

Press Release

(embargoed until 4:15 p.m. on 30 November 2001)

Economic Situation in the Third Quarter of 2001 and Updated GDP and Price Forecasts for 2001

The Government released today (Friday) the Third Quarter Economic Report 2001, together with the preliminary figure on expenditure-based Gross Domestic Product for the third quarter of 2001.

The Government Economist, Mr K Y Tang, described the economic situation in the third quarter of 2001 and provided updated GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy continued to slow down in the third quarter of 2001, amidst a more difficult external environment and with local sentiment also hit by a further weakening in the asset markets and rising unemployment. On a year-on-year comparison, GDP fell by 0.3% in real terms in the third quarter of 2001, further down from the already much retarded growth of 0.8% in the second quarter (latter revised up from the 0.5% growth put out earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP nevertheless rose back by 0.4% in real terms in the third quarter of 2001, having fallen by 1.4% in the second quarter (latter also revised up from the 1.7% decline put out earlier).
- * Externally, total exports of goods showed an enlarged decline of 4.0% in real terms in the third quarter of 2001 over a year earlier, as import intake plunged in almost all the major markets. Exports of services also showed slower growth, at 1.5% in real terms in that quarter.
- * Locally, consumer spending slackened further from an already moderating trend upon the initial impact of the 911 incident, thereby giving a growth of only 1.3% in real terms in the third quarter of 2001 over a year earlier. Yet investment spending had a somewhat faster growth, at 3.7% in real terms in the third quarter of 2001 over a year earlier, as the intake of aircraft bolstered machinery and equipment acquisition, even though building and construction output remained sluggish.
- * As employment was unable to catch up with labour supply growth amidst the slow-down in business activity and more incidents of corporate lay-offs, the seasonally adjusted unemployment rate went up distinctly, from 4.5% in the second quarter of 2001 to 5.3% in the third quarter (and further to 5.5% in the three months ending October). The underemployment rate likewise rose, from 2.2% to 2.5% over the two quarters (and further to 2.6% in the three months ending October).

- * The impact of the 911 incident has aggravated the global economic setback, making the earlier forecast of a 1% GDP growth for the Hong Kong economy in 2001 unattainable. GDP is now forecast to yield zero growth in real terms for 2001 as a whole.
- * Externally, exports of both goods and services are likely to slacken further, amidst the austere external environment. Locally, consumer spending is expected to remain moderate, as employment conditions continue to worsen thereby impinging on income and job security. Investment spending is expected to be restrained by the current gloom in the business situation. Overall, GDP looks set for an enlarged decline in the fourth quarter.
- * Much downside risk prevails in the near-term economic outlook. The global economy is now facing a synchronised downturn, with US economic growth falling into negative territory in the third quarter, the EU economy flattening out, and the Japanese economy as well as some of the other East Asian economies already in recession. The timing of a turnaround in the global economy has become more uncertain after the 911 incident. Nevertheless, the Hong Kong economy should still be cushioned by robust economic growth in the mainland of China.
- * On the price front, the decline in the Composite Consumer Price Index has tended to widen again over the past few months, as resource balance in the domestic sector loosens upon a more distinct economic downturn, and as import prices also come down further. In addition, the announced waiver of public housing rentals for December will have the effect of lowering the Composite CPI in that month by around 2 percentage points. With a 1.4% decline already recorded in the first ten months of 2001, the forecast rate of change in the Composite CPI for 2001 as a whole is thus lowered further to -1.6%, from that of -1.3% put out earlier. As to the GDP deflator, the forecast rate of change in 2001 is kept unchanged, at -1%.

DETAILS

GDP

According to the preliminary figure on expenditure-based *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, the economy fell by 0.3% in real terms in the third quarter of 2001 over a year earlier, further down from the already much retarded growth of 2.2% in the first quarter and 0.8% in the second quarter (both revised from the respective increases of 2.3% and 0.5% put out earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP rose back by 0.4% in real terms in the third quarter of 2001, after staying virtually flat in the first quarter and a 1.4% decline in the second quarter (latter revised from the decline of 1.7% put out earlier). Yet by and large, the real impact of the 911 incident has still to substantially filter through (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2001, including the year-on-year changes in the original series and the quarter-to-quarter changes in the seasonally adjusted series, are presented in *Tables 1 and 2*. Developments in different segments of the economy in the third quarter of 2001 are described below.

External trade

3. Hong Kong's merchandise exports slackened further in the third quarter of 2001, amidst a more difficult external trade environment. *Total exports of goods* (comprising re-exports and domestic exports) fell by 4.0% in real terms in the third quarter of 2001 over a year earlier, the largest decline since the first quarter of 1999. The enlarged decline in the third quarter was mainly attributable to more sluggish global demand, but a distinctly higher base of comparison was also relevant. Air cargo traffic to the United States encountered a short disruption immediately after the 911 incident, yet its effect on exports for the third quarter as a whole was rather insignificant. By and large, the real impact of the 911 incident on Hong Kong's exports was yet to be seen. Together with a 1.0% rise in the first half of the year, total exports of goods had a slight decline of 0.9% in real terms in the first nine months of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods actually rose back by 3.1% in real terms in the third quarter of 2001, after decreases of 2.1% in the first quarter and 5.0% in the second quarter.

