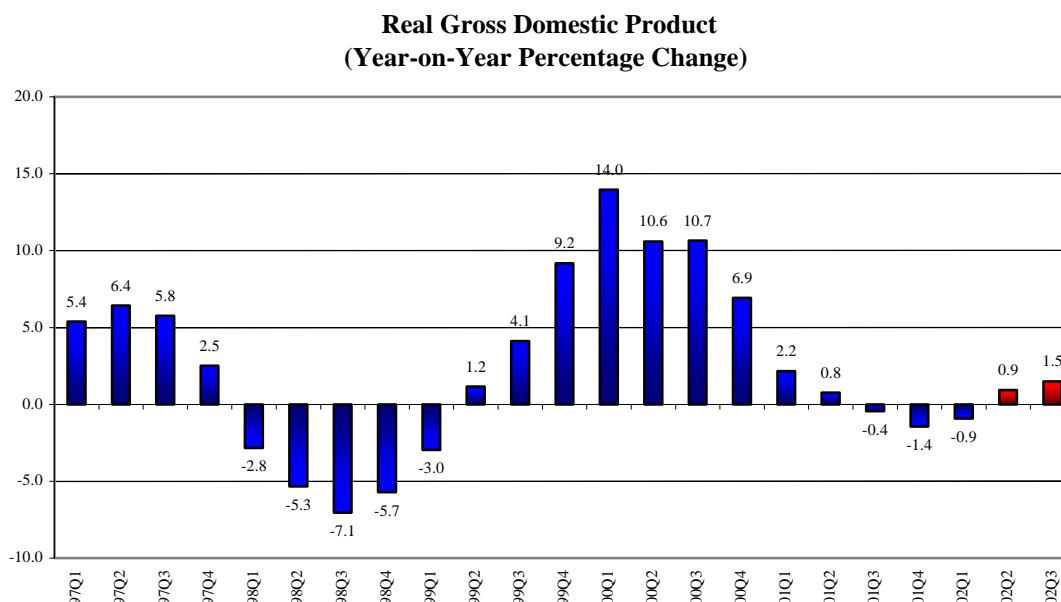


High Frequency Macroeconomic Forecasts Current Quarter Model: 2002Q3

APEC Study Center
The University of Hong Kong

July 3, 2002

Slow Economic Recovery



The Hong Kong economy is expected to continue to recover from the downturn started in the second half of last year. Output growth is projected to be positive in the second and third quarter, reversing the declining trend recorded since 01Q3. But the rebound of the economy will be relatively modest. According to the High Frequency Macroeconomic Forecast carried by the APEC Study Center of The University of Hong Kong, real GDP is estimated to increase by 0.9% in the second quarter of 2002 on a year-on-year basis, rebounded from the 0.9% drop in the first quarter. In the current quarter, real GDP is forecasted to grow by an annual rate of 1.5%.

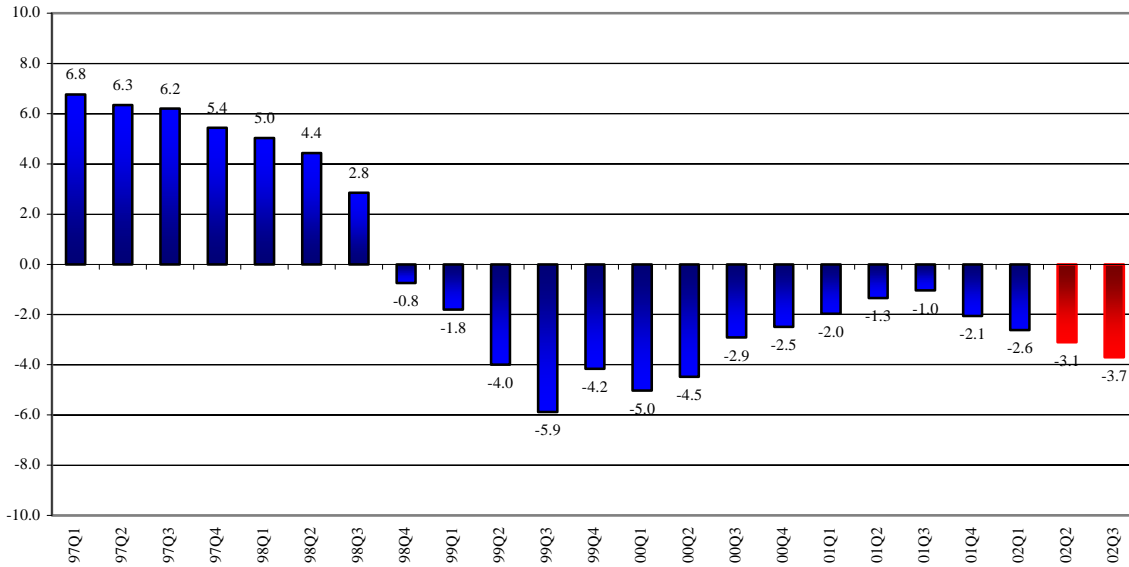
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3.

