

Press Release

(embargoed until 4:15 p.m. on 30 August 2002)

Economic Situation in the Second Quarter of 2002 and Updated GDP and Price Forecasts for 2002

The Government released today (Friday) the Half-yearly Economic Report 2002, together with the preliminary figure on Gross Domestic Product for the second quarter of 2002.

The Government Economist, Mr K Y Tang, described the economic situation in the second quarter of 2002 and provided updated GDP and price forecasts for the year.

MAIN POINTS

- * After receding in the past three quarters, the Hong Kong economy resumed positive growth in the second quarter of 2002, mainly propelled by a visible pick-up on the external front. On a year-on-year comparison, GDP increased by 0.5% in real terms in the second quarter of 2002, up from a 0.5% decrease in the first quarter (which is raised from a 0.9% decrease, mainly on account of a technical revision to GDP leading to change-over to a new 2000-based GDP series, as announced by the Census and Statistics Department on 1 August 2002). On a seasonally adjusted quarter-to-quarter comparison, GDP continued to rise, by 0.4% in real terms in the second quarter of 2002, having gone up by 0.2% in the first quarter (which is lowered from a 0.3% increase, again mainly on account of the technical revision to GDP).
- * Externally, exports of both goods and services performed better in the second quarter of 2002. On the back of firmer regional demand and more recently also improved external price competitiveness from a weaker US dollar, total exports of goods reverted to increase at 5.9% in real terms in the second quarter of 2002 over a year earlier, having declined for four consecutive quarters. Exports of services had a further notable rise of 8.6% in real terms in the second quarter of 2002 over a year earlier, bolstered by significant leaps in inbound tourism and offshore trade.
- * But locally, consumer spending was restrained by the unemployment hike and moderating wages, falling by 2.4% in real terms in the second quarter of 2002 from a year earlier. Investment spending remained weak, and fell by 1.7% in real terms in the second quarter of 2002 from a year earlier. Machinery and equipment intake was held back by subdued business climate and an overhang of excess capacity, which more than offset a moderate increase in building and construction output upon intensification of work on some major projects. There was a moderate replenishment of inventories in the second quarter of 2002.

- * As the labour market slackened distinctly further, the seasonally adjusted unemployment rate went up from 7.0% in the first quarter of 2002 to 7.7% in the second quarter (then further to a new high of 7.8% in the three months ending July). The underemployment rate nevertheless came down between these two quarters, from 3.2% to 2.9% (then further to 2.8% in the three months ending July).
- * In the August update of the economic forecasts for 2002, the forecast of GDP growth rate in real terms is revised up by half of a percentage point from the May update, to 1.5%. Yet this is primarily on account of the technical revision to GDP, which has the effect of lifting the GDP growth rate in the past few quarters by around 0.4 of a percentage point.
- * Hong Kong's exports of both goods and services should continue to benefit from the pick-up in regional demand, in particular demand in the mainland of China (the Mainland). Also, the recent distinct weakening in the US dollar should help lift Hong Kong's exports in the coming months.
- * But the near-term outlook for the domestic economy remains bleak. Consumers may still be less willing to spend, while companies may continue to hold back on their investment plans.
- * The latest GDP forecast has taken cognisance of likely caveats on both the external and domestic fronts. Externally, the US stock market woes and corporate issues, together with a spate of downbeat economic data, have aroused greater concern about the pace and sustainability of recovery in the US economy. The trend in US consumer spending is a key watch. A relapse would have inevitable knock-on effects on the rest of the world, including the European and East Asian economies. Domestically, apart from the continued slack in the labour market, there is also concern about the extent to which the better performance in exports is able to filter through to resurrect local demand.
- * There may nevertheless be upside potential if the growth momentum in exports of goods and services, helped by a now weaker US dollar, could be sustained, and if the transmission process to the local economy could bear fuller effect in due course.
- * On the price front, the recent weakening in the US dollar may affect import prices only with a time lag. Moreover, renewed downward pressure on wages and rentals will keep local prices down. The package of relief measures in the 2002-03 Budget will also continue to carry a downward effect on prices. With the 3.0% decline year-on-year in the Composite CPI in the first seven months of 2002 being closely in line with earlier expectations, the forecast rate of change in the Composite CPI in 2002 is maintained at -2.8% in the August update. The forecast rate of change in the GDP deflator in 2002 is nevertheless lowered by half of a percentage point from the May update, to -2%. Again, this is mainly to incorporate the effect of the technical revision to GDP.

DETAILS

GDP

All figures pertaining to GDP at the overall and the component levels in this press release are based on the revised 2000-based GDP series, as was released by the Census and Statistics Department on 1 August 2002.

2. According to the preliminary figure on *Gross Domestic Product (GDP)* released by the Census and Statistics Department today, the economy reverted to positive growth at 0.5% in real terms in the second quarter of 2002 over a year earlier, following a 0.5% decline in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP continued to rise, by 0.4% in real terms in the second quarter of 2002, after a 0.2% rise in the first quarter (*Chart*).

3. The latest figures on GDP and its major expenditure components up to the second quarter of 2002, 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 second quarter of 2002 are described below.

