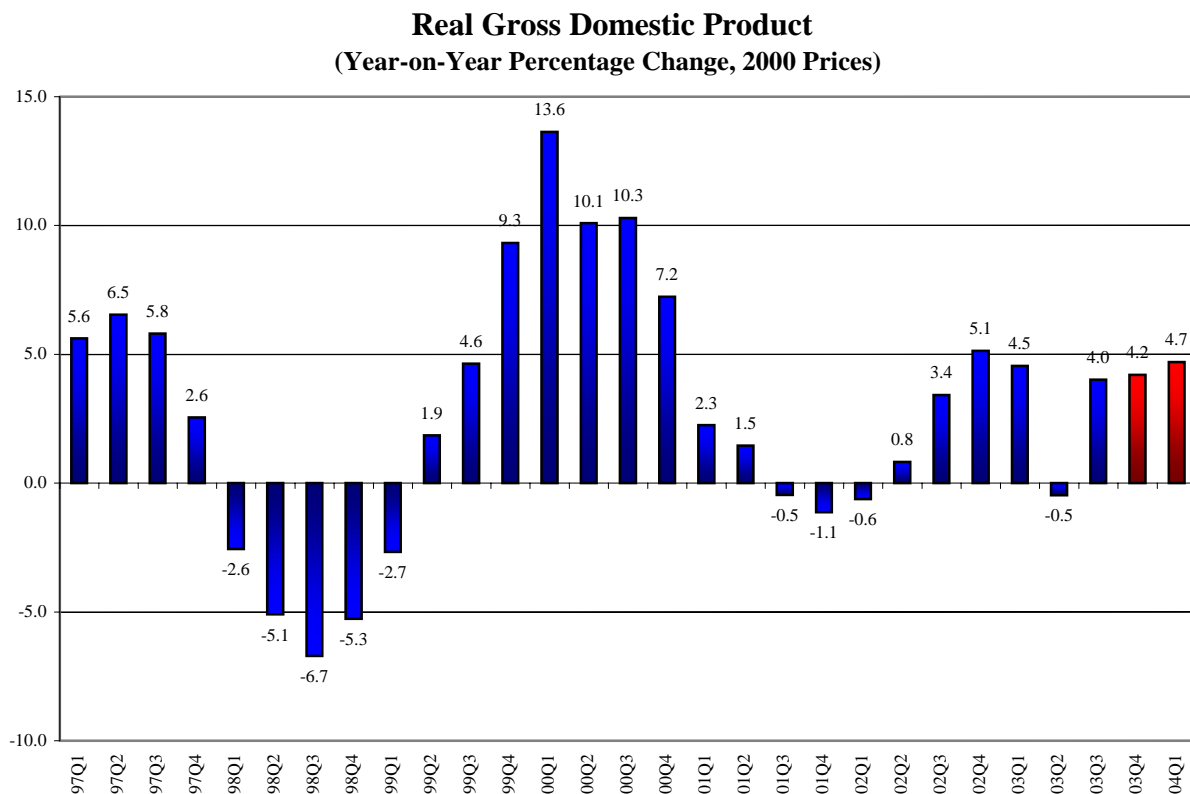


High Frequency Macroeconomic Forecasts Current Quarter Model: 2004Q1

APEC Study Center
The University of Hong Kong

Jan 6, 2004

Positive Economic Outlook



2003 was a momentous year. Ravaged by SARS, the Hong Kong economy shrank by 0.5% year-on-year in the second quarter which was a sharp deceleration from the 4.5% growth achieved in the first quarter. Strong global economic growth, the sequence of growth-promoting measures, such as CEPA and Individual Travel Scheme, and the large in-flow of capital all contributed to the rapid economic rebound starting from the third quarter of last year.

According to the High Frequency Macroeconomic Forecast carried out at the APEC Study Center of The University of Hong Kong, real GDP is forecast to increase by 4.2% year-on-year in the fourth quarter of 2003, and by 3.1% for the whole year. The growth is expected to accelerate, with real GDP growing by 4.7% year-on-year in the first quarter of 2004.

