

# High-Frequency Macro Forecasts: 3rd Quarter 2001

July 3, 2001

<http://www.hku.hk/apec/cqm/01Q3/>

## Moderate Economic Growth

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

# Growth Decomposition

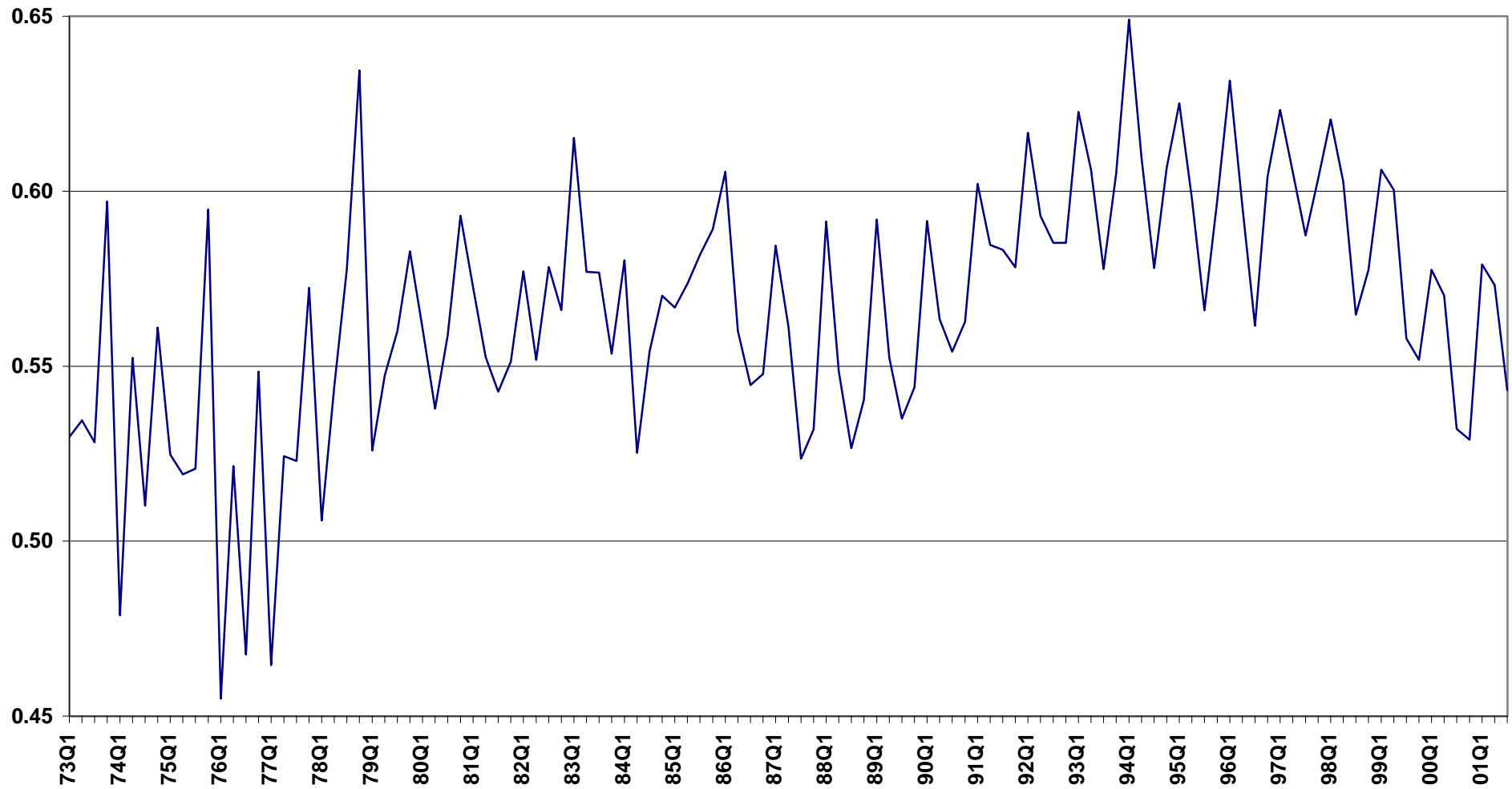
Component	00Q3	00Q4	01Q1	01Q2	01Q3
Private Consumption	3.1	1.4	1.6	2.2	3.0
Government Consumption	0.2	0.0	0.3	0.2	0.2
Merchandise Trade	-1.8	-0.6	-2.3	-4.4	0.5
Service Trade	3.4	2.3	0.9	0.0	-0.5
Investment in Land and Construction	0.0	0.1	0.4	0.6	0.4
Investment in Machinery and Equipment	4.2	3.4	3.5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

