



Half-yearly Economic Report 2004

Government of the Hong Kong
Special Administrative Region

***HALF-YEARLY
ECONOMIC REPORT 2004***

ECONOMIC ANALYSIS DIVISION
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT
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CHAPTER 1 : OVERALL VIEW*

Summary

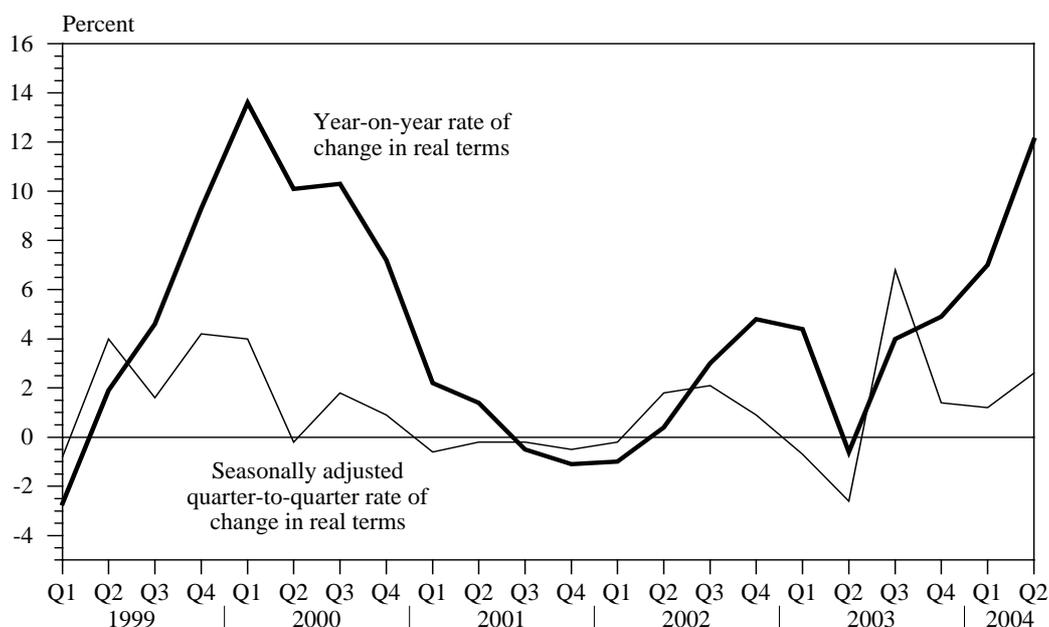
- *The recovery of the Hong Kong economy broadened further to a full-fledged upturn in the second quarter of 2004. GDP rose by 12.1% over a year earlier, significantly up from the 7.0% growth in the first quarter.*
- *The robust growth in the second quarter was characterised by double-digit growth in both merchandise exports and offshore trade, as well as a further pick-up in local consumer and investment spending.*
- *In parallel with a broad-based strengthening in labour demand, the seasonally adjusted unemployment rate fell to a 28-month low of 6.9% in the second quarter of 2004. Total employment picked up further to a 2.6% growth in the second quarter, from 0.8% in the first quarter. Vacancies also surged across all the major economic sectors.*
- *Both the property and stock markets consolidated in the second quarter, after a hectic first quarter. Flat prices rose by only 3% in the second quarter over the preceding quarter, narrowed noticeably from the 14% increase in the first quarter. The Hang Seng Index closed June at 12 286, 2.3% lower than at end-2003.*
- *Deflationary pressures continued to subside, along with generally improved economic conditions, revived consumer demand and higher import prices. Pricing power for some consumer items seemed to have returned. By June 2004, consumer prices had already climbed back by a cumulative 1.0% from the trough in July 2003, and was merely 0.1% lower than a year earlier.*

(*) For details of key economic data, see the table in the Statistical Appendix pp. 103.

Overall situation

1.1 The recovery of the Hong Kong economy broadened further to a full-fledged rebound in the second quarter of 2004. On the external front, both merchandise and offshore trade accelerated further in growth amid a generally sanguine global economic environment. Inbound tourism continued to soar, along with the further extension of the Individual Visitor Scheme⁽¹⁾ for visitors from the mainland of China (the Mainland) under the framework of Closer Economic Partnership Arrangement (CEPA)⁽²⁾, and the progressive return of visitors from other sources. Locally, domestic demand also gathered further strength upon improved business outlook, falling unemployment, and a steady revival in the property market.

Diagram 1.1 : Gross Domestic Product



1.2 With domestic and external demand both thriving, the *Gross Domestic Product (GDP)*⁽³⁾ soared by 12.1% in real terms in the second quarter of 2004 over a year earlier, distinctly up from the 7.0% growth in the first quarter (latter figure revised up from the estimate of 6.8% released in May). This was also the fastest growth since the first quarter of 2000. Apart from the underlying strength, the year-on-year growth was likely to be at least partly magnified by a distinctly low base of comparison caused by the spread of Severe Acute Respiratory Syndrome (SARS) in the same quarter of last year. On a seasonally adjusted quarter-to-quarter comparison⁽⁴⁾, GDP grew by 2.6% in real terms in the second

quarter of 2004, faster than the 1.2% growth in the first quarter (latter figure also revised up from the estimate of 1.0% released in May).

The external sector

1.3 Both the global and regional economic sentiment seemed to have turned more cautious lately. The several major risk factors emerging towards the end of last year continued to overshadow the global economic environment. The stepping up of tightening measures in the Mainland⁽⁵⁾ since April to curb excessive investment in the overheated sectors had aroused concern about the Mainland's near-term prospects and the ensuing repercussions on the regional economy. There was also concern that the successive rise in international oil prices to a 13½-year high during the second quarter would dampen the global economy⁽⁶⁾. Meanwhile, a spate of upbeat economic data from the US had triggered increasing market expectation for a more imminent reversal of the US interest rate cycle and a global consolidation of the stock markets. As expected, the US Federal Reserve raised the Fed Funds target rate by 25 basis points at end-June⁽⁷⁾, for the first time since May 2000.

1.4 However, with global demand staying stout and benefitting further from the lagged effect of a soft US dollar in early 2004, the external sector gathered even more vibrancy in the second quarter than in the first quarter. Specifically, *total exports of goods* accelerated further in the second quarter of 2004, to a growth of 18.0% in real terms over a year earlier, up from an already sharp increase of 14.8% in the first quarter. The remarkable export performance in the second quarter was characterised by continued surge in exports to the East Asian and European markets with growth well exceeding 10%, as well as a further pick-up in exports to the US market. Particularly worth-noting was a further large increase in exports to the Mainland, marked by soaring exports of raw materials and semi-manufactures in tandem with the Mainland's vibrant trade flows. So far, the impact of the tightening measures by the Mainland was rather insignificant.

1.5 Invisible trade was likewise strong. With inbound tourism, offshore trade and exports of transportation services all thriving, *exports of services* attained an even more marked increase, by 31.3% in real terms in the second quarter over a year earlier, up from the 12.6% growth in the first quarter. An abnormally low base in the second quarter of 2003 when inbound tourism was severely hit by SARS had also magnified the year-on-year growth in the second

quarter of this year. In particular, Mainland visitors continued on a strong uptrend along with the further extension of the Individual Visit Scheme. Except for sources like Japan and Taiwan, the number of visitors from most of the other major sources were already back to or had even surpassed the pre-SARS level lately.

The domestic sector

1.6 Local consumer spending remained brisk in the second quarter of 2004, under the support of a steadily improving labour market. *Private consumption expenditure* (PCE) picked up further to an 11.0% year-on-year growth in real terms in the second quarter, well above the 6.0% growth in the first quarter and the fastest growth in almost 13 years. The upsurge in consumer spending in the first and second quarters was manifested in almost all major categories of consumer goods and services, although the exceptionally strong growth in the second quarter was likely to be inflated at least partly by a low base of comparison due to SARS last year. On a seasonally adjusted quarter-to-quarter comparison, PCE leaped by 4.2% in real terms in the second quarter of 2004, distinctly up from the 1.0% growth in the first quarter.

Diagram 1.2 : Private consumption expenditure

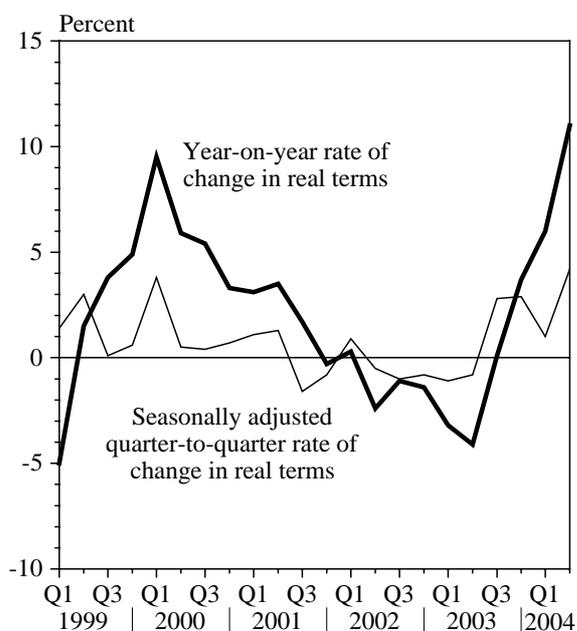
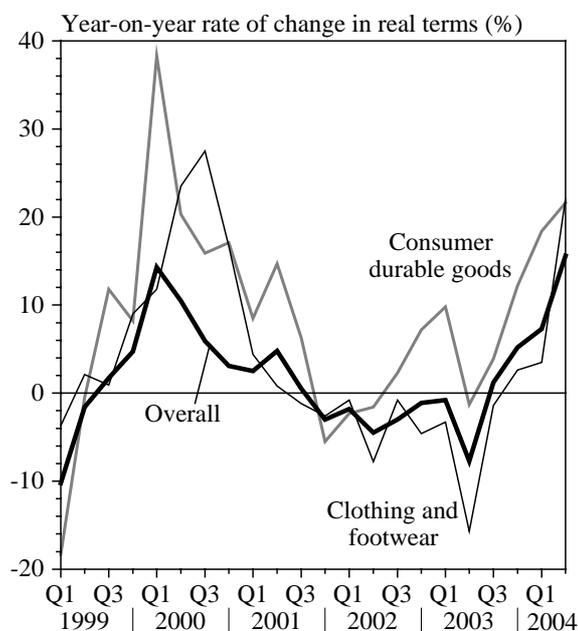
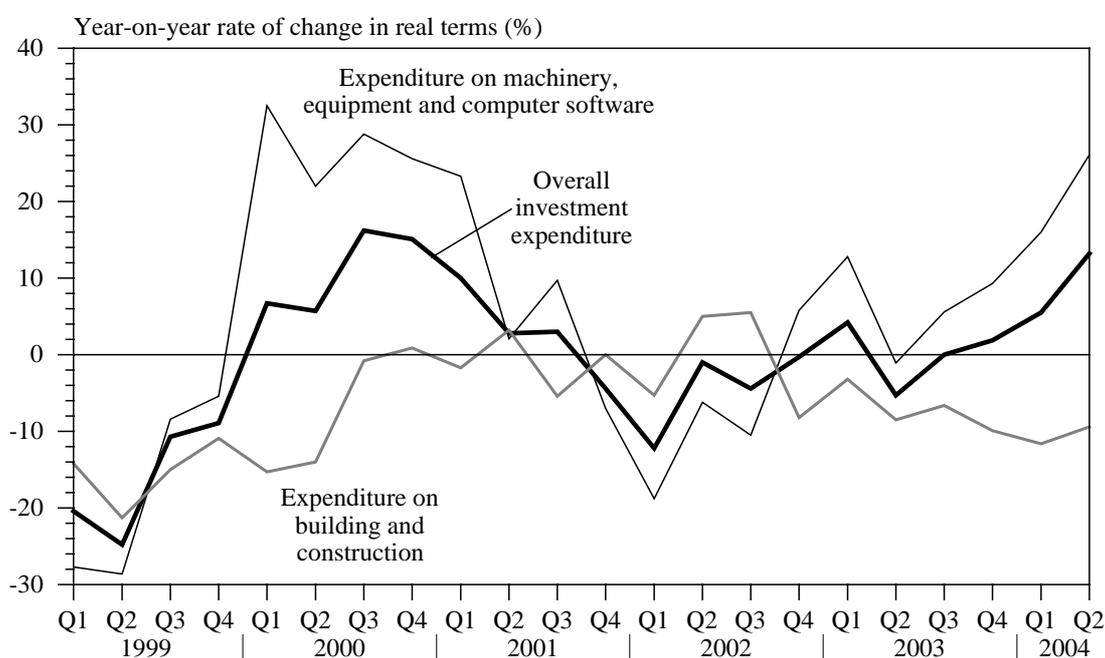


Diagram 1.3 : Retail sales



1.7 With continued buoyancy in both local consumer spending and inbound tourism, the volume of *retail sales* surged by 15.6% in the second quarter of 2004 over a year earlier, further up from the 7.3% increase in the first quarter. This was also the largest quarterly increase since the third quarter of 1991. Analysed within this total and on a year-on-year comparison, the leap in retail sales in the second quarter was almost across-the-board, with significant double-digit growth for clothing and footwear and for such consumer durables as motor vehicles, jewellery and watches, electrical goods and photographic equipment.

Diagram 1.4 : Investment expenditure by major component



1.8 In tandem with the economic upturn, investment sentiment had clearly improved. Overall *investment spending*, as represented by gross domestic fixed capital formation, rose by 13.2% in real terms in the second quarter of 2004 over a year earlier, accelerating further from the 5.5% growth in the first quarter. Expenditure on machinery, equipment and computer software was particularly strong, attaining sustained double-digit growth at 26.1% in real terms in the second quarter over a year earlier, after a 16.0% increase in the first quarter. But expenditure on building and construction was weak throughout the first half of 2004, down by 11.6% in real terms in the first quarter and then by 9.4% in the second quarter over a year earlier. This owed much to the continued slack in private sector building activity, as some prominent projects were successively

completed or wound down, while new projects had yet to generate sufficient output to render an offset. Meanwhile, construction output in the public sector fell back in the second quarter, along with the fall in output under the Public Housing Programme and the winding down of works on the West Rail.

The labour sector

1.9 As the economic recovery gathered strength, there was a broad-based strengthening in labour demand in recent period. In the second quarter of 2004, *total employment* expanded by 2.6% over a year earlier, outpacing the 0.8% growth in labour supply. The *seasonally adjusted unemployment rate* fell from 7.4% in the fourth quarter of 2003 to 7.2% in the first quarter of 2004, and then to a 28-month low of 6.9% in the second quarter. The *underemployment rate* hovered at around 3.3-3.5% over the same periods. Overall labour earnings remained soft in money terms, but they still registered marginal increase in real terms in the first quarter.

Asset markets

1.10 Following the marked recovery in late 2003 and early 2004, trading activities in the property market consolidated in the second quarter, albeit still well above the quarterly average in 2003. Flat prices, after the appreciable increases in the earlier months, eased back by an average of 7% between April and June 2004. Yet on a quarter-to-quarter comparison, flat prices still rose by 3% in the second quarter, a much narrowed increase than that of 14% in the first quarter. Notwithstanding the recent consolidation and the concern about interest rate rise, the market sentiment in general remained cautiously optimistic. Meanwhile, flat rentals continued to firm up in tandem with the reviving leasing demand. Leasing demand for office space also strengthened further amid the economic upturn. The market for shopping space stayed active, as inbound tourism remained buoyant and local consumer spending picked up further.

1.11 The local *stock market* consolidated along with the overseas stock markets during the second quarter, as sentiment worldwide turned more cautious amid concerns over an imminent rise in US interest rates, the hike in international oil price, and the stepping up of macroeconomic tightening in the Mainland. The Hang Seng Index plummeted to a near 8-month low at 10 968 on 17 May, but recouped some of the loss afterwards. It closed the month of June at 12 286, still down by 3.1% over end-March this year and 2.3% over end-2003.

Prices

1.12 Deflationary pressures had largely subsided. Along with higher import prices and improved consumer demand, the prices of many consumer items, including foodstuffs, clothing and footwear, travel and sports goods, and home appliances were progressively rising back. By June 2004, the seasonally adjusted *Composite Consumer Price Index* had already climbed back by a cumulative 1.0% over the trough in July 2003. The year-on-year rate of decline in the Composite Consumer Price Index in that month was a mere 0.1%. For the second quarter of 2004 as a whole, the year-on-year rate of decline averaged at only 0.9%, visibly smaller than that of 1.8% in the first quarter. This was also the smallest decline since the beginning of 1999. Likewise, the *GDP deflator* recorded a smaller year-on-year decline, at 2.9% in the second quarter of 2004 as against 4.0% in the first quarter. The larger decline in the GDP deflator than in the Composite CPI was mainly due to the downward drag on terms of trade caused by the weakness of the US dollar early in the year.

Notes :

- (1) The Individual Visit Scheme was first launched to residents of Dongguan, Zhongshan, Jiangmen and Foshan in the Guangdong Province on 28 July 2003. The scheme was then extended to residents of Guangzhou, Shenzhen, Zhuhai and Huizhou on 20 August 2003, and further to residents of Beijing and Shanghai on 1 September 2003. Then on 1 January 2004, the scheme was extended to residents of Shantou, Chazhou, Meizhou, Zhaoqing, Qingyuan and Yunfu in the Guangdong Province, and on 1 May 2004, to the entire Guangdong Province. From 1 July 2004 onwards, the scheme was extended still further to residents of nine more cities, viz. Nanjing, Suzhou and Wuxi in Jiangsu Province; Hangzhou, Ningpo and Taizhou in the Zhejiang Province; and Fuzhou, Xiamen and Quanzhou in the Fujian Province.

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

- (2) The main parts of CEPA were signed on 29 June 2003, and the six Annexes setting out the implementation details were signed on 29 September 2003. CEPA has three main parts, namely (1) zero-tariff treatment for exports from Hong Kong meeting the rules of origin requirement, with the first batch covering 374 Mainland product codes taking effect as from 1 January 2004; (2) liberalisation of market access in 18 services sectors in the Mainland; and (3) promotion of co-operation in seven areas of trade and investment facilitation, such as customs clearance, small and medium-sized enterprises, Chinese medicine and medical products, and e-commerce. Lately, it also embraces mutual recognition of professional qualifications in certain professional service fields.

- (3) 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.
- (4) 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.
- (5) Since April 2004, the Mainland government has stepped up efforts to curb over-investment in sectors with signs of overheating, including real estates and automobile, and the related industries like cement, steel and aluminium. But so far, these economic tightening measures are mainly sector-specific. Recent indicators suggest that these measures have begun to take effect.
- (6) The price of Brent crude oil surged to a 13½-year high of US\$39.5 per barrel on 1 June. Apart from brisk global oil demand, this was partly attributable to concerns over global oil supply caused by a cut in OPEC's oil production from 1 April, a series of terrorist attacks on oil facilities in Saudi Arabia and Iraq, and dwindling US oil inventories. Crude oil prices surged further towards the end of July and in August, due to looming concerns over the potential disruption in oil supply in Russia as its largest oil producer, the Yukos, was on the brink of bankruptcy due to tax dispute with the Russian government. On 30 July 2004, the price of Brent crude oil hit a new 13½-year high of US\$41.7 per barrel and then surged further to successive new highs, reaching US\$44.9 per barrel on 19 August.
- (7) On 30 June 2004, the Federal Reserve's Federal Open Market Committee raised the Fed Funds Target Rate for the first time in four years, by 25 basis points to 1.25%, marking the beginning of an interest rate upcycle. US interest rates were raised further by 25 basis points on 10 August. The market expects that any further interest rate rise in the United States should be gradual and at a measured pace.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *Benefitting from the favourable external environment and a generally soft US dollar in early 2004, Hong Kong's external trade continued to thrive. Growth in the second quarter was even faster than in the first quarter, as global demand strengthened further.*
- *Total exports of goods leaped by 18.0% in real terms in the second quarter of 2004 over a year earlier. The robust performance was marked by sustained surge in exports to the East Asian and European markets with growth well exceeding 10%, as well as a steady pick-up in exports to the US market. In particular, exports to the Mainland remained vibrant, with buoyancy in exports of raw materials offsetting slower growth in exports of capital goods.*
- *Exports of services attained an even more remarkable growth of 31.3% in real terms over the same period. Apart from the solid uptrend in both inbound tourism and offshore trade, an abnormally low base in the second quarter of 2003 has also magnified the year-on-year growth in the second quarter of this year.*
- *The recent oil price surge and the reversal of the interest rate cycle in US at end-June have however added uncertainties to the external environment, even though on the whole, the overall tone for 2004 is still very positive.*

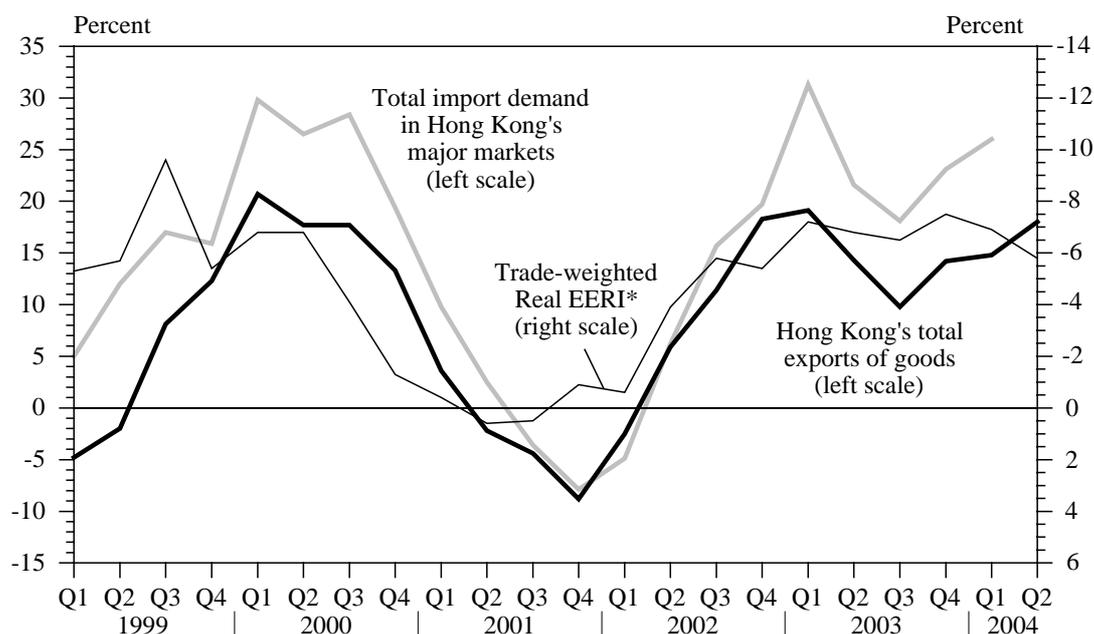
Hong Kong's external trade performance*

Trade in goods

2.1 *Total exports of goods* (comprising re-exports and domestic exports) were up by 18.0% in real terms⁽¹⁾ in the second quarter of 2004 over a year earlier, even faster than the 14.8% growth in the first quarter (*Diagram 2.1*). On a seasonally adjusted quarter-to-quarter comparison, total exports of goods grew further, by 5.4% in real terms in the second quarter, the tenth quarter of expansion in a row.

(*) For detailed statistics on the external sector, see tables in the Statistical Appendix, pp. 104 – 113.

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)

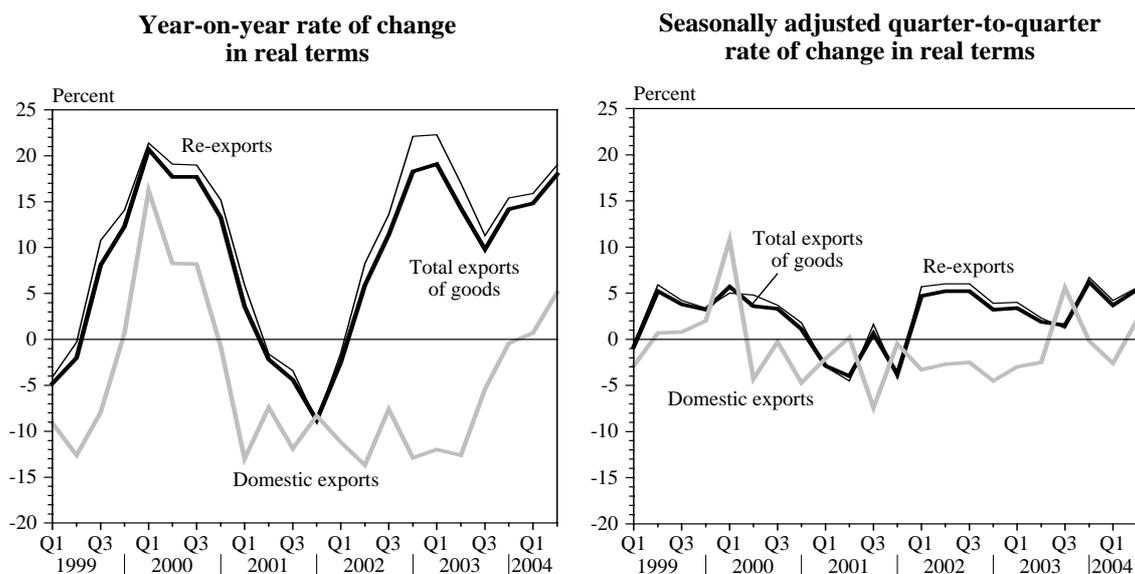


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

(*) 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.

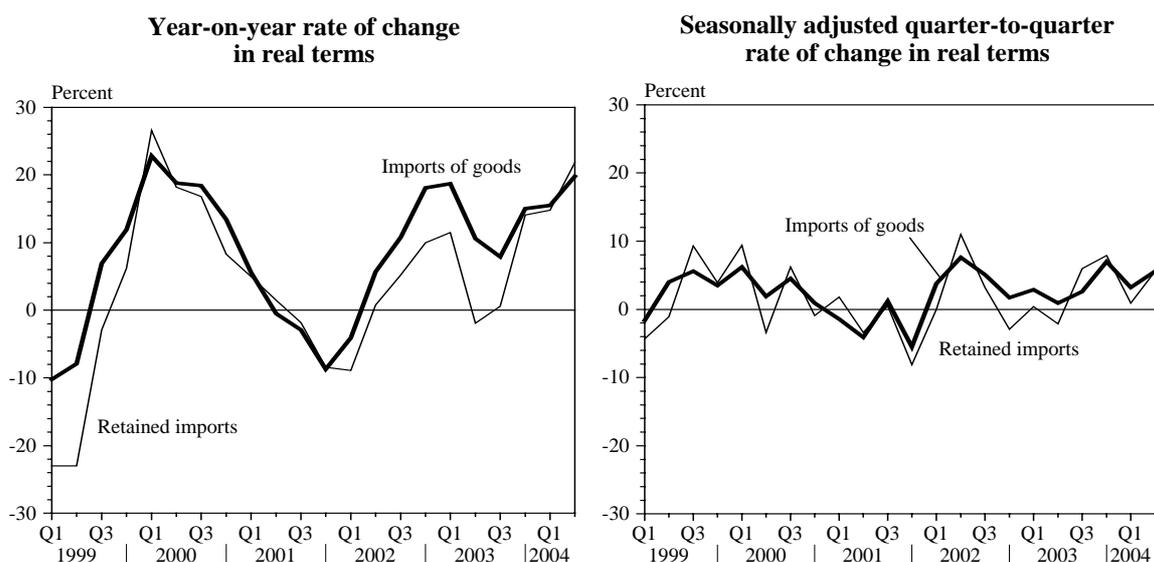
2.2 Within total exports of goods, *re-exports*⁽²⁾ remained the key source of growth, up by 19.0% in real terms in the second quarter over a year earlier (*Diagram 2.2*). This was not only faster than the 15.9% growth in the first quarter, it also marked the eighth quarter of double-digit growth. By comparison, the growth in *domestic exports* was less robust, with growth of 5.1% in real terms in the second quarter over a year earlier, even amid a very favourable trading environment. Yet this still represented a notable pick-up from a mere 0.7% increase in the first quarter. Apparently, the on-going structural shift towards re-exports and offshore trade⁽³⁾ has continued to weigh on domestic exports. On a seasonally adjusted quarter-to-quarter comparison, re-exports likewise continued to expand, by 5.6% in real terms in the second quarter of 2004. Domestic exports also bounced back, up by 2.1% over the same period, after two consecutive quarters of decline.

Diagram 2.2 : Total exports of goods, re-exports and domestic exports



2.3 *Imports of goods* remained on a distinct uptrend in recent period. After the strong surge in the first quarter, imports of goods picked up to an even sharper increase of 19.8% in the second quarter, the fastest since the first quarter of 2000 (*Diagram 2.3*). With the economic recovery gathering pace, the year-on-year growth in *retained imports* accelerated sharply to 21.8% in real terms in the second quarter. This was also attributable to a relatively low base of comparison in the same period last year owing to SARS. On a seasonally adjusted quarter-to-quarter comparison, imports of goods and retained imports grew further, both leaping by 5.6% in real terms in the second quarter of 2004.

Diagram 2.3 : Imports of goods and retained imports



2.4 *Intra-regional trade* performed well amid the regional trade boom. Exports to almost all *East Asian* economies⁽⁴⁾ registered large increases in the second quarter of 2004. Exports to *North America*⁽⁵⁾, having resumed increase in the first quarter of 2004, picked up even more visibly in the second quarter as the US economy gathered further strength. Exports to the *European Union*⁽⁶⁾ were on a strong uptrend. The strength of the euro, improving demand in EU, as well as increased penetration of Mainland products in this market were the contributory factors.

Trade in services

2.5 *Exports of services* were likewise vibrant, up by 31.3% in real terms in the second quarter of 2004 over a year earlier, with inbound tourism, offshore trade and exports of transportation services all thriving (*Diagram 2.4*). While an exceptionally low base in the second quarter of 2003 caused by SARS has magnified the year-on-year growth in the second quarter of this year, the underlying growth momentum was still strong. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell back by 1.3% in real terms in the second quarter of 2004, after a 1.8% increase in the first quarter.

Diagram 2.4 : Exports of services

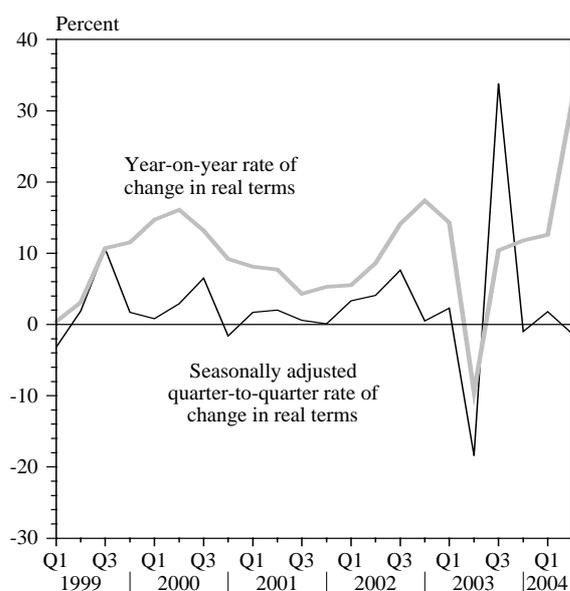
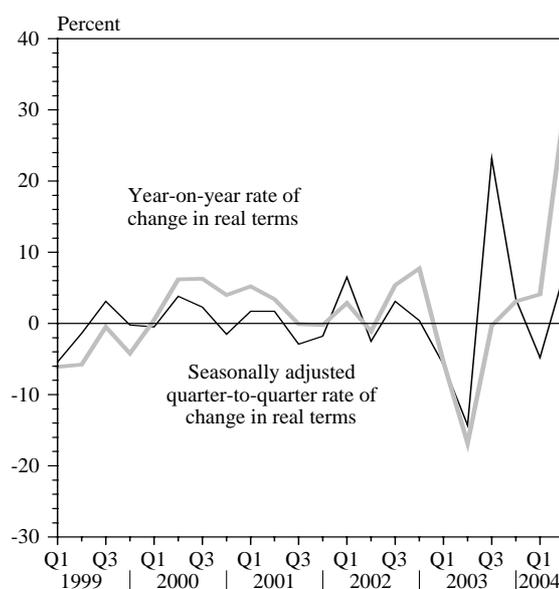


Diagram 2.5 : Imports of services



2.6 *Imports of services* made a very distinct growth of 30.1% in real terms in the second quarter of 2004 over a year earlier (**Diagram 2.5**). Same as exports of services, the significant year-on-year growth was in large part due to an abnormally low base of comparison in the same period last year when outbound tourism and imports of related services plummeted upon SARS. But even so, the underlying trend indicated that there was a pick-up in the second quarter, as outbound tourism resumed growth after a temporary hold-up due to the spread of avian flu in the region in the first quarter. On a seasonally adjusted quarter-to-quarter basis, imports of services rose back by 7.0% in real terms in the second quarter of 2004, after a 4.8% decline in the first quarter.

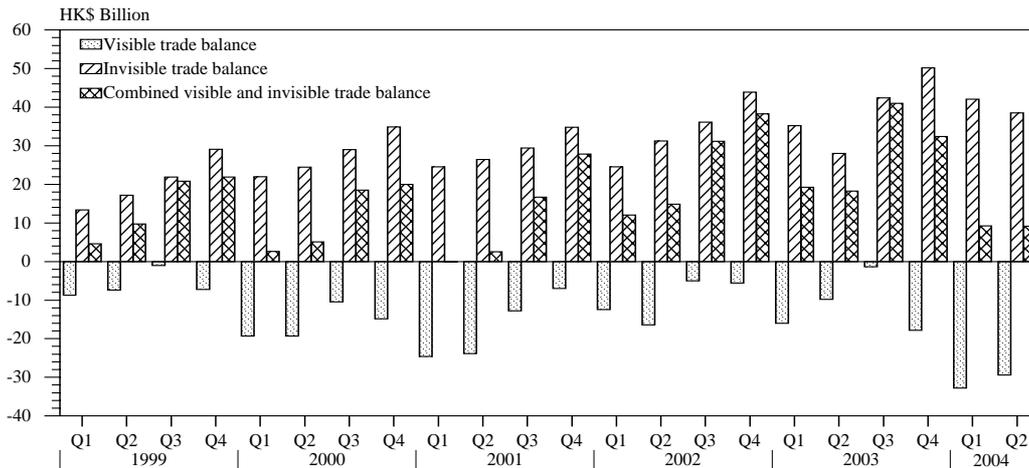
Overall trade balance

2.7 With the value of imports of goods registering a faster increase than the value of total exports of goods, the *visible trade deficit* reckoned on a GDP basis⁽⁷⁾ widened further, to \$29.4 billion or 5.6% of the value of imports of goods in the second quarter of 2004, from \$9.8 billion or 2.3% in the same quarter in 2003. For the first half of 2004 as a whole, the visible trade deficit also widened, to \$62.2 billion or 6.3% of the value of imports of goods, from \$25.8 billion or 3.1% in the same period in 2003.

2.8 As the increase in the value of exports of services was much larger than that in the value of imports of services, the *invisible trade surplus*⁽⁸⁾ expanded significantly to \$38.5 billion or 71.9% of the value of imports of services in the second quarter of 2004, from \$28.0 billion or 70.2% in the same quarter in 2003. For the first half of 2004 as a whole, the invisible trade surplus surged to \$80.6 billion or 76.7% of the value of imports of services, significantly up from \$63.2 billion or 72.1% in the same period in 2003.

2.9 Overall, the combined surplus amounted to \$9.1 billion in the second quarter of 2004, equivalent to 1.6% of the total value of imports of goods and services, as against \$18.2 billion or 3.9% in the same quarter in 2003 (**Diagram 2.6**). For the first half of 2004 as a whole, the combined surplus stood at \$18.3 billion or 1.7% of the total value of imports of goods and services, down from \$37.4 billion or 4.1% in the same period in 2003.

Diagram 2.6 : Visible and invisible trade balance



External economic environment

2.10 The export performance of Hong Kong was remarkable in the first half of 2004. Notwithstanding the geopolitical risk and the surge in international oil prices during the first half of 2004, demand held up well across regions, thereby contributing to a global trade boom. Of Hong Kong's major trading partners, most recorded an uptrend in both industrial production and exports, leading to strong demand for energy, raw materials, as well as semi-manufactures of parts and components. Many have seen a turnaround in investment spending since the latter part of 2003.

2.11 US, being the largest economy in the world and at the same time the second largest market for Hong Kong's exports, sustained solid growth momentum in the second quarter of 2004. This was led mainly by a distinct uptrend in investment amid improved corporate profits and generally upbeat business confidence. The labour market has been improving since late last year. This should help underpin consumer demand and hence overall economic growth. With signs of the US economy remaining vigorous, there is rising concern of a resurrection of inflation and a reversal of the interest rate cycle. As widely expected, the US Federal Reserve raised interest rates by 25 basis points at end-June, marking the end of the interest rate down-cycle that began in January 2001. But with the US core inflation rate still relatively modest and still well below its 10-year trend average, it is expected that US interest rates would be raised only at a gradual and measured pace.

2.12 The Mainland economy, Hong Kong's largest trading partner, maintained a strong growth momentum in the second quarter, with GDP leaping by 9.6% over a year earlier. While caution about overheating in selected sectors continued, exports remained buoyant, fixed asset investment was still strong, and consumer spending stayed firm. Nevertheless, the stepping up of cooling measures since April have begun to show signs of success in slowing investment and industrial production in recent months. The growth in both lending and money supply has also been moderating successively since May 2004.

2.13 Japan, the second largest economy in the world, is at long last recovering. Economic performance in the first half of this year was particularly impressive. While exports gave the main impetus to growth, consumer spending was finally showing signs of revival after a prolonged period of setback. Investment spending also rose further. Industrial production stayed on a strong uptrend. The labour market likewise improved in tandem. With external and domestic demand both on the rise, Japan's GDP growth remained solid at 4.4% in the second quarter of 2004 over a year earlier. The consensus forecast for Japan's GDP growth in 2004 has also been revised up, from 2.1% at the beginning of the year to 4.3% lately.

2.14 In East Asia (other than the Mainland and Japan), there was a broad-based upturn in economic activity. The sustained export boom was the key driver of growth. Intra-regional trade surged further and took up an increasingly notable share of total trade in the region. Many economies have grown faster than earlier expected. The official GDP growth forecast for 2004 for some economies, including Singapore, Taiwan, and also Malaysia have been revised up over the past few months.

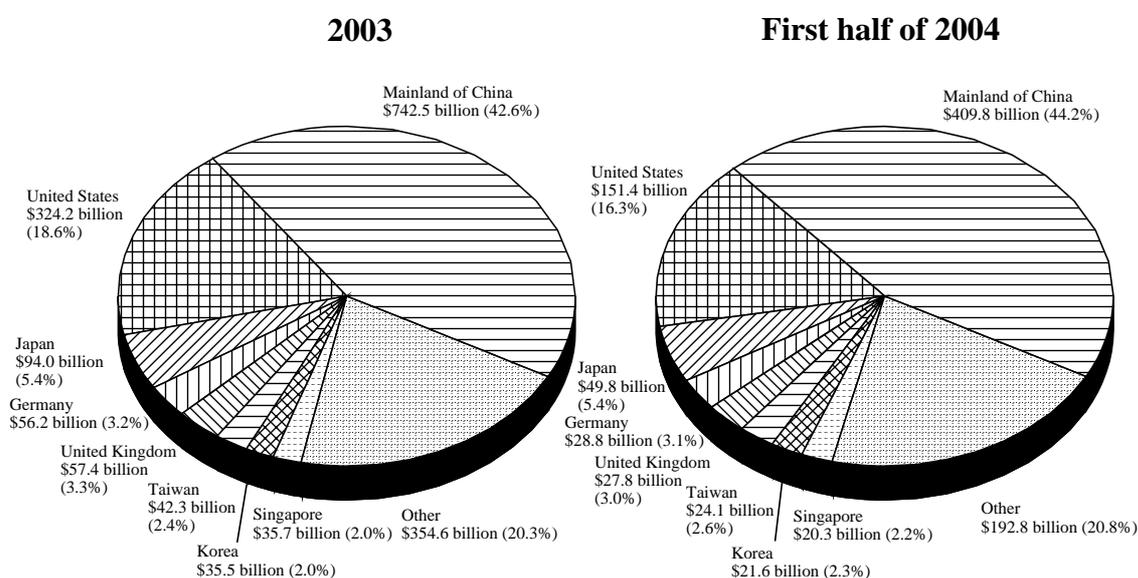
2.15 In the European Union, the mild recovery that commenced in early 2004 gathered further strength. Exports performed well, notwithstanding the continued strength of the euro in early 2004. However, the slack labour market has constrained the pace of recovery in domestic demand. Of the EU member economies, the economic recovery in Germany so far has relied heavily on exports, and the lacklustre domestic sector continued to drag down overall economic performance. In contrast, the UK economy continued to out-perform the other EU member economies, as the domestic sector stayed strong with the housing market booming and the labour market tightening.

Trade in goods analysed by market, by commodity, and by source

Total exports

2.16 Analysed by *market*, the Mainland remained the largest market for Hong Kong's total exports of goods, taking up 44% of the total value in the first half of 2004 (*Diagram 2.7*). Other major markets included the United States (with a share of 16%), Japan (5%), Germany (3%), the United Kingdom (3%), Taiwan (3%), the Republic of Korea (2%), and Singapore (2%). Analysed by *region*, intra-regional trade featured prominently in Hong Kong's trade, with 60% of the value of Hong Kong's total exports of goods in the first half of 2004 destined to the East Asian markets. Of this, the Mainland market accounted for the predominant proportion, signifying the role of Hong Kong as a trade hub between the Mainland and the rest of the world. North America is another important market, with a share of 17%, while the European Union accounted for another 14%.

