

II ECONOMIC DEVELOPMENTS DURING THE THIRD QUARTER 2003

1. OVERVIEW

While the prolonged weaknesses in the global economy continued into the third quarter of 2003, there were signs of improvement in growth in some areas. However, the so-called signs of improvement in the third quarter were still overshadowed by negative reports. The US Gross Domestic Product (GDP) for example in the September quarter, increased by 1.7 percent to be 3.3 percent higher over the year. At the same time, the US unemployment figure continued to be a problem for the economy as this may affect consumer spending in the future. With inflation so low in the third quarter, the Federal Reserve opted to leave interest rates unchanged. In Japan, a September report showed that industrial production rose strongly and is now 2.1 percent higher than a year ago aided by improved profitability and business investments. On the downside, employment in Japan has not changed over the past year, having fallen for much of the past six years to 5.1 per cent by September 2003. While the major economies produced mixed results, Australia and New Zealand both had strong domestic economies that saw the appreciation of both currencies. However, both countries shared the same weakness relating to their exporting sector, due to weak global demand and appreciation of their exchange rates. In contrast to some positive signs in most major regions of the world, the euro area remained weak in the third quarter let down by fallen exports and stagnant consumption growth.

On the domestic side, national accounts figures for the September quarter are not yet available, but most of the other macroeconomic indicators were favourable in the third quarter of 2003. Exports continued to rise strongly, reflecting largely a remarkable increase in the export of garments. Likewise, tourism earnings and private remittances rose further while imports declined. As a result, the balance of payments recorded a larger overall surplus than the surplus in the June quarter. While industrial production fell, construction activity picked up as bank credit directed to the building and construction sector rebounded strongly during the quarter.

Agricultural production also recovered significantly from the previous quarter, as evident in the expansion in the overall supply of agricultural produce to the Fugalei Market. Consequently, the average prices of the selected commodities fell. This decline in the overall level of prices at the Market contributed largely to the slowing down of the annual rate of inflation to 1.9 percent from 8.1 percent in September 2002.

In comparison with the September quarter of 2002, most of the major economic indicators were stronger in the quarter under review. Exports were significantly higher, recording a 35 percent increase over the same quarter last year. Similarly, earnings from tourism and the net inflow of private remittances expanded 10 percent and 1 percent respectively. Industrial production was higher and the overall volume of agricultural produce expanded, which helped reduce the overall level of consumer prices. On the other hand, imports and construction activity were weaker.

After declining in the previous quarter, the availability of agricultural produce recovered by a notable 22 percent in the third quarter of 2003. This improvement in the overall supply reflected the significant increases in the availability of most of the selected commodities, particularly the supply of vegetables. Consequent to increased supply, the overall prices at the Market fell 4 percent. When compared to the same quarter last year, the overall supply was 4 percent higher, which resulted in a 7 percent fall in their average prices.

Industrial production slipped 1 percent in the three months to end September 2003, following a 13 percent increase in the previous quarter. The decreases in the production of electricity, cigarettes, timber and coconut cream were mainly responsible for the fall in the volume of production in the quarter under review. However, when compared to the same quarter last year, industrial output was 2 percent higher.

On the external front, total export earnings rose more than double in the third quarter of 2003

and was the largest quarterly increase in over four years. This remarkable performance in the export sector was attributed largely to a jump in proceeds from garments as both its volume and export price rose significantly. By comparison, total imports weakened 4 percent and, as a result, the merchandise trade deficit narrowed 15 percent. This improvement in the trade balance, combined with increased tourism earnings and private remittances, resulted in a marked reduction in the current account deficit to \$0.6 million from \$13.0 million in the preceding quarter. The capital account, on the other hand, recorded a net inflow of \$9.1 million. Consequently, the balance of payments recorded a large overall surplus of \$9.7 million compared with a \$0.6 million overall surplus in the June quarter of 2003.

The significant inflow of foreign funds during the September quarter raised the level of net foreign assets to \$175.2 million. Similarly, net domestic assets rose to \$181.1 million, increasing total money supply (M2) to \$356.3 million. This expansion in M2 was reflected in increases in all of its components except for foreign currency deposits of residents. The higher level of net domestic assets was a result of a \$14.7 million draw down in Government's net deposits with the monetary system and a \$4.9 million rise in credit to the private sector which outweighed a \$9.4 million drop in claims on public institutions and a \$4.0 million rise in the deficit on 'other items, net'. Reflecting the decline in lending to public institutions was a fall in loans channelled to the "Transport and communication" sector in the quarter under review. This was mainly due to the repayment of borrowings by Polynesian Airlines.

On prices, the Consumer Price Index (CPI) rose further by 1.8 percent, consequent of a further increase in the prices of local food items. However, on an annual average basis, the rate of inflation decelerated further to 1.9 percent at end September 2003 from 4.3 percent at end June 2003. The local component of the "Food" sub-group, which grew 6.2 percent, was largely responsible for the increase in the average level of consumer prices during the third quarter of 2003. In addition to the rise in local food prices, increases of 1.9 percent and 0.1 percent were

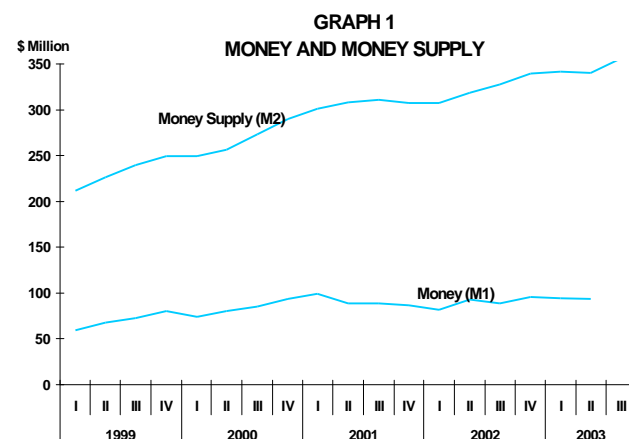
also recorded for the "Alcohol and Tobacco" and the "Miscellaneous" sub-indices respectively. In contrast, the Import component of the CPI declined 0.7 percent following a 0.5 percent decrease in the preceding quarter.