- At present, domestic demand is the engine of growth of the Hong Kong economy.
- 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 GDP 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 GDP growth in the second quarter and for 3.0 percentage points of the 3.5% in the third quarter.

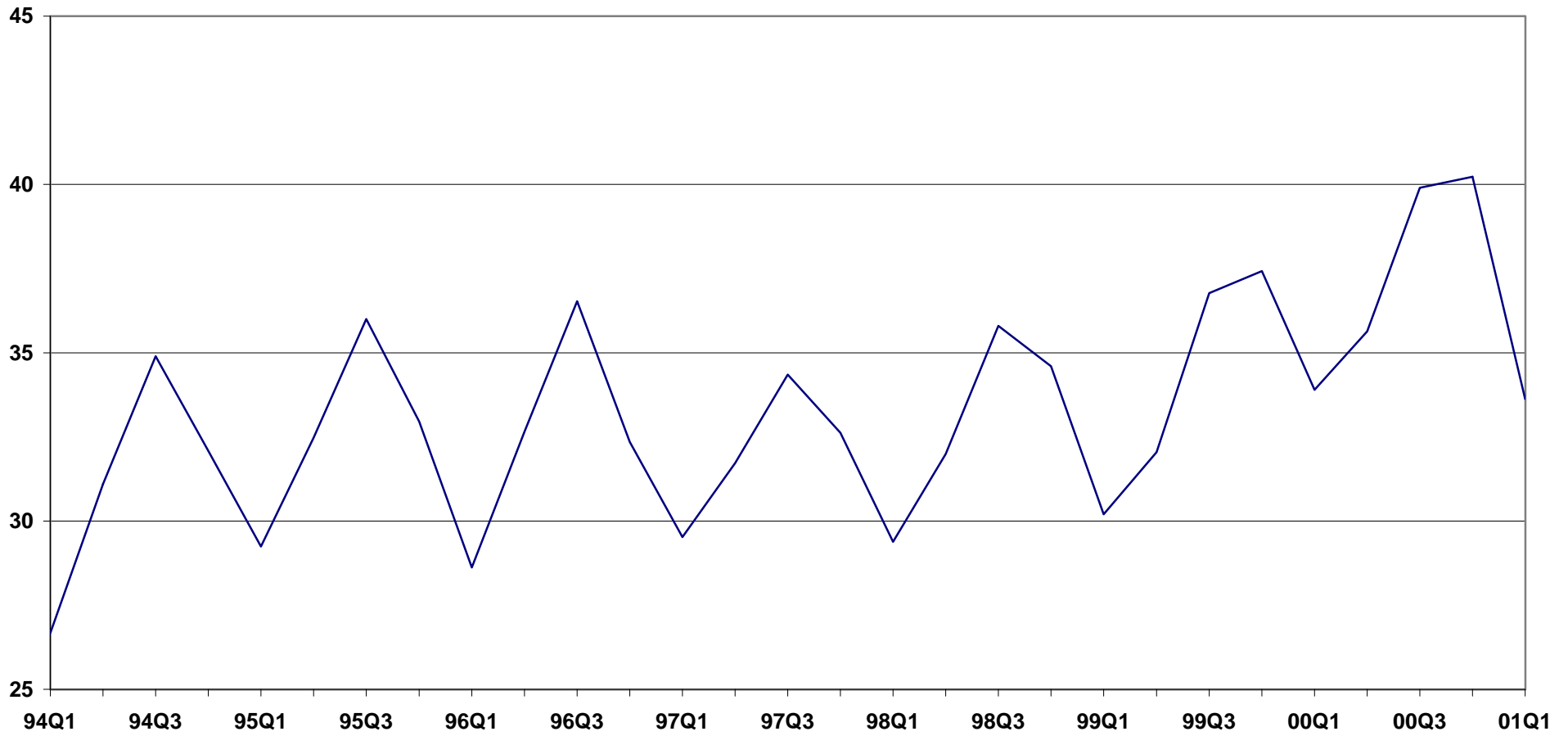
# Consumption

- Private consumption spending maintained a modest growth of 2.8% in the first quarter.
- With the deceleration in economic growth, consumers will be cautious in their spending, *ceteris paribus*.
- 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, dropping from 40% in the last half of 2000. The gross saving rate is expected to go down further in the second half of 2001.

# Ratio of Private Consumption to GDP



# Gross Savings Rate (%)



- 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 volume, with a year-on-year growth rate of 9.7% in April; but prices were lower as the retail price of durable goods dropped by 5.2% in the same period.



## External Trade

- With weak global demand, slow growth in external trade is expected to continue.
- The growth of re-exports of goods to all major 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, the number of visitor arrivals slowed down 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.

# Investment

- 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 to be 22.5% in the second quarter, and to slow down 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. 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.

# Deflation

- We are still haunted by 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 component 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.

# Employment

- The employment situation is clouded by the weak external demand.
- 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 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.

**Unemployment Rate by Economic Sector  
(in Percentage)**

