

High Frequency Macroeconomic Forecasts

Current Quarter Model: 2002Q2

APEC Study Center
The University of Hong Kong

March 25, 2002

Slowdown Continues

Hong Kong economic growth is expected to remain negative in the current quarter on a year-on-year basis, followed by the drop in real GDP started in the third quarter of last year. But the rate of decline of real GDP is expected to narrow. According to the High Frequency Macroeconomic Forecast carried by the APEC Study Center of The University of Hong Kong, real GDP is estimated to shrink by 1.5% in the first quarter of 2002, on a year-on-year basis. The contraction is projected to continue in the current quarter. Real GDP is forecasted to shrink by 0.4% in the second quarter of 2002.

The moderation of economic slowdown in Hong Kong can be attributed to the US economic recovery. US manufacturing output was up by 0.4% in February, the strongest rise since June 2000, following the 0.2% rise in January, and consumer sentiment appears to be improving with the University of Michigan index rose in March to 95 from a final reading of 90.7% in February. Economic recovery in the US is expected to continue, and will help to pull the Asian economies out of the current economic slowdown.

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 0.3% in the fourth quarter of 2001. With the continued concern about job security induced by the current high unemployment rate, the consumption is expected to shrink by 0.8% in the first quarter of 2002 and to shrink further by 1.9% in the second quarter of 2002, on a year-on-year basis.
- The growth in overall retail sales experienced a double-digit drop in December of 2001. In January, the volume of retail sales shrunk by 10.4% compared to a year ago.
- The domestic exports faced a double-digit decline for the second consecutive quarter to negative 10.4% in the fourth quarter of 2001. Although the domestic exports to China grew by 11.5% in January on a year-on-year basis, it could not offset the 35.0% decline to US. The total domestic exports declined by 19% in January. A further decline in domestic exports is expected. However, bolstered by the US economic recovery, the decline in domestic exports is expected to decelerate to -10.3% in the first quarter and -9.0% in the second quarter of 2002.

- Although re-exports growth to the US was slackened by a 24.0% decline in January 2002, re-exports to China is still undergoing noticeable growth of 8.8%, on a year-on-year basis. The decline of re-exports is expected to decelerate to 6.8% and 2.5% in the first and second quarters of 2002.
- The negative impact on tourism caused by the 911 terrorist attacks has subsided. The number of visitor arrivals turned into positive growth for the third consecutive months at 10.5% year-on-year in January. The number of visitors from the Mainland China is expected to grow. The exports of services is projected to grow by 3.2% and 4.4% in the first and second quarters of 2002 respectively.
- The weak economy is reflected by a slowdown in the imports of goods, which are estimated to decline by 7.4% and 2.8% in the first and second quarters of 2002 respectively.
- Following the 8.5% decrease in the fourth quarter of 2001, investment spending on machinery and equipment is forecasted to contract by 12.6% in the first quarter of 2002. In the current quarter, it is expected to grow by 0.4% on a year-on-year basis.
- Investment in land and construction dropped by 3.1% in the fourth quarter of 2001. The slowdown is expected to persist. It is forecasted to decline by 2.3% in the first quarter and by 4.3% in the second quarter of 2002.
- Deflation pressure is expected to continue. The strong US dollar, poor consumer sentiments and keener competition in the market put downward pressure on consumer prices. In February, the composite CPI declined by 2.3%. Since June 1998, and up to February this year, the price level has accumulated a drop by 12%, with clothing prices down by close to 40%, housing by 30% and food by 6%, while transport prices on average rose by 1.7%. The deflation rate is forecasted to decrease by 2.9% in the first quarter of 2002 and 3.5% in the second quarter of 2002.
- For the period of December to February, the provisional seasonally adjusted unemployment rate climbed to a historic high level of 6.8%. The median duration of unemployment also increased from 72 days in the third quarter to 82 days in the fourth quarter of 2001. Due to the continued slack in the property market, unemployment is still concentrated in the construction sector, with the rate of increase at 12.5% in the fourth quarter of 2002 on a year-on-year basis. The current high level is expected to continue, with the unemployment rate forecasted to be 6.9% in both of the first and second quarters of 2002.
- Despite the economic downturn, the number of employed persons was basically stable at around 3.23 million last year. The high unemployment rate was due to the increase in the size of the labor force which went up by 31,000 last year.

Concluding Remarks

Given the continued economic recovery in the US, the Hong Kong economy will turn the corner in the second half of this year, with real GDP expected to start growing again on a year-on-year basis in the third quarter. But the rate of rebound is projected to be modest at around of annual rate of between one to two percent.

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)

	2001					2002	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	213,493	214,788	233,733	232,573	894,587	210,291	213,889
Private Consumption Expenditure	124,297	125,734	126,353	125,440	501,824	123,355	123,339
Government Consumption Expenditure	18,136	16,299	17,180	17,225	68,840	18,589	16,706
Domestic Exports of Goods	37,682	42,271	44,233	41,256	165,442	33,800	38,457
Re-exports of Goods	329,299	346,792	382,756	357,696	1,416,543	307,042	338,147
Imports of Goods	389,563	411,094	438,478	405,085	1,644,220	360,848	399,718
Exports of Services	62,206	65,162	69,628	70,069	267,065	64,172	68,021
Imports of Services	35,369	33,979	36,556	33,909	139,813	34,892	34,405
Investment in Land & Construction	26,061	24,492	25,082	26,227	101,862	25,474	23,444
Investment in Machinery & Equipment	39,611	37,768	44,938	36,512	158,829	34,631	37,922
Changes in Inventories	1,133	1,343	-1,403	-2,858	-1,785	-1,032	1,974

