

## **Press Release**

(embargoed until 4:15 p.m. on 29 November 2002)

### **Economic Situation in the Third Quarter of 2002 and Updated GDP and Price Forecasts for 2002**

The Government released today (Friday) the Third Quarter Economic Report 2002, together with the preliminary figure on Gross Domestic Product for the third quarter of 2002.

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

#### **MAIN POINTS**

- \* The Hong Kong economy, after turning around to a modest growth in the second quarter, picked up visibly further in the third quarter of 2002. The growth impetus continued to come from the external sector. On a year-on-year comparison, GDP accelerated to a 3.3% growth in real terms in the third quarter of 2002, from a 0.8% growth in the second quarter (latter revised up from the 0.5% growth put out earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP rose for the third quarter in a row, by 2.5% in real terms in the third quarter of 2002, following a 0.7% increase in the second quarter (latter also revised up from the 0.4% rise put out earlier).
- \* Externally, exports of goods continued to benefit from sustained strong demand in the mainland of China (the Mainland), generally increased import intake in the region, and a further gain in external price competitiveness from the earlier weakening in the US dollar. In the third quarter of 2002, total exports of goods surged by 11.4% in real terms over a year earlier, the first double-digit growth recorded since the fourth quarter of 2000. Exports of services performed even better, upon an extensive surge in inbound tourism, offshore trade and transportation services. In the third quarter of 2002, there was a 14.1% leap in real terms over a year earlier.
- \* The domestic sector, whilst still weak, also showed some relative improvement in overall terms. Consumer spending had a lesser year-on-year decline of 1.5% in real terms in the third quarter of 2002. Yet investment spending remained sluggish, falling by 5.0% in real terms in the third quarter of 2002 over a year earlier, as reduced intake of machinery, equipment and computer software outweighed the modest increase in overall building and construction output. There was a more visible build-up in inventories in the third quarter, along with the pick-up in overall economic activity.

- \* In tandem with the pick-up in overall economic activity, labour market conditions improved lately. Having risen for four consecutive quarters, the seasonally adjusted unemployment rate fell back, from 7.7% in the second quarter to 7.4% in the third quarter of 2002 (and further to 7.2% in the three months ending October). The underemployment rate stood at 2.9% in these two quarters (though edging slightly higher to 3.0% in the three months ending October).
- \* In view of a better economic performance shown up in the third quarter, a strong momentum in external trade possibly extending to the rest of the year, as well as a distinctly lower base of comparison towards the end of last year, the forecast growth rate in real terms of GDP for 2002 is raised to 2%, up from the forecast of a 1.5% growth in the August update.
- \* Exports of both goods and services for the rest of the year should continue to be buoyed by vibrant regional demand, particularly demand in the Mainland. Also rendering impetus to Hong Kong's exports in the near term is improved external price competitiveness from the earlier weakening in the US dollar.
- \* Locally, steadier employment conditions should render some support to consumer spending. Also, with lower interest cost and the pick-up in overall economic activity, investment spending should be able to show some relative improvement.
- \* Yet there are still caveats on both the external and domestic fronts. Externally, a relapse in the US economy, if to come about, would have ramifications on global economic recovery, with inevitable spill-over effects on the Hong Kong economy. On this, the latest cut in US interest rates, coupled with continued US fiscal expansion, should render the desired support. Plausible military action on Iraq remains a current uncertainty, and the bouts of terrorist activities in recent times have again hit sentiment. Domestically, there is concern that the on-going adjustment to economic restructuring and continuing downward pressure on prices may keep holding back demand.
- \* On the price front, local prices should remain subdued in the near term, in face of renewed moderation in wages and rentals. Import prices are likely to stay soft, amidst persistent deflation in the major supplier economies and generally mild global demand, though with some impact from the earlier weakening in the US dollar possibly filtering through. Recognising a 3.1% year-on-year decline in the Composite CPI in the first ten months of 2002, its forecast rate of change for 2002 as a whole is revised slightly downward to -3%, from -2.8% in the August update. As to the GDP deflator, with the decline so far this year also larger than earlier expected, its forecast rate of change in 2002 is trimmed down to -2.5%, from -2% in the August update.

## 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 picked up visibly further to a 3.3% growth in real terms in the third quarter of 2002 over a year earlier, from a 0.8% growth in the second quarter (latter revised up from the 0.5% growth put out earlier). On a seasonally adjusted quarter-to-quarter comparison, GDP rose for the third quarter in a row, by 2.5% in real terms in the third quarter of 2002, following a 0.7% rise in the second quarter (latter also revised up from the 0.4% rise put out earlier) (*Chart*).