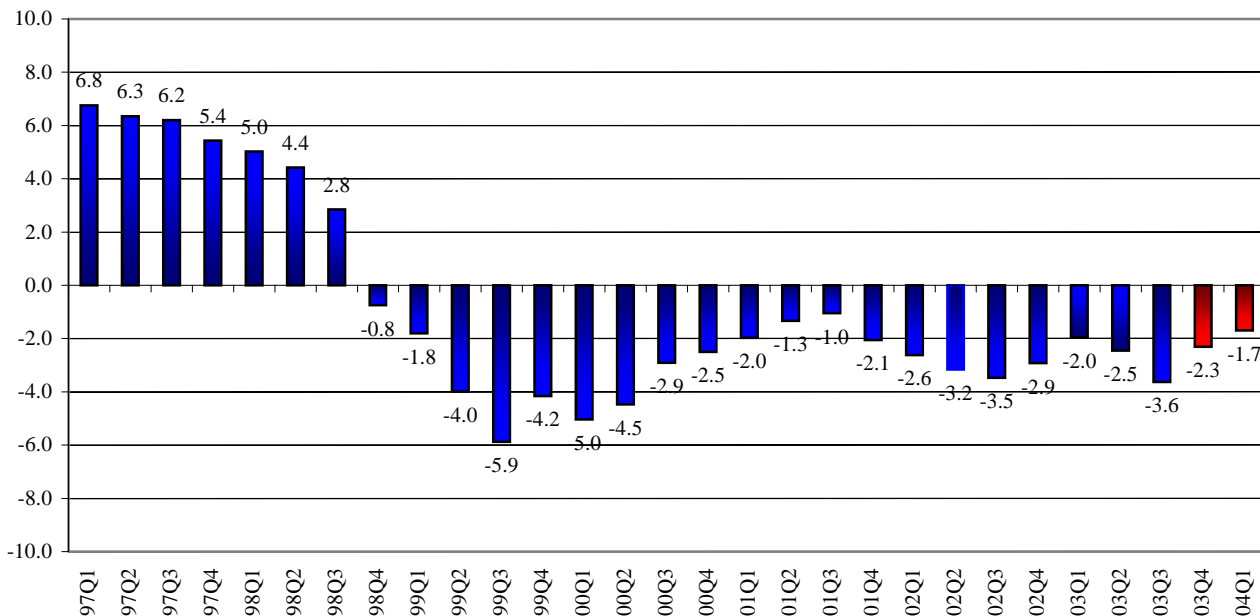
Forecast Highlights

The highlights of our current forecasts are:

- Private consumption spending grew by 2.0% in the third quarter of 2003, which is a sharp turnaround from the declining trend since 2001Q4. Buoyed by improving economic outlook, private consumption spending is forecast to grow by 4.0% in the fourth quarters of 2003 and 4.5% in the first quarter of 2004 comparing to the same period last year. For the year of 2003 as a whole, the growth is projected to 1.0%.
- The volume of retail sales grew by 4.5% year-on-year in October due to the continued strengthening of local demand and the sharp increase in visitor arrivals, particularly from the Mainland. It is expected to improve steadily in the current quarter.
- Domestic exports fell by 5.2% in the third quarter of 2003, decelerated significantly from the 12.6% decline in the second quarter of 2003. The improvement is expected to continue, as the positive effects of CEPA filter through the economy. The 3 years consecutive decrease in domestic exports is forecast to stabilize to a 3.2% decline in the fourth quarter of 003 and a 2.0% decline in the first quarter of 2004 in a year-on-year basis. For the year of 2003, domestic exports are estimated to fall by 8.1%.
- Re-exports registered an 11.5% growth in the third quarter of 2003, and is projected to grow by 13.4% in the fourth quarter of 2003, or a 15.6% growth for the full year of 2003. Underpinned by strong global economic growth and the weakness of the US dollar, robust growth of re-exports can be expected in the coming quarters. Re-exports of goods is forecast to be 11.0% in the first quarter of 2004.
- The individual travel scheme for mainland visitors has been very successful in boosting the number of visitor arrival. The number of visitors from China went up by 31.2% in last October, and by around 20% for the whole year of 2003. Inbound tourism will continue to serve as a stimulant for the whole economy. Export of services is forecast to expand annually at 11.8% in the fourth quarter of 2003 and by 7.2% in the first quarter of 2004. For the year of 2003 as a whole, the growth is projected to 3.6%.
- Import of goods increased by 8.2% in the third quarter of 2003, with retained import grew by 0.4%, reversing the 1.9% decrease in the second quarter of 2003. The acceleration in the growth of retained import is due to the rapid rebound in domestic demand. Import of goods is forecast to rise by 13.2% in the fourth quarter of 2003 and 9.2% in the first quarter of 2004. For the year of 2003 as a whole, the growth is projected to 12.4%.