4. Analysed by region, merchandise exports underwent an across-the-board setback in the third quarter of 2001. Exports of goods to *East Asia* as a whole were dampened by the export and domestic demand slump in the region, the plunge in intra-regional trade, and the weakness in most of the East Asian currencies. For the first nine months of 2001 as a whole, these exports rose by 4.2% in real terms over a year earlier, within which exports to the mainland of China (the Mainland) still recorded a notable growth of 6.9% in real

terms. Exports of goods to the *United States* fell by 7.4% in real terms in the first nine months of 2001 over a year earlier, amidst a distinct fall-off in US demand. Exports of goods to the *European Union* also declined, by 6.9% in real terms in the first nine months of 2001 over a year earlier, along with worsening economic conditions in the euro area and a weak euro.

5. *Imports of goods* concurrently moderated further, falling by 3.4% in real terms in the third quarter of 2001 over a year earlier, reversing the 2.1% growth in the first half of the year. For the first nine months of 2001 as a whole, imports of goods were broadly unchanged in real terms from a year earlier. Yet on a seasonally adjusted quarter-to-quarter comparison, imports of goods rebounded to a 4.0% rise in real terms in the third quarter of 2001, following decreases of 0.8% in the first quarter and 6.4% in the second quarter.

6. On invisible trade, *exports of services* likewise moderated visibly, to only a 1.5% growth in real terms in the third quarter of 2001 over a year earlier. This was mainly caused by a fall-off in business demand in the region, with the setback in inbound tourism and in exports of transportation services after the 911 incident exacerbating the situation. Yet with a solid growth of 6.3% in the first half of the year, exports of services still had a 4.5% increase in real terms in the first three quarters of 2001 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services continued to go up, by 1.6% in real terms in the third quarter of 2001, after increases of 0.6% in the first quarter and 4.0% in the second quarter.

7. *Imports of services* concurrently weakened, falling by 2.0% in real terms in the third quarter of 2001 over a year earlier, after a 2.4% rise in the first half of the year. For the first three quarters of 2001 as a whole, imports of services were only 0.9% larger in real terms than a year earlier. Amidst the distinct setback in merchandise trade and slow-down in other economic activities, there was an across-the-board decline in imports of the various major types of services in the third quarter. In particular, imports of travel services were hit by the 911 incident towards the end of the third quarter. On a seasonally adjusted quarter-to-quarter comparison, imports of services receded to a 1.8% decline in real terms in the third quarter of 2001, having increased by 0.8% in the first quarter and 1.3% in the second quarter.

8. On the trade balance, with total exports of goods falling slightly faster than imports of goods in value, the *visible trade deficit* widened to \$76.0 billion or 6.4% of the value of imports of goods in the first three quarters of 2001. Yet the *invisible trade surplus* rose to \$112.2 billion or 82.4% of the value of imports of services in the first three quarters of 2001. Taken together, there was still a combined visible and invisible trade surplus (having incorporated an estimate of imports of gold for industrial use) of \$34.2 billion, equivalent to 2.6% of the total value of imports of goods and services, in the first three quarters of 2001, as compared to \$36.9 billion or 2.7% in the same period in 2000.

Domestic demand

9. Local consumer spending was still on the rise in the third quarter of 2001, but the growth pace had moderated distinctly as consumer sentiment was held back by rising unemployment and dip in asset prices, and then even further upon the initial impact of the 911 incident. On a year-on-year comparison, *private consumption expenditure (PCE)* rose by 1.3% in real terms in the third quarter of 2001 over a year earlier, slower than the increases of 3.0% in the first quarter and 3.6% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, PCE slackened to a 1.9% decline in real terms in the third quarter of 2001, having risen markedly by 5.4% in the first quarter and further by 1.2% in the second quarter.

10. *Government consumption expenditure (GCE)* reckoned on a national accounts basis rose by 6.2% in real terms in the third quarter of 2001 over a year earlier. This followed increases of 3.9% and 4.1% in the first and second quarters. On a seasonally adjusted quarter-to-quarter comparison, GCE again rose, by 2.9% in real terms in the third quarter of 2001, after a 5.4% surge in the first quarter and a 2.7% decline in the second quarter.

11. Overall investment spending, as represented by *gross domestic fixed capital formation*, had a somewhat faster growth of 3.7% in real terms in the third quarter of 2001 over a year earlier, having eased back from an 11.5% surge in the first quarter to a 1.3% increase in the second quarter. The growth in the third quarter was mainly bolstered by intake of aircraft, but with distinctly reduced intake of other machinery and equipment in general, and also with building and construction activity remaining modest in overall terms.

12. Within the overall investment spending, *expenditure on machinery and equipment* registered a 9.4% growth in real terms in the third quarter of 2001 over a year earlier, after a marginal increase of 0.3% in the second quarter. Yet intake of office equipment and industrial machinery fell off distinctly, amidst a dim business outlook. *Expenditure on building and construction* had a 6.8% fall in real terms in the third quarter of 2001 over a year earlier, reversing the 1.9% growth in the second quarter. Output in the public sector was dragged down by the heavy scale-back in the Public Housing Programme, even though there was still some incremental growth from other Government projects and the Priority Railway Projects. Output in the private sector was dampened by the protracted weakness in the property market holding back the initiation of new building projects.

13. In tandem with the sluggish building activity in the private sector, *real estate developers' margin* came down by 4.2% in real terms in the third quarter of 2001 from a year earlier, after a 4.3% increase in the second quarter.

14. Along with the slow-down in aggregate demand, there was a modest depletion in *inventories* in the third quarter of 2001, having gone through a continuous build-up since the third quarter of 1999.

