

High Frequency Macroeconomic Forecasts Current Quarter Model: 2002Q1

APEC Study Center
The University of Hong Kong

January 2, 2002

Hong Kong economic growth turned negative as global economic environment continued to deteriorate. 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 1.9% in the fourth quarter of 2001, on a year-on-year basis. For the year as a whole, real GDP is projected to grow at 0.1% of 2001. The contraction is expected to continue into the beginning of year 2002. Real GDP is forecasted to shrink by 1.6% for the first quarter of 2002.

On the external front, the United States economy has been in recession since March 2001. The 911 attacks further deepened the contraction. Real GDP shrunk at an annualised rate of 1.3% in the third quarter of 2001. Unemployment rose fast and reached 5.7% in November of 2001. Other major economies have also been slackening. The Japanese economy again experienced two consecutive quarters of negative growth. Real GDP shrunk by 1.2% and 0.5% in the second and third quarter of 2001, on a year-on-year basis. Economies in the Euro Area have also weakened, with the real GDP of Germany rose by only 0.3% in the third quarter of 2001 compared with the same period of 2000. That was the smallest growth since the first quarter of 1997. As Hong Kong is a small open economy, the synchronised decline in global economy hurts our economy directly.

On the domestic front, consumers hesitate to spend amidst the gloomy economic outlook. The consumption spending was growing with a slower pace. Beyond a one-time charge of aircraft intake in the third quarter of 2001, investment spending was generally disappointing. This dim situation is expected to continue in the beginning of this 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 reported growth of 1.3% in the third quarter of 2001. Facing with the downturn in the economy and the rapid rise in unemployment, consumers think twice when they spend. Private consumption is expected to decelerate in the fourth quarter. It is forecasted to be 1.1% in the fourth quarter of 2001 and 0.2% in the first quarter of 2002, on a year-on-year basis.

- The growth in overall retail sales took a downturn in September of 2001. The volume of retail sales shrunk by 1.6% compared to a year ago. The decline continued in October with the volume of retail sales went down by 3.7% on a year-on-year basis. Jewellery, watches and clocks, and valuable gifts recorded the largest decline of 17.3% in October.
- With the global slump in demand, a decline in exports is expected. Among the major markets of re-exports, only the Mainland of China has registered positive in growth in the third quarter of 2001. The growth rate was just 7.3% in the third quarter of 2001, a sharp drop from the rate of 21.3% in 2000. For the United States, the rate of decline was 10.1% in the third quarter of 2001. The re-exports of goods are predicted to decline by 2.5% in the fourth quarter of 2001 and grow by 0.1% in the first quarter of this year.
- The domestic exports of goods continued to shrink with rate of 12.4% in the third quarter. The rate of decline is expected to be 6.9% in the fourth quarter of 2001 and to 7.2% in the first quarter of 2002 respectively.
- With the 911 attacks in mind, people are less likely to travel. The number of visitor arrivals turned negative on September of 2001. It declined by 2.1% and 3.3% on a year-on-year basis in September and October of 2001 respectively. With the slowdown of visitor arrivals and the slackened external trade, export of services is expected to grow by 0.4% in the fourth quarter of 2001 and by 1.7% in the first quarter of 2002 respectively.
- Mirroring the slowdown in re-exports of goods and local demand, the imports of goods are estimated to decline by 2.4% and 0.2% in the fourth quarter of 2001 and the first quarter of 2002 respectively.
- The intake of aircraft has bolstered the investment on machinery and equipment in the third quarter of 2001. The investment grew by 9.4% on a year-on-year basis. However, as the outlook of economy is dimming, the growth rate is predicted to slow down. It is predicted to grow by 2.1% in the fourth quarter of 2001 and decline by 6.3% in the first quarter of this year.
- The growth rate of the investment in land and construction turned negative again in the third quarter after a positive in the second quarter of 2001. Construction output was dragged down in both private and public sectors. With the uncertain economic outlook and protracted weakness in the property market, investment in land and construction is expected to decline by 4.0% and 2.4% in the fourth quarter of 2001 and the first quarter of 2002 respectively.
- We are still facing deflation pressure. Faced with slackened consumer demand and keen competition in the market, retailers need to keep their prices down to attract customers. In November, the Composite CPI declined by 1.4%, with durable goods

dropping the most by 7.3%. Clothing and footwear, and the housing sector dropped by 3.0% and 1.8% respectively. The deflation rate is forecasted to be 1.3% in the fourth quarter of 2001 and 1.0% in the first quarter of 2002 respectively.