External trade

4. On visible trade, *total exports of goods* (comprising re-exports and domestic exports) reverted to increase at 5.9% in real terms in the second quarter of 2002 over a year earlier, having declined for four consecutive quarters and by 2.4% in the first quarter. For the first half of 2002 as a whole, total exports of goods were up by 1.9% in real terms over a year earlier, much improved from the 6.6% fall in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rose further, by 5.2% in real terms in the second quarter of 2002, following a 6.7% leap in the first quarter.

5. The growth in Hong Kong's merchandise exports in the first half of 2002 was mainly driven by a distinct pick-up in exports to the region. Exports to the conventional markets remained on a decline in the early part of the year, yet also showing visible improvement in the more recent months. Total exports of goods to *East Asia* as a whole, having reverted to increase at 5% in real terms in the first quarter, picked up markedly further to a 9% rise in the second quarter of 2002 over a year earlier. Within this total, growth was particularly robust in exports to the Mainland, Singapore, the Republic of Korea, Thailand and the Philippines, offsetting the continued decline in exports to Japan and Taiwan. Total exports of goods to *North America* also picked up over the past few months, along with a relative strengthening in import demand in the United States and Canada, yielding a moderate growth of 4% in real terms in the second quarter of 2002 over a year earlier, in stark contrast to a 12% plunge in the first quarter. Total exports of goods to the *European Union* continued to be curbed by subdued

demand in the EU economy and earlier weakness of the euro, with declines of 12% and 4% respectively in real terms in the first and second quarters of 2002 over a year earlier.

6. *Imports of goods* rose by 6.0% in real terms in the second quarter of 2002 over a year earlier, as against a 4.0% decline in the first quarter. It mirrored closely the pick-up in re-exports in the second quarter, but the relative improvement in retained imports also mattered. *Retained imports* rose slightly, by 1.3% in real terms in the second quarter of 2002 over a year earlier, yet coming after a 9.0% fall in the first quarter. For the first half of 2002 as a whole, imports of goods had a small increase of 1.1% in real terms over a year earlier, improved from a 5.7% fall in the second half of 2001. Retained imports still shrank by 3.7% in real terms in the first half of 2002 over a year earlier, after a 4.8% decrease in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of goods and retained imports rose by 6.3% and 6.5% respectively in real terms in the second quarter of 2002, after increases at 6.0% and 1.8% in the first quarter.

7. On invisible trade, *exports of services* accelerated to a marked increase of 8.6% in real terms in the second quarter of 2002 over a year earlier, following a 7.7% leap in the first quarter. This was mainly underpinned by a further pick-up in offshore trade and in inbound tourism, as well as a sustained notable growth in exports of transportation services. For the first half of 2002 as a whole, exports of services rose by 8.2% in real terms over a year earlier, ascending from the 4.5% increase in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, exports of services went up further, by 3.7% in real terms in the second quarter of 2002, after a 2.5% increase in the first quarter.

8. On the other hand, *imports of services* remained weak, falling by 4.0% in real terms in the second quarter of 2002 over a year earlier. In particular, imports of travel services and transportation services showed enlarged declines. Taken together with a 1.3% fall in the first quarter, imports of services went down by 2.6% in real terms in the first half of 2002 over a year earlier, same as the decrease in the second half of 2001. On a seasonally adjusted quarter-to-quarter comparison, imports of services were down by 1.8% in real terms in the second quarter of 2002, having risen by 0.6% in the first quarter.

9. On the trade balance, with a faster increase in the value of total exports of goods than in the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis narrowed to \$28.8 billion or 4.0% of the value of imports of goods in the first half of 2002. Concurrently, the *invisible trade surplus*, also reckoned on a BoP basis, rose markedly further to \$69.1 billion or 75.6% of the value of imports of services in the first half of 2002. Taken together, the *combined surplus* reckoned on a BoP basis expanded significantly, to \$40.3 billion or 4.9% of the total value of imports of goods and services in the first half of 2002, from \$11.6 billion or 1.4% in the same period in 2001.

Domestic demand

10. Local consumer spending slackened further in recent months, as income moderated along with the fall in employment, and as concern about job security also weakened the inclination to spend. On a year-on-year comparison, *private consumption expenditure (PCE)* fell by 2.4% in real terms in the second quarter of 2002 over a year earlier, down from the 0.3% decrease in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, PCE fell by 1.0% in real terms in the second quarter of 2002, after a 0.5% rise in the first quarter.

11. *Government consumption expenditure (GCE)* reckoned on a national accounts basis went up further by 2.7% in real terms in the second quarter of 2002 over a year earlier, following a 2.2% rise in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE increased by 0.1% in real terms in the second quarter of 2002, after a 0.5% rise in the first quarter.