The property market

15. The sales market for *residential property* weakened further with prices coming down more in the third quarter of 2001. Sentiment was depressed by the worsening employment situation amidst the economic downturn, continued large supply of new flats, and more recently the impact of the 911 incident. Acquisition interest remained low, notwithstanding further cuts in mortgage rates and the announcement on suspension of flat sales under the Home Ownership Scheme/Private Sector Participation Scheme up to mid-2002. The much dwindled demand prompted property developers to step up their sales programme further, chiefly by offering more attractive purchase terms and more flexible financing. This did help primary sales in some of the new residential developments. Yet the secondary market was hence undermined even more. As to the rental market for residential property, activity was generally moderate, with rentals drifting lower in recent months.

16. On *commercial property*, the rental market for *office space* quietened down in the third quarter of 2001. Demand for office space receded, as companies were increasingly hit by setback in business especially after the 911 incident. In a move to improve occupancy, landlords tended to offer longer rent-free periods and other concessions to attract tenants. The sales market for office space was even more subdued, as investors generally stayed on the sideline. The rental market for *shopping space* likewise slackened in the third quarter of 2001, along with the moderation in local consumer spending and inbound tourism. The sales market for shopping space was weak. On *industrial property*, the rental market remained sluggish in the third quarter of 2001. Overall demand for industrial space continued to shrink, amidst the slow-down in external trade and on-going relocation of industrial processes outside the territory. Demand for space in modern industrial buildings as data centres and back-up service centres also tapered, upon further consolidation of the information technology sector. The sales market for industrial property was likewise depressed.

The labour market

17. The local labour market, having held generally stable in the first two quarters of 2001, eased distinctly in the third quarter, as amidst the economic downturn and corporate downsizing, employment was unable to catch up with growth in the total labour force. The *seasonally adjusted unemployment rate* surged from 4.5% in the second quarter of 2001 to 5.3% in the third quarter. The leap was particularly pronounced in the most recent period, conceivably upon the impact of the 911 incident. The *underemployment rate* likewise went up, from 2.2% in the second quarter of 2001 to 2.5% in the third quarter. Again, the rise in

underemployment rate was concentrated in the most recent period. Yet the proportion of employed persons working long hours rose appreciably, while the median hours of work per week also increased. These reflected greater work intensity and effort for those in employment. (The seasonally adjusted unemployment rate rose further to 5.5% in the three months ending October 2001, and the underemployment rate to 2.6%.)

18. On a year-on-year comparison, *total employment* as enumerated from households increased by 0.9% in the third quarter of 2001, but *total labour force* rose even faster, by 1.4%. This was in stark contrast to the situation earlier in the year, when total employment growth consistently outpaced total labour force growth. Labour demand had moderated with the downturn in economic activity, particularly after the 911 incident. Yet labour supply had quite steady growth in the more recent months. On a quarter-to-quarter comparison, total labour force went up by 0.9% in the third quarter of 2001, partly upon a higher labour force participation rate, but total employment fell by 0.1%. These differential movements accounted for the surge in unemployment rate in the third quarter.

19. As to labour income, *earnings* went up by 2% in money terms in the second quarter of 2001 over a year earlier, slightly less than the 3% rise in the first quarter. *Wages* were higher by 1% in money terms in June 2001 than a year earlier, virtually the same as the increase in March. Netting out the decline in consumer prices, both earnings and wages had decelerated increases in real terms.

Prices

20. Overall consumer prices continued to decline in the third quarter of 2001, though to a lesser extent than earlier in the year. Yet the decline tended to widen again over the past few months. Faced with moderating consumer spending and keen competition in the local market, retailers generally kept prices down in order to induce sales. Moreover, cost pressure from domestic sources was subdued, as property rentals had been softening in the recent period and as labour earnings also rose more slowly. In parallel, price pressure from external sources was receding, with the prices of retained imports showing an enlarged decline. There was a sustained fall in world commodity prices amidst the slack global demand. Also relevant was a strengthening in the US dollar against the currencies of most of the major supplier economies over the past year.

21. Comparing the third quarter of 2001 with a year earlier, the *Composite Consumer Price Index* went down by 1.0%. This was smaller than the decreases of 2.0% and 1.3% respectively in the first and second quarters. For the first nine months of 2001 as a whole, the Composite CPI fell by 1.5% over a year earlier, considerably reduced from the 3.8% fall in 2000. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI declined by 0.4% in the third quarter of 2001, having fallen by 0.6% in the first quarter and shown nil change in the second quarter.

22. The *GDP deflator*, as a broad measure of overall price change in the economy, continued to decline, by 0.3% in the third quarter of 2001 over a year earlier, yet narrowed further from the decreases of 1.8% in the first quarter and 0.6% in the second quarter. This was mainly attributable to a larger increase in the price deflator for government consumption expenditure, and a smaller decline in the price deflator for private consumption expenditure. Within the GDP deflator, the *total final demand deflator* and the *domestic demand deflator* fell by 1.8% and 0.5% respectively in the third quarter of 2001 over a year earlier, as compared to decreases of 1.9% and 2.4% in the first quarter, and of 1.6% and 1.0% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator showed virtually no change in the third quarter of 2001, after a rise of 2.0% in the first quarter and a fall of 1.3% in the second quarter.

The financial sector

23. In the third quarter of 2001, the Hong Kong dollar exchange and money markets remained broadly stable, but the local stock market was more volatile upon the shock from the 911 incident. Throughout the quarter, the *market exchange rate of the Hong Kong dollar* against the US dollar stayed close to the linked rate, moving within a narrow range of 7.797 to 7.800. The spread between the twelve-month Hong Kong dollar forward rate and the spot rate reversed from a small premium of three pips (each pip equivalent to HK\$0.0001) at end-June to a small discount of nine pips at end-September.

