went up by 287%, while those of commercial property and industrial property fell by 39% and 99% respectively.

/Table 3.9

Table 3.9

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

<u>Usage</u>	<u>First quarter of 2003</u>	<u>First quarter of 2004</u>	<u>Year-on-year rate of change</u> (%)	<u>Twelve months ending March 2003</u>	<u>Twelve months ending March 2004</u>	<u>Year-on-year rate of change</u> (%)
Residential ^(a)	396 <12 115>	249 <7 573>	-37 <-37>	1 060 <26 518>	892 <24 610>	-16 <-7>
Commercial	24	17	-30	316	193	-39
Industrial ^(b)	0	0	--	93	1	-99
Others	65	234	259	158	613	287
Total	485	500	3	1 627	1 698	4

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

Developers are required to re-apply for issue of consent to commence work on every major revision of their development projects. The figures reported here may include re-application cases and hence may contain a degree of double-counting. In the first quarter of 2004, for building plans with consent to commence work in respect of private residential property, 24% in terms of units or 23% in terms of total usable floor area were re-application cases.

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

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

< > Number of units.

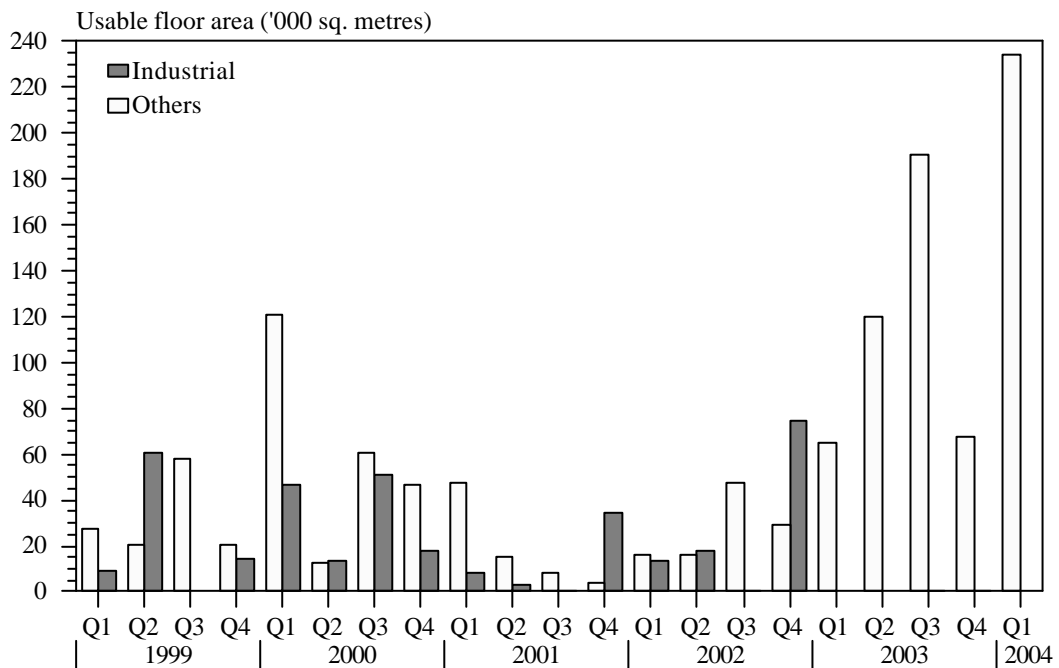
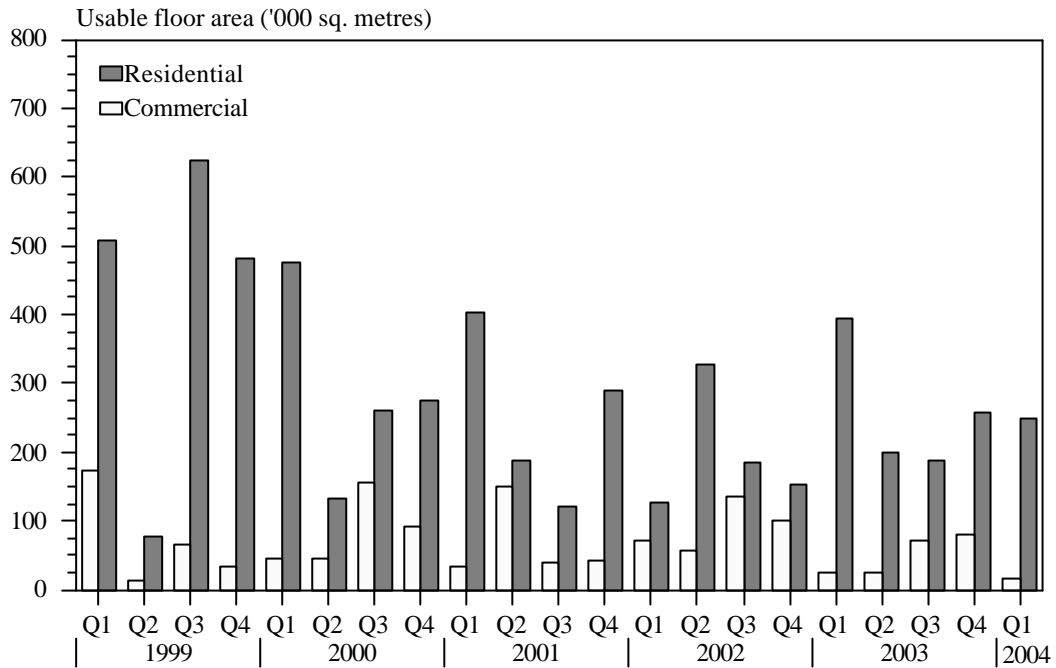
(--) Not applicable.

Source : Buildings Department.

/Diagram 3.5

Diagram 3.5

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



Note : See the footnotes to Table 3.9.

Building and construction

3.19 Building and construction activity remained weak in overall terms in the first quarter of 2004. Reflecting this, overall expenditure on building and construction declined by 10% in real terms in the first quarter of 2004 over a year earlier, after a similar decrease in the fourth quarter of 2003 and a 7% decrease for 2003 as a whole.

3.20 Expenditure on building and construction by the public sector fared better, rising by 3% in real terms in the first quarter of 2004 over a year earlier, after an increase of 2% in the fourth quarter of 2003 and an increase of 2% for the entire year. This was largely due to intensified work on some of the major civil engineering projects, including infrastructure in support of Container Terminal 9 and the Penny's Bay development, Route 9, the Deep Bay Link and the KCR Lok Ma Chau Spur Line.

3.21 Expenditure on building and construction by the private sector went down significantly by 17% in real terms in the first quarter of 2004 over a year earlier, following a decline of 16% in the fourth quarter of 2003 and a decline of 11% for the entire year. Private sector building activity was dampened partly by earlier sluggishness in the property market and partly by postponement of the railway property developments, as well as by suspension of land sales during 2003.

Table 3.10

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

		<u>Private sector</u>	<u>Public sector</u>	<u>Total</u>
2003	Annual [#]	-11	2	-7
	H1 [#]	-7	-2	-6
	H2 [#]	-14	6	-8
	Q1 [#]	-3	-4	-3
	Q2 [#]	-12	-1	-9
	Q3 [#]	-13	10	-7
	Q4 [#]	-16	2	-10
2004	Q1 ⁺	-17	3	-10

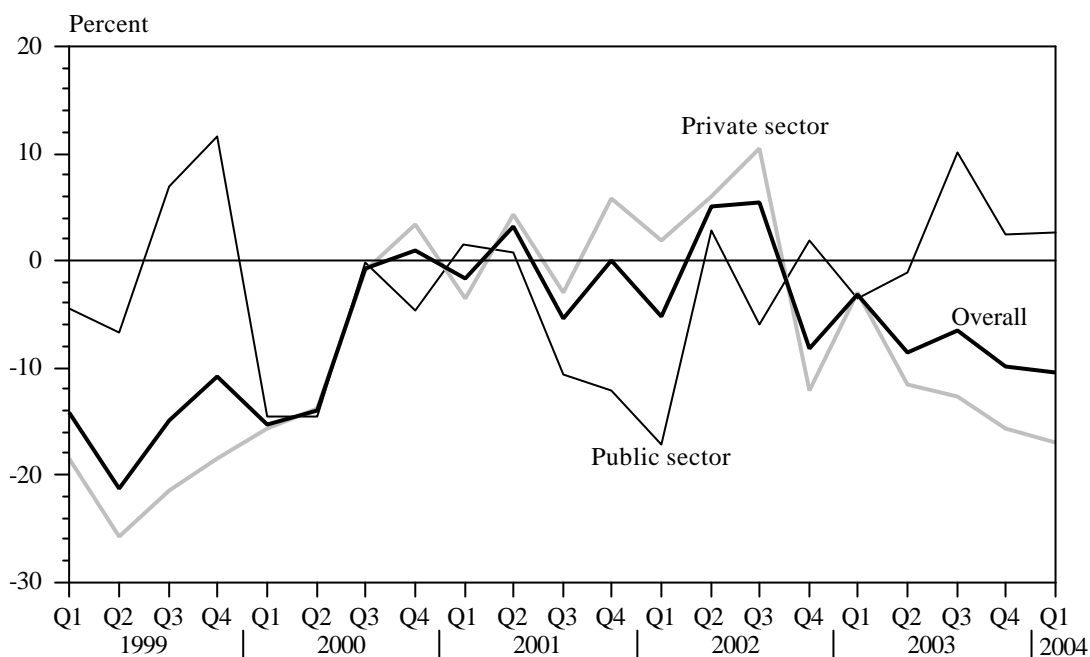
Notes : (#) Revised figures.

(+) Preliminary figures.

/Diagram 3.6

Diagram 3.6

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



3.22 Retained imports of construction machinery rose slightly, by 1% in real terms in the first quarter of 2004 over a year earlier. This reversed the declines of 14% in the fourth quarter of 2003 and 19% for 2003 as a whole.

3.23 Retained imports of construction materials increased by 24% in real terms in the first quarter of 2004 over a year earlier. This came after a 26% increase in the fourth quarter of 2003 and a 16% increase for 2003 as a whole.

3.24 Labour cost in the building and construction sector, as measured by the Labour Cost Index, fell by 3% in the fourth quarter of 2003 over a year earlier, after a 2% decline in the third quarter. For 2003 as a whole, there was a fall of 2%, having stayed flat in 2002. On the other hand, building material cost, as measured by the Material Cost Index, rose by 1% in the fourth quarter of 2003 over a year earlier, having remained stable in the third quarter. For 2003 as a whole, there was also a 1% rise, as against a 1% fall in 2002. Taken together, the combined Labour and Material Cost Index fell by 2% in the fourth quarter of 2003 over a year earlier, after a 1% decline in third quarter. For 2003 as a whole, the index fell by 1%, having stayed flat in 2002.

/Table 3.11

Table 3.11

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

	<u>Labour Index</u>	<u>Material Index</u>	<u>Combined Index</u>
2002 Annual	3 575 (*)	754 (-1)	1 752 (*)
Q1	3 570 (-1)	752 (-1)	1 749 (-1)
Q2	3 588 (*)	753 (-1)	1 756 (*)
Q3	3 583 (*)	755 (*)	1 755 (*)
Q4	3 561 (*)	756 (*)	1 748 (*)
2003 Annual	3 518 (-2)	760 (1)	1 735 (-1)
Q1	3 574 (*)	759 (1)	1 754 (*)
Q2	3 529 (-2)	759 (1)	1 739 (-1)
Q3	3 510 (-2)	758 (*)	1 731 (-1)
Q4	3 457 (-3)	763 (1)	1 716 (-2)
	<-2>	<1>	<-1>

Notes : () % change over a year earlier.

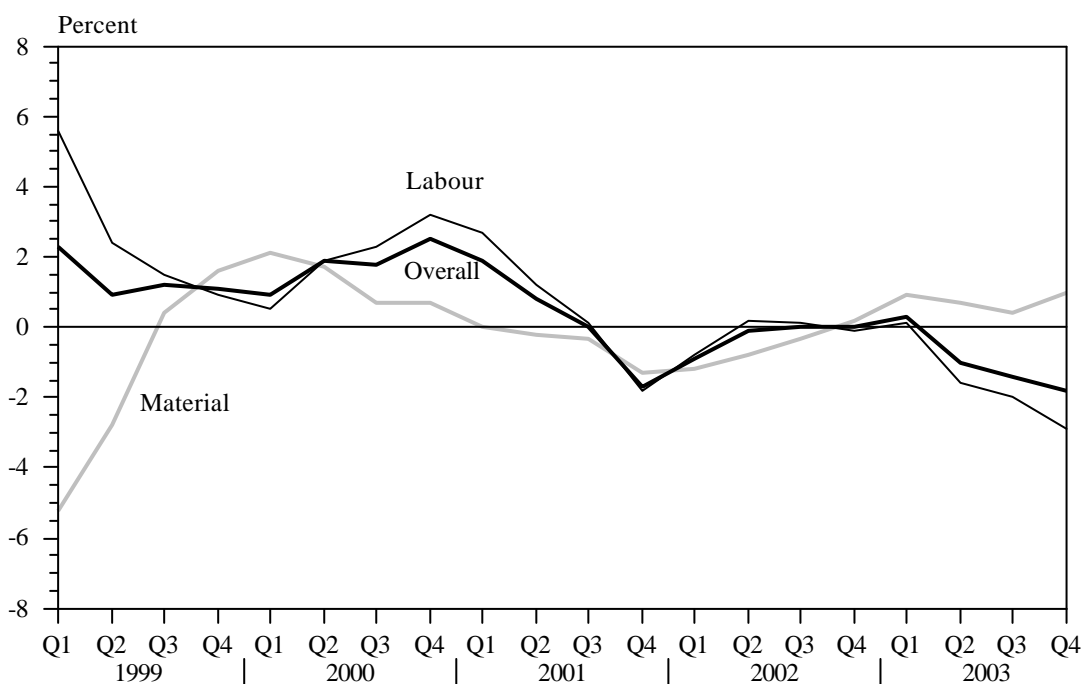
< > % change over the preceding quarter.

(*) Change of less than 0.5%.

Source : Architectural Services Department.

Diagram 3.7

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



/3.25

3.25 Tender prices softened in the fourth quarter of 2003. The TPI for public sector building projects compiled by the Architectural Services Department fell by 7% in the fourth quarter of 2003 over a year earlier, reversing the 4% increase in the third quarter. For 2003 as a whole, this TPI showed little change, following a decrease of 12% in 2002. As to the Tender Price Index (TPI) for public housing projects compiled by the Housing Department, there was no tender received by the Housing Department in the third and fourth quarters of 2003, and so there was no TPI for these two quarters. On a quarter-to-quarter comparison, the TPI for public sector building projects fell by 6% in the fourth quarter of 2003.

Table 3.12

Tender Price Indices (TPI) for public sector projects

		TPI for public <u>housing projects</u> ^(a) (Jan 1970=100)		TPI for public sector <u>building projects</u> ^(b) (Jan 1970=100)	
2002	Annual	527	(-10)	714	(-12)
	Q1	556	(-9)	687	(-20)
	Q2	533	(-13)	742	(-12)
	Q3	525	(-6)	692	(-14)
	Q4	495	(-10)	733	(2)
2003	Annual	N.A.	(N.A.)	712	(*)
	Q1	476	(-14)	720	(5)
	Q2	474	(-11)	723	(-3)
	Q3	N.A.	(N.A.)	722	(4)
	Q4	N.A.	(N.A.)	681	(-7)
			<N.A.>		<-6>

Notes : (a) Compiled by the Housing Department.

(b) Compiled by the Architectural Services Department.

() % change over a year earlier.

N.A. Not available, as there was no tender received by the Housing Department in the third and fourth quarters.

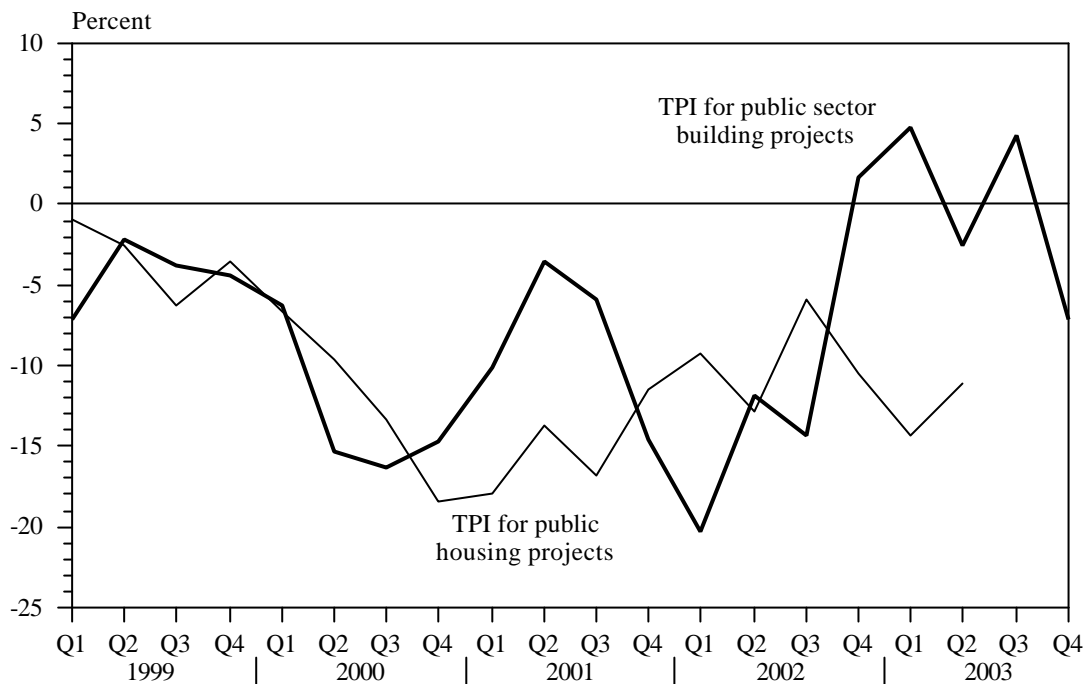
(*) Change of less than 0.5%.

<> % change over the preceding quarter.

/Diagram 3.8

Diagram 3.8

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



Land

3.26 In the first quarter of 2004, there was no land sale at auction by the Government. As to land sales through tender, five small petrol filling station sites totalling 0.7 hectare were sold as a batch in January. On 9 January 2004, the Government announced the Application List⁽⁷⁾ for land sales from January 2004 to March 2005. The new list was so designed as to avoid overloading the property market and to enable the market to grow in a healthy manner⁽⁸⁾.

/Table 3.13

Table 3.13**Land sales at auction and by tender
by the Government (hectares)**

<u>Usage</u>	<u>2003</u>	<u>First quarter of 2004</u>
Residential	-	-
Residential/commercial	-	-
Commercial	1.2	-
Industrial	-	-
Others	0.8	0.7
Total	<u>2.0</u>	<u>0.7</u>

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

Source : Lands Department.

3.27 On modification of lease on existing developed and developable land in the private sector domain⁽⁹⁾, 14 applications were approved by the Government in the first quarter of 2004. Of this total, five applications were for residential development, three for commercial development, two for residential-cum-commercial development, and one each for industrial development and for education and community facilities. The remaining two were for other purposes.

3.28 In the first quarter of 2004, there was one new take-up of site of 0.65 hectare in the Yuen Long Industrial Estate. Meanwhile, no site was surrendered in all the three industrial estates. As at end-March 2004, the take-up rates of the Tai Po Industrial Estate, Yuen Long Industrial estate and Tseung Kwan O Industrial Estate were 94.1%, 89.1% and 47.9% respectively.

3.29 As to the Science Park in Pak Shek Kok, approvals for admission were granted to 8 more technology companies in the first quarter of 2004. This followed 25 admissions in 2003. As at end-March 2004, 55 tenants were already admitted, including 17 incubatees⁽¹⁰⁾. Most of the companies admitted were engaged in the electronics, biotechnology, information technology and telecommunications, and precision engineering fields. The remainder of Phase 1 was scheduled to be completed by mid-2004. Planning for Phase 2 was underway.

Electricity and gas

3.30 *Local electricity consumption* went up by 3% over a year earlier to 7 746 million kWh in the first quarter of 2004, after a similar increase in the fourth quarter of 2003 and a 1% increase for 2003 as a whole. Analysed by main user type, domestic consumption, industrial consumption and commercial consumption increased by 5%, 4% and 2% respectively. Electricity exports to the Mainland, which accounted for 6% of the total electricity generated in Hong Kong, rose by 3% in the first quarter of 2004, much narrowed from the 38% growth for 2003 as a whole.

3.31 *Towngas consumption* increased by 3% over a year earlier to 8 000 terajoules in the first quarter of 2004, following nil change in the fourth quarter of 2003 and a 1% rise for 2003 as a whole. Analysed by main user type and by year-on-year comparison, industrial consumption, domestic consumption and commercial consumption grew by 11%, 3% and 1% respectively in the first quarter of 2004.

Internal transport

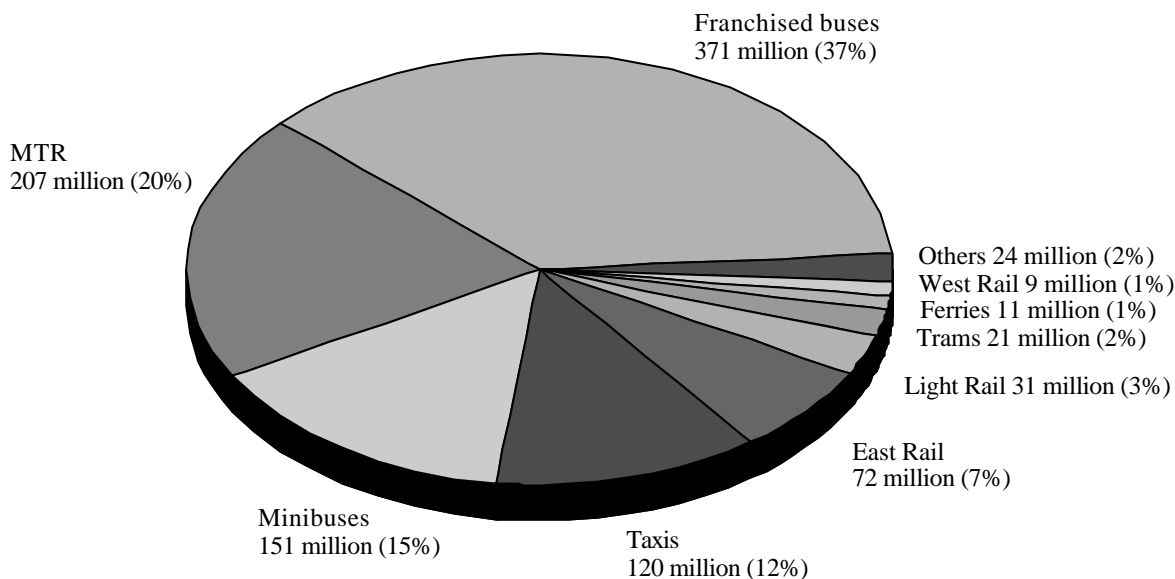
3.32 Total patronage on *public transport* grew by 2% over a year earlier to 1.0 billion in the first quarter of 2004, after nil change in the fourth quarter of 2003 and a 4% decline for 2003 as a whole. Analysed by mode of transport and by year-on-year comparison, patronage on the Light Rail and the Mass Transit Railway rose noticeably, by 15% and 6% respectively in the first quarter of 2004. Patronage on taxis and minibuses both increased by 2%, while that on ferries and the East Rail both went up by 1%. On the other hand, patronage on franchised buses contracted by 2%. Patronage on trams remained unchanged.

3.33 On *private transport*, the total number of newly registered private cars in the first quarter of 2004, at 6 500, showed little change over a year earlier. This followed a 16% fall in the fourth quarter of 2003 and a 25% fall for 2003 as a whole. At end-March 2004, the total number of registered private cars, at 383 000, and the total number of licensed private cars, at 340 000, both remained unchanged over a year earlier.

/Diagram 3.9

Diagram 3.9

**Passenger journeys by mode of public transport
in the first quarter of 2004**



Total passenger journeys in the first quarter of 2004 : 1 017 million

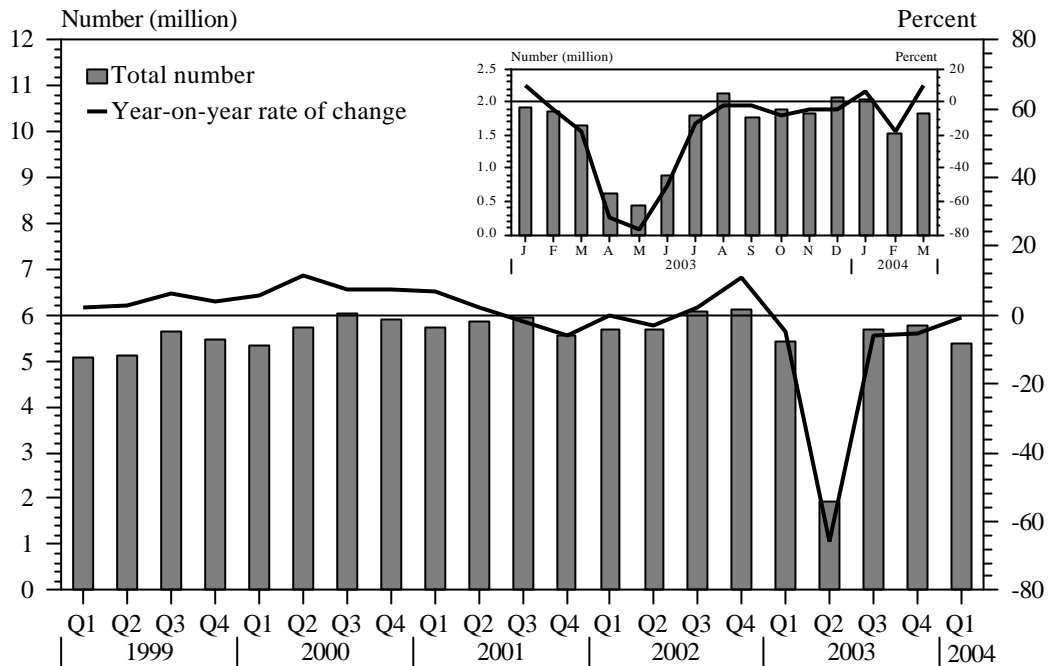
External transport

3.34 On *air transport*, total *air passenger movements* fell in the first quarter of 2004 by 1% over a year earlier to 5.4 million, moderated from the 6% drop in the fourth quarter of 2003 and the 20% plunge for 2003 as a whole. Within the total, air passenger arrivals, at 2.7 million, rose by 1% over a year earlier, while air passenger departures, also at 2.7 million, fell by 3%. The Mainland continued to be the brightest spot, both as a source of and a destination for air passengers. Air passengers coming from the Mainland went up by 11%, and air passengers going to the Mainland by 16%. Aircraft movements (including passenger and cargo flights) increased noticeably, by 5% over a year earlier to 55 600 in the first quarter of 2004, further up from a 3% growth in the fourth quarter of 2003 and reversing the 9% decline for 2003 as a whole.

/Diagram 3.10

Diagram 3.10

Number of air passenger movements

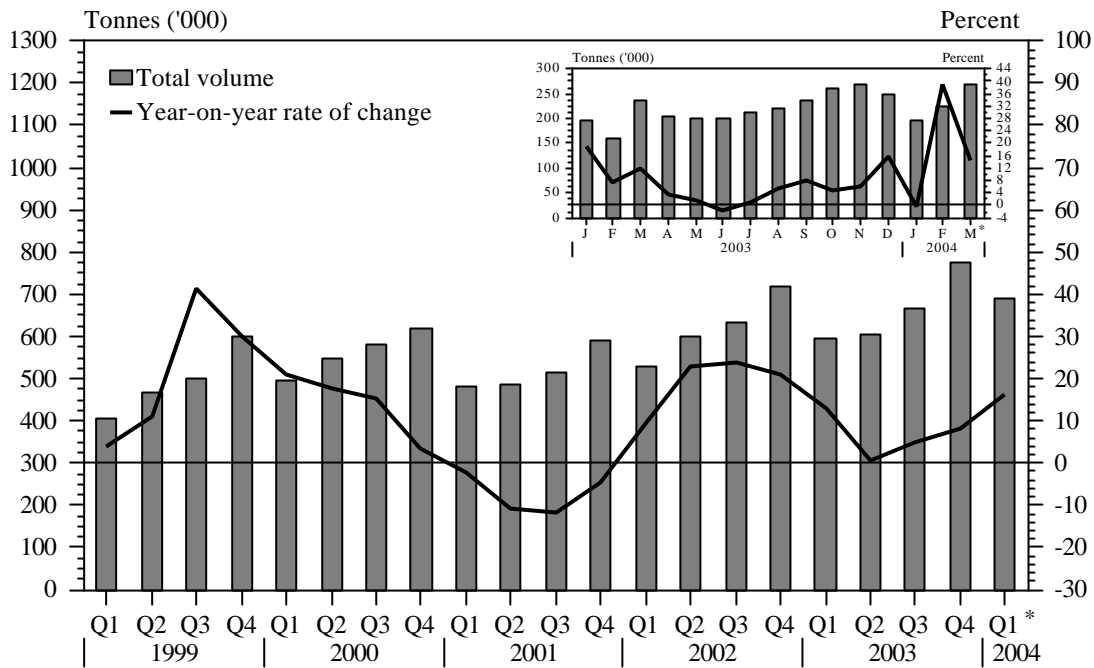


3.35 Total *air cargo movements* leaped by 16% over a year earlier to 689 900 tonnes in the first quarter of 2004, up from the increases of 8% in the fourth quarter of 2003 and 7% for 2003 as a whole. Within the total, inward and outward air cargo increased by 10% and 20% respectively to 270 900 tonnes and 419 000 tonnes, partly attributable to the relatively low base of comparison in the first quarter of 2003 and partly to the stronger global economy. These compared with the respective increases of 5% and 10% in the fourth quarter of 2003 and the respective increases of 3% and 9% for 2003 as a whole.

/Diagram 3.11

Diagram 3.11

Cargo carried by air



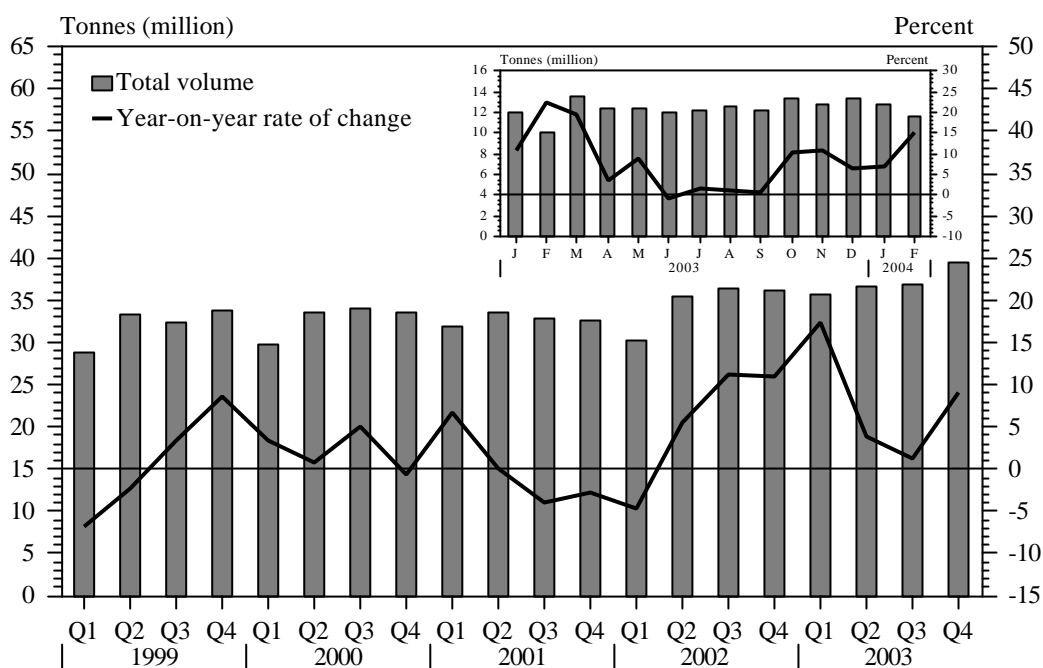
Note : (*) Provisional figures.

3.36 On *ocean transport*, total *ocean cargo movements* amounted to 24.3 million tonnes in the first two months of 2004, up by 10% from a year earlier. This was further up from the 9% increase in the fourth quarter of 2003 and the 7% increase for 2003 as a whole. Transshipment cargo continued to increase distinctively, by 19%, while direct shipment cargo rose only moderately, by 5%. Within the total for the first two months of 2004, inward and outward ocean cargo went up by 9% and 14% respectively over a year earlier to 16.4 million tonnes and 7.9 million tonnes.

/Diagram 3.12

Diagram 3.12

Cargo carried by sea

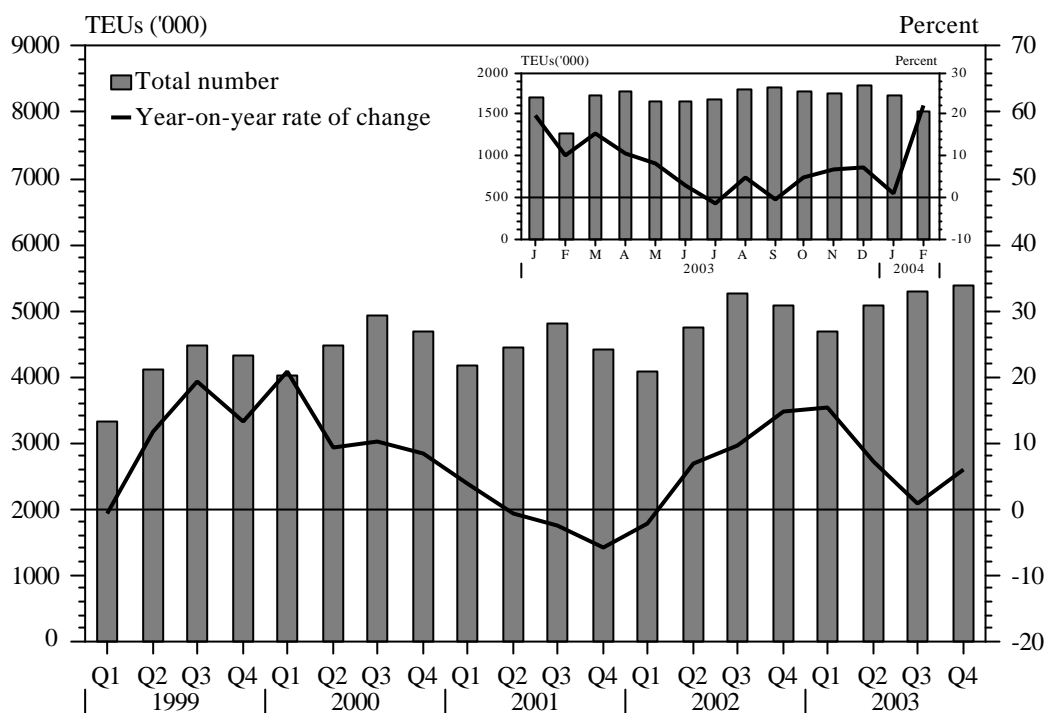


3.37 As to *container traffic*, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) rose by 10% over a year earlier to 3.3 million TEUs in the first two months of 2004. Within the total for the first two months of 2004, inward container grew by 9% over a year earlier to 1.7 million TEUs, while outward container increased by 10% to 1.6 million TEUs. Meanwhile, the trend of manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port continued. Reflecting this, container throughput at the Yantian port expanded by 18% in the first quarter of 2004 over a year earlier, after a 27% leap both in the fourth quarter of 2003 and for 2003 as a whole.

/Diagram 3.13

Diagram 3.13

Container throughput



Tourism

3.38 The total number of *incoming visitors* grew significantly in the first quarter of 2004, by 15% over a year earlier to 4.9 million, mainly due to an influx of Mainland visitors since the implementation of the Individual Visit Scheme in June 2003⁽¹¹⁾. A moderate rebound of incoming visitors from the United Kingdom, the United States, and South and Southeast Asia provided further support. This contrasted with the 6% decline for 2003 as a whole, and was further up from the 7% growth in the fourth quarter of 2003.

3.39 Analysed by major source, visitors from the Mainland soared by 37% over a year earlier to 2.9 million in the first quarter of 2004. Visitors from the United Kingdom, the United States and South and Southeast Asia increased moderately, by 5%, 3% and 2% respectively, reversing from the declines in earlier periods. Meanwhile, visitors from Japan and Taiwan fell by 32% and 13% respectively.