Diagram 2.7 : Total exports of goods by major market

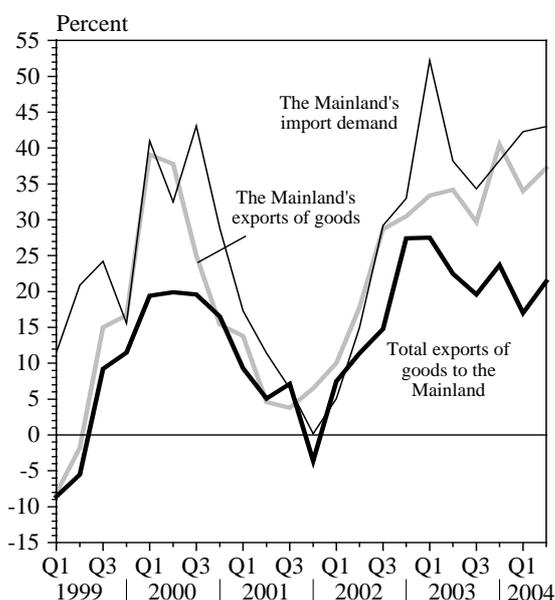


Total exports of goods in 2003 : \$1,742.4 billion

Total exports of goods in the first half of 2004 : \$926.3 billion

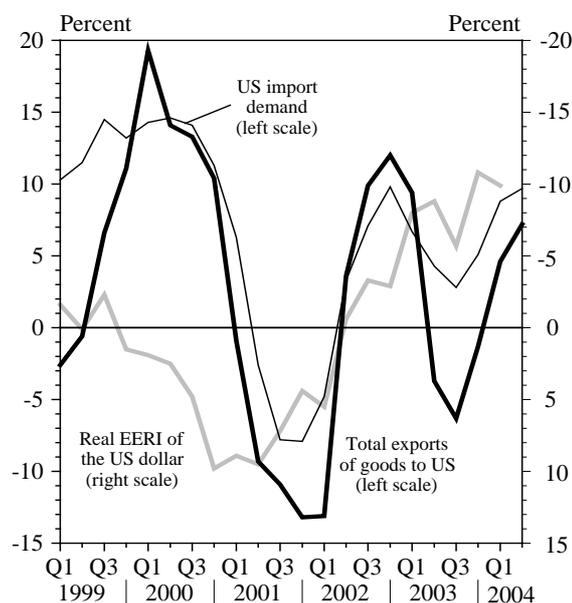
2.17 Total exports of goods to the *Mainland* were still strong, leaping by 21.4% in real terms in the second quarter of 2004 over a year earlier, further up from a 17.0% surge in the first quarter (*Diagram 2.8*). Within the total, exports of consumer goods to this market remained relatively modest. Exports of capital goods still maintained notable growth, though not as fast as in the first quarter. Also, exports of raw materials and semi-manufactures picked up to growth well exceeding 30% in value terms in the quarter, in line with the Mainland's buoyant trade flows.

Diagram 2.8 : Total exports of goods to the mainland of China (year-on-year rate of change)



Notes : The Mainland's import demand and exports of goods as depicted refer to the year-on-year rates of change in US dollar terms.

Diagram 2.9 : Total exports of goods to US (year-on-year rate of change)



Note : For ease of comparison, the scale for the Real EERI of the US dollar is presented here upside down, so that positive changes denoting real appreciation of the US dollar appear at the lower part and negative changes denoting real depreciation at the upper part of the diagram.

2.18 After resuming modest increase in the first quarter, total exports of goods to the *United States* improved further in the second quarter, with growth picking up to 7.2% in real terms over a year earlier (*Diagram 2.9*). This was consistent with the general pick-up in US import demand over the period. Within the total, exports of consumer goods strengthened visibly after a weak start in the first quarter. Growth in exports of raw materials and semi-manufactures likewise accelerated. Exports of capital goods also grew further, though at a much slower pace in the second quarter than in the first quarter.

2.19 Along with the upturn in the Japanese economy, total exports of goods to *Japan* picked up further in the second quarter, leaping by 17.4% in real terms over a year earlier, up from 10.9% in the first quarter (**Diagram 2.10**). The surge in the second quarter was rather broad-based. Exports of raw materials and semi-manufactures were buoyed by Japan's own export surge. Exports of capital goods continued to rise. Exports of consumer goods also improved visibly as consumer spending revived.

Diagram 2.10 : Total exports of goods to Japan
(year-on-year rate of change)

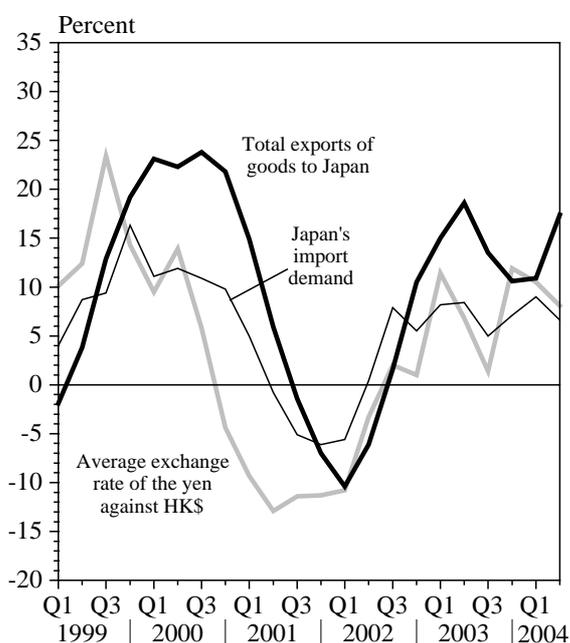
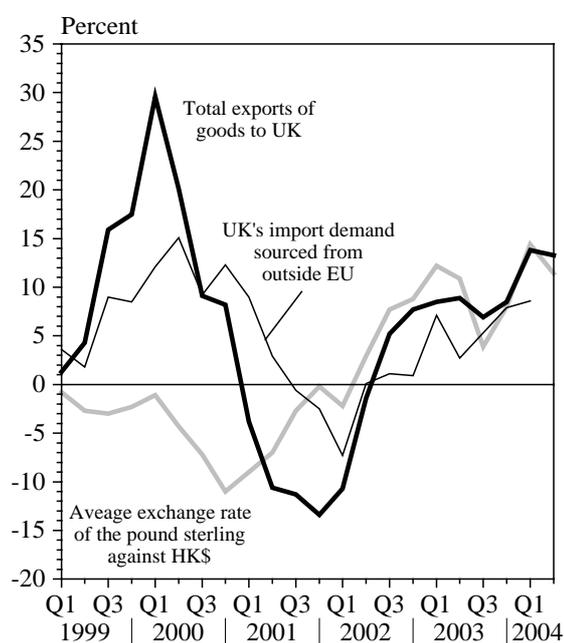


Diagram 2.11 : Total exports of goods to UK
(year-on-year rate of change)



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

2.20 Total exports of goods to the *United Kingdom* sustained strong growth momentum, rising further by 13.3% in real terms in the second quarter of 2004 over a year earlier (**Diagram 2.11**). Exports of both consumer goods and capital goods continued to display notable growth. Exports of raw materials and semi-manufactures also rebounded strongly after successive declines in the previous quarters. The resilience of the UK economy, coupled with the earlier appreciation of the pound sterling against the Hong Kong dollar, continued to underpin Hong Kong's exports to this market.

2.21 Total exports of goods to *Germany* accelerated further to a growth of 16.9% in real terms in the second quarter of 2004 over a year earlier, following a 7.9% increase in the first quarter (*Diagram 2.12*). Exports of raw materials and semi-manufactures, after easing in the first quarter, bounced back sharply in the second quarter. Also, exports of both capital goods and consumer goods to this market registered marked increases.

Diagram 2.12 : Total exports of goods to Germany (year-on-year rate of change)

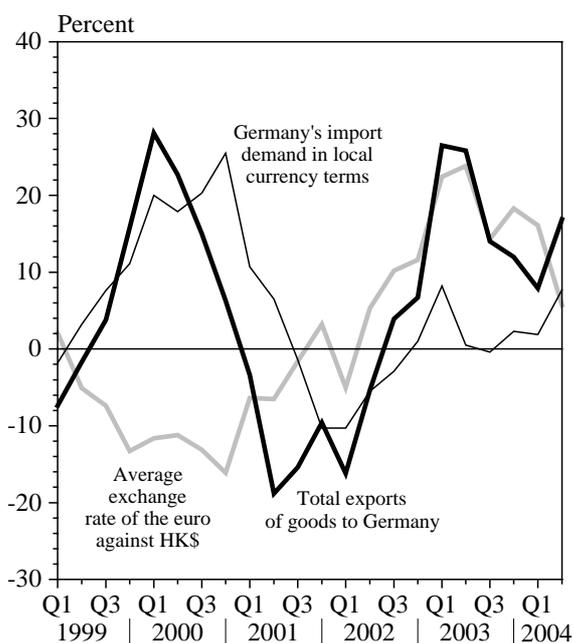
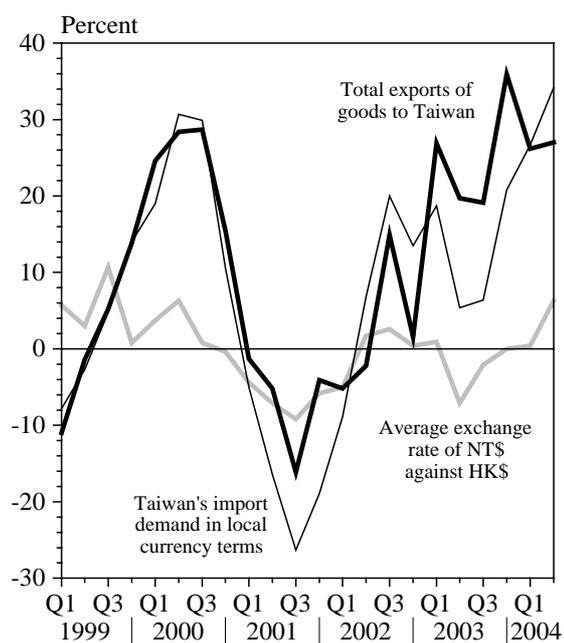


Diagram 2.13 : Total exports of goods to Taiwan (year-on-year rate of change)



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

2.22 Total exports of goods to *Taiwan* continued to grow strongly, registering an increase of 27.0% in real terms in the second quarter of 2004 over a year earlier. This was even faster than the 26.2% increase in the first quarter (*Diagram 2.13*). Exports of raw materials and semi-manufactures to this market were particularly strong, in line with Taiwan's own export boom. Exports of both capital goods and consumer goods also displayed robust growth.

2.23 Total exports of goods to *Singapore* were also strong, up by 30.1% in real terms in the second quarter of 2004 over a year earlier (*Diagram 2.14*). The surge was broad-based, with exports of raw materials and semi-manufactures recording growth of over 50% in value terms. Exports of both consumer goods and capital goods also attained buoyant growth.

Diagram 2.14 : Total exports of goods to Singapore
(year-on-year rate of change)

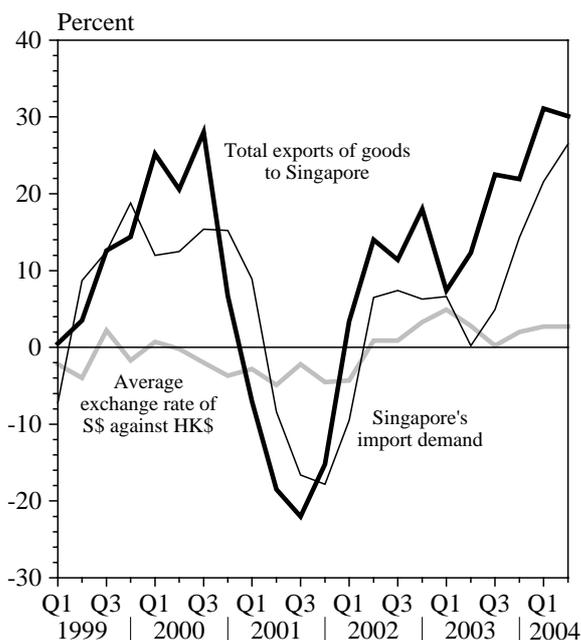
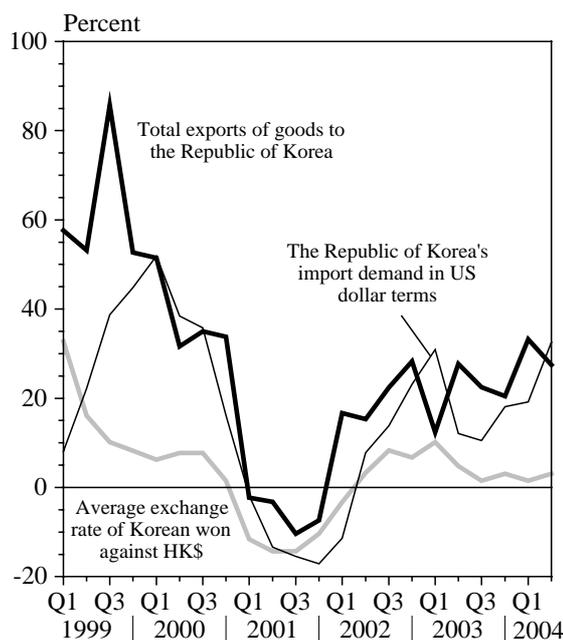


Diagram 2.15 : Total exports of goods to Republic of Korea
(year-on-year rate of change)



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

2.24 Total exports of goods to the *Republic of Korea* were likewise buoyant, soaring by 27.5% in real terms in the second quarter of 2004 over a year earlier, after an already highly robust growth of 33.2% in the first quarter (*Diagram 2.15*). As with Taiwan and Singapore, the surge in exports to this market was almost across-the-board.

2.25 Analysed by major *commodity group*, the surge in export growth in the second quarter of 2004 was driven mainly by distinct increases in exports of electronic components and of telecommunications products. Exports of clothing and of textiles accelerated in growth. On the other hand, exports of office machines and equipment moderated to only a modest growth. Exports of toys remained relatively weak.

Re-exports

2.26 The Mainland remained the largest *market* for Hong Kong's re-exports, taking up 45% of the total value in the first half of 2004. The United States came next (with a share of 16%), followed by Japan (6%), Germany (3%), the United Kingdom (3%), Taiwan (3%), the Republic of Korea (2%), and Singapore (2%). In the second quarter of 2004, re-exports to almost all the major markets sustained strong momentum with growth well exceeding 10% in real terms. The surge in re-exports to Taiwan, the Republic of Korea and Singapore was particularly distinct. Re-exports to the United States, though not growing as fast as the other major markets, also picked up in growth in the second quarter.

Domestic exports

2.27 The Mainland and the United States were the two largest *markets* for Hong Kong's domestic exports, accounting for 30% and 29% respectively of the total value in the first half of 2004. These were followed by the United Kingdom (with a share of 6%), then by Germany (4%), Taiwan (4%), Singapore (3%), and Japan (2%). Domestic exports to the major markets continued to show mixed performance in the second quarter of 2004. Domestic exports to the Mainland remained weak. Those to Japan fell back modestly. But domestic exports to US, Germany, Taiwan, UK and Singapore recorded growth of various magnitudes.

Imports

2.28 The Mainland remained the largest *source* of Hong Kong's imports of goods, accounting for 42% of the total value in the first half of 2004. Other major sources of imports included Japan (with a share of 12%), Taiwan (7%), the United States (5%), Singapore (5%), and the Republic of Korea (5%). In tandem with the vibrant re-export performance, imports from many major sources showed accelerated growth in the second quarter.

2.29 As to retained imports, Japan was the largest *source*, accounting for around 17% of the total value in the first half of 2004. Other major suppliers of retained imports were the Republic of Korea (with a share of around 11%), Singapore (9%), the United States (7%), Taiwan (7%), and the Mainland (5%).

2.30 The surge in retained imports in the second quarter was characterised by a broad-based pick-up in almost all *end-use categories* of retained imports. Retained imports of consumer goods showed large increase, along with the upturn in local consumer demand and vibrant tourism sector. Retained imports of foodstuffs likewise accelerated sharply in growth.

2.31 Retained imports of capital goods grew rapidly in the second quarter, as investment sentiment improved. Intake of telecommunications equipment continued to soar. Intake of construction machinery also picked up robustly in the second quarter, having reverted to increase in the preceding quarter. Meanwhile, intake of both industrial machinery and office equipment rose notably further.

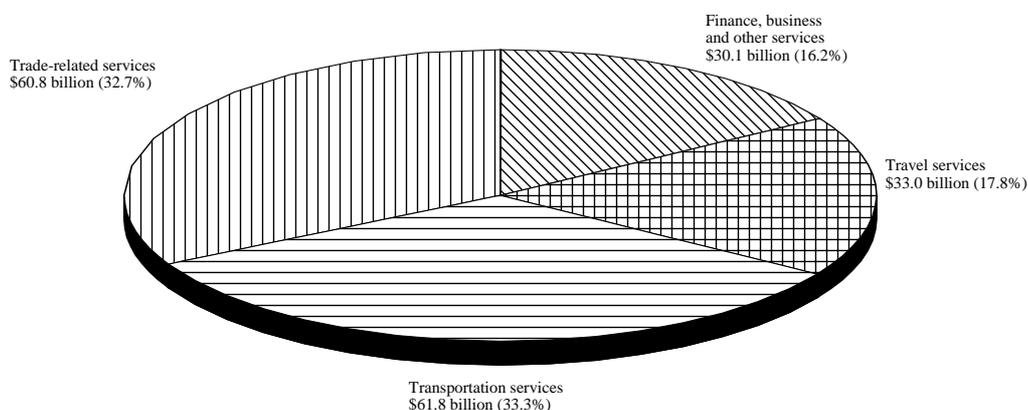
2.32 Retained imports of raw materials and semi-manufactures likewise remained on an uptrend in the second quarter, along with the general upturn in economic activity. Retained imports of fuels bounced up to a double-digit growth in the second quarter, reflecting the build-up in oil inventory in face of the surge in oil prices.

Trade in services analysed by major service group

Exports of services

2.33 Trade-related services (comprising mainly offshore trade) and transportation services were the two largest components in Hong Kong's exports of services, both accounting for 33% by value in the first half of 2004 (*Diagram 2.16*). These were followed by exports of travel services (with a share of 18%) and exports of finance, business and other services (16%).

Diagram 2.16 : Exports of services by major service group in the first half of 2004



Exports of services in the first half of 2004 : \$185.6 billion

2.34 Against the low base caused by the SARS outbreak in the second quarter of 2003, exports of travel services were sharply up by 125.5% in real terms in the second quarter of 2004 over a year earlier. In particular, the number of visitors from the Mainland soared, aided by further extension of the Individual Visit Scheme in May 2004⁽⁹⁾. Visitors from other sources also resumed growth progressively during the second quarter. Specifically, the numbers of visitors from most of the sources were already back to, or had even surpassed, their pre-SARS levels by May 2004.

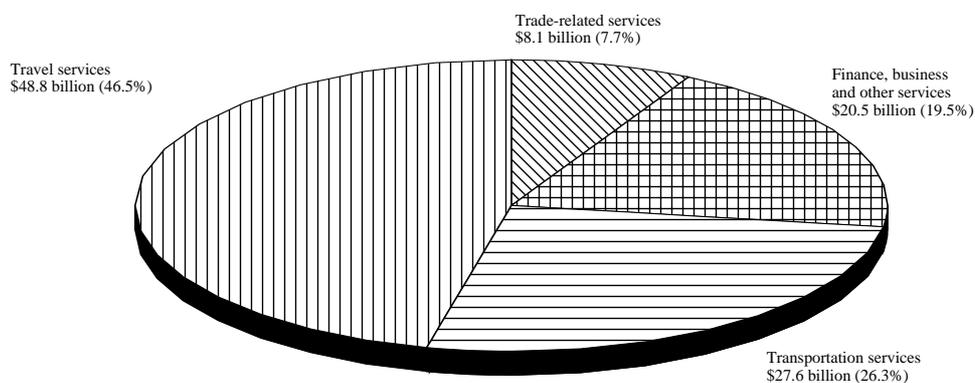
2.35 Exports of transportation services also flourished, as both passenger transport and cargo services thrived. The growth in the second quarter was likewise very distinct, at 31.5% in real terms over a year earlier. Nevertheless, this was magnified to some extent by the low base of comparison in the second quarter in 2003.

2.36 Exports of trade-related services comprising mainly offshore trade remained robust, reflecting surging trade flows involving the Mainland. Such exports attained a 19.6% increase in real terms in the second quarter of 2004 over a year earlier, the eighth quarterly double-digit growth in a row. Exports of finance, business and other services also maintained notable growth, at 8.5% in real terms in the second quarter of 2004 over a year earlier.

Imports of services

2.37 Travel services continued to take up the largest share in Hong Kong's imports of services, at 46% by value in the first half of 2004 (*Diagram 2.17*). 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 2.17 : Imports of services by major service group in the first half of 2004



Imports of services in the first half of 2004 : \$105.0 billion

2.38 Similar to exports of services, the surge in imports of services in the second quarter of 2004 was most distinct in outbound tourism and related services, again in part due to an exceptionally low base in the same period last year. Specifically, imports of travel services went sharply up by 43.0% in real terms in the second quarter of 2004 over a year earlier, contrary to a 0.7% decline in the first quarter. Similarly, imports of transportation services soared by 37.3% in real terms in the second quarter of 2004 over a year earlier. Apart from the base effect, the strong growth in the second quarter was also underpinned by the surge in freight cargo services associated with merchandise imports.

2.39 Meanwhile, imports of trade-related services continued to soar, up by 17.9% in real terms in the second quarter of 2004 over a year earlier. Imports of finance, business and other services also grew further, by 4.1% in real terms in the second quarter of 2004 over a year earlier.

Overall balance of payments⁽¹⁰⁾

2.40 While exports of goods and services remained very robust, there was concurrently a strong surge in import intake for local use in tandem with the further improvement in domestic demand, thereby contributing to a marked reduction in surplus in the combined visible and invisible trade account. The current account surplus dwindled in the first quarter of 2004, to \$15.6 billion, equivalent to 5.2% of GDP in that quarter, as against the respective figures of \$40.3 billion and 12.2% in the fourth quarter of 2003.

2.41 Both external factor income inflow and outflow remained sizeable in the first quarter of 2004, with each accounting for more than one-fourth of GDP in that quarter. This reflected the highly externally oriented nature of the Hong Kong economy and its position as an international financial centre in facilitating external investment activities.

2.42 Within the capital and financial account, financial non-reserve assets reverted to a net inflow for the first time in nearly three years, at \$1.9 billion in the first quarter of 2004, equivalent to 0.6% of GDP in that quarter, whereas in the fourth quarter of 2003, there was still a net outflow of \$23.6 billion, equivalent to 7.2% of GDP. The switch-back to net inflow was underpinned by enormous fund inflows into the banking sector during the first quarter, along with the strong upturn and improved prospects for the local economy. Meanwhile, the portfolio investment account registered a sizeable net outflow, owing to increased purchase of foreign equity and debt securities by local

residents. Yet part of the rise in foreign equity investment was related to the purchases of shares of Mainland companies traded on the Hong Kong Stock Exchange, which are treated as foreign equities for the purpose of the BoP statistics. Also, the direct investment account reversed to a net outflow owing to repayment of loans in the quarter.

2.43 Overall, the balance of payments account registered a larger surplus in the first quarter of 2004, at \$35.5 billion, equivalent to 11.7% of GDP, representing a corresponding increase in reserve assets in that quarter. This compared with the surplus figures of \$31.4 billion and 9.6% in the fourth quarter of 2003.

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) 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.
- (5) North America here comprises the United States and Canada.

- (6) The European Union here covers twenty five member countries, namely the United Kingdom, Germany, the Netherlands, France, Sweden, Italy, Denmark, Spain, Finland, Belgium, Luxembourg, Ireland, Austria, Greece, Portugal, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
- (7) 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.
- (8) 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.
- (9) See Note(1) in Chapter 1.
- (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*

Summary

- *Net output for the service sector grew noticeably in the first quarter of 2004, underpinned by revived private consumption, vibrant inbound tourism and thriving external trade. The wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; and finance, insurance, real estate and business services all recorded significant increases in net output.*
- *Property prices showed more moderate increases in the second quarter, having picked up strongly in the preceding quarters. Trading activities generally turned less active. Notwithstanding concerns about the upward pressures on interest rates, the economic tightening measures in the Mainland and the oil price hike, market sentiment remained cautiously optimistic.*
- *Building and construction activity remained weak in overall terms in the second quarter, as private sector building activity stayed at a low level.*
- *Inbound tourism was buoyant in the second quarter, with the number of incoming visitors well exceeding the pre-SARS levels. The influx of Mainland visitors, boosted by the Individual Visit Scheme, provided the major support. Visitors from other sources, particularly Europe, Australia and New Zealand as well as South and Southeast Asia, also recovered strongly.*
- *The cargo throughputs handled at the airport and port continued to register noticeable increase in the second quarter. The robust external trade provided the major impetus, driving strong growth in both inward and outward cargo.*

(*) For detailed statistics on the domestic economy, see tables in the Statistical Appendix, pp. 114 – 121.

Net output or value added by major economic sector

3.1 According to the quarterly GDP by major economic sector at constant prices⁽¹⁾, net output or value added for all the *service sectors* taken together⁽²⁾ grew considerably, by 8.4% in real terms in the first quarter of 2004 over a year earlier (**Diagram 3.1**). This represented a further acceleration from the 6.4% increase in the fourth quarter of 2003. Analysed by constituent sector and by year-on-year comparison in real terms, net output in transport, storage and communications expanded significantly, by 13.3% (**Diagram 3.2**). The buoyancy in external trade and continued expansion in the traffic volumes of international and mobile phone services were the main driving factors. Net output in the wholesale, retail and import/export trades, restaurants and hotels went up considerably, by 12.7%, attributable mainly to the continued robust performance of Hong Kong's external trade, amidst a broad-based revival in global demand. Also contributed was a notable growth in inbound tourism and further pick-up in local consumer spending. Net output in finance, insurance, real estate and business services grew by 12.0%. The growth impetus came mainly from the robust growth in banking services, on the back of a substantial increase in commission and service income. Also relevant was a leap in net output of the stock brokerage companies, underpinned by the continued upsurge in stock market turnover in the first quarter. Net output in community, social and personal services increased steadily, by 2.7%.

Diagram 3.1 : GDP by major economic sector
(year-on-year rate of change in real terms)

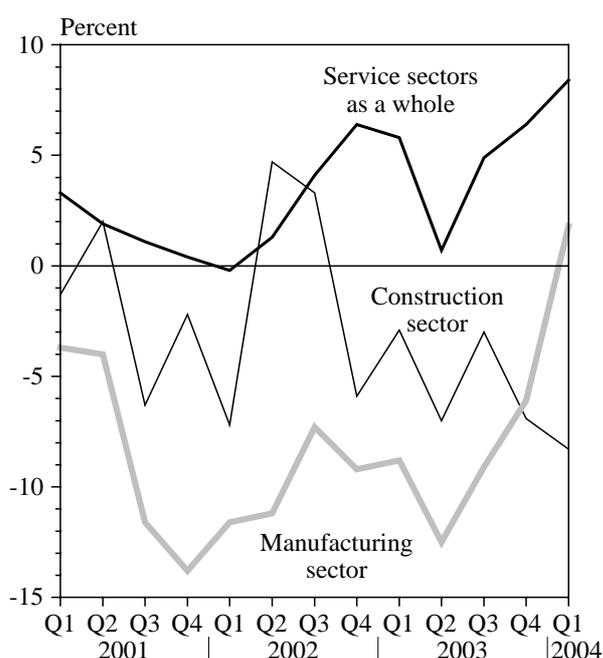
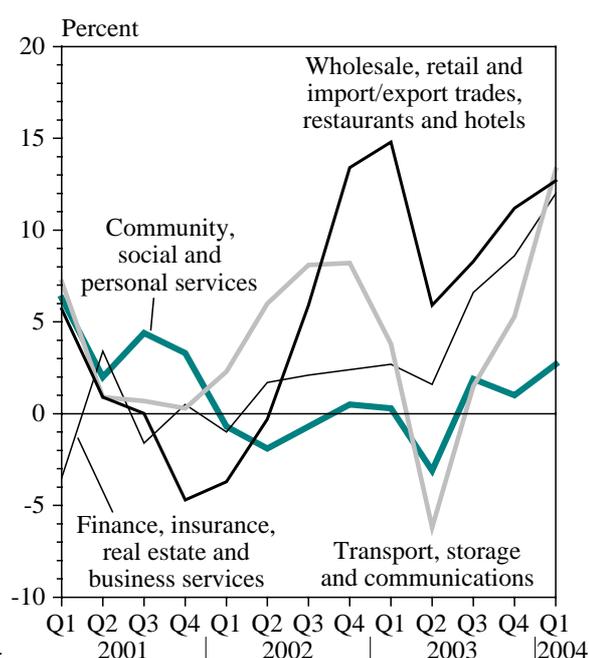


Diagram 3.2 : GDP by main constituent services sector
(year-on-year rate of change in real terms)



3.2 As to the net output in the local *manufacturing sector*, it grew by 1.8% in real terms in the first quarter of 2004 over a year earlier, reversing the declines in the past few years⁽³⁾. This was explained by the brisk global and regional demand. For the *construction sector*, net output contracted further, by 8.3% in real terms in the first quarter of 2004 over a year earlier, after a 6.9% decline in the fourth quarter of 2003. The contraction was attributable mainly to a fall-off in private sector building work.

Service sector receipts

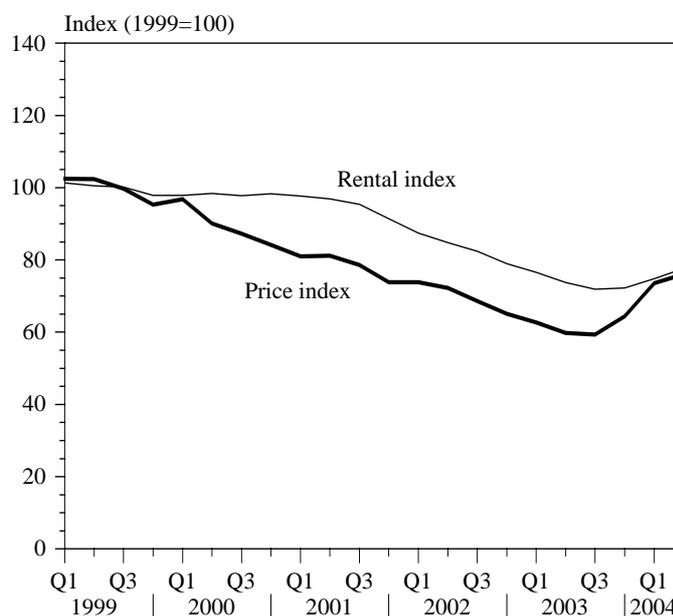
3.3 Business receipts of almost all service sectors surveyed increased in the first quarter of 2004 over a year earlier, continuing the broad-based recovery in the preceding quarter. Analysed by constituent sector and in value terms, business receipts in finance (except banking) soared by 76.0% in the first quarter of 2004 over a year earlier, fuelled by the brisk trading activities in the stock market. Business receipts in insurance boosted further, by 29.1%, due to the expansion in both general and life insurance businesses. Business receipts in real estate also grew markedly, by 25.0%, supported by the upturn of the property market. Business receipts in storage, the import/export trade, banking, transport and hotels all went up considerably, by 17.6%, 14.3%, 13.8%, 13.4% and 13.0% respectively. Business receipts in the retail trade, business services, the wholesale trade, film entertainment and restaurants also increased, by 8.4%, 7.6%, 5.7%, 4.2% and 3.7% respectively, reflecting the revival in local consumption, upturn in inbound tourism and expansion in commercial activities. On the other hand, business receipts in communications decreased further, by 3.7% in the first quarter of 2004 over a year earlier, due to price reductions amid keen competition among service providers.

Property

3.4 The sales market for *residential property* showed signs of consolidation towards the end of the second quarter of 2004, after the strong rebound since the latter part of 2003. There was a moderate decrease in trading activity in the second quarter compared with the first quarter, though prices continued to register mild increase. Despite concerns about the interest rate rise, the economic tightening measures in the Mainland and the recent oil price hike, market sentiment remained cautiously optimistic.

The strengthened local economy, improved employment situation, and favourable land auction results provided support. As to the rental market, it was relatively stable with rentals increasing moderately in overall terms. On a quarter-to-quarter comparison, flat prices rose further, on average by 3% in the second quarter of 2004, narrowed noticeably from the 14% increase in the first quarter. Flat rentals likewise increased, on average by 4% in the second quarter of 2004, after a similar increase in the preceding quarter. Compared with the peaks in the third quarter of 1997, flat prices and rentals in the second quarter of 2004 were still lower by an average of 55% and 44% respectively (*Diagram 3.3*).

Diagram 3.3 : Price and rental indices for private residential property

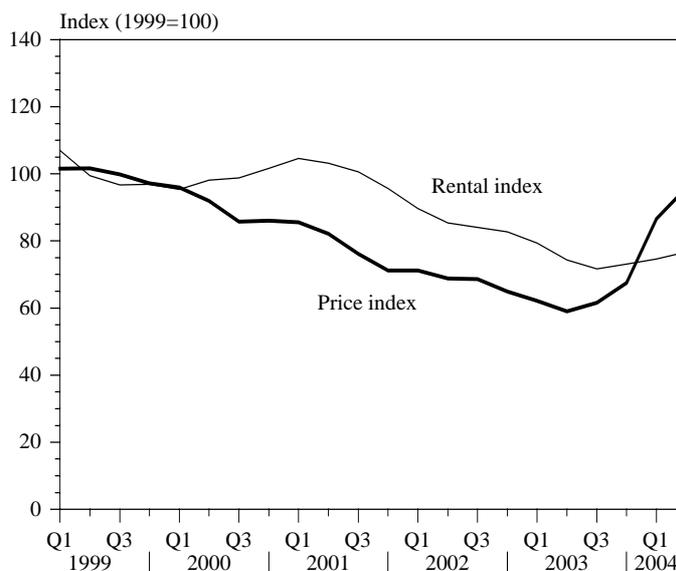


Note : See footnotes to Table 3.3 in the Statistical Appendix.

3.5 On *commercial property*, although the sales market in the second quarter was less active than in the first quarter, prices for office space increased distinctly further. Investors were generally more cautious after the surge in prices in the preceding two quarters, leading to a slowdown in trading activity. As to the rental market, leasing activity focused mainly on the upgrading and relocation of office space from the fringe areas to quality office premises in the prime locations. Landlords offered shorter rent-free periods, and were less willing to cut rentals. On a quarter-to-quarter comparison, prices for office space on average rose further, by 11% in the second quarter of 2004. This was

however slower than the 28% increase in the first quarter. As to office rentals, there was on average a 3% increase in the second quarter of 2004, having increased by 2% in the first quarter. Against their respective peaks in 1994, prices and rentals of office space in the second quarter of 2004 were still significantly lower, both by an average of 60% (*Diagram 3.4*).

Diagram 3.4 : Price and rental indices for private office space



Note : See footnotes to Table 3.3 in the Statistical Appendix.

3.6 The sales and rental markets for *shopping space* improved further in the second quarter of 2004, in line with the revival in retail business. Prices and rentals for retail premises increased more notably in popular locations and in better-managed shopping malls. On a quarter-to-quarter comparison, prices and rentals for shopping space rose on average by 2% and 3% respectively in the second quarter of 2004, following the respective increases of 13% and 2% in the first quarter. Compared with the peaks in the third quarter of 1997, prices and rentals for shopping space in the second quarter of 2004 were still down significantly, by an average of 43% and 26% respectively (*Diagram 3.5*).

Diagram 3.5 : Price and rental indices for private shopping space

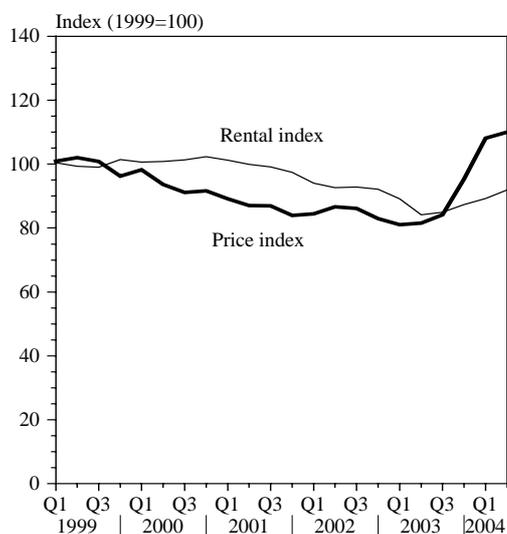
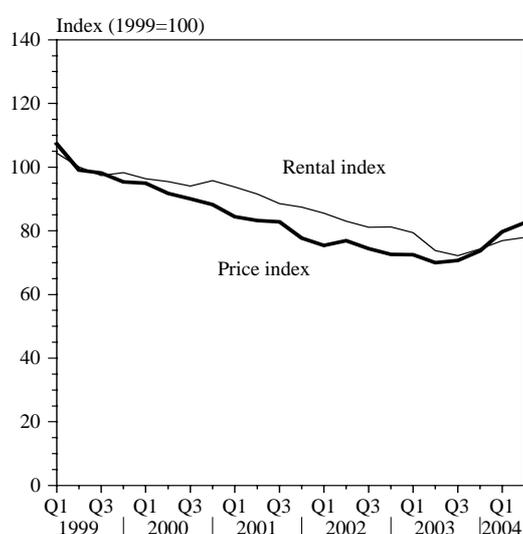


Diagram 3.6 : Price and rental indices for private flatted factory space

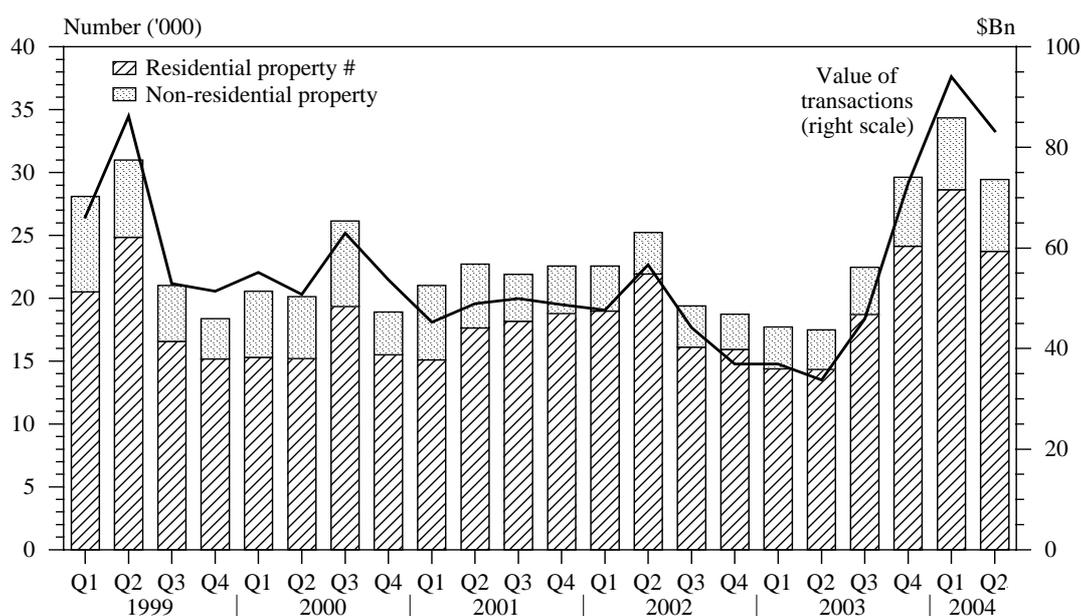


Note : See footnotes to Table 3.3 in Statistical Appendix.

3.7 On *industrial property*, the sales market was relatively quiet in overall terms in the second quarter of 2004, although prices continued to rise. On a quarter-to-quarter comparison, prices of industrial space on average went up by 4% in the second quarter of 2004, following an 8% increase in the first quarter. The rental market also remained quiet. Rentals of industrial space on average rose by 1% in the second quarter, having increased by 3% in the first quarter. Against their respective peaks in 1994, prices and rentals of industrial space in the second quarter of 2004 still plummeted by an average of 64% and 49% respectively (*Diagram 3.6*).

3.8 *Property transactions*, as measured by agreements for sale and purchase of property registered with the Land Registry, soared by 68% in number and 147% in value in the second quarter of 2004 over a year earlier. Both residential property and non-residential property recorded significant increases in transactions. Compared with the preceding quarter, overall property transactions dropped by 14% in number and 11% in value, reflecting the more cautious market sentiment. Property transfer assignments, being a lag indicator of property transactions, surged in number and in value in the second quarter compared with a year earlier and the preceding quarter. As to mortgage arrangements, another lag indicator of property activity, their number also increased markedly compared with a year earlier and the first quarter (*Diagram 3.7*).

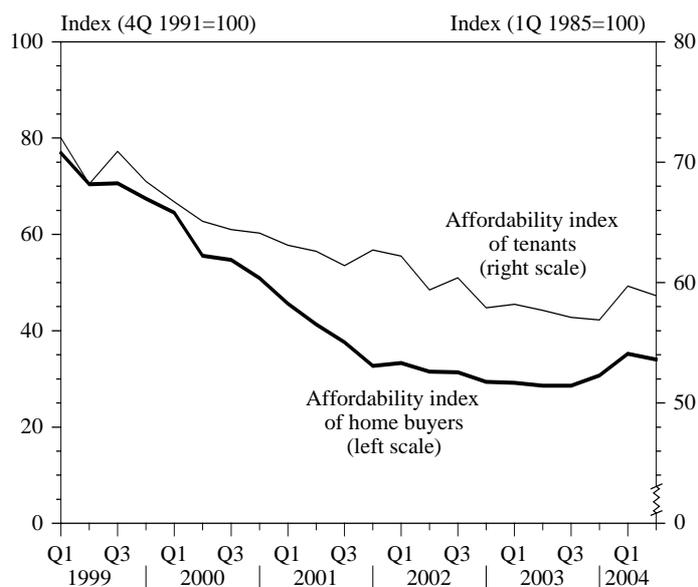
Diagram 3.7 : Sale and purchase agreements by broad type of property



Note : (#) See Footnote (a) to Table 3.4 in the Statistical Appendix.