In the three months to end September 2003, the US dollar continued to weaken against the currencies in the basket. The Tala, as a result, strengthened in nominal terms against the US dollar and the Euro but weakened against the New Zealand dollar, Australian dollar and the Fijian dollar.

2 MONEY AND CREDIT

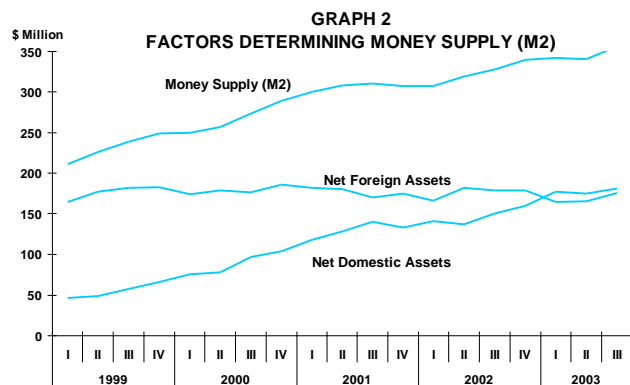
2.1 MONEY SUPPLY

Total money supply (M2) surged \$15.9 million (or 5 percent) to \$356.3 million during the September quarter of 2003 on top of a slight 0.4 percent rise in the previous quarter. Over the year to end September 2003, M2 expanded 9 percent, which was faster than the 6 percent expansion in the period to end September 2002. (See Table A-4.)

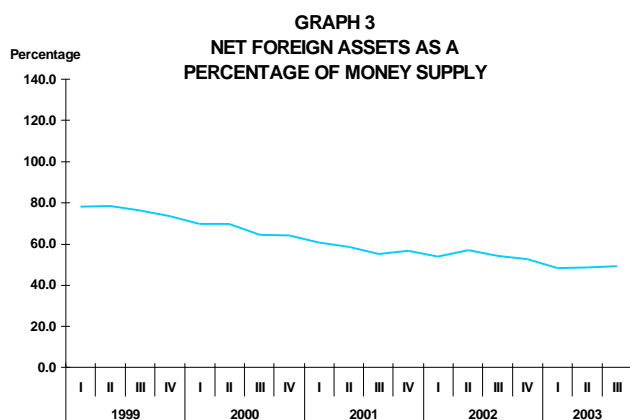


The growth in M2 in the September quarter was caused by increases of \$9.7 million and \$6.2 million in net domestic assets and net foreign assets respectively. (See Graph 2 and Table A-2.) The significant increase in net domestic assets was largely the result of a notable draw down of \$14.7 million in Government's net deposits with the monetary system and a \$4.0 million rise in private sector credit. These rises more than offset a \$9.4 million fall in claims on public institutions and a \$4.0 million increase in the deficit on "other items, net". The higher

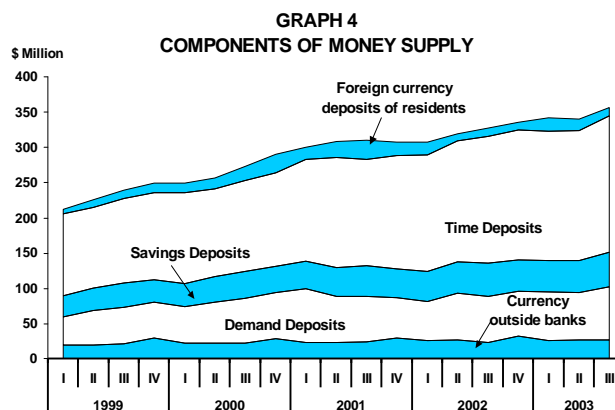
level of net foreign assets was attributed to additions to net foreign deposits of the Central Bank and the Treasury by \$11.8 million and \$5.1 million respectively, outweighing a decrease of \$7.2 million in net foreign reserves held by the commercial banks.



In the twelve months to end September 2003, net domestic assets jumped \$31.3 million to \$181.1 million, while net foreign assets declined to \$175.2 million. However, the ratios for both net domestic assets (51 percent) and net foreign assets (49 percent) to money supply remained as they were in the preceding quarter. (See Graph 3.)



The expansion in M2 in the September quarter of 2003 produced increases in time deposits, demand deposits, savings and currency outside banks. These more than offset a decline in foreign currency deposits of residents. As a result, narrowly defined money (M1) and quasi money both rose 8 percent (\$7.7 million) and 3 percent (\$8.1 million) respectively. And, over the year to end September 2003, M1 and quasi money expanded 15 percent (\$13.2 million) and 6 percent (\$14.9 million) in that order. (See Graph 4.)



Reflecting the above developments, there was no change in the overall structure of broad money during the September quarter. The share of both M1 and quasi money remained unchanged from the previous quarter at 28 percent and 72 percent respectively. (See Table A-5.)

2.2 DEPOSITS WITH COMMERCIAL BANKS

In the quarter under review, total deposits with the commercial banks (excluding the Central Bank and Government deposits) went up 7 percent (\$20.6 million) to \$318.5 million, following a 0.4 percent rise in the June quarter. These deposits were also 9 percent (\$26.2 million) higher than the thirdquarter of 2002. (See Table A-11 and A-12.)