Forecast Highlights

The highlights of our current forecasts are:

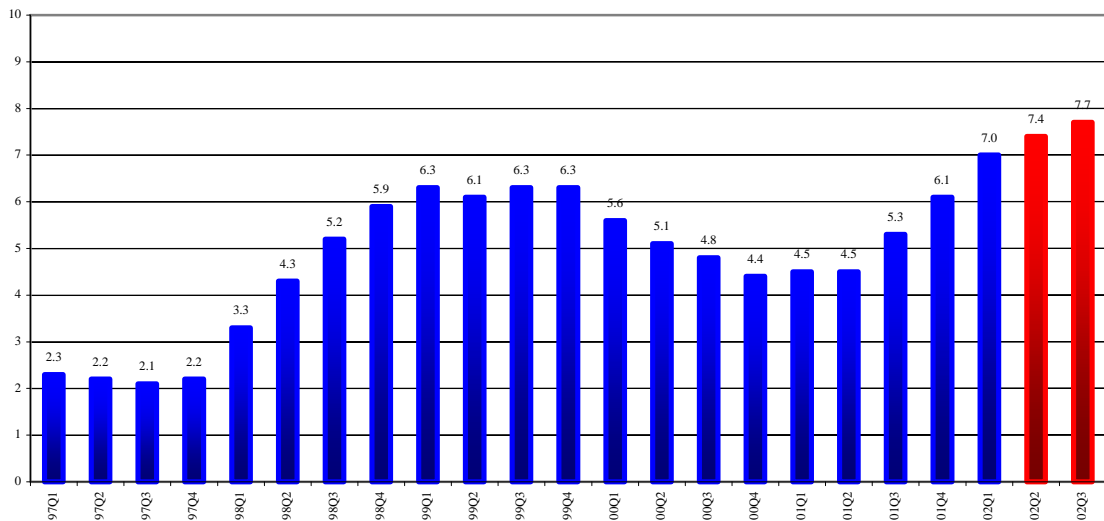
- Private consumption spending dropped by 0.6% in the first quarter of 2002, and is expected to fall by 0.2% in the second quarter, but start to grow by 0.1% in the third quarter of 2002, on a year-on-year basis.
- In April, the volume of retail sales shrunk by 1.6% compared to a year ago, but is expected to pick up in the next half of the current year.
- Domestic exports continued to contract, dropping by 12.7% in the first quarter of 2002. In April, the fall in total domestic exports was 17%, with domestic exports to the Mainland China, United States and United Kingdom, declined by 9.6%, 20.8% and 17.7% respectively on a year-on-year basis. These three major destinations of Hong Kong domestic exports of goods accounted for 60% of the total drop. A further decline in domestic exports is expected, but more slowly due to the weakening of the US dollar in recent months which would help to boost Hong Kong's competitiveness. The drop in domestic exports is expected to decelerate to -10.6% in the second quarter and -7.2% in the third quarter of 2002.
- The US economy rebounded strongly in the first quarter of this year, growing by 5.6%. Re-exports to the United States grew by 7.8% in April, while re-exports to the mainland of China rose by 8.6%, both on a year-on-year basis. Re-exports of goods is expected to grow by 4.3% and 4.7% in the second and third quarters of 2002.
- The number of visitor arrivals maintained a double-digit growth for fourth consecutive months at 17.4% year-on-year in April. The number of visitors from the Mainland China rose sharply by 49.9% in April compared to a year ago. As a result, 37.5% of visitors are now from the Mainland, as opposed to 27.0% last year. The exports of services are projected to grow by 5.9% and 5.3% in the second and third quarters of 2002 respectively.
- The recovery of Hong Kong economy is reflected by moderate increase in the imports of goods. Telecommunication, sound recording, office and automatic data processing machines grew the fastest in April. The imports of goods are estimated to increase by 0.5% and 0.4% in the second and third quarters of 2002 respectively.
- Given the uncertain business environment, investment spending on machinery and equipment shrunk by 25.0% in the first quarter of 2002 on an annual basis. It is forecasted to contract by 14.4% and 19.4% further in the second and the third quarter of 2002.
- Investment in land and construction dropped by 3.7% in the first quarter of 2002. The slowdown is expected to persist. It is forecasted to decline by 5.1% in the second quarter and by 4.1% in the third quarter of 2002 on a year-on-year basis.