/Diagram 3.14

Diagram 3.14

Number of incoming visitors

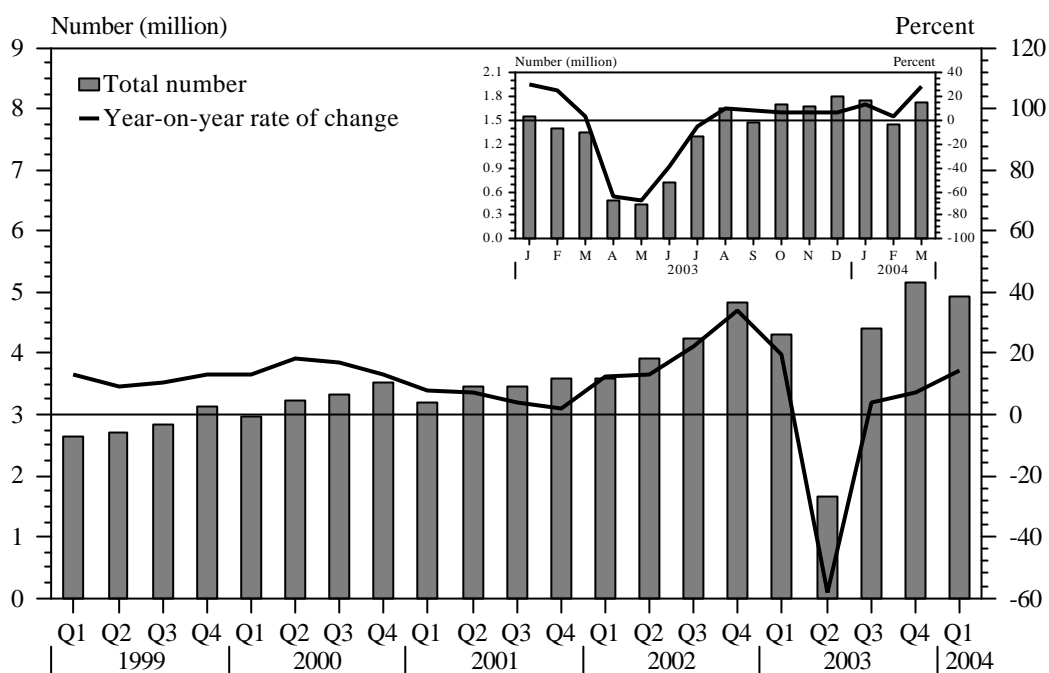


Table 3.14

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

	<u>Annual</u>	<u>2003</u>				<u>2004</u>			
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
All sources	-6	20	-58	4	7	15	13	3	29
Mainland of China	24	53	-26	32	33	37	49	16	47
Taiwan	-24	-3	-74	-8	-12	-13	-15	-25	3
South and Southeast Asia	-29	*	-81	-16	-12	2	-16	-4	28
Japan	-38	-2	-86	-36	-29	-32	-45	-30	-20
United States	-32	-7	-84	-19	-14	3	-21	13	23
United Kingdom	-26	2	-78	-22	-13	5	-22	17	19
Others	-23	1	-72	-14	-7	1	-14	2	17

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

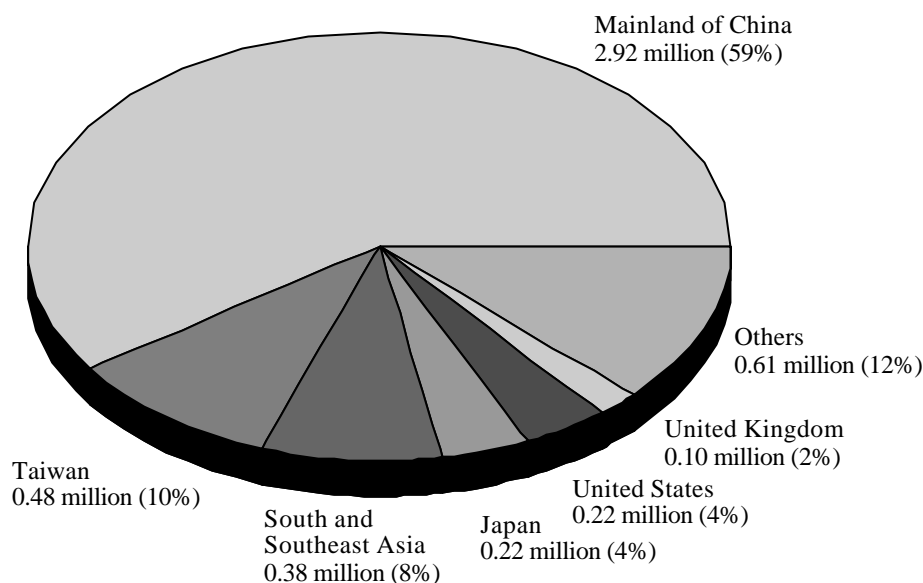
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

3.40 The Mainland remained the largest source of visitors to Hong Kong, with a share of 59% in the first quarter of 2004. Taiwan came next (with a share of 10%), followed by South and Southeast Asia (8%), Japan (4%), the United States (4%), and the United Kingdom (2%).

Diagram 3.15

**Number of incoming visitors by source
in the first quarter of 2004**



Total number of incoming visitors in the first quarter of 2004 : 4.94 million

3.41 As at end-March 2004, there were 42 489 *hotel rooms* in Hong Kong. The *average hotel room occupancy rate* in the first quarter of 2004, at 84%, went up from that of 81% in the first quarter of 2003. This was much higher than the average of 70% for 2003 as a whole, reflecting the strong recovery of inbound tourism since the latter half of last year.

/Table 3.15

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

		<u>Number of hotel rooms as at end of period</u>		<u>Average hotel room occupancy rate during the period</u> (%)
2003	Annual	42 936	(-2)	70
	Q1	42 792	(2)	81
	Q2	42 818	(*)	25
	Q3	42 848	(*)	80
	Q4	42 936	(-2)	88
2004	Q1 [#]	42 489	(--)	84
	Jan	42 489	(--)	78
	Feb	42 494	(--)	81
	Mar	42 489	(--)	94

Notes : () % change over a year earlier.

(*) Change of less than 0.5%.

(#) A number of hotel rooms were reclassified as service apartments from January 2004 onwards. As such, the figures for the first quarter of 2004 are not strictly comparable to those for 2003.

(--) Not applicable.

Source : Hong Kong Tourism Board.

3.42 On *Hong Kong residents travelling abroad*, the total number of resident departures grew at 3% over a year earlier to 15.8 million in the first quarter of 2004, after a 2% growth in the fourth quarter of 2003. Analysed by major destination and by year-on-year comparison, resident departures to Europe, South and Southeast Asia, North Asia, the Mainland, and Australia and New Zealand went up by 14%, 8%, 0%, 4% and 2% respectively in the first quarter of 2004. On the other hand, those to Taiwan, Americas and Macau declined by 11%, 2% and 1% respectively.

/Diagram 3.16

Diagram 3.16

Number of Hong Kong resident departures

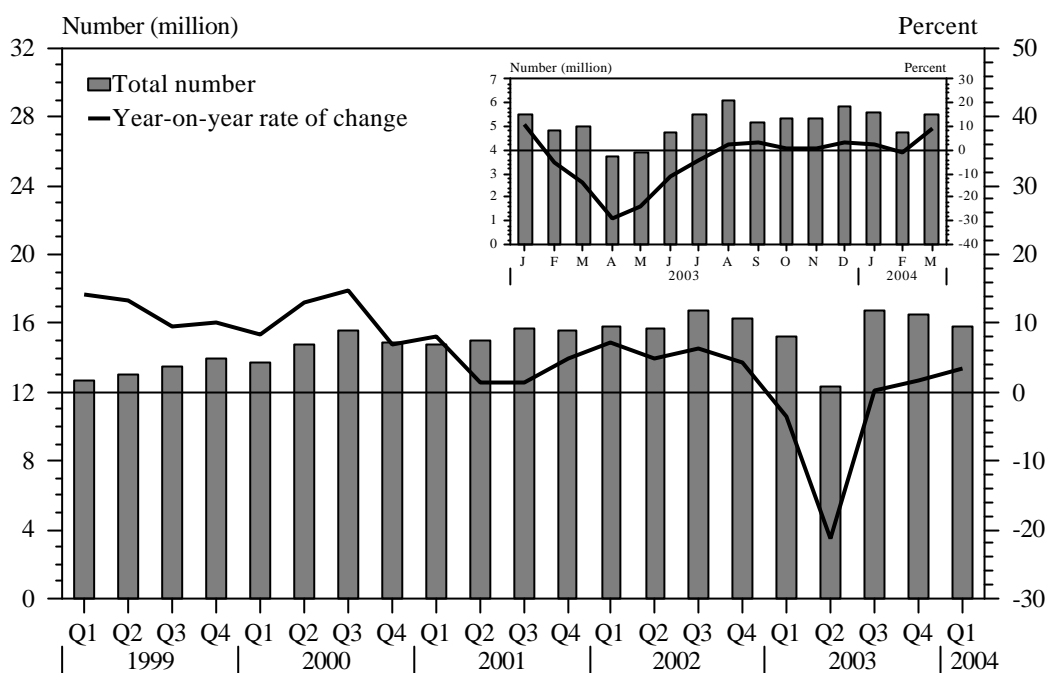


Table 3.16

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

	Annual	2003				Q1	2004		
		Q1	Q2	Q3	Q4		Jan	Feb	Mar
All destinations	-6	-4	-21	*	2	3	2	-1	10
Mainland of China	-6	-3	-21	*	2	4	-2	2	10
Macau	-5	-7	-15	3	-3	-1	25	-23	-1
South and Southeast Asia	1	-10	-14	15	12	8	41	-21	7
North Asia	-10	-18	-21	2	-4	6	35	-30	10
Americas ^(a)	-19	-7	-54	-14	*	-2	-4	-8	5
Taiwan	-23	-4	-76	-7	-11	-11	4	-30	-4
Europe	-7	-11	-30	4	9	14	14	16	14
Australia and New Zealand	-7	-7	-8	-14	1	2	5	-3	5
Others	-4	-21	-20	5	21	28	29	-7	75

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

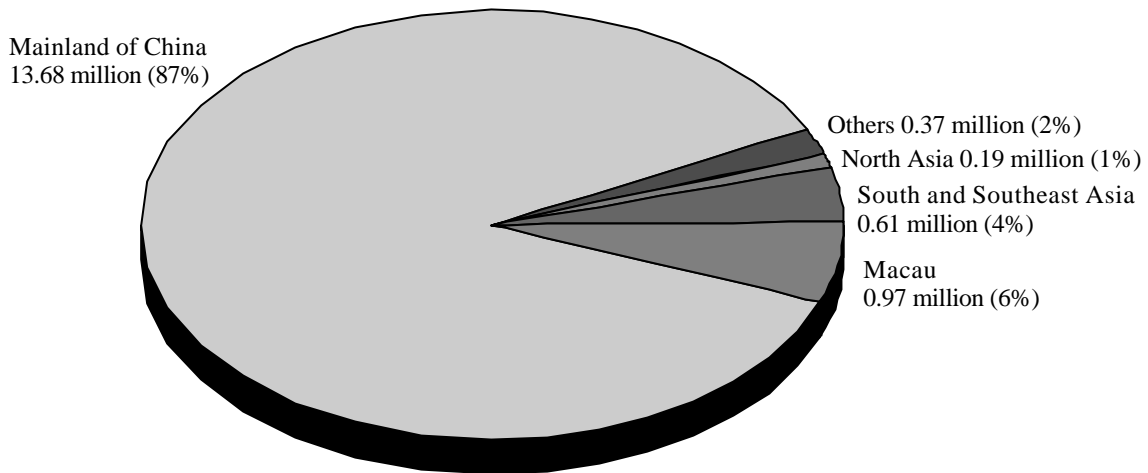
(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

/Diagram 3.17

Diagram 3.17

**Number of Hong Kong resident departures by destination
in the first quarter of 2004**



Total number of resident departures in the first quarter of 2004 : 15.81 million

3.43 The Mainland continued to be the most popular destination for Hong Kong resident departures, accounting for 87% of the total outbound trips in the first quarter of 2004. Most of these trips were destined for Guangdong Province. Macau came next (with a share of 6%), followed by South and Southeast Asia (4%), North Asia (1%), Taiwan (1%), and Europe (1%).

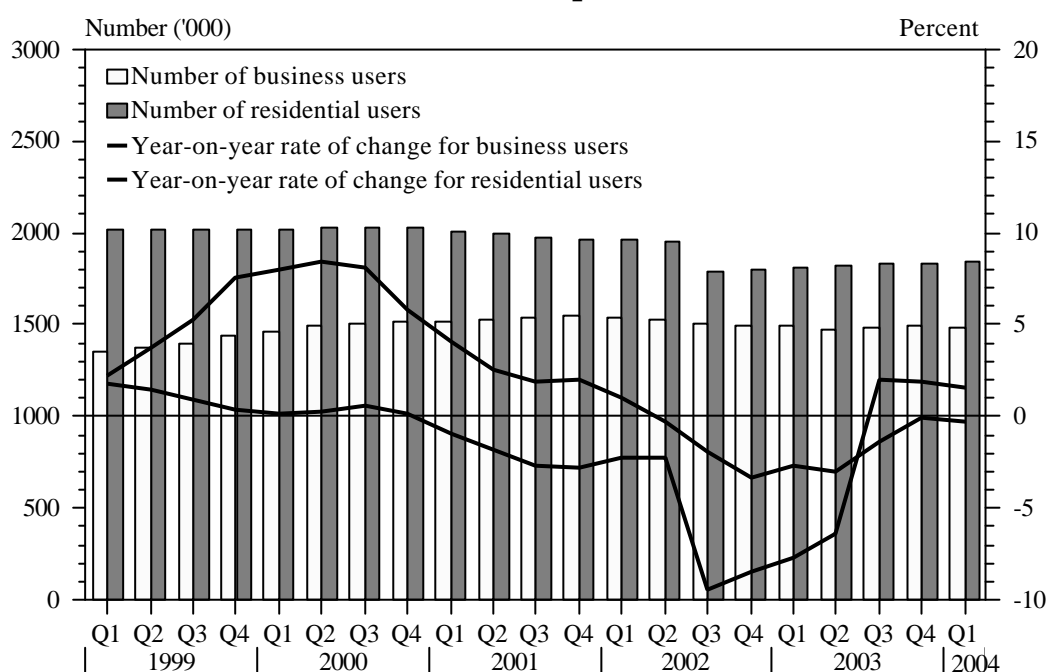
Telecommunications

3.44 On *wireline services*, the total number of direct exchange lines continued to fall, by 1% over a year earlier to 3.81 million at end-March 2004. Within this total, the number of fixed telephone lines went up by 1% over a year earlier to 3.32 million at end-March 2004. It comprised a 2% growth in the number of lines for residential customers to 1.84 million, yet a zero change in the number of lines for business customers at 1.49 million. These two particular groups of customers accounted for 55% and 45% respectively of all the fixed telephone lines installed at end-March 2004. At 49 fixed telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was amongst the highest in Asia. With regards to the number of facsimile lines, it went down by 9% over a year earlier to 483 200 at end-March 2004. At 29 facsimile lines per 100 business exchange lines, Hong Kong ranked amongst the highest

/in

in Asia. On external telecommunications, external telephone traffic volume⁽¹²⁾ increased by 13% over a year earlier to 1.6 billion minutes in the first quarter of 2004, after an 11% increase in the fourth quarter of 2003. As to Internet usage, the growth of broadband services remained buoyant with the traffic volume surging by 397% over a year earlier to 486 000 terabits in the first quarter of 2004. This was in stark contrast to the 40% shrinkage in Internet usage through the public switch telephone network to 587 million minutes in the first quarter of 2004.

Diagram 3.18
Number of fixed telephone lines* by main user category
(as at end of quarter)

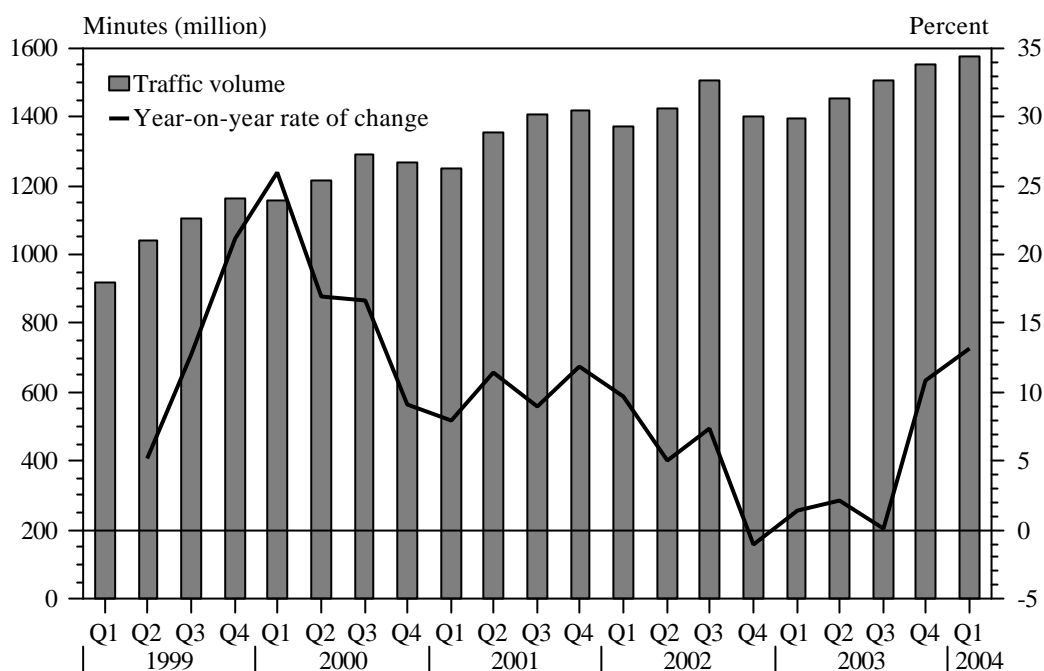


Note : (*) Not including facsimile lines.

/Diagram 3.19

Diagram 3.19

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



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

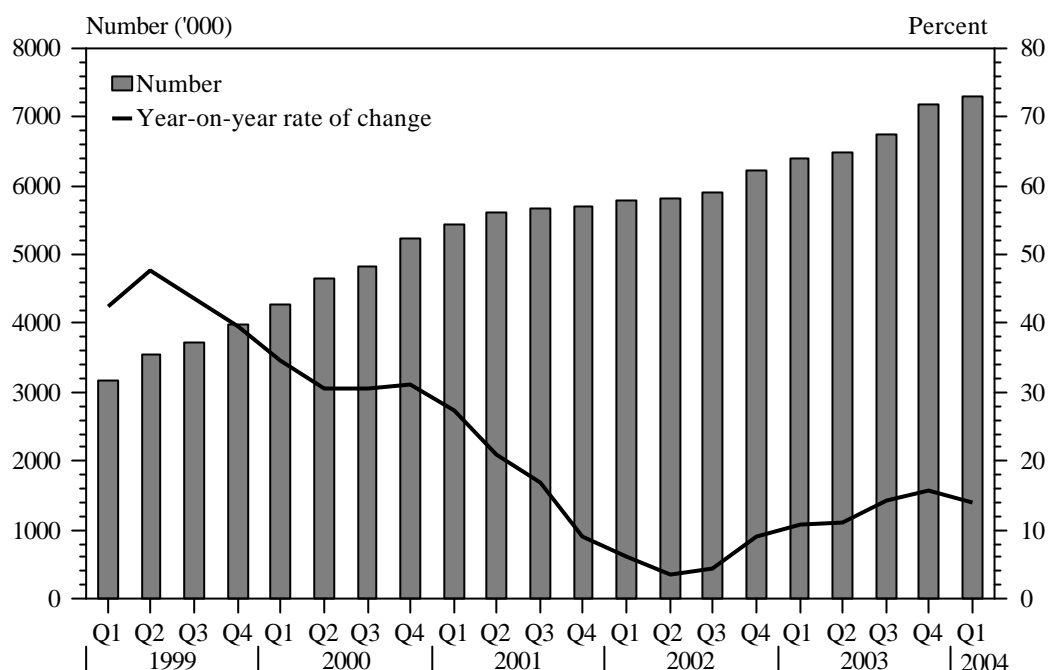
(*) Including access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.

3.45 In *wireless services*, the mobile phone segment expanded further. The number of mobile phone customers went up by 14% over a year earlier to 7.3 million at end-March 2004⁽¹³⁾. This corresponded to a mobile phone penetration rate of 107%, amongst the highest in the world. On the other hand, the paging segment continued to shrink, with the number of paging customers dropped by 7% from a year earlier to 176 300 at end-March 2004.

/Diagram 3.20

Diagram 3.20

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



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

Notes :

- (1) In August 2002, the Census and Statistics Department released a new data series on quarterly GDP by major economic sector at constant prices, backdated to the third quarter of 2000. This new GDP series, as compiled from the production approach, enables analysis to be done of the value added contributions of the various economic sectors in real terms, in regard to their trend and relative significance.
- (2) The service sectors comprise the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; finance, insurance, real estate and business services; and community, social and personal services. In respect of contribution to GDP, the service sectors also include ownership of premises, which is analytically a service activity. Fees for financial intermediation services are however deducted.
- (3) The Index of Industrial Production is intended to reflect the recent trend of net output in real terms in the various local manufacturing industries. Output from outward processing operations across the boundary is not included.

/(4)

- (4) The Home Assistance Loan Scheme (HALS) is administrated by the Housing Authority. Under HALS, the initial quota of assistance cases, set at 10 000, is equally split between Green Form applicants (including mainly existing public housing tenants and eligible applicants on the Waiting List of public rental housing) and White Form applicants (other applicants). A successful family applicant irrespective of category will be eligible for an interest-free loan at \$530,000 repayable by 13 years, or at \$390,000 repayable by 20 years, or else a monthly mortgage subsidy at \$3,800 lasting for four years. The corresponding amount of loan or subsidy for a successful singleton applicant will be halved.
- (5) These completions figures for new private residential flats exclude village-type housing units.
- (6) These building consents figures may include re-application cases and hence may contain a degree of double-counting.
- (7) The Government operates an Application System under the Land Sale Programme as from April 1999, whereby additional sites are set aside on an Application List for open application by property developers. Provided that the minimum price offered by the applicant is acceptable to the Government, the site involved can be released from the Application List for open auction or tender. This renders a flexible supply of Government land in response to market demand.
- (8) The new Application List consists of 17 sites, comprising 14 residential sites totalling about 10.5 hectares and three commercial/business sites totalling about 2.6 hectares. The residential sites are of different sizes and are modest in terms of resultant flat supply. If all sold, they will render altogether some 7 800 flats, with their estimated completion earliest in 2007.
- (9) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with the town planning and urban renewal objectives, modification of usage (including modification by way of land exchange) may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the difference in land value between the old and the new usage, is normally required for granting of the modification.

The figures reported here may include re-application cases and hence may contain a degree of double-counting.
- (10) These incubatees were admitted under the Incu-Tech Programme run by the Hong Kong Science & Technology Parks Corporation, so as to assist eligible technology start-up ventures in their vulnerable inception stage.
- (11) 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

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, Chazhou, Meizhou, Zhaoqing, Qingyuan and Yunfu, on 1 January 2004, and covered the entire Guangdong Province on 1 May 2004. The scheme will be further extended, from 1 July 2004, to residents of nine more cities. These will include Nanjing, Suzhou and Wuxi in Jiangsu Province; Hangzhou, Ningpo and Taizhou in Zhejiang Province; and Fuzhou, Xiamen and Quanzhou in Fujian Province.

- (12) This includes access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.

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

CHAPTER 4 : THE FINANCIAL SECTOR*

Overall financial market situation

4.1 The spot exchange rate of the Hong Kong dollar against the US dollar remained on the strong side of the linked rate of 7.8 during the first quarter of 2004. Reflecting sustained strong inflow of funds, the twelve-month Hong Kong dollar forward rate continued to trade at a relatively large discount over the spot rate. Meanwhile, the trade-weighted Nominal Effective Exchange Rate Index of the Hong Kong dollar declined further, reflecting largely the effect of the weaker US dollar. On the monetary aggregates, narrow money slowed down in growth, while broad money contracted moderately. Total Hong Kong dollar deposits with authorized institutions decreased mildly, with a reduction in time deposits more than offsetting the increases in demand deposits and savings deposits. But as Hong Kong dollar loans and advances fell to a lesser extent, the Hong Kong dollar loan to deposit ratio moved higher. The stock market remained on a rally in January and February 2004, underpinned by improved economic performance and the more active property market. It then retreated in March, amidst concerns about global security following the terrorist attack in Madrid and about the political stir-up in Taiwan. The Hang Seng Index, having reached a 35-month high at 13 928 on 18 February and stayed above the 13 000 level until early March, eased back to close at 12 682 at end-March.

Exchange rates

4.2 The spot exchange rate of the Hong Kong dollar against the US dollar eased back closer to the linked rate during the first quarter of 2004, from 7.763 to 7.796. Yet amidst strong inflow of funds and upward pressure from strengthening of the regional currencies, the discount of the twelve-month Hong Kong dollar forward rate over the spot rate narrowed only slightly from 595 pips (each pip equivalent to HK\$0.0001) at end-2003 to 560 pips at end-March 2004.

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

4.3 Under the linked exchange rate system⁽¹⁾, movements in the exchange rates of the Hong Kong dollar against other major currencies follow closely those in the US dollar. In the first two months of 2004, the US dollar weakened further against most of the other major currencies but then regained some ground in March. For the first quarter as a whole, the US dollar was little changed against the euro and the yen. Specifically, the dollar-euro rate edged lower by only 0.4% from 1.231 in December 2003 to 1.227 in March 2004, whereas the yen-dollar rate moved up modestly by 0.8% from 107.7 to 108.5. The pound sterling appreciated more against the US dollar, with the dollar-pound sterling rate rising by 4.2% from 1.753 to 1.828. Likewise, most of the major East Asian currencies rose against the US dollar.

4.4 Taking the various currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar fell by 0.5% from an average of 99.0 in December 2003 to that of 98.5 in March 2004. After adjusting for changes in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index of the Hong Kong dollar went down by about 1.3% from an average of 86.4 to that of 85.3 over the same period.

/Table 4.1

Table 4.1

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

Average for the month		Trade-weighted Nominal EERI ^(a) (Jan 2000 = 100)		Trade-weighted Real EERI ^(b) (Jan 2000 = 100)	
2003	Mar	101.8	(-0.9)	91.8	(-1.6)
	Jun	100.6	(-1.2)	89.2	(-2.8)
	Sep	100.6	(0.1)	87.9	(-1.4)
	Dec	99.0	(-1.6)	86.4	(-1.7)
2004	Mar	98.5	(-0.5)	85.3	(-1.3)

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

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

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

- (b) The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.
- () % change over three months earlier. Positive change in the EERI denotes appreciation of the Hong Kong dollar; whereas negative change in the EERI denotes depreciation.

/Diagram 4.1

Diagram 4.1

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

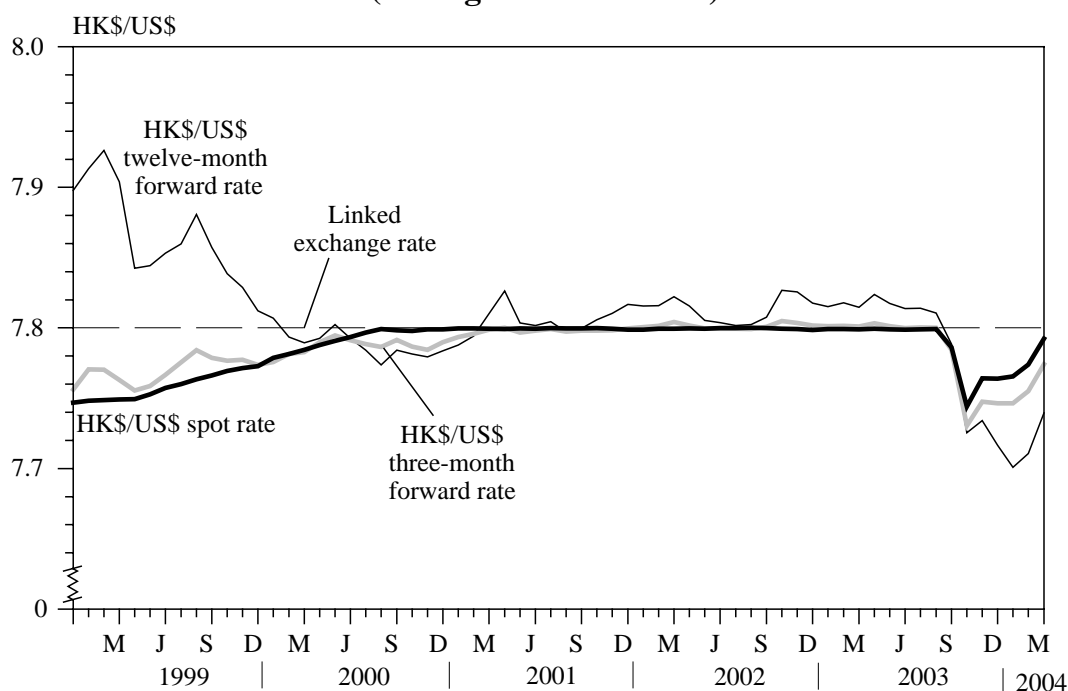
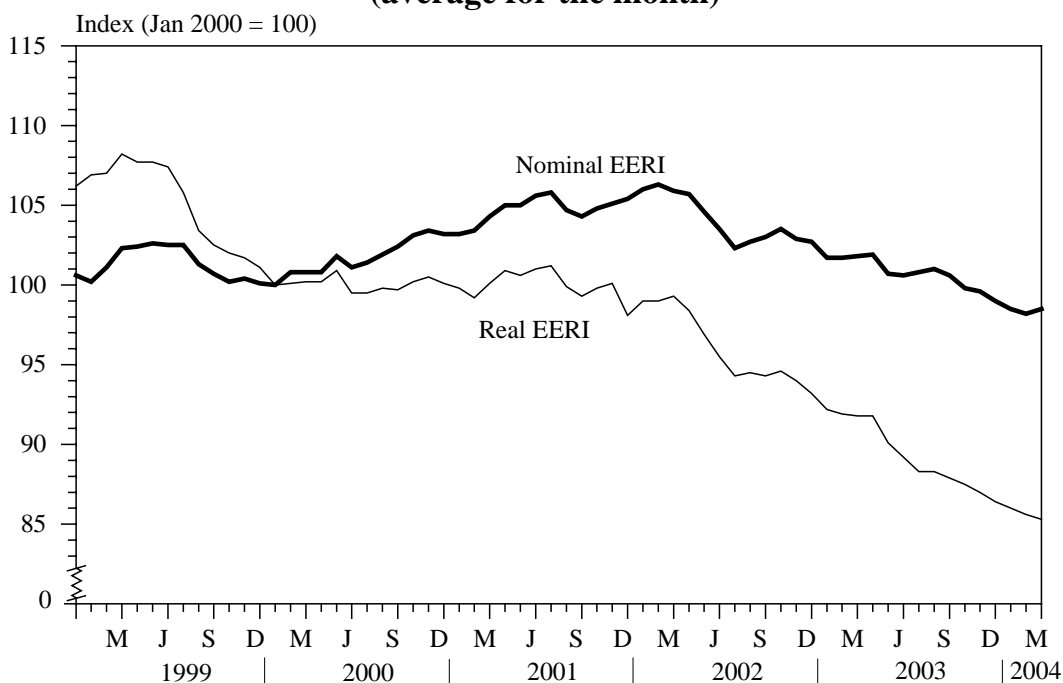


Diagram 4.2

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



Note : See the footnotes to Table 4.1.

Interest rates

4.5 The three-month HIBOR stayed below 0.1% almost throughout the first quarter of 2004, amidst ample liquidity in the banking system. At end-March 2004, the three-month HIBOR was at a discount of 99 basis points against the corresponding Euro-dollar deposit rate, compared to that of 104 basis points at end-2003.

4.6 The other key interest rates displayed little movement during the first quarter of 2004. The Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) remained intact at 2.5%, as did the best lending rate at 5.00%. The savings deposit rate offered by the major commercial banks edged down to almost zero at the end of the quarter, from an already meagre 0.01% at end-2003. The spread of the best lending rate over the three-month time deposit rate thus widened marginally, from an average of 4.98 percentage points in the fourth quarter of 2003 to that of 4.99 percentage points in the first quarter of 2004.

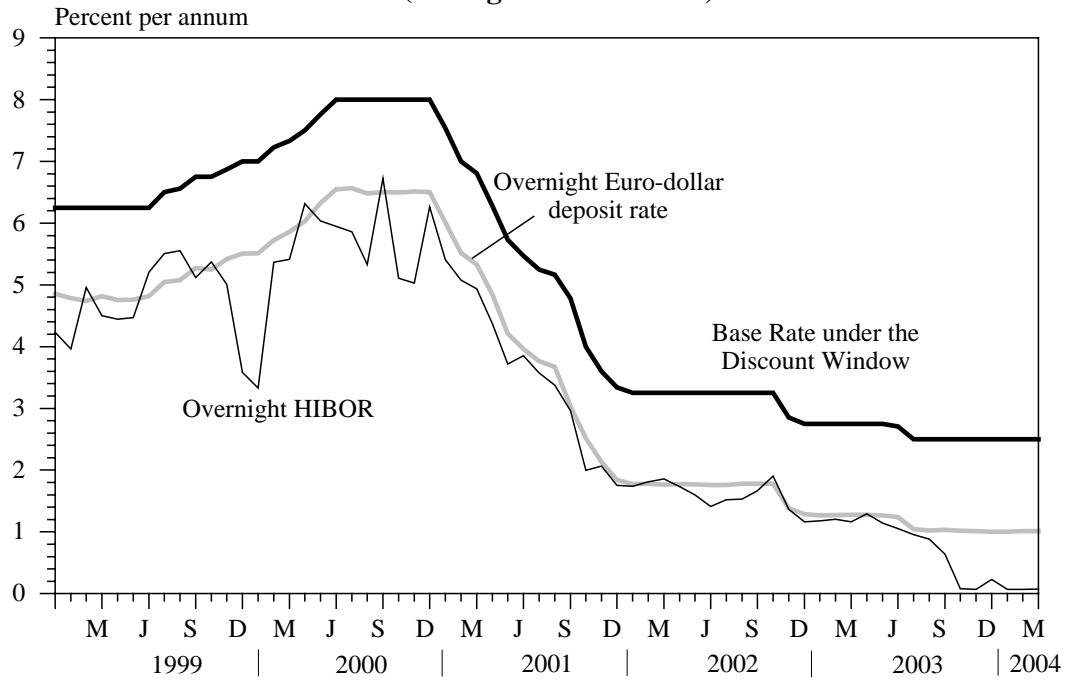
4.7 As to interest rate on residential mortgages, 63.8% of the new mortgages were granted at more than 2.5 percentage points below the best lending rate in March 2004, as against the share of 65.5% in December 2003⁽³⁾. Meanwhile, the proportion of new approvals priced other than with reference to the best lending rate (primarily fixed rate mortgages) rose appreciably, from 3.2% to 12.6%.