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

### External trade

4. According to the merchandise trade statistics, *total exports of goods* (comprising re-exports and domestic exports) surged by 11.4% in real terms in the third quarter of 2002 over a year earlier, the first double-digit growth recorded since the fourth quarter of 2000. Together with a 1.8% rise in the first half of the year, total exports of goods grew by 5.3% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods leaped for the third consecutive quarter, by 4.0% in real terms in the third quarter of 2002, after increases of 6.7% in the first quarter and 5.3% in the second quarter.

5. Exports to the region continued to play a prominent role in driving the growth in merchandise exports. Total exports of goods to *East Asia* as a whole picked up distinctly further to a double-digit growth in real terms in the third quarter of 2002 over a year earlier. This robust growth, whilst almost across-the-board, was particularly marked in exports to the Republic of Korea, Malaysia, Thailand and the Philippines. Exports to the Mainland and Singapore continued to leap. Exports to Japan and Taiwan, having been on a sustained decline over the past few quarters, reverted to positive growth by the third quarter. Total exports of goods to *North America* improved further over the past few months, along with increased import intake in the United States and Canada, and further helped by improved relative price competitiveness of Hong Kong's exports upon the earlier

weakening in the US dollar. The downtrend in total exports of goods to the *European Union* likewise seemed to have been arrested in the third quarter of 2002, helped by steadier import demand in the EU economy lately and a generally stronger euro after April.

6. *Imports of goods* likewise picked up further in the third quarter of 2002, with a marked increase of 10.8% in real terms over a year earlier. This was underpinned by the notable performance of re-exports and also by a faster rise in imports for local use. Together with a 0.9% increase in the first half of the year, imports of goods rose by 4.4% in real terms in the first nine months of 2002 over a year earlier. Within the total imports, *retained imports* firmed up to a growth of 5.2% in real terms in the third quarter of 2002 over a year earlier. But with a 3.9% decline in the first half the year, retained imports still fell by 0.8% in real terms in the first nine months of 2002 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, imports of goods continued to rise strongly, by 4.7% in real terms in the third quarter of 2002, following increases of 6.0% in the first quarter and 6.2% in the second quarter. Retained imports also had a further solid increase, by 5.6% in real terms in the third quarter of 2002, having risen by 2.0% in the first quarter and by 6.3% in the second quarter.

7. On invisible trade, *exports of services* remained buoyant upon an extensive surge in inbound tourism, offshore trade and transportation services, with a leap of 14.1% in real terms in the third quarter of 2002 over a year earlier. With an already rather robust growth of 8.2% in the first half of the year, exports of services leaped by 10.3% in real terms for the first three quarters of 2002 as a whole over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, exports of services continued on the rise, by 6.5% in real terms in the third quarter of 2002, after increases of 2.5% in the first quarter and 3.7% in the second quarter.

8. *Imports of services* had a much more moderate rise, by 1.0% in real terms in the third quarter of 2002 over a year earlier. Taken together with a 2.6% fall in the first half of the year, imports of services still had a decline of 1.4% in real terms in the first three quarters of 2002 as a whole over a year earlier. Yet on a seasonally adjusted quarter-to-quarter comparison, imports of services went up by 3.6% in real terms in the third quarter of 2002, following an increase of 0.6% in the first quarter and a decrease of 1.8% in the second quarter.

9. On the trade balance, with the value of exports of goods increasing distinctly faster than the value of imports of goods, the *visible trade deficit* reckoned on a BoP basis narrowed significantly to \$34.4 billion or 2.9% of the value of imports for the first nine months of 2002 as a whole. Concurrently, the *invisible trade surplus*, also reckoned on a BoP basis, rose markedly further to \$110.5 billion or 77.8% of the value of imports of services for the first three quarters of 2002 as a whole. Taken together, the *combined surplus* reckoned on a BoP basis surged to \$76.1 billion or 5.8% of the total value of imports of goods

and services in the first three quarters of 2002, as compared to \$33.4 billion or 2.5% in the same period in 2001.

### **Domestic demand**

10. Local consumer spending continued to be affected by moderated income and weakness in the asset markets. On a year-on-year comparison, *private consumption expenditure (PCE)* fell by 1.5% in real terms in the third quarter of 2002 over a year earlier, albeit narrowed from the decline of 2.4% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, PCE rose back by 0.2% in real terms in the third quarter of 2002, after a 1.0% decrease in the second quarter.

11. *Government consumption expenditure (GCE)* reckoned on a national accounts basis rose by 3.6% in real terms in the third quarter of 2002 over a year earlier, after a 2.7% rise in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, GCE went up further by 2.8% in real terms in the third quarter of 2002, having risen marginally by 0.1% in the second quarter.