Composite Consumer Price Index (Year-on-Year Percentage Change)



- Deflation pressure is expected to continue. In May, the composite CPI declined by 3.1%, with about 1 percentage point of the fall accounted by the one-off drop in utility rates. Durable goods prices registered the second largest decrease at 7.2%, while the price index for clothing and footwear increased by 2.3%. The deflation rate is forecasted to be 3.1% in the second quarter of 2002 and 3.7% in the second quarter of 2002.

Unemployment Rate



- The provisional seasonally adjusted unemployment rate in March to May climbed to a historic high level of 7.4%. The median duration of unemployment also increased from 82 days in 01Q4 to 87 days in the first quarter of 2002. Reflecting the continued slack in the property market, unemployment is still concentrated in the construction sector, with unemployment rate at 15.7% in 02Q1. The current high level is expected to continue. The unemployment rate is forecasted to be 7.4% in the second quarter of 2002 and 7.7% in the third quarter of 2002.

Concluding Remarks

- The strong growth of the US economy at 5.6% in the first quarter is expected to moderate. The economic outlook is clouded by conflicting signals, but on balance the US economy is unlikely to contract in the current quarter. Buoyed by the still robust consumer spending in the US, Hong Kong can still rely on its total exports of goods and services as its engine of growth, pulling the economy to grow at an expected rate of 1.5% in the current quarter. However, given the deflationary and high unemployment environment, private domestic spending will continue to remain weak.

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/>.

High Frequency Macroeconomic Forecasts
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Table 1: Current Quarter Model Forecast
(Million of 1990 Dollar)

	2001					2002		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	213,310	214,599	233,541	232,764	894,214	211,333	216,610	237,044
Private Consumption Expenditure	124,297	125,734	126,353	125,440	501,824	123,595	125,517	126,458
Government Consumption Expenditure	18,136	16,299	17,180	17,225	68,840	18,538	16,951	17,867
Domestic Exports of Goods	37,682	42,271	44,233	41,256	165,442	32,898	37,789	41,029
Re-exports of Goods	329,299	346,792	382,756	357,696	1,416,543	326,247	361,593	400,849
Imports of Goods	389,563	411,094	438,478	405,085	1,644,220	372,765	413,338	440,430
Exports of Services	62,016	64,966	69,429	70,313	266,724	65,280	68,772	73,124
Imports of Services	35,362	33,972	36,549	33,996	139,879	35,345	34,042	36,603
Investment in Land & Construction	26,061	24,492	25,082	26,380	102,015	25,105	23,238	24,056
Investment in Machinery & Equipment	39,611	37,768	44,938	36,512	158,829	29,703	32,342	36,222
Changes in Inventories	1,133	1,343	-1,403	-2,977	-1,904	-1,923	-2,212	-5,528

Date of Forecast: June 26, 2002

High Frequency Macroeconomic Forecasts

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Table 2: Current Quarter Model Forecast

Year-on-Year Growth Rate (%)

	2001					2002		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3
						(forecast)	(forecast)	(forecast)
Gross Domestic Product	2.2	0.8	-0.4	-1.4	0.2	-0.9	0.9	1.5
Private Consumption Expenditure	3.0	3.5	1.2	0.3	2.0	-0.6	-0.2	0.1
Government Consumption Expenditure	3.9	4.1	6.2	6.1	5.1	2.2	4.0	4.0
Domestic Exports of Goods	-12.8	-8.5	-12.4	-10.4	-11.0	-12.7	-10.6	-7.2
Re-exports of Goods	6.5	-1.0	-3.0	-8.6	-2.0	-0.9	4.3	4.7
Imports of Goods	5.3	-0.7	-3.4	-9.1	-2.4	-4.3	0.5	0.4
Exports of Services	6.2	6.3	1.6	1.1	3.6	5.3	5.9	5.3
Imports of Services	3.8	1.0	-2.0	-2.1	0.1	0.0	0.2	0.1
Investment in Land & Construction	-1.9	2.7	-6.5	-2.6	-2.2	-3.7	-5.1	-4.1
Investment in Machinery & Equipment	22.6	0.3	9.4	-8.5	5.2	-25.0	-14.4	-19.4
GDP Deflator Growth Rate	-1.8	-0.6	-0.2	0.5	-0.5	-0.6	0.3	-0.4
CPI (Composite) Inflation Rate	-2.0	-1.3	-1.0	-2.1	-1.6	-2.6	-3.1	-3.7
Unemployment Rate	4.5	4.5	5.3	6.1	5.1	7.0	7.4	7.7