24. Along with the weakening in the US dollar from the earlier period and more so immediately after the 911 incident, the Hong Kong dollar softened against most of the major currencies during the third quarter of 2001. Specifically, the Hong Kong dollar fell by 4.1% against both the Japanese yen and the pound sterling, and by 7.0% against the euro. Overall, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* fell from 140.7 at end-June 2001 to 138.4 at end-September.

25. In line with further significant cuts in US interest rates, local *interest rates* eased distinctly further in September, following successive declines in the earlier months. The three-month HIBOR fell from 3.69% at end-June 2001 to 3.19% just before the 911 incident, and further to a low of 2.31% at end-September. Upon the full interest rate deregulation as from 3 July 2001, the savings deposit rate, and indeed all bank deposit interest rates, are to be set freely by the individual banks. In response to the reductions by a total of 100 basis points in US interest rates near end-June and in the third quarter, and reflecting ample liquidity in the local banking sector, the average savings deposit rate offered by ten major banks fell from 2.25% at end-June 2001 to 1.025% at end-September.

26. *Hong Kong dollar deposits* rose further by 0.3% during the third quarter of 2001, following a 0.2% increase during the second quarter. Yet bank lending to almost all the major sectors fell, amidst the slow-down in economic activity, with *Hong Kong dollar loans* shrinking further by 1.5% during the third quarter of 2001, after a 0.5% decrease during the second quarter. As a result, the Hong Kong dollar loan-to-deposit ratio fell from 90.8% at end-June 2001 to 89.2% at end-September, the lowest level over the past two decades.

27. The local *stock market* took a sharp plunge during the third quarter of 2001, after some rebound in the second quarter. The gloomy global economic outlook amidst wary over a protracted US economic slow-down, and the successive waves of US corporate profits warnings, pushed down share prices worldwide. The local stock market was likewise hit. Profit-taking on Mainland-related shares after an earlier upsurge in prices of such shares dampened the market more. The further interest rate cut in August did not render any noticeable stimulus to market sentiment. Then the 911 incident aroused widespread anxieties in the global financial markets, causing the *Hang Seng Index* to plummet to a near three-year low of 8 934 on 21 September, 14% down from the pre-911 closing level. As gyrations in the overseas stock markets gradually settled, the local stock market also rebounded. The Hang Seng Index rose back to 9 951 at end-September, but was still 24% lower than the level of 13 043 at end-June. (The Hang Seng Index recovered to above the 10 000 mark in early October, and rose further in November along with the rally in the US stock market. It stood at 11 091 on 29 November.)

Updated GDP and price forecasts for 2001

28. The global economy has been facing a synchronised downturn, and the 911 incident has dealt a further blow to the already subdued situation. Growth in the US economy has fallen into negative territory in the third quarter of 2001, with the timing of turnaround becoming more uncertain after the 911 incident. The EU economy, having virtually flattened out in the second quarter, may not fare any better in the near term. As to the East Asian economies, performance is affected additionally by the global electronic product down-cycle. The Japanese economy stays in the doldrums, while the Singapore and Taiwan economies have fallen into recession. The Mainland economy remains the only bright spot, but its exports have likewise slowed down distinctly in the recent period. Amidst such an austere external environment, the Hong Kong economy with its high degree of external orientation is bound to be hit, and overall performance is likely to weaken further in the near term.

29. Following regular practice, the GDP and price forecasts for 2001 have been reviewed by individual components against the evolving developments. The updated forecasts are presented in *Table 3*.

30. On visible trade, *total exports of goods* are expected to come down further in the fourth quarter, with the weakness being exacerbated by the negative spill-over from the 911 incident. For 2001 as a whole, exports of goods are now forecast to decline by 2.6% in real terms, down from the forecast of a 1.1% decline in the August update. Within total exports of goods, *domestic exports* are forecast to decline by 11% in real terms and *re-exports* by 1.5% in real terms, both down from the respective earlier forecasts of a 9.5% decline and virtually zero growth.

31. Upon a lower forecast for re-exports, coupled with an envisaged lesser import intake for meeting the more modest local demand, *imports of goods* are now forecast at a 1.8% decline in real terms in 2001, also down from the forecast of a 0.4% decline in the August update.

32. On invisible trade, inbound tourism is likely to face continued setback in the wake of the 911 incident. The imminent outlook for offshore trade and external transportation services is likewise bleak. The forecast growth rate in real terms of *exports of services* in 2001 is thus trimmed further to 3.5%, from 5.5% in the August update. In parallel, the forecast growth rate in real terms of *imports of services* in 2001 is revised downward to virtually nil, from 1.5% in the August update.

33. In the domestic sector, the forecast growth rate of *private consumption expenditure* in 2001 is kept unchanged at 2.5% in real terms. This is mainly on account of the better growth attained earlier in the year, as well as the cushion from a lower base of comparison in the fourth quarter of last year.

34. Having regard to a faster-than-expected growth in the first three quarters of 2001, the forecast growth rate in real terms of *government consumption expenditure* for the year as a whole is lifted to 4.5%, from 3% in the August update.

35. Overall investment spending in the economy, as represented by *gross domestic fixed capital formation*, is now forecast at a 1.7% growth in real terms in 2001, lower than the forecast of a 2.2% growth in the August update.

