

# High Frequency Macroeconomic Forecasts Current Quarter Model: 2001Q3

APEC Study Center  
The University of Hong Kong

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The Hong Kong economy is expected to maintain modest growth amidst a deteriorating global economic environment. Real GDP is forecasted to grow at 3.3% and 3.5% in the second quarter and the third quarter of 2001 respectively, according to the High Frequency Macroeconomic Forecast carried by the APEC Study Centre of The University of Hong Kong.

The slowdown of the U.S. economy has a negative impact on Hong Kong's external trade performance. The growth of consumption spending is still modest. The robust growth in investment in machinery and equipment continues to be the main driving force for the Hong Kong economy.

The contributions of individual components to the real GDP growth are shown by the following decomposition:

Component	00Q3	00Q4	01Q1	01Q2	01Q3
Private Consumption	3.1	1.4	1.6	2.2	3.0
Government Consumption	0.2	0.0	0.3	0.2	0.2
Merchandise Trade	-1.8	-0.6	-2.3	-4.4	0.5
Service Trade	3.4	2.3	0.9	0.0	-0.5
Investment in Land and Construction	0.0	0.1	0.4	0.6	0.4
Investment in Machinery and Equipment	4.2	3.4	3.5	4.0	2.5
Inventory Investment	1.7	0.4	-1.8	0.7	-2.5
GDP	10.8	6.9	2.5	3.3	3.5

The table shows clearly that the investment in machinery and equipment was a major factor for the output growth. It accounted for 3.5 percentage points of the growth of 2.5% in the first quarter. It will continue to contribute a major part to output growth accounting for 4.0 percentage points of the 3.3% forecasted growth in the second quarter and for 2.5 percentage points of the 3.5% in the third quarter.

Private consumption is another major contributor to the output growth. It is expected to account for 2.2 percentage points of the 3.3% forecasted in the second quarter and for 3.0 percentage points of the 3.5% in the third quarter.

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 maintained a modest growth of 2.8% in the first quarter. With the downturn in economy, consumers will be cautious in their spending. But the growth rate is forecasted to be 3.8% in the second quarter and 5.7% in the third quarter respectively. The pickup in consumption spending is predicated on the long run relationship between consumption and income. After more than two years of belt-tightening, consumption spending has to pick up sooner or later.
- The gross saving rate was 33.6% in the first quarter of 2001. This drops from 40% in the third and fourth quarter of 2000. The drop in interest rates should help households to rebuild their financial portfolios. The saving rate is expected to go down further in the second half of 2001.
- The growth in retail sales remained modest. The volume of retail sales only grew by 1.2% in April 2001 compared to a year ago. Durable goods were the major category with strong growth in the volume, with a year-on-year growth rate of 9.7% in April. This may be due to the lower prices as the retail price of durable goods dropped by 5.2% in the same period.
- With weak global demand, slow growth in external trade is expected to continue. The growth of the re-exports of goods to all main markets was shrinking. For the Mainland of China, the growth rate was 10.9% in the first quarter of 2001, a sharp drop from the rate of 20.1% in 2000. And for the U.S., the growth rate was only 1.8% in the first quarter of 2001, also a sharp drop from the rate of 15.3% in 2000. The re-exports of goods are predicted to grow by 3.0% in the second quarter and by 1.5% in the third quarter respectively.
- The domestic exports of goods shrank by 12.8% in the first quarter. The rate of decline is expected to moderate to 8.1% in the second quarter and to 8.3% in the third quarter respectively.
- After a long period of double-digit growth in last year, the number of visitor arrivals was moderated in the first four months of this year. The growth rate was only 3.1% in April. With the slowdown of visitor arrivals and the slackened external trade, export of services is expected to grow by 3.4% in the second quarter and by 0.9% in the third quarter respectively.
- Mirroring the sharp slowdown in re-exports of goods, the imports of goods are estimated to grow by 3.9% and 0.1% in the second and the third quarter respectively.