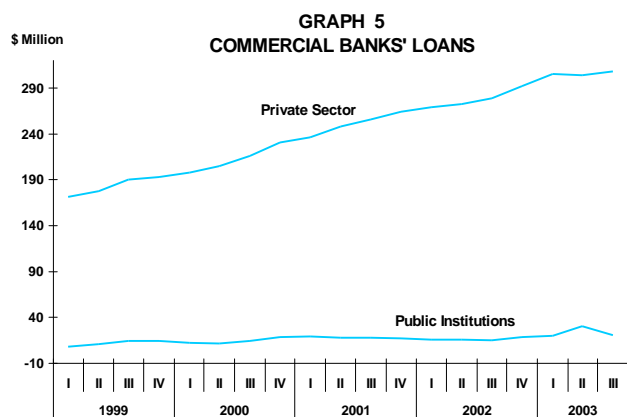
The expansion in total deposits in the three months to end September 2003 showed up as increases in demand and time deposits of the private sector, time deposits of public institutions and savings deposits. Demand and time deposits of the private sector jumped \$9.9 million and \$4.1 million respectively more than outweighing a \$2.5 million fall in demand deposits of public institutions. Likewise, time deposits of public institutions and savings deposits rose \$4.6 million and \$4.8 million in that order. Following an increase of \$0.9 million in the June quarter, Government deposits dropped \$11.0 million to \$13.2 million in the quarter under review.

2.3 CREDIT

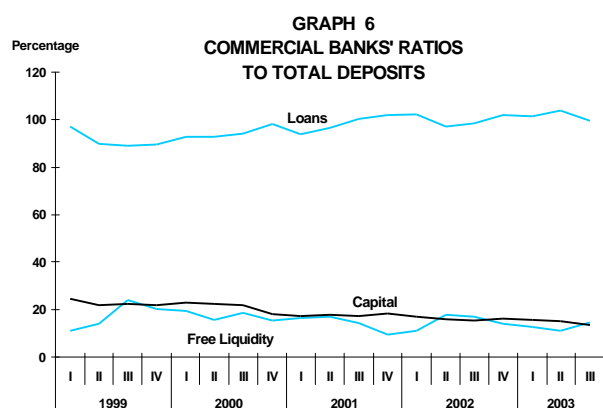
2.3.1 Lending by Commercial Banks

In the three months to end September 2003, commercial bank credit (excluding claims on

Government) declined 1 percent (\$4.5 million) to \$329.4 million. This was attributed to a marked fall of \$9.4 million in lending to public institutions, more than offsetting a rise of \$4.9 million in credit to the private sector. Claims on Government, on the other hand surged to \$7.8 million from a negligible level of \$0.1 million in the June quarter. (See Graph 5 and Table A-11.).



In the twelve months to end September 2003, total commercial bank lending (excluding claims on the Government) jumped 12 percent (\$36.0 million) compared with a 7 percent increase (\$19.8 million) in the same period last year. Lending to the private sector was largely responsible for this growth in bank credit, rising 11 percent (\$29.8 million) to \$308.6 million. In addition, credit to public institutions increased \$6.2 million to \$20.8 million. (See Graph 6 and Table A-12.)



During the third quarter of 2003, bank credit grew at a slower rate than total deposits with the commercial banks. Consequently, the commercial banks' loans to deposits ratio declined from 104 percent in the previous quarter to 99 percent in the quarter under review.

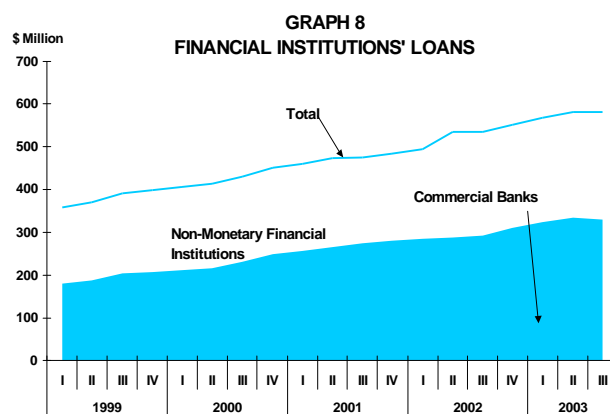
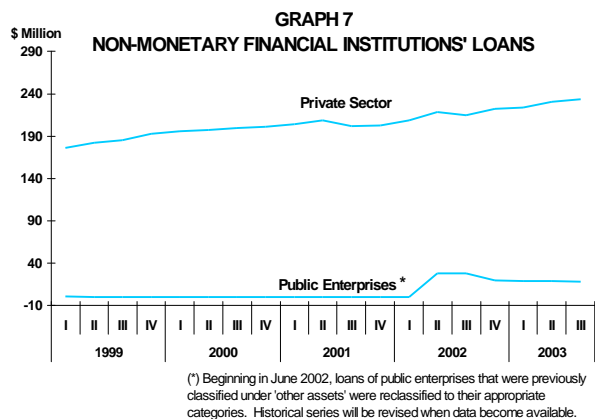
2.3.1.1 Sectoral distribution of private sector credit

The expansion in bank credit to the private sector was channeled to all sectors of the economy except for the "Electricity" and the "Transportation and Communication" sectors. The bulk of the increase in lending was absorbed by the "Building and Construction", "Trade", "Manufacturing" and "Professional and business services" which rose \$3.1 million (3 percent), \$1.6 million (2 percent), \$0.8 million (4 percent) and \$0.8 million (2 percent) in that order. Loans to "Other activities" and the "Agriculture" sectors also expanded \$0.7 million (3 percent) and \$0.1 million (1 percent) respectively while those directed to "Electricity" and "Transportation and communication" sectors went down \$2.0 million (57 percent) and \$0.3 million (2 percent) respectively. (See Table A-13.)

There was, however, no change in the allocation pattern of loans outstanding to the private sector in the September quarter. The "Building and construction" and the "Trade" sectors continued to be the largest recipients of bank credit with their shares remaining at 39 percent and 24 percent respectively in the September quarter. Similarly, the share of credit to "Professional and Business services", "Other activities", "Manufacturing", "Transportation and communication" and "Agriculture" remained unchanged from the preceding quarter at 14 percent, 8 percent, 7 percent, 5 percent and 2 percent in that order. The proportion of loans to the "Electricity" sector was also unchanged at 1 percent.