- Unemployment is expected to worsen. Corporate downsizing is unavoidable amidst the uncertain economic outlook. The unemployment rate is 5.3% in the third quarter. The rate is forecasted to be 5.8% in the fourth quarter of 2001 and at 6.0% in the first quarter of this year respectively. The median duration of unemployment also increased from 68 days in the second quarter to 72 days in the third quarter of 2001. Unemployment is still concentrated in the construction sector, with rate at 10.3% in the third quarter, due to the continued slack in the property market. As external trade and tourism weakened, the unemployment rates in the retail trade, restaurants and hotels also increased in the third quarter on a quarter-on-quarter basis at 5.8%.

Concluding Remarks

Given the synchronised slowdown in the global economy and the 911 attacks in the United States, Hong Kong economy is undoubtedly in a difficult situation. However, as the military action in Afghanistan is under control and with a historical low interest rate, the US economy is expected to rebound this year. With its great flexibility, Hong Kong economy should be able to pick up very fast and 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/>.

High Frequency Macroeconomic Forecasts
APEC Study Centre
The University of Hong Kong

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

	2001					2002
	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	213573	214988	234179	232019	894759	210152
Private Consumption Expenditure	124406	125948	126504	126451	503309	124633
Government Consumption Expenditure	18136	16299	17180	16640	68255	18589
Domestic Exports of Goods	37682	42271	44233	42860	167046	34972
Re-exports of Goods	329299	346792	382756	381399	1440246	329782
Imports of Goods	389563	411094	438478	435083	1674218	388846
Exports of Services	62165	65111	69487	69933	266696	63198
Imports of Services	35357	33966	36559	34968	140850	36090
Investment in Land & Construction	26061	24517	25429	26001	102008	25427
Investment in Machinery & Equipment	39611	37767	44937	40768	163083	37100
Changes in Inventories	1133	1343	-1310	-1982	-816	1387
Date of Forecast: Dec 27, 2001						

High Frequency Macroeconomic Forecasts
APEC Study Centre
The University of Hong Kong

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

	2001					2002
	Q1	Q2	Q3	Q4	Annual	Q1
				(forecast)	(forecast)	(forecast)
Gross Domestic Product	2.2	0.8	-0.3	-1.9	0.1	-1.6
Private Consumption Expenditure	3.0	3.6	1.3	1.1	2.2	0.2
Government Consumption Expenditure	3.9	4.1	6.2	2.5	4.2	2.5
Domestic Exports of Goods	-12.8	-8.5	-12.4	-6.9	-10.2	-7.2
Re-exports of Goods	6.5	-1.0	-3.0	-2.5	-0.3	0.1
Imports of Goods	5.3	-0.7	-3.4	-2.4	-0.6	-0.2
Exports of Services	6.2	6.3	1.5	0.4	3.4	1.7
Imports of Services	3.9	1.0	-2.0	0.7	0.8	2.1
Investment in Land & Construction	-1.9	2.8	-5.2	-4.0	-2.2	-2.4
Investment in Machinery & Equipment	22.6	0.3	9.4	2.1	8.0	-6.3
GDP Deflator Growth Rate	-1.7	-0.6	-0.3	-0.8	-1.1	-0.9
CPI (Composite) Inflation Rate	-2.0	-1.3	-1.0	-1.3	-1.4	-1.0
Unemployment Rate	4.6	4.6	5.3	5.8	5.1	6.0