3.9 Using the index on the ratio of average monthly repayment of mortgage loan to median household income as indicator, *the affordability of home buyers* for a flat of 40m² at a 70% mortgage improved in the second quarter of 2004, by 3% over the first quarter, as the positive effect from higher household income more than offset the negative effect from higher flat prices. Compared with the same quarter in 2003, owner affordability in the second quarter of 2004 deteriorated by 19%, mainly due to higher flat prices. But compared with peak in the fourth quarter of 1997, owner affordability still improved by 71% in the second quarter of 2004 (*Diagram 3.8*).

Diagram 3.8 : Affordability of home buyers and tenants



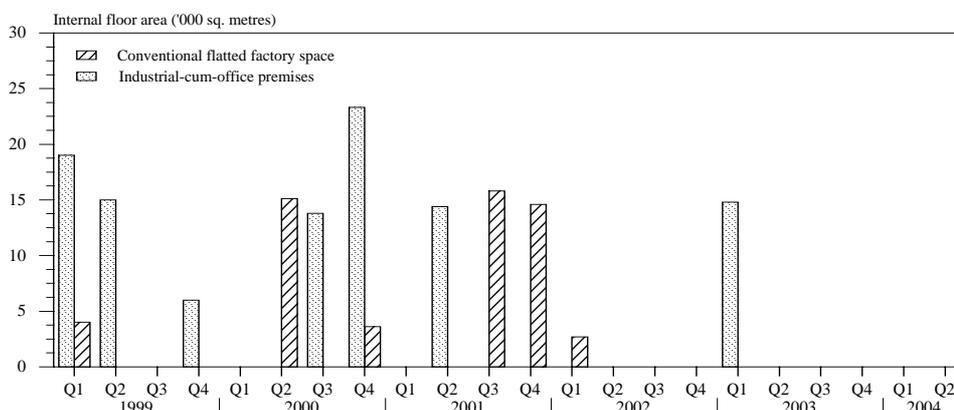
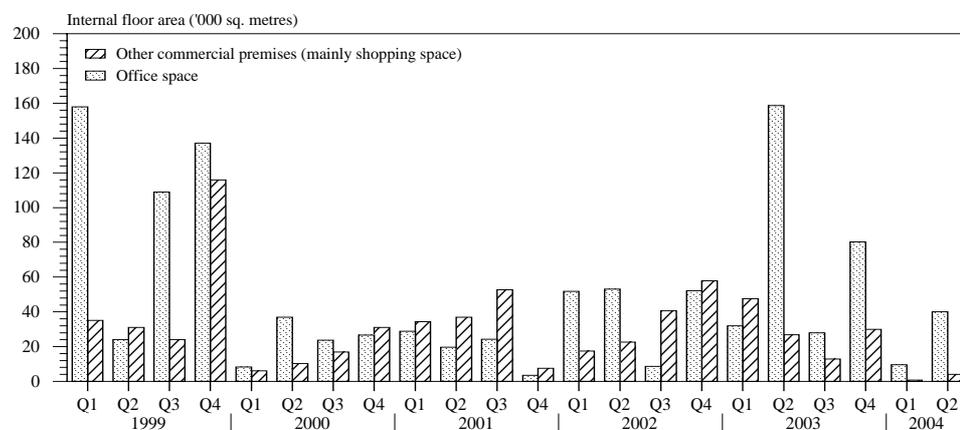
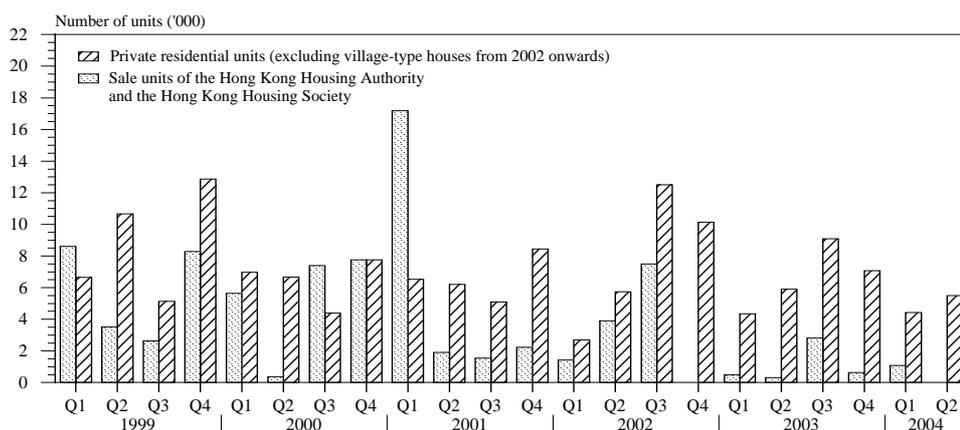
Note : A fall in the index means improvement in affordability; a rise in the index means deterioration.

3.10 On *the affordability of tenants*, for a median-income household renting a flat of 40m², the index on the ratio of average monthly rental payment to income in the second quarter of 2004 improved slightly, by 1% over the preceding quarter, mainly due to higher household income. But compared with the same quarter in 2003, tenant affordability in the second quarter of 2004 deteriorated slightly, by 2%, as flat rentals edged higher. Yet compared with the peak in second quarter of 1990, tenant affordability still improved by 45% in the second quarter of 2004.

3.11 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 second quarter of 2004. In June, the Housing Authority endorsed the sales plan of Phase 6A under TPS. The four housing estates involved would be sold by stages in the ensuing months. On home ownership loans, the Housing Authority announced the termination of the Home Assistance Loan Scheme⁽⁴⁾ in July, following a thorough review of the scheme. This will enable the Housing Authority to concentrate its limited resources on providing public rental housing to those in need.

3.12 On supply of new property, *completions* of private residential flats⁽⁵⁾ decreased by 3% in the first half of 2004 over a year earlier, having dropped by 29% in the second half of 2003. Meanwhile, completions of office space fell sharply, by 74% in the first half of 2004, mainly attributable to a high base of comparison in the first half of 2003. This followed a 78% increase in the second half of 2003. Completions of other commercial premises fell by 93%, following a 56% decline in the second half of 2003. As to industry property, there were no completions in the first half of 2004 (*Diagram 3.9*).

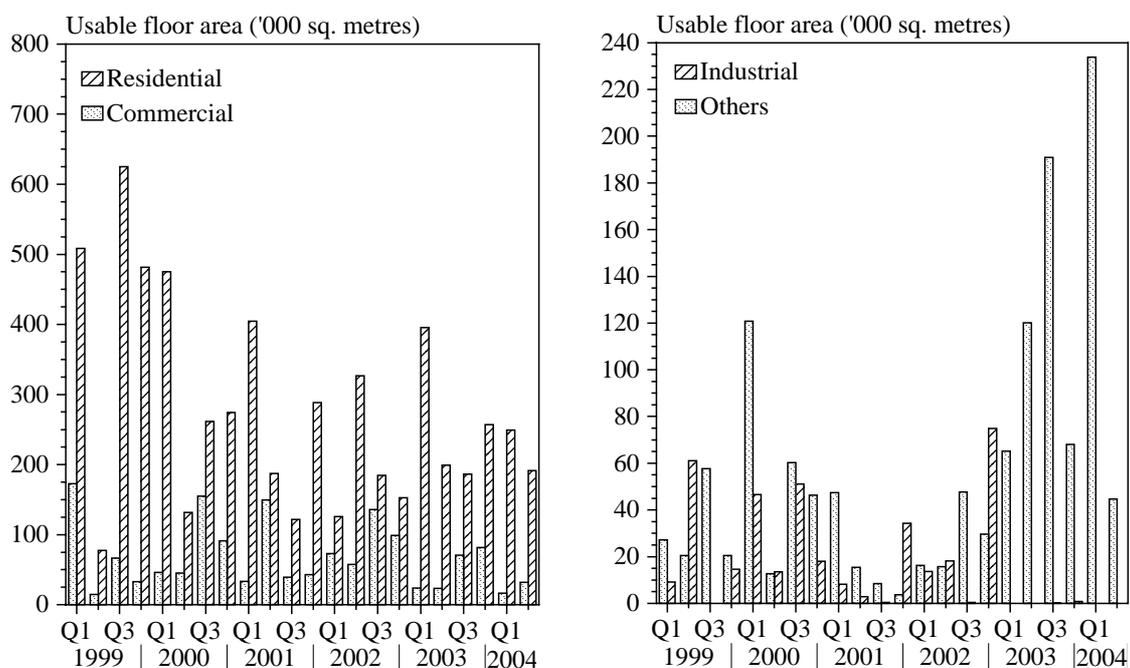
Diagram 3.9 : Completions of new property by major category



Note : See footnotes to Table 3.6 in the Statistical Appendix.

3.13 *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⁾, dropped by 7% in the first half of 2004. This was in stark contrast to the 18% growth in the second half of 2003. Analysed by main type of property and by year-on-year comparison, planned developments of private residential property declined by 26% in terms of total usable floor area and 33% in terms of units in the first half of 2004. Planned developments of commercial property increase slightly, by 3% in the first half of 2004, while there were no new planned developments of industrial property. Planned developments of property in the “others” category continued to grow, by 50% in the first half of 2004 (*Diagram 3.10*).

Diagram 3.10 : Building plans with consent to commence work in the private sector by major category



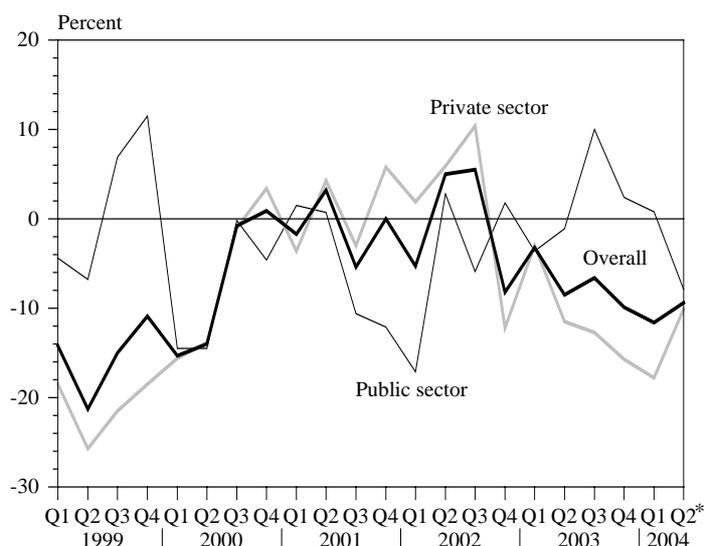
Note : See footnotes to Table 3.7 in the Statistical Appendix.

Building and construction

3.14 Building and construction activity remained weak in overall terms, with overall expenditure on building and construction declining by 9% in real terms in the second quarter of 2004 over a year earlier. This followed a 12% decrease in the first quarter (*Diagram 3.11*).

3.15 Expenditure on building and construction by the public sector contracted by 8% in real terms in the second quarter of 2004 over a year earlier, reversing the 1% increase in the first quarter. This was mainly due to the winding down of several KCR railway projects, including the Tsim Sha Tusi Extension and the Ma On Shan Extension, in spite of the intensified work on certain major civil engineering projects, including Route 8, the Deep Bay Link, infrastructure in support of the Penny's Bay development, the improvement to Castle Peak Road and the KCR Lok Ma Chau Spur Line.

Diagram 3.11 : Expenditure on building and construction (year-on-year rate of change in real terms)



Note : (*) Provisional figures.

3.16 Meanwhile, expenditure on building and construction by the private sector continued to drop considerably, by 10% in real terms in the second quarter of 2004 over a year earlier, following an 18% decline in the first quarter. Earlier sluggishness in the property market and the suspension of land sales during 2003 were the major dampening factors.

3.17 Retained imports of construction machinery rose considerably, by 11% in real terms in the second quarter of 2004 over a year earlier, further up from the 1% growth in the first quarter. Meanwhile, retained imports of construction materials dropped slightly, by 2% in real terms in the second quarter of 2004 over a year earlier, reversing the 24% increase in the first quarter.

3.18 Labour cost in the building and construction sector, as measured by the Labour Cost Index, fell by 3% in the first quarter of 2004 over a year earlier, after a similar decline in the fourth quarter of 2003. On the other hand, building material cost, as measured by the Material Cost Index, rose by 3% in the first quarter of 2004 over a year earlier, further up from the 1% increase in the fourth quarter of 2003. Taken together, the combined Labour and Material Cost Index decreased by 1% in the first quarter of 2004 over a year earlier, after a 2% decline in the preceding quarter (*Diagram 3.12*).

Diagram 3.12 : Labour and Material Cost Indices (year-on-year rate of change)

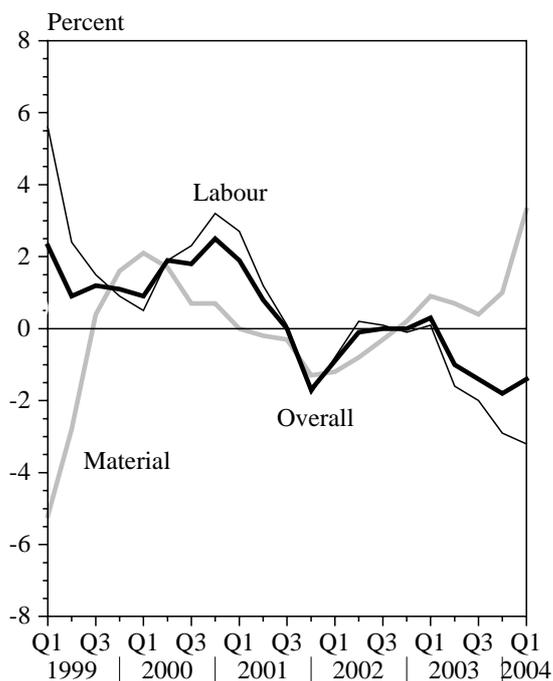
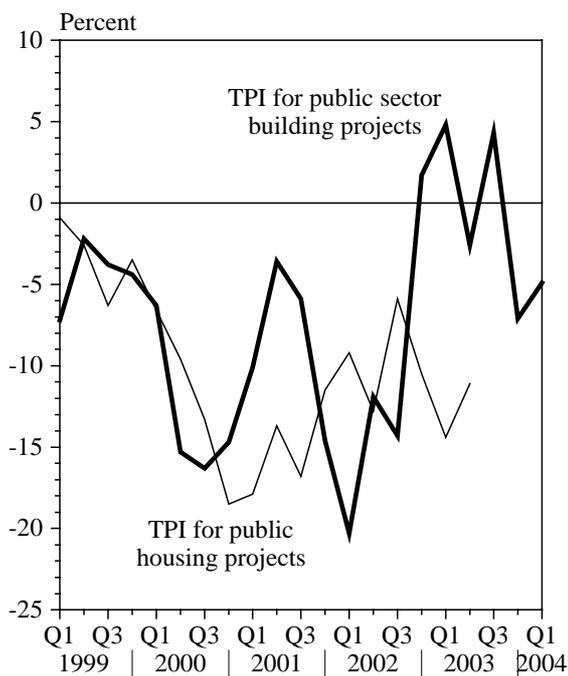


Diagram 3.13 : Tender Price Indices (year-on-year rate of change)



3.19 Tender prices softened further in the first quarter of 2004. The Tender Price Index (TPI) for public sector building projects compiled by the Architectural Services Department fell by 5% in the first quarter of 2004 over a year earlier, following a 7% decline in the preceding quarter. As to the TPI for public housing projects compiled by the Housing Department, there was again no tender received by the Housing Department in the first quarter of 2004, and so there was no TPI for this quarter. On a quarter-to-quarter comparison, the TPI for public sector building projects increased slightly, by 1% in the first quarter of 2004 (*Diagram 3.13*).

Land

3.20 The Government held two land auctions in the second quarter of 2004, in May and June respectively. These were the first land auctions held since the announcement in January on the resumption of land sales. Three residential sites totalling 2.8 hectares were sold. All of them were released from the 2004/05 Application List⁽⁷⁾ upon applications from developers. Responses to both auctions were highly favourable, with the prices fetched being well above market expectations. As to land sale through tender, five petrol filling station sites totalling 0.7 hectare were sold as a batch in May. Another batch of petrol

filling station sites, also totalling 0.7 hectare, was sold in January.

3.21 On modification of lease on existing developed and developable land in the private sector domain⁽⁸⁾, 30 applications were approved by the Government in the first half of 2004. Of this total, 15 applications were for residential development, five for commercial development, four for residential-cum-commercial development, one for industrial development and two for education and community facilities. The remaining three were for other purposes.

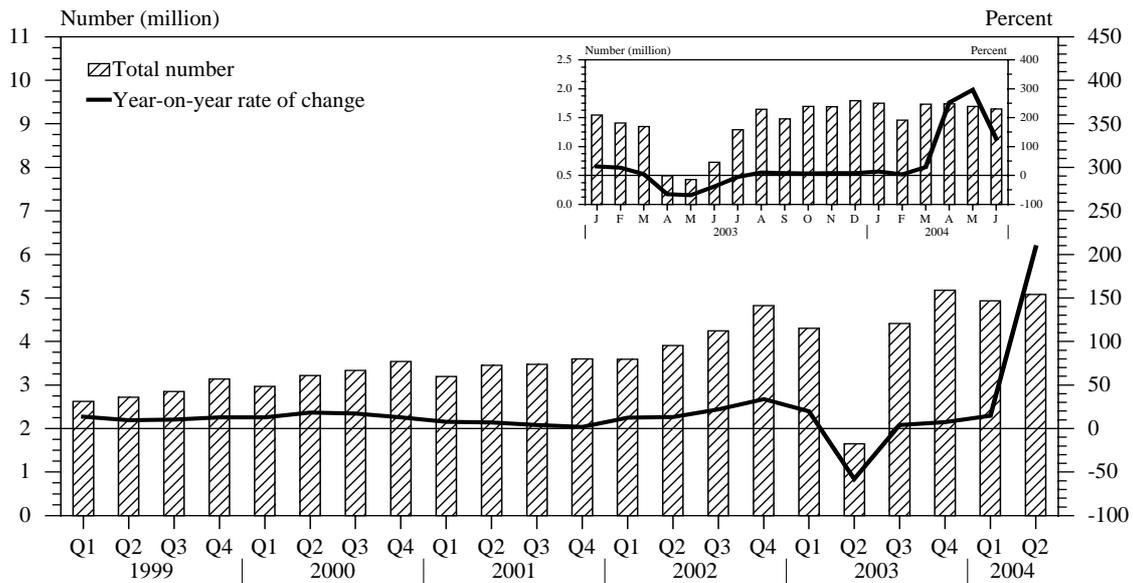
3.22 In the first half of 2004, there was one new take-up of site of 0.65 hectare in the Yuen Long Industrial Estate. Meanwhile, no site was surrendered in all the three industrial estates. As at end-June 2004, the take-up rates of the Tai Po Industrial Estate, Yuen Long Industrial estate and Tseung Kwan O Industrial Estate were 94.2%, 89.1% and 47.9% respectively.

3.23 As to the Science Park in Pak Shek Kok, approvals for admission were granted to 10 more technology companies in the second quarter of 2004, following eight admissions in the first quarter. As at end-June 2004, 65 tenants were already admitted, including 20 incubatees⁽⁹⁾. 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 completed by July 2004. Planning for Phase 2 was underway.

Tourism

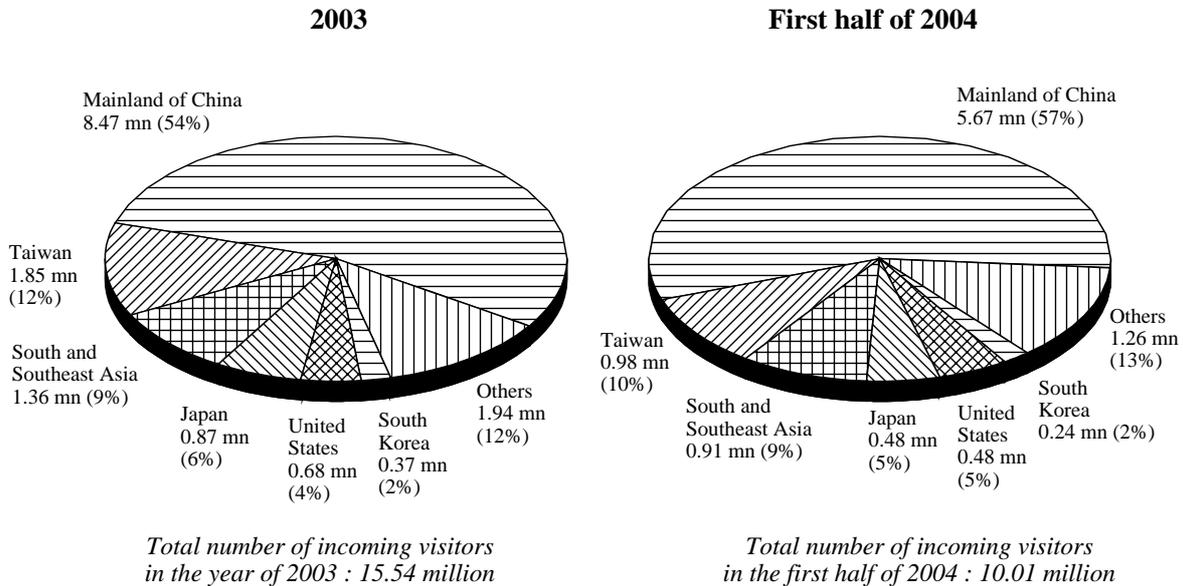
3.24 Inbound tourism continued to be buoyant in the second quarter of 2004. At 10.0 million, the total number of *incoming visitors* in the first half of 2004 was markedly up by 68% over the same period in 2003. This comprised a 15% growth in the first quarter and a 208% surge in the second quarter. The latter large increase reflected the low base of comparison in the second quarter of 2003, when the industry was hard hit by the spread of the SARS disease. Boosted by the Individual Visit Scheme⁽¹⁰⁾, the influx of Mainland visitors provided a major support. Meanwhile, incoming visitors from other sources, particularly those from such markets as Europe, Australia and New Zealand, and South and Southeast Asia, also returned in recent quarters. The total numbers from all these various sources already exceeded the pre-SARS levels (*Diagram 3.14*).

Diagram 3.14 : Number of incoming visitors



3.25 The Mainland remained the largest source of visitors to Hong Kong, with a share of 57% in the first half of 2004. Taiwan came next (with a share of 10%), followed by South and Southeast Asia (9%), Japan (5%), the United States (5%), and South Korea (2%) (*Diagram 3.15*).

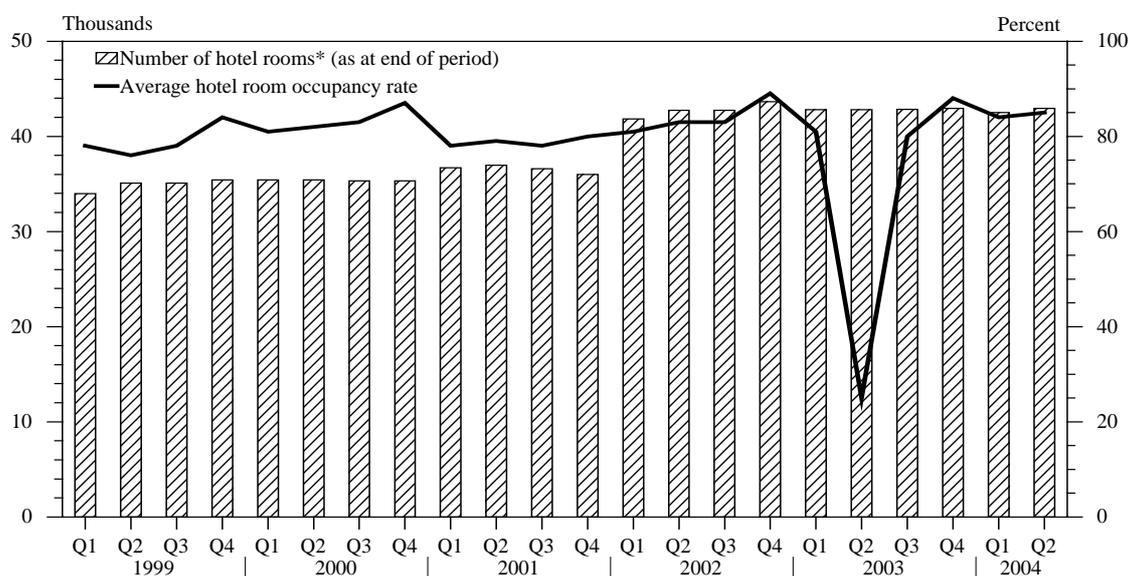
Diagram 3.15 : Number of incoming visitors by source



3.26 As at end-June 2004, there were 42 931 *hotel rooms* in Hong Kong. The *average hotel room occupancy rate* stayed at a high level of 85% in the second quarter of 2004, reflecting the strong performance of inbound tourism.

This was slightly higher than the rate of 84% in the preceding quarter (*Diagram 3.16*).

Diagram 3.16 : Stock of hotel rooms and occupancy rate



Note : (*) From the first quarter of 2002, this data series has a wider coverage, including all hotels and tourist guest houses on the record of the Office of the Licensing Authority in the Home Affairs Department.

3.27 On *Hong Kong residents travelling abroad*, the total number of resident departures was 33.3 million in the first half of 2004, increasing by 20% over a year earlier. This comprised a 3% increase in the first quarter and a 41% increase in the second quarter. The latter large increase was mainly due to the low base of comparison in the second quarter of 2003, when the spread of SARS curtailed outbound travel (*Diagram 3.17*). 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 half 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%) (*Diagram 3.18*).

Diagram 3.17 : Number of Hong Kong resident departures

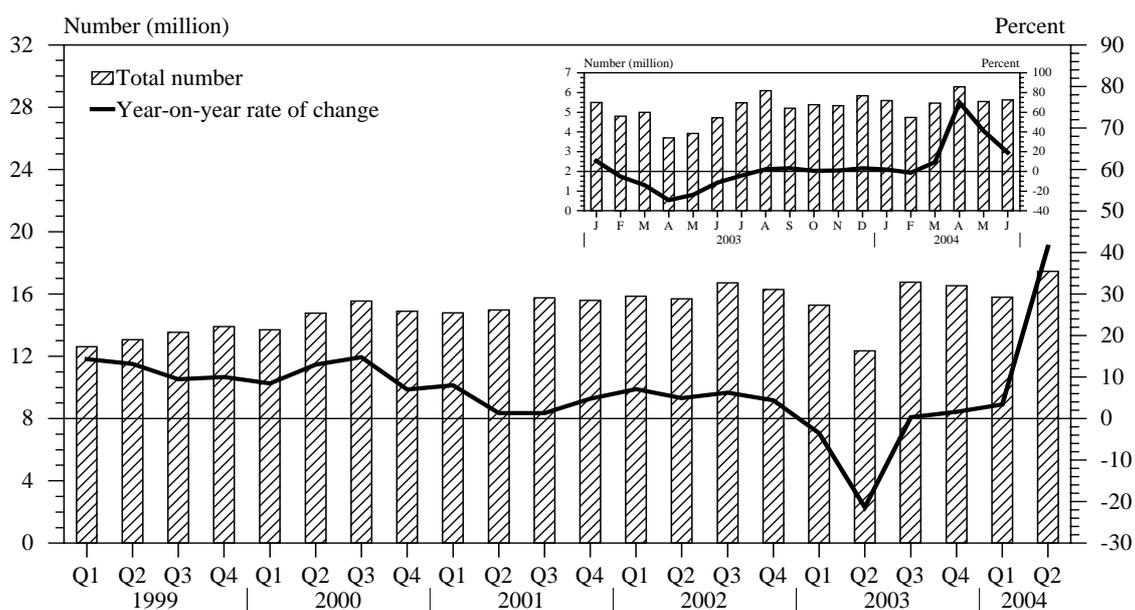
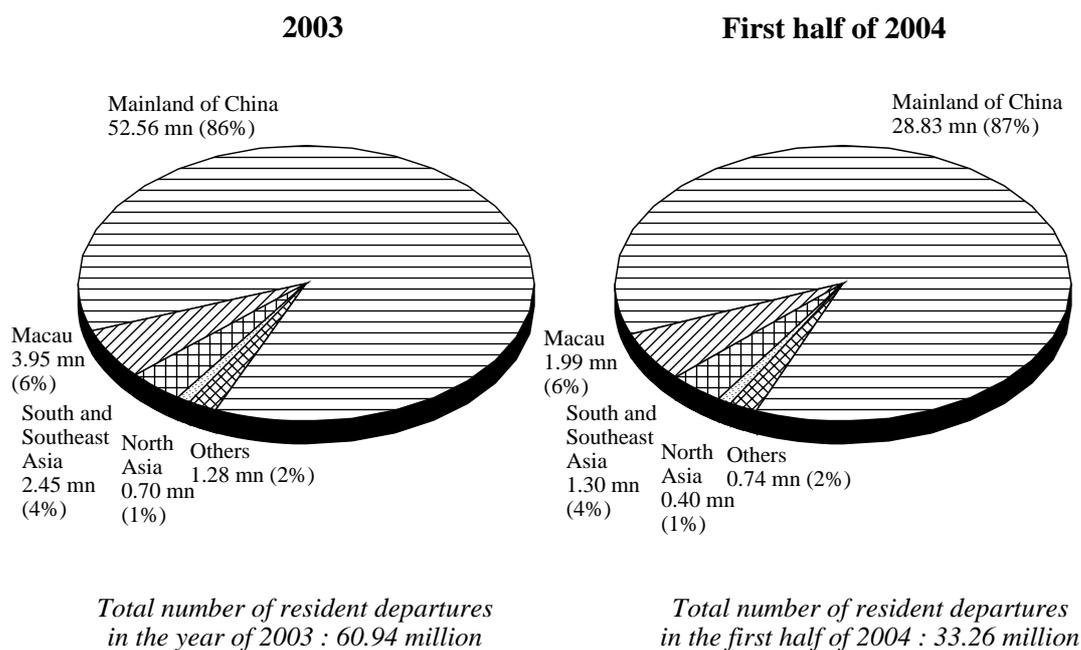


Diagram 3.18 : Number of Hong Kong resident departures by destination

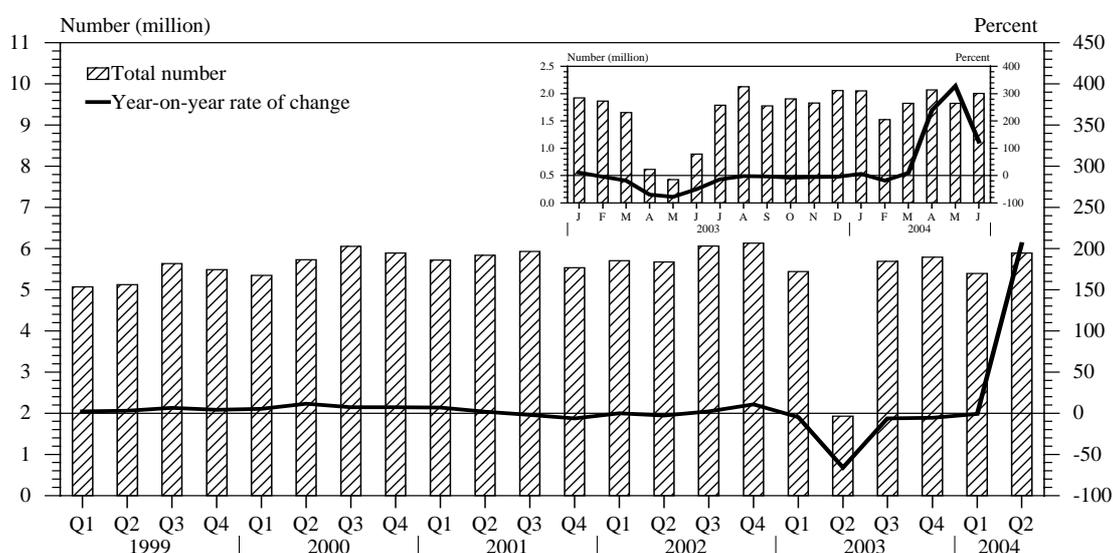


External transport

3.28 On air transport, total air passenger movements soared by 205% over a year earlier to 5.9 million in the second quarter of 2004. This followed a 1% decline in the first quarter. Within the total, air passenger arrivals and departures improved sharply over the same period in 2003, to 3.0 million and

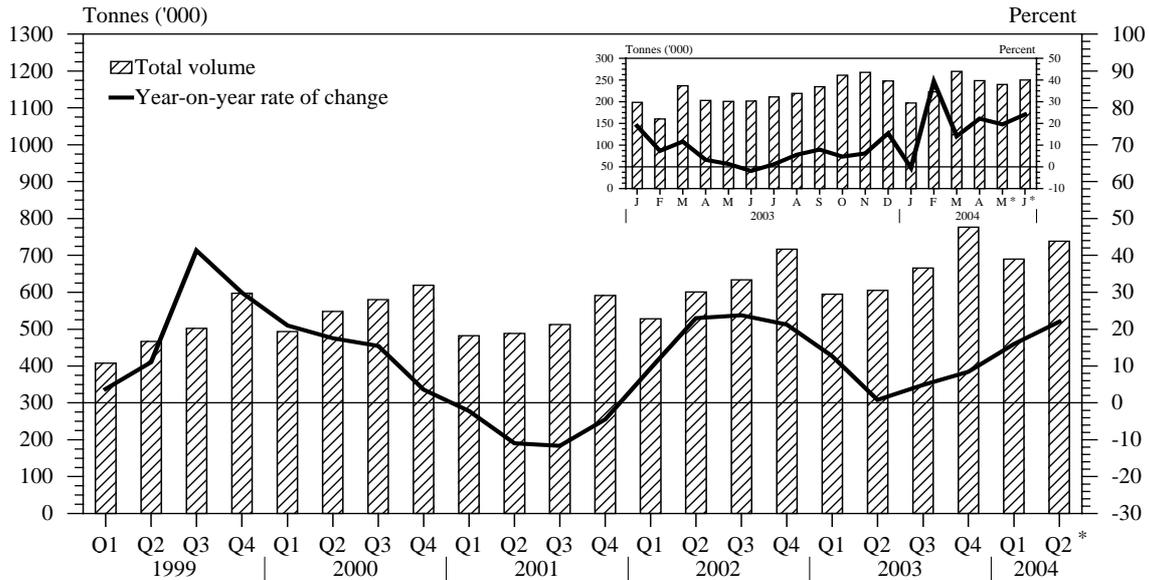
2.9 million respectively. This largely reflected the strong recovery of the tourism industry from the impact of SARS. The Mainland continued to be the brightest spot, both as a source of and a destination for air passengers. Air passengers going to and coming from the Mainland accounted for 18% and 16% respectively of the corresponding totals in the first half of 2004, up from the corresponding shares of 16% and 14% in 2003. Likewise, aircraft movements (including passenger and cargo flights) increased distinctly, by 93% over a year earlier to 58 500 in the second quarter of 2004, after a 5% growth in the first quarter (*Diagram 3.19*).

Diagram 3.19 : Number of air passenger movements



3.29 Buoyed by the strong external trade, total *air cargo movements* leaped by 22% over a year earlier to 739 000 tonnes in the second quarter of 2004, further up from the 16% growth in the first quarter. Within the total, both inward and outward air cargo accelerated further, rising by 18% and 25% respectively to 289 000 tonnes and 450 000 tonnes in the second quarter. The corresponding increases in the first quarter were 11% and 20%. For the first half as a whole, total air cargo movement grew by 19% over a year earlier to 1.43 million tonnes (*Diagram 3.20*).

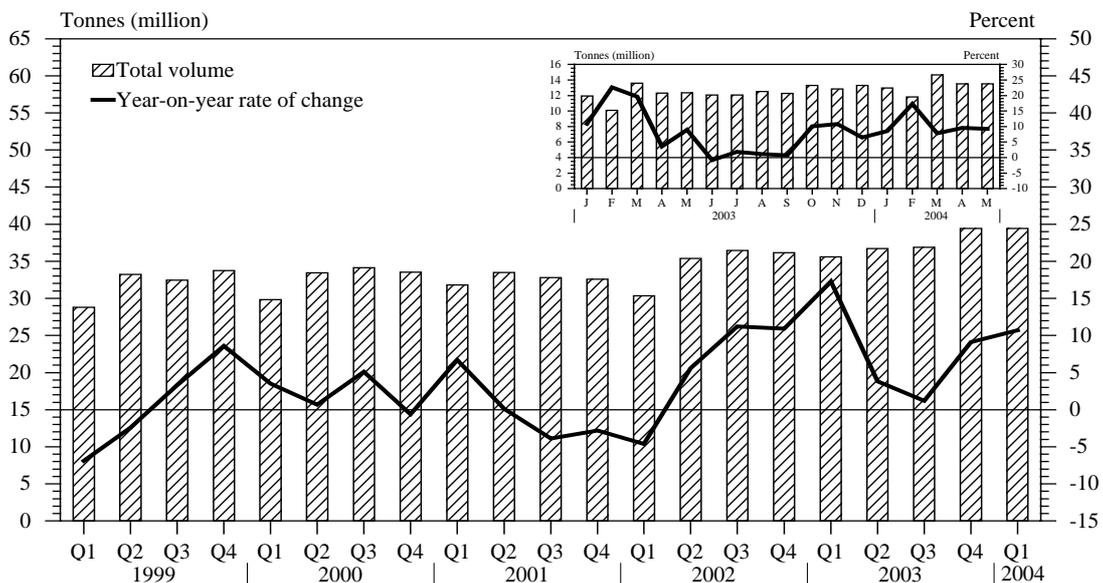
Diagram 3.20 : Cargo carried by air



Note : (*) Provisional figures.

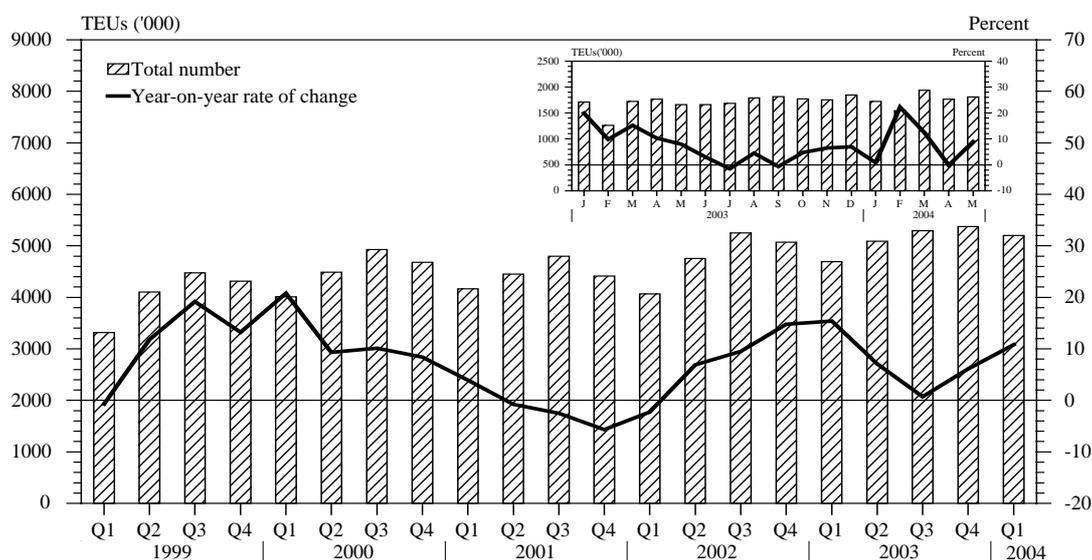
3.30 On *ocean transport*, total *ocean cargo movements* amounted to 27.0 million tonnes in April-May 2004, up by 9% from a year earlier. This followed an 11% growth in the first quarter of 2004. Both transshipment cargo and direct shipment cargo increased noticeably in April-May 2004, by 10% and 9% respectively over a year earlier. Within the total, inward and outward ocean cargo went up by 11% and 7% respectively. For the first five months as a whole, total ocean cargo movements increased by 10% over a year earlier to 66.4 million tonnes (*Diagram 3.21*).

Diagram 3.21 : Cargo carried by sea



3.31 As to *container traffic*, total *container throughput* in terms of Twenty-foot Equivalent Units (TEUs) grew by 4% over a year earlier to 3.6 million TEUs in April-May 2004, following an 11% increase in the first quarter. Within this total, inward and outward container throughput, both at 1.8 million TEUs, increased by 7% and 2% respectively. For the first five months as a whole, total container throughput increased by 8% over a year earlier to 8.8 million TEUs. The robust external trade provided the major impetus to growth. Yet by comparison, container throughput handled via Shenzhen expanded much faster, by 32% in the first half of 2004. This indicated the trend of relatively more manufactured products being shipped out directly from the nearby Mainland ports rather than indirectly through the Hong Kong port (*Diagram 3.22*).