12. *Gross domestic fixed capital formation*, as representing overall investment spending, had a further decline of 1.7% in real terms in the second quarter of 2002 over a year earlier, yet distinctly narrowed from the 12.3% plunge in the first quarter. Analysed by major component, *expenditure on machinery, equipment and computer software* continued to be held back by subdued business climate, with a further decline of 7.0% in real terms in the second quarter of 2002 over a year earlier, following a 20.1% dip in the first quarter. Against this, *expenditure on buildings and construction* reverted to increase at 3.5% in real terms in the second quarter of 2002 over a year earlier, having fallen by 6.5% in the first quarter. This was mainly due to intensification of work on some major projects, including Hong Kong Disneyland and Science Park in the public sector, and Container Terminal No. 9 and International Financial Centre Phase II in the private sector. With a further increase in building output from the private sector, *real estate developers' margin* rose by 7.3% in real terms in the second quarter of 2002 over a year earlier, sustained from a 5.3% rise in the first quarter.

13. Having decreased for three consecutive quarters, there was a moderate replenishment of *inventories* in the second quarter of 2002.

The property market

14. The sales market for *residential property* turned more active in the first half of 2002, particularly in the second quarter. At the beginning of the first quarter, market transactions were fairly intensive. A gradual tapering ensued, when buying interest was dampened by the distinct setback in the economy, worsened employment situation, and an abundant supply of new flats coming on stream. By the second quarter, market sentiment improved again, upon the more upbeat results of the two land auctions held in April and June, as well as the Government's announcement to resume sale of subsidised sale flats yet in a

cautious and orderly manner after expiry of the ten-month moratorium at end-June. There was a noticeable resurrection of buying interest in the primary market especially for some new sales projects, as further price discounts and other concessions were offered by developers. The secondary market was also activated, albeit to a lesser extent. As to the leasing market for residential property, activity stayed at a relatively low level for most of the first half of the year.

15. On *commercial property*, the rental market for *office space* turned more sluggish in the first half of 2002, as demand dwindled further amidst new moves of corporate downsizing and rationalisation within the entire business sector and particularly in the information technology and financial services fields. In order to improve occupancy, landlords had become more lenient on the lease terms, especially for longer leases, by way of greater rental reductions and longer rent-free period. The sales market for office space was likewise weak, as the declining rental yield and the bleak business outlook kept investors on the sideline. The rental market for *shopping space* was slack in the first half of 2002, as retail business generally weakened further. Larger rental cuts and more flexible lease terms were commonly offered by landlords. The sales market for shopping space remained quiet. Acquisition interest was hampered by unattractive rental yield relative to the investment risk involved. On *industrial property*, the rental market stayed depressed in the first half of 2002. The weak performance of the local manufacturing sector and the further cost trimming measures taken by some of the information technology and business services firms continued to curb the demand for such premises. The sales market for industrial property was also quiet.

The labour market

16. Labour market conditions slackened distinctly further in the second quarter of 2002, as reduced labour demand consequential to the economic setback, coupled with continued expansion in labour supply, led to a further marked loosening in the manpower resource balance. The *seasonally adjusted unemployment rate* rose to 7.7% in the second quarter of 2002, from 7.0% in the first quarter. Yet the *underemployment rate* went down to 2.9% in the second quarter of 2002, from 3.2% in the first quarter, against the uptrend seen in the past three quarters. However, this might just be due to some of the underemployed persons becoming unemployed in the more recent months. (In the three months ending July 2002, the seasonally adjusted unemployment rate rose to a new high of 7.8%, while the underemployment rate fell further to 2.8%.)

17. On a year-on-year comparison, *total employment* as enumerated from households shrank by 1.9% in the second quarter of 2002, worsened from the 1.0% decrease in the first quarter of 2002 and even more from the 1.4% rise in 2001. There were more extensive corporate downsizing and lay-offs, and employers had adopted an even more cautious attitude towards staffing. On the

other hand, *total labour force* continued to expand steadily, by 1.5% in the second quarter of 2002, following increases of 1.7% in the first quarter of 2002 and 1.6% in 2001. To a large extent, this was attributable to continued growth in the population of working age, amidst a sustained net people inflow. Also contributed was a rise in the labour force participation rate over the past year, especially that for middle-aged females. On a quarter-to-quarter comparison and bearing in mind the influence of seasonality, total employment decreased by 0.7% in the second quarter of 2002, following a 0.6% fall in the first quarter. Total labour force, having increased by 0.2% in the first quarter of 2002, showed virtually nil change in the second quarter. These differential growth rates loosened the manpower resource balance further, thereby pushing the unemployment rate even higher.

18. Labour income continued to moderate. In the first quarter of 2002, *labour earnings* were lower by 0.6% in money terms over a year earlier, after increases of 0.4% in the fourth quarter of 2001 and 1.8% for 2001 as a whole. Nevertheless, netting out the decline in consumer prices as reflected by the Composite CPI, labour earnings were still up by 2.1% in real terms in the first quarter of 2002 over a year earlier, though somewhat smaller than the 2.5% gain in the fourth quarter of 2001.

Prices

19. Overall consumer prices remained on a downtrend in the second quarter of 2002. On the external front, import prices continued to drift lower, upon a general softening in world commodity prices and subdued price pressure in the major supplier economies. The recent distinct weakening in the US dollar, though tending to lift import prices in due course, did not seem to have much of an impact so far. On the domestic front, costs and prices also moved lower, amidst a slack local demand prompting further moderation in labour wages and property rentals. Local retailers continued to offer large discounts on many items in order to boost sales. Moreover, there was downward effect from the relief measures as announced in the 2002-03 Budget, including the additional rates concession and the waiver of water and sewage charges.

