

High-Frequency Macro Forecasts: Third Quarter 2002

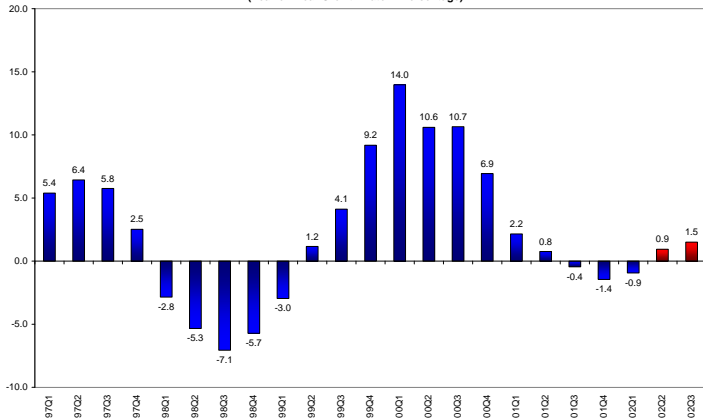
July 3, 2002

<http://www.hku.hk/apec/cqm/02Q3/>

Recovering Slowly

- 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.
- 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%, led by the export sector, with private final demand still pretty weak.

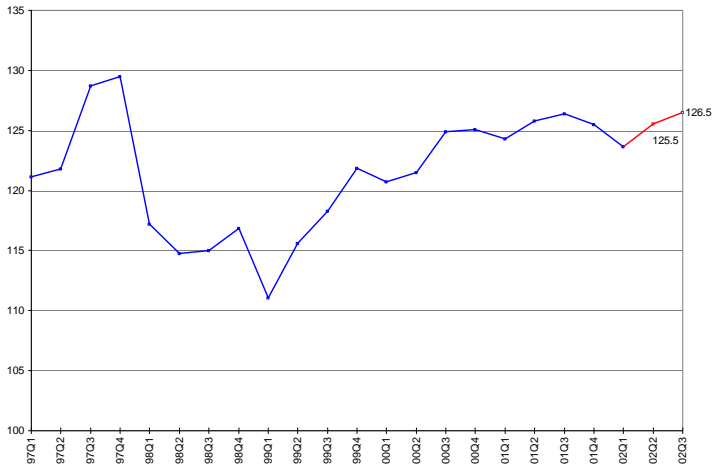
Real Gross Domestic Product
(Year-on-Year Growth Rate in Percentage)



Consumption Spending

- Consumer sentiment remains weak, and is not helped by the now entrenched deflationary expectation.
- 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.

Private Consumption Expenditure
(Billion of 1990 HK Dollar)

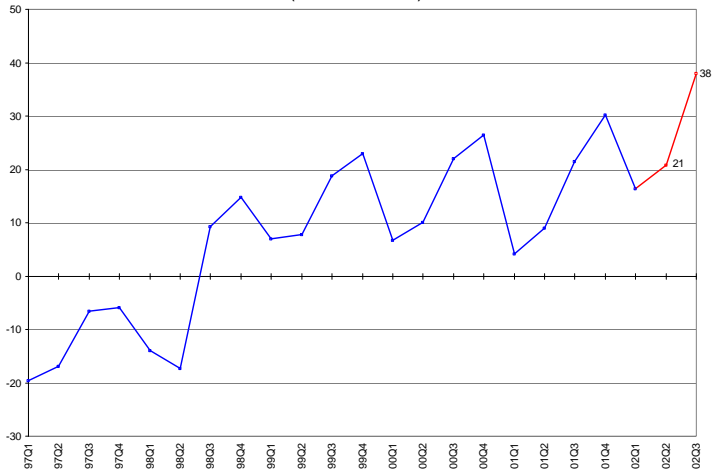


External Trade

- Domestic exports continued to contract, dropping by 12.7% in the first quarter of 2002.
- 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.
- 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 four 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 imports of goods are estimated to increase by 0.5% and 0.4% in the second and third quarters of 2002 respectively.
- On balance, the net exports of goods and services are projected to increase to 38 billion constant dollars in the current quarter, up from 21 billion in the first quarter.

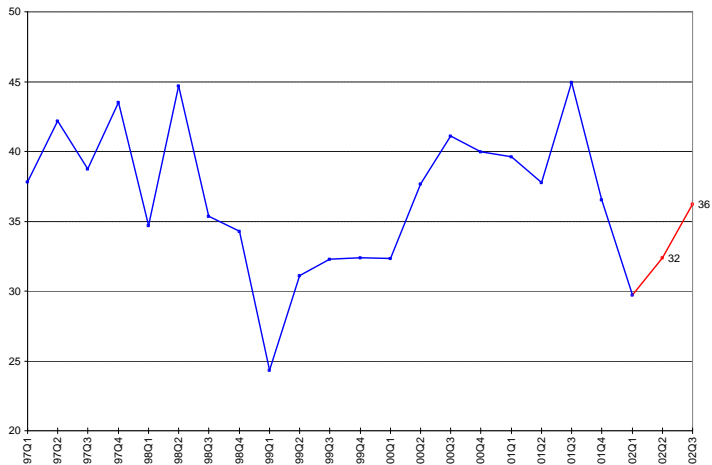
Net Export of Goods and Services
(Billion of 1990 HK Dollar)