Diagram 3.22 : Container throughput



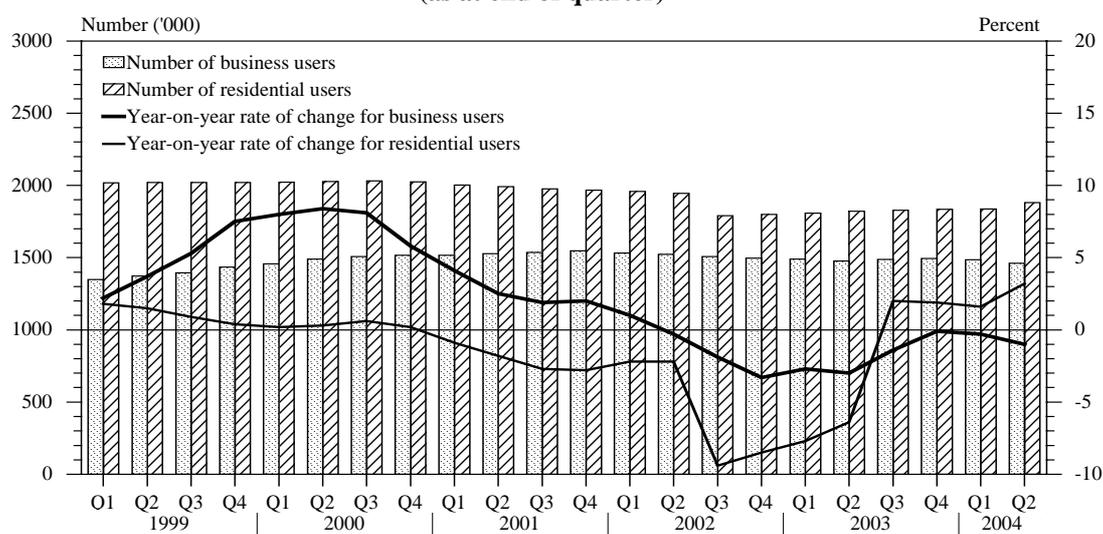
Other sectors

(a) Telecommunications

3.32 Specifically on *wireline services*, the total number of direct exchange lines, at 3.82 million at end-June 2004, showed little change over a year earlier. Within this total, the number of fixed telephone lines increased by 1% over a year earlier to 3.34 million at end-June 2004. Residential and business customers accounted for 56% and 44% respectively of all the fixed telephone lines installed at end-June 2004. At 49 fixed telephone lines per 100 inhabitants, per capita tele-density in Hong Kong was among the highest in Asia. As to the number of facsimile lines, it went down by 8% over a year earlier to 475 500 at end-June 2004. Nevertheless, at 29 facsimile lines per

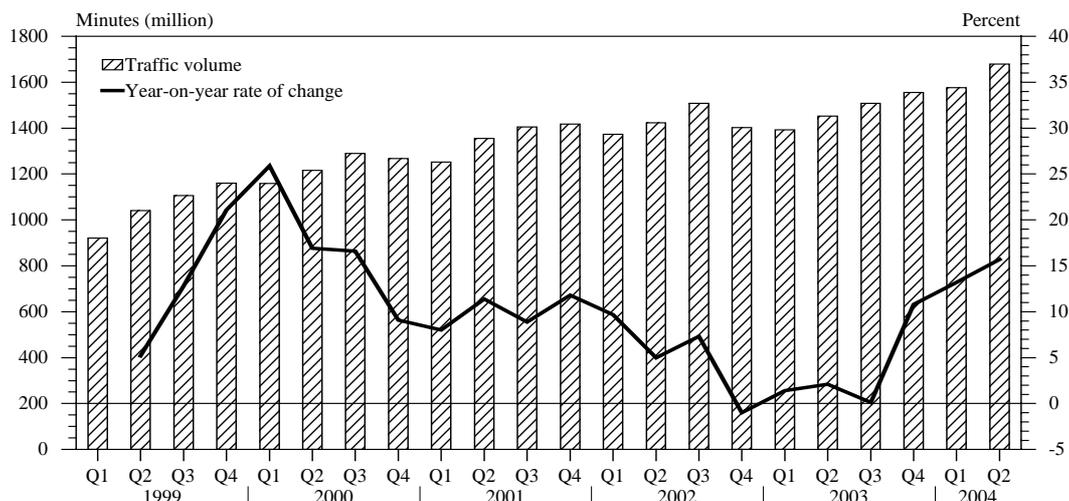
100 business exchange lines, Hong Kong still ranked among the highest in Asia. On external telecommunications, external telephone traffic volume⁽¹¹⁾ continued to increase, by 16% over a year earlier to 1.7 billion minutes in the second quarter of 2004. As to Internet usage, the growth of broadband services remained buoyant, with the traffic volume soaring by 267% over a year earlier to 671 900 terabits in the second quarter. In stark contrast, Internet usage through the public switch telephone network contracted by 53% over a year earlier to 508 million minutes in the second quarter (*Diagrams 3.23 and 3.24*).

**Diagram 3.23 : Number of fixed telephone lines*
by main user category
(as at end of quarter)**



Note : (*) Not including facsimile lines.

**Diagram 3.24 : External telephone traffic volume*
(in the quarter)**

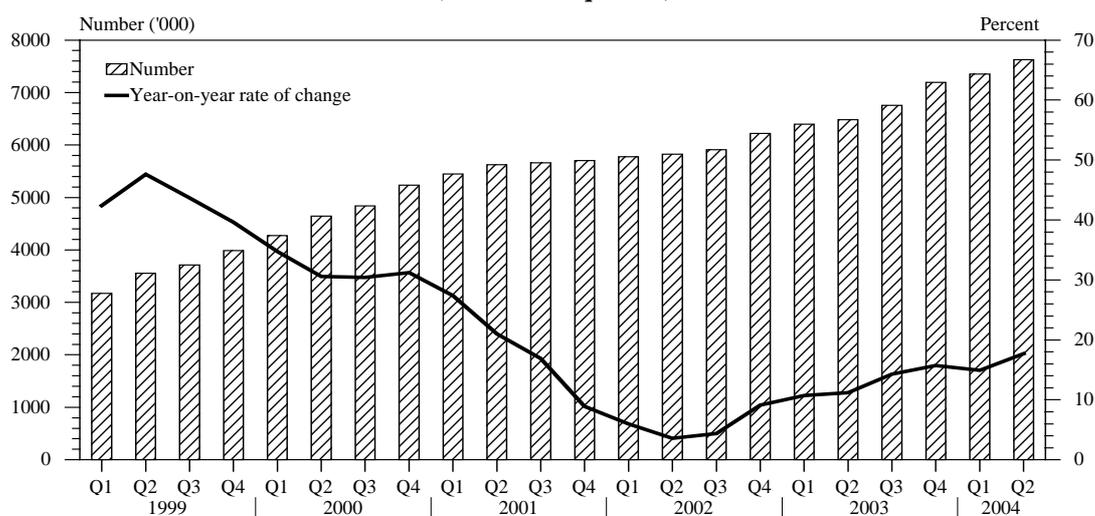


Notes : Data prior to the second quarter of 1998 are not available.

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

3.33 On *wireless services*, the mobile phone segment expanded further. The number of mobile phone customers went up by 18% over a year earlier to 7.6 million at end-June 2004⁽¹²⁾. This corresponded to a mobile phone penetration rate of 111%, and was among the highest in the world. On the other hand, the paging segment continued to shrink, with the number of paging customers dropping by 9% from a year earlier to 157 400 at end-June 2004 (*Diagram 3.25*).

Diagram 3.25 : 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.

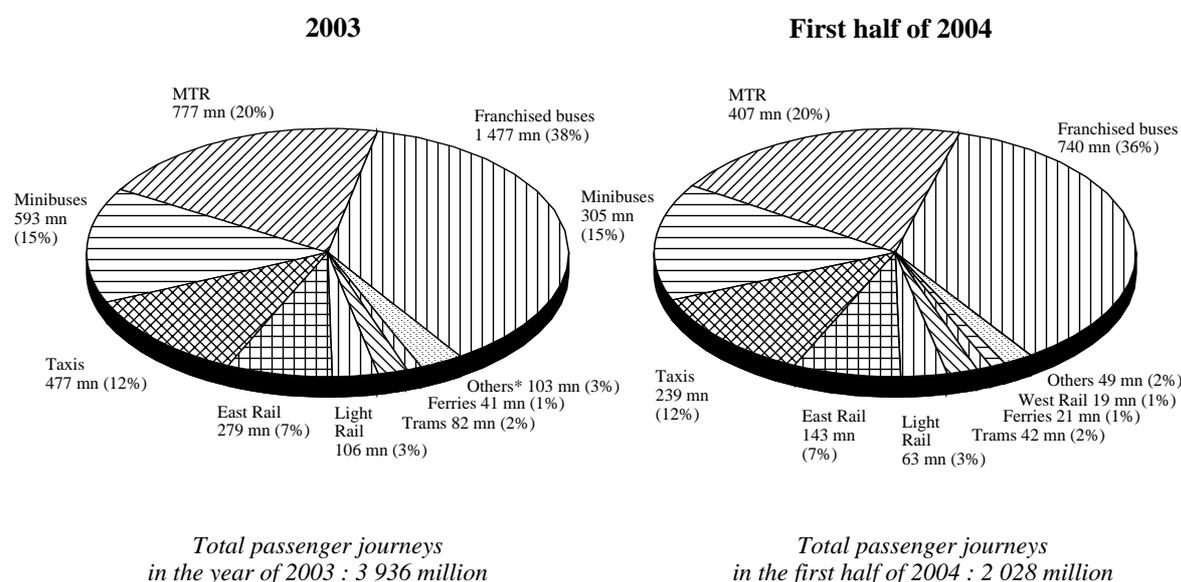
(b) Electricity, gas and water

3.34 *Local electricity consumption* increased by 2% over a year earlier to 9 828 million kWh in the second quarter of 2004, after a 3% increase in the first quarter of 2004, underpinned mainly by a pick-up in commercial consumption. Electricity exports to the Mainland, which accounted for 5% of the total electricity generated in Hong Kong, dropped by 13% in the second quarter of 2004, after a 3% growth in the first quarter. *Towngas consumption* grew by 1% over a year earlier to 7 147 terajoules in the second quarter of 2004, following a 3% growth in the first quarter. The growth impetus came mainly from the industrial sector and commercial sector. *Water consumption* dropped by 4% over a year earlier to 234 million cubic meters in the second quarter of 2004, having declined by 1% in the first quarter.

(c) Transport

3.35 On *public transport*, total patronage increased considerably, by 13% over a low base of comparison a year earlier to 1.0 billion in the second quarter of 2004, up from the 2% growth in the first quarter. Patronage on the Light Rail, ferries, the Mass Transit Railway and the East Rail showed the largest increases, by 34%, 20%, 20% and 18% respectively in the second quarter of 2004 over a year earlier. Patronage on trams also rose noticeably, by 12%, while that on minibuses and franchised buses went up by 11% and 10% respectively. Patronage on taxis increased slightly, by 1%. As to *private transport*, the total number of licensed private cars, at 341 800 at end-June 2004, grew by only 1% over a year earlier⁽¹³⁾ (*Diagram 3.26*).

Diagram 3.26 : Passenger journeys by mode of public transport



Note : (*) The operation of the West Rail commenced in December 2003. Its patronage in 2003 is included in “Others” due to its relatively small share in 2003.

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) Analysed by major constituent industry and by year-on-year comparison in volume, net output of the electrical and electronic products, machinery, professional equipment and optical goods rose by 16.5% in the first quarter of 2004. Net output of the wearing apparel and textiles, and the paper products and printing industries contracted by 7.9% and 5.5% respectively. Net output of other manufacturing industries increased by 4.0%.
- (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.

The 2004/05 Application List consists of 17 sites, comprising 14 residential sites totalling about 10.4 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.

- (8) Virtually all the land in Hong Kong is held on a leasehold basis. A predominant part of the existing developed and developable land is already in the private sector domain. In order to facilitate redevelopment in line with the town planning and urban renewal objectives, modification of usage (including modification by way of land exchange) may be granted by the Government to old leases of land upon application from the landlords. A land premium, equivalent to the difference in land value between the old and the new usage, is normally required for granting of the modification.

The figures reported here may include re-application cases and hence may contain a degree of double-counting.

- (9) 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.
- (10) The Individual Visit Scheme was first launched to residents of four cities in Guangdong, including Dongguan, Zhongshan, Jiangmen and Foshan, on 28 July 2003. The scheme was then extended to residents of Guangzhou, Shenzhen, Zhuhai and Huizhou on 20 August 2003, and further to residents of Beijing and Shanghai on 1 September 2003. The scheme was extended still further to residents of six more cities in Guangdong, including Shantou, Chazhou, Meizhou, Zhaoqing, Qingyuan and Yunfu, on 1 January 2004, and covered the entire Guangdong Province on 1 May 2004. The scheme was further extended, from 1 July 2004, to residents of nine more cities. These included Nanjing, Suzhou and Wuxi in Jiangsu Province; Hangzhou, Ningpo and Taizhou in Zhejiang Province; and Fuzhou, Xiamen and Quanzhou in Fujian Province.
- (11) This includes access by international direct dialling (IDD) through telephone lines, facsimile lines and datel lines.
- (12) This figure includes all mobile phone service subscribers and the stock of pre-paid Subscribed Identity Module (SIM) cards already sold to customers.
- (13) The total number of newly registered private cars in the second quarter of 2004, at 6 900, surged by 46% over a year earlier. At end-June 2004, the total number of registered private cars, at 383 700, showed little change over a year earlier.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *During the first half of 2004, the twelve-month Hong Kong dollar forward rate remained at a substantial discount over the spot rate, reflecting sustained strong demand for the Hong Kong dollar.*
- *The narrow money supply maintained a faster growth than the broad money supply, under the prevailing low interest rate environment.*
- *Hong Kong dollar deposits fell, while Hong Kong dollar loans resumed increase along with the revival in economic activity. This led to a rise in the Hong Kong dollar loan-to-deposit ratio.*
- *The decline in Hong Kong dollar deposits during the first half of the year was mainly attributable to a fall in time deposits. On the other hand, foreign currency deposits exhibited further growth.*
- *The Hang Seng Index entered a period of consolidation in the second quarter of 2004, amid concern about a more imminent rise in US interest rate, surge in international oil prices, and progressive tightening of economic cooling measures in the Mainland.*

Exchange rates*

4.1 The spot exchange rate of the Hong Kong dollar against the US dollar moved back towards the link rate during the first half of the year, from 7.763 to 7.800. Yet the discount of the twelve-month Hong Kong dollar forward rate over the spot rate enlarged further, from 595 pips (each pip equivalent to HK\$0.0001) to 643 pips, reflecting continued strong demand for the Hong Kong dollar (*Diagram 4.1*).

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

(*). **For detailed statistics relating to exchange rates, monetary aggregates and financial markets, see tables in the Statistical Appendix, pp. 121 – 128.**

4.2 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. During the first half of 2004, the US dollar recouped some of the lost ground against the euro and yen. Specifically, the dollar-euro rate fell by 1.3% from 1.231 in December 2003 to 1.215 in June 2004, whereas the yen-dollar rate rose by 1.6% from 107.7 to 109.4. On the other hand, the pound sterling appreciated against the US dollar, with the dollar-pound sterling rate rising by 4.3% from 1.754 to 1.829. Meanwhile, most of the major East Asian currencies generally held stable against the US dollar.

4.3 Taking the various currency movements together, the trade-weighted Nominal Effective Exchange Rate Index⁽²⁾ of the Hong Kong dollar weakened marginally by 0.2% from an average of 99.0 in December 2003 to that of 98.8 in June 2004. After adjusting for changes in the respective consumer price indices, the trade-weighted Real Effective Exchange Rate Index⁽³⁾ of the Hong Kong dollar depreciated more, by 2.0% from an average of 86.4 to that of 84.7 over the same period (*Diagram 4.2*).

Diagram 4.1 : Exchange rate of the Hong Kong dollar against the US dollar (average for the month)

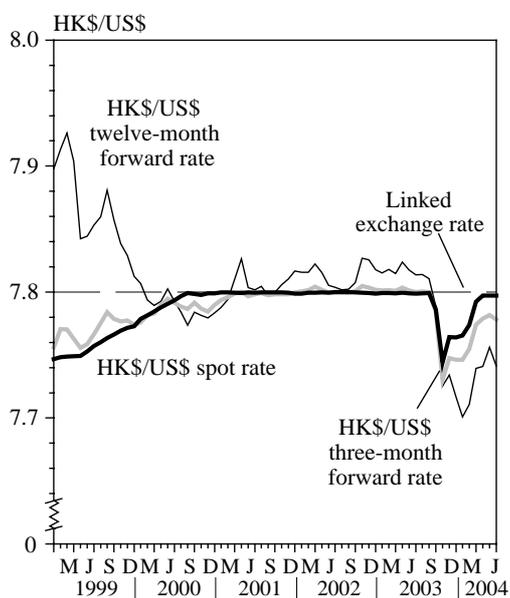
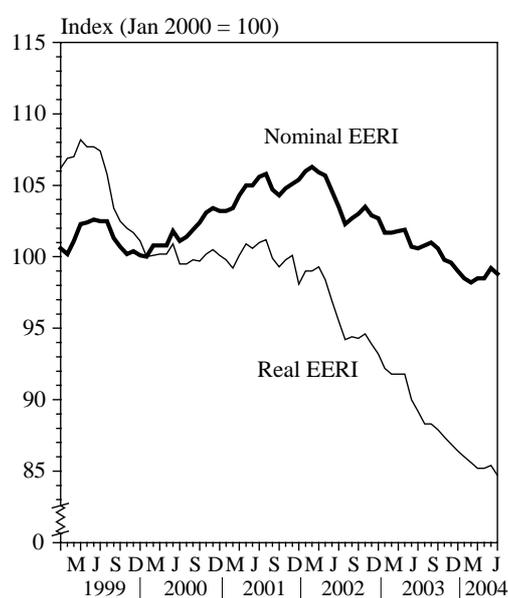


Diagram 4.2 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar (average for the month)

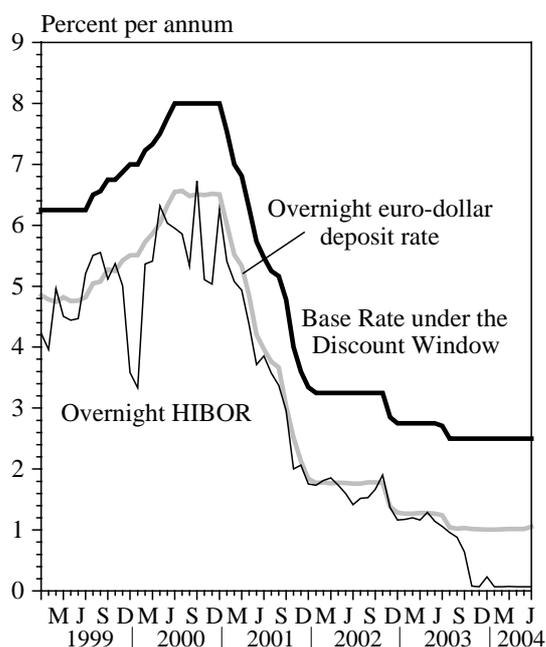


Interest rates

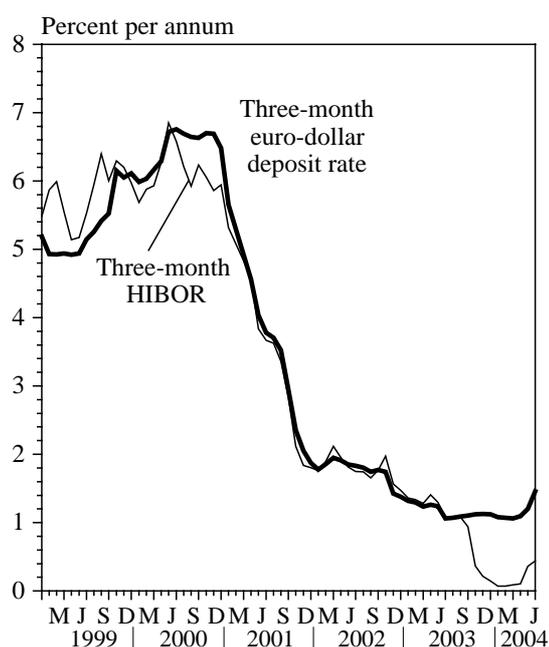
4.4 The three-month HIBOR stood at 0.4% at end-June 2004, up slightly from 0.1% at end-2003. This notwithstanding, the three-month HIBOR maintained a large discount of 120 basis points against the corresponding euro-dollar deposit rate at end-June 2004, even larger than that of 104 basis points at end-2003 (*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)



4.5 The other key interest rates displayed little change during the first half of 2004. The Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) and the best lending rate were kept at 2.5% and 5.0% respectively. The savings deposit rate offered by the major commercial banks was almost zero at end-June 2004, as against 0.01% at end-2003. The spread of the best lending rate over the three-month time deposit rate averaged 4.99 percentage points in the first half of 2004, widened somewhat from that of 4.95 percentage points in the second half of 2003.

4.6 On residential mortgage rates, 77.0% of the new mortgages were granted at more than 2.25 percentage points below the best lending rate in June 2004, smaller than the proportion of 87.5% in December 2003⁽⁴⁾. This partly reflected borrowers' preference for fixed rate mortgages in the prevailing low interest rate environment, with the proportion of such mortgages rising from 8.7% in March to 14.4% in June this year.

Deposits and money supply

4.7 Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)⁽⁵⁾ shrank by 0.2% during the second quarter of 2004 to \$1,884 billion at end-June, following a 2.3% decrease during the first quarter. Nevertheless, on a year-on-year comparison, Hong Kong dollar deposits were still on an uptrend, rising by 2.3% at end-June 2004. They constituted 52.8% of total deposits at end-June 2004, as compared to the proportion of 54.1% at end-2003 (*Diagram 4.4*).

4.8 Within the total Hong Kong dollar deposits, savings deposits contracted by 1.7% during the second quarter of 2004. This came after increases for six successive quarters. Meanwhile, demand deposits grew further by 2.8%. Time deposits resumed a modest increase by 0.9%, as they were no longer subject to the dampening effect of a shift out of IPO-related funds evident during the preceding two quarters. On a year-on-year comparison, both demand and savings deposits grew sharply by 58.9% and 29.5% respectively at end-June 2004, whereas time deposits contracted by 28.2%. This reflected a continuing compositional shift towards deposits of higher liquidity under the prevailing low interest rate environment.

4.9 Total foreign currency deposits (adjusted to exclude foreign currency swap deposits) edged up by 1.0% during the second quarter of 2004 to \$1,686 billion at end-June, smaller than the 2.0% rise during the first quarter. This was attributable to a slackening in the growth of non-US dollar deposits, from a surge of 11.1% to a decrease of 3.0%, which more than offset the concurrent upturn in the US dollar deposits, from a 2.3% decline to a 3.2% rise. On a year-on-year comparison, both US dollar and non-US dollar deposits expanded, by 8.5% and 18.9% respectively at end-June 2004, giving a 11.8% increase in total foreign currency deposits.

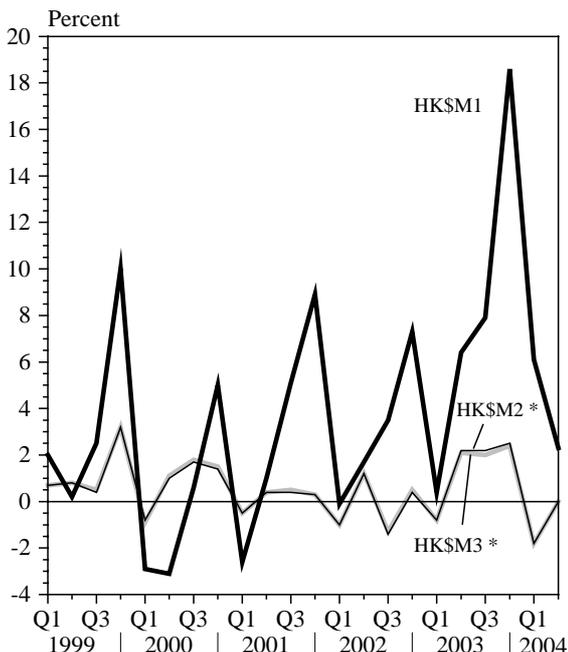
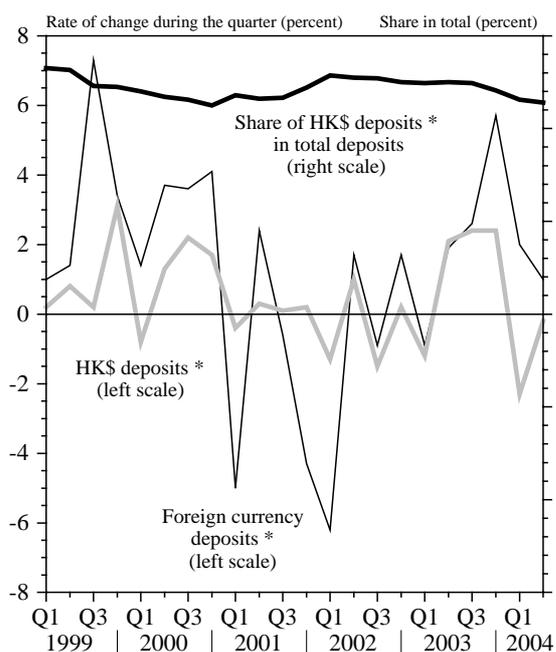
4.10 Taking Hong Kong dollar and foreign currency deposits together, total deposits with authorized institutions contracted slightly by 0.3% during the first quarter of 2004 but rose back by 0.4% during the second quarter to \$3,570 billion at end-June. Analysed by type of authorized institutions, deposits with licensed banks increased by 0.3% during the second quarter, having fallen by 0.3% during the first quarter. Deposits with restricted licence banks increased by 3.7% and 4.4% respectively during the first two quarters, whereas deposits with deposit-taking companies decreased by 3.0% and 1.9% over the same periods. On a year-on-year comparison, total deposits with authorized institutions went up by 6.5% at end-June 2004, comprising increases

of 6.5% and 16.6% respectively for deposits with licensed banks and restricted licence banks, but a decrease of 15.6% for deposits with deposit-taking companies.

4.11 On monetary aggregates, HK\$M1⁽⁶⁾, as a measure of narrow money supply, at \$385 billion at end-June 2004, increased by 2.3% during the second quarter, following an increase of 6.1% during the first quarter. On a seasonally adjusted basis⁽⁷⁾, HK\$M1 grew by 3.8% during the second quarter, much slower than the 11.0% surge during the first quarter. As to broad monetary aggregates, both HK\$M2 and HK\$M3 shrank by 1.8% during the first quarter of 2004, but showed little change during the second quarter to \$2,069 billion and \$2,084 billion respectively at end-June. On a year-on-year comparison, HK\$M1 leaped by 39.0% at end-June 2004, while HK\$M2 and HK\$M3 had more moderate growth by 2.8% and 2.6% respectively (*Diagram 4.5*).

Diagram 4.4 : Deposits with authorized institutions by currency denomination and share of Hong Kong dollar deposits in total deposits

Diagram 4.5 : Hong Kong dollar money supply (rate of change during the quarter)



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

Hong Kong dollar external claims and liabilities of authorized institutions

4.12 Hong Kong dollar claims held by Hong Kong's authorized institutions on banks outside Hong Kong rose by 4.1% over end-2003 to \$277.8 billion at end-May 2004, giving a 24.9% increase over a year earlier. Meanwhile, Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks outside Hong Kong increased by 11.7% from end-2003 to \$176.0 billion at end-May 2004, or up by 29.1% from a year earlier. Taken together, Hong Kong's authorized institutions had net Hong Kong dollar claims against banks abroad, amounting to \$101.8 billion at end-May 2004, lower than that of \$109.3 billion at end-2003.

4.13 Hong Kong dollar liabilities owed by Hong Kong's authorized institutions to banks in the Mainland continued to be prominent, accounting for 44.8% of the total Hong Kong dollar liabilities to banks abroad at end-May 2004. These liabilities rose by 19.0% over end-2003 to \$78.9 billion at end-May 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 8.2% in the total Hong Kong dollar claims on banks abroad. These claims increased by 2.2% over end-2003 to \$22.9 billion at end-May 2004. As a result, Hong Kong's authorized institutions had net Hong Kong dollar liabilities to banks in the Mainland, amounting to \$56.0 billion at end-May 2004, up from \$43.9 billion at end-2003.

Loans and advances

4.14 Total loans and advances grew by 1.7% during the second quarter of 2004 to \$2,075 billion at end-June, outpacing the 0.3% increase during the first quarter. Within the total, Hong Kong dollar loans resumed increase by 2.2% during the second quarter of 2004 to \$1,606 billion at end-June, after a 0.1% decrease during the first quarter. On the other hand, foreign currency loans fell by 0.3% during the second quarter to \$469 billion at end-June, as against a 1.8% rise during the first quarter. On a year-on-year comparison, total loans and advances increased by 1.1% at end-June 2004, comprising increases of 0.6% and 2.8% respectively in Hong Kong dollar loans and foreign currency loans (*Diagram 4.6*).

4.15 As Hong Kong dollar loans increased while Hong Kong dollar deposits fell during the first half of 2004, the Hong Kong dollar loan-to-deposit ratio went higher from 81.5% at end-2003 to 85.3% at end-June 2004 (*Diagram 4.7*).

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

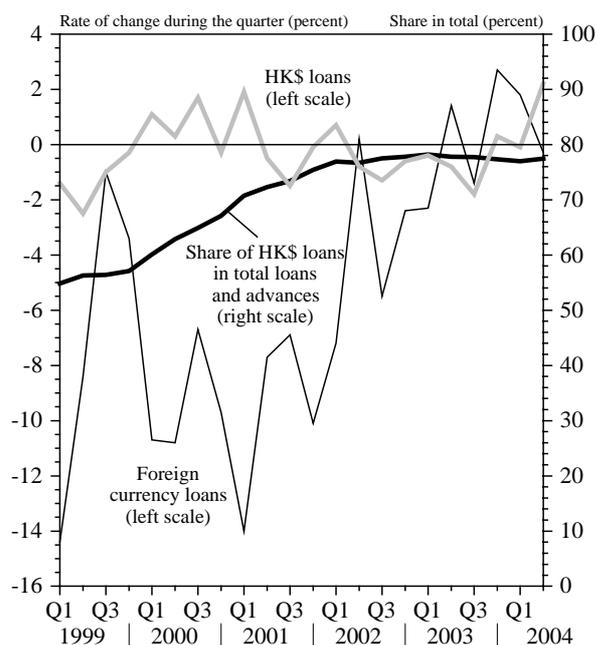
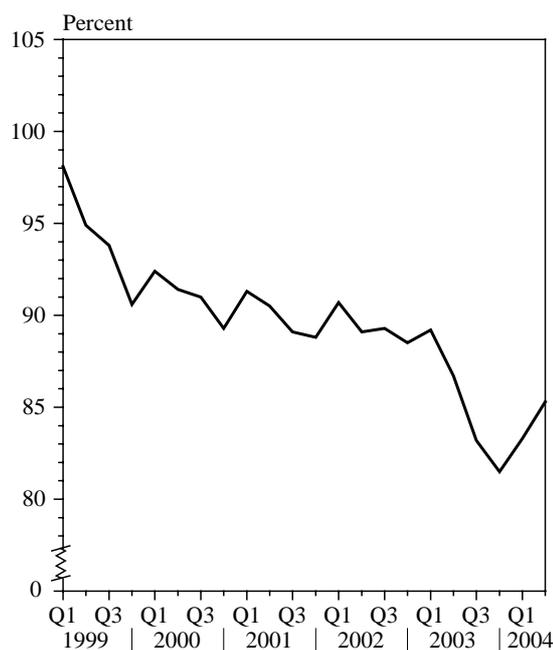


Diagram 4.7 : Hong Kong dollar loan-to-deposit ratio*

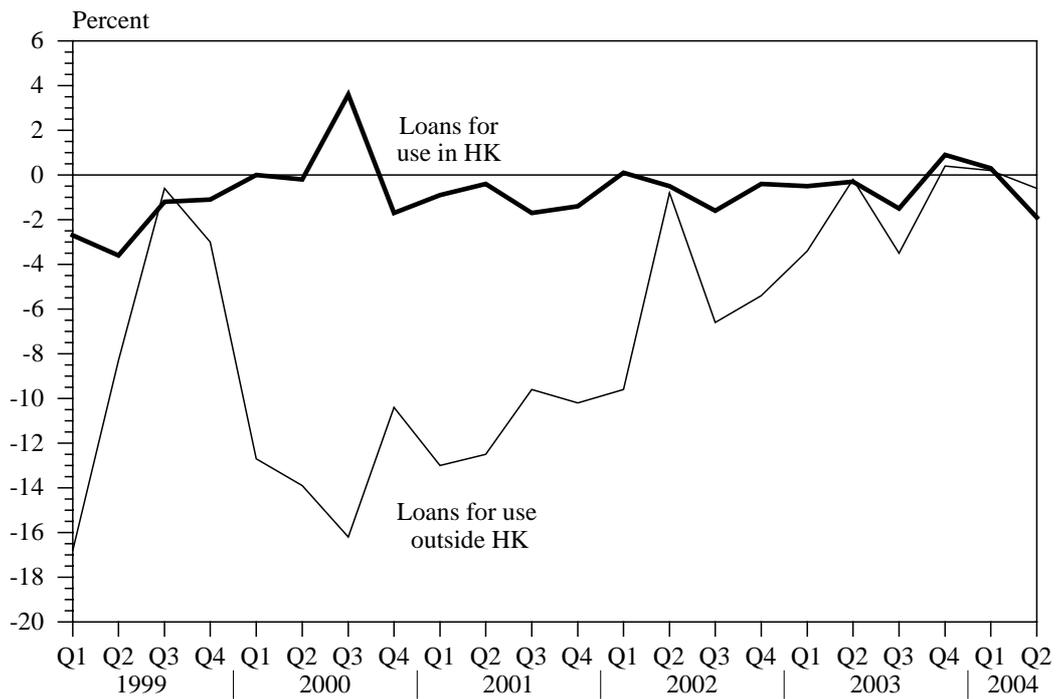


Note : (*) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

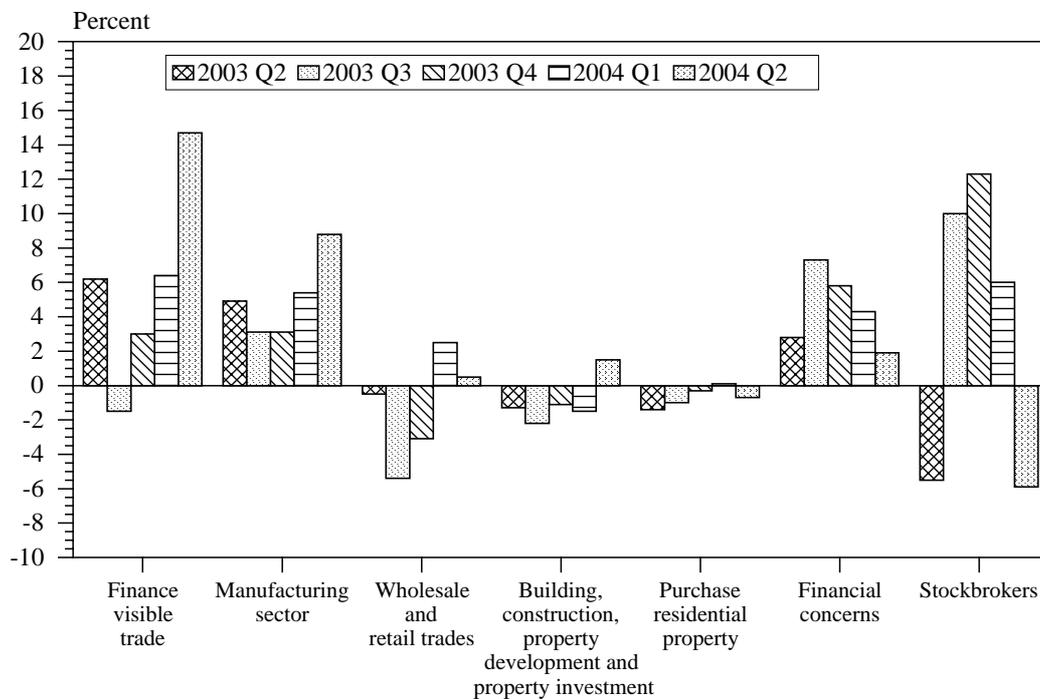
4.16 Analysed by place of usage, loans for use in Hong Kong grew by 1.9% during the second quarter of 2004 to \$1,850 billion at end-June, accelerating from the 0.3% rise during the first quarter. This was underpinned by the sustained revival in local business activity. On the other hand, loans for use outside Hong Kong fell by 0.6% during the second quarter of 2004 to \$225 billion at end-June, after a 0.2% increase during the first quarter. On a year-on-year comparison, loans for use in Hong Kong expanded by 1.7% at end-June 2004, whereas those for use outside Hong Kong contracted by 3.6% (*Diagram 4.8*).

4.17 Analysed by major usage, domestic loans showed a broad-based increase during the second quarter of 2004. Specifically, the growth in trade financing loans and lending to manufacturing sector accelerated to 14.7% and 8.8% respectively, in tandem with the robust export performance. Loans to financial concerns and the wholesale and retail trades also rose further, though more modestly, by 1.9% and 0.5% respectively. Loans for building, construction, property development and property investment bounced up by 1.5%, on the back of the improvement in property market sentiment. Residential mortgage loans, on the other hand, fell again, by 0.7%. Concurrently, loans to stockbrokers contracted by 5.9%, upon the consolidation in the stock market (*Diagram 4.9*).

**Diagram 4.8 : Loans and advances by place of usage
(rate of change during the quarter)**



**Diagram 4.9 : Loans and advances for use in Hong Kong by major usage
(rate of change during the quarter)**



4.18 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 3.17% at end-2003 to 2.92% at end-March 2004. The ratio of classified loans to total loans also moved lower, from 3.94% to 3.66%, as did the ratio of overdue and rescheduled loans to total loans, from 2.87% to 2.62%⁽⁸⁾. Among the various types of loans, the delinquency ratio of residential mortgage loans went down from 0.86% to 0.70%, and arrears for over three months in credit card repayment likewise declined, from 0.92% to 0.78%. In overall terms, the local banks remained well capitalised, with their consolidated capital adequacy ratio averaging 16.2% at end-March 2004, significantly above the standard set by the Bank for International Settlements.

Banks and other deposit-taking institutions

4.19 During the first half of 2004, the number of licensed banks in Hong Kong stood at 134, same as that at end-2003. The number of restricted licence banks increased by one to 43, while that of deposit-taking companies decreased by two to 37. Altogether, 214 authorized institutions (excluding representative offices) from 32 countries and territories had a presence in Hong Kong. Their total assets amounted to \$6,802 billion at end-June 2004, up by 12.5% from a year earlier.

4.20 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 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 and overall attractiveness of Hong Kong as an international financial centre.

4.21 As from 18 January 2004, Mainland debit/credit cards are allowed to be used in Hong Kong. The preparatory work on the issuance of renminbi credit cards was completed in April, and banks can issue renminbi cards to Hong Kong residents for use in the Mainland. On 25 February, banks in Hong Kong launched renminbi deposit-taking, exchange and remittance business. A total of 37 licensed banks were engaged in such business in Hong Kong at the end of May. Total renminbi deposits with authorized institutions stood at RMB 6,298 million yuan at end-May. Of this total, savings deposits and time deposits accounted for 43.6% (RMB 2,748 million yuan) and 56.4% (RMB 3,551 million yuan) respectively. Renminbi deposit rates averaged

0.51% for savings deposits and 0.58% for three-month time deposits in May, according to a survey by HKMA on major retail banks.

4.22 On enhancing deposit protection in Hong Kong, the Deposit Protection Scheme Ordinance was enacted by the Legislative Council on 5 May 2004. The Hong Kong Deposit Protection Board was formed on 1 July 2004 to take charge of the establishment of the Deposit Protection Scheme. Given the time needed for preparatory work, the scheme is expected to start providing deposit protection in 2006.

Insurance

4.23 The number of authorized insurers in Hong Kong decreased by five during the first half of 2004 to 183 at end-June. Within this total, 45 were engaged in long-term insurance business, 119 in general insurance business, and 19 in composite insurance business. Taken together, authorized insurers from 23 countries and territories maintained a presence in Hong Kong. Supported by expansion in both the general and life insurance businesses, the value of business receipts in the insurance industry surged by 29.1% in the first quarter of 2004 over a year earlier, following a 15.5% increase in the fourth quarter of 2003.

The debt market

4.24 In the first half of 2004, a total of 58 issues of Exchange Fund paper were launched by HKMA for replacing the earlier issues upon maturity⁽⁹⁾. Comparing end-June 2004 with end-2003, the total market value of Exchange Fund paper outstanding rose modestly by 0.9% to \$121.2 billion. In the first half of 2004, market response to the tenders of Exchange Fund paper continued to be favourable, with an average over-subscription rate of 6.3 times, compared with 6.2 times in the second half of 2003. Trading in Exchange Fund paper remained active, with the daily turnover averaging \$15.9 billion in the first half of 2004, close to that of \$15.8 billion in the second half of 2003 (*Diagram 4.10*). The yield of the five-year Exchange Fund Notes was 5 basis points below that of the corresponding US Treasuries at end-June 2004, compared with 6 basis points below at end-2003 (*Diagram 4.11*).