2.3.2 Lending by the non-monetary financial institutions (NFIs)

During the third quarter of 2003, loans provided by the NFIs (excluding claims on Government) increased \$3.0 million to \$251.8 million, 8 percent higher than in the same quarter of 2002. This expansion in NFI credit was due to growth in lending to the private sector (up \$3.5 million) that outweighed a decline in loans to the non-financial public enterprises (of \$0.5 million). Credit to Government also increased by \$0.1 million. (See Graph 7 and Table A-16.)



The growth in NFI credit to the private sector in the third quarter of 2003 went to “Other Activities” (up \$1.5 million to \$80.0 million), “Manufacturing” (up \$1.2 million to \$7.9 million), “Agriculture, forestry and fisheries” (up \$0.8 million to \$32.2 million) and “Transportation and Communication” (up \$0.2 million to \$13.3 million) sub indices. The “Building and Construction” and the “Trade” sub indices, on the other hand, recorded decreases of \$1.0 million and \$0.2 million to \$61.8 million and \$27.4 million respectively while the share of “Electricity, gas and water” sector remained negligible at \$0.1 million.

Overall, there was virtually no change to the broad sectoral distribution of NFI credit to the private sector in the third quarter of 2003. “Other Activities” and “Building and Construction” continued to absorb the largest share of NFI loans, being unchanged from their levels in the previous quarter of 34 percent and 27 percent respectively. The share of “Agriculture and fisheries”, “Trade”, “Transportation and Communication”, “Professional and business services” and “Manufacturing” also remained steady at 14 percent, 12 percent, 6 percent, 5 percent and 3 percent in that order.

Total loans provided by the financial system (NFIs and commercial banks) to the private sector and public institutions combined declined 0.3 percent (or \$1.6 million) to \$581.2 million in the September quarter of 2003. In spite of this decrease, the market share of both the commercial banks and the NFIs in loans to the above groups combined remained unchanged from the previous quarter at 57 percent and 43 percent respectively. (See Graph 8.)

2.4 DOMESTIC INTEREST RATES

Interest rates eased in the third quarter of 2003. Both the weighted average commercial bank lending and deposit rates decreased to 11.28 percent and 4.45 percent from 11.30 percent and 4.61 percent respectively in the previous quarter. With the deposits rates falling faster than the lending rates, the commercial banks’ interest rate spread¹ increased to 6.83 percent from 6.69 percent in the previous quarter. At the prevailing levels, the commercial banks’ average lending rates were similar to those offered by the non-monetary financial institutions.

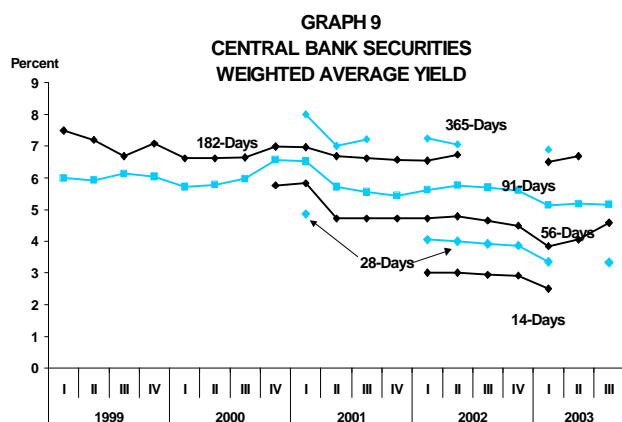
When compared to the third quarter of 2002, the commercial banks’ average lending rate and interest rate spread were lower in the quarter while the average deposit rate was higher. For the non-monetary financial institutions, their average lending rate at the end of September 2003 was lower than that at the end September 2002.

3. OPEN MARKET OPERATIONS

During the September quarter, 11 auctions of Central Bank Securities with a combined value of \$52.0 million were made. Consequently, \$55.0 million worth of tenders were received, an indication of the fairly high level of liquidity in the banking system during the period under review. Of this amount, only \$26.5 million of

¹ Footnote: This weighted average interest rate spread is the difference between the interest rates on private sector deposits and private sector credit. Taken on its own, it does not accurately reflect the profitability of the banking system since it does not take into account losses due to non-performing loans, regulatory costs and other revenues.

the tenders obtained were successful. The relatively low success rate in awarded bids is mainly attributed to the Central Banks effort to lower interest rates to be in line with its slight easing of monetary policy.

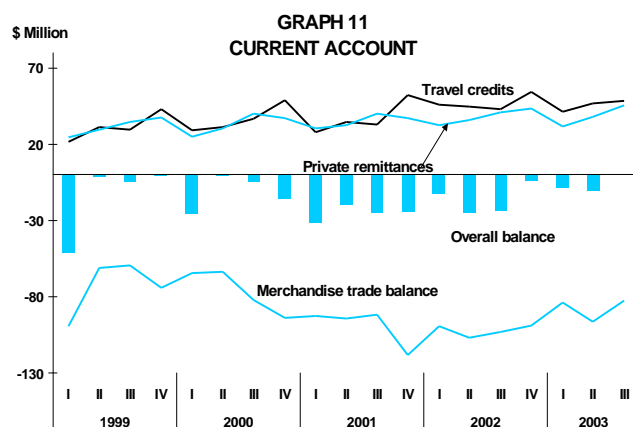
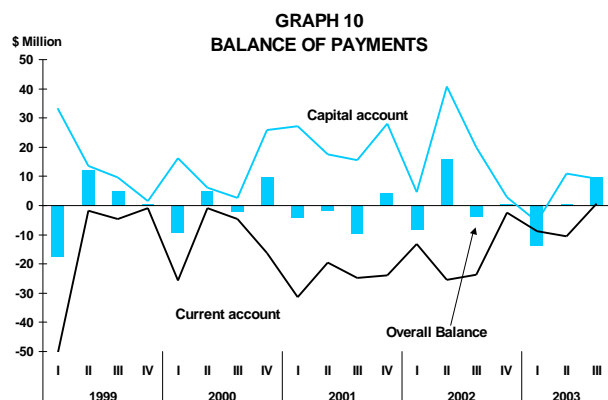


Interest rates on the 28-day and 56-day papers edged up to 3.30 percent and 4.27 percent from 3.15 percent and 3.62 percent respectively. The yield on the 91-day paper day paper however declined to 4.90 percent from 5.15 percent to be under the 5.00 percent mark targeted by the Central Bank. Finally, interest rates on the 14 day, 180-day and 364-day papers remained unchanged as these papers were not issued during the third quarter.