36. Within the overall investment, the forecast for *expenditure on building and construction* in 2001 is revised further downward to a 3.0% decline in real terms, from a 0.3% decline in the August update. This is mainly in view of a heavier scale-back in the Public Housing Programme, as well as some fall-off in construction work on the Tseung Kwan O MTR extension from its peak.

37. The forecast decline in real terms in *real estate developers' margin* in 2001 is kept unchanged at 1.5%, in line with the outturn so far in the year.

38. The forecast for *expenditure on machinery and equipment* in 2001 is also kept unchanged, at a 4.2% increase in real terms. Yet this is merely supported by past growth, mostly in the first quarter and to a lesser extent also in the third quarter of this year.

39. *Inventories* are now forecast for a modest depletion in 2001, having gone through a continuous build-up over the past two years.

40. Taken together, the forecast growth rate in real terms of *GDP* for 2001 as a whole is lowered further to zero, from 1% in the August update.

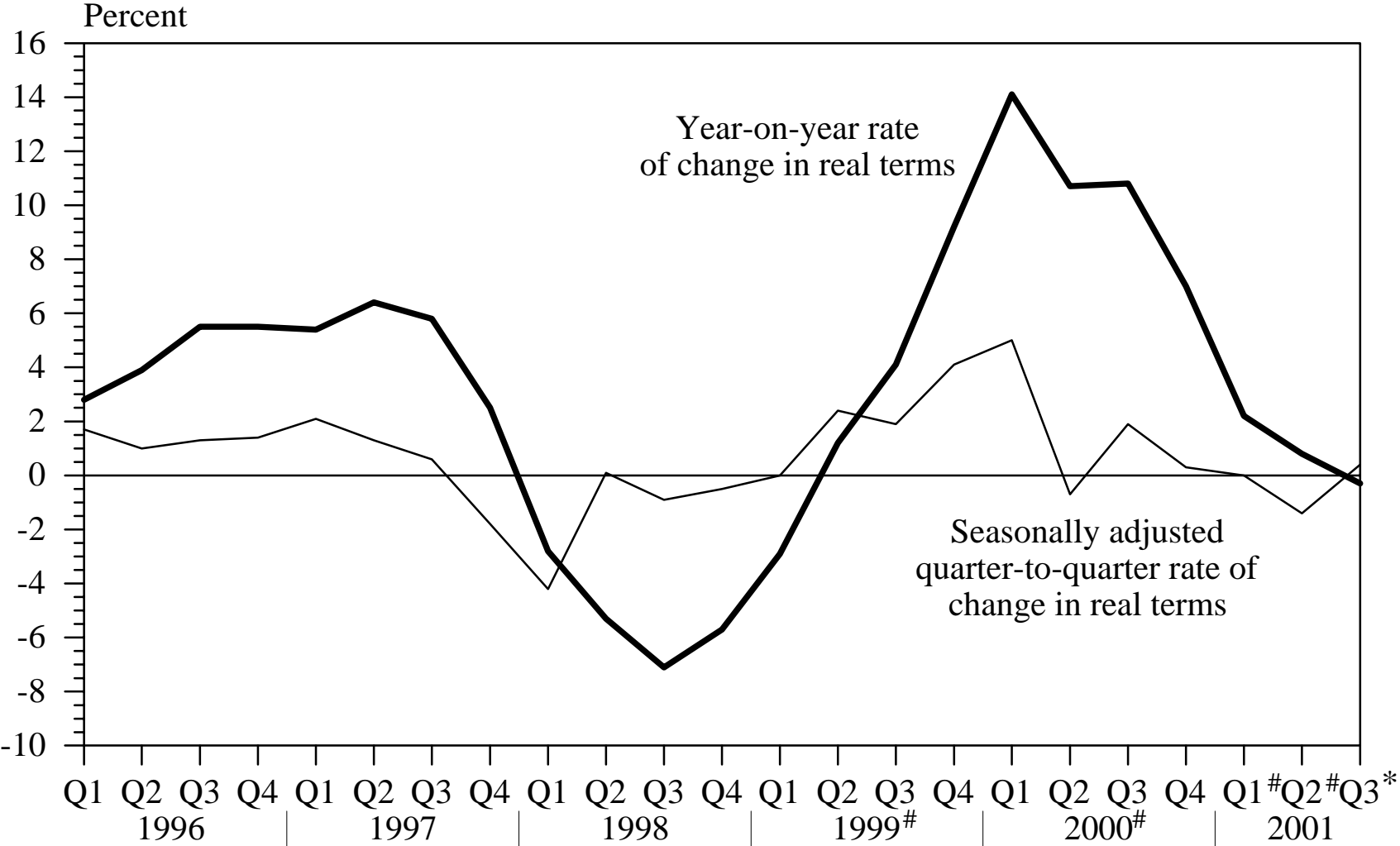
41. For comparison, the forecasts on Hong Kong's GDP made by a selection of international organisations and local analysts are depicted in **Table 4**. In the wake of the 911 incident, most of the private sector analysts have lowered their respective forecasts further. Their latest forecasts of the growth rate in real terms of GDP in 2001 range from -1% to 0.7%, averaging at -0.3%.

42. On the price front, the *Composite CPI* has remained on a decline, as prices are kept down amidst the economic slow-down and keen competition in the local consumption market. More recently, cost pressure on the local front in regard to wages and rentals has tended to ease again, while price pressure on the external front through import prices is also receding. The announced waiver of public housing rentals for December will have the effect of lowering the Composite CPI in that month by around 2 percentage points. With a 1.4% decline already recorded in the first ten months of this year, the forecast rate of change in the Composite CPI for 2001 as a whole is thus lowered further to -1.6%, from -1.3% in the August update. The forecast rate of change in the *GDP deflator* in 2001 is nevertheless kept unchanged at -1%, broadly in line with the outturn so far in the year.