12. *Gross domestic fixed capital formation*, as representing overall investment spending, remained sluggish. The 5.0% decline in real terms in the third quarter of 2002 over a year earlier was much enlarged from the 0.6% fall in the second quarter. Analysed by major component, *expenditure on machinery, equipment and computer software* plummeted by 12.9% in real terms in the third quarter of 2002 over a year earlier, further down from the 7.0% decline in the second quarter. This was mostly affected by the bleak business outlook and an overhang of excess capacity, while a high base of comparison last year was also relevant. *Expenditure on buildings and construction* nevertheless rose further, by 4.7% in real terms in the third quarter of 2002 over a year earlier, having turned up to a 5.9% growth in the second quarter. This was supported largely by a further increase in private sector building activity, as work on several major projects continued to gather momentum in recent months. In tandem with larger building output from the private sector, *real estate developers' margin* leaped further, by 17.0% in real terms in the third quarter of 2002 over a year earlier, having risen by 11.0% in the second quarter.

13. There was a more visible build-up of *inventories* in the third quarter of 2002, along with the pick-up in overall economic activity.

### **The property market**

14. The sales market for *residential property* turned more subdued in the third quarter of 2002, following some pick-up in trading activity in the first half of the year, more in the second quarter than in the first quarter. The slow-down in transactions occurred mostly in July and August, when market sentiment was dented by high unemployment, a further plunge in share prices, and a large

overhang of new flat supply. In the primary market, developers held off sales of new development projects. In the secondary market, activity slackened even more. Yet by September, there was some resurrection in transactions, as the major developers went for a fresh round of sales promotion with further price discounts and other more generous concessions to arouse buying interest. This rebound in the primary market was however much at the expense of the secondary market. As to the rental market for residential property, performance remained weak in overall terms.

15. On *commercial property*, the rental market for *office space* stayed sluggish in the third quarter of 2002, as demand shrank amidst more extensive downsizing and rationalisation in the corporate sector. Grade A office space in prime locations was impinged more, owing to a more abundant supply of both new space and existing space. The sales market for office space was likewise weak, in the light of the unattractive rental yield against the risk involved. The rental market for *shopping space* was also slack in the third quarter of 2002, being dampened by the continued setback in retail trade. The sales market for shopping space remained subdued. Acquisitions were scant, given the heavy capital commitment for a purchase. On *industrial property*, the rental market stayed quiet in the third quarter of 2002. Demand for conventional factory space was curbed by the persistent fall-off in local manufacturing activity, while demand for industrial premises as back-up service centres had also waned. The sales market for industrial property remained in the doldrums.

### **The labour market**

16. The labour market, though still slack, showed some relative improvement in the third quarter of 2002, as employment rose from the preceding quarter to catch up with the increasing labour force. The *seasonally adjusted unemployment rate*, at 7.4% in the third quarter of 2002, came down from 7.7% in the second quarter, and slightly more from the peak of 7.8% in May - July. On the other hand, the *underemployment rate* held steady, at 2.9% in both the second and third quarters of 2002. (In the three months ending October 2002, the seasonally adjusted unemployment rate declined further to 7.2%, yet the underemployment rate edged up to 3.0%.)

17. On a year-on-year comparison, *total employment* as enumerated from households contracted slightly, by 0.4% in the third quarter of 2002, distinctly narrowed from the 1.9% drop in the second quarter. As to *total labour force*, the growth rate picked up somewhat, to 2.0% in the third quarter of 2002, from 1.5% in the second quarter. This was attributable to higher labour force participation rates for females and for younger persons aged 15-19. On a quarter-to-quarter comparison and bearing in mind the influence of seasonality, total employment reverted to increase, by 1.5% in the third quarter of 2002, from a decrease of 0.7% in the second quarter. Total labour force rose also by 1.5% in the third quarter of 2002, following virtually nil change in the second quarter.

18. Labour income fell further in the second quarter of 2002. Specifically, *labour earnings* had a slightly larger decline, by 1.0% in money terms in the second quarter of 2002 over a year earlier, having decreased by 0.6% in the first quarter. Yet netting out the fall in consumer prices as reflected by the Composite CPI, labour earnings still went up, by 2.2% in real terms in the second quarter of 2002, similar to the 2.1% rise in the first quarter.

## Prices

19. By the third quarter of 2002, overall consumer prices had stayed on a downtrend for almost four years, and the decline had also widened for four quarters in a row. Domestically, subdued demand conditions and intensified market competition led retailers into larger price cuts and other concessions on their goods and services in order to promote sales. Also relevant in keeping local prices down were further falls in property rentals and labour wages. Meanwhile, the downward effect from the relief measures as announced in the 2002-03 Budget remained. Yet externally, import prices showed a narrowed decrease, in tandem with a rebound in world commodity prices and possibly also with some lagged effect emerging from the earlier weakening in the US dollar. This suggested that the recent accentuated decline in consumer prices was more domestically oriented.