Diagram 4.10 : Exchange Fund Bills and Notes issued by HKMA

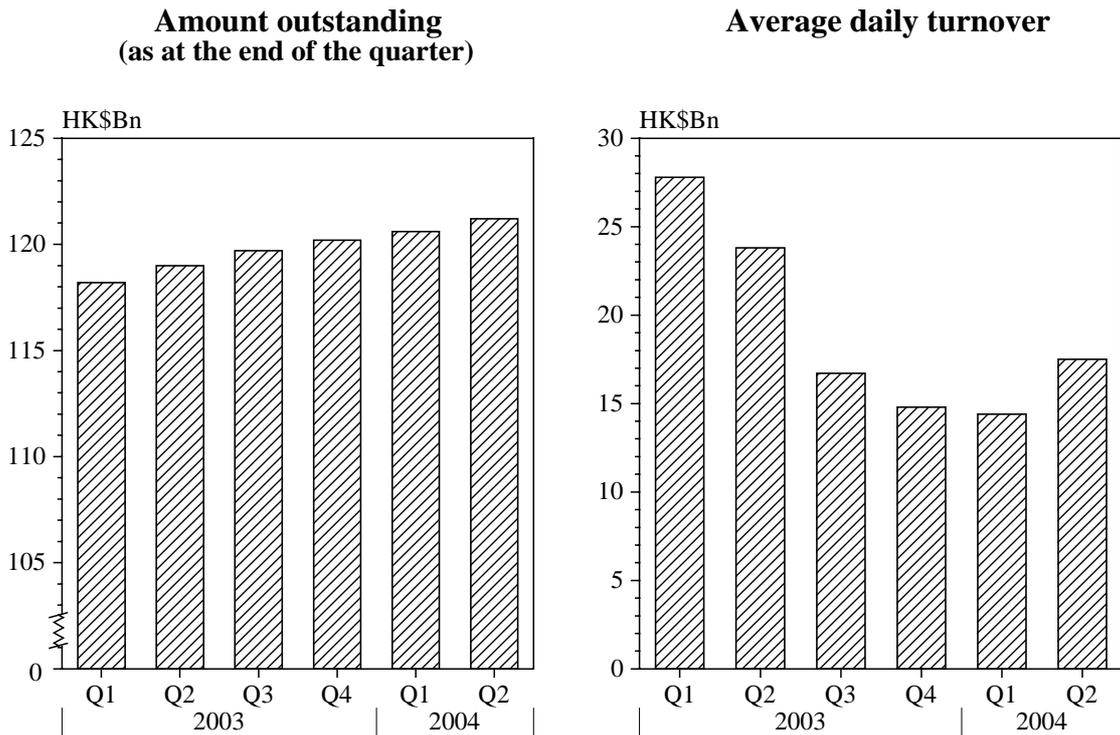
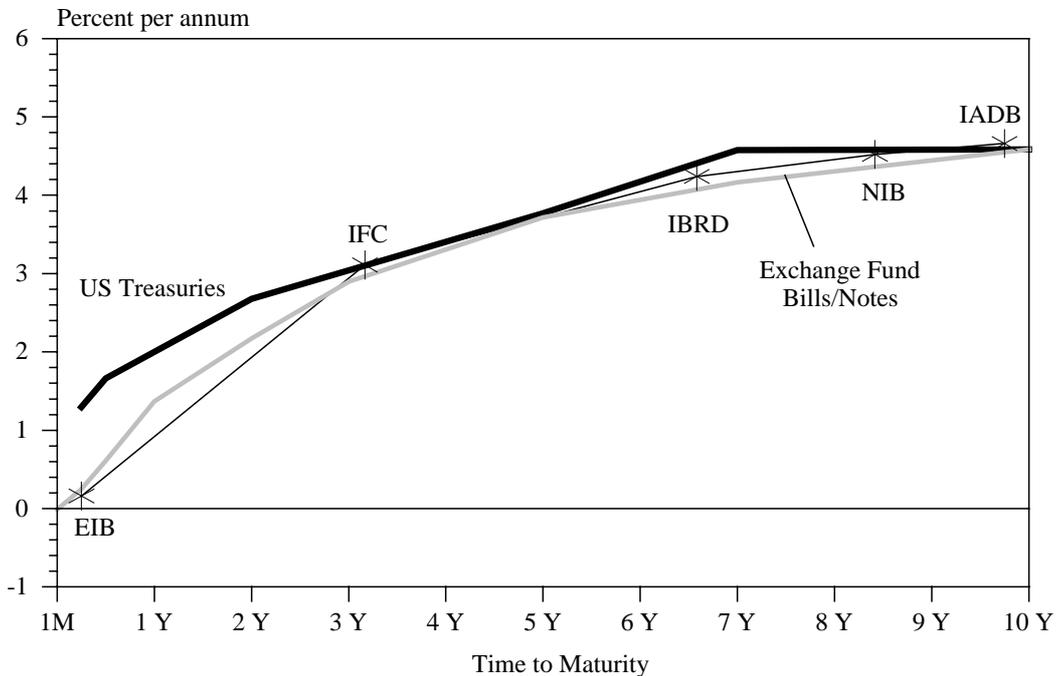


Diagram 4.11 : Hong Kong dollar and US dollar yield curves (as at the end of June 2004)



Note : AAA Hong Kong dollar supranational issuers

EIB European Investment Bank
 IADB Inter-American Development Bank
 IBRD International Bank for Reconstruction and Development
 IFC International Finance Corporation
 NIB Nordic Investment Bank

4.25 The Hong Kong Mortgage Corporation (HKMC) is one of the major issuers of debt securities in Hong Kong. During the first half of 2004, \$17.6 billion worth of HKMC debt paper was launched. At end-June, the total outstanding value of debt securities issued by HKMC under its Note Issuance Programme amounted to \$2.5 billion, and that under its Debt Issuance Programme amounted to \$31.3 billion. In addition, retail bonds were issued by HKMC, with the outstanding value totalling \$8.3 billion at end-June.

4.26 In May 2004, the Government issued \$6 billion of Toll Revenue Bond to the Hong Kong Link 2004 Limited, which in turn issued notes and bonds of the same amount to institutional and retail investors. The Toll Revenue Bond is to be repaid quarterly by the net toll revenue receivable from the Government-owned tunnels and bridges, namely, the Cross-Harbour Tunnel, Shing Mun Tunnels, Tseung Kwan O Tunnel, Aberdeen Tunnel, Lion Rock Tunnel, and Lautau Link. Separately, the Government issued notes and bonds totalling \$20 billion to institutional and retail investors in July 2004. These include institutional notes of HK\$5 billion and retail bonds of HK\$5.25 billion denominated in Hong Kong dollar as well as institutional notes of US\$1.25 billion denominated in US dollar. Both the securitisation exercise and the bond offering were well received by investors. The net proceeds from both exercises have been credited to the Capital Works Reserve Fund to finance capital works projects.

4.27 In the first half of 2004, the value of negotiable certificates of deposit (NCDs) launched was \$29.0 billion, less than that of \$45.5 billion in the second half of 2003. Of the new issuance of NCDs in the first half of 2004, \$18.2 billion was denominated in Hong Kong dollar, also down from that of \$31.1 billion in the preceding half year. On NCDs outstanding, the total amount was \$240.4 billion at end-June 2004, of which \$128.1 billion was denominated in Hong Kong dollar. These were slightly smaller than the corresponding figures 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 49.3%.

4.28 During the first half of 2004, 347 new issues of other Hong Kong dollar debt instruments worth \$66.5 billion were launched by the private sector. These compared with the corresponding figures of 350 new issues and \$49.0 billion in the second half 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 half of 2004, at \$56.2 billion, continued to exceed that of floating rate notes, at \$10.3 billion. At end-June 2004, the total

outstanding value of Hong Kong dollar fixed rate bonds and floating rate notes issued by the private sector amounted to \$242.8 billion and \$82.3 billion respectively, adding up to \$325.1 billion⁽¹⁰⁾. The corresponding figures at end-2003 were \$218.4 billion, \$82.5 billion and \$300.9 billion. Furthermore, there were nine new issues of Hong Kong dollar debt paper by multilateral agencies in the first half of 2004, totalling \$3.4 billion, as against five issues amounting to \$1.1 billion in the second half 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 \$582.0 billion at end-June 2004⁽¹¹⁾, up from \$557.8 billion at end-2003. The size of the Hong Kong dollar debt market corresponded to 27.9% of HK\$M3, or 20.4% of the Hong Kong dollar-denominated assets of the entire banking sector.

The stock, futures and gold markets

4.30 The local stock market, having been on a rally up to mid-March, consolidated during the second quarter of 2004. Investment sentiment sagged, as major stock markets overseas retreated amid growing expectations of an imminent upcycle of US interest rates. Also, there were worries about the macroeconomic adjustment in the Mainland and its consequential impact on Hong Kong, as well as escalation in international crude oil prices amid intensified tension in the Middle East. On 17 May, the Hang Seng Index plummeted to an 8-month low of 10 968. It then recovered part of the lost ground in the ensuing month or so, on the back of the favourable results of land auction at end-May and growing optimism about the performance of the Hong Kong economy. The small increase in US interest rates and prospects of only minor upward adjustments in the near term, together with renewed easing in oil prices in June, also helped lift market sentiment. Consequently, the Hang Seng Index rose back to close at 12 286 at end-June 2004, although this was still 2.3% below the end-2003 level (*Diagrams 4.12 and 4.13*).

Diagram 4.12 : Hang Seng Index and Hong Kong's stock market turnover (average for the month)

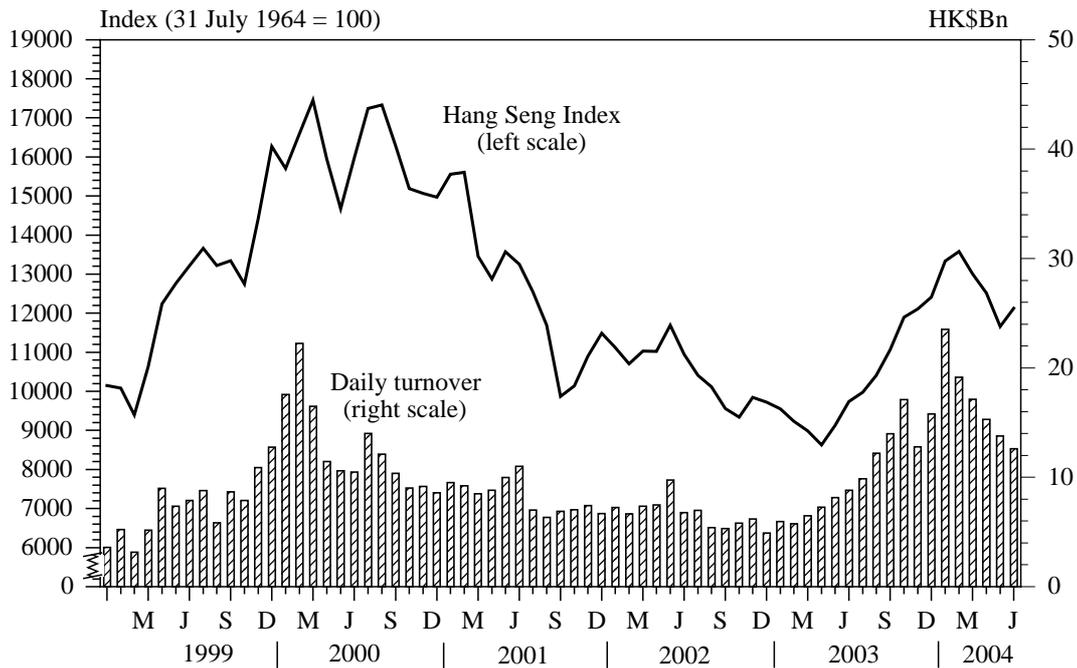
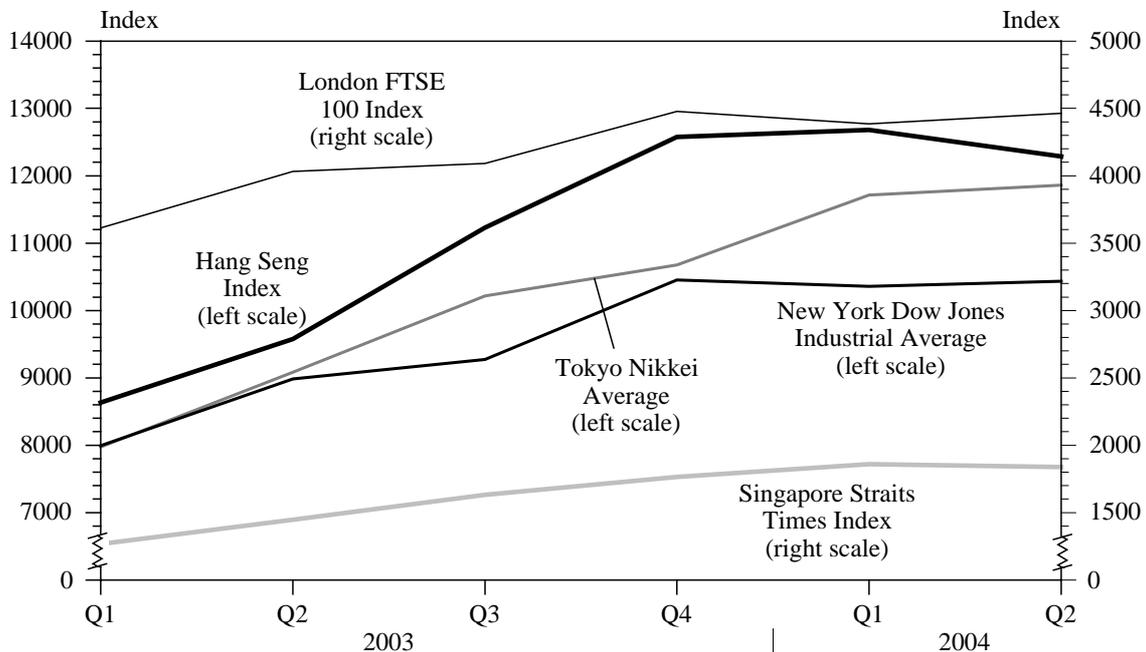


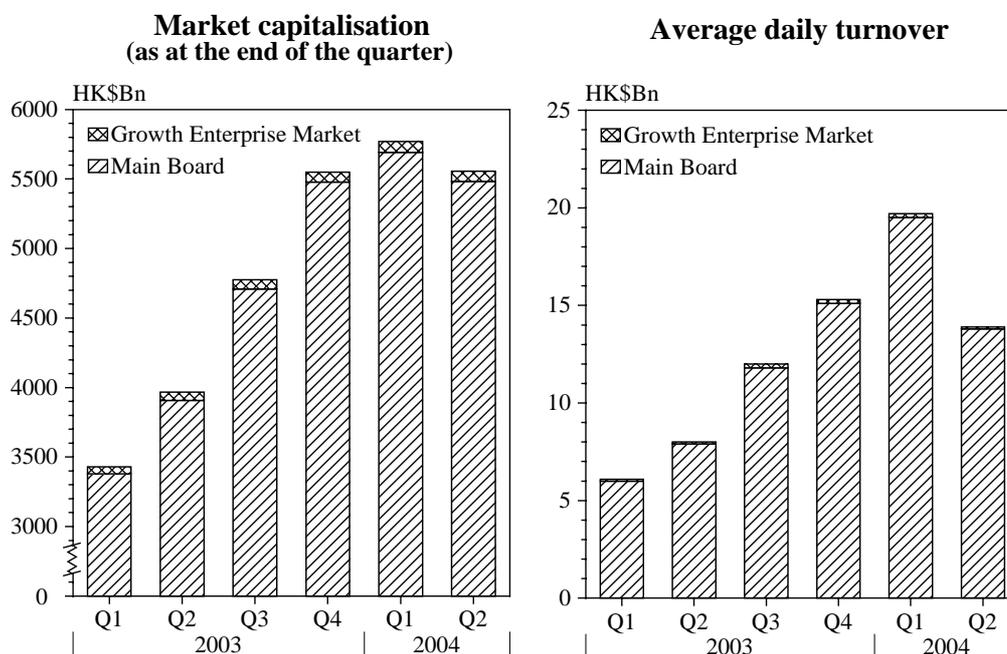
Diagram 4.13 : Movements in the Hang Seng Index and in the share price indices in selected stock markets overseas (index as at the last trading day of the quarter)



4.31 Total stock market capitalisation, covering both the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, amounted to \$5,555 billion at end-June 2004, close to that of \$5,548 billion at end-2003. The average daily turnover however dwindled from \$19.7 billion in the first quarter of 2004 to \$13.8 billion in the second quarter. Yet for the first half of 2004 as a whole, the

average daily turnover, at \$16.8 billion, was still 23.6% higher than that of \$13.6 billion in the second half of 2003 (*Diagram 4.14*).

Diagram 4.14 : Total market capitalisation and average daily turnover of the Hong Kong stock market



4.32 In the first half of 2004, 38 new share flotations were launched on the local stock market, raising a total equity capital of \$55.9 billion. Of these new issues, 23 were listed on the Main Board, raising equity capital of \$53.6 billion and the remaining 15 on GEM raising \$2.3 billion. 11 of them pertained to H shares, with four listed on the Main Board and seven on GEM, raising equity capital of \$20.1 billion and \$0.5 billion respectively. In addition, \$33.2 billion was raised through private placements by 110 companies, and \$7.0 billion through rights issues by 20 companies.

4.33 On trading in derivatives at the Hong Kong Exchanges and Clearing Limited, the average daily turnover of the Hang Seng Index futures contracts rose by 15.6% over the second half of 2003 to 35 039 contracts in the first half of 2004. The Hang Seng Index options contracts also went up, by 12.5% to 9 029 contracts. The H-shares Index futures contracts, which were launched on 8 December 2003, had an average daily turnover of 7 022 contracts in the first half of 2004. As to the H-shares Index options contracts, they were launched on 14 June 2004, with an average daily turnover of 470 contracts for June.

4.34 At end-June 2004, there were 37 classes of stock options contracts. The daily turnover averaged 23 391 contracts in the first half of 2004, up by 19.7% from that in the second half of 2003. Concurrently, there were 36

classes of stock futures contracts, for which the average daily turnover fell by 14.1% to 73 contracts.

4.35 On the three-month HIBOR futures contracts, the average daily turnover amounted to 294 contracts in the first half of 2004, 59.8% higher than that in the second half of 2003. On the three-year Exchange Fund Note futures contracts, the average daily turnover went up from seven contracts to 12 contracts.

4.36 There were 839 issues of warrants listed on the Main Board at end-June 2004, comprising 36 issues of equity warrants and 803 issues of derivative warrants. The average daily turnover of equity warrants surged by 24.9% over the second half of 2003 to \$9.4 million in the first half of 2004. Likewise, the average daily turnover of derivative warrants went up by 35.4% to \$2.0 billion. As to GEM, there was only one issue of warrants listed at end-June 2004.

Diagram 4.15 : Price of loco-London gold



4.37 Gold prices settled at lower levels below US\$400 per troy ounce for most of the time since mid-April 2004. This weaker performance was partly attributable to profit-taking activities, and partly to expectation of a stronger US dollar upon the rise in US interest rates, thereby undermining the attractiveness of gold as an alternative investment instrument. At end-June 2004, the price of loco-London gold closed at US\$393.3 per troy ounce, 5.7%

lower than that of US\$416.9 per troy ounce at end-2003. Gold price at the Chinese Gold and Silver Exchange Society closed at \$3,653 per tael at end-June 2004, also down from \$3,844 per tael at end-2003. Turnover on the Exchange totalled 1.44 million taels in the first half of 2004, smaller than that of 1.56 million taels in the second half of 2003 (*Diagram 4.15*).

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 was 1 005 at end-June 2004, up from 963 at end-2003. Gross sales of mutual funds amounted to US\$11.8 billion in the first half of 2004, 15.3% higher than those of US\$10.2 billion in the second half of 2003. After deducting redemptions, net sales soared from US\$0.7 billion to US\$2.3 billion. Among the various types of mutual funds, equity funds continued to account for the largest share, at 64.5% of the total value of funds at end-June 2004. This was followed by fixed income/bond funds, asset allocation funds, money market funds and other funds, with respective shares of 22.2%, 6.9%, 5.4% and 1.0%⁽¹³⁾.

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 boost further development of the local capital market. The aggregate net asset value of the approved constituent funds of MPF schemes⁽¹⁵⁾ rose further to \$99.9 billion at end-June 2004, from \$89.4 billion at end-2003, along with continued contributions from the enrolled population.

4.40 At end-June 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 221 600 employers, 1.77 million employees and 297 000 self-employed persons had been enrolled in MPF schemes, with the compliance rates for employers, relevant employees and self-employed persons reaching 97.7%, 95.4% and 81.8% respectively.

Notes :

- (1) Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay US dollar 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, 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. Specifically, it 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. 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.

It is important to note that the EERI 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) 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.
- (4) 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 25 due to banking sector consolidation. The AIs currently covered together account for around 99% of the total business, as compared to 92% for the 32 AIs formerly covered.

(5) 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.

(6) The various definitions of the money supply are as follows:

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

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

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

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

(7) Among 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.

(8) Overdue loans are defined here as those that have been overdue for more than three months. Rescheduled loans are those that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of inability of the borrower to meet the original repayment schedule. Non-performing loans are those on which interest has been placed in suspense or on which interest accrual has ceased. Classified loans are those that have been classified as substandard, doubtful or loss. Of these categorisations, classified loans overlap to a certain extent with overdue and rescheduled loans.

(9) As from 1 April 1999, interest payments on Exchange Fund paper are allowed for expanding the stock of outstanding Exchange Fund paper.

(10) These figures may not represent a full coverage of all the Hong Kong dollar debt paper issued by the private sector.

(11) Due to different sources for NCD data, the total value of Hong Kong dollar debt paper outstanding may not equal the sum of the outstanding values of Exchange Fund paper,

HKMC debts, NCDs, and other Hong Kong dollar debt instruments issued by the private sector.

- (12) The Growth Enterprise Market was launched by the Hong Kong stock market in November 1999 as an alternative market to the Main Board, in order to give emerging growth companies easier access to the funds of the investing public. Though open to companies in all industries and of all sizes, the market provides an efficient venue for fund raising especially by small to medium-sized enterprises.
- (13) 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

Summary

- *The labour market, having staged a strong rebound in the latter part of 2003 from the earlier setback caused by SARS, exhibited a steady improvement in the first two quarters of 2004.*
- *Employment growth continued to outpace labour force growth, resulting in further improvement in the overall manpower resource balance. Concurrently, vacancies showed a markedly accelerated increase across all the major economic sectors.*
- *Comparing the second quarter with the first quarter of 2004, unemployment fell by a larger magnitude and on a wider front, alongside the broad-based recovery in economic activity. The improvement was particularly visible among the lower-skill and less educated workers.*
- *Compared with a year earlier, employment surged by 84 200 or 2.6% to an all-time high of 3.28 million in the second quarter of 2004 (and further to 3.29 million in May - July), while the seasonally adjusted unemployment rate and the numbers unemployed fell visibly to 6.9% and 240 200 respectively, from 8.6% and 298 100 a year earlier.*
- *The general improvement in labour market condition notwithstanding, labour wages and earnings remained soft.*

Overall labour market situation*

5.1 The labour market continued to improve in the first two quarters of 2004, extending the trend established since the latter part of 2003. In the second quarter of 2004, the *seasonally adjusted unemployment rate*⁽¹⁾ was 6.9%, below that of 7.2% in the first quarter (**Diagram 5.1**). Concurrently, the total number of unemployed persons decreased from 249 500 to 240 200. These

(*) **For detailed statistics on labour demand, labour supply, and wages and earnings, see the tables in the Statistical Appendix, pp. 129 – 139.**

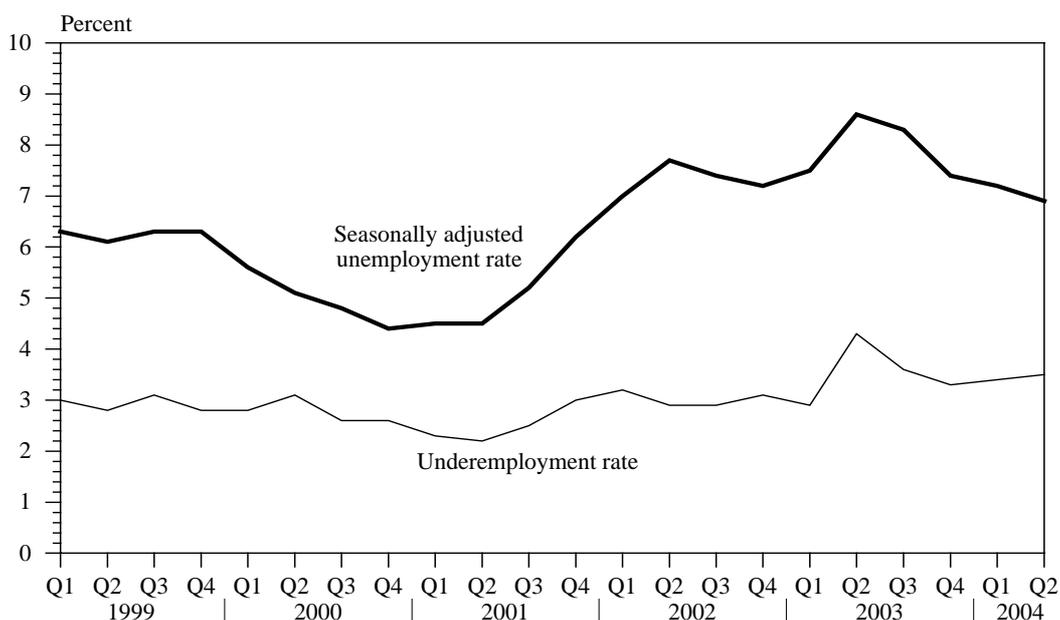
were the lowest figures recorded since early 2002. (In May - July 2004, the seasonally adjusted unemployment rate and the total numbers unemployed were 6.9% and 248 000 respectively.)

5.2 The improvement in unemployment occurred fairly extensively across many major economic sectors, as labour demand grew not only at a faster pace than labour supply but also broadened in scope upon further economic growth. Moreover, the median duration of unemployment shortened from 106 days to 97 days.

5.3 Between the first and second quarters of 2004, the *underemployment rate*⁽²⁾ however edged up, from 3.4% to 3.5%, as did the number of underemployed persons, from 118 700 to 122 400. Conceivably, this was attributable to increased employment of part-time, casual and temporary workers especially in the decoration and maintenance, transport, and amusement and recreational services sectors. (In May - July 2004, the underemployment rate and the total numbers underemployed were 3.5% and 122 000 respectively.)

5.4 In line with the trend of increasing shift in employment composition from full-time workers to part-time, casual and temporary workers, the proportion of persons working for less than 35 hours per week rose further, from 13% in the first quarter of 2004 to 14% in the second quarter.

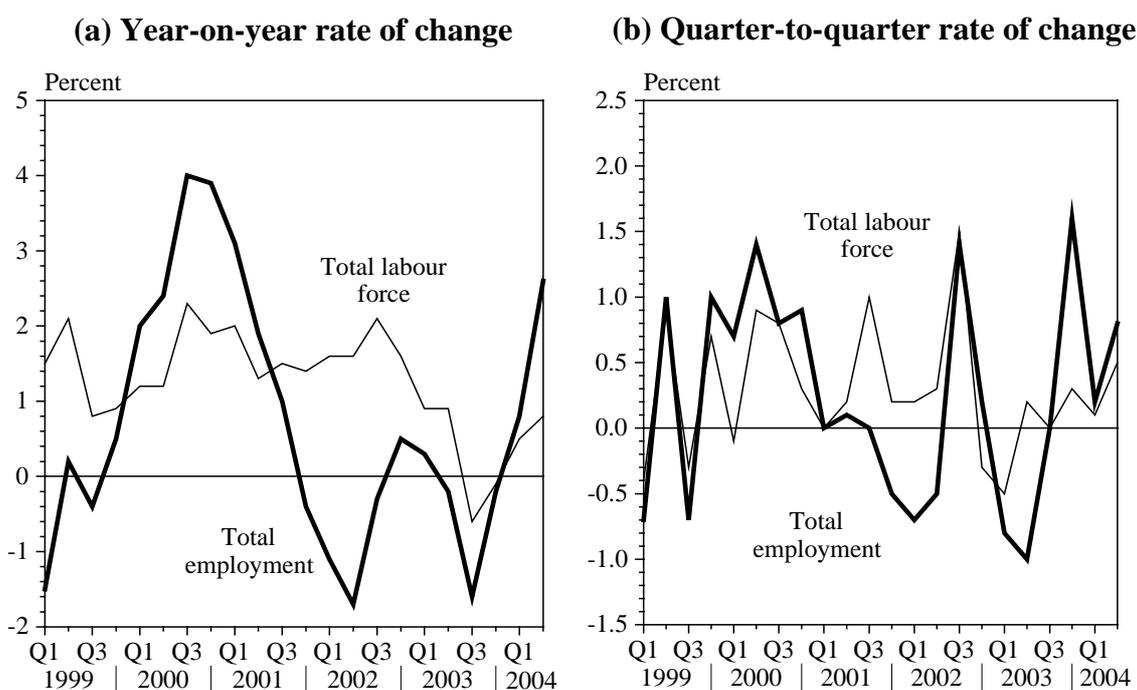
Diagram 5.1 : Unemployment and underemployment rates



Total employment and labour supply

5.5 On a quarter-to-quarter comparison, *total employment*⁽³⁾ as enumerated from households grew by 0.2% and 0.8% respectively in the first two quarters of 2004, sustaining the general uptrend since June - August 2003 (*Diagram 5.2*). In absolute terms, total employment increased to an all-time high of 3.28 million in the second quarter of 2004. Between the first two quarters of 2004, employment gains occurred mainly among persons aged 20-39 and 50-59, those with upper secondary education and above, those engaged as professionals, associate professionals, service workers and shop sales workers, and craft and related workers, as well as those employed in the transport, construction, manufacturing, and community, social and personal services sectors.

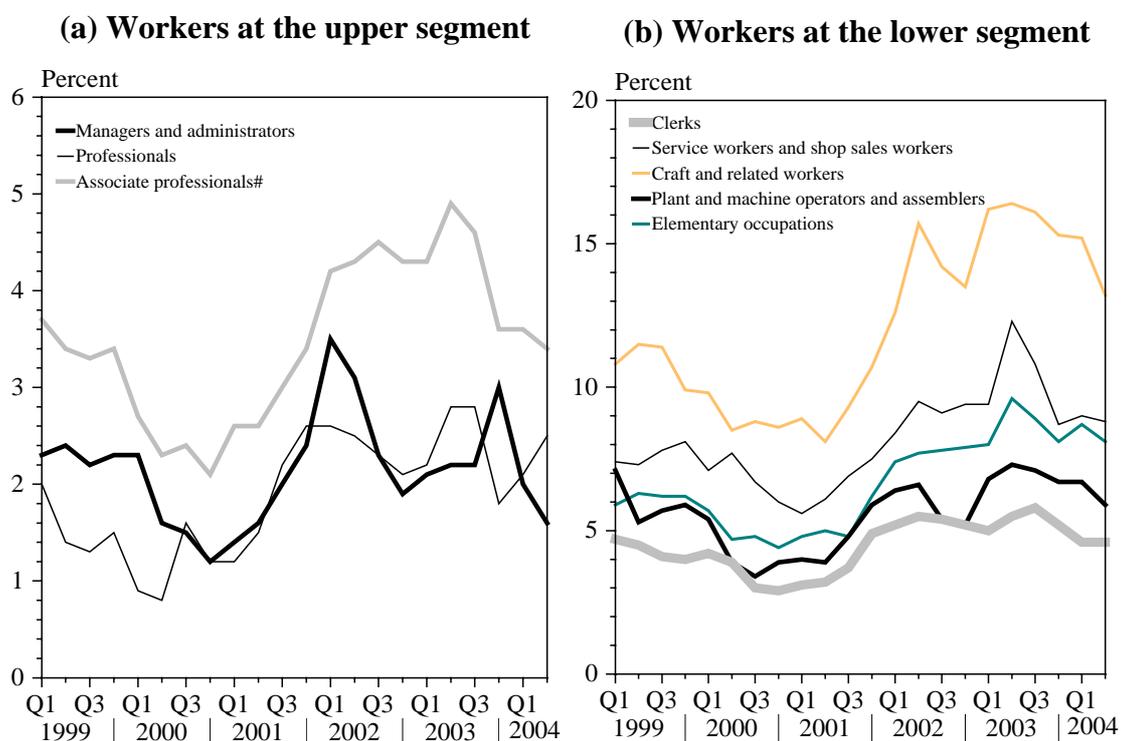
Diagram 5.2 : Total labour force and total employment



5.6 By comparison, *total labour force*⁽⁴⁾ grew more moderately by 0.1% and 0.5% respectively in the first two quarters of 2004 (*Diagram 5.2*). The latest increase was attributable entirely to an expansion in the population of working age, as the overall labour force participation rate⁽⁵⁾ remained unchanged. In absolute terms, total labour supply was estimated at 3.52 million in the second quarter of 2004. Consequential to the faster growth in employment than in labour supply, the manpower resource balance showed further improvement, leading to a reduction in unemployment in recent months. On a year-on-year comparison, total employment increased by 84 200 or 2.6%,

5.8 Analysed by *occupation category*, the decline in unemployment rate was most apparent among workers at the lower segment of the occupation hierarchy, including in particular craft and related workers, plant and machine operators and assemblers, and workers in elementary occupations. With further growth in the economy, more new jobs were created for the lower-skill workers in the construction, manufacturing and transport sectors, in addition to those hitherto found in the local consumption and tourism-related sectors. Concurrently, the unemployment rates for workers at the upper segment also came down, albeit only modestly (*Diagram 5.4*).

Diagram 5.4 : Unemployment rates by major occupation category*



Notes : (*) See the first note to Diagram 5.3.

(#) Including technicians and supervisors.

5.9 An analysis by *educational attainment* shows that persons with lower secondary education and below, who were mostly engaged in lower-skill jobs, tended to benefit more from the improved unemployment situation recently. The respective unemployment rates dropped from 11.0 - 11.7% to 8.5 - 10.5% between the first two quarters of this year. As for persons with matriculation education and above, the unemployment rate however showed some increase. But this was mainly affected by the entry of fresh graduates and school leavers into the labour market (*Diagram 5.5*). Reflecting this, the number of unemployed first-time job-seekers went up by 44.3% between the first two quarters, with the respective proportion in the total unemployment rising from

4.4% to 6.6%. Thus analysed by *age group*, younger persons aged 15 - 24 faced a surge in unemployment rate lately, whereas persons in all other age groups reported decreases (*Diagram 5.6*).

Diagram 5.5 : Unemployment rates by educational attainment*

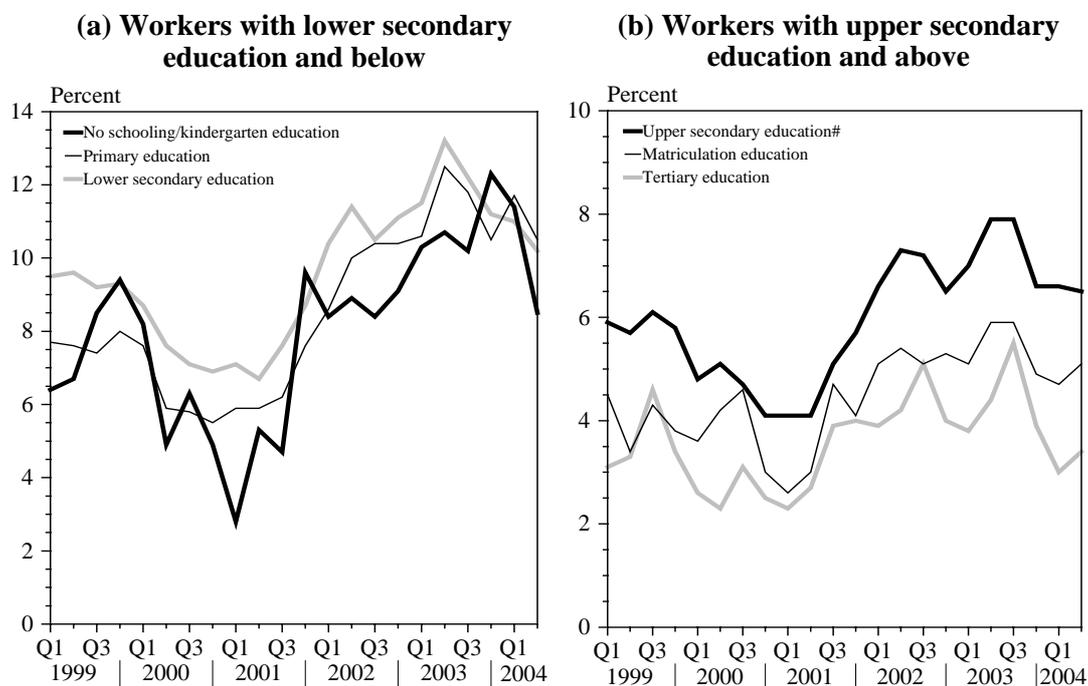
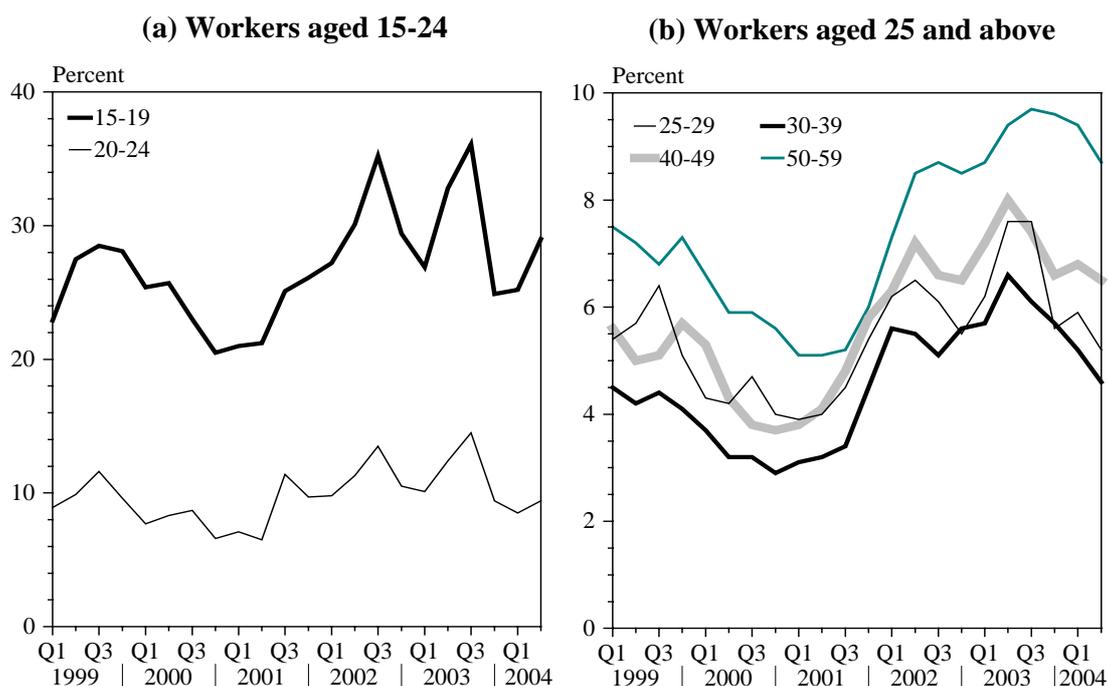


Diagram 5.6 : Unemployment rates by age group*



Profile of underemployment

5.10 The rise in the underemployment rate between the first and second quarters of 2004 was most apparent among workers aged 15-19, 30-39 and 50-59, those with lower secondary education and below, as well as those engaged in elementary occupations especially in such sectors as decoration and maintenance, the wholesale/retail trade, transport, and amusement and recreational services. These increases in underemployment virtually offset the decreases observed in foundation and superstructure construction, and restaurants and hotels.

Profile of employment

5.11 Total employment as enumerated from private sector establishments gained by 0.6% year-on-year in March 2004, following a 1.4% reduction in December 2003. Though modest in magnitude, this increase was the first recorded since mid-2001. On a seasonally adjusted quarter-to-quarter comparison, total employment grew by 0.5% in March 2004, further to a 1.2% rise in December 2003. Encouraged by better economic performance and outlook, employers in some business sectors seemed to have assumed a more positive attitude towards business investment and staffing recently.

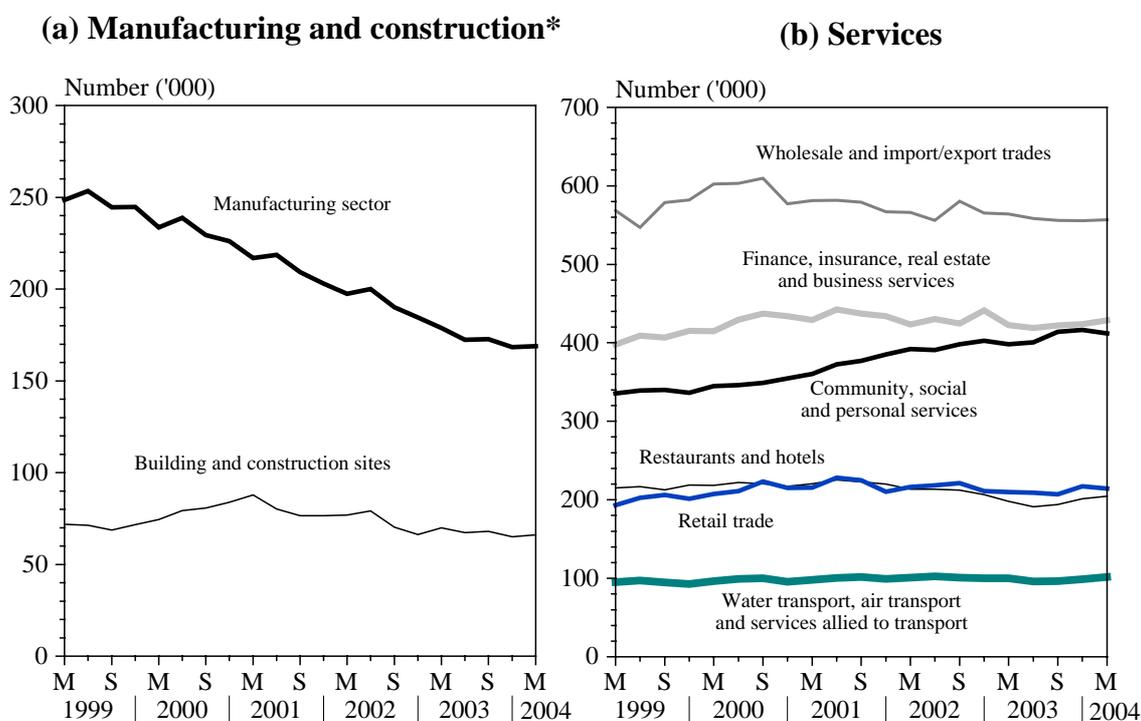
5.12 Storage and communications were the service sectors registering a notable gain in employment by 8.0% in March 2004 over a year earlier, mainly attributable to greater demand for labour in telecommunications services. Employment in community, social and personal services rose by 3.5%, as more new jobs were found in education, sanitary, welfare, and amusement and recreational services. Employment in restaurants and hotels and in the retail trade expanded by 3.2% and 2.3% respectively, in tandem with the strong pick-up in inbound tourism and local consumer spending. Employment in finance, insurance, real estate and business services and in water transport, air transport and services allied to transport likewise increased, by 1.4% each. Employment in the wholesale and import/export trades, though still on a downtrend, had a moderated decline by 1.3%. Taking all the *service sectors* together⁽⁶⁾, employment was up by 1.4% in March 2004 over a year earlier, reversing the 0.7% decrease in December 2003 (*Diagram 5.7*).