20. The *Composite Consumer Price Index* fell by 3.2% in the second quarter of 2002 from a year earlier, widened from the 2.6% decline in the first quarter. For the first half of 2002 as a whole, the Composite CPI declined by 2.9% over a year earlier, as compared to a 1.6% fall in 2001. On a seasonally adjusted quarter-to-quarter comparison, the fall in the Composite CPI in the second quarter of 2002, at 0.6%, was nevertheless smaller than that in the first quarter, at 1.1%.

21. The *GDP deflator*, as a broad measure of overall price change in the economy, fell by 2.1% in the second quarter of 2002 over a year earlier, same as the decrease in the first quarter. This refers to a revised series for the GDP

deflator, in parallel with that for GDP. Within the GDP deflator, the *domestic demand deflator* had a larger year-on-year decline of 4.2% in the second quarter of 2002 than that of 3.1% in the first quarter. This was mainly attributable to an accelerated drop in the price deflators for private consumption expenditure and for gross domestic fixed capital formation, as well as a renewed fall in the price deflator for government consumption expenditure. The *total final demand deflator* nevertheless had a slightly smaller year-on-year decline in the second quarter of 2002 than in the first quarter, at 3.6% as against 3.7%, reflecting largely a lesser decrease in the price deflators for exports of both goods and services. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator fell further by 1.4% in the second quarter of 2002, having fallen by 0.2% in the first quarter.

The financial sector

22. The Hong Kong dollar exchange and money markets held broadly stable in the first half of 2002, with the spot *exchange rate* of the Hong Kong dollar against the US dollar stayed close to the linked rate during the period. The premium of the twelve-month forward rate of the Hong Kong dollar against the US dollar was generally stable during the period. It rose temporarily to above 250 pips (each pip equivalent to HK\$0.0001) in mid-March. But it soon fell back and narrowed distinctly further to 23 pips at end-June 2002, as against 235 pips at end-2001.

23. Tracking closely the movements in the US dollar under the linked exchange rate system, the Hong Kong dollar fell markedly against almost all the major currencies during the second quarter of 2002, offsetting the moderate gains during the first quarter. Comparing June 2002 with December 2001, the Hong Kong dollar on month-average was lower by 3.2% against the Japanese yen, 6.4% against the euro, and 2.9% against the pound sterling. Taking all the major currencies together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* on month-average fell to 103.5 in June 2002, from 105.4 in December 2001.

24. Local inter-bank *interest rates* firmed up slightly during the first quarter of 2002, but declined during the second quarter, reflecting in part an increase in inter-bank liquidity. With no further monetary easing in the United States in the first half of 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority remained unchanged at 3.25% throughout the period. The best lending rate of the major commercial banks also stayed unchanged, at 5.13%. The average savings deposit rate rose marginally, from 0.15% at end-2001 to 0.16% at end-June 2002. The average spread of the best lending rate over the three-month time deposit rate narrowed slightly, from 4.64 percentage points in the second half of 2001 to 4.63 percentage points in the first half of 2002.

25. *Hong Kong dollar deposits* increased by 1.0% during the second quarter of 2002, reversing a 1.3% fall during the first quarter. On the other hand, *Hong Kong dollar loans* went down by 0.7% during the second quarter of 2002, having risen by 0.7% during the first quarter. As a result, the Hong Kong dollar loan-to-deposit ratio eased back to 89.1% at end-June 2002, from 90.7% at end-March. Yet this was still slightly above the ratio of 88.8% at end-2001.

26. The local *stock market* was relatively more steady during the first quarter of 2002, but underwent significant ups and downs during the second quarter. Performance was generally overshadowed by weak sentiment amidst rising unemployment and an uncertain business outlook, apart from being much influenced by movements in the US stock market. The Hang Seng Index mostly hovered in the 10 000 – 11 000 range before mid-April. It picked up in the latter part of April, upon fund inflows and market expectation for no imminent rise in US interest rates. The Index rallied to a nine-month high of 11 975 on 17 May. But it fell back distinctly thereafter, as the downslide in the US stock market spilled over to affect major stock markets worldwide. Apart from greater concern about the pace of recovery in the US economy, wary about accounting irregularities in the corporate sector added to market anxiety. The Index receded to a seven-month low of 10 356 on 26 June, before bouncing back modestly to close the first half of 2002 at 10 599, 7.0% below the level at end-2001. (The local stock market underwent considerable gyrations since then, being affected distinctly by movements in the US stock market. The Hang Seng Index stood at 10 061 on 29 August.)