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Table 3: Selected Monthly Indicators
Year-on-Year Growth Rate (%)

	2001			2002								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	-5.6	-6.3	-6.3	-5.1	-4.9	-4.3	-3.7	-3.7	-3.3	-3.0	-2.5	-2.7
Unit Value Trade Index (Imports of Foodstuffs)	-3.7	-4.5	-5.1	-5.1	-3.9	-3.5	-4.3	-4.5	-3.6	-3.5	-2.1	-3.2
Unit Value Trade Index (Imports of Consumer Goods)	-2.5	-2.8	-2.3	-2.9	-3.1	-3.3	-2.6	-2.8	-2.4	-2.6	-2.9	-2.8
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	-7.1	-7.6	-7.9	-7.9	-6.9	-6.1	-6.7	-6.5	-6.2	-5.7	-4.6	-4.3
Unit Value Trade Index (Imports of Fuels)	-30.8	-34.2	-30.0	-22.0	-21.4	-12.7	-11.4	-13.8	-12.8	-8.7	-6.3	-9.9
Unit Value Trade Index (Imports of Capital Goods)	-1.7	-2.3	-2.4	-3.5	-3.7	-3.1	-2.8	-2.6	-3.3	-2.5	-2.6	-2.6
Real Retained Imports of Foodstuffs	-2.5	-1.2	-13.7	17.6	5.1	16.0	5.2	-0.4	42.3	-1.9	-3.6	3.0
Real Retained Imports of Consumer Goods	133.8	28.8	7.4	221.2	-55.6	6.0	19.0	-16.6	-16.7	-9.6	-15.3	-33.0
Real Retained Imports of Raw Materials & Semi-Manufactures	-22.9	-24.7	-21.4	-4.9	-26.6	-1.9	-16.2	-10.2	-0.2	-1.3	21.8	1.4
Real Retained Imports of Fuels	6.3	15.4	7.9	-4.9	-9.5	1.8	5.9	7.0	13.6	19.8	18.8	11.3
Real Retained Imports of Capital Goods	-18.2	11.5	-16.1	-19.0	-56.5	-11.5	-25.0	-20.0	-9.9	-21.3	-32.4	-22.4
Total Motor Vehicles Newly Registered	1.1	-22.1	-27.6	-16.0	-22.2	-40.0	-29.7	-38.6	-32.7	-31.6	-35.0	-18.4
Private Cars Newly Registered	-5.9	-20.7	-23.5	-3.0	3.4	-34.5	-17.6	-29.5	-20.1	-23.8	-28.7	-11.3
Volume Index of Retail Sales	-3.8	-1.7	-3.3	-10.5	9.3	-1.5	-1.6	-1.7	-1.0	3.7	3.4	3.6
Electricity Consumption	0.4	4.9	2.3	7.1	1.4	-1.6	0.0	-5.3	-0.9	1.7	-2.3	0.2
Gas Consumption	0.3	-1.6	-1.4	0.2	2.5	0.4	0.0	0.5	0.3	1.5	1.4	2.6
Money Supply (Definition 2)	1.2	-1.3	-2.9	-3.0	-4.2	-3.0	-3.1	-2.9	-2.0	-0.6	-0.8	1.6
Loans and Advances	-12.1	-12.0	-11.2	-11.0	-11.1	-9.3	-8.7	-8.5	-8.3	-7.2	-7.2	-7.0
Visitors Arrivals	-3.3	2.1	6.4	10.5	15.3	11.8	19.0	13.3	12.5	12.4	12.0	16.6
Hong Kong Resident Departures	2.1	6.4	5.8	-6.2	22.0	8.7	-3.1	11.0	6.6	11.0	3.2	1.0
Land Considerations	-20.7	-9.7	-35.5	7.6	-25.0	-29.5	-8.8	-10.0	-15.1	-16.5	-25.0	-22.1
Effective Exchange Rate Index	1.6	1.6	2.1	2.7	2.8	1.6	0.7	-0.4	-0.6	-0.9	0.1	0.5
Hang Seng Index of Shares Prices	-32.8	-27.7	-23.2	-28.3	-31.6	-18.0	-14.3	-14.0	-10.7	-5.1	1.7	20.5

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