

High-Frequency Macro Forecasts: Second Quarter 2002

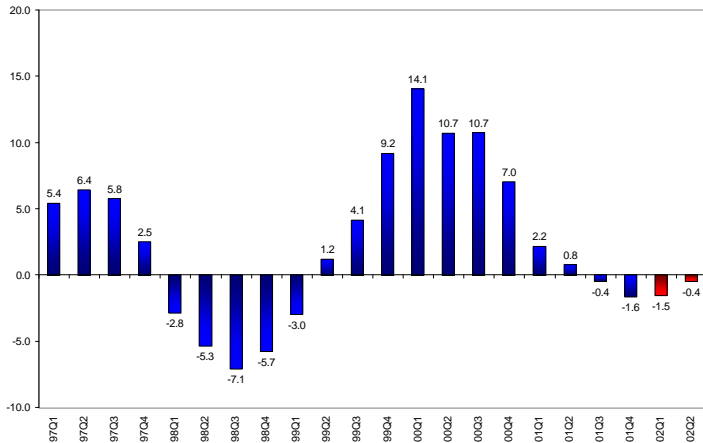
April 2, 2002

<http://www.hku.hk/apec/cqm/02Q2/>

Rebound on the way

- Real GDP is estimated to shrink by 1.4% in the first quarter of 2002, on a year-on-year basis, followed by the drop in real GDP started in the third quarter of last year.
- The rate of drop of real GDP is expected to narrow substantially, with real GDP forecasted to shrink by only 0.4% in the second quarter of 2002.
- The moderation of economic downturn in Hong Kong can be attributed to the US economic expansion beginning in the 4th quarter of last year. Real GDP increased at an annual rate of 1.7% in the fourth quarter, after decreasing 1.3% in the third quarter last year.
- Underpinned by consumer confidence, economic expansion in the US is expected to continue, and will help to pull the Asian economies out of the current economic slowdown.

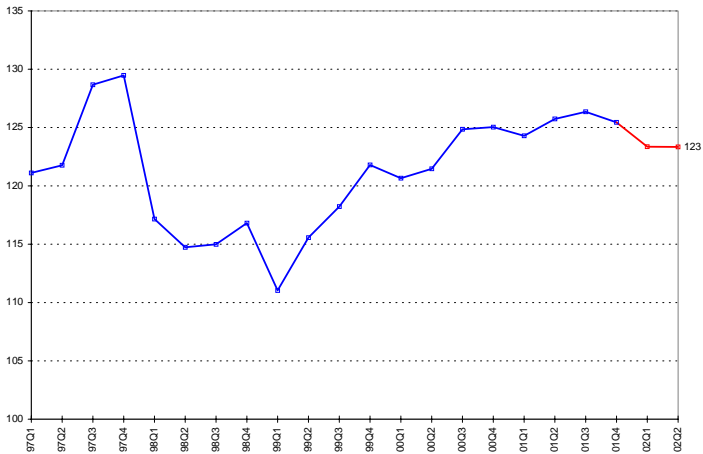
Real GDP
(Year-on-Year Growth Rate in Percentage)



Consumption Spending

- Consumer sentiment remains weak, and is not helped by
 - The pending cuts in the salaries of civil servants,
 - and the likely increases in taxes in the near future as a way to finance the large budget deficits
- Consumption spending is expected to shrink by 0.8% in the first quarter of 2002 and to shrink further by 2% in the current quarter of 2002, on a year-on-year basis.

Private Consumption Expenditure
(Billion of 1990 HK Dollar)