(The Third Quarter Economic Report 2001 is now on sale at the Government Publications Centre on Ground Floor, Low Block, Queensway Government Offices, at \$76 a copy. Both the hard and soft copy of the report can also be purchased on-line at http://www.statisticalbookstore.gov.hk/desc_eng.htm at the same price, yet with a postage charge for the hard copy.)

(The expenditure-based GDP figures up to the third quarter of 2001 are published in the report of the Gross Domestic Product, Third Quarter 2001, which is now also on sale at the Government Publications Centre at Queensway, at \$22 per copy. Both the hard and soft copy of the report can also be purchased on-line at http://www.statisticalbookstore.gov.hk/desc_eng.htm at the same price, yet with a postage charge for the hard copy.)

Hong Kong's Gross Domestic Product



Notes : (#) Revised figures.

(*) Preliminary figures.

Table 1

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

| | <u>1999</u> [#] | <u>2000</u> [#] | <u>Q1</u> [#] | <u>2000</u> | | | <u>Q1</u> [#] | <u>2001</u> | |
|--|--------------------------|--------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | | | | <u>Q2</u> [#] | <u>Q3</u> [#] | <u>Q4</u> [#] | | <u>Q2</u> [#] | <u>Q3</u> ⁺ |
| <i>Change in real terms of GDP and its main expenditure components (%)</i> | | | | | | | | | |
| Private consumption expenditure | 0.7 | 5.5 | 8.7 | 5.1 | 5.6 | 2.6 | 3.0 | 3.6 | 1.3 |
| Government consumption expenditure | 3.3 | 2.1 | 3.7 | 2.7 | 2.5 | -0.6 | 3.9 | 4.1 | 6.2 |
| Gross domestic fixed capital formation | -17.5 | 9.8 | 5.7 | 5.4 | 14.8 | 13.1 | 11.5 | 1.3 | 3.7 |
| <i>of which :</i> | | | | | | | | | |
| Building and construction | -11.0 | -7.7 | -14.9 | -10.8 | -1.3 | -2.3 | -1.2 | 1.9 | -6.8 |
| Real estate developers' margin | -25.2 | -9.4 | -19.5 | -17.5 | -2.4 | 4.0 | -5.7 | 4.3 | -4.2 |
| Machinery and equipment | -19.4 | 25.8 | 32.9 | 21.2 | 27.3 | 23.4 | 22.6 | 0.3 | 9.4 |
| Total exports of goods | 3.7 | 17.1 | 20.7 | 17.7 | 17.7 | 13.3 | 4.2 | -1.9 | -4.0 |
| Domestic exports | -7.2 | 7.5 | 16.2 | 8.3 | 8.2 | -0.8 | -12.8 | -8.5 | -12.4 |
| Re-exports | 5.4 | 18.5 | 21.4 | 19.1 | 19.0 | 15.2 | 6.5 | -1.0 | -3.0 |
| Imports of goods ^(a) | 0.1 | 18.1 | 22.9 | 18.8 | 18.4 | 13.4 | 5.3 | -0.7 | -3.4 |
| Exports of services | 5.7 | 14.1 | 15.8 | 18.2 | 14.0 | 9.5 | 6.2 | 6.3 | 1.5 |
| Imports of services | -3.1 | 2.1 | -0.9 | 3.3 | 3.4 | 2.7 | 3.9 | 1.0 | -2.0 |
| Gross Domestic Product | 3.0 | 10.5 | 14.1 | 10.7 | 10.8 | 7.0 | 2.2 | 0.8 | -0.3 |
| GDP at current market prices (\$ billion) | 1,228 | 1,267 | 302 | 308 | 327 | 330 | 304 | 309 | 325 |
| GDP at constant (1990) market prices (\$ billion) | 809 | 894 | 209 | 213 | 235 | 236 | 214 | 215 | 234 |
| Change in inventories at constant (1990) market prices (\$ billion) | -11 | 15 | 5 | 4 | 4 | 2 | 1 | 1 | -1 |
| <i>Change in the main price indicators (%)</i> | | | | | | | | | |
| GDP deflator | -5.4 | -6.6 | -7.1 | -7.5 | -6.3 | -5.5 | -1.8 | -0.6 | -0.3 |
| Composite Consumer Price Index ^{(b)(c)} | -4.0 | -3.8 | -5.1 | -4.5 | -2.8 | -2.5 | -2.0 | -1.3 | -1.0 |
| Consumer Price Index (A) ^{(b)(c)} | -3.3 | -3.0 | -4.1 | -3.4 | -2.0 | -2.2 | -2.0 | -1.1 | -0.7 |

Notes : (#) Revised figures.

(+) Preliminary figures.

(a) Including an estimate of imports of gold for industrial use.

(b) From the fourth quarter of 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the year-on-year rates of change are computed from the 1994/95-based CPI series. Splicing has been applied to the indices to maintain continuity.

(c) Final figures.

