

High Frequency Macroeconomic Forecasts

Current Quarter Model: 2001Q4

APEC Study Center
The University of Hong Kong

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The rapidly deteriorating global economic environment will continue to affect the Hong Kong economy in the second half of 2001. According to the High Frequency Macroeconomic Forecast carried by the APEC Study Center of The University of Hong Kong, real GDP is forecasted to shrink by 0.2% and 1.9% in the third quarter and the fourth quarter of 2001 respectively, on a year-on-year basis. For the year as a whole, real GDP is projected to remain static at the level of last year.

On the external front, the United States economy, even before the terrorist attacks, has already decelerated sharply. The attacks have disrupted normal economic activity and made the economic outlook much more uncertain. The recent events will have a negative impact on Hong Kong's exports and tourism. Other major economies have also been slackening. The Japanese economy has contracted in the second quarter by 0.9% on a year-on-year basis. Economies in the Euro Area have also weakened, with the real GDP of Germany rose by only 0.6% in the second quarter of 2001 compared with the same period of 2000. That was the smallest growth since the first quarter of 1997.

On the domestic front, the growth of consumption spending is still modest, despite falling consumer prices and successive cuts in interest rates. Investment spending has come down sharply since the second quarter, and is expected to decline further in the second half of the year.

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 4.0% in the second quarter. Despite falling consumer prices and successive reduction in interest rates, the downturn in the economy, coupled with the uncertain economic outlook, will continue to drag down consumption spending. Private consumption is expected to decelerate in the fourth quarter. It is forecasted to be 2.1% in the third quarter and 1.0% in the fourth quarter, on a year-on-year basis.
- The growth in overall retail sales slowed down in July. The volume of retail sales only grew by 1.5% compared to a year ago. Durable goods enjoyed strong growth in

the volume with a year-on-year growth rate of 11.4% in July, but prices dropped by 7.4% in the same period.

- With the global slump in demand, a decline in exports is expected in the second half of 2001. Among the major markets of re-exports, only the Mainland of China and Japan have recorded positive in growth in the second quarter. For the Mainland of China, the growth rate was just 5.5% in the second quarter of 2001, a sharp drop from the rate of 21.5% in 2000. For Japan, the growth rate was 8.3% in the second quarter of 2001, compared to the rate of 24.4% in 2000. And for the United States, the rate of decline was 10.1% in the second quarter of 2001. The re-exports of goods are predicted to decline by 3.8% in the third quarter and by 3.5% in the fourth quarter respectively.
- The domestic exports of goods continued to shrink with rate of 8.5% in the second quarter. The rate of decline is expected to be 11.8% in the third quarter and to 6.2% in the fourth quarter respectively.
- After a long period of double-digit growth, the number of visitor arrivals only grew by 7.2% in July. With the slowdown of visitor arrivals and the slackened external trade, export of services is expected to grow by 2.7% in the third quarter and by 2.8% in the fourth quarter respectively.
- Mirroring the slowdown in re-exports of goods and local demand, the imports of goods are estimated to decline by 6.1% and 3.3% in the third and the fourth quarter respectively.
- Investment spending on machinery and equipment grew only by 0.3% in the second quarter. It is predicted to decline in the second half of 2001. The rate of decline is predicted at 5.9% and 7.4% in the third quarter and in the fourth quarter of this year.
- Investment in land and construction stabilised after more than two years of decline. However the growth rate was only 0.5% in the second quarter. With the uncertain economic outlook, investment in land and construction is expected to decline by 0.4% and 1.2% in the third and the fourth quarter respectively.
- We are still facing deflation pressure. In August, the Composite CPI declined by 1.1%, with durable goods dropping the most by 7.5%. Clothing and footwear, and the housing sector dropped by 4.3% and 1.7% respectively. The deflation rate is forecasted to be 1.0% and 1.2% in the third quarter and the fourth quarter respectively.
- Unemployment is expected to worsen. The unemployment rate is 4.6% in the second quarter, the same level in the first quarter of 2001. The rate is forecasted to be 4.9% and at 5.0% in the third and fourth quarter respectively. Unemployment is still concentrated in the construction sector, with rate at 9.9% in the second quarter, due to the continued slack in the property market. As external trade weakened, the

unemployment rates in the manufacturing and the import/export trade sectors also increased in the second quarter on a quarter-on-quarter basis, and both stood at 5.2%.

Concluding Remarks

Given the slowdown in the global economy which became apparent in the second quarter, and the uncertainties arising from the abominable terrorist attacks in the United States, the economic environment in Hong Kong will remain unfavourable in the short-term. Given its resilience, and the massive fiscal stimulus, barring any unforeseen circumstances, the US economy is expected to rebound next year, and this will pull the Hong Kong economy out of its current temporary difficulties.

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/>.