5.13 As to the local *manufacturing sector*, employment was reduced by 5.6% in March 2004 from a year earlier, further to an 8.8% fall in December 2003. Apparently, the demand for manufacturing workers continued to be dampened by the on-going relocation of production processes outside Hong Kong, which more than offset the boosting effect of a rebound in domestic exports lately.

5.14 Employment of manual workers at *building and construction sites* likewise shrank, by 2.0% and 5.5% respectively in December 2003 and March 2004 over a year earlier. Within the total for March, employment at public sector sites fell more distinctly than employment at private sector sites, by 6.5% as against 4.7%. This was probably due to the lull in civil engineering work following completion of the KCR West Rail project, as well as contraction in building work under the Public Housing Programme. Analysed by project type, employment at building sites decreased by 3.8% and that at civil engineering sites considerably more, by 9.6%. Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector⁽⁷⁾ declined by 6.4% in the first quarter of 2004 from a year earlier, after a 10.2% reduction in the fourth quarter of 2003.

5.15 Employment in the civil service continued on the decrease, by 3.6% year-on-year in March 2004. Moreover, by 23 July 2004, which was the deadline for successful applicants to be released from duties under the Second Voluntary Retirement Scheme, 5 067 persons had left the civil service. The Government's target is to reduce the civil service establishment further to around 160 000 by 2006/07, as stated in the Chief Executive's Policy Address on 8 January 2003.

Diagram 5.7 : Employment by major economic sector



Note : (*) Including only manual workers at construction sites.

Vacancies

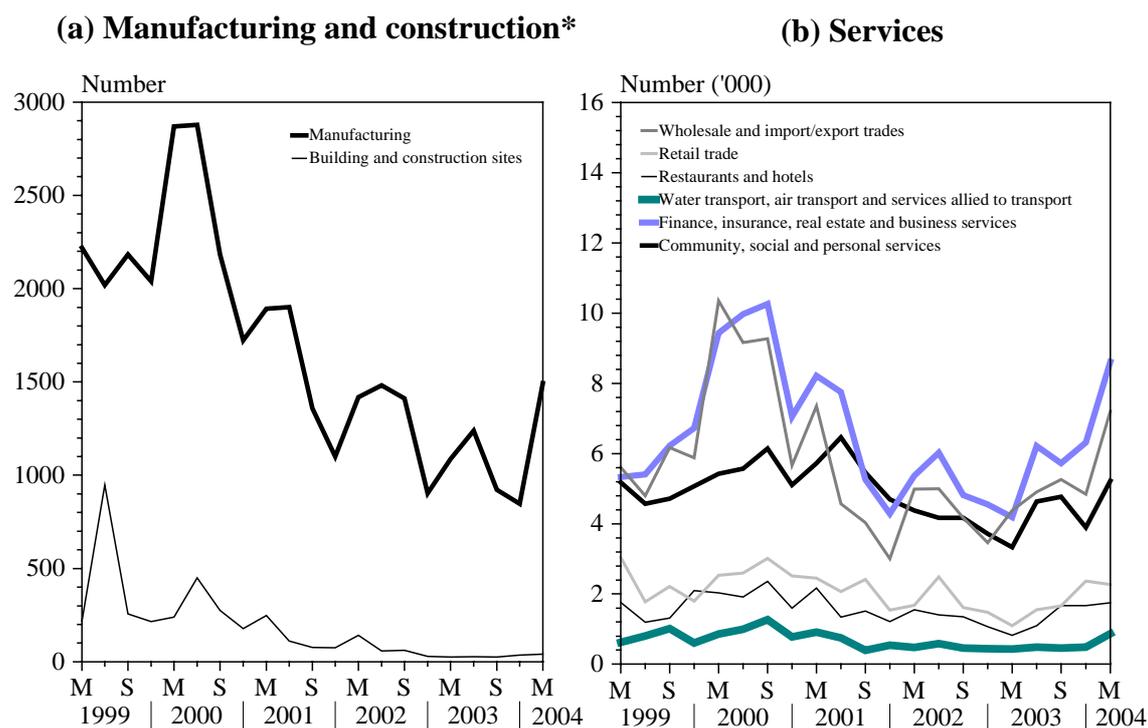
5.16 Even more indicative of the strengthening labour demand was the markedly accelerated increase in vacancies across all the major economic sectors so far this year. Of all the private sector establishments surveyed, vacancies surged year-on-year by 78.7% in March 2004, far exceeding the 28.9% rise in December 2003, although the accentuated increase in March this year was affected at least in part by the low base of comparison a year earlier. On a seasonally adjusted quarter-to-quarter comparison, vacancies recorded double-digit increase both in December 2003 and in March 2004, by 11.6% after 14.0%. As a result, the overall vacancy rate moved up appreciably from 0.9% to 1.3% between the two months.

5.17 Analysed by *economic sector*, vacancies for all the *service sectors* taken together rose distinctly by 81.8% in March 2004 over a year earlier, more than double the 31.0% increase in December 2003. Analysed by major constituent sector and on a year-on-year comparison, vacancies in restaurants and hotels and in the retail trade were sharply higher by 113.1% and 108.2% respectively in March 2004, as operators in these fields were more actively seeking additional staff to cope with the expanded business stemming from the sustained revival in both inbound tourism and local consumption. Vacancies in finance, insurance, real estate and business services jumped by 106.0%, attributable to increased job openings in real estate upon the upturn of the property market. Vacancies in water transport, air transport and services allied to transport and in the wholesale and import/export trades leaped by 102.3% and 64.7% respectively, in tandem with improved labour demand amid the robust external trade performance. Vacancies in storage and communications and in community, social and personal services also surged, by 83.8% and 56.5% respectively (*Diagram 5.8*).

5.18 Vacancies in the local *manufacturing sector*, having fallen by 6.4% in December 2003 from a year earlier, rose back by 37.5% in March 2004. This increase reversed the downtrend evident over the past year or so. As for manual workers at *building and construction sites*, vacancies were 57.7% more in March 2004 than a year earlier, outpacing the 28.6% growth in December 2003, although the absolute number involved was still small.

5.19 On vacancies in the *civil service*, there was a further reduction of 21.7% in March 2004, after a 32.1% drop in December 2003. These decreases were in line with the Government's objective of holding down the size of civil service employment.

Diagram 5.8 : Vacancies by major economic sector



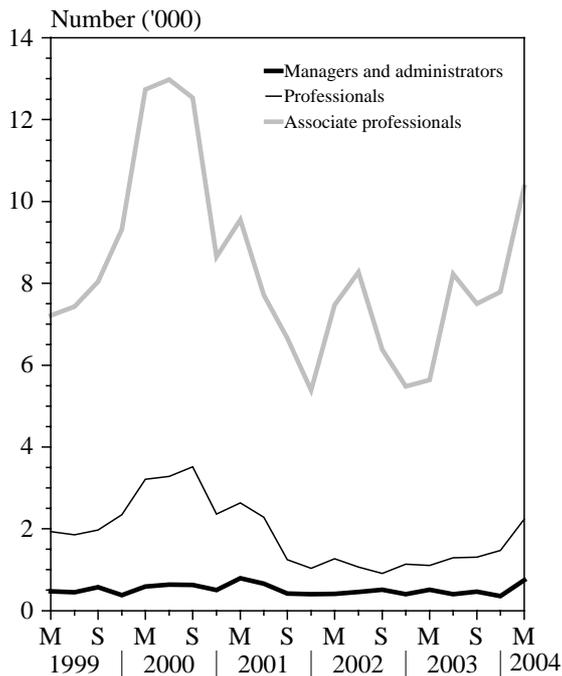
Note : (*) Including only manual workers at construction sites.

5.20 Analysed by *occupation category*, vacancies went up notably across-the-board. Specifically, vacancies for service workers and shop sales workers and for workers in elementary occupations went sharply higher by 144.5% and 57.7% respectively in March 2004 over a year earlier, mainly attributable to a surge in job openings in the distributive and catering trades. Vacancies for clerks rose notably by 48.2%, with most of the job opportunities arising in community, social and personal services. Vacancies for plant and machine operators and assemblers and for craft and related workers also registered substantial increases, by 43.7% and 34.9% respectively, as more such jobs were created in the manufacturing sector. Regarding the higher-skill workers, vacancies for professionals registered the largest increase by 102.5%, followed by those for associate professionals (by 83.7%) and for managers and administrators (46.1%). Most of these job openings were found in sectors like finance, insurance, real estate and business services (*Diagram 5.9*).

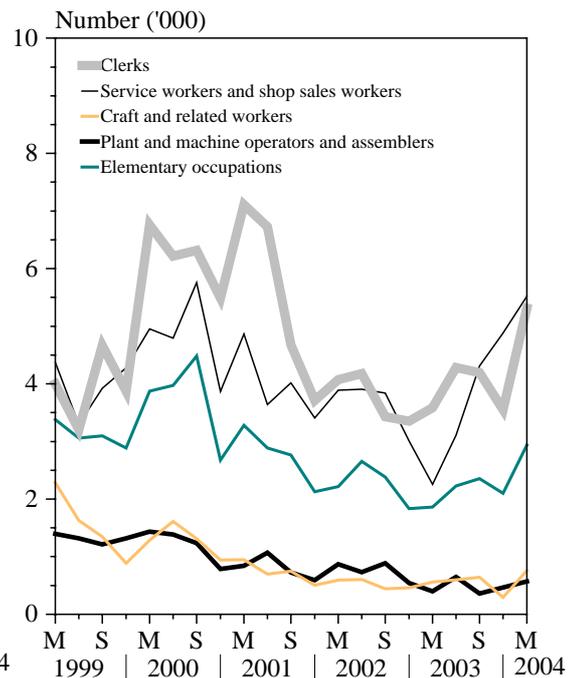
5.21 The statistics compiled by the Labour Department pointed to a further strong year-on-year growth in vacancies in the second quarter of this year. Specifically, the number of vacancies received by the Department grew at a faster pace in the second quarter of 2004 than in the first quarter, by 53.6% as against 43.3%.

Diagram 5.9 : Vacancies by major occupation category

(a) Workers at the upper segment



(b) Workers at the lower segment



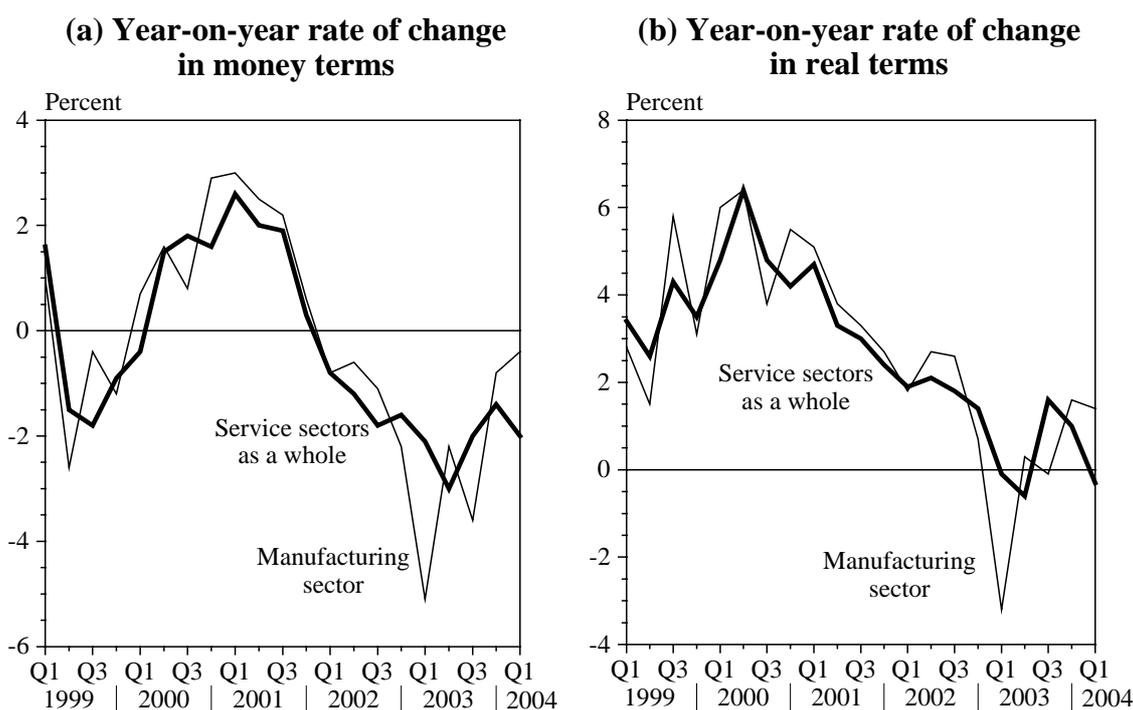
Earnings and wages

5.22 Overall *labour earnings*⁽⁸⁾ in the private sector, as measured by payroll per person engaged, remained soft. In the first quarter of 2004, there was a year-on-year decrease of 1.7% in money terms, somewhat exceeding the 1.0% fall in the fourth quarter of 2003. But this was mainly influenced by the reduction in payroll by some government-subsidised organisations in the community, social and personal services sector, following the civil service pay cut effective in January 2004. Discounting the decrease in consumer prices as reflected by the Composite CPI, overall labour earnings still recorded a marginal increase of 0.1% in real terms in the first quarter of 2004, albeit lesser than the 1.4% rise in the fourth quarter of 2003. On a seasonally adjusted quarter-to-quarter comparison, overall labour earnings fell by 1.3% in money terms in the first quarter of 2004, having edged up by 0.1% in the fourth quarter of 2003. In real terms, they were down in both periods, by 1.7% after 0.3%.

5.23 Analysed by *economic sector*, the movements of labour earnings showed a mixed picture. For all the *service sectors* surveyed taken together, labour earnings declined by 2.0% in money terms in the first quarter of 2004 over a year earlier, somewhat larger than the 1.4% reduction in the fourth quarter of 2003. In real terms, labour earnings switched from a 1.0% rise to a 0.3% decrease. Analysed by major constituent sector, earnings in the wholesale,

retail and import/export trades and in finance, insurance, real estate and business services were modestly higher by 0.9% and 0.5% respectively in money terms in the first quarter of 2004 than a year earlier. In real terms, the corresponding increases were greater, at 2.7% and 2.3%. By contrast, labour earnings in community, social and personal services went down visibly both in money terms and in real terms, by 6.2% and 4.5% respectively, reflecting the downward adjustment in payroll made by some government-subsidised organisations to be in line with the civil service pay cut earlier in the year. Concurrently, labour earnings in restaurants and hotels and in transport, storage and communications fell by 3.5% and 2.4% respectively in money terms or 1.7% and 0.6% in real terms. As to the local *manufacturing sector*, labour earnings were slightly reduced by 0.4% in money terms in the first quarter of 2004, following a 0.8% decrease in the fourth quarter of 2003. In real terms, there were nevertheless increases in both quarters, by 1.4% after 1.6% (*Diagram 5.10*).

Diagram 5.10 : Earnings by broad economic sector



5.24 Overall *labour wages*⁽⁹⁾ in the private sector decreased by a similar magnitude in December 2003 and in March 2004, by 1.5% and 1.6% respectively in money terms from a year earlier. Yet discounting the decline in consumer prices as measured by the CPI(A)⁽¹⁰⁾, overall labour wages switched to an increase of 0.2% in real terms, from a decrease of 0.3%.

5.25 Analysed by *economic sector*, wages drifted lower across quite a number of the *service sectors*. Specifically, wages in restaurants and hotels and in transport services declined by 3.6% and 1.9% respectively in money terms in March 2004 from a year earlier. These corresponded to decreases of 1.8% and 0.1% in real terms. Wages in the wholesale, retail and import/export trades and in personal services were lower by 2.2% and 2.4% respectively in money terms, or 0.4% and 0.6% in real terms. On the other hand, wages in finance, insurance, real estate and business services edged higher by 0.6% in money terms and even more by 2.5% in real terms. As to the local *manufacturing sector*, wages went down by 1.4% in money terms in March 2004 from a year earlier, though still up by 0.4% in real terms.

5.26 Analysed by *occupation category*, wages for supervisory and technical workers decreased mildly by 0.7% in money terms, but still gained by 1.2% in real terms in March 2004 over a year earlier. Regarding workers at lower levels, their wages generally fared less well. In particular, wages for miscellaneous non-production workers, clerical and secretarial workers, and service workers dropped by 3.6%, 2.1% and 2.0% respectively in money terms, or 1.8%, 0.3% and 0.2% in real terms. Wages for operatives and craftsmen also decreased in money terms, by 1.7% and 1.1% respectively, although they were slightly up in real terms, by 0.1% and 0.8%.

5.27 As to the *construction sector*, wages showed a lesser decline in money terms in the first quarter of 2004 than in the fourth quarter of 2003, by 0.4% as against 1.1%. In real terms, these wages had a slightly accelerated rise, from 0.6% to 0.9% between the two quarters.

5.28 The civil service pay was reduced on 1 January 2004, following the enactment of the Public Officers Pay Adjustments (2004/2005) Ordinance in December 2003. This will be followed by another reduction of broadly equal magnitude on 1 January 2005 in accordance with the same ordinance. After the two reductions, all civil service pay points will be restored to the levels they were as on 30 June 1997.

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) 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) 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.
- (7) 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.

- (8) 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.
- (9) 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.
- (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

Summary

- *Deflation continued to give way, reflecting the combined effects of improved economic conditions, revived consumer demand and higher import prices. Pricing power seems to have returned especially for some consumer items.*
- *The Composite CPI edged lower by 0.9% year-on-year in the second quarter of 2004. In June, the decrease even narrowed to a mere 0.1%. The price index has bottomed out and begun to register some mild increase since the fourth quarter of 2003, contributing to the distinct narrowing in year-on-year decline.*
- *Apart from the firming of prices of many goods and services, a gradual dissipation of the lagged effect of the earlier fall in residential flat rentals also helped alleviate the downward pressure on the CPIs.*
- *Externally, import prices rebounded since early this year, amid the earlier weakening of the US dollar, firmer world commodity prices, and renewed inflation in some major supplier economies. Export prices also resumed increase more recently.*
- *The decline in the GDP deflator tapered markedly in the second quarter, mainly due to visible improvements in the price deflators for private consumption expenditure and gross domestic fixed capital formation.*

Consumer prices*

6.1 Compared with the same period last year, the *Composite Consumer Price Index*⁽¹⁾ was still lower by about 0.9% in the second quarter of 2004, though improving significantly from the 1.8% decrease in the first quarter (*Diagram 6.1*). The monthly profile indicated an even more notable improvement, with the year-on-year decline in consumer prices narrowing from

(*) For detailed statistics on the CPIs, import and export prices, the GDP deflator and other price indicators, see tables in the Statistical Appendix, pp. 140 – 145.

1.5% in April to a meagre 0.1% in June. The recent abatement of consumer price deflation reflected partly the gradual dissipation of the lagged effect of the earlier drops in private residential rentals. But more importantly, it was attributable to the upward price adjustments or reduced discounts made by some of the local retailers and service providers, in response to the sustained pick-up in tourist and local consumer spending as well as to the escalating import costs. For the first half of 2004 as a whole, the Composite CPI was 1.3% lower than a year earlier, distinctly smaller than the 3.0% drop in the second half of 2003. The three sub-indices, viz. the CPI(A), CPI(B) and CPI(C), exhibited broadly similar pattern of movement.

6.2 On a quarter-to-quarter comparison, the seasonally adjusted Composite CPI showed virtually zero change in the second quarter of 2004. This followed successive increases of 0.8% in the fourth quarter of 2003 and 0.3% in the first quarter of 2004, and reversed the downtrend prevailing since the third quarter of 2001. As to the three sub-indices, they exhibited somewhat different movements in the second quarter of this year: the CPI(A) rose slightly by 0.1%, the CPI(B) was static and the CPI(C) edged down by 0.3%. This was mainly related to an enlarged increase in the prices of clothing and footwear in both the CPI(A) and CPI(B), but a renewed decrease in such prices in the CPI(C) (*Diagram 6.2*).

Diagram 6.1 : Consumer Price Indices
(year-on-year rate of change)

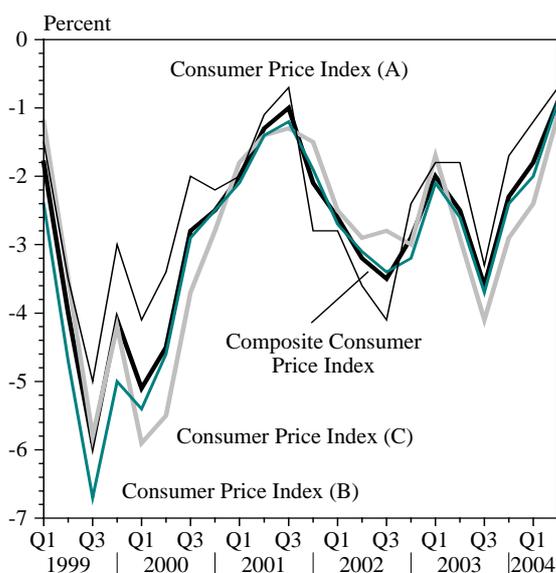
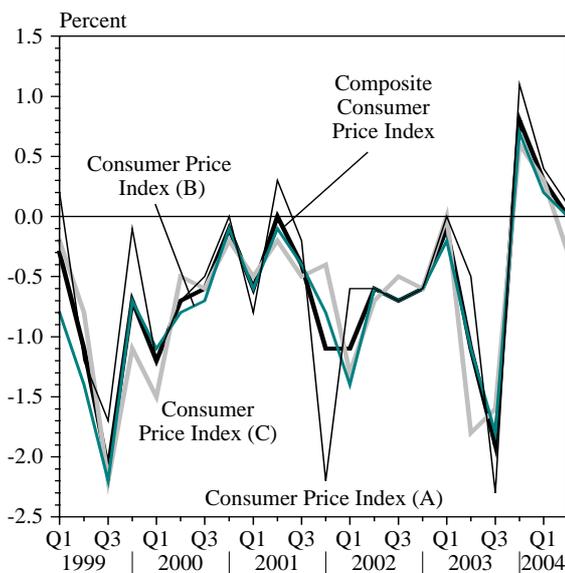


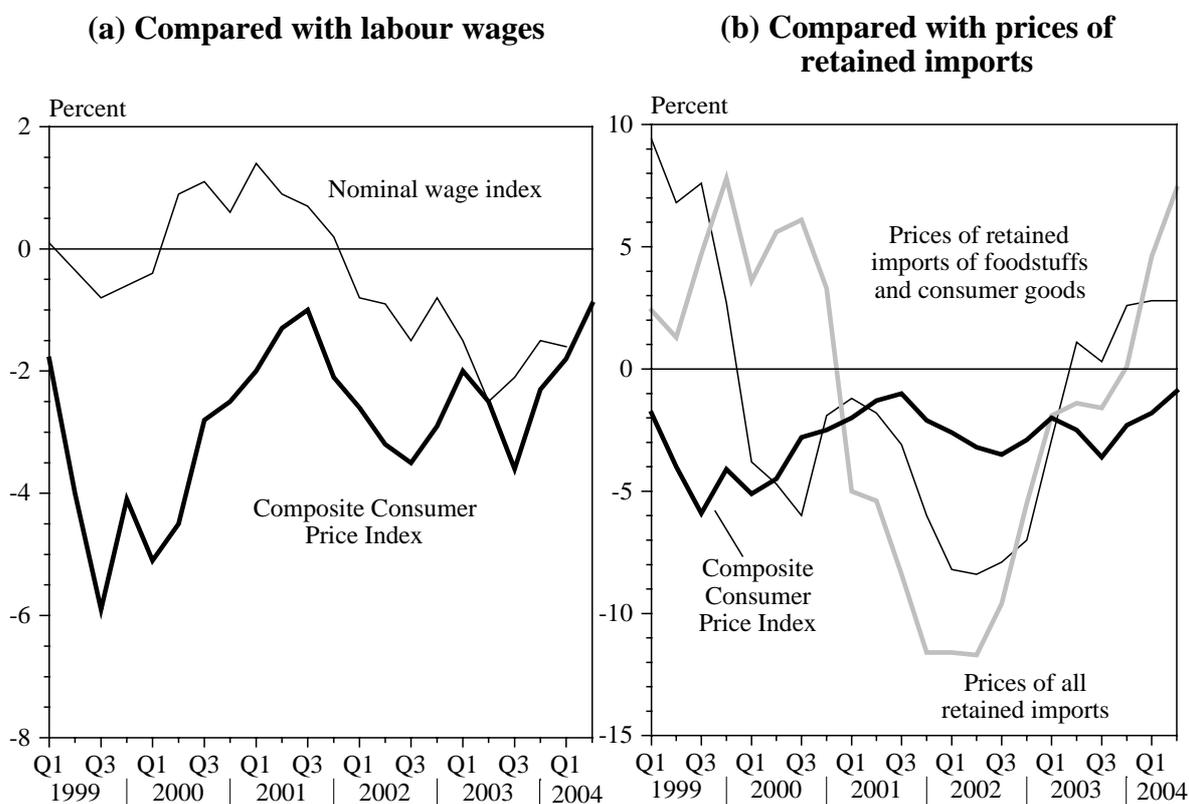
Diagram 6.2 : Seasonally adjusted
Consumer Price Indices
(quarter-to-quarter rate of change)



Note : From the fourth quarter of 2000 onwards, both the year-on-year and quarter-to-quarter 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.

6.3 A broad examination of the overall price trends indicates that the Composite CPI reached its trough in August 2003, before edging up generally in the ensuing months. In the first half of 2004, the decline in the CPIs was largely affected by the private housing cost component which remained on a downtrend, reflecting principally the lagged effect of the earlier fall in residential flat rentals. Reference to components in the Composite CPI relating to retail goods shows that retail prices already registered a slight increase at end-2003, with the rise accelerating to around 2% in the second quarter of 2004. Over this period, while labour wages settled at a lower level, retained import prices turned around to exert some upward pressure on overall consumer prices (*Diagram 6.3*).

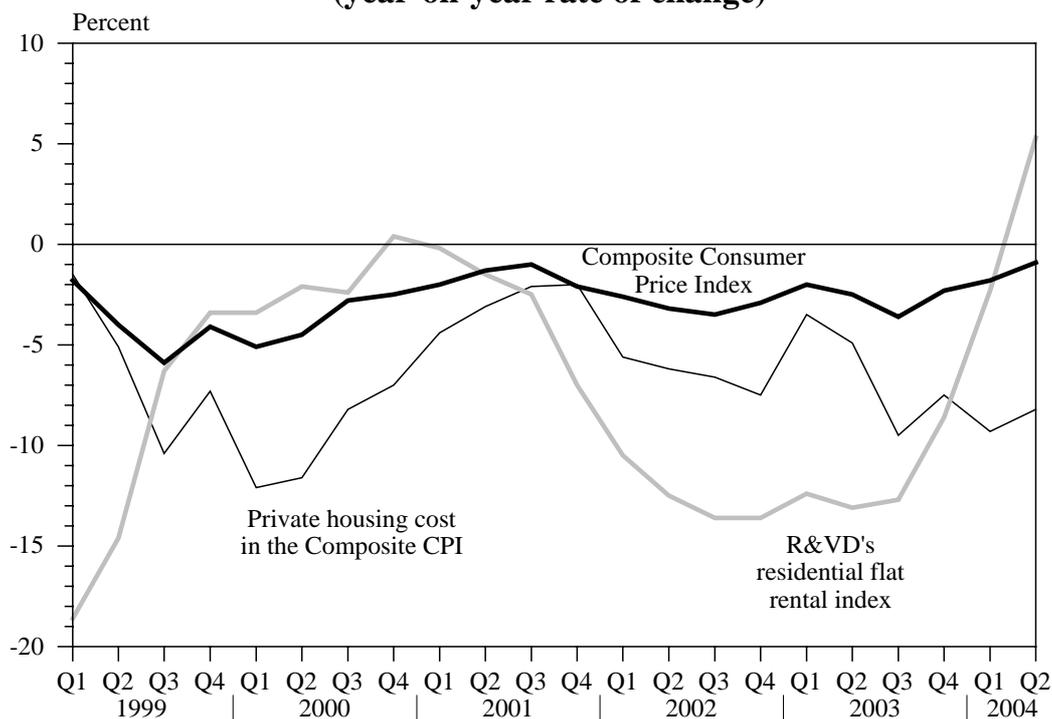
Diagram 6.3 : Composite Consumer Price Index vis-à-vis labour wages and prices of retained imports (year-on-year rate of change)



6.4 Among the *main components* of the Composite CPI, private housing cost continued to decline by 8.2% in the second quarter of 2004, albeit more moderate than the 9.3% fall in the first quarter. According to the rental index compiled by the Rating and Valuation Department (R&VD), residential flat rentals reached a trough in the third quarter of last year, and the year-on-year increase in the second quarter of 2004 was 5.3%. But at any point in time, 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. Therefore, movement of the private housing cost component within the various CPIs is heavily affected by the lagged effect of the earlier marked decline in residential flat rentals, and is thus less reflective of the latest pick-up in market rentals (*Diagram 6.4*).

Diagram 6.4 : Composite Consumer Price Index vis-à-vis residential flat rentals (year-on-year rate of change)

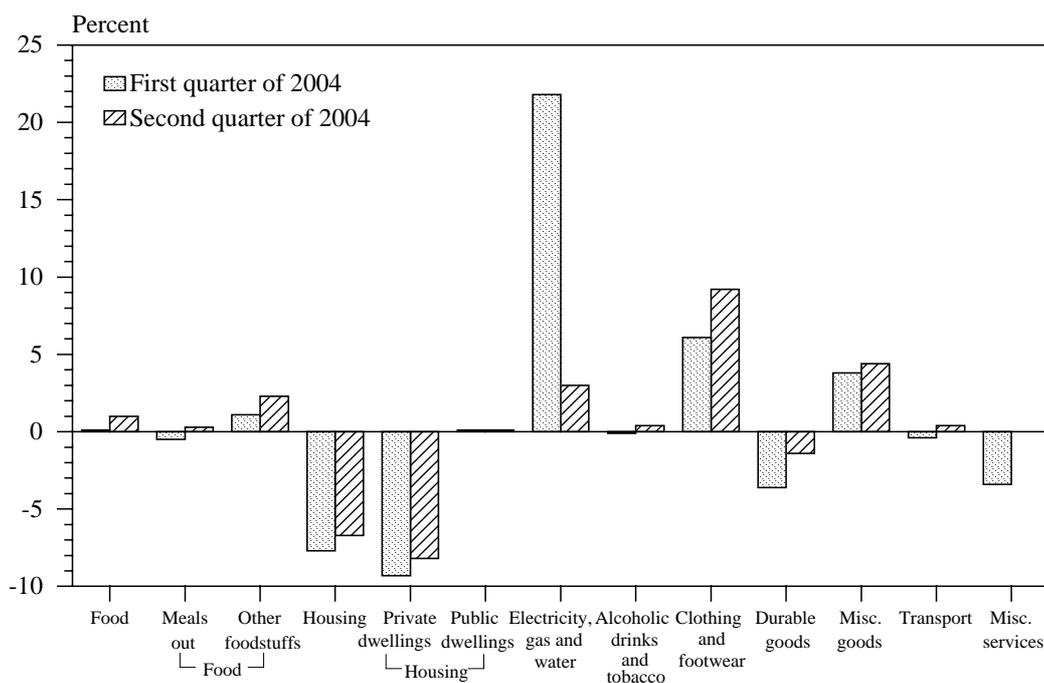


6.5 The prices of durable goods likewise had a smaller decrease in the second quarter of 2004 than in the first quarter, by 1.4% as against 3.6%. This was attributable to the smaller reductions in the prices of computers and telecommunications equipment, watches, cameras and optical goods, furniture, and video and sound equipment (*Diagram 6.5*).

6.6 On the other hand, price increases were observed for most other components. Specifically, the prices of clothing and footwear surged by 9.2% in the second quarter of 2004 over a year earlier, further to a 6.1% rise in the first quarter, owing to an accentuated increase in the prices of outerclothing as well as a renewed rise in the prices of women’s footwear. The prices of miscellaneous goods also rose faster in the second quarter than in the first quarter, by 4.4% as against 3.8%, due to an accelerated increase in the prices of jewellery. The prices of basic foodstuffs moved higher by 2.3% in the second quarter, after a 1.1% rise in the first quarter, partly attributable to a shortage in

supply and hence further lifting in the prices of poultry amid the spread of avian flu in some major supplier economies. As to the charges for meals at restaurants, there was a modest increase of 0.3% in the second quarter, after a 0.5% fall in the first quarter. The charges for miscellaneous services held steady in the second quarter, having fallen by 3.4% in the first quarter. This turnaround mainly reflected the influence of a larger increase in the charges for package tours, as well as a moderated decline in the charges for telephone and other communications services. As for utilities, the charges for electricity, gas and water went up by 3.0% in the second quarter, but this was distinctly slower than the 21.8% leap in the first quarter. To a large extent, the latter increase was distorted by the low base of comparison brought about by the waiver of water and sewage charges⁽²⁾ and rebate of electricity charge⁽³⁾ in the first quarter of last year.

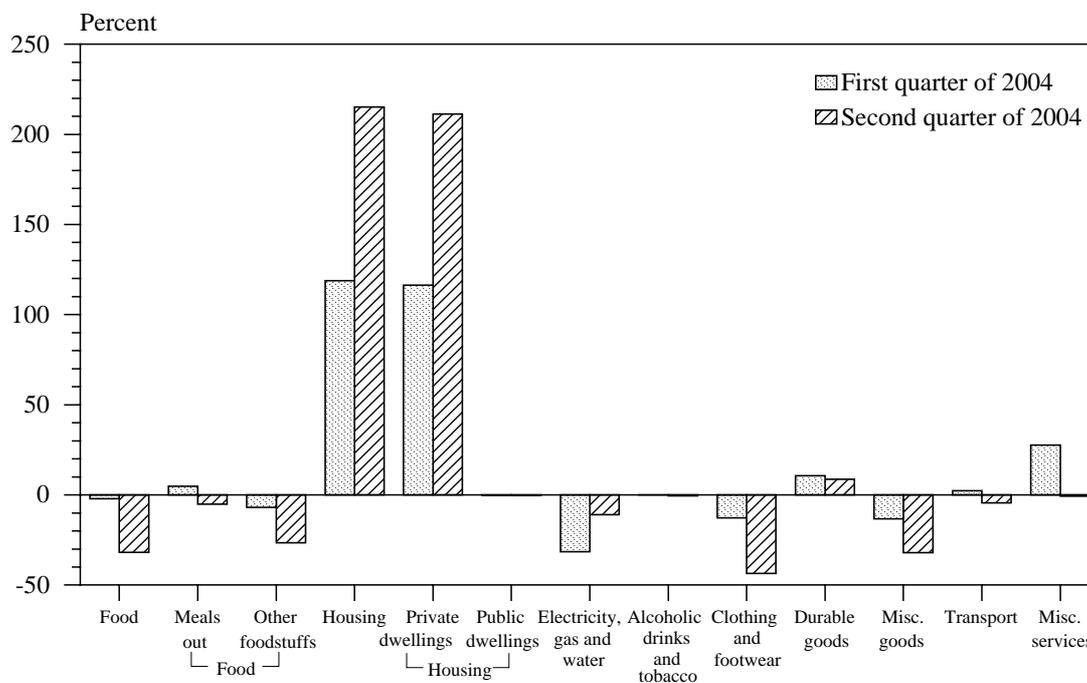
Diagram 6.5 : Composite Consumer Price Index by component (year-on-year rate of change)



6.7 An analysis of the various sub-components contributing to the overall change in the Composite CPI indicates that private housing cost accounted for virtually all of the 0.9% decline in the second quarter of 2004, by virtue of its heavy weighting in the index and the still significant decline. Durable goods, though also with decline in prices, contributed far less to the overall fall in consumer prices, owing to its relatively small weighting and the modest fall in prices. These dampening effects on the Composite CPI were nevertheless largely alleviated by the firming up in the prices of clothing and footwear,

miscellaneous goods and basic foodstuffs. As to the higher charges for electricity, gas and water and for meals at restaurants, and higher transport cost, they also provide some relief to the decline in the Composite CPI, albeit to a lesser extent (*Diagram 6.6*).

Diagram 6.6 : Factors underlying the overall decline in the Composite Consumer Price Index



Note : Positive figures denote contribution to the overall decline in the Composite CPI in the respective quarters, while negative figures represent a relief to the overall decline.

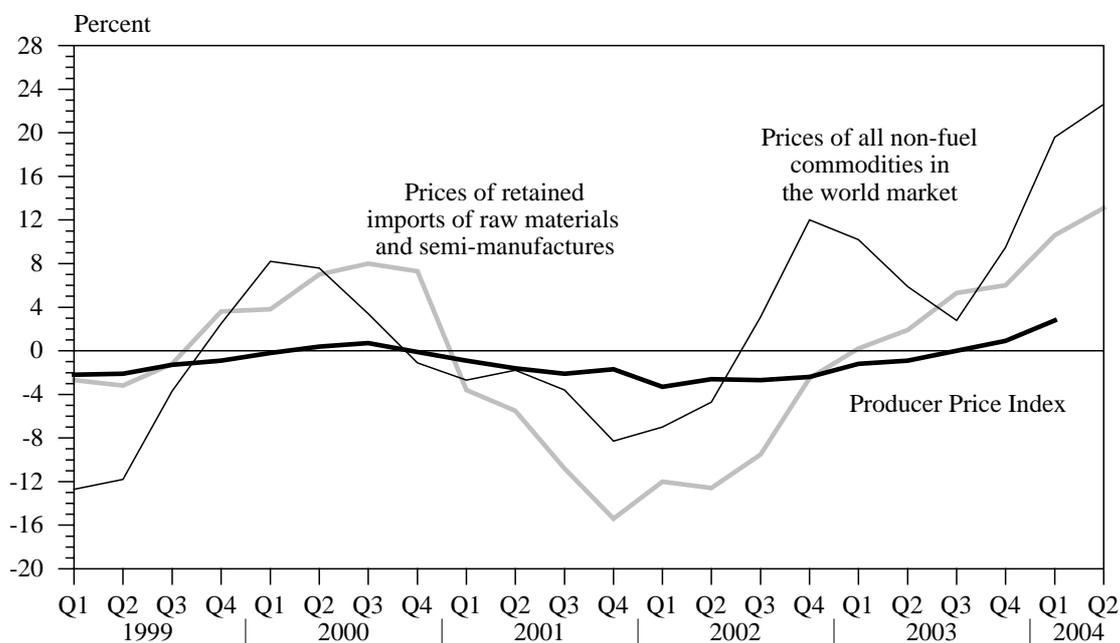
Factor input costs and domestic output prices

6.8 Along with the revival in economic activity, some factor inputs have begun to show renewed pick-up in prices. On *property cost*, the rentals for shopping space, conventional flatted factory and office space were lifted by 9.3%, 5.6% and 3.2% respectively in the second quarter of 2004 from a year earlier. On *capital equipment and material costs*, the prices of retained imports of raw materials and semi-manufactures went higher by 13.1% in the second quarter of 2004 over a year earlier, though the prices of capital goods remained generally stable. As to *labour cost*, earnings and wages were still soft, registering decreases of 1.7% in the first quarter of 2004 and 1.6% in March respectively from a year earlier.

6.9 The *prices of local manufacturing output*, as measured by the Producer Price Index⁽⁴⁾, moved up by 2.8% in the first quarter of 2004 over a

year earlier, following a 0.9% rise in the fourth quarter of 2003. These increases reversed the declining trend seen in the preceding three years or so. Robust export performance as well as higher input costs had prompted more of the local manufacturers to raise their output prices (*Diagram 6.7*). Among the major *industry groups*, increases in output prices were observed for plastic products (by 4.7%), machinery and equipment (3.1%), textiles (1.4%), and fabricated metal products (0.2%). These more than offset the decreases in output prices observed for consumer electrical and electronic products (by 4.5%), wearing apparels (0.4%), and paper products and printing (0.4%).