Updated GDP and price forecasts for 2002

27. The global economic situation has turned less sanguine over the past few months. In the United States, the stock market woes and corporate issues, together with a spate of more downbeat economic data, have aroused greater concern about the pace and sustainability of its economic recovery. The trend in US consumer spending is a key watch. In Europe, economic conditions have remained slack so far in the year, and with a more uncertain US economic outlook, sentiment there has also deteriorated lately. Nevertheless in East Asia, the recovery process has taken better hold, with most of the export-dependent economies in the region resuming positive growth by the second quarter. The Mainland economy, in particular, has continued to put up a robust performance on the back of thriving exports and strong domestic demand. Yet exports from the region as a whole will still hinge on the US economic outlook.

28. Following regular practice, the GDP and price forecasts for 2002 have been reviewed by individual components. The updated forecasts are presented in **Table 3**.

29. On visible trade, *total exports of goods* have staged a strong pick-up in the second quarter of 2002. With a lower base of comparison in the second half

of last year, and also with increased regional demand and improved price competitiveness of Hong Kong's exports upon a weaker US dollar, the outlook is for a further notable growth in these exports in the ensuing months. Thus, even allowing for some possible relapse in external demand in the period ahead, the forecast growth rate in real terms of total exports of goods in 2002 is still lifted considerably, to 5.4% in the present update, from 1.6% as put out earlier. Within total exports of goods, the forecast increase in real terms in *re-exports* is raised to 7% from 2.5%, but the forecast decline in real terms in *domestic exports* is lowered to 8% from 6.5%.

30. With a much faster growth now envisaged for re-exports, *imports of goods* are forecast for a 4.9% rise in real terms in 2002, up considerably from the 0.4% increase forecast earlier.

31. On invisible trade, in view of the broad-based and robust upturn in *exports of services* extending into the second quarter, and also the continuing impetus notably from inbound tourism and offshore trade, the forecast growth rate in real terms of exports of services in 2002 is revised up to 9% in the present update, from 5.5% as put out earlier. On the other hand, in the light of the larger-than-expected decline in *imports of services* in the first half of this year, and also the envisaged slack in domestic demand in the period ahead, imports of services are now forecast for a 0.5% decrease in real terms in 2002, down from the 0.5% increase forecast earlier.

32. In the domestic economy, in face of an almost across-the-board slip in local consumer spending in the second quarter, and with the propensity to spend in the near term likely to be still affected by high unemployment and wage restraint, the forecast rate of decline in real terms in *private consumption expenditure* in 2002 is pitched down to 1% in the present update, from 0.5% earlier.

33. On *government consumption expenditure*, having regard to the actual outturn so far in the year, the forecast growth rate in real terms in 2002 is now lowered to 2%, from 4% earlier.

34. Overall investment spending in the economy, as represented by *gross domestic fixed capital formation*, is now forecast for a 4.8% decline in real terms in 2002, up from the 8.6% forecast fall in the earlier update. A large part of this upward revision is due to the technical revision to GDP, specifically with computer software acquisition brought into the investment component within GDP.

35. Of the overall investment spending, *expenditure on machinery, equipment and computer software* is forecast to fall by 8.0% in real terms in 2002. The earlier forecast decline of 12.0% did not cover expenditure on computer software, and hence was not directly comparable to the present forecast. While

the prevailing subdued business climate does not help investment in the near term, there may still be some relative improvement later in the year, as the economy is expected to fare better and as the base of comparison drifts lower.

36. As to *expenditure on buildings and construction*, the forecast rate of decline in real terms in 2002 is narrowed to 2.1% in the present update, from 3.2% earlier. This reflects a better-than-expected outturn in the second quarter, but has also allowed for a possible relapse in activity in the period ahead, on the back of a sustained fall-off in building consents over the past several quarters.

37. Also reflecting a better-than-expected outturn in the first half of this year, *real estate developers' margin* in 2002 is now forecast for nil change in real terms, up from a 4% decline as forecast earlier.

38. *Inventories*, after a modest replenishment in the second quarter of 2002, should continue to build up in the rest of the year.

39. In the present update, the forecast growth rate in real terms of *GDP* for 2002 is put at 1.5%, half of a percentage point up from the earlier update. Yet after taking out the technical revision to GDP, the GDP forecast is basically unchanged. On the whole, the pick-up in external demand is envisaged to be largely offset by the sluggish domestic demand. As to the quarterly profile, a continuing uptrend is envisaged for the year, benefiting at least in part from a lower base of comparison in the second half of last year.

40. The latest GDP forecast has taken cognisance of likely caveats on both the external and domestic fronts. Externally, a relapse in the US economy would have inevitable knock-on effects on the rest of the world, including the European and East Asian economies. Domestically, apart from the continued slack in the labour market, there is also concern about the extent to which the better performance in exports is able to filter through to resurrect local demand. Yet there may be upside potential if the growth momentum in exports of goods and services, helped by a now weaker US dollar, could be sustained, and if the transmission process to the local economy could bear fuller effect in due course.

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**. A few analysts have recently adjusted their GDP forecasts for 2002 up or down. Yet in general, these forecasts may not have taken the technical revision to GDP into account. Their latest forecasts of GDP growth rate in real terms for 2002 range from 1% to 2.7%, averaging at 1.6%.