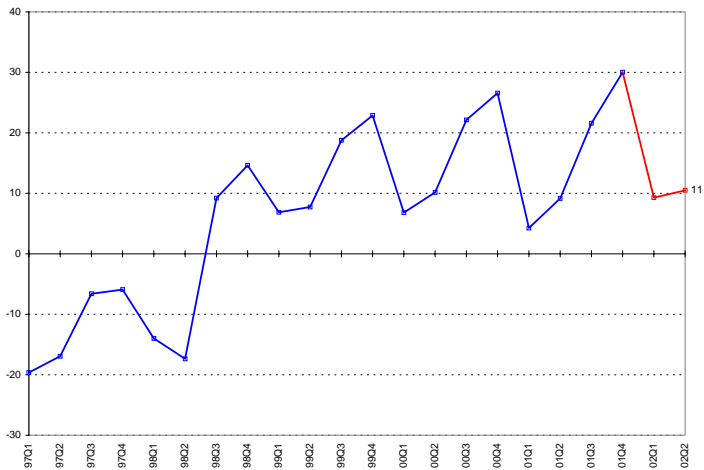
External Trade

- The domestic exports dropped by 10.42% in the fourth quarter of 2001, and further declined by 19% in January. Bolstered by the US economic recovery, the decline in domestic exports is expected to decelerate to -10.3% in the first quarter and -9.0% in the second quarter of 2002.
- Although re-exports growth to the US was slackened by a 24.0% decline in January 2002, re-exports to China is still undergoing noticeable growth of 8.8%, on a year-on-year basis. The decline of re-exports is expected to decelerate to 6.8% and 2.5% in the first and second quarters of 2002.
- The negative impact on tourism caused by the 911 terrorist attacks has subsided. The number of visitor arrivals turned into positive growth for the third consecutive months at 10.5% year-on-year in January. The number of visitors from the Mainland China is expected to grow. The export of services is projected

to grow by 3.2% and 4.4% in the first and second quarters of 2002 respectively.

- The weak economy is reflected by a slowdown in the imports of goods, which are estimated to decline by 7.4% and 2.8% in the first and second quarters of 2002 respectively.
- On balance, the net exports of goods and services are projected to increase slightly to 11 billion constant dollars in the current quarter, up from 10 billion in the first quarter

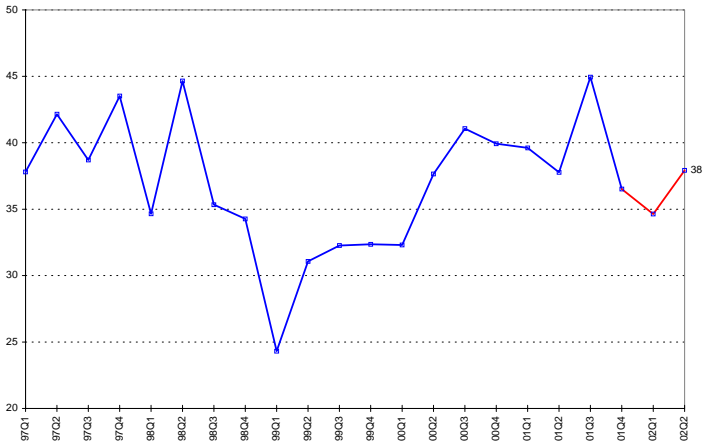
Net Export of Goods and Services
(Billion of 1990 HK Dollar)



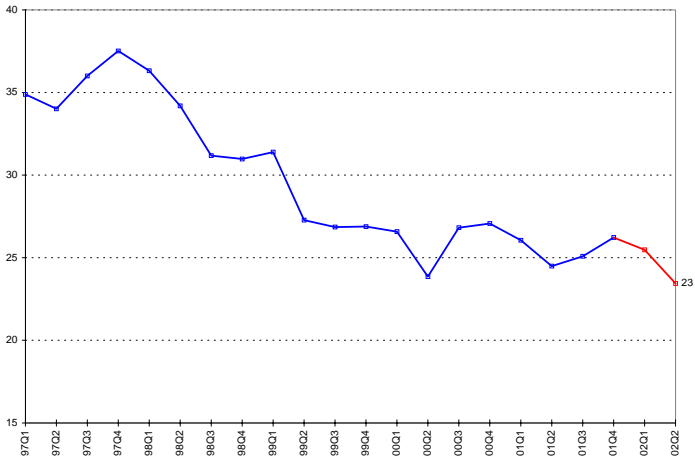
Investment

- Following the 8.55% decrease in the fourth quarter of 2001, investment spending on machinery and equipment is forecasted to contract by to 12.6% in the first quarter. In the current quarter, it is expected to to grow by 0.4% on a year-on-year basis.
- Investment in land and construction dropped by 3.1% in the fourth quarter of 2001. The slowdown is expected to persist. It is forecasted to decline by 2.2% in the first quarter and by 4.3% in the second quarter of 2002.