Diagram 6.7 : Producer Price Index, world commodity prices, and prices of retained imports of raw materials and semi-manufactures (year-on-year rate of change)



6.10 The *prices of output in selected service sectors*, as measured by the respective Producer Price Indices, continued to show mixed performance. Output prices for hotels and boarding houses were 2.8% higher in the first quarter of 2004 than a year earlier, underpinned by the strong growth in inbound tourism. Output prices for maritime and air transport rose by 2.7% and 1.2% respectively, as the charges for cargo forwarding services were raised amid the sustained buoyancy in external trade. Output prices for miscellaneous communications services resumed increase by 3.0%, reflecting mainly the higher charges for international courier services. On the other hand, output prices for land transport fell by 1.9% in the first quarter of 2004 from a year earlier, as the local passenger and freight transport operators lowered their charges. Output prices for telecommunications were slashed by 13.2%, due to further reductions in the charges for international calls and mobile phone

services, as well as downward adjustments in the prices of mobile phone sets and related items.

Import and export prices

6.11 The *prices of imports of goods* reverted to increase since the first quarter of 2004, reflecting mainly the combined effects of a weaker US dollar, firmer world commodity prices especially in respect of fuels and metals, and renewed inflationary pressure in some of the major supplier economies (*Diagrams 6.8 - 6.10*). Reflecting this, the unit value index of imports of goods rose by 0.7% and 2.3% respectively in the first two quarters of 2004 over a year earlier. For the first half of 2004 as a whole, there was an average increase of 1.5%, as against a 0.5% fall in the second half of 2003.

Diagram 6.8 : World commodity prices (year-on-year rate of change)

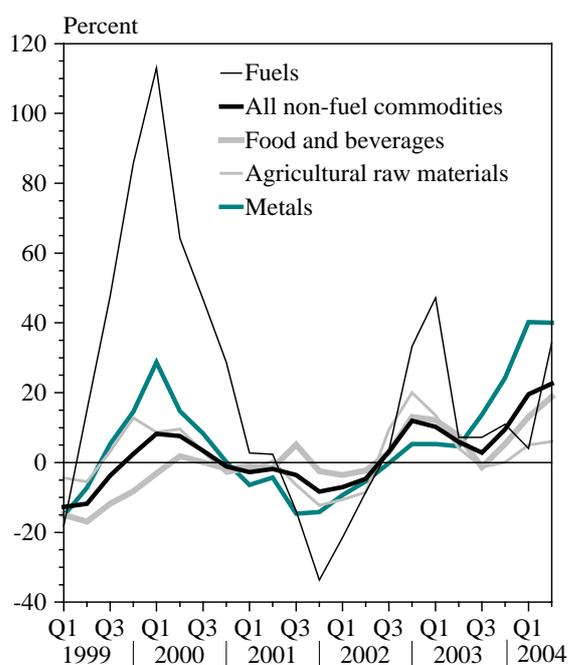
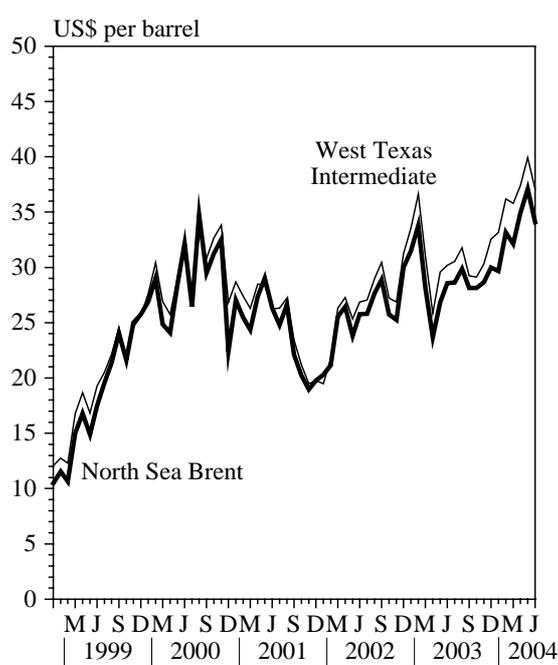


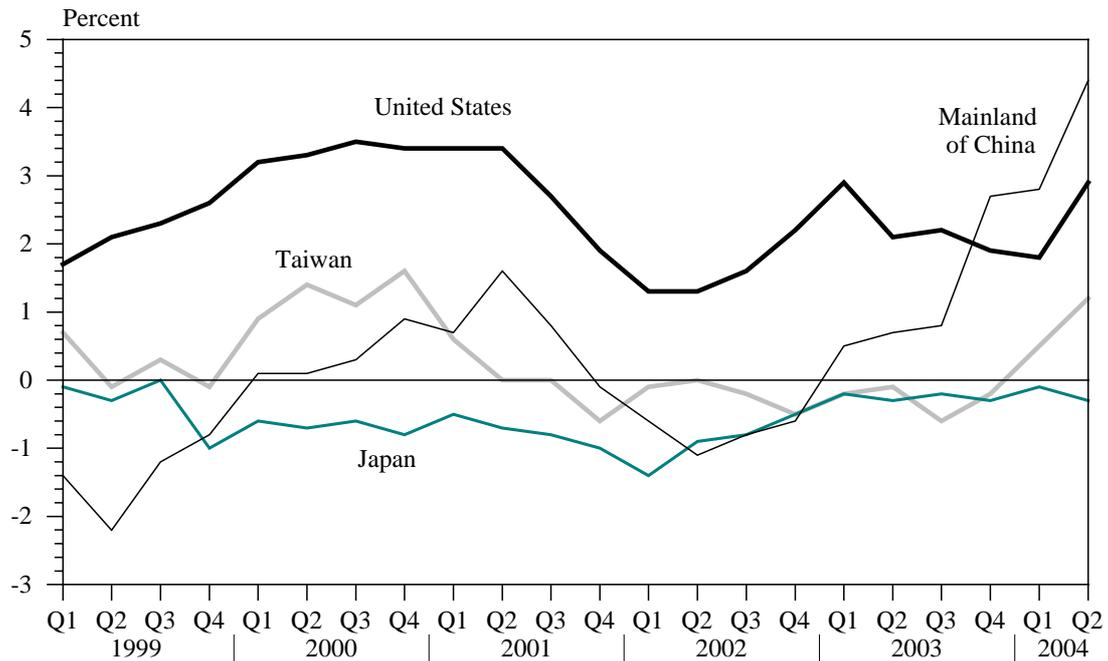
Diagram 6.9 : Spot price of crude oil*



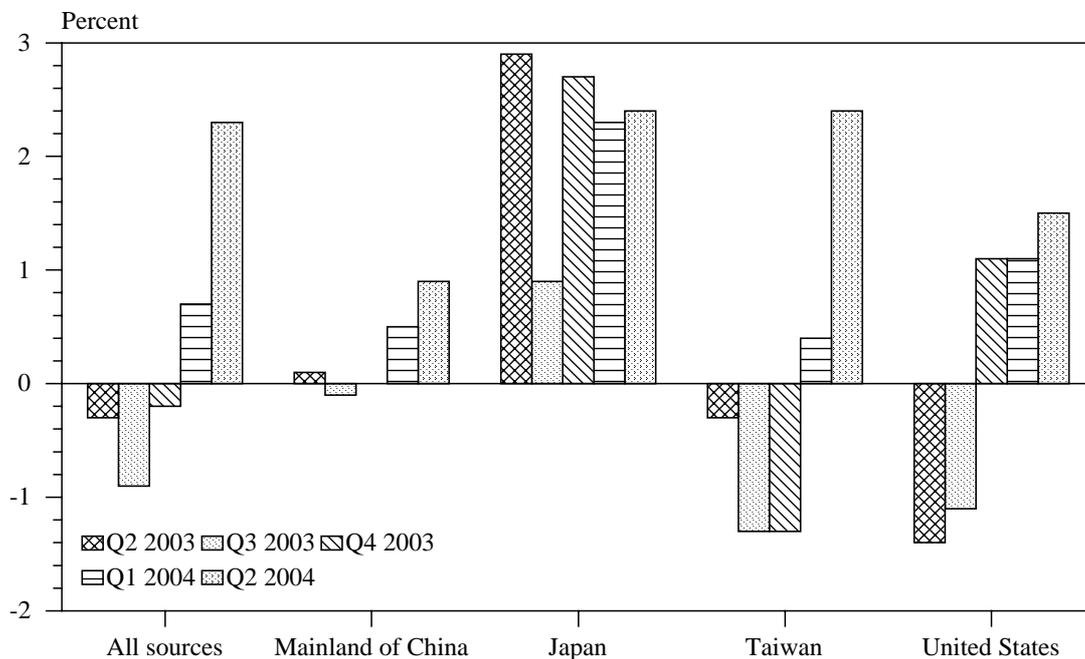
Note : (*) Month-end figures.

6.12 Analysed by major *source*, the prices of goods imported from Japan were up by 2.4% in the second quarter of 2004 from a year earlier, consequential to the strengthening of the Japanese yen against the US dollar over the past year. Concurrently, the prices of goods imported from Taiwan, the United States and the Mainland rose by 2.4%, 1.5% and 0.9% respectively. Apart from increases in the prices of raw materials and semi-manufactures imported from these sources, the prices of foodstuffs imported from the Mainland, and the prices of consumer goods imported from Taiwan and the United States also showed increases of various magnitude (*Diagram 6.11*).

**Diagram 6.10 : Consumer prices in the major supplier economies
(year-on-year rate of change)**



**Diagram 6.11 : Unit value indices of imports of goods by major source
(year-on-year rate of change)**

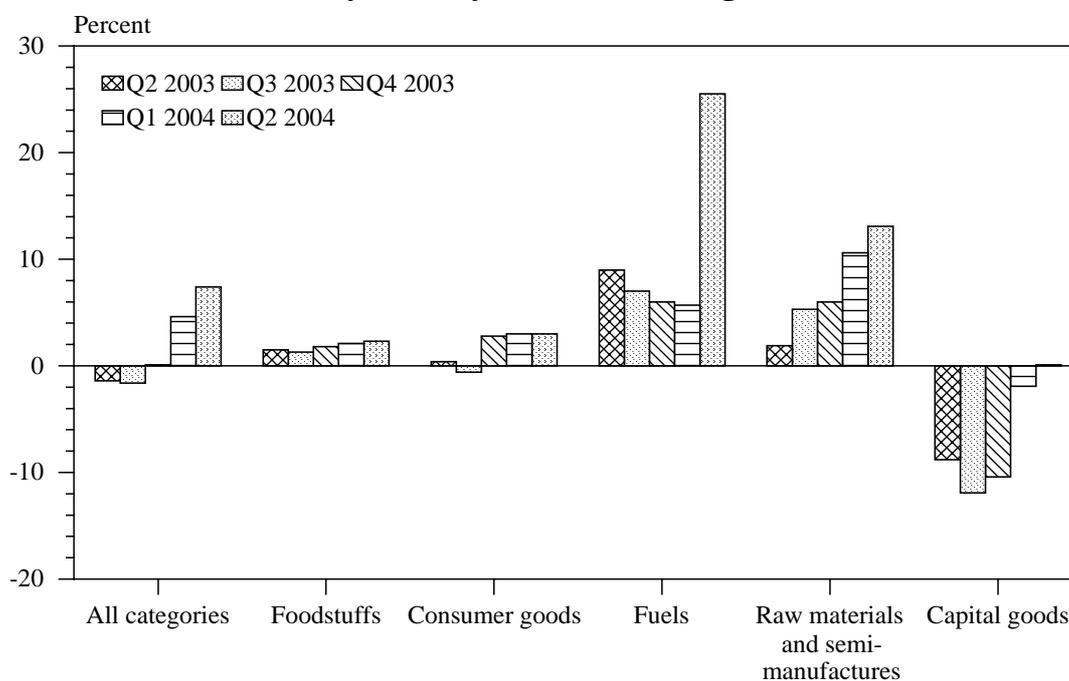


6.13 The prices of retained imports, as indicated by the unit value index of retained imports, rose by 7.4% in the second quarter of 2004 over a year earlier, following a 4.6% rise in the first quarter. For the first half of 2004 as a whole, they went up by 6.1%, in contrast to a 0.7% decline in the second half of 2003.

Latest indications are that the generally higher prices of retained imports were gradually feeding through to the local retail market in recent months.

6.14 The rise in the prices of retained imports was more notable for fuels and for raw materials and semi-manufactures. Analysed by *end-use category*, the prices of retained imports of fuels surged by 25.5% in the second quarter of 2004, in tandem with the sharp escalation in international crude oil prices upon intensified geo-political tension in the Middle East. The prices of retained imports of raw materials and semi-manufactures likewise jumped, by 13.1%, with those of base metals, iron and steel, and plastic materials having more distinct increases. The prices of retained imports of foodstuffs were firmer by 2.3%, due to upward adjustments in the prices of foodstuffs imported from the Mainland and the United States. The prices of retained imports of consumer goods went up by 3.0%, mainly due to higher import prices of many major consumer items. As to capital goods, the prices of retained imports were relatively stable, rising by only 0.1%, attributable to an increase in import prices of transport equipment and construction machinery (*Diagram 6.12*).

Diagram 6.12 : Unit value indices of retained imports by major end-use category (year-on-year rate of change)

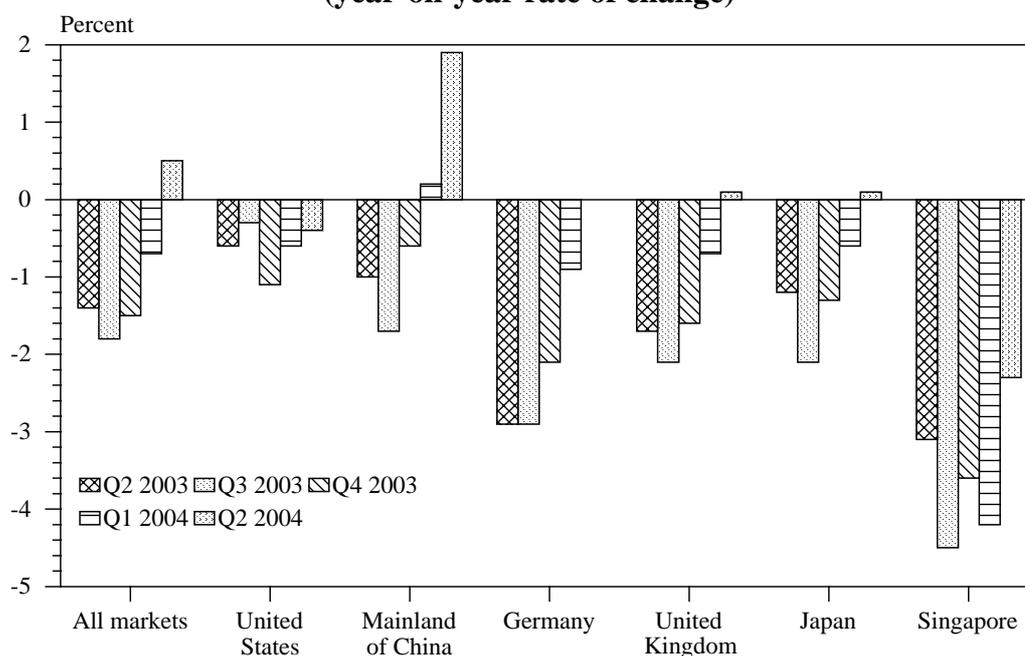


6.15 The *prices of total exports of goods*, as measured by the unit value index of total exports of goods, edged up by 0.5% year-on-year in the second quarter of 2004. This came after a 0.7% decrease in the first quarter, and was the first increase since fourth quarter of 2000. Within the total, the prices of

re-exports and domestic exports moved up by 0.5% and 0.2% respectively in the second quarter. For the first half of 2004 as a whole, the prices of total exports were still slightly down by 0.1%, comprising decreases of 0.1% and 0.2% respectively in the prices of re-exports and domestic exports. This decrease was nevertheless much smaller than the 1.6% fall in the second half of 2003.

6.16 Analysed by major *market* and on a year-on-year comparison, the prices of total exports of goods generally had either moderated declines or enlarged increases. Indicating this, the prices of total exports of goods to Singapore, though still trending downwards, showed a narrower decrease of 2.3% in the second quarter of 2004. This was partly related to the influence of reduced decline in the prices of capital goods, and of raw materials and semi-manufactures exported to the market. The prices of total exports of goods to the United States edged down by 0.4%, along with an upturn in the prices of capital goods exported to this market. The prices of total exports of goods to Germany bottomed out to virtually nil change and those to Japan turned up to a 0.1% increase, with a rise in the prices of consumer goods exported largely offsetting the decreases in those of other major export categories. The prices of total exports of goods to the United Kingdom also rose back by 0.1%, on account of a pick-up in the prices of raw materials and semi-manufactures exported to the market. For the similar reason, the prices of total exports of goods to the Mainland moved higher by 1.9% (*Diagram 6.13*).

Diagram 6.13 : Unit value indices of total exports of goods by major market (year-on-year rate of change)



6.17 With the prices of total exports of goods rising by a smaller extent than the prices of imports of goods, the *terms of trade in goods*⁽⁵⁾ for Hong Kong fell by another 1.8% in the second quarter of 2004 over a year earlier, after a 1.5% decline in the first quarter. For the first half of 2004 as a whole, there was an average decrease of 1.6%, as compared to a 1.1% fall in the second half of 2003 (*Diagrams 6.14 and 6.15*).

Diagram 6.14 : Unit value indices of total exports of goods and imports of goods (year-on-year rate of change)

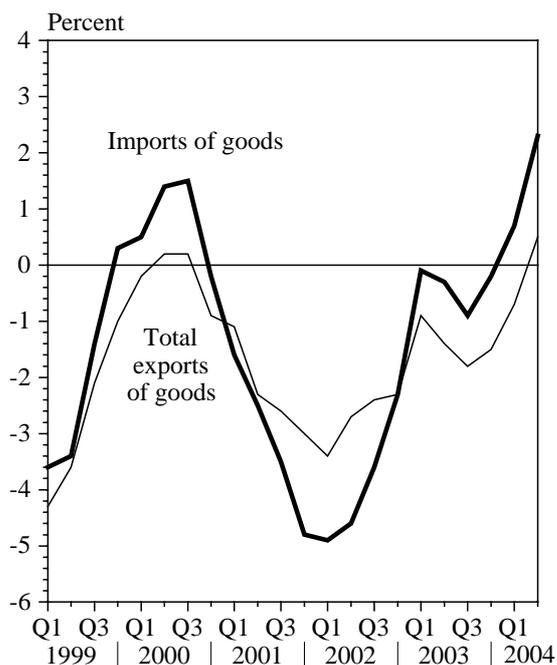
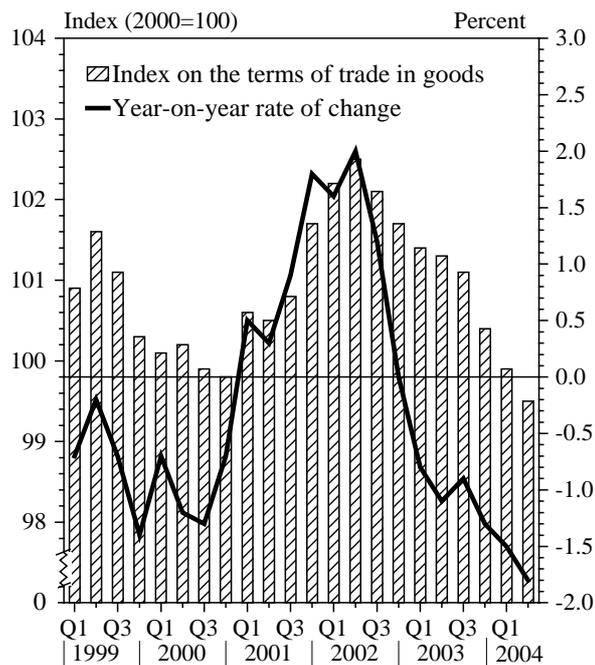


Diagram 6.15 : Terms of trade in goods



GDP deflator

6.18 The *GDP deflator*⁽⁶⁾, as a broad measure of overall price change in the economy, continued on a moderating downtrend since the latter part of 2003. On a year-on-year comparison, the GDP deflator decreased by 2.9% in the second quarter of 2004, after a 4.0% drop in the first quarter. The smaller decrease reflected the combined influence of a tapered decline in the price deflator for private consumption expenditure, a faster increase in the price deflator for gross domestic fixed capital formation, and an improvement in the terms of trade in services (*Diagram 6.16*).

6.19 Within the GDP deflator, the *domestic demand deflator* and the *total final demand deflator* rose back by 0.2% and 0.4% respectively in the second quarter of 2004, arresting the declines of 0.9% and 1.1% in the first quarter. This reflected renewed domestic cost pressure, in tandem with the sustained

pick-up in economic activity. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator edged down by 1.0% in the second quarter of 2004, having fallen by 0.1% in the first quarter (*Diagram 6.17*).

Diagram 6.16 : GDP deflator, total final demand deflator and domestic demand deflator (year-on-year rate of change)

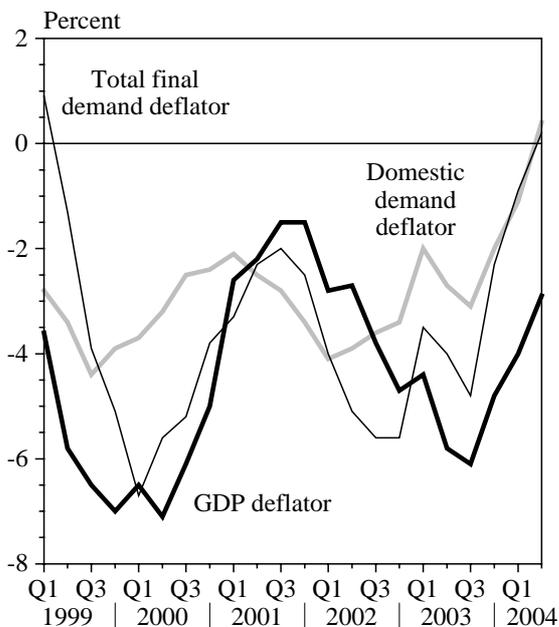
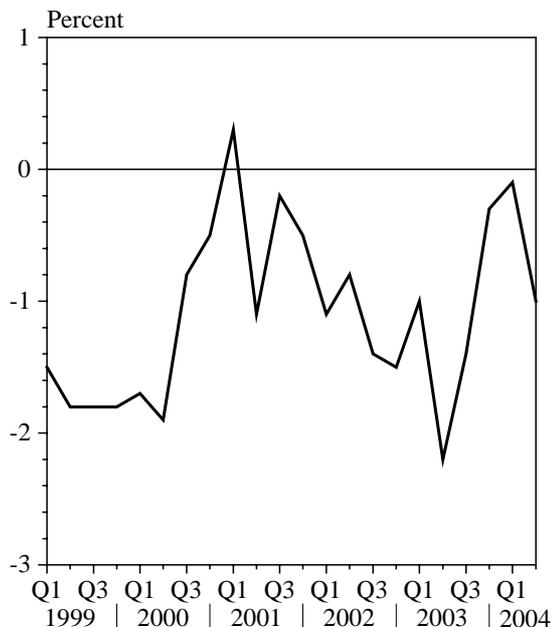


Diagram 6.17 : GDP deflator (seasonally adjusted quarter-to-quarter rate of change)



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) 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) 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.
- (5) 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.
- (6) 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 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.

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Table 1.1 : Gross Domestic Product and its main expenditure components and the main price indicators (year-on-year rate of change (%))

	2002 [#]	2003 [#]	2003				2004	
			Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	Q2 ⁺
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	-1.2	-0.9	-3.2 (-1.1)	-4.1 (-0.8)	0.1 (2.8)	3.7 (2.9)	6.0 (1.0)	11.0 (4.2)
Government consumption expenditure	2.5	1.9	1.0 (0.6)	0.5 (0.5)	0.5 (1.2)	5.5 (3.0)	5.4 (0.5)	* (-4.6)
Gross domestic fixed capital formation	-4.5	0.1	4.2 (N.A.)	-5.3 (N.A.)	* (N.A.)	1.9 (N.A.)	5.5 (N.A.)	13.2 (N.A.)
<i>of which :</i>								
Building and construction	-1.1	-7.0	-3.2	-8.5	-6.6	-9.9	-11.6	-9.4
Machinery, equipment and computer software	-7.6	6.5	12.8	-1.1	5.6	9.3	16.0	26.1
Total exports of goods	8.7	14.2	19.1 (3.4)	14.3 (1.9)	10.0 (1.7)	14.7 (6.5)	15.0 (3.3)	18.7 (5.8)
Imports of goods ^(a)	7.9	13.1	18.8 (3.0)	10.9 (1.1)	8.2 (2.4)	15.7 (7.5)	16.3 (3.4)	20.3 (5.5)
Exports of services	11.7	7.1	14.3 (2.3)	-9.5 (-18.4)	10.4 (33.8)	11.8 (-1.0)	12.6 (1.8)	31.3 (-1.3)
Imports of services	3.7	-4.6	-5.4 (-5.8)	-16.8 (-14.3)	-0.3 (23.2)	3.1 (3.4)	4.1 (-4.8)	30.1 (7.0)
Gross Domestic Product	1.9	3.2	4.4 (-0.7)	-0.6 (-2.6)	4.0 (6.8)	4.9 (1.4)	7.0 (1.2)	12.1 (2.6)
<i>Change in the main price indicators (%)</i>								
GDP deflator	-3.6	-5.3	-4.4 (-1.0)	-5.8 (-2.2)	-6.1 (-1.4)	-4.8 (-0.3)	-4.0 (-0.1)	-2.9 (-1.0)
Composite Consumer Price Index^(b)	-3.0	-2.6	-2.0 (-0.1)	-2.5 (-1.1)	-3.6 (-1.9)	-2.3 (0.8)	-1.8 (0.3)	-0.9 (*)
Change in nominal GDP (%)	-1.8	-2.2	-0.1	-6.3	-2.2	-0.2	2.5	8.9

Notes : (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.

(#) Revised figures.

(+) Preliminary figures.

() Figures in parentheses denote seasonally adjusted quarter-to-quarter percentage rate of change.

(*) 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.

Table 2.1 : Hong Kong's merchandise trade performance
(year-on-year rate of change in real terms(%))

	Total exports of goods	<i>Of which :</i>				Imports of goods	<i>Of which :</i>	
		Re-exports	Domestic exports		Retained imports			
2003 Annual	14.0	16.1	-7.4		12.8	5.8		
Q1	19.1 (3.4)	22.3 (4.0)	-12.0 (-3.0)		18.7 (2.9)	11.5 (0.4)		
Q2	14.3 (1.9)	17.0 (2.3)	-12.6 (-2.5)		10.6 (0.9)	-1.9 (-2.1)		
Q3	9.8 (1.5)	11.3 (1.2)	-5.4 (5.6)		7.9 (2.6)	0.6 (6.0)		
Q4	14.2 (6.2)	15.4 (6.7)	-0.4 (-0.2)		15.0 (7.0)	14.1 (7.9)		
2004 Q1	14.8 (3.7)	15.9 (4.2)	0.7 (-2.6)		15.5 (3.2)	14.8 (0.9)		
Q2	18.0 (5.4)	19.0 (5.6)	5.1 (2.1)		19.8 (5.6)	21.8 (5.6)		

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

Table 2.2 : Total exports of goods by major region
(year-on-year rate of change in real terms (%))

		East Asia	North America	European Union ^(a)
2003	Annual	20.9	-1.4	13.4
	Q1	23.6	9.1	15.9
	Q2	20.9	-3.3	18.6
	Q3	17.9	-6.3	10.5
	Q4	21.7	-1.6	10.0
2004	Q1	18.6	4.3	15.0
	Q2	21.8	7.2	17.2

Note : (a) Figures are based on the expanded coverage of the European Union with effect from 1 May 2004 and are suitably adjusted to enable year-on-year comparison.

Table 2.3 : Visible and invisible trade balance
(\$ billion at current market prices)

		Total exports		Imports		Trade balance		
		Goods	Services	Goods	Services	Goods	Services	Combined
2003	Annual	1,749.1	351.9	1,794.1	196.1	-45.0	155.8	110.8
	Q1	383.4	83.0	399.4	47.8	-16.0	35.2	19.2
	Q2	419.3	67.9	429.1	39.9	-9.8	28.0	18.2
	Q3	467.5	96.6	468.9	54.2	-1.4	42.4	41.0
	Q4	478.8	104.4	496.6	54.2	-17.8	50.2	32.4
2004	Q1	434.4	93.5	467.2	51.4	-32.8	42.1	9.2
	Q2	497.9	92.1	527.3	53.6	-29.4	38.5	9.1

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

Table 2.4 : Major economic indicators of major economies
(year-on-year rate of change in real terms (%))

		Gross Domestic Product	Private consumption expenditure	Investment	Exports of goods and services	Imports of goods and services	Industrial production	Unemployment rate (%)
United States								
2003	Annual	3.0	3.3	5.1	1.9	4.4	0.2	6.0
	Q1	1.9 (1.9)	2.7	-0.4	1.9	6.0	1.3	5.8
	Q2	2.3 (4.1)	3.0	3.1	-1.1	3.8	-1.3	6.1
	Q3	3.5 (7.4)	3.5	7.4	0.8	3.2	-0.6	6.1
	Q4	4.4 (4.2)	3.8	10.3	6.1	4.9	1.5	5.9
2004	Q1	5.0 (4.5)	4.2	10.9	8.4	8.1	2.9	5.6
	Q2	4.8 (3.0)	3.4	10.9	12.3	9.9	5.4	5.6
European Union^(a)								
2003	Annual	0.8	1.3	-0.1	0.8	2.3	0.3	9.1
	Q1	1.3 (1.0)	1.7	-0.2	2.3	4.3	0.7	9.1
	Q2	0.3 (0.5)	1.4	-0.8	-1.3	0.6	-0.6	9.1
	Q3	0.6 (0.5)	1.2	*	0.6	1.6	-0.1	9.1
	Q4	1.0 (0.5)	1.0	0.6	1.7	2.9	1.2	9.1
2004	Q1	1.6 (0.6)	1.6	3.8	4.2	3.9	1.0	9.1
	Q2	2.2 (0.6)	N.A.	N.A.	N.A.	N.A.	2.5	9.1
Mainland of China^(b)								
2003	Annual	9.1	N.A.	N.A.	34.6	39.8	17.0	4.3
	Q1	9.9	N.A.	N.A.	33.4	52.2	17.2	4.1
	Q2	7.9	N.A.	N.A.	34.2	38.2	15.2	4.2
	Q3	9.6	N.A.	N.A.	29.7	34.3	16.6	4.2
	Q4	9.9	N.A.	N.A.	40.5	38.3	17.7	4.3
2004	Q1	9.8	N.A.	N.A.	34.0	42.3	17.7	4.3
	Q2	9.6	N.A.	N.A.	37.2	43.0	17.7	4.3
Japan								
2003	Annual	2.5	0.8	3.1	10.1	5.0	3.3	5.2
	Q1	2.7 (*)	0.9	0.5	12.4	8.2	5.5	5.4
	Q2	2.1 (1.0)	0.7	4.1	6.6	3.5	2.2	5.4
	Q3	1.9 (0.6)	-0.1	2.8	9.9	3.6	1.0	5.2
	Q4	3.1 (1.8)	1.8	5.3	11.6	4.8	4.1	5.1
2004	Q1	5.9 (1.6)	3.5	6.6	15.5	7.6	6.8	4.9
	Q2	4.4 (0.4)	3.4	2.8	17.9	10.6	7.4	4.6

(to be continued on next page)

Table 2.4 : Major economic indicators of major economies (cont'd)
(year-on-year rate of change in real terms (%))

		Gross Domestic Product	Private consumption expenditure	Investment	Exports of goods and services	Imports of goods and services	Industrial production	Unemployment rate (%)
Republic of Korea								
2003	Annual	3.1	-1.4	3.6	15.7	9.7	5.1	3.4
	Q1	3.7	0.3	4.6	15.9	14.2	6.1	3.1
	Q2	2.2	-1.8	3.7	8.4	5.2	3.2	3.4
	Q3	2.4	-1.9	2.6	14.9	7.7	3.2	3.5
	Q4	3.9	-2.2	3.6	23.1	11.7	7.9	3.6
2004	Q1	5.3	-1.4	1.8	26.9	11.8	11.0	3.3
	Q2	5.5	-0.7	4.5	27.2	20.6	12.3	3.5
Taiwan								
2003	Annual	3.2	0.8	-1.6	10.5	7.6	7.1	5.0
	Q1	3.5	0.6	-0.7	10.9	11.7	7.3	5.2
	Q2	-0.1	-1.8	-10.2	3.2	-1.3	1.2	5.1
	Q3	4.2	1.7	-3.4	10.5	3.0	7.2	4.9
	Q4	5.2	2.5	6.7	17.0	17.2	12.7	4.7
2004	Q1	6.3	3.1	13.8	18.6	20.7	14.0	4.6
	Q2	N.A.	N.A.	N.A.	N.A.	N.A.	15.1	4.6
Singapore								
2003	Annual	1.1	-0.5	-3.8	N.A.	N.A.	3.0	4.8
	Q1	1.7	-0.6	-6.4	N.A.	N.A.	6.2	4.5
	Q2	-3.9	-2.5	-9.8	N.A.	N.A.	-6.3	4.6
	Q3	1.7	-0.7	-1.1	N.A.	N.A.	3.4	5.5
	Q4	4.9	1.6	2.3	N.A.	N.A.	9.1	4.5
2004	Q1	7.5	7.9	12.1	N.A.	N.A.	11.0	4.5
	Q2	12.5	11.6	13.3	N.A.	N.A.	20.7	4.5

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change, except those for the United States which are annualised quarter-to-quarter rates of change.

Quarterly unemployment rates are seasonally adjusted, except otherwise specified.

(a) Figures for industrial production in the European Union are based on the coverage of the Union before 1 May 2004.

(b) For the mainland of China, exports and imports of goods and services refer to rates of change of trade in goods only and are expressed in US dollar value terms. Industrial production refers to industrial value added of all state-owned enterprises (SOEs) and those non-SOEs with annual sales of Rmb 5 million or above. Unemployment rate refers to non-seasonally adjusted registered unemployment rate in urban area.

(*) Change of less than 0.05%.

N.A. Not available.

Table 2.5 : Value of total exports of goods by market

	<u>2003</u>			<u>First half of 2004</u>		
	Value (\$Bn)	Share in total (%)	Rate of change (%)	Value (\$Bn)	Share in total (%)	Year-on-year rate of change (%)
All markets	1,742.4	100	11.7	926.3	100	15.5
Mainland of China	742.5	43	21.1	409.8	44	19.3
United States	324.2	19	-2.6	151.4	16	5.2
Japan	94.0	5	12.3	49.8	5	13.3
Germany	56.2	3	15.1	28.8	3	11.6
United Kingdom	57.4	3	5.8	27.8	3	12.3
Taiwan	42.3	2	22.2	24.1	3	22.4
Republic of Korea	35.5	2	16.9	21.6	2	27.5
Singapore	35.7	2	13.0	20.3	2	26.1
Rest of the world	354.6	20	7.1	192.8	21	15.1

**Table 2.6 : Total exports of goods by major market
(year-on-year rate of change in real terms (%))**

		Mainland of China	United States	Japan	United Kingdom	Germany	Taiwan	Singapore	Republic of Korea
2003	Annual	23.1	-1.4	14.2	8.1	18.6	25.4	16.4	20.7
	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
	Q2	21.4	7.2	17.4	13.3	16.9	27.0	30.1	27.5

Table 2.7 : Total exports of goods by major market by major enduse category
(year-on-year rate of change in value terms (%))

		<i>Of which :</i>				
		Total	Foodstuffs	Consumer goods	Raw materials	Capital goods
<i>Mainland of China</i>						
2003	Annual	21.1	-11.1	21.4	18.7	27.6
	Q1	27.3	-26.9	28.7	28.5	30.0
	Q2	20.7	-26.7	23.9	14.1	36.6
	Q3	16.6	-8.9	19.1	10.9	28.1
	Q4	21.2	27.8	16.1	23.8	18.2
2004	Q1	16.0	-10.2	2.7	16.6	21.6
	Q2	22.2	-14.0	2.4	34.2	10.6
<i>United States</i>						
2003	Annual	-2.6	-7.2	-2.7	-5.9	-1.2
	Q1	7.4	-16.0	7.7	-8.8	12.4
	Q2	-5.0	0.1	-6.1	-17.0	3.0
	Q3	-6.9	-20.5	-6.9	-5.4	-7.0
	Q4	-2.8	8.4	-2.2	7.5	-8.2
2004	Q1	3.7	26.6	0.2	7.5	15.9
	Q2	6.6	0.5	6.1	26.1	3.8
<i>Japan</i>						
2003	Annual	12.3	-28.3	9.9	21.0	15.0
	Q1	13.5	-26.3	12.5	28.9	10.5
	Q2	16.8	-30.1	14.6	25.2	19.1
	Q3	11.1	-46.4	7.6	13.4	20.0
	Q4	8.8	-10.1	6.2	19.2	10.8
2004	Q1	9.6	-18.9	1.0	18.7	26.9
	Q2	17.2	-7.2	14.6	35.8	14.5
<i>United Kingdom</i>						
2003	Annual	5.8	-16.1	6.4	-9.9	8.5
	Q1	7.6	-9.6	13.6	-13.3	-6.6
	Q2	6.2	7.1	4.9	-14.1	18.6
	Q3	4.1	-23.6	4.1	-10.4	9.3
	Q4	6.1	-29.4	5.3	-1.5	13.6
2004	Q1	12.4	-18.8	11.8	-6.1	20.7
	Q2	12.2	20.2	9.7	58.3	11.8

**Table 2.7 : Total exports of goods by major market by
major enduse category (cont'd)**
(year-on-year rate of change in value terms (%))

		<i>Of which :</i>				
		Total	Foodstuffs	Consumer goods	Raw materials	Capital goods
<i>Germany</i>						
2003	Annual	15.1	13.3	17.9	32.7	4.6
	Q1	23.2	39.5	26.4	63.2	8.4
	Q2	22.0	28.8	28.3	26.1	6.3
	Q3	10.6	-10.8	11.8	16.6	6.1
	Q4	8.4	-1.9	10.3	31.7	-0.6
2004	Q1	6.6	-25.9	4.2	-4.3	16.0
	Q2	16.7	46.1	12.1	67.6	16.6
<i>Taiwan</i>						
2003	Annual	22.2	26.6	8.0	37.0	14.6
	Q1	25.0	32.8	15.3	30.4	25.9
	Q2	17.0	52.1	4.7	26.1	14.6
	Q3	15.0	-5.6	-0.7	31.5	6.7
	Q4	31.9	30.5	13.1	58.7	13.1
2004	Q1	20.1	-14.4	12.4	31.1	11.3
	Q2	24.8	-19.2	22.7	37.9	9.0
<i>Singapore</i>						
2003	Annual	13.0	-9.5	4.4	-3.7	26.7
	Q1	6.2	-12.8	11.9	-17.4	14.5
	Q2	9.5	-5.4	1.1	-13.2	27.2
	Q3	18.5	-24.3	4.7	-0.2	37.3
	Q4	16.9	4.4	1.1	16.7	27.5
2004	Q1	25.0	7.2	20.9	50.8	18.8
	Q2	27.1	4.6	34.2	56.0	13.2
<i>Republic of Korea</i>						
2003	Annual	16.9	6.9	4.2	24.9	17.0
	Q1	10.9	-13.5	2.7	23.1	3.0
	Q2	23.6	16.0	5.0	31.4	28.5
	Q3	17.7	-21.9	7.0	20.3	25.2
	Q4	15.8	50.2	2.2	24.9	14.1
2004	Q1	29.1	33.9	6.7	34.2	40.6
	Q2	26.0	-2.3	27.9	28.8	20.5

**Table 2.8 : Total exports of goods by major commodity group
(year-on-year rate of change in real terms (%))**

		Electronic components	Telecom-munications and sound recording and reproducing equipment	Clothing	Textiles	Toys	Office machines and equipment
2003	Annual	39.8	27.2	2.5	3.4	2.3	-5.7
	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
	Q2	37.0	50.5	11.1	4.7	*	1.2

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

**Table 2.9 : Re-exports by major market
(year-on-year rate of change in real terms (%))**

		Mainland of China	United States	Japan	Germany	United Kingdom	Taiwan	Republic of Korea	Singapore
2003	Annual	25.6	-0.1	14.6	18.9	8.9	32.7	21.2	17.1
	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
	Q2	22.6	7.5	18.2	18.7	15.2	25.2	27.1	28.7

**Table 2.10 : Domestic exports by major market
(year-on-year rate of change in real terms (%))**

		United States	Mainland of China	United Kingdom	Germany	Taiwan	Japan	Singapore
2003	Annual	-9.6	-10.5	3.4	15.8	-19.1	3.5	8.2
	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
	Q2	4.2	-1.3	0.6	0.2	47.5	-5.1	47.6

Table 2.11 : Imports of goods by major source
(year-on-year rate of change in real terms (%))

		Mainland of China	Japan	Taiwan	United States	Singapore	Republic of Korea
2003	Annual	10.3	14.4	9.0	11.1	24.3	21.6
	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
	Q2	17.8	26.6	30.0	16.5	27.1	18.5

Table 2.12 : Retained imports by end-use category
(year-on-year rate of change in real terms (%))

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2003	Annual	1.5	1.7	6.0	8.5	-1.4
	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
	Q2	21.6	19.6	25.6	15.6	23.7

Table 2.13 : Retained imports of capital goods by broad type
(year-on-year rate of change in real terms (%))

		Industrial machinery for manufacturing use	Construction machinery	Office equipment	Tele- communications equipment	Other capital goods
2003	Annual	-7.3	-19.1	6.5	12.4	19.8
	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
	Q2	11.8	10.7	19.4	76.0	-6.7

Table 2.14 : Exports of services by major service group
(year-on-year rate of change in real terms (%))

		<i>Of which :</i>					
		Exports of services	Trade-related services ^(a)	Transportation services	Travel services	Finance, business and other services	
2003	Annual	7.1	16.7	*	3.5	3.6	
	Q1	14.3 (2.3)	20.1	8.0	31.7	1.5	
	Q2	-9.5 (-18.4)	16.0	-12.6	-53.6	-0.5	
	Q3	10.4 (33.8)	14.1	-0.9	28.6	5.7	
	Q4	11.8 (-1.0)	17.5	5.7	12.6	7.6	
2004	Q1	12.6 (1.8)	18.6	13.4	4.0	8.9	
	Q2	31.3 (-1.3)	19.6	31.5	125.5	8.5	

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

(a) Comprising mainly offshore trade.