20. On a year-on-year comparison, the *Composite CPI* went down by 3.5% in the third quarter of 2002 (and by 3.6% in October), further enlarged from the 3.2% fall in the second quarter. For the first nine months of 2002 as a whole, the Composite CPI was lower by 3.1%, nearly double the 1.6% decline in 2001. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI moved lower by 0.7% in the third quarter of 2002, slightly larger than the 0.6% decline in the second quarter.

21. The *GDP deflator*, as a broad measure of overall price change in the economy, likewise had a widened decline, by 3.0% in the third quarter of 2002 over a year earlier, after a 2.1% decrease in the second quarter. Within the GDP deflator, the *domestic demand deflator* had an enlarged year-on-year decline of 4.4% in the third quarter of 2002. This was attributable to a larger fall in the price deflators for private consumption expenditure, for gross domestic fixed capital formation, and for government consumption expenditure. Yet the *total final demand deflator* had a lesser year-on-year decline in the third quarter of 2002, by 3.3%. This was due to a smaller decrease in the price deflators for exports of goods and services. On a seasonally adjusted quarter-to-quarter comparison, the GDP deflator fell by 1.1% in the third quarter of 2002, after a decrease of 1.4% in the second quarter.

## The financial sector

22. The Hong Kong dollar exchange market remained broadly stable in the third quarter of 2002. The spot *exchange rate* of the Hong Kong dollar against the US dollar continued to stay close to the linked rate, moving within a narrow range of 7.798 to 7.800. As to the twelve-month forward rate, the premium against the spot rate held stable during most of the quarter, yet rose sharply since mid-September, amidst market concern over the protracted fiscal deficit. It surged to 134 pips (each pip equivalent to HK\$0.0001) at end-September 2002, distinctly up from 23 pips at end-June.

23. Under the linked exchange rate system, the movements in the exchange rates of the Hong Kong dollar against the other major currencies follow closely those in the US dollar. The US dollar and hence the Hong Kong dollar weakened against the major currencies during the third quarter of 2002, amidst greater uncertainty over sustainability of the US economic recovery. On the other hand, other major East Asian currencies, apart from the Renminbi, generally eased back against the Hong Kong dollar during the quarter. Comparing September 2002 with June 2002, the Hong Kong dollar on month-average was lower by 4.6% against the pound sterling, 2.6% against the euro, and 2.2% against the Japanese yen, but was higher by 4.5% against the Philippine peso, 1.6% against the Thai baht, and 0.9% against the New Taiwan dollar. Taking these currency movements together, the trade-weighted *Nominal Effective Exchange Rate Index of the Hong Kong dollar* on month-average fell by 0.5% during the third quarter of 2002, to 103.0 in September, from 103.5 in June.

24. Local inter-bank *interest rates* eased in August and then rose back in September, following broadly the movements in US interest rates. But the firming in local interest rates in September exceeded that of their US counterparts, reflecting market concern about the fiscal deficit situation in Hong Kong. As the US Fed Funds target rate was kept unchanged in the third quarter of 2002, the Base Rate under the Discount Window operated by the Hong Kong Monetary Authority (HKMA) was maintained at 3.25% during the quarter. The best lending rate of the major commercial banks stayed at 5.13%. Savings deposit rate offered by the major banks was also unchanged, at an average of 0.16%. The average spread of the best lending rate over the three-month time deposit rate widened slightly, from 4.68 percentage points in the second quarter of 2002 to 4.76 percentage points in the third quarter. (The US Fed Funds target rate was lowered by half of a percentage point to 1.25% on 6 November. HKMA in turn adjusted the Base Rate downward by the same magnitude to 2.75% on the next day. The major banks cut their best lending rate by 0.125 of a percentage point to 5.0%, and their savings deposit rate by almost the same magnitude to a historical low of 0.01%.)



25. *Hong Kong dollar deposits* fell by 1.5% during the third quarter of 2002, following a 1.0% rise during the second quarter. Concurrently, *Hong Kong dollar loans* declined by 1.2% during the third quarter of 2002, after a 0.8% decrease during the second quarter. As a result, the Hong Kong dollar loan-to-deposit ratio rose marginally, to 89.3% at end-September, from 89.1% at end-June.

26. The local *stock market* went through further gyrations in the third quarter of 2002, having already undergone significant ups and downs in the second quarter. While movements in the US stock market continued to exert a heavy influence on the local stock market, the lacklustre corporate performance and uncertain business outlook also posed a drag. The Hang Seng Index dipped below 10 000 towards the end of July, along with the plunge in US share prices amidst accentuated concern over US corporate frauds and a bumpier US economic recovery. It hovered around the 10 000 mark during August. Then it tumbled sharply in September, affected by the war pressure on Iraq as well as a spate of adverse US corporate news and US economic data. The Index plummeted to a 12-month low of 9 072 on 30 September, 14.4% lower than the closing at end-June. Against the closing at end-2001, it lost 20.4%. Share prices in the major stock markets overseas likewise took a plunge in the third quarter of 2002, with many of the indices losing more than 10% from the closing in the second quarter. (The local stock market remained volatile since then. The Hang Seng Index slid to 8 859 on 10 October, and then picked up distinctly to a high of 10 148 on 28 November.)