4. BALANCE OF PAYMENTS

The balance of payments recorded a significant surplus of \$9.7 million in the third quarter of 2003, following a smaller overall surplus of \$0.6 million in the previous quarter. The net inflow of funds in the September quarter 2003 was the result of a slight surplus in the current account (compared to a large deficit in the previous quarter) and net capital inflows. (See Graph 10 and Table B-1.)

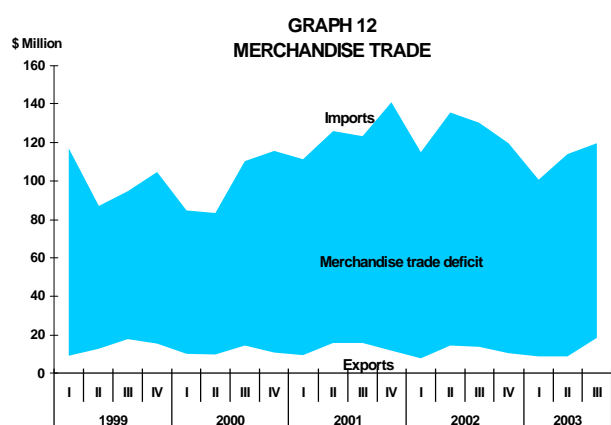
The surplus in the current account of \$0.6 million was largely the result of a reduction of imports and significant improvements in total export revenue, tourism earnings and private remittances. The total value of imports fell 4 percent while total export earnings increased more than doubled. Consequently, the merchandise trade deficit contracted 15 percent or \$14.1 million to \$82.4 million. (See Graph 11 and Section 5.)



Tourism earnings jumped 19 percent (\$7.3 million) to \$45.2 million due to a 17 percent rise in tourist arrivals for the Teuila Festival and various regional conferences including the Pacific Islands News Association Conference that was hosted by Samoa in the quarter under review. As a result, net travel inflows leapt 20 percent to \$42.7 million. The main source country of tourist visiting Samoa was from American Samoa (mostly those visiting friends and family) despite its share dropping to 32 percent from 34 percent in the previous quarter. This was followed closely by New Zealand with its market share rising to 29 percent from 27 percent in the June quarter of 2003. The ratio of tourists from Australia edged up to 13 percent from 12 percent while that for Fiji remained at 10 percent. The main purpose of visit to Samoa was 'visiting friends and relatives' although its share fell to 35 percent while the share of tourists on holiday remained at 31 percent in the quarter under review. 'Business' category recorded a share of 13 percent, up from 12 percent and 'Others' rose to 20 percent from 19 percent in the previous quarter. (See Table C6.)

On the other hand, the net inflow of investment income fell to \$0.1 million reflecting a 13 percent drop in interest earned from foreign exchange reserves as well as an increase in interest payments on overseas debt. 'Other' miscellaneous services recorded a net outflow of \$8.0 million due to an \$8.2 million decrease in 'other' services credit as a result of declines in passenger fares and export processing. Net inflows of private remittances rose 17 percent (\$7.0 million) to \$48.4 million following a slight drop in the previous quarter. (See Graph 12.)

The capital account registered a drop of 33 percent (or \$4.4 million) to \$9.1 million in the September quarter of 2003 as a result of a decrease of 7 percent (\$1.3 million) in Government transfers to \$16.7 million. This was largely due to a \$1.6 million drop in project grants while cash and commodity grants edged up to \$0.3 million during the quarter under review. Net disbursement of Government loans amounting to \$3.3 million, fell 44 percent when compared with the previous quarter while Government guaranteed loan repayments rose to \$3.1 million. "Other" capital account, which includes both private sector capital transactions and net errors and omissions, registered a net outflow of \$7.8 million, which was up 5 percent when compared with the June quarter of 2003 largely reflecting the payment of lease penalty by the national airline for returning one of its aircrafts earlier than expected.



5. FOREIGN TRADE

5.1. EXPORTS

The total value of exports (including re-exports) in the September quarter of 2003 more than

doubled that of the previous quarter (up \$9.7 million) to total \$18.5 million. This remarkable increase was due mainly to the strong surge in earnings from exports of garments to European markets plus gains in nonu juice and desiccated coconut. These rises more than outweighed the substantial reductions in the export of fish, taro, beer and banana. When compared with the same period last year, total export proceeds for the period under review was 35 percent (or \$4.8 million) higher. (See Table B5.)

Revenue from the export of garments rose more than seven fold (\$9.8 million) to \$11.4 million reflecting a large shipment to England in August 2003. In addition, the average export price for garments jumped six fold and its volume rose by 17 percent in the quarter under review. Furthermore, export proceeds from nonu juice surged 64 percent (up \$0.3 million) to \$0.7 million as a result of a 55 percent hike in its export volume and a 6 percent rise in its price. Similarly returns from desiccated coconut leapt 67 percent to \$0.2 million reflecting a more than two fold increase in its volume despite a 17 percent drop in its export price. Earnings from coconuts and soft drinks also increased, climbing 3 percent and 1 percent respectively to \$74 thousand and \$69 thousand in that order. On the down side, the export value of fish shrank 5 percent (or \$0.2 million) to \$3.7 million as both its export volume and price fell 3 percent and 2 percent respectively. Proceeds from the export of taro tumbled 30 percent (\$0.1 million) to \$0.3 million due to a 39 percent drop in its volume despite a 15 percent gain in its price. Returns from the export of banana declined 81 percent (\$58 thousand) to \$14 thousand in the quarter under review and that of beer dwindled 5 percent (\$53 thousand) to \$1.0 million as a result of a 5 percent fall in its volume while its export price was unchanged from the preceding quarter. Earnings from nonu fruit decreased 17 percent (down \$23 thousand) to \$0.1 million reflecting a 52 percent decrease in its volume despite a 73 percent jump in its price. Export revenue from coconut cream declined 3 percent (\$26 thousand) to \$0.8 million as a result of a drop in both its export volume (down 2 percent) and price (down 1 percent). Kava exports fell 51 percent to \$2 thousand.