(*) Change of less than 0.05%.

Table 2.15 : Imports of services by major service group
(year-on-year rate of change in real terms (%))

		<i>Of which :</i>					
		Imports of services	Travel services	Transportation services	Trade-related services	Finance, business and other services	
2003	Annual	-4.6	-10.6	-3.0	15.1	0.3	
	Q1	-5.4 (-5.8)	-12.5	0.9	18.4	-1.1	
	Q2	-16.8 (-14.3)	-26.6	-17.6	14.4	-3.0	
	Q3	-0.3 (23.2)	-1.5	-3.0	12.5	0.8	
	Q4	3.1 (3.4)	-2.6	7.8	15.9	4.1	
2004	Q1	4.1 (-4.8)	-0.7	11.4	16.9	2.6	
	Q2	30.1 (7.0)	43.0	37.3	17.9	4.1	

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

Table 2.16 : Hong Kong's balance of payments account
(\$ billion at current market prices)

	<u>2002</u> [#]	<u>2003</u> [#]		<u>2003</u>			<u>2004</u>
			Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account^(a)	98.2	130.3	31.0	16.3	42.9	40.0	15.6
Trade in goods	-39.4	-45.0	-16.0	-9.8	-1.4	-17.8	-32.8
Trade in services	135.7	155.8	35.2	28.0	42.4	50.2	42.1
External factor income flows	16.7	34.1	15.9	1.5	5.6	11.1	10.1
Current transfers	-14.8	-14.7	-4.1	-3.5	-3.7	-3.5	-3.8
Capital and financial account	-151.2	-151.5	-38.4	-6.3	-49.8	-57.1	-33.4
Net change in capital transfers	-15.7	-7.9	-1.9	-2.8	-1.2	-2.0	0.2
Net change in financial non-reserve assets	-154.0	-135.9	-26.0	-25.2	-61.1	-23.6	1.9
<i>of which :</i>							
Direct investment	-60.7	76.2	3.0	34.8	20.3	18.1	-103.9
Portfolio investment	-302.5	-237.1	-54.8	-25.9	-81.0	-75.5	-156.4
Financial derivatives	51.6	79.6	12.1	22.0	37.8	7.6	12.1
Other investment	157.6	-54.6	13.6	-56.2	-38.2	26.2	250.0
Net change in reserve assets ^(b)	18.5	-7.6	-10.4	21.7	12.5	-31.4	-35.5
Net errors and omissions	52.9	21.2	7.3	-10.0	6.8	17.0	17.8
Overall balance of payments	-18.5	7.6	10.4	-21.7	-12.5	31.4	35.5

Notes : (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.

(#) Revised figures.

Table 3.1 : GDP by major economic sector^(a)
(year-on-year rate of change in real terms (%))

	Annual	<u>2003[#]</u>				<u>2004[#]</u>
		Q1	Q2	Q3	Q4	Q1
Manufacturing	-9.1	-8.8	-12.5	-9.1	-6.1	1.8
Construction	-5.0	-2.9	-7.0	-3.0	-6.9	-8.3
Services ^(b)	4.5	5.8	0.7	4.9	6.4	8.4
<i>Of which :</i>						
Wholesale, retail and import/export trades, restaurants and hotels	10.0	14.8	5.9	8.3	11.2	12.7
Transport, storage and communications	1.2	3.8	-6.2	1.5	5.3	13.3
Finance, insurance, real estate and business services	4.9	2.7	1.6	6.6	8.6	12.0
Community, social and personal services	*	0.3	-3.1	1.9	1.0	2.7

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 Chapter 3.

(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%.

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

	Annual	2003				2004
		Q1	Q2	Q3	Q4	Q1
<u>Service sector</u>						
Import/export trade	6.5	2.4	4.3	6.5	12.1	14.3
Wholesale trade	-5.0	-3.5	-13.7	-4.5	1.7	5.7
Retail trade	-2.3	-2.6	-11.0	-0.4	5.4	8.4
Restaurants	-9.7	-8.6	-19.2	-7.1	-4.2	3.7
Hotels	-19.7	-2.7	-64.3	-9.5	-3.3	13.0
Banking	*	-1.3	2.3	5.8	-5.9	13.8
Finance (except banking)	17.3	-5.7	-5.5	30.9	53.4	76.0
Insurance	19.1	22.4	14.4	25.4	15.5	29.1
Real estate	6.2	-4.3	-12.1	18.3	25.5	25.0
Business services	0.5	0.2	-3.7	0.8	4.8	7.6
Transport	0.5	5.6	-10.9	0.3	6.6	13.4
Storage	-4.5	-7.8	-8.3	-3.7	1.7	17.6
Communications	-2.4	1.6	-4.9	-3.1	-3.0	-3.7
Film entertainment	2.3	-1.0	-5.6	12.1	3.9	4.2

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

Table 3.3 : Indices of Property Prices and Rentals

	<u>Residential property</u>				<u>Office space</u>				<u>Shopping space</u>				<u>Conventional flatted factory space</u>			
	Price index ^(a) (1999=100)		Rental index ^(b) (1999=100)		Price index (1999=100)		Rental index ^(b) (1999=100)		Price index (1999=100)		Rental index ^(b) (1999=100)		Price index (1999=100)	Rental index ^(b) (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	(*)	67.5	(10)	73.1	(2)	95.3	(13)	87.4	(3)	73.7	(4)	74.3	(3)
2004 Q1 [#]	73.6	(14)	74.8	(4)	86.6	(28)	74.6	(2)	108.1	(13)	89.2	(2)	79.7	(8)	76.9	(3)
Q2 [^]	76.0	(3)	77.6	(4)	95.8	(11)	76.7	(3)	110.0	(2)	91.9	(3)	82.5	(4)	77.9	(1)

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.

Table 3.4 : Agreements for sale and purchase of property

		Residential property ^(a)		Number Non-residential Property		Total		Residential property ^(a)		Total value (\$Bn) Non-residential Property		Total	
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	H1	52 360	(82)	11 453	(77)	63 813	(81)	141.6	(149)	35.7	(159)	177.3	(151)
	Q1	28 624	(99)	5 735	(72)	34 359	(94)	77.3	(158)	16.7	(140)	94.0	(155)
	Q2	23 736	(66)	5 718	(82)	29 454	(68)	64.3	(138)	19.0	(180)	83.3	(147)
			<-17>		<*>		<-14>		<-17>		<14>		<-11>

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.

Table 3.5 : Property transfer assignments and mortgage arrangements

		Property transfer assignments ^(a)				Mortgages other than building mortgages ^(b)	
		Number		Total value (\$Bn)		Number	
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	H1	69 861	(34)	151.5	(74)	60 358	(21)
	Q1	31 060	(9)	61.9	(38)	25 712	(-5)
	Q2	38 801	(64)	89.6	(112)	34 646	(52)
			<25>		<45>		<35>

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.

Source : Land Registry.

**Table 3.6 : Completions of new property by the private sector
(‘000m² of internal floor area)**

Usage	First half of 2003	First half of 2004 [^]	Year-on-year rate of change (%)	Twelve months ending June 2003	Twelve months ending June 2004 [^]	Year-on-year rate of change (%)
Residential ^(a)	10 236	9 931	-3	32 865	26 092	-21
Commercial	266	55	-79	424	206	-52
<i>Of which:</i>						
Office space	191	50	-74	251	158	-37
Other commercial premises (mainly shopping space) ^(b)	75	5	-93	173	48	-72
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 : Figures may not add up to the corresponding total due to rounding.

- (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.

**Table 3.7 : Building plans with consent to
commence work in the private sector
(‘000m² of usable floor area)**

	First half of 2003	First Half of 2004	Year-on-year rate of change (%)	Twelve months ending June 2003	Twelve months ending June 2004	Year-on-year rate of change (%)
Residential ^(a)	595 <17 971>	441 <12 030>	-26 <-33>	932 <25 813>	884 <23 211>	-5 <-10>
Commercial	48	49	3	282	201	-29
Industrial ^(b)	0	0	--	75	1	-99
Others	185	279	50	263	537	105
Total	828	768	-7	1 553	1 624	5

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 second quarter of 2004, for building plans with consent to commence work in respect of private residential property, 36% in terms of units or 30% in terms of total usable floor area were re-application cases. For the first half of 2004, the corresponding proportions were 29% and 27%.

(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.

**Table 3.8 : Number of incoming visitors by place of residence
(year-on-year rate of change (%))**

	Annual	2003				2004		
		Q1	Q2	Q3	Q4	H1	Q1	Q2
All sources	-6	20	-58	4	7	68	15	208
Mainland of China	24	53	-26	32	33	75	37	149
Taiwan	-24	-3	-74	-8	-12	38	-13	221
South and Southeast Asia	-29	*	-81	-16	-12	96	2	450
Japan	-38	-2	-86	-36	-29	28	-32	440
United States	-32	-7	-84	-19	-14	89	3	522
United Kingdom	-26	2	-78	-22	-13	66	5	391
Others	-23	1	-72	-14	-7	64	1	280

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.

Table 3.9 : Stock of hotel rooms and occupancy rate

		Number of hotel rooms as at end of period		Average hotel room occupancy rate during the period (%)
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
	Q2	42 931	(--)	85
	Apr	42 714	(--)	86
	May	42 873	(--)	83
	Jun	42 931	(--)	86

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 and second quarters of 2004 are not strictly comparable to those for 2003.

(--) Not applicable.

Source : Hong Kong Tourism Board.

**Table 3.10 : Number of Hong Kong resident departures by destination
(year-on-year rate of change (%))**

	Annual	2003				2004		
		Q1	Q2	Q3	Q4	H1	Q1	Q2
All destinations	-6	-4	-21	*	2	20	3	41
Mainland of China	-6	-3	-21	*	2	21	4	42
Macau	-5	-7	-15	3	-3	8	-1	19
South and Southeast Asia	1	-10	-14	15	12	23	8	41
North Asia	-10	-18	-21	2	-4	29	6	59
Americas ^(a)	-19	-7	-54	-14	*	34	-2	112
Taiwan	-23	-4	-76	-7	-11	59	-11	388
Europe	-7	-11	-30	4	9	33	14	58
Australia and New Zealand	-7	-7	-8	-14	1	8	2	18
Others	-4	-21	-20	5	21	32	28	37

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

(*) Change of less than 0.5%.

Source : Hong Kong Tourism Board.

**Table 4.1 : Trade-weighted Effective Exchange Rate Index (EERI)
of the Hong Kong dollar**

Average for the month		Trade-weighted Nominal EERI (Jan 2000 = 100)		Trade-weighted Real EERI (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)	85.2	(-1.4)
	Jun	98.8	(0.2)	84.7	(-0.6)

Note : () % change over three months earlier. Positive change denotes appreciation; while negative change denotes depreciation of the Hong Kong dollar.

Table 4.2 : Hong Kong dollar deposits with authorized institutions

% change during the quarter		Demand deposits	Savings deposits	Time deposits ^{(a)(b)}	Total Hong Kong dollar deposits ^(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
	Q2	2.8	-1.7	0.9	-0.2
Total amount at the end of June 2004 (HK\$Bn)		250	952	682	1,884
% change over a year earlier		58.9	29.5	-28.2	2.3

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

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

Table 4.3 : 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
	Q2	3.2	-3.0	1.0
Total amount at the end of June 2004 (HK\$Bn)		1,118	567	1,686
% change over a year earlier		8.5	18.9	11.8

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

Table 4.4 : Total deposits by major type of authorized institution

% change during the quarter		With <u>licensed banks</u>			Sub- total	With restricted licence <u>banks</u>	With deposit- taking <u>companies</u>	Total
		Demand deposits	Savings deposits	Time deposits		Time deposits	Time deposits	
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	-3.0	-0.3
	Q2	3.1	-0.1	0.2	0.3	4.4	-1.9	0.4
Total amount at the end of June 2004 (HK\$Bn)		312	1,322	1,889	3,523	41	5	3,570
% change over a year earlier		55.2	28.1	-9.0	6.5	16.6	-15.6	6.5

Table 4.5 : 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	*
	Q2	2.3	(3.8)	2.6	*	0.4	*	0.5
Total amount at the end of June 2004 (HK\$Bn)		385	(394)	448	2,069	3,828	2,084	3,876
% change over a year earlier		39.0	(39.3)	39.3	2.8	6.8	2.6	6.9

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

() 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.

(*) Change of less than 0.05%.

Table 4.6 : Hong Kong dollar external claims and liabilities held by Hong Kong's authorized institutions

As at the end of	Claims on banks outside Hong Kong (HK\$Bn)				Liabilities to banks outside Hong Kong (HK\$Bn)				Net liabilities to banks outside Hong Kong (HK\$Bn)		
	Overall		Involving banks in the Mainland		Overall		Involving banks in the Mainland		Overall	Involving banks in the Mainland	
	2003	Q1	202.4	(9.0)	21.9	(6.4)	149.8	(-7.1)	62.2	(-15.4)	-52.5
	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	Q1	298.3	(11.8)	22.2	(-0.7)	163.6	(3.7)	70.4	(6.2)	-134.8	48.2
	Apr	289.0	(-3.1)	22.2	(0.1)	173.0	(5.8)	80.3	(14.0)	-116.0	58.0
	May	277.8	(-3.9)	22.9	(2.9)	176.0	(1.8)	78.9	(-1.7)	-101.8	56.0
		<24.9>		<1.7>		<29.1>		<42.2>			

Notes : () % change during the period.

< > % change over a year earlier.

Table 4.7 : Loans and advances by currency denomination

% change during the quarter		Hong Kong dollar loans	Foreign currency loans	Total loans and advances
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
	Q2	2.2	-0.3	1.7
Total amount at the end of June 2004 (HK\$Bn)		1,606	469	2,075
% change over a year earlier		0.6	2.8	1.1

Table 4.8 : Hong Kong dollar loan-to-deposit ratio^(a)

As at the end of		%
2003	Q1	89.2
	Q2	86.7
	Q3	83.2
	Q4	81.5
2004	Q1	83.3
	Q2	85.3

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

Table 4.9 : 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
	Q2	1.9	-0.6
Total amount at the end of June 2004		1,850	225
% change over a year earlier		1.7	-3.6

Notes : (a) Including trade financing loans.

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

Table 4.10 : Loans and advances for use in Hong Kong by major usage^(a)

		Loans to :							
% change during the quarter		Finance visible trade	Manu- facturing sector	Whole- sale and retail trades	Building, construction, property develop- ment and property investment	Purchase resi- dential property ^(b)	Financial concerns	Stock- brokers	Others
2003	Q1	2.2	1.7	2.3	-0.3	-1.3	0.1	4.2	-1.2
	Q2	6.2	4.9	-0.5	-1.3	-1.4	2.8	-5.5	-1.0
	Q3	-1.5	3.1	-5.4	-2.2	-1.0	7.3	10.0	-4.4
	Q4	3.0	3.1	-3.1	-1.1	-0.3	5.8	12.3	2.7
2004	Q1	6.4	5.4	2.5	-1.5	0.1	4.3	6.0	-2.3
	Q2	14.7	8.8	0.5	1.5	-0.7	1.9	-5.9	2.1
Total amount at the end of June 2004 (HK\$Bn)		122	92	98	361	612	156	10	397
% change over a year earlier		23.9	22.0	-5.6	-3.3	-1.9	20.5	23.2	-2.0

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.

Table 4.11 : Exchange Fund Bills and Notes issued by HKMA

		Amount outstanding as at the end of the quarter (HK\$Bn)	Average daily turnover in the quarter (HK\$Bn)
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
	Q2	121.2	17.5

Table 4.12 : NCDs issued by authorized institutions in Hong Kong

As at the end of		Issued and outstanding (HK\$Bn)		Held by authorized institutions (HK\$Bn)		Held outside the local banking sector (HK\$Bn)	
		In HK\$	Total	In HK\$	Total	In HK\$	Total
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
	Q2	128.1	240.4	63.2	68.8	64.9	171.6

**Table 4.13 : 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)**

		New York					Paris CAC 40 Index	Sydney All Ordinaries Index	Singapore Straits Times Index
		Hang Seng Index	Dow Jones Industrial Average	Tokyo Nikkei Average	London FTSE 100 Index	Frankfurt DAX 30 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
	Q2	12 286	10 436	11 859	4 464	4 053	3 733	3 530	1 838
% change during the second quarter of 2004		-3.1	0.8	1.2	1.8	5.1	3.0	3.3	-1.1
% change during the first half of 2004		-2.3	-0.2	11.1	-0.3	2.2	4.9	6.8	4.2
% change at end-June 2004 over a year earlier		28.3	16.1	30.6	10.7	25.8	21.0	17.7	26.9

Table 4.14 : Average daily turnover and total market capitalisation of the Hong Kong stock market

		Average daily turnover in the quarter (HK\$Bn)			Total market capitalisation as at the end of the quarter (HK\$Bn)		
		Main Board	Growth Enterprise Market	Total	Main Board	Growth Enterprise Market	Total
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
	Q2	13.8	0.1	13.8	5,483	73	5,555

Table 4.15 : Average daily turnover of the Hang Seng Index futures and options contracts in the Hong Kong derivatives market

During the quarter		Hang Seng Index futures contracts (no. of contracts)	Hang Seng Index options contracts (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
	Q2	36 649	10 053

Table 5.1 : Unemployment and underemployment rates

		Seasonally adjusted unemployment rate (%)	Underemployment rate (%)
2003	Annual	7.9	3.5
	Q1	7.5	2.9
	Q2	8.6	4.3
	Q3	8.3	3.6
	Q4	7.4	3.3
2004	Q1	7.2	3.4
	Q2	6.9	3.5
	Feb - Apr	7.1	3.4
	Mar - May	7.0	3.5
	Apr - Jun	6.9	3.5

Source : General Household Survey, Census and Statistics Department.

Table 5.2 : Median duration of unemployment and proportion of the unemployed population by duration of unemployment

		Median duration of unemployment (Days)	<u>Proportion unemployed for :</u>		
			Less than 3 months (%)	3 months to less than 6 months (%)	6 months or more (%)
2003	Annual	88	51	18	31
	Q1	83	54	17	29
	Q2	82	54	18	28
	Q3	90	50	19	31
	Q4	109	46	18	36
2004	Q1	106	47	17	36
	Q2	97	49	17	34

Source : General Household Survey, Census and Statistics Department.

Table 5.3 : The labour force, and persons employed, unemployed and underemployed

		Labour force		Persons employed		Persons unemployed ^(a)	Persons underemployed
2003	Annual	3 496 200	(0.3)	3 219 100	(-0.4)	277 200	123 300
	Q1	3 488 600	(0.9)	3 229 900	(0.3)	258 700	100 300
	Q2	3 496 200	(0.9)	3 198 200	(-0.2)	298 100	150 200
	Q3	3 495 700	(-0.6)	3 197 900	(-1.6)	297 800	126 600
	Q4	3 504 500	(-0.1)	3 250 400	(-0.2)	254 200	116 100
2004	Q1	3 506 400	(0.5)	3 256 900	(0.8)	249 500	118 700
	Q2	3 522 700	(0.8)	3 282 400	(2.6)	240 200	122 400
			<0.5>		<0.8>		

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 5.4 : Labour force participation rates by sex (%)

		Male	Female	Both sexes combined
2003	Annual	72.0	51.7	61.4
	Q1	72.0	52.0	61.6
	Q2	72.2	51.8	61.6
	Q3	72.2	51.4	61.3
	Q4	71.8	51.4	61.1
2004	Q1	71.8	51.8	61.3
	Q2	71.9	51.7	61.3

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates by major economic sector (%)^(a)

	Annual	2003				2004	
		Q1	Q2	Q3	Q4	Q1	Q2
Wholesale, retail and import/export trades, restaurants and hotels	8.2	7.9	9.1	8.8	7.0	7.0	6.8
Transport, storage and communications	6.5	6.1	7.6	6.2	6.1	6.1	5.2
Finance, insurance, real estate and business services	5.2	4.5	5.6	5.4	5.2	4.9	4.8
Community, social and personal services	3.5	2.9	3.7	3.7	3.5	3.5	3.4
Manufacturing	7.6	7.3	8.4	7.3	7.4	7.1	6.2
Construction ^(b)	19.0	18.9	19.7	19.6	17.7	17.9	15.8

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

	Annual	<u>2003</u>				<u>2004</u>	
		Q1	Q2	Q3	Q4	Q1	Q2
Managers and administrators	2.4	2.1	2.2	2.2	3.0	2.0	1.6
Professionals	2.4	2.2	2.8	2.8	1.8	2.1	2.5
Associate professionals ^(b)	4.4	4.3	4.9	4.6	3.6	3.6	3.4
Clerks	5.4	5.0	5.5	5.8	5.2	4.6	4.6
Service workers and shop sales workers	10.3	9.4	12.3	10.8	8.7	9.0	8.8
Craft and related workers	16.0	16.2	16.4	16.1	15.3	15.2	13.2
Plant and machine operators and assemblers	7.0	6.8	7.3	7.1	6.7	6.7	5.9
Elementary occupations	8.7	8.0	9.6	8.9	8.1	8.7	8.1

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

	Annual	2003				2004	
		Q1	Q2	Q3	Q4	Q1	Q2
No schooling/kindergarten	10.9	10.3	10.7	10.2	12.3	11.4	8.5
Primary	11.3	10.6	12.5	11.8	10.5	11.7	10.5
Lower secondary	12.0	11.5	13.2	12.2	11.2	11.0	10.2
Upper secondary ^(b)	7.3	7.0	7.9	7.9	6.6	6.6	6.5
Matriculation	5.5	5.1	5.9	5.9	4.9	4.7	5.1
Tertiary	4.4	3.8	4.4	5.5	3.9	3.0	3.4
<i>of which :</i>							
Non-degree	5.6	4.9	5.5	6.9	5.2	3.2	4.4
Degree	3.7	3.1	3.8	4.7	3.2	2.9	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 5.8 : Unemployment rates by age group (%)^(a)

	Annual	2003				2004	
		Q1	Q2	Q3	Q4	Q1	Q2
15-19	30.2	26.9	32.8	36.1	24.9	25.2	29.0
20-24	11.6	10.1	12.4	14.5	9.4	8.5	9.4
25-29	6.7	6.2	7.6	7.6	5.6	5.9	5.2
30-39	6.0	5.7	6.6	6.1	5.7	5.2	4.6
40-49	7.3	7.2	8.0	7.4	6.6	6.8	6.5
50-59	9.4	8.7	9.4	9.7	9.6	9.4	8.7
60 and above	4.5	3.6	5.3	3.7	5.6	6.8	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 5.9 : Employment by major economic sector

	<u>2003</u>					<u>2004</u>
	Annual Average	Mar	Jun	Sep	Dec	Mar
Wholesale and import/export trades	558 300 (-1.5)	563 900 (-0.4)	558 200 (0.4)	555 700 (-4.3)	555 400 (-1.8)	556 600 (-1.3)
Retail trade	210 700 (-2.8)	209 700 (-3.1)	209 000 (-4.3)	207 100 (-6.4)	217 100 (2.9)	214 600 (2.3)
Restaurants and hotels	196 100 (-7.3)	198 200 (-7.2)	191 100 (-10.6)	193 900 (-8.7)	201 400 (-2.5)	204 600 (3.2)
Water transport, air transport and services allied to transport	98 000 (-3.1)	100 200 (-0.6)	96 100 (-6.1)	96 600 (-4.4)	99 000 (-1.0)	101 600 (1.4)
Storage and communications	35 100 (-12.5)	33 300 (-19.5)	35 300 (-15.1)	35 200 (-13.0)	36 500 (-1.1)	35 900 (8.0)
Finance, insurance, real estate and business services	421 900 (-1.9)	422 500 (-0.2)	419 000 (-2.6)	422 300 (-0.5)	423 800 (-4.0)	428 600 (1.4)
Community, social and personal services	407 300 (2.9)	398 100 (1.5)	400 600 (2.5)	414 100 (3.9)	416 500 (3.5)	412 000 (3.5)
Manufacturing	173 100 (-10.3)	178 900 (-9.4)	172 500 (-13.8)	172 800 (-9.1)	168 300 (-8.8)	168 900 (-5.6)
Building and construction sites ^(a)	67 600 (-7.7)	69 900 (-9.1)	67 300 (-15.1)	68 000 (-3.4)	65 100 (-2.0)	66 100 (-5.5)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 215 800 (-2.6)</i>	<i>2 222 200 (-2.3) <-1.6></i>	<i>2 197 000 (-3.6) <-1.3></i>	<i>2 213 500 (-3.2) <0.3></i>	<i>2 230 400 (-1.4) <1.2></i>	<i>2 236 000 (0.6) <0.5></i>
<i>Civil service^(c)</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>	<i>163 000 (-3.6)</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) Due to an expansion in survey coverage as from March 2003, the employment figures for manual workers at building and construction sites in 2003 have been revised accordingly to facilitate comparison.

(b) 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.

(c) 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.

Table 5.10 : Vacancies by major economic sector

	Annual average	No. of vacancies 2003				2004		Vacancy rate in Mar 2004 (%)
		Mar	Jun	Sep	Dec	Mar		
Wholesale and import/export trades	4 800 (10.0)	4 400 (-12.2)	4 900 (-1.9)	5 300 (26.1)	4 800 (39.8)	7 200 (64.7)	1.3	
Retail trade	1 700 (-8.1)	1 100 (-35.1)	1 500 (-37.8)	1 700 (2.9)	2 400 (60.5)	2 300 (108.2)	1.0	
Restaurants and hotels	1 300 (-2.4)	800 (-47.0)	1 100 (-22.3)	1 700 (23.3)	1 700 (56.0)	1 800 (113.1)	0.8	
Water transport, air transport and services allied to transport	500 (-5.7)	400 (-9.7)	500 (-17.7)	500 (-1.1)	500 (9.4)	900 (102.3)	0.8	
Storage and communications	400 (-6.9)	300 (-25.6)	400 (14.3)	500 (1.3)	300 (-18.8)	600 (83.8)	1.6	
Finance, insurance, real estate and business services	5 600 (8.0)	4 200 (-22.1)	6 200 (3.2)	5 700 (18.8)	6 300 (38.7)	8 600 (106.0)	2.0	
Community, social and personal services	4 200 (1.3)	3 300 (-23.8)	4 600 (11.0)	4 800 (14.6)	3 900 (4.9)	5 200 (56.5)	1.3	
Manufacturing	1 000 (-21.5)	1 100 (-23.5)	1 200 (-16.4)	900 (-34.7)	800 (-6.4)	1 500 (37.5)	0.9	
Building and construction sites	# (-60.1)	# (-81.7)	# (-52.6)	# (-57.4)	# (28.6)	# (57.7)	0.1	
<i>All establishments surveyed in the private sector^(a)</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>	<i>28 400 (78.7)</i>	1.3	
		<i><-19.6></i>	<i><30.5></i>	<i><7.8></i>	<i><14.0></i>	<i><11.6></i>		
<i>Civil service^(b)</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>	<i>1 300 (-21.7)</i>	0.8	

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.

Table 5.11 : Vacancies by major occupation category

	Annual average	<u>No. of vacancies</u> <u>2003</u>				<u>2004</u>
		Mar	Jun	Sep	Dec	Mar
Managers and administrators	400 (-2.7)	500 (25.5)	400 (-11.6)	500 (-9.3)	400 (-12.8)	700 (46.1)
Professionals	1 300 (18.2)	1 100 (-12.9)	1 300 (21.5)	1 300 (43.1)	1 500 (29.7)	2 200 (102.5)
Associate professionals	7 300 (5.6)	5 600 (-24.5)	8 200 (-0.5)	7 500 (17.5)	7 800 (42.1)	10 400 (83.7)
Clerks	3 900 (3.9)	3 600 (-11.9)	4 300 (2.5)	4 200 (22.2)	3 600 (6.1)	5 300 (48.2)
Service workers and shop sales workers	3 600 (-0.6)	2 300 (-41.9)	3 100 (-20.4)	4 300 (12.2)	4 900 (62.2)	5 500 (144.5)
Craft and related workers	500 (0.4)	600 (-4.9)	600 (-0.3)	600 (46.4)	300 (-35.9)	800 (34.9)
Plant and machine operators and assemblers	500 (-38.2)	400 (-54.4)	600 (-11.4)	400 (-59.2)	500 (-13.8)	600 (43.7)
Elementary occupations	2 100 (-6.0)	1 900 (-16.0)	2 200 (-16.1)	2 400 (-1.2)	2 100 (14.3)	2 900 (57.7)

Note : () % change over a year earlier.

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

Table 5.12 : Labour earnings by major economic sector
(year-on-year rate of change (%))

	<u>Payroll per person engaged</u>					<u>2004</u>	Average amount in Q1 2004 (\$)
	<u>2003</u>						
	Annual	Q1	Q2	Q3 ^(a)	Q4	Q1	
Wholesale, retail and import/export trades	-1.5 (1.1)	-1.3 (0.7)	-2.5 (*)	-1.3 (2.4)	-0.9 (1.5)	0.9 (2.7)	14,300
Restaurants and hotels	-6.2 (-3.7)	-6.6 (-4.7)	-9.8 (-7.6)	-5.2 (-1.7)	-3.2 (-0.9)	-3.5 (-1.7)	8,500
Transport, storage and communications	-1.7 (0.9)	-0.3 (1.7)	-3.8 (-1.4)	-1.8 (1.8)	-1.2 (1.2)	-2.4 (-0.6)	19,400
Finance, insurance, real estate and business services	-1.4 (1.2)	-2.7 (-0.7)	-1.5 (0.9)	-0.6 (3.1)	-0.6 (1.8)	0.5 (2.3)	20,400
Community, social and personal services	-4.7 (-2.2)	-4.2 (-2.2)	-4.6 (-2.2)	-5.7 (-2.2)	-4.5 (-2.2)	-6.2 (-4.5)	18,300
Manufacturing	-3.0 (-0.4)	-5.1 (-3.2)	-2.2 (0.3)	-3.6 (-0.1)	-0.8 (1.6)	-0.4 (1.4)	12,400
All sectors surveyed in the private sector	-1.8 (0.8)	-2.0 (*)	-2.5 (-0.1)	-1.8 (1.9)	-1.0 (1.4)	-1.7 (0.1)	16,100
		<-0.7> {-0.5}	<-0.6> {0.5}	<*> {1.7}	<0.1> {-0.3}	<-1.3> {-1.7}	

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.

**Table 5.13 : Wages by selected major economic sector
(year-on-year rate of change (%))**

	By reference to the wage index					2004 Mar
	Annual	Mar	2003 Jun	Sep ^(a)	Dec	
Wholesale, retail and import/export trades	-1.7 (0.4)	-1.2 (0.7)	-2.9 (-0.5)	-1.5 (1.3)	-1.3 (*)	-2.2 (-0.4)
Restaurants and hotels	-4.1 (-2.1)	-3.2 (-1.4)	-4.5 (-2.1)	-5.0 (-2.3)	-3.9 (-2.6)	-3.6 (-1.8)
Transport services	-1.9 (0.1)	-1.4 (0.4)	-2.0 (0.4)	-1.6 (1.1)	-2.6 (-1.4)	-1.9 (-0.1)
Finance, insurance, real estate and business services	-0.1 (2.0)	0.3 (2.2)	-0.9 (1.5)	-0.3 (2.5)	0.7 (2.0)	0.6 (2.5)
Personal services	-3.1 (-1.1)	-3.4 (-1.6)	-2.8 (-0.3)	-4.1 (-1.3)	-2.3 (-1.0)	-2.4 (-0.6)
Manufacturing	-2.7 (-0.7)	-2.6 (-0.7)	-2.4 (*)	-3.7 (-1.0)	-2.2 (-0.9)	-1.4 (0.4)
All selected sectors surveyed in the private sector	-1.9 (0.2)	-1.5 (0.3)	-2.5 (-0.1)	-2.1 (0.7)	-1.5 (-0.3)	-1.6 (0.2)

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

(a) 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.

Table 5.14 : Wages by selected major occupation category
(year-on-year rate of change (%))

	<u>By reference to the wage index</u>					<u>2004</u>
	Annual	Mar	Jun	Sep ^(a)	Dec	Mar
Supervisory and technical workers	-0.6 (1.5)	-0.2 (1.7)	-1.8 (0.6)	-0.4 (2.5)	* (1.3)	-0.7 (1.2)
Clerical and secretarial workers	-2.3 (-0.2)	-2.2 (-0.4)	-3.0 (-0.6)	-2.7 (0.1)	-1.4 (-0.1)	-2.1 (-0.3)
Craftsmen	-1.6 (0.5)	-1.5 (0.3)	-0.8 (1.7)	-1.9 (0.9)	-2.3 (-1.0)	-1.1 (0.8)
Operatives	-2.3 (-0.3)	-2.7 (-0.9)	-2.7 (-0.3)	-2.4 (0.3)	-1.5 (-0.2)	-1.7 (0.1)
Service workers	-3.0 (-1.0)	-2.3 (-0.4)	-3.2 (-0.8)	-4.0 (-1.3)	-2.7 (-1.4)	-2.0 (-0.2)
Miscellaneous non-production workers	-3.8 (-1.8)	-2.8 (-1.0)	-4.0 (-1.6)	-4.0 (-1.3)	-4.3 (-3.1)	-3.6 (-1.8)

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

(a) Also see Note (a) to Table 5.13.

(*) Change of less than 0.05%.

Source : Labour Earnings Survey, Census and Statistics Department.

Table 6.1 : Consumer Price Indices
(year-on-year rate of change (%))

		Composite CPI	CPI(A)	CPI(B)	CPI(C)
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	-3.6	-3.3	-3.7	-4.1
	Q4	-2.3	-1.7	-2.4	-2.9
2004	H1	-1.3	-1.0	-1.4	-1.8
	Q1	-1.8	-1.2	-2.0	-2.4
	Q2	-0.9	-0.7	-0.9	-1.1
	Apr	-1.5	-1.5	-1.5	-1.6
	May	-0.9	-0.7	-0.9	-1.1
	Jun	-0.1	0.1	-0.2	-0.3

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

		Composite CPI	CPI(A)	CPI(B)	CPI(C)
2003	Q1	-0.1	*	-0.2	*
	Q2	-1.1	-0.5	-1.1	-1.8
	Q3	-1.9	-2.3	-1.8	-1.6
	Q4	0.8	1.1	0.7	0.6
2004	Q1	0.3	0.4	0.2	0.3
	Q2	*	0.1	*	-0.3

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

Table 6.3 : Composite Consumer Price Index by component

Expenditure component	Weighting	Year-on-year rate of change		% contribution to the overall decline in the Composite CPI ^(a)	
		2004 Q1	2004 Q2	2004 Q1	2004 Q2
Food	26.67	0.1	1.0	-2.1	-31.8
<i>Meals bought away from home</i>	16.39	-0.5	0.3	4.8	-5.2
<i>Other foodstuffs</i>	10.28	1.1	2.3	-6.9	-26.6
Housing ^(b)	29.91	-7.7	-6.7	118.9	215.2
<i>Private dwellings</i>	24.59	-9.3	-8.2	116.3	211.3
<i>Public dwellings</i>	2.07	0.1	0.1	-0.1	-0.3
Electricity, gas and water	2.98	21.8	3.0	-31.5	-10.9
Alcoholic drinks and tobacco	0.94	-0.1	0.4	0.1	-0.5
Clothing and footwear	4.13	6.1	9.2	-12.7	-43.6
Durable goods	6.24	-3.6	-1.4	10.6	8.7
Miscellaneous goods	5.70	3.8	4.4	-13.2	-32.1
Transport	9.01	-0.4	0.4	2.3	-4.4
Miscellaneous services	14.42	-3.4	*	27.6	-0.6
All items	100.00	-1.8	-0.9	100.0	100.0

Notes : (a) Positive figures denote contribution to the overall decline in the Composite CPI in the respective quarters, while negative figures represent a relief to the overall decline.

(b) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

(*) Change of less than 0.05%.

**Table 6.4 : Producer Price Index for the local manufacturing sector
(year-on-year rate of change (%))**

Industry group	Annual	2003				2004
		Q1	Q2	Q3	Q4	Q1
Wearing apparel	-0.2	-0.8	0.1	0.2	-0.2	-0.4
Textiles	-0.1	-0.6	-0.5	-0.2	1.0	1.4
Plastic products	2.6	0.1	2.5	2.6	5.1	4.7
Consumer electrical and electronic products	-1.7	-1.7	-0.8	-2.3	-2.1	-4.5
Machinery and equipment	-1.3	-3.1	0.1	0.5	-2.7	3.1
Fabricated metal products	-2.9	-3.0	-3.9	-3.3	-1.3	0.2
Paper products and printing	-1.7	-2.0	-2.3	-1.7	-0.7	-0.4
Overall manufacturing	-0.3	-1.2	-0.9	*	0.9	2.8

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

**Table 6.5 : Producer Price Indices for selected service sectors^(a)
(year-on-year rate of change (%))**

Selected service sector	Annual	2003				2004
		Q1	Q2	Q3	Q4	Q1
Hotels and boarding houses	-4.9	1.6	-10.5	-4.2	-6.3	2.8
Land transport	-1.6	-0.7	-1.9	-2.7	-1.1	-1.9
Maritime transport	7.2	5.5	7.6	6.2	9.5	2.7
Air transport	0.4	1.8	-0.6	-0.4	0.9	1.2
Telecommunications	-10.7	-7.7	-12.0	-10.1	-13.2	-13.2
Miscellaneous communications services	3.9	7.1	6.9	3.1	-1.1	3.0

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.

**Table 6.6 : World commodity prices
(year-on-year rate of change (%))**

		Fuels	All non-fuel commodities	<i>Of which :</i>		
				Food and beverages	Agricultural raw materials	Metals
2003	Annual	16.8	7.2	5.8	3.8	12.0
	H1	25.5	8.0	9.9	8.7	5.0
	H2	9.1	6.2	2.0	-0.6	19.0
	Q1	47.2	10.2	12.2	13.5	5.3
	Q2	7.2	5.9	7.7	4.1	4.7
	Q3	7.2	2.8	-1.3	-1.3	13.7
	Q4	11.0	9.5	5.3	0.1	24.2
	2004	H1	18.0	21.1	15.9	5.5
	Q1	4.0	19.6	13.1	5.0	40.2
	Q2	34.3	22.6	18.8	6.0	40.0

Source : IMF International Financial Statistics.

**Table 6.7 : Unit value indices of imports of goods by major source
(year-on-year rate of change (%))**

		Mainland of China	Japan	Taiwan	United States	All sources
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	H1	0.7	2.4	1.5	1.3
	Q1	0.5	2.3	0.4	1.1	0.7
	Q2	0.9	2.4	2.4	1.5	2.3

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

**Table 6.8 : Unit value indices of retained imports
by major end-use category
(year-on-year rate of change (%))**

		Food- stuffs	Consumer goods	Fuels	Raw materials and semi- manufactures	Capital goods	All categories
2003	Annual	1.2	-0.2	13.1	3.6	-10.2	-1.1
	H1	0.8	-1.5	21.7	1.2	-9.1	-1.6
	H2	1.6	1.0	6.5	5.9	-11.1	-0.7
	Q1	0.1	-3.8	37.4	0.2	-9.4	-1.9
	Q2	1.5	0.4	9.0	1.9	-8.8	-1.4
	Q3	1.3	-0.6	7.0	5.3	-11.9	-1.6
	Q4	1.8	2.8	6.0	6.0	-10.4	0.1
	2004	H1	2.2	3.0	15.1	11.9	-0.9
	Q1	2.1	3.0	5.7	10.6	-1.9	4.6
	Q2	2.3	3.0	25.5	13.1	0.1	7.4

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

		United States	Mainland of China	Germany	United Kingdom	Japan	Singapore	All markets
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	H1	-0.5	1.1	-0.4	-0.3	-0.3	-3.2	-0.1
	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7
	Q2	-0.4	1.9	*	0.1	0.1	-2.3	0.5

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

Table 6.10 : Terms of trade in goods

		Index on the terms of trade in goods (2000 = 100)	Year-on-year rate of change (%)
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	H1	99.7	-1.6
	Q1	99.9	-1.5
	Q2	99.5	-1.8

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

	Annual [#]	Q1 [#]	<u>2003</u> Q2 [#]	Q3 [#]	Q4 [#]	<u>2004</u> Q1 [#]	Q2 ⁺
Private consumption expenditure	-2.9	-2.1	-3.3	-4.0	-2.3	-2.0	-0.4
Government consumption expenditure	-2.7	-2.6	-3.7	-3.5	-1.4	-3.4	-3.4
Gross domestic fixed capital formation	-6.0	-7.0	-6.0	-7.7	-3.5	2.0	2.4
Total exports of goods	-2.0	-1.3	-1.8	-2.3	-2.2	-1.5	0.1
Imports of goods	-0.9	-0.8	-0.8	-1.6	-0.8	0.5	2.2
Exports of services	-2.0	-0.9	-3.7	-2.7	-1.1	0.1	3.3
Imports of services	2.8	3.8	2.7	1.2	3.8	3.3	3.3
Gross Domestic Product	-5.3	-4.4	-5.8	-6.1	-4.8	-4.0	-2.9
		<-1.0>	<-2.2>	<-1.4>	<-0.3>	<-0.1>	<-1.0>
Total final demand	-2.6	-2.0	-2.7	-3.1	-2.0	-1.1	0.4
Domestic demand	-3.6	-3.5	-4.0	-4.8	-2.3	-0.9	0.2

Notes : (#) Revised figures.

(+) Preliminary figures.

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