- The growth of investment spending in machinery and equipment continued to be notable with rate at 22.5% in the first quarter. The rate is predicted at 22.5% in the second quarter. The growth is expected to slow down and the rate is 14.3% in the third quarter of this year.
- The investment in land and construction recovered after more than two years of decline. The growth rate was 3.1% in the first quarter. As mortgage rates continue to decrease, residential housing is becoming increasingly affordable. However, with the large amount of supply in the market, property prices continued to be flat. With the low base of comparison, the investment is expected to grow by 5.4% and 3.6% in the second and third quarter of 2001.
- We are still in the process of climbing out of deflation. In May, the largest drop of the Composite CPI came from the category of durable goods with 7.4%. Clothing and footwear, and the housing sector dropped by 4.4% and 2.6% respectively. Excluding housing, the deflation rate would be 1.0%, instead of the 1.5% in May. The deflation rate is forecasted to be 1.2% and 1.7% in the second quarter and the third quarter respectively.
- The employment situation is clouded by the weak economic conditions. The unemployment rate went up again to 4.6% in the first quarter of 2001 from 4.4% in the fourth quarter of 2000. The continuing decline of the rate in 2000 is unlikely to happen again in this year. The unemployment rate is projected to be at 4.6% in both the second and the third quarter. Unemployment is still concentrated in the construction sector, with rate at 10.4% in the first quarter, due to the continued slack in the property market. As external trade weakened, the unemployment rates in the import/export trade, transport and business services sectors also increased in the first quarter on a quarter-on-quarter basis.
- However, the shortening of unemployment duration can be regarded as a positive sign on the employment front. The medium duration of unemployment went down to 76 days in the first quarter of 2001 from 78 days in the fourth quarter of 2000.

## **Concluding Remarks**

Given the slowdown of the U.S. economy, a weak economy in Japan and the reduction of exports from the Mainland of China, the economic environment in Hong Kong will not be favourable. Lower interest rates are instrumental in maintaining growth in domestic consumption and investment spending, partially offsetting the weakening in external trade. But Hong Kong still needs to prepare for a slow growth environment in the next couple of quarters.

## **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. Our quarterly forecasts can be accessed at <http://www.hku.hk/apec/cqm/>.

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Table 1: Current Quarter Model Forecast  
(Million of 1990 Dollar)

	2000			2001		
	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	234822	236264	893402	214342	220212	243058
Private Consumption Expenditure	124941	124983	492265	124115	126213	132011
Government Consumption Expenditure	16180	16232	65527	18159	16052	16585
Domestic Exports of Goods	50498	46055	185928	37682	42453	46321
Re-exports of Goods	394432	391299	1445216	329299	360768	400153
Imports of Goods	454008	445779	1683831	389563	430126	454415
Exports of Services	68462	69676	257924	62258	63321	69072
Imports of Services	37298	34712	139682	35926	35689	39145
Investment in Land & Construction	26822	27001	104252	27397	25139	27777
Investment in Machinery & Equipment	41060	39924	150938	39582	46137	46944
Changes in Inventories	3733	1585	14865	1339	5945	-2245

Date of Forecast: Jun 22, 2001

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

	2000			2001		
	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	10.8	6.9	10.5	2.5	3.3	3.5
Private Consumption Expenditure	5.6	2.5	5.4	2.8	3.8	5.7
Government Consumption Expenditure	2.5	-0.6	2.1	4.0	2.5	2.5
Domestic Exports of Goods	8.2	-0.8	7.5	-12.8	-8.1	-8.3
Re-exports of Goods	19.0	15.2	18.5	6.5	3.0	1.5
Imports of Goods	18.4	13.4	18.1	5.3	3.9	0.1
Exports of Services	14.0	9.5	14.1	6.4	3.4	0.9
Imports of Services	3.4	2.7	2.1	5.5	6.1	5.0
Investment in Land & Construction	-0.1	0.4	-7.3	3.1	5.4	3.6
Investment in Machinery & Equipment	27.3	23.4	25.8	22.5	22.5	14.3
GDP Deflator Growth Rate	-6.3	-5.6	-6.6	-1.7	-3.8	-1.8
CPI (Composite) Inflation Rate	-2.8	-2.2	-3.7	-1.5	-1.2	-1.7
Unemployment Rate	4.9	4.4	5.0	4.6	4.6	4.6

