

High Frequency Macroeconomic Forecasts

2000 Q2 Forecasts

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The Hong Kong economy turned the corner in the second quarter of last year. Since then the pace of recovery picked up quite spectacularly. According to government estimates, real GDP soared by 8.7% in the final quarter of 1999. Monthly statistical indicators show that the growth momentum will continue. Based on the Current Quarter Model of the APEC Study Center of The University of Hong Kong, real GDP growth in the first quarter of 2000 is estimated to be 10.9% on a year-on-year basis, and is forecasted to grow at 8.0% in the second quarter. The strong output growth is mainly due to the robust performance of the external trade sector and the increase in consumption spending.

The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3.

The highlights of our current forecasts are as follows:

- Retail sales in January 2000 registered a year-on-year growth rate of 19.7%. The increase was broadly based, and covered all categories of consumer goods. For example, the sales volume of consumer durable goods, supermarket sales, and jewelry grew at 34.7%, 28.6% and 21.5% respectively. The total retail sales volume has started to grow since last July. Among the different categories, the growth performance of the retail sales volume of consumer durable goods, especially furniture and fixtures and of goods from supermarkets have so far been more consistent. Private consumption spending is estimated to grow by 8.1% in the first quarter of 2000 and the growth will be sustained in the second quarter at 5.3%.
- External trade is the major growth stimulus. Re-export trade, continuing its trend starting from the third quarter of last year, is strong

in all major markets. The growth rates were 21.4%, 12.4% and 12.3% for Japan, the United States and the Mainland of China respectively in the fourth quarter of 1999. In terms of end-use category, the re-exports of raw materials and semi-manufactures, capital goods and consumer goods grew by 18.3% 14.2% and 12.3% respectively in the same period. In the first quarter of 2000, re-export trade is estimated to grow by 17.4%. The growth rate is forecasted to be 16.1% in the second quarter.

- Domestic export of goods, ending a 22-month contraction, started to grow at 2.7% on a year-on-year basis in last November. The growth is mainly due to strong demand from the United Kingdom, the Mainland of China and the United States. The growth rates of domestic export of goods to these three markets were 16.4%, 5.3% and 4.7% respectively in the fourth quarter of 1999. Footwear, electrical appliances and metal manufactures were the leading performers, growing by 138.1%, 92.1% and 19.6% respectively in the fourth quarter last year. The domestic export of goods is estimated to grow at 6.6% and 4.0% in the first and second quarter of 2000 respectively.
- Tourism is expected to have a good year in 2000. The number of visitor arrivals grew by 19.8% on year-on-year basis in January. This high growth is expected to continue and hence the export of services is estimated to grow by 11.1% in the first quarter and is forecasted to grow by 12.1% in the second quarter.
- In tandem with the strong export growth, the import of raw materials, semi-manufactures, capital goods and consumer goods went up substantially, growing by 15.2%, 11.9% and 10.8% respectively in the fourth quarter of 1999. The import of goods is estimated to grow by 21.4% and 19.9% in the first and second quarter of 2000 respectively. The import of services is expected to register a reduction of 1.9% in the first quarter and has zero growth in the second quarter of 2000.
- Real interest rates are expected to decrease in the next quarter. The contraction of the loans and advances from the banking sector is also expected to ease. All these factors should bode well for the investment outlook. For the investment on land and construction, the rate of decline is estimated to be 11.7% at the end of first quarter and 10.7% at the end of second quarter, compared with 14.6% at the end of the fourth quarter of 1999.

- Investment spending in machinery and equipment has improved towards the end of last year. Real retained imports of capital goods turned positive in December. As the recovery continues, the growth rates are expected to be at 9.5% and 6.8% in the first and second quarter of 2000 respectively.
- Deflation continues in the first quarter of 2000. Consumer prices, as measured by the composite consumer price index, has fallen by 5.1 % on a year-on-year basis in February 2000. The drop in prices is mainly concentrated in the clothing, footwear, housing and durable goods sectors. The rates of decline are 13.1%, 10.4% and 6.3% respectively. The deflation rate is estimated at 5.1% in the first quarter and forecasted to be 4.3% in the second quarter of 2000.
- Unemployment rate is projected to be lower in the second quarter of 2000 at 5.6%. The Hong Kong labour force was 3.43 million in the fourth quarter of 1998 and grew to 3.53 million in the fourth quarter in 1999. During the same period, the number of employed persons increased from 3.23 million to 3.31 million. The increase in employment was therefore slower than the increase in the labour force. As the economy continues to improve, there will be more job opportunities and the employment situation will improve. However, the improvement will be sluggish. The median duration of unemployment has increased from 83 days in the fourth quarter of 1998 to 97 days in the fourth quarter of 1999, and the percentage of workers who are unemployed for 6 months or more has steadily increased from 14.4% of the unemployed in the first quarter of 1998 to 32.4% in the fourth quarter of last year. The probability of an unemployed worker finding a job declines with his duration of unemployment. There is a danger that chronic unemployment may become more pervasive.

We will make one quarter ahead forecasts based on our Current Quarter Model on a regular basis. Our forecasts for the third quarter of 2000 will be released in the first week of July, 2000.