### **Updated GDP and price forecasts for 2002**

27. The global economy has faced greater uncertainties over the past few months. The US economy has shown more signs of a weaker recovery, marked by a fall-back in industrial activity and relapse in several forward indicators. Yet consumer spending, serving so far as a key support to its overall economic growth, still holds up quite well. The EU economy has only meagre growth, amidst subdued consumer spending, falling industrial activity and weak investment sentiment. On the other hand, the East Asian economies have generally continued on an upturn, benefiting from improvement in their export performance. The Mainland economy stands out as the prominent spot in the region, with its exports, domestic demand and inward foreign direct investment all surging ahead. Thus, while short-term growth outlook in the US and EU economies have dimmed, vibrant growth in the Mainland economy and the resurgence in intra-regional trade should continue to propel Hong Kong's exports of goods and services for the rest of the year.

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*, having already attained a double-digit growth in the third quarter of 2002, leaped even more in October notwithstanding a brief lockout at the US West Coast ports. With ocean cargo flows to the United States returning to normal by now, and even allowing for some downside in the export performance for the remaining two months of the year, the forecast growth rate in real terms of total exports of goods in 2002 is still lifted, to 7.1% in the current update, from 5.4% as put out earlier. Within the total exports of goods, the forecast increase in real terms in *re-exports* is raised to 9% from 7%, but the forecast decline in real terms in *domestic exports* is lowered to 9% from 8%, with the latter adjustment reflecting an accentuated structural shift away from domestic exports to re-exports and offshore trade.

30. With a faster growth now envisaged for re-exports and also with a possibly larger inventory replenishment, *imports of goods* are forecast to rise by 6.8% in real terms in 2002, up from the 4.9% increase forecast earlier.

31. On invisible trade, on account of the remarkable performance attained in the third quarter and with the broad-based surge likely to continue in the near term, the forecast growth rate in real terms of *exports of services* in 2002 is elevated to 11%, from 9% as put out earlier. As to *imports of services*, with the outturn so far in the year generally in line with expectations, the forecast rate of change in 2002 is kept unchanged, at -0.5%.

32. On the domestic front, as the outturn in *private consumption expenditure* in the third quarter is also in line with earlier expectations, the forecast rate of change in 2002 is kept unchanged, at -1%.

33. The forecast growth rate in real terms of *government consumption expenditure* in 2002 is likewise kept unchanged, at 2%.

34. Overall investment spending in the economy, as represented by *gross domestic fixed capital formation*, is now expected to decline by 4.1% in real terms in 2002, up from the earlier forecast of a 4.8% fall.

35. Within the overall investment spending, the forecast decline in real terms in *expenditure on machinery, equipment and computer software* in 2002 is kept unchanged, at 8.0%.

36. *Expenditure on buildings and construction* is forecast for a 1.2% decline in real terms in 2002, narrowed from the 2.1% fall in the earlier forecast. This is mainly in recognition of the further growth in such expenditure in the third quarter. Also, the downtrend in building consents has recently been arrested somewhat.

37. Also on account of a much better than expected outturn in the third quarter, *real estate developers' margin*, which measures the services rendered by developers in their new building projects rather than reflecting their business profits, is now forecast for a 5% increase in real terms in 2002, up from nil change in the earlier forecast.

38. *Inventories* are projected to build up further in the rest of the year, in line with improving domestic demand.

39. Overall, the forecast growth rate in real terms of *GDP* for 2002 is now put at 2%, half of a percentage point up from the earlier forecast of a 1.5% growth. While economic growth in the fourth quarter is expected to remain largely export-led, the domestic sector may also pick up somewhat.

40. Yet there are still caveats on both the external and domestic fronts. Externally, a relapse in the US economy, if to come about, would have ramifications on global economic recovery, with inevitable spill-over effects on the Hong Kong economy. On this, the latest cut in US interest rates, coupled with continued US fiscal expansion, should render the desired support. Plausible military action on Iraq remains a current uncertainty, and the bouts of terrorist activities in recent times have again hit sentiment. Domestically, there is concern that the on-going adjustment to economic restructuring and continuing downward pressure on prices may keep holding back demand.