/Diagram 4.3

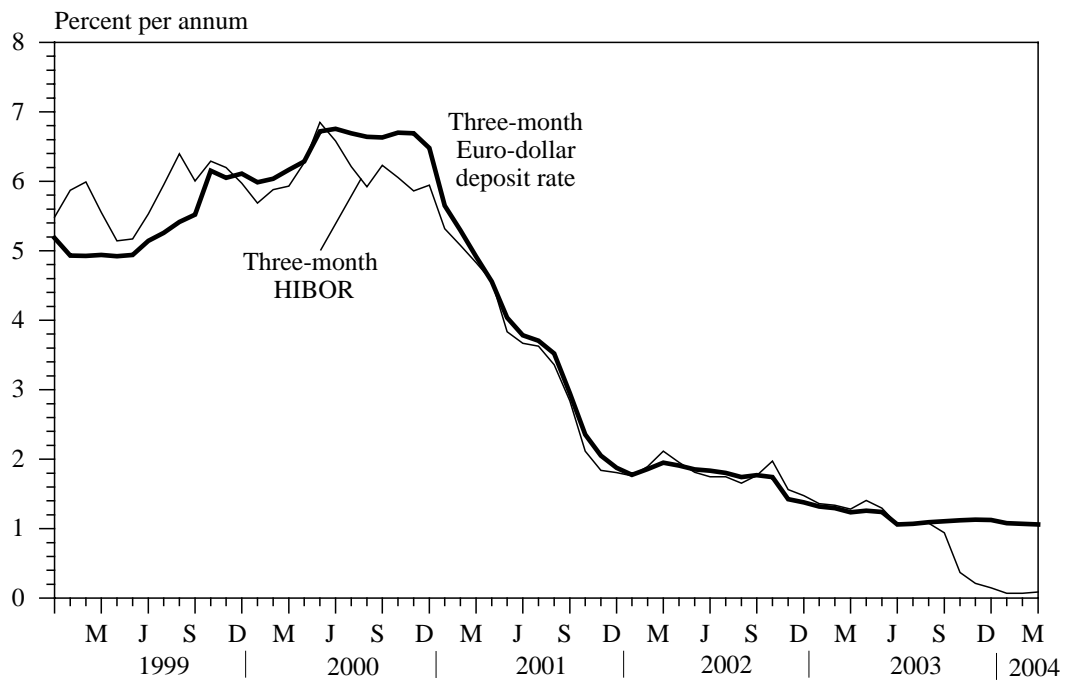
Diagram 4.3

Interest rates

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



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



/Diagram 4.3 (cont'd)

Diagram 4.3 (cont'd)

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

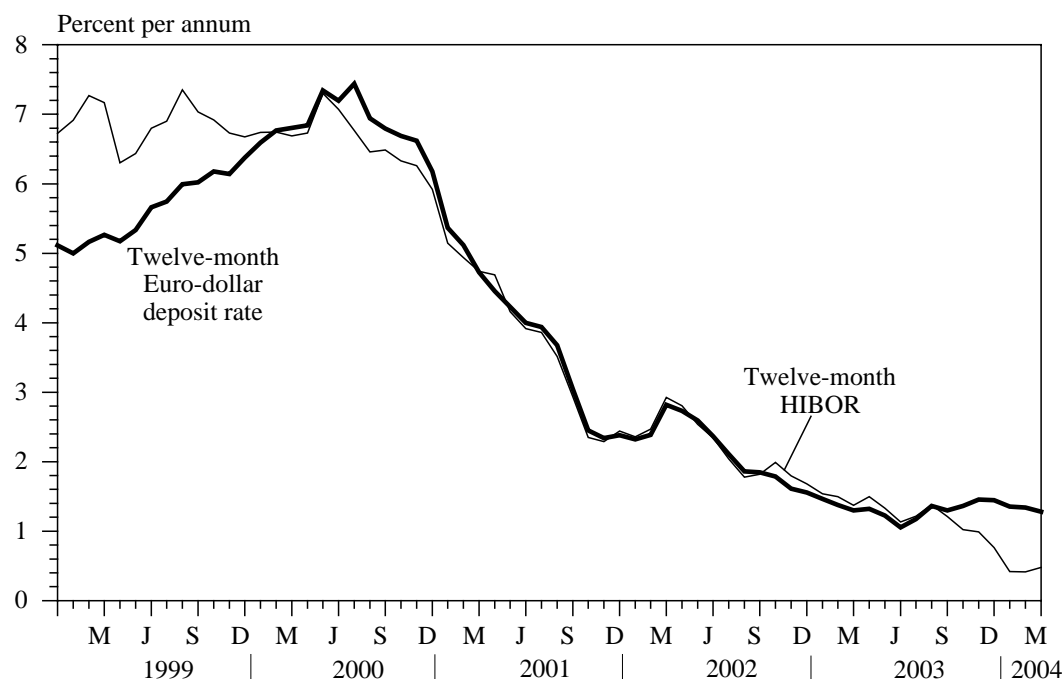


Table 4.2

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

Average for the month		Overnight HIBOR		Three-month HIBOR		Twelve-month HIBOR	
2003	Mar	1.17	(-11)	1.28	(5)	1.37	(7)
	Jun	1.06	(-18)	1.06	(1)	1.13	(8)
	Sep	0.64	(-39)	0.94	(-16)	1.21	(-9)
	Dec	0.23	(-77)	0.15	(-98)	0.76	(-68)
2004	Jan	0.07	(-93)	0.07	(-101)	0.42	(-94)
	Feb	0.07	(-94)	0.07	(-100)	0.41	(-93)
	Mar	0.08	(-94)	0.09	(-97)	0.48	(-80)

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

/Table 4.3

Table 4.3

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

		<u>Interest rates on time deposits below HK\$100,000</u>					<u>Savings deposit rate</u>	<u>Best lending rate</u>
<u>Average for the month</u>		<u>One- week</u>	<u>One- month</u>	<u>Three- month</u>	<u>Six- month</u>	<u>Twelve- month</u>		
2003	Mar	0.08	0.09	0.09	0.12	0.17	0.03	5.00
	Jun	0.08	0.08	0.08	0.09	0.10	0.03	5.00
	Sep	0.07	0.07	0.07	0.08	0.10	0.03	5.00
	Dec	0.01	0.01	0.02	0.03	0.04	0.01	5.00
2004	Jan	*	0.01	0.01	0.02	0.03	0.01	5.00
	Feb	*	*	*	0.01	0.03	*	5.00
	Mar	*	*	0.01	0.02	0.04	*	5.00

Note : (*) Less than 0.005% per annum.

Deposits and money supply

4.8 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)⁽⁴⁾ shrank by 2.3% during the first quarter of 2004 to \$1,887 billion at end-March, having expanded for three quarters in a row. This partly reflected a shift out of Hong Kong dollar related to the IPO-proceeds. On a year-on-year comparison, Hong Kong dollar deposits nevertheless still went up by 4.6%. At the end of March 2004, Hong Kong dollar deposits constituted 53.1% of total deposits, as compared to the proportion of 54.1% at end-2003.

4.9 Within the total Hong Kong dollar deposits, demand and savings deposits continued to increase, by 7.1% and 3.4% respectively during the first quarter of 2004 to \$243 billion and \$968 billion at end-March. These came after the surges of 28.9% and 20.9% during the fourth quarter of 2003. As to time deposits, there was a reduction of 11.9% during the first quarter of 2004 to \$676 billion at end-March, further to the 17.9% drop during the fourth quarter of 2003. On a year-on-year comparison, both demand and savings deposits increased markedly by 71.2% and 40.4% respectively at end-March 2004, whereas time deposits contracted visibly by 30.5%.

/Table 4.4

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

	<u>% change during the quarter</u>	<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u> ^{(a)(b)}	<u>Total Hong Kong dollar deposits</u> ^(a)
2003	Q1	-2.9	2.2	-3.2	-1.2
	Q2	10.7	6.6	-2.3	2.1
	Q3	12.0	5.4	-1.6	2.4
	Q4	28.9	20.9	-17.9	2.4
2004	Q1	7.1	3.4	-11.9	-2.3
Total amount at the end of March 2004 (HK\$Bn)		243	968	676	1,887
% change over a year earlier		71.2	40.4	-30.5	4.6

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

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

4.10 Total foreign currency deposits (adjusted to exclude foreign currency swap deposits) stayed on an uptrend, increasing by 2.0% during the first quarter of 2004 to \$1,669 billion at end-March, although this was lesser than the 5.7% gain during the fourth quarter of 2003. The moderation occurred entirely in the US dollar deposits, which reverted to a decrease of 2.3% from an increase of 6.2% between the two periods. This outweighed the effect of an accelerated growth in non-US dollar deposits, from 4.8% to 11.1%. On a year-on-year comparison, US dollar deposits and non-US dollar deposits both registered increases, by 9.3% and 19.9% respectively at end-March 2004, thereby giving a 12.8% rise for total foreign currency deposits.

/Table 4.5

Table 4.5

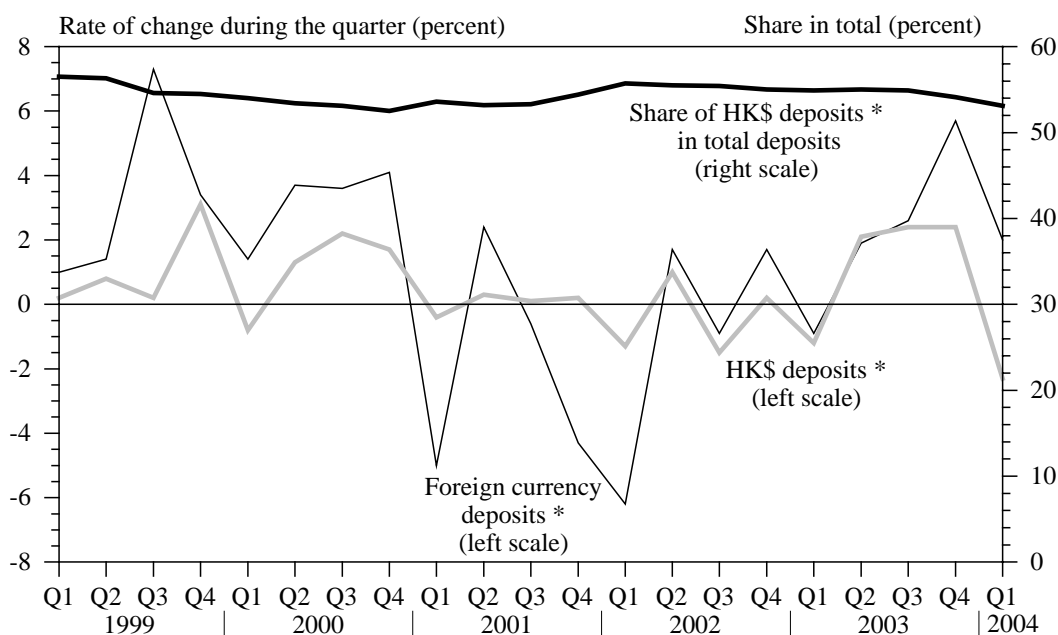
Foreign currency deposits with authorized institutions

% change during the quarter		US\$ deposits ^(a)	Non-US\$ deposits ^(a)	Total foreign currency deposits ^(a)
2003	Q1	-2.1	1.7	-0.9
	Q2	4.0	-2.1	1.9
	Q3	1.3	5.3	2.6
	Q4	6.2	4.8	5.7
2004	Q1	-2.3	11.1	2.0
Total amount at the end of March 2004 (HK\$Bn)		1,084	585	1,669
% change over a year earlier		9.3	19.9	12.8

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

Diagram 4.4

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



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

/4.11

4.11 Taking Hong Kong dollar deposits and foreign currency deposits together, total deposits with authorized institutions were reduced by 0.3% during the first quarter of 2004 to \$3,556 billion at end-March, reversing a 3.9% gain during the fourth quarter of 2003. This was attributable to reductions in deposits with licensed banks and deposit-taking companies by 0.3% and 0.2% respectively, which more than offset an increase of 3.7% in deposits with restricted licensed banks. Notwithstanding the latest decline, deposits with licensed banks still constituted the lion's share in overall deposits, at 98.7% at end-March 2004. On a year-on-year comparison, total deposits with authorized institutions were up by 8.3% at end-March 2004. The increase occurred entirely in licensed banks and restricted licence banks, with which deposits rose by 8.2% and 16.8% respectively. On the other hand, deposits with deposit-taking companies dropped by 10.7%.

Table 4.6

Total deposits by major type of authorized institution

		<u>With licensed banks</u>				<u>With restricted licence banks</u>	<u>With deposit-taking companies</u>	
<u>% change during the quarter</u>		<u>Demand deposits</u>	<u>Savings deposits</u>	<u>Time deposits</u>	<u>Sub-total</u>	<u>Time deposits</u>	<u>Time deposits</u>	<u>Total</u>
2003	Q1	-0.6	3.3	-2.9	-1.0	-5.5	-7.0	-1.0
	Q2	11.0	5.5	-0.4	2.0	4.6	0.9	2.0
	Q3	12.4	6.4	-0.4	2.5	-2.8	-5.4	2.5
	Q4	26.2	16.3	-5.2	3.8	10.7	-6.2	3.9
2004	Q1	6.1	3.6	-3.8	-0.3	3.7	-0.2	-0.3
Total amount at the end of March 2004 (HK\$Bn)		303	1,323	1,886	3,512	40	5	3,556
% change over a year earlier		67.1	35.3	-9.6	8.2	16.8	-10.7	8.3

/4.12

4.12 On monetary aggregates, narrow money slackened in growth, while broad money contracted. HK\$M1⁽⁵⁾, as an indicator of narrow money supply, went up by 6.1% during the first quarter of 2004 to \$376 billion at end-March, though smaller than the 18.6% leap during the fourth quarter of 2003. On a seasonally adjusted basis⁽⁶⁾, HK\$M1 grew by 11.0% during the first quarter of 2004, also slower than the 12.8% rise during the fourth quarter of 2003. As to broad monetary aggregates, HK\$M2 and HK\$M3 shrank by 1.8% each during the first quarter of 2004 to \$2,069 billion and \$2,085 billion respectively at end-March, which contrasted with increases of 2.5% and 2.4% during the fourth quarter of 2003. This was attributable in part to a shift out of Hong Kong dollar related to the IPO-proceeds. On a year-on-year comparison, HK\$M1 surged by 44.5% at end-March 2004, while HK\$M2 and HK\$M3 had more moderate growth by 5.1% and 4.8% respectively.

Table 4.7

Hong Kong dollar money supply and total money supply

% change during the quarter	<u>M1</u>		<u>M2</u>		<u>M3</u>	
	HK\$	Total	HK\$ ^(a)	Total	HK\$ ^(a)	Total
2003 Q1	0.4 (3.9)	1.4	-0.8	-0.3	-0.8	-0.4
Q2	6.4 (8.2)	7.1	2.2	2.2	2.1	2.2
Q3	7.9 (7.1)	8.7	2.2	2.4	2.0	2.4
Q4	18.6 (12.8)	18.4	2.5	3.9	2.4	3.9
2004 Q1	6.1 (11.0)	5.5	-1.8	*	-1.8	*
Total amount at the end of March 2004 (HK\$Bn)	376 (379)	436	2,069	3,812	2,085	3,859
% change over a year earlier	44.5 (45.1)	45.5	5.1	8.7	4.8	8.7

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

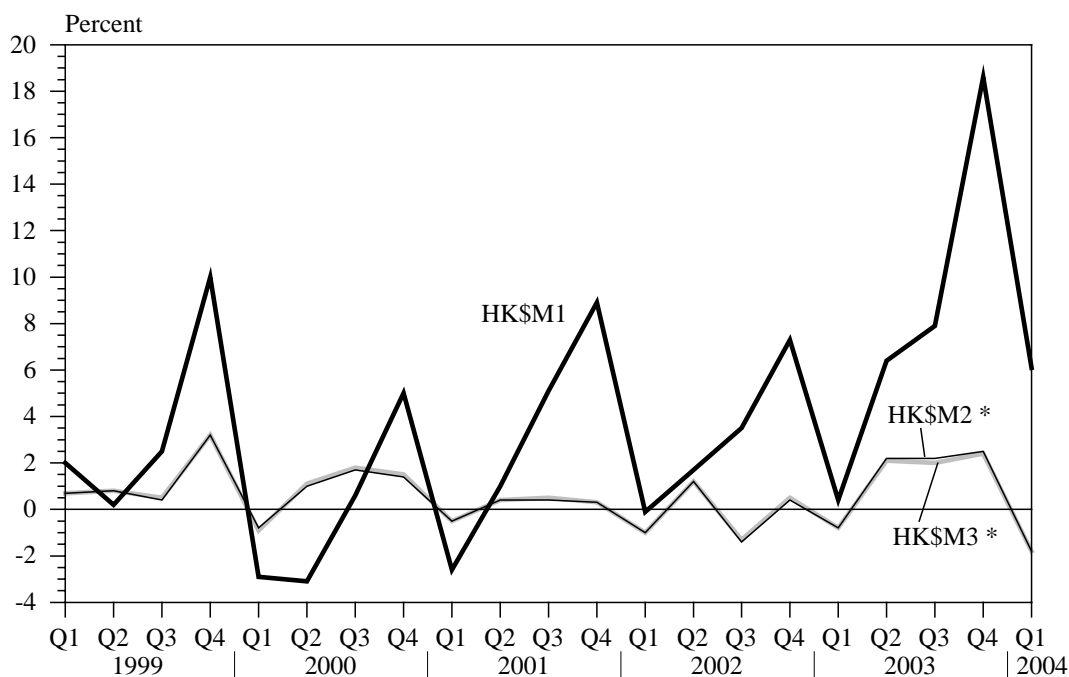
(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

/Diagram 4.5

Diagram 4.5

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



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

Hong Kong dollar external claims and liabilities of authorized institutions

4.13 Hong Kong dollar claims held by Hong Kong's authorized institutions on banks outside Hong Kong rose further by 6.6% over end-2003 to \$284.6 billion at end-February 2004, giving a 46.1% gain over a year earlier. On the other hand, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks outside Hong Kong declined by 1.9% from end-2003 to \$154.6 billion at end-February 2004, though still up by 5.3% over a year earlier. Taken together, Hong Kong's authorized institutions had net Hong Kong dollar claims against banks abroad, amounting to \$130.0 billion at end-February 2004, exceeding those of \$109.3 billion at end-2003.

/4.14

4.14 On the external position vis-à-vis banks in the Mainland, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland continued to be prominent, accounting for 43.4% of the total Hong Kong dollar liabilities to banks abroad at end-February 2004. These liabilities went up by 1.3% over end-2003 to \$67.1 billion at end-February 2004. As to Hong Kong dollar claims held by Hong Kong's authorized institutions on banks in the Mainland, they had a much smaller share of 6.9% in the total Hong Kong dollar claims on banks abroad. These claims were down by 12.7% over end-2003 to \$19.5 billion at end-February 2004. As a result, Hong Kong's authorized institutions had net Hong Kong dollar liabilities to banks in the Mainland, amounting to \$47.6 billion at end-February 2004, as against those of \$43.9 billion at end-2003.

Table 4.8

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

As at the <u>end of</u>	Claims on banks <u>outside Hong Kong</u> (HK\$Bn)				Liabilities to banks <u>outside Hong Kong</u> (HK\$Bn)				Net liabilities to banks <u>outside Hong Kong</u> (HK\$Bn)	
	<u>Overall</u>		<u>Involving banks in the Mainland</u>		<u>Overall</u>		<u>Involving banks in the Mainland</u>		<u>Overall</u>	<u>Involving banks in the Mainland</u>
2003 Q1	202.4	(9.0)	21.9	(6.4)	149.8	(-7.1)	62.2	(-15.4)	-52.5	40.3
Q2	228.4	(12.9)	23.0	(4.6)	140.3	(-6.3)	54.9	(-11.7)	-88.1	32.0
Q3	259.4	(13.6)	23.8	(3.8)	138.4	(-1.4)	52.2	(-4.9)	-121.0	28.4
Q4	267.0	(2.9)	22.4	(-6.1)	157.7	(13.9)	66.3	(26.9)	-109.3	43.9
2004 Jan	277.6	(4.0)	19.4	(-13.4)	170.5	(8.2)	74.0	(11.7)	-107.1	54.6
Feb	284.6	(2.5)	19.5	(0.8)	154.6	(-9.3)	67.1	(-9.3)	-130.0	47.6
		<46.1>		<-6.7>		<5.3>		<9.9>		

Notes : () % change during the period.

< > % change over a year earlier.

/Loans

Loans and advances

4.15 Total loans and advances increased by only 0.3% during the first quarter of 2004 to \$2,041 billion at end-March, lesser than the 0.9% rise during the fourth quarter of 2003. Apart from a marginal decrease in Hong Kong dollar loans by 0.1%, there was a moderation in growth of foreign currency loans by 1.8%. On a year-on-year comparison, total loans and advances were reduced by 0.9% at end-March 2004. Within the total, Hong Kong dollar loans fell by 2.4%, whereas foreign currency loans rose by 4.5%.

Table 4.9

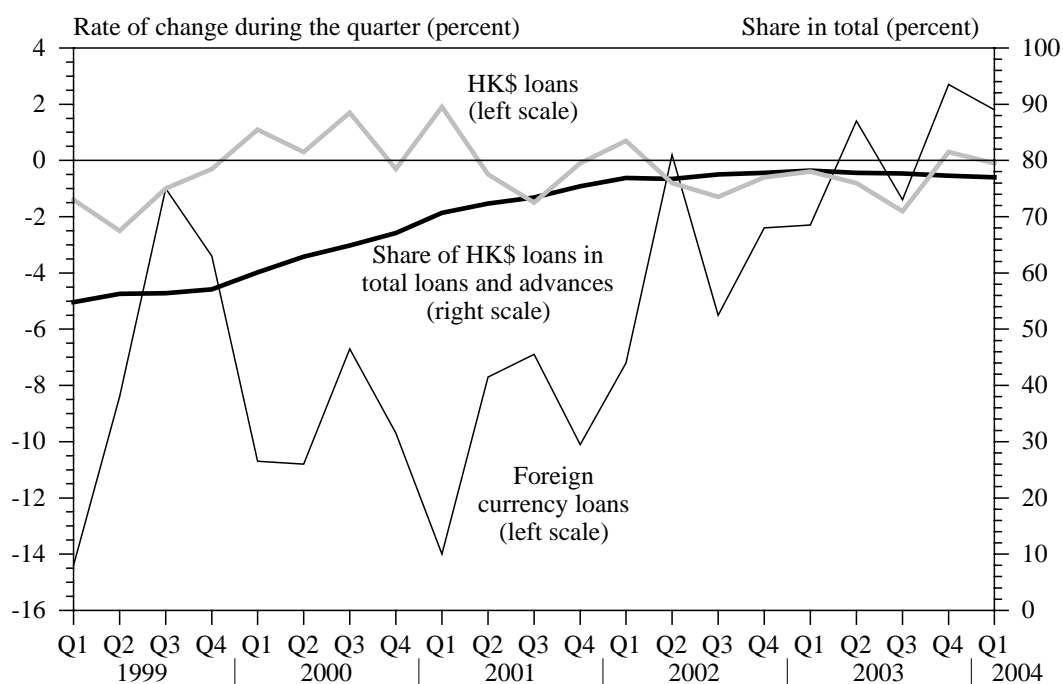
Loans and advances by currency denomination

<u>% change during the quarter</u>		<u>Hong Kong dollar loans</u>	<u>Foreign currency loans</u>	<u>Total loans and advances</u>
2003	Q1	-0.4	-2.3	-0.8
	Q2	-0.8	1.4	-0.3
	Q3	-1.8	-1.4	-1.7
	Q4	0.3	2.7	0.9
2004	Q1	-0.1	1.8	0.3
Total amount at the end of March 2004 (HK\$Bn)		1,571	470	2,041
% change over a year earlier		-2.4	4.5	-0.9

/Diagram 4.6

Diagram 4.6

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



4.16 With Hong Kong dollar loans having a smaller decrease than Hong Kong dollar deposits during the first quarter, the Hong Kong dollar loan-to-deposit ratio moved up from 81.5% at end-2003 to 83.3% at end-March 2004.

Table 4.10

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

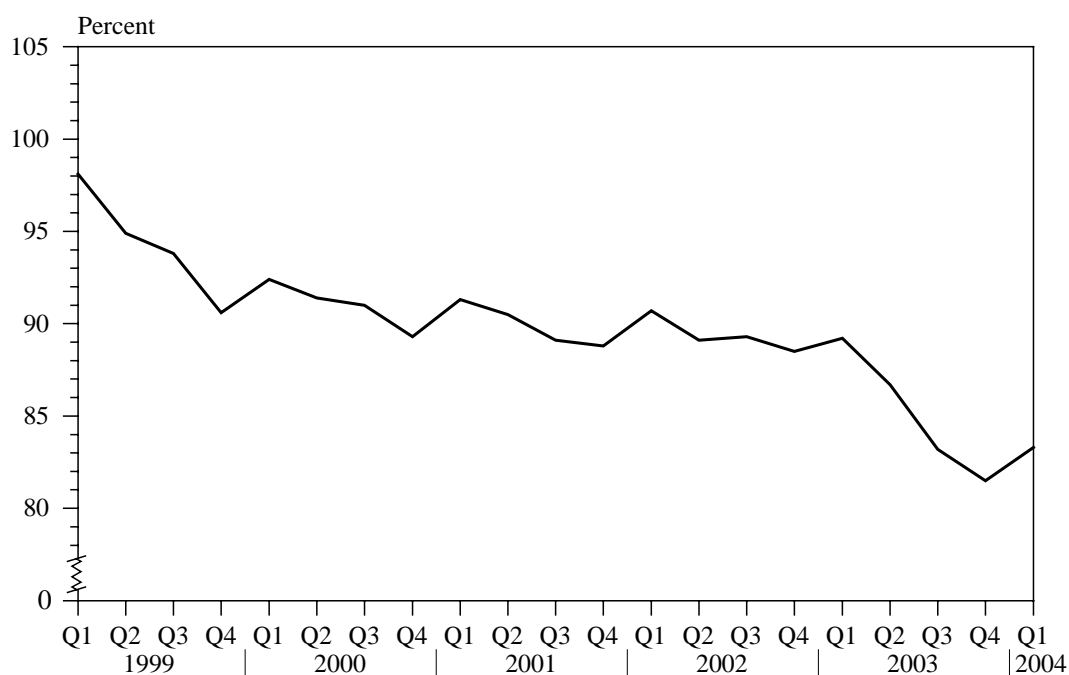
<u>As at the end of</u>	<u>%</u>
2003 Q1	89.2
Q2	86.7
Q3	83.2
Q4	81.5
2004 Q1	83.3

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

/Diagram 4.7

Diagram 4.7

Hong Kong dollar loan-to-deposit ratio*



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

4.17 Analysed by place of usage, loans for use in Hong Kong edged up further by 0.3% during the first quarter of 2004, having increased by 0.9% during the fourth quarter of 2003. Loans for use outside Hong Kong also expanded modestly in the two periods, by 0.2% after 0.4%. These two types of loans amounted to \$1,814 billion and \$227 billion respectively at end-March 2004. On a year-on-year comparison, loans for use in Hong Kong and loans for use outside Hong Kong however contracted by 0.6% and 3.2% respectively.

/Table 4.11

Table 4.11

Loans and advances by place of usage

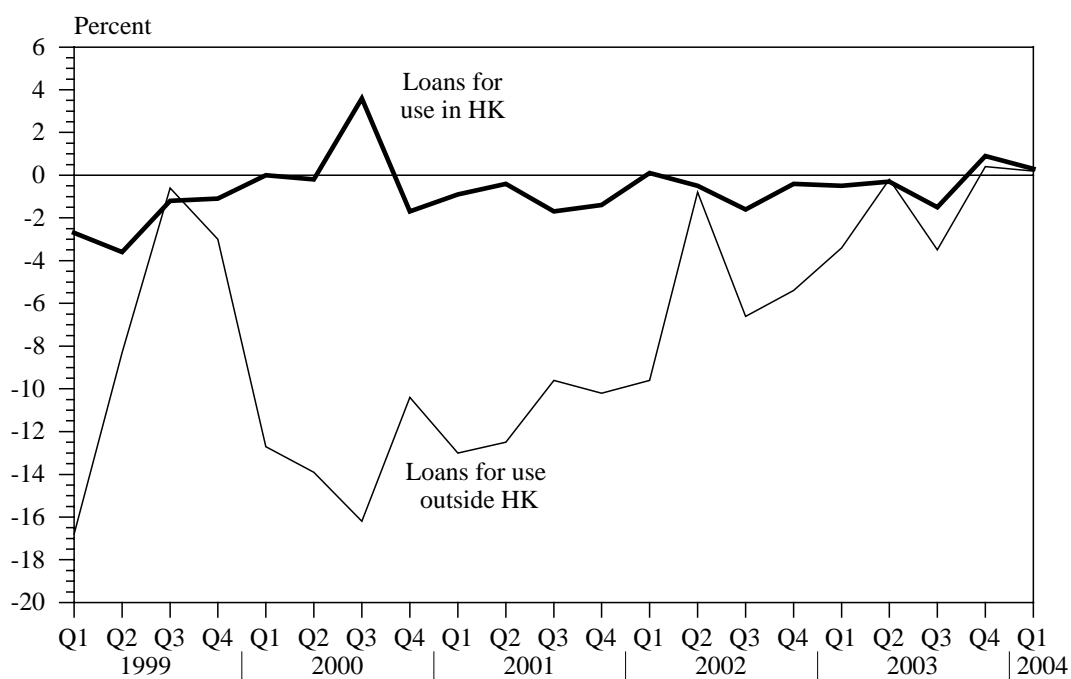
% change during the quarter		Loans for use in Hong Kong ^(a)	Loans for use outside Hong Kong ^(b)
2003	Q1	-0.5	-3.4
	Q2	-0.3	-0.2
	Q3	-1.5	-3.5
	Q4	0.9	0.4
2004	Q1	0.3	0.2
Total amount at the end of March 2004 (HK\$Bn)		1,814	227
% change over a year earlier		-0.6	-3.2

Notes : (a) Including trade financing loans.

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

Diagram 4.8

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



/4.18

4.18 Analysed by major usage, loans for financing visible trade and loans to the manufacturing sector grew by 6.4% and 3.5% respectively during the first quarter of 2004, reflecting strong credit demand from trading and manufacturing firms amidst continued buoyancy in external trade. Loans to stockbrokers and financial concerns also rose, by 6.0% and 4.3% respectively, along with an upsurge in stock market activity in that quarter. Loans to the wholesale and retail trades bounced up by 2.5%, underpinned by continued revival in local consumer spending and surge in inbound tourism. Loans for purchase of residential property edged higher by 0.1%, reversing the downtrend seen in the preceding six consecutive quarters. The rebound in property market activity in terms of both trading volume and value largely contributed. On the other hand, loans for building, construction, property development and property investment continued to decline, by 1.4%, as work on major construction projects stayed at a relatively low level.

Table 4.12

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

		Loans to :							
		Finance	Manu-	Whole-	Building,	Purchase	Financial	Stock-	Others
		visible	facturing	sale	construction,	resi-	concerns	brokers	
		trade	sector	and	property	dential			
				retail	develop-	property			
				trades	ment and	investment ^(b)			
% change	during								
the	the								
quarter	quarter								
2003	Q1	2.2	1.7	2.3	-0.3	-1.3	0.1	4.2	-1.1
	Q2	6.2	4.9	-0.5	-1.3	-1.4	2.8	-5.5	-0.5
	Q3	-1.5	3.1	-5.4	-2.2	-1.0	7.3	10.0	-4.3
	Q4	3.0	3.1	-3.1	-1.1	-0.3	5.8	12.3	2.7
2004	Q1	6.4	3.5	2.5	-1.4	0.1	4.3	6.0	-4.5
Total amount		107	85	98	355	617	153	11	389
at the end of									
March 2004									
(HK\$Bn)									
% change		14.7	15.5	-6.5	-5.9	-2.6	21.7	23.7	-6.7
over a year									
earlier									

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

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

/4.19

4.19 The quality of assets held by the local banking sector improved notably, in tandem with the economic recovery. The ratio of non-performing loans to total loans fell from 3.61% at end-September 2003 to 3.16% at end-2003. Likewise, the ratio of classified loans to total loans moved lower, from 4.59% to 3.91%, as did the ratio of overdue and rescheduled loans to total loans, from 3.58% to 2.83%⁽⁷⁾. Amongst the various types of loans, the delinquency ratio of residential mortgage loans went down from 1.05% to 0.86%, while arrears for over three months in credit card repayment also declined, from 1.23% to 0.92%. In overall terms, the local banks remained well capitalised, with their consolidated capital adequacy ratio averaging 15.4% at end-2003, significantly above the standard set by the Bank for International Settlements.

Banks and other deposit-taking institutions

4.20 The number of licensed banks in Hong Kong increased by two during the first quarter of 2004 to 136 at end-March. Concurrently, the number of restricted licence banks and deposit-taking companies stayed unchanged at 42 and 39 respectively. Altogether, 217 authorized institutions (excluding representative offices) from 32 countries and territories had a presence in Hong Kong. Their total assets went up by 11.7% over a year earlier to \$6,673 billion at end-March 2004.

4.21 On 18 November 2003, the Government announced that the People's Bank of China had agreed to provide clearing arrangements for personal renminbi business in Hong Kong. The scope of business initially covers deposit-taking, exchange, remittances and renminbi cards. This should help promote even closer economic interface between Hong Kong and the Mainland, and facilitate cross-boundary visitor spending. Also, banks in Hong Kong will be able to develop new areas of business, thereby adding to the dimension of Hong Kong and the overall attractiveness of Hong Kong as an international financial centre. From 18 January 2004 onwards, Mainland debit/credit cards are allowed to be used in Hong Kong. While the preparatory work on issue of renminbi credit cards was completed in April, the exact time of launching these cards will depend on the timelines of individual banks. As from 25 February, there are 39 banks in Hong Kong providing renminbi deposit-taking, exchange and remittance business. At end-April, total outstanding renminbi deposits amounted to some RMB 6 billion.

/4.22

4.22 On enhancing deposit protection in Hong Kong, the Deposit Protection Scheme Ordinance was enacted by the Legislative Council on 5 May 2004. Given the time needed for preparatory work, the scheme is expected to start providing deposit protection in around 2006.

4.23 To help address the issue of increases in consumer credit defaults and personal bankruptcies, the revised Code of Practice on Consumer Credit Data has become effective as from 2 June 2003. As another initiative to facilitate credit assessment and maintain soundness of the local banking sector, a plan to establish a commercial credit reference agency (CCRA) was announced on 16 June 2003. CCRA is expected to collect credit data of small and medium-sized enterprises and make such data available to the authorized institutions. To safeguard confidentiality of the data held by CCRA, HKMA will issue a supervisory guideline to set out the minimum standards that authorized institutions have to observe in respect of sharing and use of the commercial credit data. The draft guideline is currently under consultation. It is expected that real data upload to the CCRA will start by the end of September 2004.

Insurance

4.24 The number of authorized insurers in Hong Kong stood at 188 at end-March 2004, the same as that at end-2003. Within this total, 46 were engaged in long-term insurance business, 123 in general insurance business, and 19 in composite insurance business. Taken together, 188 authorized insurers from 24 countries and territories maintained a presence in Hong Kong. Backed by sustained growth in life insurance business, the value of business receipts in the insurance industry went up by 15.5% in the fourth quarter of 2003 over a year earlier, after a 25.4% gain in the third quarter. For 2003 as a whole, the increase averaged 19.1%.

/The

The debt market

4.25 In the first quarter of 2004, a total of 28 issues of Exchange Fund paper were launched by HKMA to replace the earlier issues upon their maturity⁽⁸⁾. The total market value of Exchange Fund paper outstanding rose slightly by 0.4% to \$120.6 billion at end-March. Market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 7.1 times in the first quarter of 2004, up from 6.4 times in the fourth quarter of 2003. Trading in Exchange Fund paper was still active, with the daily turnover averaging \$14.4 billion in the first quarter of 2004, broadly similar to that of \$14.8 billion in the fourth quarter of 2003. The yield of the five-year Exchange Fund Notes remained below that of the corresponding US Treasuries, yet with the difference widening from 6 basis points below at end-2003 to 16 basis points below at end-March 2004.

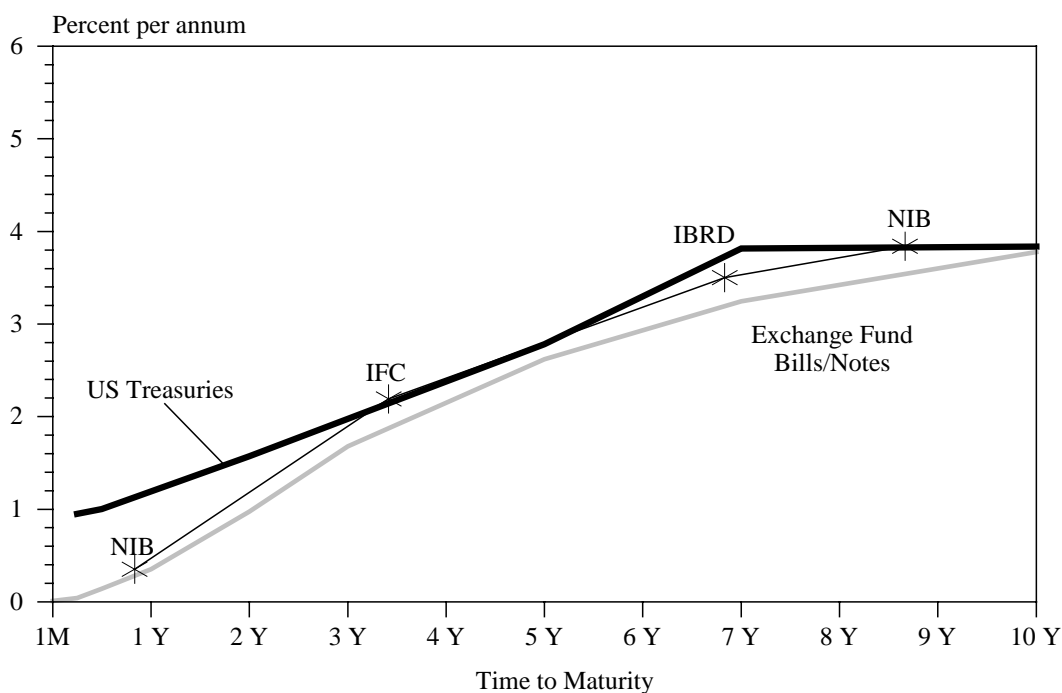
Table 4.13

Exchange Fund Bills and Notes issued by HKMA

		<u>Amount outstanding as at the end of the quarter</u> (HK\$Bn)	<u>Average daily turnover in the quarter</u> (HK\$Bn)
2003	Q1	118.2	27.8
	Q2	119.0	23.8
	Q3	119.7	16.7
	Q4	120.2	14.8
2004	Q1	120.6	14.4

/Diagram 4.9

Diagram 4.9
Hong Kong dollar and US dollar yield curves
(as at the end of March 2004)



Note : AAA Hong Kong dollar debt issuers

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

4.26 The Hong Kong Mortgage Corporation (HKMC) is one of the major issuers of debt securities in Hong Kong. In the first quarter of 2004, \$6.9 billion worth of HKMC debt paper was launched. At end-March, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$3.0 billion, and that under its Debt Issuance Programme amounted to \$29.4 billion. In addition, retail bonds were issued by HKMC, with the outstanding value totalling \$7.3 billion at end-March.

/4.27

4.27 In the first quarter of 2004, the value of negotiable certificates of deposit (NCDs) launched was \$10.7 billion, less than that of \$24.2 billion in the fourth quarter of 2003. Of the new issuance of NCDs in the first quarter of 2004, \$6.2 billion was denominated in Hong Kong dollar, also down from that of \$17.3 billion in the preceding quarter. On NCDs outstanding, the total amount was \$236.5 billion at end-March 2004, of which \$128.7 billion was denominated in Hong Kong dollar. These were again smaller than the corresponding amounts of \$242.3 billion and \$132.3 billion at end-2003. Over the same period, the proportion of Hong Kong dollar-denominated NCDs held by the local banking sector fell from 51.5% to 49.9%.

