

High-Frequency Macro Forecasts: First Quarter 2002

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Deep in Recession

- As a small open economy that is heavily dependent on external trade, Hong Kong cannot escape from the global economic slowdown, and is now deep in recession.
- Real GDP is projected to shrink by 1.9% in the fourth quarter last year on a year-on-year basis, following the 0.3% contraction in the third quarter.

- The contraction in the second half of last year will wipe out the output growth recorded in the first half. For the year as a whole, real GDP growth is estimated to be around zero, growing only at around 0.1%.
- The contraction is expected to continue into the beginning of the current year.
- Real GDP is forecasted to shrink by 1.6% for the first quarter of 2002.

Consumption

- Private consumption spending grew by 1.3% in the third quarter, followed by a 4.0% growth in the second quarter.
- The downturn in the economy, coupled with the rapid rise in unemployment, will continue to drag down consumption spending.
- Private consumption is expected to decelerate further, growing at 1.1% in 01Q4 and 0.2% in 02Q1.

External Trade

- With the global slump in demand, a decline in exports is expected in the second half of 2001.
- Among the major re-exports markets, only the Mainland of China has registered growth in the third quarter of 2001, growing at just 7.3%, a sharp drop from the rate of 21.3% in 2000.
- For the United States, the rate of decline was 10.1% in the third quarter of 2001, the same rate of decline as measured in 01Q2.

- The re-exports of goods are predicted to decline by 2.5% in the fourth quarter of 2001 and grow by 0.1% in the first quarter of this year.
- The domestic exports of goods continued to shrink with rate of 12.4% in the third quarter. The rate of decline is expected to be 6.9% in the fourth quarter of 2001 and to 7.2% in the first quarter of 2002 respectively.

- With the 911 attacks in mind, people are less likely to travel.
- The number of visitor arrivals dropped by 2.1% and 3.3% on a year-on-year basis in September and October of 2001 respectively.
- With the slowdown of visitor arrival and the slackened external trade, export of services is expected to grow by 0.4% in the fourth quarter of 2001 and by 1.7% in the first quarter of 2002 respectively.

- Mirroring the slowdown in re-exports of goods and local demand, the imports of goods are estimated to decline by 2.4% and 0.2% in the fourth quarter of 2001 and the first quarter of 2002 respectively.

Investment

- Investment spending on machinery and equipment grew only by 0.3% in the second quarter, but at 9.4% in the third quarter, being boosted by the purchase of commercial aircrafts.
- As the economic outlook is uncertain, the growth rate is expected to slow down.
- It is predicted to grow by 2.1% in the fourth quarter of 2001 and decline by 6.3% in the first quarter of this year.

- Investment in land and construction stabilised after more than two years of decline – growing by 2.8% in the second quarter, but turned negative again in the thidr quarter of 2001, contracting by 5.2%.
- With the uncertain economic outlook, investment in land and construction is expected to decline by 4% and 2.4% in the fourth quarter of 2001 and the first quarter of 2002 respectively.

Deflation

- We are still facing deflation pressure.
- As of November last year, consumer prices had dropped in 37 consecutive months.
- In November, the Composite CPI declined by 1.4%, with durable goods dropping the most by 7.3%.
- Clothing and footwear, and the housing sector dropped by 3.0% and 1.8% respectively.
- The deflation rate is forecasted to be 1.3% in the fourth quarter of 2001 and 1.0% in the first quarter of 2002.

Unemployment

- Unemployment is expected to worsen.
- The unemployment rate was 5.3% in the third quarter of 2001, rising sharply from 4.6% in the second quarter.
- Unemployment is still concentrated in the construction sector, with rate at 10.3% in the third quarter, due to the continued slack in the property market.

- As external trade and tourism weakened, the unemployment rates in the retail trade, restaurants and hotels also increased in the third quarter on a quarter-on-quarter basis at 5.8%.
- The median duration of unemployment also increased from 68 days in the second quarter to 72 days in the third quarter of 2001.
- The unemployment rate is forecasted to be 5.8% in the fourth quarter of 2001 and at 6.0% in the first quarter of this year respectively.

Concluding Remarks

- Confronted by the synchronised slowdown in the global economy and the negative shocks arising from the 911 attacks, the Hong Kong economy is in a difficult situation.
- Given that the War against Terrorism has gone well in Afghanistan, the massive fiscal surplus and the historical low level of interest rates, the US economy is expected to rebound in the second half of this year, thus stimulating the global economy; and the Hong Kong economy will respond in a positive manner.

About Our Model

Our forecasting system was developed in collaboration with Professor Lawrence Klein of the Wharton School of the University of Pennsylvania, and is partially funded by the Better Hong Kong Foundation. Researchers at the APEC Study Center of The University of Hong Kong are solely responsible for the accuracy and interpretation of the forecasts. The Hong Kong Center for Economic Research provides administrative support for the project. Our quarterly forecasts can be accessed at <http://www.hku.hk/apec/cqm/>.