

High Frequency Macroeconomic Forecasts

2000 Q1 Forecasts

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The University of Hong Kong

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The Hong Kong Economy continues to recover. The strength of the recovery is stronger than expected. Based on the Current Quarter Model of the Apec Study Center of The University of Hong Kong, real GDP growth in the fourth quarter of 1999 is estimated to be 4.9% on a year-on-year basis. For the whole year, real GDP is expected to grow at 1.9%. This is an upward revision of the 1.0% growth announced in our last release. The stronger growth is mainly due to the robust performance of the external trade sector. The recovery momentum is expected to pick up in the first quarter of the new millennium, with real GDP growth estimated at 6.6%.

The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3.

The highlights of our current forecasts are as follows:

- Private consumption spending is expected to grow by 5.0% in the fourth quarter of 1999 and the growth will be sustained in the first quarter of 2000 at 5.7%. Retail sales started to bounce back in July with a positive 0.8% year-on-year growth, and is estimated to grow at 1.7% in the fourth quarter of 1999. Retail sales will continue to strengthen, and is forecasted to grow at 4.9% in the first quarter of 2000.
- External trade is the major growth stimulus. Re-export trade has been strong in all major markets. The growth rates were 10.9%, 10.3% and 14.6% for the Mainland of China, the United States and Japan respectively in the third quarter of 1999. In the fourth quarter of 1999, re-export trade is estimated to grow by 11.7% and the export of services by 4.8%. Domestic export of goods will continue to contract, but at a slower rate of 3.4%. For the first quarter of 2000, re-export

trade will grow at a high rate of 13.7%, and the export of services will grow at 4.2%. The contraction of domestic exports of goods will moderate and is forecasted to drop by 2.4%.

- In tandem with the strong growth in re-export, the import of goods is estimated to grow by 12.1% in the fourth quarter of 1999 and by 15.6% in the first quarter of 2000. The import of services is expected to register a reduction of 3.7% in the fourth quarter of 1999 and 0.4% in the first quarter of 2000.
- Investment spending is expected improve in the first quarter of 2000. The nominal interest rates are expected to stay at the current levels. With the forecasted moderation in deflation, real interest rates are expected to decrease in the next quarter. The contraction of the loans and advances from the banking sector is also expected to ease. The rate of decline is estimated to be 12.0% at the end of next quarter, compared with 14.9% at the end of the third quarter of 1999. All these factors should bode well for the investment outlook. Private investment in machinery and equipment will grow by 11.1% in the first quarter of 2000.
- Private investment in land and construction is expected to improve. It is estimated to decline by 4.7% in the first quarter of 2000 compared to 24.3% in the third quarter of 1999.
- Deflation will moderate in the next quarter. Consumer prices, as measured by the composite consumer price index, will fall by 4.1% in both the fourth quarter of 1999 and the first quarter of 2000 on a year-on-year basis. The deflation rate in the third quarter is 5.9% in third quarter of 1999. The drop in prices is mainly concentrated in the clothing, footwear, durable goods and housing sectors. The rates of decline are 21.4%, 8.3% and 4.4% respectively in October 1999 on a year-on-year basis.
- The unemployment rate is projected to be lower in the first quarter of 2000 at 5.8%. The Hong Kong labour force was 3.38 million in the third quarter of 1998 and grew to 3.46 million in the third quarter in 1999. During the same period, the number of employed persons increased from 3.20 million to 3.24 million. The increase in employment was therefore slower than the increase in the labour force. As the economy continues to improve, there will be more job opportunities and the employment situation will look better in the first quarter of 2000.

The economy has continued to recover, but real GDP in 1999 is still 3consumption spending is down by 5%. Private investment in land and construction and the investment in machinery and equipment are off by 24% and 26% respectively. The unemployment rate in 1997 was only 2% and is around to 6% in 1999. The economy has regained some lost ground in 1999, but there is still some catching up to do. On present course the economy will catch up with is historical high level within a year.

We will make one quarter ahead forecasts on a regular basis. Our forecasts for the second quarter of 2000 will be announced in late March 2000.