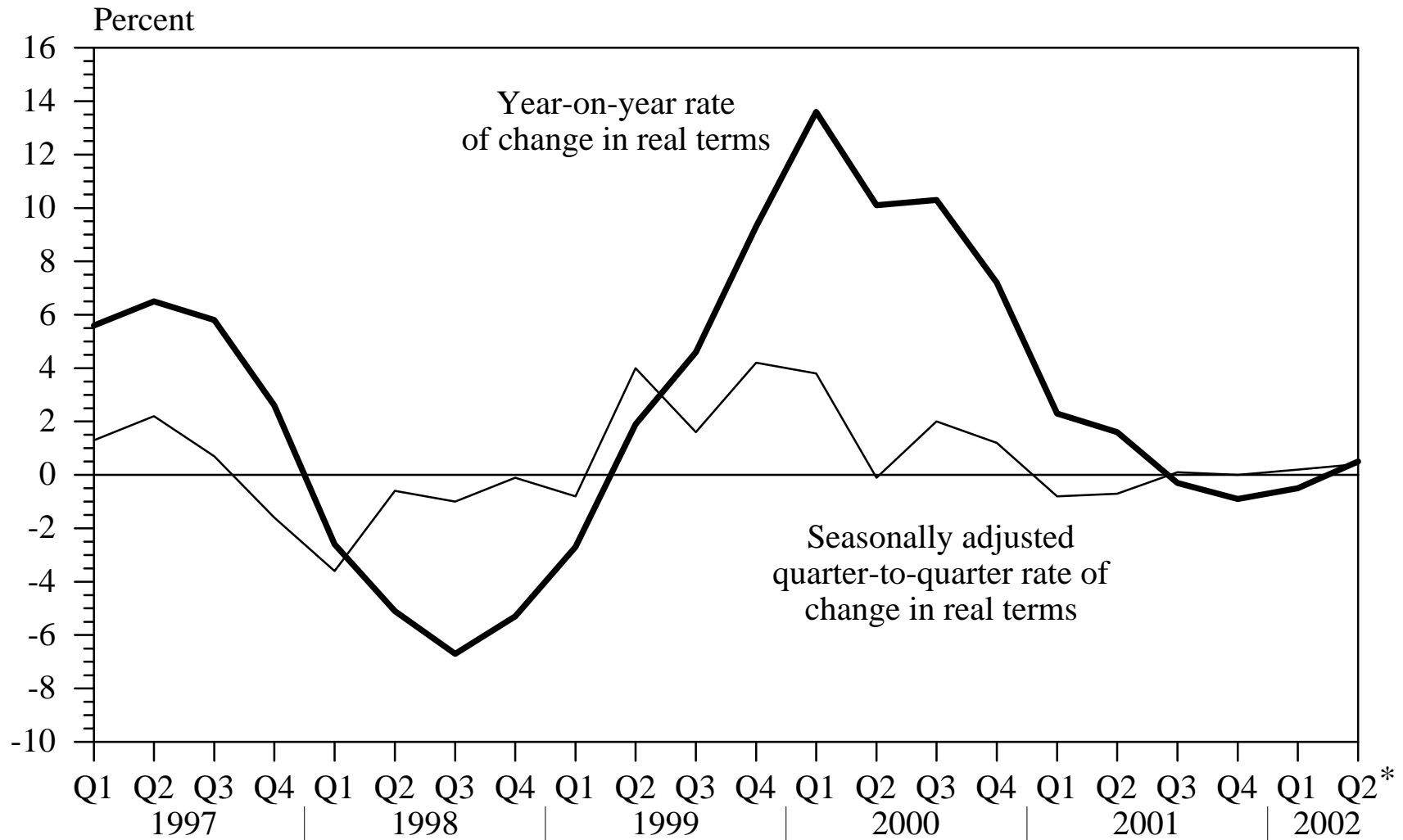
42. On the price front, the recent weakening in the US dollar may affect import prices only with a time lag. Moreover, renewed downward pressure on wages and rentals will keep local prices down. The package of relief measures in the 2002-03 Budget will also continue to carry a downward effect on prices. With the 3.0% decline year-on-year in the *Composite CPI* in the first seven months of

2002 being closely in line with earlier expectations, the forecast rate of change in the Composite CPI in 2002 is maintained at -2.8% in the present update. The forecast rate of change in the *GDP deflator* in 2002 is nevertheless lowered by half of a percentage point from the earlier update, to -2%. Again, this is mainly due to the effect of the technical revision to GDP.

(The Half-yearly Economic Report 2002 is now on sale at the Government Publications Centre on Ground Floor, Low Block, Queensway Government Offices, at \$96 a copy. Both the hard and soft copies 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 GDP figures up to the second quarter of 2002 are published in the Report of the Gross Domestic Product, Second Quarter 2002, which is now also on sale at the Government Publications Centre at Queensway, at \$22 per copy. Results of the 2002 round of major revision to GDP are published in the Special Report on Gross Domestic Product, which is also on sale at the Government Publications Centre at Queensway, at \$46 per copy. Both the hard and soft copies of the reports 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 series incorporating the results of a technical revision to GDP as announced by the Census and Statistics Department on 1 August 2002.