Date of Forecast: Dec 27, 2001

High Frequency Macroeconomic Forecasts

APEC Study Centre

The University of Hong Kong

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

	2001									2002		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	-3.5	-3.1	-4.1	-4.8	-5.7	-5.7	-5.2	-5.2	-4.5	-3.9	-3.9	-3.3
Unit Value Trade Index (Imports of Foodstuffs)	-2.1	-2.5	-2.5	-2.3	-4.2	-3.4	-4.2	-3.9	-3.3	-2.3	-0.8	0.4
Unit Value Trade Index (Imports of Consumer Goods)	-1.2	-0.7	-1.5	-0.9	-1.6	-2.0	-2.0	-1.6	-1.2	-1.3	-1.2	-0.2
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	-3.8	-4.3	-4.4	-5.3	-5.9	-7.0	-6.9	-6.7	-6.7	-5.9	-4.8	-3.6
Unit Value Trade Index (Imports of Fuels)	-0.3	5.2	-0.2	-9.2	-19.6	-25.0	-22.1	-14.8	-2.1	5.0	3.9	5.4
Unit Value Trade Index (Imports of Capital Goods)	-3.6	-3.1	-2.7	-2.7	-2.5	-2.2	-1.3	-1.1	-0.1	0.2	0.6	1.2
Real Retained Imports of Foodstuffs	17.9	3.6	-36.5	17.6	25.0	6.6	10.7	14.8	9.6	1.4	-1.9	15.5
Real Retained Imports of Consumer Goods	1.7	21.7	49.4	5.4	25.3	58.8	112.7	33.9	34.7	141.2	-33.5	29.1
Real Retained Imports of Raw Materials & Semi-Manufactures	1.5	-4.0	-12.7	-17.1	-37.3	-23.8	-31.3	-24.0	-18.5	-9.0	-31.4	-11.8
Real Retained Imports of Fuels	3.9	-6.5	10.3	1.7	-12.1	11.3	0.6	4.3	0.7	1.3	-6.1	-1.8
Real Retained Imports of Capital Goods	14.7	-12.5	-2.1	17.3	15.0	10.5	-2.6	16.2	-5.7	5.4	-19.0	-5.8
Total Motor Vehicles Newly Registered	31.0	39.8	23.7	20.4	21.2	3.9	10.1	0.1	-1.4	14.8	-14.0	-7.8
Private Cars Newly Registered	14.2	17.6	9.8	11.4	23.3	-1.2	7.0	-0.1	3.4	20.6	10.2	-3.6
Hong Kong Resident Departures	-0.5	-0.1	4.8	-4.7	4.9	4.0	9.0	6.8	6.0	-3.7	27.2	-1.4
Volume Index of Retail Sales	1.9	6.7	6.0	1.4	1.7	-1.6	-3.7	-1.4	-2.4	-8.8	-2.6	-8.3
Electricity Consumption	3.0	9.4	0.8	0.4	6.0	2.0	0.4	5.2	5.3	4.3	3.4	1.1
Gas Consumption	3.0	3.2	2.5	3.0	3.0	1.6	0.3	0.5	0.4	1.6	1.7	1.3
Money Supply (Definition 2)	5.8	6.4	3.9	3.2	2.3	1.8	1.1	0.3	0.2	2.3	4.2	7.1
Loans and Advances	-10.9	-10.5	-10.6	-10.9	-13.9	-11.3	-12.1	-11.9	-11.2	-11.6	-11.2	-10.1
Visitors Arrivals	3.1	9.1	10.0	7.2	7.3	-2.1	-3.3	0.6	-1.4	1.9	4.2	0.9
Land Considerations	-6.1	-10.6	1.4	2.8	-11.9	-8.3	-20.7	-9.7	-17.1	6.2	-5.6	-4.3
Effective Exchange Rate Index	5.1	3.9	5.4	5.3	3.5	2.5	2.3	2.2	2.3	2.4	2.2	1.0
Hang Seng Index of Shares Prices	-19.3	-7.3	-17.0	-27.4	-32.5	-39.3	-32.8	-32.1	-26.1	-28.3	-28.7	-17.2

Date of Forecast: Dec 27, 2001