Table 4.14

NCDs issued by authorized institutions in Hong Kong

As at the <u>end of</u>		<u>Issued and outstanding</u> (HK\$Bn)		<u>Held by authorized institutions</u> (HK\$Bn)		<u>Held outside the local banking sector</u> (HK\$Bn)	
		<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>	<u>In HK\$</u>	<u>Total</u>
2003	Q1	140.6	229.5	74.0	83.1	66.6	146.4
	Q2	139.5	234.7	70.6	79.2	69.0	155.5
	Q3	130.1	232.8	66.7	76.7	63.4	156.1
	Q4	132.3	242.3	68.1	79.1	64.2	163.2
2004	Q1	128.7	236.5	64.2	67.4	64.4	169.0

/4.28

4.28 In the first quarter of 2004, 204 new issues of other Hong Kong dollar debt instruments, worth \$35.4 billion, were launched by the private sector. These were distinctly larger than the corresponding figures of 162 new issues and \$24.0 billion in the fourth quarter of 2003. Partly reflecting risk aversion by debt issuers against potential interest rate volatility, the issuance of fixed rate bonds by the private sector in the first quarter of 2004, at \$30.9 billion, continued to exceed that of floating rate notes, at \$4.5 billion. At end-March 2004, the total outstanding value of Hong Kong dollar fixed rate bonds and floating rate notes issued by the private sector amounted to \$233.9 billion and \$79.1 billion respectively, adding up to \$313.1 billion⁽⁹⁾. The corresponding figures at end-2003 were \$218.4 billion, \$82.5 billion and \$300.9 billion. Furthermore, there were four new issues of Hong Kong dollar debt paper by multilateral agencies in the first quarter of 2004, totalling \$1.4 billion, as against only one issue amounting to \$0.2 billion in the fourth quarter of 2003.

4.29 Taking the public sector and the private sector together, the total value of Hong Kong dollar debt paper outstanding amounted to \$568.9 billion at end-March 2004⁽¹⁰⁾, up from \$557.8 billion at end-2003. The size of the Hong Kong dollar debt market corresponded to 27.3% of HK\$M3, or 20.0% of the Hong Kong dollar-denominated assets of the entire banking sector.

The stock, futures and gold markets

4.30 The local stock market continued on a strong rally at the beginning of 2004. Share prices were bolstered by continued inflow of funds, growing optimism about Hong Kong's economic performance and near-term outlook, and a more active property market. The generally robust performance of the major stock market overseas rendered additional support. Consequently, the Hang Seng Index soared to a 35-month high at 13 928 on 18 February, and stayed above the 13 000 level up to early March. It however receded afterwards, amidst renewed concern about global security following the terrorist attack in Madrid on 11 March, cross-strait tension after Taiwan's presidential election in late March, and increased likelihood of an interest rate hike in the United States in the second half of the year. The Hang Seng Index closed at 12 682 at end-March 2004, only 0.8% above the level at end-2003.

/Diagram 4.10

Diagram 4.10**Hang Seng Index****Table 4.15**

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

		Hang Seng Index	New York Dow Jones Industrial Average	Tokyo Nikkei Average	London FTSE 100 Index	Frankfurt DAX 30 Index	Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
2003	Q1	8 634	7 992	7 973	3 613	2 424	2 618	2 849	1 268
	Q2	9 577	8 985	9 083	4 031	3 221	3 084	3 000	1 448
	Q3	11 230	9 275	10 219	4 091	3 257	3 135	3 176	1 631
	Q4	12 576	10 454	10 677	4 477	3 965	3 558	3 306	1 765
2004	Q1	12 682	10 358	11 715	4 386	3 857	3 625	3 416	1 859
	% change during the first quarter of 2004	0.8	-0.9	9.7	-2.0	-2.7	1.9	3.3	5.3
	% change over a year earlier	46.9	29.6	46.9	21.4	59.1	38.4	19.9	46.6

4.31 Total stock market capitalisation, covering both the Main Board and the Growth Enterprise Market (GEM)⁽¹¹⁾, increased by 4.0% during the first quarter of 2004 to \$5,769 billion at end-March, from \$5,548 billion at end-2003. Concurrently, the daily turnover averaged \$19.7 billion in the first quarter of 2004, also up from \$15.3 billion in the fourth quarter of 2003. Trading was particularly active in January, with a daily average of \$23.5 billion, the highest since August 1997.

Table 4.16

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

		<u>Average daily turnover in the quarter (HK\$Bn)</u>			<u>Total market capitalisation as at the end of the quarter (HK\$Bn)</u>		
		<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>	<u>Main Board</u>	<u>Growth Enterprise Market</u>	<u>Total</u>
2003	Q1	6.0	0.1	6.1	3,378	51	3,429
	Q2	7.9	0.1	8.1	3,907	61	3,968
	Q3	11.8	0.2	12.0	4,708	68	4,776
	Q4	15.1	0.2	15.3	5,478	70	5,548
2004	Q1	19.5	0.2	19.7	5,691	79	5,769

4.32 In the first quarter of 2004, sixteen new share flotations were launched on the Hong Kong stock market, raising a total equity capital of \$21.6 billion. Of these new issues, eight were listed on the Main Board, raising equity capital of \$19.7 billion and the remaining eight on GEM raising \$1.9 billion. Five of them pertained to H shares, with two listed on the Main Board and three on GEM, raising equity capital of \$3.1 billion and \$0.3 billion respectively. In addition, \$16.0 billion was raised through private placements by 74 companies, and \$0.3 billion through rights issues by eight companies.

/4.33

4.33 As to trading in derivatives on the market at the Hong Kong Exchanges and Clearing Limited, the average daily turnover of the Hang Seng Index futures contracts went up by 10.3% during the first quarter of 2004 to 33 468 contracts. The Hang Seng Index options contracts had a more pronounced increase, by 23.7% to 8 030 contracts. The H-share futures contracts were launched on 8 December 2003. For the first quarter of 2004 as a whole, the daily turnover averaged 5 517 contracts. As to MSCI China Free Index futures contracts⁽¹²⁾, trading was discontinued on 26 March 2004 due to low market demand.

Table 4.17

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

<u>During the quarter</u>	<u>Hang Seng Index futures contracts</u> (no. of contracts)	<u>Hang Seng Index options contracts</u> (no. of contracts)
2003 Q1	22 408	8 633
Q2	27 152	9 746
Q3	30 281	9 524
Q4	30 346	6 494
2004 Q1	33 468	8 030

4.34 At end-March 2004, there were 33 classes of stock options contracts. The daily turnover averaged 25 723 contracts in the first quarter of 2004, 12.6% higher than that in the fourth quarter of 2003. At the same time, there were 32 classes of stock futures contracts, with the average daily turnover rising by 2.5% to 81 contracts.

4.35 On the three-month HIBOR futures contracts, daily turnover averaged 274 contracts in the first quarter of 2004, 0.4% more than that in the fourth quarter of 2003. On the other hand, the average daily turnover in the three-year Exchange Fund Note futures contracts increased marginally by one contract to 15 contracts.

4.36 There were 759 issues of warrants listed on the Main Board at end-March 2004, comprising 38 issues of equity warrants and 721 issues of derivative warrants. The average daily turnover of equity warrants rose by 150.4% during the first quarter of 2004 to \$15.4 million, and the average daily turnover of derivative warrants by 23.3% to \$2.3 billion. As to GEM, there was only one issue of warrants listed at end-March.

4.37 Gold prices continued on an uptrend in the first quarter of 2004. Intensified tension in the Middle East and growing worries about terrorism both acted to strengthen the demand for gold as a safe haven for funds. Moreover, the weaker US dollar, coupled with low US interest rates, stimulated increased acquisition of this precious metal as an alternative investment instrument. The closing price of loco-London gold thus surged to a 15-year high at US\$428.1 per troy ounce on 12 January, before easing back to US\$422.9 per troy ounce at end-March 2004, which was still slightly higher than that of US\$416.9 per troy ounce at end-2003. Gold price at the Chinese Gold and Silver Exchange Society likewise rose, from \$3,844 per tael at end-2003 to \$3,915 per tael at end-March 2004. Turnover on the exchange increased to 0.80 million taels in the first quarter of 2004, from 0.75 million taels in the fourth quarter of 2003.

Unit trusts and mutual funds

4.38 The total number of unit trusts and mutual funds (including sub-funds and umbrella funds) in Hong Kong stood at 978 at end-March 2004, up from 963 at end-2003. Gross sales of mutual funds amounted to US\$7.2 billion in the first quarter of 2004, 38.0% higher than those of US\$5.2 billion in the fourth quarter of 2003. After deducting redemptions, net sales amounted to US\$2.1 billion in the first quarter of 2004, as against a net outflow of US\$68.3 million in the fourth quarter of 2003. Amongst the various types of mutual funds, equity funds continued to account for the largest share, at 63.9% of the total value of funds at end-March 2004. This was followed by fixed income/bond funds, asset allocation funds, money market funds and other funds, with respective shares of 23.0%, 7.1%, 5.2% and 0.8%⁽¹³⁾.

/4.39

4.39 The Mandatory Provident Fund (MPF) System⁽¹⁴⁾ continues to generate a substantial amount of retirement fund assets which, in the course of time, should support further development of the local capital market. The aggregate net asset value of the approved constituent funds of MPF schemes⁽¹⁵⁾ rose further to \$97.0 billion at end-March 2004, from \$89.4 billion at end-2003. This was attributable in part to enlargement brought about by continued contributions from the enrolled population, and in part to higher capital value of the investment portfolio in these funds.

4.40 At end-March 2004, there were 19 approved trustees. On MPF products, 44 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 321 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. Around 220 100 employers, 1.75 million employees and 297 200 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 97.1%, 96.0% and 80.3% respectively.

Notes :

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

/As

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

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

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

- (3) In the light of the changing market shares of individual authorized institutions (AIs) in the residential mortgage business, the coverage of the Monthly Survey on Residential Mortgage Lending conducted by HKMA has been expanded as from May 2001, in order to increase the proportion of business covered by the survey. Altogether 38 AIs were so included immediately after the coverage expansion. The number of AIs has since fallen to 28 due to banking sector consolidation. The AIs currently covered together account for around 96% of the total business, as compared to 92% for the 32 AIs formerly covered. The outstanding amount of mortgage loans covered by the survey is hence lifted, by 8.8%.
- (4) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.
- (5) The various definitions of the money supply are as follows:

M1 : notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and held outside the monetary sector.

/As

As from June 2002, short-term Exchange Fund placements of less than one month are included under time deposits as part of the monetary aggregates. The data series on time deposits and M2 are backdated to April 1997 using this revised definition.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

- (6) Amongst the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits. Seasonally adjusted data on these three series backdated to January 1990 have been compiled. The deseasonalised data facilitate analysis of the underlying trends. For details, see the November 2000 issue of the HKMA Quarterly Bulletin.
- (7) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Non-performing loans are those on which interest has been placed in suspense or on which interest accrual has ceased. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to a certain extent with overdue and rescheduled loans.
- (8) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.
- (9) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.
- (10) Due to different sources for NCD data, the total value of Hong Kong dollar debt paper outstanding may not equal the sum of the outstanding values of Exchange Fund paper, HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector.
- (11) The Growth Enterprise Market was launched by the then Stock Exchange of Hong Kong Ltd in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Though open to companies in all industries and of all sizes, the market provides an efficient venue for fund raising especially by small to medium-sized enterprises.

/(12)

- (12) The MSCI China Free Index is a market-capitalisation-weighted stocks index, covering Red-chip shares and H shares listed in Hong Kong, B shares listed in Shanghai and Shenzhen, and N shares listed in New York. The Index thus represents the universe of Chinese stocks open to investors outside the Mainland, and complements the Red-chip and H share markets in Hong Kong. Trading in MSCI China Free Index futures contracts commenced on 7 May 2001.
- (13) These figures are sourced from the Sales and Redemptions and Performance Survey conducted by the Hong Kong Investment Funds Association on their members, and as such cover only the active authorized funds that have responded to the survey.
- (14) The Mandatory Provident Fund (MPF) System, launched on 1 December 2000, is a privately managed mandatory system of provident fund schemes covering members of the workforce aged between 18 and 65, subject to certain exceptions. It provides for joint contributions by the employer and the employee, each at 5% of the employee's relevant income, to a registered MPF scheme, subject to a maximum and a minimum level of income for MPF contribution purposes. As from February 2003, the minimum income level for MPF contribution purpose is raised from \$4,000 per month to \$5,000, yet the maximum income level is kept at \$20,000 per month. The accrued MPF benefits are fully vested in the scheme, and members can be transferred from scheme to scheme when there is a change in employment.

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

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

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation

5.1 After a year of wide gyration in 2003, the labour market held broadly stable in the first quarter of 2004. The *seasonally adjusted unemployment rate*⁽¹⁾ edged lower, from 7.3% in the fourth quarter of 2003 to 7.2% in the first quarter of 2004, as did the total number of unemployed persons, from 253 200 to 249 500. While total employment continued on an uptrend alongside the recovery in economic activity, this was largely offset by a concurrent expansion in total labour supply with more people entering the labour market to find jobs. Meanwhile, the median duration of unemployment shortened somewhat, from 109 days to 106 days between the two quarters. While the proportion of persons unemployed for less than three months rose slightly, from 46% to 47%, the proportion of persons unemployed for three to less than six months declined marginally, from 18% to 17%. (In February - April 2004, the seasonally adjusted unemployment rate and the total numbers unemployed were 7.1% and 249 000 respectively.)

5.2 The *underemployment rate*⁽²⁾, at 3.4% in the first quarter of 2004, went slightly above that of 3.3% in the fourth quarter of 2003. The number of underemployed persons likewise went up, from 115 700 to 118 700. The increase occurred mainly amongst manual workers at building and construction sites, where conceivably more casual and temporary jobs became available in tandem with the pick-up in the property market. (In February - April 2004, the underemployment rate and the total numbers underemployed were 3.4% and 120 000 respectively.)

5.3 Partly due to the rise in underemployment and the usually lower work intensity shortly after the Lunar New Year period, the proportions of persons working for 50 hours or more per week and for 60 hours or more per week both declined, to 38% and 23% respectively in the first quarter of 2004, from 41% and 25% in the fourth quarter of 2003. This notwithstanding, for all the employed persons taken together, the median hours of work remained unchanged, at 48 hours per week in the two quarters.

/Table 5.1

Table 5.1

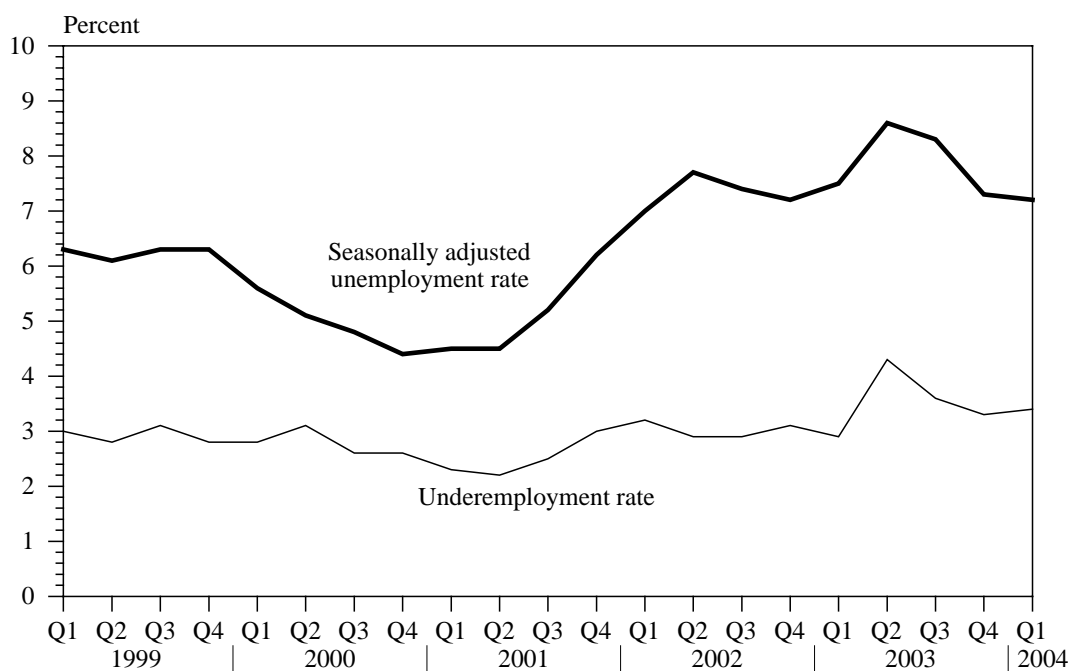
Unemployment and underemployment rates

		Seasonally adjusted <u>unemployment rate</u> (%)	<u>Underemployment rate</u> (%)
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
2004	Q1	7.2	3.4

Source : General Household Survey, Census and Statistics Department.

Diagram 5.1

Unemployment and underemployment rates



/Table 5.2

Table 5.2

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2003	Annual	3 500 900	(0.4)	3 223 300	(-0.3)	277 600	123 500
	Q1	3 503 500	(1.3)	3 243 700	(0.8)	259 800	100 700
	Q2	3 519 500	(1.5)	3 219 400	(0.5)	300 000	151 000
	Q3	3 492 000	(-0.7)	3 194 800	(-1.7)	297 300	126 600
	Q4	3 488 500	(-0.5)	3 235 300	(-0.6)	253 200	115 700
2004	Q1	3 506 400	(0.1) <0.5>	3 256 900	(0.4) <0.7>	249 500	118 700

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

() % change over a year earlier.

< > % change over the preceding quarter.

Source : General Household Survey, Census and Statistics Department.

Table 5.3

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

		Median duration of <u>unemployment</u> (Days)	<u>Proportion unemployed for :</u>		
			<u>Less than 3 months</u> (%)	<u>3 months to less than 6 months</u> (%)	<u>6 months or more</u> (%)
2003	Annual	88	51	18	31
	Q1	82	54	17	29
	Q2	82	54	18	28
	Q3	90	50	19	31
	Q4	109	46	18	36
2004	Q1	106	47	17	36

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.4

Table 5.4

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

		Median hours of work per week for all <u>employed persons</u> (Hours)	<u>Proportion of employed persons working for :</u>		
			<u>35 - 49 hours per week</u> (%)	<u>50 hours or more per week</u> (%)	<u>60 hours or more per week</u> (%)
2003	Annual	48	48	39	23
	Q1	48	46	38	23
	Q2	45	49	36	22
	Q3	48	49	40	23
	Q4	48	49	41	25
2004	Q1	48	48	38	23

Source : General Household Survey, Census and Statistics Department.

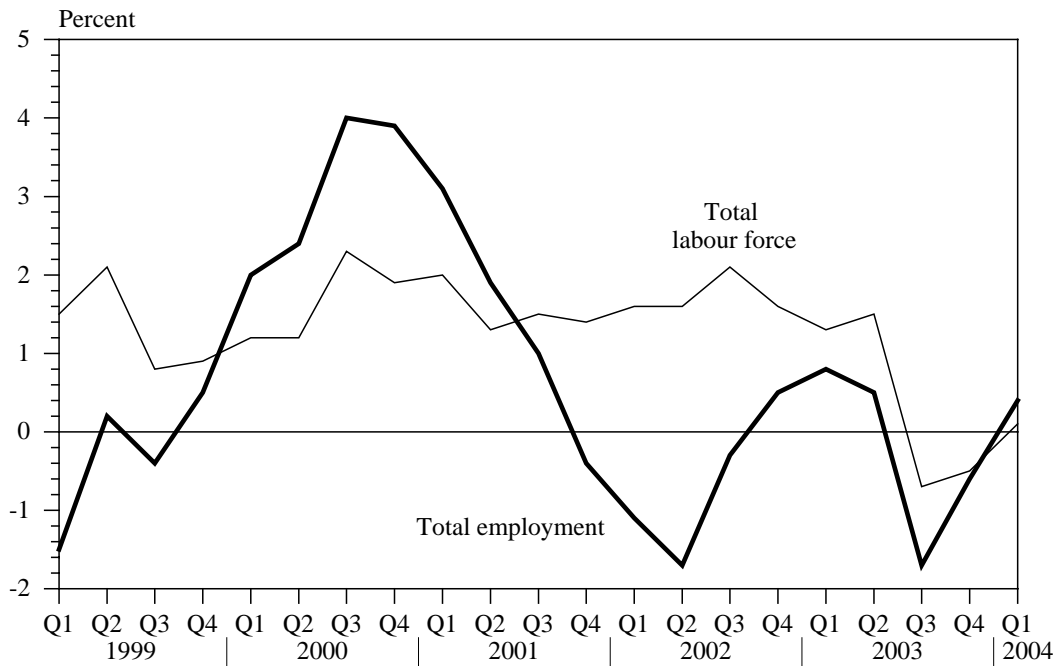
5.4 On a quarter-to-quarter comparison, *total employment*⁽³⁾ as enumerated from households rose by 0.7% in the first quarter of 2004, further to a 1.3% gain in the fourth quarter of 2003. The increase was most apparent amongst persons aged 40-59, those with upper secondary education and above, and those serving as managers and administrators, associate professionals, clerks, and service workers and shop sales workers. A significant proportion of them was engaged in the distributive and catering trades, finance, insurance, and amusement and recreational services sectors. Yet *total labour force*⁽⁴⁾, having contracted by 0.1% in the fourth quarter of 2003, expanded again by 0.5% in the first quarter of 2004. This was mainly due to a rise in the female labour force participation rate⁽⁵⁾, particularly that for married women aged 40-59. Most of these new entrants were seeking employment as associate professionals, clerks, and service workers and shop sale workers. As total employment grew just slightly faster than total labour force, the unemployment rate exhibited a marginal decline between the two quarters. On a year-on-year comparison, total employment went up by 0.4% in the first quarter of 2004, reversing the 0.6% fall in the fourth quarter of 2003. Total labour supply likewise edged up, albeit to a smaller extent, from a decrease of 0.5% to a slight increase of 0.1%.

/Diagram 5.2

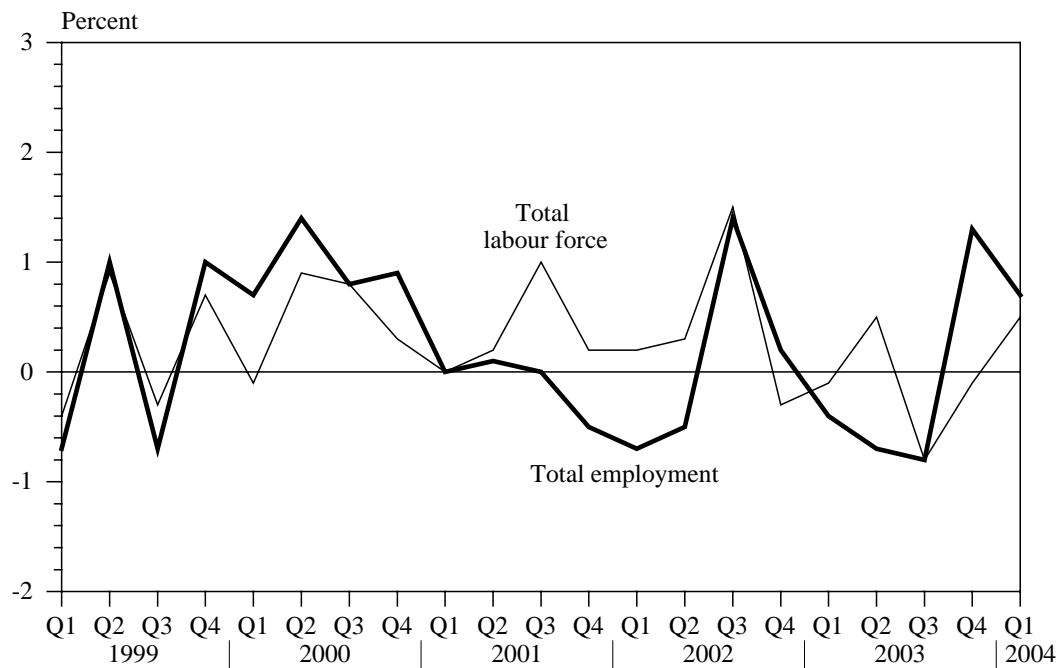
Diagram 5.2

Total labour force and total employment

(a) Year-on-year rate of change



(b) Quarter-to-quarter rate of change



/Table 5.5

Table 5.5

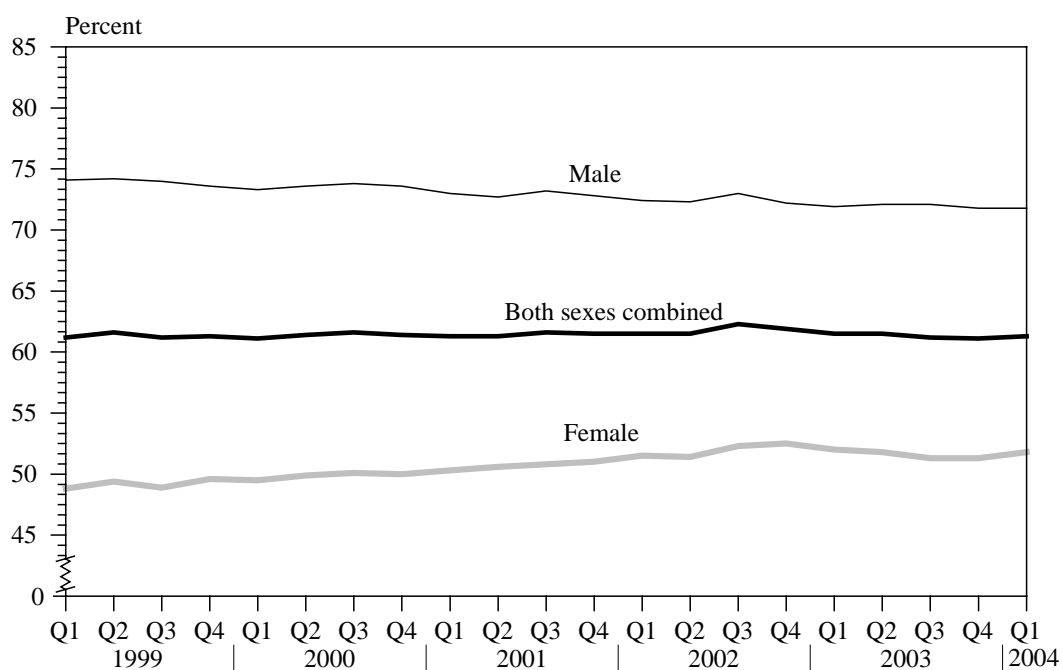
Labour force participation rates by sex (%)

		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2003	Annual	72.0	51.6	61.4
	Q1	71.9	52.0	61.5
	Q2	72.1	51.8	61.5
	Q3	72.1	51.3	61.2
	Q4	71.8	51.3	61.1
2004	Q1	71.8	51.8	61.3

Source : General Household Survey, Census and Statistics Department.

Diagram 5.3

Labour force participation rates by sex



/5.5

5.5 Labour income, though still soft, showed a more moderate decrease recently. On a year-on-year comparison, *labour earnings*⁽⁶⁾ were down by 1.0% in money terms in the fourth quarter of 2003, lesser than the 1.8% drop in the third quarter. Discounting the fall in consumer prices as measured by the Composite CPI, labour earnings nevertheless were still higher, by 1.9% and 1.4% respectively in real terms in the third and fourth quarters. *Labour wages*⁽⁷⁾ came down by 1.5% in money terms in December 2003 from a year earlier, also narrowed from the 2.1% fall in September. Discounting the decline in the CPI(A), labour wages edged lower by 0.3% in real terms in December 2003, after a 0.7% increase in September.

Profile of unemployment and underemployment

5.6 Analysed by *economic sector*, the unemployment rate generally held steady or drifted lower in the first quarter of 2004, as compared to the fourth quarter of 2003. Specifically, the unemployment rate in the manufacturing sector came down, attributable to a larger contraction in labour supply than in employment particularly in such industries as electrical and electronics products, and metal products. Among the service sectors, decreases in unemployment rate were observed in restaurants and hotels, communications, and amusement and recreational services, along with the rebound in consumer spending and inbound tourism. Other sectors where reductions in unemployment were also found included foundation and superstructure, medical services, insurance and finance. On the other hand, increases in unemployment rate were seen in a few sectors, including decoration and maintenance, the retail trade and sanitary services. On the underemployment rate, increases were seen in construction, sanitary services, hotels and business services, more than offsetting the decreases seen in manufacturing, restaurants, and amusement and recreational services.

/Table 5.6

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

	<u>2003</u>					<u>2004</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	8.2	7.9	9.1	8.7	7.0	7.0
Transport, storage and communications	6.5	6.1	7.6	6.2	6.1	6.1
Finance, insurance, real estate and business services	5.2	4.5	5.6	5.4	5.2	4.9
Community, social and personal services	3.5	2.9	3.7	3.7	3.5	3.5
Manufacturing	7.6	7.3	8.4	7.3	7.5	7.1
Construction ^(b)	19.0	18.9	19.7	19.6	17.7	17.9

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

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.7

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

	<u>2003</u>					<u>2004</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Wholesale, retail and import/export trades, restaurants and hotels	2.5	1.9	3.2	2.3	2.4	2.1
Transport, storage and communications	4.7	3.3	6.2	5.1	4.1	3.9
Finance, insurance, real estate and business services	0.7	0.7	0.9	0.7	0.6	1.0
Community, social and personal services	2.6	2.3	2.8	2.5	2.6	2.8
Manufacturing	3.1	1.8	3.6	3.7	3.5	3.2
Construction ^(a)	13.4	11.2	15.8	14.3	12.2	13.4

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.8

Table 5.8

**Unemployment and underemployment rates
by detailed economic sub-sector in the first quarter of 2004**

	Unemployment rate ^(a) (%)	Numbers unemployed ^(a)	Underemploy- ment rate (%)	Numbers underemployed
Wholesale, retail and import/export trades, restaurants and hotels	7.0	79 700	2.1	24 200
Wholesale/retail trade	8.3	30 700	2.8	10 500
Import/export trade	3.8	18 600	0.7	3 200
Restaurants and hotels	11.1	30 300	3.9	10 500
Transport, storage and communications	6.1	22 600	3.9	14 600
Transport	6.1	19 300	4.2	13 400
Storage	10.3	500	6.0	300
Communications	5.3	2 800	1.8	1 000
Finance, insurance, real estate and business services	4.9	24 900	1.0	5 000
Finance	3.4	4 600	0.5	600
Insurance	4.5	1 900	0.7	300
Real estate	6.0	7 700	0.8	1 000
Business services	5.2	10 700	1.5	3 100
Community, social and personal services	3.5	30 500	2.8	24 900
Public administration	1.4	1 800	0.3	400
Education, medical and other health and welfare services	2.4	7 900	2.1	6 900
Other services	4.8	20 900	4.1	17 500
Manufacturing	7.1	17 800	3.2	8 000
Food and beverages	5.9	1 300	1.4	300
Clothing and footwear	9.4	6 200	5.8	3 900
Paper and printing	6.1	3 400	1.4	800
Plastic products	7.7	900	0.9	100
Metal products	7.9	900	1.7	200
Electrical and electronic products	6.3	2 800	1.4	600
Other manufacturing industries	5.6	2 300	5.1	2 100
Construction	17.9	56 000	13.4	41 900
Foundation and superstructure	16.3	38 100	11.5	26 900
Decoration and maintenance	22.7	17 900	19.0	15 000

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

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

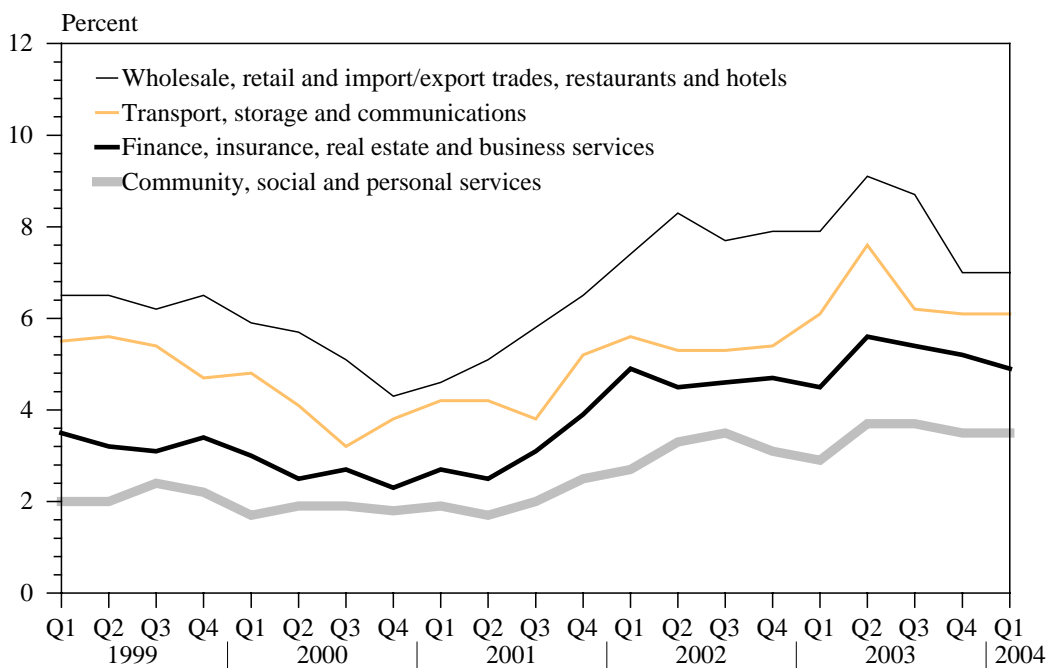
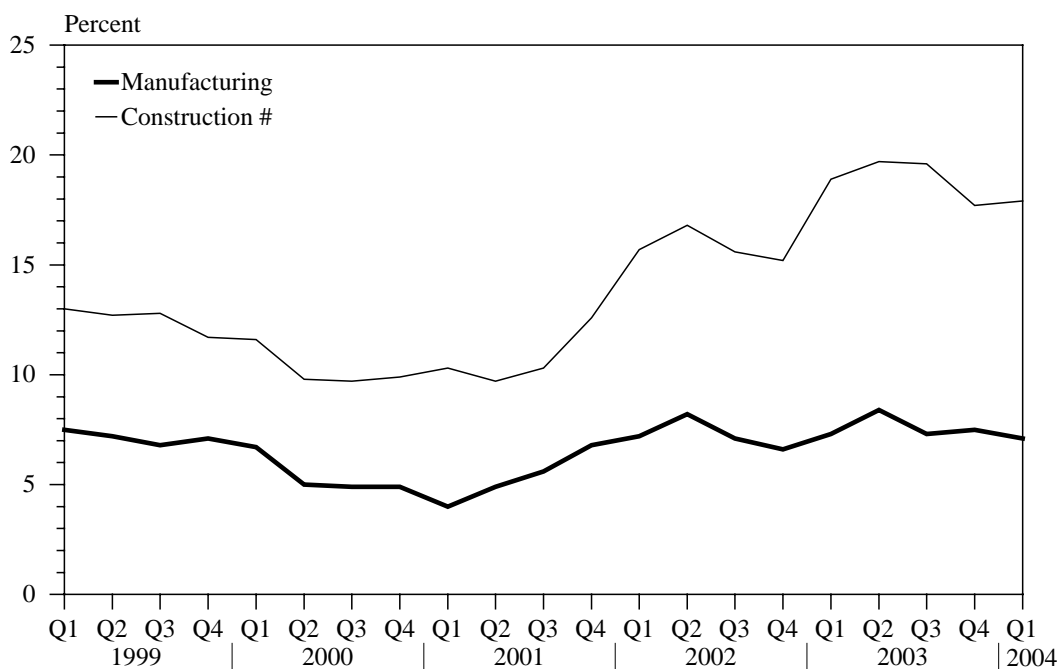
(a) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

Source : General Household Survey, Census and Statistics Department.