Table 2

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

| | <u>2000</u> | | | | <u>2001</u> | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>Q1[#]</u> | <u>Q2[#]</u> | <u>Q3[#]</u> | <u>Q4[#]</u> | <u>Q1[#]</u> | <u>Q2[#]</u> | <u>Q3⁺</u> |
| <i>Change in real terms of GDP and its main expenditure components (%)</i> | | | | | | | |
| Private consumption expenditure | 4.9 | -0.1 | 0.7 | -3.2 | 5.4 | 1.2 | -1.9 |
| Government consumption expenditure | 0.9 | -2.8 | 0.7 | 0.6 | 5.4 | -2.7 | 2.9 |
| Gross domestic fixed capital formation | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Total exports of goods | 6.1 | 2.0 | 4.9 | 0.7 | -2.1 | -5.0 | 3.1 |
| Domestic exports | 9.9 | -4.8 | 0.9 | -4.7 | -3.4 | -1.1 | -2.8 |
| Re-exports | 5.6 | 3.0 | 5.4 | 1.3 | -2.0 | -5.5 | 3.8 |
| Imports of goods ^(a) | 6.3 | 0.7 | 6.3 | 0.5 | -0.8 | -6.4 | 4.0 |
| Exports of services | 3.4 | 4.2 | 6.3 | -4.9 | 0.6 | 4.0 | 1.6 |
| Imports of services | -0.5 | 4.4 | 0.8 | -2.1 | 0.8 | 1.3 | -1.8 |
| Gross Domestic Product[^] | 5.0 | -0.7 | 1.9 | 0.3 | * | -1.4 | 0.4 |
| <i>Change in the main price indicators (%)</i> | | | | | | | |
| GDP deflator | -2.0 | -2.4 | -0.4 | -0.9 | 2.0 | -1.3 | * |
| Composite Consumer Price Index^{(b)(c)} | -1.2 | -0.7 | -0.6 | -0.1 | -0.6 | * | -0.4 |
| Consumer Price Index (A) ^{(b)(c)} | -1.2 | -0.7 | -0.5 | * | -0.8 | 0.3 | -0.2 |

Notes : (#) Revised figures.

(+) Preliminary figures.

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

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

(*) Change of less than 0.05%.

(a) Including an estimate of imports of gold for industrial use.

(b) From the first quarter of 2000 onwards, the quarter-to-quarter rates of change in the seasonally adjusted Consumer Price Indices are computed from the 1999/2000-based CPI series. Before then, the quarter-to-quarter rates of change are computed from the 1994/95-based CPI series.

(c) Final figures.

Table 3**Forecast growth rates of the Gross Domestic Product
and its main expenditure components and forecast rates of change
in the main price indicators for 2001**

| | Forecast for 2001 as released <u>on 31.8.2001</u> (%) | November update of the forecast for 2001 released <u>on 30.11.2001</u> (%) |
|--|---|---|
| <i>Growth rate in real terms of :</i> | | |
| Private Consumption Expenditure | 2.5 | 2.5 |
| Government Consumption Expenditure | 3 | 4.5 |
| Gross Domestic Fixed Capital Formation | 2.2 | 1.7 |
| <i>of which:</i> | | |
| Building and construction | -0.3 | -3.0 |
| Real estate developers' margin | -1.5 | -1.5 |
| Machinery and equipment | 4.2 | 4.2 |
| Total Exports of Goods | -1.1 | -2.6 |
| Domestic exports | -9.5 | -11 |
| Re-exports | 0 | -1.5 |
| Imports of Goods | -0.4 | -1.8 |
| Exports of Services | 5.5 | 3.5 |
| Imports of Services | 1.5 | 0 |
| Gross Domestic Product (GDP) | 1 | 0 |
| <i>Rate of change in :</i> | | |
| GDP Deflator | -1 | -1 |
| Composite Consumer Price Index | -1.3 | -1.6 |

Table 4
2001 GDP and price forecasts
by selected international organisations and private sector analysts