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

	2000			2001								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	-0.8	-0.7	-1.9	-2.4	-2.5	-2.8	-2.8	-2.5	-3.0	-3.4	-3.7	-3.9
Unit Value Trade Index (Imports of Foodstuffs)	-1.8	-1.7	-2.2	-1.7	-3.0	-3.6	-3.4	-4.2	-3.5	-3.4	-3.9	-4.2
Unit Value Trade Index (Imports of Consumer Goods)	-0.8	-1.3	-1.8	0.0	-0.8	-1.0	-0.4	0.0	-0.5	0.0	-0.7	-0.9
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.9	0.9	-0.1	-0.8	-1.9	-3.4	-4.9	-5.5	-5.6	-6.2	-5.9	-6.8
Unit Value Trade Index (Imports of Fuels)	51.5	37.4	15.3	4.2	0.6	-9.4	-4.1	-3.3	-8.4	-11.5	-19.5	-28.1
Unit Value Trade Index (Imports of Capital Goods)	-3.6	-3.4	-4.0	-3.0	-2.4	-3.2	-3.2	-2.5	-2.8	-2.3	-2.2	-2.0
Real Retained Imports of Foodstuffs	2.2	-6.9	-3.8	5.5	7.1	-0.1	20.5	-7.2	-8.3	5.5	10.9	2.0
Real Retained Imports of Consumer Goods	-38.8	22.3	4.3	-68.6	179.4	-15.5	-2.0	35.5	1.0	4.8	3.3	-5.2
Real Retained Imports of Raw Materials & Semi-Manufactures	25.2	14.5	-6.3	-17.2	9.6	-15.1	0.3	0.5	3.1	-4.9	-9.3	-10.9
Real Retained Imports of Fuels	-15.5	8.4	-10.8	-5.1	4.1	32.0	10.6	0.8	27.4	24.8	6.9	25.5
Real Retained Imports of Capital Goods	72.4	14.9	43.5	5.8	61.8	19.9	36.0	14.0	35.7	24.7	18.1	8.4
Total Motor Vehicles Newly Registered	14.6	19.0	25.4	-10.0	61.2	12.5	34.5	20.3	25.1	24.3	16.9	35.7
Private Cars Newly Registered	0.9	8.2	11.7	-20.5	30.7	-5.1	13.9	-1.6	7.5	2.6	1.5	9.7
Hong Kong Resident Departures	4.7	6.6	9.5	20.3	-10.0	14.3	3.7	7.5	4.8	5.2	9.4	5.2
Volume Index of Retail Sales	3.5	1.2	2.6	3.0	-1.6	3.3	1.2	2.9	4.9	6.5	4.7	2.7
Electricity Consumption	9.0	6.8	1.4	6.4	3.7	7.2	3.0	0.1	-1.8	1.2	1.9	0.9
Gas Consumption	6.0	6.2	6.8	3.2	2.8	3.1	3.0	3.4	2.3	4.8	4.6	5.2
Visitors Arrivals	13.0	7.2	18.5	7.9	4.1	10.9	3.1	5.5	6.3	3.3	4.1	1.1
Money Supply (Definition 2)	8.6	9.1	8.8	8.6	7.8	5.5	5.8	7.4	5.7	6.6	5.6	7.9
Loans and Advances	-10.8	-11.6	-12.5	-11.2	-10.8	-12.0	-10.9	-10.1	-10.6	-10.0	-12.9	-10.7
Land Considerations	-17.2	-5.7	21.0	-30.5	-8.4	-5.7	-6.1	-10.6	0.3	-0.4	-24.4	-17.6
Effective Exchange Rate Index	3.2	3.4	3.6	3.8	2.9	4.1	5.1	3.9	4.8	4.3	3.8	3.2
Hang Seng Index of Shares Prices	18.4	4.4	-7.5	-1.3	-6.3	-22.9	-19.3	-7.3	-13.9	-20.0	-20.3	-15.1

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