/Diagram 5.4

Diagram 5.4

Unemployment rates by major economic sector*



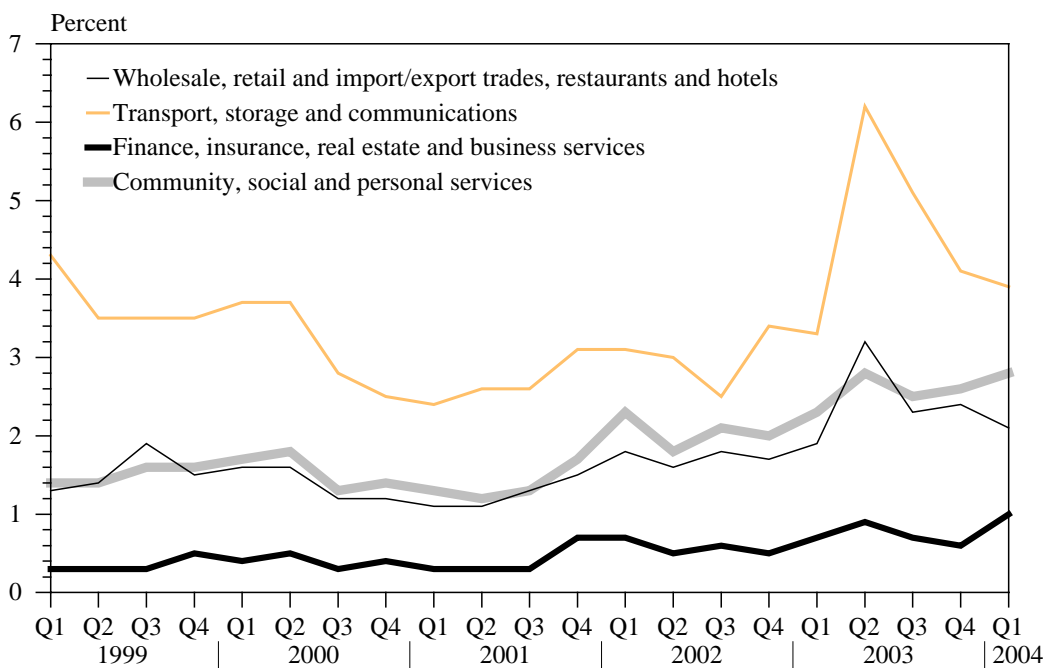
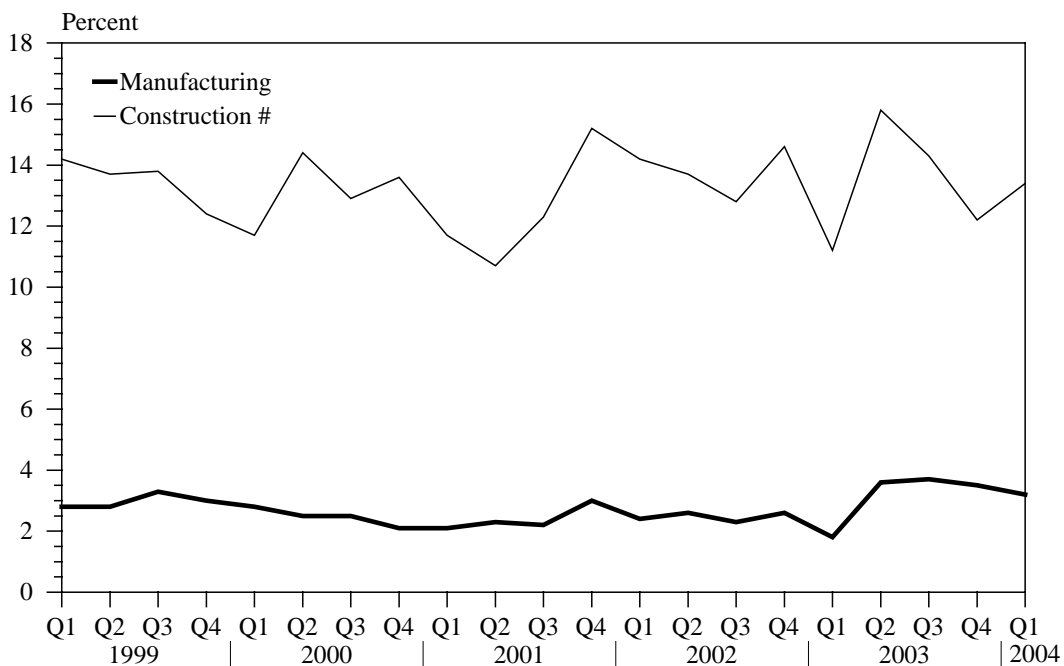
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

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

/Diagram 5.5

Diagram 5.5

Underemployment rates by major economic sector



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

5.7 Analysed by *occupation category*, the unemployment rate for managers and administrators, especially those engaged in the import/export trade and manufacturing, fell visibly between the fourth quarter of 2003 and the first quarter of 2004. Notable declines were also observed among clerks engaged in finance, insurance, real estate and business services. On the other hand, workers in elementary occupations, predominantly those engaged in transport, and foundation and superstructure, faced increases in unemployment, as did service workers and shop sales workers engaged in the retail trade, and community, social and personal services. Professionals also experienced a rise in unemployment rate, mostly among those engaged in finance, insurance, real estate and business services. As to the underemployment rate, the increase took place mainly amongst craft and related workers, professionals, and service workers and shop sales workers.

Table 5.9

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

	<u>2003</u>					<u>2004</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	2.4	2.1	2.2	2.2	3.0	2.0
Professionals	2.4	2.2	2.8	2.8	1.8	2.1
Associate professionals ^(b)	4.4	4.3	4.9	4.6	3.7	3.6
Clerks	5.4	5.0	5.4	5.8	5.2	4.6
Service workers and shop sales workers	10.3	9.4	12.3	10.8	8.7	9.0
Craft and related workers	16.0	16.2	16.3	16.1	15.3	15.2
Plant and machine operators and assemblers	7.0	6.8	7.3	7.1	6.7	6.7
Elementary occupations	8.7	8.0	9.6	8.9	8.1	8.7
Others	4.2	4.6	1.6	6.8	3.6	0

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

(b) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

/Table 5.10

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

	<u>Annual</u>	<u>2003</u>				<u>2004</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Managers and administrators	0.2	0.1	0.3	0.1	0.1	0
Professionals	0.5	0.3	0.6	0.5	0.8	1.2
Associate professionals ^(a)	1.2	0.9	1.6	1.1	1.2	1.1
Clerks	1.4	1.1	1.5	1.4	1.4	1.3
Service workers and shop sales workers	3.6	2.8	5.0	3.4	3.1	3.4
Craft and related workers	11.7	9.4	13.6	12.9	10.8	11.9
Plant and machine operators and assemblers	5.4	3.6	7.2	5.5	5.0	4.9
Elementary occupations	5.1	4.7	5.7	5.2	4.9	5.0
Others	2.8	1.0	10.1	1.3	0	1.0

Note : (a) Including technicians and supervisors.

Source : General Household Survey, Census and Statistics Department.

5.8 Analysed by *sex*, the unemployment rate for female workers came down by 0.3 of a percentage point to 5.5% between the fourth quarter of 2003 and the first quarter of 2004, with a larger decrease occurring among the younger ones aged 15-24. As to male workers, the unemployment rate was virtually static at 8.4% in both quarters. The difference between the two unemployment rates thus enlarged from 2.6 percentage points to 2.9 percentage points. On underemployment, whereas the rate for female workers fell by 0.2 of a percentage point to 2.7%, that for male workers rose by 0.3 of a percentage point to 4.0%. As a result, the difference between the two underemployment rates also widened, from 0.8 of a percentage point to 1.3 percentage points.

/Table 5.11

Table 5.11**Unemployment rates by sex (%)^(a)**

		<u>Male</u>	<u>Female</u>
2003	Annual	9.3	6.2
	Q1	8.7	5.8
	Q2	10.1	6.5
	Q3	9.8	6.9
	Q4	8.4	5.8
2004	Q1	8.4	5.5

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

Source : General Household Survey, Census and Statistics Department.

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

		<u>Male</u>	<u>Female</u>
2003	Annual	4.1	2.8
	Q1	3.4	2.2
	Q2	5.1	3.3
	Q3	4.3	2.7
	Q4	3.7	2.9
2004	Q1	4.0	2.7

Source : General Household Survey, Census and Statistics Department.

/5.9

5.9 Analysed by *age group*, the movement in unemployment rate exhibited a mixed picture. Comparing the first quarter of 2004 with the fourth quarter of 2003, the unemployment rates for persons aged 20-24 and 30-39 continued to decline noticeably. Yet this was largely offset by the increases observed for the other age groups viz. those of 15-19, 25-29, 40-49, and 60 and above. As for the underemployment rate, increases took place mainly among persons aged 25-29 and 40-59, outweighing the decreases occurring among persons aged 15-19, 30-39, and 60 and above.

Table 5.13

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

	<u>Annual</u>	<u>2003</u>				<u>2004</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
15-19	30.2	26.9	32.8	36.1	24.9	25.2
20-24	11.6	10.1	12.4	14.6	9.5	8.5
25-29	6.7	6.2	7.6	7.6	5.6	5.9
30-39	6.0	5.7	6.5	6.1	5.7	5.2
40-49	7.3	7.2	8.0	7.4	6.6	6.8
50-59	9.4	8.7	9.4	9.7	9.6	9.4
60 and above	4.5	3.6	5.3	3.6	5.6	6.8

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

Source : General Household Survey, Census and Statistics Department.

/Table 5.14

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

	<u>2003</u>					<u>2004</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
15-19	6.4	5.4	8.6	5.6	6.3	4.6
20-24	3.4	3.1	3.6	3.5	3.5	3.5
25-29	2.1	1.5	2.7	2.2	1.9	2.3
30-39	2.5	2.0	3.0	2.7	2.4	2.1
40-49	4.4	3.4	5.6	4.8	4.0	4.3
50-59	4.6	4.2	5.8	4.3	4.3	4.7
60 and above	3.2	3.3	3.1	2.8	3.8	3.0

Source : General Household Survey, Census and Statistics Department.

5.10 Analysed by *educational attainment*, the unemployment rate went down almost across-the-board between the fourth quarter of 2003 and the first quarter of 2004. The decline was most apparent among persons with tertiary education, in line with the general trend of increasing demand for higher skilled and better educated workers in recent years. Persons with no schooling/kindergarten likewise faced a distinct fall in unemployment rate, yet the number involved was relatively smaller. On the other hand, persons with primary education generally encountered a rise in unemployment rate. As to the underemployment rate, while a visible decrease was found among persons with no schooling/kindergarten education, this was more than offset by increases of varying magnitudes occurring mostly among persons with primary education and above.

/Table 5.15

Table 5.15**Unemployment rates by educational attainment (%)^(a)**

	<u>2003</u>					<u>2004</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
No schooling/kindergarten	10.9	10.2	10.7	10.1	12.3	11.4
Primary	11.3	10.6	12.5	11.8	10.5	11.7
Lower secondary	12.0	11.5	13.2	12.2	11.2	11.0
Upper secondary ^(b)	7.4	7.0	7.9	7.9	6.6	6.6
Matriculation	5.5	5.1	5.9	5.9	4.9	4.7
Tertiary	4.4	3.8	4.4	5.5	3.9	3.0
<i>of which :</i>						
Non-degree	5.6	4.9	5.5	6.9	5.2	3.2
Degree	3.7	3.1	3.8	4.7	3.3	2.9

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

(b) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

/Table 5.16

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

	<u>Annual</u>	<u>2003</u>				<u>2004</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
No schooling/kindergarten	8.4	8.3	11.2	6.7	7.4	7.1
Primary	6.9	6.2	7.9	6.8	6.6	7.0
Lower secondary	6.1	4.9	7.3	6.6	5.4	5.7
Upper secondary ^(a)	2.8	2.0	3.5	2.9	2.7	2.7
Matriculation	2.0	1.0	3.0	2.4	1.7	2.0
Tertiary	1.0	0.8	1.2	1.0	0.9	1.0
<i>of which :</i>						
Non-degree	1.3	1.2	1.7	1.2	1.0	1.5
Degree	0.8	0.6	0.9	0.8	0.9	0.8

Note : (a) Including craft courses.

Source : General Household Survey, Census and Statistics Department.

Profile of employment

5.11 Total employment as enumerated from private sector establishments had a moderated decrease of 1.5% in December 2003 over a year earlier, as compared to the 3.3% drop in September. For 2003 as a whole, the decline averaged at 2.8%, as against a 1.6% fall in 2002. On a seasonally adjusted quarter-to-quarter comparison, total employment, having gone up by 0.2% in September 2003, rose faster by 1.2% in December. The increase took place mainly in the retail trade and in restaurants and hotels, on the back of strong revival in economic activity after SARS.

/5.12

5.12 Taking all the *service sectors* surveyed together⁽⁸⁾, employment had a much smaller decrease in December 2003 than in September 2003, by 0.7% as against 2.6% on a year-on-year comparison. Analysed by major constituent sector, employment in finance, insurance, real estate and business services fell by 4.0% in December 2003. The decrease was concentrated in business services and banking which were still affected by service automation and downsizing. Employment in the wholesale and import/export trades, in storage and communication, and in water transport, air transport and services allied to transport showed more moderate declines, by 1.8%, 1.1% and 1.0% respectively, as labour demand strengthened somewhat alongside the pick-up in external trade. Employment in restaurants and hotels had its decline narrowed markedly to 2.5%, while employment in the retail trade even turned up to an increase of 2.9%, in tandem with the surge in inbound tourism and revival in local consumer spending. Employment in community, social and personal services continued on the rise, by 3.5%, backed by sustained strong demand for welfare, education and sanitary services.

5.13 As to the local *manufacturing sector*, employment stayed on a downtrend, falling by 9.1% and 8.8% respectively in September and December 2003 from a year earlier, as local production activity was still weak consequential to subdued performance of domestic exports and on-going relocation of manufacturing processes to the Mainland.

5.14 Employment of manual workers at *building and construction sites*, having been slashed by 8.5% in September 2003 from a year earlier, decreased further by 6.4% in December. Within the total, employment at private sector sites shrank by 4.4%, owing to slackened building activity as well as reduced civil engineering work on Container Terminal 9. Employment at public sector sites fell more by 8.8%, caused by a drop-off in civil engineering work upon completion of the KCR West Rail project and winding down of the KCR Tsim Sha Tsui Extension project. Analysed by project type, while employment at building sites declined by 2.5%, employment at civil engineering sites showed a much larger reduction by 14.6%. Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector⁽⁹⁾ was 10.4% less in the fourth quarter of 2003 than a year earlier, following a 9.0% dip in the third quarter.

/5.15

5.15 In line with the Government's objective to cut operating expenditure and contain the size of the *civil service*, employment in the civil service was trimmed by 2.9% in December 2003 from a year earlier, further to a 2.3% decrease in September. As stated in the Chief Executive's Policy Address on 8 January 2003, the Government plans to reduce the Civil Service establishment further to around 160 000 by 2006/07. As from 1 April 2003, recruitment to the Civil Service has been frozen. The Second Voluntary Retirement Scheme is implemented as another downsizing measure. Applications for the Scheme were received during 21 March - 20 May 2003, and the results were announced on 24 July. Out of 5 961 applications, 5 300 constituting 89% of the total were granted approval.

/Table 5.17

Table 5.17**Employment by major economic sector**

	Annual average	2002				Annual average	2003			
		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec
Wholesale and import/export trades	567 000 (-1.8)	566 100 (-2.6)	556 000 (-4.4)	580 400 (0.2)	565 300 (-0.3)	558 300 (-1.5)	563 900 (-0.4)	558 200 (0.4)	555 700 (-4.3)	555 400 (-1.8)
Retail trade	216 800 (-1.3)	216 300 (0.4)	218 400 (-4.3)	221 300 (-1.7)	211 100 (0.4)	210 700 (-2.8)	209 700 (-3.1)	209 000 (-4.3)	207 100 (-6.4)	217 100 (2.9)
Restaurants and hotels	211 500 (-4.8)	213 600 (-3.2)	213 700 (-5.1)	212 300 (-4.8)	206 500 (-6.1)	196 100 (-7.3)	198 200 (-7.2)	191 100 (-10.6)	193 900 (-8.7)	201 400 (-2.5)
Water transport, air transport and services allied to transport	101 000 (1.2)	100 800 (2.6)	102 300 (1.8)	101 000 (-0.6)	100 000 (0.9)	98 000 (-3.1)	100 200 (-0.6)	96 100 (-6.1)	96 600 (-4.4)	99 000 (-1.0)
Storage and communications	40 100 (-9.8)	41 300 (-7.2)	41 600 (-9.7)	40 500 (-7.3)	36 900 (-14.9)	35 100 (-12.5)	33 300 (-19.5)	35 300 (-15.1)	35 200 (-13.0)	36 500 (-1.1)
Finance, insurance, real estate and business services	429 900 (-1.3)	423 400 (-1.3)	430 300 (-2.8)	424 500 (-2.9)	441 300 (1.7)	421 900 (-1.9)	422 500 (-0.2)	419 000 (-2.6)	422 300 (-0.5)	423 800 (-4.0)
Community, social and personal services	396 000 (5.9)	392 100 (8.8)	390 800 (4.9)	398 300 (5.7)	402 600 (4.5)	407 300 (2.9)	398 100 (1.5)	400 600 (2.5)	414 100 (3.9)	416 500 (3.5)
Manufacturing	193 000 (-9.0)	197 400 (-9.0)	200 100 (-8.5)	190 100 (-9.2)	184 500 (-9.1)	173 100 (-10.3)	178 900 (-9.4)	172 500 (-13.8)	172 800 (-9.1)	168 300 (-8.8)
Building and construction sites	73 200 (-8.8)	76 900 (-12.4)	79 200 (-1.3)	70 400 (-8.0)	66 400 (-13.3)	64 100 (-12.4)	66 700 (-13.3)	63 200 (-20.2)	64 400 (-8.5)	62 200 (-6.4)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 275 900 (-1.6)</i>	<i>2 275 500 (-1.1)</i>	<i>2 280 100 (-2.7)</i>	<i>2 286 100 (-1.5)</i>	<i>2 261 900 (-1.0)</i>	<i>2 212 300 (-2.8)</i>	<i>2 219 000 (-2.5)</i>	<i>2 192 900 (-3.8)</i>	<i>2 209 900 (-3.3)</i>	<i>2 227 500 (-1.5)</i>
		<i><-0.3></i>	<i><-0.2></i>	<i><-0.2></i>	<i><-0.5></i>		<i><-1.6></i>	<i><-1.5></i>	<i><0.2></i>	<i><1.2></i>
<i>Civil Service^(b)</i>	<i>171 200 (-3.7)</i>	<i>173 000 (-4.4)</i>	<i>171 700 (-3.9)</i>	<i>170 500 (-3.5)</i>	<i>169 600 (-2.8)</i>	<i>167 100 (-2.4)</i>	<i>169 100 (-2.3)</i>	<i>168 200 (-2.0)</i>	<i>166 500 (-2.3)</i>	<i>164 700 (-2.9)</i>

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

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

(b) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, ICAC officers, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, and other Government employees such as non-Civil Service contract staff are not included.

() % change over a year earlier.

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

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

/Diagram 5.6

Diagram 5.6

Employment by broad economic sector

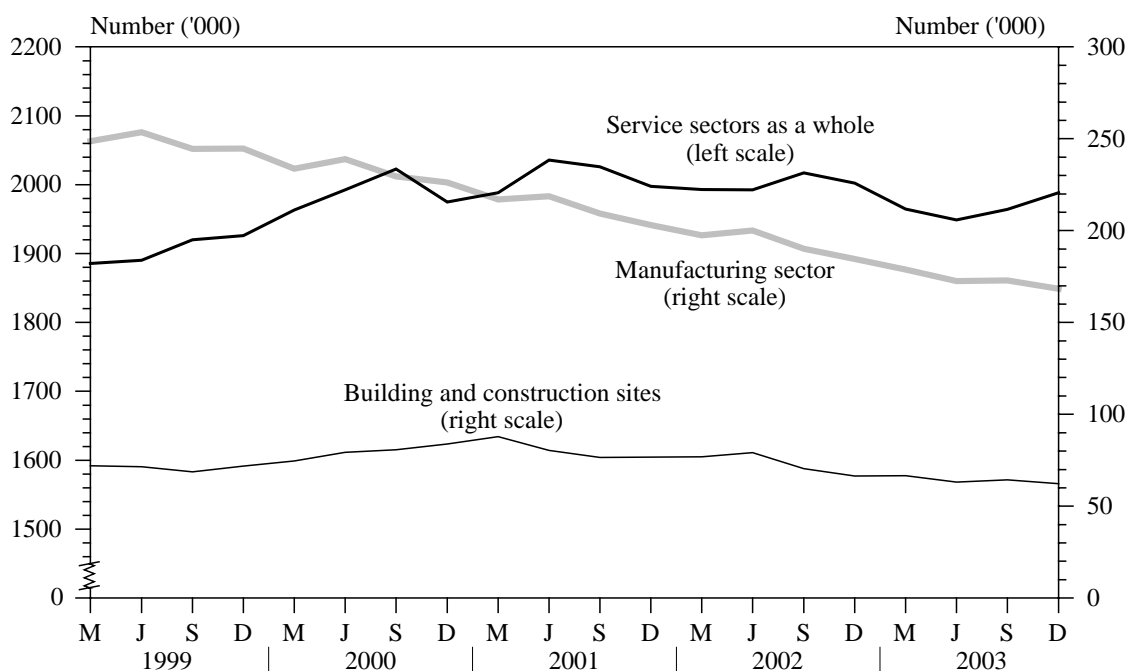
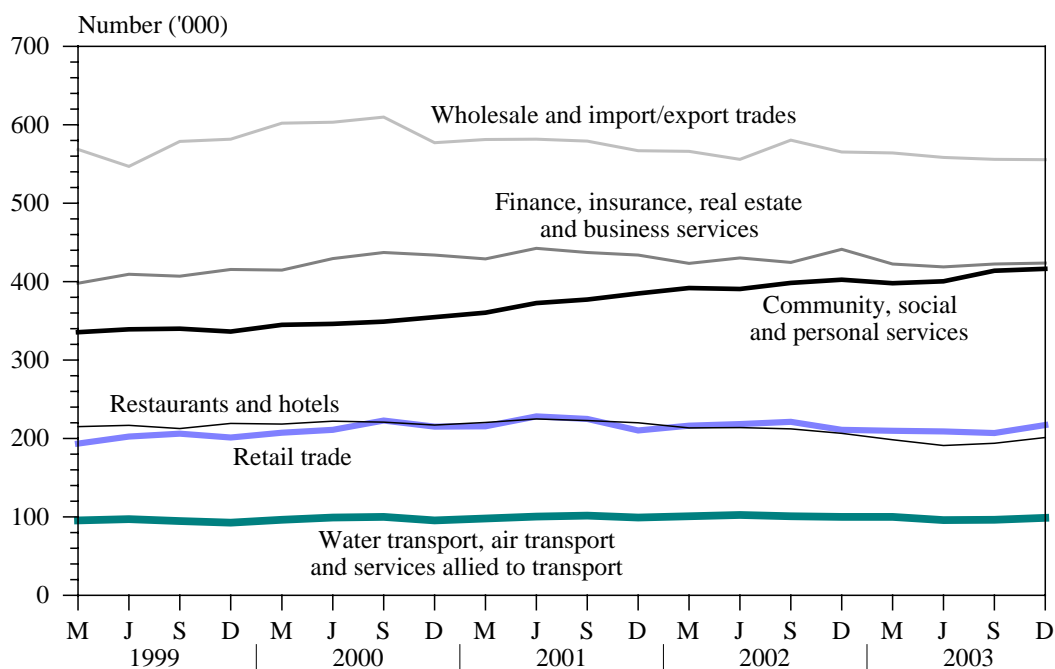


Diagram 5.7

Employment in the major service sectors



/Vacancies

Vacancies

5.16 Vacancies resumed increase in the latter part of 2003, reversing the downtrend prevalent over the preceding three years. For all the private sector establishments surveyed taken together, vacancies surged by 28.9% in December 2003 over a year earlier, exceeding the 12.5% gain in September. Although the increase averaged only 1.4% for 2003 as a whole, this still represented a notable upturn from the 17.5% drop in 2002. On a seasonally adjusted quarter-to-quarter comparison, vacancies went up by 11.6% in December 2003, further to a 7.6% rise in September. As to the overall vacancy rate in the private sector, it stood at 0.9% in December 2003. For 2003 as a whole, the rate was also 0.9%, higher than that of 0.8% in 2002.

5.17 Analysed by *economic sector*, vacancies for all the *service sectors* taken together were 31.0% more in December 2003 than a year earlier, nearly double the 16.6% increase in September. Analysed by major constituent sector and on a year-on-year comparison, vacancies in the retail trade and in restaurants and hotels rose significantly, by 60.5% and 56.0% respectively in December 2003 over a year earlier, in tandem with the rebound in local consumer spending and inbound tourism. Vacancies in the wholesale and import/export trades surged by 39.8%, underpinned by sustained buoyancy of the external trade. So did vacancies in finance, insurance, real estate and business services, by 38.7%, contributed mainly by increased job openings in insurance and business services. Vacancies in water transport, air transport and services allied to transport and in the community, social and personal services increased more moderately, by 9.4% and 4.9% respectively. On the other hand, vacancies in storage and communications were reduced by 18.8%, yet the number involved was not large. As to the local *manufacturing sector*, vacancies were 6.4% fewer in December 2003 than a year earlier. This came after a plunge of 34.7% in September. Regarding manual workers at *building and construction sites*, there was a renewed increase in vacancies by 28.6% in December 2003 over a year earlier, following a sharp drop of 57.4% in September. On vacancies in the *Civil Service*, there was a reduction of 32.1% in December 2003 from a year earlier, in the wake of a 9.9% decline in September. These decreases were in line with the Government's target of holding down the size of civil service employment.

/Table 5.18

Table 5.18
Vacancies by major economic sector

	No. of vacancies										Vacancy rate in Dec 2003 (%)
	Annual average	2002				Annual average	2003				
		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec	
Wholesale and import/export trades	4 400 (-7.1)	5 000 (-32.2)	5 000 (9.5)	4 200 (3.5)	3 500 (15.0)	4 800 (10.0)	4 400 (-12.2)	4 900 (-1.9)	5 300 (26.1)	4 800 (39.8)	0.9
Retail trade	1 800 (-14.3)	1 700 (-31.4)	2 500 (20.0)	1 600 (-33.1)	1 500 (-4.0)	1 700 (-8.1)	1 100 (-35.1)	1 500 (-37.8)	1 700 (2.9)	2 400 (60.5)	1.1
Restaurants and hotels	1 300 (-13.8)	1 600 (-28.5)	1 400 (4.7)	1 400 (-10.8)	1 100 (-11.9)	1 300 (-2.4)	800 (-47.0)	1 100 (-22.3)	1 700 (23.3)	1 700 (56.0)	0.8
Water transport, air transport and services allied to transport	500 (-24.3)	500 (-48.3)	600 (-21.6)	500 (17.2)	400 (-17.7)	500 (-5.7)	400 (-9.7)	500 (-17.7)	500 (-1.1)	500 (9.4)	0.5
Storage and communications	400 (-26.1)	400 (-31.0)	400 (-15.7)	400 (-11.3)	300 (-42.9)	400 (-6.9)	300 (-25.6)	400 (14.3)	500 (1.3)	300 (-18.8)	0.7
Finance, insurance, real estate and business services	5 200 (-18.6)	5 400 (-34.6)	6 000 (-22.3)	4 800 (-8.4)	4 600 (6.3)	5 600 (8.0)	4 200 (-22.1)	6 200 (3.2)	5 700 (18.8)	6 300 (38.7)	1.5
Community, social and personal services	4 100 (-26.5)	4 400 (-23.5)	4 200 (-35.4)	4 200 (-23.8)	3 700 (-20.9)	4 200 (1.3)	3 300 (-23.8)	4 600 (11.0)	4 800 (14.6)	3 900 (4.9)	0.9
Manufacturing	1 300 (-16.6)	1 400 (-25.0)	1 500 (-22.0)	1 400 (3.9)	900 (-17.9)	1 000 (-21.5)	1 100 (-23.5)	1 200 (-16.4)	900 (-34.7)	800 (-6.4)	0.5
Building and construction sites	100 (-43.5)	100 (-42.7)	100 (-48.6)	100 (-19.7)	# (-62.7)	# (-60.1)	# (-81.7)	# (-52.6)	# (-57.4)	# (28.6)	0.1
<i>All establishments surveyed in the private sector^(a)</i>	<i>19 400 (-17.5)</i>	<i>20 800 (-30.8)</i>	<i>21 900 (-14.9)</i>	<i>18 800 (-11.6)</i>	<i>16 200 (-5.5)</i>	<i>19 700 (1.4)</i>	<i>15 900 (-23.4)</i>	<i>20 800 (-4.9)</i>	<i>21 100 (12.5)</i>	<i>20 900 (28.9)</i>	0.9
		<i><0.4></i>	<i><6.8></i>	<i><-9.9></i>	<i><-2.3></i>		<i><-18.0></i>	<i><30.9></i>	<i><7.6></i>	<i><11.6></i>	
<i>Civil Service^(b)</i>	<i>1 800 (3.3)</i>	<i>1 700 (9.0)</i>	<i>1 900 (16.0)</i>	<i>1 700 (1.9)</i>	<i>1 700 (-11.2)</i>	<i>1 500 (-14.8)</i>	<i>1 600 (-3.8)</i>	<i>1 700 (-13.5)</i>	<i>1 600 (-9.9)</i>	<i>1 200 (-32.1)</i>	0.7

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

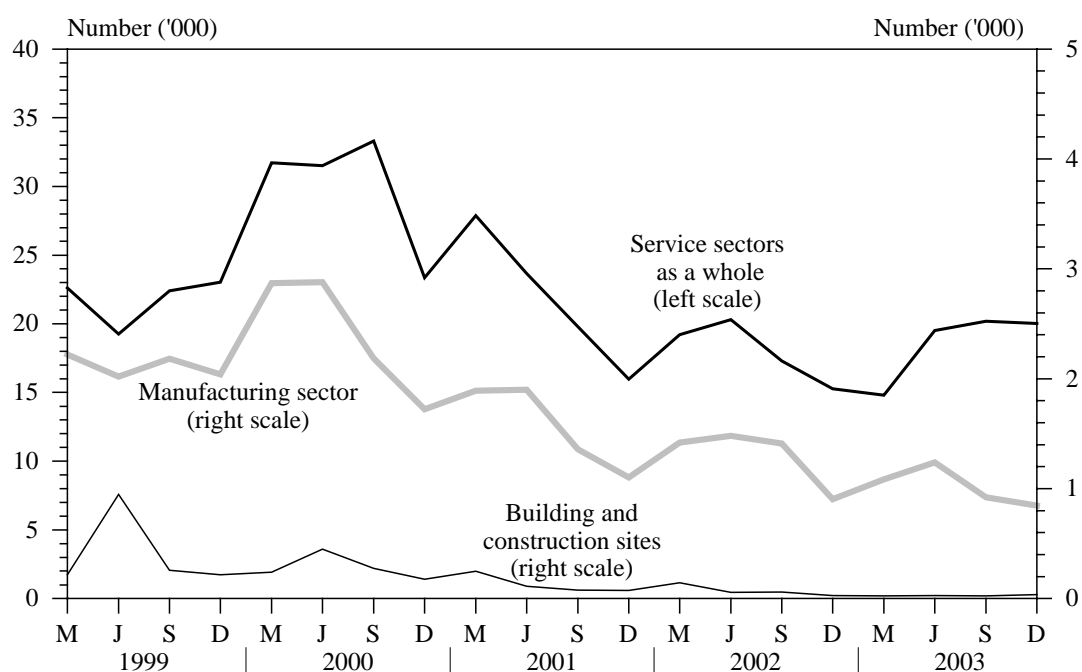
- (a) The total figures on private sector vacancies cover also vacancies in mining and quarrying and in electricity and gas supply, besides vacancies in the major sectors indicated above.
- (b) These figures cover only vacancies for those staff to be employed on Civil Service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Schemes.
- () % change over a year earlier.
- < > Seasonally adjusted quarter-to-quarter % change.
- (#) Less than 50.

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

/Diagram 5.8

Diagram 5.8

Vacancies by broad economic sector



5.18 Analysed by *occupation category*, vacancies for service workers and shop sales workers and for workers in elementary occupations leaped by 62.2% and 14.3% respectively in December 2003 over a year earlier. Most of the additional openings were concentrated in the distributive and catering trades. Vacancies for clerks also rose, by 6.1%. Yet vacancies for craft and related workers and for plant and machine operators and assemblers were slashed by 35.9% and 13.8% respectively, mainly reflecting weakened labour demand in the local manufacturing sector. As to workers at the upper segment of occupational hierarchy, vacancies for associate professionals and professionals continued to surge, by 42.1% and 29.7% respectively, with the increase occurring mostly in finance, insurance, real estate and business services. While vacancies for managers and administrators declined by 12.8%, the number involved was rather small.

/Table 5.19

Table 5.19**Vacancies by major occupation category**

	<u>No. of vacancies</u>									
	<u>Annual average</u>	<u>2002</u>				<u>2003</u>				
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Managers and administrators	400 (-21.5)	400 (-48.7)	500 (-31.0)	500 (23.2)	400 (1.5)	400 (-2.7)	500 (25.5)	400 (-11.6)	500 (-9.3)	400 (-12.8)
Professionals	1 100 (-39.1)	1 300 (-52.0)	1 100 (-53.5)	900 (-26.5)	1 100 (10.3)	1 300 (18.2)	1 100 (-12.9)	1 300 (21.5)	1 300 (43.1)	1 500 (29.7)
Associate professionals	6 900 (-5.8)	7 500 (-21.8)	8 300 (7.2)	6 400 (-4.1)	5 500 (1.7)	7 300 (5.6)	5 600 (-24.5)	8 200 (-0.5)	7 500 (17.5)	7 800 (42.1)
Clerks	3 800 (-32.4)	4 100 (-42.7)	4 200 (-37.9)	3 400 (-26.7)	3 400 (-9.7)	3 900 (3.9)	3 600 (-11.9)	4 300 (2.5)	4 200 (22.2)	3 600 (6.1)
Service workers and shop sales workers	3 700 (-8.1)	3 900 (-20.1)	3 900 (7.3)	3 800 (-4.4)	3 000 (-11.7)	3 600 (-0.6)	2 300 (-41.9)	3 100 (-20.4)	4 300 (12.2)	4 900 (62.2)
Craft and related workers	500 (-27.8)	600 (-37.8)	600 (-13.9)	400 (-40.9)	500 (-9.0)	500 (0.4)	600 (-4.9)	600 (-0.3)	600 (46.4)	300 (-35.9)
Plant and machine operators and assemblers	800 (-6.3)	900 (3.0)	700 (-31.9)	900 (22.5)	500 (-8.3)	500 (-38.2)	400 (-54.4)	600 (-11.4)	400 (-59.2)	500 (-13.8)
Elementary occupations	2 300 (-17.8)	2 200 (-32.4)	2 700 (-8.0)	2 400 (-13.8)	1 800 (-13.7)	2 100 (-6.0)	1 900 (-16.0)	2 200 (-16.1)	2 400 (-1.2)	2 100 (14.3)

Note : () % change over a year earlier.

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

/5.19

5.19 As an additional indicator of the latest labour market situation, the number of vacancies received and the number of job placements achieved at the employment services run by the Labour Department remained distinctly higher, by 43.3% and 17.3% respectively in the first quarter of 2004 over a year earlier, following increases of 19.4% and 21.3% in the fourth quarter of 2003. As another crude indicator, the number of newly authorized unemployment cases under the Comprehensive Social Security Assistance (CSSA) Scheme fell by 27.1% in the first quarter of 2004 from a year earlier, further to a 13.1% decrease in the fourth quarter of 2003. On a quarter-to-quarter comparison, the number of these new cases also dropped, by 26.0% after 28.3% in these two quarters.

Earnings and wages

5.20 Overall *labour earnings* in the private sector, as measured by payroll per person engaged, declined by 1.0% in money terms in the fourth quarter of 2003 from a year earlier, smaller than the 1.8% fall in the third quarter. Amongst the business establishments surveyed in the fourth quarter of 2003, 42% reported a reduction in average labour earnings over a year earlier, while 22% cited no change. The remaining 36% indicated a rise in average labour earnings, but this was partly due to a continued shift in the employment composition towards higher-skill and hence better-paid employees upon retrenchment of workers at the lower level. Discounting the decrease in consumer prices as reflected by the Composite CPI, overall labour earnings nevertheless still went up by 1.4% in real terms in the fourth quarter of 2003 over a year earlier, following a 1.9% rise in the third quarter. For 2003 as a whole, overall labour earnings were lower by an average of 1.8% in money terms, larger than the 1.1% decrease in 2002. Yet these corresponded to increases of 0.8% and 2.0% in real terms. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings edged up by 0.2% in money terms in the fourth quarter of 2003, having been static in the third quarter. In real terms, there was a decrease of 0.2% in the fourth quarter of 2003, after a 1.8% gain in the third quarter. This was nevertheless attributable to an increase in the seasonally adjusted Composite CPI between the third quarter and the fourth quarter of 2003, partly because of dissipation of the dampening effect from the rates concession implemented by the Government during the former period.

/5.21

5.21 Analysed by *economic sector*, labour earnings went down across-the-board in money terms. For all the *service sectors* surveyed taken together, labour earnings were reduced by 1.4% in money terms in the fourth quarter of 2003 from a year earlier, though lesser than the 2.0% decline in the third quarter. Discounting the fall in consumer prices, labour earnings were nevertheless higher by 1.0% in real terms in the fourth quarter of 2003 than a year earlier, following a 1.6% rise in the third quarter. Analysed by major constituent sector, earnings in community, social and personal services and in restaurants and hotels had relatively larger decreases by 4.5% and 3.2% respectively in money terms, or 2.2% and 0.9% in real terms, in the fourth quarter of 2003 over a year earlier. Earnings in transport, storage and communications, in the wholesale, retail and import/export trades, and in finance, insurance, real estate and business services fell more modestly, by 0.6 - 1.2% in money terms. In real terms, they still moved up by 1.2 - 1.8%. As to the local *manufacturing sector*, labour earnings declined by 0.8% in money terms in the fourth quarter of 2003 from a year earlier. But this was distinctly smaller than the 3.6% drop in third quarter. In real terms, labour earnings in this sector moved higher by 1.6% in the fourth quarter of 2003 from a year earlier, after decreasing slightly by 0.1% in the third quarter.

