

## **NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE**

### **Price Adjustment Factors**

#### **PURPOSE**

This note announces the adoption of a new set of price adjustment factors for converting the cost estimate of capital works projects funded by the Capital Works Reserve Fund from constant September 2002 prices to money-of-the-day (MOD) prices.

#### **REVISED FORECAST**

2. On a half-yearly basis, we update the Government's forecast of inflation for construction works and adjust the price adjustment factors used in funding requests to the Public Works Subcommittee and Finance Committee.

3. At the last update undertaken in October 2002, the forecast rate of change in the prices of construction output was -3% for 2002, and the forecast trend rate of change over the period 2003 to 2006 was zero. PWSCI(2002-03)25 refers. These figures have been updated in March 2003. The current forecasts are -5.5% for 2003, and zero trend rate of change over the period 2004 to 2007.<sup>1</sup>

4. We will apply the latest forecasts and corresponding price adjustment factors as from April 2003 for the purpose of deriving MOD estimates for capital works projects.

---

1 There has been a technical change to the construction output series used in the forecast of inflation for construction works, with real estate developers' margin (REDM) now incorporated into private sector expenditure on building and construction (B&C). The change is in line with international statistical practice, and reflects the recognition that REDM is an integral part of private sector investment in B&C. With this change, the data series on overall B&C output prices has also been revised accordingly.



Financial Services and the Treasury Bureau  
March 2003