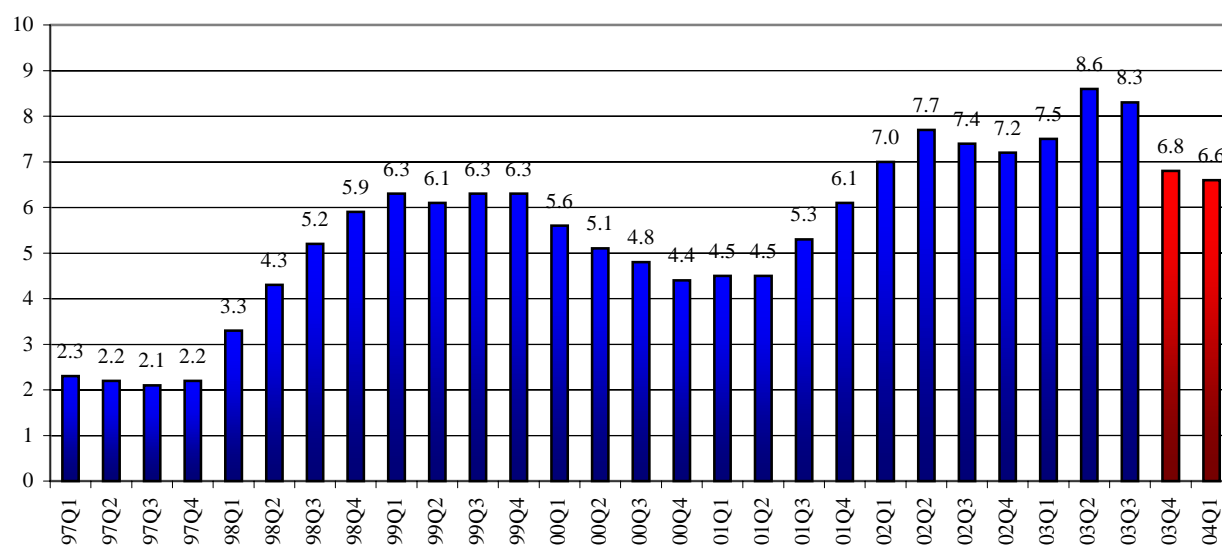
- Import of services went up by 0.5% in the third quarter from the 19.6% plunge in the second quarter of 2003. The number of resident departures grew by 0.5% in October 2003 and is expected to continue to increase during the holiday seasons. Service import is projected to go up by 2.1% in the fourth quarter of 2003 and 4.7% in the first quarter 2004. For the year of 2003 as a whole, the import is forecasted to fall by 4.9%.
- The trade balance, as measured by the net exports of goods and services, was estimated to be 11.6% of GDP in the third quarter of 2003. Due to the stronger growth in the exports of goods and services, the overall trade balance is forecasted to be 11.4% GDP in the fourth quarter of 2003 and 6.8% in the first quarter of 2004. For the year of 2003 as a whole, the measure is projected to 8.6% of GDP.
- Investment spending on machinery, equipment and computer software rose by 4.9% in the third quarter of 2003 on an annual basis. It is forecasted to expand by 6.2% in the fourth quarter of 2003 and 4.0% in the first quarter of 2004 in a year-on-year basis. For the year of 2003 as a whole, the growth is estimated to be 5.1%.
- Investment in land and construction shrank by 6.2% in the third quarter of 2003 on an annual basis. Construction related investment remains weak, but is improving. Investment in land and construction is predicted to fall by 3.8% in the fourth quarter of 2003 and by 2.9% in the first quarter of 2004 on a year-on-year basis. For the year of 2003 as a whole, the drop is estimated to be 4.3%.