/Table 5.20

Table 5.20

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

	<u>Payroll per person engaged</u>										Average amount in <u>Q4 2003</u> (\$)
	<u>2002</u>					<u>2003</u>					
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3^(a)</u>	<u>Q4</u>	
Wholesale, retail and import/export trades	-1.6 (1.4)	-1.0 (1.6)	-1.6 (1.7)	-2.1 (1.5)	-2.0 (1.0)	-1.5 (1.1)	-1.3 (0.7)	-2.5 (*)	-1.3 (2.4)	-0.9 (1.5)	12,300
Restaurants and hotels	-4.2 (-1.1)	-4.9 (-2.3)	-5.5 (-2.4)	-3.0 (0.5)	-3.1 (-0.1)	-6.2 (-3.7)	-6.6 (-4.7)	-9.8 (-7.6)	-5.2 (-1.7)	-3.2 (-0.9)	8,100
Transport, storage and communications	-0.2 (2.9)	-1.9 (0.7)	1.5 (4.9)	-2.5 (1.0)	2.0 (5.1)	-1.7 (0.9)	-0.3 (1.7)	-3.8 (-1.4)	-1.8 (1.8)	-1.2 (1.2)	20,100
Finance, insurance, real estate and business services	-2.2 (0.8)	-2.0 (0.6)	-2.6 (0.6)	-1.4 (2.2)	-2.9 (*)	-1.4 (1.2)	-2.7 (-0.7)	-1.5 (0.9)	-0.6 (3.1)	-0.6 (1.8)	19,200
Community, social and personal services	-1.3 (1.9)	* (2.7)	0.1 (3.4)	-2.4 (1.2)	-2.7 (0.3)	-4.7 (-2.2)	-4.2 (-2.2)	-4.6 (-2.2)	-5.7 (-2.2)	-4.5 (-2.2)	18,500
Manufacturing	-1.2 (1.9)	-0.8 (1.8)	-0.6 (2.7)	-1.1 (2.6)	-2.2 (0.7)	-3.0 (-0.4)	-5.1 (-3.2)	-2.2 (0.3)	-3.6 (-0.1)	-0.8 (1.6)	11,400
All sectors surveyed in the private sector	-1.1 (2.0)	-0.6 (2.1)	-1.0 (2.2)	-1.5 (2.1)	-1.2 (1.8)	-1.8 (0.8)	-2.0 (*)	-2.5 (-0.1)	-1.8 (1.9)	-1.0 (1.4)	15,200
		<-0.1> {1.0}	<-0.1> {0.5}	<-0.7> {*}	<-0.5> {0.2}		<-0.7> {-0.7}	<-0.6> {0.5}	<*> {1.8}	<0.2> {-0.2}	

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

(a) The lift in labour earnings in real terms as against the corresponding year-on-year decline in nominal terms was largely caused by an abrupt fall in the Composite CPI in the third quarter of 2003, consequential to the special relief measures implemented by the Government in that quarter.

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

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

(*) Change of less than 0.05%.

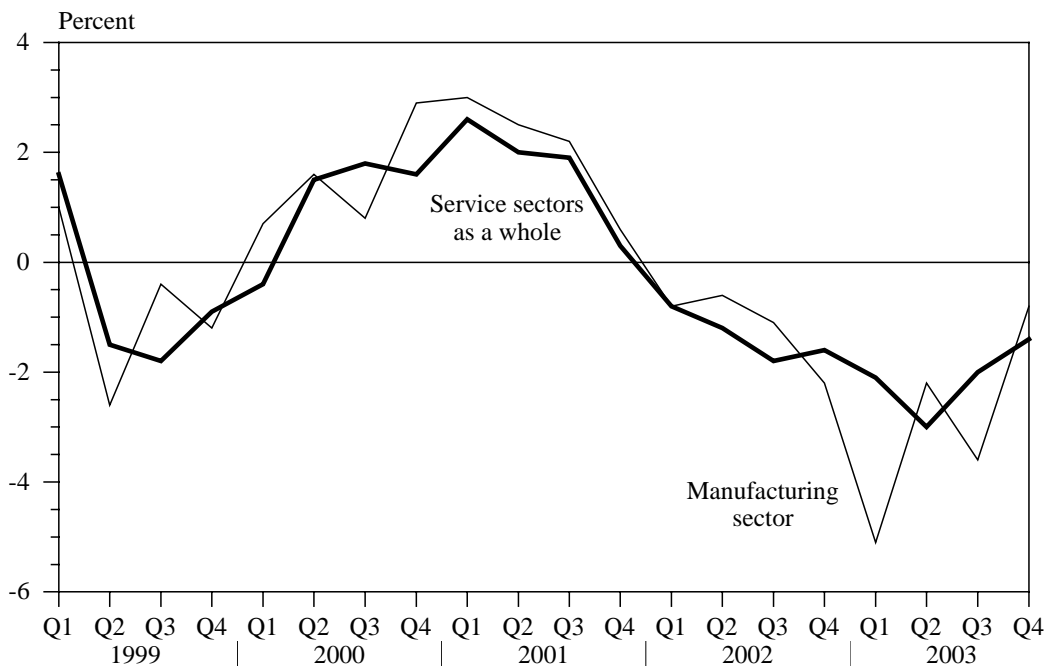
Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.9

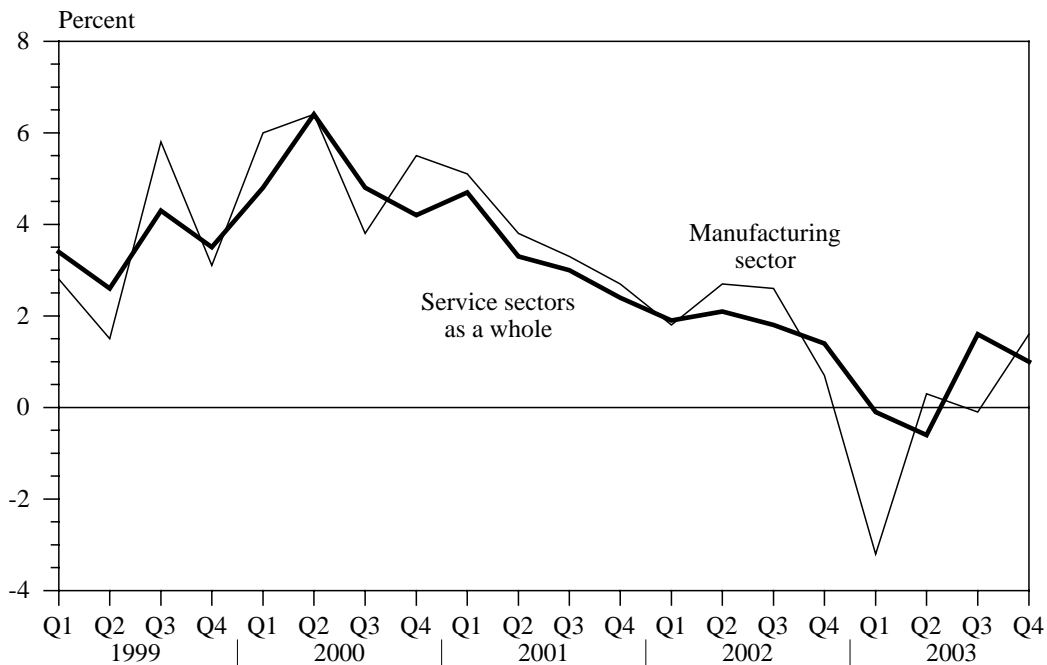
Diagram 5.9

Earnings by broad economic sector

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



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



5.22 Overall *labour wages* in the private sector fell by 1.5% in money terms in December 2003 over a year earlier, which was also more moderate than the 2.1% decrease in September. Amongst the business establishments surveyed in December 2003, 49% reported a reduction in average wage rate from a year earlier, involving primarily a cut in guaranteed bonuses and allowances. Another 11% revealed nil change. The remaining 40% cited a rise in average wage rate, which again was partly attributable to a shift in employment composition towards better-paid workers upon retrenchment of the lower-paid clerical staff and operatives. Discounting a moderated decline in consumer prices as measured by the CPI(A)⁽¹⁰⁾, overall labour wages edged lower by 0.3% in real terms in December 2003 from a year earlier, after a 0.7% rise in September. For 2003 as a whole, overall labour wages were on average down by 1.9% in money terms from a year earlier, but up by 0.2% in real terms. In 2002, there was a decline of 1.0% in money terms, or an increase of 1.3% in real terms.

5.23 Analysed by *economic sector*, wages were reduced across many of the *service sectors*. Specifically, wages in restaurants and hotels, transport services and personal services were lower by 3.9%, 2.6% and 2.3% respectively in money terms in December 2003 than a year earlier. In real terms, these corresponded to decreases of 2.6%, 1.4% and 1.0%. Wages in the wholesale, retail and import/export trades fell by 1.3% in money terms, and were virtually static in real terms. Wages in finance, insurance, real estate and business services bounced up by 0.7% in money terms, with a 2.0% gain in real terms. As to the local *manufacturing sector*, wages declined both in money terms and in real terms, by 2.2% and 0.9% respectively in December 2003 from a year earlier.

/Table 5.21

Table 5.21**Wages by selected major economic sector
(year-on-year rate of change (%))**

	<u>By reference to the wage index</u>									
	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep^(b)</u>	<u>Dec</u>
Wholesale, retail and import/export trades	-0.6 (1.7)	* (2.1)	0.3 (4.4)	-2.0 (2.4)	-0.7 (-1.7)	-1.7 (0.4)	-1.2 (0.7)	-2.9 (-0.5)	-1.5 (1.3)	-1.3 (*)
Restaurants and hotels	-2.6 (-0.3)	-1.4 (0.6)	-3.3 (0.6)	-2.7 (1.6)	-3.0 (-4.0)	-4.1 (-2.1)	-3.2 (-1.4)	-4.5 (-2.1)	-5.0 (-2.3)	-3.9 (-2.6)
Transport services	0.6 (2.9)	1.1 (3.1)	0.8 (4.9)	* (4.4)	0.5 (-0.5)	-1.9 (0.1)	-1.4 (0.4)	-2.0 (0.4)	-1.6 (1.1)	-2.6 (-1.4)
Finance, insurance, real estate and business services	-0.8 (1.5)	-1.7 (0.3)	-1.8 (2.2)	* (4.4)	0.3 (-0.8)	-0.1 (2.0)	0.3 (2.2)	-0.9 (1.5)	-0.3 (2.5)	0.7 (2.0)
Personal services	-1.5 (0.8)	-0.9 (1.1)	-2.0 (2.0)	-3.0 (1.3)	-0.1 (-1.1)	-3.1 (-1.1)	-3.4 (-1.6)	-2.8 (-0.3)	-4.1 (-1.3)	-2.3 (-1.0)
Manufacturing	-1.4 (0.8)	-2.1 (-0.2)	-0.7 (3.4)	-1.5 (2.8)	-1.4 (-2.5)	-2.7 (-0.7)	-2.6 (-0.7)	-2.4 (*)	-3.7 (-1.0)	-2.2 (-0.9)
All selected sectors surveyed in the private sector	-1.0 (1.3)	-0.8 (1.2)	-0.9 (3.1)	-1.5 (2.8)	-0.8 (-1.8)	-1.9 (0.2)	-1.5 (0.3)	-2.5 (-0.1)	-2.1 (0.7)	-1.5 (-0.3)

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

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

(b) The lift in labour wages in real terms as against the corresponding year-on-year decline in nominal terms was largely caused by an abrupt fall in the CPI(A) in the third quarter of 2003, consequential to the special relief measures implemented by the Government in that quarter.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

5.24 Analysed by *occupation category*, wages for miscellaneous non-production workers, service workers and craftsmen went down by 4.3%, 2.7% and 2.3% respectively in money terms, or 3.1%, 1.4% and 1.0% in real terms, in December 2003 over a year earlier. Wages for operatives and for clerical and secretarial workers had lesser declines, by 1.5% and 1.4% respectively in money terms, or 0.2% and 0.1% in real terms. Wages for supervisory and technical workers showed no change in money terms, but a rise of 1.3% in real terms.

Table 5.22
Wages by selected major occupation category
(year-on-year rate of change (%))

	<u>By reference to the wage index</u>									
	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec^(a)</u>	<u>Annual</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep^(b)</u>	<u>Dec</u>
Supervisory and technical workers	-0.2 (2.1)	-0.2 (1.8)	0.1 (4.2)	-0.7 (3.7)	* (-1.0)	-0.6 (1.5)	-0.2 (1.7)	-1.8 (0.6)	-0.4 (2.5)	* (1.3)
Clerical and secretarial workers	-1.1 (1.2)	-0.2 (1.8)	-0.8 (3.2)	-1.8 (2.5)	-1.7 (-2.7)	-2.3 (-0.2)	-2.2 (-0.4)	-3.0 (-0.6)	-2.7 (0.1)	-1.4 (-0.1)
Craftsmen	-0.9 (1.4)	-0.6 (1.4)	-1.6 (2.4)	-1.5 (2.9)	0.2 (-0.8)	-1.6 (0.5)	-1.5 (0.3)	-0.8 (1.7)	-1.9 (0.9)	-2.3 (-1.0)
Operatives	-0.9 (1.4)	-1.0 (1.0)	0.1 (4.2)	-1.3 (3.0)	-1.3 (-2.3)	-2.3 (-0.3)	-2.7 (-0.9)	-2.7 (-0.3)	-2.4 (0.3)	-1.5 (-0.2)
Service workers	-3.0 (-0.8)	-3.0 (-1.0)	-3.6 (0.3)	-3.4 (0.9)	-2.1 (-3.2)	-3.0 (-1.0)	-2.3 (-0.4)	-3.2 (-0.8)	-4.0 (-1.3)	-2.7 (-1.4)
Miscellaneous non-production workers	-1.3 (1.0)	-0.9 (1.1)	-1.4 (2.6)	-1.8 (2.6)	-1.0 (-2.1)	-3.8 (-1.8)	-2.8 (-1.0)	-4.0 (-1.6)	-4.0 (-1.3)	-4.3 (-3.1)

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

(a) Also see Note (a) to Table 5.21.

(b) Also see Note (b) to Table 5.21.

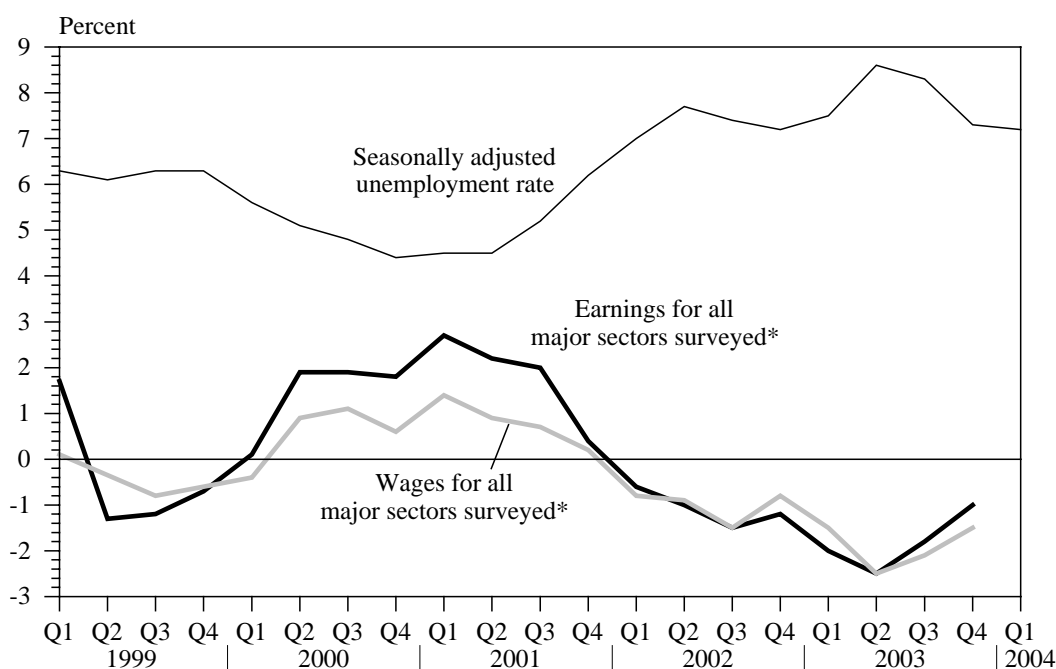
(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

/Diagram 5.10

Diagram 5.10

Earnings, wages and the unemployment rate



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

5.25 Overall wages in the *construction sector* continued to ease, by 1.1% in money terms in the fourth quarter of 2003 from a year earlier, broadly similar to the 1.3% fall in the third quarter. Nevertheless, after discounting the decline in consumer prices as shown by the CPI(A), construction wages moved up by 0.6% in real terms in the fourth quarter of 2003 over a year earlier, after a 2.1% rise in the third quarter. For 2003 as a whole, construction wages declined by an average of 0.8% in money terms, following nil change in 2002. In real terms, these wages were higher by an average of 1.3% in 2003, as against a 3.3% increase in 2002.

5.26 Wages for the various constituent job categories in the construction sector moved differently. Specifically, wages for carpenters and joiners and for steelbenders were slashed by 5.9% and 5.0% respectively in money terms in the fourth quarter of 2003 from a year earlier, while those for painters, plasterers, electricians (wiremen) and plant operators dropped by 2.3 - 3.7% in money terms. Wages for concretors/bricklayers/drainlayers were reduced modestly, by 0.8% in money terms. On the other hand, wages for fitters, plumbers and truck drivers all went up, by 3.9%, 2.3% and 0.8% respectively in money terms.

/Table 5.23

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

	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Concretors/bricklayers/ drainlayers	0.4	-0.2	3.0	1.1	-2.0	-1.3	*	-2.5	-1.7	-0.8
Steelbenders	2.2	1.0	3.1	3.4	1.4	-2.7	-0.1	-1.1	-4.6	-5.0
Carpenters and joiners	3.0	-1.5	5.2	5.6	3.0	-2.5	2.6	-3.5	-3.0	-5.9
Plumbers	-1.9	-3.8	-2.1	-2.3	0.6	2.1	1.1	1.9	3.0	2.3
Fitters	-0.8	2.6	-0.7	-2.4	-2.5	3.3	0.7	2.7	5.8	3.9
Plasterers	-1.8	-3.6	-1.9	-1.3	-0.3	-1.6	-1.3	-1.3	-0.7	-3.2
Painters	-3.0	-2.1	-3.6	-4.5	-1.5	-0.3	2.1	1.4	-1.0	-3.7
Electricians (wiremen)	1.9	3.3	2.7	0.3	1.4	-0.6	1.4	-0.2	-1.4	-2.3
Plant operators	1.2	3.3	2.8	0.2	-1.4	-1.8	-1.1	-1.5	-2.3	-2.3
Truck drivers	-0.3	2.5	1.3	-1.9	-2.8	-0.2	-2.0	0.4	0.1	0.8
All job categories in the construction sector ^(a)	* (3.3)	-0.2 (2.6)	1.6 (5.3)	-0.4 (3.8)	-0.9 (1.6)	-0.8 (1.3)	* (1.8)	-1.0 (0.8)	-1.3 (2.1)	-1.1 (0.6)

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

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

(*) Change of less than 0.05%.

Source : Census and Statistics Department.

/5.27

5.27 In February 2003, the Government announced its decision to restore the dollar value of all Civil Service pay points below Directorate Pay Scale Point 3 (D3) or equivalent back to the levels as at 30 June 1997 by two adjustments of broadly equal amount to be implemented on 1 January 2004 and 1 January 2005 respectively, and to restore the dollar value of all Civil Service pay points at D3 and above or equivalent back to the levels as at 30 June 1997 from 1 January 2004. With the enactment of the Public Officers Pay Adjustments (2004/2005) Ordinance in December 2003, which served to implement the pay reductions in 2004 and 2005, the first stage of the Civil Service pay reduction took effect on 1 January 2004.

5.28 The Government has embarked on an exercise to develop, in consultation with staff, an improved Civil Service pay adjustment mechanism on the basis of the existing one. The improved mechanism will comprise the conduct of periodic pay level surveys to compare the Civil Service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology, and an effective means for implementing both upward and downward pay adjustments. To take forward the exercise, a steering committee has been set up to tender advice in the process. Staff feedback is gauged through a consultative group comprising staff representatives. A consultant has been appointed to provide technical assistance in drawing up a detailed and feasible survey methodology for the pay level. The aim is to complete the exercise, including the conduct of a pay level survey, in the second quarter of 2005.

/Notes

Notes :

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

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

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

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

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

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

- (3) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.

/(5)

- (5) The labour force participation rate is defined as the proportion of economically active population (i.e. those working or unemployed) in the population aged 15 or above.
- (6) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (7) The wage data as collected have a more limited coverage than the corresponding earnings data. More specifically, the coverage of the service sectors in the wage data is far from complete, and the coverage of occupation categories in the wage data is only up to the supervisory and technical level.
- (8) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; finance, insurance, real estate and business services; and community, social and personal services.
- (9) Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.
- (10) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

CHAPTER 6 : PRICES

Consumer prices

6.1 The decline in overall consumer prices moderated quite substantially in the first quarter of 2004. This was attributable to the stronger demand brought about by the sustained pick-up in local consumer spending and vibrant inbound tourism. In response, more retailers and service providers have cut back earlier price discounts and other concessions on their goods and services. Some have even adjusted prices up modestly. Higher input costs were another contributory factor. Within the local economy, the downtrend in labour wages and property rentals appeared to have tapered or turned around in the more recent months, along with improvement in the labour market and rebound in the property market. Externally, the prices of retained imports kept moving higher, under the combined influence of a weaker US dollar and surge in world commodity prices.

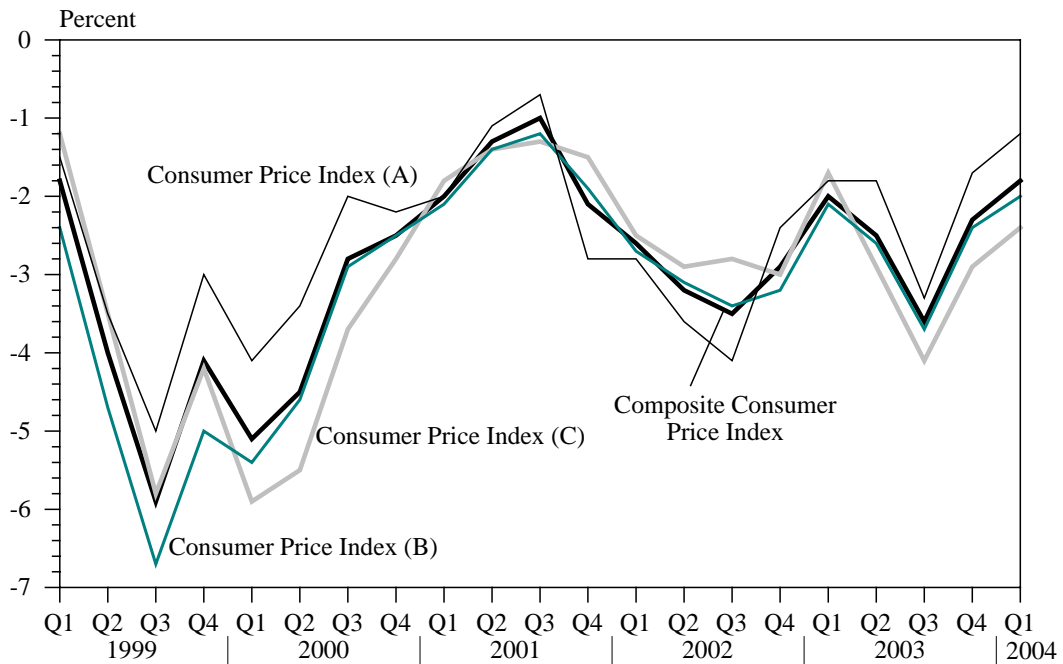
6.2 On a year-on-year comparison, the *Composite Consumer Price Index*⁽¹⁾ was down by 1.8% in the first quarter of 2004, distinctly narrowed from the 2.3% drop in the fourth quarter of 2003. While the prices of many commodity items exhibited moderated declines, the prices of some other items, such as clothing and footwear, and miscellaneous consumer goods, went up further. Also, there was a sharp rise in the charges for electricity, gas and water, yet this was attributable almost entirely to a low base of comparison brought about by the waiver of water and sewage charges granted by the Government for April 2002 - March 2003⁽²⁾ and by the rebate of electricity charge granted by a power company for January and February 2003⁽³⁾.

6.3 Analysed by sub-index, the CPI(A), CPI(B) and CPI(C) all had their respective year-on-year decreases narrowed to 1.2%, 2.0% and 2.4% in the first quarter of 2004, from 1.7%, 2.4% and 2.9% in the fourth quarter of 2003.

/Diagram 6.1

Diagram 6.1

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



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

/Table 6.1

Table 6.1

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

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
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	-2.0	-1.8	-2.1	-1.7
	Q2	-2.5	-1.8	-2.6	-2.9
	Q3 ^(a)	-3.6	-3.3	-3.7	-4.1
	Q4 ^(b)	-2.3	-1.7	-2.4	-2.9
2004	Q1 ^(c)	-1.8	-1.2	-2.0	-2.4
	Jan	-1.5	-0.7	-1.6	-2.1
	Feb	-2.0	-1.1	-2.1	-2.8
	Mar	-2.1	-1.8	-2.1	-2.5

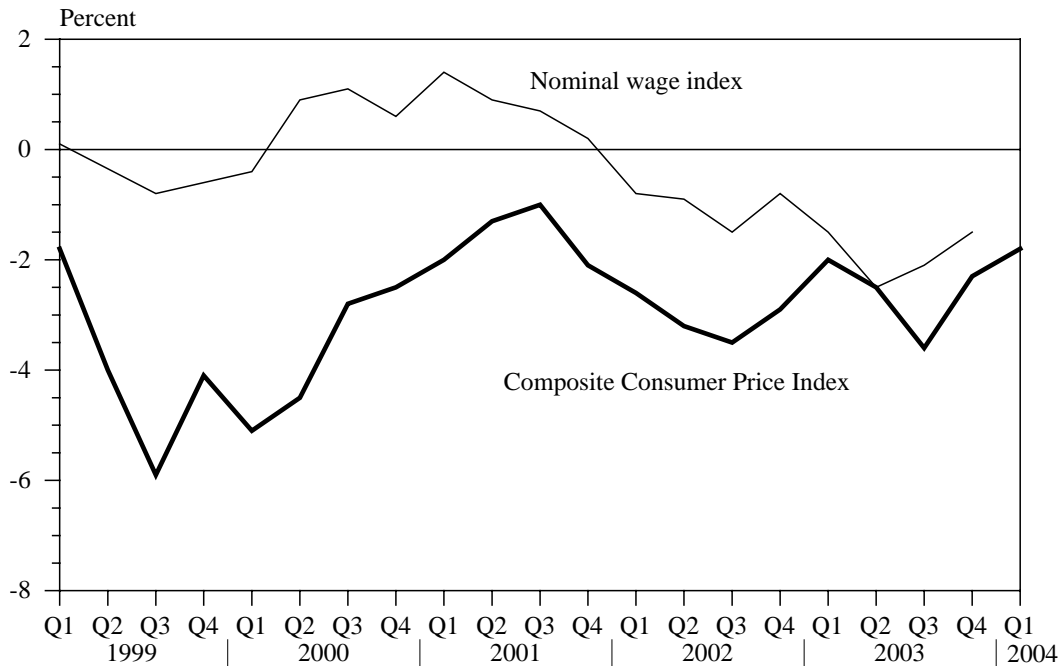
- Notes :
- (a) The distinct widening in year-on-year decline in the CPIs in the third quarter of 2003 from the second quarter largely reflected the dampening effects from the rates concession and the waiver of water and sewage charges granted as special relief measures by the Government for the periods July - September and August - November respectively.
 - (b) The narrowing in year-on-year decline in the CPIs in the fourth quarter of 2003 from the third quarter was mainly due to dissipation of the dampening effect from the rates concession as mentioned in (a) above, and firming in some of the consumer prices along with the economic pick-up. On the other hand, the waiver of water and sewage charges had similar downward effect on both quarters.
 - (c) The further narrowing in year-on-year decline in the CPIs in the first quarter of 2004 was partly attributable to reduced price discounts on a variety of goods and services, amidst further pick-up in consumer demand. Also relevant was a low base of comparison brought about by the waiver of water and sewage charges granted by the Government for April 2002 - March 2003, and by the rebate of electricity charge granted by a power company in January and February 2003. These outweighed the downward effect from the latest rebate of electricity charge granted by a power company in March and April 2004.

/Diagram 6.2

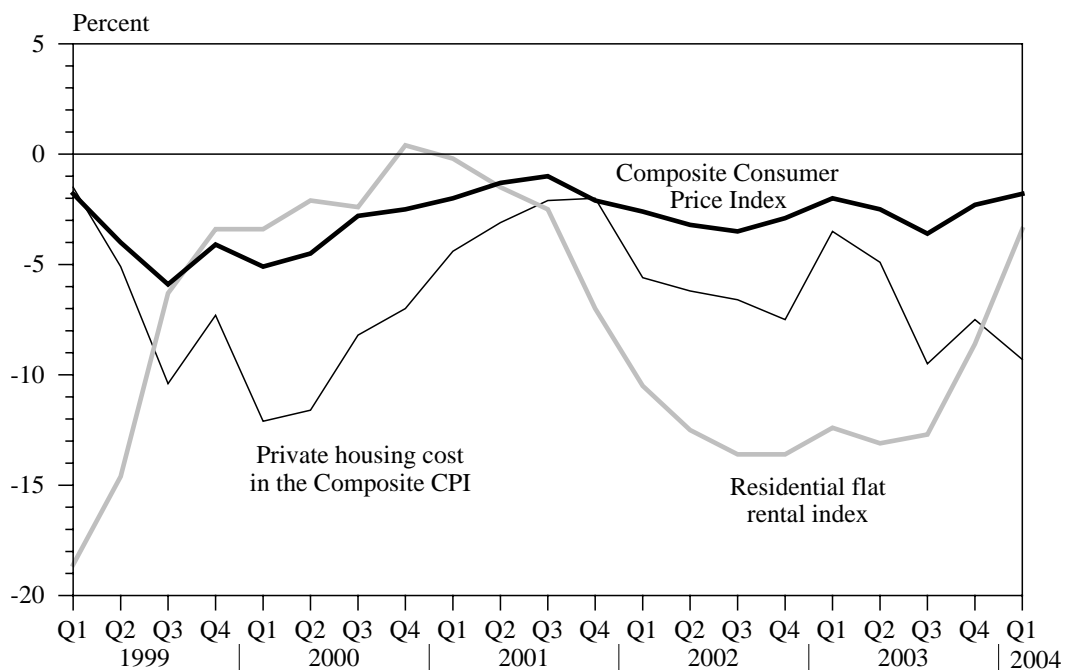
Diagram 6.2

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

(a) Compared with labour wages



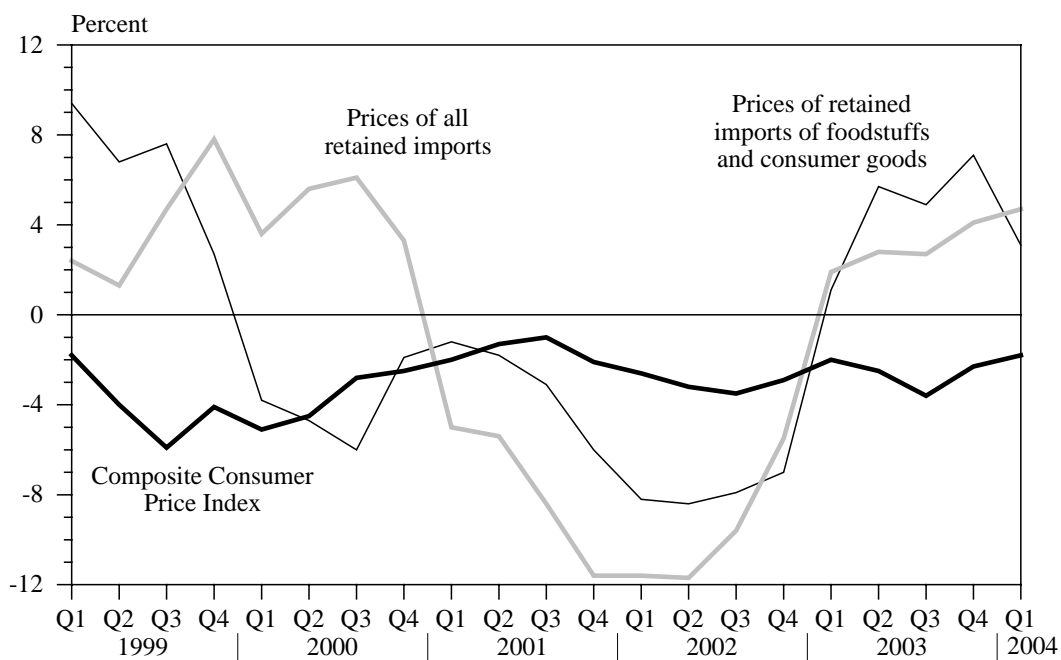
(b) Compared with residential flat rentals



/Diagram 6.2 (cont'd)

Diagram 6.2 (cont'd)

(c) Compared with prices of retained imports



Note : See the footnote to Diagram 6.1.

6.4 On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI moved up by 0.3% in the first quarter of 2004, smaller than the 0.8% rise in the fourth quarter of 2003. Yet the latter figure was partly boosted by a low base in the third quarter of 2003 caused by the rates concession granted by the Government in that quarter⁽⁴⁾. The CPI(A), CPI(B) and CPI(C) also rose, albeit by a lesser extent in the first quarter of 2004 than in the fourth quarter of 2003, by 0.4%, 0.2% and 0.3% as against 1.1%, 0.7% and 0.6% respectively.

/Table 6.2

Table 6.2**Seasonally adjusted Consumer Price Indices
(quarter-to-quarter rate of change (%))**

	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2003 Q1	-0.1	*	-0.2	*
Q2 ^(a)	-1.1	-0.5	-1.1	-1.8
Q3 ^(b)	-1.9	-2.3	-1.8	-1.6
Q4 ^(c)	0.8	1.1	0.7	0.6
2004 Q1	0.3	0.4	0.2	0.3

Notes : (a) 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.

(b) The quarter-to-quarter decline in the seasonally adjusted CPIs mostly enlarged further in the third quarter of 2003 from the second quarter, largely attributable to 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.

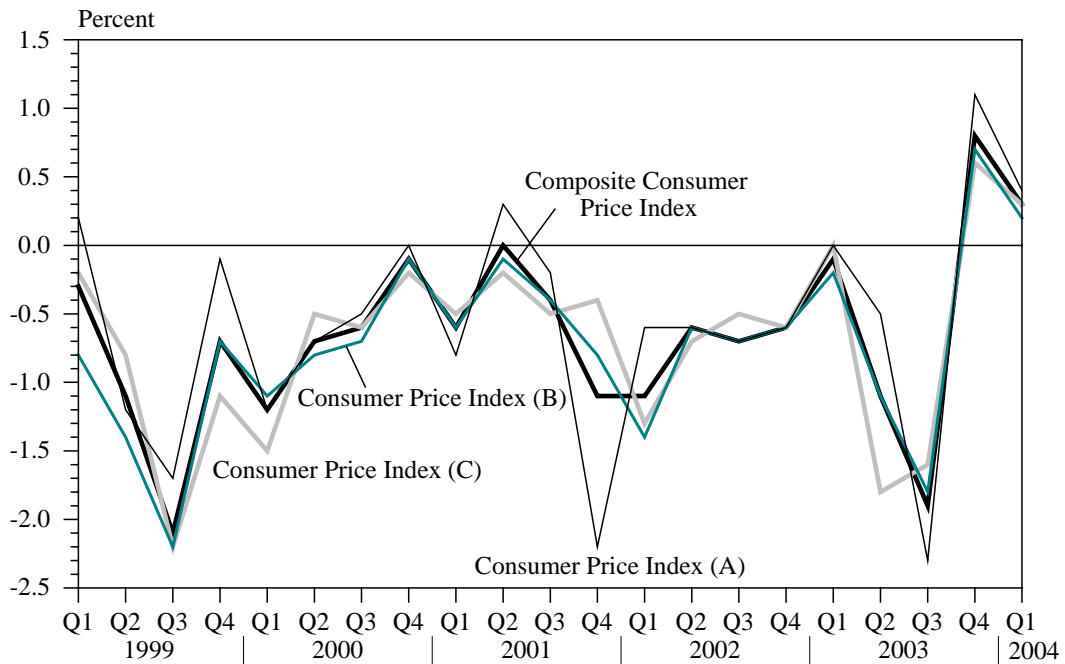
(c) The seasonally adjusted CPIs turned up to increase in the fourth quarter of 2003 from the third quarter, mainly due to dissipation of the dampening effect from the rates concession, and also firming in some of the consumer prices.

(*) Change of less than 0.05%.