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

	2000		2001				
	Q3	Q4	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	234822	236399	213819	214241	234336	231795	894191
Private Consumption Expenditure	124941	125113	125009	126438	127593	126364	505404
Government Consumption Expenditure	16180	16234	18136	16299	16585	16640	67659
Domestic Exports of Goods	50498	46055	37682	42271	44538	43185	167676
Re-exports of Goods	394432	391299	329299	346792	379309	377606	1433006
Imports of Goods	454008	445779	389563	411094	426459	431057	1658173
Exports of Services	68462	69676	62165	64484	70273	71630	268552
Imports of Services	37298	34712	35710	33961	36913	35659	142243
Investment in Land & Construction	26822	27078	26057	23970	26712	26742	103481
Investment in Machinery & Equipment	41060	39924	39611	37767	38653	36957	152988
Changes in Inventories	3733	1511	1133	1275	-5956	-613	-4161

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Table 2: Current Quarter Model Forecast

Year-on-Year Growth Rate (%)

	2000		2001				
	Q3	Q4	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	10.8	7.0	2.3	0.5	-0.2	-1.9	0.1
Private Consumption Expenditure	5.6	2.6	3.5	4.0	2.1	1.0	2.7
Government Consumption Expenditure	2.5	-0.6	3.9	4.1	2.5	2.5	3.3
Domestic Exports of Goods	8.2	-0.8	-12.8	-8.5	-11.8	-6.2	-9.8
Re-exports of Goods	19.0	15.2	6.5	-1.0	-3.8	-3.5	-0.8
Imports of Goods	18.4	13.4	5.3	-0.7	-6.1	-3.3	-1.5
Exports of Services	14.0	9.5	6.2	5.3	2.7	2.8	4.1
Imports of Services	3.4	2.7	4.9	1.0	-1.0	2.7	1.8
Investment in Land & Construction	-0.1	0.7	-2.0	0.5	-0.4	-1.2	-0.8
Investment in Machinery & Equipment	27.3	23.4	22.6	0.3	-5.9	-7.4	1.4
GDP Deflator Growth Rate	-6.3	-5.5	-1.7	-0.4	-1.0	-0.2	-0.9
CPI (Composite) Inflation Rate	-2.9	-2.5	-2.0	-1.3	-1.0	-1.3	-1.4
Unemployment Rate	4.9	4.4	4.6	4.6	4.9	5.0	4.8

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

	2001											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	-2.4	-2.5	-2.8	-3.5	-3.1	-4.1	-4.7	-5.0	-5.2	-4.8	-4.8	-4.1
Unit Value Trade Index (Imports of Foodstuffs)	-1.7	-3.0	-3.6	-2.1	-2.5	-2.5	-2.5	-3.1	-3.5	-4.1	-4.2	-3.7
Unit Value Trade Index (Imports of Consumer Goods)	0.0	-0.8	-1.0	-1.2	-0.7	-1.5	-1.1	-2.0	-2.3	-2.4	-2.1	-1.8
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	-0.8	-1.9	-3.4	-3.8	-4.3	-4.4	-4.8	-4.3	-5.1	-4.7	-4.2	-3.9
Unit Value Trade Index (Imports of Fuels)	4.2	0.6	-9.4	-0.3	5.2	-0.2	-4.7	-14.2	-23.1	-21.7	-15.5	-2.7
Unit Value Trade Index (Imports of Capital Goods)	-3.0	-2.4	-3.2	-3.6	-3.1	-2.7	-2.0	-1.9	-1.6	-0.5	-0.2	0.7
Real Retained Imports of Foodstuffs	5.5	7.1	-0.1	17.9	3.6	-36.5	1.1	0.6	-7.1	-1.4	1.4	-3.1
Real Retained Imports of Consumer Goods	-68.6	179.4	-15.5	1.7	21.7	49.4	1.3	12.9	10.2	99.8	19.6	11.9
Real Retained Imports of Raw Materials & Semi-Manufactures	-17.2	9.6	-15.1	1.5	-4.0	-12.7	-11.2	-17.7	-19.1	-20.3	-13.2	-6.9
Real Retained Imports of Fuels	-5.1	4.1	32.0	3.9	-6.5	10.3	19.8	2.6	20.5	6.1	10.1	6.2
Real Retained Imports of Capital Goods	5.8	61.8	10.8	14.7	-12.5	-2.1	1.4	-7.2	-14.0	-13.3	11.7	-17.4
Total Motor Vehicles Newly Registered	-10.0	61.2	12.5	31.0	39.8	23.7	27.5	22.4	40.9	27.6	15.8	18.1
Private Cars Newly Registered	-20.5	30.7	-5.1	14.2	17.6	9.8	8.5	7.3	15.9	11.6	4.2	7.8
Hong Kong Resident Departures	20.3	-10.0	14.3	-0.5	-0.1	4.8	-4.7	4.1	-0.3	7.6	6.0	6.6
Volume Index of Retail Sales	4.1	-1.2	4.0	1.9	6.7	6.0	1.5	2.8	-0.6	1.8	2.7	1.7
Electricity Consumption	6.4	3.7	7.2	3.0	9.4	0.8	0.4	3.6	2.5	-1.5	4.2	4.4
Gas Consumption	3.2	2.8	3.1	3.0	3.2	2.5	3.0	3.3	4.4	3.9	2.9	2.4
Visitors Arrivals	7.9	4.1	10.9	3.1	9.1	10.0	7.2	7.8	4.2	7.7	9.7	7.5
Money Supply (Definition 2)	8.6	7.8	5.5	5.8	6.4	3.9	3.2	1.8	3.3	4.2	3.9	4.6
Loans and Advances	-11.2	-10.8	-12.0	-10.9	-10.5	-10.6	-10.9	-13.8	-11.6	-12.0	-11.8	-11.2
Land Considerations	-30.5	-8.4	-5.7	-6.1	-10.6	1.4	2.8	-11.9	-11.2	8.9	1.9	-6.0
Effective Exchange Rate Index	3.8	2.9	4.1	5.1	3.9	5.4	5.3	3.6	2.7	1.8	1.4	1.4
Hang Seng Index of Shares Prices	-1.3	-6.3	-22.9	-19.3	-7.3	-17.0	-27.4	-32.5	-29.2	-24.2	-24.0	-23.6

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