(*) Preliminary figures.

Table 1

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

	<u>2000</u>	<u>2001</u>		<u>2001</u>				<u>2002</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2⁺</u>	
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	5.9	1.4	2.8	2.8	1.3	-1.1	-0.3	-2.4	
Government consumption expenditure	2.0	6.0	4.9	4.8	7.3	7.0	2.2	2.7	
Gross domestic fixed capital formation	11.0	2.9	10.2	3.0	3.2	-4.2	-12.3	-1.7	
<i>of which :</i>									
Buildings and construction	-6.8	-2.2	-1.4	1.8	-6.4	-2.5	-6.5	3.5	
Real estate developers' margin	-9.7	-1.0	-5.8	3.9	-5.6	3.7	5.3	7.3	
Machinery, equipment and computer software	27.0	7.3	24.5	3.2	10.7	-5.8	-20.1	-7.0	
Total exports of goods	17.1	-3.3	3.6	-2.2	-4.4	-8.8	-2.4	5.9	
Domestic exports	7.5	-10.2	-13.0	-7.4	-11.9	-8.3	-11.1	-13.6	
Re-exports	18.5	-2.4	5.9	-1.6	-3.4	-8.9	-1.4	8.4	
Imports of goods ^(a)	18.2	-1.9	5.7	-0.5	-2.8	-8.7	-4.0	6.0	
Exports of services	12.9	5.9	7.4	7.6	3.7	5.3	7.7	8.6	
Imports of services	4.2	-0.2	3.3	1.5	-2.4	-2.8	-1.3	-4.0	
Gross Domestic Product	10.2	0.6	2.3	1.6	-0.3	-0.9	-0.5	0.5	
<u>GDP at current market prices (\$ billion)</u>	1,288	1,279	310	312	326	331	301	307	
<u>GDP at constant (2000) market prices (\$ billion)</u>	1,288	1,297	312	316	332	337	310	317	
<u>Change in inventories at constant (2000) market prices (\$ billion)</u>	14	-3	1	2	-3	-4	-3	2	
<i>Change in the main price indicators (%)</i>									
GDP deflator	-6.2	-1.4	-2.0	-1.7	-1.2	-0.8	-2.1	-2.1	
Composite Consumer Price Index^(b)	-3.8	-1.6	-2.0	-1.3	-1.0	-2.1	-2.6	-3.2	

Notes : (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

(+) Preliminary figures.

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

(b) 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>2001</u>				<u>2002</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>						
Private consumption expenditure	1.1	0.4	-0.9	-1.1	0.5	-1.0
Government consumption expenditure	5.4	-1.1	2.2	0.5	0.5	0.1
Gross domestic fixed capital formation	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total exports of goods	-2.8	-2.7	1.5	-6.4	6.7	5.2
Domestic exports	-2.5	-0.4	-3.1	-3.3	-3.7	-3.6
Re-exports	-2.8	-3.0	2.1	-6.7	8.0	6.2
Imports of goods ^(a)	-1.3	-3.8	3.0	-8.0	6.0	6.3
Exports of services	*	3.2	1.5	0.4	2.5	3.7
Imports of services	-1.0	1.2	-1.4	-1.5	0.6	-1.8
Gross Domestic Product[^]	-0.8	-0.7	0.1	*	0.2	0.4
<i>Change in the main price indicators (%)</i>						
GDP deflator	1.2	-1.5	-0.3	-0.2	-0.2	-1.4
Composite Consumer Price Index^(b)	-0.6	*	-0.4	-1.1	-1.1	-0.6

Notes : (#) Revised series incorporating the results of a technical revision to GDP as announced on 1 August 2002. For details, see the *Special Report on Gross Domestic Product*, published by the Census and Statistics Department in August 2002.

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

(b) 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 2002**

	Forecast for 2002 as released on <u>31.5.2002</u> (%)	August update of the forecast for 2002 released on <u>30.8.2002*</u> (%)
<i>Growth rate in real terms of :</i>		
Private Consumption Expenditure	-0.5	-1
Government Consumption Expenditure	4	2
Gross Domestic Fixed Capital Formation	-8.6	-4.8
of which :		
Buildings and construction	-3.2	-2.1
Real estate developers' margin	-4	0
Machinery, equipment and computer software	-12.0	-8.0
Total Exports of Goods	1.6	5.4
Domestic exports	-6.5	-8
Re-exports	2.5	7
Imports of Goods	0.4	4.9
Exports of Services	5.5	9
Imports of Services	0.5	-0.5
Gross Domestic Product (GDP)	1	1.5
<i>Rate of change in :</i>		
GDP Deflator	-1.5	-2
Composite Consumer Price Index	-2.8	-2.8

Note : (*) The effect of a technical revision to GDP, as contained in the new GDP series announced by the Census and Statistics Department on 1 August 2002, is incorporated into the latest forecasts, whereas the forecasts released earlier on were based on the old GDP series.