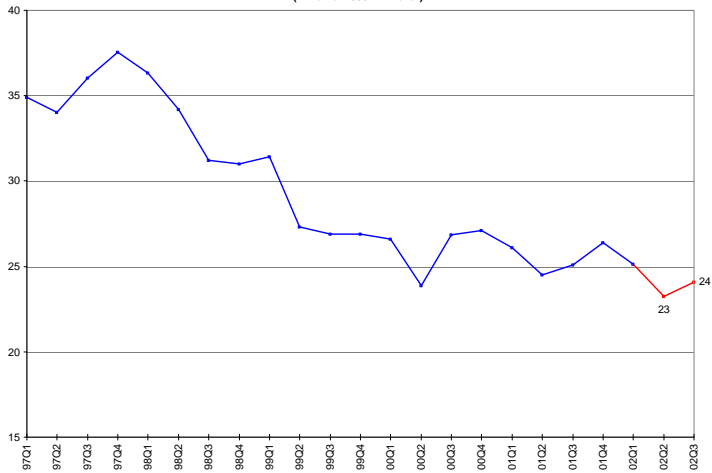
Investment

- 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.

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



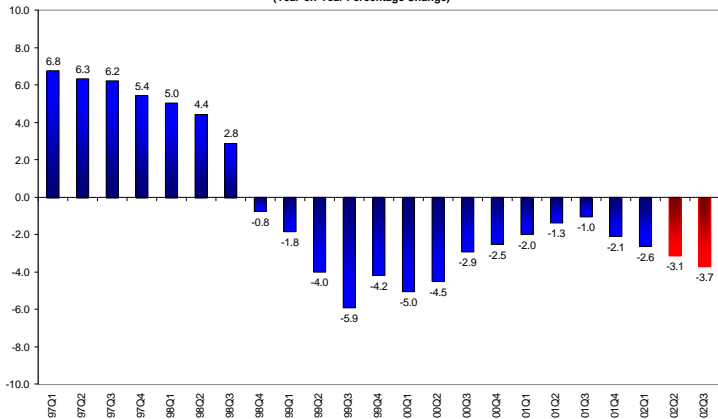
Investment in Land and Construction
(Billion of 1990 HK Dollar)



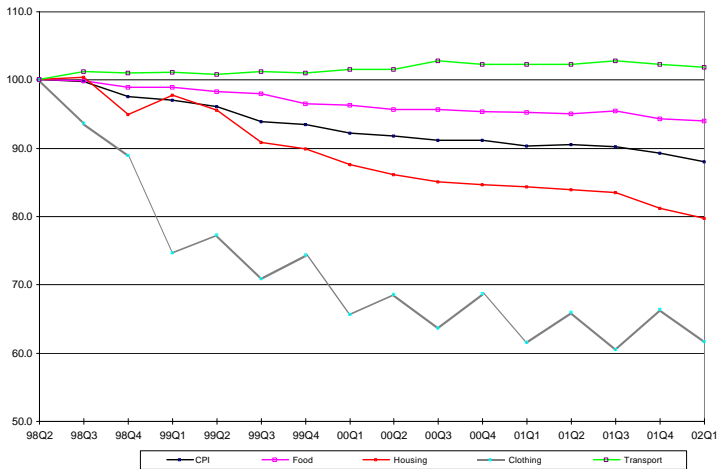
Consumer Prices

- Deflation pressure is expected to continue, even with the weakening of the US dollar.
- 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.

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



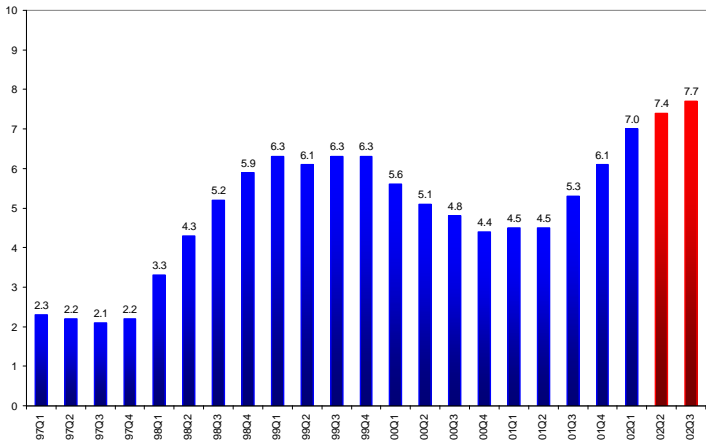
Composite Consumer Price Index
(98Q2 = 100)



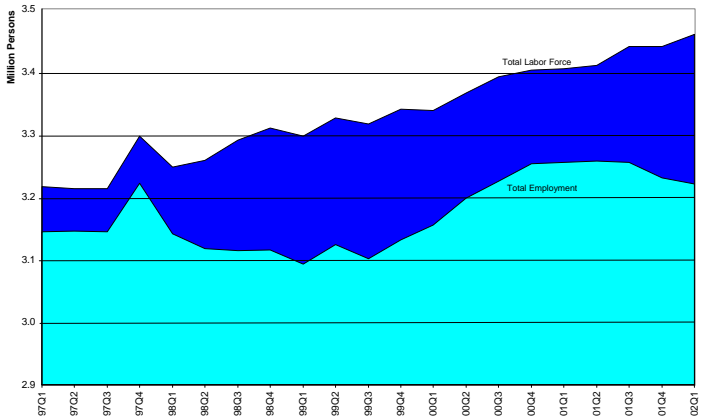
Employment

- 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.

Unemployment Rate



Labour Force and Employment



Concluding Remark

- The US economy rebounded strongly in the first quarter of this year, growing by 5.6%.
- The economic outlook is clouded by conflicting signals, but on balance the US economy is unlikely to contract in the current quarter, and is expected to grow by around 2.7%, up from 1.8% in the 2nd 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/>.