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Table 2: Current Quarter Model Forecast

Year-on-Year Growth Rate (%)

	2001					2002	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	2.2	0.8	-0.4	-1.6	0.1	-1.5	-0.4
Private Consumption Expenditure	3.0	3.5	1.2	0.3	2.0	-0.8	-1.9
Government Consumption Expenditure	3.9	4.1	6.2	6.1	5.1	2.5	2.5
Domestic Exports of Goods	-12.8	-8.5	-12.4	-10.4	-11.0	-10.3	-9.0
Re-exports of Goods	6.5	-1.0	-3.0	-8.6	-2.0	-6.8	-2.5
Imports of Goods	5.3	-0.7	-3.4	-9.1	-2.4	-7.4	-2.8
Exports of Services	6.3	6.3	1.6	0.5	3.5	3.2	4.4
Imports of Services	3.9	1.0	-2.0	-2.3	0.1	-1.3	1.3
Investment in Land & Construction	-1.9	2.7	-6.5	-3.1	-2.4	-2.3	-4.3
Investment in Machinery & Equipment	22.6	0.3	9.4	-8.5	5.2	-12.6	0.4
GDP Deflator Growth Rate	-1.7	-0.6	-0.2	0.5	-0.5	-3.2	-0.4
CPI (Composite) Inflation Rate	-2.0	-1.3	-1.0	-2.1	-1.6	-2.9	-3.5
Unemployment Rate	4.5	4.5	5.3	6.1	5.1	6.9	6.9

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

	2001						2002					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	-4.8	-5.7	-5.7	-5.6	-6.3	-6.3	-5.9	-5.9	-5.4	-4.8	-4.8	-4.4
Unit Value Trade Index (Imports of Foodstuffs)	-2.3	-4.2	-3.4	-3.8	-4.5	-5.1	-4.7	-3.7	-2.7	-3.5	-3.5	-2.5
Unit Value Trade Index (Imports of Consumer Goods)	-0.9	-1.6	-2.0	-2.5	-2.8	-2.3	-2.4	-2.3	-1.5	-0.6	-0.5	0.0
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	-5.3	-5.9	-7.0	-7.1	-7.6	-7.9	-7.4	-6.6	-5.6	-6.2	-5.9	-5.6
Unit Value Trade Index (Imports of Fuels)	-9.2	-19.6	-25.0	-30.8	-34.2	-30.0	-26.3	-27.2	-26.9	-29.3	-32.1	-32.0
Unit Value Trade Index (Imports of Capital Goods)	-2.7	-2.5	-2.2	-1.7	-2.3	-2.4	-2.4	-2.2	-1.8	-1.4	-1.1	-1.8
Real Retained Imports of Foodstuffs	17.6	25.0	6.6	-2.6	-1.2	-13.7	-8.9	-13.5	1.5	-6.4	-12.3	27.0
Real Retained Imports of Consumer Goods	5.4	25.3	58.8	133.9	28.8	7.4	148.7	-37.2	20.4	17.9	-6.1	-11.4
Real Retained Imports of Raw Materials & Semi-Manufactures	-17.1	-37.3	-23.8	-22.9	-24.7	-21.4	-8.5	-31.7	-12.5	-22.4	-17.9	-8.8
Real Retained Imports of Fuels	1.7	-12.1	11.3	6.3	15.4	7.9	4.6	-3.1	1.4	8.0	9.2	15.8
Real Retained Imports of Capital Goods	17.3	15.0	10.5	-18.2	11.5	-16.1	-2.0	-25.8	-13.3	-5.4	-5.8	7.2
Total Motor Vehicles Newly Registered	20.4	21.2	3.9	1.1	-22.1	-27.6	-16.0	-35.5	-32.4	-29.2	-39.4	-32.0
Private Cars Newly Registered	11.4	23.3	-1.2	-5.9	-20.7	-23.5	-3.0	-11.9	-22.7	-13.9	-26.2	-16.3
Volume Index of Retail Sales	1.4	1.7	-1.6	-3.8	-1.7	-3.2	-10.4	-3.7	-9.5	-9.3	-9.7	-8.9
Electricity Consumption	0.4	6.0	2.0	0.4	4.9	2.3	7.1	3.7	1.4	11.1	-0.4	4.3
Gas Consumption	3.0	3.0	1.6	0.3	-1.6	-1.4	0.2	0.4	0.1	-0.1	0.1	-0.1
Money Supply (Definition 2)	3.2	2.3	1.8	1.1	-1.4	-2.9	-3.0	-2.3	-0.5	-0.1	0.6	1.6
Loans and Advances	-10.9	-13.9	-11.3	-12.1	-12.0	-11.2	-11.0	-10.6	-9.5	-9.3	-9.0	-8.9
Visitors Arrivals	7.2	7.3	-2.1	-3.3	2.1	6.4	10.5	12.0	8.2	9.7	6.3	5.9
Hong Kong Resident Departures	-4.7	4.9	4.0	2.1	6.4	5.8	-6.2	22.0	-3.5	5.5	7.6	5.1
Land Considerations	2.8	-11.9	-8.3	-20.7	-9.7	-35.5	7.6	-25.0	-16.1	-19.9	0.2	-11.6
Effective Exchange Rate Index	4.3	2.7	1.9	1.6	1.6	2.1	2.7	2.8	1.8	1.2	1.2	0.6
Hang Seng Index of Shares Prices	-27.4	-32.5	-39.3	-32.8	-27.7	-23.2	-28.3	-31.6	-21.4	-18.0	-22.3	-20.4

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