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



- The composite CPI fell by 2.3% in November 2003, and is forecasted to fall by the same percentage of 2.3% in the fourth quarter of 2003. The deflation rate is estimated to be 2.6% for 2003. Deflationary pressure will continue to be lessened by stronger domestic demand, weakness in the US dollar and rapid credit expansion in the Mainland. The fall in the consumer price level will moderate and is projected to be 1.7% in the first quarter of 2004.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate in September to November was 7.5%, improving from the 8% rate in the previous period. Unemployment was still concentrated and worsened in the construction sector, with unemployment rate at 20.0% in October. As the economy continues to improve, unemployment rate is expected to fall. The unemployment rate is forecast to be 6.8% in the fourth quarter of 2003 and 6.6% in the first quarter of 2004.

Concluding Remarks

The economy is expected to move closer to its normal trend, with output growing faster, deflationary pressure easing off, improving employment prospects and property prices firming up. Further economic integration with the Mainland will provide further growth impetus. 2004 is likely to be a better year than 2003.

About Our Model

Our forecasting system was originally developed in collaboration with Professor Lawrence Klein of the University of Pennsylvania in 1999-2000. Since then, the system has been maintained and further refined at the APEC Study Center of The University of Hong Kong. The project was partially funded by the Better Hong Kong Foundation. It is now supported by a grant from the university, and the Hong Kong Center for Economic Research provides administrative support. Researchers at the APEC Study Center are solely responsible for the accuracy and interpretation of the forecasts. 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 2000 Dollar)

	2002			2003					2004
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	342,983	353,262	1,323,650	323,628	316,363	356,776	368,099	1,360,022	338,839
Private Consumption Expenditure	190,531	192,990	761,791	186,812	187,179	194,368	200,710	769,069	195,221
Government Consumption Expenditure	33,087	32,378	130,479	34,313	31,264	33,243	32,864	131,684	34,828
Domestic Exports of Goods	40,524	35,581	144,376	28,470	31,416	38,419	34,428	132,733	27,891
Re-exports of Goods	419,633	418,118	1,507,569	380,121	419,908	467,819	474,320	1,742,168	421,749
Imports of Goods	476,286	469,200	1,732,470	432,701	468,962	515,205	531,011	1,947,879	472,570
Exports of Services	95,938	101,960	363,719	89,053	71,125	102,515	113,991	376,684	95,502
Imports of Services	51,927	48,766	195,883	47,171	37,060	52,202	49,773	186,206	49,387
Investment in Land & Construction	42,714	40,724	164,409	40,147	37,915	40,073	39,169	157,304	38,971
Investment in Machinery & Equipment	47,286	46,491	173,993	41,863	41,947	49,589	49,391	182,790	43,546
Changes in Inventories	1,483	2,986	5,667	2,721	1,631	-1,843	4,011	6,520	3,089
Date of Forecast: December 30, 2003									

High Frequency Macroeconomic Forecasts

APEC Study Center

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Table 2: Current Quarter Model Forecast
Year-on-Year Growth Rate (%)

	2002			2003					2004
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	3.4	5.1	2.3	4.5	-0.5	4.0	4.2	3.1	4.7
Private Consumption Expenditure	-0.9	-1.3	0.7	-1.7	-2.6	2.0	4.0	1.0	4.5
Government Consumption Expenditure	3.5	0.8	2.4	1.3	0.4	0.5	1.5	0.9	1.5
Domestic Exports of Goods	-7.5	-12.9	-11.2	-12.0	-12.6	-5.2	-3.2	-8.1	-2.0
Re-exports of Goods	13.7	22.2	11.0	22.3	17.0	11.5	13.4	15.6	11.0
Imports of Goods	10.8	18.2	7.9	18.8	10.9	8.2	13.2	12.4	9.2
Exports of Services	14.0	18.1	7.2	12.5	-13.9	6.9	11.8	3.6	7.2
Imports of Services	2.0	3.4	0.2	-3.9	-19.6	0.5	2.1	-4.9	4.7
Investment in Land & Construction	6.1	-4.8	7.0	-4.1	-9.5	-6.2	-3.8	-4.3	-2.9
Investment in Machinery & Equipment	-12.2	3.2	-9.1	11.9	-2.0	4.9	6.2	5.1	4.0
GDP Deflator Growth Rate	-3.1	-4.1	-3.1	-4.6	-5.4	-5.7	-3.7	-4.8	-1.7
CPI (Composite) Inflation Rate	-3.5	-2.9	-3.0	-2.0	-2.5	-3.6	-2.3	-2.6	-1.7
Unemployment Rate	7.4	7.2	7.3	7.5	8.6	8.3	6.8	7.8	6.6
Date of Forecast: December 30, 2003									