Although the Pacific region remained the largest destination for Samoa's exports in the quarter under review, its share fell to 42 percent from 57 percent in the previous quarter due to the decline in fish exports and the surge in garment exports to Europe. (See Table B-6.) American Samoa remained the largest export market (absorbing much of the fish exports) despite a decline in its share to 33 percent from 42 percent in the previous quarter. As a result of the increase in garment exports to Europe, the share for that region skyrocketed to 40 percent from 5 percent due to a notable jump in the UK's share (from nil in the previous two quarters to 26 percent). The share of 'Other' European markets leapt to 13 percent (from 0.1 percent in the previous quarter) also reflecting the strong surge in garment export to Italy. The USA followed with a share of 12 percent, down from 34 percent in the June quarter of 2003. The proportion of exports to New Zealand fell to 5 percent from 11 percent because of the decline in coconut cream exports while that to Australia remained at 3 percent. The ratio of exports to Japan (the main destination for nonu juice) increased to 5 percent from 4 percent while that to Germany dropped to 1 percent from 5 percent in the previous quarter.

5.2 IMPORTS

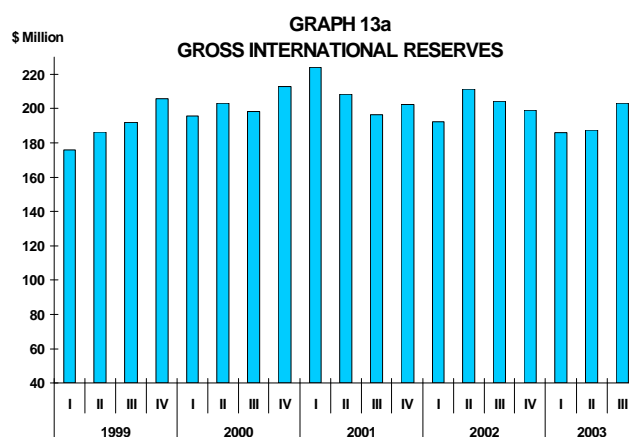
The total value of imports during the third quarter of 2003 declined 4 percent (\$4.4 million) to \$100.9 million, 14 percent (\$15.9 million) lower than in the same quarter last year. The decrease in total imports was due to a slump of 84 percent (or \$5.2 million) in Government imports to \$1.0 million plus a 1 percent (\$0.8 million) contraction in non-petroleum private sector imports to \$84.8 million. On the other hand, petroleum imports rose 12 percent (or \$1.7 million) to \$15.1 million. (See Table B-2.)

The Pacific region remained the main source of imports for Samoa with its share increasing to 72 percent from 70 percent in the previous quarter. The share of imports from New Zealand fell to 35 percent (from 37 percent) while that for Australia rose to 27 percent (from 25 percent) in the quarter under review. The ratio of imports from the USA increased to 13 percent from 12 percent while that for Fiji leapt to 8

percent from 6 percent in the second quarter. On the other hand, the share of Europe dropped to 1 percent from 4 percent while that of Asia edged down to 12 percent from 13 percent. The proportion of imports from Japan slipped to 4 percent from 5 percent while that of China increased to 3 percent from 2 percent in the second quarter. Singapore, Hong Kong, Taiwan and Canada, on the other hand, accounted for 1 percent each. (See Table B-7.)

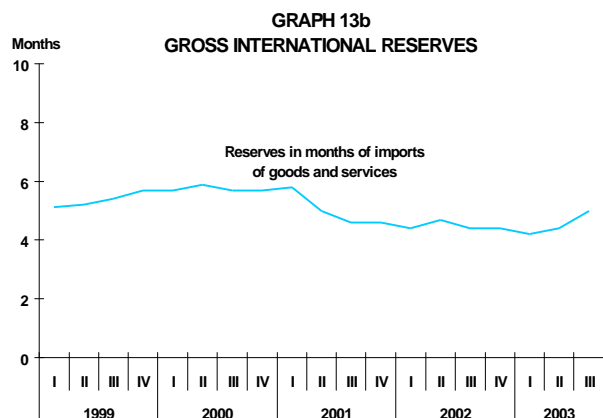
6. EXTERNAL ASSETS

In the third quarter of 2003, gross external assets of the monetary system surged 8 percent (\$15.5 million) to \$203.2 million, compared to a 1 percent increase in the previous month. However, when compared to end September 2002, the level of gross reserves at end September 2003 was 0.3 percent lower. (See Graph 13a and Table B-10.) On a net basis, (after subtracting short term foreign liabilities from gross reserves) external reserves jumped \$9.7 million to \$175.2 million reflecting the overall surplus in the balance of payments during the third quarter. Combined with a reduction in imports, the growth in net foreign assets improved the import coverage to 5.2 months at the end of the quarter under review from 4.4 months in the previous quarter, and 4.5 months in the same quarter last year.



In the September 2003 quarter, the composition of gross reserves held by the different sectors of the monetary system changed from the previous month. While the share of the commercial banks declined to 15 percent from 18 percent, those of the Treasury and the Central Bank increased to 29 percent and 56 percent from 28 percent and

54 percent respectively in the previous quarter. The Central Bank remained the main custodian of the country's foreign exchange reserves in the quarter under review.