/Diagram 6.3

Diagram 6.3

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



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

/6.5

6.5 Analysed by major *commodity group* in the Composite CPI and by year-on-year comparison, the cost of private housing⁽⁵⁾ continued to fall, by 9.3% in the first quarter of 2004, reflecting primarily the lag effect of earlier decline in flat rentals. The cost of public housing nevertheless held broadly stable, with a slight increase of only 0.1%. As to the prices of durable goods, there was a decrease of 3.6%, on account of continued downward adjustments in the prices of computers and telecommunications equipment, watches, cameras and optical goods, video and sound equipment, and furniture. The charges for miscellaneous services were reduced by 3.4%, due to lower prices of telephone and other communications services. The charges for meals at restaurants eased by 0.5%, as operators generally trimmed the respective price discounts amidst improved business conditions. This was notwithstanding a 1.1% rise in the prices of basic foodstuffs, attributable mainly to higher prices of poultry, fresh vegetables and fresh fruit, amidst occasional shortage in supply. On transport cost, there was a mild decrease by 0.4%, owing to fare concessions offered by bus companies and the Mass Transit Railway, as well as lower charges for inbound and outbound transport. The prices of alcoholic drinks and tobacco edged down by 0.1%, in line with a moderated decline in the prices of beer and Western wines. On the other hand, the prices of clothing and footwear soared by 6.1%, due to markedly reduced price discounts especially for women's outerclothing upon the revival in consumer spending. The prices of miscellaneous goods rose by 3.8%, mainly caused by firmer gold prices and thus prices of jewellery. The charges for electricity, gas and water were sharply higher by 21.8%, yet this was due to the low base of comparison brought about by the waiver of water and sewage charges and the rebate of electricity charge implemented a year earlier. It outweighed the dampening effect from the latest rebate of electricity charge implemented in March and April this year.

/Table 6.3

Table 6.3

**Consumer Price Indices
by component in the first quarter of 2004
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
Food	0.1	0.5	0.3	-0.9
<i>Meals bought away from home</i>	-0.5	*	*	-2.0
<i>Other foodstuffs</i>	1.1	1.1	1.1	1.3
Housing ^(a)	-7.7	-6.6	-7.9	-8.6
<i>Private dwellings</i>	-9.3	-9.0	-9.1	-9.9
<i>Public dwellings</i>	0.1	0.1	0.1	NA
Electricity, gas and water	21.8	28.1	19.4	13.7
Alcoholic drinks and tobacco	-0.1	-0.1	-0.2	-0.2
Clothing and footwear	6.1	3.9	4.4	10.7
Durable goods	-3.6	-3.0	-3.5	-4.1
Miscellaneous goods	3.8	2.2	3.5	5.8
Transport	-0.4	-1.1	-0.4	0.1
Miscellaneous services	-3.4	-4.0	-2.9	-3.4
All items	-1.8	-1.2	-2.0	-2.4

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

NA Not applicable.

(*) Change of less than 0.05%.

/Diagram 6.4

Diagram 6.4

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

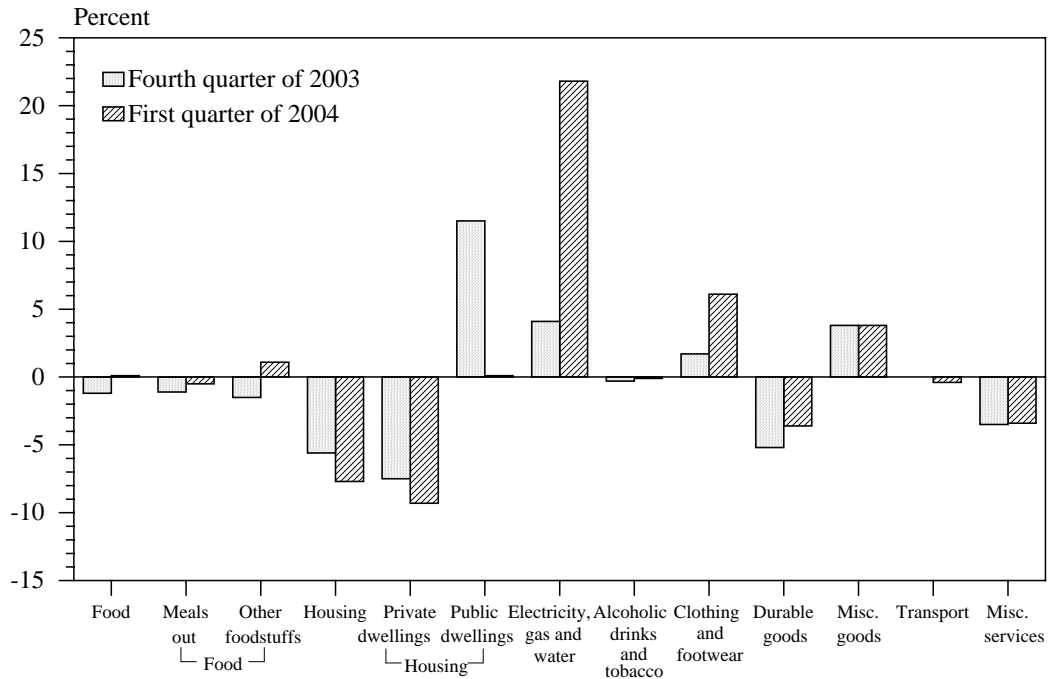
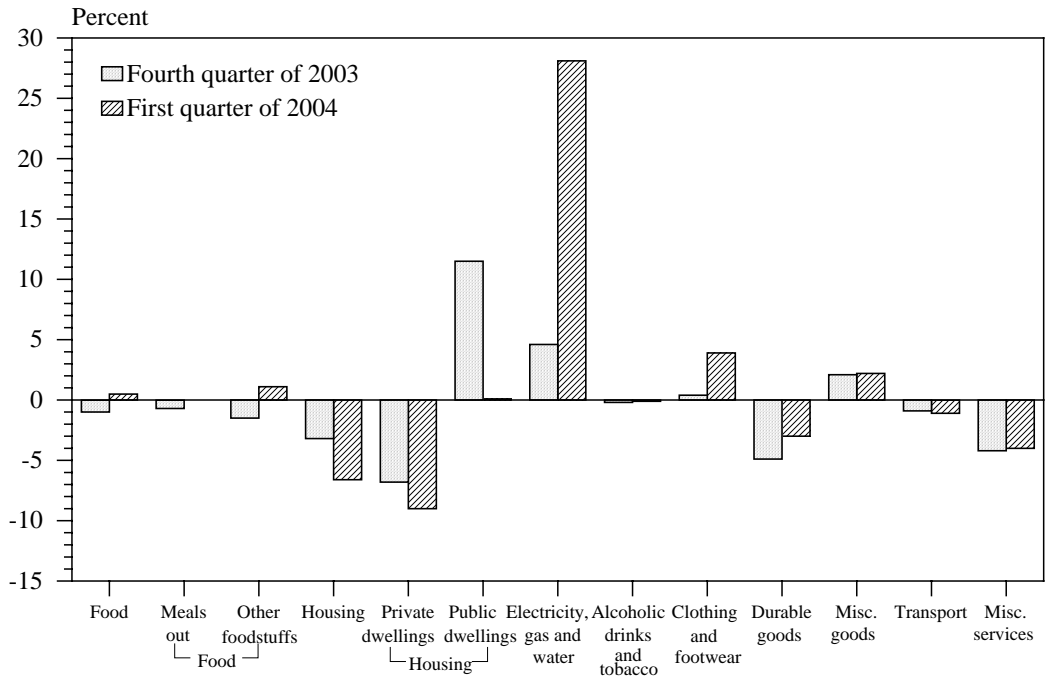


Diagram 6.5

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



/Import

Import prices

6.6 The *prices of imports of goods*, as measured by the unit value index of imports of goods, went up by 0.7% in the first quarter of 2004 over a year earlier. This followed a 0.2% decrease in the fourth quarter of 2003, and reversed the downtrend prevailing since the latter part of 2000. The weaker US dollar and firmer world commodity prices, especially those of fuels and metals, were the major factors contributing to the upturn in import prices. Renewed inflation in some of the major supplier economies, including the Mainland, also contributed.

6.7 Analysed by major *source* and by year-on-year comparison, the prices of goods imported from Japan, having gone up by 2.7% in the fourth quarter of 2003, rose further by 2.3% in the first quarter of 2004, reflecting largely the effect of appreciation of the Japanese yen against the US dollar. The prices of goods imported from the United States went higher by 1.1% both in the fourth quarter of 2003 and in the first quarter of 2004. The price increase occurred mainly amongst foodstuffs imported from this source. On goods imported from the Mainland, the prices moved up by 0.5% in the first quarter of 2004, having been static in the fourth quarter of 2003. This was primarily due to an upward adjustment in the prices of raw materials and semi-manufactures, together with a moderated decline in the prices of capital goods, imported from the Mainland. For similar reasons, the prices of goods imported from Taiwan edged higher by 0.4% in the first quarter of 2004, reversing the 1.3% decline in the fourth quarter of 2003.

/Table 6.4

Table 6.4

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

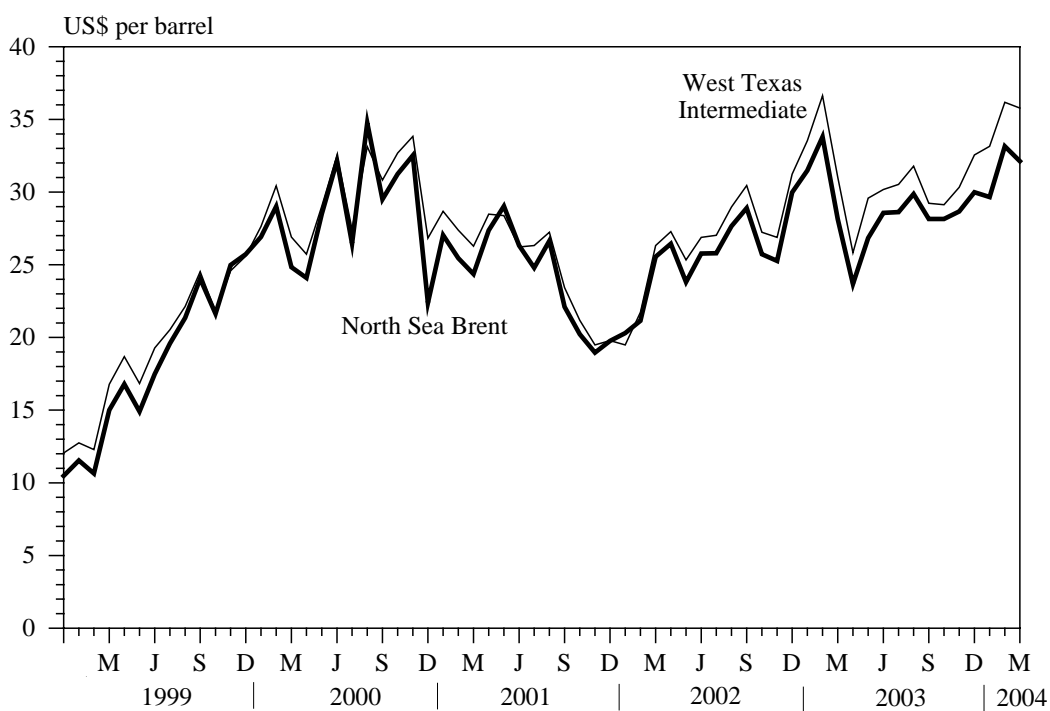
		<i>Of which :</i>				
		<u>Fuels</u>	<u>All non-fuel commodities</u>	<u>Food and beverages</u>	<u>Agricultural raw materials</u>	<u>Metals</u>
2003	Annual	16.7	7.1	5.8	3.7	11.9
	H1	25.4	8.1	9.7	8.5	5.0
	H2	9.1	6.3	2.2	-0.6	19.0
	Q1	47.1	10.2	11.9	13.4	5.3
	Q2	7.1	6.0	7.5	4.1	4.7
	Q3	7.3	2.8	-1.3	-1.3	13.7
	Q4	11.0	9.6	5.6	*	24.1
2004	Q1	4.0	19.6	13.5	5.5	40.3

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

Source : IMF International Financial Statistics.

Diagram 6.6

Spot price of crude oil*



Note : (*) Month-end figures.

/Table 6.5

Table 6.5**Unit value indices of imports of goods by major source
(year-on-year rate of change (%))**

		<u>Mainland of China</u>	<u>Japan</u>	<u>Taiwan</u>	<u>United States</u>	<u>All sources</u>
2003	Annual	-0.2	2.4	-0.6	-0.9	-0.4
	H1	-0.4	3.1	0.3	-2.0	-0.2
	H2	*	1.8	-1.3	0.1	-0.5
	Q1	-1.0	3.3	1.1	-2.6	-0.1
	Q2	0.1	2.9	-0.3	-1.4	-0.3
	Q3	-0.1	0.9	-1.3	-1.1	-0.9
	Q4	*	2.7	-1.3	1.1	-0.2
2004	Q1	0.5	2.3	0.4	1.1	0.7

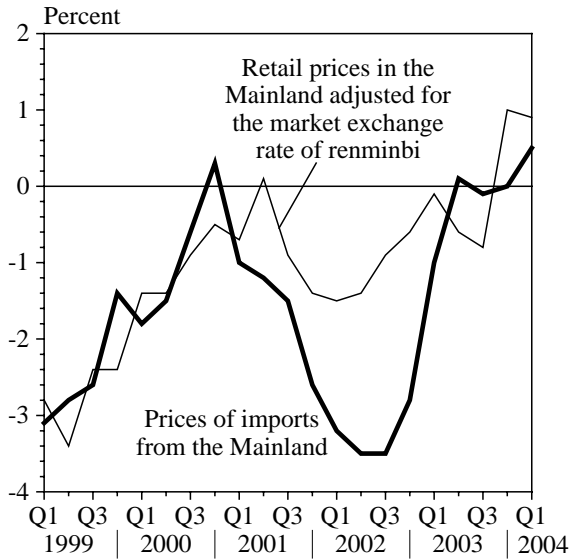
Note : (*) Change of less than 0.05%.

/Diagram 6.7

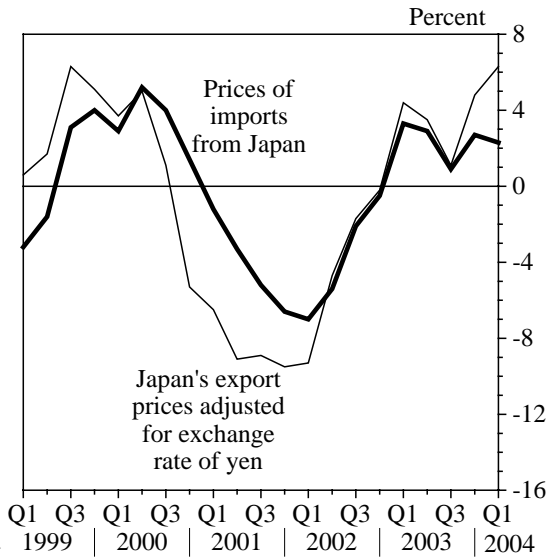
Diagram 6.7

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

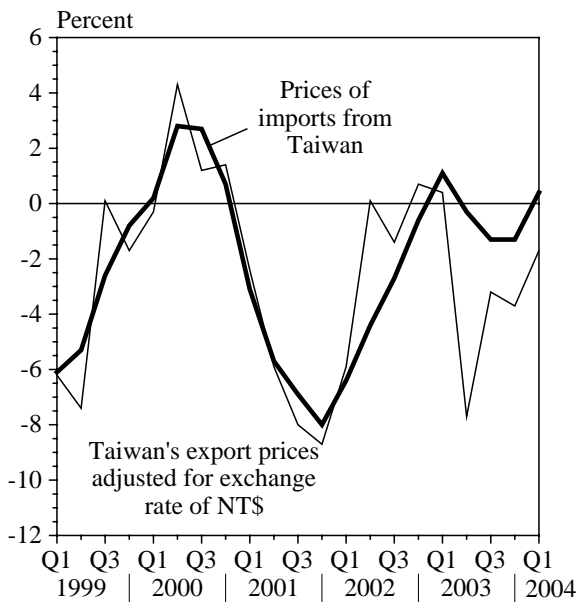
(a) For imports from the mainland of China



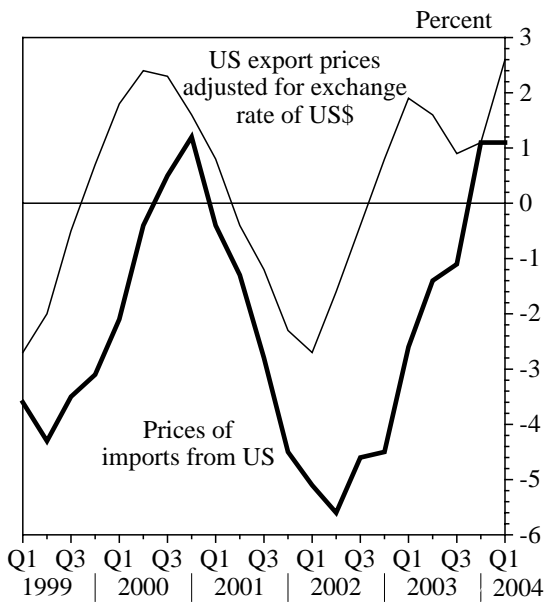
(b) For imports from Japan



(c) For imports from Taiwan



(d) For imports from the United States



6.8 The *prices of retained imports*, as measured by the unit value index of retained imports, were 4.7% higher in the first quarter of 2004 than a year earlier, further to a 4.1% rise in the fourth quarter of 2003. The recent uptrend in the retained import prices was one of the key factors contributing to a narrowing in the decline of consumer prices since the latter part of last year.

6.9 Analysed by *end-use category* and by year-on-year comparison, the prices of retained imports went up almost across-the-board. Specifically, the prices of retained imports of raw materials and semi-manufactures surged by 10.4% in the first quarter of 2004, following an 8.2% increase in the fourth quarter of 2003. Within this particular end-use category, base metals, plastic materials, cotton, yarn, thread and fabrics of cotton were the major commodity groups with more discernible increases in prices. On fuels, the prices of retained imports soared in both quarters, by 5.7% after 5.9%, in line with the latest uptrend in international crude oil prices. The prices of retained imports of consumer goods rose by 3.4% in the first quarter of 2004, narrowed considerably from the 9.8% increase in the fourth quarter of 2003. This was partly attributable to a moderated rise in the import prices of watches and clocks. The prices of retained imports of foodstuffs moved higher by 2.0% in the first quarter of 2004, after a 1.5% rise in the fourth quarter of 2003. The increase continued to be notable amongst such commodity groups as rice, meat and meat preparations. On the other hand, the prices of retained imports of capital goods decreased by 1.8% in the first quarter of 2004, yet this was lesser than the 7.1% dip in the fourth quarter of 2003. The more moderated price decline occurred mainly in office machinery, telecommunications equipment and transport equipment.

/Table 6.6

Table 6.6

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

		<u>Food- stuffs</u>	<u>Consumer goods</u>	<u>Fuels</u>	<u>Raw materials and semi- manufactures</u>	<u>Capital goods</u>	<u>All categories</u>
2003	Annual	0.9	6.4	13.0	5.8	-6.8	2.9
	H1	0.5	4.8	21.5	3.3	-5.5	2.4
	H2	1.3	7.8	6.4	8.2	-7.8	3.4
	Q1	-0.2	2.1	37.3	2.3	-6.1	1.9
	Q2	1.3	7.2	8.9	4.0	-5.1	2.8
	Q3	1.0	6.0	6.9	7.7	-8.5	2.7
	Q4	1.5	9.8	5.9	8.2	-7.1	4.1
2004	Q1	2.0	3.4	5.7	10.4	-1.8	4.7

Prices of key inputs

6.10 On *labour cost*, overall wages continued to decrease in money terms, by 1.5% in December 2003 from a year earlier, as did overall earnings, by 1.0% in the fourth quarter of 2003. On *property cost*, rentals for office, shopping area and conventional flatted factory all remained on a downtrend, falling by 5.8%, 0.2% and 0.4% respectively in the first quarter of 2004 over a year earlier, although the corresponding prices jumped by 37.2%, 28.4% and 9.2%. As to *capital equipment and material cost*, the prices of retained imports of capital goods fell by 1.8% in the first quarter of 2004 from a year earlier, whereas those of retained imports of raw materials and semi-manufactures rose by 10.4%.

/Prices

Prices of local manufacturing output

6.11 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁶⁾, edged up by 0.9% in the fourth quarter of 2003 over a year earlier, following nil change in the third quarter. For 2003 as a whole, there was a modest decline by 0.3%, which was smaller than the 2.7% dip in 2002. Amongst the major *industry groups*, plastic products and textiles were the ones with increases in output prices, by 5.1% and 1.0% respectively in the fourth quarter of 2003 over a year earlier. Output prices for other industry groups went lower over the same period. Specifically, output prices for machinery and equipment declined by 2.7%, followed by output prices for consumer electrical and electronic products (down by 2.1%), fabricated metal products (1.3%), paper products and printing (0.7%), and wearing apparel (0.2%).

Table 6.7

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

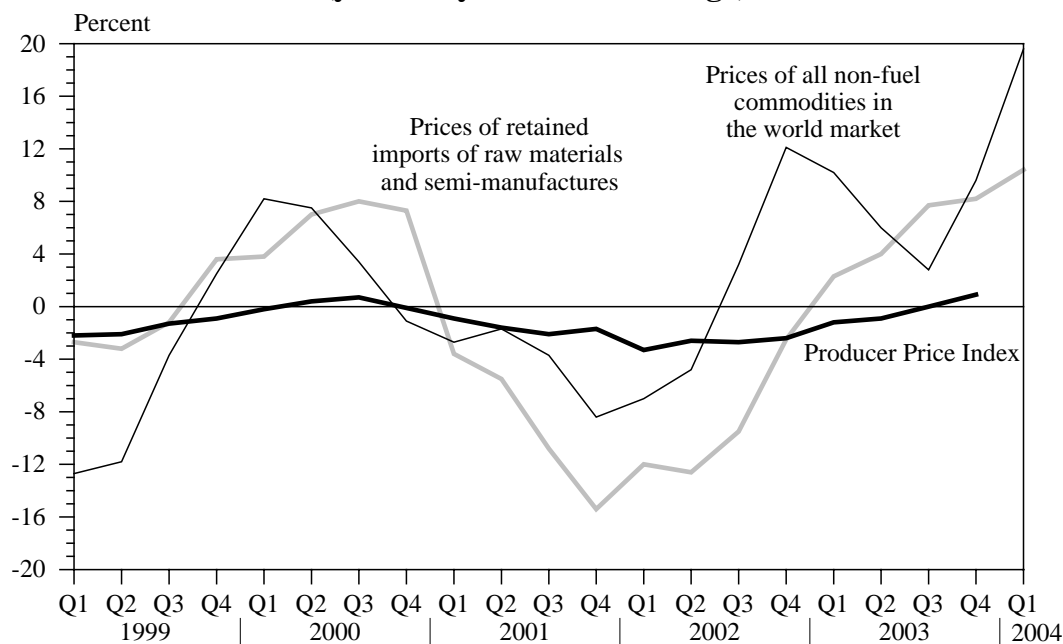
	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Industry group</u>										
Wearing apparel	-3.5	-3.2	-4.1	-3.6	-2.9	-0.2	-0.8	0.1	0.2	-0.2
Textiles	-1.4	-1.8	-1.8	-1.1	-0.7	-0.1	-0.6	-0.5	-0.2	1.0
Plastic products	-2.7	-1.7	-1.5	-4.1	-3.7	2.6	0.1	2.5	2.6	5.1
Consumer electrical and electronic products	-4.7	-4.4	-5.7	-4.5	-4.2	-1.7	-1.7	-0.8	-2.3	-2.1
Machinery and equipment	-5.1	-3.8	-5.2	-5.5	-5.9	-1.3	-3.1	0.1	0.5	-2.7
Fabricated metal products	-2.6	-3.1	-2.5	-2.0	-2.6	-2.9	-3.0	-3.9	-3.3	-1.3
Paper products and printing	-2.4	-2.6	-1.7	-2.0	-3.2	-1.7	-2.0	-2.3	-1.7	-0.7
Overall manufacturing	-2.7	-3.3	-2.6	-2.7	-2.4	-0.3	-1.2	-0.9	*	0.9

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

/Diagram 6.8

Diagram 6.8

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



Prices of output in selected service sectors

6.12 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, showed divergent movements. Output prices in telecommunications fell distinctly by 13.2% in the fourth quarter of 2003 over a year earlier. Keen competition amongst service providers has continued to exert downward pressure on charges for international calls, internet services and mobile phone services. Prices for mobile phone sets and related items were also trending down. Output prices in hotels and boarding houses, having slashed by 4.2% in the third quarter of 2003, declined by another 6.3% in the fourth quarter. Notwithstanding the strong rebound in inbound tourism, hotel room tariffs underwent further downward adjustment amidst keen competition. Output prices in land transport edged lower by 1.1% in the fourth quarter of 2003, following a 2.7% fall in the third quarter. This was entirely attributable to a reduction in rental charges for taxis and car parking fees, which more than offset the effect of higher charges for freight transport services. Output prices in miscellaneous communications services also eased by 1.1% in the fourth quarter of 2003, as against a 3.1% rise in the third quarter. This

/represented

represented the first decrease in almost four years, mainly due to a downward revision in the charges for international courier services. Yet output prices in air transport rose again by 0.7% in the fourth quarter of 2003, after a 0.4% decrease in the third quarter, due to the lifting of charges for both air passenger services and air cargo forwarding services. Output prices in maritime transport continued to surge, by 10.6% in the fourth quarter of 2003, further to a 6.2% rise in the third quarter, on the back of sustained growth in container and sea cargo throughput. For 2003 as a whole, reductions in output prices were observed for telecommunications, hotels and boarding houses, and land transport, by 10.7%, 4.9% and 1.6% respectively, whereas increases were seen for maritime transport, miscellaneous communications services and air transport, by 7.5%, 3.9% and 0.4%.

Table 6.8

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

	<u>2002</u>					<u>2003</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Selected service sector</u>										
Hotels and boarding houses	-1.1	-5.8	-4.2	-3.6	9.3	-4.9	1.6	-10.5	-4.2	-6.3
Land transport	-1.9	-1.4	-2.0	-2.1	-2.1	-1.6	-0.7	-1.9	-2.7	-1.1
Maritime transport	-3.0	-9.4	-5.5	2.9	0.9	7.5	5.5	7.6	6.2	10.6
Air transport	0.3	-5.5	-3.4	3.4	7.1	0.4	1.8	-0.6	-0.4	0.7
Telecommunications	-18.6	-21.7	-24.5	-15.5	-11.0	-10.7	-7.7	-12.0	-10.1	-13.2
Miscellaneous communications services	3.9	0.4	0.1	5.1	9.8	3.9	7.1	6.9	3.1	-1.1

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

/Export

Export prices

6.13 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, drifted lower by 0.7% in the first quarter of 2004 from a year earlier, albeit lesser than the 1.5% decrease in the fourth quarter of 2003. Within the total, the prices of re-exports and domestic exports declined by 0.8% and 0.6% respectively.

6.14 Analysed by major *market* and by year-on-year comparison, the prices of total exports of goods to Singapore went down by 4.2% in the first quarter of 2004, larger than the 3.6% fall in the fourth quarter of 2003. An enlarged decrease in the prices of consumer goods exported to this market was the major contributory factor. Yet the prices of total exports of goods to Germany fell less in the first quarter of 2004 than in the fourth quarter of 2003, by 0.9% as against 2.1%, mainly attributable to a moderated decline in the prices of consumer goods exported to such market. Likewise, the prices of total exports of goods to the United Kingdom, Japan and the United States had smaller decreases in the first quarter of 2004, by 0.7%, 0.6% and 0.6% respectively, as compared to those of 1.6%, 1.3% and 1.1% in the fourth quarter of 2003. A firming up in the prices of consumer goods exported to all these markets was the key factor. To a lesser extent, this was also due to narrowed decreases in the export prices of capital goods, and raw materials and semi-manufactures. On the other hand, the prices of total exports of goods to the Mainland edged up by 0.2% in the first quarter of 2004, following a 0.6% fall in the fourth quarter of 2003, reflecting firmer prices of foodstuffs and of raw materials and semi-manufactures exported to the market.

/Table 6.9

Table 6.9**Unit value indices of total exports of goods by major market
(year-on-year rate of change (%))**

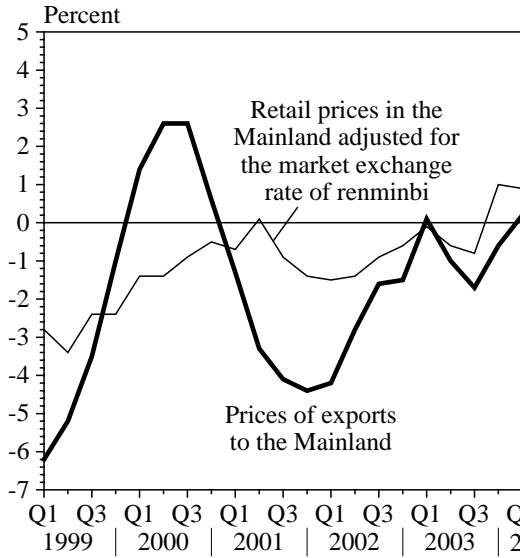
		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2003	Annual	-0.8	-0.9	-2.5	-1.7	-1.4	-3.4	-1.4
	H1	-0.9	-0.5	-2.6	-1.4	-1.1	-2.4	-1.1
	H2	-0.7	-1.2	-2.5	-1.9	-1.7	-4.0	-1.6
	Q1	-1.3	0.1	-2.3	-1.0	-1.1	-1.6	-0.9
	Q2	-0.6	-1.0	-2.9	-1.7	-1.2	-3.1	-1.4
	Q3	-0.3	-1.7	-2.9	-2.1	-2.1	-4.5	-1.8
	Q4	-1.1	-0.6	-2.1	-1.6	-1.3	-3.6	-1.5
2004	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7

/Diagram 6.9

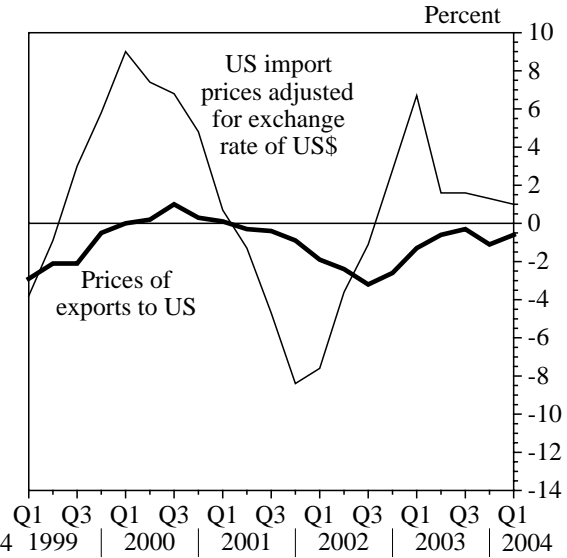
Diagram 6.9

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

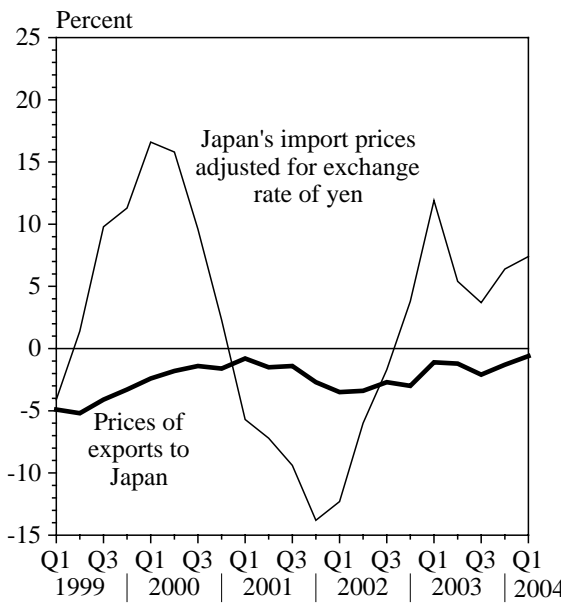
**(a) For exports to the
mainland of China**



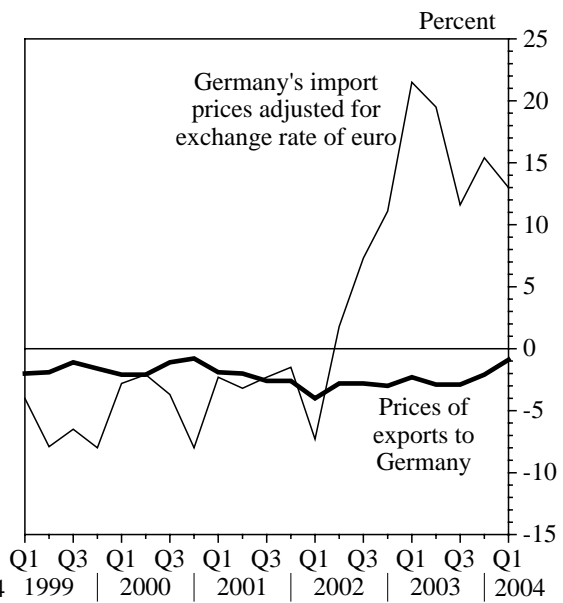
(b) For exports to the United States



(c) For exports to Japan



(d) For exports to Germany



/Terms

Terms of trade

6.15 With the prices of total exports of goods still declining whilst the prices of imports of goods moving up, the *terms of trade in goods*⁽⁷⁾ for Hong Kong fell further, by 1.5% in the first quarter of 2004 over a year earlier, after a 1.3% decrease in the fourth quarter of 2003.

Table 6.10

		Terms of trade in goods	
		<u>Index on the terms of trade in goods</u> (2000 = 100)	<u>Year-on-year rate of change</u> (%)
2003	Annual	101.0	-1.0
	H1	101.4	-1.0
	H2	100.7	-1.1
	Q1	101.4	-0.8
	Q2	101.3	-1.1
	Q3	101.1	-0.9
	Q4	100.4	-1.3
	2004	Q1	99.9

/Diagram 6.10

Diagram 6.10

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

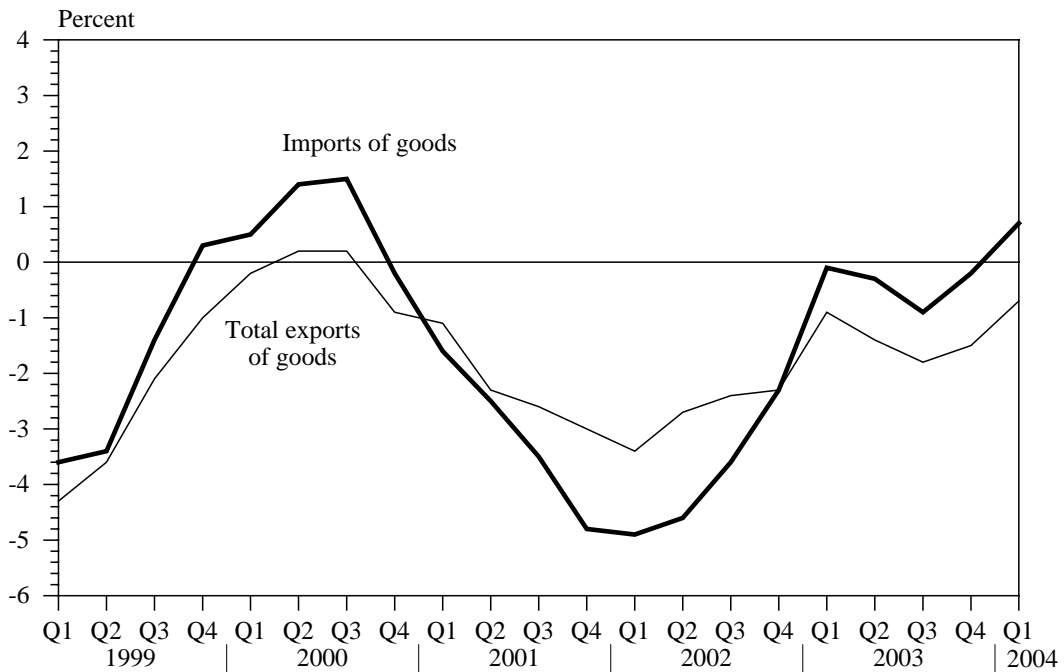
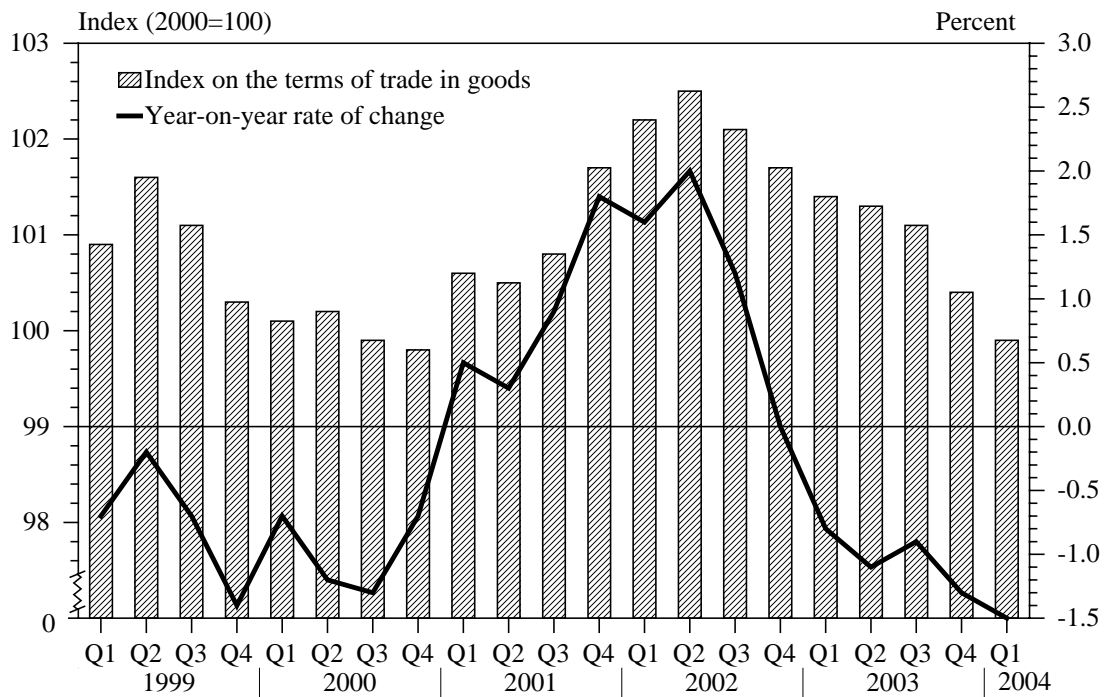


Diagram 6.11

Terms of trade in goods



/GDP

GDP deflator

6.16 The *GDP deflator*⁽⁸⁾, as a broad measure of overall price change in the economy, showed a moderated decline in the first quarter of 2004. On a year-on-year comparison, the GDP deflator fell by 4.3% in the first quarter of 2004, narrower than the 4.8% decrease in the fourth quarter of 2003. Notwithstanding a deterioration in the terms of trade in goods and an enlarged decline in the price deflator for government consumption expenditure, this was outweighed by the combined effect of a renewed rise in the price deflator for gross domestic fixed capital formation, a reduced fall in the price deflator for private consumption expenditure, and improved terms of trade in services. Within the GDP deflator, both the *domestic demand deflator* and the *total final demand deflator* had lesser decreases, by 1.0% and 1.1% respectively in the first quarter of 2004, as against the declines of 2.3% and 2.0% in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator edged lower by 0.3% in the first quarter of 2004, the same as that in the fourth quarter of 2003.