	All	MAN	CON	TRH	TSC	FBS	CPS	Others
98Q1	3.5	4.6	5.6	3.3	2.7	1.9	1.4	1.4
98Q2	4.5	5.1	7.7	4.9	3.4	2.6	1.6	2.0
98Q3	5.0	5.7	9.0	5.4	3.9	3.3	1.7	1.4
98Q4	5.7	6.8	11.5	6.0	4.8	3.6	2.1	1.7
99Q1	6.2	7.5	13.1	6.5	5.5	3.4	2.0	3.0
99Q2	6.1	7.2	12.8	6.5	5.6	3.3	2.1	1.8
99Q3	6.1	6.9	12.9	6.2	5.4	3.1	2.4	2.6
99Q4	6.0	7.1	11.7	6.5	4.7	3.5	2.3	3.1
00Q1	5.6	6.7	11.7	5.9	4.9	3.0	1.8	1.8
00Q2	5.0	5.1	9.9	5.7	4.1	2.5	1.9	2.2
00Q3	4.8	4.9	9.8	5.1	3.3	2.7	1.9	1.4
00Q4	4.4	5.0	9.9	4.3	3.8	2.3	1.8	1.5
01Q1	4.6	4.3	10.4	4.7	4.3	2.7	1.9	0.4

**(Note: MAN -- Manufacturing**

**CON -- Construction**

**TRH -- Wholesale, retail and import/export trades, restaurants and hotels**

**TSC -- Transport, storage and communications**

**FBS -- Financing, insurance, real estate and business services**

**CPS -- Community, social and personal services)**

- The shortening of unemployment duration is a welcome 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, and economic weaknesses in Japan and Europe, Hong Kong is now facing an unfavorable economic environment.
- In our release on January 3, we pointed out the possible slowdown of the U.S. economy which turned out to grow by only 1.3% in 01Q1. The growth is estimated to be 0.73% and 2.28% in the 2nd quarter and 3rd quarter respectively. The U.S. economy is expected to pick up starting from the third quarter, but the outlook remains cloudy.



- Lower interest rates are instrumental in maintaining growth in domestic consumption and investment spending, partially offsetting the sharp weakening in external trade.
- Whether the U.S. economy will bounce back in the next quarter will be crucial. It is wise to brace ourselves for a slower growth environment in the next six months.

## About Our Model

Our forecasting system was developed in collaboration with Professor Lawrence Klein of the Wharton School 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/>.