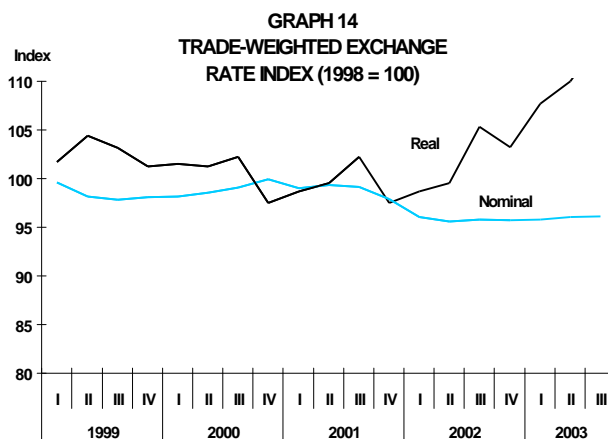


7. EXCHANGE RATES

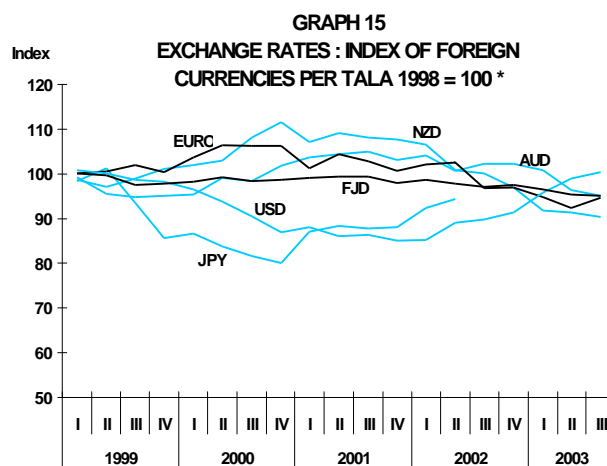
Despite the US economy showing optimistic signs within the September quarter of 2003, the US dollar on the other hand continued its decline. This was largely due to a volatile foreign exchange market around September when the release of a G7 Finance Ministers' statement in Dubai, which called for greater flexibility in exchange rates. The Markets interpreted this as a signal that the US authorities were no longer pursuing a 'strong dollar' policy.

During the September quarter, the Tala depreciated in nominal terms against the New Zealand dollar (1.17 percent), Australian dollar (1.32 percent), and the Fijian dollar (0.22 percent) but appreciated against the US dollar (1.33 percent) and the Euro (2.38 percent).

The nominal effective exchange rate (NEER) index of the Tala rose by 0.1 percent in the quarter under review, compared to the 0.2 percent increase in the previous quarter. (See Graph 14 and Samoa's Key Economic Indicators.)



On an annual average basis, the real effective exchange rate (REER) index fell by 2.41 percent in the year to end September 2003 compared with a 1.25 percent decrease in the year to end June 2003. The further decline in the REER was mainly attributed to the continuous depreciation of the Tala in nominal terms against most major currencies in the basket



8. INTERNATIONAL INTEREST RATES

The grim circumstances surrounding the global economy in the previous quarter had relaxed somewhat by the September quarter. However, conditions pertaining to global recovery were still pointing towards a prolonged period of global weakness. The impact of this outlook coupled with other domestic forces in their economies has prompted the US (Federal Reserve), the Reserve Bank of Australia (RBA) and the European Central Bank (ECB) to maintain their international interest rates from the previous quarter. However, the Reserve Bank of New Zealand (RBNZ) and the Bank of

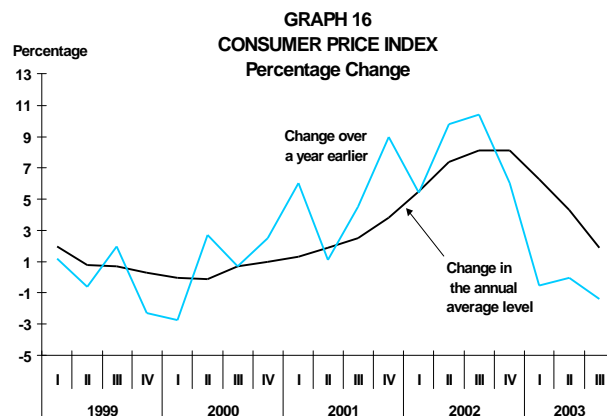
England (BoE) opted to reduce their interest rates.

The Federal Reserve's assessment of the domestic economy was that the upside and downside risks to economic growth remain balanced. Against this background, it saw fit to preserve its interest rate at 1.0 percent, despite worries of disinflation continuing to be of major concern for the foreseeable future. The likelihood of a more extended period of global weakness accompanied by a strongly rising Australian dollar was the utmost influence on the Reserve Bank of Australia's decision on its interest rate. Then again, the case for an easing was judged insufficiently strong enough and thus its interest rate was left at 4.75 percent. The European Central Bank in its view concluded that its interest rate of 2.0 percent was appropriate given the favourable outlook for price stability over the medium term. This level was also judged adequate to lend support to economic activity and help to safeguard against downside risks to economic growth.

In contrast to the Federal Reserve, RBA and ECB, both the Reserve Bank of New Zealand and the Bank of England eased their interest rates by 25 basis points each from 5.3 percent to 5.0 percent and 3.8 percent to 3.5 percent respectively. The Reserve Bank of New Zealand cited distressing signals from the export sector caused by the significant rise in the exchange rate over the past 18 months as the major inspiration for the cut in its interest rate. The Bank of England on the other hand, deemed it necessary to reduce its interest rate to keep inflation on track to meet the target in the medium term, given the possibility of subdued economic activity continuing in the long term.

9. PRICES

The average level of prices, as reflected by the Consumer Price Index (CPI), increased 1.8 percent during the third quarter of 2003, compared to a 3.6 percent growth in the previous quarter. However, on an annual average basis, the rate of inflation at end September 2003 dropped further to 1.9 percent, from 4.3 percent at end June 2003 and 8.1 percent at end September 2002. (See Graph 16.)