Investment in Machinery and Equipment
(Billion of 1990 HK Dollar)



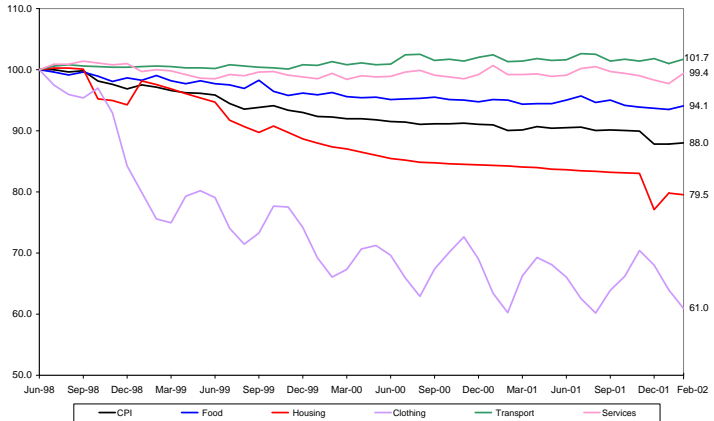
Investment in Land and Construction
(Billion of 1990 HK Dollar)



Consumer Prices

- Deflation pressure is expected to continue. The strong US dollar, poor consumer sentiment and keener competition in the market put downward pressure on consumer prices.
- In February, the composite CPI declined by 2.3%.
- Since June 1998, and up to February this year, the price level has accumulated a drop by 12%, with clothing prices down by close to 40%, housing by 20% and food by 6%, while transport prices on averaged rose by 1.7%.
- Consumer prices are forecasted on average to decrease by 2.9% in the first quarter of 2002 and 3.5% in the second quarter of 2002.

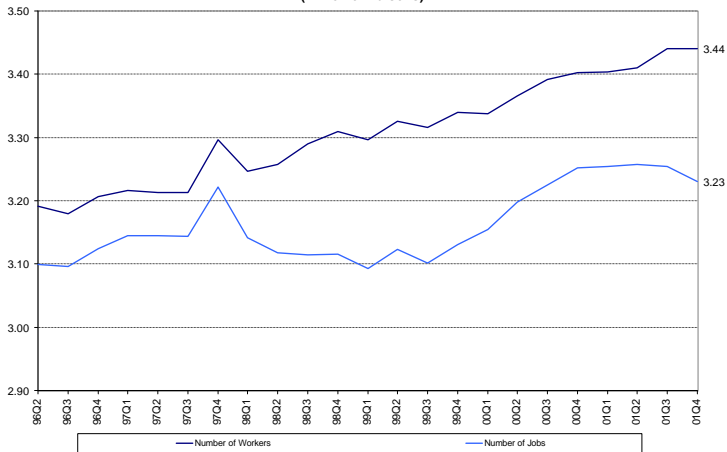
Composite Consumer Price Index
(Jun 1998 = 100)



Employment

- For the period of December to February, unemployment rate climbed to a historic high level of 6.8%.
- The median duration of unemployment also increased from 72 days in the third quarter to 82 days in the fourth quarter of 2001.
- The current high level is expected to continue, with the unemployment rate forecasted to be 6.9% in both of the first and second quarters of 2002.
- Despite the economic downturn, the number of employed persons was basically stable at around 3.23 million last year. The high unemployment rate was due to the increase in the size of the labor force which went up by 31,000 last year.

Workers Vs Jobs
(Million of Persons)



Concluding Remark

- With the continued economic expansion in the US, the Hong Kong economy will turn the corner in the second half of this year, with real GDP expected to start growing again on a year-on-year basis in the third quarter.
- But given the uncertain economic environment, the rate of rebound is projected to be modest at around of annual rate of between one to two percent.

About Our Model

Our forecasting system was developed in collaboration with Professor Lawrence Klein 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/>.