| | Date of release | GDP (growth | Private consumption expenditure rate | Gross domestic fixed capital formation | | Total exports of goods terms | Exports of services (%) | Rate of change in consumer prices (%) | Reference source |
|-------------------------------------|--------------------|-----------------|---|---|------|---------------------------------------|--------------------------------|--|---|
| | | | | in | real | | | | |
| International organisations: | | | | | | | | | |
| IMF | May 2001 | 3.5 | -- | -- | -- | -- | -- | 0.5 | World Economic Outlook, May 2001. |
| | Oct 2001 | 0.6 | -- | -- | -- | -- | -- | -1.4 | World Economic Outlook, Oct 2001. |
| ADB | Apr 2001 | 4 | -- | -- | 5.3 | -- | 1 | 1 | Asian Development Outlook, 2001. |
| | Nov 2001 | -0.4 | -- | -- | -5.9 | -- | -1.4 | -1.4 | Asian Development Outlook, 2001 Update, Nov 2001. |
| World Bank | Mar 2001 | 4.1 | -- | -- | -- | -- | -- | -- | East Asia Update, Mar 2001. |
| | Oct 2001 | 0.8 | -- | -- | -- | -- | -- | -- | East Asia Update, Oct 2001. |
| Private sector analysts: | | | | | | | | | |
| Hongkong Bank | Jan 2001 | 3.4 | -- | -- | -- | -- | -- | -- | Sing Tao Daily, 19 Jan 2001. |
| | Mar 2001 | 2.2 | 0.7 | 4.6 | 2.7 | 2.5 | 0 | 0 | Asian Economic Insight, Vol 35, 22 Mar 2001. |
| | Jul 2001 | 1.8 | 0.9 | 7.4 | -- | -- | -1 | -1 | Asian Economic Insight, Vol 52, 26 July 2001. |
| | Nov 2001 | -0.5 | 1.9 | -1 | -- | -- | -1.3 | -1.3 | Asian Economic Insight, Vol 64, 22 Nov 2001. |
| Standard Chartered Bank | May 2001 | 3 | -- | -- | -- | -- | -- | -1 | Economics Department, Standard Chartered Bank, May 2001. |
| | Aug 2001 | 2 | -- | -- | -- | -- | -- | -1 | Economics Department, Standard Chartered Bank, Aug 2001. |
| | Oct 2001 | -0.7 | -- | -- | -- | -- | -- | -1.5 | Hong Kong update - October 2001, Standard Chartered Bank. |
| Bank of China | Mar 2001 | 3-3.5 | -- | -- | -- | -- | -- | -- | Hong Kong Economic Times, 22 Mar 2001. |
| | May 2001 | 3.2 | -- | -- | -- | -- | -- | -0.5 | Ming Pao, 23 May 2001. |
| | Jul 2001 | 2.6 | 2.2 | 6 | 2 | 3.8 | -1.3 | -1.3 | Economic Review, Vol I No.7 2001 Index, July 2001. |
| | Aug 2001 | 2 | -- | -- | -- | -- | -- | -- | Hong Kong Economic Journal, 31 Aug 2001. |
| | Sep 2001 | 0 | -- | -- | -- | -- | -- | -- | Hong Kong Economic Times, 28 Sep 2001. |
| Hang Seng Bank | May 2001 | 3 | -- | -- | -- | -- | -- | -0.5 | Economic Research Department, Hang Seng Bank, May 2001. |
| | Jul 2001 | 2 | 2 | 4.4 | -2 | 2.5 | -1 | -1 | Hang Seng Economic Monthly, July 2001. |
| | Sep 2001 | 0.5 | -- | -- | -- | -- | -- | -- | South China Morning Post, 28 Sep 2001. |
| | Oct 2001 | -1 | 2 | -1 | -2.9 | 3.6 | -1.5 | -1.5 | Economic Research Department, Hang Seng Bank, October 2001. |

Table 4 (cont'd)

**2001 GDP and price forecasts
by selected international organisations and private sector analysts**

| | Date of release | GDP (growth | Private consumption expenditure rate | Gross domestic fixed capital formation | | Total exports of goods terms | Exports of services (%) | Rate of change in consumer prices (%) | Reference source |
|--|--------------------|-----------------|---|---|------|---------------------------------------|--------------------------------|--|---------------------|
| | | | | in | real | | | | |
| Bank of East Asia | Mar 2001 | 4 | -- | -- | -- | -- | -- | Hong Kong Economic Times, 22 Mar 2001. | |
| | May 2001 | 2.8 | -- | -- | -- | -- | 0 | Economic Research Department, Bank of East Asia, May 2001. | |
| | Aug 2001 | 1.9 | -- | -- | -- | -- | -1.1 | Economic Research Department, Bank of East Asia, Aug 2001. | |
| | Sep 2001 | 0 | -- | -- | -- | -- | -- | South China Morning Post, 28 Sep 2001. | |
| Dao Heng Bank | May 2001 | 2.6 | 2.4 | 9.8 | 3 | 2.8 | -1 | Economic Research Department, Dao Heng Bank, May 2001. | |
| | Aug 2001 | 2 | 2.3 | 8.7 | -0.4 | 2 | -1.2 | Economic Research Department, Dao Heng Bank, Aug 2001. | |
| | Aug 2001 | 0 | 1.5 | 1 | -2 | 1.5 | -1.3 | Market Focus, 31 Aug 2001. | |
| | Oct 2001 | -0.5 | 2 | -2 | -4.3 | -0.4 | -1.5 | Market Focus, 3 Oct 2001. | |
| Hong Kong General Chamber of Commerce | Jan 2001 | 4.8 | -- | -- | -- | -- | 2 | The Bulletin, Jan 2001. | |
| | May 2001 | 2.8 | -- | -- | -- | -- | 0 | Chamber press release, 28 May 2001. | |
| | Sep 2001 | 0.7 | -- | -- | -- | -- | -- | Hong Kong Economic Journal, 12 Sep 2001. | |
| Credit Suisse First Boston | Jan 2001 | 4.7 | -- | -- | -- | -- | -- | Apple Daily, 6 Jan 2001. | |
| | May 2001 | 3.3 | 2 | 8 | -- | -- | -1.1 | Credit Suisse First Boston, May 2001. | |
| | Nov 2001 | -0.2 | -- | -- | -- | -- | -1.2 | Credit Suisse First Boston, Nov 2001. | |
| Merrill Lynch | Mar 2001 | 4 | -- | -- | -- | -- | -- | Asian Wall Street Journal, 22 Mar 2001. | |
| | May 2001 | 3.1 | -- | -- | -- | -- | -- | Apple Daily, 12 May 2001. | |
| | Aug 2001 | 0.7 | -- | -- | -- | -- | -- | Merrill Lynch, 31 Aug 2001. | |
| | Sep 2001 | 0 | -- | -- | -- | -- | -- | Merrill Lynch, 28 Sep 2001. | |
| | Nov 2001 | -0.1 | -- | -- | -- | -- | -1.7 | Asia Pacific : Economics & Strategy Focus, 27 Nov 2001. | |

Observation:

In the wake of 911 incident, most of the local analysts have further revised downward their forecasts of Hong Kong's economic growth for 2001. Their latest forecasts of GDP growth in real terms for 2001 range from -1% to 0.7%, averaging at -0.3%.