The increase in the average level of prices in the September 2003 quarter was attributed mainly to the expansion in the "Food" sub-index, the largest sub-index in the CPI, accounting for nearly 60 percent of the CPI. After surging 6.1 percent in the previous quarter, the "Food" sub-index rose 3.1 percent in the September quarter reflecting largely the 6.2 percent increase in the overall price level of local goods which outweighed a 0.5 percent decrease in the average prices of imported food stuffs. The increased prices of taro, banana, taro palagi, taamu and coconut which offset the drop in the prices of most vegetables were responsible for the rise in the local food component. In addition to the higher level of the "Food" sub-index, increases were also recorded for the "Alcohol and Tobacco" (up 1.9 percent) and the "Miscellaneous" (up 0.1 percent) sub-indices. These two groups account for 7 percent and 9 percent respectively of the overall CPI. The "Housing and Household Operations", "Transport and Communication" and the "Clothing and Footwear" sub-indices (which account for 12 percent, 11 percent and 3 percent of the CPI respectively), on the other hand, registered decreases of 1.2 percent, 0.9 percent and 0.3 percent in that order in the quarter under review.

The "Import Component" sub-index (which impacts directly on most sub-indices of the CPI, contributing 47 percent to the overall CPI) also decreased 0.7 percent, compared to a 0.5 percent decline in the previous quarter.

10. INDUSTRIAL PRODUCTION

The overall volume of selected industrial products declined 1 percent in the three months

to September 2003 following a growth of 13 percent in the previous quarter. However, when compared with the September quarter of 2002, the overall volume index rose 2 percent. The slight reduction in overall production in the quarter under review was due to the decrease in the output of electricity, cigarettes, timber and coconut cream, which went down 3 percent, 20 percent, 2 percent and 36 percent respectively. The production of roofing iron and corned meat also shrank 1 percent and 18 percent in that order. On the other hand, the production of miscellaneous products rose 5 percent, that of ready mix cement jumped 19 percent, concrete blocks rose 22 percent and ice cream climbed 10 percent. Those for soft drinks and paint were unchanged in the quarter under review.

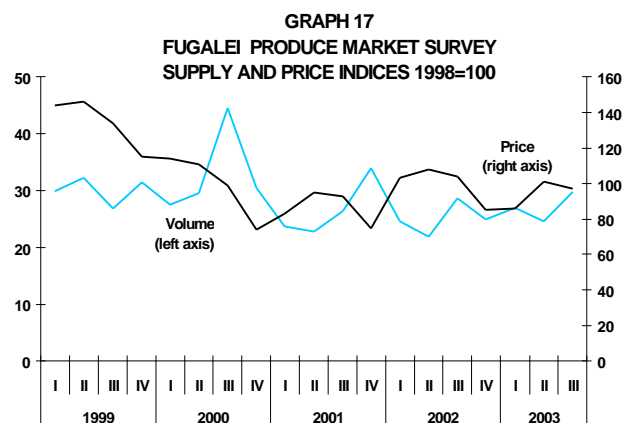
In comparison with the same quarter of 2002, the overall volume of industrial products rose, reflecting the increase in the production of beer which went up 5 percent and cigarettes which climbed 14 percent. The output of ready-mix cement, concrete blocks and paint grew 47 percent, 10 percent and 4 percent in that order. In addition, the production of roofing iron increased 46 percent. On the other hand, the production of electricity and soft drinks went down 5 percent and 4 percent respectively. On the other hand, the output of timber, coconut cream and miscellaneous products declined 67 percent, 23 percent and 37 percent in that order. Furthermore, the production of ice cream melted 3 percent and that for corned meat dwindled 57 percent.

The overall price index for the selected industrial products edged down 0.7 percent following a 0.5 percent drop in the previous quarter. As a result, the total value of the selected industrial products dwindled 3.4 percent but was 2 percent higher than in the same quarter of 2002.

In anticipation of the coming end of year festivities, the overall volume of the selected industrial production is expected to pick up in the next three months reflecting the expected higher demand for beverages and food products.

11. FUGALEI MARKET SURVEY

The overall volume of selected produce supplied to the Fugalei Market in the third quarter of 2003 leapt 22 percent to a level 4 percent higher when compared with the same quarter of the previous year. The improvement in the overall supply in the quarter under review reflected increases in the availability of most selected items except those of taro and banana. As a result of the expansion in the overall volume, the overall price index for the selected commodities was 4 percent lower when compared to the previous quarter and 7 percent below the level of the same quarter of 2002. (See Graph 17 and Table E-5.)



Reflecting the seasonal favourable weather conditions in the third quarter of 2003, the supply of vegetables expanded in the quarter under review with tomatoes up by more than threefold. The volume of head cabbage more than doubled and that of chinese cabbage jumped 75 percent. The average availabilities of pumpkin and cucumber increased 3 percent and 61 percent respectively. As a result of the low taro supply in the quarter under review, the average supply of taamu more than doubled while that of taro palagi climbed 9 percent. On the other hand, the average supply of taro dropped 33 percent due to the continued dry weather conditions, with that of banana tumbling 18 percent. The downturn in the overall price index reflected substantial declines in the prices for head cabbage (down 60 percent), tomatoes (down 49 percent), chinese cabbage (down 37 percent), cucumber (down 7 percent) and pumpkin (down 21 percent), in line with their higher quantities. On the other hand, higher prices were recorded for taro palagi (up 8

percent), taamu (up 5 percent) and coconut (up 9 percent) reflecting the strong demand for these commodities. Average prices for taro and banana climbed 31 percent and 24 percent respectively in line with their lower supplies.

When compared with the September quarter of 2002, the availability of taamu more than doubled while those of banana and head cabbage rose 3 percent and 2 percent respectively. The average supply of chinese cabbage soared 41 percent. Partially offsetting these gains were reductions in the supplies of taro (down 2 percent), taro palagi (down 10 percent), coconut (down 6 percent), tomatoes (down 12 percent), cucumber (down 26 percent) and pumpkin (down 48 percent).

The overall volume of selected agricultural items supplied to the Fugalei Market in the last quarter of 2003 is expected to grow further with strong demand during the end of year festivities. The seasonal demand for taro, banana and most vegetable items are expected to pick up in preparation for the upcoming Christmas and New Year festivities.

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