Table 4

**2002 GDP and price forecasts for Hong Kong
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	Dec 2001	1	--	--	--	--	--	0	World Economic Outlook, Dec 2001.
	Apr 2002	1.5	--	--	--	--	--	-2.5	World Economic Outlook, Apr 2002.
	May 2002	1.5	1.3	1.9	3.1	--	--	-2.5	IMF Country Report, No. 02/100, May 2002
ADB	Nov 2001	2	--	--	--	--	--	0.3	Asian Development Outlook, 2001 Update, Nov 2001.
	Apr 2002	2.1	--	--	--	--	--	-0.8	Asian Development Outlook, 2002, Apr 2002.
World Bank	Oct 2001	3.6	--	--	--	--	--	--	East Asia Update, Oct 2001.
	Apr 2002	1.8	--	--	--	--	--	--	East Asia Update, Apr 2002.
Private sector analysts:									
Hongkong Bank	Feb 2002	1.8	0.8	0.9	--	--	--	-1.7	Asian Economic Insight, Vol. 74, 21 Feb 2002.
	Mar 2002	2.7	-0.7	-2.9	--	--	--	-3	Asian Economic Insight, Vol. 79, 28 Mar 2002.
Standard Chartered Bank	Jan 2002	1	--	--	--	--	--	-1	Hong Kong Snapshot, 11 Jan 2002.
	Mar 2002	1	--	--	--	--	--	-3.8	Hong Kong Snapshot, 20 Mar 2002.
	Jun 2002	1	--	--	--	--	--	-3	Hong Kong Snapshot, 3 Jun 2002.
Bank of China	Jan 2002	1	1.8	1.5	1.7	3	--	-2	BOC Economic Review Monthly, Vol 1 No.1 2002 Index.
	May 2002	2	--	--	--	--	--	--	Hong Kong Economic Journal, 31 May 2002.
	Jun 2002	2	0	-6.2	2.5	6	--	-2.5	BOC Economic Review Monthly, Vol 1 No.6 2002 Index.
Hang Seng Bank	Dec 2001	1	1	-0.5	1.9	3.2	--	-1	Hang Seng Economic Monthly, Nov/Dec 2001.
	May 2002	1	0.3	-3.8	5.6	5.4	--	-3	Economic Research Department, Hang Seng Bank, 28 May 2002.
	Jun 2002	1.5	0	-6.6	5.4	5.9	--	-3	Hang Seng Economic Monthly, Jun 2002.
Bank of East Asia	Jan 2002	0	--	2.3	-0.6	--	--	-1	Hong Kong Economic Journal, 3 Jan 2002.
	May 2002	0	-1.5	-3	-0.6	4	--	-2.5	Economic Research Department, Bank of East Asia, 28 May 2002.
	Jun 2002	1	-0.8	-8.6	2	7	--	-3	Economic Research Department, Bank of East Asia, Jun 2002.

Table 4 (cont'd)

**2002 GDP and price forecasts for Hong Kong
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				
Dao Heng Bank	Dec 2001	1	1.5	5.1	4.6	5.4	-1	Hong Kong Economic Outlook, 18 Dec 2001.	
	Mar 2002	1	0	-3.3	4	5.2	-3	Economic Analysis, 28 Mar 2002.	
	Jun 2002	1	-0.2	-8	4.3	5.8	-3	Hong Kong Economic Outlook, 16 Jun 2002.	
Hong Kong General Chamber of Commerce	Dec 2001	2	2.5	4	-2.2	3	--	Media Statement, 13 Dec 2001.	
	May 2002	2	--	--	--	--	--	Ming Pao, 1 May 2002.	
Economist Intelligence Unit	Jan 2002	2	1	2.4	--	--	-1	Country Forecast, Jan 2002.	
	Apr 2002	1.7	0.5	1.2	--	--	-3	Country Forecast, Apr 2002.	
	Jul 2002	1.8	0.5	-7	--	--	-2.6	Country Forecast, Jul 2002.	
	Aug 2002	1.8	0.5	-7	--	--	-2.9	Country Forecast, Aug 2002.	
Credit Suisse First Boston	Feb 2002	1.8	--	--	--	--	--	Asian Daily, 11 Feb 2002.	
	May 2002	1.6	--	--	--	--	-2.5	Hong Kong Economic Journal, 31 May 2002.	
	Jun 2002	1.6	0.9	-4.2	--	--	-2.9	Emerging Markets Quarterly, 10 Jun 2002.	
	Aug 2002	1.3	0.9	-4.2	--	--	--	Asian Daily, 28 Aug 2002.	
Merrill Lynch	Feb 2002	2	--	--	2.1	--	-0.2	Asia Pacific : Economics & Strategy Focus, 20 Feb 2002.	
	Apr 2002	2.5	--	--	--	--	-1	Asia Pacific : Economics & Strategy Focus, 30 Apr 2002.	
	Aug 2002	2	--	--	--	--	-2.5	The Asian Equity Economist, 14 Aug 2002.	

Observation :

While a number of private sector analysts maintain their GDP forecasts over the past few months, some others have adjusted their forecasts up or down. Their latest forecasts of the growth rate in real terms of GDP for 2002 range from 1% to 2.7%, averaging at 1.6%.