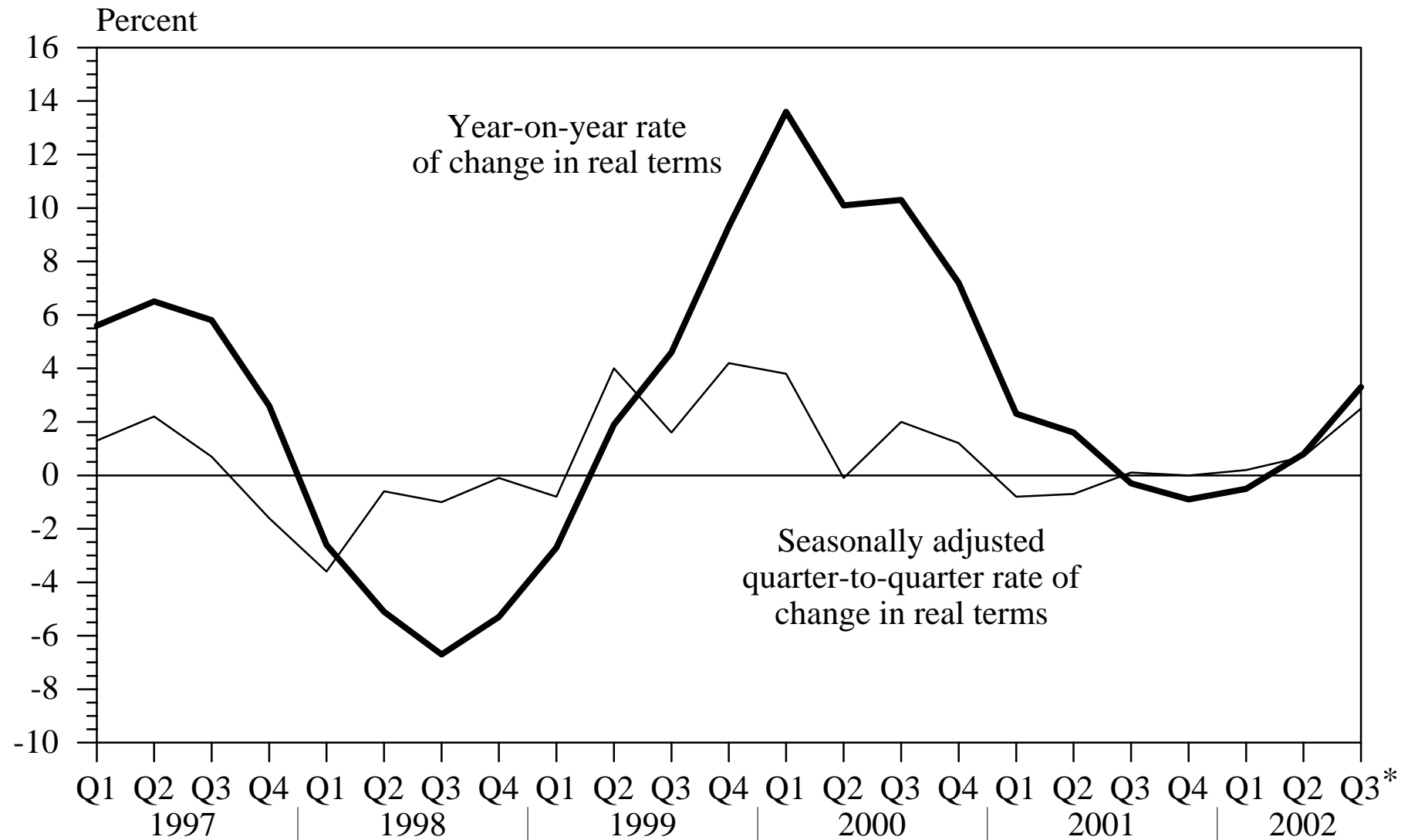
41. For comparison, the forecasts on Hong Kong's GDP made by a selection of international organisations and local analysts are depicted in **Table 4**. The latest forecasts of private sector analysts on GDP growth rate in real terms for 2002 mostly range from 1.2% to 2%, averaging at 1.5%.

42. On the price front, local prices should remain subdued in the near term, in face of renewed moderation in wages and rentals. Import prices are likely to stay soft, amidst persistent deflation in the major supplier economies and generally mild global demand, though with some impact from the earlier weakening in the US dollar possibly filtering through. Recognising a 3.1% year-on-year decline in the *Composite CPI* in the first ten months of 2002, its forecast rate of change for 2002 as a whole is revised slightly downward to -3%, from -2.8% in the August update. As to the *GDP deflator*, with the decline so far this year also larger than earlier expected, its forecast rate of change in 2002 is trimmed down to -2.5%, from -2% in the August update.