/Table 6.11

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

	<u>Annual</u> [#]	<u>2003</u>				<u>2004</u>
		<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> ⁺
Private consumption expenditure	-2.9	-2.1	-3.3	-4.0	-2.3	-1.9
Government consumption expenditure	-2.7	-2.6	-3.7	-3.5	-1.4	-3.5
Gross domestic fixed capital formation	-6.0	-7.0	-6.0	-7.7	-3.5	1.3
Total exports of goods	-2.0	-1.3	-1.8	-2.3	-2.2	-1.5
Imports of goods	-0.9	-0.8	-0.8	-1.6	-0.8	0.5
Exports of services	-2.0	-0.9	-3.7	-2.7	-1.1	0.1
Imports of services	2.8	3.8	2.7	1.2	3.8	3.2
Gross Domestic Product	-5.3	-4.4	-5.8	-6.1	-4.8	-4.3
		<-1.0>	<-2.2>	<-1.4>	<-0.3>	<-0.3>
Total final demand	-2.6	-2.0	-2.7	-3.1	-2.0	-1.1
Domestic demand	-3.6	-3.5	-4.0	-4.8	-2.3	-1.0

Notes : (#) Revised figures.

(+) Preliminary figures.

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

/Diagram 6.12

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

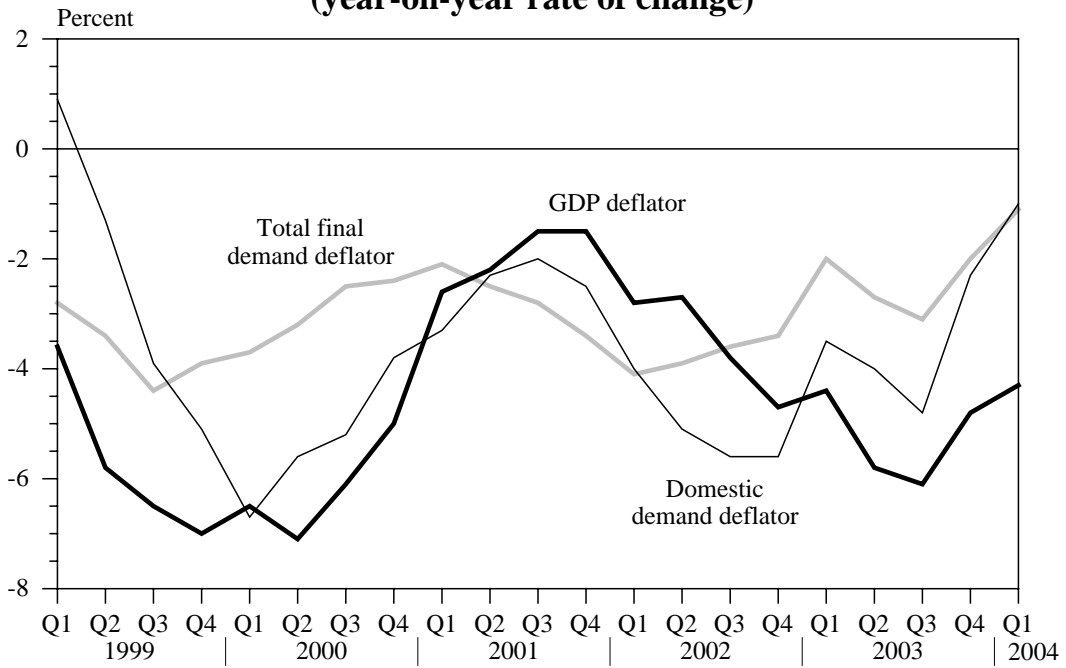
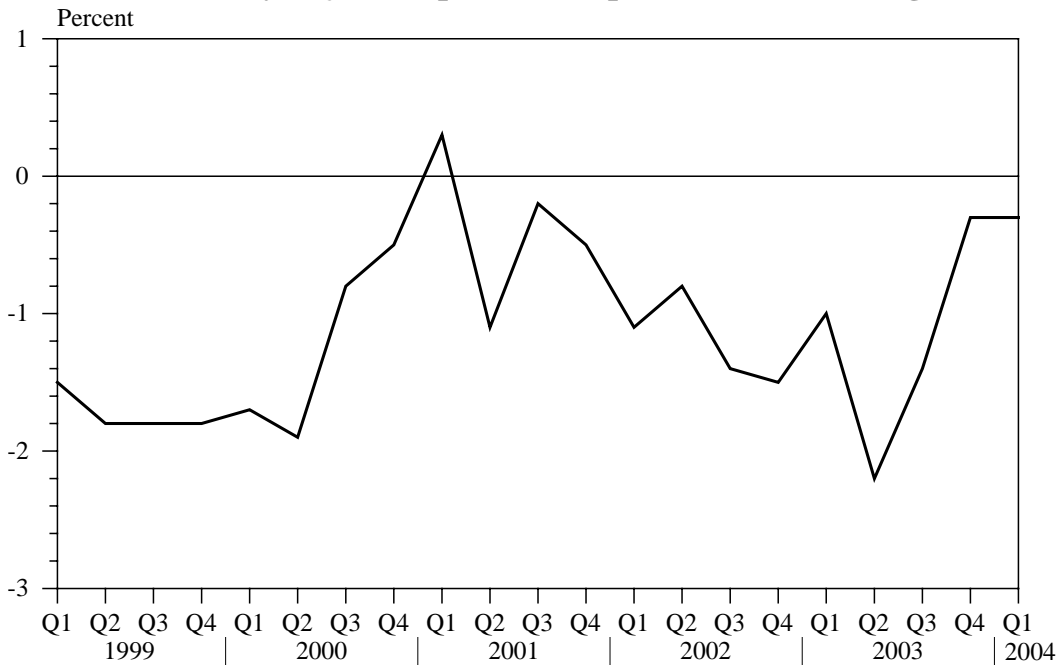


Diagram 6.13
GDP deflator
(seasonally adjusted quarter-to-quarter rate of change)



/Notes

Notes :

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

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

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

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

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

- (2) As announced by the Financial Secretary in the 2002/03 Budget, water and sewage charges for domestic households were to be waived for one year as from April 2002, subject to maximum amounts of \$800 and \$200 respectively. This had the effect of lowering the Composite CPI by 0.2 of a percentage point in 2002. Reflecting relatively greater effect on the lower expenditure households, the corresponding dampening effects on the CPI(A), CPI(B) and CPI(C) were 0.3, 0.2 and 0.1 of a percentage point.

/ (3)

- (3) A special one-off rebate was granted by a power company in January and February 2003, at \$250 or at 1.5 cents per unit based on the electricity consumption for the whole year of 2002 per residential customer account, whichever was the higher.
- (4) On 23 April 2003, the Government announced a package of relief measures to help the community tide over the difficulties caused by the outbreak of SARS in Hong Kong. For households, it includes a rates concession of up to \$1,250 per tenement for the period July to September 2003, as well as a waiver of water and sewage charges of up to \$267 and \$67 respectively per household for the period August to November 2003. These two measures are estimated to have the effect of lowering the Composite CPI by around 0.8 and 0.2 of a percentage point respectively during their implementation periods. For 2003 as a whole, they are estimated to have the effect of lowering the Composite CPI by around 0.2 and 0.1 of a percentage point respectively, or combined by around 0.3 of a percentage point.
- (5) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost, as indicated in the various CPIs, thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the Rating and Valuation Department's rental index for private residential flats.
- (6) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (7) The terms of trade in goods is defined as the ratio of the prices of total exports of goods to the prices of imports of goods.
- (8) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price figures. In compiling the constant price GDP at the finer sub-component level, a standard deflation approach is adopted whereby an appropriate price index is used to deflate each of the sub-components of GDP at current prices. Summing up the individually deflated sub-components gives the main expenditure components of GDP at constant prices. These are further aggregated to arrive at the overall GDP at constant prices. Then, by dividing the current price GDP with the corresponding constant price GDP at the overall level, the GDP deflator is implicitly obtained. Similarly, by dividing each of the main expenditure components of GDP at current prices with each of the corresponding measures at constant prices, the respective price deflators at the main expenditure component level are implicitly obtained. Hence as it stands, the implicit price deflators of GDP and its main expenditure components are not used as input for compiling the corresponding constant price measures. By the same token, the growth rates in real terms of GDP and its main expenditure components are not derived from their corresponding growth rates in money terms using the rates of change in the respective implicit prices deflators. Rather, the growth rates in real terms are calculated directly by comparing the constant price measures over two periods.

/The

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

STATISTICAL APPENDIX

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Table 1 Gross Domestic Product (GDP) by expenditure component

Expenditure component	(HK\$ million)			
	At current market prices		At constant (2000) market prices	
	2002 [#]	2003 [#]	2002 [#]	2003 [#]
Private consumption expenditure	728,092 (-4.8)	704,863 (-3.2)	766,050 (-1.2)	764,164 (-0.2)
Government consumption expenditure	131,279 (1.9)	130,067 (-0.9)	130,585 (2.5)	133,056 (1.9)
Gross domestic fixed capital formation	286,020 (-14.1)	269,127 (-5.9)	340,354 (-4.5)	340,842 (0.1)
<i>of which</i> : Building and construction	131,752 (-7.6)	116,207 (-11.8)	152,081 (-1.1)	141,396 (-7.0)
Machinery, equipment and computer software	144,832 (-19.5)	144,509 (-0.2)	176,732 (-7.6)	188,229 (6.5)
Change in inventories	5,660	9,471	6,884	10,805
Total exports of goods	1,562,121 (5.5)	1,749,089 (12.0)	1,651,945 (8.7)	1,886,760 (14.2)
Domestic exports	131,079 (-14.6)	122,126 (-6.8)	144,376 (-11.2)	133,810 (-7.3)
Re-exports	1,431,041 (7.8)	1,626,964 (13.7)	1,507,569 (11.0)	1,752,949 (16.3)
<i>less</i> Imports of goods ^(a)	1,601,527 (3.4)	1,794,059 (12.0)	1,732,470 (7.9)	1,959,603 (13.1)
Exports of services	335,412 (9.0)	347,371 (3.6)	358,140 (11.7)	378,498 (5.7)
<i>less</i> Imports of services	199,676 (3.8)	196,080 (-1.8)	202,745 (3.7)	193,486 (-4.6)
Total expenditure on GDP	1,247,381 (-1.8)	1,219,849 (-2.2)	1,318,743 (1.9)	1,361,036 (3.2)
Per capita GDP ^(b) (\$)	183,790 (-2.7)	179,308 (-2.4)	194,304 (1.0)	200,061 (3.0)
Implicit Price Deflator (2000=100)	Index for 2002	% change over 2001	Index for 2003	% change over 2002
GDP	94.6	-3.6	89.6	-5.3
Total final demand ^(c)	93.7	-3.7	91.3	-2.6
Domestic demand ^(d)	92.5	-5.1	89.2	-3.6

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

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

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

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

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

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

(#) Revised figures.

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

Economic activity	At current prices (HK\$ million)		Year-on-year % change		% share in GDP	
	2001	2002 [#]	2001	2002 [#]	2001	2002 [#]
Agriculture and fishing	1,003	1,002	9.0	-0.1	0.1	0.1
Mining and quarrying	174	136	-27.8	-21.8	*	*
Manufacturing	63,519	54,848	-11.4	-13.7	5.2	4.5
Electricity, gas and water	40,126	41,540	3.3	3.5	3.3	3.4
Construction	58,971	53,089	-7.9	-10.0	4.9	4.4
Services	1,051,562	1,054,864	-0.2	0.3	86.5	87.5
Wholesale, retail and import/ export trades, restaurants and hotels	324,654	324,131	*	-0.2	26.7	26.9
Transport, storage and communications	124,260	128,278	-1.2	3.2	10.2	10.6
Finance, insurance, real estate and business services	274,030	267,537	-5.9	-2.4	22.5	22.2
Community, social and personal services	265,081	267,659	5.0	1.0	21.8	22.2
Ownership of premises	159,118	159,586	2.5	0.3	13.1	13.2
<i>less</i> Adjustment for financial intermediation services indirectly measured	95,582	92,328	-0.4	-3.4	7.9	7.7
GDP at factor cost	1,215,354	1,205,479	-1.1	-0.8	100.0	100.0
Taxes on production and imports	53,917	43,325	-6.9	-19.6		
Statistical discrepancy (%)	*	-0.1	--	--		
GDP at current market prices	1,269,896	1,247,381	-1.4	-1.8		

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

(#) Revised figures.

(*) Less than 0.05%.

(--) Not applicable.

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

(HK\$ million)

Economic activity	2002 [#]	2003 [#]	2003			
			1st Qtr [#]	2nd Qtr [#]	3rd Qtr [#]	4th Qtr [#]
Agriculture and fishing	951 (-0.7)	970 (2.0)	246 (3.4)	256 (2.4)	218 (1.9)	250 (0.4)
Mining and quarrying	184 (-11.1)	188 (2.2)	46 (7.0)	55 (12.2)	46 (2.2)	41 (-10.9)
Manufacturing	59,107 (-9.8)	53,702 (-9.1)	12,252 (-8.8)	13,096 (-12.5)	14,501 (-9.1)	13,853 (-6.1)
Electricity, gas and water	41,029 (3.0)	41,981 (2.3)	8,867 (4.3)	10,349 (-2.7)	12,608 (3.7)	10,157 (4.3)
Construction	61,747 (-1.5)	58,680 (-5.0)	14,414 (-2.9)	14,224 (-7.0)	15,147 (-3.0)	14,895 (-6.9)
Services	1,102,407 (3.0)	1,152,419 (4.5)	270,724 (5.8)	265,489 (0.7)	300,114 (4.9)	316,091 (6.4)
Wholesale, retail and import/ Export trades, restaurants and hotels	338,823 (4.2)	372,649 (10.0)	83,786 (14.8)	79,859 (5.9)	100,916 (8.3)	108,088 (11.2)
Transport, storage and Communications	136,384 (6.2)	138,032 (1.2)	32,955 (3.8)	30,588 (-6.2)	36,592 (1.5)	37,897 (5.3)
Finance, insurance, real estate and business services	293,862 (1.3)	308,324 (4.9)	72,515 (2.7)	74,941 (1.6)	78,663 (6.6)	82,205 (8.6)
Community, social and personal services	260,638 (-0.7)	260,714 (*)	62,784 (0.3)	62,636 (-3.1)	65,489 (1.9)	69,806 (1.0)
Ownership of premises	165,142 (2.5)	168,792 (2.2)	41,771 (2.1)	41,169 (2.4)	42,807 (2.5)	43,046 (1.8)
<i>less</i> Adjustment for financial intermediation services indirectly measured	92,441 (-4.3)	96,093 (4.0)	23,086 (0.3)	23,703 (2.6)	24,353 (5.4)	24,952 (7.4)
Taxes on production and imports	57,109 (-0.3)	58,666 (2.7)	14,716 (-1.5)	14,498 (-4.3)	13,116 (6.7)	16,336 (10.9)
Statistical discrepancy (%)	-0.3	-0.4	0.2	-1.1	-0.2	-0.6
GDP at constant (2000) market prices	1,318,743 (1.9)	1,361,036 (3.2)	321,955 (4.4)	314,636 (-0.6)	355,174 (4.0)	369,271 (4.9)

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

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

(#) Revised figures.

(*) Change of less than 0.05%.

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

(HK\$ million)

Income component	2002		2003		2003			
					1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
(At current market prices)								
Direct investment income								
Inflow total	179,008	(6.2)	183,228	(2.4)	42,497	38,607	46,911	55,213
Banking	8,697	(6.7)	6,668	(-23.3)	1,594	1,548	1,622	1,905
Others ^(a)	170,311	(6.2)	176,559	(3.7)	40,903	37,059	45,289	53,308
Outflow total	254,730	(4.0)	238,587	(-6.3)	53,510	54,185	62,713	68,179
Banking	57,657	(-8.7)	50,318	(-12.7)	12,439	13,919	11,681	12,279
Others ^(a)	197,073	(8.5)	188,268	(-4.5)	41,071	40,265	51,032	55,900
Portfolio investment income								
Inflow total	92,208	(-4.3)	99,888	(8.3)	25,673	24,977	24,085	25,154
Banking	25,726	(-5.0)	28,265	(9.9)	7,156	7,207	6,918	6,982
Others ^(a)	66,482	(-4.0)	71,624	(7.7)	18,516	17,769	17,167	18,171
Outflow total	26,981	(0.5)	28,133	(4.3)	3,652	13,046	6,219	5,216
Banking	4,087	(-10.5)	3,941	(-3.6)	1,648	649	1,150	494
Others ^(a)	22,894	(2.8)	24,191	(5.7)	2,004	12,398	5,068	4,722
Other investment income								
Inflow total	65,868	(-45.0)	45,410	(-31.1)	13,025	12,145	9,884	10,356
Banking	55,860	(-45.4)	38,293	(-31.4)	11,076	10,414	8,199	8,604
Others ^(a)	10,009	(-42.3)	7,117	(-28.9)	1,949	1,731	1,685	1,752
Outflow total	38,675	(-46.1)	27,679	(-28.4)	8,083	6,958	6,370	6,267
Banking	32,818	(-48.7)	24,245	(-26.1)	6,946	6,003	5,749	5,548
Others ^(a)	5,857	(-24.8)	3,434	(-41.4)	1,137	956	621	720
Compensation of employees								
Inflow total	13	(-56.7)	8	(-38.5)	2	2	2	2
Outflow total	13	(-56.7)	8	(-38.5)	2	2	2	2
Total EFIF								
Inflow total	337,097	(-12.4)	328,533	(-2.5)	81,196	75,731	80,883	90,724
Outflow total	320,399	(-6.7)	294,406	(-8.1)	65,246	74,191	75,305	79,664
Net flow total	16,698		34,128		15,950	1,539	5,578	11,061
(At current market prices)								
GNP (\$ million) [#]	1,264,079	(-3.6)	1,253,977	(-0.8)	311,297	285,410	319,340	337,930
Per capita GNP (\$) [#]	186,250	(-4.5)	184,324	(-1.0)	--	--	--	--
(At constant (2000) market prices)								
GNP (\$ million) [#]	1,336,867	(*)	1,399,320	(4.7)	339,624	316,366	361,577	381,753
Per capita GNP (\$) [#]	196,975	(-0.9)	205,689	(4.4)	--	--	--	--

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

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

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

(#) Revised figures.

(--) Not applicable.

(*) Change of less than 0.05%.

Table 5 Balance of payments account

(HK\$ million)

Standard components	2002 [#]	2003 [#]	2003			
			1st Qtr [#]	2nd Qtr [#]	3rd Qtr [#]	4th Qtr [#]
Current account ⁽¹⁾	98,242	125,738	29,769	15,244	40,472	40,253
Trade in goods	-39,406	-44,970	-15,985	-9,811	-1,386	-17,788
Exports	1,562,121	1,749,089	383,436	419,318	467,515	478,820
Imports	-1,601,527	-1,794,059	-399,421	-429,129	-468,901	-496,608
Trade in services	135,737	151,291	33,935	26,984	39,934	50,438
Exports	335,413	347,371	81,702	66,893	94,174	104,602
Imports	-199,676	-196,080	-47,767	-39,909	-54,240	-54,164
External factor income flows	16,698	34,128	15,950	1,539	5,578	11,061
Inflow	337,097	328,533	81,196	75,731	80,883	90,724
Outflow	-320,399	-294,406	-65,246	-74,191	-75,305	-79,664
Current transfers	-14,787	-14,711	-4,131	-3,469	-3,654	-3,458
Inflow	6,063	4,470	1,199	1,178	998	1,095
Outflow	-20,850	-19,181	-5,330	-4,647	-4,651	-4,553
Capital and financial account ⁽¹⁾	-151,179	-151,450	-38,356	-6,276	-49,764	-57,054
Capital transfers	-15,686	-7,913	-1,948	-2,825	-1,158	-1,982
Direct investment	-60,685	76,244	3,016	34,843	20,271	18,114
Abroad	-136,194	-29,351	-36,046	17,957	-39,225	27,963
In HK	75,509	105,595	39,062	16,886	59,496	-9,850
Portfolio investment	-302,484	-237,143	-54,803	-25,874	-80,969	-75,496
Assets	-294,032	-244,773	-59,387	-17,178	-74,034	-94,174
Liabilities	-8,452	7,630	4,584	-8,696	-6,936	18,677
Financial derivatives	51,563	79,568	12,122	22,044	37,826	7,576
Assets	156,252	198,077	62,992	40,460	48,741	45,884
Liabilities	-104,689	-118,509	-50,871	-18,416	-10,915	-38,307
Other investment	157,573	-54,618	13,649	-56,198	-38,247	26,178
Assets	363,561	-172,040	58,386	-6,519	-58,117	-165,789
Liabilities	-205,988	117,422	-44,738	-49,678	19,870	191,967
Net change in reserve assets ⁽²⁾	18,541	-7,589	-10,392	21,735	12,513	-31,444
Net errors and omissions	52,937	25,712	8,587	-8,968	9,291	16,802
Overall balance of payments	-18,541 (in deficit)	7,589 (in surplus)	10,392 (in surplus)	-21,735 (in deficit)	-12,513 (in deficit)	31,444 (in surplus)

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

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

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

(#) Revised figures.

**Table 6 Major economic indicators in the external sector
for the first quarter of 2004**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Value</u>				
Re-exports	\$Mn	407,167	-8.0	14.0
Domestic exports	\$Mn	25,800	-19.6	-0.6
Total exports of goods	\$Mn	432,967	-8.8	13.0
Imports of goods	\$Mn	466,710	-6.1	15.7
Visible trade balance	\$Mn	-33,742	--	--
<u>Unit value indices (2000 = 100)</u>				
Re-exports		94.2	0.9	-0.8
<i>to :</i> Mainland of China		95.1	1.4	0.2
United States		95.9	0.3	-0.4
Japan		94.5	1.0	-0.6
United Kingdom		93.7	0.5	-1.0
Germany		92.6	0.3	-1.2
Domestic exports		91.9	*	-0.6
<i>to :</i> United States		95.9	-2.6	-2.3
Mainland of China		90.0	2.8	0.9
United Kingdom		95.3	*	1.0
Taiwan		84.2	1.3	-0.8
Germany		89.8	-2.0	2.3
Imports of goods		94.0	1.3	0.7
<i>from :</i> Mainland of China		95.6	0.7	0.5
Japan		96.3	0.7	2.3
Taiwan		91.4	1.6	0.4
United States		92.5	-0.4	1.1
Republic of Korea		87.2	3.0	-2.5
<i>of :</i> Raw materials and semi-manufactures		94.5	2.1	3.5
Consumer goods		96.9	0.4	0.5
Capital goods		88.2	0.6	-3.4
Foodstuffs		94.2	0.9	3.9
Fuels		113.8	11.3	5.0

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

(--) Not applicable.

(*) Change of less than 0.05%.

**Table 6 Major economic indicators in the external sector
for the first quarter of 2004 (cont'd)**

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Terms of trade index</u> (2000 = 100)	99.9	-0.4	-1.5
<u>Quantum indices</u> (2000 = 100)			
Re-exports	126.5	-8.7	15.9
<i>to :</i> Mainland of China	158.0	-8.9	18.4
United States	84.8	-18.9	4.8
Japan	123.7	-6.0	11.2
United Kingdom	93.9	-17.9	15.1
Germany	108.6	-13.9	8.7
Domestic exports	63.3	-19.2	0.7
<i>to :</i> United States	59.2	-26.8	2.2
Mainland of China	58.7	-23.3	-9.9
United Kingdom	67.7	-21.8	5.9
Taiwan	80.7	-11.0	23.3
Germany	54.2	-9.9	0.2
<i>of :</i> Textiles and clothing	64.4	-28.0	-5.2
Products other than textiles and clothing	62.2	-8.6	6.9
Imports of goods	121.8	-7.4	15.5
<i>from :</i> Mainland of China	113.7	-10.7	14.0
Japan	123.1	-3.1	17.9
Taiwan	122.5	-4.5	23.9
United States	104.8	-8.2	19.9
Republic of Korea	140.0	-3.8	30.1
<i>of :</i> Raw materials and semi-manufactures	131.3	-7.0	19.0
Consumer goods	100.6	-13.1	6.0
Capital goods	140.9	-1.4	23.6
Foodstuffs	105.1	-12.6	2.9
Fuels	107.1	-3.9	11.0

Table 7 Major economic indicators in the domestic economy

Statistical variable	Unit of Denomination	Magnitude	% change over	
			Previous period	Same period last year
Manufacturing sector (4th Qtr 2003)				
Index of Industrial Production (2000 = 100)		80.9	-3.4	-6.1
Property (1st Qtr 2004)				
Completions of new property				
<i>for</i> : Residential	no. of units	4 427	-37.3	2.7
Commercial	'000 sq. m	10	-90.7	-87.0
<i>of which</i> :				
Office space	'000 sq. m	10	-88.0	-69.8
Other commercial Premises	'000 sq. m	1	-97.7	-98.5
Industrial	'000 sq. m	0	--	-100.0
<i>of which</i> :				
Industrial-cum-office Premises	'000 sq. m	0	--	-100.0
Flatted factory space	'000 sq. m	0	--	--
Storage premises	'000 sq. m	0	--	--
Floor area of building consents				
<i>for</i> : Residential	'000 sq. m	249	-3.1	-37.0
Commercial	'000 sq. m	17	-79.5	-30.3
Industrial	'000 sq. m	0	-100.0	--
Others	'000 sq. m	234	243.7	259.1
Total	'000 sq. m	500	22.7	3.1
Building and construction (4th Qtr 2003)				
Labour and Material Cost Index (mid-Feb 1970 = 100)		1 716	-0.9	-1.8
Tender Price Indices (Jan 1970 = 100)				
<i>for</i> : Public sector building projects		681	-5.7	-7.1
Public housing projects		N.A.	N.A.	N.A.
Electricity consumption (1st Qtr 2004)				
<i>for</i> : Industrial	Mn KWh	938	-6.6	4.4
Commercial	Mn KWh	5 125	-17.0	1.7
Domestic	Mn KWh	1 656	-19.6	5.4
Gas consumption (1st Qtr 2004)				
<i>for</i> : Industrial	Terajoule	272	4.2	11.0
Commercial	Terajoule	2 960	14.6	0.7
Domestic	Terajoule	4 764	41.4	3.4

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

(--) Not applicable.

N.A. Not available, as there was no tender received by the Housing Department in the fourth quarter of 2003.

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

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Transport				
Passenger journeys (1st Qtr 2004)				
<i>by</i> : KMB	'000	265 636	-4.7	-2.3
NWFB	'000	45 628	-4.0	0.5
City Bus	'000	52 213	-4.4	-1.7
New Lantau Bus	'000	2 665	-2.3	15.3
Long Win Bus	'000	5 181	-0.6	6.1
MTR	'000	206 632	-2.0	5.7
KCR	'000	72 156	-3.7	0.5
LRT	'000	30 780	7.4	14.5
West Rail ^(a)	'000	9 071	--	--
Hong Kong Tramways	'000	20 949	-4.9	0.4
New World First Ferry	'000	3 502	-4.4	0.1
Star Ferry	'000	7 108	-9.5	2.1
Private cars licensed				
new registration (1st Qtr 2004)	no.	6 458	10.6	0.3
total licensed (end-Mar 2004)	no.	340 020	0.3	*
Air passenger movements (1st Qtr 2004)	'000	5 398	-6.8	-0.8
Air cargo (1st Qtr 2004)	'000 tonne	690	-11.2	16.1
Ocean cargo (4th Qtr 2003)	'000 tonne	39 437	7.0	9.1
Container throughput (4th Qtr 2003)	'000 TEUs	5 376	1.6	6.1
Tourism				
Arrivals of incoming visitors (1st Qtr 2004)	'000	4 935	-4.6	14.7
Departures of Hong Kong residents (1st Qtr 2004)	'000	15 805	-4.4	3.4
<i>to</i> : Mainland of China	'000	13 677	-5.4	3.6
Macau	'000	968	2.1	-1.0
Other countries	'000	1 160	2.3	4.9
Hotel rooms (end-Mar 2004)	no.	42 489	-1.0	-0.7
Hotel room occupancy rate (1st Qtr 2004)	%	84	-4.5	4.5
Telecommunications (end-Mar 2004)				
Telephone lines	Mn	3.8	-0.4	-0.7
<i>for</i> : Residential users	Mn	2.1	-0.2	-0.7
Business users	Mn	1.7	-0.6	-0.7
Facsimile lines	'000	483	-1.6	-9.4
Public mobile radiotelephone services customers	'000	7 289	1.3	14.0

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

(a) West Rail was introduced on 20.12.2003.

(*) Change of less than 0.05%.

(--) Not applicable.

**Table 8 Major economic indicators in the financial sector
as at end-March 2004**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Exchange rate</u>				
Effective Exchange Rate Indices of the Hong Kong dollar (Jan 2000 = 100)				
trade-weighted		97.9	-0.9	-3.9
import-weighted		98.7	-1.1	-4.0
export-weighted		97.1	-0.6	-3.8
HK\$/US\$ interbank T/T rate	HK\$	7.794	0.4	-0.1
<u>Interest rate</u>				
3-month HIBOR	%	0.07	--	--
Savings rate	%	0.003	--	--
Best lending rate	%	5.00	--	--
<u>Monetary statistics</u>				
Money supply :				
M1	\$Mn	436,345	5.5	45.5
M2	\$Mn	3,812,041	*	8.7
M3	\$Mn	3,858,642	*	8.7
Deposits with :				
licensed banks	\$Mn	3,511,780	-0.3	8.2
restricted licence banks	\$Mn	39,591	3.7	16.8
deposit-taking companies	\$Mn	4,898	-0.2	-10.7
all authorized institutions	\$Mn	3,556,269	-0.3	8.3
Deposits by type :				
demand	\$Mn	303,017	6.1	67.1
savings	\$Mn	1,323,178	3.6	35.3
time	\$Mn	1,930,074	-3.7	-9.2
total	\$Mn	3,556,269	-0.3	8.3

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

(--) Not applicable.

(*) Change of less than 0.05%.

**Table 8 Major economic indicators in the financial sector
as at end-March 2004 (cont'd)**

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
Loans and advances by :				
licensed banks	\$Mn	1,922,551	0.5	-0.1
restricted licence banks	\$Mn	93,702	-3.9	-13.8
deposit-taking companies	\$Mn	25,121	0.6	-6.7
all authorized institutions	\$Mn	2,041,375	0.3	-0.9
Loans and advances by all authorized institutions :				
to finance imports to, exports and re-exports from Hong Kong	\$Mn	96,008	7.8	14.9
to finance merchandising trade not touching Hong Kong	\$Mn	10,513	-4.9	13.2
other loans for use in Hong Kong	\$Mn	1,707,977	*	-1.4
other loans for use outside Hong Kong	\$Mn	205,425	-0.5	-6.3
other loans where the place of use is not known	\$Mn	21,450	7.2	43.5
<u>Stock market</u>				
Hang Seng Index (31 Jul 1964 = 100)		12 682	0.8	46.9
Stock market capitalisation				
Main Board	\$Mn	5,690,505	3.9	68.5
Growth Enterprise Market	\$Mn	78,986	12.6	53.8
Total	\$Mn	5,769,491	4.0	68.3
Stock market turnover (1st Qtr 2004)				
Main Board	\$Mn	1,209,702	27.1	231.4
Growth Enterprise Market	\$Mn	13,992	21.1	192.4
Total	\$Mn	1,223,694	27.1	230.9

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

(*) Change of less than 0.05%.

Table 9 Major economic indicators in the labour sector

Statistical variable	Unit of denomination	Magnitude	% change over	
			Previous period	Same period last year
<u>Labour force characteristics</u> (1st Qtr 2004)				
Labour force	'000	3 506	0.5	0.1
Unemployed	'000	250	-1.5	-4.0
Underemployed	'000	119	2.7	17.9
Employed	'000	3 257	0.7	0.4
Labour force participation rate	%	61.3	--	--
Seasonally adjusted unemployment rate	%	7.2	--	--
Underemployment rate	%	3.4	--	--
<u>Employment</u> (Dec 2003)				
Manufacturing	'000	168	-2.6	-8.8
Services	'000	1 989	1.2	-0.7
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	772	1.3	-0.5
Restaurants and hotels	'000	201	3.9	-2.5
Transport, storage and Communications	'000	174	1.8	-0.8
Finance, insurance, real Estate and business services	'000	424	0.4	-4.0
Community, social and Personal services	'000	417	0.6	3.5
Building and construction sites	'000	62	-3.5	-6.4
Civil service	'000	165	-1.1	-2.9
<u>Vacancies</u> (Dec 2003)				
Manufacturing	'000	1	-8.2	-6.4
Services	'000	20	-0.8	31.0
<i>of which :</i>				
Wholesale, retail and import/export trades	'000	7	4.3	46.0
Restaurants and hotels	'000	2	0.1	56.0
Transport, storage and Communications	'000	1	-15.5	-7.3
Finance, insurance, real Estate and business services	'000	6	10.3	38.7
Community, social and Personal services	'000	4	-18.3	4.9
Building and construction sites	'000	#	38.5	28.6
Civil Service	'000	1	-26.2	-32.1

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

(--) Not applicable.

(#) Less than 500.

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

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Earnings</u> (4th Qtr 2003)			
Nominal index of payroll per person engaged (Q1 1999 = 100)	93.1	7.1 (6.3)	-1.0 (1.4)
<i>for</i> : Manufacturing	89.6	6.3 (5.5)	-0.8 (1.6)
Services	91.9	6.9 (6.0)	-1.4 (1.0)
<i>of which</i> :			
Wholesale, retail and Import/export trades	87.9	8.1 (7.2)	-0.9 (1.5)
Restaurants and hotels	78.0	2.8 (2.0)	-3.2 (-0.9)
Transport, storage and Communications	100.2	17.8 (16.9)	-1.2 (1.2)
Finance, insurance, real Estate and business services	92.5	11.8 (10.9)	-0.6 (1.8)
Community, social and Personal services	90.8	-2.7 (-3.5)	-4.5 (-2.2)
<u>Wages</u> (Dec 2003)			
Nominal wage index (Sep 1992 = 100)	147.0	0.3 (-0.8)	-1.5 (-0.3)
<i>for</i> : Manufacturing	143.2	1.0 (-0.1)	-2.2 (-0.9)
Services			
<i>of which</i> :			
Wholesale, retail and Import/export trades	156.9	0.7 (-0.3)	-1.3 (*)
Restaurants and hotels	128.3	0.3 (-0.8)	-3.9 (-2.6)
Transport services	146.7	-0.1 (-1.2)	-2.6 (-1.4)
Finance, insurance, real Estate and business services	156.1	-0.8 (-1.8)	0.7 (2.0)
Personal services	147.7	1.1 (*)	-2.3 (-1.0)
Nominal index of construction wage rate (Jan 1970 = 100) (Feb 2004)	3 529.1	-0.2 (0.4)	0.1 (1.3)

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

(*) Change of less than 0.05%.

Table 10 Various price indices for the first quarter of 2004

Statistical variable	Magnitude	% change over	
		Previous period	Same period last year
<u>Consumer Price Indices</u> (Oct 1999 - Sep 2000 = 100)			
Composite CPI	91.9	0.3 [#]	-1.8
CPI(A)	92.5	0.4 [#]	-1.2
CPI(B)	91.6	0.2 [#]	-2.0
CPI(C)	91.6	0.3 [#]	-2.4
<u>Property Price Indices</u> (1999 = 100)			
Residential flats	72.5	12.6	15.6
Office space	85.2	27.5	37.2
Shopping space	104.0	10.4	28.4
Conventional flatted factory space	79.2	8.6	9.2
<u>GDP deflator</u> ⁺ (2000 = 100)	87.8	-0.3 [#]	-4.3

Notes : (+) Preliminary figures.

(#) Seasonally adjusted series.