High Frequency Macroeconomic Forecasts

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Table 3: Selected Monthly Indicators												
Year-on-Year Growth Rate (%)												
	2003									2004		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	0.8	0.7	0.7	0.5	0.6	-0.2	-0.3	-1.0	-0.9	-1.7	-1.6	-2.6
Unit Value Trade Index (Imports of Foodstuffs)	-1.7	-1.0	-0.8	-0.9	0.4	0.8	1.1	1.4	2.2	2.3	2.1	2.9
Unit Value Trade Index (Imports of Consumer Goods)	1.5	0.9	0.7	0.7	0.4	0.5	0.5	1.1	0.9	0.7	0.5	0.7
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.0	0.6	0.2	0.4	1.1	1.1	0.9	1.3	1.4	1.3	1.6	0.7
Unit Value Trade Index (Imports of Fuels)	14.3	5.8	8.2	9.0	10.0	1.9	1.8	11.5	11.6	2.5	-4.3	-4.6
Unit Value Trade Index (Imports of Capital Goods)	-3.5	-3.2	-4.2	-5.1	-6.0	-5.8	-5.2	-5.0	-5.3	-4.6	-4.1	-2.8
Real Retained Imports of Foodstuffs	-5.4	-10.8	-6.0	-6.6	4.0	3.1	9.7	-4.9	-6.0	4.3	-2.2	-6.1
Real Retained Imports of Consumer Goods	-0.8	-20.0	-11.2	0.8	-0.3	3.0	10.1	4.3	10.1	-20.4	-7.6	15.3
Real Retained Imports of Raw Materials & Semi-Manufactures	11.2	-10.9	9.0	-11.8	-8.5	-40.6	18.5	-14.8	-11.1	-38.6	-17.2	-20.7
Real Retained Imports of Fuels	-19.8	9.1	-25.2	-6.9	-11.4	16.7	-10.5	-4.8	-11.1	0.6	-18.3	-4.3
Real Retained Imports of Capital Goods	-24.4	6.1	-9.8	-9.0	-3.3	4.2	-20.7	0.7	0.7	-35.5	-4.5	-7.0
Total Motor Vehicles Newly Registered	-51.2	-48.7	-30.0	-30.4	-40.6	-21.4	-16.9	-14.0	-18.5	-22.1	-23.6	7.4
Private Cars Newly Registered	-51.6	-45.4	-31.2	-28.9	-39.0	-25.6	-17.8	-15.4	-21.5	-20.0	-20.8	2.4
Volume Index of Retail Sales	-12.2	-7.5	-3.3	-0.3	3.0	1.1	4.5	5.3	5.4	0.7	5.3	4.3
Money Supply (M2)	1.8	2.3	2.4	4.3	4.9	5.8	8.0	6.9	7.8	9.0	10.4	12.4
Loans and Advances	-5.0	-4.4	-4.3	-4.8	-4.5	-3.8	-0.7	-0.6	-0.7	-0.6	-0.6	-0.2
Visitors Arrivals	-64.8	-67.9	-38.2	-5.6	9.6	7.9	7.0	5.8	8.0	6.0	7.3	20.1
Hong Kong Resident Departures	-29.2	-23.8	-11.3	-4.2	2.3	3.1	0.5	-0.5	4.8	3.6	-0.1	17.2
Electricity Consumption	-9.5	-0.4	-1.9	1.3	6.2	7.4	6.8	8.0	3.5	5.5	2.7	3.8
Gas Consumption	-1.1	-2.5	4.8	1.4	2.5	0.9	-3.4	-0.4	-1.3	-1.0	-2.0	-3.7
Land Considerations	-31.7	-32.5	-45.1	-22.5	11.9	3.3	37.7	66.0	39.4	54.5	48.3	61.5
Effective Exchange Rate Index	-3.6	-3.7	-2.9	-1.5	-1.6	-2.3	-3.6	-3.2	-3.0	-2.0	-2.0	-2.1

Date of Forecast: December 30, 2003