(The Third Quarter 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 be purchased on-line at [http://www.statisticalbookstore.gov.hk/desc\\_eng.htm](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 third quarter of 2002 are published in the Report of the Gross Domestic Product, Third Quarter 2002, which is now also on sale at the Government Publications Centre at Queensway, at \$22 per 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](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<sup>#</sup>



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<sup>\*\*</sup>  
(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<sup>#</sup></u>	<u>Q3<sup>+</sup></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	-1.5
Government consumption expenditure	2.0	6.0	4.9	4.8	7.3	7.0	2.2	2.7	3.6
Gross domestic fixed capital formation	11.0	2.9	10.2	3.0	3.2	-4.2	-12.3	-0.6	-5.0
<i>of which :</i>									
Buildings and construction	-6.8	-2.2	-1.4	1.8	-6.4	-2.5	-6.5	5.9	4.7
Real estate developers' margin	-9.7	-1.0	-5.8	3.9	-5.6	3.7	5.3	11.0	17.0
Machinery, equipment and computer software	27.0	7.3	24.5	3.2	10.7	-5.8	-20.1	-7.0	-12.9
Total exports of goods	17.1	-3.3	3.6	-2.2	-4.4	-8.8	-2.4	5.9	11.4
Domestic exports	7.5	-10.2	-13.0	-7.4	-11.9	-8.3	-11.1	-13.6	-7.6
Re-exports	18.5	-2.4	5.9	-1.6	-3.4	-8.9	-1.4	8.4	13.6
Imports of goods <sup>(a)</sup>	18.2	-1.9	5.7	-0.5	-2.8	-8.7	-4.0	6.0	10.8
Exports of services	12.9	5.9	7.4	7.6	3.7	5.3	7.7	8.6	14.1
Imports of services	4.2	-0.2	3.3	1.5	-2.4	-2.8	-1.3	-4.0	1.0
<b>Gross Domestic Product</b>	<b>10.2</b>	<b>0.6</b>	<b>2.3</b>	<b>1.6</b>	<b>-0.3</b>	<b>-0.9</b>	<b>-0.5</b>	<b>0.8</b>	<b>3.3</b>
GDP at current market prices (\$ billion)	1,288	1,279	310	312	326	331	301	308	326
GDP at constant (2000) market prices (\$ billion)	1,288	1,297	312	316	332	337	310	318	343
Changes in inventories at constant (2000) market prices (\$ billion)	14	-3	1	2	-3	-4	-3	2	3
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>-6.2</b>	<b>-1.4</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-3.0</b>
<b>Composite Consumer Price Index<sup>(b)</sup></b>	<b>-3.8</b>	<b>-1.6</b>	<b>-2.0</b>	<b>-1.3</b>	<b>-1.0</b>	<b>-2.1</b>	<b>-2.6</b>	<b>-3.2</b>	<b>-3.5</b>
Consumer Price Index (A) <sup>(b)</sup>	-3.0	-1.7	-2.0	-1.1	-0.7	-2.8	-2.8	-3.6	-4.1

Notes : (\*\*) The GDP figures in this table are based on the 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.

(#) Revised figures.

(+) Preliminary figures.

(a) Here imports of goods are valued on f.o.b. basis, instead of on c.i.f. basis as is 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<sup>#</sup></u>	<u>Q3<sup>+</sup></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	0.2
Government consumption expenditure	5.4	-1.1	2.2	0.5	0.5	0.1	2.8
Gross domestic fixed capital formation	N.A.	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	4.0
Domestic exports	-2.5	-0.4	-3.1	-3.3	-3.7	-3.6	1.3
Re-exports	-2.8	-3.0	2.1	-6.7	8.0	6.2	4.2
Imports of goods <sup>(a)</sup>	-1.3	-3.8	3.0	-8.0	6.0	6.3	4.6
Exports of services	*	3.2	1.5	0.4	2.5	3.7	6.5
Imports of services	-1.0	1.2	-1.4	-1.5	0.6	-1.8	3.6
<b>Gross Domestic Product<sup>^</sup></b>	<b>-0.8</b>	<b>-0.7</b>	<b>0.1</b>	<b>*</b>	<b>0.2</b>	<b>0.7</b>	<b>2.5</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>1.2</b>	<b>-1.5</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-1.4</b>	<b>-1.1</b>
<b>Composite Consumer Price Index<sup>(b)</sup></b>	<b>-0.6</b>	<b>*</b>	<b>-0.4</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-0.6</b>	<b>-0.7</b>
Consumer Price Index (A) <sup>(b)</sup>	-0.8	0.3	-0.2	-2.2	-0.6	-0.6	-0.7

Notes : (\*\*) The GDP figures in this table are based on the 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.

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

(b) 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>30.8.2002</u> (%)	November update of the forecast for 2002 released on <u>29.11.2002</u> (%)
<i>Growth rate in real terms of :</i>		
Private Consumption Expenditure	-1	-1
Government Consumption Expenditure	2	2
Gross Domestic Fixed Capital Formation	-4.8	-4.1
<i>of which :</i>		
Buildings and construction	-2.1	-1.2
Real estate developers' margin	0	5
Machinery, equipment and computer software	-8.0	-8.0
Total Exports of Goods	5.4	7.1
Domestic exports	-8	-9
Re-exports	7	9
Imports of Goods	4.9	6.8
Exports of Services	9	11
Imports of Services	-0.5	-0.5
<b>Gross Domestic Product (GDP)</b>	<b>1.5</b>	<b>2</b>
<i>Rate of change in :</i>		
<b>GDP Deflator</b>	<b>-2</b>	<b>-2.5</b>
<b>Composite Consumer Price Index</b>	<b>-2.8</b>	<b>-3</b>



Table 4

**2002 GDP and price forecasts for Hong Kong  
by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u> ( growth	<u>Private consumption expenditure</u> rate	<u>Gross domestic fixed capital formation</u> in real	<u>Total exports of goods</u> terms	<u>Exports of services</u> (%) )	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
<b>International organisations:</b>								
IMF	Dec 2001	1	--	--	--	--	0	World Economic Outlook, Dec 2001.
	Apr 2002	1.5	--	--	--	--	-2.5	World Economic Outlook, Apr 2002.
	Sep 2002	1.5	--	--	--	--	-3	World Economic Outlook, Sep 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.
	Sep 2002	1.4	--	--	--	--	-2.7	Asian Development Outlook, 2002 Update, Sep 2002.
World Bank	Oct 2001	3.6	--	--	--	--	--	East Asia Update, Oct 2001.
	Apr 2002	1.8	--	--	--	--	--	East Asia Update, Apr 2002.
	Nov 2002	1.6	--	--	--	--	--	East Asia Update, Nov 2002.
<b>Private sector analysts:</b>								
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.
	Sep 2002	2	-1	-4.6	--	--	-3	Asian Economic Insight, Vol. 97, 5 Sep 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.
	Sep 2002	1.5	--	--	--	--	-3	Hong Kong Snapshot, 9 Sep 2002.
Bank of China (Hong Kong)	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.
	Sep 2002	1.5	-0.8	-4.5	--	--	-3.1	Economics and Strategic Planning Department, Sep 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	Private consumption expenditure	Gross domestic fixed capital formation	Total exports of goods	Exports of services	Rate of change in consumer prices	Reference source
		( growth	rate	in real	terms	(%) )	(%)	
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, 28 May 2002.
	Jun 2002	1.5	0	-6.6	5.4	5.9	-3	Hang Seng Economic Monthly, Jun 2002.
	Sep 2002	1.5	-1	-5.1	--	--	-3	Economic Research Department, Sep 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, 28 May 2002.
	Jun 2002	1	-0.8	-8.6	2	7	-3	Economic Research Department, Jun 2002.
	Nov 2002	2	-1.5	-6	7.3	10	-3.3	Economic Research Department, 28 Nov 2002.
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, Jun 2002.
	Sep 2002	1.5	-1	-1	5.6	7.3	-3	Hong Kong Economic Outlook, Sep 2002.
Hong Kong General Chamber of Commerce	Dec 2001	2	2.5	4	-2.2	3	--	Media Statement, 13 Dec 2001.
	May 2002	2	--	--	--	--	--	Economic Comments, 31 May 2002.
	Nov 2002	1.6	--	--	--	--	-2.8	Chief Economist, 27 Nov 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.
	Sep 2002	1.8	-0.5	-5	--	--	-2.9	Country Forecast, Sep 2002.
	Oct 2002	1.4	-0.5	-5	--	--	-2.9	Country Forecast, Oct 2002.
	Nov 2002	1.3	-0.5	-5	--	--	-2.9	Country Forecast, Nov 2002.

**Table 4 (cont'd)**

**2002 GDP and price forecasts for Hong Kong  
by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u>	<u>Private consumption expenditure</u>	<u>Gross Domestic Fixed capital Formation</u>		<u>Total exports of goods</u>	<u>Exports of services</u>	<u>Rate of change in consumer prices</u>	<u>Reference source</u>
		( growth	rate	in	real	terms	(%) )	(%)	
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.
	Aug 2002	1.3	0.9	-4.2	--	--	--	--	Asian Daily, 28 Aug 2002
	Nov 2002	1.3	-0.6	-3.2	--	--	--	-3	Asian Daily, 27 Nov 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 April 2002.
	Aug 2002	2	--	--	--	--	--	-2.5	The Asian Equity Economist, 14 Aug 2002.
	Nov 2002	1.2	-0.6	-5.8	--	--	--	-3.1	The Asian Equity Economist, 20 Nov 2002.

**Observation :**

The latest forecasts of the private sector analysts on the growth rate in real terms of GDP for 2002 mostly range from 1.2% to 2%, averaging at 1.5%.